

PREM 19/153

32/28

PART 3

SECRET

Confidential Filing

Freeze on Civil Service Manpower
Action to reduce size of Civil Service
and staff costs.

CIVIL SERVICE

Part 1: May 79

Part 3: Jan 80

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
7.1.80.							
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5.3.80							
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PREM 19/153

Material used by
official Historian
DO NOT DESTROY

~~82~~ also CIVIL SERVICE: May 1979
Pay & Pensions

PART 3 ends:-

MAR to PM 5.3.80

PART 4 begins:-

PM to Home Secy 5.3.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
MISC 38 (80) 1	20.2.80
MISC 38 (80) 2	20.2.80
MISC 38 (80) 1st Meeting, Minutes	22.2.80
C (80) 16	26.2.80
C (80) 15	26.2.80
Limited Circulation Annex to CC(80) 8th Conclusions, Minute 4	28.2.80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed AWayland

Date 14 January 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 29 January 1980,
columns 573 "Written Answers: Civil Service -
Official Report (Index)"

2. House of Commons Paper 380: Fourth Report
from the Committee of Public Accounts,
Session 1979-80
Published by HMSO, 13 February 1980

Signed AWayland Date 14 January 2010

PREM Records Team

PRIME MINISTER

I attach Sir Robert Armstrong's speaking note to reinforce the minute you sent round tonight about the manpower squeeze.

Sir Robert suggests that you should not invite Mr. Channon to Cabinet, because that might appear to invite discussion on this item. The intention is that you should be giving a ruling, not continuing last week's discussion.

A copy of your minute is below the speaking note.

MA

5 March 1980

SECRET

PERSONAL

B

Ref. A01610

PRIME MINISTER

At your meeting with the Home Secretary, the Chancellor of the Exchequer and the Minister of State, Civil Service Department, this afternoon, you said that you would send round a minute to your colleagues, emphasising that the Minister of State, Civil Service Department, would need to look for reductions of at least $2\frac{1}{2}$ per cent in manpower from every Department, and that exceptions would have to be very limited indeed - nothing beyond prison officers, save possibly for a few very small Departments - if the Cabinet's decisions on the pay settlement and on the cash limit were to be met.

— | 2. I attach a draft minute for you to send accordingly. The text of it has been agreed by the Civil Service Department, on behalf of Mr. Channon.

— | 3. You said that you might also mention at Cabinet that you were sending out this minute. I attach a speaking note for this purpose. I suggest that we should not invite the Minister of State, Civil Service Department, to attend: that would look as if you were inviting discussion.

RA

ROBERT ARMSTRONG

5th March, 1980

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PERSONAL

SECRET PERSONAL

DRAFT MINUTE FROM THE PRIME MINISTER

HOME SECRETARY

Civil Service Vote: Cash Limit

At Cabinet last week we agreed upon a cash limit for the Civil Service Vote; and we agreed that, in so far as the amount so provided fell short of what would be needed to finance the pay settlement to be negotiated by the Minister of State, Civil Service Department, the balance should be achieved by further reductions of Civil Service manpower. We agreed that we should all need to look for reductions which brought the costs of manpower in Departments down by something of the order of $2\frac{1}{2}$ per cent, if (after allowing for necessary exceptions such as prison officers) we were to achieve an average saving of at least 2 per cent over the Civil Service as a whole.

2. The preliminary soundings that have now been taken confirm that what was agreed at Cabinet is the very least that we must achieve, if the Cabinet's decisions on the pay settlement and on the cash limit are to be met. I am in no doubt whatever that we have to look for an overall reduction as near to $2\frac{1}{2}$ per cent net as we can get; that that means that we must look for a reduction of at least $2\frac{1}{2}$ per cent, from every Department; and that the exceptions must be very limited indeed. We are agreed that an exception should be made for prison officers, and there may need to be exceptions in a few very small Departments which are simply unable to accommodate a cut of as much as $2\frac{1}{2}$ per cent.

SECRET PERSONAL

SECRET PERSONAL

Otherwise it will be possible to contemplate exceptions only to the extent that they can be offset by some Departments achieving reductions of more than $2\frac{1}{2}$ per cent.

3. The Minister of State, Civil Service Department, will now be getting in touch with you and other colleagues with a view to confirming the necessary reductions as a basis of a further report to the Cabinet.

4. I am sending copies of this minute to all members of the Cabinet, the Minister of Transport, to the Minister of State, Civil Service Department, and to Sir Robert Armstrong.

SECRET PERSONAL

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PERSONAL

SPEAKING NOTE

Civil Service Vote: Cash Limit

We agreed last week upon a cash limit for the Civil Service Vote; and we agreed that in so far as that was not enough to finance the pay settlement resulting from pay research, the balance would have to be found by further reductions of manpower. We agreed that we should all need to look for reductions which brought the costs of manpower in Departments down by something of the order of $2\frac{1}{2}$ per cent.

2. The preliminary soundings that have been taken on the pay side confirm that this is the very least that we shall need to achieve. I am sending /have sent/ out a minute asking that every Department should find at least $2\frac{1}{2}$ per cent in 1980-81 and stressing that exceptions will have to be very limited indeed. If there were to be any question of greater flexibility, it would have to be flexibility both ways: if some people want to find less than $2\frac{1}{2}$ per cent, others will have to find more. The Minister of State, Civil Service Department, will be getting in touch with colleagues with a view to confirming the necessary reductions.

SECRET

PERSONAL

Civil Service
✓ PM seen

PRIME MINISTER

The Chancellor and Mr. Channon will come at 1520 to discuss Civil Service pay - joining the Home Secretary and Sir Robert Armstrong who will already be with you. The Home Secretary has another engagement at 1545.

Flag A is Mr. Channon's minute reporting his further soundings of the unions. Flag B is the record of Cabinet discussion, noting the full conclusions. Sir Robert Armstrong has given this only to Mr. Channon and you: a less detailed version went to other Cabinet members.

Mr. Channon will want your authority on two points:

- (i) To go for 2½ per cent manpower squeeze, subject only to the limited exceptions noted on page 3 of his minute;
- (ii) To negotiate limited staging, whilst refusing the right to arbitration on this point.

The Chancellor and Mr. Whitelaw do now have copies of his minute.

MAD

5 March 1980



cc 9
NMT
CSD

10 DOWNING STREET

From the Private Secretary

5 March 1980

I told you on the telephone that the Prime Minister would like to have a word with the Chancellor, the Home Secretary, Mr. Channon and Sir Robert Armstrong this afternoon about Civil Service pay and manpower. I enclose a copy of a minute from Mr. Channon which the Prime Minister would like the Home Secretary and the Chancellor to see before the meeting.

I am sending copies of this letter to John Wiggins (with enclosure) and Geoffrey Green (without enclosure), with the request that the Chancellor and Mr. Channon should come to No. 10 at 3.20. The Home Secretary and Sir Robert Armstrong will already be here on other business.

A copy of this letter also goes to David Wright (Cabinet Office).

M. A. PATTISON

J.A. Chilcot, Esq
Home Office.

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7 9

PRIME MINISTER

Mr. Channon reports further private soundings with the unions. These confirm his wish to stress the manpower squeeze.

Cabinet gave him a maximum 2½% squeeze. He recognises the need for exemptions for prison staff and for a smaller cut on DHSS, Employment and the Foreign Office. Also a number of smaller Departments will need exemption mainly in the law and order field. This would give an overall figure of 2.2%.

Mr. Channon seeks your authority to open negotiations on the basis of pay research evidence within the cash limits agreed by Cabinet, and with these targets in mind. This will require some degree of staging, on which it will be necessary to deny arbitration, but Mr. Channon thinks it may be possible to get away with this.

He suggests another meeting with you, the Chancellor and the Home Secretary to confirm this. It would be sensible to ensure that his approach has the specific backing of the Chancellor and the Home Secretary and your overall authority. I gather that they would all be available this afternoon: Mr. Channon and Mr. Whitelaw could join you, the Chancellor and Sir Robert Armstrong at about 3.20 after you have discussed the BBC Chairmanship.

Agree to such a meeting?

MA

Yes OK

5 March 1980

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PRIME MINISTER

CIVIL SERVICE PAY AND MANPOWER

At Cabinet last Thursday I was asked to explore the scope for avoiding a breakdown over pay with the Civil Service Unions.

Yesterday I had very private and separate consultations with Mr Kendall (Secretary General of the National Staff Side), Mr Gillman (Chairman of the National Staff Side and General Secretary of the SCPS, representing junior and middle management grades) and Mr Thomas (General Secretary of the CPSA, representing Clerks and other junior office staff). These two Unions are the largest in the Civil Service, comprising some 60% of the non-industrial Civil Service. They had all read the article in last Friday's Economist and were assuming that the cash limit would not differ markedly from the 14% already established for other public service groups. They were critical of what they assumed to be our action in setting such a cash limit. It was pointed out that we had said in our Manifesto that we would reconcile pay research with cash limits. How was this reconciliation to be done? They urged me strongly to bridge any gap with a manpower squeeze. Although they obviously cannot say this publicly, and will make ritual protests, it is clear that, in the circumstances, this is their preferred course. They may well brief the press privately that we have been soft on numbers.

As you know, we estimate that the minimum average overall increase we could hope to defend, if need be at Arbitration, as consistent with the pay research evidence, is about 18 $\frac{3}{4}$ %. The Union pay targets are, of course, somewhat higher. Those I have consulted, however, recognise the difficulties we face and privately agree that they would have to make some contribution to a solution. That explains their lack of hostility to manpower cuts.

All three Union leaders were opposed to staging to a greater or lesser degree, Mr Thomas in particular contemplating the possibility of a marginally smaller settlement if staging could be avoided. None of them could guarantee to deliver their committees and member-

SECRET

ship. My impression was that if we do have to impose some modest degree of staging they are unlikely to try to mount a real trial of strength with the Government. But we shall certainly have to refuse them arbitration on the staging point, though not on the amount. We can only speculate about the attitude of the other Unions. If I had consulted more widely, it would almost inevitably have leaked.

We must accept, however, that the IPCS, with whom we had a major arbitration battle last year, will cause difficulties. Christopher Soames and I spent a great deal of time last summer urging them to arbitration on pay levels. This summer, we will be stopping any Unions who want to go to arbitration on staging!

The Prison Officers Association may also be a sensitive area. They were disappointed with the pay outcome of the May Committee last year and may not readily accept staging this year. The Home Secretary may have views on this.

Even a modest degree of staging is of course a breach of the Pay Agreements. It is impossible to be precise about the point at which the row about breaking the Agreements would be accompanied by serious industrial action. With even a minor breach, the Unions would make a moral issue of our failure to honour our Agreements with them.

In the light of these talks, I am clearer than ever that we should go for the largest possible manpower squeeze we can get. I would like to go for more but it seems to me from the Cabinet discussion last week that $2\frac{1}{2}\%$, with some small exceptions, is the most we can get - ie rather less than $2\frac{1}{4}\%$ net. This is significantly short of the 3% squeeze that I told Cabinet would offer any real hope of a negotiated settlement though the outcome would be uncertain even at that figure. Some degree of staging is therefore almost certain to be necessary and we must be prepared to accept the consequences.

We must now not delay further in making a decision about the manpower squeeze. I hope we can avoid a situation in which all our colleagues

argue that they should be exempted. Otherwise we shall get nowhere.

Complete exemption is probably necessary for Home Office and Scottish Office prison staff, and for the Northern Ireland Office. It might be sensible to restrict the cut in DHSS and Department of Employment to 2%. This would reduce the net reductions to about $2\frac{1}{4}\%$. In addition, there may be a case for restricting the squeeze on the Foreign Office to about 1%. (Because ~~extra~~ extra staff are needed in the Passport Office, this would mean a cut approaching $2\frac{1}{2}\%$ in the rest of the Foreign Office.) We should also need to exempt a number of small departments mainly in the law and order field. In total this would reduce the overall squeeze to 2.2%.

We need to get on urgently with the detailed negotiations with the Unions. Subject to your agreement I will authorise my officials to begin negotiations with the Unions on the basis of the pay research evidence, but within the cash limits agreed at Cabinet last week. The Unions will need to be told what these are. It will also be necessary to make clear at the outset that if some degree of staging proves necessary to keep within the cash limits arbitration will be denied on that issue but not on the amounts. The usual undertaking that pension entitlements will be protected from the effects of staging may help to diminish the potential row about the breach of the Pay Agreement.

