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FROM: CHIEF SECRETARY
DATE: 13 November 1986

PRIME MINISTER

PUBLIC EXPENDITURE TREATMENT OF ERDF RECEIPTS BY PRIVATISED INDUSTRIES

Several colleagues in spending departments have suggested that we need to consider further how ERDF receipts by newly privatised industries should be treated for the purposes of public expenditure control. The attached note which incorporates contributions by officials from the Treasury and some of the other departments concerned, prepared in PESC(EC) and discussed in EQS, sets out the issues and the competing arguments.

2 I start from our objective of containing as far as possible the public expenditure impact of the Community budget, which includes not just our net budgetary contribution of approaching £1 billion a year but also spending of approaching £1½ billion a year by departments on Community-financed programes which we would not necessarily have undertaken ourselves. That objective has led to our general policy on receipts which I can briefly summarise.

3 Our aim is:

(a) to maximise the UK's share of receipts without compromising our posture on budget discipline and;

(b) to use receipts to the greatest extent possible to finance existing public expenditure programmes, not additional programmes or private sector programmes.

This protects the public expenditure totals.

4 This is the approach we have taken on receipts from the ERDF and the Social fund. Our aim is to avoid a position where receipts from these funds lead to increased public expenditure; rather we use them to help finance our own public expenditure programmes. In keeping with this, we have encouraged applications for grants for public sector projects while discouraging applications for private sector projects. If departments wish to claim ERDF grants for passing on to the private sector, the presumption is that they must protect the public expenditure totals and the taxpayer by making offsetting savings of the same amount elsewhere in their departmental programmes.

5 Before the privatisation programme got underway this approach raised no major problems. When BT was privatised, Ministers decided that the policy of private sector receipts should apply equally to their receipts. In the light of this DTI decided not to forward ERDF applications on behalf of BT but to concentrate on other projects instead. BT is therefore treated in the same way, in effect, as any other private sector company.

6 But as the privatisation programme proceeds departments have a new concern. About 30 per cent of our total ERDF receipts of some £250 million a year are currently going to nationalised industries which have been privatised or are planned to be privatised in the near future. So long as the industries are nationalised, these receipts have a favourable effect on public expenditure by helping to reduce external financing limits, although we lose 66 per cent of the receipts in the form of reduced Fontainebleau abatement the following year. After privatisation the industries will probably continue to be eligible for ERDF grants for projects which in the Commission's view would not otherwise have taken place; but unless Departments are prepared to make offsetting savings in their own programmes such grants would lead to an increase in public expenditure because there will no longer be any favourable effects on EFLs to

set against the 66 per cent loss of Fontainebleau abatement.

7 I believe that it be would be wrong to depart from our existing policy. We cannot consistently treat grants from Departments for newly privatised industries differently from grants to the existing private sector, subject to the qualification that we will not apply the offsetting savings condition to receipts already committed before privatisation (paragraph 25 of the officials' paper). Existing policy protects the public expenditure position. It applies the same control system to the payments for the private sector whether they are made direct from a Departmental budget or via the Community budget. We must not undermine that.

8 Colleagues argue that if they are expected to make offsetting savings they will not, in practice, feel able to forward applications for the newly privatised industries. They doubt that without the projects which would have been put forward by the newly privatised industries we will reach our full quota share of the ERDF receipts.

9 This is a problem which arises very largely in connection with the water industry, which currently accounts for just over 20 per cent of our total ERDF receipts. Within that over half of the receipts going to the water industry are currently destined for the North West Water Authority, which is unlikely to be one of the first candidates for privatisation.

10 I am doubtful whether the take-up problem is as marked as colleagues suggest. We can surely find other public sector projects, such as road projects and industrial support projects where Community grants would substitute for our own Regional Development Assistance. In the final analysis I believe it may be more important to keep to our public expenditure objectives than to maximise our ERDF share or to enable a particular privatised industry project to which

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we attach less priority to proceed at something of a discount. There seems to be an underlying assumption that it must be worthwhile incurring an extra 66 units of public expenditure in order to attract a further 34 units of net inflow into the UK. In practice I think that the trade-off between extra Community receipts and extra public expenditure is likely to be more unfavourable than that suggests.

