



Ref. A085/3091

- ✓ 1. MINISTER OF STATE, PRIVY COUNCIL OFFICE
 2. PRIME MINISTER
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Performance Bonus Experiment

Following the seminar for junior Ministers, the Prime Minister asked for a short report on progress in implementing the performance bonus scheme.

Background

2. The Cabinet decided in July 1984 (CC(84) 28th Conclusions) in favour of proceeding with an experimental scheme of performance bonuses. The experiment, beginning in the financial year 1985-86 and running for three years, would be limited initially to staff from Principal to Grade 3 inclusive, at a cost of £4 million (rather less than 1 per cent of the total pay bill of the 20,000 eligible staff). There was no commitment to continue the arrangements after the three-year period, or to extend the experiment to other grades, though this was not ruled out. Ministers agreed that the experiment should be subjected to careful monitoring and evaluation.

The scheme

3. The central framework for the scheme provides scope for each Permanent Head of Department to tailor the arrangements to departmental circumstances. No more than one in five of the eligible staff may receive a bonus, but the amount of the payment may be varied (subject to a minimum of £500). Within the general intention that bonuses should reward particularly good performance over the year, the criteria enable well-directed energy and effort, as well as results, to be recognised. While,



in principle, all staff in the eligible grades are within the scope of the scheme, Permanent Heads may, exceptionally, exclude particular groups of staff. Ministers have decided that they should not take part in decisions on bonus awards, and that payments should be confidential to the recipients.

Present situation

4. Departments have made the arrangements and communicated them to the staff concerned. In most Departments, bonuses for the first year will not be paid until the last quarter of the 1985-86 financial year, following assessments made early in the New Year of performance since last April. It is too early therefore to draw general conclusions about the operation and effects of bonus arrangements. The monitoring and evaluation programme is being carried out with the help of Hay-MSL Management Consultants. Already a good deal of work has been done to assess the attitudes of staff towards the scheme and their understanding of it. A first report on this has recently been made by Hay-MSL, and a copy is attached.

*Summary only
is attached*

Survey of attitudes

5. This first survey, undertaken in five Departments, confirms that there is a good deal of doubt among those concerned about the effects of the experiment on performance and working relationships. This is understandable and not unexpected at this stage when no bonus payments have yet been made. We knew when we began this experiment that it would take time for staff to adjust to it and for the benefits to emerge. The survey results provide an initial benchmark against which to judge developments in attitudes as the experiment proceeds, and the evaluation programme will include further surveys at intervals over the three-year period.



6. It is clear that more work needs to be done both by Departments and by the Cabinet Office (MPO) towards making the experiment a success. In particular, more attention needs to be paid to communicating the criteria effectively to those concerned and to bringing out the relationship between this scheme and other initiatives to improve managerial performance.

7. We have all along recognised that the success of performance-related pay depends in part on the ability to set clear objectives and to develop improved means to assess progress and performance in achieving them. That is an important part of the current programme of management reform of which performance-related pay is only a part, and there is more work to be done.

Next steps

8. The survey results have already been sent to Departments to consider what action needs to be taken now to improve the communication of the scheme to staff, in the light of the points summarised in paragraph 6 above, and I will be reviewing this with Permanent Secretaries shortly.

9. The next survey of attitudes will take place in the spring after the first distribution of bonuses has been made, and other data from the monitoring programme will also be available at that stage. We will be better placed to consider then whether the design of the scheme may need to be modified (for example to publish bonus awards) and I shall make a further report to you then.

RTA

ROBERT ARMSTRONG

29 November 1985

MANAGEMENT IN CONFIDENCE

PERFORMANCE BONUS EXPERIMENT IN THE CIVIL SERVICE Report by Officials

INTRODUCTION

1. This is the second report on the progress of the performance bonus scheme for staff in Grades 3 - 7 of the Civil Service, introduced as a 3 year experiment in April 1985. The first report in November last year covered initial reaction to the scheme which allows up to 1 in 5 staff at these levels to receive a bonus for particularly good performance during the year, within an overall cost ceiling of £4 million per annum (rather less than 1% of the pay bill for the grades concerned). That report suggested that the reception of the scheme was generally unfavourable, and there was a good deal of scepticism about whether the scheme could be made to work satisfactorily.