I should be grateful to know whether you are content that I should proceed on this basis. Would you perhaps like to discuss this again with the Home Secretary, the Chancellor of the Exchequer and myself, as we did last week?

I am sending a copy of this minute at present to Sir Robert Armstrong only.

P.C.

PAUL CHANNON
4 March 1980

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PRIME MINISTER

You might look again at this paper by Derek Rayner on Civil Service numbers and costs.

He produced it very quickly when he heard that the Chancellor's final paper for the last Cabinet discussion on Civil Service pay and manpower would suggest a role for Sir Derek. It is also his response to your earlier request for him to advise you on the value of a further nil recruitment - nil redundancy policy or on alternatives.

Sir Derek's message here is that we still have no coherent manpower policy but tend simply to go for sporadic volume squeezes when other factors require them.

Mr. Channon's note below the paper includes the offer to pursue these ideas with Sir Derek and then circulate a paper to colleagues. Agree that he should do so, perhaps with a view to discussion in E?

Please follow up with Sir Derek on the note below

These matters were touched on in passing in yesterday's Cabinet but the conclusions will only specifically ask Sir Derek to work on departmental management information systems for manpower control.

1. I think we shall need another session with Sir Derek. These ideas are just not being followed up in Cabinet - on every discussion. Can we add it to our 7th February day 1. Another paper in next week.

29 February 1980



CABINET OFFICE

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

C. A. Whitmore, Esq

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

SECRET AND PERSONAL



MS ~~handwritten~~

MS ~~handwritten~~

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To see.

MS

MS

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A01566

29th February 1980

I attach one copy of the detailed record of the Cabinet's discussion yesterday on cash limits and pay research.

In the interests of confidentiality and of protecting the negotiating position of the Official Side copies of this detailed record are being sent only to the Prime Minister, and to you. You will of course need to show it to Mr. Channon and no doubt to John Herbecq. I have to ask you not to show it to anybody else.

Once the pay research negotiations are completed, I shall want to review the question of wider circulation. At that stage it may be desirable that the decisions on manpower are put on wider record, and it may be appropriate to circulate the minute as a Limited Circulation Annex.

I understand that in order that you should have the first possible opportunity of seeing the record, a copy of the draft from which the minute was typed was sent to you last night. I should be grateful if you would now return that draft, of which I hope no copies have been made.

I am sending a copy of this letter with the Prime Minister's copy of the Cabinet Minute to Clive Whitmore.

ROBERT ARMSTRONG

Sir Ian Bancroft, GCB

SECRET AND PERSONAL

Reading

5/15/54



10 DOWNING STREET

Clife ✓ ^{M. H.} re NFA 29/2

I have now established
that the fault was
ours

NFA on Mr Cannon's
note?

NFA

I showed it to
the P.M.

AWJ

27/2

PRIME MINISTER

I do apologise for being late for your meeting this morning.

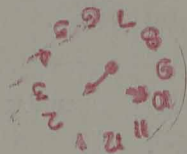
In fact I had not heard that it was to take place. By an unlucky oversight, my office were not informed of the meeting.

I am very grateful, nonetheless, for the result of the meeting and only hope I did not cause too much inconvenience by being late.

P.C.

PAUL CHANNON

27 February 1980



27 FEB 1980

CONFIDENTIAL

PRIME MINISTER

I have just seen Sir Derek Rayner's paper on Civil Service numbers and costs. I have not yet had a chance of studying in detail, but at first sight I welcome his approach very much.

If you agree, I suggest that I discuss these proposals with Sir Derek and then put a paper to colleagues.

I imagine you will not want to spend time tomorrow at Cabinet on this - but have a discussion on a later occasion?

I am copying this minute to the Chancellor, Sir Derek Rayner, Sir Ian Bancroft and Sir Robert Armstrong.

P.C.

PAUL CHANNON

27 February 1980

CONFIDENTIAL

MR C A WHITMORE

CIVIL SERVICE MANPOWER IN 1980-81

I thought I should let you have one or two thoughts which the Prime Minister may like to have in mind when the Cabinet discusses the papers on the civil service cash limit tomorrow.

When the Prime Minister visited us in January, she expressed concern about the time it would take to get civil service numbers down. As far as 1980-81 is concerned, this is the crucial opportunity.

If it is not taken, the 11,000 additional staff which Ministers have already approved mainly to cope with "demand-led" work (eg unemployment, prisons) will almost wholly cancel out the first tranche of the Lord President's cuts. Thus the figures will show no drop in 1980-81 as compared with present numbers. There is therefore a very strong case for seeking the biggest practicable further squeeze on manpower independently of the pay problem, though it also has the big additional merit of offering a prospect of getting home on pay with less industrial trouble than the alternatives.

I have no doubt that colleagues will strenuously resist the squeeze of 3% with minor exemptions which Mr Channon has proposed. They will say that they have done everything possible already. Our judgement is different. There is too much evidence that points to the continued existence of fat. For example, a recent review of messengers shows that present complements in several departments are between 30% and 50% too high; we believe the overmanning here is general. The CSD's staff inspectors regularly find overmanning which averages at over 6%; while they pick the most succulent targets, it is quite clear that there is still some slack around to be taken up. If the Cabinet were really determined to find 3% (with some small necessary exceptions), I believe it could be done. I do not say it could all be achieved by greater efficiency. Some more work would have to be dropped. But that too is the Government's policy.

SSB

IAN BANCROFT
27 February 1980

PS. I have just seen Sir Derek Rayner's interesting minute of 26 February. This raises some very contentious issues which as he acknowledges will need to be thought through carefully. We must avoid time and manpower being spent on arguing about these all round Whitehall before the ideas are fully formed. But his piece shows we are at one in believing there is scope for further reductions. If the Cabinet sets the scene, the central departments can get together with Sir Derek to work up fully formed proposals from his provisional quiverful of ideas.

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

Recn 1

- 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:

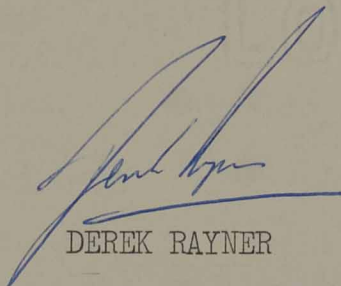
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|---|--|
| <p><u>Recn 1</u>
(Paragraph 4)</p> | <p>The Government should specify its long-term Civil Service manpower policy.</p> |
| <p><u>Recn 2</u>
(Paragraph 5 and 13)</p> | <p>The policy should be deliberate in planning and implementation; led in Departments by their Ministers; have Service-wide features; and be fair in its effects on staff.</p> |
| <p><u>Recn 3</u>
(Paragraph 8)</p> | <p>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.</p> |

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

Civil Service

PRIME MINISTER

Cabinet is taking Civil Service Pay and Cash Limits on Thursday. You are having a preliminary discussion with the Chancellor, the Home Secretary and Mr. Channon at 0930 tomorrow. Sir Robert Armstrong will also be present.

I attach Sir Robert Armstrong's comprehensive brief for Cabinet. The three main papers are:

see ComPol (Pub) Ex Pt 8.

C(80)14 - Flag A - The Chancellor's paper on Cash Limits

C(80)15 - Flag B - Mr. Channon's paper on Civil Service Cash Limits: Pay and Manpower

C(80)16 - Flag C - A further note by the Chancellor, reporting preliminary discussion in a group of the large employer Ministers.

The other references from Sir Robert's brief are also flagged in this folder, as they occur in the brief.

MAD

27650.

100

26 February 1980

CONFIDENTIAL

PRIME MINISTER

Cash Limits and Civil Service Pay
(C(80) 14, 15 and 16)

BACKGROUND

Cabinet has already agreed on the level of Civil Service manpower and on the volume of public expenditure for 1980-81, and on the majority of cash limits to be applied to individual programmes. In particular, it has agreed the Rate Support Grant, with an implicit inflation assumption of 13 per cent, excluding the 'Clegg' carry over, and to cash limits for the National Health Service and for the non-pay items of all central Government votes including the Defence Budget, with a built-in inflation rate of 14 per cent. But Cabinet decided to leave the cash limit for the central Civil Service vote on one side, until now. They hoped that by end-February it would be possible to form a view, both on the likely rate of inflation next financial year, and on the likely outcome of Pay Research process.

2. There are thus two decisions for Cabinet to take: whether to reaffirm the cash limits already agreed, in the light of what we now know about inflation rates next year; and what cash limit to set for the Civil Service vote.

3. You set up a small group of Ministers, under the Chancellor's chairmanship, (MISC 38) to process these issues a little. The Chancellor has circulated a note (C(80) 16) reporting its views and bringing out the main issues.

4. The timetable is tight, but not impossibly so. The Civil Service Department need to begin serious negotiations with the Staff Side no later than mid-March, in order to honour the present day agreement. The Treasury need decisions by about the same time, in order to publish the Estimates on Budget day as planned. This points to final Cabinet decisions either on 6th or 13th March, if you cannot reach agreement this week. But obviously, a clear decision this week would be preferable.

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HANDLING

5. I suggest you take the discussion in two parts first, the generality of cash limits; and then Civil Service pay and numbers.

A. General Cash Limits - C(80) 14 and C(80) 16 paragraphs 1 to 4

6. The Chancellor is sticking his neck out, in even asking his colleagues whether they reaffirm the existing cash limits. There is always a danger that someone will try to alter them. He now says that the 14 per cent inflation rate built into the cash limits (13 per cent in the case of the RSG) is likely to fall short by $3 - 3\frac{1}{2}$ percentage points, on the assumption that indirect taxes will be indexed again this year (he says he will comment orally on this point: you will not want him to go into great detail at this stage because changes in indirect taxation are especially sensitive).

7. I think most colleagues will, reluctantly, agree to this. Pay settlements have been reached in parts of the public sector (Local Authority manuals, NHS ancillaries) consistent with these cash limits. To re-open them now might risk re-opening the pay deals. The volume squeeze is uncomfortable, but with two exceptions it can be managed.

8. The two exceptions are the Defence Budget and the NHS. On the Defence Budget, you will remember the deal which was struck with Mr Pym in January. It is recorded in the Chancellor's paper C(80) 9, at the time, in these words: "The application to Defence of the same cash limits regime as for other programmes is likely to cause a further volume reduction in the Defence programme next year, but... we accept that the cash limits should be increased as necessary to accommodate any extra costs ... arising from the implementation of decisions on the forthcoming AFPRB report. They will also be subject to review during the year in the light of developments in the international situation and NATO's response to them." There has been some subsequent correspondence between the two Ministers concerned, but neither has any interest in re-opening the deal at this stage, and I understand that neither intends to do so.

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9. On the NHS side, the Government is committed by its Manifesto pledge ("it is not our intention to reduce spending on the Health Service"), which you reaffirmed as recently as 22nd January (Hansard Col. 195, when you said: 'The Rt. Hon Gentleman can be sure that our pledge, as we gave it in the Election, will be maintained.'). The Chancellor is discussing this bilaterally with Mr. Jenkin on Tuesday night. It is probable that, with a little manipulation of the figures, the Health Service programme can be maintained in real terms, and still keep within the cash limit already published. I shall if necessary let you have a supplementary brief on this point following Tuesday night's meeting. The point you need to watch is that any such deal does not tempt other Ministers to seek special treatment.

10. The only other Ministers who may protest are the Secretary of State for Education and the Minister of Transport. The bulk of education expenditure is RSG - constrained, and no one is proposing that the RSG settlement should be re-opened. Mr. Carlisle may make a plea for special treatment for the universities, but I doubt if Ministers will wish to make any further exceptions. Mr. Fowler may similarly ask for special treatment for the road programme, but is unlikely to get much sympathy.

11. You should therefore invite the Chancellor to introduce this part of the discussion, and try to get it accepted 'on the nod' that the first four categories of cash limited expenditure (paragraph 2 of C(80) 14) should be reaffirmed. The particular problems of the nationalised industries will have to be set on one side, pending discussion in E next week.

B. Civil Service Pay and Cash Limit - C(80) 15 and C(80) 16
paragraphs 5 onwards

12. If Cabinet reaffirms the 14 per cent inflation assumption in the other cash limits, it then has to decide whether to treat the Civil Service vote in the same way. MISC 38 agreed unanimously that the Government could not afford differential treatment. 14 per cent thus sets the lower limit. PRU sets the upper limit. So the problem is how to bridge the gap.

