

# **Privatization – Reviving the Momentum**

by

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## Executive Summary

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- The privatization of British Telecom in 1984 heralded a global trend to sell publicly-owned companies. Whilst it has continued internationally over the last 23 years, UK privatization has stalled. Despite nervous stock markets, this paper proposes many privatizations, which could raise c. £20 billion (excluding Northern Rock).
- Irrespective of its c. £5 billion pension fund deficit, the Royal Mail business is an obvious candidate for a public flotation. Its core Post Office division needs additional funds and has real scope both for efficiencies and for expansion — it has trusted access to c. 27 million UK addresses. EU mail delivery deregulation has boosted the overseas activities of both Germany's Deutsche Post and the Dutch-based TNT.
- Having moved far away from its original Public Service Remit (PSR) and with a need for further funding, Channel 4 is a natural candidate for privatization, possibly via a trade sale.
- Water privatization has delivered a major investment programme — financed partly by higher bills. In Scotland and Northern Ireland, the water companies remain publicly-owned, whilst Glas Cymru in Wales is a not-for-profit business. The case for replicating the 1989 flotations in England — or for trade sales — is strong.
- The government has reaffirmed its plans to sell down its various nuclear industry shareholdings. In particular, it should proceed — at an opportune moment — with the disposal of its residual 35% stake in British Energy, despite the latter's ownership of the probable sites for UK new nuclear-build.
- On the transport front, NATs, which runs the UK air control network, should be fully privatized, preferably after a revised regulatory regime has been introduced for the aviation sector: the latter could include a slot auctioning system at Heathrow Airport. The larger Trust Ports should also be sold off.
- Further attractive privatization candidates include CDC (formerly the Commonwealth Development Corporation), the Tote (via the proposed auction and excluding bids from William Hill and Ladbrokes), BBC Worldwide, the government's residual 18.9% holding in QinetiQ and, in time, British Waterways.

# 1. Background

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There is little doubt that the policy of privatization has been one of the most influential developments in economic policy over the last 25 years — not only in the UK but also throughout the world. It has been replicated not just in traditionally capitalist-driven economies but also in those countries where communism has prevailed — even Cuba has adopted some elements of privatization.

To a large extent, privatization in the UK was a response to the dire economic situation of the 1970s, a period when widespread strikes, especially in the public sector, caused immeasurable damage to the overall economy.

As a policy, privatization dates back to the first Government of Lady Thatcher, who became Prime Minister in 1979. When put forward as a policy, privatization attracted major scepticism across the political spectrum. It was widely opposed for being both doctrinaire and as a means to ‘sell off the family silver’. To that extent, it was seen as a radical economic policy that few believed would deliver material benefits.

Although there were some sales of state assets in the early 1980s — notably of BAE Systems, of Associated British Ports (ABP) and of a large minority stake in Cable & Wireless — it was the unprecedented sale of a 51% stake in British Telecom in 1984 that became widely regarded as the world’s first mass privatization.

The thrust behind that flotation was not simply to raise much-needed funds for the government. There were two other major drivers.

First, it brought British Telecom into the private sector and directly led to a genuinely competitive telecoms market that eventually delivered far greater choice for customers as well as large price cuts. It also helped to create the mobile telecoms market and the rise of Vodafone, which started from virtually nothing within Racal Electronics. Subsequently, within a generation, it became the fourth most valuable company in world history.

Secondly, the British Telecom privatization was unashamedly populist in that it sought — and succeeded — in attracting millions of people into private share ownership. This scenario has endured but has not proved to be as long-lasting and as widespread as its most fervent advocates had hoped.

Within a few years, the British Telecom privatization had been followed by that of British Gas (which now comprises Centrica, BG and the Transco division of National Grid), British Airways, and British Airports Authority (BAA). The latter company, now owned by a Spanish-led consortium, has attracted major criticism of late, where its operational performance at Heathrow has been undeniably poor.

The Conservative Government’s mass privatization policy was extended further with the flotation of 10 regional water companies and 12 regional electricity companies. In both cases, customers of these utilities were given priority in terms of share allocation. Shortly afterwards, the fossil-fuel generators — National Power and PowerGen — and the two integrated Scottish electricity companies were floated.

In the years following the flotations of the regional water and electricity companies, some of the benefits of privatization were delivered, notably through increased efficiencies. Although water charges rose, there was a step-change upwards in investment levels. In the electricity sector, efficiencies were far more discernible. Indeed, prior to the surge in gas input prices, which pushed up fossil-fuel generation costs, there were major cuts in retail electricity prices.

During the mid-1990s, UK privatization seemed to lose its way. Admittedly, the most attractive businesses had already been sold and the cupboard was looking rather bare. Nonetheless, there were still some valuable assets that remained within the state sector.

There was also increasing concern about the preservation of monopolies, especially during the earlier years of privatization. Competition to British Telecom was minimal, at least until mobile telephony arrived. BAA, which still owns London's three leading airports, even today suffers from this criticism — a key factor for the recent referral of the airports ownership issue to the Competition Commission (CC).

Whilst later privatizations — especially those covering electricity generation and supply — sought to focus more on creating competition, the monopoly culture still pervades in some sectors.

Undoubtedly, the two major privatizations of the mid-1990s both encountered serious setbacks. Railtrack, which was publicly floated in 1993, was controversially put into administration in 2001; it re-emerged subsequently as a not-for-profit company — Network Rail.

Although the separation of railway line ownership from the operation of individual railway franchises had been undertaken in Japan and to an extent in Europe, it was widely regarded as being a major mistake for the UK. Competition on virtually all lines was a non-starter, once the franchises had been awarded. Moreover, it was not clear where the responsibility lay for the many operational shortcomings on the railway network, whilst the legal complexities were immense.

British Energy, comprising the UK's eight most modern nuclear power plants, was publicly floated in 1996. Initially, the company prospered but the introduction of NETA (New Electricity Trading Arrangements) caused electricity prices to fall sharply — a scenario for which British Energy was ill-prepared. In 2003, a debt-for-equity swap took place; subsequently, the shares were re-listed.

Whilst UK privatization over the last decade has visibly wilted, the opposite has been the case elsewhere. In the US, the telecoms and utility businesses, with the exception of water, have generally been privately-owned. However, in mainland Europe, telecoms and electricity privatization has continued virtually unabated.

Privatization of telecoms services has — as in the UK — provided mainland EU customers with many benefits, although shareholders have had more of a roller-coaster ride. But Deutsche Telekom, France Telecom, Telecom Italia and Spain's Telefonica — the incumbent private sector players of the four leading mainland EU countries — have all thrived. However, much greater competition has seriously eroded their fixed-line margins to the benefit of customers. This decline has been partially offset by impressive growth levels in their mobile operations.

