



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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From the Permanent Secretary

Sir Kenneth Stowe GCB CVO

David Norgrove Esq.,  
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29 September, 1986

*pa*  
*Dear David.*

PERFORMANCE RELATED PAY FOR GRADES 2 AND 3

We discussed at dinner on Thursday night the lack of progress on the TSRBs recommendation about performance related pay and you provoked me by your assumption that all the Permanent Secretaries were opposed to it. I said that I was not only in favour of it but thought it quite indefensible that Permanent Secretaries pay should have been substantially increased while the related increase for sustained high performance among the Grade 2s and 3s was not being made available. In my view it is neither difficult nor objectionable to proceed rapidly with the implementation of the TSRB recommendation.

Some work has been done on this - the MPO can tell you all about it - but I have not been satisfied by anything I have seen so I set out my own views in a note for Robert Armstrong. I think you will find the enclosed copy of my letter to Robert, and its attachment, self-explanatory.

It is perhaps a little out of order for me to bend your ear in this matter but since you sought my views I am giving them to you! I have no objection, of course, to your showing this letter and its enclosure to Nigel Wicks.

*Yours ever*

*Ken Stowe.*





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*From the Permanent Secretary*  
Sir Kenneth Stowe GCB CVO

Sir Robert Armstrong, GCB, CVO,  
Cabinet Office,  
Whitehall,  
London SW1

28 July, 1986

*My dear Robert.*

GRADES 2 AND 3 - DISCRETIONARY PAY  
AND PERFORMANCE APPRAISAL

I found the two papers on this, and the subsequent letters, very hard to digest and I did not feel that our second reading debate around your table yesterday brought me to any clearer conclusions. So, I have tried to think the situation through from my standpoint here, building on some of the important points that came out of our discussion and setting down conclusions in a form that I think I could live with and operate. The note at Annex is the end result.

What seemed to me to be missing from the papers was a sufficiently clear explanation of the timescale and the dynamics of the system. To clarify my mind on this, I worked through, with my senior staff secretary, all of our grades 2 and 3 - a total of about 57 individuals - identifying those in respect of whom I could say now that sustained high performance had been achieved; and going on to think through the probable path of their progression to the maximum of the discretionary scale assuming that they maintain their performance at a very high level. (I make the assumption that there can be no question of going immediately to the maximum of the discretionary scale, i.e. there must be at the very least a 3 year transitional period before the system is bearing its full weight).

The conclusions from this dummy run were that I would probably want to put at most 2 Grade 2s and 13 Grade 3s on to the first



discretionary increment. From what Peter Kemp tells me I am not too far out from what the operational research modelling suggests might be my end state, although of course it by no means follows that all of those who are put on to the first discretionary increment proceed to the second and third or, even if they do, proceed in the successive years.

The conclusion I draw from this is that a properly controlled system should be able to be fitted in at tolerable cost and I see no great merit in bickering as to whether we should aim to come out at 1% or 2%, or somewhere in between, of the total salary costs for these grades. We should have sufficient confidence in the system and our capacity to work it rigorously to rest on the principle that the cost would be found from within the running-cost limits.

Some more general points:

- 1) I am sure that we need not impale ourselves on the hook of withdrawal but should adopt the procedure we are following in the health authorities scheme of "stand still". This in turn makes it practicable to make the increment superannuable. Of course there is a cost but I take very strongly the point put to me here that beyond a certain level the enhancement of pension level is a very real motivator. I have not assumed superannuability in the annex, but I think it might well be a concession we would be wise to make to the staff interests in due course.
- 2) As you will see, I think we should construct the performance appraisal procedures so as to underpin the discretionary pay, and I am attracted to the idea of making the sub-committee of SASC responsible for overseeing the performance appraisal system.
- 3) I gather that we have lost the principle that the normal increments should require positive certification. I regret that and hope that we can construct a sufficiently rigorous and attractive performance-pay system to justify re-opening this issue with Ministers. It is fundamental to the challenge which we must sooner or later take up, of reforming the incremental system as a whole.
- 4) As to the cost of operating the system, which Peter Middleton referred to, I do not think we should either ignore this or be intimidated by it. I see nothing wrong in spending money (provided we know how much it is) in compelling ourselves to evaluate the performance of staff whether for performance bonuses or discretionary increments. If we ever reformed the incremental system, then that will necessarily incur some cost although I would hope that it will be more than recovered by gains in efficiency.



E.R.

MANAGEMENT - IN CONFIDENCE

- 3 -

You said that you would reconvene the meeting after Peter Kemp had furnished some statistical material, which I await with interest. I think it might be helpful to reconvene it on the basis of a note drawing the threads together. My note at the Annex might be a contribution to this.

Enough paper has gone round the network so I am copying this only to Anne Mueller and Peter Kemp but circulate wider if you wish.

