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FROM: J G PEET

DATE: 25 JULY 1986

MR BOOTE )  
 MISS EVANS )  
 MS GOODMAN )  
 MR HALLIGAN )  
 MR PICKERING )  
 MR WILLETTS (NO 10) )

copy to each

Mr Wicks cc Mr Norgrove

You may be interested in this which reflects John Peet's conversations with myself & others. In general I agree with it though:

(i) I think pay is overstated & promotion understated. We don't <sup>just</sup> want to increase our pay on <sup>an</sup> ~~merit~~ <sup>merit</sup> job, but to increase

I have mentioned to all of you my note for EOG on why Principals are resigning. I attach a copy of the final version, as sent to Brian Fox. Ms Goodman may care to show it also to Huw Evans, as FDA branch Chairman.

it by promotion or merit not  
 suggestion

(ii) The civil service, like other large organisations is going through a process of 'contracting out' functions <sup>that should be recognised</sup>

John and encouraged.

David Willetts  
 29/7/86

J G PEET

## WHY ARE PRINCIPALS LEAVING THE TREASURY?

### A Personal View

There has been a large number of resignations at Principal (Grade 7) level in recent years. The table attached to Huw Evans' letter of 16 May to Sir Peter Middleton showed 26 resignations in the period 1981-85. This year's picture is worse still. Moreover, it is commonly believed that those resigning come disproportionately from among the "high-fliers": the effect of the resignations thus goes beyond the direct losses and is reflected in a fall in overall average quality of staff at Grade 7 level in the Treasury.

2. A random roll-call of some who have left seems to bear out this view. They include Deryck Maughan, Andrew Winckler, Reg Hinkley, Kevan Watts, Chris Baker, Howard Davies, Chris Smallwood, Stephen Locke, Nick Sallnow-Smith, Richard Broadbent, John Williams and Adrian Ellis. David Willetts is also to leave shortly. In my view, the Department cannot afford to lose people of this quality over such a short period without running the risk of a major fall-off in the quality of its service to Ministers.

3. I believe that there are five major reasons for the outflow, in descending order of importance:

- i. Pay;
- ii. Promotion prospects and career structure;
- iii. Outside perceptions of the civil service;
- iv. Interest of the job; and
- v. Prospects for the civil service in the long run.

### Pay

4. No-one should be under any illusion that pay may not be a major factor. I consider it to be far and away the most important reason for the large numbers of resignations. I am not impressed by Sir Peter Middleton's claim, in his letter of 4 June to Huw Evans, that "less than half those who leave profess to do so for pay reasons": even Treasury officials are averse to appearing too mercenary, and many like to think they are leaving for higher motives than mere money. Pay is a motivating factor even where the initial salary change is small or even negative: it is the better prospects in the private sector which matter.

5. I will not attempt to rehearse in detail the various figures which exist on relative pay movements; they are anyway always heavily dependent on choice of base year. It does seem clear that there has been a very long term trend of pay in the civil service losing ground to pay outside. Figures produced by Geoffrey Fry suggested that Principals' pay in the period 1956-1980 had risen 657 % (incidentally, much more than pay of higher civil servants), while the average wages index had risen by 730 %. It has long been accepted, too, that a career in the civil service cannot hope to yield the same sort of financial rewards as the City or even most other professions, and this has not deterred good quality graduates from joining and remaining in the civil service generally and the Treasury in particular.

6. There are, however, two new points about civil service pay which have emerged under the present Government:

i. the abolition of Pay research in 1980 and the overt abandonment of the principle of comparability;

ii. the speed with which a downward relative pay adjustment has been made.

7. Coming as it did in the wake of a general feeling that Ministers (and particularly the Prime Minister) were hostile to the civil service, the decision to abolish pay research had a profound psychological impact. Ever since the Priestley Royal Commission of 1955, and indeed before that, it had been accepted that, as a matter of principle, and because it was inherently impossible to look to market forces, civil servants should be paid at a rate comparable to similar work outside. In practice, of course, Governments had frequently refused to implement full comparability: one of the most notable examples of this was just before the abolition of PRU, in the period 1976-79 under a Labour incomes policy which very sharply reduced relative civil service pay. But it was always much easier to accept a temporary squeeze, eg as a result of an incomes policy, if a long run commitment to comparability remained; for it implied a prospect of "catching up" (as indeed happened in 1980). Since 1980, notwithstanding the Megaw Committee report and the abortive efforts to find a long-term pay agreement, there has not been any such "safety-net".

