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PRIME MINISTER

Further Action to Reduce the Size of the Civil Service  
(C(79) 51)

BACKGROUND

At the previous meeting on 13th September, Cabinet decided in principle to seek savings of 10 per cent in Civil Service staff costs, and sent the Lord President away to discuss the possibilities with Departmental Ministers. The postponement of the resumed discussion of public expenditure will allow any savings agreed in the present discussion to be taken into account in the final tally on public expenditure.

2. The Lord President wants to make an early announcement about manpower savings. There is no set timetable for this, but there would be advantage in getting it out of the way before the start of negotiations on Civil Service pay (in January or February). The Staff Side response to any announcement is likely to be hostile, and E(CS) (the new Sub-Committee on Industrial Action in the Civil Service, chaired by the Lord President) is examining the state of the Government's defences if hostility is carried to the point of industrial action.

3. The overall response from Departments has been disappointing. It amounts to firm offers of 6 per cent, or about £250 million, annually. But this takes some time to build up. Much of it depends on controversial legislation, which cannot be enacted for one year, or in some cases for two years. Moreover, the figures quoted by the Lord President are gross, and in many cases there are substantial (though in this paper unquantified) offsets. It is only the net savings which can be carried forward to the Treasury White Paper on Public Expenditure.

HANDLING

4. The discussion divides naturally in two parts: ratification of the 'firm offers' and discussion of the 'other bids'. But you might start by inviting the Lord President to introduce the paper and report on the position generally.

No indication by  
let off hook.

- 0.2% spread more  
- Decided now  
- for the review

Trade.  
DHSS.  
Under.

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5. You might then seek confirmation that no Minister wishes to object to any of the offers listed in Annex 1 (and summarised in Annex 2) - other than the five 'controversial' items also noted in Annex 4: you should leave discussion of these till later in the meeting. There is a risk that the 'good boys' will retract some of their offers when they see how small are the offers made by the 'bad boys'. There is also some evidence that the CSD paper makes some of the 'firm offers' rather more solid than was intended by the Ministers concerned. I suggest that you should make it very clear that an offer, once made, cannot be withdrawn on grounds that others are getting away more lightly. There may, however, be real problems about some of the offers: the action needed is listed in Annex 3, and the legislation required is listed in Annex 6. You may in particular want the views of the Leader of the House on the realism of getting all this legislation through in time. And is the Chancellor prepared to be more specific about the administrative changes and unspecified budgetary measures (listed in Annex 3) which together account for 8,500 of the firm offers.

6. You should then turn to ways of 'bridging the gap' between 6 per cent and 10 per cent. Paragraph 4 lists the action needed.

(a) Defence. The Secretary of State has already promised a firm 3 per cent saving (details at the beginning of Annex 3). But, whatever the decision on the Defence budget as a whole (which I hope may be settled outside Cabinet, though it will have in due course to be reported), he will certainly resist a further 7 per cent cut. He will argue, as he did last time, that the in-house studies already commissioned (listed with others, in Annex 5) will not be completed until 31st March, and that he cannot commit himself to the outcome. It will be difficult to shake him on this (and his argument that we should build upwards from the facts rather than downwards from arbitrary targets - particularly in a sensitive 'priority' area such as defence - would be likely to attract a good deal of backbench support if it were deployed in public).

(b) Other policy decisions listed in Annex 4 (4 out of 5 of these come from DHSS).

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(i) Employers' Sick Pay for first Six Weeks of Benefit.

This should be fairly straightforward. The Chancellor has already taken credit for the corresponding savings in his expenditure calculations. It will take time, and cause difficulty with industry. But (unless the Secretary of State for Industry unexpectedly objects) I think the Cabinet can take it this saving will eventually be made.

(ii) Unified Housing Benefit.

A paper on this proposal is due to be taken in H Committee in late November/early December. There are a good many problems. It means transferring work from central Government to local authorities, and inflating their staff numbers (though there should be an overall net reduction). The scheme under discussion is supposed to be 'no net cost' in terms of benefit paid out. But this means depriving some existing beneficiaries of part of their benefits, in order to give more at the lower end of the scale. This becomes progressively harder, in practice though not in principle, as Council house rents rise. I doubt if Cabinet can safely score this saving until H has completed its work.