The European electricity industry has also seen far-reaching changes and greater competition since privatization was undertaken. Germany's top two electricity companies, E.On and RWE, are major EU players although France's EdF, which has generation capacity of over 130 GW, is by far the largest — much of its capacity is nuclear. In EdF's case, the privatization process is far from complete, with the government still owning well over 80% of the shares, but the Italian Government has been progressively selling down its stake in ENEL.

In these three key EU markets, though, real concerns remain – and not just with the EU competition authorities — about the degree of competition in the electricity and gas sectors. Over the last three years, consolidation amongst the leading integrated EU companies has continued, to the detriment of competition. The EU Commission recently put forward far-reaching — and controversial — proposals for unbundling the assets of these integrated companies. Despite some innovative proposals by E.On, it is doubtful that these customer-focussed initiatives will be fully implemented.

By contrast, much of the UK privatization programme was completed some years ago. To that extent, its impact can be assessed on the back of experience.

On the deficit side, there has been a very large number of job losses as a result of the increased private sector-orientated drive for efficiency. Furthermore, whilst prices of many privatized services have fallen, this has clearly not been the case in the water sector, where steep price rises have helped to finance the much enhanced investment levels.

However, it is also apparent that the many benefits of privatization significantly outweigh the drawbacks.

## 2. Benefits of Privatization

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The most noticeable benefits of the UK's privatization policy are set out below:

- Substantial price cuts in the retail telecoms market;
- Pronounced cuts in electricity and gas prices until this trend was reversed by the impact of large increases in wholesale gas prices from 2003 onwards;
- Far better customer service in all utility sectors;
- The creation of much greater choice for customers, especially in the telecoms sector;
- Enhanced competition in the electricity generation market, which delivered very substantial efficiency savings;
- The unveiling of the massive subsidies that the nuclear industry had enjoyed during its time as a subsidiary of the Central Electricity Generating Board (CEGB);
- Major investment in new fossil-fuel power plant, most of which has been gas-fired;
- A sea-change in water and sewerage investment, which had been very inadequate since the mid-1970s;
- Heavy investment in new airport facilities by BAA, especially with Terminal 5 at Heathrow, Gatwick and Stansted;
- Substantial investment in new railway rolling stock;
- The payment to government of tens of billions of pounds arising from the privatization programme, along with the heavy Corporation Tax bills that privatized companies pay each year;
- The private sector telecoms market became a key factor in the emergence of Vodafone, the world's leading mobile player;
- The turn-round at British Airways, which enabled it to surmount — unlike some other European flag carriers — the many challenges of recent years;
- The scope for privatized companies to expand their operations overseas, where many — such as National Grid in the US — have prospered;
- The development of many UK companies supplying these privatized businesses;

- The very impressive shareholder returns from most — though not all — privatizations have boosted pension fund returns;
- The ability to finance pension schemes within the privatized sector that might otherwise have remained heavily in deficit;
- Having developed privatization, the UK derives very substantial earnings, especially in the City, from exporting the policy around the world.

Of course, irrespective of ownership, some of these changes would have taken place anyway. Nonetheless, there is no doubt that the scale, and speed of change, would have been far slower without privatization.

### 3. The Way Forward

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Despite the many privatization initiatives in the UK since 1984, scope still remains for further initiatives — a subject that this paper addresses.

The recent sub-prime credit crisis is a key factor in driving down UK economic growth projections, which will inevitably put further pressure on the government's PSBR (Public Sector Borrowing Requirement) targets — these have been consistently missed in recent years. Consequently, re-invigorating the policy of privatization looks increasingly attractive — if only on deficit-funding grounds.

Recent stock market turbulence, including the near collapse and subsequent nationalization of Northern Rock, has dampened Treasury expectations of successful privatization initiatives. However, whilst shares in several sectors have fallen — notably in banks, housing, property and retail — others, such as oil, have prospered. Significantly, too, the utility stocks are still trading strongly, including shares in the water companies, where highly-leveraged buys-outs — most recently for Kelda — continue.

In particular, this paper focuses on businesses, in which the government either has overall control or maintains a sizeable shareholding. Given the considerable benefits of UK privatization over the last 23 years — notwithstanding some clear errors — there are still material gains to be achieved if further privatization initiatives were undertaken.

However, there are five major organizations where privatization, with the exception of BBC Worldwide, has not been advocated — at least not for the moment.

- *Northern Rock* has dominated media coverage in recent months as its financial problems deepened and nationalization became the only sensible option. It is anticipated that the government will first change its name and then sell off the more attractive parts of the business, including the most attractive elements of the mortgage book. However, it is very difficult to ascribe a credible value to the business, which is being currently supported by government guarantees — without them, Northern Rock's viability is very questionable.
- *Network Rail* is planning to undertake a £30 billion investment programme over the next five years — along with a further £10 billion for network enhancement. Given the controversial collapse of Railtrack in 2001 and the step-change in capital expenditure, any further ownership change proposals would divert Network Rail from its key operating and investment priorities. Nevertheless, the prodigious level of cash consumption in recent years, along with the bureaucratic governance structure, suggests that there is real scope for efficiency improvements that privatization could in time deliver.
- *London Underground* has also faced serious problems as it seeks to deliver the large capital expenditure programme through its Public/Private Partnership (PPP) contracts. Metronet Rail, which held two 30-year contracts worth a

total of £30 billion for capital expenditure work on the majority of the Underground's lines, has failed: the work is now being transferred to Transport for London (TfL). More positively, Tube Lines, which has a 30-year PPP contract to modernise the Jubilee, Northern and Piccadilly lines, has performed well. However, given all the inherent challenges of this major work schedule, along with the highly complex ownership and financial liabilities within the PPPs, any privatization of London Underground in the short-term might well be self-defeating. In the longer term, however, its privatization should be on the agenda.