8. The psychological impact of PRU abolition has been very much reinforced by what has actually happened to civil service pay since 1980. We have had six successive pay rounds in which the civil service settlement has been below outside levels, and there is every prospect of a seventh next year. From April 1981 to April 1986, civil service settlements amounted to 38.8 % compared with 50.7 % for non-manual workers generally. In 1980, the minimum Principal salary was 1.44 times average non-manual earnings (having been 1.6 times it in 1975); by 1986, the multiple was down to 1.12. Sir Geoffrey Howe's statement to the Megaw Inquiry that the Government did not intend year after year to pitch civil service settlements below market rates in the private sector sounds pretty hollow in the light of subsequent experience.

9. The comparison of relativities is much worse if one looks at how bright graduates have fared in the London job market than if one talks of the overall civil service. Even after the recent run of low settlements, there is evidence to suggest that civil service pay generally may be above local market rates in the North, in Wales and in Northern Ireland. In London (and not just in the City, either), the market for good graduates has been booming in the last 5-6 years. Consultancy, accountancy, financial services and the law now offer starting salaries and prospects that are immeasurably better than the Treasury: indeed, one hears of cases where starting salaries are above those earned by Principals in the Treasury with ten years' service. The civil service has completely failed to understand what has happened to the graduate job market: able graduates are now courted by potential employers well before their finals, "golden hellos" are sometimes paid and increasing emphasis is placed on the "perks" element of remuneration. There is a general appreciation in the marketplace of the premium value which a good graduate can command. The relative loss of attractiveness which the civil service has suffered has been rapid and may be irreversible: one effect has been a fall in the quality of new ATs, but a loss of good Principals is another.

10. I should add three further reflections before leaving the subject of pay, on London weighting, the TSRB and performance bonuses. On the first, I entirely endorse the view that London weighting should be seen not as compensation for the higher cost

of living but as part of the necessities of recruitment and retention. But on this latter basis, it should be higher than on the former; and on either basis, it is far too low. Property prices in London are now so high that a new AT has little chance of even getting a toe-hold in the market; many of his contemporaries benefit not just from higher pay but also from cheap mortgages. A substantial increase in inner London weighting is long overdue.

11. Regular overriding of TSRB recommendations - in 1979, 1980, 1981 and 1986 - has also worsened prospects at the top. Other public sector groups with Review Bodies have not been treated in the same way: to say nothing of MPs. It is hard to avoid the feeling that civil servants now come at the bottom of the public sector heap - and the public sector itself comes beneath the private sector.

12. The recently introduced performance bonus scheme has done nothing to improve the situation: indeed, I believe it has made it worse. Bonuses have created resentment among those who did not get them, and a worry that this may mean the Department no longer values their work; they have been awarded arbitrarily and in a covert way - so that no-one can explain what criteria have been used; they have been artificially limited to a fixed proportion of total staff regardless of workload or effort; and they have manifestly not gone to those whom the Department is in danger of losing - indeed, some have gone to people on the verge of retirement or as a sop to those not likely to be promoted. Anyone who labours under the illusion that the present performance bonus scheme can do anything other than worsen the problem should be invited to talk to those on the receiving end.

#### Promotion prospects and career structure

13. This is the second major problem in the Treasury. The shortage of good recent graduates has meant that promotion to Principal at 26 (or even 25) has become the norm not the exception. The officials concerned are then expected to spend the next ten years at the same grade. Recently, a Principal with nine years seniority was told at the age of 34 that he was "too young" to be promoted this year. A number of recent promotees have had

to wait until they are 37. The dead weight of the seniority list and the unspoken age bar hovers over many bright 30-year old Principals who, in outside organisations, would be approaching the point at which their contribution to the firm and their remuneration could be expected to be growing very rapidly. It is no surprise to me that most Grade 7 resignations come after those concerned have acquired about 5 years seniority.

14. There are three common responses to complaints on these lines:

i. the position is not much different now to what it has always been. Indeed, the Treasury has managed to do better than other Departments (ironically, this is largely because of the number of resignations!);

ii. it is difficult to maintain a good flow of early promotions in an organisation which is shrinking in size. The promotion prospects above Grade 5 level are in practice worse than those for Grade 7 to Grade 5;

iii. one cannot in an organisation like the Treasury disregard the claims of seniority. Those in their early thirties can afford to wait without impairing their longer term prospects. Those in their late thirties cannot. To promote people in the first group early would be to waste the potential of those in the second group, even if objectively they may have less talent, and not such good long term prospects.

