

PRIME MINISTER

CIVIL SERVICE CASH LIMITS AND A POSSIBLE BAN
ON RECRUITMENT

I attach a copy of a letter which I have sent today to Ministers in charge of Departments.

You will see that it refers to the possibility of a Civil Service recruitment ban, which you raised in Cabinet today. I think that the right course is to see what the Pay Research evidence is, and then decide how large a squeeze (through the 1980-81 cash limits) on Civil Service numbers we should go for. We shall then be in the best position to decide about a ban, how complete it would have to be, and how long it should last. Some Ministers found it necessary to grant large-scale exemptions last time round, and we should certainly need to think again about that. A severe cash squeeze would of course in itself have a powerful effect on recruitment. Because of this year's cash limit squeeze, the Ministry of Defence have, I believe, already strictly restricted recruitment until the end of this financial year.

I propose to put a paper to colleagues on all these topics in February.

The 1 January 1980 staff-in-post figures for the Civil Service will show that numbers are still going down. I will report further on this as soon as the final figures are in.

I mentioned in Cabinet this morning that unless decisions were now taken to the contrary, certain public expenditure cuts might lead to increases in staff. When painful cuts are being made on others, I believe this would be a great mistake. Therefore I propose to press for all staff increases in Departments to be absorbed, and hope you agree.

A copy of this minute goes to Sir Robert Armstrong.

P.C.

PAUL CHANNON

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Minister of State

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24 January 1980

The Rt Hon William Whitelaw, CH, MC, MP
Secretary of State for the Home Department
50 Queen Anne's Gate
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Dear Willie

CIVIL SERVICE PAY AND CASH LIMITS

I am writing to give early warning of this problem, so that you and other colleagues in charge of departments can be thinking about it in advance, since the timetable for discussion and decision will be a tight one.

E Committee decided last September (E(79)8th meeting, item 1) that we should wait to settle the cash limit for Civil Service pay increases until we could take the evidence from pay research for the non-industrial grades into account. They also decided that, in order to help to reconcile pay research with cash limits in this way, we should present to Parliament a single cash-limited Estimate providing for both non-industrial and industrial pay increases for 1980-81 in a global sum which would be distributed to the individual departments by means of a revised Estimate after the non-industrial pay settlement had been reached. The Civil Service was specifically excluded from the subsequent decision of the Cabinet to allow 14% for cost increases in cash limits for the public services for 1980-81. We shall shortly have to decide what sum to provide. The CSD will not receive all the up-to-date pay research evidence for the main grades until 8 February. We shall be in a position by 15 February to make a first forecast, within a percentage point or two, of the average level of the non-industrial pay settlement to which that evidence points. We shall not, of course, have any clear idea of the prospective size of the industrial settlement, but the best assumption we shall be able to make is probably that on average it will be the same as for the non-industrials. The Treasury plan to present the Estimate for the global vote for the Civil Service pay increase to Parliament on about 11 March. The latest date consistent with this timetable for sending the Estimate to the printer is 6 March. This will give us not much more than two weeks in which to decide its amount between the first forecast becoming available and the final date for printing the Estimate. That allows very little time to settle the difficult questions that may well arise and colleagues will wish to give early thought to the way we should tackle them.

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is not yet possible to give any indication of what the pay research evidence will show. There would be no great problem if it pointed to a level of settlement very close to the level at which the other cash limits have been set. But our general impression of outside settlements suggests that it would be very unwise to assume that this will be so; we must prepare for the contingency that the figure will be higher.

If so, two courses of action will in principle be open to us. The first is to break the pay agreement and refuse to conclude a settlement based on pay research. This would provoke an immediate crisis in our industrial relations, the more so since to make it effective we should also have to withdraw the right to arbitration. There would be serious consequences for the longer term future since many moderate and responsible civil servants would line up behind militant union Executive Committees. The second course is to decide to conclude a pay settlement based on pay research but to make compensating savings by a further squeeze on manpower, on the lines of the 3% cut in 1979-80, in order to reduce the cost to an acceptable level.

Depending on what the evidence points to, we may face a very difficult decision. If the gap between the evidence and the provision we have agreed for other cash limits is not more than a percentage point or so, I hope that colleagues would agree that the cost of bridging it could be absorbed without excessive difficulty. If at the other extreme it is 5% or more, the decision in practical terms seems likely to be a stark choice between breaking the Pay Agreement and approving an excessively high cash limit.

It was inherent in the decision we took in September last that this problem would present itself. We must now decide how best to tackle it. In my view, we should aim for the second course of containing the cost by making compensating manpower savings if the figures suggest that this course is at all feasible. There are two reasons. The first is that a further reduction in Civil Service manpower is desirable in its own right, and is something we are publicly committed to achieve. The second is that, while we may well face industrial action in either case, I believe that it will be much more bitter and damaging if it results from a breaking of the pay agreement and the denial of arbitration than from a further reduction in numbers.

I recognise, however, that some departments at least will not find it at all easy to achieve a further significant reduction in 1980-81 (in addition of course to that part of the savings announced on 6 December which falls to be realised in 1980-81 and is already reflected in the main Estimates) which takes effect sufficiently early to produce a sizeable saving within the financial year. At the higher end at least of the range I have referred to, it would involve very early decisions to drop work. We may well have to reinforce the financial squeeze with a further ban on recruitment although the scope for recruitment would in any event be sharply curtailed. I would welcome your views on that topic too.

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I must emphasise, moreover, that this approach will not be practicable unless the squeeze is applied evenly across departments with the very minimum of relaxations for hard cases. Special considerations apply to prisons and (for different reasons) to some very small departments with only a handful of staff. Exceptional arrangements, however, would have to be limited even in these cases, and confined to them. We should need to reach a view on whether there should be any such concessions and on their size before we published the Estimate, and this would simply not provide time for any large scale refinement of ups and downs between departments.

In practical terms, every day that passes from now on is reducing our room for manoeuvre in terms of savings in the coming year. I should therefore be grateful if you and the other colleagues to whom I am addressing this letter could now consider how you would set about achieving a further reduction of up to 5% within your own departments and make plans accordingly, so that we can maximise the scope of the options that will be open to us when we come to take decisions in the second half of next month. In making your calculations I should be grateful if you could make the assumption that we should deal with industrial staff in the same way as with non-industrial, ie that we shall have to cope with a gap of about the same size across the Civil Service as a whole.

Copies of this letter go to all Cabinet Ministers, the Minister of Transport and Sir Robert Armstrong.

Yours,
Paul

PAUL CHANNON