

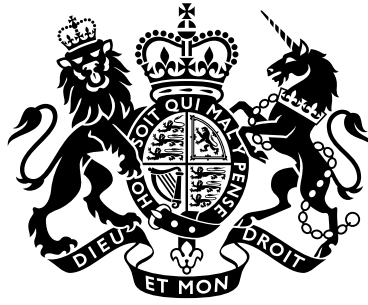


Armed Forces'
Pay Review Body

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Fiftieth Report 2021

Chair: Peter Maddison, QPM



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Presented to Parliament by the Prime Minister and the
Secretary of State for Defence by Command of Her Majesty

October 2021



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Armed Forces' Pay Review Body

TERMS OF REFERENCE

The Armed Forces' Pay Review Body provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration and charges for members of the Naval, Military and Air Forces of the Crown.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people taking account of the particular circumstances of Service life;*
- government policies for improving public services, including the requirement on the Ministry of Defence to meet the output targets for the delivery of departmental services;*
- the funds available to the Ministry of Defence as set out in the government's departmental expenditure limits; and,*
- the government's inflation target.*

The Review Body shall have regard for the need for the pay of the armed forces to be broadly comparable with pay levels in civilian life.

The Review Body shall, in reaching its recommendations, take account of the evidence submitted to it by the government and others. The Review Body may also consider other specific issues as the occasion arises.

Reports and recommendations should be submitted jointly to the Secretary of State for Defence and the Prime Minister.

The members of the Review Body are:

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The Secretariat is provided by the Office of Manpower Economics.

¹ David Billingham was appointed by the Secretary of State for Defence as a member of the AFPRB from February 2021.

² Paul Moloney was appointed by the Secretary of State for Defence as a member of the AFPRB from May 2021.

³ Dougie Peedle was appointed by the Secretary of State for Defence as a member of the AFPRB from May 2021.

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GLOSSARY OF TERMS

4TG	Four-Tier Grading
AA	Annual Allowance
AF	Armed Forces
AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
AFPS	Armed Forces Pension Scheme
AHP	Allied Health Professional
AR	Army Reserve
ASHE	Annual Survey of Hours and Earnings
BAME	Black, Asian and Minority Ethnic
BDA	British Dental Association
BEIS	Department for Business, Energy and Industrial Strategy
BMA	British Medical Association
CAAS	Combined Accommodation Assessment System
CCB	Career Continuous Basis
CEA	Clinical Excellence Award (DMS and NHS)
CJRS	Coronavirus Job Retention Scheme
CPI	Consumer Prices Index
CTB	Completion of Task Basis
CQC	Care Quality Commission
DARR	Defence Aircrew Remuneration Review
DCU	Deferred Choice Underpin
DDRB	Review Body on Doctors' and Dentists' Remuneration
DERR	Defence Engineering Remuneration Review
DFC	Daily Food Charge
DHSC	Department of Health and Social Care
DIO	Defence Infrastructure Organisation
DMS	Defence Medical Services
DPP	Delivery Pinch Points
DMS	Defence Medical Services
ERNIC	Employers' National Insurance Contributions
EU	European Union
FAM	Future Accommodation Model
FDIS	Future Defence Infrastructure Services
FHTB	Forces Help to Buy
FM	Facilities Management
FRI	Financial Retention Incentive
FTRS	Full-Time Reserve Service
GDP	Gross Domestic Product or General Dental Practitioner

GMP	General Medical Practitioner
GYH	Get You Home
HDT	Home to Duty Travel
HMG	Her Majesty's Government
HMRC	HM Revenue and Customs
IDR	Incomes Data Research
IP	Initial Pay
ISE	Institute of Student Employers
LOA	Local Overseas Allowance
LSA	Longer Separation Allowance
MEA	Mine Counter Measure Vessels Environmental Allowance
MMA	Motor Milage Allowance
MOD	Ministry of Defence
MODO	Medical and Dental Officers
MPGS	Military Provost Guard Service
NATO	North Atlantic Treaty Organisation
NCB	Non-Continuous Basis
NERP	New Entrant Rate of Pay
NHP	National Housing Prime
NHS	National Health Service
NHSPRB	National Health Service Pay Review Body
NLW	National Living Wage
NMW	National Minimum Wage
OBR	Office for Budget Responsibility
OF	Officer
OME	Office of Manpower Economics
ONS	Office of National Statistics
OR	Other Rank
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PI	Performance Indicator
PPOs	Principal Personnel Officers
PTVR	Part-Time Volunteer Reserve
PSS	Pensions Savings Statement
RAF	Royal Air Force
RAFR	RAF Reserve
RB	Reserve Banding
ResCAS	Armed Forces Reserves Continuous Attitude Survey
RM	Royal Marines
RMR	Royal Marines Reserve
RN	Royal Navy
RNR	Royal Naval Reserve

RPI	Retail Price Index
RRP	Recruitment and Retention Payment
SAS	Staff Grades and Associate Specialists
SCAPE	Superannuation Contributions Adjusted for Past Experience
SFA	Service Family Accommodation
SLA	Single Living Accommodation
SLAMIS	SLA Management Information System
SP	Service Personnel
SPP	Sustainability Pinch Points
TACOS	Terms and Conditions of Service
TB	Training Bounty
TLB	Top Level Budget
TSP	Trade Supplement Placement
UCM	Unified Career Management
VO	Voluntary Outflow

ARMED FORCES' PAY REVIEW BODY 2021 REPORT – SUMMARY

This year, the scope of our recommendations has been constrained by the government's public sector 'pay pause'. We were asked to set out a preferred option to implement the government's policy of providing a consolidated uplift of £250 for those Service personnel earning £24,000 or below. We recommend a mechanism that excludes X-Factor from the calculation of the threshold for payment.

Our central recommendation is that rates of base pay for those earning £24,000 or below, with the threshold for payment calculated as base pay excluding X-Factor, be increased by £250 from 1 April 2021.

Our other recommendations are:

- From the date of the publication of this Report, for the Army only, Recruitment and Retention Payment (Diving) to be paid on a Non-Continuous Basis.
- Service Family Accommodation (SFA) Combined Accommodation Assessment System Band A charges to be increased by 1.7%, but that this increase should not be subject to any backdating.
- Four Tier Grading SFA charges in Germany to be increased by 1.7%, but that this increase should not be subject to any backdating.
- Grade 4 SFA furniture charges to be retained but uplifted by 1.7%, but that this increase should not be subject to any backdating.
- Single Living Accommodation rental charges for Grade 1 to be increased by 1.7%, with increases of 1.13% to Grade 2, 0.57% to Grade 3 and no increase to Grade 4, but that these increases should not be subject to any backdating.
- The annual charges for standard garages and standard carports to be increased by 1.7%, with no increase to charges for substandard garages and substandard carports, but that these increases should not be subject to any backdating.

Introduction

- 1 This Report sets out our recommendations on military pay and charges for 2021-22.
- 2 The current round has been conducted against the economic uncertainty and wider consequences of the global coronavirus (COVID-19) pandemic. The armed forces have made a significant contribution to the government's response to the pandemic with Service personnel deployed in different regions of the UK to help the national recovery effort. We gratefully acknowledge this commitment.
- 3 Our remit letter from the Secretary of State for Defence (received on 2 March 2021) reminded us of the Chancellor of the Exchequer's Autumn Statement announcement that pay rises in the public sector would be restrained and targeted for the 2021/22 pay award. The government notified us that this 'pay pause' would apply to all members of the armed forces although it explained that the Chancellor had announced that a pay uplift of £250 would be applicable for those earning £24,000 or below. Therefore, in line with this 'pay pause', we make a recommendation on the application of a £250 pay uplift. We have not been invited to make wider recommendations on pay.

- 4 We considered a wide range of written evidence and took oral evidence from the Minister for Defence People and Veterans, the Chief of the Defence Staff and Ministry of Defence (MOD) officials, the single Services, Defence Medical Services (DMS), the Defence Infrastructure Organisation (DIO); the Service Families' Federations, the British Medical Association (BMA) and the British Dental Association (BDA).
- 5 As usual, we adopted the approach of considering all the relevant evidence available to us. We have taken full account of MOD's affordability constraints and the government's wider economic evidence and its decision to implement a public sector 'pay pause' for the 2020/21 pay round. Our recommendations have been formulated after assessing all the evidence, including that which we obtained across our virtual visits.

