SCOTTISH EXECUTIVE

Health Department
Human Resources Directorate

Dear Colleague

23 August 2002

APPRAISAL ARRANGEMENTS FOR STAFF ON EXECUTIVE PAY RANGES

Summary

1. This letter announces new requirements for the appraisal of staff employed on the Executive Pay Grades and on the professional/management transitional arrangements promulgated in MEL(2000)25.

2. The arrangements are mandatory for all staff in the relevant pay ranges in Trusts, Health Boards, the CSA, the State Hospital, Health Education Board, NHS Education for Scotland, Clinical Standards Board for Scotland, Health Technology Board for Scotland, NHS 24 and the Scottish Ambulance Service hereinafter referred to as employing authorities.

3. The arrangements also apply to new starts to the National Waiting Times Centre Body who are subject to the Executive Pay arrangements.

Background

4. The new arrangements are based on recommendations developed by a Reference Group comprising representatives of NHSScotland employing authorities, the Scottish Executive Health Department, a representative of the Scottish Partnership Forum and a representative from the Institute of Healthcare Management.

5. The Reference Group's recommendations, which were finalised in 2001 after extensive consultation and briefing processes with stakeholders, have been accepted by the Scottish Executive Health Department for implementation by all NHSScotland employing authorities from 1 April 2002.

6. Thus the first assessment of performance under the new arrangements will be for performance in the year ended 31 March 2003 (for the sake of clarity this will include use of the three performance levels).

Addresses

For action
Chairs and Chief Executives of Health Boards, Common Services Agency, State Hospital, Health Education Board for Scotland, Clinical Standards Board for Scotland, Scottish Ambulance Service, Health Technology Board for Scotland, NHS Education for Scotland, NHS 24, National Waiting Times Centre Body, NHS Trusts.

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7. Employing Authorities in line with MEL(2000)25 are expected to use current arrangements to assess performance in the year ended 31 March 2002.

The new requirements

8. The Reference Group's final report, setting out its recommendations to the Director of Human Resources, NHSScotland, is attached as Annex "A" to this letter.

9. The Reference Group's report contains a comprehensive set of recommendations, including pro-forma documentation and a detailed process for determining individual overall performance ratings, all of which are commended to employing authorities. The Reference Group has also recognised however that a balance needs to be struck between the desirability of a consistent approach to executive appraisal across NHSScotland and the benefits from enabling flexibility by employing authorities in determining the precise arrangements to apply locally. On the one hand there is a need to ensure robust governance arrangements to underpin the local application of national remuneration arrangements which are under ministerial direction. On the other hand it is clearly advantageous to engender as much local ownership of the new appraisal arrangements as possible. The position of Special Health Boards is also recognised. For this reason, the position taken by the Reference Group is that while all its recommendations should be available for incorporation into locally adopted appraisal schemes for executives and senior managers, only certain elements need be identified as essential requirements of local schemes.

10. The mandatory components of the Reference Group's recommendations which must be incorporated into NHS Board or Special Health Board schemes are:

- Within a local health care system (NHS Board or Special Health Board) the appraisal arrangements for executive grade staff must be common to all the constituent NHS employing authorities within that system;

- The adoption of a common performance review cycle running from 1 April to 31 March each year;

- The focus of the appraisal process must be developmental. Central to this will be clear links to personal development plans;

- The new process must include objective setting, performance review and development planning in relation to behavioural competency. It must not focus on task achievement alone;

- Objective setting for individuals must be linked to organisational objectives drawn from performance plans driven by the modernisation agenda for NHSScotland and captured in the Performance Assessment Framework (PAF);

- Service objectives must be characterised by the identification of explicit, measurable outcomes;

- Behavioural objectives should relate to the framework of critical leadership behaviours identified through work led by the Strategic Change Unit, and to any other locally identified leadership or management behavioural competencies which are felt to be appropriate for inclusion in a local scheme, (a copy of the critical leadership behaviours is included at Annex "B");

- There must be at least one mid-cycle review meeting between appraiser and appraisee;

- Performance appraisals must be countersigned by a "grandparent" reviewer;

- There must be three overall individual performance ratings of "Outstanding", "Effective" and "Incomplete";

- The process for determining individual overall performance ratings must be systematic, auditable and evidence-based;

- For the chief executive(s) and other top team members, payments of non-consolidated bonus for outstanding performers will be dependent upon organisational performance and remain subject to confirmation by the Scottish Executive Health Department in line with paragraph 11 of Schedule 1, Appendix of MEL(2000)25. Requests for confirmation of outstanding (formerly superior) performance payments must be with the Scottish Executive Health Department by 1 September each year.

- Training needs for successful appraisal must be assessed and addressed for all scheme participants.

11. Those aspects of the Reference Group's recommendations on which local discretion may be exercised are as follows:

- The system of weighting and scoring of objectives and achievement;

- The example documentation contained in appendices 1, 2 and 3 of the Reference Group's report;

- The inclusion of formalised self-appraisal in the performance review process;

- The inclusion of 360° or peer appraisal as features of the review process.

Impact upon Remuneration Policy

12. The new performance appraisal arrangements are intended to support the current remuneration policy for the executive pay grades as promulgated in MEL(2000)25 and HDL(2001)42. However, for the reasons explained in its final report, the Reference Group recommended that for the purpose of determining performance-related pay, there should be only three recognised performance levels, as opposed to the four levels identified in the executive pay arrangements promulgated in MEL(2000)25. **The necessary formal authorisation of the change is attached as a Direction at Annex "C".**

13. Where a local health care system (NHS Board or Special Health Board) wishes to adopt an alternative process for determining individual performance ratings to the weighting and scoring process recommended, full details of the alternative local process will require to be submitted to the Scottish Executive Health Department for approval. This will be necessary to ensure that there is overall comparability in the standards of rating across NHSScotland.

Links with the Performance Assessment Framework (PAF)

14. The Scottish Executive Health Department fully endorses the view of the Reference Group regarding the positioning of the new executive grade appraisal arrangements within the overall organisational PAF for NHSScotland. In this regard one clear impact is in relation to the link created between individual and organisational performance for the purpose of considering bonus payments to executives. The overall PAF assessment of the organisation must be taken into consideration in assessing the performance of the Chief Executives and Executive Directors.

