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Rewards at the top in UK central government

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‘Look Tony, you’ve got a wife who earns a quarter of a million a year. I’ve got a wife who spends a quarter of a million a year’.

John Prescott, then deputy prime minister, protesting about a freeze on ministerial salaries.

(A. Rawnsley (2001) Servants of the People, London, Penguin, p. 54).

‘...and do you know what it is all about? Jealousy.’

Sir Anthony Steen MP, 21 May 2009

To say that rewards for high political office dominated British political headlines in late Noughties was arguably an understatement. Following the Daily Telegraph’s purchase of a leaked CD containing details of all Members of Parliament’s expenses, the daily headlines throughout May and early June 2009 were dominated by stories ranging from the trivial to the outlandish and from the gaming of the rules to the outright fraudulent. As a result, the public was informed that among those costs which had been ‘incurred wholly, exclusively and necessarily to enable [MPs] to stay from [their] only or main home for the purpose of performing [...] duties as MP’, were demands for lavatory seats, fake house ornamentation, tree planting and pruning, moat cleaning, trouser presses, mole catchers, TV and sound systems, stainless steel dog bowls, food mixers, ‘Maximus’ love seats in deep moss brushed cotton, bed linen, pipe repairs underneath tennis courts, manure and book cases. In an early leak, one then senior minister, Jacqui Smith, was uncovered to have registered the back bedroom at her sister’s London home as primary residence, thereby being able to claim a ‘secondary residence allowance’ (£116,000) for the family home (where her husband and children lived) in her constituency. More embarrassingly, she was also found to have (unknowingly) claimed for her husband’s downloading of two adult films (£10 in total). Meanwhile, a number of peers were suspended after being accused of having requested ‘cash for amendments’. Other MPs, including ministers, were accused of gaming the tax system by regularly ‘flipping’ their second home designation and using legal means of avoiding capital gains tax when selling their properties. Arguably more fraudulently, a small number of MPs were found

to have claimed and received mortgage repayments although their actual mortgages had already been paid off.¹

The political response to the ongoing expense saga was immediate.² One response was the forced resignation of the Speaker of the House of Commons, Michael Martin (the first such resignation in over 300 years). A second was the announced resignation of a large number of MPs (from across the political spectrum) that had faced constituency and party pressure to resign. This also included a number of cabinet ministers (including Jacqui Smith) as the expense saga became embroiled with wider upheaval of the Labour government that threatened the immediate future of prime minister Gordon Brown. Other politicians quickly repaid the criticised amounts.

A third, and most important in the context of this chapter, was the acceleration of announcements of internal reforms, especially a re-examination of earlier claims, further codification of expense rules that reduced the scope for claims to be made, the capping of certain claims, such as mortgages and rent, and the requirement to quarterly publish all expense chits. The government also proposed the creation of a 'Parliamentary Standards Authority' that was to be able to disallow claims, order repayment and impose penalties. These reforms were to await further proposals to be put forward by the Parliamentary Standards Commissioner, Sir Christopher Kelly, in autumn 2009 as well as wider constitutional reform debates. Overall, the emphasis on reducing parliamentarians' authority on determining their own pay regimes, as well as trends towards further codification and increased externalisation of MP expenses followed the pattern over the last decade or two.³

Earlier examples of political responses to perceived public criticism of political rewards, included prime minister Gordon Brown's successful strong-arming of his parliamentarians into not voting for a pay rise that would go beyond that of other public

¹ Most famously, one MP (Sir Peter Viggers) had received £1,645 for a floating duck island and 'Stockholm' duck house. Google Maps revealed that the duck house had been removed, because, as Sir Peter suggested, it was 'never liked by the ducks'. A duck breeder commented that the duck house 'is just not suitable for ducks. The door is far too big. Ducks much prefer feeling snug...they like to squeeze through them and then they feel secure' (Daily Telegraph, 22 May 2009). The house designer shot back highlighting that the problem had been that the pond was 'minute.. It was a long shot that ducks would occupy it. I find that ducks vote with their feet' (Daily Telegraph, 25 May 2009).

² Within days, MP expenses were relegated to third place on the 'most read' list on the Daily Telegraph website, with the second place reserved for a story headlined 'Man complains his pizza has no topping - until he realises it is upside down' (Financial Times, 15 May 2009).

³ Gordon Brown's initial proposals, first announced on 'youtube' (and causing much hilarity) on 21 April 2009, were vetoed by parliamentarians (<http://www.youtube.com/watch?v=sBXj5l6ShpA>, last accessed 1 June 2009)

servants (in particular, the police), although the rise had been advocated by the pay review body. At the same time (2008), the government announced that it was seeking legislation to abandon parliamentarians' freedom to vote on their own salaries, thus further endeavouring to divert public attention via institutional means.

The specific interest in 'allowances' and 'expenses' was initially raised in January 2008, when a backbench Conservative MP (David Conway) was revealed to have paid his sons for non-existent research assistance. This triggered further revelations about previously unknown parliamentary perks, such as the existence of a so-called 'John Lewis list' of goods that were accepted as legitimate expenses for parliamentarians requiring London accommodation.⁴ Parties announced demands for their parliamentarians to come 'clean' over their expenses and two parliamentary reviews were asked to deliver 'root and branch' reform suggestions over disclosure requirements and perks in terms of living and office expenditures. By 2009, these proposals remained in disarray and awaited the Parliamentary Standard Commissioner's recommendations. This followed the government's failed attempt to limit the release of MPs' expenses under Freedom of Information legislation. As a result, 1.2 million receipts (at an approximate cost of £2 million) between 2004 and 2008 were to be released by July 2009 - and it was these leaked details that were obtained by the Daily Telegraph and caused the media storm in spring/early summer 2009.

Apart from allowances, interest regularly also focused on possibilities of outside and post-career earning opportunities. In early 2008 ex-prime minister Tony Blair joined, as part of a 'small handful' of jobs he wished to take, J.P.Morgan for an estimated £2 million per year package (the second being with Zurich insurance for an approximated £500,000). These part-time jobs complemented his memoir writing (under a £4.6 million deal), his speeches (rumoured to bring in another £100-200,000 per engagement), his activities as an (unpaid) Middle East 'envoy' and his £3.19 million pension pot.