Context and evidence

- 6 MOD informed us that the armed forces had continued to deliver operational commitments across the world, in demanding environmental circumstances, whilst maintaining defence of the UK and Sovereign Territories. Furthermore, Service personnel had provided significant support to the government's national response to the COVID-19 pandemic.
- 7 Throughout this round we have monitored economic data from a range of sources. A common theme at all stages of the round has been the sense of economic uncertainty and complexity, and the extent to which data have been distorted or influenced by the range of government intervention schemes implemented in response to the COVID-19 pandemic. We observe that there have been changes in remuneration for some of the lower paid in the workforce with an increasing emphasis on payment of the National Living Wage (NLW), rather than National Minimum Wage (NMW).
- 8 It is very difficult to discern how the economic and broader effects of COVID-19 have impacted on the workforce data presented. We note that the Armed Forces' Continuous Attitude Survey (AFCAS) was concluded before the impact of COVID-19 was felt. We acknowledge that there has been a fall in Voluntary Outflow (VO) over the last year and that intake exceeded outflow. We suspect that this may be short-lived and that outflow is likely to increase again as the economy recovers.
- 9 We believe that MOD could do more to encourage Black, Asian and Minority Ethnic (BAME) recruitment, in particular from within the UK. We sense that within MOD and the Services there has been a focus on gender at the expense of looking more widely at other aspects of diversity and protected characteristics. The critical success factor should be that the armed forces are seen as a real option for choice of career by all elements of the UK population.

Recommendations

- 10 In the context of the public sector 'pay pause', we considered MOD's proposal to implement the government's intention that those earning £24,000 or below should be awarded a £250 pay uplift. The MOD proposal calculated the threshold for payment as basic pay inclusive of X-Factor.
- 11 X-Factor is defined as 'a pensionable addition to pay that recognises the special conditions of service experienced by members of the armed forces compared with civilian employment'. We understand this to mean that base pay is pay excluding X-Factor. We have argued in our approach to the NLW that we do not expect MOD to include the value of X-Factor in any such calculation. In general employment, premium payments and allowances are not included in an employee's basic pay figure and we believe we should be consistent with this ethos in ignoring X-Factor for minimum wage considerations and in the application of the £24,000 earnings threshold for this year's

£250 increase. By excluding the X-Factor, we also believe this will ensure a consistent approach with other public services who have excluded allowances and calculated eligibility to receive the £250 uplift on basic pay only.

- 12 We understand that the intention of the £250 being awarded to low earners in the public sector is designed to ensure that base pay for this group is not eroded by inflation and that the rationale for a small increase to the pay of the lowest paid public sector earners is about maintaining minimum levels of income. X-Factor has never been seen as a subsidy to base income: its purpose is completely different and therefore, if it is not a basic earnings subsidy, it should not be used to offset an increase in base pay.
- 13 X-Factor is important to our remit group as it compensates for the balance of advantages and disadvantages in Service life and reflects the service and commitment that they make to the nation. To include X-Factor in the way proposed by MOD undermines the rationale for its payment and potentially sends unhelpful messages about the value placed on Service personnel. In our view, Service personnel would be justified in feeling aggrieved if the lowest paid did not access the minimum payment being offered across all other public sector employees simply because of their X-Factor. In addition, the MOD proposal would break what we see as a fundamental link between the pay of Regular and Reserve personnel. We assess that this would be inconsistent with other strategic intentions to deliver a 'Whole Force'.
- 14 We concluded that we do not agree with the MOD proposal. Given the Defence Secretary's direction to us in our remit letter and the MOD's evidence, we considered whether we should assess alternative implementation processes to the one shared with us for the award of a £250 pay increase for the lowest earners in our remit group. We concluded that we should.
- 15 We have developed a proposal that excludes X-Factor in assessment of the £24,000 threshold. We believe that this is a better proposal as it:
 - uses base pay, which is a figure excluding X-Factor and therefore reinforces the rationale behind the payment of X-Factor;
 - gives the lowest paid within our remit group the full benefit of the £250 pay award; and
 - maintains the integrity of the pay structure and the relationship between Regular and Reserve pay (and therefore should be easier for MOD to deliver).
- 16 We have been asked to set out a preferred option to implement the government's policy of providing a consolidated uplift of £250 for those Service personnel earning £24,000 or below. We recommend that the calculation for the threshold for payment should exclude X-Factor. **We recommend that rates of base pay for those earning £24,000 or below, with the threshold for payment calculated as base pay excluding X-Factor, be increased by £250 from 1 April 2021.**
- 17 MOD told us all Recruitment and Retention Payments (RRPs) were included within the public sector pay pause. With the exception of RRP (Diving), we were not invited to review any specific forms of RRP this year.
- 18 We were told that the Army had concluded that RRP (Diving) could be delivered in a more targeted way. MOD told us that it had reviewed the remuneration options for diving against affordability considerations and that it recommended that RRP (Diving) be paid on a Non-Continuous Basis (NCB) to Army divers. **We recommend that (from the date of the publication of this report), for the Army only, RRP (Diving) is paid on a Non-Continuous Basis.** We invite MOD to consider whether there is scope to move other RRP's from payment on a Career Continuous Basis to NCB.

- 19 We discuss Defence Medical Services (DMS) in Chapter 4. We acknowledge that the COVID-19 health emergency has had a considerable impact on DMS personnel and on the progress of the workforce reforms highlighted to us during the 2020 pay round. In considering the pay award for Medical and Dental Officers (MODOs), MOD made it clear that it was not looking for us to make a separate recommendation for this cadre. We note the argument of the BMA and BDA regarding the alignment of the DMS pay award this year to that of colleagues in the National Health Service (NHS). We are conscious that there are civilian doctors working alongside Service MODOs who will be in scope for a pay rise as part of any award to NHS personnel. We agree that it is right that MODOs are treated alongside other members of our remit group given the contribution of so many across Defence to the national COVID-19 response. Therefore, for 2020-21, we concur that pay for MODOs should continue to be in line with the recommendation for our main remit group.
- 20 Access to subsidised accommodation remains a vital part of the overall offer to Service personnel and their families. It is important that the levels of charge are set fairly for the different types and condition of accommodation, and that the properties are effectively serviced and maintained.
- 21 We base our accommodation rental charge recommendations on the 'actual rentals for housing' component of the Consumer Prices Index (CPI). To inform our recommendations, we have traditionally used the annual November inflation figure. The 'actual rentals for housing' component annual percentage change for November 2020 was 1.7%.
- 22 For Service Family Accommodation (SFA), **we recommend an increase to CAAS Band A rental charges of 1.7%**. This recommendation will affect the rents of lower bands, as they are all in descending steps of 10% of the Band A rate. This increase will apply to the rental charge for both furnished and unfurnished properties. **We recommend that the Four Tier Grading SFA charges in Germany should be uplifted in line with the 'actual rentals for housing' component of the CPI, 1.7%**. Considering the public sector 'pay pause' as well as significant delays in the round, **we recommend that these increases should not be subject to any backdating. We also recommend that Grade 4 SFA furniture charges are retained but uplifted by 1.7%** in line with the 'actual rentals for housing' component of the CPI **but that these charges should not be subject to any backdating**. This increase will apply to the rental charge for both furnished and unfurnished properties.
- 23 MOD argued that whilst Single Living Accommodation (SLA) does not have a direct civilian comparator, its provision was subject to the same cost growth as other accommodation and that many other forms of accommodation, such as student accommodation, had seen above inflation cost increases. It said that to ensure fairness with other Service personnel, there should be parity with SFA but proposed that there should be a tiered/graduated uplift to SLA charges from 1 April 2021, broadly in line with the 'actual rentals for housing' component of the CPI, with the smallest increase applied to the lowest standard accommodation. **We recommend that there should be a tiered/graduated uplift to SLA charges (in line with the usual tiering framework) and that SLA charges for Grade 1 accommodation should be increased by 1.7% with increases of 1.13% to Grade 2, 0.57% to Grade 3 and no increase to Grade 4 SLA. We also recommend that these increases should not be subject to any backdating.**
- 24 To maintain consistency with other accommodation charges, **we recommend that charges for standard garages and carports should be increased in line with the increase in the 'actual rentals for housing' component of CPI in the year to November 2020, with no increase for substandard garages and substandard carports. We also recommend that this increase should not be subject to any backdating.**

- 25 Evidence for setting the Daily Food Charge (DFC) is based on actual food cost data. The price component threshold of the DFC (since April 2020) of £5.45 was breached in the quarter of data for October to December 2020. We were advised that a new DFC of £5.61 was implemented in February 2021. As our visit programme was virtual this year, we were not able to sample food as we have done in previous years. We remind MOD that they have promised to make regular reports to us about the quality of food.