Evaluation

15. It is considered essential that the new appraisal arrangements for executive grade staff be reviewed and evaluated at an appropriate time after full implementation. The Scottish Executive Health Department will consider the evaluation proposals set out in the Reference Group's report. It is intended that an evaluation exercise will be undertaken during 2004/05.

Action

16. Chairs of NHS Boards and Staff Governance Committees and Chairs of Special Health Boards to:

- Ensure that each NHS Board/Special Health Board has appropriate performance appraisal arrangements in place in accordance with this HDL during 2002;
- Ensure requests for confirmation of outstanding (formerly superior) performance payments are with the Health Department by 1 September each year;
- Ensure that performance in the appraisal year ended 31 March 2002 is undertaken in line with extant guidance MEL(2000)25.
- If appropriate, to seek Health Department approval to locally devised proposals for determining individual overall performance ratings;
- Ensure that due regard is given to the PAF assessment of the organisation in determining the performance of the Chief Executives and Executive Directors;
- Ensure that Chairs, Non Executive Directors and employers involved as appraisers or appraisees in implementing and working with the new arrangements are provided with the necessary training as outlined in Annex "A", paragraph 15.
- Participate in future evaluation of these arrangements.

Yours sincerely

MARK BUTLER
Director of Human Resources

ANNEX A

New Appraisal Arrangements For Staff on Executive Pay Arrangements and Professional/Management Transitional Arrangements

Final recommendations of the Reference Group submitted July 2001 to Director of Human Resources, NHSScotland

1. Introduction and background

1.1 During the development of the revised remuneration arrangements for executives and senior managers promulgated in NHS MEL(2000)25, it was noted that there was a need to ensure that robust performance management processes were in place to underpin the performance-related salary progression for this group of staff. In addition, recent aspects of the NHSScotland policy framework, particularly in relation to personal development planning and the commitment to a new Performance Assessment Framework for NHSScotland, have reinforced the need to review appraisal arrangements for executive level staff.

1.2 The development of proposals for new appraisal arrangements has been undertaken by a Reference Group comprising board-level representatives from Health Boards and Trusts, Health Department representatives, a representative for the Scottish Partnership Forum and a representative from the Institute of Healthcare Management. Support to the Group has been provided by an external consultancy and an NHS facilitator.

1.3 The process adopted by the Reference Group has involved commissioning a literature search of effective practice in performance management and engaging with a wide range of 'stakeholders' to seek their views on key issues which they felt should be considered in developing a new performance management approach. In addition to ongoing consultative processes at various formative stages of the project, the Reference Group undertook a major written consultation exercise on its initial recommendations, involving all Health Boards and NHS Trusts. In the light of the feedback from that exercise, and from a subsequent series of participant briefings across NHSScotland, the Reference Group has finalised its recommendations.

1.4 In line with its original remit, the Reference Group has sought to provide a comprehensive basis on which a single standardised performance appraisal system for executive grade staff in NHSScotland could be introduced, or which could be readily adapted for use locally. For example, the recommendations include pro-forma documentation and a detailed suggested process for determining individual overall performance ratings. However, the Reference Group has recognised the potential benefits in providing scope for local flexibility in adopting the new appraisal arrangements where this is desired. The recommendations therefore provide for such flexibility within a framework of identified core requirements for all systems.

2. The Developmental aspects of appraisal

2.1 The Reference Group believes that the establishment of a well conducted appraisal process which ensures that structured discussions take place to clarify job roles and expectations, which establishes a process of regular and precise feedback on performance, which ensures dialogue about individual development needs and plans to address these, will be valued by staff and will support the ultimate objectives of health gain in the community and improved services for patients. In other words, the potential value of the process is in the developmental approach, rather than in the links to pay.

2.2 However much of the feedback and discussion through the consultation and briefing processes has been focused on the Reference Group's proposals in relation to performance rating and the linkages to performance related pay. It is perhaps understandable why these issues tend to dominate the discussions with those who will be participants in the system.

2.3 The Reference Group feels however that it is important to recognise that its terms of reference were explicit in relation to the continuing existence of PRP for executive grade staff. The Group was consequently obliged to work within the framework of this and other key aspects of executive remuneration policy which were outwith its remit.

2.4 Much of the content of the following recommendations deals with technical aspects of performance rating and the links to salary progression. This is necessary in relation to the requirement for robust governance arrangements to support a central remuneration policy that is under ministerial direction. However, the Reference Group wishes to emphasise that in terms of both the evidence base from literature sources and the feedback received from discussion with stakeholders, there is little reason to believe that existing remuneration policy around PRP is likely to have a motivational impact among executive grade staff.

3. National performance and accountability framework

3.1 Considerable thought has been given to the need for interface between the individual performance appraisal arrangements proposed in this paper and the new performance and accountability arrangements for NHSScotland. The latter arrangements are currently being developed, and draft documentation including proposals for the new Performance Assessment Framework (PAF), have recently been issued to the Service for consultation.

3.2 Two points are particularly relevant. Firstly, the PAF proposals make it clear that it is intended that the output from each NHS Board's accountability review will be an overall assessment of the performance of the local NHS system. Secondly, the PAF proposals endorse the creation of a link between overall local health system performance and the eligibility of individual executives to be paid performance bonuses. Both these factors are incorporated within the following proposals for appraisal arrangements and performance-related remuneration of individual executives and senior managers.

4. Linking organisational and individual performance plans

4.1 Within the overarching framework of the performance plan agreed jointly between the Health Department and the NHS Board, it will be for the NHS participants in the local healthcare system to agree the particular objectives for each organisation (i.e. their respective contributions to the Local Health Plan). Each of the "Special" Health Boards will also be required to agree an organisational performance plan with the Health Department to reflect the agreed key deliverables for their organisations over the performance period.

4.2 The respective organisational objectives of an individual NHSScotland organisation will be the framework from which the performance plans of its executives and senior managers should be drawn. These should reflect the contribution of the individual executive or manager to the achievement of the organisation's role in the local healthcare system. An aggregation of the service objectives within the performance plans of the Chief Executive, Executive Directors and Senior Managers should reflect all of the objectives in the organisation's performance plan.

