



CC No.

MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

Your Private Secretary wrote to mine on 16 January conveying your agreement to the proposed new interdepartmental scrutiny of the means used to identify and bring on talented youngsters in the Civil Service. I am most grateful. We will press ahead with a view to a central report before the summer recess.

As to the wider issues you raised, Sir Robert Armstrong has already commented on the points made by Sir Robin Ibbs and I endorse his conclusions. You also however specifically asked for my views on two points: the reality of the morale argument: and the reality of the link between reduced career prospects and Civil Service efficiency.

Arguments about morale are notoriously difficult to pin down and I would not place a great deal of weight on them. My concern is more pragmatic. A run-down of staff numbers in any organisation is most readily and cheaply achieved by a combination of natural wastage and reduced recruitment. This is the classic route which we, and other employers, have followed in recent years. We have of course had to do this against a background of recession which has greatly reduced the number of staff who leave us voluntarily below retiring age. The combined effect of these factors has been:-

(a) a slow down in the rate of promotion: in 1978 one in twenty four EOs were promoted; in 1982 the proportion had fallen to one in thirty.

(b) a rise in the number of staff on flat rates of pay (mainly because they have reached the maximum point on their incremental scale). In October 1981 55% of staff (representing 62% of the pay bill) were in this position. By October 1982 the figures had risen to 61% of staff and 68% of the pay bill. The figures for October 1983, due next month, are expected to show a continuation of this trend.

(c) an underlying tendency, ie discounting the effect of retirements of staff over 60, for the average age of non-industrial civil servants to rise e.g. in 1978 one-third of EOs were aged 27 or less. The corresponding age now is 30 and rising.

(d) a substantial rise in the qualifications of our new recruits with over half of our new externally recruited EOs now graduates.

If these trends continue the danger is not so much that "morale" will suffer (though an ageing, and over qualified staff, with much reduced prospects of earning more money is unlikely to

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be particularly malleable) but that, as the economy continues to recover, we could face a significant outflow of our best people seeking greener pastures. The consequences of this on efficiency (as those who know their job leave and are replaced by the inexperienced) and on pay (as we react to market forces) could be painful.

As Robert Armstrong says the problems are not immediately acute. Developments of this kind take time to mature and there can be no certainties. But I think the situation I have outlined is sufficiently important - and potentially sufficiently damaging - to justify prudent and modest corrective measures now as we develop our longer term policies.

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

B.g.

LORD GOWRIE
24 January 1984

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10 DOWNING STREET

From the Private Secretary

30 January, 1984

Promotion Blockages in the Civil Service

The Prime Minister was grateful to Lord Gowrie for his further minute of 24 January about promotion blockages in the Civil Service, and also to Sir Robert Armstrong for his minute of 25 January.

In the light of this further advice, the Prime Minister agrees that the special early retirement scheme for senior staff should go ahead on the basis originally proposed in Lord Gowrie's minute of 6 January - that is to say, until the end of 1984, at a cost not exceeding £6 million. The Prime Minister hopes that the results of the scheme will be carefully evaluated.

BF | The Prime Minister has noted that Sir Robert Armstrong will be reporting within the next few months on the wider review of promotion prospects and related policy issues, including merit pay. She looks forward with interest to seeing this report.

I am sending copies of this letter to John Kerr (Treasury), Richard Hatfield (Sir Robert Armstrong's Office) and Sir Robin Ibbs.

DAVID BARCLAY

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

(1)
PRIME MINISTER

PROMOTION BLOCKAGES IN THE CIVIL SERVICE

You asked for further advice before deciding whether an early retirement scheme for senior staff should go ahead. Sir Robin Ibbs had queried the value for money offered by the proposed scheme; and the Polity Unit had doubts about the assumed link between reduced promotion prospects and Civil Service performance.

Attached are further notes from the Policy Unit (Flag A), from Lord Gowrie (Flag B), and from Sir Robert Armstrong (Flag C). Both Lord Gowrie and Sir Robert see the proposed scheme as a modest and necessary response to a real problem. The Policy Unit, on the other hand, favour deferring the scheme at least until it can be considered with Sir Robert's promised wider proposals on merit pay and related issues. They suggest that if necessary special measures could be introduced to deal with one of the most pressing problems - the current exodus of Treasury Principals.

Agree that the scheme should go ahead on the basis originally proposed - ie one year only, at a cost not exceeding £6m? Or would you prefer to take the Policy Unit line, and thus increase the pressure for rapid progress with the wider proposals?

DMB

Yes not

27 January 1984

PROMOTION BLOCKAGES IN THE CIVIL SERVICE


You asked Grey Gowrie whether the proposed early retirement scheme would represent good value for money, and specifically, whether the two problems it addressed - low morale and the risk of diminished Civil Service efficiency - were real ones. In his reply, Grey Gowrie places no great weight on the morale question, I think rightly: civil servants have been able, in the main, to adjust their expectations about promotion prospects to the new realities. He is more concerned about the possibility that the best people will leave as the economy continues to recover. This is a risk, and it would intensify an imbalance which already exists in the Civil Service: a (possibly excessively) well-qualified Executive Officer grade, half of whom are now graduates, and on the other hand, a shortage of able Principals needed to carry out the key policy jobs. Attempts which have been made to recruit the latter from the former grade have yielded very few candidates.

The options seem to be:

(i) to operate the scheme (a successor to a previous scheme) immediately on a time limited basis;

(ii) to await the report promised on merit pay, various forms of early retirement, and promotions in-post, to see whether they offer more effective solutions to the problem.

We favour the second option. It seems a little odd to dust off an old scheme so soon before the arrival of a review of a wider range of schemes, which may include the one which is under discussion now. The possibility of losing the ablest people is a real one but, except in grades which require or generate marketable skills (eg parts of the Treasury), there is not at present a substantial exodus of fast-stream Principals (one a month in 1982 and first half of 1983). Half of these were from the Treasury. It may be better to solve the Treasury's problem by regrading the posts concerned, or through merit pay, than by extending a general early retirement scheme.


NICHOLAS OWEN