



Ref. A085/1893

PRIME MINISTER

Promotion Blockages

On several occasions in the past year or so you have expressed concern to both the Chancellor of the Duchy of Lancaster and me at the impact of declining promotion prospects on able young staff in junior grades. Your view has been that, while the Government has quite rightly reduced the size of the Civil Service, that makes it if anything the more important to do everything possible to ensure that talent is rewarded.

2. In November last year the Chancellor of the Duchy put to you a package of remedial measures which had been worked up in consultation with employing Departments. In your response, you queried whether they represented a sufficiently vigorous response to the problem and whether there was not scope for a more immediate package of proposals to tackle the worst existing areas.

3. A meeting has been arranged for the afternoon of Monday 15 July to hear a presentation by MPO officials which will contain an analysis of the problem and an outline of the wider and quicker-acting package of possible measures we have now identified.

4. The attached paper by MPO officials, which has been agreed with the Treasury, contains an analysis of the problem, a summary of the measures that were put to you in November and a description of the new measures we now propose.

5. In considering remedial measures, the objective should not be to restore promotion prospects to recent levels; there is simply no "right" level. It should rather be to take such steps as are necessary to bring on talented staff so that we can fill



senior posts with the right people, discourage people whom we should prefer to keep in the Service from leaving in frustration at lack of career progress, and avoid demotivating other staff with less high expectations who are nevertheless crucial to the efficient operation of the Government.

6. The measures put forward to you in November looked at the problem across the whole front of personnel activity, and contained a number of worthwhile ideas which I hope you will agree we should pursue. They are summarised in paragraph 6 of the attached note. But, with the exception of the Special Early Retirement Scheme (which was a success last year and is being continued on a smaller scale this year), they would mainly be effective in the medium term. In our further look at the problem we have therefore developed two new measures which could be introduced forthwith and have immediate effect. These are a personal promotion scheme and a special long-service payment.

Personal Promotion

7. A personal promotion scheme involves giving an individual the pay and personal rank of a higher grade while he or she continues to occupy a post of a lower grade. This is an idea in which Lord Rayner has seen attractions. It is not a new concept - it is in use in the Science Group to reward particular contributions in the research field, and has been used on occasion within your own and other Private Offices - but its use is not widespread throughout the Service. A special scheme which encouraged its wider use would have much to commend it. To prevent any weakening of grading standards it would need close central control and monitoring. It would also be sensible to give it only experimental status initially. Departments would be required to fund it through absorption within existing provisions. The concept and the scheme we envisage is set out in detail in the attached paper, and will be amplified in the presentation.



Special Increment

8. The other new measure is designed to provide a reward for sustained high performance for those who will spend very long periods in a grade. In the course of that period they will reach the maximum of their salary scale and thereafter cease to benefit from pay progression. Previously their reward for sustained high performance would have been promotion, but abler staff will now squeeze them out of this opportunity. The opportunity to earn a long-service payment would be a useful "carrot" and reward for good performance. Such a payment could be made if both length of service in the grade (say 12 years) and performance criteria were satisfied. A payment of this sort of £1,000 would cost about £0.5-£2.5 million a year if about a third of those eligible on length of service also qualified on performance grounds.

The Presentation

9. The presentation will give you an opportunity to consider these ideas further and to question us about them. If the package being proposed meets with your approval the MPO, in consultation with the Treasury, will work it up and implement it quickly.

10. Finally, if you agree to proceed with the package, I think it would be useful to produce a report, which would be made available to staff, summarising the problem and the counter-measures proposed. It is clear that the rumours about the extent of the fall in prospects exaggerate the reality, and this should be set straight as we point up the counter-measures being taken.

11. I am sending copies of this minute to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Minister of State, Treasury.

Approved by
ROBERT ARMSTRONG
and signed in his absence

12 July 1985

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JULY 1985

PROMOTION BLOCKAGES

Note by the Cabinet Office (MPO)

