

PRIME MINISTER

I attach an advance copy of the Lord President's paper on manpower reductions. He is coming to see you at 1500 on Monday. The meeting was arranged to discuss appointments of peers, but he would also like to have a word about this paper, and proposes to bring Mr. Channon with him for this purpose if you agree.

f *Wmk*

The message of the paper is that the reductions offered by the Departments amount to between 6 and 7 per cent; but that the Lord President considers that anything less than 10 per cent would fall below the objectives the Government has in mind, and that he thinks further intensive scrutiny of Departments can bring the figure up to this level.

MAD

Ans.

7 September 1979



Lord Scanes

Lord C.

Paul.

Joseph

Nick.

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

Martin Vile Esq
Private Secretary to
Sir John Hunt
Cabinet Office
Whitehall
LONDON SW1A 2AS

6 September 1979

Dear Martin,

I enclose 2 copies of the paper on manpower reductions (and 90 copies of the attachments) as approved by the Lord President.

Yours sincerely,
Jim Buckley.

J BUCKLEY
Private Secretary

Enc

Tim Lankester
10 Downing Street.

In preparation for
the Lord President's
discussion with the
Prime Minister on
Monday afternoon.

Buckley
6/9

CONFIDENTIAL

FURTHER ACTION TO REDUCE THE SIZE OF THE CIVIL SERVICE

Memorandum by the Lord President of the Council

Introduction

At Cabinet on 31 May I was asked to bring forward proposals for reducing the size and cost of the Civil Service by April 1982. Our intention was to do this by improving efficiency and dropping tasks. Departmental Ministers were accordingly invited to show what they would have to do by these methods to reduce their expenditure on Civil Service wages and salaries and related items by 10, 15 and 20% below the present level. This interim report comments on the returns which colleagues have sent me, invites views on two main questions and proposes next steps.

Summary of the returns

2. The returns varied widely. Not all Ministers identified options covering the full range of percentages. As requested, they categorised their options by degree of difficulty. This is what the categories amount to:-

		<u>Savings in 1982-83</u>		
		<u>£m</u>	<u>% of total</u>	<u>staff</u>
	i. improved efficiency and less waste	24	0.5	4900
plus	ii. positively desirable or relatively painless	175	4.1	37900
plus	iii. some adverse effect on policy and level of service	331	7.7	65000
plus	iv. requiring major and difficult political decisions*	695	16.2	124,400

But that table by itself gives too optimistic a picture. All Ministers sent covering letters indicating limits on what they

(*Some options were presented as both requiring major and difficult decisions and being positively desirable. They are here included in category (ii) only.)

felt able to do. These limits were more restrictive than the table suggests; in particular many items in category (iii) were regarded as very difficult indeed. Annex 1 sets out the basic figures for each department with a brief summary of what my colleagues said about them.

3. Looking at the total picture, the best assessment I can make at this stage of what is said to be achievable without too great pain is an overall saving of between 6 and 7%, and by no means the whole of that comes from improved efficiency and dropping tasks. Efficiency accounts for about $\frac{1}{2}\%$ and dropping tasks for about $4\frac{1}{2}\%$. The other $1\frac{1}{2}\%$ or so comes from retaining tasks but locating them outside the Civil Service - in the private sector or elsewhere in the public sector, eg by using contractors or consultants to do work now done by civil servants. The best offer among the major departments in terms of improved efficiency and dropping tasks amounted to 15%; the worst $\frac{1}{4}\%$. The overall outcome is frankly disappointing; I find it hard to believe that, where tasks are concerned, we must regard as essential no less than 95% of the work the last Labour government thought fit to undertake.

The aim of the exercise

4. The money savings shown in the table in paragraph 2 are gross and take no account of the offsetting costs, which come eg from putting work out and which were not included in the returns. This points up a general question about the aim of the exercise.

5. Our objective surely is to reduce not only the size of the Civil Service but also the cost of government. They do not necessarily go hand-in-hand. If we put work out (as opposed to dropping it), it still has to be paid for; it may then cost less, much the same, or more. If we drop or curtail work of which the cost is fully covered by fees and charges, we save staff but do not save money. We can also reduce both the size and the cost of the Civil Service, but in ways which result in less collected in revenue or more paid out in benefits. This problem is set out in greater detail in the note by officials at Annex 2. In effect, we can make a higher percentage saving in numbers than we can in money.

6. That is not necessarily wrong; a reduction in the weight of the bureaucracy is a legitimate objective in its own right. I do not regard the activities of revenue-collecting or benefit-paying, or those that wash their faces financially, as sacrosanct. Over-government can be as burdensome there as anywhere else; and my colleagues will recall that we explicitly undertook to seek economies in the cost of running the tax and social security systems in our Election Manifesto. I propose therefore that we should be prepared to accept some options which save numbers even if they do not produce equivalent savings in money. But it would not make sense, in my view, to put work out where that costs more than having it done by civil servants; we should only do so where there is a reasonable prima facie expectation that it will cost less.

7. We must also bear in mind staff reactions and staff morale. Where putting work out is more economical, there is a convincing case for doing it which the staff may dislike but will have to accept. But where it costs more it largely loses its point where the Government is concerned, will look like dogma from outside, and will arouse resentment among staff. The phasing of some reductions will also be important here. Any large-scale redundancies will involve heavy payments which could, with other off-setting costs, turn profit into loss over the first few years. They will also exacerbate the problem of morale. So the more we proceed by using natural wastage, the better.