(iii) Simplified Supplementary Benefit. This item is contingent on the introduction of unified housing benefit and cannot be scored in isolation.

(iv) Transfer of Pensions to Fortnightly Payment.

This one should be all right. There will be problems over union resistance and public acceptability (despite the success of the Rayner trial study of fortnightly payment). There will also be a temporary increase in public expenditure in the year of transition (because of the need to pay out one extra week's benefit: the new system requires payment of one week in advance and one week in arrears, instead of the present one week in arrears). But, in principle, this saving looks fairly secure.

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(v) Removal of Bankruptcy from the Insolvency Services.

The Secretary of State for Trade is a keen advocate of this measure, but there may be difficulty with the Lord Chancellor: the measure would add to the workload of the Courts and reduce the net savings. Because of the need for legislation, it would not produce anything until at least 1981, and perhaps later.

- (c) Abolition of VED or other equivalent Savings. Cabinet will have reached a view on VED under the previous item on the Agenda. If its abolition has not been agreed, you will want to see what other savings the Lord President can suggest to make good the loss of £10 million. He does not suggest any in this paper.

7. Having reviewed these possibilities, the Cabinet then has to decide the next moves, from the three options set out in paragraph 5.

- (i) Announcing 6 per cent plus vague promises. This is the safest route because it builds on the offers and avoids hostages to fortune. The Lord President, however, judges it to be politically unacceptable. A lot will turn on whether the Cabinet as a whole shares his political judgment.
- (ii) Taking the decisions listed above immediately. The Lord President judges this course to be unrealistic. The Cabinet is likely to agree with him.
- (iii) Splitting the operation: Announcing a 6 per cent cut now as an interim measure, with firm promises of more to come next year: this is the Lord President's preferred option. The choice between it and option (i) turns on whether the Cabinet is sufficiently sure of delivering the goods in the spring to risk signing up on a public statement.

8. Our guess is that the Cabinet will favour option (i) leaving the political difficulties to be overcome by presentation and promises to continue the search for economy with the aid of Rayner etc. This is the weak option, in fact it fails to meet the known aim of 10 per cent; in its favour it can be argued that it is the realistic option: the Government has had a thorough look, and will go on looking, but is not going to offer what it does not know to be available.

But this is  
not public  
knowledge  
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9. You will of course want to form your own view on all this, and perhaps discuss briefly with the Lord President before the meeting.

10. Consequential Action. Whatever course is decided, you will want to agree that the Lord President should circulate the text of a draft announcement to you and to the Cabinet.

11. Further Growth. The Lord President also wants a Cabinet commitment to offset any new staff requirements by further savings. I am not sure whether you will want to get agreement on this: but Cabinet might be prepared to accept the principle, leaving the CSD to administer the exceptions, with appeal to you in case of difficulty.

CONCLUSIONS

12. Subject to discussion, the conclusions might be:-

- (i) to endorse the 'firm offers' listed in Annex 1; excluding those also listed in Annex 4.
- (ii) to agree either

- (a) to announce savings of 6 per cent now plus an unquantified promise to keep up the good work in future;

- OR (b) to agree a two-stage operation, with announcement of 6 per cent now plus a firm commitment to announce a substantial second package in the spring / note: on the Lord President's formulation this would also mean Ministers agreeing now to find an extra 7 per cent from Defence; to implement the decisions in Annex 4; and to agree the abolition of VED or to find equivalent savings, i. e. he is seeking a commitment to 10 per cent savings by next spring/;

- (iii) to agree to pursue 'a continuing and rigorous containment of staff expenditure' with new additions normally matched by compensating savings;

- (iv) to invite the Lord President to clear the text of any announcement in advance with Cabinet colleagues.

*MR.*  
*RP*

(Robert Armstrong)

31st October 1979