



Chancellor of the Duchy of Lancaster

PRIME MINISTER

SCRUTINY OF INTERNAL TALENT; PROMOTION BLOCKAGES

You wanted to be sure we were doing all we could to bring on able junior staff in the Civil Service. I reported earlier in the year the initiatives I had launched to look for improved ways to identify and develop talented young civil servants, and to tackle the promotion blockages that can impede their career progress. I promised to report back to you when the work was complete.

Internal Talent

... A central team from the Cabinet Office (MPO) have conducted a scrutiny of the means we use to identify and develop young staff with high potential, together with seven department teams. I attach a precis of the central team's report (Annex A). This draws out the general lessons both from the scrutiny and from the departmental reports.

The exercise has identified a gap between the highly intensive development we give to very small numbers of the most able staff (within special schemes such as the Administration Trainee scheme) and the much less systematic arrangements for the generality of staff. The report recommends a new system of identifying the more able staff amongst the latter group, and the introduction of a management development programme in each department consisting of a series of planned postings and training. It also proposes ways to improve transfers into the special schemes.

I think the report is a good one, and Robin Ibbs agrees. He has commented that he thinks it presents a sensible, constructive and balanced series of proposals for developing middle ranking staff without an increase in bureaucratic arrangements. It complements the work we have been doing at more senior levels with the plans for a Senior Open Structure course and a Senior Management Development Programme. Together they will provide a comprehensive set of proposals for management development in the Civil Service.

With your agreement, I should like to proceed quickly with the implementation of these proposals, in consultation with departments and Robin Ibbs. At the same time I recognise that the coincidence of these exercises, together with the other initiatives we already have in hand for next year on unified grading and performance bonuses, will place a strain on the resources of the personnel divisions in departments concerned with implementation. This may need to be reflected in the allocation of resources to them, and in the pace of progress. I should however be most reluctant to delay a start on implementing these proposals.

Promotion Blockages

... You share, I know, my concern at the promotion blockages that are beginning to form at various levels. I attach a note on the results of work that has been done on the extent of the problem and the measures that might be taken to tackle it (Annex B). It looks at how the blockages might be tackled across the whole range of personnel policies, including retirement policy, the pay and grading system, the appraisal, promotion and career development systems and recruitment policy.

It is clear from the manpower planning evidence that the promotion blockages are likely to worsen gradually over the next decade or so and possibly beyond. Like all statistical projections, this one is critically dependent on the assumptions on which it was based, but it has been tested for its sensitivity to quite major changes - such as an upturn in wastage - and the outcome still remains broadly the same. The fundamental problem is the large number of young people in junior grades (recruited when assumptions of continued growth were still appropriate), and the sharp reduction in vacancies at most senior levels to which they might aspire.

Promotion prospects have both fallen and risen in the past; there is no 'right' level. Some fall in prospects is inevitable with manpower reductions, and is quite common in other large public and private organisations at the present time. Like them, we have to decide what effect the blockages will have on the motivation and efficient performance of staff, and balance this against the cost of remedial measures. It is not a judgement we have to make all at once. The blockages are already inherent in the age and grade make-up of the Service, they will develop over an extended period, and measures to counter them can be activated as and when the problems develop.

But what we must do is ensure that we have a full range of appropriate measures available and ready for use as they are needed at particular times and in particular parts of the Service. We also need to ensure that our personnel policies are correctly geared to the changed circumstances in which they will be exercised. Above all, we need to create a sense in the Service that the government is conscious of the problem, and intends to alleviate it where possible and as opportunities arise.

One, highly visible, means for tackling promotion blockages is early retirement. With your agreement and that of the Chancellor of the Exchequer I launched earlier in the year a Special Early Retirement Scheme. That scheme is now nearly complete and when it is should result in the creation of between 400 and 500 promotions. My officials are currently evaluating the outcome of the exercise. I will let you have a report in due course. Beyond this one-year programme of early retirement, we can also improve the efficiency and

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effectiveness of early retirement mechanisms, to enable them to be used more flexibly and to be directed at areas of greatest need. My officials are now completing a major review of retirement policy with this aim in mind; I plan to put proposals to you before Christmas.

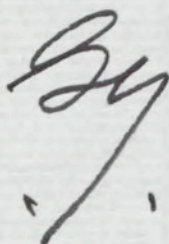
Early retirement, despite its immediate impact, is not a panacea. Its effects on promotion blockages may be short lived and in some instances may create other long-term problems. It also has a cost. In the case of the Special Early Retirement Scheme the average cost for each promotion generated is some £10,000-£12,000. We therefore need to tackle the problem on a wider front as well. So the reports identify other measures which are designed to help maintain motivation, adjust expectations and stabilise the manpower system in the longer term.

