



Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG
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17/5

PRIME MINISTER

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CBI REPORT ON GOVERNMENT EXPENDITURE

Sir Raymond Pennock invited me to pass on to you the CBI's Report (published yesterday) on ways of reducing Government current expenditure. My office sent yours a copy yesterday.

2. The recommendations are ambitious, with a target of some £3 billion savings on public service manpower costs, from a range of suggestions totalling £4-5 billion. Rather over half the total arises on pay, on which the CBI expound their judgement that public service pay levels, far from having fallen behind the private sector, have over the last decade as a whole gone ahead, and on pensions, where they seek both limitation of inflation-proofing and higher employee contributions. The remaining savings would come from manpower economies, primarily in the local authorities and National Health Service.

3. Much of the material in the Report is not new, and some of the recommendations are already being adopted, attempted or considered. But the CBI have put a good deal of effort into the supporting evidence and arguments for their recommendations, and I believe we should study the material seriously and make the maximum use of it.

4. The Chief Secretary is arranging, with colleagues primarily concerned, to examine the Report in detail over the next few weeks.

Especially the manning levels.

/I am copying this



5. I am copying this minute to the Chancellor of the Duchy of Lancaster, and the Secretaries of State for the Environment, Employment and Social Services.

A handwritten signature in dark ink, appearing to be "G.H.", written in a cursive style.

(G.H.)

17 September 1981



cc CDL
DOE
D/M
DHS

HL

10 DOWNING STREET

From the Private Secretary

18 September 1981

Returned for retention
to Policy Unit. 23/9/81

The Prime Minister was grateful for the Chancellor's minute of 17 September on the CBI Report on Government expenditure. She has noted that the Chief Secretary is arranging to examine the Report in detail over the next few weeks with colleagues primarily concerned: she hopes that he will look especially at what the Report has to say about manning levels.

I am copying this letter to Jim Buckley (Chancellor of the Duchy of Lancaster's Office), David Edmonds (Department of the Environment), Richard Dykes (Department of Employment) and Don Brereton (Department of Health and Social Security).

T. P. LANKESTER

Peter Jenkins, Esq.,
H.M. Treasury.

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PRIME MINISTER

After reading John Sparrow's latest letter, you asked whether the CBI analysis on public spending had been drawn to the attention of Departments and whether they are taking heed.

The Chancellor has already written in about this and has confirmed that the Chief Secretary will be having discussions with the main public spending Departments on the CBI's proposals. I have particularly asked the Chief Secretary to bear in mind what the CBI have to say about manpower.

msb

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21 September 1981

cc Mr. Wolfson *HL*
Mr. Walters
Mr. Hoskyns - 0

MR. DUGUID

Thank you for your note of 16 September about the CBI Report on Government expenditure. I do not think that the Prime Minister can really get into questioning Government departments on the CBI proposals: we have to leave this to the Treasury. As you will see from the Chancellor minute (copy attached), this is what the Treasury will be doing - and the Prime Minister has asked the Chief Secretary to look particularly at manning levels.

I. P. LANKESTER

18 September 1981

cc Mr. Wolfson
Mr. Walters
Mr. Hoskyns O/R

MR. LANKESTER

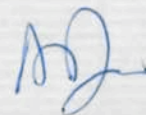
CBI REPORT ON GOVERNMENT EXPENDITURE

1. On the whole, the CBI's report is a welcome source of outside pressure and publicity for the case for tighter control over the public sector. Of course, as the report acknowledges, the Government does not directly control large chunks of the public services where the CBI would like to see manpower reductions. CBI highlight some interesting comparisons of costs and manning between areas in the health service, the library service, local authority planning departments, etc.

2. It seems to me that the report provides an opportunity for the Prime Minister to ask relevant departments - principally CSD, Environment, DHSS, DES - for a response to the CBI proposals. Do you think this would be worth while?

(Copy submitted for reference.)

