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CABINET

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

Memorandum by the Lord President of the Council

INTRODUCTION

1. 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 (CC(79) 1st Conclusions, Minute 1). This memorandum 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. Our predecessors made provision for a Civil Service wages and salaries bill in the 1979-80 Estimates amounting to £3,744 million (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); this allows for pay increases averaging about $5\frac{1}{2}$ per cent from the due settlement dates (1 April for non-industrial staff and 1 July for industrial staff).

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 per cent for the current financial year, ie some 10 per cent or about £270 million above the provisions made in the Estimates. There will also be the settlement for the industrial staff, the extra cost of which above the Estimates may be in the region of £60 million this financial year. In addition, the London

Weighting allowance has shortly to be decided; if it were to be fully revalued the additional cost in 1979-80 would be about £25 million. Therefore the excess for all Civil Service pay over the provision made in the Estimates could be as high as £355 million.

4. Clearly it would be wrong to adjust cash limits fully to pay for these additional costs. We need to consider what savings can be obtained by substantial cuts in staff costs. The previous Administration had in mind a target for savings of at least 2 per cent, but we must do better than this.

THE TARGET

5. There is a range of options for cutting staff costs in this financial year which colleagues will wish to consider.

a. A 5 per cent reduction

This would mean saving the full-year cost of about 37,000 staff, or about £185 million. This could only be achieved by imposing a total ban on all recruitment at least for the rest of the financial year. Though we may well have to make civil servants redundant when we come to tackle functions (paragraph 11 below), redundancy offers no prospect of useful savings within this financial year since 6 months' notice is required, and compensation payments would amount to many times the small salary savings achievable.

b. A 4 per cent reduction

This would mean saving the full-year cost of about 29,000 staff (about £150 million). It could be achieved by a ban on recruitment lasting for 6 months, followed by restraint for the rest of the year.

c. A 3 per cent reduction

This would mean saving the full-year cost of about 22,000 staff (about £110 million) and would be compatible with a 3-month ban followed by restraint.

6. I am anxious that the Civil Service should make the maximum contribution to savings in Government expenditure. There are however limits to what we can do in what remains of the first financial year and before we consider how to cut functions. A recruitment ban is by nature an indiscriminate weapon, and I am bound to draw attention to some aspects of the way it would operate. The effects would vary with the length of the ban, but obviously the operations most at risk would be those with the highest wastage rates and where redeployment is difficult. This would hit operations in big cities, especially London where wastage has been over 20 per cent higher than elsewhere, and some key areas of work, notably computer

installations employing about 14,000 staff including some 4,000 Executive Officer programmers where the wastage is 24 per cent compared with just over 5 per cent for Executive Officers generally. There would be no correlation between the incidence of shortages and the priority of the work, and I am advised that the prisons, court services, social security operations, tax collection and the support of the Armed Forces could be at risk. There is also the danger of industrial action (see paragraph 10 below). The greater the reduction, the greater these risks will be, but colleagues will be in the best position to judge how big a cut we can go for in the present year without unacceptable damage to the operations for which they are responsible.

7. Whatever target we select can only be achieved if all colleagues bind themselves firmly to securing the planned level of savings within their own Departments. The operation will fail if we agree a target in general terms but then seek exceptional treatment for our own operations. It is also essential, as the Chief Secretary has said in his paper (C(79) 5), that the cash limits that are settled in consequence of our decision should be strictly adhered to. We must therefore set ourselves an objective we can reach.

8. Whatever target is agreed upon, it is possible that there may have to be some exemptions from the planned savings. It would be imperative that these be very strictly limited, but in order to provide a small safety margin and to allow for such exemptions as are collectively agreed I would propose that cash limits be set, in agreement with the Chancellor of the Exchequer, so that the overall adjustment allows for expenditure slightly above the target savings in staff costs, ie depending on whether the staff savings target was 5 per cent, 4 per cent or 3 per cent the cash limits would be adjusted to provide for an overall saving of 4 per cent, $3\frac{1}{4}$ per cent or $2\frac{1}{2}$ per cent respectively.

A BAN ON RECRUITMENT

9. We have already decided that there should be a ban on recruitment. If a 5 per cent target is agreed the ban will have to continue for at least the rest of the financial year, but if we adopt a lower target, colleagues will wish to consider the length of the ban. Whatever its length, we may also need to agree some arrangements, which would need to be tightly defined, for a very limited recruitment of specialist and high-quality staff (for example, computer programmers and accountants) who are in very short supply.

THE REACTION OF CIVIL SERVICE TRADE UNIONS

10. I must have early discussions with the Civil Service trade unions about both the temporary ban on recruitment and the planned saving in staff costs before these are announced. 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. The higher the target we select, and the more drastic the ban on recruitment, the sharper their reaction will be, and we may have to face a further outbreak of industrial action. Their reaction will be the stronger if they cannot be assured that measures of a broadly similar nature are 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. I cannot forecast what the attitude of the unions would be to a cut of 3 per cent; above that, however, we should be ready for real trouble. We must stick to whatever we decide upon, no matter what action the unions take.

FURTHER ACTION

11. 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 or dropped. The proposals in this paper would provide us with a breathing space in which to review the functions of our departments. I will bring forward proposals shortly about how this review for the longer term should be carried out.

CONCLUSION

12. I invite my colleagues:

- a. To select an overall target figure for savings in staff costs in 1979-80.
- b. To consider the length of and the arrangements for a ban on recruitment.
- c. To agree to seek feasible ways of applying corresponding measures in other parts of the public service.
- d. To note the probable reaction of the Civil Service trade unions.

C S

Civil Service Department

15 May 1979