4.3 The prime purpose of an individual's performance plan should be to make clear and explicit the contribution that the postholder has agreed to fulfil over the performance review period, and to identify steps to support individual development and achievement. It is considered that the process of achieving objectives (the 'how') is of comparable importance to the outcomes (the 'what').

4.4 Therefore, an essential requirement of individual performance plans within the new system is the inclusion of behavioural requirements that will have equal importance with task achievement in reviewing the effectiveness of an individual executive or manager. The individual performance plan should also recognise that effective management is about creating continuous improvement in existing, as well as developing, services.

5. Objective setting

Service objectives

5.1 The key to effective performance review is the setting of clear, measurable objectives. It is widely recognised that to do this effectively the 'SMART' principle should apply:

S – Specific M – Measurable A – Achievable R – Relevant T - Timebound

5.2 In order for an individual executive/manager or his/her performance reviewer to reach a view of whether an objective has been achieved, the criteria of being Measurable and Timebound must be met.

5.3 It should therefore be a requirement within the new performance management arrangements for all service objectives to be expressed in the following way:

General statement of objective - Agreed outcome(s) - Timescale(s)

5.4 This will require a thought process which asks the questions – What are the critical success criteria for this objective? How will we know whether this objective has been achieved? – What will it look like when is has been achieved? How will things have changed? - In what

timescales are this objective and/or these outcomes to be achieved? – How would we know if the objective had been exceeded?

An example of a form of documentation to enable objectives to be expressed in this way is given in Appendix 1.

5.5 It would normally be expected that the service objectives within an individual's performance plan would number between five and ten.

Behavioural Requirements

5.6 Within the new performance management arrangements, the demonstration of appropriate behavioural competencies should be valued along with task achievement in assessing the overall performance of executives and senior managers. These behavioural skills will also be a primary focus in terms of executive and senior management development. It is essential therefore that the individual performance planning process provides a framework to clarify the behaviours expected of an individual, to review and evaluate performance against these, and to identify and address development needs.

5.7 This element of the personal development planning and review process for executives and senior managers in the NHSScotland should link with the work undertaken by the Strategic Change Unit around core competencies for executives and senior managers. A Competencies Subgroup of the Management Development Working Group developed a national critical leadership behavioural framework for managers and executives in NHSScotland. As this is the most relevant current work available, and as the Scottish Partnership Forum has recently endorsed it, it is recommended that this material be utilised for the purposes of the behavioural requirements in the new executive appraisal arrangements. This is not to exclude other leadership or managerial behavioural competencies which may be identified locally and utilised the performance review and personal development planning processes.

5.8 A copy of the Critical Leadership Behavioural Framework is enclosed (Annex B). This identifies and defines seven core behavioural competencies, gives examples of associated critical behaviours, and suggests evidence indicators of the application of the behaviours. This material is considered to provide a viable, but not exclusive, framework against which to review behavioural effectiveness and to plan individual development within the new performance management arrangements.

5.9 Effective demonstration of performance against behavioural requirements is most likely to be possible by reference to real examples of achievement or difficulties encountered in meeting the agreed predetermined standards. For this reason, evidence of behavioural effectiveness, or of development needs, will normally be drawn from service management and leadership scenarios

5.10 Each of the required behavioural indicators reflected in the Critical Leadership Behaviour Framework is regarded as important for fully effective performance as an executive or manager in the NHSScotland. It is therefore recommended that a requirement of the appraisal process should be to consider individual performance against each of these indicators and where necessary to develop action plans for development. It is envisaged that in most cases these would form the basis of the behavioural objectives in the performance plan. The number of behavioural objectives should be determined between the appraiser and appraisee.

5.11 An example of a form of documentation that may be used to support and record these processes is attached as Appendix 2.

6. Personal development plans

6.1 Alongside the setting of objectives, the individual performance planning process should include dialogue to identify any training or development needed by the individual to deliver the agreed service and behavioural objectives for the period and to consider appropriate development for likely future roles within the NHS. This will be an important element in the agreement of personal development plans and should link into robust succession planning processes, both within the local health system and for the NHSScotland as a whole.

7. Review of objectives and progress

7.1 The responsibility for preparing an individual performance plan at the start of the performance year will be a joint one between the postholder and his/her immediate line manager. Similarly, it will be a joint responsibility to ensure that appropriate face to face discussion takes place in the course of the performance period to support the performance review and appraisal processes. As a minimum this will require:

- A meeting at the start of the period to agree the objectives, performance plan and personal development plan to a standard reflected in the example documentation attached as Appendices 1 and 2 ;

- At least one mid-year meeting. This recognises that objectives are susceptible to changing circumstances and progress against them needs to be reviewed more frequently than once a year. Apart from reviewing whether the objectives and their relative priorities are still relevant, and agreeing adjustments to these if necessary, such meetings also provide the opportunity to address any difficulties that the postholder is encountering.

- An end-of-period meeting to review overall performance, including personal development, against plan and discuss the individual performance rating for the year.

- A requirement for the Staff Governance Committee of the NHS Board to agree the objectives and performance ratings of Chief Executives and Executive Directors.

7.2 Notwithstanding these minimum standards the structure of performance planning and review should be regarded as an ongoing process – not a ‘once a year’ one – and the performance and development plans should be kept under review by the postholder and line manager throughout the performance year.

8. Evidence of performance

Evaluation of performance should be based entirely on evidence of achievement of service or task objectives, and evidence that the required behavioural competencies have been demonstrated. Clearly therefore the outcome measures for each service objective will be the yardstick against which performance against these objectives can be evaluated. Demonstration and/or assessment of required behaviours should be drawn from real examples of achievement or difficulties in meeting the agreed standards. A section of the specimen service objective form (Appendix 1) is available to record the link between the achievement of service objectives and the critical behaviours involved.

9. Self appraisal

9.1 As indicated above, it is intended that the new performance management arrangements for executives and senior managers should have a strong developmental focus. To support this, the principle of self appraisal should be introduced into the system. Because of the participative nature of this approach it is likely to engender more commitment on the part of the postholder. It should also reduce defensiveness in the appraisal/performance review process by encouraging postholders to take the lead in reviewing their own performance, rather than having an assessment imposed upon them. The approach encourages postholders to think about their own performance and development needs in a focused way. This does not mean that the line manager has any less of a role in the appraisal process. Indeed the final performance rating will still have to be 'owned' by the line manager. However, by ensuring the inclusion of the two perspectives, a more balanced assessment is likely.

