

PRIME MINISTER

Civil Service Pay and Cash Limits

You have already seen Sir Robert Armstrong's brief and the formal papers for this item.

Your meeting this morning concluded that Mr. Channon's instructions for the pay negotiations should be:

1. To secure a negotiated settlement, and to steer well clear of industrial action;
2. To stay firmly within the 14% cash limit;
3. To accept flexibility within these considerations, whilst his own preference for 3% volume squeeze coupled with 1% fiddle on the total was recognised by colleagues.

There are three new pieces of paper added to the string. F is a paper by Sir Derek Rayner in response to the Chancellor's proposal that Sir Derek has a role to play in the volume squeeze. The paper is about a Government manpower policy, and deserves proper consideration. It is not really relevant to achieving a volume squeeze in 1980/81, and makes it clear that Sir Derek can not offer instant solutions to meet Mr. Channon's problems in the negotiations next month. I suggest you take a quick look at it, and consider it more carefully over the weekend. Cabinet or E might want to reconsider it later - it is Sir Derek's response to your request for his advice on nil recruitment/nil redundancy or other alternatives on manpower policy. G is a further note from Paul Channon saying that he likes the look of Sir Derek's paper, and would like to put a paper to colleagues about these ideas. H is a note from Sir Ian Bancroft re-inforcing Mr. Channon's feeling that a 3% volume squeeze can be achieved, with far fewer exceptions than were allowed last year.

All of this is ammunition for Mr. Channon's preferred strategy, a 3% volume squeeze with the hope that the remaining 1% can be found in the negotiations without staging.

27 February 1980

MAP

010
PRIME MINISTER

CIVIL SERVICE NUMBERS AND COSTS

1. I understand that the Chancellor is circulating a paper for Cabinet on Thursday in which he invites Ministers "to agree that the CSD and employing departments should be invited jointly to develop management systems to control Civil Service numbers and costs and that Sir Derek Rayner should be invited as a matter of urgency to advise on how his analysis could be exploited both in the short and in the long run to this end".

2. The purpose of this minute is, firstly, to say that I shall be glad to help you and your colleagues in any way I can and, secondly, to offer you some thoughts which you may like to have by you before Cabinet. I am copying this minute to the Chancellor, Minister of State, CSD, Sir Ian Bancroft and Sir Robert Armstrong but in the time available to me I have not consulted anyone formally before writing it. I am not making formal recommendations at this stage but I am marking this minute in the usual way to help you through it.

Policy more important than systems

3. It is a truism that systems should support policy and that the first necessity is to determine what policy should be.

Recn 1

4. I would recommend that the Government's long-term Civil Service manpower policy should be specified, perhaps something like this:

- a. To reduce the scale and scope of Government activity, by ceasing or reducing functions.
- b. To take in no more of the nation's qualified and highly qualified manpower than can be justified.
- c. To use this manpower to provide services to Ministers and the public which are of good quality, cost-effective and satisfying for staff.

Recn 2

5. The crucial points would be these, in my view:
 - a. Such a policy needs stating with reasonable precision, so that in going for reduction Ministers are aiming at reducing cost, by an attainable factor, over time.
 - b. The policy is of such extreme importance, in its own right and as an example for other public sector employers, that some time should be allowed to think it through. A timetable should then be set for its implementation so that progressively Ministers can move forward to an attainable target. There is no doubt that in so large an enterprise, one is thinking in terms of a reform programme stretching over several if not many years.
 - c. Carrying out the programme would need action in each Department led and sustained by its Minister.

d. In order to show that Ministers mean business and to help give the programme structure, it should have Service-wide features.

e. The policy should not concentrate on those who provide services and on the office-boy; it should, rather, bear equally on all grades, including the highest.

6. I attach particular importance to the third and fourth of those points. Some Ministers will argue that they can do no more to reduce the size of their Departments, but my view is firmly that they have not all applied themselves to the task. Ministers do need to think the unthinkable if they are to achieve a real scaling down of activity. "Would it matter if I stopped doing this?", "Could I do that with fewer staff?" are two obvious questions.

7. But, despite cash limits, I think it pie in the sky to suppose that without a strong external stimulus applied to all Ministers alike one could get a substantial diminution of activity.

Recn 3

8. This stimulus might be provided by two such propositions as these:

a. Let us shorten the hierarchy by abolishing three grade points in it, say (for the sake of argument) conflating the Clerical Assistant (75,000 staff) with the Clerical Officer (88,000) grade and cutting out the Senior Executive Officer (8,000) and Under Secretary (580) grades. This gives more elbow room for the talent available.

b. Let us, in the case of each Whitehall Department, reduce the number of functions or activities identified with Assistant Secretary commands (total 1,150) by 25 per cent.

Others may have other ideas.

9. I am conscious how easy it is for me as an adviser to make these points, but I am also conscious, from recent experience, how easy it is to take Civil Service numbers for granted and not to count the cost.

Management systems for controlling numbers and costs

10. These already exist in the shape, putting it very briefly, of the machinery for the Public Expenditure Survey, cash limits and the annual Estimates on the one hand and of the various audit arrangements on the other (eg staff inspection, organisation and methods).

11. The question is whether they are used effectively by Ministers in counting the cost and as a means of reducing it. The Chancellor's formulation (paragraph 1 above) suggests that he and some colleagues are not confident that they are.

12. I would not at this point want to comment in any detail on the effectiveness of the existing systems. As you know, I believe in a proper tension between good departmental management under departmental Ministers on one side and good central management under central Ministers on the other; I expect to be writing to you about this soon.