11 I should stress however that existing policy is not totally inflexible. It is ,and will remain, open to Departments to put forward additional bids in the Public Expenditure Survey or to make claims on the Reserve if they believe there to be compelling reasons for applying for a particular ERDF grant for a particular privatised industry without making an offsetting saving in their Departmental programme. As the paper brings out, the policy does not prohibit Departments from making such bids, though it does, rightly, establish a presumption against accepting them.

12 I hope that you and other colleagues will agree that our policy on private sector receipts should continue to be applied to privatised industry receipts, subject to the glosses above. If colleagues cannot agree to this, I understand that the Cabinet Office have in mind that this could be added to the Agenda of the meeting of E(A) fixed for 20 November.

13 I am copying this minute to Geoffrey Howe, members of E(A) and to Sir Robert Armstrong.

JM

JOHN MacGREGOR

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PUBLIC EXPENDITURE TREATMENT OF ERDF RECEIPTS BY PRIVATISED INDUSTRIES

Introduction

1. The purpose of this paper is to set out the existing public expenditure treatment of European Regional Development Fund (ERDF) infrastructure grants received by private and newly privatised industries, the reasons for that treatment, and departments' views on possible changes of the treatment.

Background

2. Industries which have been, or are scheduled to be, privatised have since 1983-84 received ERDF payments as follows:

(£m)

	Date of Privatisation	1983-4	1984-5	1985-6	1986-7 forecast
Water	(after 1987)	21.4	17.9	50.5	55.0
Ports	(1984)	3.6	3.1	5.2	14.1
N.Bus (1)	(1986 onwards)	-	-	-	0.525
BAA (1)	(1987)	-	-	0.457	-
Gas (BGC)	(1986)	6.0	4.3	4.3	2.9
British Telecom (BT)	(1984)	15.0	11.6	6.8	3.5
TOTAL		46.0	36.9	67.3	76.0
% of total UK ERDF receipts		25.6%	18.5%	31%	31%

(1) It is possible that the Commission could refuse to support projects by local authority bus companies and airports if the UK decided as a matter of policy not to submit applications from privatised operators, on the grounds that to do so would involve distortion of competition. If this were to prove the case, the sums of money at stake in the transport sector could be significantly larger: Manchester International Airport, for example, is planning considerable expansion for which they would expect to get some ERDF support.

As the table illustrates, receipts by these industries presently account for about 30 per cent of the UK's total ERDF receipts. Among the industries by far the largest recipient, accounting for the lion's share of the receipts, is the water industry, and in particular the North West Water Authority: the industry is expecting this year to receive some 22.5 per cent of the total forecast ERDF receipts by the UK included in the latest Public Expenditure White Paper (Cmnd 9702), Table 3.3.2, compared with around 1.2 per cent for BGC.

3. BAA receipts could well increase in the next few years because of a specific project at Glasgow airport. The decline in BT's receipts is due to the policy adopted on privatisation (see paragraph 8 below): if a decision were taken to change this policy, their receipts could well increase again.

4. Decisions on ERDF funding are made in terms of commitments: each member state is allocated a range within which its total share of commitments ought to fall provided that sufficient eligible applications are forthcoming. The Commission can decide in one year to grant a certain amount of support to a project or programme while the payments flowing from that commitment will spread over several years. It is therefore relevant to look also at the commitment figures for the industries. These figures for 1983-85 are shown at the Annex. As the figures show, the industries listed in paragraph 2 accounted for 37 per cent of the new UK commitments in 1983, but the percentage fell to 9 per cent in 1985 because of the various embargos placed on ports, gas and water schemes by the European Commission while they looked at the privatisation issue.

