



Civil Service Department
Whitehall London
SW1A 2AZ

11 May 1979

Mr K Stowe
10 Downing Street

Prime Minister.

Are you content for
the Lord Pres. to circulate his
paper? See also my
marginal comments.

Dear Ken,

FREEZE ON CIVIL SERVICE MANPOWER

As the Lord President promised in ^{his} minute of
9 May, I attach a draft of the paper on
Civil Service manpower which the Lord
President would like to put to next week's
Cabinet.

KRS
11/6

I am sending a copy of this to the Private
Secretaries to the Chancellor and Sir John
Hunt.

Yours sincerely,
Jim Buckley.

J BUCKLEY
Private Secretary

① This paper is
much too sketchy
and cannot possibly
be circulated.

② ~~by~~ What are we
doing with 566,000 that
can't be done with 500,000
is an initial CAG's P.No.

③ suggest temporary

ban on recruitment for

6 months subject to

specific exceptions which
must be dealt

11 MAY 1979

with individually

by a Director

and for which

specific reasons

must be shown

④ Please consider further

and all more evidence

Do not accept the present stat.

initially no inter-bank
made unless further
are reduced

ms.

CONFIDENTIAL

DRAFT PAPER FOR CABINET

THE ADJUSTMENT OF CASH LIMITS TO TAKE ACCOUNT OF CIVIL
SERVICE PAY SETTLEMENTS

NOTE BY THE LORD PRESIDENT OF THE COUNCIL

INTRODUCTION

In the course of the meeting of members of the Cabinet on 8 May, reference was made to the increase in public service staff costs arising from the present round of pay settlements and to their effect on cash limits and the matter was further discussed in Cabinet on 10 May. This note examines the action which should be taken to secure early savings in Civil Service staff costs.

BACKGROUND

2. The total staff of the Civil Service now numbers about 733,000, divided between 566,000 non-industrials and 167,000 industrials. The Civil Service wages and salaries bill provided for in the 1979-80 Estimates accounts for £3,744m*, which allows for pay increases averaging about 5½% from the due settlement dates (1 April for non-industrial staff and 1 July for industrial staff).

*This is pay of staff employed by central government departments as shown in Table 5 of the Chief Secretary's Memorandum (Cmnd 7524). It includes national insurance, the pay of locally engaged staff overseas, London Weighting and the cost of fee paid staff. It excludes the 25,000 staff of the Trading Funds, for whom no provision is made in the Estimates.

3. This provision made in the Estimates for wages and salaries has proved to be substantially below the cost of this year's Civil Service pay settlements. The settlement for the non-industrial Civil Service, payable in stages from 1 April, is likely to amount to around 16% for the current financial year, ie some 10% or about £270m above the provisions made in the Estimates. On top of that there will be the settlement for the industrial staff, the cost of which may be in the region of £60m this financial year. Therefore the excess for all Civil Service pay over the provision made in the Estimates is estimated at about £330m, equivalent to the full year cost of about 65,000 staff.

A TEMPORARY BAN ON RECRUITMENT

4. Clearly it would be wrong for the Government to accept this situation by just altering the cash limits. I suggest that in the short term we act by imposing a temporary ban on recruitment to the Civil Service for 3 months. ??

5. I have considered the question of a longer ban on recruitment - say to the end of the year. But a total ban for this length of time would have consequences which would be counter-productive. Departments would find staff shortages of a particularly severe kind in London and other large cities where wastage of staff is high. It would also cause disruption in certain areas of work (such as computer installations) where shortages of staff are already a matter of concern.

We ought to know what effect this wd. have on the current staff in peak figures; and how this compares with the ceiling.

} why?

How many work on computer installations? what includes overhead?

No

6. So there will need to be some minor exceptions to the ban in some limited areas where we badly need a few highly skilled and scarce people. To allow for this, I propose that departmental Ministers might have discretion to recruit up to 5% of their normal requirements and that, in addition, the Civil Service Commission should be allowed to recruit a small number of specialist and potentially high grade staff (about 400 over the 3 months) of whom the Civil Service as a whole is in serious need.

A FIXED SAVING IN STAFF COSTS

7. A temporary ban on recruitment should be reinforced by a minimum figure by which departments should reduce their staff costs in this financial year. The previous Administration had in mind that they might achieve a target reduction of at least 2%. I consider that we should do better than this and I propose that we should aim at savings of 3%. But there may be need for certain very limited derogations (in the Prison Service for example), so it may be wise, if we are to ensure that the new Cash Limits hold and do not have to be adjusted again towards the end of the year, to make $2\frac{1}{2}\%$ the figure for the Cash Limit adjustment. To achieve this it will be imperative that such exemptions should be kept to a minimum and collectively agreed, and that no major areas of staff costs should be excluded from the scope of the 3% reduction.