13. But I cannot help feeling that at this moment less emphasis should be placed on system development than on deciding the Government's manpower policy (see above). I think that existing audit machinery can be developed, and I should like to contribute to this, but my first reaction to the Chancellor's formula is this:

Recn 2 above

a. Drive home the need for a political initiative by Ministers, setting targets (as above) or showing Ministers who don't know how to go about them how to do so (the "external stimulus").

Recn 4.

b. Drive home the importance of the intelligent scrutiny of departmental costs on which Cabinet agreed last autumn and on which I wrote to Ministers last Friday, especially:

- Not abdicating to officials
- (Progressively) getting qualified people to help scrutinise costs
- Penalising the prodigal (and rewarding the economical)
- Challenge the cost of something each month

Recn 5

c. Drive home the importance of the PSA repayment study which you have asked me to undertake - most Ministers do not yet know of this.

Short-term palliatives

14. Finally a brief word on "no recruitment and no redundancy" and other palliatives.

Recn 6

15. My impression is that last year's recruitment ban had some merit as a political marker but that a full stop is bound to be infinitely less effective than a deliberately thought-out manpower policy. I would not want to advise a general ban again, but certainly a selective recruitment policy which formed part of the wider policy.

16. The wider policy should be founded on the application of cash limits and a plan to reduce departmental functions and the length of the Civil Service chain deliberately. This, by contrast with short-term total bans, should enable Ministers and their officials to -

- plan which functions to abandon or reduce
- decide which posts to leave unfilled
- decide (on a Service-wide basis) which form of entry to reduce admission to (eg Administration Trainee).

17. The main problem about a total ban appears to be that it just cannot be "total". Exemptions have to be made, both for big blocks of staff and for particular grades, which make it pretty phoney. Exemption in respect of grades reflects the fact that wastage (something like 65,000 in 1978 for the non-industrial Civil Service) is naturally haphazard and leaves unmanned posts that Ministers could not leave vacant (eg computer posts and posts in services to the public). The message is, to my mind, that one should progressively reduce the stock of posts, rather than tinker with the stock of people as a means to that end (but see also paragraph 19.d. below).

Recn 7

18. There is a similar problem about a total pledge of "no redundancy". If Ministers set their faces against redundancy under any circumstances they are really saying in effect that they cannot reduce activities staffed by people who cannot be redeployed or that, although there is no other work for staff, they will nonetheless be kept on the payroll. I think that, rather, one must envisage that there will be redundancies; that these will occur at all levels; and that they will be handled as humanely and fairly as possible.

19. I have not had time to consider seriously other palliatives. Indeed, I feel instinctively that palliatives should be in the train rather than in the vanguard. But here are some quick, simple thoughts about helping to set the scene for a new manpower policy which I could develop further if you wished. Others, including Mr Channon, will have ideas of their own. My thoughts are based strongly on the idea that the best possible use should be made of the talent and the time available.

a. Leaving aside the Civil Service College (3% of total) suspend all training which is not designed to help officers do a better job in post.

b. Reduce the length, production and distribution of forms by 25 per cent*.

c. Halve the number of and attendance at meetings. Last Friday, I attended a meeting of Ministers at which one Permanent Secretary, two Deputy Secretaries, 5 Under Secretaries, three Assistant Secretaries and three Private Secretaries were present; only two of these spoke (briefly) but all the Private Secretaries

* From the view I have recently had of the variety and length of forms sent out to the citizen and to business, this is a modest suggestion.

appeared to be taking a note. (The room, when I went in, first, was brilliantly lit, incidentally; I found that turning off half the lights produced the good "equal light" of the kind the Prayer Book recommends!)

d. Go hard for the main lessons learned so far, eg the fact that, in the recruitment ban, non-exempted offices do not seem to have collapsed - so "gear up the complement to average rather peak loads of work" and go for part-time working where one can.

Summary of recommendations

20. I invite you to take note of the following provisional recommendations, bearing in mind the haste with which this minute has been produced and that it is offered as a purely personal contribution:

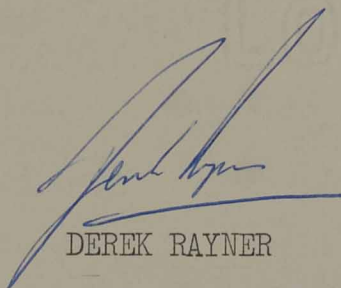
- | | |
|---------------------------------------|---|
| <u>Recn 1</u>
(Paragraph 4) | The Government should specify its long-term Civil Service manpower policy. |
| <u>Recn 2</u>
(Paragraph 5 and 13) | The policy should be deliberate in planning and implementation; led in Departments by their Ministers; have Service-wide features; and be fair in its effects on staff. |
| <u>Recn 3</u>
(Paragraph 8) | The "Service-wide features" should consist of such propositions as the abolition of three grades in the hierarchy and the cessation of functions and activities by 25 per cent. |

Recn 4 Ministers should make a reality of the
(Paragraph 13b.) scrutiny of departmental costs.

Recn 5 We should press on with the PSA
(Paragraph 13c.) repayment study.

Recn 6 Selective reductions in recruitment are
(Paragraph 15) to be preferred to a full recruitment
ban.

Recn 7 A fair policy of redundancy is to be
(Paragraph 18) preferred to a "no redundancy" policy.



DEREK RAYNER

26 February 1980



27 FEB 1960



RECEIVED
COMMUNICATIONS SECTION
FEB 27 1960