*Yours ever.*  
*Ken*

MANAGEMENT - IN CONFIDENCE



DISCRETIONARY INCREMENTS AND PERFORMANCE APPRAISAL

1. Ministers have decided that a system of discretionary increments should be introduced to reward and motivate sustained high performance from staff at Grade 3 and Grade 2, whose professional competence and commitment is essential to the effective performance of Departments.

2. The increments will recognise sustained high performance by individuals. They will, therefore, be related to individuals, not posts: once awarded they will follow the individual to any other post in the Civil Service, including temporary or permanent secondment to other Departments. Those on secondment will be eligible in the Department where they are working and their performance can be judged.

3. The system will be run, as regards Grade 3, under central guidance from the Head of the Civil Service, with authority to award increments delegated to Heads of Departments at Grade 1 level. For Grade 2, the system will be centrally managed.

*Note: his is a good idea, but who does not have the capacity to do this will be currently staffed.*

4. For this purpose the Head of the Civil Service will need to be supported by a panel of senior advisers (i.e. a Sub-Committee of SASC) with one or two recently retired Permanent Secretaries who will have time:

- a) to assess the performance appraisal reports submitted to the Head of the Civil Service by Heads of Departments (see below at paragraph 5); and
- b) to participate as counsellors in Departmental awards to Grade 3's - Sir George Moseley, Sir Lawrence Airey and Sir Geoffrey Otton are possibilities.

5. The advisory panel will require from Heads of Departments performance appraisal reports for eligible staff. These should cover:

- relevant personal details;
- a brief description of the officer's current responsibilities and main tasks (including the resources for which he/she is directly or indirectly accountable), and any key objectives;
- a general assessment of performance over the previous three years, and a specific assessment of



what has been achieved over the previous year, with particular reference to any objectives specified e.g in a Departmental management accounting framework (MINIS etc).

6. The system will begin in the financial year 1987/88, i.e from 1 April 1987.

NOTE: It will need to be decided whether these discretionary increments are awarded from a common date or, like other increments, from the anniversary of the officer's entry to the grade. The former leads to congestion; the latter is more easily managed; but the highly competitive nature of the awards points perhaps to a common date for selection. The financial consequences can also be more easily budgetted for.

7. Sustained high performance, by definition, will not be measured only in relation to the previous year, but to at least the three previous years. Even so, the reports on performance should be made at the end of each financial year; and submitted to the advisory panel within [3] months of that date.

8. In the case of Grade 2s the recommended awards should be submitted to the panel by [end August]. In the case of Grade 3s the awards decided by the Head of the Department should be notified to the advisory panel by [end August]. In the first year or two it will be prudent for Heads of Departments to consult on any marginal Grade 3 cases before implementation.

9. The first performance appraisal reports will be need to be completed in April-June 1987. The Head of the Civil Service will be issuing guidance to Heads of Departments on the lines of paragraph 5.

#### The Procedure for Awarding Discretionary Increments

10. For Grade 3, eligibility for the first increment will not occur until the officer has completed four years in the grade, i.e he will reach his maximum on the automatic scale at the beginning of year three, complete that year on the maximum, and be eligible for a sustained high performance award in respect of the next year (year four).

11. In subsequent years he will be eligible for further discretionary increments but:

a) it is not assumed that he will, even if of the highest quality, qualify for a discretionary increment immediately he is eligible (end of fourth year); and



b) it is not assumed that sustained high performance will automatically lead to the award of the three available discretionary increments in three successive years.

12. A very good performer indeed might, therefore, get to the maximum of automatic and discretionary awards at the end of six years but it is more likely that it will take seven or eight, with marking time at some stage.

13. For Grade 2, the same procedure would apply even though the normal maximum is reached one year sooner, i.e the Grade 2's would spend three, rather than two years on the automatic maximum before becoming eligible for a discretionary increment.

14. It is not envisaged that discretionary increments will be withdrawn, once awarded, save in the most exceptional circumstances. If in the exceptional case the officers performance fades very badly, then a standstill will apply until the normal maximum catches up with his salary. But in these circumstances other considerations begin to be relevant.

#### Performance Appraisal

15. Regular appraisal of performance will be undertaken for all in Grade 2 and Grade 3 irrespective of whether they are yet eligible for discretionary increments for sustained high performance: the concept of "sustained" performance makes this necessary. The form of the performance appraisal will follow the outline in paragraph 5. Guidance on this outline will be issued by the Head of the Civil Service, with the advice of the advisory panel, as soon as possible so that Heads of Departments can review their existing arrangements and ensure that they have got adequate appraisal on the record for all relevant staff in good time for the start of the new system. It will be an important part of the performance appraisal system that there should be regular feedback to the officers concerned on how their performance has been judged by their seniors.

#### Heads of Smaller Departments

16. Special arrangements will be needed, under central direction, for the performance appraisal of Grade 2s heading smaller departments and their assessment for discretionary increments. This may well raise new questions of accountability relating to these officers.