Looking ahead

- 26 In March 2021, the government published the outcome of its Integrated Review of Security, Defence and Foreign Policy and a subsequent Defence Command Paper, *Defence in a Competitive Age*. We were informed that this second paper set out how Defence would deliver against the multi-year settlement it received in 2020 and how it would transform the armed forces to meet the threats of the future. We will be interested to see how the outcome of the multi-year financial settlement will relate to the ability of Defence to invest in personnel and personnel-related initiatives.
- 27 It is clear to us that there is an expectation within government that the armed forces will become more persistently deployed around the world. We will be interested to see what this change will mean for Service personnel, particularly on separation and how this might affect Service families. We also assess that this strategy will have implications for the provision and delivery of Service accommodation.
- 28 We were pleased to see the recognition given to the importance of people in the delivery of defence capability. If Defence wants to enable a transformed and optimised workforce, with the skills needed to deliver some new and complex capabilities, it will need to make an attractive offer to recruit and retain these people. We will, as ever, seek to assist MOD to meet this challenge through our recommendations.
- 29 In *Defence in a Competitive Age* MOD announced it would reflect on the increasingly specialised nature of many of the armed forces' roles, and that it would place skills at the heart of how it organised and rewarded its workforce. Critically for us, MOD announced that it would be commissioning a comprehensive and independent review of how military personnel are paid and rewarded. MOD informed us that this review would guide the efforts of Defence to develop a modern, holistic, through life approach to the military offer. We are grateful to MOD for consulting with us about the Terms of Reference for this review of remuneration. At the time of finalising this report, we are awaiting clarification as to how MOD wishes us to engage with the review. We stand ready to assist and, indeed, want to be engaged at all stages of the review. We have told MOD that we would appreciate clarity as to how the review will relate to our planned programme of work in the next and subsequent pay rounds.
- 30 It is clear to us that this independent review will be ambitious in both scope and timeframe with the potential to recommend fundamental changes to the pay structure. We understand that this independent review will take a holistic approach, and we encourage MOD to use it as an opportunity to address many of the longstanding issues that we have commented on in this and previous reports. We hope that the review will address issues which, in our view, present serious structural difficulties to the establishment of terms and conditions of service (TACOS) fit for the future.
- 31 During the round we also heard about wide-ranging single Service plans for transformation. We observe that, taken together with pan-defence programmes, there are many initiatives and reviews underway which have the potential to overlap and possibly conflict. If this is the case, we would be concerned about short-term stagnation if MOD needed to resolve any inconsistencies. We note that our Terms of Reference require us to have regard to the ability of the armed forces to recruit, retain and

motivate suitably able and qualified personnel. We encourage MOD to ensure that these various initiatives do not combine to create a period of uncertainty or lead to a lack of momentum.

- 32 We note the development of the Unified Career Management programme and how this is designed to facilitate cross-Service working for certain specialist groups. We welcome its development. We will be interested to see how the programme plays out to enable capability and to address retention. We will be interested to observe how MOD addresses the practical challenges of applying this more broadly outside of specialist areas.
- 33 Persistent and long-standing skills shortages remain a major concern given the competitive labour market and the challenge of recruiting people with specific skills. In last year's Report, we commented that MOD's success in dealing with workforce shortages in traditional areas of operations, as measured by its pinch point indicators, had been poor. We continue to be concerned that fulfilling the future skill requirements in some new and niche areas will be a major challenge unless MOD changes its traditional approach to TACOS. We observe that there is an intrinsic tension if the workforce is both reliant on people with specialist skills and intends, at the same time, to be agile. We will be interested to see how MOD's independent review addresses these issues.
- 34 Reserve Forces are seen as an increasingly important part of the overall workforce. We note with interest the publication of the Reserve Forces Review 2030. Despite the mantra of a 'Whole Force approach' we have noted that there appear to be some points of tension between Regular and Reserve personnel with many of the latter sensing that they are seen as a subsidiary partner. This is often reinforced by inconsistencies in entitlements between Regular and Reserve personnel. Whatever the intentions of the Reserve Forces Review 2030, it will ultimately be for MOD to decide how it wants to use the skills on offer. The way that it decides to do this will be critical if it is to maintain a motivated workforce.
- 35 We are aware that irrespective of the impact of MOD's planned independent review on our programme of work, the scope of our work in next year's pay round will be dictated by the government's decisions on public sector pay policy. We will wait to see what will happen for next year's round, but we hope that 'pause' is an accurate term and that we will be invited to make more wide-ranging recommendations in next year's round. We assess that a further 'pay pause', or more extensive pay freeze, would not be helpful if MOD is to develop pay to support workforce transformation and a reward package which is attractive for recruitment and retention, and addresses competition within the labour market.
- 36 We anticipate that our next Report will incorporate recommendations on pay, allowances and accommodation charges. We will continue to monitor staffing levels and other measures that have been introduced to counter specific workload and skill issues within the armed forces. We await confirmation from MOD as to any detailed reviews that it would like us to undertake as part of next year's pay round.
- 37 We will watch with interest how this year's recommendations, and the 'pay pause', is received by our remit group. We will observe the way that MOD communicates our recommendations and the way in which pay is presented as being part of a wider offer. From our visits we observe that Service personnel do not always understand the value of the broader package on offer, including accommodation, education and training, and the non-contributory pension. We encourage MOD and the Services to work to improve awareness of this.

- 38 We will continue to monitor earnings in the wider economy, an essential part of evidence given the requirement within our Terms of Reference to have regard to the need for the pay of the armed forces to be broadly comparable with pay levels in civilian life. We will pay close attention to the ongoing impact of the COVID-19 pandemic on all economic indicators. We will also continue to monitor the emerging trend of employers paying younger workers the NLW instead of an age-related NMW, and the impact that this might have on military recruitment. We also note that many employers recognise the significance of the campaign to promote the Living Wage. This will be particularly relevant for next year's pay round as we understand that MOD plans to invite us to examine early years' pay.
- 39 In Chapter 3 we discuss our plans to review X-Factor and that during the next pay round we will gather evidence to inform our recommendations on the rate of X-Factor in the subsequent pay round. Our work will include a review of the X-Factor taper which applies to Officers at OF5 and above. We will co-ordinate any action with the Senior Salaries Review Body given their interest in the X-Factor taper and the application of this to senior military Officers.
- 40 During our visits we heard recurring comments from personnel who recognised the challenge of rewarding for skills, and to a lesser extent experience, in a rank-based pay structure. We note that the relationship between skills, experience, responsibility and ability is complicated. We also recognise that pay for rank has been the mechanism by which the Services have traditionally rewarded these attributes. The Services need to find ways to reward skills, yet at the same time to make an attractive offer in areas where it is competing for new, niche skills. We will watch with interest to see how these themes are developed in the independent review of remuneration.
- 41 Accommodation is an important part of the overall offer to Service personnel and their families. We observe that investment is needed to bring the Service accommodation estate up to 21st century standards. Our views on the poor condition of parts of the SLA estate are well recorded. We will continue to watch for investment and improvements. We wish to see how the transition to the new contractual arrangements of the Future Defence Infrastructure Services (FDIS) programme delivers improvements.
- 42 We are concerned that there are several strategic issues that could influence the provision of Service accommodation. We suggest that it may be difficult for MOD to plan and deliver policies which facilitate, and indeed encourage, personal choice and responsibility, against a need to make plans for investment in, and maintenance of, a large and dispersed accommodation estate. We will be interested in how the requirement for a more agile and deployable force plays out in the planning and provision of accommodation for Service personnel and Service families.
- 43 As ever, the state of motivation and morale will continue to be an important part of our evidence base. Our usual approach to measuring motivation and morale includes examining the results of the annual AFCAS and considering the views of those we meet during our visit programme. We are optimistic that some in-person visits will be possible to enable us to meet members of our remit group, and their families, as part of next year's pay round. However, AFCAS will continue to be an important source of data for us.
- 44 With regard to diversity and inclusion, we encourage MOD to take action to deliver change at pace. We hope to meet MOD's new Director of Diversity and Inclusion in the coming round and will impress on them the importance we place on action leading to improvements in diversity.

