

dti

the department for Enterprise

CONFIDENTIAL

ccp
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Your ref
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Dear Chief Secretary,

1989 PUBLIC EXPENDITURE SURVEY

I have reviewed with the Chancellor of the Duchy my Department's expenditure programmes for the 1989 Survey. This letter sets out our proposals for the Department's programme expenditure and running costs. As required, I enclose with it the Department's running cost management plan for 1990-91 to 1992-93.

Overview

2 As the table at Annex A shows, my bids total +£18.2m, +£51.0m and -£27.1m. My net bids therefore total just over £40m, and lead to a baseline declining to under £140m by 1992-93. My bids for cash-limited programmes are below baseline in each PES year. The Department's expenditure has of course decreased very significantly in recent years: it now spends less than any other Department identified separately in the Public Expenditure White Paper except Energy and the Office of Arts and Libraries.

3 I have sought to keep as close to baseline as possible, and I have in particular examined my bids closely in the light of underspends in 1988-89. I have however concluded that I need the resources for which I am bidding to consolidate the Department's active role in the stimulation of enterprise and competition. My bids show some shift from programme expenditure to running costs. This reflects increases in pay and accommodation bids which are outside my control, and which

The
Enterprise
Initiative

offset accommodation savings arising from relocation : it is also in line with the new objectives I have set for the Department which reflect my determination to promote enterprise and competition without throwing money at problems.

4 I should add that I am still reviewing the case for additional bids for the Research Establishments and standards. However, I shall only be making an additional bid for the Research Establishments if I am convinced that this would allow the rationalisation of the National Physical Laboratory site and lead to savings which could be shown in investment appraisals to outweigh initial costs. Any extra bid on standards would be 1992-related and would be relatively small.

Non cash limited programme expenditure

5 I am making a significant bid for Regional Selective Assistance which reflects the scope I see for marketing the UK aggressively to inward investors seeking to set up operations in the EC in the run-up to 1992. I attach considerable importance to making the most of the window of opportunity which will undoubtedly arise in this connection. Following consultation with Malcolm Rifkind and Peter Walker, Tony Newton wrote to you about this on 15 May and he will be discussing our proposals with you in detail before long. The bid also continues to reflect the likelihood of a knock-on increase in demand for RSA as a result of the closure of the RDG scheme. Since the reductions in RDG and Regional Enterprise Grants (see paragraph 15 below) more than outweigh the RSA bids, the figures for regional expenditure as a whole show a marked decrease. However I should make clear that there are a number of issues under review that could affect them: besides the initiative we are taking on Regional Selective Assistance, an evaluation of the REG scheme will be completed in June; decisions also need to be taken on the future strategy for English Industrial Estates Corporation. I do not exclude the possibility that some upward revision of the figures may be necessary as a result of all this.

6 I need deal only briefly with my other non cash-limited programmes. The aerospace changes principally reflect a revised profile of launch aid payments in respect of the A330/340 : over the three PES years, the bids for aerospace are still nearly £20m below baseline. The shipbuilding bids result from revised forecasts for interest relief under the Home Credit Shipbuilding Guarantee Scheme, and from the need to provide intervention fund (IF) support from the private sector IP budget for the Appledore yard following its privatisation : this money would otherwise have had to come

from provision for British Shipbuilders. The bids also cover estimated likely IF requirements for the Ferguson yard, about the future of which Tony Newton is writing separately to you. The steel bid results from revised forecasts of payments to redundant steelworkers under the statutory Iron and Steel Employees Readaption Benefits Scheme (ISERBS). There are reductions in the requirements for Regional Development Grants and National Selective Assistance.

7 I should note that I have not made any allowance in my regional expenditure bids for offsetting savings to match ERDF receipts for English Local Authority measures to assist small and medium sized firms : these are estimated at some £5m a year, although the figures are still highly uncertain. These ERDF receipts are of course merely channelled through the Department to local authorities and others, and mostly relate to projects which are far closer to the objectives of the Environment and Employment Departments than to those of my Department. There is no case for this Department having to find offsetting savings in respect of these projects: I shall be writing separately to Nicholas Ridley and Norman Fowler about this.