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13. The arithmetic of the gap is complicated, but paragraph 8 of Mr. Channon's paper C(80) 16 explains that it comes down to just over 4 percentage points (actually 4.2). How can this be bridged? There are three variables:

- (a) The pay increase itself
- (b) Some staging of the increase, to reduce its average cost over the year
- (c) A squeeze on numbers

14. As the MISC 38 paper shows, various permutations of these are possible. MISC 38 did not think that the pay element could be negotiated further downwards; CSD now think that it might be easier to do this than to introduce staging. Some of the big employer Departments think that staging is in fact less offensive to Staff Side than abatement of the eventual increase. The objections to further manpower cuts come not so much from the Staff Side as from employer Ministers.

15. The Pay problem concerns mainly the non-industrial Civil Service (there is a separate settlement for the industrials in July; CSD expect it to follow roughly the same pattern). Some Ministers may be disposed to argue that the PRU evidence does not establish an absolute limit. This is true, but the evidence can be interpreted very differently. The unions will be able to make a plausible claim of over 25 per cent (more for senior grades). The CSD thinks that the lowest point to which they can negotiate downwards on the basis of the evidence is between 18.75 per cent and 18 per cent. Any lower than this, and they fear that they can be taken to arbitration and would lose. Ministers who press for a tougher deal have to remember that pay research is a basis for negotiation. Unless Ministers are prepared to break the pay agreement, and risk the industrial action which might follow, there is a limit, somewhere, on how far they can press downwards.

16. Staging is another matter. There was much Staff Side opposition to staging last year, but this was aimed as much at the timing of the staging proposal as to its substance. Some of the big employer Departments think, based on informal contacts with the Staff Side, that they can get away with

CONFIDENTIAL

staging. CSD itself thinks that staging is likely to provoke trouble. It is not particularly logical, and has not been applied (in this Round) to any other public sector group. But it will help to get the overall pay bill for the year down. Two purely illustrative examples demonstrate this. If 3 per cent were saved on manpower, the balance could be found either by deferring the settlement date by about 1 month from 1st April; or by paying 10 per cent from 1st April and the rest about 7 weeks later. But any staging, like the eventual rate of pay, has to be negotiated: and CSD should not be tied down to any precise formula, provided they can deliver the overall reduction.

17. The real fight in Cabinet will come over manpower, and will be a re-run of the two previous rounds. Mr. Channon proposes a further squeeze of 3 per cent across the board. We suspect that, as a realist, he would accept 2 per cent; but anything less runs the risk, of which he is well aware, of making the Government seem half-hearted in its search for economies. He is likely in any case to argue very strongly for 3 per cent. On the other hand resistance from employing Ministers to cuts as large as 3 per cent will be very fierce, especially from the big battalions. I doubt whether DHSS can do much more than 1 per cent - perhaps $1\frac{1}{2}$ per cent at maximum. The two Revenue Departments have told the Chancellor that they could cut between 1 and 2 per cent. He will probably stick at $1\frac{1}{2}$ per cent. The Ministry of Defence might in due course be able to offer more, from the various in-house studies already in train, but Mr. Pym will be very reluctant to promise now to deliver his cuts later in the year, though he may be prepared to agree to 1 to $1\frac{1}{2}$ per cent. The Home Secretary will say that he could not make a 3 per cent cut in the Prison Service; but that is presumably included in the "limited exemptions" referred to in paragraph 17 of Mr. Channon's paper.

18. Your best tactics are therefore, probably, to get Cabinet agreement on the size of the manpower cut (the only thing on which individual Ministers have to deliver) and leave Mr. Channon free to negotiate on the other two variables (pay and staging) so as to get down to 14 per cent.

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19. You should start this part of the meeting by calling Mr. Channon, followed by the Chancellor. But it may not be possible to reach agreement in one meeting on the incidence of cuts. If Cabinet can establish a broad target (and I doubt if this can be more than $1\frac{1}{2}$ per cent) then you might ask Mr. Channon to mount the usual series of bilateral talks, and report back in two weeks time. But it is only worth doing this if the four big employers (Defence, Social Services, the Revenue Departments and DOE/PSA) are prepared to offer reductions on this scale (they represent more than $\frac{3}{4}$ of the staff concerned). They will point out that these cuts come on top of the cuts Cabinet has already agreed; that this decision comes very close to the beginning of the financial year, and it takes time to secure the economies. The actual manpower cuts needed would be more than $1\frac{1}{2}$ per cent to deliver an average $1\frac{1}{2}$ per cent reduction over the year.

20. That leaves two more loose ends: the review of comparability, and the involvement of Sir Derek Rayner.

C. Comparability

21. E Committee has trodden this ground twice already, and it agreed to have another go in the summer in the light of the remaining Clegg reports (teachers). Nobody loves comparability: the problem is to decide what to put in its place, and how to agree this with the unions without provoking a total breakdown. However, it is clear that the subject will have to be re-examined. You should therefore invite the Chancellor to set this exercise in hand, consulting the Secretary of State for Employment and the Minister of State, Civil Service Department. The Treasury will then establish an official group bringing in all the other employer and sponsor Departments. You might ask for a report back at the end of June.

D. Information Systems and Rayner

22. You will remember that on two previous occasions in Cabinet, Mr. Heseltine has raised the question whether Ministers have enough information available to control their Departments properly. He did so again at MISC 38. The Chancellor suggests that, in addition to the work the CSD are already doing with Departments in this area, Sir Derek Rayner could help.

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In particular, the proposals which Sir Derek has just circulated for departmental scrutiny of running costs (his letter of 22nd February to the Home Secretary) might be sufficient to do the trick. We know that Mr. Heseltine does not regard the Rayner proposals as going into enough detail for his purposes. But Rayner argues that most Ministers do not have the time available, or the interest, to do the very detailed examination which Mr. Heseltine insists on for DOE. It should however be possible to compromise on the formula proposed in the Chancellor's paper, which I understand Sir Derek Rayner is happy to accept. I understand he is sending you a minute about this. His point is that manpower policies and decisions come first, and that systems are secondary.

CONCLUSIONS

23. Subject to the course of discussion, I think the conclusions may come out something like this:-

- (i) To reaffirm the cash limits already agreed for the Rate Support Grant, Nationalised Industries External Finance Limits, Current Expenditure of central Government other than Pay, and Capital Expenditure of central Government and Local Authorities, and non-Civil Service central Government Pay. (Paragraph 2 of C(80) 14).
- (ii) To agree that the cash limit for the Civil Service Central Pay vote should likewise build in an increase of 14 per cent, while noting that the PRU evidence points to an increase in the pay bill of approximately 18.75 per cent.
- (iii) To agree that part of this gap should be bridged by a further cut of $\underline{1\frac{1}{2}}$ per cent in the pay bill by means of a reduction in Civil Service numbers (not a cut of $1\frac{1}{2}$ per cent in Civil Service numbers by the end of the year, which produces a different - and lesser - result).

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- (iv) To invite the Minister of State, CSD, to consult all the employer Ministers bilaterally, and to bring forward in two weeks' time firm proposals for achieving reductions on this scale.
- (v) To invite the Minister of State, CSD, to begin negotiations with the Staff Side over the Central Pay Settlement for the non-industrial Civil Service, which will, taken together with the manpower cuts, be consistent with the cash limit, through a combination of tough negotiating on the pay settlement itself, and possibly an element of staging.
- (vi) To invite the Chancellor of the Exchequer, in consultation with the Secretary of State for Employment and the Minister of State, Civil Service Department, to set in hand a review of pay comparability as it applies to the Civil Service and to report on it, and the alternatives, by the end of June.
- (vii) To invite the Civil Service Department in consultation with Sir Derek Rayner and the employing Departments to develop management systems to help Ministers control Civil Service numbers and costs.

(Robert Armstrong)

26th February 1980

FILE

VLS

cc PGO
bc Press office

26 February 1980

The Prime Minister has seen your letter to me of 25 February about the "News of the World" article on Civil Service manpower.

Mrs. Thatcher doubts the wisdom of a signed response from Mr. Channon, as she does not think that the Government's achievement to date constitutes an effective response to the paper's comments. She would therefore prefer Mr. Channon not to open a dialogue with the paper on the subject at this stage.

I am sending a copy of this letter to Richard Prescott (Paymaster General's Office).

M. A. PATTISON

G. E. T. Green, Esq.,
Civil Service Department.

GB



10 DOWNING STREET

PRIME MINISTER

Mr. Channon proposes to respond to yesterday's News of the World leader, by setting out the Government's progress on improving and cutting back the Civil Service.

Are you satisfied that he has a sufficiently good story to justify seeking space for a signed reply?

MAP

I rather doubt the wisdom of making a move I don't think

25 February 1980

we have done enough with
me



Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

M Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

25 February 1980

Dear Mike

NEWS OF THE WORLD ARTICLE ON CIVIL SERVICE MANPOWER

... My Minister has seen the attached editorial in yesterday's "News of the World" attacking the Government on Civil Service manpower. Mr Channon thinks that this attack is exaggerated. He would like to approach the News of the World with a request that they should carry a signed article by him in reply next Sunday. The Government has a reasonable story to tell in this field: a 25,000 cut in Civil Service numbers so far, with plans announced for a further reduction of 40,000 over the next four years; and the major effort which is being put in to securing economy and improving efficiency in administration both by the CSD and under the guidance of Sir Derek Rayner.

Before going ahead, however, Mr Channon would be glad to be assured that the Prime Minister has no objection. It will be necessary to approach the News of the World quickly if they are to give the Minister space this Sunday. If therefore you could let me know by mid-day tomorrow, whether or not the Prime Minister is content, I should be most grateful.

I am copying this letter to Richard Prescott in the Paymaster General's Office.

Yours sincerely

G E T GREEN
Private Secretary

NOW

24/7/80

COMMENT

Early warning

THE BIGGEST surprise of the last election was the defeat of Mrs Shirley Williams. An eight per cent swing to the Tories put her out of the Commons.

Today's News of the World poll shows that an election now would put her back—with a ten per cent swing the other way.

That is a warning Premier Thatcher cannot ignore as she girds herself for the big censure debate on Thursday.

Our poll makes clear that the overwhelming reason for the Government's loss of support is inflation.

And the overwhelming reason for inflation is, surely, that the Cabinet has not had the guts to cut its own spending of public money.



Premier Thatcher

Nowhere is this more obvious than the Civil Service.

Governments come and go. Ministers come and go. But the Civil Service looks after No 1 forever.

When the Tories came in there were 733,000 Civil Servants. The plan is that over five years, the total should be reduced by (wait for it) an average 12,800 a year.

And even that derisory figure is to be achieved by "natural wastage."

The Civil Service has decided that it is to be immune from the economic realities that force redundancies in industry.

Even though a Tory Government, whose policy is non-intervention, cannot possibly need as many bureaucrats as one bent on State control.

While 52,000 steelmen and 25,000 Leyland men have to be sacked because there is not the money to pay them Civil Servants are assured of a safe ride to inflation-proof retirement.

Unless the Government masters its servants, it will snatch defeat from the jaws of victory.

✓ M.A.P.

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

Civil Service

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

22 February 1980

Keith Joseph

EARLY RETIREMENT

I know that you and other colleagues have been concerned, particularly in the context of public expenditure savings, with the scope for premature retirement of less effective staff under existing arrangements. My officials have been considering the possibility of taking additional powers to retire staff "in the public interest".

E Committee (E(80)1st Meeting) have recently endorsed a recommendation that Ministers should ensure that their own departments make a rigorous effort to identify inefficient staff, and are prepared to tackle each case with the procedures already available (including premature retirement). In particular I believe there is a case for asking whether the provision for the premature retirement of officers of "limited efficiency" is fully used. It is not possible to define the concept of "limited efficiency" more precisely than as a failure to carry out the full duties of the grade satisfactorily. This is judged by an overall assessment over a period that an officer has definite weaknesses making him not quite good enough to get by. (I recognise that this can take a fairly long time if the officer is unwilling to go.) Clearly some importance attaches to rigorous assessment, especially when an officer is likely to challenge the label "limited efficient". The successful use of this provision therefore rests to a large extent on the attitude of supervising officers. Given appropriate reporting standards however, I believe departments possess a powerful tool for improving efficiency.