- *The BBC* is facing major change following the imposition of the recent six-year TV licence package, which will require a substantial reduction in costs. The formula is based on a 3% cash increase for the next two years and a 2% cash increase for the subsequent three years. Against this background, any privatization of the BBC would be even more complex. In the longer term, separating the commercial operations of the BBC from its globally respected public service element is probably the way forward. Such a scenario might well fit in with recent proposals to allow part of the licence fee revenue to be allocated to other organizations that undertake public service broadcasting activities. Significantly, the BBC Group Finance Director has publicly suggested that BBC Worldwide, the commercial arm of the BBC, could be transferred into the private sector by 2012. Press reports suggest a minimum valuation of c. £2 billion for this business, which has been included in the overall c. £20 billion privatization figure in this paper.
- *The Forestry Commission*, especially in Scotland, is a major landowner that should be profiting far more from the increase in EU timber prices. However, the various Forestry Commission organizations have modest revenues and minimal returns. To that extent, short of any major restructuring of UK forestry, privatization looks unlikely. Arguably, many of the regulatory activities within the Forestry Commission could be combined with those of the Environment Agency, with the more commercial aspects being separated. A similar split-up preceded water privatization in England and Wales.

In addition, this paper has not sought to analyse the substantial property and land disposals that comprise a key element of around £30 billion of proceeds that the Treasury aims to have realised between 2004 and 2011.

## 4. The Leading Privatization Candidates

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### Royal Mail/Post Office

The publicly-owned Royal Mail Group (Royal Mail) operates the mail services and Post Office network in the UK. Successive governments have avoided, partly for political reasons, undertaking major structural reform of the key businesses within Royal Mail. Now that many of the sub-Post Office counter closures have been implemented, without serious political problems, the time is ripe for re-assessing the role of Royal Mail and how its performance can be materially improved.

Currently, Royal Mail has four main businesses — the key data, based on 2006/07 figures, is set out below:

Business	Staff	Revenues (£m)	Op. Profit (£m)
Royal Mail (Letters/Packages)	167,640	6,857	194
GLS (Pan EU Logistics)	12,137	1,082	115
Parcelforce Worldwide	4,176	337	10
Post Office (14,219 Branches)	9,990	868	(99)

*Source: Royal Mail Annual Report 2006/07*

In recent years, there have been some efficiency gains but there are far more to come, notably with greater use of machinery in sorting offices. Even so, in 2006/07, people costs amounted to £6,145 million, equivalent to 68.4% of the Group's overall costs. To that extent, a rigorous focus on reducing the cost base is a top management priority. However, as a people-dominated business — especially on the doorstep — there will be limits to staff reductions, unless customer service levels are significantly reduced.

Irrespective of the challenges on the operational front, there is no doubt that, like many state-owned businesses, significant capital expenditure increases will be required. In 2006/07, the capital expenditure figure was £244 million. Nevertheless, Royal Mail candidly admits that its rivals are 40% more efficient, a serious failing that it blames on a lack of modernization and a lack of technology.

Royal Mail's finances are heavily influenced by regulation, which is implemented by Postcomm, both in terms of price-setting and with respect to competition.

Recently, Postcomm undertook an interim pricing review, which covers charges between April 2008 and March 2010. In particular, Postcomm considered the issues of the ongoing reduction in the UK inland addressed mail market, which Royal Mail estimated at 2.3% in 2006/07, along with the impact of competition. Royal Mail argues strongly that the average 13p of revenues that it receives for each unit of delivered access mail does not cover its costs.

Whilst Postcomm decided not to change the current access margin, it did allow Royal Mail to raise the price of a second class stamp to 29p by 2010, subject to inflation — the original price cap was 26p.

Looking forward, there is a need to review the Universal Service Obligation (USO) to which Postcomm apparently seems wedded. After all, there is no inherent necessity for identical pricing nationwide, which does not currently apply to other utility services, including telecoms. In the water sector, for example, South West Water customers pay an average £483 per year compared with an average £275 for Thames Water customers.

Indeed, there is a case for a pricing structure which is based on zones. Such a change would better reflect the costs incurred; this policy is backed by Royal Mail. Current stamp rates could apply for post being sent to addresses in the same county and enhanced rates for elsewhere. Alternatively, a postal code methodology could be devised.

Undoubtedly, the permitted charges for first-class and second-class stamps remain crucial in determining Royal Mail's financial returns. In 2006/07, almost 90% of Royal Mail's core £6,857 million of revenues was attributable to the provision of price-controlled services. Arguably, there should be substantial increases in stamp charges, partly to fund the capital expenditure bill; such rises, however, should be offset by higher productivity.

Increasing competition in postal services provision is a firm aim of Postcomm. Yet, Royal Mail is currently delivering 99% — in volume terms — of the addressed letters market. In time, there will be greater competition, not necessarily from domestic organisations, such as Business Post, but more from leading overseas post office businesses, such as Germany's Deutsche Post and Holland's TNT — the latter currently has a market capitalization of c. £7 billion.

Both these latter companies, who have spearheaded postal services privatization in mainland Europe, are very keen to expand. They are both currently operating in the UK, at the business end of the market. In time, no doubt, they would be keen to participate in the entire delivery chain.

Under the EU's legislation to promote competition in the mail delivery markets, part of which has been delayed, increased competition seems inevitable. In Germany, the recent decision to impose a minimum wage has caused real problems for competitors of Deutsche Post; but it has been a boost for the latter. For Royal Mail itself, it will face challenges for which it needs to be more prepared, both operationally and financially.

In addition to addressing the capital expenditure programme and the operating cost and revenue bases of Royal Mail, there is a more general need for an overhaul of its finances.

Within this proposed restructuring, the long-standing pension fund deficit issue needs to be resolved by putting the pension fund on a firmer financial footing. As of March 2007, the pension fund deficit was just below £5 billion, whilst the employee contribution rate at 6% — very surprisingly — remained unchanged in 2006/07.

This proposed financial restructuring should enable Royal Mail itself to become more suitable for a public flotation, which would raise further funds for the business to expand. Moreover, a pension fund deficit should not be an insuperable barrier to a public flotation, although action will need to be taken to ensure that the deficit is much reduced.

In preparing Royal Mail for a public flotation, careful analysis would need to be undertaken regarding the appropriate debt/equity structure. As of March 2007, Royal Mail actually reported a net cash balance of £392 million.

Last year, the government agreed a £4 billion refinancing programme for Royal Mail, of which £1.2 billion is earmarked for an uplift in investment and £1.7 billion for the modernization — and effective subsidy — of the Post Office network, which will see c. 2,500 branches being closed. A further £1 billion has been set aside for pension fund payments.

If the debt component is too low, it will encourage private equity investors to bid for Royal Mail with the aim of substantially gearing up the company. It would also be important to ensure that current Royal Mail employees, with a lengthy service record, become eligible for a substantial proportion of the shares on offer.

A public flotation of Royal Mail would not only allow it to be far better funded than at present, but it would also enable it to expand. After all, members of its staff have trusted access to virtually every business and house in the UK, amounting to c. 27 million addresses. With that unique level of customer contact, the potential for cross-selling is considerable.