Conclusions

To emphasise our wish to encourage the career progression of able young civil servants I should like to publish the scrutiny report and the results of the Special Early Retirement Scheme, linking these to other initiatives in this field. I would also like my officials, in consultation with departments, to pursue the other measures identified to ameliorate promotion blockages. In the few cases where this might require any additional financial provision, I would then put proposals to the Chancellor of the Exchequer.

I would be grateful for your authority to proceed accordingly.

I am copying this minute to the Chancellor of the Exchequer, other Cabinet colleagues, Sir Robin Ibbs and Sir Robert Armstrong.



GOWRIE

29 October 1984



10 DOWNING STREET

From the Private Secretary

5 November 1984

✓
cc Cabinet
Sir R. Ibbs
CO

Dear Paul,

Scrutiny of Internal Talent: Promotion Blockages

The Prime Minister considered over the weekend Lord Gowrie's minute of 29 October, in which he reported on the scrutiny of internal talent, and on measures to alleviate promotion blockages.

The Prime Minister is content with the proposals for improving the development of middle-ranking staff and would like to see them implemented as soon as possible. She notes the analysis of promotion blockages contained in Annex B to Lord Gowrie's minute and agrees with him that the Government needs to be seen to be tackling this issue. Indeed the Prime Minister wonders whether the measures already in train (such as the special early retirement scheme), together with the further policy work now proposed, represent a sufficiently vigorous reaction to problems which already exist. She would be grateful for the Chancellor of the Duchy's further comments on this question, and on the scope for a more immediate package of proposals to tackle the worst existing blockages.

I am sending copies of this letter to Private Secretaries to members of the Cabinet, and to Sir Robin Ibbs and Sir Robert Armstrong.

Yours ever,
David

David Barclay

Paul Thomas Esq
Chancellor of the Duchy of Lancaster's Office.

MANAGEMENT IN CONFIDENCE

PRIME MINISTER

Attached are Lord Gowrie's proposals for making better use of talented junior staff and for tackling promotion blockages in the Civil Service.

The measures proposed for junior staff are welcome as far as they go. The key recommendation is for a much more systematic approach to postings and training - it remains to be seen how well this laudable objective will survive day-to-day pressures in Departments. There are several other ideas (e.g. the use of "assessment centres" and a management potential test) which would be steps in the right direction. But so far, only further studies are proposed.

The section on promotion blockages is long on analysis and short on action. Annex B records that:

"Manpower planning work has demonstrated clearly that the fall in promotion prospects in the Civil Service is likely to be substantial and sustained - lasting over the next ten years at least and possibly beyond."

Yet Lord Gowrie concludes that "we have to decide what effect the blockages will have on the motivation and efficient performance of staff, and balance this against the cost of remedial measures". The future tense surprises me. I think there are many who would say that the effect of promotion blockages on morale, and on the retention of able staff, is already all too apparent.

You may like to:

- (i) endorse Lord Gowrie's proposals for making better use of internal talent and express the hope that they will be implemented rapidly;

Yours

- (ii) note the analysis of promotion blockages and possible counter measures, but *Yes*
 - (iii) question the conclusion that it will be sufficient just to monitor the position and take action "as and when problems develop"; *Yes*
 - (iv) suggest that Lord Gowrie might instead consider further, in consultation with the Chancellor, the case for a more immediate package of additional measures to tackle the pinch points that are already apparent. *Yes*
- not*

Dus

2 November 1984

PRECIS

SCRUTINY OF INTERNAL TALENT

1. **Purpose.** The purpose of the scrutiny was to examine the methods used to identify and develop junior staff with middle and senior management potential and to recommend improvement where necessary.

2. **The problem.** There are different problems for specialists and administrators. In the Administration Group there are difficulties in maintaining a satisfactory supply to the Principal grade in a number of departments. Latent ability is not lacking but there is a deficiency of staff with the right skills and experience to adapt to changing work patterns and responsibilities. The major cause of this seems to be a general lack of systematic development and preparation of staff with Principal potential outside of the special schemes such as the Administration Trainee (AT) scheme. Yet the AT scheme cannot be relied upon as a training scheme for Principals. It supplies only 20% of Principal posts and is pitched firmly at providing a supply for the Open Structure. It is also too narrow in the experience it gives. Numbers cannot be expanded without exacerbating promotion blockages. But, if AT recruitment continues only at levels needed to supply the Open Structure, the number of fast stream Principals will eventually be more than halved thus worsening the Principal shortage. Finally, initiatives such as the FMI will make radical changes in management style necessary and increase the need for systematic training and development.