Cash limited programme expenditure

8 I am sure you will note with pleasure and approval that, as I have already pointed out, my bids for cash-limited programmes are below baseline in each of the three PES years and, taken together, are more than £6m below baseline. I regard this as highly satisfactory.

9 The innovation baselines have again been reduced significantly as a result of the operation of the Europes system : over the three PES years, the baseline reductions this year total some £46m, on top of the £30m reductions made in last year's Survey. The total Europes reductions in innovation baselines this year and last therefore total some £76m. I am prepared to accept a further considerable baseline reduction this year, particularly given the underspend on this budget in 1988-89 (about which I warned you during last year's bilaterals). However, I expect expenditure under my new innovation programmes to build up, and I cannot accept the whole of this year's enormous additional Europes reductions, which are based on the wholly erroneous assumption that all EC R&D spending is of benefit to my Department's objectives. I am therefore bidding to reinstate part of these reductions : even with these bids, the innovation baselines would be over £30m below their 1989 pre-Europes levels, and

that is without taking account of the Europe's reductions made in last year's Survey.

10 As you know, I have concluded that a case could be made for UK participation in the proposed second European Remote Sensing Satellite (ERS-II), and offered to fund 50% of the costs. There is no scope for finding these costs from within the existing baseline for space : I am therefore bidding for these costs, which I propose to offset against reductions in other cash-limited programmes, in line with my undertaking to you in correspondence on ERSII. I look to customer Departments to provide PES transfers to fund the other 50% of the costs. ERS-II notwithstanding, our prime objective in space remains the commercial exploitation of earth observation services. To achieve this I am convinced on the evidence of negotiations in ESA to date that we need to step up our level of participation in the relevant ESA programmes so as to achieve leadership and drive these programmes in the direction needed to secure our objectives. I am therefore also bidding for the costs of increasing our participation in the Columbus Polar Platform and its instruments. Actual payment of an increased subscription would be conditional on ESA choosing a satellite configuration and payload clearly offering greater scope for development directed towards commercial operations.

11 My bid for exports arises principally from a small increase in expenditure in 1990-91 before the costs of new export services are offset by other reductions, together with extra funding for EXPO 92. In line with the Prime Minister's direction that the costs of EXPO 92 should be met without any additional funding, I also propose to offset these costs against reductions in other cash-limited programmes. The bid makes no allowance for receipts from any new cost-based charging regime, and may therefore need to be reviewed in the light of any decisions on this subject.

12 The Departmental administration bid relates to computers and major works. I am determined to ensure up to date computer systems to improve the delivery of the Department's service and to increase internal efficiency. My assessment is that a significant increase in provision is necessary to fund key projects within the Department's overall strategy and to improve efficiency: in the long run this will produce savings, although it means a short-term increase in running costs. All such projects would of course first be established as worthwhile in line with Treasury guidance. There is a major works bid in 1990-91 only : this is needed for relocation and for essential accommodation works, and is partially offset by increased receipts.

13 I am also making bids over baselines on other programmes. On standards, almost all the overbid results from likely expenditure in support of Sir Basil Feldman's Quality Mark Campaign, to be offset by savings on other cash-limited programmes : the rest reflects the increasing importance of standards in the run-up to 1992. The overbid on miscellaneous support services is for inward investment promotional expenditure and similarly reflects anticipated higher demand from overseas investors in the run up to 1992. The overbid for the protection of innovation results from increases in international subscriptions and from expenditure on computers and relocation, which will lead to longer term running cost savings. The regulation and consumer protection programme covers support for a number of bodies, and my overbids reflect increased workloads and staff costs for the MMC and for investor protection prosecutions, together with increased staff and accommodation costs for the Citizens Advice Bureaux. The overbid from the Companies House Executive Agency relates to capital expenditure : it is consistent with the Companies House 1988 Corporate Plan, which has of course been agreed with the Treasury.