At the political level, previous manifesto commitments have been cited as a reason for ruling out any privatization of Royal Mail. However, such policy commitments are not sacrosanct. Indeed, it is clear that the government's recent decision on the future of the Tote goes against previous manifesto commitments.

*Valuation:* In placing an Enterprise Value (EV) of just over £4 billion on Royal Mail, comparisons have been made with other quoted Post Office businesses, notably the Dutch-based TNT. Inevitably, various assumptions have been made about the underlying worth of Royal Mail, once the many one-off factors have been stripped out. However, its value — pre the pension fund deficit — clearly lies well beyond the c. £2.3 billion Regulatory Asset Value (RAV) that applies to the Royal Mail core business.

Notice has also been taken of a discussion paper published by the Policy Unit of the Liberal Democrat Party in January 2006, which placed a value of between £4–5 billion on Royal Mail (assuming that the Post Office network was stripped out). Presumably, too, the c. £5 billion pension fund deficit has also been discarded.

## **BBC Worldwide**

The recent BBC licence fee award has certainly disappointed senior executives at the BBC, who are now desperately seeking major operating economies. Whilst full privatization of the BBC is not being proposed, there remains the option of privatizing — either through a public flotation or through a trade sale — its profitable commercial subsidiary, BBC Worldwide, which exports TV programmes across the globe.

Undoubtedly, BBC Worldwide enjoys a very high reputation overseas, all the more so as it trades under the illustrious BBC name, which is widely seen to guarantee both accuracy and high quality. However, any effective demerger from the BBC, as it currently stands, would give rise to complex brand ownership issues.

In recent years, the finances of BBC Worldwide have improved markedly. In 2006/07, revenues, including joint venture turnover, rose by 3% to £810 million; sales of global TV services increased by almost 15% compared with 2005/06. Operating profits, including exceptional items, reached £111 million in 2006/07, prior to exceptional items, they were £101 million. By comparison, in 2001/02, the profit figure was just £26 million — it has risen progressively over the intervening period.

Whilst any privatization — partial or full — of BBC Worldwide would be controversial, it would enable the brand to be more widely marketed, especially in those countries where it is particularly well-regarded. There should also be scope for further joint ventures to be signed.

*Valuation:* Almost certainly, conventional earnings-related media ratings, such as those applied to ITV, would seriously undervalue BBC Worldwide. The value of the brand and the quality of the content would be much sought after by investors.

In seeking to place a valuation on the BBC Worldwide business, a figure of £2 billion has been used, which — despite 2006/07 revenues being just over 40% of this figure — may well be an under-estimate. With BBC Worldwide reporting a net debt of almost £10 million at March 2007, its EV and the projected proceeds would be very similar.

## **Channel 4**

Channel 4 was launched in 1981 and has always been owned by the government. Its public ownership has often been justified on the basis that it enabled Channel 4 to commission programmes that private sector businesses might not otherwise do.

Hence, its Public Service Remit (PSR) was defined in the following terms: ‘The Public Service Remit for Channel 4 is the provision of a broad range of high quality and diverse programmes...’. Four criteria, which Channel 4 is required to promote — innovation, appeal to a diverse audience, education, and a distinctive character — were then specified.

In 2006, Channel 4’s market share rose to just below 10%. However, it has recently attracted widespread criticism on several counts, including the transmission of several programmes of very dubious public taste, financial controversies regarding Premium Rate Telephone Services (PRTS) and high-profile racist rows on the now discontinued Big Brother.

Whilst its digital revenues are growing, Channel 4’s finances are not strong. Its 2006 revenues amounted to £937 million, most of which accrued via advertising: these key revenues showed no increase over 2005. With more than £600 million being spent on programme commissioning alone in 2006, it is clear that Channel 4’s margins are low — there was a surplus of less than £15 million.

Against that background and the negative outlook for advertising revenues, it is clear that a new injection of finance — through whatever means — is much needed by Channel 4, especially in the run-up to the switch-over to digital in 2012.

However, prior to privatizing Channel 4 — whether through a trade sale or via a public flotation — there is a strong case for re-wording the PSR, which seems both outdated and incompatible with some of Channel 4's recent TV commissions. Ofcom is currently addressing this issue on its own initiative.

Looking to the future, Channel 4 would be required to pay for broadcasting spectrum, this would enable a more level playing field in the UK TV market. Apart from this, Channel 4 does not currently receive a public subsidy.

In terms of privatizing the business, a decision would have to be taken on the best method to be used and, specifically, if three quoted companies with major media interests should be allowed to participate.

The acquisition of Channel 4 by ITV would clearly reduce private sector competition within the UK TV market; to that extent, ITV should be designated as an ineligible bidder.

The position of News International is less clear-cut. As a 39% shareholder in BSkyB, it would certainly be interested in acquiring Channel 4, which would nicely complement BSkyB's satellite TV operations. With BSkyB currently capitalised at almost £10 billion, it would not have any problems in securing sufficient funds.

Many commentators would argue that the media influence of News International through both its TV investments and newspaper shareholdings — *The Times*, *The Sun* and the *News of the World* titles are all in the News International stable — is excessive and should be prevented from being further extended.

Channel 5's major shareholder, RTL, which is controlled by the controversial and privately-owned German Bertelsmann business, would also be interested. Whether it should be allowed to participate is arguable, although the combined Channel 4 and Channel 5 market share is quite modest.

*Valuation:* In terms of valuation, Channel 4 could probably justify an EV of c. £800 million. This figure is based on a comparative analysis with the much larger ITV, which has faced real problems of its own both with respect to falling TV audiences — due in part to poor programming — and the negative impact of the Contracts Rights Renewals (CRR) system. In the light of its weak share price, partly due to the overhang of the 17.9% BSkyB stake, ITV is currently valued by the market at below £3 billion.

## **Scottish Water**

When the nine English water companies and Welsh Water were controversially floated in 1989, the ownership of the Scottish water industry was left in public sector hands. North of the border, opposition to water privatization had been particularly fierce.

In the intervening 18 years, water privatization has encountered fewer problems than some other privatized industries — and, in most cases, has actually delivered. The massive capital expenditure programme has been undertaken, financed in part by substantial price increases. Had these 10 water companies remained in public ownership, it is very doubtful whether the major investment backlog, dating back to the mid-1970s, would have been cleared.

