cc JV

Management and Personnel Office
Whitehall London SW1A 2AZ
Telephone 01-273 / GTN 273 } 4400

4 November 1982

The Rt Hon Norman Fowler, MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON SE1 6BY

£500 is very small - would £1000 be better? MT

Prime Minister (2)

MCS 9/11

Dear Norman,

INCENTIVES TO IMPROVE EFFICIENCY

Your officials have been in touch with my Department about your proposal to run a pilot scheme to give to qualifying managers an annual sum of £500, to be deployed at their discretion to improve the office as a place in which to work. Geoffrey Howe and I would like to lend our fullest support to your scheme, and to invite colleagues to whom I am copying this letter to develop other pilot schemes as appropriate to their circumstances. As you know, in the White Paper "Efficiency and Effectiveness in the Civil Service" which we published in September we said

> "[The Government] is considering ways in which staff can gain some benefit from efficiency savings - for example by investing a proportion of such savings to improve output and enhance the working environment" (Cmnd 8616, paragraph 11)

And in Sir Derek Rayner's report to the Prime Minister in June on support services in Government R & D establishments, he recommended that we should consider

> "how arrangements can be made to encourage Departments to reinvest more from savings achieved by greater efficiency, to further increase efficiency and effectiveness, reduce running costs, and improve staff motivation eg in accommodation, computerising administrative systems, and other office machinery" (Recommendation 11).

Geoffrey and I believe that there is a place for separate pilot schemes to encourage greater efficiency, limited initially to particular locations for a specific time, within the context of the broader reforms we are now pursuing through the Financial Management Initiative and the programme of scrutinies. Such schemes would signal the firmness of our intentions to continue to improve efficiency, to delegate authority, and to recognise staff commitment. They would also yield valuable practical experience of many of the issues we shall need to consider against the broader canvas. This experience would be maximised by encouraging a range of rather different schemes in different Departments, and by associating the MPO in an appropriate way with their design and development.

The general basis of such schemes would be to give discretion to line managers to recognise, by an appropriate expenditure of funds, the contribution of subordinate managers and staff to improving efficiency. Such expenditures might or might not be linked proportionately to the efficiency savings gained; at least for the modest pilot schemes we envisage, we would expect the expenditure to be financed from existing allocations. It would be open to each department to decide the precise form of such expenditure; but possibilities might include office improvement over and above the basic standard, or conceivably some group bonus shared out equally among all staff concerned.

The essence of the pilot schemes would be that they provide an incentive to improve efficiency through the knowledge that line managers, rather than a remote "centre", have discretion to give such improvement material recognition.

This means that the purpose of the pilot schemes is not to bring accommodation up to an acceptable minimum standard, which is a duty on every employer and for which funds are provided through the PSA. Nor, I suggest, at this stage should they provide for differential payments to individual members of staff; Megaw has proposed a general system of merit pay, and it seems best to take decisions on that before we see whether there is scope for rewards to individuals over and above what it produces. The pilot schemes need not be linked directly to the development of budgetary systems (although my own view is that any continuing scheme will need ultimately to be a part of a Department's system of financial management). And the emphasis on line management discretion, and on efficiency improvement rather than on technical innovation, separates such schemes from staff suggestion schemes, though here too there may be scope for improvement and the Customs and Excise are considering an experiment for that purpose.

Geoffrey and I are of course examining the possibility of developing pilot schemes for our own Departments; I intend to start one in the Civil Service Commission. I hope that you and colleagues to whom I am copying this letter will feel able to move forward with schemes serving similar intentions. We need to aim to run any such schemes through the year 1983-84, and see how far we can begin to draw general lessons towards the end of that year. Brian Morris will be the official concerned in my Department; I am asking him to make contact with your officials to ensure that those Departments which decide to develop schemes are kept in touch with each other as they go along. The Treasury would also like to be kept informed; Miss M P Brown is their point of contact.

Copies of this letter go to Geoffrey Howe, John Nott, David Howell and Norman Tebbit and - for information - to the Prime Minister and other Cabinet colleagues.

Yours ever

Dorothy

BARONESS YOUNG

FILE SW

10 DOWNING STREET

From the Private Secretary

10 November, 1982

The Prime Minister has seen the Lord Privy Seal's letter of 4 November to the Secretary of State for Social Services about the latter's proposal to run a pilot scheme to give qualifying managers an annual sum of £500, to be deployed at their discretion to improve the office as a place in which to work. Like the Chancellor of the Exchequer and the Lord Privy Seal the Prime Minister is very much in favour of the scheme and her only comment is that £500 seems rather a small sum; £1,000 would be better.

