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SECRET

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

*Dear John,*

**1987 PUBLIC EXPENDITURE SURVEY**

Thank you <sup>WITH DEN</sup> for copying to me your minute to the Prime Minister of 12 February containing your proposals for the handling of this year's Public Expenditure Survey.

I am generally content with your proposals, and assume, in the absence of any suggestion to the contrary, that the territorial block arrangements will operate as normal, in accordance with the recently agreed ground rules. I note your intention not to produce the PES Report this year. I am sure this is a sensible move, given the arrangements which now apply for bids and savings during the Survey.

I also agree with the proposal no longer to set staff number targets beyond April 1988. This seems to me a logical consequence of the development of the running costs regime. As you well know, these have become academic so far as my Department is concerned as it can no longer afford to employ the numbers which present targets would permit.

In that context I am bound to record my concern about the way in which the restrictions on running costs are being approached. It goes without saying that I am fully committed to ensuring that the costs of running the Civil Service are subject to the same controls as other public expenditure; but I am equally committed to ensuring that the programmes for which I am responsible are administered and presented in a manner that brings maximum credit to the Government. If running costs limits are fixed on the basis of unrealistic assumptions about movements in costs - pay costs in particular - it will simply not be possible to deliver our policies in the way we would wish.

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

*Yours ever,  
Malcolm*

MALCOLM RIFKIND