



PERSONAL

Your Ref

~~NW~~

My title to  
see -

DN

29/1

**E. P. KEMP**

Treasury Chambers  
Parliament Street  
London SW1P 3AG  
Tel: Direct Line 01-233  
Switchboard 01-233-3000

~~DN~~

~~al~~

NW

37.1

## GRADES 2 AND 3 - DISCRETIONARY PAY

## Discussion note by the Treasury



In their 1985 Report the TSRB recommended the introduction of a more flexible pay system for the senior Civil Service, embodying not only annual increments for Grades 2 and 3 (about 630 people in number) which the Government has accepted, but also a limited number of additional salary points within a range for these two grades, to be used selectively at management discretion, "within rigorously defined criteria". In announcing the Government's decision on the TSRB recommendations, the Prime Minister said "We shall give further consideration to this proposal, and to the arrangements for assessment, appraisal and review, on which such a system will depend, if it is realistically and fairly to reward high performance and to take account of cases in which high performance is not sustained, and I shall make a further statement on this aspect of the review body's recommendations in due course."

2. This note discusses the way forward. It should be read alongside the note by the Cabinet Office (MPO) about appraisal arrangements for senior civil servants. It is intended as a basis for discussion, and does not necessarily reflect any final Treasury view.

Should there be any change at all?

3. The first question, is whether or not any change is necessary or desirable. It is important to keep in mind what objective the scheme is intended to serve. This is presumably to make the central government machine work better, by encouraging better performance by those in certain key grades; and making it easier to recruit and retain good people for such grades. This must be the touchstone of whether a scheme is worth considering. Account also needs to be taken of how a scheme for Grades 2 and 3 would affect the motivation of other grades, and how it might influence the form and administration of any performance-related arrangements for them.

4. The particular scheme put forward by the TSRB would have a cost both directly (on the TSRBs recommended rates and assuming their 25 per cent rule this might be about £700,000 per annum) and indirect in terms of time of senior management etc. These costs would have to come from within running costs limits and targets. They might also have a less

clearly perceived cost in that if they were seen (and they would be seen) as yet more increases for the very top of the Civil Service they could add to the strong pressures that already exist for so-called "catching-up" down the line, or at least for improved performance bonuses etc at all grades. Grades 2 and 3 have already done well,\* recently, in relation to the generality of civil servants, and the TSRBs scheme for discretionary payments is estimated to cost about 3 per cent of the relevant pay bill (on top of the 11 per cent which the basic recommendations of last July cost and comparing with less than 1 per cent for the performance bonus experiment). Discretionary increments, on top of increments "as of right", for Grades 2 and 3 could introduce a principle which, if extended to the rest of the Civil Service, might be very expensive indeed.

5. Presumably the TSRB thought that the costs would be worthwhile, and it is the case that a large number of firms in the private sector and the public trading sector do have schemes for bonuses, merit increments, profit sharing, etc. But the senior Civil Service is not necessarily to be equated with such concerns. At present, assessment of performance is difficult; to a great extent it is subjective but also with a very "political" element. At Grades 2 and 3 promotion, and the prospect of promotion, is a very much stronger motivator, made even stronger by the relatively fewer promotions now available.

#### Possible schemes

6. For a number of reasons the sort of approach many private (and public trading) companies might take (eg individual contracts) are not appropriate so far as Grades 2 and 3 go, at least not yet. But there is still a wide variety of approaches, depending on what one is seeking to achieve and the basis on which awards are to be made. The two main "families" are range pay, with scales made up of a mixture of "as of right" and discretionary points, some or all of which have to be earned, but with a presumption that once earned they will be retained; and lump sum bonuses, sitting on top of or alongside "as of right" points, but where there is explicitly no presumption of repetition in future years.

7. So far as range pay goes, the Annex to this note sets out some possibilities. Options A and B as shown are respectively the present

---

\*Since April 1979 Grade 2 and Grade 3 pay has gone up by 107 per cent and 103 per cent respectively, while a COs, EOs and Principals pay have gone up by 74 per cent, 77 per cent and 93 per cent respectively. It is worth remarking that under the TSRB proposal the maximum discretionary top up at Grade 3 (£6,000) is not very far short of the whole of the annual pay of a CO on the top of his scale (£6,293).