I am sending a copy of this letter to Jill Rutter (Treasury), Jane Ridley (Ministry of Defence), Toby Johns (Department of Transport) and Felicity Everiss (Department of Employment). Copies of this letter also go to the Private Secretaries to the other members of the Cabinet and to Richard Hatfield (Cabinet Office).

TIMOTHY FLESHER

Mrs. Mary Brown,
Lord Privy Seal's Office

RM

MBOM

cc JU

Management and Personnel Office
Whitehall London SW1A 2AZ
Telephone 01-273 } 4400
GTN 273 }

17 December 1982

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1H 9NF

MS 21/12

Dear Norman,

INCENTIVES TO IMPROVE EFFICIENCY

Thank you for your letter of 24 November.

I was pleased to have your endorsement of our proposals that different departments should develop their own pilot schemes. Although the schemes will no doubt differ according to local circumstances, I am sure that they will provide us with worthwhile experience on which to build more generally.

I appreciate that your intended staffing review limits the immediate scope for a pilot scheme in the unemployment benefit service. But as you say, it is an obvious area for an experiment of this kind. I understand that our officials have been in touch, and I shall look forward to hearing about your proposals for a scheme in due course. Perhaps this could be towards the autumn of next year. Of course, if there are any other parts of your department where ideas for an experimental scheme come up, we should be very glad to discuss them.

I am copying this letter to the recipients of yours.

Yours ever

Dot

BARONESS YOUNG

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2 pp's.

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DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

13 December 1982

Lord Privy Seal
Management and Personnel Office
Whitehall
London
SW1A 2AZ

Dear Lord

Prime Minister:
Levi suggested £1000 might be a better incentive for managers.
14/12

INCENTIVES TO IMPROVE EFFICIENCY

Thank you for your most encouraging letter of 4 November about our proposals to develop an incentive scheme for managers.

We agree that any such scheme should be separate from a system of merit pay and from staff suggestion schemes and that it should be designed to allow the line manager the freedom to reward contributions to improved efficiency.

Quite naturally, we see fewer difficulties in deciding how the rewards might be spent than in identifying yardsticks or methods of measuring relative performance. But we hope that we shall have a pilot scheme ready by April and my officials will be keeping your Department and Treasury informed of our thinking.

I was delighted to note from the letter from No 10 to your office that the Prime Minister and Chancellor support our initiative and I agree of course that £1,000 will be a better motivator than £500, though I accept that for 1983/84 at least funding has to be from existing allocations. Without minimising the difficulties to be tackled in working up sensible systems - and we are now hard at work on ours - we are convinced that there is scope within Departments for encouraging greater efficiency by providing incentives and that the way forward is by experimentation.

Copies of this letter go to Geoffrey Howe, John Nott, David Howell and Norman Tebbit and - for information - to the Prime Minister and other Cabinet colleagues.

Yours Norman

NORMAN FOWLER

Rayner file 13.

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cc. J.V.

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Prime Minister (2)

MCS 24/11

The Rt Hon The Baroness Young
Lord Privy Seal
Management and Personnel Office
Whitehall
LONDON
SW1

24 November 1982

MT

Dear Janet,

INCENTIVES TO IMPROVE EFFICIENCY

You sent me a copy of your letter of 4 November to Norman Fowler inviting colleagues to develop pilot schemes for giving discretion to line managers to reward the contribution of their staff to improving efficiency.

I am sure the proposal for pilot schemes is right. If these can be properly set up, they should shed valuable light on the question whether schemes of this kind have a worthwhile contribution to make in the Civil Service environment or not. As far as my Department is concerned, the obvious place for a pilot scheme is the unemployment benefit service. We shall be carrying out a review of staffing allowances in the UBS - a major exercise with important cost implications - in early 1983 and, bearing in mind also that the UBS is still under severe pressure from high and rising unemployment levels, I do not think we could mount a pilot scheme there at least until the dust has settled after the negotiations following the review. Subject to that point, however, I should be ready to consider setting up a pilot scheme. The DHSS proposals outlined in your letter are very interesting and, given the similarity of the work in UBS and DHSS local offices, we might well want to consider something on similar lines at a suitable stage.

I am sending copies of this letter to the recipients of yours.

Yours
Norman