9.2 While such an approach may give rise to concerns about inflated or excessively lenient self-assessments, research indicates that most individuals have the capacity to be reasonably accurate in reporting on their achievements and behaviour. The critical requirements for this approach to be effective are the measurability of the objectives and the level of evidence that the postholder can produce to support his/her self assessment. Both of these requirements for effective self-assessment are just as important for robust, evidence based, appraiser-led performance assessment. The practice of self-appraisal should therefore not necessitate any more onerous process or documentation requirements than the appraiser-led approach.

10 360° or peer appraisal

10.1 While there is clear evidence that 360° appraisal and peer review can be highly effective in obtaining feedback on performance for development purposes, there is equally strong evidence to indicate that mandatory participation in such approaches is to be avoided, particularly where the performance assessment is linked to pay. For this reason, the Reference Group has taken the view that 360° appraisal or peer review should not be included at this stage in the mandatory requirements of the new performance management arrangements for executives and senior managers.

10.2 There should however be the scope for a postholder and line manager to mutually agree the postholder's participation in peer or 360° review. While the prime purpose of such an arrangement would normally be to inform personal development needs, it would be unrealistic to exclude from the performance review process evidence available from participation in a 360° or peer review process. Such information could be of particular value in informing the setting of future objectives.

11. Performance rating

11.1 The following criteria are felt to be important in determining the individual performance rating system:

- Judgements on performance rating should be auditable;
- Judgements should therefore be based on recorded evidence of achievement;
- The justification for an overall performance rating needs to be visible (in a disaggregated, systematic format);
- The overall performance rating should be based on both the level of achievement against service objectives and the demonstration of required behaviours;

11.2 The following systematic approach to the performance review/rating process has therefore been commended by the Reference Group:

11.2.1 The performance plan should comprise service objectives, and related behavioural objectives (see paragraph 5 above).

11.2.2 Performance against all objectives and behavioural requirements should be evaluated using a numerical scoring system.

11.2.3 At the beginning of the performance review cycle, (i.e. at the time of agreement of the performance plan) a 'weighting' should be agreed for each objective. The weighting should be allocated to each objective to reflect the agreed importance and expected complexity of the objective in relation to the others. For behavioural requirements the weighting should also reflect the degree of challenge likely to be faced by the individual to achieve the required behaviour, as well as the relative importance of each behavioural objective to success in the post. The relative weightings of the service and behavioural objectives should be considered together, so that in effect the combined set of objectives has a total weight of 40 units allocated between the individual service objectives and behavioural requirements. This approach reflects the requirement in the Reference Group's terms of reference that the behavioural aspects of managerial performance should have high importance in support of task achievement within the new performance management arrangements

11.2.4 The weighting attached to each objective need not be fixed for the whole of the performance review period. For example, if a service objective transpires mid-year to be much less complex than initially envisaged, the weighting can be adjusted by agreement at an in-year review of the performance plan. Similarly if a new objective is added to the plan within the year, the weighting of the objective and adjustment of the relative weightings of others in the plan would have to be agreed at that point.

11.2.5 At the end of the performance review cycle, achievement against each objective (including behavioural requirements) in the performance plan should be rated as follows:

3 = demonstrably exceeded
2 = satisfactorily achieved
1 = falls short of satisfactory achievement

The importance of clear objective setting will become apparent at this stage. If clearly expressed and measurable outcome requirements have been stated, it should be a straightforward matter to determine whether objectives have been achieved. The intention of the scoring system is to minimise the scope for inappropriate overall performance assessments to be applied. It is necessary to leave a degree of discretion in determining the difference between scores 1 and 2. However, score 2 would normally only apply where all the planned outcomes of the objective have been met. Where this is not quite the case there may be factors why the objective could still be regarded as satisfactorily achieved. In such circumstances the reason for such a judgement should be recorded. Similarly, in order for score 3 to be appropriate all the planned outcomes for an objective should have been met, and there will have been additional positive factors to achievement. These must also be described and recorded.

With regard to the evaluation of behaviour/competency objectives, the judgement will inevitably be more subjective. However, the scores applied should be supported by evidence of achievement or deficiency. It is likely that this will most easily be done with reference to the process of delivering service/task objectives that can be treated as 'case studies' for this purpose. Again, the section of the service objective form referred to in paragraph 8 above should be helpful in this process.

11.2.6 The scoring of individual objectives will, by multiplying the score by the weightings of each objective, result in a total performance score out of out of a theoretical maximum of 120 (total weightings of 40 x maximum rating of 3 for each objective). A suggested format for recording the calculation is attached as Appendix 3.

11.2.7 By strict definition of the scoring system, an executive or senior manager whose performance "score" is 80 or more (i.e. averaging a "satisfactory" achievement score of 2 per objective) would be operating effectively overall. However, the Reference Group agreed a more flexible interpretation of the scoring requirement for "Effective" performance as indicated in paragraph 13.4 below.

11.2.8 If the process of agreeing outcome-based objectives is sufficiently robust the postholder should be able to apply objective, evidence-based judgements as to whether or not objectives have been satisfactorily achieved or whether they have been demonstrably exceeded. The postholder's own assessment should be undertaken prior to the year-end performance review meeting with his/her appraiser and should form the basis of the meeting. The review meeting itself should however be the process for determining the agreed performance assessment endorsed by the line manager.

12. Performance appraisal countersigning

12.1 It is recommended that the practice of there being a review of completed performance appraisals by a 'grandparent' reviewer should feature in the new performance management procedure for executives and senior managers. The 'grandparent' will normally be the line manager of the postholder's line manager. For direct reports to the Chief Executive of an NHS Board or Trust or Special Health Board, this will be the Chairman. For Chief Executives the role will be fulfilled by the Staff Governance Committee (which may also require to be satisfied as to the robustness of the performance assessments of the Executive Directors and agree their performance assessments).