Whilst it is true that Welsh Water's parent company, Hyder, over-extended itself — and resulted in Welsh Water becoming a not-for-profit business, Glas Cymru — the remaining nine English water companies have generally prospered, partly on the back of light regulation. The last periodic review, which applied from April 2005 and lasts until March 2010, was very generous to the companies since Ofwat assumed a 5.1% post-tax Weighted Average Cost of Capital (WACC) — a notably higher figure than those for most other regulated utilities.

Scottish Water, which was formed from the consolidation of three regional water businesses, has undergone some re-organization in recent years but would benefit from further private sector disciplines and incentives. On this basis, there is a strong case to extend water privatization to Scotland, an issue that would no doubt give rise to complex legal debates between the UK government and the devolved Scottish Assembly.

Undoubtedly, efficiency has improved at Scottish Water. Even so, it remains cash negative to the tune of c. £200 million per year; this is due mainly to increased capital expenditure. However, water charges in Scotland are partly subsidized by public expenditure, for which Scotland receives a disproportionate high amount via the Barnett formula which was devised in the 1970s and is currently being reviewed by the government.

The nearest comparator in England for Scottish Water is Kelda, the owner of Yorkshire Water. Following its disposal of the US-based Aquarion, Kelda is now a pure water and sewerage company. Last December, its board recommended that shareholders should accept a £3 billion private equity bid: Kelda is now no longer publicly quoted. For 2007/08, Scottish Water's average charge for each household is £302, compared with £300 for the Yorkshire Water region.

In order to ensure that any public flotation attracts both political and financial support, a priority for the allocation of shares should be accorded to Scottish financial institutions and to Scottish water consumers. Alternatively, a trade sale could be pursued. Scottish and Southern Energy, currently capitalised at almost £13 billion, would be a likely bidder.

*Valuation:* Like Yorkshire Water, Scottish Water had a Regulatory Asset Value (RAV) of c. £3.75 billion. Hence, any privatization value to taxpayers would depend upon the level of net debt in its restructured balance sheet, but — if unchanged from the current net debt figure — the sale of Scottish Water should raise over £2.0 billion.

## **Glas Cymru**

Glas Cymru is a not-for-profit company that was established following the collapse in the late 1990s of Hyder, whose core businesses were Welsh Water and Swalec. Most of the latter became part of Western Power Distribution — the electricity supply business went elsewhere — while the Welsh Water business, which was first privatized in 1989, was transferred to Glas Cymru.

Undoubtedly, Glas Cymru has performed well, especially according to the operating data collected by Ofwat. But there remains scope for further improvements, which the disciplines of private sector ownership are best placed to deliver. To that extent, Glas Cymru should be privatized, either through a flotation or through a trade sale — with Welsh financial institutions receiving priority. As of March 2007, Glas Cymru's subsidiary, Dwr Cymru, had a RAV of £3.18 billion.

*Valuation:* Based on a fairly conservative 20% premium to its RAV and after stripping out its £2.3 billion net debt, privatization of Glas Cymru should be able to raise c. £1.5 billion.

## **Northern Ireland Water**

Fundamental changes are currently underway in the supply arrangements for water and sewerage services in Northern Ireland. They have recently come under the control of the publicly-owned Northern Ireland Water, which was set up in April 2007.

Whilst accepting that water charges remain a major political issue in Northern Ireland, it is difficult to argue that there is a special case for retaining Northern Ireland Water in the public sector. After all, the English water companies have prospered in the private sector. It is also significant that water charges in Northern Ireland will now be set according to the average in England and Wales, although there will be phase-in subsidies for those on low incomes.

In common with Scotland, there is a considerable capital expenditure programme to be financed by Northern Ireland Water as it gears up to meet higher standards and EU Water Directives.

On efficiency and other grounds, there is a strong case to undertake a public flotation — or a trade sale — of Northern Ireland Water, albeit with far higher initial debt, so as to be more in line with today's higher leveraged water company financial structure than that applicable to the English and Welsh water companies at flotation in 1989.

In fact, utility privatization would not be new to Northern Ireland. In 1993, Northern Ireland Electricity, predominantly a transmission and distribution business, was successfully floated. As Viridian, it is now owned by the Bahrain-based Arcapita. Aside from its core regulated electricity business in Northern Ireland, Viridian also has thriving operations in the Republic, notably through its generating plant at Huntstown.

As would be the case if public flotations of Scottish Water and Glas Cymru were to take place, local investors — both institutions and customers in Northern Ireland — should be accorded a very high priority in the allocation of shares in Northern Ireland Water.

*Valuation:* Given estimated annual revenues of c. £380 million, including £60 million of subsidies, and some balance sheet restructuring, Northern Ireland Water might command a value of c. £800 million, although inevitably this figure is subject to deviation, partly due to the chosen debt structure. Northern Ireland Water's RAV has been set at c. £1 billion, so this estimated value would include a 10% premium and incorporate £300 million of net debt.

## **British Energy**

In 1996, British Energy was publicly floated as the owner of the eight most modern nuclear power stations in the UK — the portfolio comprised seven Advanced Gas-Cooled Reactors (AGRs) and the Pressurised Water Reactor (PWR) at Sizewell B. The introduction of the New Electricity Trading Arrangements (NETA) in 2001, and the lower wholesale energy prices that followed, were instrumental in British Energy's fall into near administration. A debt-for-equity swap, involving substantial investment by the government, was necessary to save British Energy.

As a result of this public intervention, the government secured a stake in British Energy of 64%, which broadly equated to its *pro rata* entitlement to the adjusted free cash flow — the cash sweep. Last June, the government sold down its British Energy stake to just over 35%, with the £2.35 billion proceeds being earmarked for the Nuclear Liabilities Fund (NLF). Given that the UK electricity generation sector operates within a private sector market environment, there is no real case for the government to retain such a holding.

It could be argued that the retention of its 35% stake would enable the government to exercise some control over British Energy's nuclear sites, especially those at Sizewell B, Hinkley Point and Dungeness.

These three sites are probably the most suitable locations for any new nuclear-build, in which EdF, E.On and perhaps RWE may be involved. In the event that no private sector consortium agrees to undertake new nuclear-build, the government may be obliged to do so on its own account, possibly through British Energy.

However, there are other methods to ensure that British Energy — or subsequent owners of the business — do not block new nuclear-build proposals by refusing to release these sites at a fair price. Furthermore, there are legal requirements on British Energy to ensure that there are sufficient financial provisions for plant decommissioning.

At the trading level, continuing high electricity prices and the 2003 deal with British Nuclear Fuels Ltd (BNFL), under which back-end fuel processing charges were substantially reduced, have proved very beneficial for British Energy. Against this background, it is not easy to judge when it would be best for the government to sell its stake although it is reported that the process is already underway. British Energy's share price is driven predominantly by electricity selling prices and the operating performance — often very erratic — of its eight UK nuclear plants; in recent months, its AGR fleet has encountered seemingly never-ending problems.