2. This submission covers reaction after a year, when all departments have paid out the first bonuses. It is based, as before, on a wide ranging programme of work supervised by outside management consultants, who collected data on the operation of the scheme, conducted case studies and attitude surveys and interviewed staff. Their conclusions are contained in the draft report attached. (It is at present in draft form while some statistical data is being checked. The main conclusions, however, are unlikely to change.) It also reflects discussion of their report by Principal Establishment Officers of all the main departments and Treasury officials.

MAIN FINDINGS

3. The consultants have summarised their findings on pages 1 and 2 and presented their conclusions on pages 20 to 23. They have come to the view that although the scheme has been implemented smoothly (a considerable achievement in itself for a complex initiative covering about 20,000 people across the service), it has not yet visibly improved performance or increased motivation. It is still unpopular with the majority of staff even though they favour linking pay to performance. There are some positive signs from the attitude survey, especially among the more senior grades concerned with running the scheme, that it is capable of strengthening line management relationships, but overall its limited impact appears to have been at best neutral.

4. Of most interest, the report shows on the scheme's operation:

- . 16% of eligible staff received annual bonuses and 1% special bonuses
- . the range for annual awards was £500 - £3000, and that for special awards £100 - £1500
- . almost all awards went to those marked the equivalent of Outstanding (Box 1) or Very good (Box 2) in their annual appraisals, but 55% of those with a 1 and 75% of those with a Box 2 marking did not receive an award.
- . the opportunity cost of administering the scheme each year is around £1 million.

5. On the scheme's impact it shows:

- . 78% are in favour of relating pay to performance
- . 68% are against this scheme (including 47% of bonus recipients)
- . 70% of non-recipients and 47% of recipients are unclear on the criteria for awards (more than at the first review)
- . there has been little perceived effect on performance assessment, target setting, or other management systems
- . there is less concern about the scheme's impact on working relationships than before
- . Grades 2 and 3 feel more positively about the scheme than other eligible grades
- . only 23% of recipients and 6% of non-recipients say it improves motivation
- . what most matters to staff covered by the scheme is doing a worthwhile job, good working relationships, and freedom to act. Pay is important, but not the prime preoccupation.

ANALYSIS

6. The consultants' analysis suggests that it would be possible to abandon the scheme or carry on with the scheme unchanged. But they believe that both courses would be unwise. They would risk damaging future performance pay developments in the civil service. They identify in pages 20-23 of their report a number of areas of design and management of the schemes where changes could be made which should increase the chances of the scheme becoming more effective and would give the opportunity for the civil service to learn more about the approach which stands the best chance of making performance pay a success in the civil service environment. The experiment was, as they have pointed out, originally designed as one during which modifications would be made over the years to increase the prospects for effectiveness.

PROPOSALS FOR ACTION

7. We agree with this analysis. Some would argue that the right course would be to end the experiment immediately in the light of it. This would however be a major blow to the prospects for introducing performance pay in the Civil Service. It would also be premature: the new scheme represents a fundamental break with tradition at these management levels and dramatic results were neither expected, nor likely, in this initial period.

8. We believe that continued operation of the experiment for at least a second year would be right, with greater efforts to improve the value for money from the scheme, and we therefore propose the following changes:

(a) criteria for bonus recipients

The present central criteria for awards are drawn up in general terms. The widespread lack of understanding of these amongst recipients and non-recipients alike is worrying. The more favourable view of the scheme of senior staff actually involved in making judgements, suggests clearer criteria could help make the scheme more acceptable as well as more effective. Departments strongly believe, however, that existing

freedom to tailor schemes to departmental circumstances and meet a number of different needs should be preserved.

We therefore recommend that each department should take action within the centrally defined criteria to ensure that the criteria for awards in their departments are made more explicit and are better explained and understood, for example by drawing on the reasons for awards in 1985/86 and producing more extensive illustrative examples of the achievements and effort likely to merit a reward in 1986/87.