- 45 We will be interested to see next year's workforce data on recruitment and retention and to understand the impact of the expected upturn in the economy. We heard that COVID-19 has led to changes in the way that the Services are delivering recruitment activity. We encourage them to develop their recruiting approach and processes so that they can reach and engage with all segments of the population.
- 46 This round has been conducted entirely virtually. Despite the understandable restrictions that the implications of COVID-19 placed on our activities, we were determined to follow our agreed processes. We do not yet know what the consequences of COVID-19 will be for next year's round but, at the time of writing, we are hopeful that some face-to-face contact, including visits will be possible.
- 47 We thank all those who have facilitated this year's round in exceptional circumstances. We invite all parties to continue to work with us to deliver a successful round next year.
- 48 We are disappointed that this year's round has been delayed, again. Our disappointment stems from the fact that we have been unable to deliver our recommendations to the government for them to be implemented on time, that is on 1 April. In the current year we feel especially that the ability to deliver a timely award, for those eligible, would have mitigated the impact of the 'pay pause'. We hope that the delays we experienced in the receipt of evidence will not be repeated and that next year's round follows a more conventional timetable.
- 49 Finally, we pay tribute to the unique role that the armed forces undertake on behalf of the nation. We also acknowledge the support provided by partners and families. It is important that the armed forces' terms and conditions are fit for purpose and enable all three Services to continue to attract, retain and motivate the high-quality personnel that they need to deliver their and the nation's operational commitments and requirements.

Chapter 1

INTRODUCTION

Introduction

- 1.1 This Report sets out our recommendations on military pay and charges for 2021-22. Principally, and in line with the government's public sector 'pay pause', we make a recommendation on the application of a £250 pay uplift for those earning £24,000 or below. Given the 'pay pause', we have not been invited to make wider recommendations on pay.

Last year's Report

- 1.2 In our 2020 Report, our central recommendations were for base pay and allowances to be increased by 2.0% with effect from 1 April 2020. We were pleased that the government accepted our recommendations in full.

Context for this year's Report

- 1.3 The current round has been conducted against the economic uncertainty and wider consequences of the global coronavirus (COVID-19) pandemic. The armed forces have made a significant contribution to the government's response to the pandemic with Service personnel deployed in different regions of the UK to help the national recovery effort. We gratefully acknowledge this commitment.
- 1.4 Our remit letter from the Secretary of State for Defence (received on 2 March 2021) reminded us of the Chancellor of the Exchequer's Autumn Statement announcement that pay rises in the public sector would be restrained and targeted for the 2021/22 pay award. The government advised us that COVID-19 was having a very significant impact on the economy, labour market and its fiscal position, and that this had suppressed earnings growth and had increased redundancies in the private sector. The government informed us that it intended that pay awards should be temporarily paused for the majority of the public sector (with pay uplifts continuing for workers across the National Health Service (NHS)) while the impact of COVID-19 on the wider economy and labour market was assessed. The government suggested that this measure would prevent a widening of the existing gap between public sector and private sector reward. Furthermore, the government notified us that this 'pay pause' would apply to all members of the armed forces, although it explained that the Chancellor had announced that a pay uplift of £250 would be applicable for those earning £24,000 or below and that further details would be provided on this in the evidence that we would receive from the Ministry of Defence (MOD). The remit letter is printed in full at Appendix 3.
- 1.5 Reading the remit letter alongside our Terms of Reference⁴, we concluded that, despite the limited scope of this year's round, we should follow our normal process, even if formal recommendations were not requested. We judged that it was important to maintain and undertake the full range of analysis and to gather data to enable us to continue to track key themes.
- 1.6 In addition to this economic backdrop, our discussions have taken account of the announcement, on 16 March 2021, of the outcome of the Integrated Review of Security, Defence, Development and Foreign Policy⁵. We understand that this review was initiated

⁴ Our Terms of Reference are reproduced in the opening pages of this Report.

⁵ HMG *Integrated Review 2021* (online) Available at: <https://www.gov.uk/government/collections/the-integrated-review-2021> [Accessed 22 June 2021].

to define the government's vision for the UK's role in the world over the next decade. This was followed by a Defence Command Paper, *Defence in a Competitive Age*, published on 22 March 2021⁶. This Command Paper set out the government's plans for the UK armed forces and stated that they would become a threat-focussed integrated force, with a continued shift in thinking across land, sea, air, space, and cyber domains. In announcing this, the Defence Secretary emphasised the importance of personnel and indicated that there would be investment in training, welfare, and support facilities to ensure that the armed forces were well equipped to face tomorrow's threats⁷.

- 1.7 More immediately significant for the AFPRB, the Defence Command Paper also announced that MOD would commission a comprehensive and independent review of how it pays and rewards military personnel. MOD stated that this review would guide its efforts to develop a modern, holistic, through-life approach to the military offer that would be tailored more closely to the changing needs of the individual at various stages of their career and better reflect the skills that they bring to Defence. We discuss this further, and what it means for the AFPRB and for the forthcoming pay round, in Chapter 6.
- 1.8 Due to the significant delay in the receipt of evidence from government, this year's round has concluded later than we would have liked. This is outside our control but nevertheless disappointing as we recognise that the recommendations we make have missed our remit group's 1 April pay award implementation date. There were also delays to the previous two rounds. While we recognise the challenging circumstances in which evidence has been prepared, and the wider implications of COVID-19, we look forward to delivering a report next year that can be implemented on time.

Our evidence base

- 1.9 We received written evidence from MOD, economic evidence from HM Treasury and written evidence from the British Medical Association (BMA) and the British Dental Association (BDA). We also reviewed evidence on economic and labour market conditions, including the outcome of research into pay comparability between Service and civilian pay levels.
- 1.10 This evidence was supplemented by oral evidence from the Minister for Defence People and Veterans, the Chief of the Defence Staff and MOD officials, the single Services, Defence Medical Services (DMS), the Defence Infrastructure Organisation (DIO), the Service Families' Federations, the BMA and BDA. We did not receive oral evidence from the single Service Principal Personnel Officers this year and hope that this can be reinstated for subsequent rounds.
- 1.11 We undertook virtual visits to a range of Service establishments as discussed further in Chapter 2.

Our 2021 Report

- 1.12 As usual, we adopted the approach of considering all the relevant evidence available to us. We have taken full account of MOD's affordability constraints and the government's wider economic evidence and its decision to implement a public sector 'pay pause' for the 2020/21 pay round. We have considered evidence on recruitment and

⁶ MOD *Defence in a competitive age: March 2021* (online) Available at: <https://www.gov.uk/government/publications/Defence-in-a-competitive-age> [Accessed 01 July 2021].

⁷ MOD *Defence outlines 2030 vision for the armed forces* (online) Available at: <https://www.gov.uk/government/news/Defence-outlines-2030-vision-for-the-armed-forces> [Accessed 01 July 2021].

retention, motivation, and pay comparability, adhering to our Terms of Reference. Our recommendations have been formulated after assessing all the evidence, including that which we obtained across our virtual visits.

- 1.13 Chapter 2 of this Report considers: MOD's evidence on the context for the round; the evidence we gathered from our visits; evidence on the economic situation and pay comparability; the workforce, including recruitment and retention, motivation, and morale; diversity and inclusion; and Reserve Forces.
- 1.14 In Chapter 3 we review the evidence and make a recommendation on the pay award for those earning £24,000 or below. Our work programme usually includes several detailed periodic reviews. This year, the only such review undertaken was on Recruitment and Retention Payment (RRP) Diving.
- 1.15 Chapter 4 contains our consideration of Defence Medical Services.
- 1.16 In Chapter 5 we review the evidence on accommodation and food, make recommendations on accommodation charges, and note the latest position on changes in food charges.
- 1.17 Finally, in Chapter 6, we look ahead to the issues which are likely to influence next year's pay round, including the independent review of remuneration.

Chapter 2

CONTEXT AND EVIDENCE

Introduction

- 2.1 In this chapter, we present a summary of the evidence we used to inform our views on the economic context, workforce, recruitment and retention, and diversity and inclusion. We finish with our comments on the evidence.

General context

- 2.2 MOD informed us that the armed forces had continued to deliver operational commitments across the world, in demanding environmental circumstances, whilst maintaining defence of the UK and Sovereign Territories. Furthermore, Service personnel had provided significant support to the government's national response to the COVID-19 pandemic.
- 2.3 All three Services provided us with their operational context for this pay round.
- The Royal Navy said that at the peak of activity in 2020, over 40 ships and submarines and more than 11,000 Service personnel were committed to over 31 different operations.
 - During 2020 the Army deployed around 30,000 personnel to 128 countries, on operations, defence engagement, and training. In addition, in March 2020, the Army provided over 23,000 soldiers, making up 91% of Defence's overall commitment to the UK's COVID-19 response.
 - The RAF advised us that the scale and tempo of operations in 2020 was significant. In the first ten months of 2020, over 6,500 people were deployed on operations and large-scale exercises, and many more on small exercises and training deployments. RAF personnel, platforms and equipment were committed in 25 countries across five continents.