*Valuation:* Given British Energy's current market capitalisation of £6.4 billion, which has recently increased due to the confirmation of bid talks, the government's 35% stake should be worth a minimum of £2.0 billion.

### **Other Residual Nuclear Stakes**

Despite the emasculation of BNFL, which saw the sale of its highly regarded Westinghouse nuclear business to Toshiba in Japan, there are still some sales of residual nuclear assets to be completed.

Undoubtedly, the most valuable is the government's 33% stake in Urenco, the uranium enrichment business: the government has confirmed its intention to sell it. Urenco's putative value has risen very appreciably on the back of plans for a large build-out of new nuclear plant worldwide and the fuel volumes that will be consumed. Urenco has a current order book of £14 billion.

However, selling this 33% stake will not be straightforward given that both the German and Dutch Governments also retain a 33% stake in Urenco. Their approval for any sale will be required; they also have a first right of refusal.

*Valuation:* Placing a value on both Urenco generally, and more specifically on the government's minority 33% stake, is complex, especially given the first refusal options of the two other shareholders. Nonetheless, Urenco's total valuation should be at least £4 billion, with the government's stake worth over £1 billion.

Aside from Urenco, two other nuclear-related sales are planned. First, there is the 33% stake in the Atomic Weapons Establishment Management (AWEM) business, which is responsible for designing, manufacturing and decommissioning nuclear weapons, especially those for Trident submarines. Serco and the US-based Lockheed each own 33% of the shares and, like the Urenco shareholding structure, have first refusal on the government's stake — providing their bids are in line with market values.

Secondly, Project Services, BNFL's nuclear consultancy, has now been sold to VT Group.

*Valuation:* The government's 33% AWEM stake should raise between £100 million and £200 million. Proceeds from the disposal of Project Services to VT Group, which are partly dependent on an earn-out, will be a maximum £75 million.

Another candidate for privatization is the United Kingdom Atomic Energy Authority (UKAEA), which undertakes nuclear clean-up, waste management and environmental restoration activities. In 2006/07, its revenues were £378 million and earnings were £15 million: it also had a small net cash position.

However, given the complexity of the various nuclear clean-up contracts being awarded, notwithstanding many liabilities, any privatization of UKAEA is probably best deferred since its nuclear clean-up expertise, contractual position and IP potential will become increasingly apparent to potential investors.

Nevertheless, the government has undoubtedly considered some form of privatization for UKAEA, although net proceeds are not expected to exceed £200 million. Moreover, the UKAEA's nuclear fusion activities would probably be extracted from the remainder of the business and retained in public ownership.

*Valuation:* Treasury and press sources have indicated a value of between £100 and £200 million for the UKAEA's nuclear clean-up business.

## **QinetiQ**

QinetiQ is an international defence and security technology business, which operates primarily in the UK, mainland Europe, the US and the Middle East. Its core business is selling systems solutions, products and licences to governments and commercial customers in the defence, security and related commercial markets.

QinetiQ's origins date back to its formation in 2001 from the government's Defence Evaluation and Research Agency (DERA). In 2006, QinetiQ became the current Labour Government's first privatization since its election to office in 1997. However, the government retains an 18.9% stake in QinetiQ, which — given the appropriate market conditions — should be sold. In the light of the trenchant criticism of the Public Accounts Committee regarding the original sale terms of its QinetiQ stake, Ministers may be reluctant to complete the process.

*Valuation:* In terms of QinetiQ's market capitalisation, the latest value is c. £1.2 billion. Consequently, the government's stake could be expected to realise c. £200 million.

## **National Air Traffic Services (NATS)**

NATS' history dates back to the early 1960s. In subsequent years, as UK civil aviation expanded, its role as a unified national air traffic control organization has become increasingly important. In recent years, major investment has been undertaken in order to modernise the air traffic control infrastructure, which has had to adjust to enhanced security criteria.

Following the privatization of US air control services in the 1980s, privatization of NATS was widely mooted in the early 1990s. Instead, NATS' ownership was transferred to a PPP in 2001. The key investors in this PPP were the government with a 49% stake and the Airline Group, which includes British Airways and Virgin Group, with a 46% stake — the remaining 5% of the shares was allocated to NATS' staff. Post 9/11, BAA, currently owned by a consortium led by Spain's Ferrovial, took a 4% stake in NATS, with the Airline Group's interest falling to 42%.

Given the solidity of its long-term revenue flow, which is principally determined by regulators at the Civil Aviation Authority (CAA), NATS would offer real attractions for long-term orientated private equity funds. Moreover, there is no obvious reason why the government needs to retain a 49% stake in the business.

If the government offered its stake for sale, there would undoubtedly be interest from investors, especially if a more favourable regulatory regime were implemented. In reality, the government could either sell its stake directly to the Airline Group and its shareholders or to a third party via a trade sale. Alternatively, it could offer its stake to outside investors through a public flotation.

A more radical option would be to undertake a public flotation of the whole business, a policy that the Airline Group, whose seven shareholders are airlines, might welcome. It would, after all, place a clear value on a formidable long-term revenue stream, whose attractions are now more appealing than was the case when the PPP was completed in 2001.

In its 2006/07 financial year, NATS reported revenues of £701 million, whilst the pre-tax profit was £94 million. With earnings of £69 million, NATS' EV should comfortably exceed £1 billion.

More generally, there is a compelling case for a fundamental restructuring of UK aviation finances. Such a review would include *inter alia* the splitting up of the three Ferrovial/BAA-owned London Airports (currently being studied by the Competition Commission) and the feasibility of auctioning slots at leading airports, especially Heathrow and possibly also at Gatwick. Importantly, Alitalia is reported recently to have sold one pair of slots at Heathrow for no less than £30 million — more than double the estimated price two years ago — whilst Continental Airlines has paid over £100 million for just four pairs of slots at Heathrow.

Any regulatory reform would also include the overhaul of the much criticized CAA/CC regulatory regime so that it is specifically tailored to long-term airport investment and is more closely aligned to international levels of landing charges.

On the basis of major financial change being implemented, NATS' finances and regulatory determinations could be fundamentally reassessed. Under any new regulatory regime, there should be an increased focus on providing incentives for delivering operational economies from its high cost base — without, of course, compromising aviation safety.