The bureaucratic domain did not escape controversy either. For example, the National Audit Office reported (in late 2007) that former civil servants had made a return of 20,000 per cent on their shares from the privatisation of QinetiQ, the former Defence Evaluation and Research Agency. In early 2008, the Department of Health's commercial director (Chan Wheelan), a US citizen, was criticised for receiving £185,000 plus bonuses, a civil service pension, two business class return flights to the US per year, a £35,000 relocation package, and an £8,400 per month housing allowance (Financial Times, 30 January 2008, p. 4). One year later, in February 2009, media attention turned to the 'hospitality list' for senior civil servants that listed invitations by various organisations to Wimbledon, football matches, arts and culture events, flower shows as well as numerous breakfast, lunch and dinner invitations (among them the Confederation

⁴ <http://www.timesonline.co.uk/tol/news/politics/article3330559.ece> (last accessed 21 February 2009).

of British Industry, the National Eating Disorder Awareness Week or the Overseas Cemeteries Trust).⁵

The global economic meltdown meant that Cabinet Secretary, Gus O'Donnell, announced in February 2009 that he and his permanent secretary colleagues would selflessly abstain from taking their bonuses. Gordon Brown enquired into the abolition of MPs' final salary pension scheme. In the meantime, one bank chief executive suggested to MPs in a parliamentary committee hearing that 'people like you and me [...] are on relative modest salaries' (Eric Daniels, Lloyds Banking Group chief executive, earned £930,000 in contrast to MPs on nearly £62,000) (Financial Times, 12 February 2009, p.3).

In other words, rewards for high political office have hardly vanished from public attention over the past decade and were in fact at the heart of wider debates regarding constitutional reform. Notably, rewards for politicians and senior bureaucrats developed in distinct ways in the light of such public attention. In contrast to the increasing visibility of political rewards, the rewards for civil servants reduced in their transparency, given individualisation of pay deals at the top and departmentalisation for the rest of the ministerial bureaucracy and those working in executive or regulatory agencies. In addition, most bureaucrats at the top earned more than their political masters, while some chief executives of executive agencies also earn more than the most senior civil servant, the Cabinet Secretary. Figure 1 illustrates the various trends in the reward bargains during the period of interest in this volume. The rest of this chapter considers bureaucratic and political reward patterns in turn, before considering the extent to which established theories of political reward apply to the British case in the past decade or so.

FIGURE 1 HERE

The political reward bargain: from club of gentlemen to league of eunuchs?

In earlier work, Christopher Hood (1994) pointed to three key features of the politicians' reward bargain at the national UK level. First, there was little evidence that political business cycles existed. Second, there was a consistent shift towards 'hiding' material rewards through substantial increases in expenses and allowances as well as through allowing for discretionary handling of supplementary sources of income. Third, Hood pointed to a growing pay discount for politicians, not only in relative terms, but also in comparison to top civil servants and the private sector.

Developments since the early 1990s broadly followed these patterns - but it would be difficult to suggest that the ongoing public pressure on political rewards had created a league of lowly paid eunuchs. One recurring in British political life has been the claim that political salaries should be linked to those of bureaucrats in order to allow for

⁵ www.cabinetoffice.gov.uk/media/122200/hospitality_publication2007.pdf (last accessed 20 February 2009).

‘depoliticisation’. Following an earlier policy (1988-1993) where parliamentarians had linked their pay to the rate increases received by the average of ‘grades 5-7’, parliamentarians opted (in 1996) to link their pay to the mid-point of the annual increases of the senior civil service pay band.⁶ At the same time (1996), MPs voted (against the wishes of the then Conservative government and the Labour front bench) in favour of an increase of 26 per cent in their salaries, as had been recommended by the Senior Salaries Review Body (Review Body on Senior Salaries 1996). It was the same constellation – a large number of MPs considering retirement or fearing their demise at the hand of the electorate and therefore more interested in reward than fearing party whips - that provoked the Labour government in 2008 to announce that parliamentarians were to vote on legislation that would end their ability to vote on their own pay increases. An earlier study of parliamentary pay had also found widespread support among MPs for abolishing their right to vote on their salary and to tie salary decisions to a basket of comparable salaries set by the Senior Salaries Review Board (see Review Board of Senior Salaries 2007b).

As illustrated in the introduction, most attention focused on allowances, whether these related to ‘second homes’, office-expenditures or outside earnings. The qualitatively important changes over the past 15 years affected the way in which politicians could supplement their earnings. Following outcries over ‘sleaze’ that were associated with the final days of Conservative reign during the mid-1990s, ideas regarding the regulation of parliamentary (House of Commons) ethics became increasingly prominent (Kaye 2005). Part of this development was the rise in parliamentary salaries (in order to reduce ‘temptation’), the emergence of a quasi-regulator for parliamentary standards, and a higher office allowance that was however granted on supposedly stricter conditions. The regime provided for the disclosure of outside earnings, mainly for the ‘provision of paid parliamentary services’ (i.e. advice on parliamentary matters and speeches), the authorship of books and political speeches more generally.

The regime for office allowances was increasingly formalised. As Figure 2 indicates, ‘office allowances’ grew substantially, but on increasingly restrictive terms, for example expecting MPs to avoid using allowances to top up their own family income.⁷

Figure 2 here

In 2001, the Senior Salaries Review Board suggested a reform to the allowance system, and since 2004 some details of MPs were published on a parliamentary website. The changes to the allowance system represented a major attempt at regularising

⁶ The earlier policy had to be abandoned due to changes in the civil service grades.

⁷ As a result, employment of family members was not prohibited *per se*, but pay was expected to reflect actual work. The employment of family members remained widespread until at least 2009.

parliamentary expenditures mostly by reducing discretion (via central provision of IT equipment and the codification of employment contracts)), while still maintaining a differentiated set of additional sources of reward. Despite these attempts at codification and transparency, the practice of regulating parliamentary expenses proved to be more difficult. The second Commissioner for Standards in Public Life came to grief when challenging MPs over their parliamentary allowances. One Conservative leader's resignation (Iain Duncan Smith) was partly over (disproven) allegations regarding his wife's employment. And during the first media storm of 2008 over expenses granted for second homes in London, it was revealed that the list through which 'reasonable expenses' were assessed by the House of Commons validation clerks was kept secret as otherwise those rates (taken from the website of the department store 'John Lewis') would 'become the going rate'.⁸ In other words, despite these attempts at institutionalising rules, discretion remained very much at the heart of parliamentary pay as parliamentarians continued to be in charge of their own rules, relying on a system of 'audit' of expenses.

