

pa 15/2 (1)

Prime Minister



The Chancellor's paper - which goes beyond an earlier, neutral,

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Draft - is

meeting substantial

criticism, from Peter

Walker, George Younger,

and Janet Young.

Do you wish to intervene -

2 February 1982

NOTE
Passed these comments on to Peter Jenkins

MUS 15/2

The Baroness Young,
Chancellor of the Duchy of Lancaster

I will leave the Chancellor's to sort this out. but I come in measure by

or are you ready to leave the Chancellor to make the winning?

INQUIRY INTO CIVIL SERVICE PAY: GOVERNMENT EVIDENCE ON MERIT PAY

MUS 12/2

As you know, one of the issues we have asked the Megaw Committee to consider is whether there is a place for using merit pay in the non-industrial Civil Service and if so, how it should be applied. The Committee has now asked us for evidence on this question which clearly bears on your own responsibilities very closely.

to the view that the scheme will be virtually unworkable

I think it is important that on this, as on other issues, we should present the Inquiry with as clear a statement on the Government's views as we can. Where we see a need for change we should point the Committee firmly in the direction in which we want to move.

.... The draft paper for the Committee enclosed with this letter covers in an analytic way most of the basic ground. It also offers some broad conclusions about the way forward which I hope we can agree to commend to the Committee:

(a) General Approach

In my view, there is a strong case for relating pay more closely to personal performance despite the opposition of the Civil Service unions to this approach. We are committed to improving incentives in the Civil Service and a merit pay scheme is a widely recognised way of doing this in non-manual employment generally, even though it is more common in the private sector than in the public services. The prospect of promotion at some point in the future is likely to prove an increasingly inadequate motivator for the bulk of our staff.

(b) Type of Scheme

The draft paper suggests that:

(i) Permanent and Deputy Secretaries should probably be excluded from any scheme;

((ii) Range



(ii) Range pay might be more appropriate at Under Secretary and Assistant Secretary level;

(iii) For the main grades below this level a more flexible use of incremental scales would appear the most convenient approach with provision for increments to be withdrawn or withheld, for "double increments" for outstanding performance and possibly for some supplementary payments at intervals for staff of good quality at the top of their scales. At present all but a very few staff receive increments as a matter of course so the system has no incentive effect.

(c) Resources

When we were considering a year ago the possibility of work being undertaken on merit pay schemes there was some concern at the possible growth in bureaucratic procedures which they might involve. If we believe that linking pay to performance would help us to improve the quality of management in the Civil Service, then some administrative cost will be worthwhile. But it is obviously important that any new arrangements should take up a minimum of extra resources while containing adequate safeguards against their abuse. The draft paper envisages combining merit pay assessments with the existing staff reporting procedures. If these are not adequate for this purpose then surely they need to be improved in any case. It also suggests that merit pay schemes could be implemented on a "nil cost" basis in terms of the total pay bill and I believe that is the approach we should follow.

I should be grateful to have your views on the draft paper by 12 February.

I am sending copies of this letter and attachment to the Prime Minister, to all members of the Cabinet and to Sir Robert Armstrong. I am also sending a copy to Sir Derek Rayner.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be 'G. Howe', written over a horizontal line.