Ref. A01978

PRIME MINISTER

Civil Service Manpower

Cabinet will discuss Civil Service manpower on 1st May on the basis of three papers: one by Mr. Channon on Civil Service numbers and costs; one by Mr. Heseltine drawing conclusions from his experience in the Department of the Environment; and one from Sir Derek Rayner setting out his recommendations for improving the efficiency of central Government. You have drafts of the first and third of these papers. Mr. Heseltine's paper will not be available until the end of the week or early next week.

2. The purpose of your meeting tomorrow - with the Home Secretary, the Chancellor of the Exchequer, the Minister of State, CSD, and Sir Derek Rayner - is to have a preliminary run over the ground, in preparation for the Cabinet meeting.

3. The subject is large and complicated. It is also a subject where Ministers will be swift to accept the general objective of reducing bureaucracy but, in many cases, slow to sign on for the additional (and often unfamiliar) work, or for the politically difficult decisions, which will be required to reach the goal. Political experience does not qualify men for management of large organisations. Many Ministers see their function as being simply that of policy and political direction, and management of the Department as being somebody else's function. Many believe that they cannot expect to be in one Department for long enough to make immersion in management worth while. Some will be unsure of their own ability to deliver, nervous of the degree to which, if they do deliver, they will expose themselves to criticism about the public performance of their Departments, and reluctant to accept overt managerial as opposed to political responsibility for the activities of their Departments.

4. The key to success in the present operation will be the willingness of your colleagues to engage in a great deal of hard work whose benefits will be generalised and longer-term but whose dis-benefits to them, personally, can be

immediate and painful. They are going to have to accept new responsibility in an area which for some of them will be uncharted territory; and they are going to have to be ready to say "no" to and be publicly attacked by the many pressure groups and interests who will feel threatened by change - not just inside the bureaucracy, as the Sub-Postmasters are showing.

5. Perhaps the best way to focus discussion at tomorrow's meeting is to concentrate on the specific recommendations in paragraph 28 of Mr. Channon's paper, and those sidelined in Sir Derek Rayner's paper. I attach detailed notes on these.

6. But I wonder very much whether there is too much paper insufficiently focused to make for a good and well-directed discussion in the Cabinet. If at the end of tomorrow's meeting you thought it useful, I should be very ready to take on, in consultation with Sir Derek Rayner, the preparation of a short paper to be circulated by you, focusing and crystallising the issues for discussion and the proposals for decision. We could have a draft ready for your weekend box.

RCA

ROBERT ARMSTRONG

21st April, 1980

ANNEX

Recommendations in Mr. Channon's and Sir Derek Rayner's Papers

Mr. Channon's paper

Paragraphs 28(a), (f) and (g) hang together. In sum, they say that the Government should, "with an eye to cost as well as numbers", aim at 10 per cent net reduction from present staffing levels by the end of this Parliament, and commit Departments to saving 2, 2½ or 3 per cent in staff numbers each year from 1981-82 onwards "in addition to the savings that have already been agreed". The main questions which arise are:-

(i) Are targets the right approach, or should reductions in manpower follow from decisions on policies and functions? The second would be more logical, but it may be that it will not happen without some other stimulus, and that targets are the only way of actually setting things moving.

(ii) If targets are acceptable, what should they be? The alternatives in (g) do not appear to be compatible with the single objective in (f) (they overshoot the mark); but perhaps they are to give Ministers collectively some scope for choice.

(iii) What should be said in public?

2. Paragraph 28(b) and (c) also hang together. Appoint a senior official as special adviser and institute a programme of related work in each Department. The appointment is a matter for you. There is in my view a lot to be said for finding a suitable man inside the Civil Service, and getting him to do the job, rather than bringing someone in from outside: he would start with greater knowledge of Whitehall, and will command greater acceptability. But he should not be called a special adviser. He should be an additional Permanent Secretary in the Civil Service Department or the Treasury. His appointment need not and should not be limited to two years. He should be appointed by and have the right of access to you. It should be clear to him that success will be suitably rewarded. He will need your unwavering support, and the respect (and as much good will as possible) of your colleagues.

3. Paragraph 28(d). Reduce the number of the most senior staff by 10 per cent by 1st April 1982. The main questions are:-

(i) How feasible is it to pick out particular grades for a specially sharp reduction?