Background

1. For several years now projections have shown a marked and worsening decline in promotion prospects over the next 10-15 years. The principal causes of this are twofold: the sharp reduction in posts, particularly at Grade 5 and above, since the late 1970s; and the large numbers of young staff (an increasing proportion of whom have been graduates) recruited earlier in anticipation of continued expansion.
2. Lean periods of promotion have been experienced before, most recently in the late 1950s - early 1960s, but the fall on this occasion is expected to be more severe. Although, like all forecasts, this projection is entirely dependent on the assumptions made, testing for sensitivity to changes in those assumptions - for example, renewed expansion in posts, or a draconian severance policy - show that there is no single credible change in circumstances or policies which will restore promotion prospects to historic levels.
3. The Civil Service is not unique in experiencing a fall in promotion prospects; the sudden onset of the recession after a period of expansion left many private sector firms (as well as other public services) in a similar position. Where the Civil Service differs from the private sector, is in the fact that promotion has traditionally been virtually the sole reward for sustained high performance. Although this monopoly of reward has now been partly diminished by the experimental merit bonus scheme, it still remains the main motivator for the vast majority of staff and a major fall in the numbers of promotions therefore needs to be taken seriously because of the potential consequences for morale, motivation and performance.
4. The position is complicated by the fact that the blockages are not uniform across departments or through the grading structure and indeed while there are blockages at some levels there are also areas where there is an acute shortage of quality staff. The classic example of this phenomenon occurs at Principal level. The Principal to Grade 5/6 promotion level is the one where the most acute blockages are developing. Yet despite the growing pool of promotable Principals held back by the blockage there is a continuing shortage of high quality Principals to meet the needs at that level. This constrains the options that can be taken. The most logical solution to the Principal blockage, for example, would be to encourage the blocked Principals to leave but this would make no sense given the current shortage.

Our Objective

5. It should not be the objective to restore promotion prospects to historic levels - there is no right level of promotion prospects - but rather to ensure that the projected fall in prospects is not so great as to:

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- (i) drive out of the Civil Service those highly talented individuals whom we need eventually to succeed to senior posts; or
- (ii) to demotivate other staff with less high expectations who see already slender prospects of promotion being further reduced or even eliminated, or
- (iii) to defer promotions for so long that those who are held back but eventually promoted have become stale or are insufficiently developed for higher responsibility.

The November 1984 Package

6. Against this background, the proposals put to the Prime Minister in November 1984 contained a wide-ranging package of measures which could be developed and activated as needed as blockages emerged over the next decade. This included: further use of selective early retirement to bring forward promotion vacancies; more use of over-bearing; utilising other personnel initiatives to give assistance in the promotion blockages field - for example, the performance bonus scheme (to provide alternative incentives), the delegations flowing from the FMI (to improve job quality and job satisfaction) and the changes in the appraisal system (to shift emphasis away from an over-concentration on promotability). Measures were also proposed to loosen-up the promotion system by removing or reducing seniority fields and to improve the identification and development of able staff to ensure that the smaller number of promotions went to the right people. In the longer term further work was proposed on extending severance measures to include younger staff and on encouraging more voluntary movement in and out of the Service. This would involve a more flexible recruitment policy so that recruitment took place across a wider span of grades, with more frequent use made of period appointments, and also developing the idea of a limited life return ticket whereby selected individuals might resign from the Service but have a guaranteed right to return which lasted a 5 year period.

7. It is true that the bulk of this package is focussed on the medium term rather than the immediate future. The main quick and visible remedy in it is a wider use of early retirement and it would be possible to meet the Prime Minister's remit for more vigorous and immediate action simply by proposing an expanded use of that. However, early retirement is very expensive and while useful and effective in dealing with short term blockages and when used selectively to bring on exceptionally able staff, it is much less effective when used on a wide scale in an attempt to cure a deep seated and long term blockage. We have therefore looked at other means of fulfilling the Prime Minister's remit.

Personal Promotion

8. One of the most promising means of doing so would be to make an expanded use of personal promotions whereby an individual is given the personal rank of the grade above while continuing in his present rank in recognition of the exceptional contribution made to the work he does. Personal promotions are permissible under current grading rules, with the approval of the MPO, and are widely used in some specialist groups, most notably the Science Group, where the personal contribution an individual can bring to a job - e.g. in research - is more easily identifiable, but they are rare in the Administration Group and other areas. It would be possible

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to build on this use by developing special schemes aimed at the worst blocked areas - for example, at Principal and HEO levels. This would give focus to the use of personal promotions and enable better control, just as the Individual Merit Promotion scheme is used to give effect to personal promotions in the Science Group.

9. Such a scheme would be relatively easy to construct and, using the Principal grade as an example, might work as follows. A department would be given authority to give selected individuals at Principal level the personal rank and pay of Grade 6 even though they continued to occupy a Principal level post. Such a promotion would attach to the individual and not the post, which might subsequently be filled by an ordinary Principal or equivalent. Although earned through exceptional performance in one job, the personal rank could be carried into another job, but it would be essential that its continued possession was subject to sustained high performance and annual review. Personal rank could be made substantive by a subsequent Grade 6 board in the normal course of events or overtaken by subsequent promotion to Grade 5. It would in effect enable a department to anticipate a promotion to reward particular individuals whose medium term progression was being held back by a shortage of vacancies but whose continuing high potential was not in doubt. The cost of a personal promotion would be the difference between the salary paid to the individual by virtue of the personal rank and that which would have been paid if he had remained in his original grade. It will therefore vary between individuals and over time. As an illustration, however, the personal promotion of a Principal who was on the maximum of his scale (£18,363 per annum) would cost some £2000 in the first year rising to about £5000 in the third year and continue at that level until a substantive promotion was made.

