

PRIME MINISTER

Paul Channon wrote to Cabinet colleagues last month about Civil Service manpower. He asked Departments to look at options for further cuts, so that action could quickly be set in hand once the pay research evidence had been considered against the cash limit. You should perhaps glance at the attached responses from Mr. Pym and Mr. Younger, which suggest that there may be battles between Ministers, as well as battles with the Civil Service unions about this.

*MAJ*  
!  
*ans*

8 February 1980



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CONFIDENTIAL

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8 February 1980

#### CIVIL SERVICE PAY AND CASH LIMITS

You sent me a copy of your letter of 24 January to Willie Whitelaw outlining the dilemma which confronts us and discussing two possible courses of action.

I agree that the repudiation of the Civil Service pay agreement (and presumably the dissolution of the PRU) would be the worse course. Governments of both persuasions have tampered with the implementation of individual pay agreements; and our predecessors suspended the operation of the PRU in the context of their pay policy. But the repudiation of the pay agreement would, I fear, drive many middle-of-the-road Civil Servants into the hands of the militants. There are obviously a number of possibilities short of repudiation; but you are right to direct attention to the problem of the gap between the likely cost of a settlement with the Civil Service unions and the cash limit we have yet to settle.

If the gap to be bridged is not more than a percentage point or so, we could, I believe, achieve a volume squeeze; but so far as my Departments are concerned I must make it clear that such a squeeze coming on top of the economies which we are already planning for 1980-81 would make life very difficult. If the gap were as high as 5% or more, I see no possibility of avoiding serious disruption of business whether or not there is industrial action - and I would regard industrial action as inevitable. Moreover, the scale of the likely problem is, I fear, understated in your letter. A cut of 5%, decided on just before the financial year begins, must mean much higher percentage cuts in staff. A freeze on recruitment would have to be imposed, but there is no certainty that this would be enough. I am told that redundancy would almost certainly be necessary, if not in 1980-81 then later since the same gap will appear next year.

As you know, I face great difficulty in meeting the reductions which you announced on 6 December. If I am to maintain any credibility with the unions in the Scottish Office, I should have to indicate what further functions are to be given up. I do not know what these can be.

You foresee a squeeze applied evenly across Departments with the very minimum of relaxations for hard cases. This would be quite inequitable. As you know, I had to exempt the Prisons Service and the State Hospital from cuts in the exercise we conducted last year and this has led to a higher percentage reduction on the administrative functions of my Departments. The treatment of Whitehall Departments seems to me to have been very uneven, and I would regard it as quite wrong to apply to uneven bases an even squeeze across Departments. To do so would penalise those who have already contracted to make the greatest reductions. I am already in difficulty because of the divergence between some of my Departments and their "mirror" Departments in Whitehall where the scale of the reductions proposed is lower than in my own Departments.

Whatever we do, we are in for trouble; and our first priority should be to keep the gap you refer to as small as possible without imperilling our other policies. I do not believe that the Scottish Office can shed 10% or more of its staff in a year (a conservative estimate of what would be involved in superimposing a 5% cash cut on the cuts to which I am already committed); and I do not believe we are unique in this respect. We must be wary of placing more weight on cash limits than they can bear. In my case the scenario you envisage presents a real risk of getting the worst of all worlds - industrial trouble, disruption of business and, after all, inability to meet the cash limit.

I am sending copies of this letter to the recipients of yours.

GEORGE YOUNGER



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8 9 10 11 12  
-8 FEB 1980

DEPT OF YOUTH



Original in G/R/15

CF to ME

10 DOWNING STREET

CC MS, CSD

THE PRIME MINISTER

7 February 1980

*Handwritten signature: Harold Wilson*

Thank you for your letter of 8 January about the reduction in Civil Service Manpower costs announced on 6 December.

I do understand the concern that your members feel, and I am grateful to you for bringing this to my attention. We attach a great deal of importance to staff morale. I hope it will help to reassure you if I draw particular notice to our intention to proceed as far as it is practicable by means of natural wastage to secure these savings over the next 2-3 years. We are not looking for redundancy. On the contrary, we aim to minimise it.

It is not the case that most of the reductions are being made in the industrial field. There is no question of singling out any group of staff for reductions. We have looked very carefully at the whole range of activities undertaken by Government departments to see which can and should be dropped altogether, curtailed or carried out in some more efficient way. The emphasis is on staff costs rather than on staff numbers. As it happens, the reductions in staff costs announced on 6 December (£212m. a year gross, equivalent to nearly 40,000 posts) fall mainly in the non-industrial field. Our first estimates are that savings equivalent to some 28,000 posts will be made in that area.

Our policy on contracting-out work to the private sector is perfectly clear. We shall do this where in our judgement the work can be done more economically or efficiently in this way. It is simply a matter of securing the best value for money. In making their decisions in particular areas, including Heavy Goods Vehicle testing, Ministers will of course take full account of security and safety needs, and ensure that these are properly safeguarded.