## MANAGEMENT BY CONFIDENCE

position and the TSRBs recommendations as presented. Option C builds the TSRB recommendations to give more scale points and fewer discretionary points, and Option D gives fewer scale points and more discretionary points. Essentially as between the Option C pattern and the Option D pattern, choice depends on whether it is intended that the additional pay should reward experience, or performance; if it is experience then the Option C pattern is appropriate whereas if it is performance then Option D is more relevant. As presented Option B (the TSRB idea) adds about 3 per cent to the pay bill for Grades 2 and 3, while Option C adds nearly 7 per cent and Option D - if pressed a outrance - would produce a saving of about 3½ per cent, all on the basis of a 25 per cent "quota" (see paragraph 11 below).

8. The second general family - bonuses - is easier to describe, and could sit well alongside Option A. It would simply represent, an extension to Grade 2 of the performance bonus scheme which at the moment stops at Grade 3. Clearly there could be awarding problems at this level, but the general concept of the scheme as it currently applies to Grade 3 through to Grade 7 could apply to Grade 2. If the existing bonus scheme were simply extended it would cost about 1 per cent of the pay bill or an additional cost of about £60,000 per annum.

### Awarding criteria and quota system

9. This is clearly of crucial importance. Whatever happens, a high degree of subjectivity is involved. That said, the approach could be more or less structured, as between a system modelled on identified and where possible quantified indicators of expected and achieved performance, and a system still linked to performance, but more loosely and impressionistically so. It would be necessary to keep open the use of discretionary points or bonuses, as may be, for purposes other than the reward of performance - eg market-related reasons such as the TSRB contemplated; indeed arguably this might be a more important use for such a scheme.

10. It will be important to ensure that poor performance can be penalised. Option D is the most extreme case, but the flavour could also be retained by non-repeatable bonuses, perhaps coupled with some conditionality about "as of right" increments.

11. The system - whether range pay or bonuses - could either be open-ended or operated on a quota basis. The TSRB propose the latter, with

## MANAGEMENT BY CONFIDENCE

25 per cent of the population on discretionary points at any time. The performance bonus scheme is similarly operated on a rationed and thus competitive basis. This seems right, though 25 per cent is not necessarily the right figure. A quota system, if adopted, would of course have implications for the actual decision and awarding process, and would point towards a centralised system. (The awarding etc process is not discussed in detail in this note, though of course if there were a decision to go ahead this would be an important second order question).

### Other points

12. Some other points also arise, thus :-

a. Pensionability. Whether range points or bonuses it would probably be desirable that discretionary awards should not be pensionable (indeed performance bonuses under the present experiment are not pensionable). By their nature many of the people in Grade 3 and Grade 2 who might benefit from the scheme could be at a point in their career where their pension could be very materially affected by a discretionary award (whether giving an award, not giving an award, or withdrawing an award that had already been given) with a big gearing effect on the living standards of the individual after retirement, and this could easily distort judgments. It may be necessary to amend the PCSPS to ensure non-pensionability. Discretionary awards would, however, of course be taxable and rank for ERNIC.

b. Changes in terms and conditions. Thought might have to be given to whether, under some approaches, it would be necessary to take account of existing terms and conditions of service. Specifically Option D in the table attached suggests that second and third points on the Grade 3 scale as we have them at present, and the second point on the Grade 2 scale should become discretionary, whereas at present they are in effect as of right. The extent to which making them discretionary could be said to adversely affect the potential Grade 2 and Grade 3 population is clearly very small indeed and could be said to be offset by introduction of an additional higher discretionary point. But post-Glidewell these matters need to be thought through.

c. Consultation. At the moment we recognise no Civil Service union as having any negotiating or bargaining rights within the Senior Open Structure - that is, above Grade 4. It is for consideration whether the unions should be consulted over the possible introduction of discretionary points at Grades 2 and 3, and as an extension of that, if a system is introduced, whether they should be consulted in future years over changes eg to the amounts involved, which comes near negotiating over pay rates. There would also be the question of who the negotiation would be with - clearly the FDA but possibly also the IPCS. Consultation of some kind would probably be desirable, but not so as to lead to negotiations - as long as the TSRB arrangements remained as at present.