10. A personal promotion scheme at Principal level would have a number of advantages. It is clear that the distribution of manpower reductions and more complex work have affected the role of many Principal jobs. This is demonstrated not only by the recent growth in the size of the grade but also by the continuing demand for large numbers of high quality Principals. Such a change cannot be recognised by revising the pay level of the whole grade because it is not uniform across it, because of the expense and because it would cause difficulties in relativities between grades: a personal promotion scheme would overcome this problem. It would also be an effective measure to help counter further losses of good quality staff like those which occurred at this level in the last year.

11. The principal disadvantages of such a scheme are the potential it has for weakening grading standards and its possible divisiveness, particularly if confined to only one level. As far as the former objection is concerned we believe it can be countered by keeping a close control on criteria and numbers and by emphasising the distinction between the personal rank of the individual and the grading of the post, which will continue to be determined according to job weight criteria. It will be a means of recognising high performance by enhanced pay and status and not a means of raising the level at which work is done or adding to the chain of command. As far as the second objection is concerned, it is at the Principal level where the blockages are at their most severe and it would be possible to justify confining the scheme (at least initially) to this level only on this ground but to indicate the possible extension of the scheme to lower levels at a later date. Alternatively, it would be possible to bring in another promotion level from the beginning. The most obvious candidate for

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this extension would be HEO level where the greatly reduced number of SEO posts in HQ areas has created a bottleneck. Although cash constraints would almost certainly mean that a smaller number of personal promotions at Principal level would be made as a result, we believe this would present a better balanced package.

12. We therefore recommend that a personal promotion scheme permitting personal promotions from Principal to Grade 6 and from HEO to SEO (and their specialist equivalents) is introduced forthwith. Details will need to be worked up with Treasury and employing departments but the broad outline of the scheme we propose is as follows

- (i) The scheme is introduced as an experiment.
- (ii) During this experimental period the scheme should be subject to close control and monitoring by the central departments.
- (iii) The criteria for success of the experiment are that it should help alleviate promotion blockages and maintain motivation in the middle ranks of the Service without demotivating those not selected or weakening grading standards. Measurement of this success will be partly through recruitment and retention figures; partly through analysis of departmental reports.
- (iv) Central control of the scheme will be effected by controlling numbers participating by means of quotas fixed by MPO.
- (v) Criteria for the inclusion of an individual should be laid down by the centre from the outset. These might include:
 - (a) A box 1 (or 2) for performance in the most recent annual report.
 - (b) Three successive "fitted" or "well fitted" markings for promotion.
 - (c) Continued long term potential to rise one or two grades not in doubt.
- (vi) Retention of the personal rank would depend on sustained good performance.
- (vii) Departments should fund the scheme within existing provision.

Pay

13. The other area in which action might be taken in response to the Prime Minister's remit is in the field of pay. The current state of flux in the pay system and the objective of establishing a more stable long term set of arrangements provides an opportunity to ensure that the new pay system reflects the need to offer rewards other than promotion. It would, however, involve a difficult transition from our present position and could not be seen as an immediate measure; it may be necessary therefore to explore the possibility of some interim step that might be taken more quickly. The number of people who remain blocked in a grade long after their incremental progression ceases will increase as opportunities diminish. Without career or pay progression, and therefore without the feeling of recognition or

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advancement, there is a risk that motivation and performance will suffer. The danger is worst at Principal level where the necessary element of personal commitment and initiative is high, where the individual has the experience and record of achievement to be marketable but is still of an age to develop an alternative career, and where blockages will hit hard. In particular, one group of Principals will be badly affected, namely those Principals (or equivalents) who do their job particularly well but are squeezed out of promotion by the most able taking a higher proportion of senior posts. For many talented people, Principal would become a career ceiling, reached comparatively early, but not to be improved upon. Others might progress a grade, but have to wait years to achieve this. Personal promotions, as indicated above, would help alleviate the sort of delay in promotion, short but unaccustomed, which the most able will suffer. But to retain and motivate the middle management talent upon which much of the day to day work of the Service depends, it is arguable that something needs also to be done to compensate those who continue to give a sustained high performance which in normal circumstances would have been rewarded by promotion.

14. It could be argued that the performance bonus scheme introduced for an experimental period can be used for this purpose. However to do so exclusively would distort the purpose and aims of the scheme and reduce the value of the experiment which is designed to provide a performance incentive across the grades involved and not just for those held back from promotion.