15. These points have force. But they are really arguments about the difficulty of change, not defences of the status quo. And they can be answered. Thus, the situation has certainly worsened compared with the mid-70s, when there were a number of promotions at 33 or even 32 compared with the present 35 and 36. As for the promotion blockage higher up, this too needs sorting out. A way has to be found of accommodating staff reductions without lengthening the general wait for promotion: otherwise, the problem of retaining good quality staff can only get worse. Outside organisations commonly look to youth when picking senior men; experience suggests that younger people frequently have more

energy and imagination than their seniors. Of course it is difficult - and it may cost money - to apply the same principle to a hierarchical organisation like the civil service; but it will have to happen one day, and it may well be associated with another trend, of people being willing to leave the service before retirement. Meanwhile, it does not help matters if the rare grade 3 and 5 vacancies which do occur are filled by inward secondments.

16. As for the difficulties which "leap-frogging" could create, these too have to be addressed, as they already are for promotions to senior grades. One possibility might be to treat Grades 4 and 6 as interim promotions which can be justified on grounds of age and seniority. Another could be to promote some staff "à titre personnel" without having to wait for a Grade 5 vacancy. Maintaining a system in which everyone knows that, however well they may perform and however highly they may be regarded, they cannot be promoted until they are 35 is no longer tenable in the modern jobs market; it breeds disillusion and (sometimes) a tendency to slacken off the efforts in (say) one's second posting; it also leads more people to feel that they would lose nothing by resigning at 29 or 30, since they could return at 33 or 34 without affecting their promotion prospects. And I can certainly cite instances of people who feel they have wasted time by joining the Treasury at 21 or 22 rather than 25 or 26 since promotion seems to be so heavily influenced by age.

### Perceptions of the Service

17. It is much more difficult to see a way of dealing with the third problem, outside perceptions of the civil service, including those of people's peer groups. There is little doubt that respect for the service in general and the Treasury in particular as a worthy career has fallen significantly. Young graduates think much less highly of the service as a potential employer; people one meets express surprise that men of ability should still be "mouldering away" in the Treasury (one answer to which is that they will not be doing so for much longer!).

18. The real problem, though, lies with Ministers and the Prime Minister in particular. Seven years of spreading a consistent message that the public sector is parasitical, unproductive,

overstaffed and overpaid has its effect both inside and outside the service, notwithstanding the consideration that Ministers are transient beings. And the general impression is that Ministers positively welcome the recent spate of resignations as releasing to more productive employment in the private sector resources which have hitherto been wastefully employed in the public sector.

19. There is also a major knock-on effect from mass resignations on the morale of those remaining. In part, this is because of a feeling that the quality of staff in the Treasury may be falling (something I discuss below), making it a less attractive place to work. But the falling respect in which the Department is held, allied with the numbers leaving, engenders a strong feeling along the lines of "I must be useless if I choose to remain". This can be exaggerated: Treasury civil servants are not that weak-minded. But it is a contributory factor to falling morale and to a disposition to look for other jobs. In addition, the ease with which many Treasury Principals have made the transition to higher-paying careers elsewhere has encouraged those remaining to believe they can do the same thing.

#### Interest of the Job

20. The saving grace of the Treasury in all earlier difficulties about pay, promotion, morale, status etc etc has always been the great interest of the job. Officials are operating at the very heart of Government policy, influencing its formation and implementation, affecting the outside world in countless unappreciated ways. It still is a fascinating and stimulating place to work. Colleagues are of a high standard; the issues discussed are of great importance; one has access to senior officials and Ministers at a remarkably early age; one can, indeed, feel that one is making a valuable contribution to policy-making. But I am not alone in believing that some of the edge has gone in recent years. There are an increasing number of high policy issues which appear to be "off-limits" for officials. Ministers seem less interested in debating policy options or new ideas with officials - or indeed with anyone. They are more inclined to listen to what they want to hear, and to dismiss alternative views as inconsistent with their political approach.