MOD evidence on strategic management

- 2.4 In its strategic management evidence, MOD reminded us that people are a critical component of defence capability. MOD reported that with an increased blurring of traditional boundaries between peace and war, homeland defence and expeditionary operations, and between military and civilian roles, there was a requirement to build greater flexibility in defence people (both organisationally and individually) through which Defence could adapt to meet changing demands. MOD, therefore, confirmed that the Defence People Strategy aimed to:
- deliver an adaptable and sustainable workforce to meet the changing demands on Defence, while harnessing modern technologies to drive greater efficiency and effectiveness;
 - maximise the use of talent across the military and civilian workforce, to ensure that people were developed and employed where they were needed most;
 - provide attractive offers that attracted and retained talented people and gave individuals more opportunity to shape a lived experience that resonated with a wide and increasingly diverse workforce;
 - build a stronger, more effective People Function to make better, evidence-based decisions relating to the civilian and military workforce; and
 - create a diverse and inclusive workforce, which better represented society.

- 2.5 We also received briefings from the single Services about their strategic priorities and transformation plans. In Chapter 6 we comment on the range of initiatives and how these will need to work together to deliver improvements.

Visits

- 2.6 Visits are a vital part of our evidence gathering, enabling us to understand better the context for our work and the pressures on Service personnel and their families. During 2020 we were unable to undertake our usual round of visits in person and the entire visit programme was conducted virtually due to COVID-19 restrictions. However, we were able to engage with Service personnel of all ranks and across all three Services from various locations in Europe and across the UK. Overall, we undertook 14 visits and met 373 Service personnel, of whom approximately 30 were Reservists, in 30 discussion groups. We would like to thank all of those who took part in these virtual meetings, and MOD, the single Services and Strategic Command for organising and facilitating the sessions.
- 2.7 While the virtual visits worked in the circumstances, there were considerable limitations and they were an imperfect substitute for the real thing. The visits were shorter (all were a maximum of one day) and we participated in a reduced number of discussion groups. In last year's Report we recorded that we met with 2,353 Service personnel: this year we met just 16% of that number. We observed that in our discussions fewer negative points were made to us regarding pay, yet we were unable to determine whether this was a consequence of the wider economic and national situation, or because personnel felt constrained by the virtual visit process. It was highly regrettable that we did not meet with any Service families as such discussions are important and help us to form an enriched picture of the challenges facing a broad range of Service personnel and their families. We need to see Service accommodation: this cannot be achieved virtually. Given our position on the Daily Food Charge we consider it important that we are able to see and sample what is on offer. A benefit, however, of the virtual format was that we were able to have discussions with participants from a range of locations in a single group. This worked well when we met with Royal Navy Warrant Officers from various base locations.
- 2.8 We record some of the feedback from these visits in subsequent chapters of this Report but note below the main themes that emerged during this round.

Pay

- 2.9 Observations were made that the 2% pay increase that we recommended and was awarded in 2020, was lower than in some other public sector areas and there was unhappiness at the delay in making the award. Some were unsure as to whether the award would be backdated which raised concerns for us about the effectiveness of MOD's communication in this regard.
- 2.10 Across the visits, several comments were made that indicated a lack of understanding of how job evaluation underpinned Pay 16 and the way that the Trade Supplements were determined.
- 2.11 The problems involved in paying for specialist skilled personnel in a rank-based pay structure were raised on nearly every visit. Many highlighted the challenge of rewarding those with niche skills, especially when there were well paid comparators in the civilian sector⁸. Some argued that there might be grounds to de-link pay from rank for certain specialist roles, while others recognised that pay for rank did recognise experience and

⁸ Our Terms of Reference indicate that we should have regard for the pay of the armed forces to be broadly comparable with pay levels in civilian life.

ability. On a related issue, we heard that some junior engineers felt that their pay was inadequate given the level of responsibility that they carried in signing-off airworthiness certificates.

- 2.12 Concerns were raised about the level of Initial Pay (IP)⁹ and we were told that its attractiveness varied according to age. For a school-leaver it was considered a good rate of pay. For those recruited with established skills and experience (and in particular people with family commitments), IP was not considered adequate. We suggest that MOD might investigate the scope to vary the rates of IP to attract a greater range of personnel. This point builds on a comment in our 2019 Report where we said that MOD should consider whether New Entrant Rate of Pay (NERP) could be varied to reflect the skills that applicants might bring to the job¹⁰.
- 2.13 We heard that the changes introduced in the RAF resulting from the Defence Engineering Remuneration Review (DERR) were welcomed. However, there was a view that these changes had not gone far enough, particularly regarding pay for more junior ranks. It was suggested to us that action would be needed to support retention, especially for those who saw their employment as a job rather than a career.
- 2.14 It was put to us that some of the pay supplements available for submariners were not addressing the underlying issue of long deployment times and that pay was being used to try to solve a non-pay issue.
- 2.15 In our discussions with more senior personnel in our remit group we heard that while some Officers considered that they were paid well, they told us that they remained in the military not for the money but for the job. However, there was dissatisfaction around what was expected from them. Many said that they continually worked long hours, often extending late into the evening and weekends. Many thought that the X-Factor taper was unfair as it failed to compensate for the disruption to their family life caused by hours worked and short notice postings.

Impact of COVID-19

- 2.16 Inevitably, we heard a lot about the impact of COVID-19. Our recruitment visit demonstrated how the Services had moved recruitment on-line and we were told that the success of this would lead to some permanent changes in the process. We were told of concerns that the allowances package was insufficiently flexible to address some of the unique circumstances generated by the pandemic, including provision of support for home working. Welfare issues were raised about personnel being confined to their rooms in Single Living Accommodation (SLA). We were advised that SLA at various locations was being used to provide quarantine accommodation for personnel before deployment and that this was putting a strain on the availability of SLA at these locations. This highlighted the increased separation that many Service personnel were experiencing because of the necessary COVID-19 measures.

Workforce

- 2.17 Royal Navy personnel informed us that pinch points in certain trades meant that personnel were having to spend more time away from home. They also told us that they were aware of the desire for the Navy to spend more time away at sea and shared with us their nervousness about what these strategic plans might mean for them individually.

⁹ Initial Pay was formerly known as New Entrant Rate of Pay (NERP).

¹⁰ 48th Report, 2019, paragraph 3.34.

- 2.18 We heard concerns about the rigid nature of some of the promotion mechanisms in the Army which meant that, for example, an individual might have to leave a specialist area for which they were trained and for which there was a requirement and demand, simply to meet criteria for promotion. There was a view that there should be a defined career structure within each specialist area.
- 2.19 We were told that the ability of partners to access meaningful employment, particularly professional employment, was challenging. Personnel told us that they felt that their partners had bought into military life, but at a cost to their own careers.
- 2.20 On several visits, we were struck by the comments made about the importance of Reservists both to deploy and to backfill roles filled by Regulars. However, we did hear from Reservists themselves that they often felt frustrated at having to backfill (rather than deploy themselves) and that they would welcome the opportunity to do more interesting and valuable work. There was a feeling that there should be a better form of reward to compensate Reservists for the long hours spent on exercise and weekend working. Furthermore, we received questions from Regular and Reservist personnel about the lack of provision of medical and welfare support for Reservists, with a sense that this was inconsistent with a 'Whole Force approach'. Many felt that MOD had a moral duty to support Reservists in the same way as Regulars.