Ideally, regulatory reform should precede any sell-down of the government's 49% stake in NATS. If, however, any major regulatory changes are deferred, the government should offer its NATS stake for sale prior to these proposed reforms being implemented.

*Valuation:* Based on the average RAV for 2007/08 of £950 million, NATS's EV is estimated at c. £1.25 billion: net debt at March 2007 was £577 million. Hence any sale of the government's 49% stake could be expected to realise between £300 million and £400 million, assuming some debt apportionment.

## **Trusts Ports**

As a result of recent acquisitions, very few UK ports companies remain publicly-quoted. Associated British Ports (ABP), P & O, and Mersey Docks are now all owned by private equity funds. In the case of ABP, acquired for £2.8 billion in 2006 by Admiral Acquisitions (a Goldman Sachs led consortium): a key attraction was its valuable property portfolio, much of which was located by water.

There are more than 50 ports in England and Wales, some of which are no longer operational, that are Trust Ports. Under this legal status, they are run by independent statutory bodies, governed by their own local legislation and controlled by an independent board rather than by shareholders.

In focussing on the future of the Trust Ports, the government asked PricewaterhouseCoopers (PwC) to undertake a study of the sector. In May 2007, PwC submitted a report that contained 23 separate recommendations.

At the heart of these recommendations lay a need to embrace modernization. In particular, ownership and management structure remains a key issue. Although PwC did not advocate any particular form of ownership, it did highlight the pros and cons of privatization — whether through a trade sale or a public flotation. PwC, though, did conclude that privatization of Trust Ports should only be considered for those medium and larger Trust Ports that are commercially viable.

Whilst there are more than 50 Trust Ports, only 20 have annual revenues exceeding £20 million. PwC identified the leading seven Trust Ports — Blyth, Dover, Harwich, Milford Haven, Poole, Shoreham and Tyne — along with the Port of London Authority (PLA), which has specific responsibility for various activities on the River Thames.

It is estimated that these eight Trust Ports combined have average annual revenues of between £200–300 million. The major publicly-quoted ports company, Forth Ports, recently reported annual revenues of £160 million for 2007. Its stock is highly rated with an EV of over £1.1 billion. However, despite negligible property revenues at present, much of its underlying value lies in its property portfolio in Leith.

Consequently, any valuation assessment for the privatization of the leading Trust Ports — whether via a public flotation or via a trade sale — would need to be based on a less aggressive rating.

It is also the case that any ownership change of the Trust Ports would be a protracted legal process — it would clearly raise doubts about the true owners of individual Trust Ports. Nonetheless, given the need for ports modernization, any privatization initiative should ultimately benefit the ports concerned.

*Valuation:* On the basis of privatizing the seven Trust Ports identified above, along with the PLA, indicative proceeds of c. £600 million have been assumed; this figure represents a substantial discount on the multiples currently applicable to Forth Ports.

## **British Waterways**

As a public corporation, British Waterways manages some 2,200 miles of inland waterways in the UK, mainly navigable rivers and canals. Given that the late 18<sup>th</sup> century canal-building era pre-dated the mid-19<sup>th</sup> century railways boom, it is no surprise that many canals have received little investment and, in some cases, are in a very poor state.

Nevertheless, the growth of the leisure sector over the last decade has benefited the canal network and has brought about a much-needed increase in investment, some of which has been government-inspired.

Whilst British Waterways has gradually adapted more commercial techniques, there is still some way to go. The 2006/07 accounts showed that near break-even was only achieved on the back of government grants of £72 million that supplemented the trading income of almost £117 million. Revenues from the core business, such as way-leaves, craft licences and mooring permits, raised just £46 million over the year.

Significantly, property rentals continued to be the largest single element of the trading income, accounting for almost £30 million. Arguably, it is property that holds the future for British Waterways. After all, despite the poor outlook for the UK housing market, property prices, especially in the south of England and increasingly further north, remain reasonably strong, especially if an attractive water environment is located nearby — and the flooding risk is minimal.

The scope for development tie-ups with property, building and leisure companies, including pub businesses, is now considerable — and something that should be strongly encouraged. At March 2007, British Waterways reported tangible fixed assets of £575 million, of which £519 million was attributable to freehold land, building and structures, most of which was categorised as investment.

The adoption of more commercial techniques by British Waterways would be enhanced if there were a target date for some form of privatization, which would help raise the considerable funds that will be needed to restore the worst parts of the inland waterways network.

Given British Waterway's current trading and financial position, any imminent privatization initiative seems improbable. But a five year plan to turn round its finances, so that it would then be in a position to undertake a public flotation, might well enable British Waterways to generate real interest amongst potential investors. In particular, its waterside assets would be expected to generate considerable value in the same way that ABP's underlying value was boosted: it was subsequently bought by Admiral Acquisitions.

*Valuation:* If British Waterways were to be sold, the proceeds would be very dependent upon the £575 million tangible assets as revalued in the accounts. However, the sale should be able to raise over £400 million, although this figure would be heavily influenced by the future grants structure and any capital expenditure commitments.

## **CDC Group**

CDC Group was formed in 1999 out of the Commonwealth Development Corporation. Whilst it remains government-owned, it is now more financially-orientated and runs a fund of funds. It invests in equity funds, which participate in the emerging markets of Asia, Africa and Latin America — but with a pronounced emphasis on South Asia and sub-Saharan Africa.

The results for the 2006 financial year show a net asset value of just over £2 billion, which includes a portfolio of investments worth over £1.1 billion; most of the remainder was accounted for by a £771 million net cash/short-term deposits balance.

In terms of ownership, there will be some concerns that any transfer to private sector ownership may cause a switch in the investment strategy — to the possible disadvantage of less well-off countries. However, safeguards can be imposed in any privatization arrangement, which could ensure that major exposure to these countries remained.

Given the nature of its business, a trade sale to another fund management business would seem to be the most obvious way to deliver value for the government's shareholding — it might also give rise to a more active portfolio investment policy.

*Valuation:* With a net asset value of over £2 billion in 2006, any sale of CDC should be able to raise proceeds of close to that figure.

## **Tote**

The Labour Party Manifestos in both 2001 and 2005 undertook to sell the Tote, which was set up in 1928 and now owns c. 540 betting shops, to a Racing Trust in order '*to allow it to compete commercially*'. Following prolonged negotiations with the Treasury and the latest bid of around £320 million from the horse-racing industry that has been declined, the Tote's future still remains unresolved.

Given that this £320 million bid is 20% below the PwC valuation and the fact that the sub-prime credit crisis has made high leveraged borrowing much more challenging, the Treasury has recently confirmed that an auction of the Tote will now take place.

