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Ref. A02061

PRIME MINISTER

Cabinet: Civil Service Manpower and Costs

The Cabinet has two papers before it:

- (1) A memorandum by the Minister of State, Civil Service Department (C(80) 24) on numbers and costs.
 - (2) A minute by Sir Derek Rayner (C(80) 25) on Civil Service manpower policy.
2. The recommendations in Mr. Channon's paper are set out in paragraph 23, on page 6; those in Sir Derek Rayner's minute are sidelined.

BACKGROUND

3. In the Election Manifesto the Government committed itself to the reduction of waste, bureaucracy and over-government. The Government has made some progress, but not enough. The purposes of the meeting are:

- (a) To revise and renew the Cabinet's commitment to the Manifesto objectives.
- (b) To decide what to do next in order to go further in the direction set by the Manifesto, and achieve lasting improvements.

4. Ministers want, and the country wants:

(a) less government, and better government; and one of the things that means is:

(b) a smaller, but more efficient, Civil Service. Both objectives need to be pursued together, but it is convenient to discuss them separately.

Mr. Channon's paper is mainly concerned with numbers, Sir Derek Rayner's with efficiency; though of course they overlap and cross-refer.

5. Your colleagues will no doubt concur in the general objectives. But I discern signs of Ministerial revulsion, if not revolt, at Mr. Channon's proposal for a further series of three annual manpower reductions of $4\frac{1}{2}$ per cent a year. This suggests two tactical considerations:

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- (1) You might do well to start the discussion (after a general introduction) with the positive aspects of lasting reform, before leading into the painful subject of how to reduce manpower.
- (2) You almost certainly would be well advised to let Mr. Channon make the running on the proposal for annual manpower reductions, and not to identify yourself with it too closely at the outset of the discussion.

HANDLING

6. On this basis, you might start with a general introduction on the following lines:

We are committed to less government and better government. This means (inter alia) a smaller and more efficient Civil Service. Some progress made, more needed.

On efficiency, work already commissioned on Rayner recommendations for lasting reforms. Colleagues will no doubt want to comment and make suggestions, and I hope will agree that these recommendations go in the right direction. They are not yet decisions: that will follow when the work is completed.

On numbers, Mr. Channon has proposals. To get the Civil Service down to 630,000 - lower than at any time since the war - in this Parliament is an attractive objective. Do we agree that it is attainable? We have already agreed to savings of over 30,000 staff. If we accepted this new objective, we should be looking for about another 40,000 off; only about 6 per cent below what we are already committed to achieving by the savings already agreed, in order to get the total numbers down by 10 per cent from present levels. Improved efficiency can do part of this, but should not be expected to do all. Less government means doing without some bits of government we now have. We have to identify functions which we do not need to perform, or which are of only marginal value.

But before we come to that, let us talk about Sir Derek Rayner's recommendations in his minute on "lasting reforms".

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7. You could then tell the Cabinet the work you have commissioned as a result of Sir Derek Rayner's minute. You can say that you have asked:

- (1) The Minister of State, Civil Service Department, in consultation with the Chancellor of the Exchequer and Sir Derek Rayner, to report in July on changes in "managerial culture":
 - (a) special recognition, entitlement to annual increments, etc.;
 - (b) construction of a "model succession policy";
 - (c) annual statements by Heads of Departments of simplifications and savings achieved;
 - (d) a policy for enabling and encouraging staff to give of their best. An important element in this is better working conditions. Sir Derek Rayner has stressed this, and has drawn attention to the need to spend more money on technological supports - computers, word-processors, etc. which make working conditions better and improve efficiency - and on the office environment, which is too often sub-standard. This could mean reinstating at least part of the cut in the Property Services Agency's expenditure, which would otherwise cause conditions to deteriorate.
- (2) The Chancellor of the Duchy, in consultation with the Minister of State, CSD, to report on the cost of meeting Parliamentary requirements and demands.
- (3) Sir Derek Rayner, in consultation with the Chancellor of the Exchequer, the Minister of State, CSD, and the Head of the Government Accountancy Service, to oversee a programme of work with a view to producing a report by October on Departmental management and the financial framework:

- (a) how to define and establish the managerial authority of Ministers. This would be a suitable point at which to bring out Mr. Ibbs's point that increased Ministerial concern about management should not be allowed to reduce the responsibility and accountability of Permanent Secretaries for efficient management of resources

[Handwritten notes in blue ink, including scribbles and the phrase "My job but not whole"]