Nevertheless there may remain a small number of officials - including fairly senior ones - who should leave, but for whom the limited efficiency provision is genuinely not appropriate. My officials would be interested to have details of any such cases. If we can establish to our own satisfaction that such

MANAGEMENT IN CONFIDENCE

cases are properly distinguishable from the existing criteria and still justify the substantial compensation, at the taxpayers' expense, which premature retirement entails, then we can look at this question again. That is why we need to have details of cases which cannot be dealt with under existing arrangements. In the meantime I am sure it is possible to achieve results by applying the present arrangements more rigorously.

I am copying this letter to all Ministers in charge of departments.

PAUL CHANNON

✓
Paul

1987 FEB 25
11 12 11

25 FEB 1987

B/F 26.2.80
for backup.

✓ C.F.
Copies for your papers
on (2) and (3). I
have (1) and (4). Jones 22/2

URGENT

PRIME MINISTER

Censure Debate

1) 1. Do you really want to go to Freddie Burden's anniversary party on Tuesday afternoon (26 February)?

Must.

2) 2. Wednesday 27 February

There are two meetings that you will have to have that morning, one with the Home Secretary, the Chancellor of the Exchequer and Mr. Channon to discuss pay research and cash limits; and another one to discuss telephone interception with the Home Secretary and the Foreign Secretary. However, I have blocked out from 12 noon onwards.

3) (a) Do you still wish to see Professor Milton Friedman? Yes

4) (b) Would you be happy to go to the Free Church Leaders Dinner just for an hour? They are all in London for a special assembly so it might be difficult to get out of it entirely. This would mean Professor Friedman at 1800, and dinner with the Free Church Leaders 1930-2030.

es.

Must not

21 February 1980

SECRET

Handwritten initials: MAP and a large red '3'



Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant and Castle
LONDON SE1 6BY

21 February 1980

Handwritten signature: Patrick Jenkin

Handwritten note: will request if required

MANPOWER EFFECT OF SOCIAL SECURITY PUBLIC EXPENDITURE CHANGES

Thank you for your letter of 8 February about the staff costs arising from the abolition of earnings related supplement and holding back on the uprating of certain contributory benefits. I understand that our officials are now in touch to establish the staff requirements more precisely, but I note that the figure could be some 1,500 or more man years in DHSS.

I recognise of course that there is no question of your being able to hold back people's rightful claims for supplementary allowances. As you say, the question is whether the staff costs needed for such an increase in demand can be offset by reducing other work, or indeed by finding less costly ways (such as those identified by your Rayner project) of coping with 'demand led' work. As I stressed in my letter of 19 December, we simply cannot afford more growth in civil service manpower if the savings programme we have announced is to remain credible, and even in demand-led areas we cannot let growth be automatic.

You say that the full staff costs resulting from Cabinet's decisions on 31 January will not arise until 1982-83, although some extra staff may be needed in 1980-81 and 1981-82. I think we can now expect fairly confidently that, by 1982-83, some of the major further savings identified in Christopher Soames' review will be being achieved, including the Employers' Sick Pay scheme to which you refer, which should be more than sufficient to offset the staff costs you face. As regards the earlier years, I understand that any necessary provision for 1980-81 can be contained within your PES ceiling, as revised by the latest economic assumptions. By 1981-82 we should be achieving the savings of 200-250 staff arising from the provision in the Social Security Bill to make Maternity Grant non-contributory. I also understand that officials will shortly be putting to

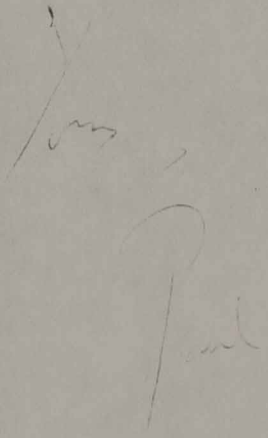
SECRET

Ministers proposals to rationalise central and local government housing cost schemes, which should make it possible to achieve further manpower savings in your department more quickly than had previously been envisaged. Both these latter items were included in Annex 2 to Christopher Soames' paper C(79)57.

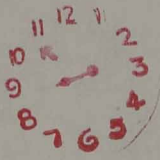
I am in principle most reluctant to see the 'Annex 2' savings used to absorb growth in departments, because we thereby lose them as a source of further "real" reductions in civil service manpower. Nevertheless, I accept that demand-led growth poses special problems, and in this case I am prepared to agree that if no other savings can be found, the staff costs needed in consequence of the benefit changes should be found from the further savings identified in Christopher Soames' review. On this basis, the public announcement can make clear that the benefit changes will involve no net increase in civil service staff.

I am sending copies of this letter to the Prime Minister and the Chief Secretary, Treasury.

PAUL CHANNON



22 FEB 1980



CONFIDENTIAL

PRIME MINISTER.

1.

PRIME MINISTER

1. You need not go through the attached papers, as the Chancellor will report to you or his group before Cabinet.
2. If asked, agree to see Staff Side, possibly Wednesday 27th afternoon?

We had a brief word at the end of your Rayner party about Civil Service numbers and pay. As you know, a preliminary discussion on this topic is to take place in MISC 38 (the Ministerial group on Cash Limits and Civil Service Pay) under the chairmanship of the Chancellor of the Exchequer later this week. This is the paper I am submitting to the Group.

MAD
20/2

The paper refers to the probable reaction of the staff to a breaking of the pay agreement on the one hand, and to a further reduction in numbers on the other. I am certain that a row over the breaking of the pay agreement would be much the worse. A squeeze on manpower is highly desirable in any case.

The National Staff Side came to see me on 6 February, and expressed their views on pay in quiet but forcible terms. They asked me to convey to you the great importance they attached to the Government keeping its side of the pay agreement. They know that the Government will soon fix the necessary Cash Limit. I think it is possible that they may ask to see you in your capacity as Minister for the Civil Service in the near future. If they do so, and it is possible for you to see them before the Cabinet discussion on 28 February, I think it would be very helpful.

P.C.
ms

PAUL CHANNON

20 February 1980

CONFIDENTIAL



20 FEB 1980



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

CONFIDENTIAL

Paul Channon Esq, MP
Minister of State
Civil Service Department
Whitehall
LONDON SW1

R 2072

11 February 1980

Dear Paul.

CIVIL SERVICE PAY AND CASH LIMITS

Thank you for your letter of 24 January about the problem which we shall face if we have to off-set a 1980 Civil Service pay settlement which would take us above a cash limit based on 14%. Your letter suggests to me that you think that there might be less difficulty involved in off-setting such additional costs by reducing manpower than by breaching the Civil Service pay agreement. If the amount to be off-set were very small, I would agree with you. But if we are facing additional costs of something like 5%, or even a figure substantially less, I must make it very clear that, in my Department's situation, either alternative is formidably difficult.

A 5% volume squeeze would require me to cut the numbers of my staff by about 1500 in the course of 1980/81, to a level about 11% below the starting point. You know already how difficult it has been for all Departments to produce proposals matching the 10-15-20% exercise for savings in numbers by the end of 1982/83. My Department has undertaken to do more than any other in this respect by going for some 18%. You will recall that this involves me in a large transfer of work mainly from my local vehicle licensing offices to the Post Office, producing

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savings of 1150 staff, and transfer of heavy goods vehicle testing into the private sector, saving 1050 staff. The former requires preparations to enable the Post Office to take the job on. The latter requires persuasion of private sector interests and negotiation of a settlement with them, followed by legislation which cannot be before next Session. There is no way in which I can speed up these processes so as to produce 1,500 of the reductions by the end of 1980/81. I went over with you the reasons why I had to look for my savings mainly in the two areas which I have mentioned, and if there had been an alternative which I could have delivered in 1980/81, I should have offered it, and indeed I think you would have asked me for it. I should be misleading you if I let you think that I could get anywhere near an 11% reduction in the course of 1980/81.

I could achieve no more than 3% by re-imposing a ban on recruitment throughout the year with minimal safety valves to avoid the worst nonsenses which would result. The reason why I should have to have safety valves is that the effect of a ban on recruitment, which is arbitrary anyway, can be to leave us without irreplaceable people. I am not thinking only of typists, though they are important. I am thinking also of my professional staff. If I do not have the people to operate, for example, type approval of motor vehicles, it is industry that suffers; but I cannot replace a missing engineer by putting in a clerk.

There is one further point about a ban on recruitment. I could not do it in this Department unless it were general to all Departments. I have taken great care to take account of moderate opinion in my Staff Side in preparing for the large reductions which I shall be making in staff numbers. In particular, I have followed the principle of reducing the staff by reducing the job. I could not expect moderate opinion to prevail in the Staff Side if I suddenly adopted on my own account

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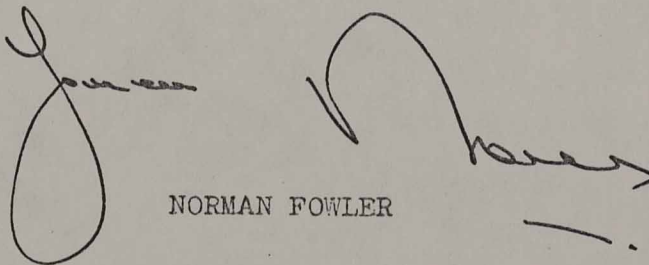
the device of a ban on recruitment which is not necessarily compatible with that principle. I should then have seriously damaged my own prospects of bringing about the reductions which I have planned by the end of 1983.

There is another point about a volume squeeze as it would affect my Department. Over 80% of my staff are engaged in revenue-earning or tax-collecting work which, in the main, pays for itself. Reductions in numbers in this whole area will not, therefore, help with the financial problem of manpower costs exceeding the cash limit.

On the other hand I shall say nothing which will surprise you, with your view across the whole Civil Service, if I say that I must expect my staff, including all those of moderate opinion, to be deeply resentful if we do not honour the Civil Service pay agreement. This feeling would be even more intense and difficult to deal with if they felt they were being singled out for discriminatory action by us as their employer.

It seems to me that we shall have to search for a combination of various measures to solve our problem. I would expect some squeeze on numbers, within the bounds of practicality (which may well vary from one Department to another), and some phasing of pay increases to be among these measures. It would be a great help if we could find others as well, but I can think of nothing special which I can offer from here.

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



NORMAN FOWLER

CONFIDENTIAL

20 FEB 1980

12 1 2 3 4 5
6 7 8 9 10 11

CONFIDENTIAL

✓ *MAD* Civil Service



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
London SW1A 2AZ

15 February 1980

Jess Paul.

CIVIL SERVICE PAY AND CASH LIMITS

Thank you for your sending me a copy of your letter to Willie Whitelaw of 24 January. I am inclined to agree with your judgement that conflict with the Civil Service Unions is likely to be more damaging if it resulted from a breaking of the pay agreement and a denial of arbitration than from adhering to inadequate cash limits. But this major issue will no doubt be discussed by Ministers collective in due course.

If it were ultimately decided to adhere to cash limits for 1980/81 that contained insufficient provision for any Civil Service pay award, I believe we would nevertheless be in serious trouble. At such short notice any saving in staff costs would entail our having to aim for an even higher percentage initially in order to achieve the full percentage saving over the whole of the financial year. The higher the initial percentage, the more difficult would our problem be. If there were redundancies, we would be working against ourselves by increasing staff costs through redundancy payments. A recruitment freeze is in my view so arbitrary an instrument that it causes more disruption than it saves in staff costs.

.... / I

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- 2 -

I for my part would have to do my best to make whatever savings were generally agreed as necessary. Because so many of the staff in the Northern Ireland Office are actively engaged in efforts to combat terrorism, I would have to adopt the same approach to the coverage of any exercise as we have agreed in previous staff savings exercises. And in the uncertain circumstances of Northern Ireland I should have, as before, to accept any savings on staff as a target rather than an undertaking.

I am copying this letter to the recipients of yours.

Yours etc

*10
Pitt Rivers*

CONFIDENTIAL

18 FEB 1990

11 12 1 2 3 4 5 6 7 8 9 10

CONFIDENTIAL

*Civil Service
file 16*



10 DOWNING STREET

From the Private Secretary

14 February 1980

DF 26/2.80

The Prime Minister has seen a copy of Mr. Channon's letter of 24 January to the Home Secretary about Civil Service pay and cash limits. She has also seen copies of the responses which Mr. Channon has received from a number of colleagues.

