



## MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

## PROMOTION BLOCKAGES IN THE CIVIL SERVICE

1. The minute attached makes specific proposals for a special early retirement scheme for senior civil servants. This will help to improve promotion opportunities for our brightest younger staff. The scheme is agreed with the Chancellor of the Exchequer and could be implemented immediately.
2. But the numbers affected are comparatively small, and I am reporting also on other measures which we could take in the longer term to deal with promotion blockages in the Civil Service. There is more work to be done on these and I propose to make recommendations on them to you and colleagues in the Spring.
3. The contraction in the size of the Civil Service which has been achieved since 1979, and particularly the reductions at senior levels, have inevitably reduced promotion prospects at all levels. Many other organisations in both the public and private sectors are in the same position. We, like them, have to decide how far we should go to relieve the resultant blockages. If we do nothing, morale and hence efficiency will suffer and a number of staff - including the brightest and those with specialist qualifications - will leave; there are already signs of this happening and the impact will increase with the years. Buying out staff through early retirement will help as a short-term measure. It is not unduly expensive in aggregate, if it helps to improve effectiveness and morale in the public service. But it does involve compensation terms to individuals which seem, and could be attacked as, too generous. Moreover there is an unavoidable risk that good-quality staff will take these terms as an incentive to go, as well as the staff we can afford to lose. Improving rewards other than promotion such as merit pay (on which I will be reporting to you shortly) is also expensive. But I believe that we need to do something and even with the measures we have in mind promotion prospects will still be poorer in the next decade or so than they have been for many years past.
4. If we wish to tackle the problem, therefore, we will have to take some risks: both of losing good as well as not so good staff, and of appearing to be generous in the terms we offer.



5. I recommend that we implement the special early retirement scheme for senior staff straightaway. For the longer term, colleagues will need to decide how much we can afford to spend to relieve promotion blockages throughout the Civil Service, balancing the expenditure that may be involved against the need to maintain the quality and motivation of our staff.

6. I am sending copies of this minute to the Chancellor of the Exchequer, Sir Robert Armstrong and Sir Robin Ibbs.

*S.G.*

LORD GOWRIE

6 January 1984





MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

Introduction

This minute describes the lines on which we are thinking for dealing with the problems of career and personnel management created by the reductions in the size of the Civil Service (particularly at senior levels). I shall be reporting further in due course on progress on the various matters discussed in paragraphs 4 to 11. In the meantime I seek your agreement to two immediate measures:

- (a) the introduction for one year of an extension of the existing premature retirement arrangements to cover retirements at senior levels, at management initiative or with management agreement, to ease promotion blockages (paragraphs 13 to 15);
- (b) an efficiency scrutiny of the means used to identify and develop internal talent (paragraph 17).

Promotion prospects and blockages

2. In your summing up of the discussion of public expenditure at the Cabinet on 21 July (CC(83) 24th Meeting, Minute 5) you said that it might be necessary, given the reductions in the size of the Civil Service, to establish early retirement terms which would facilitate premature retirement from the higher ranks of the Civil Service where that would improve promotion prospects of talented younger staff; and you subsequently asked the Secretary of the Cabinet to make proposals to this end. This minute reports progress on those remits, and on related work which the Cabinet Office has in hand to deal with some of the career and personnel management problems to which reductions in the Civil Service numbers are giving rise. The Secretary of the Cabinet has been associated with the preparation of this report and work leading up to it, and fully concurs in its conclusions.

3. The Cabinet Office has been reviewing the reduction in promotion prospects. I shall be letting you have before long a full report on this review, but it is clear from the work done so far that your concern about promotion prospects is very well founded. The problems created by the reductions in manpower



since 1979 are exacerbated by the scale of recruitment when the Service was growing in the 1960s and later 1970s. Blockages are already beginning to form, and they will become increasingly severe over the next ten years. To deal with the resulting problems will require us to take measures on motivation and incentives and on recruitment, as well as on early retirement.

