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PRIME MINISTER

1982 CIVIL SERVICE PAY NEGOTIATIONS

Christopher Soames sent you a minute on 23 July. He proposed a way of using manpower savings now being identified by the CSD to finance part of the cost of the 1982 pay settlement.

2. I very much agree with his objective of bringing out the fact that the more efficiently we use manpower in the Civil Service, the easier it is to afford pay increases.

3. It is, however, a point to be used with some care. Not all reductions in numbers are the result of increased efficiency. A reduction because a function has been transferred to the private sector does not justify a pay increase for the civil servants that remain. Nor does a reduction which a spending Minister may make in order to finance another part of his programme.

4. Moreover the particular proposal is not as simple as Christopher Soames' minute might suggest. There are, for example, difficulties in the way in which it would circumscribe the ability of Ministers to manage their programmes. John Nott has pointed out in his minute of 31 July that he would normally be entitled to use savings in manpower to finance other expenditure within the agreed totals for the Defence Budget. Christopher Soames' proposal would mean re-opening our recent decisions on those totals: since two-thirds of the identified savings are in Defence some of them would probably be required for other programmes. (Of course, if the final settlement is greater than we assume in determining the cash programmes, and if we then decide that part or all of the extra cost should be met by a squeeze on programmes, it would be reasonable for Defence to share in that squeeze.)



5. And even the presentational advantage might prove illusory. The arrangement would have to be fairly widely known in departments, and therefore probably to the union negotiators, who could gain an impression of money being there for the asking. If the arrangement became known to the press or the Treasury and Civil Service Committee, it could attract accusations that we were seeking to construct a bogus productivity deal. We could argue that the savings were genuine and allowed us to finance a higher settlement than would otherwise have been possible. But the fact would remain that the savings had been agreed prior to the negotiation of the settlement.

6. I also understand that there is some real doubt whether the expenditure savings are actually there to be used in the way suggested. Following our switch to cash planning, the cash limit squeeze in 1981-82 of about 1½ per cent resulting from the 1981 civil service pay settlement would be carried through to 1982-83 unless we decide otherwise. We agreed that this was an important part of the change to cash in the Survey. Departments will already have to use the manpower reductions now being agreed - which average about 1 per cent outside Defence - to cope with this squeeze. (The savings are I believe significantly greater in Defence.)

7. In short, there do seem to be real objections to the proposal, on which I have not yet been able to form a firm view. I have arranged for a paper to be sent by my officials to those Departments most closely concerned. I suggest that, if there do prove to be expenditure savings generally available, we should return to the subject in September, and reach a view then.

8. I am sending copies of this to the Lord President of the Council, the Secretaries of State for Employment and Defence, and Sir Robert Armstrong.


(G.H.)

10 August 1981