The Prime Minister proposes to have these issues discussed in Cabinet on Thursday 28 February. The main purpose of the Cabinet discussion will be to establish the Government's position for the Civil Service pay negotiations. In the light of the reactions to Mr. Channon's letter, it would clearly be helpful for the discussion to be prepared in a way which prevents too much time being spent in Cabinet on the size of the volume squeeze, and the particular difficulties which might be created for individual Departments.

With this in mind, the Prime Minister would like the Chancellor to hold a preliminary discussion in a small group. She would like this to consist of the other three big employer Ministers, the Secretaries of State for Defence, Environment and Social Services, together with the Minister of State at the Civil Service Department. The Prime Minister would hope that the Chancellor could report to her on the discussions in such a group by Tuesday 26 February. This will make it possible to ensure that the papers before Cabinet identify the key issues for discussion at that level.

I am copying this letter to Brian Norbury (Ministry of Defence), David Edmonds (Department of the Environment), Don Brereton (Department of Health and Social Security), Geoffrey Green (Civil Service Department) and to David Wright (Cabinet Office).

M. A. PATTISON *CP*

M. A. Hall, Esq., M.V.O.,
H.M. Treasury.

CONFIDENTIAL



2PP's
PRIME MINISTER

Mr Prid's comments on
Civil Service volume squeeze.

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

WMB
MP 14/2

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
LONDON SW1A 2AZ

13 February 1980

Dear Paul

CIVIL SERVICE PAY AND CASH LIMITS

I am responding to your letter to Willie Whitelaw of 24 January about Civil Service pay and cash limits.

I endorse your view that abrogating the Civil Service pay agreement and withdrawing the right to arbitration would provoke an immediate industrial relations crisis in which the moderates would feel impelled to line up with the militants. I am in no doubt that the industrial action would be more extensive and sustained than that experienced last winter. The possibility that staging might ease the cash limits problem is one which might be borne in mind, although this, too, would be regarded by the staff unions as a breach in the operation of the fair comparability system. If we were to go along this road the first stage would need to be in double figures to diminish adverse comparisons with the treatment of other public sector groups, and until the size of the prospective wage increase is known it is not possible to be sure whether staging could be a good card to play.

I do not, however, think it is realistic to expect to cover the entire difference between the 14% allowed in other public service cash limits and the eventual settlement by reducing staff expenditure in the coming financial year unless the difference is very small indeed. Anything as high as 5% saving over the year as a whole would, as Francis Pym pointed out, need to be at least doubled in terms of manpower strengths by the end of the financial year. Certainly as far as the DE Group is concerned this would involve redundancy and premature retirement payments far in excess of the salaries notionally saved. I would think that across the Service as a whole about 1% in staff expenditure is probably as far as we can go over and above the options cuts already planned.

If a reduction of the order of 1% were imposed on the Service as a whole I might just about squeeze that out of the DE Group. But I could not do it without going back yet again to the MSC and the other bodies in the Group. This will provoke bitter resistance from the Commissions etc., especially (but not only) from the TUC members.

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

have
[Signature]

14 FEB 1980



✓ MAF

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-2336106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

13 February 1980

De Pau

CIVIL SERVICE PAY AND CASH LIMITS

Thank you for sending me a copy of your letter of 24 January to Willie Whitelaw about pay and cash limits. I have since seen responses from Francis Pym, George Younger and Peter Walker.

George Younger's comments in relation to the Scottish Office apply in great measure to my situation in Wales. A shortfall, and consequential cuts of 5%, would in practice mean a reduction in staffing over the course of the year of at least 10%. This is a cut far in excess of anything I had hitherto contemplated and I do not know what reduction in functions I could make to achieve this, bearing in mind that my scope for independent action in Wales is very much governed by the decisions taken in Whitehall Departments whose functions I match.

The fact is that it is impossible to reconcile a policy of cuts in this manner with the effective planning and management of my Department. I fully cooperated in the options exercise and, difficult as it was, readily agreed to a 9% cut to be carried out over a period of time in a way which secured a rational and

/carefully managed

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
London SW1A 2AZ



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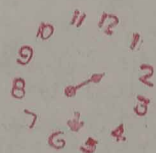
carefully managed reduction in the bureaucracy. But arbitrary new reductions on the size and timescale now being talked of are almost impossible to reconcile with this approach and vitiate our claims to be good managers in the eyes of our staff as of others.

I fully understand your problems. But like George Younger, I feel strongly that we must not seek to put more weight upon cash limits than they can reasonably bear and I agree with him that a gap of a percentage point or two is the most we could realistically seek to bridge in this way. I am sending copies of this letter to the recipients of yours.

J. C. [unclear]

Neil

14 FEB 1960



SECRET

PRIME MINISTER

PRIME MINISTER

2^{1.}

You have seen some Ministers' reactions to Mr Channon's request for contingency planning on additional Civil Service cuts. Some preparation of Cabinet may discussion is required.

Was prime met

Ask Chancellor to put in hand, as in para 4, for Feb 28 Cabinet discussion? M.P. 12.

Civil Service Pay and Cash Limits

A number of Ministers have now commented on Mr. Channon's letter of 24th January, in which he warned of the steps which might be needed if pay research produces an unacceptably high figure.

2. Mr. Channon may have made his own case more difficult by issuing his letter too quickly; equally, the Ministers who had commented are crying before they have been hurt. The relevant facts are these:

- (a) The Chancellor will receive this weekend the latest Treasury pre-Budget forecast, which will show how tight a volume squeeze is implied in any given cash limit; the cash limits for services other than the central Civil Service have of course already been set.
- (b) CSD will receive, in the course of next week, the evaluation of the PRU evidence.

The gap between these two may not be quite as wide as was earlier feared; there is always some scope for negotiation on the meaning of the PRU evidence (with perhaps one percentage point at issue); and it is just conceivable (though not very likely) that, faced with a choice of pay or jobs, the Civil Service Unions might be prepared to compromise (e.g. by staging the settlement, thus reducing its year-on-year cost). But Ministers cannot very well consider these options, or the size of manpower cuts which might be necessary if the gap were wider, until the figures are available.

3. That points to some Ministerial consideration in the week beginning 25th February. We had originally planned to take this complex of issues at Cabinet on 28th February. But you may feel that some preliminary working-over would be useful. I do not think that a meeting of E would help very much. For one thing, there would be something to be said for your standing back from the first round of discussions and holding yourself in reserve, to impose a compromise at a later stage. For another, so many additional Ministers

SECRET

would need to be invited to E that the result would be indistinguishable from a full Cabinet. Thirdly, some smaller group of those more directly concerned might make better progress.

4. If you agree, you might consider asking the Chancellor of the Exchequer to take the chair of a small group, consisting of the three big employer Ministers (Defence, Environment and Social Services) together with the Minister of State, Civil Service Department. An alternative is to ask the Home Secretary to take this on as a 'neutral'. (He is not himself among the largest employers.) Such a group could see just how much room there was for manoeuvre, and identify the key issues for Cabinet.

5. We should not, however, postpone the Cabinet discussion long. It could, though with difficulty, be allowed to slip from 28th February till 6th March, at the cost of increasing difficulty for the CSD in the conduct of the pay negotiations. It would be preferable to avoid this delay, unless it is absolutely necessary because of a failure of Ministers to agree.

RA

(Robert Armstrong)

13th February 1980

✓ 148



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Paul Channon Esq MP
Minister of State
Civil Service Department
Old Admiralty Building
Whitehall
London SW1

13 February 1980

Dear Paul,

CIVIL SERVICE PAY AND CASH LIMITS

Your letter of 24 January to Willie Whitelaw certainly faces us with "stark choices" if the gap to be bridged should be as much as 5 per cent.

I can see no way in which a gap of this size could sensibly be bridged by this Department through reductions in manpower costs in 1980/81. The bulk of the staff are employed, as you know, in the payment of statutory benefits, and the cut of 5,000-7,500 posts which would be needed must chiefly come from their ranks. We would have to look again first at ways of cutting functions and tasks; but we cannot abandon or drastically change the functions and tasks of the benefit structure without legislation - as we saw when we considered our 10 per cent-20 per cent options. There would be no time for this even if we could find further measures - in addition to those which we have already agreed in December and since in our review of public expenditure - which were politically feasible.

We have been in touch recently about the manpower effects of social security changes; I also hope that you will be ready to look again at my letter of 31 July last to Christopher Soames. Over the past four years the Department has been slimming down its procedures and reducing checking in the course of saving many thousands of posts without significant reductions of functions. We have been making some severe cuts in the current year. We are committed to the savings and policy studies announced on 6 December. We have already examined and had to reject a wide range of options on political and other grounds. Further major savings of staff on procedures would weaken our defences against error, fraud and abuse to a degree that would expose us to attack, if not ridicule, when we are rightly claiming credit for large savings of public money by tackling fraud and abuse.

This does not mean, of course, that we could offer no further savings; but I am clear that the savings would be bound to be small in relation to a 5 per cent reduction in costs, and that they could not necessarily be carried through as quickly as our purpose would require.

E. R.

Nevertheless, I would see great difficulty, as you do, in the possible course of repudiating the Civil Service pay agreement. To do so would almost certainly cause widespread and damaging strikes. We know that the Unions are already making contingency plans for them and, like you, I am sure that they could confidently expect much more support from their members than they would get for industrial action over other matters.

In the circumstances I believe that we must take whatever measures we can to minimise whatever gap emerges between the results of Pay Research and what we can afford. As Francis Pym has suggested, some kind of staging of pay increases might help; so might some adjustment of pension contributions. It should then be practicable to make some contribution from manpower costs; and, if this were relatively small, and we had shown that we had honoured the pay agreement, I doubt if the Unions would get support from their members for widespread action.

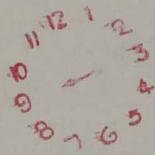
You ask for views on a recruitment ban. Although this proved effective in the situation confronting us when we came into office, it is a crude tool which distorts manpower planning. I believe that we should look to the grip we should continue to have of our manpower expenditure in order to maintain close control.

I should, I think, add that, however we decide to settle the pay and cash limit issues, it will be right for the costs of the staff of Special Hospitals, Artificial Limb and Appliance Centres etc, whose salaries fall on the NHS vote to be treated like NHS costs as they were this year.

Copies of this letter go to recipients of yours.

Yours
Pat

13 FEB 1980



✓MAD

CONFIDENTIAL

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

12 February 1980

CIVIL SERVICE PAY AND CASH LIMITS

Thank you for sending me a copy of your letter of 24 January to Willie Whitelaw, with its warning of the problem we are likely to face over the application of the cash limit for Civil Service pay.

I agree with your analysis of the objections to breaking the pay agreement and refusing to conclude a settlement based on pay research. I suspect that there would be almost as much difficulty if we sought to contain costs in 1980/81 by staggering the implementation of a comparability award as was done in 1979/80; and this in any case would only store up trouble for the future.

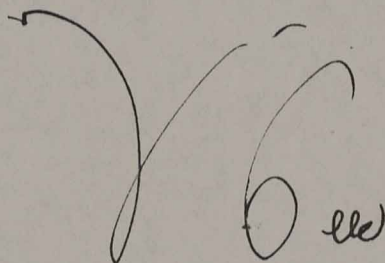
I have equal doubts, however, about the practicability of maintaining a cash limit based on an allowance of 14 per cent for cost increases, if the gap between that figure and the percentage indicated by pay research is large. It is not possible in practice to cut Civil Service numbers overnight. To achieve a cut of, say, 5 per cent on expenditure over the year as a whole would involve cutting numbers by a much higher percentage by the end of the year. To do this across the board would in my view be impracticable without unacceptable damage to the conduct of government. Where the activities cut out promoted efficiency and productivity, as is the case with my own Department, the cuts would also damage the performance of the economy at large. The worst course of all would be to set a cash limit which we then found we could not observe: the effectiveness and credibility of cash limits as a tool for controlling expenditure depend on their being set at realistic and practicable levels.

In my view, therefore, we should be very careful, in framing the cash limits, not to require a larger volume cut than is practicable and justifiable. I am examining the possibilities for my own Department, but I think I should warn you now that a 5 per cent cut is in my view simply not practicable.

I agree with your own view that any squeeze must be applied evenly across Departments, with the minimum of relaxations. I was however glad to note your recognition that there are circumstances in which relaxation is unavoidable. One such case is that of the Intervention Board for Agricultural Produce (fortunately only 590 staff in total), whose work stems directly from EEC obligations. Any failure on the Board's part, as a result of cutting staff numbers, to comply with the detailed recording and checking procedures that Brussels insists on would risk the loss through disallowance by the Community auditors of far greater sums than would be saved on the cash limit.

