

UNIT 1.3

Types of Business Organisation – Public Sector

Introduction to Public-Sector Forms of Ownership

Any business which is owned by the country as a whole and run on behalf of the people is known as a public sector business.



Some public-sector enterprises are run by the central government of the country, either in Westminster or by the Northern Ireland Assembly in Stormont. Others, known as municipal undertakings, are run by local authorities (councils).

Although the government or local authorities run and control public-sector businesses, they are owned by the country.



Figure 1.18
Parliament Buildings, Stormont

The finance for public-sector businesses is found by either central or local government, and their aim is to give a service either for the people of the country as a whole or for those who live in the local authority area.

Differences between public- and private-sector businesses

Public sector businesses differ from private sector businesses in several important ways:

- Firstly, private-sector businesses are owned by private people but public-sector businesses are owned by the country as a whole. There are no individual owners in the public sector
- Secondly, private-sector businesses are controlled by the people who own them or by directors and managers appointed to do so, but public-sector businesses are controlled by the government or local authority
- The third difference is the method of raising capital. In private-sector businesses, the capital is invested by private people but in public-sector businesses the capital is either borrowed from the Treasury or taken out of the local rates
- The fourth major difference is the way in which the profits of the business are used or losses are met. In private-sector businesses, at least some of the profits are distributed to the owners and they also bear the losses, but in public-sector businesses, any profits are handed back to the government and their losses are offset by the Treasury
- The final very important difference between businesses in the two sectors is what they aim to do. Private-sector businesses aim to maximise profits for their owners. In public-sector businesses, however, the aim is to give a service to the people and less emphasis is placed on profit making, although they are expected to break even.

This information is summarised in the following table:

	<i>Private sector</i>	<i>Public sector</i>
Ownership	Private individuals	Country or state
Control	Private owners or directors and managers working on their behalf	National government or local authority

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Public Sector Businesses are:

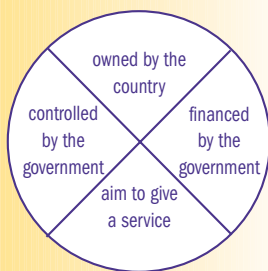
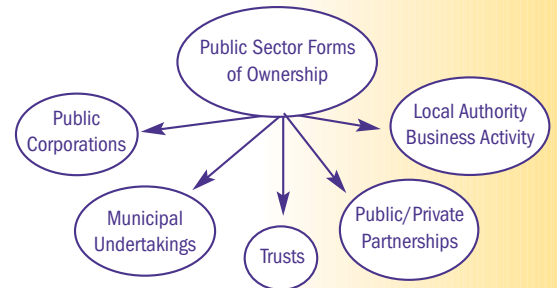


Table continued

Capital	Raised by private owners	Comes from Treasury or from rates
Use of profits	Distributed to owners	Handed back to government or local authority
Aim	To make profit	To give a service

Public Corporations

Public Corporations are defined as government-controlled market bodies. (A market body is one which produces goods and services for sale, and at least 50% of its income comes from sales.)



Examples of public corporations in the United Kingdom

- British Nuclear Fuels
- Bank of England
- British Coal Corporation
- British Broadcasting Corporation
- Civil Aviation Authority
- Royal Mint
- Railtrack
- British Shipbuilders
- British Waterways Board
- Port of London Authority
- Manchester Airport
- The Stationery Office
- Oil and Pipeline Agency
- National Blood Authority

Public corporations are set up by Acts of Parliament in order to run a certain industry or service. They may have been created by government to fulfil a given function or they may have been in the private sector at one time and then were taken over (or nationalised) by the government. In the latter case, they are known as nationalised industries.

Nationalisation was undertaken frequently after World War II when many of the country's services, such as the railways, were very run down. Private owners did not have the vast amounts of capital required to restore the services so the government had to step in if they were to be kept going.

The United Kingdom had a large number of nationalised industries through to the 1970s when the Conservative government, with Margaret Thatcher as Prime Minister, began the process of returning them to private ownership.

Today there are comparatively few public corporations left.

There are several reasons why these industries have been nationalised

- Some services are essential and must be provided, but their costs are so high that a privately owned firm would not be interested in them because they would not make profit
- In many cases the capital investment needed would be too great for any privately owned business to afford
- It would be unsafe for private people to run dangerous industries such as the provision of atomic energy
- Nationalisation prevented large, powerful, privately owned monopolies from existing and being able to set very high prices for their services
- In some instances, the business was failing, so the government took it over in order to save jobs
- There are examples where it would be wasteful to have several organisations duplicating services.