15. One way of achieving our objective in paragraph 13 in addition to and distinct from the performance bonus scheme might be to award a special payment for sustained high performance which had continued for some time after the ordinary scale maximum has been reached (which usually takes less than 8 years). If a special payment of £1000 was awarded to those who had both served in the grade for at least 12 years and who were continuing to sustain a high level of performance, and if we assume that this would involve about a third (500) of those at Principal and equivalent level who had served for that length of time, the cost this year would have been £½m. The cost will increase with the severity of the blockages (which are unevenly distributed between specialisms) but is not expected to rise above about £¾m by the mid 1990s. Again departments would be expected to absorb costs within existing provision.

Financing

16. If one or other or both of the schemes described in paragraphs 12 and 15 above is adopted, then as previously indicated, Departments should absorb the costs within their existing provisions and running cost limits. Take up of the scheme by Departments would be voluntary, subject to the quotas and criteria above; having to absorb the costs would emphasise the need to Departments to consider their priorities. When from 1 April 1986 costs of early retirement are also placed on Departmental budgets, they will thus be able to take their choice from a range of measures according to their judgement of relative value for money. However the costs of both the personal promotion and special long-service payment schemes would not score within any constraints on overall annual pay bill increases for the Civil Service which might emerge from the talks on a new pay agreement now beginning. To seek to include such costs within the constraints would not be helpful either to the schemes themselves or to the talks now beginning. But in the longer-term, of course, any restructuring of a more permanent

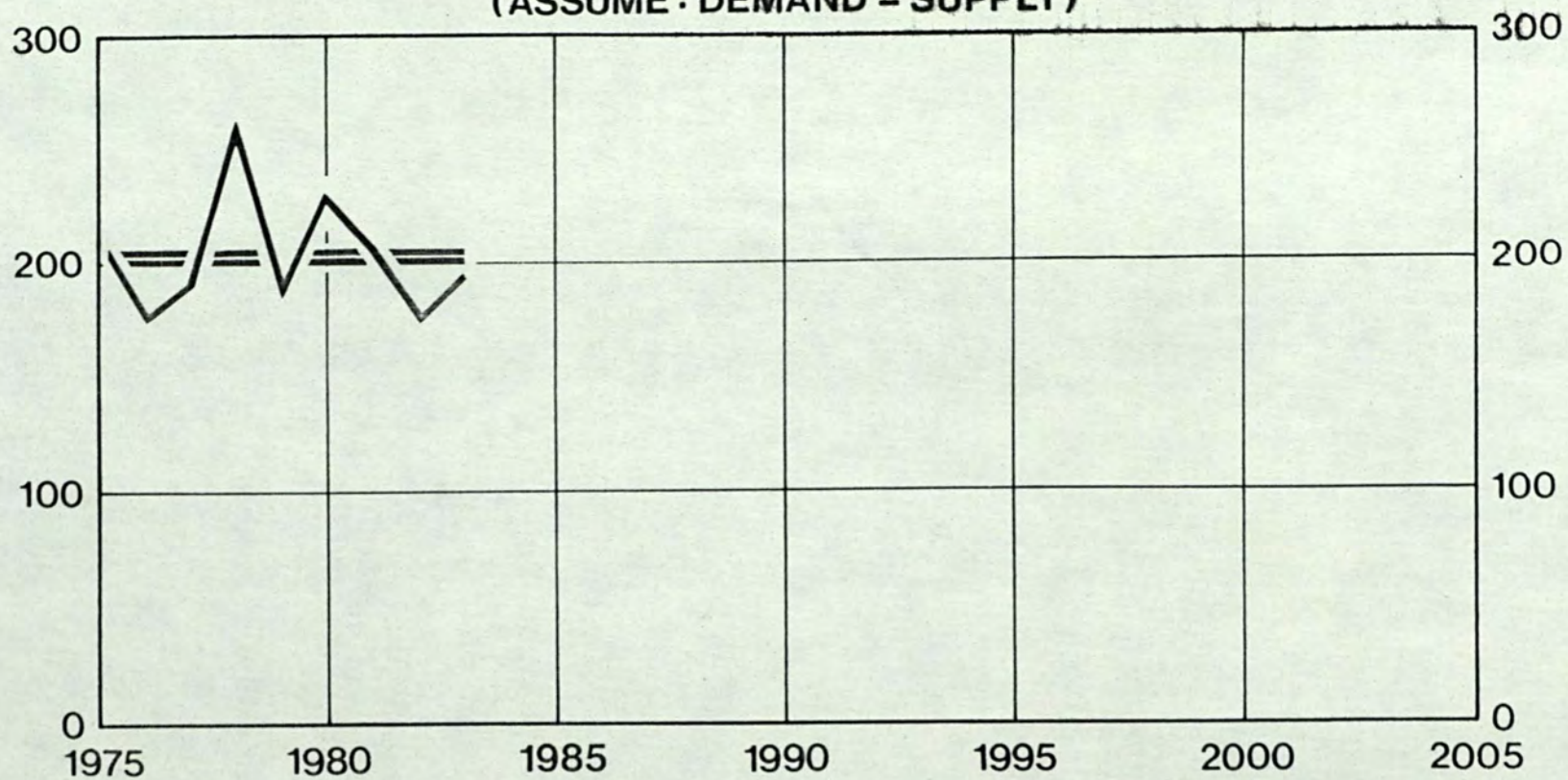
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nature should be on a nil additional cost basis, within the total pay bill as it would otherwise stand from time to time.