Motivation and incentives

4. We are looking hard at possible merit pay schemes, taking advantage of the opportunities provided by the financial management initiative to develop defined tasks against which performance can be assessed. I will be reporting to you separately on merit pay shortly. Sir Robin Ibbs is contributing to our work on this. He, I know, thinks that we should be taking merit pay at least to Under Secretary level; so indeed do I, though we have to find a scheme which avoids the difficulties that led the Cabinet to reject a merit pay scheme for Under Secretaries during your first Administration.

5. We are looking hard at possible merit pay schemes and are consulting Sir Robin Ibbs who takes a keen interest. We hope to let you have a first report soon. There are of course technical problems arising from the size and complexity of the Civil Service; but there is also the major question of cost. Private sector experience suggests that a general scheme that is to be effective and successful will cost somewhere between 2 and 5 per cent of the total pay bill: that is, broadly between £100 million and £200 million, and probably nearer the upper than the lower end of that range. The benefits to be gained, on the other hand, are in their nature unquantifiable. Moreover merit pay could not be expected to commend itself to staff generally if they believed that the cost was to be met wholly or largely out of what would otherwise be available for a general pay increase, though, if matters were skilfully handled, it is not inconceivable that the introduction of merit pay elements into our general pay bargaining could lead staff and unions to accept a general lower pay increase than they would otherwise be seeking to achieve.

6. In the present system grading is pretty rigidly linked to the post, and it is almost impossible to promote somebody without moving him to a different job to which a higher grading is attached. Moreover our present arrangements for assessing the weight of the job and hence the rank of the person holding it, are not perfect. The boundaries are to a degree artificial. One possible form for rewarding merit would be to allow the possibility of personal promotions for individuals remaining in the same job.

Recruitment

7. One implication of the situation we face is likely to be acceptance of a considerably lower level of recruitment into the "fast stream" administration grades. We must clearly



recruit enough very good talent to provide for the satisfactory running of the higher Civil Service in future decades. But that falls some way short of the numbers we need to do the work of the middle grades especially at Principal level. So a reduced level of "fast stream" recruitment of people newly graduated from the universities will need to be balanced by greater efforts to identify and develop our own internal talent; and probably by a greater readiness to recruit at later ages people who will not be looking for the same career expectations, on the lines of the Direct Entry Principal Scheme which was successfully revived last year.

Early retirement

8. Here we are looking at a number of possible changes:

- (a) We could introduce a scheme on the lines of the Canadian "85 year rule", under which a civil servant can choose to retire  
by the age of 55 provided he has at least 30 years reckonable service. Canadian experience suggests that this scheme can be very attractive to staff who have reached the age of 55 or so and have no expectation of further advancement.
- (b) We could allow retirement at will at any age on an actuarially reduced level of pension.
- (c) We could allow retirement after the completion of a fixed period of service (say, 40 years which currently entitles a civil servant to full pension) as an optional alternative to retirement at a fixed age (60). This would be a particularly useful means of encouraging retirement before age 60 by staffs mainly at junior and middle management levels who joined the Service before the age of 20.

9. We are also looking at various alternatives to early retirement, for instance:

- (a) Encouraging people to take an outside employment before they reach retiring age. In particular:
  - (i) A civil servant who is appointed to a job in the gift of Ministers - a directorship in a nationalised industry, for instance - is debarred from receiving the full pay of the new job and his Civil Service pension: in other words, his new salary is "abated" so that the total of salary plus pension does not exceed the current salary of his last job in the Civil Service. A civil servant who goes to a job in private industry - or indeed to a job in the public sector which is not a Ministerial appointment - does not have to suffer this abatement. We could consider removing this discrimination.



MANAGEMENT IN CONFIDENCE

- (ii) At present we refuse early retirement terms to a civil servant whom we know wishes to leave in order to take up well paid employment outside. If we allowed such a man to take early retirement terms we should get some more early retirements.
- (b) Providing alternative employment within the public service, for instance:
  - (iii) We could be readier to consider, when circumstances permit, the filling of a post at a certain level by someone of higher rank without loss of pay. In effect we would be recognising, as the French do, that there are posts in which wisdom and experience count for more than "cutting edge" and which can be more than adequately filled by older staff. Our scope for matching horses to courses is unfortunately less than that of the French Government - which ruthlessly exploits the patronage at its disposal - but any possibilities which do emerge should not be neglected.
  - (iv) As a variant of this we could look at a scheme (again like one that operates in Canada) whereby up to five people can be employed at Permanent Secretary level in the Cabinet Office as special advisers, and used for special assignments as directed by the Prime Minister.