Specialists are dealt with separately below.

3. **Proposed solution.** In the short term existing staff will need to deal with these new challenges making the maximum use of existing training opportunities. In the longer term we need to identify as early as possible as many as possible of the EOs, HEOs and SEOs who have the potential to reach at least Principal level and to give them systematic development to prepare them for such posts. To do so we need a **management development programme** which ensures a **planned and integrated pattern of postings and training** for the most able of these staff, and which feeds into and is compatible with the programmes already introduced or being developed for more senior staff (the Senior Management Development Programme).

5. **Identification.** To extend systematic development more widely we need a better means of identifying the most able staff. The current appraisal system needs to serve much wider purposes and is insufficiently discriminating to identify the relatively small numbers of staff with higher potential. We recommend an annual **Senior Management Review** in each operational unit (HQ division, region, research establishment etc) to identify the small number of staff with highest potential.

6. **Content of the development programme.** We propose wide departmental discretion over the form content and structure of the programme but set out the minimum we think it should contain. The centrepiece of this is a planned postings policy, greater use of short term attachments and project work in contrasting areas of work (including outside the Civil Service) and careful integration with formal training. The role of the Cabinet Office will be to ensure that each department sets up a programme to audit its effectiveness and to provide a central source of expertise.

7. **Assessment Centres.** We believe both the identification and development process could be assisted by a wider use of assessment centre techniques ie a package of interviews, tests and job simulation exercises. Such techniques are increasingly used by outside organisations. Their advantage is that they enable strengths and weaknesses to be identified which are not apparent in performance of the present job but are critical to the successful performance of a later job. We believe there is scope for wider use of these techniques in the Civil Service and recommend consideration is given to mounting a consultancy project to design a package of tests to be followed by pilot exercises in major departments.

8. **Specialists.** Although it is dangerous to generalise about the widely varying disciplines and sub-disciplines which together make up the specialist groups, there is in general little difficulty in providing an adequate supply to Principal equivalent levels. The major problem is in identifying those with potential to reach the Open Structure and to equip them with the administrative and managerial skills that are an important ingredient of most jobs at that level. We therefore propose a similar identification and development process but with adaptations to take account of the different structure of the specialist groups, their differing needs and existing development opportunities.

9. **The SEO grade.** One of the causes of the Principal shortage in headquarters offices is the difficulty of Principals delegating sufficient work because of large

reductions in the support staff immediately below that level. (The number of ATs and HEODs has more than halved since 1976 and the number of HQ SEOs has fallen by 25%.) We recommend a review of the Principal - SEO - HEO mix of grades with the aim of enhancing the role of the SEO grade by down-grading some Principal posts and up-grading some HEO posts. The best of these SEO posts should be designated SEO development posts and filled by newly promoted HEOs with the potential for rapid advancement to Principal level.

10. **AT/HEOD scheme.** To improve the management qualities in the fast stream we propose research into a possible management potential test at CSSB, that more management posts be given to ATs, HEODs and fast stream Principals and that the AT/HEOD training modules in staff and resource management at the Civil Service College are made mandatory. To improve the number of serving Civil Servants passing through the scheme we make a number of proposals including better information and preparation before CSSB, detailed feedback afterwards and a revision of the marking scale to enable borderline candidates to be more positively identified and given development close to that for the fast stream including rapid movement through SEO development posts and, exceptionally, grade-skipping to Principal.

11. **Obstacles to development.** We recommend a review of the operation of seniority fields with the aim of reducing them to the minimum necessary particularly for junior staff. To improve mobility we recommend the Treasury consider improving the transfer terms to London, that more use is made of short-term attachments to give wider experience rather than permanent moves and that experiments should be carried out in the use of re-location firms where it would be cost effective to do so.

12. **Resources.** The management development programme would cost about £120,000 to set up and about £1.3 million a year to operate, a large proportion of which could be met within existing provision. We consider that this would be an investment which would enable us to get better value for money from the Principal grade (total annual salary bill £67 million per year). Assessment centres would cost about £50,000-£100,000 to develop and about £150,000 a year to operate for 400 participants. There are other small costs identified in the report.

13. **Conclusion.** We believe the above measures are a coherent set of measures to tap the talent existing in junior grades within the Service and are compatible with and will feed into the measures being introduced to develop more senior staff -

namely the Senior Management Development Programme and the Senior Open Structure Course.

14. **Cost.** The total cost of the scrutiny was [£155,000].