Over the years, it was media scrutiny of expense claims that continued to embarrass parliamentarians (for example, leading to league tables regarding car miles claimed). Reflecting a view of the media as chief regulator of public conduct rather than relying on institutional means, it was argued that rather than the 'Advisory Committee on Business Appointments' exercising thorough and draconian oversight over politicians' and top civil servants' retirement to private sector occupations, this role should be played by the media through 'naming and shaming' (*Financial Times*, 22 February 2008, p. 2). In other words, while parliamentary debates largely evolved around the search for institutional devices, the facilitation of Tocquevillian pressures was widely seen as more effective in controlling supposed reward 'excesses'.

Politicians in government witnessed – at least formally – significant increases in their formal pay. However, Table 1 only notes the agreed increases in earnings since the late 1990s as part of the overall increase for politicians that had been supported by the backbench revolt against their respective front-benches in 1996 (although suggestions were made that this revolt was 'tolerated'). However, as part of a policy to signal 'restraint', the incoming Labour government decided not to take the pay increase. As a result, between the 1997-2001 elections, cabinet ministers, apart from the prime minister, were on lower actual salaries than the leader of the opposition, William Hague, who decided to take the pay increase. The 'restraint' was lifted shortly after the 2001 election without attracting much public attention, although it was claimed that Labour ministers had 'saved' the country £2.5 million. Regardless of restraint, the pay reward for politicians in government became increasingly different to that of parliamentarians and

⁸ For example, it was also revealed that one expense request for a fish-tank had been turned down. (<http://www.guardian.co.uk/politics/2008/feb/29/media.thebackbencher>, last accessed 21 February 2009).

suggested a growing hierarchy of pay reward that reflected seniority of post and a move away from a more compressed and supposedly mutuality-based reward system.

In sum, the traditional reward bargain for parliamentarians - a low salary compensated by an informal system of allowances and other income sources - had increasingly moved towards one that was more, but still incompletely codified. Furthermore, the direction of travel in terms of political rewards was one of higher salaries – despite studies suggesting that parliamentarians earned about 88 per cent of supposedly comparable public service and 85 per cent of supposedly comparable private sector jobs. In addition, ‘additional earnings’ increasingly moved ‘above’ the waterline, thereby making them more open to outside scrutiny and criticism (but not external oversight), whether about the employment of family members or about the size of claimed car allowances. Such pay increases did not however necessarily change the availability of outside earning opportunities, with, for example, Conservative parliamentarians said to be receiving substantial earnings from directorships in non-listed companies.

The bureaucratic reward bargain: ‘I will work harder’⁹

Bifurcation (thus multiplication) was one key trend diagnosed for the higher civil service when examining the public service bargain applying to UK central government in general (Hood and Lodge 2006, chapters 4 and 7) and similarly there was considerable diversification in reward patterns across Whitehall.

Trends

Following on from the experience of the 1980s, the first trend was the multiplication of pay bargains, with personalised pay deals for chief executives of the so-called Next Steps agencies and for the director-generals of the newly formed regulatory agencies, leading the way for the introduction of a pay deal for permanent secretaries in 1996. In many cases, chief executives earned more than ‘their’ permanent secretaries (although these figures were not public and were not considered by pay review bodies). This bifurcation that emerged in the 1990s put substantial pressure on the pay bargain that applied to ‘traditional’ civil servants (in size and type) and motivated changes across Whitehall in the mid-1990s. Following ministers’ rejection of proposals that civil service pay should be increased by 50 per cent in the early 1990s, the then Conservative government considered whether to replace the tenure for senior civil service with (time-limited) New Zealand-type contracts.

The Senior Civil Service (SCS) was a response to these proposals (see Hood 1998: 446-7). In 1993, a report by the Efficiency Unit considered whether senior civil servants should be placed on contracts of an indefinite and rolling nature. The subsequent 1994 White Paper Continuity and Change announced the creation of a Senior Civil Service that was to operate a common reward system and to provide for a ‘go anywhere’ bureaucratic

⁹ With apologies to Boxer from Animal Farm.

elite. Although contracts were supposed to be of an indefinite nature, it suggested that short-term contracts would be considered. By the time of the launch of the SCS in 1996, proposals had mutated into something more traditional: civil servants remained on indefinite contracts – although on explicitly individualised ones. While pay for the senior civil service remained ‘government-wide’ in order to allow for a ‘mobile elite’, all other pay grades were departmentalised – again borrowing an idea first trialled with executive agencies, namely departmental autonomy over pay. Permanent secretaries were provided with individual pay deals.

The 1999 White Paper Modernising Government (Cabinet Office 1999a: chapter 6) contained a series of commitments towards pay that reinforced existing trends. One was the advocacy of greater flexibility in pay, linking reward more extensively to measured performance (in particular linking reward to public service agreement targets), a second was the endorsement of greater competition from outside and inside the civil service in terms of recruitment at an increasing number of levels in the bureaucracy and the third, support for a short-term contracts. In this context, two further reports dealt with reform of the top civil service reward bargain. The report by Michael Bichard (then a high-flying permanent secretary) advocated greater non-consolidated performance pay elements in the overall reward bargain (i.e. pay components that were not pensionable or would be added to basic pay). Such a regime was to be monitored by the National Audit Office (Cabinet Office 1999b). A second review, led by a private sector finance director, suggested that incentives should play a greater role in central government operations, in particular in the light of greater pay flexibility that was to vary on counts of both region and performance (Matkinson 2000).

In 2002, these proposals were partly incorporated into a new pay policy for the SCS, with nine pay bands merging into (broadly) three and the political commitment to tackle ‘underfunding’ and a ‘lack of transparency’, as well as to allow for market alignment and a ‘robust’ performance management and pay system (see SSRB 2007). Permanent secretaries and the cabinet secretary were placed outside these bands. The return to a three-layered hierarchy reflected the failure of an over-differentiated individualised system to provide for sufficient flexibility to allow for job mobility within and across ministerial departments, while it also reflected departmental problems in operating such a system.

Since 2002, two further types of bifurcation among reward bargains occurred. One bifurcation was a variation in pay between ministerial departments for the same pay grade. While these differences were not of a substantial nature, they were still seen as impacting on staff recruitment and retention across individual departments. A second type of bifurcation occurred within ministerial departments. Here, traditional public servants were said to be working at a considerable discount (averaging 22 per cent) with ‘externally recruited’ colleagues (i.e. staff that had been recruited from outside the core civil service), despite being on the same grade (Senior Salaries Review Board 2006,

2007). In other words, the reward side, at first sight, revealed a decline in a clear hierarchical order in which seniority was linked to pay grade and a corresponding individualisation of pay, within broad pay grades, that created a wider effect of diversification and multiplication.