Eligibility for receipts

5. There is some uncertainty at this stage about the extent to which privatised industries will continue to be eligible for ERDF receipts. ERDF grants for infrastructure projects have normally been limited to public sector undertakings, although there is a provision in the 1984 Regulation that private sector bodies acting in the same way as a public authority may be eligible for grant. European Commission officials have been considering the matter

and it is understood that they are recommending that eligibility should continue after privatisation subject to the additional criterion that the schemes undertaken by privatised bodies would not have gone ahead without ERDF. Private ports schemes are expected to feature in the 8th round of the Commission's 1986 ERDF approvals. In some industries, such as bus transport and airports, there is likely to be a mixture of newly privatised firms and existing private sector or continuing public sector undertakings. If for any reason ERDF grants are not in practice available to one sector of an industry, departments could be inhibited on grounds of fair competition from submitting ERDF applications from other parts of the industry both from a domestic and a Commission point of view. Even if the Government agrees to let applications go forward, there can be no guarantee, of course, that grants will in all cases be forthcoming. This applies to all ERDF applications.

Existing policy on Community budget receipts

6. The Government's general policy on receipts from Community sources, which Ministers have decided and reaffirmed on several occasions, provides for:

(a) maximising the UK's share of receipts without compromising our posture on budget discipline, and

(b) using the receipts, to the greatest extent possible, to finance existing public expenditure programmes, not additional programmes or private sector programmes.

The rationale which underlies (b) above is that use of Community receipts to finance existing public sector programmes reduces the demands made by the public sector on the taxpayer. More precisely, it helps to offset the increases in public expenditure which result from our gross contributions to the Community budget. Use of Community receipts to finance additional public expenditure or private sector programmes, on the other hand, does not have these beneficial effects on public expenditure. If therefore departments wish to use Community receipts to finance additional public expenditure programmes or to claim grants for passing on to the private sector, the presumption is that, with minor exceptions, they must protect the public expenditure total and the taxpayer by making offsetting savings of the same amount elsewhere in their departmental programmes.

7. The policy outlined above has continued to be applied since the introduction of the Fontainebleau abatement system. Under that system, the net benefit to the UK of an increased share of Community budget receipts, whether public or private sector, is now 34 per cent of the gross value of the receipts: our abatement entitlement in the succeeding year falls by an amount equal to 66 per cent of the receipts. The case for maximising our share of receipts, on the basis set out in paragraph 6(a) above, remains, since a net inflow to the UK (or reduction in our net budgetary contribution) of 34 per cent of the gross receipts, though less favourable than a net inflow of 100 per cent of the gross receipts, is clearly preferable, other things being equal, to <u>no</u> net inflow. The net inflow, or reduction in our net budgetary contribution, will not, however, be reflected in a corresponding reduction in public expenditure <u>unless</u> the receipts are used to finance existing public expenditure programmes. On the contrary, if departments use them to finance additional public sector programmes the public expenditure total will <u>rise</u> by 66 per cent of the amount of the gross receipts, the reduction in our net budgetary contribution being more than offset by the extra spending from departmental programmes. In the case of receipts being claimed for private sector projects instead of public sector ones, there would be a similar adverse effect on public expenditure except in so far as the prospect of these receipts may increase the flotation price of the industry.

<u>BT</u>

8. Ministers considered the public expenditure treatment of ERDF receipts by newly privatised industries for the first time when BT was privatised in 1984. They agreed that the existing rules governing ERDF grants going to the private sector should apply to BT. As explained above, these rules provide that offsetting savings should be found for any ERDF money passed on to the private sector, in this case BT, and the Treasury will normally look to the sponsor department for these. Ministers also agreed that if

BT were to continue to receive ERDF grants, the same opportunities would have to be extended to competitor companies already in the private sector. The same rules on offsetting savings would have to be applied in these cases. The DTI, the department chiefly concerned in the BT case, concluded that, on balance, this would not be the most cost-effective use of their public expenditure resources. It was therefore agreed that, in future, applications from BT for ERDF grants would not be forwarded to the Commission. The decision was made at a time when there were no real difficulties with the take-up of the UK share of ERDF, and it was not seen as being applicable to all privatisations, the extent of which was not fully appreciated. It was agreed that payments flowing from grants made <u>before</u> privatisation could be passed on to BT without offsetting savings being sought, on the ground that these payments would have been reflected in higher receipts from the sale of BT.