14 I am content to hold to baseline funding for the Inner Cities Initiative, and for education and training, aircraft and aeroengine R&D and other services. I am also entering a provisional bid at baseline for the English Industrial Estates Corporation pending decisions on a number of issues affecting its future strategy.

15 I am prepared to offer major reductions against baseline for the Business Development programme, which covers the Consultancy Initiatives and Regional Enterprise Grants. The underspend on the Consultancy Initiatives in 1988-89 was principally a transitional problem caused by a slower than expected build-up in the rate at which consultancies were taken up, but the rate of initial applications and of consultancies is much higher than a year ago : I am therefore bidding to baseline for this part of the Business Development programme. Take-up in 1988-89 of the Regional Enterprise Grant scheme was very low. Subject to the evaluation of the scheme I anticipate that there will continue to be major savings against baseline. This enables me to offer offsetting savings which greatly exceed the overbids on those programmes where I am committed to covering particular increases by compensating cash-limited reductions elsewhere (ERSII in the space programme, EXPO 92 in the exports programme, and the Quality Mark in the standards programme).

16 I am also prepared to offer reductions against baselines on two other programmes. The reductions for trade co-operation reflect revised assumptions about the future costs of our subscription to GATT. The reductions for Research Establishments capital follow major baseline cuts last year, and would mean far lower baselines than in previous years : however, the Touche Ross costings for the National Technology Centre option for NEL, which as you know is the option I propose to pursue, allow me to offer yet further savings this year. I should however stress that the detailed NEL figures are still under discussion: I may therefore need to review these reductions at a later date.

17 I should add that the main elements of paid publicity in my bids continue to be Consultancy Initiatives advertising and the Single Market Campaign. Proposed expenditure on paid publicity for the Consultancy Initiatives amounts to about £12m in each PES year : for the Single Market Campaign, it declines from £6m in 1990-91 to £4.9m in 1992-93. The proposed paid publicity element of all other programmes is minor, and remains in line with past expenditure.

Running costs and Management Plan

18 My running costs bid is based on the current structure of the Department and will need to be adjusted before the bilateral to take account of machinery of Government changes following the Pickford report. The bid also covers the DTI's current and prospective executive agencies except for Companies House which is subject to a net running cost control system and whose PES bids are set out in its corporate plan, and for the National Measurement Advisory Service, which is excluded for the same reason. Before the end of the Survey technical adjustments will need to be made to take account of our agreement in principle to move Warren Spring Laboratory to net running cost controls, which will involve converting running cost provision into programme expenditure. I also hope that we will be able to agree on net running cost controls being applied from 1 April 1990 to Radiocommunications Division, the Laboratory of the Government Chemist, and possibly also the National Physical Laboratory. These too will require technical adjustments to the bid.

Management Plan

19 I attach a revised DTI management plan for 1989 which, you will see, reflects a further shift in the emphasis of the Department's work. Tony Newton and I have continued the process I began last year of transferring staff resources from

activities linked to programme expenditure into work on the delivery of services. We have given more resources to the Regions and Inner Cities, and have also strengthened our work on investigations under the Companies Acts by the creation of a new Investigations Division.

20 At the same time we have kept up the pressure on DTI line managers to deliver efficiency savings. The management plan chapters dealing with individual Deputy Secretaries' areas of responsibility show that progress is being made on a broad front, and they provide good anecdotal evidence of improvements in efficiency in the face of substantial increases in demand. The wide variety of the Department's activities means that any single percentage figure for the Department as a whole has to be treated with caution. We have, however, made an attempt at this and believe that the overall improvement in 1989/90 will be around 3.3% - comfortably above your own target figure of 1.5%.

21 Against this background I would have hoped to avoid making a running costs bid in this PES round. I find, however, that for a combination of reasons a bid is inescapable. It flows from factors outside my control such as pay and accommodation. However, in order to minimise the bid and despite the shift in emphasis in the Department's work away from straightforward subsidies towards more labour-intensive work, I am able to offer some further reduction in manpower below baseline.