PROMOTION BLOCKAGES IN THE CIVIL SERVICE - PROGRESS REPORT, OCTOBER 1984

Introduction

1. Manpower planning work has demonstrated clearly that the fall in promotion prospects in the Civil Service is likely to be substantial and sustained - lasting over the next 10 years at least and possibly beyond. This prospect is, like all forecasts, dependent on the assumptions on which it was based but testing those assumptions for their sensitivity to changes and events such as an upturn of wastage leaves the forecast outcome broadly the same.
2. What is less clear is how serious a problem in terms of the efficient functioning of the Civil Service the predicted fall in prospects represents. To produce effective performance, staff need a level of commitment which is based on an adequate set of rewards, both material and intangible. But the judgment as to the extent to which the fall in promotion prospects is affecting, and will affect motivation and hence performance, is highly subjective. It is, however, unlikely to be negligible. Some of the potential remedies to alleviate the problem can be assessed, more or less, in a quantitative way but there are other less tangible aspects of motivation which also need to be kept in view. While the fact that as promotion is at present virtually the only tangible reward or form of recognition in the Service for sustained high performance, can lead one to conclude that diminution of this would adversely affect efficiency, there are other strong motivational forces - pride in work, commitment to the Service and, more negatively, fear of the consequences of a marked drop in individual performance - that might help to sustain the general level of performance at at least an adequate level even in the face of a real reduction in expectations.
3. The work that has been done has established that there is no single straightforward or rapid solution to promotion blockages. Just as the blockages gradually form over time, so the measures to counter or alleviate them can be developed and applied over a period. What is needed is to set up an adequate range of measures in reserve which can be activated as and when needed; the decision to use these and the amount of resources (where required) can be settled in the light of prevailing circumstances of the time, just as, for example, there are standing rules to permit voluntary early retirement schemes which can be activated from time to time for a fixed period and within a fixed budget. In parallel with this we need also to ensure that future developments in Civil Service personnel policy are used in a way that will ease, rather than worsen promotion blockages in the future.

Wider Personnel Policy Measures

4. The fastest acting and most visible remedy is the early retirement of an older official to make way for the promotion of a younger one. Early retirement has been used widely by outside organisations faced with similar structural difficulties to our own. It has, however, only short term effects in that it merely advances a promotion that would have been made in due course anyway. While therefore it can provide a boost to morale and be particularly useful in replacing the less efficient with the more efficient it does nothing to tackle the underlying causes of the blockage. It is also expensive. The retirement rules are currently being reviewed to remove anomalies to make them more flexible and to enable expenditure to be controlled through delegated

departmental budgets rather than as at present as a charge on central funds. The aim is to improve their efficiency and effectiveness. The amount of money devoted to early retirement each year can then be determined separately in the light of prevailing circumstances.

5. The other major personnel measure that can be of assistance in ameliorating promotion blockages is to reduce the predominance of promotion as a reward by the development of alternative incentives such as merit pay. The experiment in the use of merit pay agreed by Cabinet in July will provide an opportunity for the value of this method in the promotion blockage context to be tested although the predominant reason for proceeding with such schemes remains the improvement of efficiency.

Other easing out measures

6. To date early retirement by its nature has been concentrated on the over fifties but in terms of manpower planning to produce a more even age and grade structure, there is much to be said for easing out, as and when possible, individuals across the whole range of the age spectrum. To do so under current rules by way of financial inducement would prove prohibitively expensive. We are therefore examining in the context of the retirement review ways in which more modest financial inducements could be given. Another incentive, as an alternative to a financial inducement, which we think is worth exploring further is the concept of a limited life return ticket. This would give individuals the option to resign to pursue a career elsewhere with a guaranteed right of return exercisable for up to, say, five years. This could either be a right of return in the same grade or conceivably (as their contemporaries progress) to the next higher grade. We already allow a return ticket for staff leaving to take up appointments with the European Community. The French have a similar system to allow their high fliers to move out to industry for short periods. A scheme of this kind carries no compensation cost, but there is a commitment to honour if the individual returns (although by no means all will), and this could be difficult for the department concerned which would have to find a vacancy. Those who do not come back will have been withdrawn from the Service free of cost, while those who do return will have the added advantage of useful experience outside. It is, however, likely to attract some of the best people in the Service at that level if introduced, of whom the more successful are the least likely to return. The shortage of high quality Principals in the short-term means that this is not an option for immediate use but it could be attractive in the future.

Avoiding bottleneck grades

7. Both the scrutiny of internal talent and the work on promotion blockages have identified particular problems in the headquarters areas of many departments by a bottleneck in the SEO grade. Measures to counteract this include a more imaginative use of the SEO grade without adding to the chain of command and permitting the grade to be skipped in certain circumstances. Both of these options will be pursued as part of the action plan to implement the talent scrutiny.

