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Prime Minister

A reasonably tight settlement on Post Office (as with DTI's main expenditure programmes which you saw earlier).

But acceptance of the ECGD bid, though very difficult to resist, is expensive - +£226m next year. Treasury regard the settlement across all DTI programmes as a good deal.

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Your ref
Date / October 1990

Dear Norman,

PUBLIC EXPENDITURE SURVEY 1990 : POST OFFICE AND ECGD

At our bilateral on 25 September we discussed the Post Office's investment and financing review and the ECGD programme. This letter confirms the agreement we reached.

On the Post Office I am reluctantly prepared to agree that the external finance limit should be at baseline in all three years. I regard this as a very demanding requirement. Compared with my bid of £m (29, 35, 66) I envisage the following reductions:

a) a further improvement in letters efficiency of £m (-19, -13, -15), equivalent to roughly 1% of Letters' costs;

b) a further reduction in capital expenditure of -£10m and -£7m in the first years, but with a consequential increase of £9m in 1993/94; and

c) a combination of working capital changes and increased disposals amounting to reductions of £15m in 1992/93 and £60m in 1993/94.

The resulting capital expenditure baseline will be £m (410, 454, 536). However the key control will be the overall external finance limit and I will require the Post Office to offset any shortfall in one element of the package with further savings elsewhere. The one exception to this would be if colleagues did

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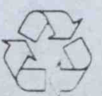

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not endorse the planned tariff increases, in particular next October's 3p/1p increase which we agreed was appropriate.

On ECGD, we discussed the proposal set out in your letter of 23 July for limiting fixed interest support to CIRR finance in low interest rate currencies and hence ruling out access to fixed interest support for sterling. I understand and indeed share your concern about the potential costs of the interest support programme, and have no wish to continue with support for matrix interest rates longer than is necessary. But I am quite clear that now is not the time to take unilateral measures which would hit our capital goods exporters. We still have a very large current account deficit, and our exporters are facing the combination of high interest rates and a strong exchange rate. In addition, as a result of the Gulf crisis, they are feeling the squeeze brought about by reduced prospects in a number of Middle Eastern markets and some of their other traditional markets, together with very difficult trading conditions at home. In these circumstances, I am sure the right course at present is to concentrate our efforts on securing multilateral agreement to the withdrawal of matrix rate finance for Category II markets next year, which should do much to alleviate the problem on which you focused attention. You indicated that, in the circumstances, this approach would be acceptable to you, and that you would therefore be content with my bid.

I am copying this letter to the Prime Minister.

Yours ever

Peter

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