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Dear Norman

PES 1989: PROGRAMME EXPENDITURE AND RUNNING COSTS

I am pleased that we made such good progress on the proposals covering programme expenditure and running costs that I put forward at our bilateral on 14 September. Our officials are discussing the detailed allocation of the agreed overall provision between my Department's programmes.

Although the proposals I offered included increases in running costs, the net reductions on total DTI baselines remain very substantial at £-61.6 million, £-52.2 million and £-176.6 million. As you have kindly noted, reductions on this scale will be a helpful contribution to your overall PES settlement.

As promised, I have been looking again at my running cost bid for 1990/91. £4.3 million of the bid is in respect of VAT on rents which will not add to the net call on the Exchequer. A further £6.7 million is a one-off exceptional item for early retirements/redundancies at the National Engineering Laboratory needed to reduce staff numbers from 550 to 400 during the year. This rationalisation is based on recommendations by Touche Ross and is essential to the successful commercialisation and eventual privatisation of NEL. Net of these two components the bid represents an increase in DTI running costs over 1989/90 of 7.8% and 3.2% over baseline.

To contain the effects of the higher than expected increases in pay and accommodation costs, I have offered both an additional reduction in manpower of 70 (taking manpower to 120 below baseline) and to absorb further accommodation changes beyond the Department's control. In addition, however,



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following careful examination, I am now prepared to pare the 1990/91 bid by a further £1 million to £347.9 million, if that would be helpful.

As I mentioned when we met, I shall be reviewing over the coming months the Department's policies, functions and efficiency and I have therefore sought only a one year settlement. I expect the reviews, which will be completed in time to inform my 1990 Survey bids next spring, to identify significant running cost savings beyond 1990/91.

I am copying this letter to the Prime Minister.

John Gummer
Secretary



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