12.2 The role of the countersigning reviewer should be to:

- Ensure that a robust performance appraisal process has taken place in line with the national and local requirements;
- Monitor consistency of approach and standards of assessment across the range of postholders being reviewed;
- Serve as a point of reference and, if necessary, appeal to a postholder who feels aggrieved at the outcome of his/her performance review.

13. Relating pay to performance

13.1 The principal aim of the appraisal and performance review process should be to ensure discussion of individual achievement from the perspective of learning, development, and future agenda setting against the strategic and operational plans of the organisation as a whole.

13.2 However, the nature of the remuneration policy for executives and senior managers in NHSScotland is such that the outcome of the individual performance review process will also determine the individual's salary progression.

13.3 The Reference Group has had to recognise the Government policy that requires the linking of executive and senior managerial pay progression in the NHS to performance. Consideration has also been given to the research evidence on the effectiveness of PRP and to views on the subject expressed by a range of stakeholders in the course of developing the new performance management arrangements and in the subsequent formal consultative processes.

13.4 Taking all these factors into account, it is recommended that the four performance levels defined within Schedule 1 of the Appendix to MEL (2000) 25 be replaced by the following three performance levels which are calibrated to the weighted scores for achievement against service and behavioural objectives as described in paragraph 6 above. These three levels are as follows:

Descriptor	**Achievement score**
Outstanding	90 – 120
Effective	70 – 89
Incomplete	< 70

As indicated in paragraph 11.2.7 above, a strict interpretation of the scoring process would indicate that the achievement score for the lower threshold of the "Effective" level would be 80. It is felt however that such an approach would be over-rigid, and that the range 70 – 89 would

represent a more equitable, yet challenging, level of achievement for the majority of executives and managers.

13.5 The selection of the descriptors for each of the three overall performance levels was considered and debated at length by the Reference Group. The words selected were felt to most accurately describe the performance levels intended. It became clear from the subsequent consultation and briefing processes that some (but by no means all) stakeholders felt that the description "effective" implied a barely satisfactory level of performance. On the contrary, the literal meaning of "having the intended effect" signifies achievement equivalent to meeting all the required objectives. The Reference Group would therefore wish to emphasise that "effective" should be regarded as a **good** level of performance.

13.6 Others in the consultation feedback were concerned that the proposals did not differentiate performance **within** the "incomplete" and "effective" ranges. There is however no reason why an individual's positioning in any of the three performance ranges should not be discussed with him /her as part of the appraisal process. Indeed it is hard to imagine this not featuring to some extent in a constructive and meaningful performance and development review dialogue.

13.7 The current (2001/02) annual consolidated salary increase payable in respect of each of these performance ratings in terms of current pay policy are set out in HDL(2001)42 as follows:

outstanding	7.7%
effective	7.7%
Incomplete	3.7%

13.8 It is accepted that the scope within existing remuneration policy to reward 'outstanding' performers with unconsolidated, lump sum, bonus payments of up to 4% will remain with the system. However, the application of such bonus payments to executives and other senior managers on the corporate or top management team, should only apply where the Health Department has evaluated the performance of the local healthcare system as a whole as acceptable. Where this is the case, there will be local discretion to determine appropriate levels of bonus payable (up to 4%) to executives within the individual organisations in the healthcare system. The Reference Group anticipates that this role would be undertaken by the Staff Governance Committee of the local NHS Board.

13.9 For other senior managers whose individual performance is evaluated as 'outstanding' the availability of bonus payments will not be so closely tied to organisation-wide performance, but will be subject to the employing organisation being satisfied as to the demonstration of an effective level of team performance and contribution to organisational objectives by the principal team to which the postholder belongs (e.g. LHCC, Clinical Management Group or Functional Directorate)

13.10 The availability of up to 4% non-consolidated bonus may also be used exceptionally to reward an executive or senior manager where outstanding effectiveness and/or contribution in a task or project, outwith the normal scope of the postholder's role, has been demonstrated. Any reward of this nature would require to be specifically approved by the Staff Governance Committee in the case of senior managers, or by the Health Department Human Resources Directorate in the case of a Chief Executive or Executive Director.

13.11 In accordance with the constraints of current provisions of the executive pay arrangements promulgated in NHS Circular MEL (2000)25, no salary progression will be permissible for an individual beyond the maximum of the relevant salary range. At present this also applies to the payment of non-consolidated bonuses.

14. Timing of performance review and PRP awards

14.1 It is recommended that the annual performance review cycle for individual executives and senior managers should continue to run from 1 April – 31 March. Because of the pay links, it is felt that it is necessary to have a common review date which ties in with the organisational performance management review cycle

14.2 As soon as possible after 31 March, individual performance reviews should be undertaken. Once completed and approved (where necessary by the Staff Governance Committee), payment of the relevant consolidated increases to basic pay in respect of effective and incomplete performance respectively may be implemented.

14.3 For any Chief Executive, Executive Director or other top team member who has been accorded an 'outstanding' performance rating, determination of whether a non-consolidated bonus payment is appropriate will be delayed until the performance review of the local healthcare system has been completed by the Health Department. Only if the Health Department assesses the performance of the local health care system as acceptable can the Staff Governance Committee consider such payments. The Staff Governance Committee will however be free to consider bonus payments to other senior managers rated as outstanding performers in terms of paragraphs13.9 and 13.10 above.

15. Training

15.1 There is clear evidence that effective training is critically important to the successful implementation and maintenance of effective appraisal schemes. Such training must go beyond procedure and paperwork, and give greater emphasis to the process and skills needed to carry out effective appraisal.

Context

15.2 All the evidence and feed back from the consultation process, indicates that development of all those involved in the setting of objectives and performance review is the most critical factor in the successful implementation and maintenance of appraisal arrangements. It is also critical to ensuring that the approach adopted by an organisation is a developmental one. Such training must go beyond procedure and paperwork and give greater emphasis to the process and skill needed to carry out effective appraisal.

15.3 The modernisation of NHSScotland is underpinned by a recognition of the need to ensure that all staff are provided with the training and development that they require to do their job well and to maximise their effectiveness in providing excellent patient care. As part of delivery of the modernisation of the NHS employing authorities will already be providing training locally, or may be working with the Strategic Change Unit (SCU) on their management development initiatives to support partnership working; implementation of the PIN Guidelines and Personal Development Planning and Management Development.

