

PERSONAL AND CONFIDENTIAL

NOTE FOR THE RECORD

THE FUTURE OF THE CENTRAL
DEPARTMENTS

The Prime Minister saw Sir Ian Bancroft at 0945 hrs on Thursday, 24 September to discuss the future of the CSD.

She said that when she had last considered the future of the department, she had decided not to make any changes largely because the Treasury had felt unable at that time to take on any more work. She would have liked to continue with the CSD but in her heart she did not believe that it would ever be possible to make a go of the department as a unit for controlling Civil Service manpower and efficiency because it did not have the necessary standing with other departments. The fact was that it was really for departments to improve their efficiency from within using their own resources, with help, as necessary, from Sir Derek Rayner's unit.

There were now, as compared with the situation eight months ago when she ^{had} decided to retain the CSD, a number of changes in the offing which meant that this was a good time to reconsider the future of the CSD. Sir Derek Rayner would in future be able to give a good deal less time to his work on behalf of the Government. Sir Ian Bancroft himself and Sir John Herbecq would both retire by the end of 1982. And the Treasury now felt able to take on more work. She had decided to take advantage of these developments and to abolish the CSD, reallocating its central functions to the Treasury and the Cabinet Office. The CSD's functions in the field of efficiency would go into the Rayner Unit.

Responsibility for pay and manpower would be transferred to the Treasury. This left a number of other functions, and a study would be needed to establish where they should go.

The Prime Minister repeated that she did not believe that the CSD would acquire that predominance in Whitehall which was an essential prerequisite if it was to carry out its role effectively. Change was needed, and the factors she had mentioned made it a propitious time to make that change.

/Sir Ian Bancroft

Sir Ian Bancroft said it was only eight months ago that the Prime Minister had announced that the central departments would be left as they were. She had said publicly that she had been marginally in favour of splitting the CSD at that time but had decided eventually against any change. What was different now compared with then?

The Prime Minister said that the ~~new~~ new factors were the three she had already set out - Sir Derek Rayner's reduced availability; the forthcoming retirement of the two top officials in the Civil Service Department; and the readiness of the Treasury to absorb more responsibilities. She was convinced that the CSD would never be able to do the job it had been set up to do. She would have to make changes anyway when he retired at the end of 1982, and she would ^{not} have wanted to replace him in his role as head of the Civil Service. Sir Ian Bancroft said that he would ^{not} have wished to argue against that. His primary concern was ^{with} the reaction of the Civil Service to the abolition of the CSD. The Civil Service saw the CSD as a central department in charge of its overall management. Moreover, it felt that it had a Minister in Cabinet who was able to represent the interests of the Civil Service at that level. The Civil Service saw ~~the~~ Treasury Ministers, on the other hand, as hostile to its interests. The Prime Minister was proposing to give the jugular vein of pay and numbers to the Treasury, and this would be taken as a sign that the Government was hostile to the Civil Service. Moreover, the timing of a fundamental change of this kind could ^{not} be worse. It would come at a moment when the CSD was following up a lot of initiatives in the efficiency field, some of which had originated from the Rayner studies.

The Prime Minister said that there was no reason why this work should not continue following the change. As regards the view which the Civil Service might take of the transfer to the Treasury of responsibility for pay and numbers, these were issues which would have to come to the Cabinet for final decision, wherever responsibility for them lay. She recognised that there were many problems to be sorted out but she was determined to see the change in organisation which she had decided upon implemented in all its main elements by the Christmas Recess, so that it was well out of the way before the Budget.

/ Sir Ian Bancroft

Sir Ian Bancroft said that he hoped that those carrying out the study of how the split should be undertaken would have a certain amount of flexibility. In his view many more functions would have to go to the Treasury than perhaps had yet been appreciated. He thought that it would be right to transfer, together with pay and numbers, responsibility for industrial relations, conduct, discipline, security, political activities, staff inspection and retirement policy. Further, although the Prime Minister had said that she wished to transfer responsibility for efficiency to the Rayner Unit, he thought it impracticable to separate what he called executive efficiency work from manpower, and this would, therefore, have to go to the Treasury rather than to the Rayner Unit. Another aspect which he hoped would not be overlooked was that the CSD did not simply deal with pay and numbers but had to do with people: by this he meant they were responsible for such matters as training and succession planning. He did not see where these functions were going to go.

The Prime Minister said that she had never doubted that there were many obstacles in her way, and he was showing that there were even more than she had thought. Perhaps she might have to go slower than she wished. There was also his own position to consider. She wanted to do for him whatever he preferred. Sir Ian Bancroft said that now that the decision to abolish the CSD had been taken, the sooner the change was made the better. If it was to be done by Christmas, he would then be out of a job and he would have to go at the end of the year on grounds of redundancy. Any other solution would be untenable. He would not want to stay on until his 60th birthday for to do so would be totally artificial. He would prefer to go earlier, though he would need his pension immediately. This was, however, the least of problems. The biggest problem by far was the state of the Civil Service. It was already largely in disarray and in places it was ^{not} disaffected. This was due so much to the presence of subversive elements but arose from a lack of trust in Ministers. This was due not to the 7 $\frac{1}{2}$ % pay settlement as such but what the Civil Service saw as a series of broken agreements. It was the perception of the Civil Service that the present administration was hostile to its own employees.

The Prime Minister said that she could not regard Sir Ian Bancroft's personal position as the least of the problems arising from the decision to abolish the CSD. She was prepared to let him stay on until his retirement date if he wished or to go earlier with suitable financial arrangements. She did not regard the need to do something about the CSD as his fault. What was at fault was the fundamental concept of the CSD. It was a department out of the main stream of Whitehall, and the Treasury was the dominant department in the Civil Service, and not the CSD. There was an alternative to the approach which she

PERSONAL AND CONFIDENTIAL

- 4 -

preferred: this was to leave the CSD as it was until he retired and then to replace him with a second Permanent Secretary and to run the CSD down. But she did not think it would be right to pursue this alternative. Ministers were not hostile to the Civil Service, though she did feel disgust at the resistance which she had encountered to her efforts to bring about greater efficiency. This she did regard as disloyalty. But she was sure that the best course was to press forward with her decision to abolish the CSD. She would therefore like him, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner personally to conduct a very quick study of how best to accomplish the transfer of functions from the CSD to the Treasury and the Cabinet Office and to let her have their recommendations on her return from Australia on 9 October.

27 September 1981