Aims of public corporations

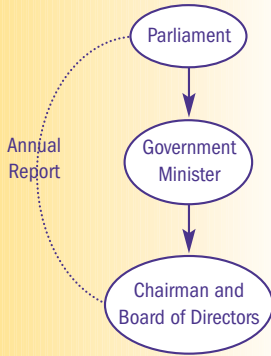
The overriding aim of a public corporation is to give a service. At one time little or no emphasis was placed on profit making, however that situation has changed and nowadays public corporations are expected to break even at least.

Financial targets are set by the government and the corporations are now expected to meet those targets and to be able to pay for any new investment they may require.

Public corporations are controlled in the following way

The government has overall control of the corporation and appoints a government minister to take responsibility for it. The minister appointed would be the one whose department is most closely linked to the work of the corporation. For example, Railtrack is accountable to the Minister of Transport. The minister would oversee the appointment of a chairman and board of directors and they would become responsible for the day-to-day running of the industry.

The chairman of the Board of Directors must report annually to the minister who, in turn, presents the report in Parliament where it is publicly debated and later published for the information of the general public.



Public corporations are financed in the following way

- Most of the money for public corporations comes through grants from the Treasury which is the government department responsible for the country's finance
- In addition, the corporation may borrow from the Treasury
- If the corporation makes profit from its activities, some may be ploughed back into the business
- Public corporations get revenue from charging for the services they provide.

Advantages of public corporations

- The government ensures that the country's essential services are provided
- The government is in a good position to plan the overall provision for the country
- Services are not duplicated and resources are not wasted
- Any profits made could benefit taxpayers by reducing the level of taxation.

Disadvantages of public corporations

- Public corporations are very large, which can lead to inefficiencies
- It is difficult to motivate employees in an impersonal organisation such as this
- The taxpayer has to meet higher tax payments if the corporation makes a loss
- The running of the corporation could be politically influenced.

ACTIVITY

In the following table, link the first part of the sentence with its correct ending. The first one is done for you as a guide.

Activity continues on the next page

Activity continued

A public corporation is	nationalised industries
Public corporations are sometimes called	that it may be inefficient
One advantage of a public corporation is	to give a service
A disadvantage of a public corporation is	by the Treasury
Public corporations aim	that services are not duplicated
Public corporations are financed	controlled by the government

Municipal Undertakings

The word 'municipal' refers to local government, so municipal undertakings are activities organised by the local councils.

There are 26 local councils in Northern Ireland and each one looks after its own area. The following map shows the area covered by each one, and you can check which district council is responsible for your area.

The councils in Northern Ireland are

1. Antrim Borough Council
2. Ards Borough Council
3. Armagh City and District Council
4. Ballymena Borough Council
5. Ballymoney Borough Council
6. Banbridge Borough Council
7. Belfast City Council
8. Carrickfergus Borough Council
9. Castlereagh Borough Council
10. Coleraine Borough Council
11. Cookstown District Council
12. Craigavon Borough Council
13. Derry City Council
14. Down District Council
15. Dungannon and South Tyrone Borough Council
16. Fermanagh District Council
17. Larne Borough Council
18. Limavady Borough Council
19. Lisburn Borough Council
20. Magherafelt District Council
21. Moyle District Council
22. Newry and Mourne District Council
23. Newtownabbey Borough Council
24. North Down Borough Council
25. Omagh District Council
26. Strabane District Council

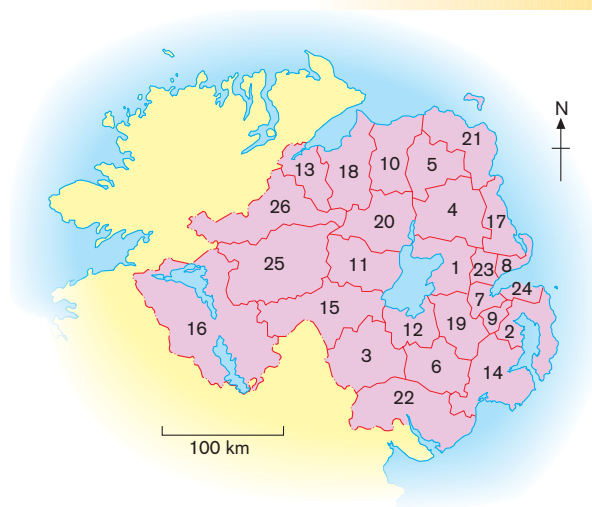


Figure 1.19
District Council areas in Northern Ireland

Each district council has elected representatives who have been voted on to the council to represent the people and to work with the council staff to provide and maintain key services throughout the area.