9. Under the proposed STAR Community programme, ie a programme proposed by the Commission rather than Member States, ERDF aid of some £18m will be available for telecommunications infrastructure projects in Northern Ireland. British Telecom is the only serious contender for this aid but it is not yet clear to what extent (if any) aid will be applied for; the Secretary of State for Northern Ireland will decide this in the light of an economic assessment of the British Telecom proposals (and possibly others). Treasury Ministers have agreed in principle that this Community aid, if granted, can be passed on to British Telecom provided that the Northern Ireland Office makes public expenditure savings of equivalent amounts within the Northern Ireland expenditure block. This is consistent with the existing policy described in paragraph 6 above.

<u>Possible problems on UK take-up of ERDF funds</u>

10. There are considerable anxieties among departments which deal with the ERDF as to whether the UK will continue to be able to put forward public sector applications on a scale to cover our quota entitlement to 14.50-19.31 per cent of the Fund. These departments feel that to achieve the maximum of our quota range it is going to be necessary to put forward privatised industry projects as well, assuming that such projects are deemed eligible, and that it may even be necessary to do so to achieve the minimum.

11. The departments concerned point out that the main categories under which application can be made to the ERDF are

- aid to industry
- aid to infrastructure
  - paid for by local authorities
  - paid for by public authorities (or private organisations acting like a public authority)
  - paid for by central government

As already indicated in paragraphs 2-5, a substantial proportion of the commitments awarded in recent years has been through applications for aid to infrastructure carried out by the public authorities currently under consideration for privatisation. Clearly if those industries were not to receive ERDF assistance in future then, other things being equal, the difference would have to be made up by other applications if we are to maintain our quota share.

12. In the view of the departments concerned, this would be difficult. Because of controls on overall local authority spending their capital spending eligible for ERDF aid has been declining, and this has been reflected in a reduced volume of applications, and also in their quality and consequent success with the European Commission. There is no reason to suppose that this decline will be reversed. The main problem is in England, where, by way of illustration, 167 applications for ERDF aid worth £61m were submitted by English local authorities to DOE in 1986, compared with 319 similar applications, worth £106m, in 1985. The Welsh and Scottish Offices could take up in their countries any loss of ERDF aid caused by the loss of the privatised industry claims and could close some of the gap caused by the English losses. However, this would increase Commission and domestic objections to regional imbalance of ERDF assistance within the UK.

13. The other traditional sources of ERDF applications (ie aid to industry, public authorities not subject to privatisation and central government expenditure on infrastructure) are unlikely to come near to making up the remaining gap. On industrial aid, DTI has put to the Commission a draft Programme of Community Interest covering all industrial aid in Great Britain. If this were to

be accepted there could be a much increased level of commitment, but the initial Commission response is not favourable. In the Department of Energy's view the CEGB's capacity to increase its applications, for example, is also not significant since it is already putting forward all potential applications.

14. As regards central government expenditure on infrastructure, support for Trunk Road Projects is currently being sought to help offset the decline in English local authority applications. Those responsible for finding eligible schemes in England consider that they are exhausting their possible sources of Exchequer funded schemes. In looking at any new source the Commission criteria also have to be borne in mind.

15. In the judgement of the departments concerned, therefore, loss of ERDF assistance for privatised industries as a whole would significantly impair our ability to make sufficient applications to ensure a satisfactory level of take-up of the UK's annual quota share. The receipts available to industries already privatised or planned to be privatised could be of the order of £100m per year (mostly for water).