In fact, the case for selling the Tote outright to the highest bidder is a strong one, especially since the horse-racing industry has been given every chance to make counter-bids. Clearly, two obvious potential bidders, William Hill and Ladbrokes — both own and/or operate over 2,000 betting shops each in the UK and Ireland — will not be allowed to participate. But there are other likely bidders, such as Gala Coral, who covet ownership of the Tote and would certainly consider paying over £400 million for it.

Whether in the long-term the Tote is viable against a very strong book-making fraternity is debatable. But its valuable property assets will undoubtedly attract bidders.

*Valuation:* By selling off the Tote to the highest bidder, the government should net c.£400 million, as well as bringing an end to the painstaking negotiations with the horse-racing industry that have lasted for so many years.

## 5. Golden Shares

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Some of the proposed privatization measures would, if implemented, raise issues about national security. At the general level, there are procedures whereby the government can intervene if a proposed take-over gave rise to concerns that it may not be in the public interest. Russia's leading energy company, Gazprom, has been widely tipped to bid for Centrica, which has a near 50% share of the UK's retail gas market. If Gazprom were to mount such a bid, the government might well intervene to prevent it succeeding.

More specifically, in many of the companies where national security concerns are most prominent, the government holds a special share, which enables it to veto major changes to the company's policy. The terms of the various special shares differ markedly, but most prevent changes to the target company's Articles of Association without the approval of the special shareholder, namely the government.

The list below shows the existing special shares in some of the companies that are discussed in this document. Other organizations, where major ownership changes are proposed, lack a special share at present but may well secure such protection if they were to be privatized.

- *AWE plc;*
- *AWE Pension Trustees Ltd;*
- *British Energy Group plc;*
- *British Energy Holdings;*
- *British Energy Generation;*
- *British Energy Ltd;*
- *NATS Holdings*
- *QinetiQ Group plc;*
- *QinetiQ Holdings plc;*
- *QinetiQ Ltd;*
- *Royal Mail Group plc;*

*(Source: Hansard 14<sup>th</sup> June 2007, Written Answers)*

To that extent, there is ample legal provision for the government to prevent any of the companies, whose privatization is proposed, from falling into the ownership of unwelcome parties.

## 6. Projected Privatization Proceeds

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Aside from the many operational benefits that would accrue from undertaking the privatization programme outlined above, the government would also benefit financially from the proceeds. Given the increasing tightness of public finances, notwithstanding the Treasury's recent increases in its PSBR projections, this inflow of funds would certainly be welcome.

In total, proceeds of c. £20 billion could accrue if this programme were pursued in its entirety, although it is recognised that there may be compelling reasons why a particular privatization cannot be undertaken.

Inevitably, it is very difficult to place precise figures on the likely proceeds from any individual privatization. Aside from fluctuating market trends, there is also the need to restructure balance sheets, a procedure that privatization candidates, such as Royal Mail and Scottish Water *inter alia*, would need to undergo. To that extent, any quoted proceeds figure is necessarily a broad estimate.

However, the table overleaf provides estimates of the proceeds that would accrue if the various share sales were to be undertaken. To determine an approximate valuation, the finances of comparators have been analysed. In the absence of such comparators, less rigorous estimates have been made.

<i>Organization</i>	<i>Government Stake (%)</i>	<i>Enterprise Value (EV) (£m)</i>	<i>Net Cash/ Debt (-)" (£m)</i>	<i>Sale Proceeds (£m)</i>	<i>Valuation Methodology</i>
<b>Royal Mail~</b>	100	4,100	392	4,492	TNT/Deutsche Post Comparisons and Lib. Dem. Numbers
<b>BBC Worldwide</b>	100	2,010	-10	2,000	BBC/Press Indications
<b>Channel 4</b>	100	800	179	979	ITV Comparison
<b>Scottish Water</b>	100	4,900	-2400	2,500	Kelda Comparison
<b>Glas Cymru</b>	100	3,800	-2305	1,495	Comparisons with Other Water Companies
<b>Northern Ireland Water</b>	100	1,100	-300	800	Comparisons with Other Water Companies
<b>British Energy</b>	35	5,907	528	2,252	Current Quote
<b>Urenco</b>	33	4,000	-570	1,142	Projection
<b>AWEM</b>	33	450	0	150	Press Indications
<b>Project Services</b>	100	75	0	75	VT Group Purchase Price
<b>UKAEA</b>	100	124	26	150	Press Indications
<b>QinetiQ</b>	19	1,501	-326	223	Current Quote
<b>NATS</b>	49	1,250	-577	330	EV Utility Projections
<b>Trust Ports*</b>	100	600	0	600	Comparisons with Forth Ports
<b>British Waterways^</b>	100	427	17	444	Adjusted Net Asset Valuation
<b>CDC</b>	100	1,244	771	2,015	Net Assets
<b>Tote</b>	100	476	-76	400	Gala Coral Estimate
<b>Total</b>				<b>20,047</b>	

- “ Where information is available
- ~ Pre pension deficit
- \* Including some assumed figures
- ^ Delayed sale estimate
- – Closing prices at 20/03/2008 have been used

## 7. Conclusion

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This paper sets out a radical programme to re-invigorate the privatization policy that proved to be so successful during the period of the Thatcher Government (1979–1990).

If the programme were implemented in full, many benefits would accrue, especially in terms of generating operational, investment and financial efficiencies. Based on the estimates in this paper, some of which are necessarily quite broad, it would also yield proceeds for the government of c. £20 billion.

Privatizing many of the companies discussed in this paper would not be easy. In some cases, primary legislation might well be required. Nevertheless, there is a need now for the government to complete UK privatization — outside the health and education sectors. In embracing such an opportunity, it would recreate the drive that lay behind the original privatization policy that has been replicated throughout the world.

## About the Author

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Nigel Hawkins is a Senior Fellow of the Adam Smith Institute.

He works as an investment analyst, who specializes primarily in the utilities and telecoms sectors; he also covers several other sectors. He has been employed in the City since 1988 and has worked for Hoare Govett (subsequently ABN AMRO), Yamaichi and Williams de Broe (now Evolution).

He is a regular writer for Utility Week magazine and frequently contributes to the financial media. In addition, he undertakes various research projects on energy, water and health policies for Westminster-based think tanks and other organizations.

He has a degree in Law, Economics and Politics from Buckingham University and subsequently qualified as an Associate of the Institute of Chartered Secretaries and Administrators (AICS), whilst working as Export Sales Manager at Marlow Ropes, Hailsham, East Sussex.