Changing patterns?

The reward dimension of the traditional Whitehall bargain was defined by an exchange of services and skills for the provision of a secure material reward that included a (nominally non-contributory) pension. Salaries in the British civil service were traditionally seen as being lower than those in the private sector. Enhanced job security, a perception of underlying meritocracy and an attractive final salary pension scheme were regarded as tempting incentives for (risk averse) employees.

A further attraction was said to be a relatively stable expectation as to how high up in the organisation one could reasonably expect to rise. The expectation was that promotion would occur approximately every six years during which three different 'jobs' were to be performed. While the job placement process was to some extent seen as near-random, there was nevertheless a belief in a 'system looking after' civil servants. And while guidance or even rules were never written down, clear understandings existed as to the type of positions that constituted a 'stairway to heaven', most of all to the position of the private secretary to the minister or 'bill work' (developing or drafting legislation).

The pay dimension was further characterised by 'noblesse oblige', namely a pattern of double imbalance. Under this system young entrants were to be paid relatively well (in relation to competitor private sector jobs) and then increasingly less so. Certain aspects of the reward bargain compensated for the material imbalance during civil servants' careers. First, there was the excitement from being involved in political decision-making. Second, there were further immaterial rewards, such as honours. Honours traditionally served two functions, one being the recognition of (high-level) seniority within the bureaucracy, the other being a 'compensation prize' for people having missed out on departmental promotions or who may have experienced particularly traumatic policy-making experiences. Third, 'double imbalance' was, for some, just an aspect of 'delayed gratification' in that the bureaucratic after-life was rich in earning opportunities (for those at the very top in particular). These earning opportunities were further enhanced by allowing civil servants to retire at 60 (at the latest), rather than at 65.

By the late 2000s, the traditional perceptions of the material reward – a respectable salary, a good pension and job security – were all said to have become undone. For new joiners, pensions had moved from a final salary scheme to one that relied on average earnings; pay at the top had increased substantially (although not in line with those private sector positions top bureaucrats liked to be compared with); and job security had been challenged by staff redundancy programmes from the 1980s onwards.

There was considerable evidence to suggest some weakening of the traditional components of stable and predictable career progression and also evidence of a decline of the double imbalance pattern. The world of the stable career escalator (up to the position of the deputy secretary) came under considerable pressure by the early 1990s. The escalator arguably stopped at an earlier level as positions were increasingly opened up to internal and external competition. Moreover, the system was no longer seen to be 'looking after' people, instead it was said to have turned into a 'free for all'. As a result some civil servants reached higher levels more quickly than before, whereas others were left behind earlier and at lower levels and encouraged to leave - and a small number were sacked.

The further indicator of a decline in traditional understandings was the multiplication and diversification of rewards within departments and across top bureaucrats. Reward packages for agency chief executives were generally higher than those of their heads, the permanent secretaries of ministerial departments. While this could be seen as 'fair' in that chief executives had a higher 'risk surcharge' (seeing that they had to face the sack for failure in meeting performance targets and a less attractive pension deal), this bifurcation caused irritation and demands for increased pay among 'traditional' bureaucrats. There was, over the past 15 years, something of a convergence between the two types of employment, with top civil servants expected to compete for their new positions, permanent secretaries on individualised but rolling contracts and agency chief executives moving from fixed term to rolling contracts.

Similarly, there was considerable support for the argument that the traditional system of 'double imbalance' had weakened. As Figure 1 indicated, salaries at the top rose rapidly during the late 1990s and reduced wage compression. While politicians refused to grant the full extent of recommended pay rises and resorted to the staging of pay increases, these increases were nevertheless significant, outpacing many sectors in the economy (see Figure 3).

FIGURE 3 HERE

As Figure 3 shows, the ratio in pay for the cabinet secretary/grade 7 equivalent rose from 3.91 (in 1990) to 5.31 (in 2007), while the ratio of the salary for grade 7 equivalents to average earnings fell from 1.67 (1990) to 1.41 (in 2007). Moreover, there were also arguments that highlighted the decline in immaterial rewards for those at the top. First, it was argued that privileged access to political decision-making had become an increasingly contested territory with 'traditional' civil servants being shouldered to the side by a new type of political advisor. Thus, the role of permanent secretary was often no longer seen as solely that of a political confidant, but more of the chief administrator of a department.

The honours system also came under attack. In 1991, then Prime Minister John Major demanded a widening of the honours system to recognise special deeds rather than mere occupations. The total numbers of honours presented to civil servants returned, after an initial dip in totals, to their old pattern (Philips 2004). Nevertheless, the growing publicity surrounding ‘gongs’, especially following the rejection by artists and an alleged decline in civil servants’ degree of appreciation, meant that the honours system was arguably less of a valuable commodity than before. In addition, it was said that the attractiveness of recruiting retired top bureaucrats to company boards had decreased, partly because of transparency rules, partly because of changing corporate governance demands.¹⁰

The supposed age of managerialist reform also brought elements of competition and pay individualisation into British reward bargains. Such individualist understandings violated many conventions underlying ‘club government’ in Whitehall with its informal, but well-understood ranking system (see Hood *et al.* 1999). The idea of substantial weight being placed on ‘performance’ also potentially clashed with broader notions of the British civil servants as a ‘serial loyalist’ (i.e. someone who would work enthusiastically for any party in government). Performance-driven systems associated a bureaucrat with a political goal, thereby potentially undermining a civil servant’s credibility to claim that she or he would be able to work enthusiastically for a different party in government (and a potentially contradictory policy).

One key element of this increase in individualist pay components was the use of performance bonuses. Starting with rather small performance bonuses in the 1980s, the granting of extra material rewards became increasingly institutionalised after 1991, although hardly at a significant scale, given that bonuses formed approximately eight per cent of the base salary (the equivalent in the private sector was between 26 and 57 per cent). Performance pay was only approximately four per cent of the departmental salary ‘pot’ with commitments regarding increases of up to ten per cent being regularly postponed. Over 55 per cent of all civil servants received some form of performance recognition, with performance assessment crowded in one particular performance grade (Matkinson 2000). By the late 2000s, attempts to deal with such grade inflation by forcing departments to utilise ‘performance tranches’ were seen as highly problematic and 40 per cent of SCS-type civil servants received pay awards lower than inflation (see SSRB 2007). In addition, performance assessment increasingly targeted wider (sometimes moving) government targets (especially those formalised in Public Service Agreements).

