

CONFIDENTIAL

PRIME MINISTER

Civil Service Manpower
(C(79) 7)

BACKGROUND

Cabinet decided last week to impose a freeze on Civil Service manpower until the Lord President circulated proposals for more long lasting cuts in Civil Service manpower. You were not happy with the first draft of his paper and (in Mr. Lankester's letter of 14th May) made a number of points which have been incorporated in the latest draft. The paper is closely related to the Chief Secretary's parallel paper on Cash Limits (C(79) 5) which I have suggested might be discussed immediately ahead of this one.

HANDLING

2. You might care to introduce the item yourself by saying that the need for cuts in Civil Service manpower is common ground. It stems partly from the need to eliminate waste but much more importantly, from the whole approach of the new Government which is to reduce its involvement in the day to day life of the community and to shift the balance from State to private decision-making. Of course it will be argued that, waste apart, cutting Civil Service numbers should follow, not precede, cuts in the functions the Service is asked to perform. But this is not enough. Unless Departments (and be it said, Ministers) are faced with stark questions of priority in the allocation of scarce resources, progress will be slow and the desired momentum will neither be generated nor sustained. It will also be argued that cash limits alone should do the trick. Again, this is doubtful. Obviously cash limits are very important. But action on staff numbers will reinforce the pressure by imposing a separate, distinct and unavoidable form of discipline. Against this background the Cabinet has to come to grips with a series of questions:-

- (a) What reductions are achievable this year?
- (b) Can a target be set for future years?
- (c) What are the best means available for achieving the desired results?

CONFIDENTIAL

- (d) In this connection how do the Cabinet rank reduction in numbers against reduced expenditure - bearing in mind that some of the techniques for reducing staff (redundancy and early retirement) may cost more in the short run than they save?
- (e) What steps can be taken to preserve the integrity and efficiency of the public service during what will be, by any reckoning, an unprecedented period of contraction?

3. You might then ask the Lord President to introduce his paper and the Chief Secretary to comment, particularly on the cash limit aspects. Departmental Ministers, especially those with large staffs - e. g. DHSS, the Revenue and Defence, will also wish to contribute.

4. Among the points you may expect to hear advanced are:-

- (a) A freeze on recruitment, if prolonged for any significant period, can impose substantial penalties both in terms of creating severe shortages of staff in particular disciplines (computer programmers are bound to be mentioned) and in the longer term through distorting the age structure of the Service as a whole.
- (b) A freeze on recruitment bears very hard on the many thousands of youngsters leaving schools or university who would normally expect to make their career in the Civil Service. In fact the ban need not catch this year's intake of graduates and A-Level school-leavers most of whom have already been offered places, conditional on their examination results. It will however hit recruitment of clerical and typing staff particularly hard.
- (c) An across the board reduction in staff numbers will hit some Departments more severely than others and may even, it will be said, jeopardise the carrying out of statutory functions (a point likely to come from the Department of Social Security).

CONFIDENTIAL

- (d) It will also be argued that the Civil Service unions will compare the cuts being imposed on them with those operating on local government and draw the conclusion that they are being heavily discriminated against. Whether this point is valid will depend on the decisions Cabinet takes about the reduction in Rate Support Grant. A reduction of £200 million in RSG implies, so I understand, a $2\frac{1}{2}$ per cent reduction in the cash limits of local authorities though they of course have cash balances and other sources of revenue which would enable them, in the short run at least, to avoid the manpower implications of tighter money. You may feel that the answer lies not in reducing the squeeze on the Civil Service but in increasing that on the local authorities.
- (e) Many Ministers are likely to argue for flexibility in the operation of the new policy in order to meet their particular problems. The problem is of course that the exception quickly becomes the rule.

5. All of these arguments have some validity but you will not want them to build up into a case against action. Equally you may feel that the Lord President's paper, by concentrating on percentage across the board options - and thus opening itself to detailed objection - is not particularly helpful. On the other hand it is to be doubted whether the Cabinet will produce a viable alternative arrangement in the course of a hurried discussion at the end of a long meeting. Nevertheless, however, you will not wish the Cabinet to be totally inconclusive on this important matter.

6. Might I suggest that the minimum immediate decisions you need are:-

- (a) That the absolute ban on recruitment should be maintained for a short period - say to the end of July - while longer term policies are being worked out. The only exception would be for the honouring of existing commitments to individuals who have not yet actually taken up post.

CONFIDENTIAL

- (b) That, subject to confirmation at a further Cabinet discussion in a week or two's time, the Cabinet might decide on two quite separate across the board control numbers for this year. The first would be a target for staff reductions - say 4 or 5 per cent. The second would be a more generous reduction in cash limits - say 2 or 3 per cent - which if strictly applied would lead to smaller staff savings. The margin of flexibility would enable Departments, at their discretion, to decide whether to proceed by lower recruitment or redundancy as their own circumstances dictate. They would of course have to meet both targets, but provided the net targets were met would have management discretion to operate their own recruitment/redundancy policies as they saw fit.
- (c) Prior to final decisions being taken the Treasury, CSD and individual Departments should give more thought to the actual number to be adopted and the case for any unavoidable exceptions. (The Lord President's paper was circulated very late).
- (d) Ministers would also be asked to provide urgently notes on the implications for their Departments, and their policies, of a reduction in, say, 10 or 15 per cent of staff numbers to be achieved over a period of 3 years. These replies too could be looked at at the same Cabinet meeting as the short-term targets in order to provide a longer term setting for them. A long term strategy for manpower would however have to be evolved in parallel with this summer's long term public expenditure review.

CONCLUSIONS

7. These must be very much dependent on the course of discussion but if you agree, you might aim for an endorsement of something like the proposals in my preceding paragraph.

16th May 1979