16 September 1981



ANDREW DUGUID

UK NEWS

CBI calls for £3bn to £5bn public services cuts

SAVINGS of between £3bn and £5bn a year in Government expenditure should be made by cuts in public service manpower, pay and pensions, according to a report published yesterday by the Confederation of British Industry.

Further savings should be made by examining 25 other areas for economies including rationalising the work of the Employment Department and its agencies, cutting Defence Ministry bureaucracy, and rationalising regional industrial development agencies.

Part of the major savings would come from a 10 per cent cut in the 4.2m-strong workforce of public services such as local authorities, the national health service, and other agencies. This would be done by recruiting only one person for every two employees leaving "non front line jobs." It would save £3.5bn in 1984-85, or about £2bn more than is implied by present Government plans.

A further £2.25bn to £3bn should be saved by adopting

"more sensible arrangements for public service pensions and by correcting the substantial excess of public sector pay relative to that of the private sector." This would include cutting index-linked pensions and reviewing incremental pay scales.

The report says that further considerable savings are possible by making more use of commercial charging for services, and introducing other economies.

An initial target of £3bn savings should be set to allow for "unforeseen difficulties" that would emerge as the cuts programme swung into action.

The CBI wants the money saved to be used for capital projects such as the Channel tunnel, road building and sewer replacement. It estimates that the employment generated in productive industry would more than compensate for the 100,000 administrative jobs which would be lost.

Sir Ray Pennock, CBI president, said yesterday when he

John Elliott on industry's look at government spending

launched the report: "We are not just outsiders commenting — we pay the ruddy money."

The CBI which believes the Prime Minister has not pushed hard enough for cuts is calling on the Government to adopt a business-like approach to its spending. It says that private sector companies have been forced to adopt such an approach in order to survive the recession.

"The CBI and its member companies did not think 18 months ago that the sorts of cuts they have had to make in their organisations could be done without disrupting the service they provide," said Mr Malcolm MacAlpine, a director of Sir Robert MacAlpine and Son, who headed the working party which produced the report. But they had discovered that it was possible, and the

Government should now do the same.

"The experience of private business shows that blunt instrument approaches are the only way in which the necessary rapid reductions in manpower and improvements in efficiency can be effected," says the report.

The report has been sent to the Prime Minister and Cabinet members. CBI members will be urged to discuss with their local councils how it can be implemented. It will also be examined by 45 regional liaison groups set up in the past few years by the CBI with local authorities.

Only two events clouded the launch of the report yesterday. The first was the resignation two months ago of Sir Leo Pliatzky, former senior civil servant, from the job of advisor to the CBI working party. He said he did not believe the CBI's approach to cutting Government

spending was practical.

The second was a note of reservation added by Mr Terence Higgins, Conservative MP for Worthing, and a member of the working party. He said he believed that "further work" should be done before pension benefits were cut. He also wanted the CBI to develop more specific policy proposals.

On general economies the CBI wants: more services contracted to outside companies; more competitive tendering for contracts; a clear delimitation longer-term of locally and nationally determined local council spending; more management cost information and management auditing; more detailed scrutiny of expenditure; and the encouragement of zero-based budgeting.

In an appendix to the report, 25 ideas are listed for savings put forward by its individual members which the CBI believes should be considered.

They include rationalising the employment, manpower and training services of the Employ-

ment Department, the Manpower Services Commission, industrial training boards, the careers service, and the Office of Manpower Economics.

There should also be "reduced bureaucracy in Ministry of Defence procurement." Procedures and contracts could be simplified according to several CBI members.

Merger or rationalisation of regional departments and development agencies—particularly in Scotland, Wales and Northern Ireland was also proposed.

Another idea is to charge "hotel fees" of £20 a week in hospitals to generate £250m a year.

"The CBI will offer its services to the Government or to any local authority to help find businessmen who can offer their experience to assist in achieving economies that will result in greater efficiency," says the report.

Report of the CBI Working Party on Government Expenditure. CBI, Centre Point, London, W1. Price £5.