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PRIME MINISTER

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1979-80 Cash Limits: Civil Service Wages and Salaries

BACKGROUND

— You have asked (Mr. Lankester's letter of 12th June), that this subject, raised in correspondence, should be discussed at Cabinet this Thursday. There has been no time to prepare a further paper. The relevant correspondence starts with the Secretary of State for Social Service's letter of 30th May; the other items are listed on the Agenda.

✓ 2. The history of this case begins at Cabinet on 17th May. Summing that up you said 'that the temporary ban on recruitment would be the first step towards securing economies of at least 3 per cent in Government expenditure on wage-related items. If any Minister found it impossible to achieve this, it was open to him to suggest to the Chief Secretary, Treasury, alternative ways of securing equivalent savings, but these would have to be in addition to any savings he was required to make as part of the general review of public expenditure discussed under Item 4 [i.e. the Budget savings in public expenditure]'. The reservation was included at the request of the Secretary of State for Social Services, who later deployed his case in his letter to the Chief Secretary of 30th May.

3. At first sight, this is an argument about means and ends. The real objective is to secure lasting economies in public expenditure. Cuts in Civil Service manpower are a means to this end, although useful in themselves as reducing the weight of bureaucracy. But it seems self-defeating to forego larger cash savings for the sake of achieving staff cuts.

4. However, the arguments are more complex. In the first place, the dispute concerns only the present financial year. DHSS were asked to make a saving of £12.5 million (3 per cent of staff costs). Mr. Jenkin proposes a 4 per cent cut in Headquarters and Regional offices, but not in local offices, worth 1,400 staff, but not in local offices. He proposes to switch about 1,000

CONFIDENTIAL

of these 1,400 staff to local offices to tighten up on fraud. This is a net figure; there would be some gross recruitment, offset by some wastage, and he would therefore need a dispensation from the recruitment ban. Treasury and CSD believe that it would be possible to secure even bigger manpower savings, while still finding the necessary 1,000 staff for the anti-fraud operation.

5. More seriously, other Departments are trying to climb on the bandwagon. The Department of Employment, whose work is very closely related to that of DHSS, reckon they could make similar savings if given similar exemptions. There is however grave doubt whether they could do it in the present financial year; unlike DHSS, their preparations are apparently not complete. The two Revenue Departments, in a very different field, could likewise secure big savings by anti-avoidance work at the price of some increase in staff, but again probably in a longer timescale. The Chancellor of the Exchequer takes the view that these should be foregone in the interests of getting the staff cuts this year. I understand that this is also your own view. It is relevant that, without the DHSS and Department of Employment staff savings, the overall savings would come down from 3 per cent to about 2.6 per cent.

HANDLING

6. I suggest that you ask the Lord President to speak first and to state the problem, on the lines of his minute of 11th June. This proposes a possible compromise. You might then see whatever the Secretary of State for Social Services is prepared to accept; and then ask the Secretary of State for Employment to comment. Finally you might bring in the Chancellor of the Exchequer (or, if he prefers, the Chief Secretary). There should be no need for any other Minister to join in the discussion.

7. There are I think only three possible outcomes:-

- (a) Agreement to maintain the 3 per cent target all round, thus reversing the original decision of Cabinet on 17th May.
- (b) Agreement to exempt DHSS and the Department of Employment from the 3 per cent cut on their local offices, but to insist that they find their 3 per cent savings at Headquarters and Regional offices, and

CONFIDENTIAL

start the anti-fraud operation as quickly as possible; this means bringing the overall saving down to 2.6 per cent approximately, and it would then be necessary to decide whether other Departments should be told to make good the deficiency (it would mean raising their target to about 3.2 per cent) but you would ask the Lord President to specify the exact figure needed.

- (c) A decision to let DHSS and Department of Employment to find their savings by means of anti-fraud operations, exempting them from the 3 per cent cuts overall.

8. If the decision is to choose (a), then you might ask that the possibilities of the anti-fraud operation should nevertheless be explored urgently, but in the context of the longer-term public expenditure and manpower savings exercises which will be coming back to Cabinet in September and in July respectively. DHSS might then argue that if the opportunity is missed this year, it will be very much more difficult to secure union co-operation next year in a climate of even heavier manpower cuts. There is some force in this argument, but I do not think you need let it stand in the way of a decision in favour of (a) if you feel it is important to maintain the overall 3 per cent target.

CONCLUSIONS

9. You should be able to sum up in favour of one of the three alternatives listed immediately above.

*Mr.*  
*PP*

John Hunt

13th June 1979