The prospects for a large reduction

8. Even if we count all the options that involve putting work out, there is a wide gap between what Ministers have said they think feasible in their own departments and what I think most of us would regard as an acceptable outcome generally. My judgment is that with a considerable further heave, and a good deal of pain and grief, the 6-7% I have mentioned could be increased to somewhere around 10%. I have little doubt that the Cabinet as a whole will find this disappointing. But if we feel that we must set our sights much above 10%, I am bound to say now that the returns do not offer any reasonable prospect of getting there. If that is our objective, we shall all have to think again about our options in a much more radical way.

70. 85000

CONFIDENTIAL

9. Let me illustrate the sort of change that colleagues tell me 10% would mean, among other things, within their departments:

- In the Ministry of Defence, reducing or even abandoning departmental procedures to ensure that goods purchased meet required quality standards
- In Employment, withdrawing the option of claimants to go on getting their unemployment benefit weekly rather than under the new fortnightly system
- In the Inland Revenue lifting by 20% the minimum income levels at which the various rates of tax become payable
- In the DHSS, making employers responsible for paying sick pay during the first six weeks of illness in place of sickness benefit from the State; and introducing a unified housing benefit scheme which brings together the housing benefits at present administered separately by the DHSS (under the supplementary benefits scheme) and by local authorities (in the form of rent and rate rebates).

I think we must be prepared to take decisions of this sort; if not, there is no choice but to lower our sights.

10. The numerical gearing of the big departments is crucial. The Ministry of Defence (245,000), the Chancellor's big departments, Revenue, Customs and DNS (together 123,000) and DHSS (98,000) account for 64% of the Civil Service. The Secretary of State for Defence has felt unable to go beyond 3% gross, pending longer-term studies to produce bigger savings; while the Chancellor has offered staff savings of around 6%. The Secretary of State for Social Services has made a notably higher offer of 11%. But even with this, the aggregate score for the three "giants" together is only 5.5%.

11. The effect of this gearing is that it is clearly not possible for the other departments in aggregate to raise the percentage for the Service as a whole much above the percentage the "giants" produce.

These other departments, moreover, include some areas of especial difficulty, eg prisons and special hospitals, though some others can see their way to making savings in excess of 10%.

12. We should not therefore underestimate the size of the task. I cannot yet say firmly that 10% is on. But I do not believe that my colleagues will regard a lower figure as an acceptable outcome, and I recommend that we should aim to put together a package of this size. But colleagues must be in no doubt about what that requires. If the Home Secretary and perhaps one or two others have to offer less than 10% the rest must find more, and a heavy responsibility will rest on those in charge of large departments. It will mean a determined commitment on the part of each of us to find the very most he can.

Next steps

13. If that is agreed I suggest that I and my Minister of State, together with a Treasury Minister, should now hold bilateral discussions with colleagues to agree with them the maximum contribution they can make. I will then make a further report to Cabinet next month.

Legislation

14. A number of the options which may be adopted would require legislation. This could affect the pace at which we achieve the savings. I shall be in a better position to report what is involved when the bilaterals have been completed.

Expenditure in 1980-81

15. We agreed on 23 July to begin these discussions on Civil Service manpower on the assumption that a sizeable first tranche would be found in 1980-81. It will be helpful therefore if colleagues can indicate how much of their total saving will be achievable next year. In this context it is essential that all departments should carry through into 1980-81 the reduction in staff costs which have been made in adjusting this year's cash limits - and they will need to do better than that.

Proposals for increased expenditure

16. For some departments, the existing plans provide for increased manpower expenditure between 1979-80 and 1982-83. Since the purpose of the present exercise is to secure reductions in manpower below the 1979-80 level, it will be necessary for departments to forgo these increases. Apart from the few additional bids already approved by Cabinet, we may exceptionally have to allow some margin for demand-led increases, eg as a result of higher unemployment. But these increases must be kept to an absolute minimum and I propose that they should be subject to the specific approval of CSD Ministers. We shall have to find room for anything else by dropping work of lower priority.

Staff morale and Staff Side attitudes

17. We must have a care for staff morale. The points I have referred to in paragraph 7 will be among the more important here. I am seeing the National Staff Side before the Cabinet meets so that they cannot accuse us of taking decisions before giving them a hearing.

Recommendations

18. I invite my colleagues to agree that:

(a) less than 10% would not be an acceptable outcome, and we should aim at a package of cuts amounting to 10% in aggregate (paragraphs 8 and 12);

(b) to achieve this Ministers in charge of the largest departments must contribute their full share of this 10% package, and each of us must make a determined effort to find more (paragraph 12);

(c) a sizeable first tranche should be found in 1980-81 (paragraph 15);

(d) plans for further increases in staff expenditure must be forgone save exceptionally where the specific approval of CSD Ministers has been sought and obtained (paragraph 16);

CONFIDENTIAL

(e) we should go for savings from putting work out only where there is a reasonable expectation that it will cost less (paragraph 6);

(f) we should seek so to phase reductions as to minimise redundancy (paragraph 7);

(g) my Minister of State and I, with the help of a Treasury Minister, should conduct bilateral discussions with certain colleagues on the lines set out above, after which I should report to the Cabinet again in October (paragraph 13).