Accommodation and food

- 2.21 Across all the visits, feedback on the standard of accommodation was mixed with some saying it was the best Service accommodation they had ever had and some the worst. A common issue, however, was the speed with which maintenance issues were addressed. We were told that some fundamental defects, including hot water, power, and heating, were taking months to rectify. There was some unhappiness at the increases in accommodation charges. We discuss issues around Service accommodation further in Chapter 5.
- 2.22 As in previous years, we heard criticism of the facilities provided in SLA including problems with access to a reliable internet connection which many considered essential. We heard complaints about the lack of cooking facilities which prevented personnel from adopting a more independent approach to living and from enjoying greater freedom of choice in provision of food.
- 2.23 An important issue raised with us concerned an ongoing disparity in the way that some accommodation charges were levied based on personal status rather than need. This particularly applied to waivers for personnel who were married and in partnerships when occupying SLA, whereas single personnel (who might also own their own property and be living away from it) would be required to pay the charge. In our discussion with personnel based in Europe, we were also told that the allowances available (in terms of money and packing space) for those moving location varied depending on rank and that this seemed fundamentally unfair.
- 2.24 Our visits included two virtual visits to sites where the Future Accommodation Model (FAM) pilot was in operation. We understand that FAM is about providing choice to Service personnel in the provision of accommodation. Under FAM, financial support is available either to rent a property on the private market or towards the cost of purchasing and maintaining a privately purchased property. We heard positive feedback on FAM, however some queried why FAM could not be made retrospective and apply to those who had bought a home before its introduction. There were concerns that the requirement to serve four years before being eligible for FAM made it retention-negative and that this threshold should be reduced. There was a perception that proportionately more money was available to those wanting to rent rather than to those who chose to buy a home.

- 2.25 Comments on the poor state of food and lack of choice were heard across most visits. Given the commercial nature of food provision, there was some resentment that catering was a source of profit for a third party. There was a perception that the whole mechanism around the provision of food was driven by a desire for profit rather than quality. Many noted that fresh, healthy food tends to be more expensive. Some said that they would welcome a reversion to the 'old' system of in-house catering with a standard food charge.

Pensions

- 2.26 While not within our remit, in our discussions with Officers at OF3 and above, the biggest issue of concern was pension provision. Among longer-serving personnel there was a general disquiet about the perceived reduction in the value of the pension. Separately we heard that personnel continued to be concerned about issues around the annual and lifetime tax allowances and their personal tax liability. Some of the more senior Officers indicated that the pension taxation issue was a disincentive to promotion.

Economic context

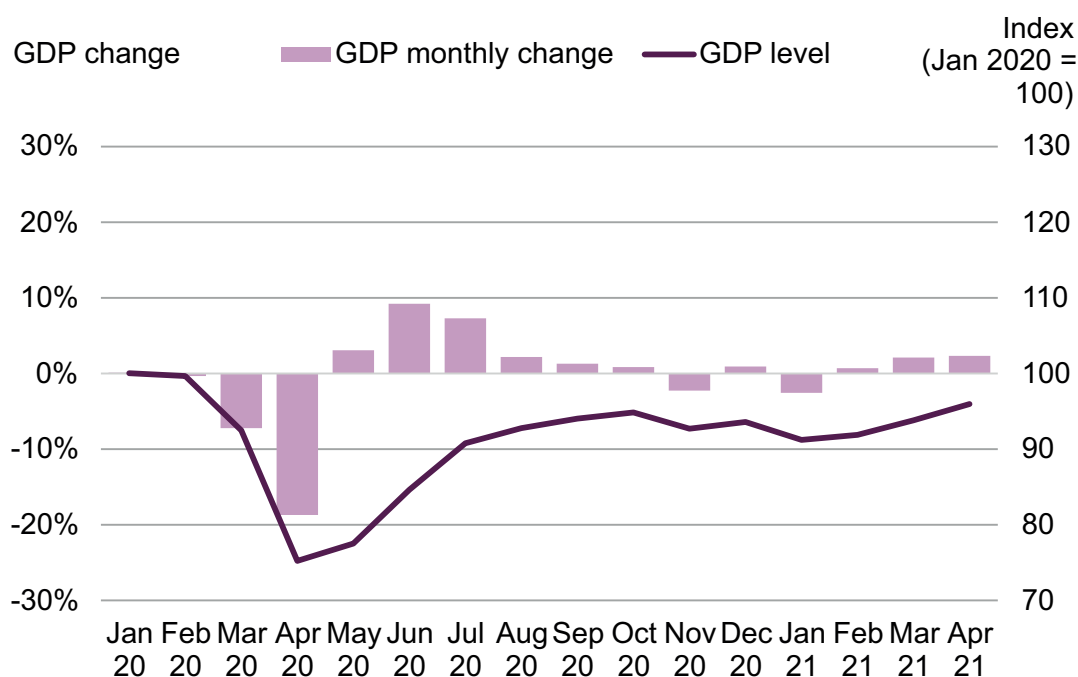
General economic context

- 2.27 When making our recommendations, we consider economic evidence from a range of sources. Although this year we have not been asked to make our usual range of recommendations on pay, we feel it is important to continue our normal process and consider the economic data and to maintain an understanding of economic trends. This year, we report in a period of considerable uncertainty because of the ongoing COVID-19 pandemic.
- 2.28 We note that the labour market has changed considerably, with the impact of COVID-19 being felt differently across sectors. In April 2021, there were approximately 3.5 million employments on furlough. The proportion of employees furloughed ranged from 51% in 'accommodation and food services' to less than 0.5% in 'public administration and defence; social security'¹¹. Working patterns have also changed across sectors and in April 2021, the proportion of those working from home ranged from 81% in 'information and communication' to 8% in 'accommodation and food services'¹².
- 2.29 In 2020, the UK economy saw its largest ever annual contraction in Gross Domestic Product (GDP) of 9.8%. GDP reached its lowest level in April 2020, before recovering in June and July 2020 as the UK eased lockdown restrictions. However, further restrictions decreased economic activity through the winter. In April 2021, GDP was 4.0% below the level seen in January 2020. The path of GDP from January 2020 is shown in Figure 2.1.

¹¹ HMRC *Coronavirus Job Retention Scheme statistics: 1 July 2021* (online) Available at: <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-1-july-2021/coronavirus-job-retention-scheme-statistics-1-july-2021> [Accessed 01 July 2021].

¹² ONS *Business insights and impact on the UK economy: 6 May 2021* (online) Available at: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukconomy/6may2021> [Accessed 01 July 2021].

Figure 2.1: Change in GDP from January 2020 to April 2021. Monthly and indexed to January 2020¹³.



2.30 The Bank of England, in its May 2021 Monetary Policy Report, said that it expected GDP to rise sharply in the second quarter of 2021¹⁴. It expected demand growth to be boosted by a decline in health risks, reduced uncertainty, fiscal and monetary stimulus and households running down their savings accumulated during the lockdowns. It expected that GDP would recover strongly to pre-pandemic levels over the remainder of 2021 in the absence of further restrictions on domestic economic activity. After growth of 7.25% in 2021, it expected that the pace of GDP growth would slow to 5.75% in 2022. In March, the Office for Budget Responsibility (OBR) forecast GDP growth of 4.0% in 2021 and 7.3% in 2022. HM Treasury’s independent panel includes a range of city and other forecasters, which make a variety of judgements about the impact of both the pandemic and EU Exit. The median independent forecast (as of May 2021) was 6.2% GDP growth in 2021, and 5.4% in 2022.

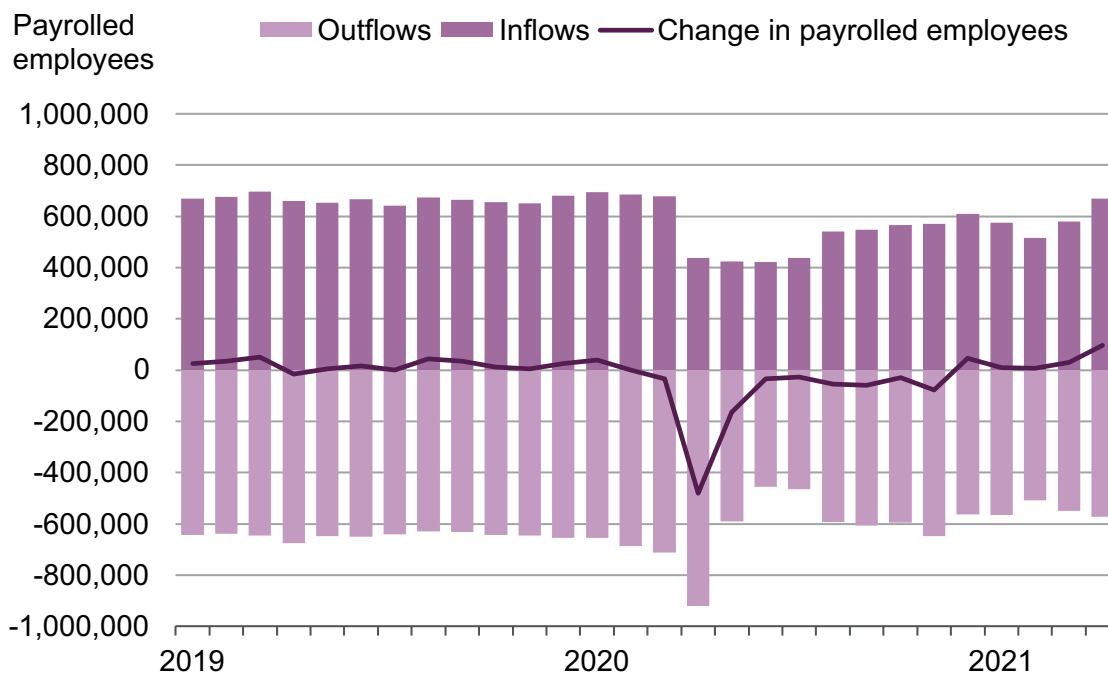
2.31 Inflation, as measured by the Consumer Prices Index (CPI), was 1.5% in April 2021, having averaged 0.6% over the previous 12 months. The higher inflation in April 2021 was driven by rising prices for petrol, energy, and clothing. In its May Monetary Policy Report, the Bank of England said it expected CPI inflation to rise to 2.5% during 2021, pushed up by energy prices, but to fall back to 2.0% in the medium term. It projected CPI inflation to be close to 2.0% in 2022 and 2023. The OBR expected CPI inflation to rise to 1.9% in the second quarter of 2021, before falling to 1.6% in the second half of the year.

