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CABINET

CIVIL SERVICE NUMBERS AFTER 1984

Memorandum by the Chief Secretary, Treasury

1. It is time to consider our policy for Civil Service numbers after April 1984. We are on course to achieve the target of 630,000 by that date. We need to settle what is to follow in time for our decisions on the 1983 Public Expenditure Survey.
2. The annex to this paper considers what form our policy after 1984 should take.
3. The policy adopted in 1980 has been successful. We shall have removed 102,000 posts (14 per cent) in our first term of office. For the reasons set out in the annex, I believe that we should maintain this policy in our second term, but can improve on the way in which it has worked so far.
4. In brief, I propose that:-
 - a. we should again settle manpower targets for a date several years ahead: I suggest 1 April, 1988;
 - b. the overall target should be constructed on the basis of the targets for each Department (not, as in 1980, the other way round);
 - c. once targets have been established, they should be reviewed as necessary alongside expenditure plans in each successive Survey.
5. We are not yet in a position to settle the target figures. Present plans, as shown in the 1982 Survey, show some continuing reductions between April 1984 and April 1986. But we need to improve on these, and to establish the maximum scope for further reductions over the two years following. I therefore propose the exercise set out in paragraphs 18 to 21 of the annex. This would include the Civil Service component of the operation on contracting-out on which the Chancellor of the Exchequer will be making further proposals.

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6. I invite colleagues to agree that:-
- a. there should be a review early in 1983 to identify and quantify the scope for reducing Civil Service manpower between 1984 and 1988;
 - b. I should write to Ministers early in January about the detail of the assessments they are asked to make for each of their Departments;
 - c. replies should be sent to me in the first half of March;
 - d. after any bilateral discussions that seem necessary, I should report back to Cabinet in May with proposals for new Civil Service manpower targets up to 1988;
 - e. starting with the 1983 Public Expenditure Survey, manpower and expenditure plans should then be reviewed in parallel each year.

L B

Treasury Chambers

8 December 1982

POLICY ON CIVIL SERVICE NUMBERS AFTER APRIL 1984

This note considers the Government's policy for civil service numbers after April 1984. (It does not discuss other public services such as the National Health Service or local government.)

2. When the Government came into office, there were 732,000 civil servants. In May 1980 the Prime Minister announced to Parliament a target of about 630,000 by April 1984. By 1 October 1982 the total was 655,000. Thus, of the planned reduction of 102,000 the achievement up to October was 77,000. The Government is well on the way to achieving the 1984 target. Departments are working to individual targets which will produce this result.

3. We should now consider policy for the future after 1984 and a regime for pursuing it. In due course both will need to be announced publicly. This paper suggests a general decision before the end of 1982. There is already some public debate. For example, the CBI has suggested that the present rundown should be continued for a further year to April 1985, which at the present rate would imply a further reduction of some 20,000 to 610,000.

4. The Government has announced its drive to improve civil service management, especially financial management (Cmd 8616). Future policy on manpower should be part of that drive, and capable of being explained both publicly and to staff as consistent with its other elements.

The need for a policy on numbers; and its nature

5. The Government will continue to need a specific policy for civil service numbers. Its policy for its first term of office has been notably successful. To abandon this for its second term would be indefensible. There are excellent reasons for continuing a specific policy:

- i. The annual civil service pay bill of some £5 billion is a sizeable element in public expenditure. It merits direct

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control and restraint of numbers as well as of pay rates. If the pressure were relaxed, numbers and costs would certainly creep up again.

ii. Experience shows that a tight policy on numbers:

- helps to stimulate the critical scrutiny of functions and priorities, and of the scope for curtailing, privatising and contracting out government activities;
- helps to check the propensity to expand government activities and expenditure;
- stimulates and encourages as nothing else does an effective drive for greater efficiency and improved performance.