10. All of these measures to encourage early retirement would help to create promotion vacancies. Some would require agreement with the unions; failing that, we might need legislation. They would all also involve costs; and it is only realistic to recognise that it would not be just "deadbeats" who went: we should be bound to lose some people of high talent and vigour. So we should need to take a conscious decision to face the risk of criticism, and to be ready to justify the cost of the measures and the benefits to particular individuals by reference to the effectiveness and welfare of the public service.

11. I am in touch with the Chancellor of the Exchequer about the ideas which I have been describing, and I shall be reporting further to you when we have definite proposals to make. I hope to be in a position to combine some of those proposals with my report to you on the review of promotion prospects and blockages (see paragraph 2 above). But I do not think we need necessarily think in terms of a "package" of measures all announced together. It may make better sense to take them in series, introducing (and where appropriate announcing) each measure when we are ready to do so.



Immediate measures

12. There are, however, two measures which I should like, with your agreement, to take immediately and which can be taken without formal agreement with the unions (though I have no reason to suppose that they would object to them) and without legislation.

13. First, I should like to extend the criteria for early retirement at senior levels, to permit premature retirement for the express purpose of easing promotion blockages. The present criteria include medical reasons, redundancy following structural change, and diminished efficiency. The terms would allow a senior civil servant (with his Department's agreement) to retire before reaching the age of 60, drawing immediately the lump sum and an annual pension at the level which he would have earned by the age of 60, plus a compensation sum (untaxable) which can be as much as six months' pay but reduces, the closer the individual concerned is to being 60 years of age.

14. The cost would vary according to individual circumstances; but (ignoring the lump sum, which is simply an existing cost brought forward), the typical extra cost of retiring an Assistant Secretary aged 55 would be about £25,000 in the first year and half that sum annually thereafter until age 60.

15. The scheme would last for a year, ceasing at the end of 1984. It would be confined to staff aged 55 and over in grades from Permanent Secretary down to Assistant Secretary (or exceptionally Senior Principal). Departments could approach particular individuals to see if they would be willing to leave under the scheme; the terms available should be sufficient to encourage most if not all of those approached to agree to go. Individual cases would be submitted to the Cabinet Office (MPO), which would scrutinise each proposal with an eye on the specific structural and managerial advantages to be gained.

16. The Chancellor of the Exchequer has agreed to the provision of £6 million to cover the costs of such a scheme in 1984. Three-fifths of that amount are accounted for by the premature payment of lump sums which would in any case have to be paid to the individuals concerned when they reached the age of 60. This would be sufficient to finance about 100 additional early retirement at senior levels, and as a consequence promotion opportunities at about the same number at each lower grade.

17. The other immediate measure I should like to take relates to the development of internal talent. If we continue to keep "high flier" recruitment down to the historically low levels of the last two years - as I believe we shall have to - we shall have to put even more emphasis on the development of internal talent. I propose, with Sir Robin Ibbs's agreement to launch an interdepartmental scrutiny of the means used to identify and develop such talent. The scrutiny would be on normal efficiency scrutiny lines, and the Efficiency Unit would contribute to it.



MANAGEMENT IN CONFIDENCE

I intend that work should begin this month, with reports available for consideration by Ministers in June.

18. I am sending copies of this minute to the Chancellor of the Exchequer, Sir Robert Armstrong and Sir Robin Ibbs.

*R.G.*

LORD GOWRIE

6 January 1984





10 DOWNING STREET

From the Private Secretary

16 January 1984

Promotion Blockages in the Civil Service

The Prime Minister was grateful for Lord Gowrie's two minutes of 6 January about promotion blockages in the Civil Service, and also to Sir Robin Ibbes for his comments dated 12 January.

The Prime Minister agrees that the proposed efficiency scrutiny of the means used to identify and develop internal talent should go ahead. She has asked that Sir Robin Ibbes should be associated with this work.