15.4 It will also be important that Staff Governance Committee members have a detailed understanding of the new requirements and are fully aware of their responsibilities within the performance management process. They also need to be equipped with the knowledge and skills to enable them to fulfil their role and should therefore be included in the training programme.

Training and Development

15.5 The following are regarded as core training requirements to support successful implementation of a developmental appraisal process:

Setting objectives

- Context of performance review
- Principles underlying SMART objectives
  - Outcome focus
  - Behaviour and task
  - Systematic approach/weighting and scoring
  - Identification of relative importance
  - Developmental focus
  - Link to personal development plans
  - Team and individual objectives
  - Self assessment

Managing professional relationships and personal effectiveness

- Coaching and mentoring
- Communication skills
- Management of conflict
- Management of challenging behaviour
- Demonstrating commitment to critical leadership behaviours and assessing against these competencies
- Giving positive feedback and rating performance.
- Coaching for success and sharing good practice
- Response to constructive criticism
- Planning and support for a successful process.
- Managing poor performance

15.6 Employing Authorities in association with LDTs should consider their current development programmes in the context of the new executive appraisal requirements to ensure that the above training requirements are to be met. In this regard it is considered important that the training provided is both participative and interactive e.g. involving group discussion and role play.

16. Final Recommendations and Implementation arrangements

16.1 It is recommended that the new requirements for performance management should be applied to executives and senior managers from 1 April 2002.

16.2 It is recognised that the task of locally implementing appraisal arrangements to meet the requirements of these recommendations will vary considerably depending upon existing local practice. It is known that a number of Health Boards and Trusts already incorporate the identification and review of key behaviours into their performance appraisal systems. Others use similar numerical scoring systems to that recommended in this paper. It may therefore be relatively straightforward for some organisations to adapt their existing systems to meet the new requirements. For others, a more fundamental change of approach will be necessary.

16.3 The Reference Group believes that the degree of local ownership and "fit" of appraisal arrangements is highly influential to their likely effectiveness. For this reason it is recommended that NHS Boards should have flexibility in the detailed design of local arrangements, which nevertheless incorporate key principles and standards set out in these recommendations. In this regard it is recommended that the core requirements for local arrangements should be:

- They must be common for executive grade staff across the whole local NHS system (NHS Board)
- They must incorporate review and appraisal of behavioural objectives linked to the Critical Leadership Behaviours Framework
- Objectives must be SMART and outcome based
- The system must recognise the three levels of performance described in paragraph 13.4 above, i.e. "Outstanding", "Effective", and "Incomplete"
- There must be an auditable, systematic process for determining overall individual performance ratings. This would be expected to involve a scoring or other similar mechanism of disaggregating an overall performance rating as described in paragraph 11.1 above.
- There must be clear and explicit links between the appraisal and personal development planning processes
- The review cycle must run from 1 April – 31 March
- The new arrangements must be in place and operational from 1 April 2002
- The training needs of all participants must be addressed.

Within these core mandatory requirements, it is recommended that NHS Boards should have discretion as to how much of the detail of the foregoing recommendations are incorporated in their local arrangements.

17. Evaluation

The Reference Group considers it essential for an evaluation exercise to be undertaken to review the effectiveness of the new appraisal arrangements following implementation. It is recommended that review should feature in the Staff Governance domain of the Performance Assessment Framework currently being developed for NHSScotland. It is also recommended that a survey questionnaire be designed for completion by all participants in the executive appraisal process to evaluate its effectiveness against predetermined success criteria as soon as practicable following the completion of the first appraisal review cycle from April 2003.

18. Conclusion

18.1 The proposals contained in this paper have been put forward following a process of research and wide-ranging debate by representatives of the service. What is absolutely apparent is that there is no single best practice in performance management and an effective system needs to 'fit' an organisation's development and culture at any point in time.

18.2 There is a need to establish a degree of consistency of approach in the performance management of executives and senior managers across NHSScotland to ensure equitable application of remuneration policy and effective governance in this area, but more importantly to position individual development and performance management for this critical group of staff within the context of the modernisation and development agendas of NHSScotland.

18.3 It is recognised that there are already pockets of well developed performance management practice in the service and it is not intended that these should have to be abandoned in favour of a nationally imposed system. The intention, therefore, is that these recommendations should reflect a set of standards and requirements which NHS Boards will have flexibility to package and develop according to their local needs.

July 2001

Appendix 1

Performance Plan (Year)

Name: _____ Post: _____

Service objective no ____ of ____		Weighting	Achievement rating
Agreed outcomes	**Timescales**	**Comments on achievement**	
Behavioural requirements exhibited in addressing above objective:			

Appendix 2

Performance Plan (Year)

Name: _____ Post: _____

Behavioural requirement:	Weighting	Achievement rating

Previously agreed actions for development	Evidence of achievement (cross reference to service objectives, if appropriate)	Agenda for further development

Appendix 3

Performance Plan

Evaluation summary

Name**:** _____ Post**:**_____

Performance period: _____

Objective no	**Weight (out of 40)**	**Achievement rating* (1,2 or 3)**	**Achievement score (weight x rating)**
Service			
1	3	2	6
2	5	2	10
3	3	2	6
4	4	1	4
5	2	2	4
6	5	3	15
7	4	3	12
Behavioural			
8	5	1	5
9	2	3	6
10	3	2	6
11	4	2	8
		Total	82

***Achievement Rating**

3 = clear evidence that objective demonstrably exceeded

2 = evidence demonstrates that objective achieved satisfactorily

1 = evidence falls short of demonstrating satisfactory achievement

ANNEX B

CRITICAL LEADERSHIP BEHAVIOURS

Objectives:

- To identify the critical behaviours required by individual/team leaders in order to effectively implement the strategic aims of NHSScotland

- To develop a behavioural framework which will support clinical governance, performance management, career planning, recruitment and selection, and flexible working arrangements.

- To provide a common language for management development.