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and staff. There is a feeling among both Ministers and Permanent Secretaries that, while Ministers can and should concern and involve themselves in deciding the objectives of management, and take an interest in the problems of management, responsibility for management should rest with the Permanent Secretaries, partly because Ministers do not have enough time (or in some cases inclination) to take it on themselves, and partly for the reason suggested by Mr. Ibbs: if we even partly remove responsibility from Permanent Secretaries, we remove from them also the incentive to involve themselves personally in promoting efficiency;

- (b) how to define and establish, and delegate as necessary, responsibility and accountability of officials;
- (c) how to define and establish the authority of Principal Finance Officers and Principal Establishment Officers, and what their qualifications should be (but NB Mr. Ibbs's points, that calibre is more important than specific qualifications, and that the personnel facet of the establishment function should be kept distinct from the control function);
- (d) how to strengthen the financial framework;
- (e) the "annuality rule";
- (f) the need for greater cost-consciousness in improving regulations and standards.

- (4) The Chancellor of the Exchequer, in consultation with the Minister of State, CSD, and Sir Derek Rayner, to consider the central control of expenditure (money and resources). It will be impossible to complete this until decisions have been taken on the machinery of government at the centre; but you cannot refer to this at Cabinet.

8. None of this calls for decisions at this stage. But it will be important to get the support of Ministers fully engaged behind this programme of work. If Departments do not feel that Ministers collectively, and their own Ministers in particular, really have their hearts in it, it will run into the sand. On the

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whole Whitehall has so far been prepared to accept Sir Derek Rayner's work as helpful and positive; there is beginning to be a danger of his coming to be seen as a foreign body which has to be resisted and rejected. If that is not to happen, he will need all the support he can get from Ministers + and from Permanent Secretaries, who will take their cue from Ministers.

9. When the Cabinet has discussed Sir Derek Rayner's minute, you will presumably invite them to turn to Mr. Channon's paper. The discussion is likely to concentrate on the proposals for a series of manpower reductions, 2½ per cent a year for three years from 1981-82. Not all Ministers will welcome this. It holds out the prospect of a further series of arguments and battles about how to achieve these targets, running from now to the end of this Parliament. Some will think this worth while; others will have no stomach for it. But they will probably endorse the global target: all in favour of reducing the size of the Civil Service so long as their own Departments are excused. So the discussion may well turn on the means by which reductions are to be achieved. Is Mr. Channon right in thinking that it is not enough to have a global target for the Service as a whole, and that the global target cannot be achieved without Departmental targets? Is there an alternative approach - that of finding functions and activities that can be dropped, so as to make up the total? The difficulty of this is that there are probably relatively few functions which are inherently undesirable or even just useless: it is a matter of deciding what activities are of sufficiently small value to be disposable.

10. Mr. Channon - and the Civil Service Department - believe that the proposed global reduction will be achieved only by a percentage target or series of targets which each and every Department has to meet. They think that last year's attempt to discover functions or activities which could be abandoned was not successful, and is not worth repeating. You will have to judge whether the Cabinet as a whole is prepared to accept - and act on - this view; or whether there is any alternative.

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11. An alternative approach would be for every Minister to review, in some detail, the functions and activities for which his Department is responsible, and then to ask himself, in respect of each one, whether it is of sufficient positive value to continue it. This should be done without reference to a percentage target, as an exercise of values: if none are useless, some are less useful than others. This exercise could only be done within Departments, each reporting to its Minister; but there could be a role for a central official in the Civil Service Department, to help Ministers and their Permanent Secretaries set the exercise up, suggest to them what information they should seek and what questions they should ask Ministers, and be in a position to form a view from the centre of relative value as between one Department and another. So there would need to be some kind of central monitoring and advising capacity; and it would be necessary to build in some kind of externally imposed discipline, to make sure that the exercise was properly carried out throughout Whitehall. The fear must be that only a percentage target would provide the necessary discipline, and that an exercise without percentage targets would yield less than a percentage target approach. But it would be seen as reasonable and logical, rather than a succession of blind swipes, and could attract better support and less opposition, and therefore in the end be more effective.

12. If the savings are to be achieved, the large Departments must contribute. You will need to press the Ministers in charge of the biggest Departments - Defence, Health and Social Security, the Revenue Departments, and Environment and Transport. But the industrial Departments should be able to contribute their share by slimming their "sponsorship" role.