Case for changing the policy

16. The Departments of the Environment, Energy and Transport, supported by the Welsh Office and Scottish Office, take the view that the current treatment for private sector receipts should no longer be applied to newly privatised industries. This view is influenced by their concern about the UK's ability to secure its quota entitlement in the absence of ERDF grants for privatised industries, in particular when the water industry is privatised (see paragraphs 10-15 above). They also feel that there are wider political considerations which ought to be taken into account.

17. The Department of the Environment and the Welsh Office consider that the success of the Government's policy of privatising water authorities will be undermined unless the availability, after privatisation, of ERDF grant for eligible water and sewerage projects can be assured. Seven water authorities and three water companies

have benefitted from ERDF grants, which are more significant to their individual finances than to those of BT. For example, in 1985-86, ERDF grant (£6m) equates to 18 per cent of the Northumbrian Water Authority's capital programme, and 5 per cent of its turnover.

18. In the case of the North West Water Authority, the European Community has accepted as a National Programme of Community Interest the Mersey clean-up project and has so far approved £68m of ERDF aid to the programme, the greater part to the Authority. Over 25 years, capital expenditure by the Authority on the Mersey clean-up is expected to amount to £1.7 billion (40 per cent of its present annual rate of capital spend), and ERDF grant is expected to contribute £500m. The Mersey clean-up project, important as it is environmentally, for the regeneration of the area, and for tourism, brings no financial return to the Authority. The Department of the Environment therefore considers that without ERDF grant, the Mersey clean-up project, if it does not founder, will have its timescale considerably extended or will require water service charges to be raised by about 5 per cent (on top of the real increase in charges of about 10 per cent which will be necessary if the Authority is to be flotable). Successive Secretaries of State for the Environment have personally initiated and supported the Mersey clean-up programme. If the privatisation and EC receipts policies are allowed to set it back, or to put it in doubt, the Government will lay itself open to serious criticism from European, environmental and regional interests alike.

19. The Department of Employment have noted in addition that any reduction in ERDF grants to water authorities could well delay the rate at which desirable improvements to sewage disposal at resorts were made, and that any such delay would have an adverse effect on the tourism in the areas concerned.

20. Some departments also feel that a wider perspective ought to be adopted, even on the question of the costs to the Exchequer from ERDF private sector receipts. They suggest that in counting these costs, in particular the loss of public sector receipts or Fontainebleau abatement, account ought to be taken of possible offsets in the form of increased Corporation Tax payments from the industries, reduced unemployment benefits and increased income

tax and national insurance contributions from workers involved in the project benefiting from the ERDF money. In their view, the total effect on the Exchequer, after allowing for such offsets, could even be broadly neutral. Moreover, they consider that greater consideration should be given to the impact on investment and employment in the Assisted Areas where eligible projects are situated. They consider that in the absence of ERDF grants, the industries are likely to concentrate their investment in other areas, and that if the infrastructure is not available in the Assisted Areas, other industries too will be unlikely to invest there.

21. Some departments also argue that privatisations bring substantial gains to public expenditure in the form of flotation proceeds, and that it would therefore be reasonable to treat ERDF grants to privatised industries as relatively modest and acceptable offsets, to be set against these gains. Some of these offsets can be realised: to the extent that the EC Commission have committed themselves to ERDF grants, that can be stated in prospectuses when the company is offered for sale, and can be expected to enhance the sale proceeds pro tanto. In some cases, and especially in the longer term, ERDF grants are admittedly uncertain, and the possibility of future ERDF grants will have a relatively small and uncertain effect on sale proceeds. But in the case of most water authorities the effects on the flotation price will be partly quantifiable, and in one or two cases will be substantial. The ERDF grant aspect will need to be considered case-by-case along with all the other public expenditure implications of each privatisation.

