

CONFIDENTIAL

5 March 1984
Policy Unit

PRIME MINISTER

PERFORMANCE-RELATED PAY

At last we have some proposals to reward merit in the Civil Service. The principle should be seized upon firmly and welcomed.

The proposals that have come forward are quite modest. It makes sense to start at Under Secretary level and work down towards Principals. The cost is less, and at that level of management people have some scope for making an impact on their departmental work loads.

The specific proposals themselves have some dangers.

1. We would need to see the basis of assessment of performance before being able to confirm that the scheme is not merely a ratchet mechanism on public sector pay. The "judgemental" approach can easily fall into discredit and disrepair. There must be precise annual quantifiable objectives.
2. They are asymmetrical. Given that Under Secretaries and Assistant Secretaries are well paid, couldn't there be more downside for bad performance than is envisaged in the current proposals? Penalties and rewards must be linked.
3. Is it right that once an individual - in response to hard work and effort - obtains a bonus based on performance, he should then keep it unless there is "a serious decline" in his performance? The increment must be granted on the merits of each year's work, with the assumption that otherwise the individual goes back to the basic salary for his grade. If only one-quarter of all Grade 3 postholders can receive performance pay, and there is no growth in the Civil Service, how can newcomers ever receive this pay if all the original people retain it in perpetuity?
4. Has all this been discussed with the Staff Side? It would be a pity to ruin a good idea by clumsy handling of its introduction.

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- 5. The rankings of up to 15 per cent increase in salary provide a reasonable incentive. That would be a gross bonus of £4,500 per annum for a £30,000 per annum job which, after tax, would work out at over £2,000 of extra consumable income. I can see people being motivated by such a cash incentive.

Civil Service Structure

It is interesting that Deputy Secretaries have been left out. Logically, they should be included, as they are the senior managers. It may be that consideration of merit pay provides an opportunity to consider whether there are the right number of management levels in the Civil Service. My impression is that there are too many levels. There should be a direct link between Permanent Secretaries responsible for the overall work of the Department, and the Under Secretary/Deputy Secretary level post in charge of major blocks of expenditure and major areas of work within the Department. There may be a case for Assistant Secretaries and Principals, but little case for Principals and ^{Senior} Assistant Principals.

Could the introduction of merit pay be linked with the ultimate objective of getting rid of a couple of Civil Service grades altogether? Work does not benefit by being passed through 3 or 4 different levels of employee before it gets from the originator to the person who is ultimately going to consume it. The very complex grading system stops the enthusiastic and hard-working, who deserve early promotion, reaching jobs where they can make an impact. People should accept that they will on average spend longer in a given grade, but also know that if they work very well and are particularly effective, promotion can be achieved earlier.

Permanent Secretaries

There is merit in providing pay related to the weight of activity in a given Department. More importantly, there are two unresolved management issues about Permanent Secretaries that have been carefully sidestepped.

It is a nonsense to have two equal ranking people at the top of the Department of Trade and Industry. If the merger is going to be made a success (and preferably with the benign influence of Trade being seen more effectivly over the less satisfactory area

of Industry) the two posts have to be amalgamated into one. Secondly, the Cabinet Paper is silent on pay for Second Permanent Secretaries. They are also important postholders who should be brought into the net.

Conclusion

We need to spell out more carefully what performance is and how it can be measured. It should be as quantifiable as possible, preferably related to expenditure control and value for money. It should concentrate on good management which is measurable: it is difficult to reward policy work. It has to be assessed annually for each postholder. This opportunity should be seized to make senior managers in the Civil Service more responsible for their actions, and to give them an incentive to carry out their task well.

The private sector is not all modelled on the ICI system: the more successful enterprises are the ones where performance bonuses have to be earned year after year on the merits of that year's work. Policy Unit members from Vickers and Rothschilds could tell you how that keeps people on their toes!



JOHN REDWOOD

Civil Service: Pay + Pensions pt 13.

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On B/UP 15/3

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PRIME MINISTER

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MERIT PAY

We are setting up a meeting to discuss Lord Gowrie's proposals on merit pay.

You may meanwhile like to glance at the attached note by the Policy Unit. I do think that the point which John Redwood makes about the relations with the trade union side is important. This is not an easy time to present them with proposals which will appear to offer a pay rise for the most senior grades, and nothing except discussions for the grades which they represent. You may feel also that the relationship between the introduction of merit pay and the forthcoming Civil Service pay round needs to be thought through more carefully.

These are issues which, if you agree, could usefully be discussed at the meeting.

Yes not

DMS

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