The services for which local authorities are responsible may vary slightly from area to area, but all are expected to provide:

- refuse collection and disposal
- street cleaning
- health and environmental services
- parks and recreational facilities
- local housing
- parking areas
- maintenance of local roads.

In addition, they support:

- the arts
- tourism
- economic development.



Figure 1.20
Refuse collection

Main sources of finance for municipal undertakings

1. Government grant

The government gives a capital grant to the local authority to assist it with essential building work. It is unusual for the government to finance the project any further.

2. Rates

Some of the money required to run local government enterprises comes from the rates. Rates are paid by each householder and each business in the area according to the size of their properties.

3. Charge for the activity

An entrance fee is charged to each person using the facilities provided by the council in the area – for example a swimming pool or leisure centre.



Activities undertaken by Castlereagh Borough Council

Castlereagh Borough Council provides a wide range of community and leisure services.

Many of you will have visited Dundonald Ice Bowl. It is one of the business activities undertaken by Castlereagh Borough Council.

Dundonald International Ice Bowl is Northern Ireland's busiest leisure complex, with 500,000 visitors each year. To date it has been visited by nearly six million people. The manager of the Ice Bowl attributes its present massive business to the popularity of the Belfast Giants which has created a desire in members of the public to learn to skate.

The Ice Bowl, which was opened in 1986, caters for ice skating, ice hockey and ten-pin bowling.

The complex is owned by Castlereagh Borough Council. The council is responsible for its staffing, upkeep and financing and makes a charge to the public for the use of its facilities. A sample of its charges are:





Figure 1.21
Dundonald Ice Bowl

Ice skating Adults £4
Concession £3
Family ticket £15
Skate hire £1

Some of the other leisure and community activities operated by Castlereagh Borough Council are:



The Robinson Centre



Gilnahirk Golf Course



Lough Moss Centre

ACTIVITY

This activity is based on your own local authority. You should arrange for one member of your class to contact the local authority in order to find the necessary information. Alternatively, if you have access to the Internet, you could find some information there.

Activity continues on the next page

Write the answers to the following questions in your notebook.

1. Give the name of your local authority.
2. Write down the address of its main offices.
3. Find out the name of the Chief Executive of the council.
4. Find out the name of the councillor who is responsible for the area where you live.
5. Paste a copy of your council's crest into your book.
6. Make a list of the business activities your local council undertakes.



EXAMINATION QUESTION

Frances has recently got a part-time job with the local council. Part of her job is dealing with a local municipal undertaking.

- a Define a 'municipal undertaking'. **(2 marks)**
- b Describe two activities that the local council might be involved in. **(4 marks)**

(Adapted from CCEA Business Studies, GCSE, Paper 2 Higher Tier, 2001)

Tips for answering

Part A is simply asking for a straightforward definition and is a knowledge-based question. Write a brief definition beginning with the words 'A municipal undertaking is ...'

In Part B you should choose any two things which the council does – this would earn 2 marks. The other 2 marks are awarded for a brief (one-sentence) description of what is involved in the two activities you have chosen.

Public Private Partnerships (PPP)

A public private partnership is a collaboration between a public body, such as the government or local authority, and private companies.



Figure 1.22
Drumglass High School, Dungannon

Public private partnerships are those where finance from the private sector is introduced in order to help public funds and to spread the costs involved in some major capital projects. The scheme includes the Private Finance Initiative (PFI).

The private investors undertake to build the new public-sector building such as a hospital or school and then they charge the health authority or education authority for its use during an agreed number of years – usually 25. In this way, the private businesses recover their expenses while the public authority can continue to provide a service without a major capital outlay.

The overriding argument in favour of public private partnerships is the fact that most of the new facilities would not have been built otherwise because public money was simply not available. However, the system has advantages for both the public and private partners. The private

partners find new business opportunities and a good return on investment but take the risks. On the other hand, the public partners get value for money in a high-quality service, and benefit from the skill and experience found in the private sector.

Nevertheless, public private partnerships have their critics who estimate that the profit gained by the private sector is huge. For example, it is claimed that the cost of building Fazackerly Prison in Liverpool was repaid within two years, leaving 23 years of profit making for the private contractors.