Perhaps I could add two comments on methodology, both of which relate to the need for Ministers in charge of Departments to manage within the cash limits as is in their view best for the conduct of their Department's work. First, any cut should be expressed only in terms of the cash provision for salaries. There should be no automatic link with actual numbers: it should be for Ministers in charge of Departments themselves to decide how the required saving could best be made. Secondly, I can see no advantage in combining the financial squeeze with a general ban on recruitment. The effects of such a ban are arbitrary, and exceptions have anyhow to be made if essential work is not to stop altogether. It should be for Ministers in charge of Departments to decide their own recruitment policy, within whatever cash limit is set, in the light of their own assessment of Departmental priorities.

I am sending copies of this letter to other members of the Cabinet, the Minister of Transport and Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by 'Walker' in a cursive script.

PETER WALKER



11 FEB 1980

Civil
Service



10 DOWNING STREET

~~Michael~~

Agreed.

Amund

I have not passed on ^{12/2}
this comment to either
party.

MAF ^{11/2}

with FCS
letter



FCS/80/29

MINISTER OF STATE
CIVIL SERVICE DEPARTMENT

Civil Service Pay and Cash Limits

- Can't be completed -
 may be temporary -
 pub.
 Home Minister
 8/2*
1. In your letter of 24 January to Willie Whitelaw you asked Ministers in charge of departments to consider how they would set about achieving a further reduction of up to 5% within their departments.
2. As you know I am already committed to a planned reduction of £6 million over the next three years under the Lord President's exercise to cut Civil Service manpower. This time span enables us to implement the reduction with as little dislocation as possible to the operations of the Foreign and Commonwealth Office and our posts overseas; in particular it enables us to use voluntary retirements and natural wastage to secure the manpower reduction. To add a further sudden and savage squeeze of the scale now proposed to be implemented in one year cannot fail to cause major dislocation. It would overturn the planned approach adopted in the Lord President's exercise. For example if I had to plan a 5% cut in 1980/81 on the salary costs of the Diplomatic Service, I would have to cut the DS payroll from 5800 at the beginning of the year to 5200 at the end of the year - a reduction of over 10% in our current manpower. This would be on top of all the savings we have made over the last 11 years, amounting to 13%. A reduction of this order could only be achieved by a total recruitment freeze and 100 redundancies as well, and in the longer term would lead to the closure of more overseas Posts. It would mean a severe blow to our effectiveness.
3. Although I can understand the need to seek further economies in the costs of the Civil Service, principally by reducing Civil Service manpower, we must apply a more sophisticated and selective approach. I made clear in my minute of 19 October to Christopher Soames that it did not make sense to reduce our overseas representation in an exercise which was targeted on over-Government. Reductions in overseas representation not only hit the wrong target but would cause serious damage to the only means we have in most of the world to protect our interests. I still hold to this view; indeed it has

/been



been strengthened by the recent international turmoil which has substantially increased our workload. We are all agreed on the need for a robust and sustained response to the Soviet invasion of Afghanistan. In effect we are trying to revitalise the Western alliance. It cannot make sense to weaken so seriously one of our main instruments for this purpose.

4. Reductions in the Passport Office would cause similar disruption. The number of passports which have to be issued each year is rising dramatically and in 1978 the system came close to collapse in the peak periods. This is of course a profit-making operation.

5. I said at the time that the Lord President's exercise would cause damage to our diplomatic effort but accepted it as part of the necessary search for economies. This new proposition would in my view raise the damage to an unacceptable level, and in the circumstances I hope that the Diplomatic Service and Passport Office can be exempted from further reduction in manpower.

6. I should be happy to discuss all this with you if you feel that would help.

7. I am copying this minute to the Prime Minister.

(CARRINGTON)

Foreign and Commonwealth Office
8 February 1980



FCS/80/30

MINISTER OF STATE
CIVIL SERVICE DEPARTMENT

Civil Service Pay and Cash Limits

- MS. Prime Minister (2) 1/82
1. I have minuted to you separately in reply to your letter of 24 January about the serious consequences for the Diplomatic Service of any further reductions in manpower. In my Secret minute of 23 July to the Lord President, I highlighted the close connection between our intelligence services (including GCHQ and our Friends) and the Diplomatic Service. I drew attention to the fact that reductions in the Diplomatic Service would put at risk not only the common services provided by the Diplomatic Service, such as communications facilities and engineering support, but also the cover under which the intelligence services operate. *-will request if required.*
2. A further reduction in Diplomatic Service manpower, and in its Communications Division beyond the level planned under the Lord President's exercise, would aggravate these risks; and our ability to provide the following services would be very seriously impaired:
- (a) protection of our posts abroad from technical intelligence attack;
 - (b) communications support for the BBC's External Services, principally in the Middle East (Masirah), but also at transmitting stations in the UK;
 - (c) radio communications with many of our Posts abroad where commercial facilities are either non-existent or unreliable.
3. It would not make sense to get into the position where our intelligence services would have to set up their own separate communications network and support, entailing additional staff numbers and costs on the Secret vote to compensate for the loss of staff on the Diplomatic Service payroll. This is another reason for exempting the Diplomatic Service including its Communications Division from further manpower economies.
4. I am sending a copy of this minute to the Prime Minister, and to the Secretary of the Cabinet.

Foreign and Commonwealth Office

8 February 1980

C
 (CARRINGTON)

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.

MAD

!

Ans

8 February 1980



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
London
SW1A 2AZ

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



90
M 12 W
1 2 3 4 5 6 7
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.

CONFIDENTIAL MANAGEMENT IN CONFIDENCE



Civil Service

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 20/17/6

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





Amint Emrie
MAD

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

1 February 1980

Dear Paul

In your letter of 21st December to Willie Whitelaw you asked for colleagues' help to enable you to monitor the reductions in the Civil Service announced on 6th December and the possible further savings in Annex 2 to C(79)57. I would like first to comment in order on the five points you raised.

1. I can confirm the timetable for the savings (Annex A to your letter) subject to the following:-
 - (a) As you have noted, legislation is needed on some of the Inland Revenue measures.
 - (b) There may be some shift in the timing (though not the ultimate size) of the savings arising from discontinuance of British Savings Bonds. (The timing is dependent on public response. Premature encashments are currently well above the level allowed for and some staff redeployment has been necessary, to the delay of other work); and
 - (c) as regards the Treasury, my decision to bring forward the abolition of exchange controls has meant some changes to the original run of figures. These changes have been agreed with your officials and incorporated in the latest PES returns.
2. The firm savings from my Departments were covered by specific measures, none of which has been varied. There is however one (increasing the de minimis limit for interest on unpaid tax) which has not been announced and is a matter for legislation. This should not be disclosed, for example, to the new Treasury and Civil Service Committee.

13.

Paul Channon, Esq., MP



3. I recognise the importance of keeping a close watch on progress towards further savings and shall let you know of decisions as they are reached. Those on the reviews of UKTSD and the Rating of Government Property Department should be possible by the Autumn of 1980 and the Spring of 1981. We shall try to do better on the RGPD. But on the majority of items listed in Annex B to your letter I regret that I cannot give you a firm date. These are measures which variously require discussion with colleagues, depend on how much I can do in my next Budget, or need Finance Bill legislation. I shall therefore be unable to take final decisions for some time yet, and on some measures will have to defer final consideration until next year.
4. The costs of my Departments are almost wholly staff and staff-related expenditure.
5. I shall of course continue to seek further savings but these will depend on the extent to which colleagues are prepared to agree to the necessary reductions in public expenditure. It is also a fact that moves to restrict or abolish tax reliefs or to diminish customs facilities could be greatly resented.

As regards the general question of the growth in staff numbers raised in the penultimate paragraph of your letter, I have already made arrangements to monitor manpower usage in my Departments from month to month and shall watch these figures and the quarterly returns to ensure we are on target. We shall certainly need to look very carefully at areas of growth. Where we take on new activities, we should continue to do all we can to find offsetting savings from changes in function, such as those listed in Annex B to your letter, although this will not be easy.

I am copying this letter to recipients of yours. I shall be replying separately to your letter of 24th January.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', written in a cursive style.

(GEOFFREY HOWE)

MI- FEB 1980

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Civil Service

jfh

MR GREEN
CIVIL SERVICE DEPARTMENT

The Prime Minister was grateful to see Mr. Channon's minute of 29 January, reporting the 1 January 1980 figures for Civil Service numbers.

M A PATTISON

31 January 1980



PRIME MINISTER ^{MAP}
Manpower is still (just) on
a downward trend.

MAP
29/

PRIME MINISTER

CIVIL SERVICE STAFF NUMBERS

At Cabinet on 1 November 1979 it was agreed that all Ministers should take steps to ensure a continuing close scrutiny of trends in staff recruitment and replacement. Cabinet also decided that the results of that scrutiny should be regularly reported to CSD which would consolidate the departmental returns for a report to the Lord President and to you.

The new arrangements, together with a speeding up of the timetable for reporting changes, were introduced for the quarterly staff return for 1 January 1980. The returns show 707,800 permanent staff in post at that date. This is a reduction of 4,500 against the 1 October 1979 total of 712,300, reported to you in the Lord President's minute of 28 November, and of nearly 25,000 since 1 April 1979.

The major reductions in the last quarter have been in:

Inland Revenue	1,600
Property Services Agency and PSA Supplies	1,000
Defence	700
Employment	500
DHSS	500
Customs and Excise	300

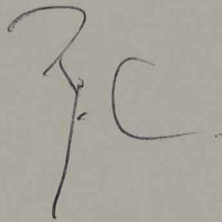
The only significant increases were in:

Manpower Services Commission (including the Employment Services Division and the Training Services Division)	+ 300	(mainly the establishment of casual staff to meet Youth Opportunity Programme and new Youth Centre commitments)
Home Office	+ 190	(mainly in the Prison Service)
Land Registry	+ 180	(mainly to deal with backlogs of land and property registration work)

A number of departments have indicated shortages of staff in clerical and secretarial grades because of high wastage and poor recruitment (particularly in London). Difficulties are also reported in obtaining sufficient ADP staff and in certain specialist areas.

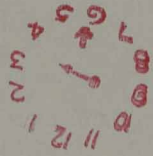
Departments have confirmed that they are on course for the achievement of the 1980-81 tranche of the cuts announced on 6 December.

I propose to publish the 1 January figures of 707,800 today in answer to a Question from John Butcher.

A handwritten signature in dark ink, appearing to be 'P.C.', is centered on the page.

PAUL CHANNON

29 January 1980



29 JAN 1960

CONFIDENTIAL

✓ MAF
Civil Service

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Paul Channon Esq MP
Minister of State
Civil Service Department
Old Admiralty Building
Whitehall
London SW1

29 January 1980

Dear Paul,

MANPOWER ECONOMIES

Your letter of 21 December asked for a progress report on the savings in administrative costs agreed for DHSS and for further information about the possible measures for future savings noted in Annex 2 to C(79)57.

Of course I agree that we must all keep up the pressure towards reductions in the civil service. I am aware of the extent of responsibility placed on large Departments such as mine to find their full share of savings, and can assure you that, difficult though some of the decisions will be, I shall be pursuing all the options vigorously, and searching for further savings.

I am glad that you acknowledge our problem in the demand-led areas of work. Demand is not something that I can reduce and our unions are fully alive to the fact that demand-led growth in volumes of work and claims has always been matched by commensurate increases in manpower. We cannot hope for dramatic savings from streamlining procedures as we have already gone a long way down that path. In addition a number of new policies that I and other Ministers are considering will tend to add to the staff required here even though they will save large sums of public expenditure and there may be subsequent staff reductions from other measures. Thus we may have to accept short-term fluctuations in staff numbers as you forecast in your statement on 6 December 1979. However, I have arranged for your comments to be brought to the attention of all officials concerned with policy development, and my colleagues and I will continue to watch this aspect closely.

TIMETABLE FOR FIRM SAVINGS

On more detailed matters, I understand that my officials have agreed with yours a rather different timetable for DHSS firm savings than the one you attached as Annex A to your letter. For the record, this is:-

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1980-81		1981-82		1982-83		1983-84	
£m	staff	£m	staff	£m	staff	£m	staff
1.5	430	4.9	990	7.2	1480	8.3	1705

The figures given in Annex A for OPCS are correct. The savings do, however, include an estimate of savings achieved as a result of economies in the 1981 Census.

