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PRIME MINISTER

20 July 1984

PERFORMANCE-RELATED PAY

The proposals are now on the right lines - annual, non-  
pensionable, awarded on merit, related to FMI targets.

The issues for resolution are whether £4 million, or  
£10 million should be made available, and whether as "new  
money" or from Departments' existing planning totals. We  
favour the larger sum, presented as "new money". The scheme  
will encounter strong resistance. Although civil servants  
will welcome a chance to earn extra money, they will not  
take easily to putting a money value on those with whom they  
work closely rather than merely grading them as "average",  
"good", "outstanding". The Civil Service unions will oppose  
the concept because it gives more power to management. We  
will therefore have to buy acceptance of the principle, by  
offering new money.

£10 million, rather than £4 million widens the  
experiment. For management reasons this is important  
because the problems of motivating and grading senior  
officials will be different from those involved lower down,  
and in different parts of the Civil Service. If there is no  
general experimentation throughout the Civil Service next  
year, it may take six rather than three years to demonstrate  
the system.

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The Treasury are naturally concerned about the public expenditure implications. They may be worried unduly because:

i. There is a minimum size of pay package which can secure settlements. The shape of the package itself need not affect total cost. This implies that those who are awarded merit pay will, in the end, gain at the expense of those who are not.

ii. The Government may soon have in any case to increase the real pay levels of civil servants, which are falling behind those in the private sector. Better to include a merit pay element in this increase than simply to grant flat rate increases to all.

*Nicholas Owen*  
NICHOLAS OWEN

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PERFORMANCE-RELATED PAY

There is only one point I would like to add to  
the Policy Unit brief.

It would be wrong to shy away from the major change  
in Civil Service culture which merit pay implies. The days  
of a uniform percentage increase for everyone should be over.  
Some should get more - which means some will get less. To  
fund merit pay entirely from new money would be to lose the  
opportunity to drive this message home. It would also reduce  
the chance of success by constraining the funds available.

*Dub*

20 July, 1984

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PERFORMANCE RELATED PAY

It has taken Lord Gowrie and the Chancellor a long time to come back to you on the subject of performance related pay. There are still unresolved differences between them on two points:

- (i) Coverage - the Chancellor wants experiments restricted to senior ranks from Principal to Under-Secretary. Lord Gowrie wants to include more junior officers too.
- (ii) Finance - the Chancellor is prepared to provide £4 million, but wishes this amount to be found as far as possible from existing allocations. Lord Gowrie is seeking a higher figure to allow an extension to junior grades.

It would clearly be better if these differences could be resolved before a paper is circulated.

Agree to discuss with the Chancellor, Lord Gowrie, and Sir Robin Ibbs?

Yes mb

Buried in the middle of the draft Cabinet Paper is an argument which seems to me fallacious. In paragraph 6(d)(1) it is argued that "staff will need to be reassured that the systems are not merely devices to take money from the generality to give to the favoured few". It seems to me that this is precisely what merit pay schemes are intended to do, and that there must be some element of re-distribution as well as new money in any effective scheme.

Agree to cover this issue in the proposed meeting?

Yes

The Megaw proposal on job weighting for Permanent Secretaries has been dropped from the draft paper, on the grounds that it is not strictly relevant to merit pay. Lord Gowrie proposes, if you agree, to send you a letter about this, circulated to Cabinet colleagues, as a means of reaching a decision.

Content to deal with this in correspondence?

Yes

ms

ms

DAVID BARCLAY

16 July 1984