Running cost bid

22 My bid is as follows:

(£m)	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>
Running cost bid	347.4	349.1	360.1
Excess over baseline	+ 21.3	+ 14.8	+ 17.4
comprising:			
Pay	+ 7.4	+ 11.5	+ 16.0
Accommodation	+ 6.1	+ 1.8	0.3
NEL	+ 6.7	0.2	0.6
Other	+ 1.2	+ 1.7	+ 2.3
Manpower (excluding Companies House and NAMAS)	11508	11408	11318
Reduction on manpower baseline	- 50	- 50	- 140

Pay

23 The situation on pay is particularly difficult. I have done what I can to reduce manpower, but with inflation and pay settlements now running at levels considerably in excess of levels forecast last year, a bid is inevitable. My assumptions on pay this year by comparison with last are set out below. While the restructuring of Civil Service pay to encourage performance and reflect market pressures is a move which I welcome, the consequences could well be more expensive than I now anticipate, especially if inflation does not fall in line with the forecasts in this year's Financial Statement and Budget Report and does not continue to fall further through the PES period.

	88/89	89/90	90/91	91/92	92/93
	(% increases)				
1988 PES	8.5	6.5	4.5	3.0	
1989 PES		8.9	7.0	5.7	5.7

Accommodation

24 Last year I made a number of decisions aimed at achieving major savings in accommodation costs towards the end of the PES period. The Patent Office is relocating in Newport and part of the Insolvency Service is to move to Birmingham. These decisions will produce savings of over £10 million a year by the end of the PES period. But it may not be possible to implement special measures to enable Radiocommunications Division to relocate outside London and, in case this is so, I have bid for £3.3 million a year to cover its continuing accommodation in London.

25 I also understand that Government buildings are likely to be subject to VAT. Although no clear guidance has been issued on the subject it seems likely to be levied at an average rate of about 10% and against this possibility I am therefore making a technical bid (since the sums involved would automatically revert to the Treasury) of £3.3 million a year over the PES period. In the last few days there has been an indication that changes may also be made to the application of rates to Government buildings. We have yet to establish the facts and work out their implications for the DTI but I may need to adjust the accommodation bid later to take account of such changes. In addition, I may need to increase the bid if,

as I understand, PSA are unable to pass on to the Department sufficient baseline provision for the maintenance work which they think we will need over the Survey period.

National Engineering Laboratory

26 The National Engineering Laboratory will contribute to the manpower savings I am looking for over the PES period. But I need extra running costs provision to finance the up-front costs, primarily for redundancies, envisaged in the report by Touche Ross on the future of the laboratory.

Other costs

27 As I have said, as part of my drive to focus the DTI on delivery of services I wish to invest more in office computing and associated training in the use of modern office techniques. This investment should pay off in the long term in reduced costs and manpower savings in the mid 1990s as the benefits of the investment begin to show through, as well as in quality of service, but it necessitates a modest additional bid in this PES round.

Contingent Liabilities

28 I propose only one new contingent liability during the PES period, and that is a minor one arising from my decision to introduce an export service card. Details will be provided by my officials.

Conclusion

29 I attach high priority to all the bids which I have put forward, and I have set out briefly in this letter why I regard them as essential. My officials can of course let yours have further details on any points upon request, including further details of objectives where relevant.

30 I am copying this letter to the Prime Minister. Copies of the passages dealing with regional expenditure also go to Malcolm Rifkind and Peter Walker.

Yours sincerely

N. R. Brown

(Approved by the Secretary of State
and signed on his behalf)

