

Ref. A082/0214

PRIME MINISTER



MS

1, Mr Butler <sup>1928</sup>

2. Para Minutes

A note for Mr

H

Verrier

is also

attached.

23/11

Pay and Grading Structures

I have set up a Group of Principal Establishment Officers under Management and Personnel Office Chairmanship to pursue the internal management issues involved in grading structure and pay structure, in the light of the Megaw Report.

2. The Fulton Committee in 1968 recommended the introduction of unified grading. After that Report unified grading was introduced for grades down to Under Secretary and equivalent, to produce the open structure; but it seemed at that time insuperably difficult to carry unified grading any further down.

3. I think that the time has come to have another look at this question. Even before Megaw the Government had told the Treasury and Civil Service Select Committee (Cmnd 8170, paras 34 and 35) that the present grading structure was not entirely satisfactory and that we would be looking to see what changes are needed. The Megaw Report placed a good deal of stress on the importance of coherent internal relativities, and their recommendations on pay banding push in the direction of a simpler and more unified grading system. It is not by any means certain that it would be right to move to unified grading, and there are various questions about how far it would be sensible from the management point of view to move and with what speed. But there are at least potentially considerable management advantages to be gained. There is a general wish among the Permanent Secretaries I have consulted that we should consider what our future policy should be on grading structure in relation to the management needs of the Service.

4. It will be for the Group to assess the case for a more unified grading structure and to consider the internal management implications, as well as those for costs and resources. Specific and separate decisions would of course be needed before changes involving additions to the Pay Bill could be implemented. An important aspect



of the Group's work will be to consider how, within a more unified pay structure, provision can be made for flexibility to cater for, eg, recruitment difficulties and other management needs, including differences in personal performance. On this last point the Group will have the task of considering in detail how to fit merit pay into the pay structure.

5. These issues can be pursued separately from the negotiations about a new pay agreement. But close co-ordination will be needed between the new Group and the MISC 84 Official Group on Megaw. Arrangements are being made for this.

6. I am sending copies of this minute to the Chancellor of the Exchequer and the Lord Privy Seal.

RA

ROBERT ARMSTRONG

22 November 1982

CONFIDENTIAL

6 Card Service



at Mr Verelken.

10 DOWNING STREET

*From the Private Secretary*

MR HATFIELD

The Prime Minister has seen and noted Sir Robert Armstrong's minute of 22 November about pay and grading structures. She was interested to hear of the group which Sir Robert has established and she very much hopes that it can prepare a workable form of merit pay for Ministerial consideration as soon as possible.

I am sending copies of this minute to Mr Kerr (HM Treasury) and Mrs Brown (Lord Privy Seal's Office).

TIM FLESHER

24 November 1982

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Handwritten flourish

MR SCHOLAR

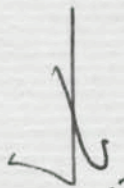
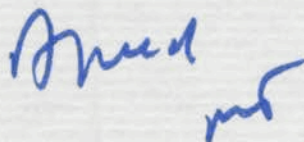
cc Mr Mount  
Mr Walters

CIVIL SERVICE PAY AND GRADING STRUCTURES

In his note of 22 November, Sir Robert Armstrong advises the Prime Minister that he has set up a group of Principal Establishment Officers to pursue the management issues thrown up by the Megaw Report.

Our interest in this relates to merit pay, to which Sir Robert refers at the end of paragraph 4 of his note. The Prime Minister will recall that we pressed hard, with her support, for a forthcoming attitude to this to be taken in our evidence, despite caution on the part of the civil service managers. In the event, our evidence was neutral: but Megaw came down firmly in favour - "our firm recommendation is that performance-related pay should be introduced at all but the most senior levels of the civil service".

As we try to move away from the concept of automatic annual increases in pay towards pay increases which are earned by profitability, productivity and individual performance, it is essential that the Government sets an example in relation to its own employees. It would help to ensure that the group established by Sir Robert looks at merit pay in an appropriately positive light, if you were to reply to the effect that the Prime Minister hopes that a workable form of merit pay can be prepared for Ministerial consideration as soon as possible.

23 November 1982