

W.A. March DSG

*1) B/F 18.4.80
2) S/F 24.4.80.*

Free



*cc: CSD
CO
Sir D Rayner*

10 DOWNING STREET

*cc Bingham
cc J Hoskyns*

10 April 1980

From the Private Secretary

Dear Gwynne.

CIVIL SERVICE NUMBERS AND COSTS

The Prime Minister discussed the tables enclosed with your letter to me of 3 April with the Minister of State at Chequers yesterday morning. Discussion was somewhat extended during the afternoon after the arrival of Derek Rayner and Clive Priestley, but concentrated on Civil Service manpower.

It was confirmed that at the special Cabinet meeting on 25 April, there should be:

- a. a main paper by the Minister of State on Civil Service numbers, costs and efficiency;
- b. a supplementary paper by the Secretary of State for the Environment illustrating the techniques now applied at DOE, and
- c. a discussion paper by Derek Rayner on lasting reforms, based on his personal and confidential minute to the Prime Minister of 26 March, but not seeking endorsement of decisions to commission work already taken by the Prime Minister and not including either his machinery of government or his Honours proposals.

The Minister of State undertook to let the Prime Minister see a draft of his paper and it was agreed that, if it could be arranged, it would be helpful for the Prime Minister to discuss the issues with the Home Secretary, the Chancellor of the Exchequer, the Minister of State and Derek Rayner on about 21 April. (We have now arranged this for 11.15 a.m. on that day with the Chief Secretary standing in for the Chancellor).

A number of points were made in the course of discussion which bear on content of Mr. Channon's paper for Cabinet and you may wish to take account of these in drafting. They are as follows:

- a. Despite the options exercise and the recent 2½% cut, the Service is too big and must be further reduced.

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- b. It would be helpful to Ministers to bring home the cost of Government activity. The analysis should accordingly show:
1. the total size and distribution of the Civil Service over time (say 1950, 1960, 1970 and 1980);
 - ii. present and estimated future costs; and
 - iii. the full costs of particular grades (i.e. including accommodation and services) on the basis of such data as those in the Ready Reckoner.
- c. A substantial reduction in size is desirable, but experience so far suggests caution in basing policy on percentage reductions tout court. - The particular value of the work being done by the Secretary of State for the Environment in his Department is that he has been finding out for himself what its component parts do so as to provide a better informed basis for decisions on numbers.
- d. There is no easy or painless way of reducing activities. Those so far mentioned, by the Minister of State among others, seem to fall into one of three categories - first, to examine such particular issues as those mentioned by the Minister in his minute of 3 April and by the Prime Minister in her comments (excessive supervision of local authorities, industrial sponsorship, duplication between departments, excessive statistical work and excessive layering of office networks); secondly, to stipulate targets for the progressive reduction of numbers; and, thirdly, to reduce numbers by increasing efficiency. Experience suggests that a combination of these three approaches may now be appropriate.
- e. On the main issue of reducing the size of the Civil Service, there is a choice between asking Ministers to agree at once to a specific target or asking them to spend some time in their departments, somewhat like the Secretary of State for the Environment, in considering in reasonable detail what contribution they could make. If the latter approach were adopted, one way of proceeding would be to commission a study in each Department of possible manpower savings. Each study would be conducted by a Deputy Secretary, appointed by and reporting to his Minister; but to ensure consistency across Departments, the work programme would be devised and led centrally by an official (say at Second Secretary level) reporting to the Prime Minister.

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The purpose would be to examine and make practical plans for the propositions that:

- i. existing functions should be achievable with fewer staff, especially in staff-intensive areas where administrative reform (e.g. computerisation) might produce more economical working methods;
- ii. some existing functions should cease altogether in recognition of the facts that this is a non-interventionist Government, that we are in a period of retrenchment and that other public sector employers are bound to be more impressed by deeds than words in manpower matters; and
- iii. the length of the hierarchy should be reduced.

If this approach were adopted, the intention would be to carry out the work so as to enable Ministers to take collective decisions on the reduction of activities and on increased efficiency by the early autumn.

The following additional points came up in discussion:

- i. It would be helpful if Mr. Channon's paper included information on natural wastage since by this means Ministers could achieve manpower savings much more easily than they sometimes thought.
- ii. If substantial further cuts in the Civil Service were to be achieved, this would only be accepted by the unions if there was no compulsory redundancy. Improved redundancy terms might need to be considered.
- iii. There was considerable scope for cutting Civil Service costs by reduced training, less travel, a greater consciousness of the costs of holding unnecessarily large and time-consuming meetings, and by reducing the number of forms sent out and the amount of statistics collected. As regards training, Sir Derek Rayner said that far too many civil servants lacked basic skills in such things as numeracy and finance; yet much of the training effort at present appeared to be of a non-vocational nature.

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- iv. One important aspect of improved efficiency was to increase the motivation of civil servants, and this involved looking at pay, promotion and retirement policies. In general, there needed to be more rewards for good work, and penalties for indifferent work. Mr. Channon said that he would be bringing forward a paper on this during the summer.
- v. The performance of senior officials and Ministers should be judged to a greater extent than at present by their success or otherwise in controlling staff numbers and promoting efficiency.
- vi. Efficiency was in some areas held back by inadequate investment, for example, in office equipment, but also by restrictive practices imposed by the unions. In addition, there was great scope for improved efficiency by considering how staff at all levels could be used more efficiently.
- vii. The Prime Minister said that she would like there to be a debate in the next Parliamentary Session, on which she might well take the lead on what was being achieved in terms of reduced Civil Service manpower and improved efficiency.
- viii. A great deal of staff time was taken up in processing and implementing EEC Directives - and all the more so since we seemed to take them more seriously than some of our EEC partners. (The Prime Minister asked to see a list of EEC Directives, and I am arranging for the FCO to provide this).
- ix. The costs and efficiency of the COI, and expenditure on advertising, needed to be looked at. The Prime Minister, who had read the minutes of 1 and 2 April from the Paymaster-General, said that she was sure there was scope for savings in this area. Mr. Channon said he would refer to it in his paper to Cabinet.

"Rayner Projects": progress on wider applications

The Minister of State's minute of 24 March was not discussed, but there was a brief discussion of Derek Rayner's minute of 26 March. The Prime Minister agreed that in general project results should be announced individually by Departments and that projects

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CONFIDENTIAL

- 5 -

should be presented as Ministerial scrutinies, rather than "Rayner projects" or "Rayner scrutinies". The Prime Minister has also asked that Derek Rayner should submit a further progress report in the autumn.

I am copying this to David Laughrin (CSD), David Wright (Cabinet Office), and Derek Rayner.

I. P. LANKESTER

G. E. T. Green, Esq.,
Civil Service Department.

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