I note your comments about flexibility in the achievement of these savings. At present I see no reason why any of the measure should prove to be unattainable but I will certainly keep you in touch with any change in my plans.

Finally, it may be helpful if I give you details of progress on my main Annex B options individually.

SOCIAL SECURITY OPTIONS

CHANGES IN METHODS OF PAYING BENEFITS

I have written to you separately about my first "Rayner" project. This raises some complex issues and difficult decisions and colleagues will wish to be fully consulted when I have come to a final view on the report.

EMPLOYERS SICK PAY

My timetable is to publish a Green Paper in the Spring and introduce the necessary legislation in the 1980/81 session. Implementation must take place in the month of April and I am aiming for 1982.

UNIFIED HOUSING BENEFIT AND A SIMPLIFIED SHORT-TERM SCHEME FOR SUPPLEMENTARY BENEFIT.

My officials have been working jointly with those in the Department of the Environment on possible schemes for Housing benefit, and I hope to consider the proposals in February. Implementation would have to be in the month of November to coincide with an uprating of benefits, and I still hope that this will be in November 1982. However, a great many problems remain. The short-term supplementary benefits scheme must, as you know, follow UHB.

MATERNITY GRANT

You will be aware that agreement has been reached between the Chancellor of the Exchequer and myself to make maternity grant non-contributory, and I am proceeding with the necessary legislation. Implementation will not be possible before 1982 because of a lack of computer capacity. This item can now, however, be regarded as firm.

INDUSTRIAL INJURIES OPTIONS

A consultative document on the industrial injuries scheme will be published next month and consequent legislation would be in the 1981-2 session.

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HPSS OPTIONS

Annex B lists various HPSS possibilities, all of which are under consideration but, because of the variety of bodies and interests which will have to be consulted, are as yet some longish way from firm decisions. On the wheelchairs proposals we shall probably be able to decide by about March this year whether to go forward with public consultation. The remaining options are unlikely to become firm before the end of the year, at earliest.

COMMON SERVICES

I think the saving in money terms quoted in your Annex B is too high and will probably be nearer £0.8 million. These savings will, as you know, follow from reductions in my Departments staff and cannot, therefore, be implemented until after them.

OPCS OPTIONS

i. CERVICAL CYTOLOGY

Discussions on the Cervical Cytology Recall Service mentioned in Annex B continue: allowing for the probability that some discussion with the NHS will be needed, I do not think we can be certain of reaching a conclusion until late in the year.

ii. REVIEWS

The result of the Review of Social Survey Work also mentioned in Annex B is included with the 275 staff put forward for 1983/84 in Annex A.

I am copying this letter to all members of the Cabinet, Norman Fowler and Sir Robert Armstrong.

*Your ever
Patel*

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29 JAN 1980

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MAP

Civil Service

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG.

28 January 1980

Jim Gowling

FURTHER ACTION TO REDUCE THE SIZE OF THE CIVIL SERVICE:
VISIBLE TRADE STATISTICS

I have now seen John Nott's reply to your letter of 20 December in which you asked for support for your proposal to reduce the staff at the Customs and Excise Statistical Office by 220. In view of the need to reduce the size of the civil service I fully support John Nott's proposals.

I am copying this to Peter Carrington, John Nott, Peter Walker, George Younger, Nicholas Edwards, Humphrey Atkins, David Howell and Norman Fowler, and to the Prime Minister and Christopher Soames for information.

Jim

Kew

29 JAN 1980



a Tsy

MR. GREEN
CIVIL SERVICE DEPARTMENT

The Prime Minister has seen the Minister of State's undated minute about Civil Service cash limits and a possible ban on recruitment.

She has noted that Mr. Channon recommends that several options for manpower control should be left open until the pay research evidence can be assessed, but that he has asked Ministers to undertake preparatory work on how reductions in manpower of up to 5% could be accommodated. She is content to leave further decisions until Mr. Channon circulates a paper to colleagues next month.

As the Prime Minister made clear during her visit to the Civil Service Department earlier this month, she is entirely in agreement with Mr. Channon that Departments should be pressed to find compensating savings whenever a case for additional staff is made.

I am sending a copy of this minute to David Wright (Cabinet Office).

M.A. PATTISON

28 January 1930

GB

MR. LANKESTER
PRIME MINISTER

You mentioned in Cabinet the possibility of a further Civil Service recruitment ban.

Mr. Channon (response attached) proposes to keep this and other options under review until the Pay Research evidence is available, when the cash limits squeeze can be assessed. He proposes to circulate a paper on the issues in February. He has in the meantime written to colleagues pointing to the problems ahead on manpower, and asking them to consider now how they would apply reductions in manpower of up to 5 per cent, so that properly prepared options are available when the time for decisions is reached.

In the meantime, he seeks your endorsement for his intention to press for all requirements for new staff to be met by redeployment. You made it clear to him at the CSD that you favoured this approach. May we now confirm it?

MAP Yes OK

25 January 1980

Civil Service

VMA



Y GWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

26 January 1980

John Paul

Thank you for your letter of 21 December about reductions in the Civil Service.

May I first say that I entirely accept the target of 235 staff in 1983/84 which is shown in Annex A to your letter. I also firmly intend to hit the target of 110 staff for 1980/81. So far as the intervening years 1981/82 and 1982/83 are concerned, I do not at this moment wish to suggest any alterations to your figures. However I have always made it clear - and your Parliamentary announcement on 6 December confirmed - that Welsh Office cuts would have to be made largely in parallel with similar reductions in other departments. That is still the case and one of my present worries is that the changes Peter Walker will be introducing in the administration of agricultural grants and subsidies now seem unlikely to be achieved in full before 1983/84. Since in this particular area there can be no question of making changes in Wales independently of what happens across the border, I may well have to look again at the phasing of my savings if Peter Walker makes changes in the way he implements his.

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

John Paul
Near

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

25 JAN 1960

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

24 January 1980

FURTHER ACTION TO REDUCE THE SIZE OF THE CIVIL SERVICE
VISIBLE TRADE STATISTICS

Thank you for sending me a copy of your letter of 20 December to John Nott about the staff savings you are considering in the Customs and Excise Statistical Office. I am glad to have the opportunity to indicate my interest and express my views.

Under EEC Regulations 1188/77 my Department is required to supply the Community with detailed monthly import and export figures for the main agricultural commodities. In addition, special summaries have to be provided covering 10-day periods of trade in cereals, beef and veal and pigmeat. It is important that this information should continue to be available, and that its accuracy is maintained. I hope therefore that before decisions are taken, officials of Customs and my Department can jointly examine our essential requirements to ensure that the organisational changes being made do not jeopardise them.

Do you also think it would be worthwhile considering an option - which would reduce net costs - of increasing charges for the provision of detailed statistics to outside users?

I am copying this letter to the recipients of yours.

PETER WALKER

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
2 HITCHCOCK PLACE, LONDON SW1A 1AA



The Rt Hon Sir Geoffrey Howe
Chairman of the Select Committee
Treasury Committee
Parliamentary Office
London SW1

24 JAN 1980
24 JAN 1980
24 JAN 1980

24 JAN 1980

[Handwritten signature]

PLEASE RETURN TO THE SECRETARY OF THE CIVIL SERVICE
VISUALS LEADS STATISTICS

Thank you for sending me a copy of your letter of 20 December
to advise about the visit savings your committee is due
to make next week. I am sorry that I cannot be of more
help to you at this time.



I have therefore had some discussions with my colleagues
and my department and have decided that we should
not be able to provide you with the information you
require at this time. It is important that this information
should be available to you as soon as possible and I
am sorry that we cannot provide it to you at this time.
I have therefore had some discussions with my colleagues
and my department and have decided that we should
not be able to provide you with the information you
require at this time. It is important that this information
should be available to you as soon as possible and I
am sorry that we cannot provide it to you at this time.

I am sorry that I cannot provide you with the information
you require at this time. It is important that this information
should be available to you as soon as possible and I
am sorry that we cannot provide it to you at this time.

[Handwritten signature]



PETER WALKER

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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

R24/1.

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CONFIDENTIAL



Minister of State

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

24 January 1980

The Rt Hon William Whitelaw, CH, MC, MP
Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON SW1H 9AT

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.

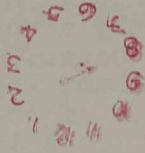
In practical terms, every day that passes from now on is reducing our room for manoeuvre in terms of savings in the coming year. I should therefore be grateful if you and the other colleagues to whom I am addressing this letter could now consider how you would set about achieving a further reduction 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

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24 JAN 1980

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Civil Service

✓ M.A.P.

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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Paul Channon Esq MP
Civil Service Department
Whitehall
LONDON SW1A 2AZ

21 January 1980

Dear Minister of State

CIVIL SERVICE REDUCTIONS

I am writing in reply to your letter of 21 December to Willie Whitelaw, which was copied to Cabinet colleagues.

On your first point, Annex A to your letter is a correct statement of the savings (155 posts) which I have undertaken to find. As to the second, I am still consulting my Staff Side about the detailed composition of the savings. This may result in some small changes, but they are unlikely to be significant. Thirdly, the position on the policy matters listed in your Annex B is likely to become clearer over the next year or so. I shall, as you ask, keep you in touch with significant developments as they occur.

I have taken note of your fourth and fifth points, and I shall be on the look out for any opportunities for economy in the future. I agree that we must try to ensure that new tasks are met as far as is possible by redeploying existing staff resources.

I am copying this letter to the recipients of yours.

Yours sincerely

R Turp

pp. MARK CARLISLE

(Approved by the Secretary of State and signed in his absence)

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U.S. DEPARTMENT OF STATE



DEPARTMENT OF TRADE
1 Victoria Street
London SW1H 0ET

Telephone Direct Line 01-215-~~5422~~
Switchboard 01-~~215-7877~~

(2765F)

With the Compliments of
the Private Secretary
to the Secretary of State

CS 57A



*MAD seen
(with slip to Ch (ex
2.8.1.80)*

From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

18 January 1980

Dear Geoffrey.

FURTHER ACTION TO REDUCE THE SIZE OF THE CIVIL SERVICE

Thank you for copying to me your letter of 20 December to Willie Whitelaw. I have also seen Kenneth Clarke's letter of 10 January and Willie Whitelaw's reply of 15 January.

You have my full backing in your wish to achieve the most efficient use of staff, but I am concerned about the possible implications of manning reductions in some of the areas described in the attachment to your letter. A cut of 235 staff is relatively small against the total of Customs manpower, but I should like to be reassured on a number of points which have a significant bearing on our trading and other policies and on the general need to maintain adequate facilities for the flow of passengers and goods. These points are set out below, but the length of the catalogue should not be seen as an indication of an obstructive approach. I suggest that your officials might talk to mine (making contact through Mr Ekins-Daukes, telephone: 215 5872) before we reach a final decision on your proposals.

The credibility of our tariff and quota policies depends upon their accurate administration by Customs. These policies could be undermined if reduced scrutiny of imports increased the opportunity for evasion

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From the Secretary of State

CONFIDENTIAL

of the rules. I am sure you will appreciate that if that happened, particularly in vulnerable areas such as textiles, we would encounter serious public criticism. Our credibility in seeking safeguard action under Community arrangements against unfair competition in the future could also be affected.

Kenneth Clarke has already raised with you the implications of a more limited coverage of ports; this would reduce trading flexibility and concentrate traffic further at the larger and less efficient ports (eg Southampton, Liverpool). This loss of flexibility, together with increased congestion and turn-round time, would be damaging to our shipping industry which has to operate in a highly competitive environment. I am sure that your officials will also bear in mind that defensive measures under Section 14 of the Merchant Shipping Act 1974 are enforced by Customs and Excise, so that adequate cover needs to be maintained for this purpose.

Flexibility in the availability of ports can also be very valuable in maintaining flows of essential imports during periods of severe industrial disruption. This has been proved by experience (eg in last year's road haulage dispute). Once Customs facilities have been withdrawn from a small port, there seems little likelihood that they could in practice be re-established, I think it would be very unwise for the foreseeable future deliberately to close any port to foreign trade. The small saving lost is valuable insurance.