Overbearing

8. A cheaper alternative to early retirement but a measure which still carries a price tag is to allow a greater degree of "overbearing". This occurs where a person is allowed to occupy a post graded below his current grade - eg, someone in Grade 5 occupying a Principal post two grades below. There is an additional cost. *assuming both were at the top of their scales, instead of a Grade 5 earning £23,159 and a Principal earning £16,656, there will be two Grade 5s earning £23,159 and £19,243 respectively. There is also a pension cost. However, one has nevertheless created a promotion opportunity at a very much lower cost than an early retirement - though without the additional advantage of creating a whole chain of promotions in the manner of an early retirement. There is an additional offsetting advantage to that cost in that someone of Grade 5 experience and ability will be occupying a Principal post. However, no increase in cash limits would be implied in a decision to enable overbearing to take place on a larger scale. It would be left to departmental discretion to exercise this authority within existing cash and manpower ceilings.

*In the case of a Grade 5 occupying a Principal post and a Principal being promoted to fill the Grade 5 vacancy,
Other, cost-free, personnel policy measures

9. There are a number of other ways in which broader personnel management policies, including recruitment, could be redirected to encourage more realistic expectations about future careers, and to ensure that the future pattern of recruitment reflects the expected promotion position. These measures include: building on the present initiative to revise appraisal procedures, so as to place more emphasis on improving performance in the present grade (and giving that clearer recognition) rather than, as in the past, placing emphasis on the promotion implications of staff reporting; revising promotion procedures to suit the present climate; improving satisfaction with the work within a grade by enabling greater freedom of action through enhanced delegation of responsibility, and by ensuring sufficiently varied jobs including periods outside the department on secondment. These measures do not have a direct cost; they are more concerned with exploiting, or shifting the emphasis of, existing and developing policies.

10. The more radical measures contemplated under the general heading of recruitment policy, such as the introduction of a form of the "Short-Service Commission" adopted by the Armed Services would carry additional cost if higher rates of pay prove necessary to attract people on these terms. However, the interdepartmental committee which examined this subject recommended against the introduction of such measures unless it could be shown that existing recruitment proves incapable of dealing with the situation.

Cost comparisons

11. While there are extreme difficulties in analysing for comparative purposes the cost of different ways of helping to deal with promotion blockages some basis for comparison can be established. However, it is important to emphasise the costs vary significantly with the individual circumstances of the officer involved, and the effects of the expenditure on the number of promotions created depends on the officer's grade and the organisation in which the individual officer is working. There is also the

varying expense of spending money at different periods of time and the varying extent which the effects will endure; for example, early retirements can only bring forward those promotions which would occur anyway in due course. However, the annex to this report attempts a necessarily crude comparison to show the approximate ranking for typical examples of each of those measures which produce fresh promotion opportunities. The early retirement schemes as they are currently constituted (and they are under review) and easing out of younger staff over 40, are the most expensive. The most cost-effective help can be obtained through grade skipping, reallocation of functions and work between grades, and by overbearing. Wider decisions on merit pay, retirement policy and the extension of unified grading all have important consequences, and subject to Ministerial approval and consultation, the next phase of action should be to develop a plan which takes both the conclusions in this report and decisions on those wider policies, into account.

A COST COMPARISON OF TYPICAL EXAMPLES OF POSSIBLE
MEASURES TO HELP PROMOTION BLOCKAGES

<u>Measures</u>	<u>Approx Cost</u> <u>(£)(1)</u>	<u>No of promotions</u> <u>created or brought</u> <u>forward (2)</u>	<u>Cost/promotion</u> <u>(£)</u>
V.E R. (3)	44,000	3(5)	15,000
F.P.R.(4)	61,000	4(5)	15,000
Easing out, under 40(6)	25,000	3	8,000
Easing out, over 40(7)	115,000	3	38,000
Grade skipping HEO-Prin	0	2	0
Reallocation of functions	0	2	0
Overbearing (8)	3,000+	1	3,000+

(1) Costs are funded and undiscounted, and are confined to additional costs to any accrued pension rights payable at normal retiring age.

(2) Assuming new promotions are generated at each grade from EO equivalent upwards (ignoring grade 6, which is often skipped).

(3) 55 year old Principal with 36 years service

(4) 57 year old Grade 3 with 35 years service.

(5) Within 5 years of an early retirement the net additions to the number of promotions will be close to zero.

(6) 35 year old Principal.

(7) 42 year old Principal.

(8) Grade 5 occupying a Principal post and a Principal promoted to Grade 5. In addition there will be more increased pension costs at age 60.