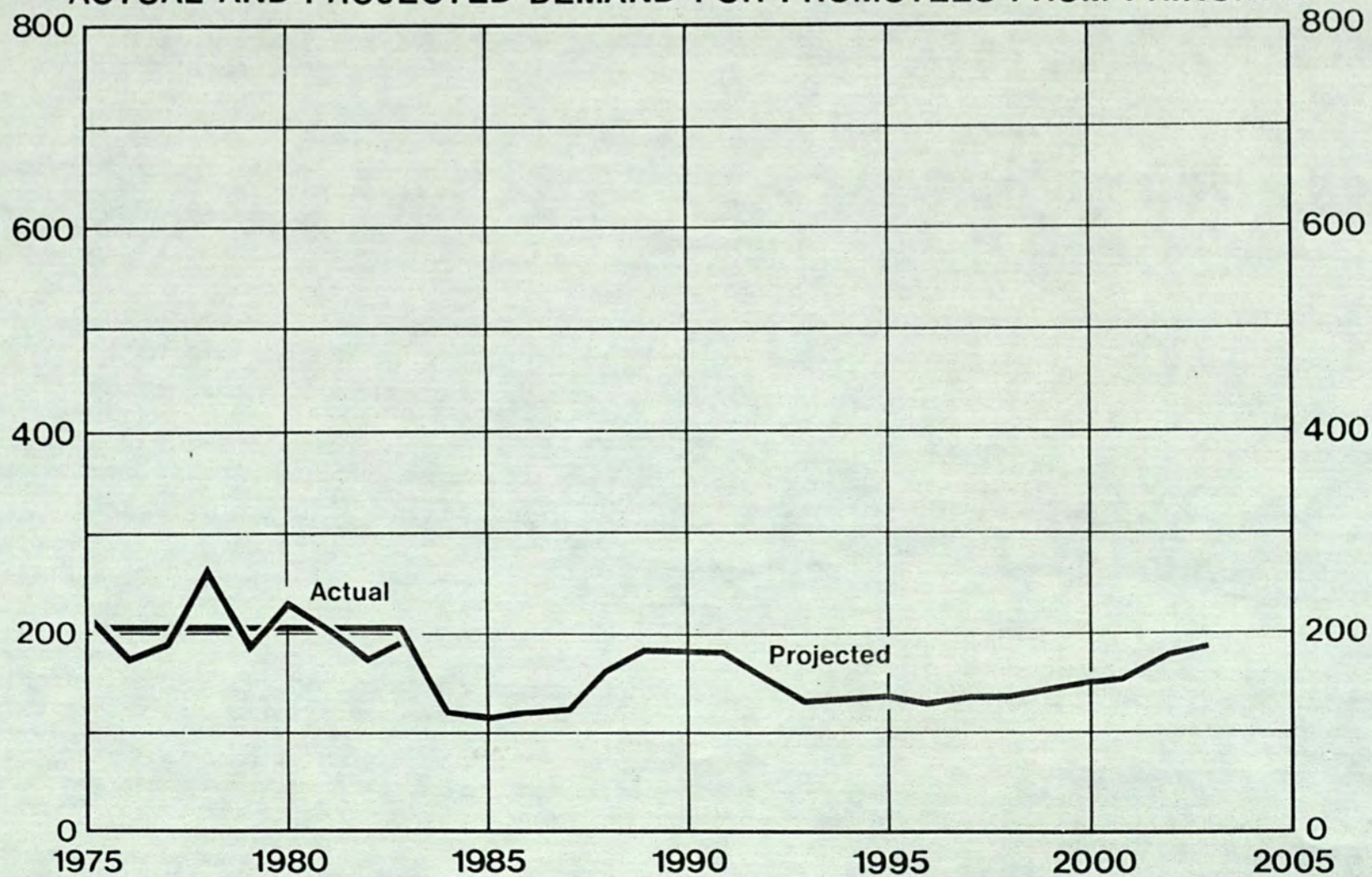
Cabinet Office (MPO)
JULY 1985

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