¹⁰ The breakdown of traditional conventions, namely that a decent pension would prevent former civil servants from revealing details of their relationship with politicians, was argued to be reflected in the publication of revelatory memoirs. In response to one former Washington ambassador’s memoirs, measures such as confidentiality clauses and the automatic transfer of copyright to government were taken.

Similarly, ‘open competition’ was increasingly applied to lower ranks of the bureaucracy (whereas in the past they were limited up to grade 7 at the most). Permanent secretary positions remained (until the time of writing) a privilege for ‘traditional’ civil servants, despite regular calls for recruitment of ‘real people’ to run government departments. Furthermore, since many of the top positions granted to ‘outsiders’ involved individuals with public sector experience, figures that suggested that between 27 and 43 per cent of open competitions had gone to external candidates should be treated with some caution.

The introduction of these components represented only one aspect of changes in the overall reward dimension of the Whitehall bargain. They reinforced an emerging style that emphasised an ‘up or out’ type of system (with less emphasis on ‘out’). There was little political interest in following the bureaucratic demand that increased visibility, blame-taking and reduced job security were to be compensated by an increase in salaries (thereby also tackling the bifurcation between externally and internally recruited senior civil servants) and bonuses.

The move towards individualist and ‘managerial’ themes could nevertheless be seen as far from transformative. Traces of the ‘old’ bargain’s reward dimension remained prominent. Hierarchy still mattered: ratios among the top three civil service ranks remained broadly stable (Rimington 2008: 1112), and, regardless of material reward, permanent secretaries still expected chief executives to come to their offices. In addition, despite the increased amount of rivalry in terms of promotion, the ‘system’ still arguably succeeded in generating the same sort of civil servant progressing to the top – only at a faster speed.

Similarly, in relation to the potential decline of immaterial and post-career rewards, when looking at the board membership of FTSE-listed companies, then only an extremely select former civil servant group was highly connected in the City, suggesting stability rather than an overall decline (or increase) (see Jennings, Lodge and Millo 2007). Looking at the ‘after-life’ of various generations of permanent secretaries as well as their ‘honours’ packages, does not reveal any straightforward trend, although many of the significant developments might have occurred below the absolute top. Figures 4 and 5 provide an overview of the ‘gong count’ over the past decade and the ratio of permanent secretaries that have pursued a post-career life somewhere in the private sector. The ‘gong count’ reflects the ratio between those permanent secretaries with knighthood status (a K-honour) to those without.

FIGURES 4 AND 5 HERE

Figure 5 suggests that there was a peak in terms of permanent secretaries finding an ‘after-life’ in the private sector during the early Thatcher years in the 1980s and a declining pattern since then – with a rise since the 2000s. The overall ‘K-gong

count' (Figure 4) suggests some broad stability throughout the 1990s, after a substantial downward shift that occurred sometime during the second half of the 1980s.

Furthermore, many of the absent ingredients of a 'full blown' move towards a more individualist 'performance pay' or 'private sector'-type reward dimension could be interpreted as a continuation of the traditional 'noblesse oblige' pattern – although not necessarily as a matter of bureaucratic choice. A commissioned report by the Hay Group (2005) noted how salaries at the senior civil service level (and in particular at the higher level) had fallen behind those provided to public sector 'peers' (especially in local authorities). The 'real' civil service salary was below the lower quartile of the comparator job market, with pensions only competitive at the lower levels of the senior civil service. And while top bureaucrats were provided with better holidays and maternity provisions, they lacked, in contrast to the wider public sector, perks such as company cars and private medical insurance.

For others, the limited extent to which performance pay had been introduced was due to a political unwillingness in financing such a system, a departmental incapability in monitoring and enforcing a more individualised system that imposed tough conditions for awarding performance pay, while lacking clear objectives (see Tower Perrins 2006). It was therefore hardly surprising to witness a rapid rise in the 'cost free' membership of the senior civil service (in total numbers, from just 3000 to well over 4000) instead of the sort of pay rises that some parts of the top bureaucracy were advocating. In addition, the pay difference between 'internal promotions' and 'external recruited candidates' was seen by some as an explicit political statement from the centre, while others argued that the pay differential was largely a result of budgetary allocations. A further indicator of the lack of interest in 'properly' financing a performance-related system on the lines of the private sector was the decision, in 2006, to alter the definition of 'market-facing' salary levels, away from mimicking private sector pay and towards a definition that emphasised the ability to recruit 'suitable candidates'.

Finally, the increased amount of rivalry and talk about performance introduced a degree of uncertainty that had been unknown in the past. This occurred in three main ways. One was that the criteria under which performance was assessed to qualify for performance bonuses were regarded as unclear and non-transparent (Senior Salaries Review Board 2005). The second was that it was not always clear whether the government would fulfil its promises in terms of providing rewards. The third effect applied to those bureaucrats operating on more explicit performance-related bargains, where pay was directly linked to the achievement of set objectives. Hitting formal targets did not always guarantee survival. Only few public servants operating under this bargain publicly resisted their removal, regardless of whether the causes of the policy problem were directly associated with their organisation or not. The seemingly voluntary falling on one's sword was allegedly compensated for by honours.

In sum, one trend has been a move away from an informal, yet somewhat predictable career ‘escalator’ and to some extent from a decline in the understandings that underpinned the idea of ‘double imbalance’. However, this move away from old certainties generated greater uncertainty – uncertainty in terms of career progression in two senses. One was the uncertainty introduced by greater competition and rivalry and the decline of ‘a system’ that ‘looked after’ individuals, and uncertainty in the sense of a lack of transparency as to what the rules of the game were; thereby provoking the typically unquestioning civil servant’s ‘I will work harder’ mentality.