22. Some departments also consider that it is unreasonable to expect them to make offsetting savings for privatised industries as this could only be done at the expense of other departmental programmes (eg Inner Cities). They point out that at present the expected ERDF receipts of nationalised industries generally count as internal finance and are taken into account during the annual Investment and Financing Review (IFR), and in the setting of the industries' External Financing Limits (EFLs) which are therefore lower than would otherwise be the case. Departmental budgets have not hitherto been affected. Finding offsetting savings will therefore be a new call on departments.

23. On presentation, some departments argue that it would be difficult to justify domestically a Government decision not to put forward to Brussels projects for privatised bodies which the European Commission deemed eligible for ERDF aid. They suggest that it would be even more difficult in the case of the water industry if schemes for England and Wales are not submitted when ERDF applciations are made and approved by water authorities in Scotland and Northern Ireland.

24. To argue that applications for grants to privatised industries were not being made because under the domestic rules, the departments responsible would have to make offsetting savings from their own programmes would also not be well received in Europe, since it would be regarded as inconsistent with the Joint Declaration of the Council, the Parliament and the Commission in 1984 whereby ERDF aid will, in general, be an additional overall source of finance for the development of beneficiary regions or areas.

<u>Case for maintaining the policy</u>

25. In the Treasury's view the existing policy on private sector receipts is well-founded and should continue to be applied to the newly privatised industries, though it may in certain cases be reasonable, as with BT, that no offsetting savings should be sought for receipts flowing from grants committed in advance of privatisation.

26. The main and positive reason for taking this view is that control of public expenditure and protection of the taxpayer, which are the objectives of the Government's existing policy on ERDF receipts, are as important now as they have ever been. Public expenditure which is financed through the Community budget needs to be scrutinised and controlled just as much as expenditure that is financed directly from our own national budget. In the Treasury's view it would be perverse to allow the privatisation programme, after the initial proceeds from sales of the industries, to increase public expenditure and the demands on the taxpayer. Yet this would be the effect if receipts which have hitherto been used to reduce demands on public expenditure by reducing EFLs were in future not to perform that function.

27. As regards the other issues raised in the two preceding sections, the Treasury offers the following observations.

(i) Public sector take-up. It is clear that privatisation will make the task of assembling sufficient public sector projects to cover our ERDF quota entitlement more difficult, though the impact of the privatisation programme seems unlikely to have major effects until after privatisation of the water authorities (which cannot now begin until the autumn of 1988 at the earliest). But the first response to this should be, not to change the existing framework of public expenditure control, but to identify areas where more public sector projects can be put forward (roads are one possible example) and more non-infrastructure industrial projects where ERDF grant can substitute for domestic regional assistance expenditure.

(ii) Private sector projects. If there should turn out to be a residual shortfall which cannot be covered by other public sector projects, it will still be open to departments under the existing policy to put forward private sector infrastructure projects for ERDF support, including privatised industry projects, though the presumption will be that they will have to make corresponding savings in their own programmes.

(iii) Water privatisation. Whatever the Government's domestic policy may be, there must be significant uncertainty as to the amounts of ERDF assistance which will be available to the Water Authorities over time, and the North West is the only Authority where really large sums are involved. It is therefore difficult to see how the availability or otherwise of ERDF assistance can decisively affect the success of the general privatisation programme for water. In the case of the North West Water Authority, similarly, £68 million of ERDF funds has been committed so far; but there is no commitment by either the UK Government or the EC to any specific levels or phasing of expenditure on the Mersey clean-up programme beyond the PES period. It is therefore difficult to see how the possibility or even probability of further ERDF assistance (about whose scale and duration there would be no certainty) could of itself be the decisive factor in making the privatisation of this Authority viable.

(iv) Sale proceeds. Extra public sector receipts from sale of the privatised industries are a by-product of a policy of asset transfers whose objectives are to roll back the public sector and enhance efficiency: they are not savings available for other public spending.

(v) Flotation prices. The unavoidable uncertainty about the continuing availability and scale of ERDF grants for any particular privatised industry is bound to limit any favourable effects on flotation prices: privatisation prospectuses will have where appropriate to acknowledge this uncertainty.

