

cc Mr Duguid  
Mr Wolfson  
Mr Ingham.

CONFIDENTIAL

1.



PRIME MINISTER

*U.C. I shall have to go ahead  
with the 24.12.1981  
can.*

*Prime Minister (though TPL)  
had Soames' believes that he  
may lose the battle to stick  
to his interim manpower  
targets. He intends to press for  
delay or taxation of unemployment  
benefit, to assist him. Do you  
want to comment  
at this stage?*

THE EFFECT OF RISING UNEMPLOYMENT ON CIVIL SERVICE MANPOWER

So far, we have not done badly with manpower figures. The Civil Service has come down by 37,000 (5%) since we came into office - and absorbed the staffing consequences of a rise in unemployment from around 1.4 million to 2.4 million in the process. But we are now in real danger of being blown off course by the prospective further rises in unemployment and this will be aggravated by the loss of at least 2,500 staff savings, if not more, as a result of the ESSP saga.

*MAD  
13/12*

As you know, the Chancellor of the Exchequer has just revised the unemployment assumptions upwards from an annual average of 2.5 million to 2.7 million for 1981-82 and from 2.7 million to 2.9 million for the succeeding two years. When, we settled on a target for the Civil Service of 630,000, including a 15,000 contingency margin, we had to base ourselves on the Treasury assumption of 2 million throughout the period. The effect of the two successive rises since then is to create an additional demand for staff amounting to around 12,000 by 1 April 1984. What is more, recent experience has shown us that the Treasury's assumptions do not, to say the least, reflect the pessimistic end of the range.

So just as unemployment is a drain on our financial resources, it is also proving to be so on our manpower savings. We shall of course do everything possible to find offsetting savings; and the figures show the need to get every last penny out of the recent Rayner scrutiny of benefit payment. But I am bound to say that the scope for additional savings over and above those to which departments are already committed is simply not big enough to compensate for continuing additions on the scale that is now being projected. We have a problem over the size of the catchment area.

We face a particularly poor prospect in 1981-82. You will remember the trouble we had in Cabinet before Christmas to get the figures down to 695,000 for April 1981 and 685,000 for April 1982. I have just managed to keep to the former figure in spite of the change in the unemployment assumption, though this involves accepting the risk that the Department of Employment will overshoot their mark and it now looks as though DOE will do so too. But the figure for April 1982 has now become 689,000. And if unemployment this year exceeds the new Treasury assumption, it is all-too-likely to be higher.



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In these circumstances, we must look for all possible methods of relief. One possibility in particular stands out - to defer the taxation of unemployment benefit (the deferment of taxing incapacity benefits is, I think, already generally agreed). We originally agreed to tax UB on the basis that it would need 2,000 staff. But on the Chancellor's assumptions it would now need around 3,500 additional staff over and above the extra 12,000 needed to pay the benefit in the first place. There are also problems of computer capacity.

The Chancellor intends shortly to hold a meeting of the Ministers concerned with the UB taxation question. We must take a full and careful look at it. But it is so intimately bound up with the wider question of the effect of unemployment on our manpower policy that I thought it right to bring it to your attention now.

Copies of this minute to to the Chancellor and to the Secretaries of State for Employment and the Social Services.

SOAMES

12 February 1981

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