SUBJECT cc Master Set

Jo SD

c. Policy Unit

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10 DOWNING STREET

From the Private Secretary

24 July, 1984.

Dear Mary,

Performance Related Pay

The Prime Minister chaired a meeting on 23 July to consider the proposals on performance related pay set out in Lord Gowrie's minute of 13 July and the attached draft Cabinet Paper. Also present were the Chancellor of the Exchequer, Sir Robin Ibbs, and Sir Robert Armstrong.

Lord Gowrie said that the concept of performance related pay assumed special importance at a time when promotion opportunities in the Civil Service had been reduced, and pay levels generally were being kept under the firmest control. Performance related pay was an essential management tool, which could help to motivate individuals and to concentrate the minds of managers on assessing the merits and demerits of their staff.

The successful introduction of performance related pay would depend on avoiding an industrial relations wrangle. Your Minister proposed an experimental scheme, to run for three years. The cost could be met from within planned public expenditure totals, but for presentational reasons it would in his view be essential to avoid deducting it from the allocation made for Civil Service pay. £4 million would be sufficient to finance a scheme for senior grades between Principal and Under Secretary, but your Minister's view was that it would be well worth raising this figure to between £6 million and £10 million to permit the prospect of extending the scheme to more junior grades.

The Chancellor of the Exchequer emphasised that the cost of performance related pay should be absorbed in full by Departments. The introduction of merit bonuses should not be seen as a back door way of increasing Civil Service remuneration.

Sir Robin Ibbs agreed that performance related pay offered an important opportunity to improve the quality of

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management in the Civil Service. It was for Ministers to decide where the money should be found - but if it was believed by the staff to come out of the pockets of colleagues, the proposed scheme would get off to a bad start. In his view it would be right to begin with a relatively small group of staff, provided that the possibility of extension could be kept open. The crucial grade for successful implementation of the scheme would be Under Secretary, since it was at this level that responsibility focussed under the financial management initiative.

Summing up a brief discussion, the Prime Minister said that the meeting was agreed that, subject to the views of the Cabinet, there should be an experimental scheme of performance related pay covering the four grades between Under Secretary and Principal inclusive. The experiment should run for three years from 1 April, 1985. Its cost, which was estimated at £4 million a year, should be found from within planned public expenditure totals, but not specifically from the allocation for Civil Service pay. In introducing the experiment, the Government should make clear that the possibility of extending performance related pay to more junior grades would be considered in the light of experience, but before the full three years had elapsed. If, as a result of the experiment, the Government decided to introduce performance related pay on a more permanent basis, the method of financing would require further consideration.

The Prime Minister invited your Minister of State to revise his draft paper in the light of the discussion, and to circulate it to members of the Cabinet.

I am sending copies of this letter to David Peretz (HM Treasury, Ian Beesley (Sir Robin Ibbs' Office), and Richard Hatfield (Cabinet Office).

Yours ever,

David

David Barclay

Mrs. Mary Brown,
Office of the Minister for the Arts.