The seven core competencies are:

1. Working in Partnership
2. Learning and Development
3. Caring for Staff
4. Improving Performance through Team-Working
5. Communicating Effectively
6. Improving Quality
7. Achieving Results

1. Working in Partnership

Establishes and uses long term relationships with key partners to develop and sustain high quality health services that meet the needs of patients/users/communities

CRITICAL BEHAVIOUR	EVIDENCE	POLICY/STRATEGY
• **Is clear about the accountabilities and relationships between health care professional and other organisations**	• Understands the professional and managerial boundaries within and outside the organisation • Works across boundaries to create "integrated" and "seamless" services • Actively seeks staff side involvement and participation	Our National Health Towards a New Way of Working Joint Futures Group Report
• **Establishes, maintains and uses new working relationships**	• Supports the work of the Scottish Partnership Forum and local partnership agreements • Creates meaningful relationships based on openness • Communicates good and bad news in a sensitive and supportive fashion • Provides a forum for feedback for use by team members • Promotes the image of the organisation internally and externally • Promotes positive inter team/directorate/division/trust/agency relationships	Towards a New Way of Working Partnership MEL Staff Governance Standard
• **Sets the tone for effective relationships and partnerships**	• Builds partnerships by instilling trust and credibility • Recognises mutual responsibility, respect and interdependence • Keeps promises • Cuts through red tape and bureaucracy	Our National Health

Sets the tone for effective relationships and partnerships (contd)	• Explains the inter-relationships between teams to create a sense of belonging for everyone • Builds a spirit of co-operation within and outside the team/directorate/organisation • Develops and encourages complimentary working relationships • Positions self in the middle of the network and not at the top of a pyramid • Is self aware – Is prepared to say "I'm not good at that" • Displays a sense of humour • Is willing to seek advice	Towards a New Way of Working Partnership MEL

2. Learning and Development

Develops self and others by systematically reviewing performance and providing opportunities for individual and team development

CRITICAL BEHAVIOUR	EVIDENCE	POLICY/STRATEGY REFERENCE
Views learning and education as integral to Service planning and delivery	• Links learning and development with workforce planning and • Organisational goals • Plans investment in staff • Sets learning objectives and invest resources appropriately • Encourages people to learn about what others do in the organisation • Reflects on personal style and own effectiveness • Has a strong drive to keep learning • Creates own personal development plan • Maintains and broadens own knowledge	Scottish Workforce Integrated Planning Group Learning Together Towards a new Way of Working
Supports and motivates others to maximise their potential	• Regularly reviews staff performance and supports the development of Personal Development Plans • Encourages others to give and receive constructive feedback • Supports others in pursuit of development opportunities and a broader skill base • Sees mistakes as learning opportunities • Coaches others and provides guidance • Provides equity of access to development and educational opportunities • Encourages others to take control of their own learning • Identifies and nurtures talent e.g. future leaders	Learning Together PIN Guidelines Towards a New Way of Working

Supports the development and implementation of Organisation Learning Plans	• Encourages sharing of new ideas and good practice • Encourages reviews of how things have gone in practice • Supports new learning opportunities and partnerships with a range of organisations • Seeks external accreditation for learning and development • Encourages the use of different types of learning opportunities such as distance learning • Promotes networking activity across and outside the organisation	Towards a New Way of Working Learning Together

3. Caring for Staff

Creates a healthy and safe working environment in which staff well being is promoted and improved

CRITICAL BEHAVIOUR	EVIDENCE	POLICY/STRATEGY REFERENCE
Promotes a culture of improving health and safety	• Gives staff welfare a high priority • Recognises the causes of work place stress and takes action to reduce stress • Works in partnership with others when taking decisions affecting health and safety • Ensures easy access to confidential health advice within the organisation • Ensures the risk assessment of tasks and activities • Gives a high priority to health and safety training	Towards a Safer, Healthier Workplace
Supports colleagues in an appropriate and timely manner	• Ensures disabled colleagues are not disadvantaged • Is flexible when dealing with staff problems • Maintains confidentiality of personal information • Engenders trust and empathy • Supports individuals back into work after periods of absence • Easy to approach and talk to • Monitors workload and appreciates extra effort • Helps others to deal with work problems • Promotes equal opportunities	Towards a New Way of Working Towards a Safer, Healthier Workplace PIN Guidelines Staff Governance Standard

4. Improving Performance through Team-Working

Promotes multi-disciplinary team-working by creating the environment which enables the team(s) to identify issues and opportunities and create innovative solutions to problems

CRITICAL BEHAVIOUR	EVIDENCE	POLICY/STRATEGY REFERENCE
Effectively operates as a team member and a team leader	• Builds the credibility of the team through the establishment of open and honest working relationships • Develops a "shared vision" of the future • Understands team development process • Builds team moral and motivates individuals by recognising their contribution • Develops the skills and critical behaviours of others • Acts as "team coach" • Shares ideas and experiences with others • Is comfortable with others • Operates as team member/leader • Identifies different roles and responsibilities within own team and appropriately delegates responsibility • Defines and communicates team objectives and performance measures • Provides visible leadership and amends leadership "style" depending on circumstances • Promotes multi-disciplinary team-working	Human Resources Strategy Partnership MEL
Within the team (own and other teams), listens and facilitates	• Builds on the ideas of other • Acts as an internal arbiter for the team • Deals with poor team performance	

As team leader demonstrates tenacity to delivery shared goals	• Accepts personal responsibility for making things happen • Has the mental and physical stamina to achieve results through others • Shows tenacity in resolving conflict and initiating change	
Identifies potential problems and creates solutions	• Shows consideration for the position and arguments of others • Allows others to challenge the status quo • Challenges and tests the ideas of others • Consolidates that arguments of those with differing view points • Encourages individuals and the team to look at things from different perspectives • Identifies the advantages for different groups when planning and/or implementing change	

5. Communicating Effectively

Establishes and maintains effective communication and dialogue between health care partners, patients and community groups.

