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PRIME MINISTER

THE CIVIL SERVICE

As much the largest employer with the widest spread of activities I think it right to make some comments on the papers by Paul Channon and Derek Rayner (C(80)24 and 25).

2. I will get two parochial comments out of the way first:

(a) The basis of comparison between Ministry of Defence (MOD) civil servants and the Armed Forces is false. The early figures given for the Services include conscripts, whereas those given for MOD exclude locally engaged civil servants who fell between 1960 and 1980 by 100,000. On a comparable basis the Services have gone down by 42% and civil servants by 43%. The two are complementary and neither is wholly "teeth" or "tail". We must pay regard to the realities of the scale of the reductions so far.. In the MOD we must watch carefully the delicate relationship between the Services and the civilians who work closely together in all parts of the organisation.

(b) The Civil Service in the 60s and the 70s rose as a whole by around 60,000 and 6,000 despite reductions in Defence of over 60,000 and 20,000 (on the basis of Paul Channon's figures which exclude reductions in PSA on Defence works).

3. It is useful to see the figures set out over a long period of time. It would have been helpful to see long-term figures for senior and middle-ranks staff - there has been appalling grade drift and the structure has an over-thick middle. The MOD is not free from this charge. We need to expose the facts for all Departments.



4. I favour further reductions and a long term strategy to achieve this is essential. But we cannot rely on wastage. It is inefficient and seriously damaging to good management and morale. If it is decided to seek further cuts of $2\frac{1}{2}\%$ per annum, then there are certain absolute necessities:

a. There must be changes in functions; there is no sensible way significantly to reduce numbers without this.

b. There must be flexibility in phasing all reductions to achieve the cumulative total by the end of the period.

c. An effective early retirement scheme must be introduced immediately. Redundancies cannot be avoided.

d. There needs to be a clear doctrine about costs. Either we only transfer work out if it is demonstrably cheaper or we allow a premium for the private sector in the belief that in time it will be cheaper.

e. There must be decentralisation. National agreements must not be signed which inhibit Departmental management. In short if, as Derek Rayner envisages, Ministers are to be managers, they must be allowed to manage; and they must have the tools to do the job.

f. Something positive needs to be said about the value of the Civil Service and about its pay and conditions. It is not clear to me how you get the best out of people if you appear all the time to be lambasting them in public.

5. I regret Paul Channon's timetable is so tight. I imagine it is also designed to relate to the Civil Service staff unions' conference season which is just starting. But both management and staff will require some rationale. For line managers a longer term strategy will be welcome but they are fed up with their restricted freedom to manage. Staff will be more impressed with



the rationale of the Government's strategy and the professions of confidence if they can relate these measures to something more than papers later in the year on pay, pensions, and cash limits. This needs more thought and effective presentation.

6. Derek Rayner's paper contains some interesting ideas. On the hierarchy, the work we have been doing here for some time suggests that what is needed and what will produce results is a reduction in - or limitation of - the number of reporting levels in each management area. This will vary in relation to the nature of the work. I am bound to add that I regard an Under-Secretary who runs Devonport Dockyard (13,000 employees) or the whole of the Royal Navy Supply and Transport Service (19,000 employees) as a pretty good bargain. I strongly support some of Derek Rayner's other ideas, particularly clarifying central responsibilities, annuality, the need for better qualified managers (particularly financial managers), clarification of accountability as well as better management accounting systems. The MOD's succession planning is in fact well in advance of anything he contemplates. I would also like to see a less permanent Civil Service and more "ins and outs". We ought to sort out priorities.

7. I am sorry not to have been able to put these views to you earlier, particularly since if we are to get the strategy right it will be very difficult to reach final conclusions tomorrow. Once the Cabinet has reached conclusions I think that, given the acute importance of the issues and the effect on the Civil Service there would be very great advantage in you announcing our decisions to Parliament yourself.

8. I am sending copies of this minute to Paul Channon; Members of the Cabinet; and Sir Robert Armstrong and Sir Derek Rayner.

Ministry of Defence

30th April 1980



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