Explaining reward patterns

According to the Tocquevillian hypothesis democratic societies will not allow a high level of reward for political office. In many ways, Tocquevillian pressures were evident in the case of UK central government reward bargains - not just in terms of regular media headlines, but also in the argument that parliamentary expenditure and allowance had grown in such opaque ways to circumvent Tocquevillian pressures by keeping direct income levels relatively low. However, the political and bureaucratic reward bargains moved in different directions as a result of the external pressure on rewards. The political reward bargain moved towards a greater hierarchy and towards greater codification, while other hierarchical elements, such as attempts at instituting ‘independent’ pay reviews failed in the face of media criticism. In contrast, the bureaucratic reward moved towards a more individualist type of reward bargain, with bureaucrats not only faced with competition from inside and outside the public sector and performance-based assessments and pay elements, but also with an increased individualisation of their reward package. Further support for the Tocquevillian hypothesis comes from wider trends in public sector pay. Those ‘public sector professions’ with highest support among the wider public were able to negotiate much better pay deals (such as doctors, teachers and police) than the more powerful and more central top bureaucrats in Whitehall.

The political business cycle (rewards rise after elections) hypothesis receives only limited support. In the case of political rewards, the Labour cabinet granted themselves the pay rise after the 2001 general election, but such a decision was not repeated after other general elections. Substantial pressures for pay increases occurred before elections, i.e. when the electoral penalty for such behaviour could arguably be highest. But the motive (politicians wanting to obtain higher pay/pensions) requires specific opportunities. And this particular opportunity, in 1996, was the almost certain electoral ‘death’ of the Conservative government and the large number of parliamentarians facing retirement. That such a ‘window of opportunity’ does not necessarily lead to substantial pay increase for parliamentarians was witnessed in 2008 when a similar constellation (higher electoral uncertainty than at any time since 1997, large number of retiring parliamentarians) did not lead to a defeat of the government and opposition frontbenches. Arguably, the conditions one year later, with an even larger number of MPs having announced their

resignation or facing demands for their resignation at the next election, favoured more far-reaching reforms.

In a context of high salience over political and bureaucratic reward, the idea that rewards would grow particularly in their 'non-transparent' parts should receive considerable support. Arguably, the patterns in bureaucratic pay, especially at the level of pay below that of permanent secretaries and the cabinet secretaries, became increasingly non-transparent with figures for departmental pay deals not being made available publicly. In addition, this reduced transparency went hand in hand with reduced compression and increasingly diverse and 'high' pay rewards at the top. On the political side, the traditional way in which politicians were remunerated 'non-transparently' continued despite growing codification. This included official residences, or the possibility to cash-in on ministerial experiences through the writing of memoirs, speeches and consultancy jobs. In contrast, while parliamentary allowances did increase significantly in the period under consideration, this came at the expense of growing codification (but, until the time of final editing, internal oversight) and continued media interest. In other words, to some extent the iceberg of allowances had moved increasingly above the waterline.

Institutional explanations with their emphasis on routinisation and the dominance of embedded standard operating procedures provides for some insight into changes on the bureaucratic side of the reward bargain. One example of new ideas being 'filtered' into existing norms and conventions was arguably the way in which ideas of contractualisation were modified by the senior civil service into a system that was more akin to the traditional Whitehall bargain (namely indefinite tenure). Furthermore, the incentive system was nevertheless seen as producing similar outcomes for 'high flyers'. The existing pay structure, notwithstanding formalisation, operated in the established 'informal' evaluation patterns that characterised the age of 'club government'. Similarly the return to a 'three level' hierarchy in the senior civil service was seen by many as a return to the 'institutional logic' of a functioning bureaucracy and away from over-differentiation under individualised contracts.

Attempts at depoliticising pay for politicians by linking reward increases to those awarded to civil servants was a recurring theme throughout the past decade and a half or so. There was no major change to the institutional machinery illustrated by Hood (1994: 59) in that the government and parliament approved recommendations made by the Senior Salaries Review Body (previously called 'Review Body on Top Salaries'). The attempt at expertisation did not take the politics out of reward, with governments regularly either 'ignoring' or at least only partially implementing the type of recommendations that had been made by the review board. Only in 1996 did MPs vote against the government and in favour of the review body's recommendations. A similar motivation - to take 'politics' out of allowances - was evident in the announcement to create a 'Parliamentary Standards Authority'.

A so far less widely explored institutional explanation of reward patterns focuses on contested logics and inherent instability. The attempts to address public pressure on political rewards by codification, whilst maintaining many trappings of previous 'club government' informality was bound for inevitable break-down. The formalisation made the conventions 'explicit' (in the form of expense receipts) and thereby open to the challenge. In a wider sense, therefore, the regulation of political reward exposed a pattern that was also considered by Michael Moran's discussion of the British regulatory state more widely (Moran 2003). Moran diagnosed an 'incomplete penetration' of the regulatory state's logic of synoptic control into traditional systems of informal control - which sowed the seeds for system break-down. Similarly, the regime governing political rewards sought to combine these two elements (codification and remaining informality), thereby leading to break-down and further demands at formalisation and codification.

Conclusion

As the introduction to this chapter highlighted, political reward featured not just as a continuous presence on newspaper frontpage headlines, it also animated wider debates regarding political system change, in terms of rules of the game for parliament itself, but also more widely (such as renewed talk about electoral reform for Westminster elections). And the parlous state of the public finances also sowed the seeds for the next attack on the rewards for high political office, namely pensions. Both parliamentary and civil service pension systems came under renewed spotlight as private companies increasingly closed their final salary systems.

Over the past two decades or so, there has been a 'mirror image' development in the reward bargains that apply to politicians and senior bureaucrats as a result of Tocquevillian pressures. In the political system, despite attempts at codification and therefore with a greater possibility of outside challenge, practice still remained, until mid-2009 at least, very much in the hands of parliamentarians themselves. In the bureaucratic world, despite some continuation of traditional patterns, a growing emphasis on rivalry and uncertainty was combined with a decline in emphasis on noblesse oblige and stable career expectations. Individual contracts as well as pay decentralisation to departments have also made reward bargains less transparent in the light of wider tendencies towards diversification and multiplication.