6. For analogous reasons the trend elsewhere is towards direct control of manpower numbers; the Government is encouraging this in the public services, for example in the NHS. And in practice, some forward planning of civil service manpower is necessary anyway:

i. Public and Parliamentary interest in the size of the civil service will persist. It will be necessary to continue to publish in the Chief Secretary's memorandum at the time of the Budget the numbers for the beginning and end of the year for which provision is made in the Estimates, and to publish staff-in-post figures quarterly during the year.

ii. It is necessary to take administrative and staff expenditure fully into account, including manpower numbers, in each successive Public Expenditure Survey.

iii. Because of constraints on dismissal and costs of redundancy, and in the interests of rational recruitment and personnel management, changes in manpower levels have to be planned in advance.

Present plans and prospects

7. Departments' present plans as reflected in the 1982 Survey show

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a continuing but slower rate of decline: to 623,850 in April 1985, and to 621,150 in April 1986.

8. In addition, present plans include two major further reductions before the end of the decade:

a. Hiving-off the ROFs (perhaps before 1986), which in theory would reduce civil service numbers by 25,000, in practice by perhaps 18,000-19,000.

b. Various measures of computerisation (PAYE in the Inland Revenue, the Operational Strategy in DHSS, computer projects in the Manpower Services Commission and elsewhere). These projects will require substantial capital investment, not all yet provided for in expenditure programmes. The staff savings arise mainly after 1986. They might amount in all to 12,000-15,000 before 1990. But computer projects are liable to slip-page, and their staff savings with them.

9. Some other smaller savings are also planned in the Inland Revenue, PSA and Scottish Office. These however are more than offset by prospective additions in the Home and Scottish Offices (for prisons) in the Inland Revenue (for non-domestic rating revaluation), and in the Departments of Trade and Industry. The net effect of these could be an increase of around 2,000.

10. Thus on present plans civil service numbers may be expected to decline further to around 605,000 by the end of the decade; or to around 585,000 if credit is taken for the hiving-off of the ROFs.

11. Apart from major policy changes, these numbers will be affected by economic and other developments, notably by changes in unemployment. A further large rise or a fall will affect staffing levels in DHSS, Employment and (to a lesser extent) the Inland Revenue.

12. In addition there can and should be further improvements in efficiency. Much has already been done, and some of the most obvious steps already taken. But the continuing high returns from scrutinies, staff inspections and reviews indicate that the scope for action remains wide, and the current drive to improve management and increase the use of information technology should produce worthwhile results over the next 5 years. As the White Paper pointed

out, there is a continuing necessity to review the functions of Government, to eliminate those that are unnecessary or no longer required and to ensure that those that are kept are done as efficiently as possible. (The Lord Privy Seal has circulated proposals for centrally co-ordinated exercises in 1983 to take place alongside Ministers' departmental exercises.) In most areas of work accordingly there should be a presumption that a smaller number should be needed to carry a given work-load in 1988 than in 1984.

Lessons of the 630,000 Operation

13. The 630,000 operation has demonstrated the merits of fixing a target for several years ahead. It is certain that larger reductions have resulted, and more quickly, than would have been made otherwise. The record of the Civil Service, when compared with the National Health Service and local government, provides clear support for this view. Departments, with forward targets to aim at, have had the opportunity to plan their reductions. The targets have been tight enough to act as a stimulus to efficiency and higher productivity, and to oblige departments to examine critically the need for existing functions, the scope for less labour-intensive ways of achieving policy objectives and opportunities for privatisation. All that has been a clear gain.

14. But there have also been some penalties. The combination of ambitious targets for each department with fast-rising unemployment which depleted the contingency margin of 15,000 left little room for manoeuvre, made it difficult to delegate authority to line managers where their staff numbers are concerned, and prevented some new initiatives which would have increased staff but would have been financially beneficial.

15. It is also clear that downward pressure on numbers is not enough by itself. It is necessary to think through the reduction of functions so as to match a smaller number of staff to a reduced workload and to keep up the impetus of scrutiny and review to test the need for working procedures and the scope for economies on the ground. It will also be necessary to invest in order to

save (see paragraph 8 above on computers), provided always that manpower and expenditure planning move consistently together within the Government's overall economic strategy.

