



Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Nicholas Ridley MP  
 Secretary of State for Trade and Industry  
 Department of Trade and Industry  
 1 - 19 Victoria Street  
 London  
 SW1H 0ET

20<sup>th</sup> September 1989

*Dear Nick*

DTI PROGRAMME EXPENDITURE AND RUNNING COSTS

Thank you for your letter of 14 September about DTI programme expenditure and running costs which we discussed at our meeting on 18 September. I am writing to record what we agreed. I will be writing separately about the ECGD and the Post Office.

On programme expenditure (excluding running costs) you very helpfully offered reductions below baseline as shown in the following table.

	£ million		
	1990-91	1991-92	1992-93
Baseline	955	802	823
Proposed reductions	-83	-67	-194
Revised total	872	735	629

I am most grateful to you for offering reductions on this scale which are a helpful contribution in a difficult Survey. I accept these proposals, and subject to the points below, I now regard this part of your programme as settled for the current public expenditure round.

Our officials will be discussing how the reduced provision is to be allocated to the various headings within your programme. I hope that this can be settled quickly on a mutually acceptable

PE &amp; Cash Limits.

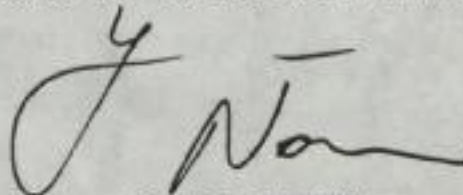
basis without the need for further correspondence between us. The figures for 1990-91 included in the Autumn Statement will, of course, be subject to the usual Estimates scrutiny later in the year.

You indicated that you are in the process of reviewing DTI spending programmes and I hope that once this has been completed you will be able to offer further reductions in the 1990 Survey. I look forward to hearing the results in due course. Any changes will of course need to be funded within the agreed provision, and detailed proposals cleared with the Treasury in the normal way. No doubt as part of your review you will be considering the implications of the recent evaluation of the Business Development Initiative, and the remaining industry support schemes such as those for providing support for the shipbuilding industry and redundant steelworkers. I believe that it is now appropriate for our officials to undertake a more formal review of the effectiveness and appropriateness of these schemes and to report in good time for the 1990 Survey. Similarly, on RSA we can take account of the outcome of the current review in the next Survey. On this basis I hope that RSA provision not higher than baseline will be agreed by our officials. I wrote to you on 30 August about cash limiting RSA. My hope is that we will be able to reach a constructive conclusion on this before the end of the Survey.

On EIEC I understand that your offer assumes slightly larger reductions than those proposed in John Major's letter of 21 July. As you may be aware we are currently considering whether net receipts from EIEC can correctly be treated as negative public expenditure as has been assumed in the above figures. My officials are in touch with yours about this classification issue which need not hold up our agreement on the overall settlement. You indicated that you are considering radical options for the EIEC following the disposals review which could generate substantial additional receipts. We agreed that this is not something which can be reflected in the current settlement, but the financial implications will clearly be an issue for the 1990 Survey, and I look forward to your proposals for developing the private sector property market without English Estates' intervention.

On running costs, I am grateful to you for agreeing to look again at your additional bids, particularly in respect of next year. If accepted in full your proposals would result in an increase in DTI running costs of 11.6% in 1990-91 (12.8% per man year). Settlements at this level are not compatible with the remit agreed by the Cabinet to hold down the growth in departmental running costs. You indicated that you are reviewing DTI's running costs requirements and expect to be able to offer reductions in the 1990 Survey. But notwithstanding this, I very much hope you will be able to offer some reductions now, given the difficult situation we face.

I am copying this letter to the Prime Minister.



NORMAN LAMONT