The argument that Tocquevillian pressures continue to apply to rewards for high public office, thereby keeping rewards 'low' with a relative decline in reward over time, receives some support when viewed in light of top private sector salaries. Nevertheless, there are further trends that add a distinctive flavour to this overall argument. One is the change in bureaucratic reward where top bureaucrats succeeded in substantially increasing their material reward over the past decade. Arguably the linkage between target-setting and performance pay was a political strategy to shift blame to bureaucrats in this age of public salience. Therefore the qualitative shift in particular towards rivalry could be seen as a distinct response to growing public distrust of politics – ending up however with the

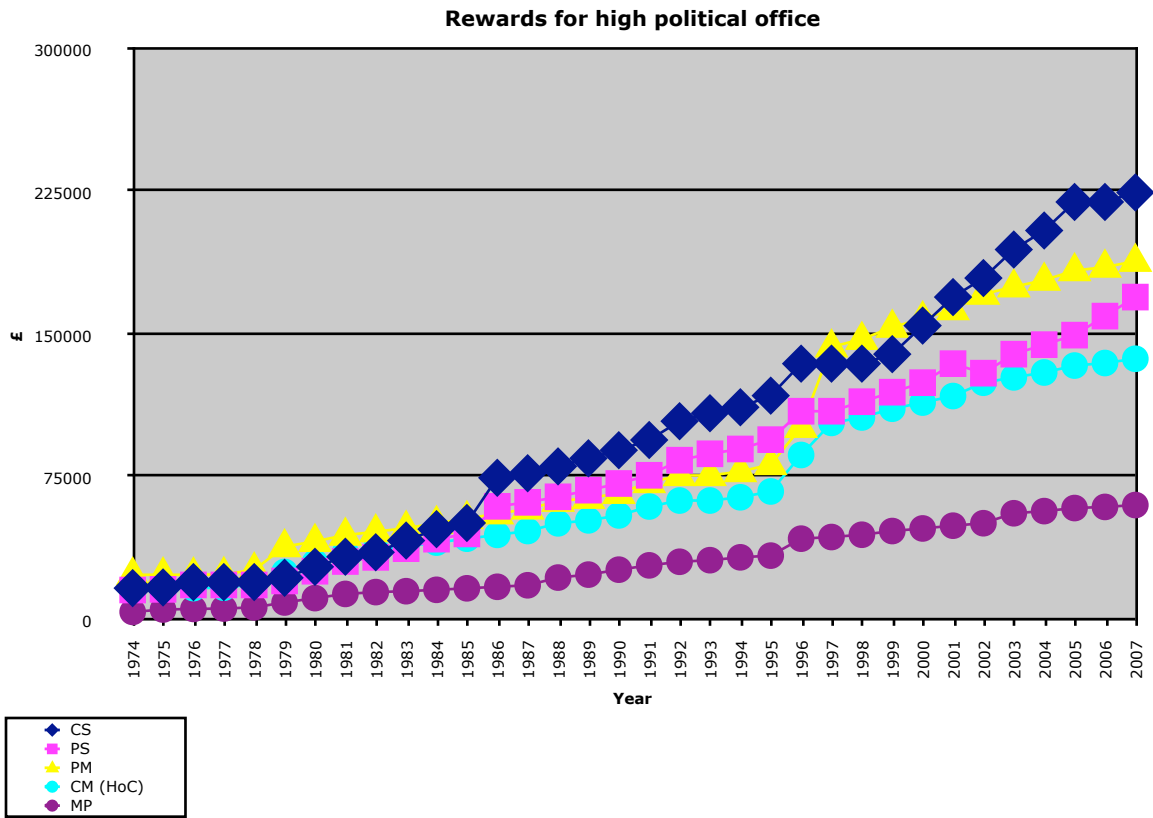
distinct reward bargain for bureaucrats with rivalry turning into something more akin to Russian roulette. In the political world, the veneer of increased codification and transparency, but based on the traditional understandings of discretion and ‘gentlemanly good chap’ conduct, provided the fertile ground of the developments of 2009. It meant that increasingly the political reward bargain had turned into an also uncertain world in that acceptable claims from the past became the burial ground of political ambition later.

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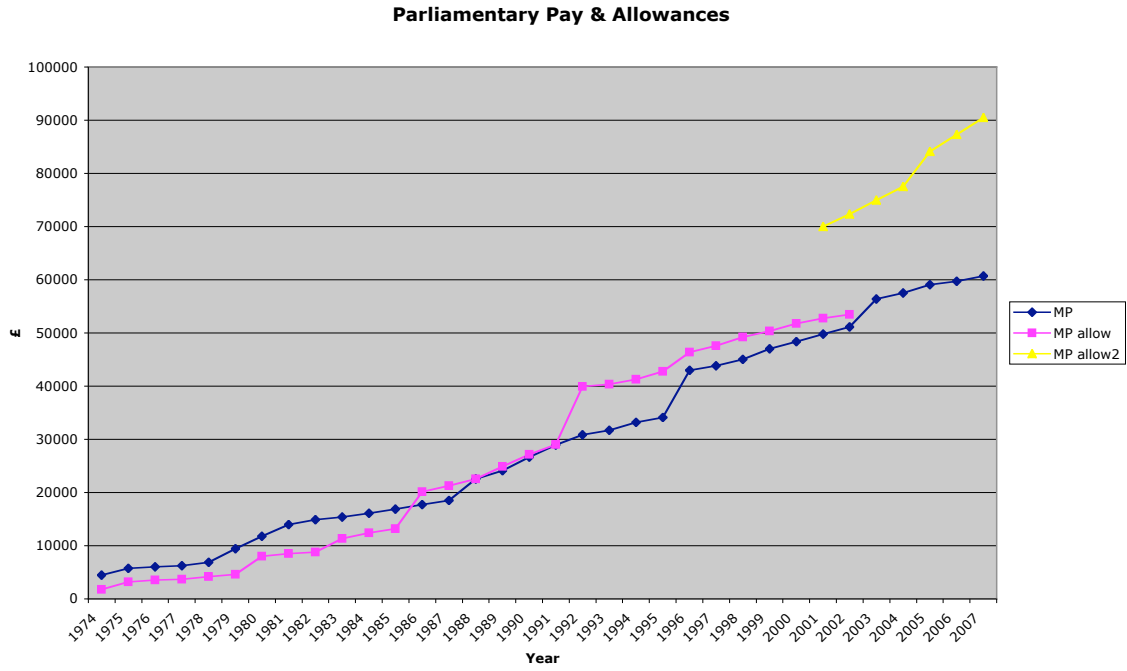
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Figure 1