As regards airports we would not wish artificially to restrict air transport which we see as a growth area in the economy. More particularly, cuts leading to a significant reduction in the capacity of regional airports - which have a key role in relieving pressure on the London area airports - would be at variance with my recent public statement on airports policy. I am also very much aware that our provision for business aviation at existing airports is already less than satisfactory. For the future, we will obviously

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From the Secretary of State

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need to assess the implications for the operation of new airport facilities (eg the new terminals at Heathrow, Gatwick and Stansted).

Finally, reductions in Customs staff could affect the adequacy of the trade and shipping statistics to the extent that reduced scrutiny of documents significantly affected their quality. I am replying separately to your letter to me of 20 December about a different exercise involving reductions at the Central Statistical Office. Our officials will be able to assess the effect of the two exercises in parallel against our expected statistical requirements.

I am copying this letter to the recipients of yours.

When I return from my visit to the Far East, I will follow-up personally the results of any talks between your officials & mine.

Yours ever
John.

JOHN NOTT

CONFIDENTIAL



C.C.

From the Secretary of State

MAP Jean

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

18 January 1980

Jean Geoffrey

FURTHER ACTION TO REDUCE THE SIZE OF THE CIVIL SERVICE:
VISIBLE TRADE STATISTICS

Thank you for your letter of 20 December 1979 in which you asked me to support your proposal to reduce the staff at the Customs and Excise Statistical Office by 220. As you rightly point out, there will be adverse consequences for the accuracy of the trade statistics and it may prove necessary to reduce the number of headings which are currently published. As a result there will be some difficulties to be overcome in conducting our day-to-day business, especially if the headings affected are in those areas in which trade restraints operate and imports need to be closely monitored. Nonetheless, on balance, I believe that these disadvantages do not outweigh the objective of reducing the size of the Civil Service. I therefore support your proposal in principle. The problems arising from this course of action, including any possible adverse reaction from outside Whitehall, will need to be considered and dealt with as and when they arise.

However, although I agree with what you propose, I wonder whether it is appropriate to divorce this action from anything which may arise as a result of the general review of the statistical services which is being set in train. I think that there would be considerable advantage - especially with regard to the public presentation of the cut - if only half the saving were adopted now, the remainder being

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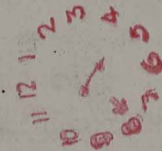
From the Secretary of State

agreed in principle but to be confirmed depending on the outcome of the statistical review.

Although not raised in your letter, there is one associated issue which I would like to raise with you. The work of the Statistical Office is a mixture of computer and manual operations. As presently organised, considerable manpower is required to process the monthly data. I cannot help wondering whether the balance between man and machine is right, and would like to suggest that some consideration be given to enhancing the computer facilities at the Statistical Office, the aim being to reduce the manpower as much as possible without adversely affecting the quality of the data.

*Yours ever
John*

29 JAN 1960



JOHN NOTT

CONFIDENTIAL

✓ MAD

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

Civil Service

Paul Channon Esq MP
Minister of State
Civil Service Department
Whitehall
London SW1A 2AZ

18 January 1980

R. Saul

REDUCTIONS IN CIVIL SERVICE MANPOWER

As requested in your letter of 21 December to Willie Whitelaw, I am writing to confirm that the timetable given in your Annex A stands for the time being. I am not yet able to say, however, when it will be possible for me to announce the termination of the beef premium scheme, which accounts for the IBAP saving and a small part of the MAFF saving.

I note that you have included the MAFF Management Review in Annex B to your letter. This differs from the possible measures for future savings under consideration in other Departments because, although it may well result in savings, that is not its primary purpose. But I shall get in touch with you when the first report (on regional organisation) is available. This will probably be early in March.

I shall of course report any further savings that may be identified, including any stemming from the new expenditure cuts. I also note what you say about the need to contain requirements for extra staff arising from new measures or from demand-led areas and shall ensure that the procedure you suggest is followed in my Ministry.

I am copying this letter to members of the Cabinet, Norman Fowler and Sir Robert Armstrong.

ll

PETER WALKER

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
COURTNEY PLACE, LONDON, W.14



From the Ministry



Paul Gannon Esq MP
Minister of State
Civil Service Department
Whitehall
London SW1A 2AE

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REDUCTIONS IN CIVIL SERVICE MANPOWER

As requested in your letter of 23 December, I am writing to confirm that the timetable given in your Annex A remains for the time being. I am not yet able to say, however, when it will be possible for us to announce the termination of the best payment scheme, which remains for the time being and a small part of the staff saving.

I note that you have included the NAFU Management Review in Annex B to your letter. This differs from the possible means for future savings under consideration in other departments because, although it may well result in savings, it is not its primary purpose. But I shall get in touch with you when the first report (on regional organisations) is available. This will probably be early in March.

I shall of course report any further savings that may be identified, including any stemming from the new expenditure cuts. I also note what you say about the need to contain expenditure for extra staff during the period of the new award of rates and shall ensure that the procedure you suggest is followed as far as possible.

I am copying this letter to members of the Cabinet, Norman Fowler and Sir Robert Armstrong.

PETER WALKER



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✓ MAM Civil Service
DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref: F/PSO/28721/79

Your ref:

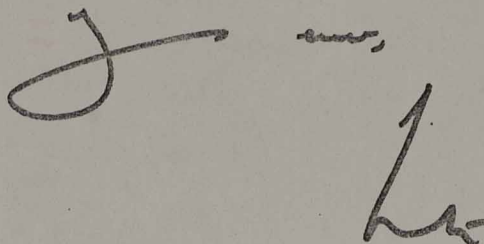
Dear Sir,

You sent Norman a copy of your letter of 20 December to John Nott about your proposals to reduce further the staffing of the Customs and Excise Statistical Office, one consequence of which would be the loss of a major part of the present statistical service to government departments and other bodies. As you will know, the National Ports Council is one of the recipients of statistical information on port traffic and our Department (and the ports industry generally) uses its range of port and trade statistics for railway, highway and port planning purposes.

Just before Christmas we announced our intention to introduce the legislation necessary to abolish the National Ports Council as soon as we are satisfied that the port industry has made suitable arrangements for improving its performance. We are now consulting the National Ports Council, the British Ports Association and others about the future means of discharging those functions of the Council which still need to be carried out including the Council's statistical work. It is too early to say what proportion of their current statistical effort will need to continue and we are as anxious as you are to reduce the collection of unnecessary data. However clearly some statistics will be essential both for the ports themselves and

for our departmental responsibilities. Therefore while I welcome your proposal to stop the gathering and dissemination of unnecessary statistical information, I should be grateful if your officials would consult mine on the details to ensure that the essential information required by our Department is safeguarded.

I am copying this letter to John Nott and the other recipients of your letter.

A handwritten signature in dark ink, appearing to be 'J. Clarke', with a large, stylized flourish extending from the 'J'.

KENNETH CLARKE

Chancellor of the Exchequer

11 JAN 1960

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CONFIDENTIAL



✓ MP

OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH
Telephone 01-213 5409

From the Minister

10 January 1980

Dear Paul,

FURTHER ACTION TO REDUCE THE SIZE OF THE CIVIL SERVICE

As requested in your letter of 21 December to Willie Whitelaw, I confirm that the time-table for ODA savings shown in Annex A is right and I will, of course, do everything I can to ensure that there is no slippage.

We are now discussing with the Staff Side our proposed options for savings and we have, in fact, already taken preliminary action to implement some of the options. As you recognise in paragraph 4 of your letter, however, we may need to vary other options in the light of the various studies going on, including the Aid Policy Review; I will certainly keep in close touch on this as you request.

I shall, of course, consider whether any further cuts which may be decided in the size of the Aid Programme would lead to staff savings. At present this seems unlikely but I will keep you informed when final decisions have been taken and we can assess the consequences.

Finally, I note what you say about the need to avoid additional manpower and I intend to keep a close watch on this aspect personally.

I am copying this to the recipients of your letter.

Yours, Neil

NEIL MARTEN

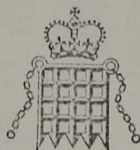
Paul Channon Esq MP
Civil Service Department

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11 JAN 1958

✓ Civil Service



Sir Douglas Lovelock KCB
Chairman

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

Sir Ian Bancroft GCB
Head of the Home Civil Service
Civil Service Department
Whitehall
LONDON SW1A 2AZ

8 January 1980

Dear Ian

REVIEW OF GOVERNMENT STATISTICS

Thank you for sending me a copy of your letter of 21 December to Frank Cooper.

As you are aware from the letter ✓ from the Chancellor of the Exchequer to which you referred, Ministers have already been asked for their views on a possible cut of some 220 posts in our Statistical Office, at the expense of a decline in the accuracy of the monthly overseas trade statistics and the degree of detail in which they are presented, together with the discontinuance of some of the statistical services we provide to other Government Departments, trade organisations and individual firms.

Now that we have your paper on the scope of the Service-wide review, we see a good deal of difficulty in keeping the two exercises separate. The C & E "option" prejudices a good many of the issues which fall to be considered in both the departmental and the interdepartmental phases of the general review. This is inevitable, in view of what your paper describes as "the interactive nature of much of the provision" - which is particularly a feature of our statistical work. For the most part we are in that area acting as the agents of other Departments. Our effort in our own field of revenue statistics is very small in comparison to our work on trade statistics.

It would seem sensible to us to examine the scope for and impact of statistical savings in C & E as part of the general review. Otherwise, we would very soon find ourselves in the position of trying to settle unilaterally issues which were squarely within the terms of reference of the interdepartmental part of that review.

Moreover, some of the considerations to be taken into account in seeking the savings ought to be established on a Service-wide basis e.g. whether recovery of costs from the user awards any degree of immunity to the statistics concerned.

We must bear in mind that, in his letter of 20 December, the Chancellor referred to the C & E option as being "quite separate" from the general review. However, I do not think that this need be a source of difficulty. The point that the Chancellor was concerned to make was that the potential C & E saving had a standing of its own (as an option, of course, not as a firm decision) whatever happened on the general review and I do not think he would object to the two exercises being brought together. No doubt your Minister will mention this point when he consults his colleagues.

I am sending a copy of this letter to the recipients of yours.

Yours ever

Douglas

DOUGLAS LOVELOCK

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JAN 8 1980

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

7 January, 1980.

The Prime Minister has seen Mr. Channon's minute of 3 January, about Civil Service manpower.

She agrees that it would be useful to discuss at E the manpower implications of proposals for the taxation of short-term benefits. She is therefore content that Mr. Channon should circulate a paper to be taken when this item is to be discussed.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

M. A. PATTISON

G.E.T. Green, Esq.,
Civil Service Department.

Handwritten notes in the top right margin: "A", "Curt", "Shore", and "8/1".

Handwritten initials "Rr" in the bottom right margin.

E. Mr Wolfson. 1.



10 DOWNING STREET

PRIME MINISTER

M

Mr. Channon hopes to discuss aspects of the next Civil Service pay settlement when you go to CSD on 11 January - I have put the visit programme separately in your box. I have asked for the Chancellor's comments on the cash limits aspect in advance of your visit.

Mr. Channon also wants to insist on compensating savings if additional staff have to be found for the taxation of short-term benefits. He would like to put a paper to E on this point before the taxation proposals are raised in E.

Agree that Mr. Channon may put a paper on this to E for that discussion, without implying that you - as Chairman of the Committee - are committed to his viewpoint ahead of the discussion?

Yes our MAP

4 January 1980

PRIME MINISTER

CIVIL SERVICE MANPOWER

1. Mr Pattison's letter of 31 December conveyed your comments on my minute of 21 December.
2. I hope there will be an opportunity, when you visit the Civil Service Department on 11 January, to talk about various aspects of the Civil Service Pay Settlement due on 1 April 1980.
3. There is one immediate point raised in the minute. As far as the taxation of short-term benefits is concerned, with your agreement, I should very much like to insist on compensating savings. This would involve not simply a further tightening of the belt in the departments affected, but a deliberate decision to drop or curtail other functions in addition to those already agreed - and it may be unwelcome to some of our colleagues. I should need to circulate a short paper to E Committee before it meets to discuss the taxation proposal (probably around the middle of this month), but before doing so, should be grateful to know if this accorded with your wishes.

P.C.

PAUL CHANNON

3 January 1980

- 4 JAN 1980 *

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PART 2 ends:-

MAP to CSD 31.12.79

PART 3 begins:-

m/s CSD to PM 3.1.80



END