/ The Fair Wages VUC

The Fair Wages Resolution requires contractors to observe terms and conditions no less favourable than those established for their trade or industry in the district, or the "general level" observed by other employers whose circumstances are similar. The Government believes that pay and conditions should be determined by employers and unions in the light of their own circumstances; and therefore we intend to examine the continuing appropriateness of the Fair Wages Resolution, having regard to our obligations under International Labour Convention No. 94. Meanwhile, the Resolution will continue to be incorporated in Government contracts.

You made particular mention of the reduction in directly employed labour engaged on building and maintenance work for the Property Services Agency. About three quarters of minor work and maintenance is already done by private contractors under PSA supervision. It is our policy to increase that proportion wherever private contractors are capable of doing work at a satisfactory price. We hope to achieve this transfer without the need for any extensive redundancies. There will remain a significant amount of work for which directly employed labour will continue to be needed, particularly where there are special factors such as the need for a 24-hour service at complex defence installations. In such cases, the contribution of directly-employed labour is vital and highly valued.

I hope you find these explanations helpful.

Yours sincerely  
Margaret Thatcher

M.B. Martin, Esq.

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6th February 1980

*Dear Paul,*

CIVIL SERVICE PAY AND CASH LIMITS

Thank you for sending me a copy of your letter to Willie Whitelaw of 24th January about Civil Service pay and cash limits.

I agree that we should give early attention to this difficult problem, acute for me even now since, because of the need to live within cash limits, I have had to re-impose a recruiting freeze - with even less exceptions than applied last summer - for the last three months of the financial year. We cannot go on imposing arbitrary cuts indefinitely. I am, as you know, already faced with finding savings of 15,000 posts over the next two years.

The essence of your proposition seems to be that we should accept that it would be right to pay Civil Servants salaries or wages based on pay research, but not the consequences because the provision for increases of more than 14% would lead to an "excessively high cash limit". This proposition seems to me to be, at the very least, arguable. Are we saying that 14% is all we could possibly pay: if that is so, why did we not decide earlier to treat Civil Service pay exactly like other cash limited settlements? Are we saying that 14% is a realistic and fair settlement in comparison with pay movements outside: if so, and the figures come out higher, should we not be taking a look at the pay research system not merely for the Civil Service, but for all the other groups involved? Are we saying that we can differentiate between the Civil Service and the rest of the community: if so on what grounds, and how do we explain this differentiation to the Civil Service?

I am afraid that I am also not clear what is meant by the figure of 5% quoted in the penultimate paragraph of your letter.

/ If ...



If this is a target saving in manpower cost terms surely it should be at least doubled in terms of manpower strengths in order to achieve the whole saving within a single financial year? And surely this is not remotely feasible. The same doubling applies to 3% expressed in manpower cost terms. Moreover, manpower costs are simply a reflection of total resource costs and must reflect functions and tasks.

My staff, both industrial (75% of the industrial civil service) and non-industrial (20% of the non-industrial Civil Service) do not do work which can be turned on or off at my direction. In the great majority of areas they are working directly with the fighting Services who are crucially dependent upon them (for example, the supply organisation of the three Services is 90% civilian manned). This makes cost sense because Service personnel cost more than their Civil Service equivalents and at the bottom levels are twice as expensive.

*and look at what the Royal Air Force said about it!*

I see major difficulty in explaining any proposition on the lines set out in your letter to Ministry of Defence staff. They are co-operating with major studies in hand in areas of our activities (Dockyards: R & D establishments: Supply) because we are approaching the problem on the basis of an analysis of tasks and not by arbitrary cuts. Moreover, they will inevitably compare the treatment they receive with that given to the Armed Forces. If the Staff Associations and Trade Unions were to take industrial action which had general support, the financial consequences in terms of disruption and waste within the defence programme would be much greater than any savings of 1 or 2% on the pay bill.

I do not believe we could defend manpower cuts of 10% - 12% or 6% - 7% in a single year. I would myself favour a more realistic aim of manpower savings of, say, 2% - 3% phased over the year based on the approach that civil servants - no less than those outside - must work more effectively and productively in return for fair salaries and wages. As part of this, we need the means to encourage non-industrial staff of limited effectiveness to go early by voluntary redundancy or retirement, perhaps as an element of a package of measures to improve flexibility in the use of manpower. We should look at productivity schemes for the non-industrial Civil Service linked with manpower reductions.

Another possibility that occurs to me, within the framework of pay research, is to split the implementation into two stages both for non-industrials and industrials. The precise phasing





would, of course, depend on the size of the increase finally agreed in relation to the cash limit but it might take the form of paying half on the due settlement date and the remaining half six months later. This would have two advantages: it would save money in 1980/81; and it would still make possible longer term manpower reductions to be effective by 1981/82 but flowing logically from our wide-ranging studies. It would, I think, have to apply to all groups with pay research or comparability based settlements. A further factor is the question of whether all these groups are contributing adequately to their pensions.

None of this means that I do not support fully the need for manpower reductions, higher productivity and cutting out waste. We must achieve these. I am clear, however, that these aims will be frustrated if we pursue an unrealistic policy which will inevitably be interpreted as a vendetta against the Civil Service. We need to be a hard headed employer, but also a fair one.

Copies of this letter go to the other recipients of yours.

*J. Pym*

*J. Pym*

Francis Pym

6 FEB 1980