¹³ OME analysis of ONS *GDP monthly estimate, UK: March 2021* (online) Available at: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/monthlygdpandmainsectorstofourdecimalplaces/1997tocurrent> [Accessed 08 July 2021].

¹⁴ Bank of England *Monetary Policy Report – May 2021* (online) Available at: <https://www.bankofengland.co.uk/monetary-policy-report/2021/may-2021> [Accessed 01 July 2021].

2.32 In April 2021, according to Pay As You Earn (PAYE) Real Time Information, there were 28.3 million employees on payrolls, a decrease of 772,000 compared to the pre-pandemic peak in January 2020. As Figure 2.2 shows, employment levels fell sharply between March and May 2020 and continued to fall until November 2020. Employment levels have shown some recovery since then, in particular growing by 97,000 between March and April 2021. The accommodation and food services sector had been worst hit, whilst some areas of the public sector had seen expanding employment.

Figure 2.2: Inflows and outflows in payrolled employment. January 2019 to April 2021, seasonally adjusted¹⁵.

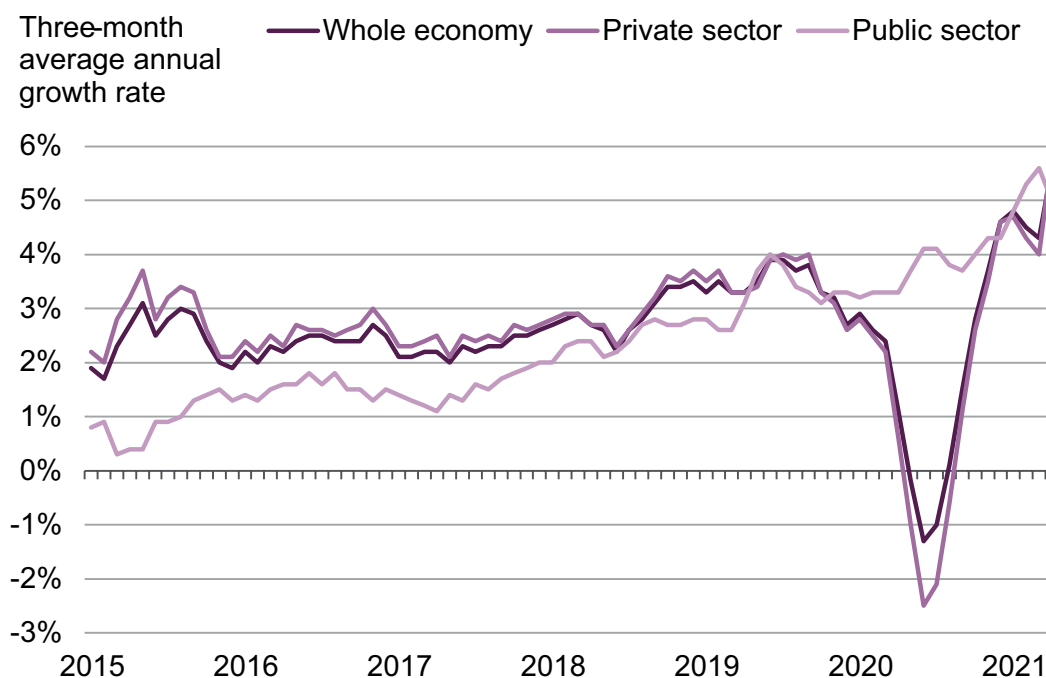


2.33 The number of job vacancies fell by 58% between the three months to February and the three months to June 2020. Although there was some recovery after this, the number of vacancies in the three months to April 2021 was still 19% lower than a year earlier. Redundancies reached a record high in the three months to November 2020 at 395,000.

2.34 According to the average weekly earnings series, the level of private sector average earnings dropped sharply between February and April 2020, before recovering. Whole economy average earnings grew by 5.6% over the year to April 2021. Private sector average earnings growth was at 5.8% and public sector average earnings growth was at 5.0%. This is shown in Figure 2.3.

¹⁵ OME analysis of ONS *Earnings and employment from Pay As You Earn Real Time Information, UK: May 2021* (online) Available at: <https://www.ons.gov.uk/releases/earningsandemploymentfrompayasyouearnrealtimeinformationukmay2021> [Accessed 01 July 2021].

Figure 2.3: Average weekly earnings growth in the whole economy, private sector, and public sector. Three-month average annual change, January 2015 to April 2021¹⁶.



2.35 PAYE data for April 2021 indicated that median monthly pay increased by 9.9% over the year to £1,971. Mean monthly pay increased by 10.5% over the year to £2,711. This high average pay growth would have been affected by falling employment in low-paying sectors, especially food and accommodation services, as well as lower recruitment more generally, as new employees typically receive below average earnings. The median pay growth experienced by employees staying in employment was much lower, at 3.9% in April 2021.

2.36 According to XpertHR, which collates data on pay settlements in the public and private sectors, most employers continued to award pay increases in 2021. The median pay settlement for 2021 pay reviews was 1.5% by April, with 28% of 2021 pay reviews resulting in freezes. In 2020, the median pay settlement recorded by XpertHR was 2.0%, and 26% of pay reviews were freezes¹⁷.

Government economic evidence

2.37 The government concluded that they would pause headline pay awards for all public sector workers except for those in the NHS and the lowest paid. The government said that those earning £24,000 and below would receive a pay award of £250. The government stated that this ‘pay pause’ would ensure fairness between the public and private sectors and protect public sector jobs and investment in services as COVID-19 continued to impact the UK.

¹⁶ OME analysis of ONS (2021) *Labour market statistics time series* (online) Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourmarketstatistics> [Accessed 08 July 2021].

¹⁷ OME analysis of unpublished XpertHR data.

Pay comparability

- 2.38 Our Terms of Reference require us to ‘have regard for the need for the pay of the armed forces to be broadly comparable with pay levels in civilian life’. While it is very difficult to find direct civilian equivalents for some military roles, we see pay relativities as important in ensuring that the armed forces pay enough to recruit, retain, and motivate the quality and quantity of personnel required. It is therefore one of the important components of our overall evidence base on which to base our recommendations on remuneration.
- 2.39 This year, we have continued to monitor broad comparators such as the Average Weekly Earnings index and pay settlements as well as undertaking our analysis of data from the Office for National Statistics (ONS)’s Annual Survey of Hours and Earnings (ASHE) and of the graduate labour market.