(b) linkages with other management systems

Many people covered by the attitude survey appear unable to discern connections between departments' existing management systems, including their FMI planning systems and appraisal systems, and bonuses. It seems clear that people have misinterpreted the fact that there can be no guaranteed direct link (for example, with appraisal marks) into believing that there is no link at all. This misconception needs to be ended.

We recommend that this is something that should be tackled on a departmental basis. In part it should be achievable through improving communications about the scheme and the criteria for awards. All departments will wish to ensure that the reasons why Box 1 appraisal marks did not earn bonuses are both explored and explained to staff. It a close and perceptible link should also be possible to establish between management systems and bonus awards, for example, in the case of the achievement of major departmental objectives.

(c) quotas

The present central rules lay down that no department may pay bonuses to more than 1 in 5 of their staff and that no awards may be less than £500. They also lay down that special bonuses should not take more than 10% of the resources for the scheme. Within the ceiling of £4 million allocated to the scheme this has permitted some degree of experimentation of different kinds: some departments deliberately chose a lower target for awards and raised the average total cash amounts to individuals. Others looked for the widest spread. But the rules have inhibited the fullest range of experimentation and freedom to respond to difficult marginal cases.

We therefore recommend that in place of the existing rules the centre should only lay down broader guidelines within the existing cash allocation. These would place on departments the responsibility for deciding their own ground rules for selecting recipients (including special bonus recipients). The central guidance would say that Departments should aim to set clear sums or ranges for payments according to the criteria for their scheme, reflecting the links they can make with other management systems, and avoiding the danger of the bonuses, after tax, appearing too trivial. The limits on the proportion of special bonuses would also be withdrawn to allow complete freedom on their use, within the overall cash allocation.

(d) communication

One of the most worrying features of the management of the scheme has been the continued failure to communicate effectively the purposes of the scheme and the use being made of it by managers in departments.

Despite the efforts made since the first evaluation report, people seem less clear about the scheme now than when it started.

We recommend that each department should make a renewed effort to communicate the basis of the scheme, beginning with the changes they now plan to launch probably in October this year. We further recommend that the central rules should be revised so they make clear (a) that all recipients of awards should be told personally of the reasons for an award wherever possible face to face by the responsible line manager - citations being used where possible in the decision making procedures and handed over to individuals; (b) that departments should make a formal announcement that awards have been made, giving the proportions of staff and examples of the situations meriting awards; (c) that non-recipients should be entitled, if they wish, to discuss with their own line manager why they did not receive an award.

(e) privacy of awards

Ministers originally decided that, in line with much private sector practice, the names of performance bonus recipients should not be published. This has caused disquiet amongst the unions and non-recipients of bonuses given the lack of clarity over criteria. There is some anecdotal evidence in the consultants' report that knowledge of who has received bonuses can in some circumstances help win acceptance for schemes. But there is considerable difference of opinion between departments over whether a policy change on publication is desirable, and would assist the objectives of the scheme.

We recommend that the prohibition on divulging the names of recipients should be lifted to the limited extent that it should be open to departments to allow managers to disclose to their staff who did, or did not, receive bonuses within their commands and discuss the awards with them. But this should be done on an "In Confidence" basis, as an internal management matter, and should not be extended to the wholesale publication of lists of recipients across Departments or in the outside world.

NEXT STEPS

9. If Ministers are content with the conclusions of this report the next steps following consultation with staff interests will be for the Cabinet Office (MPO) to issue revised versions of the central rules; for departments to plan and announce the changes to their own schemes which they propose to introduce in the current year's operation of the scheme; and for the improved communication of the criteria and operation of the schemes to be set in hand. It is clearly desirable for as many changes as possible of those identified to be introduced in the current year, but some may have to wait for the following year assuming we decide to continue the experiment then. We shall also want to review the experience of the scheme so far to ensure we absorb the lessons from it within the civil service's general strategy for developing civil service pay arrangements. The Treasury and the Cabinet Office (MPO) plan to discuss this fully with departments in the autumn.

10. We will also need to handle the publication of the first year's evaluation report when the statistics are complete, and feedback the results to staff, the unions, Parliament and other interested parties such as the press and personnel community. We would at present propose to do this in September, together with a statement indicating the broad area of changes planned for the current year's operation of the scheme.

ANNE MUELLER