13. As to handling the discussion, once Mr. Channon has introduced his paper, you may like to invite the Secretary of State for the Environment to follow: that would give him an opportunity to say his piece about how he is achieving reduced numbers and greater efficiency in his own Department. He might be followed by the Chancellor of the Exchequer, who will sympathise with the objectives but has difficulties with the Revenue Departments. You might then invite the Lord Chancellor and after him the Secretary of State for Defence to

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— speak: both have circulated minutes. I am told that the Secretary of State for Employment can be expected to be helpful; it might be worth inviting him to speak early in the discussion.

14. I attach a draft of possible conclusions for this discussion. The list of conclusions may serve as a checklist, for you to make sure that the Cabinet has discussed and arrived at a view on the points on which decisions are required as a basis for further work. The references in brackets are (except where otherwise stated) to paragraphs in Mr. Channon's paper.

15. Some Ministers may argue that no decisions should be taken this meeting, and that it should be an occasion for discussion only, with a view to later decisions after a pause for reflection. The difficulty about this is that some knowledge of what is being discussed has already leaked; this has begun to create uncertainty and will continue to do so unless a statement can be made soon. If at all possible, therefore, you will want to steer the Cabinet to firm conclusions and to agreement that a statement should be made next week.



(Robert Armstrong)

30th April 1980

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The Cabinet might be guided to reach the following conclusions (mainly with reference to paragraph 23 of the paper by the Minister of State, Civil Service Department):-

The Target

- (i) To agree that a target should be announced now for a specified reduced level of Civil Service manpower by the end of 1983-84 (23a.).
- (ii) To agree that it should be 630,000, inclusive of a contingency margin of 10,000 administered by the Civil Service Department and giving priority to claims resulting from rising unemployment or any other external factors (23d.).
- (iii) To agree that in order to reach it, with allowance for the contingency margin, each Department should aim to save $2\frac{1}{2}$ per cent, in terms of numbers and staff costs, in each of 1981-82, 1982-83 and 1983-84, in addition to the savings already agreed (23e.);
- OR if any major exemptions were accepted, by an alternative formula designed to reduce the total to 630,000.
- (iv) To agree that these reductions will not be achieved without changes and termination of functions, and therefore to invite all Ministers in charge of Departments to review all the functions and activities of their Departments with the aim of achieving smaller and better government, and less government on the backs of industry and enterprise.
- (v) To agree that, in progressing towards this overall target, each Department should reduce its posts at Under Secretary and above by at least 10 per cent by April 1982, with April 1979 as the baseline (23c.).
- (vi) To invite the Minister of State, Civil Service Department:
 - (a) To arrange for the programme of work summarised in Annex D of the paper to be implemented and for the CSD to discuss with each Department ways of simplifying and streamlining manpower intensive activities in that Department (23b.).

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- (b) To report to Cabinet in due course on the use of the grading structure (there will be a good deal of support for a determined drive to use it much more flexibly; one of the advantages of that being not only to reduce unnecessary work but to give younger civil servants a chance to exercise responsibility).
 - (c) To submit further papers before the end of July on pay, promotion and retirement policies.
 - (d) To ensure that the experience of individual Departments, and that resulting from Sir Derek Rayner's work, is effectively disseminated, and to report progress on this to Cabinet (23f.).
- (vii) To agree that, if the Government is pressing forward with proposals for a smaller and more efficient civil service, they should be, and for the sake of morale should be seen to be, balanced by proposals to improve working conditions: a guarantee of fair pay for good work, the provision of advanced office machinery systems, and efficient and acceptable working conditions and office services - including catering; and to invite the Minister of State, Civil Service Department, and the Secretary of State for the Environment to bring forward proposals accordingly.

Statement to the House

- (viii) To invite the Minister of State, Civil Service Department, to agree urgently with you the terms of a statement on Tuesday, 6th May, and to circulate advance copies of that statement to colleagues for information (23g.).

OR To clear the statement with all colleagues and to make it as soon as possible (Wednesday, 7th May?).

Staff Side

- (ix) To invite the Minister of State, Civil Service Department, to inform the National Staff Side of the decision as soon as the announcement is made (23h.) and to assure them that -

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- (a) Subject to unforeseen developments, there will be no further such proposals during this Parliament.
- (b) The Government is not seeking compulsory redundancy and will aim to keep it to the minimum.
- (c) Each Department will consult its Staff Side about methods of reaching its target.
- (x) To invite Ministers to use opportunities that arise in order to express their appreciation of the good work the Civil Service is doing and to defend it against unfair and unfounded criticism.

Other Action

- (xi) To take note, with approval, of the programme of work commissioned on Sir Derek Rayner's recommendations on lasting reform.
- (xii) To note that you will yourself be discussing these matters with Permanent Secretaries as quickly as possible after 1st May.

30 April 1980