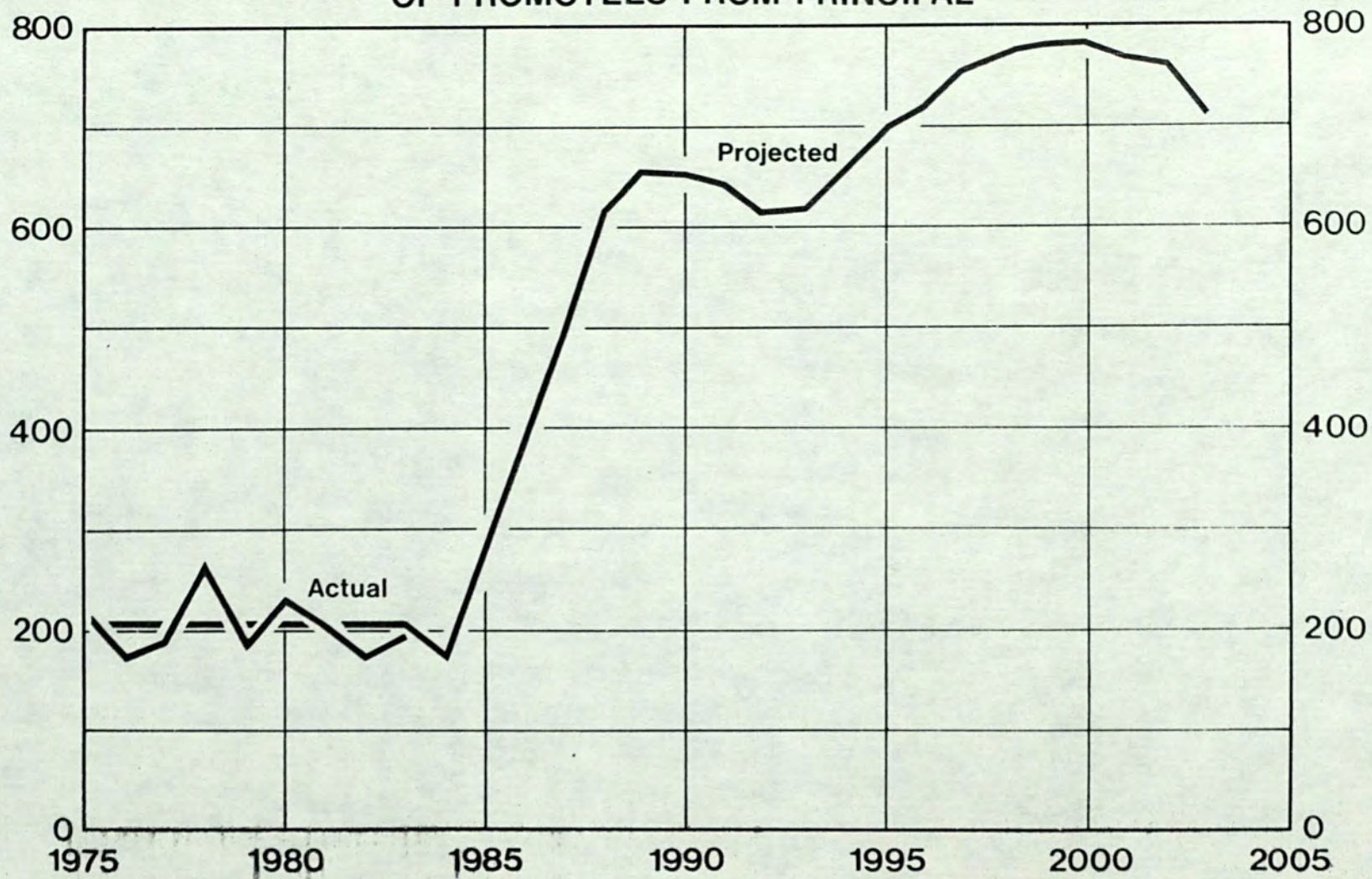
ANNUAL AVERAGE PROMOTIONS FROM PRINCIPAL 1975-83
(ASSUME : DEMAND = SUPPLY)



