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PRIME MINISTER

INTEGRATION OF THE TREASURY AND THE CIVIL SERVICE DEPARTMENT

I have discussed with John Biffen, Nigel Lawson, Arthur Cockfield and Peter Rees the issues raised by the report you have received. I thought that, before we meet on Friday, you might like a note on how we collectively see them.

2. We are clear that the Departments should never have been split; but we do not believe that it is now right simply to re-merge them.

3. There are obvious deficiencies in the present arrangements. These must be put right, and to a large extent they can be without a merger.

4. The case against merger in present circumstances is strong:-

- The upheaval over the next months will take time and attention of Ministers and senior officials from more important policy objectives;
- The scale of the new Department will dilute the specialism of the staff in both Departments: the Treasury is bound to be made more schizophrenic towards public expenditure and public service wage costs by the consciousness that it is also responsible for pay and conditions of the Civil Service;



- The burden on the Chancellor and top management would be enormous and there are limits to the scope for relieving it by delegation;
- Staff unions in the merged Departments would be more militant than they now are in the Treasury.

5. There are specific and identifiable things wrong with the present organisation:-

- The splitting of responsibility for the financial systems in Departments has undoubtedly weakened the centre's contribution to promoting efficiency;
- We urgently need a more concentrated responsibility for policy towards public service pay as a whole than exists at present;
- Difficulties for public expenditure control have been caused by the division between the CSD's control of Civil Service manpower and the Treasury's control of the rest of public expenditure.

6. Specific measures can be taken to put these deficiencies right:-

- (i) We favour the suggestion in the report that the CSD's division concerned with financial systems in Departments should be transferred to the Treasury.
- (ii) We are developing in the Treasury a unit to pull together the strands of public service pay. (The Treasury will be more effective in this area if it does not also have the CSD's responsibility for negotiating Civil Service pay.)
- (iii) The difficulties for public expenditure control would be solved by transferring to the Treasury responsibility for control of Civil Service



manpower and efficiency. We are conscious of the difficulties of this. The rump of activities left in the CSD may not be thought viable; and there would be an awkward Departmental division of responsibilities for Civil Service manpower on the one hand and for grading and pay on the other. But in many companies the personnel department is responsible for pay without being responsible for numbers; and you may feel that it would be worth looking at the French model which is very similar to this.

7. So our conclusion is against the merger. The argument is more closely balanced, in theory, than this note implies. But we have no doubt, at the end of a long discussion of practical points, that we should advise against the merger.

8. We have more serious problems than this on our plate. We do not deny that there are real issues arising from the present organisation of the central Departments which need to be tackled. But our conclusion was that they can and should be tackled without the upheaval which would be involved by a full-scale merger of the Treasury and CSD.

9. I am copying this minute to the Lord President, Sir Ian Bancroft, Sir Robert Armstrong and Sir Derek Rayner.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

13 November 1980