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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

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PAY AND PERFORMANCE

I strongly support in principle the introduction of performance-related pay, about which Christopher Soames minuted you on 28th October.

2. However, I should let you know that the Heads of my Departments are unanimous in expressing anxiety about introducing the particular scheme proposed in the Annex to Christopher's letter, on the timescale which he proposes. They have pointed out to me that there are unresolved problems about its administration - for example, the self-financing formula means that merit pay in each Department could only be given to some at the expense of others in the same Department and not in relation to any general criterion, and there are difficulties about specialists and small Departments. They also believe that the questions of principle involved in introducing merit pay at this level need more consideration.

3. I have not had the opportunity to take a firm view of the weight and validity of these arguments, but they clearly need to be considered. Would there be time to do so adequately if we had to introduce this scheme by 1st April? But I do have two important reservations of my own.

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4. The first is whether the present proposals go far enough. Although a scheme at Under Secretary level is relatively easier to introduce, the case for it at lower levels in the Civil Service seems very much stronger. It may be preferable to introduce a more far-reaching scheme over a narrower front on an experimental basis. In doing so it would be useful to look at what other Governments do, e.g. France.

5. The second relates closely to the question of self-financing. I strongly suspect that on average pay levels at the levels of Assistant Secretary and above are rather higher than in the private sector, both for administrative and specialist grades - in other words that present comparability criteria lead to overpayment as a rule. I also believe that merit payments must be substantial if they are to have any point whatever. So I am led to presume that the proper way ahead to a self-financing (or even money-saving) system which will ease unfair pressures on private employers would be, in outline, to

- (1) reduce "basic" pay levels substantially;
- (2) apply the money saved to provide quite large merit payments.

6. I am copying this letter to those who received Christopher Soames' minute of 28 October.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

7 November 1980

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