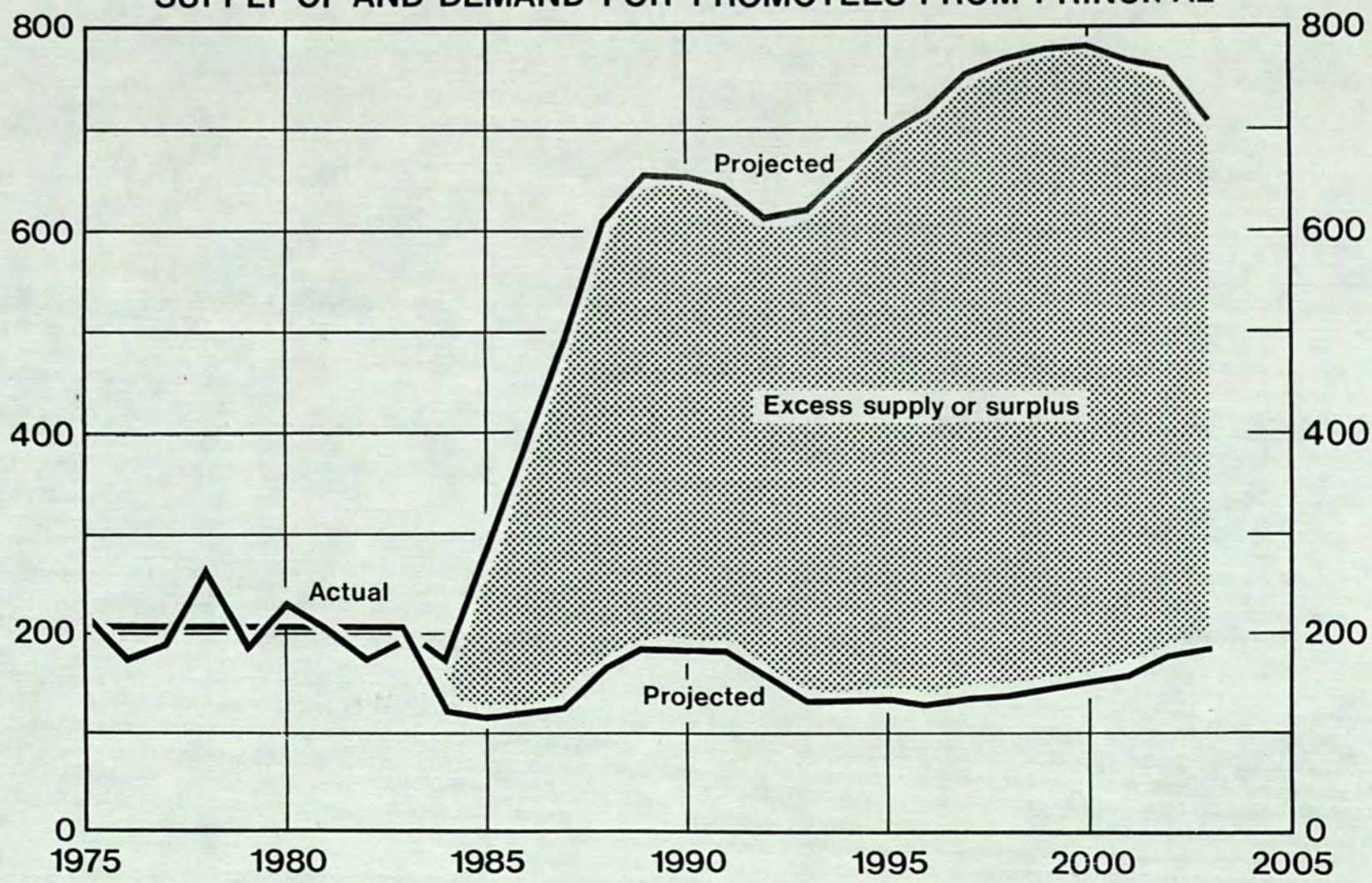
ACTUAL AND PROJECTED DEMAND FOR PROMOTEES FROM PRINCIPAL



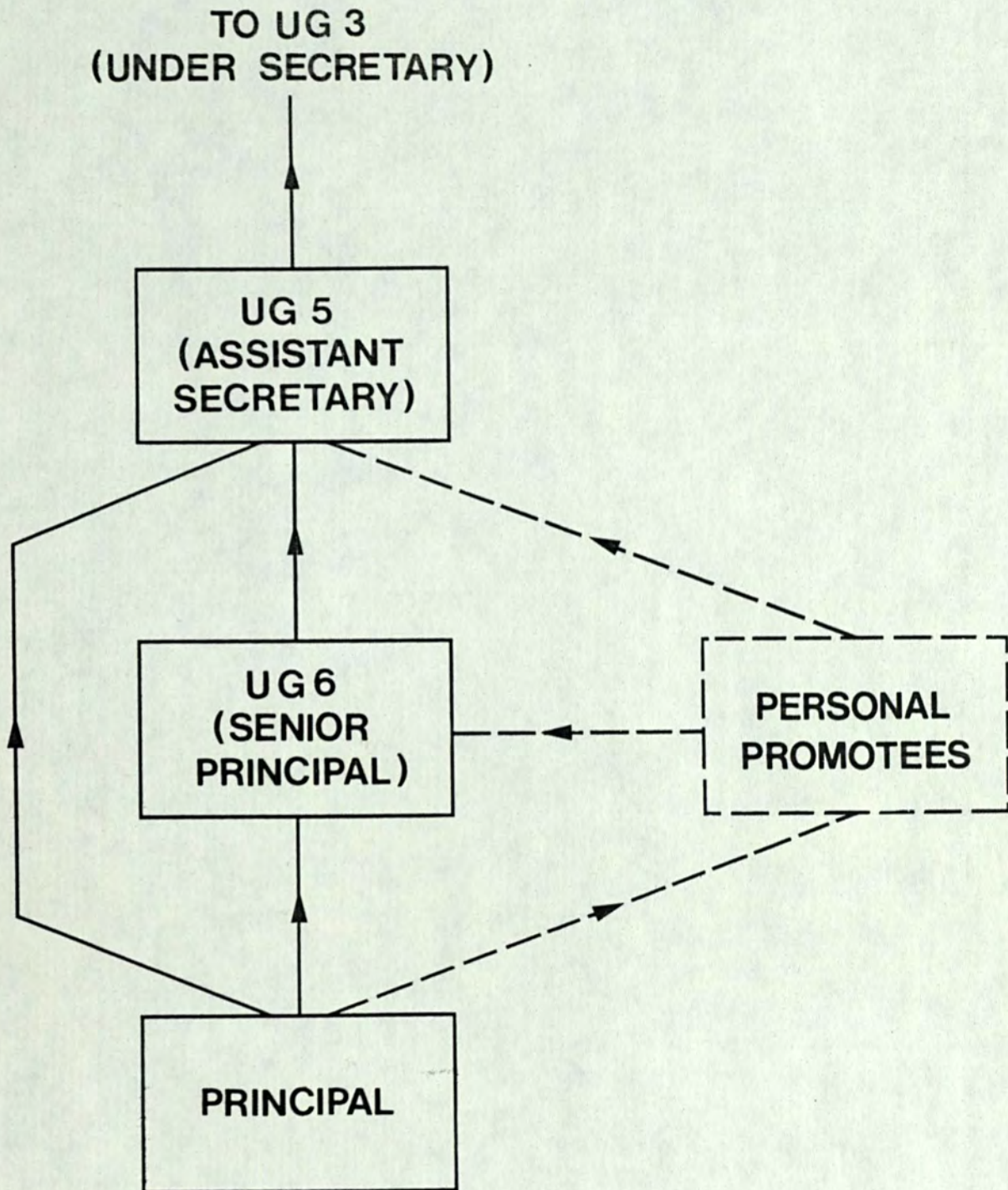
ACTUAL AND PROJECTED POTENTIAL SUPPLY OF PROMOTEEES FROM PRINCIPAL



SUPPLY OF AND DEMAND FOR PROMOTEES FROM PRINCIPAL



PERSONAL PROMOTION TO GRADE 6



SPECIAL EARLY RETIREMENT (SER) SCHEME

1984

SER resulted in

- 99 senior staff retirements
- almost 400 consequential promotions down to recruitment levels at a cost of about £4.3 million

1985/86

Scheme is being extended, with provision for

- about 30 additional retirements
- a further 100 – 120 promotions at a cost of about £1.5 million

THE LONGER TERM – RETIREMENT REVIEW

PRINCIPAL PAY – SUSTAINED HIGH PERFORMANCE PAYMENT

Existing pay scale
with increments
usually annual

Additional payment
for sustained
high performance

8. 18400
7. 17200
6. 16400
5. 15800
4. 15200
3. 14600
2. 14000
1. 13500

9. 19400
8. 18400
7. 17200
6. 16400
5. 15800
4. 15200
3. 14600
2. 14000
1. 13500

PROPOSED PACKAGE

- 1. SELECTIVE USE OF EARLY RETIREMENT**
- 2. AMELIORATIVE MEASURES**
 - more delegation, more freedom of action, more responsibility
 - merit pay
 - wider type of postings, secondment etc.
- 3. SHORT TERM PAY MEASURE – ADDITIONAL PAYMENT FOR SUSTAINED HIGH PERFORMANCE**
- 4. PERSONAL PROMOTION**