The Prime Minister continues to attach importance to removing ineffective civil servants and to improving career prospects for talented younger staff. She does, however, have some doubts about the efficacy of the proposed early retirement scheme for senior staff. In particular she agrees with Sir Robin Ibbes that its cost effectiveness is not proven. Although the numbers involved are small (and this in itself is a significant limitation) the estimated cost of £6 million is substantial. The cost for individual retirement is thus very high. The Prime Minister considers that figures of this order can only be justified provided that they lead to the right result in terms of improved Civil Service performance.

Before reaching a final view, the Prime Minister would be grateful if Lord Gowrie could consider these points, together with those made by Sir Robin Ibbes. She would also be glad to see:

- (i) a more detailed description of the morale problem which the proposed early retirement scheme is intended to alleviate;
- (ii) what evidence there is that reduced career prospects for younger staff are actually affecting, or can be expected to affect, Civil Service performance.

I am sending copies of this letter to Margaret O'Mara (HM Treasury), Richard Hatfield (Cabinet Office) and to Sir Robin Ibbes. I should be grateful if its circulation could be kept to a minimum.

MR. D. BARCLAY

Paul Cann, Esq.,  
Office of the Minister for the Arts.





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## CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE

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13 January 1984

David Barclay Esq  
Private Secretary  
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*Dear David,*

SPECIAL EARLY RETIREMENT AND PROMOTION BLOCKAGES IN THE  
CIVIL SERVICE

You asked for a more detailed explanation of the costings mentioned in Lord Gowrie's submission of 6 January to the Prime Minister on this subject.

### The Terms

2. A civil servant retired under the proposed arrangements would receive the benefits currently payable for premature retirement under the Principal Civil Service Pension Scheme namely,

i) a tax-free lump sum compensation payment equivalent to a maximum of 6 months pay - the payment is tapered for those aged 57 and over;

ii) an index-linked compensation payment, paid annually until age 60, equivalent to the preserved pension which is based on the reckonable service he would have earned had he worked to age 60;

iii) the lump sum superannuation benefit which would normally have become payable at age 60, again based on the service he would have earned had he worked to age 60.

The actual amounts will vary from person to person depending on age, length of service and pensionable pay at the time of departure. A couple of examples are outlined below.



EXAMPLES

3. a) An Assistant Secretary aged 56 with 32 years' service

	<u>Expenditure</u>
	£
i) Lump-Sum Compensation	12,000
ii) 4 Annual Compensation Payments of £10,700 pa giving total of	42,800
iii) Early Payment of Lump-Sum Superannuation Benefit	32,000
Total	<u>86,800</u>

b) An Under Secretary aged 56 with 32 years' service

i) Lump-Sum Compensation	14,500
ii) 4 Annual Compensation Payments of £13,050 pa giving total of	52,200
iii) Early Payment of Lump-Sum Superannuation Benefit	39,150
Total	<u>105,850</u>

Higher amounts would be payable in respect of Deputy and Permanent Secretaries but the sums would be lower if the people concerned were older or had less reckonable service.

Costs

4. First year total costs would include 1), iii) and  $\frac{1}{4}$  of ii) above .i.e. £54,700 for the Assistant Secretary, £66,700 for the Under Secretary . The average first year cost per individual is therefore likely to be £60,000 giving the total first year costs of £6 million for a 100 people mentioned in paragraph 16 of Lord Gowrie's submission. In each case some 60% of the total first year cost is accounted for by the early payment of the lump-sum superannuation benefit (£32,000 and £39,150 respectively). This is the  $\frac{3}{5}$  also mentioned in paragraph 16 of the submission.



5. On the same basis the total cost, including the lump-sum superannuation benefits, over the next 4 years of retiring 100 people would be about £10 million.

6. It is difficult to estimate the real additional cost to the Exchequer of each retirement. The lump-sum compensation payment and the annual compensation payments are clearly additional costs. The early payment of the superannuation lump-sums also involves additional costs in that the Exchequer must borrow more to meet them. Against this one has to offset the salary savings which might arise as a consequence of promotees joining at the minimum of incremental scales, while those who retire will tend to be on the maximum point, and the less tangible cost-benefits which will result from the overall improvement in efficiency and morale.

Yours sincerely,

Paul Cann

P L CANN  
Assistant Private Secretary