(ii) Are colleagues prepared to live with the consequences (including, presumably, less attention to Parliament)?

4. Paragraph 28(e). Improve Departmental control systems. Mr. Heseltine's paper will be relevant here. There is no good reason for colleagues to object.

5. Paragraph 28(h). Assurances to staff; a final instalment for this Parliament; minimise compulsory redundancy; and undertake to consult staff "to the fullest extent possible". These proposals will help staff acceptance, and colleagues are unlikely to object.

Sir Derek Rayner's minute

Sir Derek's main minute makes three general recommendations - side-lined in the text and summarised in paragraph 37 - and the Appendix makes a further 11.

2. Main paper, recommendation 1 (paragraph 14). The aims for the programme of reform are admirable.

3. Main paper, recommendation 2 (paragraph 20(a)). Reduce the number of "basic command units" by 25 per cent. This is described as a "test question". Is it also a feasible objective? It would be a pity to devalue the exercise by setting objectives which will be felt to be demonstrably unrealistic. Why not 10 per cent - the same figure as in Mr. Channon's proposed reduction of manpower?

4. Main paper (paragraph 20(b)). Reduce the Civil Service hierarchy by at least three grades. Mr. Channon (Annex E to his paper) is "not sure that the abolition of specific grades is the best answer". Nor am I; but I am sure that the numbers at the top can be reduced by much more flexible operating systems. Perhaps, however, this conclusion would follow best from the review of Sir Derek Rayner's suggestion which Mr. Channon proposes to undertake.

5. Main paper, recommendation 3 (paragraph 23). A senior official in each Department to prepare the issues for Ministers. Probably right; but will add to the difficulty of reducing the numbers of the higher Civil Service by 10 per cent by April 1982.

6. Appendix recommendations 1 and 2 (paragraphs 4 and 5). Define the managerial authority of Ministers, as well as the responsibility and accountability of officials. This is a critical and far-reaching recommendation. Under present arrangements Ministers can, if they choose, to a degree hide behind their Accounting Officer when things go wrong. New definitions which make it clear that the ultimate authority is the Minister will increase Ministerial vulnerability to Parliament and to Select Committees. But clarity of responsibility is the basis of accountability. Colleagues won't like it, but may find it hard to object.

7. Appendix recommendation 3 (paragraph 6). Maximum integration of the functions of the Principal Finance Officer and the Principal Establishment Officer in Departments with greater powers of internal investigation. I believe this to be desirable (particularly if control of money and perhaps manpower are more closely concentrated at the centre); but colleagues will need to listen to the wishes of the central Departments and from present practitioners in the field.

8. Appendix recommendation 4 (paragraph 8). Greater clarity in the relationship between the centre and spending Departments. Ministers should lay down principles; the Treasury and Civil Service Department should be charged with working out how to put them into effect.

9. Appendix recommendation 5 (paragraph 11). PESC and related issues. Work is already going on between the Treasury and CSD and should be available later in the year.

10. Appendix recommendation 6 (paragraph 12). The "annuality rule" should be examined. This is a very good point, but with large implications for Parliamentary control of expenditure. A task for the Treasury in consultation with the main spending Departments.

11. Appendix recommendation 7 (paragraph 18). Identifying the longer-term cost implications of new regulations and standards. The HSE is conducting a fact-finding operation. Results available later. The Home Office is also involved, in fire precaution standards where the same problems arise.

12. Appendix recommendation 8 (paragraph 22). Rewards, penalties for good/bad work and loss of entitlement to automatic annual increments. Work is going on in the CSD, and should be pressed forward.

13. Appendix recommendation 9 (paragraph 26). The promotion of managerial skills. The suggestion is that the CSD should prepare a model "succession policy" for the Service as a whole. Mr. Channon can say what is being done.

14. Appendix recommendation 10 (paragraph 32). Staff morale. An important subject too readily overlooked. I am sure Sir Derek Rayner is right that care here can reap substantial dividends.

15. Appendix recommendation 11 (paragraph 34). The costs of Parliamentary accountability. There is no doubt that many of Whitehall's practices stem from accountability to Parliament, the cost of which can be very high (e.g. in excessive record-keeping). The problem is to strike the right balance. There is for example a correlation between the cost of Government and the willingness to say "I don't know" in response to Parliamentary Questions. The proposal that an attempt should be made to cost work done for Parliament seems a sensible first step.