16. The aim of numbers policy after 1984 should thus be to maintain the advantages of a target policy, in such a way as to match it more systematically with the curtailing of functions and the improvement of efficiency, and to make it a coherent part of the Government's wider policy for good management.

Proposals for policy after April 1984

17. A necessary first step is to reach a judgment on the scope for further reductions in the Government's second term. The figures in the 1982 Survey (paragraph 7 above) reflect the consequences of decisions already taken and extend only to April 1986. They do not provide an adequate basis for setting an aim which is tough but realistic for the lifetime of the next Parliament.

18. It is therefore proposed that the Treasury should conduct a service-wide exercise early in 1983 to establish a basis for quantifying reductions up to April 1988. The Chief Secretary would write to his colleagues early in January asking for written reports early in March which would assess for each of their departments:-

(i) Taking the manpower figures to 1 April 1986 shown in the Public Expenditure Survey as the starting point, and taking full account of the scope for further improvements in efficiency, what would be the lowest practicable limit for civil service staff in post for each year from 1 April 1985 to 1 April 1988 inclusive on the basis of present policies (projected beyond the end of the PES cycle);

(ii) What would be the manpower and expenditure implications of any new policies or initiatives which are already envisaged but are not yet incorporated into departments' PES programmes;

(iii) Whether and how they could reduce the figures proposed at (i) above by 5% or 10% by a combination of

(a) further improvements in efficiency involving a change in policy;

(b) further privatisation or contracting-out (on which the Chancellor will be making proposals);

(c) other new initiatives or policy decisions to reduce civil service tasks and the manpower they require.

19. In assessing departments' responses, the Treasury would pay regard to each department's past record, its scope for further reductions, and the need for continued pressure in the interests of improving efficiency and productivity. In the light of this assessment, the Chief Secretary would report to his colleagues at the end of May 1983 on the prospects for civil service numbers and propose both a target for each department and, by aggregating these, a target for the Civil Service as a whole. As before, a margin might be added to the latter for contingencies.

20. The objective would be to set targets at a level which combined continuing pressure to achieve improvements in efficiency with enabling departments to plan their future manpower in an orderly way, consistent both with their expenditure planning more generally and with the development of their plans for improving financial management.

21. It would then be both necessary and desirable to publish the figures. There would be a strong presumption that the targets would be adhered to but the Government would reserve the right to alter them in either direction and explain why.

22. Once the initial targets had been set for each department they would be considered each year in the course of the Survey process, alongside the cash expenditure plans. The initial targets would not (as they did in the 630,000 exercise) take credit in advance

for manpower reductions consequent on major policy decisions not yet taken. Ministers would take new decisions relating to expenditure and manpower at the same time, and where these produced reductions in manpower, targets would be lowered accordingly. Although the targets could not readily be altered upwards, this could also be done if a strong enough case was made out for doing so.

23. A policy on these lines should be related to other policies affecting the management of staff whose career prospects have already been radically affected by manpower policy. It should go together with:-

- a. giving staff more satisfying jobs by reducing the number of levels through which work passes and delegating more authority to managers in line with the current initiative on financial management;
- b. improving incentives to efficiency. Pilot schemes for incentives to line managers and the consideration of "merit pay" in the context of the Megaw report are relevant;
- c. facilitating the easing out of less efficient staff at all levels both for its own sake and to avoid too great a deterioration of promotion prospects;
- d. identifying the most able staff and planning their career development.

The Chief Secretary's paper for colleagues (paragraph 19) would report progress on these matters which the Lord Privy Seal and he intend to consider in the early part of 1983.

Conclusion

24. The manpower policy proposed here would require stringent administration to ensure that targets were not altered substantially,

but could be modified if really necessary or desirable. It would also need to be carefully presented, both to Parliament and to staff and unions. It appears to offer a feasible method of keeping the advantages of the target approach while providing for the needs of more coherent planning and better management.