CRITICAL BEHAVIOUR	EVIDENCE	POLICY/STRATEGY REFERENCE
Ensures patients, staff and the wider community influence service planning and delivery	• Is accessible and involves internal and external partners • Is open to receive information as well as communicate own views • Deals sensitively with people who feel disaffected • Identifies common interests and builds upon these • Communicates in a realistic and practical way	Partnership MEL
Communicates clearly and consistently	• Demonstrates an understanding of others' views • Uses language that is appropriate for each audience • Maintains open dialogue with all partners • Present own arguments clearly and comfortably • Poses questions constructively • Gives full attention to what is being said and checks what it means • Selects appropriate methods of communication • Understands the uses and capabilities of Information Technology systems • Deals with opposing views in a calm and reasoned manner • Deals competently with public relations	IT Strategy
Communicates in a timely manner	• Communicates at the earliest possible opportunity • Selects appropriate methods of communication which meet the needs of different situations and audiences	

6. Improving Quality

Develops systems that continually evaluate the effectiveness of current practice and explores new ways of working to improve health and patient services.

CRITICAL BEHAVIOUR	EVIDENCE	POLICY/STRATEGY REFERENCE
Focuses on continually improving outcomes for patients/users of services	• Looks at things afresh and is not constrained by conventional boundaries • Implements evidence based practice • Assesses service delivery and the quality of care from the patient's/user's perspective • Involves a wide range of individuals and groups in service design • Brings people together to agree service improvements • Keeps people working together by identifying common agenda • Supports accreditation and quality frameworks • Pilots new ways of working • Identifies opportunities for innovation and improvement	Clinical Governance MEL Our National Health Learning Together IT Strategy
Promotes new ways of thinking and is change orientated	• Separates facts from opinions • Grasps new concepts and can tackle unfamiliar ground • Encourages others to look creatively at issues • Generates options and seeks ideas from elsewhere • Uses IT to maximise the potential of service delivery • Challenges assumptions to develop new ideas • Anticipates the risks and consequences of different actions • Gathers information that is critical to a particular issue • Influences others to implement change	

7. Achieving Results

CRITICAL BEHAVIOUR	EVIDENCE	POLICY/STRATEGY REFERENCE
Develops and implements service plans	• Understands national NHS policy frameworks and priorities • Translates the strategic vision into achievable plans • Involves others in the development and implementation of local strategies • Is realistic and practical about what can be achieved	EG Cancer Plan, CHD PAF
Reviews individual and team performance against these plans	• Reviews strategy regularly • Identifies roles and responsibilities • Creates ownership by delegating tasks and accountabilities • Monitors individual and team performance against plan	
Enables individuals and teams to identify issues and develop creative solutions	• Identifies problems and estimates the impact of the problem • Consults experts in order to define problems more clearly • Responds to problems in a timely manner and where necessary set up support teams to agree the way ahead	
Manages resources efficiently	• Deploys people and resources effectively • Explains clearly the rationale behind decisions • Involves staff in allocating and managing resources • Understands and strives for value for money	Towards a New Way of Working
Ensures individual and team performance meets agreed standards	• Supports all forms of quality measurement • Establishes systems to maintain and improve service quality • Monitors individual and team performance against objectives • Implements organisational performance measurements	Learning Together

ANNEX C

DIRECTION FOR EXECUTIVE PAY ARRANGEMENTS REMUNERATION AND TERMS AND CONDITIONS

NATIONAL HEALTH SERVICE (SCOTLAND)
EXECUTIVE PAY (REMUNERATION AND CONDITIONS OF SERVICE DIRECTION) 2002

The Scottish Ministers in exercise of powers conferred on them by section 105(7) of, and paragraph 5 of Schedule 1, paragraph 7 of Schedule 5 and paragraph 6(1) of Schedule 7A to the National Health Service (Scotland) Act 1978 (as amended) hereby give the following direction:

1. This direction may be cited as the Executive Pay (Remuneration and Conditions of Service) Direction 2002 and is given to Health Boards, the CSA, the State Hospital, Health Education Board for Scotland, NHS Education for Scotland, Clinical Standards Board for Scotland, Health Technology Board for Scotland, Scottish Ambulance Service, NHS 24, National waiting Times Centre and NHS Trusts, hereinafter referred to as "employing authorities".

2. The provisions of this Direction apply from 1 April 2002 to staff on the Executive Pay arrangements and to whom Schedule 1 of NHS MEL(2000)25 applies.

3. Schedule 1 must applied as appropriate to staff on the Executive Pay arrangements and to whom Schedule 1 of NHS MEL(2000)25 applies.

Signed by authority of the Scottish Ministers

MARK BUTLER
Director of Human Resources
A member of staff of the Scottish Executive

St Andrew's House
EDINBURGH
23 August 2002

Schedule 1

APPRAISAL ARRANGEMENTS FOR STAFF ON EXECUTIVE PAY RANGES

Mandatory requirements

Employing authorities are required to implement the following mandatory requirements:

- Within a local health care system (NHS Board or Special Health Board) the appraisal arrangements for executive grade staff must be common to all the constituent NHS employing authorities within that system;

- The adoption of a common performance review cycle running from 1 April to 31 March each year;

- The focus of the appraisal process must be developmental. Central to this will be clear links to personal development plans;

- The new process must include objective setting, performance review and development planning in relation to behavioural competency. It must not focus on task achievement alone;

- Objective setting for individuals must be linked to organisational objectives drawn from performance plans driven by the modernisation agenda for NHSScotland and captured in the Performance Assessment Framework (PAF);

- Service objectives must be characterised by the identification of explicit, measurable outcomes;

- Behavioural objectives should relate to the framework of critical leadership behaviours identified through work led by the Strategic Change Unit, and to any other locally identified leadership or management behavioural competencies which are felt to be appropriate for inclusion in a local scheme;

- There must be at least one mid-cycle review meeting between appraiser and appraisee;

- Performance appraisals must be countersigned by a “grandparent” reviewer;

- There must be three overall individual performance ratings of “Outstanding”, “Effective” and “Incomplete”;

- The process for determining individual overall performance ratings must be systematic, auditable and evidence-based;

- For the chief executive(s) and other top team members, payments of non-consolidated bonus for outstanding performers will be dependent upon organisational performance and remain subject to confirmation by the Scottish Executive Health Department in line with paragraph 11 of Schedule 1, Appendix of MEL(2000)25. Requests for confirmation of outstanding (formerly superior) performance payments must be with the Scottish Executive Health Department by 1 September each year.

- Training needs for successful appraisal must be assessed and addressed for all scheme participants.