Too small
5%
agreed

Too small

I take it that
3% applies
to staff
costs, not
necessarily the
same as the
cash limit, where
the target is $2\frac{1}{2}\%$.

FURTHER ACTION

8. In the longer term we shall need to make much greater economies. While there may be some scope for manpower savings by discharging present responsibilities in a different way, it will be essential to determine which functions of Government should be reduced. The period of the moratorium would provide Ministers with a breathing space in which to review the functions of their departments. I will bring forward proposals shortly as to how this review for the longer term should be carried out.

THE REACTION OF CIVIL SERVICE TRADE UNIONS

9. There would need to be early discussions with the Civil Service trade unions about both the temporary ban on recruitment and the planned saving in staff costs. They have already indicated their opposition to any arbitrary cuts and have said that they would strenuously resist any cuts in staff numbers without a corresponding reduction in the work to be done. It will not therefore be an easy matter to gain their acquiescence and I cannot rule out the possibility of a further outbreak of industrial action. It would, however, help if they could be assured that measures of a broadly similar nature were being taken in other areas of the public service and that we are not singling out the Civil Service to bear the brunt of our search for economies.

See Mr. Heseltine's remarks below which is helpful on this point.

See Frank Chaplin's comments on our message in the better-studied parts of the public sector.

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CONCLUSION

10. Cabinet is invited to:

- i. agree that the temporary ban on Civil Service recruitment should last for 3 months, on the lines indicated in paragraphs 4 and 6;
- ii. agree that we should seek to reduce Civil Service staff costs in the present financial year by 3% but that cash limits should be adjusted on the basis of the figure of $2\frac{1}{2}\%$;
- iii. agree to seek feasible ways for the application of corresponding measures in other parts of the public service; and
- iv. note that the measures suggested may provoke resistance from the Civil Service trade unions.



File JS
CIVIL
SERVICE

10 DOWNING STREET

From the Private Secretary

14 May 1979

Dear Jim,

FREEZE ON CIVIL SERVICE MANPOWER

The Prime Minister has considered the draft paper for Cabinet which you sent with your letter of 11 May on the above subject.

The Prime Minister considers that the analysis in this draft is too sketchy, and she disagrees with several of its conclusions. On the analysis, she has raised the following points:

- (i) It is not clear why the work currently being done by 566,000 non-industrial civil servants could not be done equally well by 500,000. If this could be achieved, the extra provision supposedly required following the Civil Service pay settlement would not be needed. The Prime Minister does not accept the apparent premise that virtually no cuts in manpower can be made unless services are to be reduced. She would like to see some evidence of this. The Prime Minister believes that in some parts of the public services, particularly the less skilled parts, there is substantial overmanning.
- (ii) It is not clear what effect the proposed three-month ban on recruitment would have on the current staff in post figure, and what manpower and cash savings would be achieved.
- (iii) Paragraph 5 of the draft says that "Departments would find staff shortages of a particularly severe kind in London and other large cities where wastage of staff is high. It would also cause disruption in certain areas of work (such as computer installations) where shortages of staff are already a matter of concern". The Prime Minister would like the paper to say why the Departments would encounter staff shortages in these particular locations, and she would like to see more information on computer

/installations

installations - for example, how many staff work on such installations, what are they and where are they located?

On the recommendations in the paper, the Prime Minister has made the following points:

Told CSD
to substitute
"dealt with by
Departmental
Ministers".

(i) She suggests that there should be a temporary ban on recruitment for six months subject to specific exemptions which would need to be put forward by Ministers and for which specific reasons would have to be advanced. In other words, she does not go along with the proposal that departmental Ministers should have discretion to recruit up to 5 per cent of their normal requirements and that the Civil Service Commission should be allowed to recruit a small number of specialist and potentially high-grade staff.

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15/5

(ii) The Prime Minister considers that the temporary ban on recruitment should be accompanied by a target reduction in staff costs of at least 5 per cent - rather than the 3 per cent proposed. She accepts that there may need to be certain very limited derogations, for example in the prison service, but it follows from the 5 per cent target which she has proposed that the cash limit adjustment would be higher than 2½ per cent.

Finally, the Prime Minister very much agrees that in the longer term it will be necessary to make much greater staff economies than can be envisaged for the current financial year.

The Prime Minister would be grateful if the Lord President would reconsider the draft in the light of her comments, and circulate a revised draft to Cabinet.

I am sending a copy of this letter to Tony Battishill (HM Treasury) and Martin Vile (Cabinet Office).

Now etc.

Tim Lehman.

J. Buckley, Esq.,
Lord President's Office.