#### Timing

13. If it were decided that there was a case for a move, there would be a lot to be said for not moving too fast. The reasons for this include:-

a. The need to get very clear the details of the scheme which is to be introduced, including the appraisal and awarding arrangements as well as the pay points or amounts involved etc.

b. As an extension of (a), the question of consultation with staff representatives in one form or another - see paragraph 12(c) above; it seems that some kind of consultation would be desirable and it might be possible to keep this separate from recognising any particular union as having formal pay bargaining rights for the Senior Open Structure.

c. Experience with the present performance bonus scheme (which includes Grade 3). This scheme should be given a longer run before making any changes at all, to see how effective it is and to consider whether it might provide a permanent solution for Grades 2 and 3; and so as to put any development in the context of what might be done for other grades by way of performance pay. (In any case the interaction with the performance bonus scheme would need to be studied).

## MANAGEMENT IN CONFIDENCE

d. The need to get clearer the basic pay arrangements for the future for the Civil Service generally (the "other ½ million"). However presented the move in the direction of the TSRBs recommendation (whether by way of range pay or bonuses) will look like giving yet more attention and yet more money to senior people and this would be better done against the background of agreement to new and hopefully improved pay arrangements for the rest of the Civil Service and/or perhaps even a peaceful settlement of the 1986 pay review, and, just possibly, other developments in the pay/personnel management field.

Another argument for moving slowly and carefully is that a range pay scheme, once introduced, would be very difficult to stop (especially for individuals who had been awarded range pay); which makes it very important to get the scheme right from the start.

14. In any case it seems desirable for there to be a known forward period before any increase or bonus were given, which means that introduction from 1 April 1986 is now virtually impossible. On the other hand there seems no need to pretend to be too black and white over the starting date for performance assessment, nor need payments actually start from a 1 April date.

### Questions for consideration

15. The following inter-related questions arise :-

- a. Is a discretionary scheme likely to be worthwhile?
- b. Can criteria strong enough to back such a scheme be developed, and when?
- c. As between range pay and bonuses, which is preferable?
- d. If range pay, should there be more "as of right" points and fewer discretionary points, or vice versa?
- e. What would be the repercussions for the pay of other Civil Service grades?

## MANAGEMENT IN CONFIDENCE

- f. If bonuses, should the existing scheme simply be extended?
- g. How can poor performance best be penalised?
- h. What about (i) pensionability and (ii) consultation?
- i. What would be a sensible date to aim at for starting a scheme?

### Next steps

16. Depending on reactions to the points raised in this paper, summarised in paragraph 15 above, the Treasury will develop this note as the basis for further discussion at official and/or Ministerial level.



## MANAGEMENT IN COMPLIANCE

	<u>Option A</u> <u>At present</u>	<u>Option B</u> <u>TSRB rec</u>	<u>Option C</u> <u>More Scale</u> <u>Less Disc</u>	<u>Option D</u> <u>Less Scale</u> <u>More Disc</u>
<u>Grade 3</u>				
On promotion	31,000	31,000	31,000	31,000
after 1 year	32,500	32,500	32,500	<u>32,500</u>
after 2 year/ <u>disc</u>	34,000	34,000	34,000	<u>34,000</u>
after 3 year/ <u>disc</u>		<u>36,000</u>	36,000	<u>36,000</u>
<u>UIPP(L)</u>	<u>37,000</u>			
<u>discretionary</u>		<u>38,000</u>	<u>38,000</u>	<u>38,000</u>
<u>discretionary</u>		<u>40,000</u>		
Points on scale/(disc)	3/(1)	3/3	4/1	1/4
Normal promotion increase	6,000	6,000	4,000	9,000
Minimum promotion increase (to Grade 2)	6,000	Nil	2,000	2,000
<u>Grade 2</u>				
On promotion	40,000	40,000	40,000	40,000
after 1 year/ <u>disc</u>	42,000	42,000	42,000	<u>42,000</u>
after 2 years/ <u>disc</u>		<u>44,000</u>	44,000	<u>44,000</u>
after 3 years/ <u>disc</u>		<u>47,000</u>	47,000	<u>47,000</u>
<u>UIPP(H)</u>	<u>48,500</u>			
<u>discretionary</u>		<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Points on scale/(disc)	2/(1)	2/3	4/1	1/4
Normal promotion increase	13,000	13,000	8,000	15,000
Minimum promotion increase (to grade 1A)	13,000	5,000	5,000	5,000
<u>Grade 1A</u>	55,000	55,000	55,000	55,000
<u>Grade 1</u>	60,000	60,000	60,000	60,000
<u>Cost £</u>	-	+£ 0.7 m	+£ 1.5 m	- £ 0.8 m
% of pay bill		+ 3%	+ 7%	- 3.5%

Discretionary points underlined.