22. This may be the effect simply of a Government which has particularly entrenched views on the working of the economy and the best way to devise Government economic policy: something which could change in the near future. But there is certainly a worry among young Treasury Principals that they will not in future be called upon or expected to offer policy advice on what used to be called the "Budget Judgment"; or on how best to restrain private sector wages; or on the effects of monetary policy; because all of these things are seen to have entered the political arena much more than previously. Instead, officials could be reduced to advising and briefing on implementation of a previously decided macro-economic strategy which may owe as much to political prejudice as to a coherent knowledge of economics. This is something of a caricature, and I realise that it is not for officials to raise questions over the essence of a Government's policy. But it all helps, in my view, to create a climate in which Treasury Principals feel more foot-loose than they once did. A further factor has been the merger with CSD in 1982, which has increased the number of potentially "boring" jobs one might be given (as well as worsening the seniority list!).

23. There are also some frustrations about life as a Principal here which may have been getting worse. There are still too many layers in the hierarchy: if each layer is actively involved in particular issues, Principals can be cut out, eg of meetings or even of circulation lists. Allied with this, there has been some tendency for important work to start drifting up the line again, after a period when it was increasingly being delegated. And it should not be forgotten that frustrations over lack of typing and other support staff can diminish considerably the pleasure one can take in a job.

24. It is worth finally noting that the resignation of an appreciable number of good Principals itself has an impact on job interest. A major part of the satisfaction of working in the Treasury has, as suggested above, been the quality of colleagues and the consequent scope for interesting and thoughtful exchanges on policy issues. If people begin to feel that their best colleagues may be leaving, the general level of job satisfaction will inexorably decline. There is here a vicious circle which it may prove very difficult to break.

## Longer-term Prospects for the Service

24. Many of us are increasingly worried about the longer-term prospects for the career civil service. A number of outside commentators and politicians are questioning whether top positions in the service should automatically be filled by career officials. More political advisers are being appointed, and they may be playing a more significant role than previously. Some recent appointments to senior positions may have been politically motivated. It is not too fanciful to foresee a move to more American-style Government, with a change of administration being accompanied by wholesale importation of senior officials. The development in the late 70s and early 80s of much more confrontational politics and the "politicisation" of much economic policy have made the prospect even more likely: Ministers will in future be less ready to put up with the possibility of official "interference" with their programme and policies. A related phenomenon has been the growing tendency to commission outside consultants to examine and report on specific policy issues.

25. These are probably inevitable long-term trends which may not have been much accentuated by recent developments. But the fact of significant resignations at Principal level also affects the prospect. If Ministers and others conclude that the quality of advice available in the Treasury is falling off, this will make them more likely to wish to look outside for advisers. Another vicious circle could be in the making.

### Conclusion: and some solutions

26. This note has ended up being longer than intended. Nor does it contain anything new. But I think it is important for senior management (and, ultimately, that means Ministers) to appreciate the situation on the ground. When two Principals meet now in the corridor or for lunch, their first topic of conversation is invariably who has recently resigned, who else is believed to be on the verge of resignation, and whether either of them has yet found a job. Morale is as low as it has ever been while I have been here. And no-one expects anything to be done about it.

27. My view is that the time is long past when, to quote Sir Peter Middleton's letter again, we need to wait to be sure we understand the nature of the problem. If any of the problems I have identified above had occurred on their own, the situation might have been containable: it is the combination that is proving so damaging. Moreover, if action is not taken to remedy matters very soon, it will be too late: the best staff will have gone. It is certainly the case that fewer people now accept it as normal to spend all their working lives with a single employer. Thus, a loss of staff may now be a more normal occupational hazard. But the Treasury is not attracting an inward flow of people. No-one of experience and ability outside can be expected to join as a Principal on some £16,000 a year; attempts to recruit direct entry Principals have been pretty unsuccessful. Nor can a Department like the Treasury survive on a diet of secondments, like the Cabinet Office: it needs staff who have imbibed the Treasury ethos which is very different from that of other Departments.

28. Urgent action is therefore necessary. It is beyond the scope of this note to discuss in detail what form it should take, although many of the problems identified above have obvious enough solutions (though they would cost money). There needs, first, to be movement on pay for London-based fast-streamers; and it must be pretty substantial movement. There must also be some measures to speed up the crucial Grade 7 to Grade 5 promotion. Improved support facilities and greater efforts (especially among Ministers) to raise morale will be necessary. Among other possibilities, I think a complete merger of the Home Civil and Diplomatic Services would help, since it would open up more opportunities for postings abroad; and an effort to attract some high quality people as direct entry Principals could also contribute.

J G PEET

July 1986