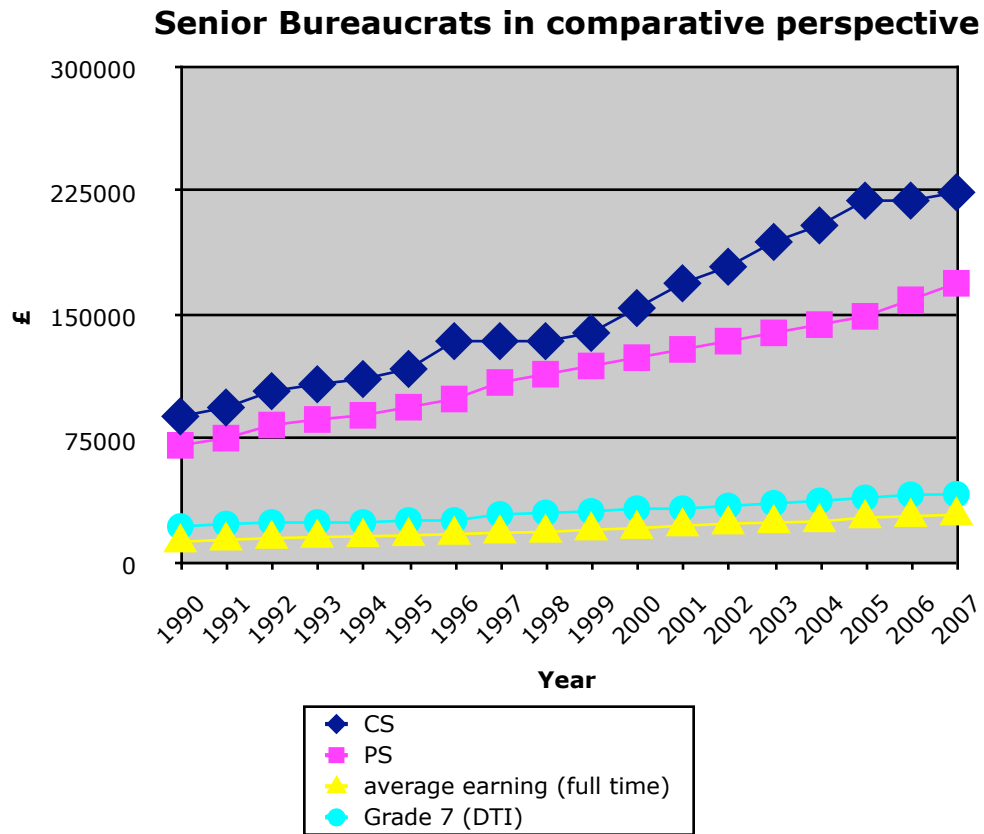
Sources: Senior Salaries Review Board, House of Commons Library.

Figure 2



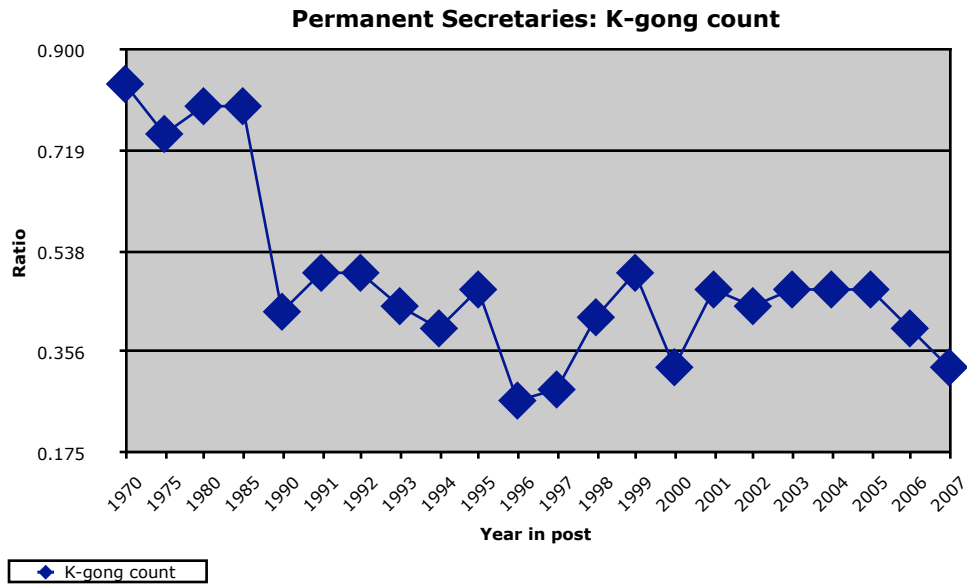
Source: House of Commons Library

Figure 3



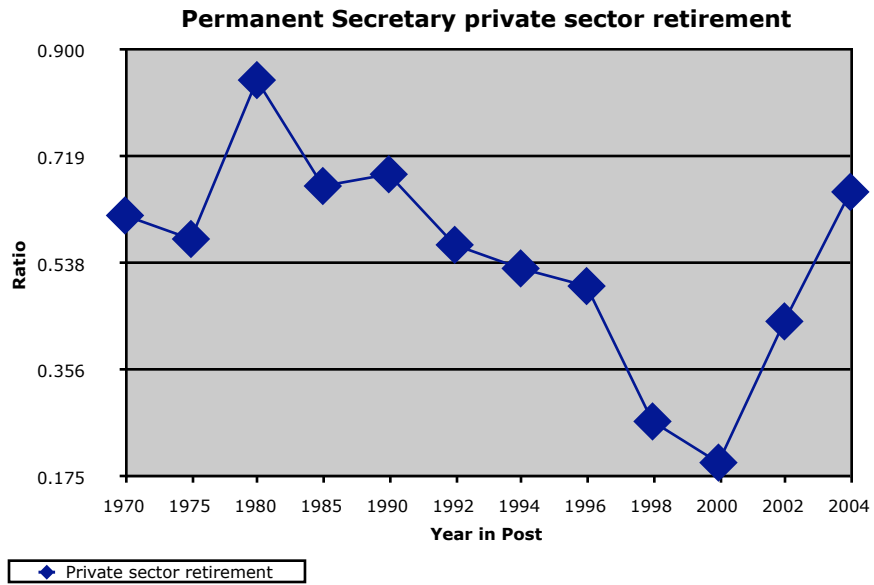
Sources: Civil Service Yearbook, First Division Association, Senior Salaries Review Board, Department for Business and Regulatory Reform (Freedom of Information request).

Figure 4



Sources: Civil Service Yearbook, Who's Who, Who Was Who, Nexis News

Figure 5



Sources: Civil Service Yearbook, Who's Who, Who Was Who, Nexis News