PES 1989 : DTI BASELINES AND BIDS

Annex A

Prog.	NON CASH LIMITED	1990-91			1991-92			1992-93		
		Base.	Bid	+/-	Base.	Bid	+/-	Base.	Bid	+/-
4.1.1	RDG	107.1	85.8	-21.31	53.4	43.0	-10.41	54.7	10.3	-44.4
4.1.3	RSA	148.3	157.6	+9.31	159.0	181.7	+22.71	162.9	205.5	+42.6
	National									
4.1.9	Selective Assistance	15.0	7.0	-8.01	7.5	2.2	-5.31	7.7	7.3	-0.4
4.3.1/2/3	Aerospace (Launch Aid)	73.2	70.9	-2.31	-24.1	-1.7	+22.41	-24.7	-64.2	-39.5
4.3.5/6	Shipbuilding	37.8	48.9	+11.11	35.2	41.6	+6.41	36.1	35.0	-1.1
	Assistance for									
4.3.7	Redundant Steelworkers	8.1	18.3	+10.21	8.3	11.1	+2.81	8.5	8.5	0
	TOTAL (non-cash limited)	389.5	388.5	-1.01	239.3	277.9	+38.61	245.2	202.4	-42.8
	CASH LIMITED -									
4.1.4	Business Development									
	i) Consultancy Initiative	106.9	106.9	01	109.3	109.3	01	112.0	112.0	0
	ii) REG	49.2	16.0	-33.21	50.4	20.4	-30.01	51.7	22.2	-29.5
4.1.15	Inner Cities	31.1	31.1	01	31.8	31.8	01	32.6	32.6	0
4.2.1	Research Estab. (Capital)	5.7	5.4	-0.31	5.1	4.0	-1.11	5.2	2.1	-3.1
4.2.2	Industrial R&D									
	i) Innovation (post									
	Europes)	146.0	146.0	01	144.5	149.5	+5.01	148.5	155.5	+7.0
	ii) Education & Training	36.0	36.0	01	36.9	36.9	01	37.9	37.9	0
	iii) Other (net)	8.4	2.4	-6.01	8.3	1.1	-7.21	8.4	0.7	-7.7
4.2.3	Standards	8.2	10.7	+2.51	8.4	9.7	+1.31	8.7	8.9	+0.2
4.2.4	Protection of Innovation	-35.5	-35.6	+1.91	-36.4	-35.0	+1.41	-37.5	-31.9	+5.6
4.2.5	Aircraft & Aeroengine R&D	25.4	25.4	01	24.6	24.6	01	25.2	25.2	0
4.2.6	Misc. Support Services	4.7	5.7	+1.01	4.8	5.8	+1.01	4.9	5.7	+0.8
4.2.9	Space	71.4	85.0	+13.61	72.6	91.6	+19.01	74.4	92.9	+18.5
4.5.1	Exports	40.4	42.7	+2.31	41.9	45.7	+3.81	43.2	44.9	+1.7
4.5.2	Trade Co-operation	1.9	1.8	-0.11	2.1	1.8	-0.31	2.1	1.9	-0.2
4.6.2	Regulation of Trade and									
	Industry and Consumer									
	Protection	8.3	9.8	+1.51	8.1	10.0	+1.91	8.3	10.8	+2.5
4.6.2	Companies House Exec.									
	Agency	4.7	4.7	01	5.3	5.9	+0.61	5.4	5.6	+0.2
4.8.1	Dept. Administration	27.7	39.4	+11.71	16.9	19.1	+2.21	17.4	19.7	+2.3
4.8.3	Other Services	8.3	8.3	01	8.3	8.3	01	8.6	8.6	0
4.14.6	EIEC	17.4	17.4	01	17.9	17.9	01	18.4	18.4	0
—	EUROPES non R&D	-3.0	0	+3.01	0	0	01	0	0	0
	TOTAL (cash-limited prog.)	563.2	561.1	-2.11	560.8	558.4	-2.41	575.4	573.7	-1.7
	TOTAL (all programme)	952.7	949.6	-3.11	800.1	836.3	+36.21	820.6	776.1	-44.5
	Running Costs	326.1	347.4	+21.31	334.3	349.1	+14.81	342.7	360.1	+17.4
	TOTAL DTI Cash limited									
	(programme and RC)	889.3	908.5	+19.21	895.1	907.5	+12.41	918.1	933.8	+15.7
	TOTAL DTI BIDS									
	(Programme and RC)	1278.8	1297.0	+18.21	1134.4	1185.4	+51.01	1163.3	1136.2	-27.1

NB. Innovation (programme 4.2.2) includes Europes reductions to baseline of £15.3 m in each PES year.