

copy 1 of 22 10



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

NBM.

17 February 1987

Dear John

## HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

I am grateful to you for copying to me your minute of 12 February to the Prime Minister proposing arrangements for the 1987 Survey. WTTT DKW

I see no difficulties with your proposals, and agree with you that there is now insufficient justification for a Survey Report. I also very much welcome the recommendation to end manpower targets as a separate control mechanism. The combination of three separate overlapping controls on manpower, on running costs, and on cash limits, has been unduly complex and can hinder efficiency and improvements in internal budgeting.

Running costs limits are now biting hard. We should keep up the pressure, and avoid increases if we possibly can. But with salary costs accounting for 60% of running costs the size of the pay settlement will be crucial. We must also ensure that we do not set the running costs limits so tightly that we are unable to make investments now that would lead to improved efficiency in later years.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Minister of State at the Privy Council Office and to Sir Robert Armstrong.

NICHOLAS RIDLEY