

MR SCHOLAR

cc:- Mr Hoskyns

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MUS 12/2

THE MEGAW INQUIRY: MERIT PAY

Government evidence for the inquiry on merit pay is considerably overdue. Discussions in the official group before Christmas produced an anodyne and essentially neutral draft, which did not go far enough to satisfy Treasury Ministers. The Chancellor's letter to Lady Young, and the revised paper he enclosed, are an attempt to take matters rather further.

We have always encouraged merit pay, and see the Megaw Inquiry as the best vehicle for introducing it. And, as you know, almost all the evidence from the main employing departments has commented favourably on the benefits to management of being able to relate pay and performance. But there are considerable difficulties, which contributed to the decision Ministers took last year not to introduce a trial scheme at Under-Secretary level. These difficulties include keeping a scheme cost-free, which means that any increases for merit must be off-set by reductions (or with-holding increments) for unsatisfactory staff; and finding a set of criteria which will be sufficiently consistent across departments. There seems to be no way round linking merit pay to the present staff reporting system, which is not only subject to considerable variation between departments, but also tends towards over-marking, because staff reported on have a right to know the overall assessment.

I think the Prime Minister will want to see these papers, but you may feel it would be best to wait until comments have been received from Lady Young and other Cabinet Ministers. I believe the MPO looks favourably upon merit pay, but is more attracted to the idea of bonuses. Other Ministers will probably be briefed by senior officials to take a cautious line because of the doubts about whether the present reporting system could sustain the extra responsibility that would be placed upon it. I should be surprised if this paper can be agreed without a meeting of Ministers.

3 February, 1982