(vi) Flow-backs. The argument about flow-backs to the public sector in the form of extra Corporation Tax and Income Tax applies similarly to other forms of public expenditure and to tax reliefs: in the final analysis, it boils down to an argument for reflation.

(vii) Direct expenditure and expenditure via Community budget. It would be hard to justify a system whereby departments would have a general exemption from the obligation to provide offsetting savings for Community funds diverted to the private sector when such savings will continue to be expected if departments provide funds for the private sector directly from their own budgets.

(viii) Presentation. It is not clear why the Government needs to make any secret of its preference for taking Community receipts into public programmes (which are thereby enabled to be maintained at levels higher than would otherwise have been possible) and letting the private sector stand on its own feet.

28. It is of course open to departments to put forward additional bids in the Public Expenditure Survey or to make claims on the Reserve if they believe there to be an unavoidable clash between the receipts share maximisation and public expenditure objectives in paragraph 6 above and wish to apply for particular ERDF grants for private industries without making offsetting changes in their departmental programmes. The policy does not prohibit departments from making such bids. It does establish a presumption against accepting them.

Summary

29. The main points from this paper can be briefly summarised as follows:

- Industries already privatised or planned to be privatised at present account for some 30 per cent of ERDF receipts, with water authorities taking the lion's share.

- Although decisions have still to be taken, the Commission seems likely to decide that ERDF grants should continue to be available for suitable privatised industry projects which would not otherwise take place.

- There is anxiety among departments that privatisation may mean that there will no longer be enough public sector projects to enable the UK to take up a full share of the ERDF.

- Some departments conclude that, for this and other reasons set out in paragraphs 16-24, they should be allowed to forward claims for ERDF grant by privatised industries without being expected to offer offsetting savings.

- In the Treasury's view, for the reasons set out in paragraphs 25-28, it would be wrong to exempt Community financed expenditure in this way from the existing control processes, though it should remains open to departments to make proposals in individual cases if they feel that exceptional treatment is justified.

Next action

30. Ministers are invited to decide, in the light of the analysis in the paper, whether or not the policy on private sector receipts should continue to be applied to newly privatised industries, subject to the possible qualification noted in paragraph 25 above about grants already committed, or whether some different treatment should be envisaged either for privatised industry receipts or for private sector receipts generally.

HM Treasury
29 October 1986

ANNEX

ERDF COMMITMENTS: UK

£m

	1983	1984	1985(1)
Water	37.9	39.7	21.2(2)
Buses:			
NBC	0.4	0.4	-
Local Authority	8.2	3.0	2.2
Ports:			
ABP	0.9	1.8	0.5
Others	5.0	6.1	1.3
Airports:			
BAA	-	0.6	-
Local Authority	0.8	5.4	8.6
Gas	6.4	6.6	2.5
Telecom (BT)	34.9	29.9	-
TOTAL	94.5	93.5	36.3
% of total commitments	36%	29%	10.5%
TOTAL UK COMMITMENTS	262.8	327.7	345.0(2)
Quota achieved(3)	21.2%	27%	24%
Quota range	23.8%	23.8%	21.42%-28.56%
Quota achieved excluding privatisation candidates	13.6%	18.9%	21.5%

(1) Applications for water and gas projects in 1985 were low because a number of applications were held back by the Commission pending decisions on the status of the industries. The water commitments held up is estimated at £12 million: that for gas is £4m. The same condition applies for applications for transport projects, but a figure for these is not at present available.

(2) The Mersey Basin Clean-up is recognised by the EC as part of a National Programme of Community Interest, the value of water projects for which, covered so far by the 1985 NPCI, commitment is £25m. This is not included in the water figures quoted above for 1985 but is included in the total commitment figure. With this and the adjustment at (1) the total for the five industries in 1985 is estimated at a minimum of £72.4m.

(3) Quota achieved = % share of commitments allocated to UK, not the UK's 'quota share', which is calculated on a different basis.