



CGO

Prime Minister

29th November, 1984

PRIME MINISTER

Agree with Sir Robin Ibbot's
comments?

Yes - what he is
saying is - & rightly - is
that we haven't a
clue about
how to
manage
it.

MERIT PAY

I am leaving for the Far East tomorrow morning and have had time for only a very rapid look at Grey Gowrie's minute to you about merit pay. I have no comments on the proposed announcement and do not suggest that it should be delayed. However, several aspects of the other papers attached to the minute cause me concern. I see in them the work of an interdepartmental committee rather than practical experience.

1. The papers appear to me to be bureaucratic rather than managerial. There is more emphasis on how to spend the money than on how to get the improved performance.
2. Although there is a reference to the Financial Management Initiative (FMI) there is insufficient emphasis on the opportunity to make the FMI and merit pay mutually reinforcing - in particular there needs to be a close link between objectives under the FMI and the basis set for assessing performance.
3. Indeed, although there are several references to objectives, I find insufficient emphasis on the basic need for these to be as clear as possible. Without this the assessments are likely to become a subjective mess and have little incentive effect. The very large number of posts it has been decided to include in this first attempt at introducing performance pay means that there is an immense task ahead of defining objectives. It is most important that this is not skimped or fudged.
4. There is insufficient emphasis on face to face management. By this I mean that effectiveness of the scheme will depend on line managers telling each of their staff clearly what is expected of them and then in due course seeing them again to tell them how they have done, regardless of whether they get a bonus or not.
5. I can find no reference to the very substantial accumulated experience of performance pay schemes that exists both in the private sector and in parts of the public sector overseas. Introducing a successful scheme is far from easy and it would be foolish to have Departments developing homemade schemes which fall into



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traps that other people have already discovered the hard way. Having full regard to experience need not prevent Departments tailoring a scheme to their own needs.

My overall concern is that the so called experiments in introducing performance related pay could easily end in amateurish failure; a good opportunity to improve the performance of the Civil Service will then be wasted.

My advice is that you should urge Grey Gowrie and Robert Armstrong to ensure that note is taken at the Centre and in Departments of the sort of practical points I have outlined above.

I suggest that before the rules and guidelines are issued, it would be wise to seek advice from someone with extensive practical knowledge of introducing such schemes, so as to ensure that Departments have available the best possible practical help in a difficult task.

I am copying this to Grey Gowrie and Robert Armstrong.

ROBIN IBBS

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10 DOWNING STREET

From the Private Secretary

3 December 1984

MERIT PAY

The Chancellor of the Duchy will have received a copy of Sir Robin Ibbs' minute to the Prime Minister of 29 November on merit pay.

The Prime Minister has considerable sympathy with the criticisms which Sir Robin makes of the papers which Lord Gowrie circulated on this subject. Whilst these criticisms do not affect the timetable for the announcement, or indeed its terms, the Prime Minister hopes that they will be given full and careful consideration. She believes that the weaknesses to which Sir Robin draws attention reflect a more general lack of management expertise within the Civil Service.

I am sending a copy of this letter, with a copy of Sir Robin Ibbs' minute, to David Peretz (HM Treasury). Copies of this letter also go to Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.

(David Barclay)

Paul Thomas, Esq.,
Chancellor of the Duchy of Lancaster's Office

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10 DOWNING STREET

From the Private Secretary

29 November 1984

PERFORMANCE RELATED PAY AND UNIFIED GRADING

The Prime Minister has considered the Chancellor of the Duchy's minute of 23 November about performance related pay and the extension of unified grading.

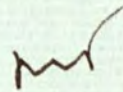
The Prime Minister would be content for Lord Gowrie to proceed next week with the announcement of the experimental scheme of performance related pay, provided that Ministerial colleagues and Sir Robin Ibbs also agree. As regards the extension of unified grading to Principals, the Prime Minister understands that a further meeting is planned between your Department and the Department of Education and Science. Assuming that the outstanding issues can be resolved bilaterally, the Prime Minister would be content for the proposed changes to be announced.

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

(David Barclay)

Paul Thomas Esq
Lord Gowrie's Office

PRIME MINISTER

This minute from Lord Gowrie covers two separate issues: performance related pay, and the extension of unified grading. 

Performance related pay

Cabinet agreed in July that a start had to be made with the introduction of performance related pay. Lord Gowrie is now ready to announce a 3-year experiment, limited to relatively senior staff. Operation will be largely at the discretion of Permanent Secretaries, but up to one in five staff in the grades between Principal and Grade 3 should be able to earn bonuses with a minimum value of £500. The cost is estimated at £4 million a year.

The unions will resent the narrow scope of the experiment, and Lord Gowrie therefore wants to allow as long a period of consultation as possible before the scheme is due to start on 1 April 1985.

Agree announcement next week, subject to Chancellor's views (not yet received, but expected to be generally favourable)?

Unified grading

Most colleagues have accepted, with more or less enthusiasm, the extension of unified grading to Principals. But Sir Keith Joseph remains opposed, because of the extra cost this change would impose on the research councils (estimated at £2 million a year).

A further meeting between Lord Gowrie and the Education Secretary is planned for next week. I suggest you reserve your position until then.

Agree?

DMB

David Barclay
28 November 1984