The present government is committed to public private partnerships, and the Prime Minister is keen to expand the range of partnerships because he believes they offer the best way to provide the improvements required in the public services.

Public private partnerships are gaining in popularity, especially in England where approximately 50 deals have been signed so far. These contracts were for the building of new airports, hospitals, prisons, schools and roads.

The system is still relatively new in Northern Ireland but is growing. The first school in Northern Ireland to be financed by this system was Drumglass High School in Dungannon which was opened in September 2000. Since then three other schools have been built in Belfast in public private partnerships. They are St Genevieve's High School, Balmoral High School and Wellington College.

Still missing

Figure 1.23

St Genevieve's High School, Belfast

Still tmissing

Figure 1.24

Balmoral High School, Belfast

Advantages of public private partnerships

- The largest hospital and school building programme in living memory has been made possible through public private partnerships
- Modern, high-quality buildings are provided, with advanced equipment
- There are performance-related penalties built into contracts so quality is maintained
- Improved services are secured without an increase in taxes
- Government spending is reduced at the beginning and public-sector finance is boosted
- Payments for the use of the building can be spread over a long period of time
- The government is enabled to draw up more accurate budgets for the future
- All risks are taken by the private-sector partner who is better equipped to manage them
- The public sector can benefit from the business expertise of the private sector
- Use is made of practical ideas from private investors.

Disadvantages of public private partnerships

- The private sector has no experience of the unique requirements of public sector buildings such as schools or hospitals
- The public sector is likely to have to pay a larger sum overall even though it is spread over a long time
- Critics feel, therefore, that future taxation will be increased
- There is union opposition to public private partnerships because the unions fear for their members' job security
- Some feel that the private sector gains a huge profit at the expense of the public sector
- Such partnerships would not be suitable for all public services.

Hospital Trusts

Hospitals and other health care providers can now be given trust status which makes them independent. Hospital trusts are self-governing but remain within the National Health Service (NHS). They are run by boards (which have some local representatives) and report directly to the Secretary of State. Trusts manage their own budgets, employ their own staff and can make decisions on all aspects of the day-to-day activity in the area under their control.

The original idea in creating National Health Service Trusts was to raise standards of care in the health service by allowing hospitals to take responsibility for their own affairs.

Each trust provides a range of health care services within its area which local doctors (general practitioners) and other health organisations purchase from it.

Advantages of trusts

- They are allowed to work out their own management structure
- Trusts can purchase their own assets. This allows them to have the equipment they feel is most appropriate for their needs
- Trusts are allowed to keep any profit they make so they have opportunities to plough more capital back into their hospital
- They are allowed to treat private patients as well as NHS patients which gives them another source of income.

Disadvantages of trusts

- Professional staff can be involved in a lot of administration which shortens the time available for their specialised work
- The system can lead to duplication of bureaucracy.

Trusts in Northern Ireland

There is a total of 18 NHS trusts in Northern Ireland, as shown in the following table:

Name of trust	Headquarters
Western Board Area 1. Altnagelvin Group of Hospitals Trust 2. Foyle Community Trust 3. Sperrin Lakeland Trust	Londonderry Londonderry Omagh
Northern Board Area 4. Causeway Trust 5. Homefirst Community Trust 6. United Hospitals Group Trust	Ballymoney Antrim Antrim
Southern Board Area 7. Armagh and Dungannon Trust 8. Craigavon Area Hospital Group Trust 9. Craigavon and Banbridge Community Trust 10. Newry and Mourne Trust	Armagh Portadown Gilford Newry

Table continues on the next page

Table continued

Eastern Board Area	
11. Belfast City Hospital Trust	Belfast
12. Down/Lisburn Trust	Lisburn
13. Green Park Healthcare Trust	Belfast
14. Mater Infirmorum Trust	Belfast
15. North and West Belfast Community Trust	Belfast
16. Royal Group of Hospitals Trust	Belfast
17. South and East Belfast Community Trust	Belfast
18. Ulster Community and Hospitals Trust	Newtownards

ACTIVITY

Look up the 'health' section in the telephone directory to find the answers to the following questions which you should then write in your notebook.

1. Give the name and full address of the trust which serves your home area.
2. Write down the names of the hospitals under the control of that trust.
3. What was the original reason for forming health trusts?
4. State one advantage of trusts.
5. State one disadvantage of trusts.

REVISION

At this stage you should understand:

The differences between public and private sector

Public corporations

Nationalisation

Municipal undertakings

Public private partnerships

Trusts

As revision, look each one up in the Glossary at the end of the book.