Comparisons with data from ASHE¹⁸

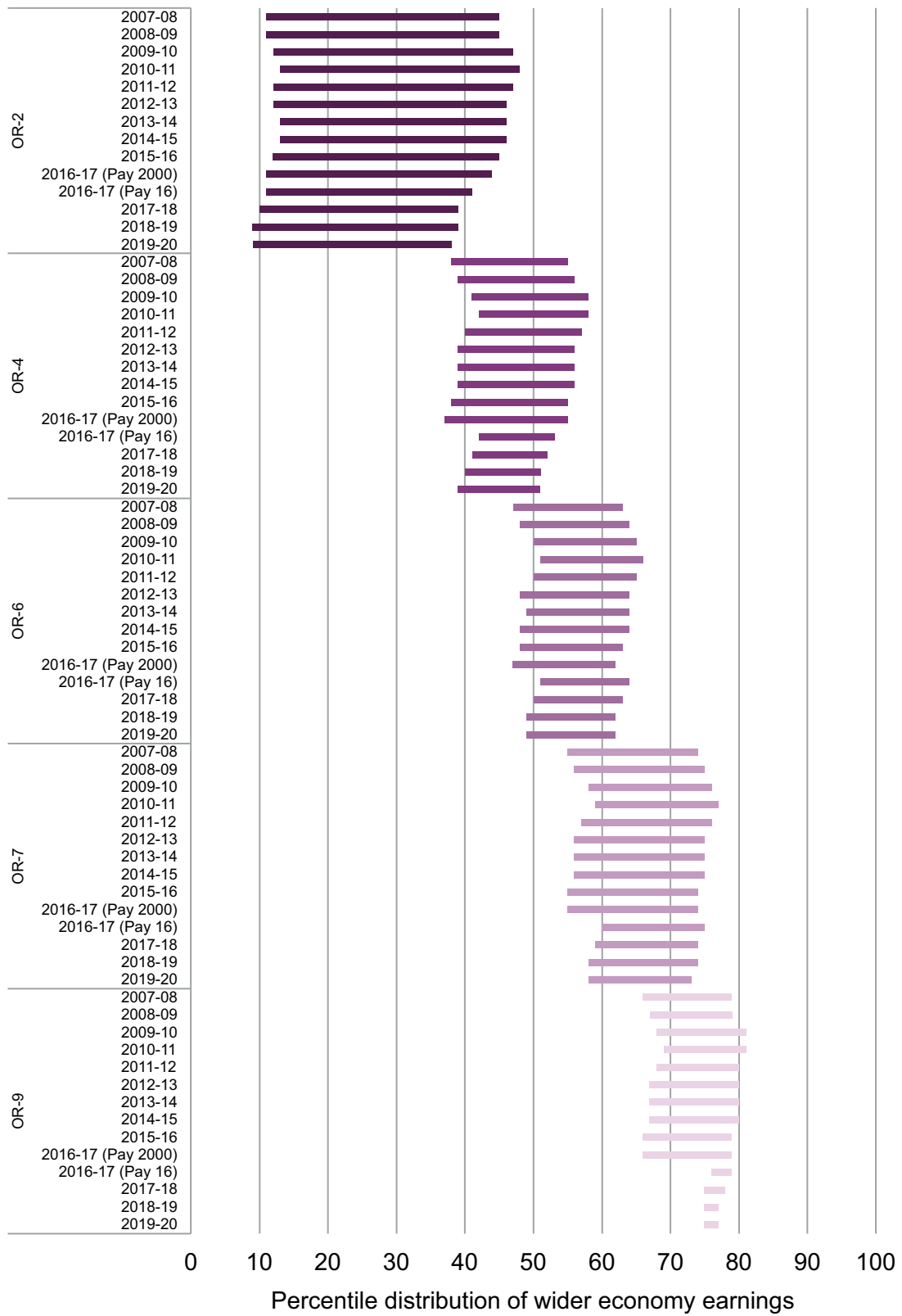
- 2.40 We have updated our analysis of change in the relative position of armed forces’ pay by comparison with data from ASHE. As in previous years, we analysed the position of each pay scale in the percentile distribution of earnings of those in full-time employment across the wider economy. This included employees who were furloughed under the Coronavirus Job Retention Scheme (CJRS)¹⁹. ASHE estimates for 2020 were subject to more uncertainty than usual²⁰.
- 2.41 The latest ASHE data available to us covered the 2019/20 tax year and therefore related to 2019/20 armed forces’ pay scales. In 2019/20 there was a 2.9% pay uplift and increase of OR2-1 base pay to £20,000. In 2019/20, compared to wider economy earnings, most armed forces’ pay scales retained their relative position compared to the previous year. However, a small number of pay scale minima and maxima slightly lost ground. As X-Factor is an addition to base pay to compensate for the exigencies of Service life, we exclude it from pay comparability considerations.
- 2.42 Figure 2.4 and Figure 2.5 demonstrate the relative position of different Officer and Other Ranks’ pay against wider economy earnings since 2007/08. This is used as a baseline as this was the last year before the 2008 financial crisis. From 2007/08 to 2019/20, except for the Pay 16 on some Other Ranks minima, the net position of the pay range effect minima and maxima was either unchanged or had weakened.

¹⁸ OME analysis of ONS ASHE microdata and armed forces’ pay data. The ASHE results are survey estimates.

¹⁹ For furloughed employees, earnings were based on actual payments made to the employee from company payrolls and the hours on which this pay was calculated, which in the case of furloughed employees are their usual hours.

²⁰ ONS *Employee earnings in the UK: 2020* (online) Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2020> [Accessed 01 July 2021].

Figure 2.4: Position of the armed forces pay framework excluding X-Factor (Other Ranks) in the distribution of earnings across the UK economy, 2007-08 to 2019-20²¹.



²¹ OME analysis of unpublished ONS Annual Survey of Hours and Earnings (ASHE) data.

Figure 2.5: Position of the armed forces pay framework excluding X-Factor (Officer Ranks OF1-OF4) in the distribution of earnings across the UK economy, 2007-08 to 2019-20²².



²² OME analysis of unpublished ONS Annual Survey of Hours and Earnings (ASHE) data.

Graduate pay

- 2.43 Our analysis of the graduate labour market drew on two broad sources of data: studies of graduate starting pay by graduate recruitment/specialist organisations and comparisons of armed forces' graduate salaries for the first three years of employment with graduates' salaries in other public sector occupations.
- 2.44 The Institute of Student Employers (ISE)²³ and High Fliers²⁴ annual surveys both reported median graduate starting salaries higher than those in the armed forces, at £29,700 and £30,000, respectively. However, the ISE and High Fliers data tend to be weighted towards large 'graduate scheme' recruiters, who employ significant proportions in London and the South East. We also note that both surveys picked up graduates going into 'traditional' graduate jobs and left out a significant proportion who might go into lower paid roles.
- 2.45 Table 2.1 shows the starting salary and early pay progression for graduates entering the armed forces (OF1 Officer Rank) in 2020 compared with other public sector occupations²⁵. It shows that while OF1 starting pay was within the range of other starting salaries in this analysis, it had the potential to offer relatively rapid progression with an initial increment of 20% after one year, followed by the prospect of further promotion, and associated progression, after three years. However, we note that not all degree qualified Service personnel are employed as Officers.

Table 2.1: Graduate pay in public sector professions, 2020.

	Starting pay	Pay after 1 year	Pay after 3 years
Armed Forces' Officer ²⁶	£24,295	£29,201	£37,424
Fast Stream Civil Servant ²⁷	£28,000	£29,250	£33,250
Doctor ²⁸	£28,243	£32,691	£38,694
Teacher ²⁹	£25,714	£27,600	£31,778
NHS Nurse ³⁰	£24,907	£24,907	£26,970
Police Officer ³¹	£21,402	£24,780	£27,030

²³ Institute of Student Employers *Student recruitment survey 2020: Challenge and resilience in the year of Covid-19* (online) Available to ISE members at: <https://ise.org.uk/page/ISEPublications> [Accessed 01 July 2021].

²⁴ High Fliers Research *The Graduate Market in 2021* (online) Available at: https://www.highfliers.co.uk/download/2021/graduate_market/GM21-Report.pdf [Accessed 01 July 2021].

²⁵ Note that there was no specific graduate entry scheme to the police service. Thus, the police salaries quoted in the table are paid solely on the basis of satisfactory service, regardless of educational qualifications.

²⁶ Assumes starting at OF1 (on Pay 16 step 1), progressing after a year, and then reaching OF2 after 3 years. Armed forces' pay excluding X-Factor.

²⁷ Figures reflect the pay settlement reached in November 2020 (backdated to September 2020) for centrally managed Fast Stream. The pay after 3 years figure reflects the pay in the fourth year of Fast Stream for four-year schemes. However, many schemes are three years in length, with successful completion of the scheme and promotion offering pay of around £45,000-£55,000.

²⁸ Hospital doctors in England expect to progress from Foundation Year 1 to Foundation Year 2 after one year and then to Specialty Registrar after a second year. These figures relate to basic pay in England as of April 2020.

²⁹ Applies to teachers outside London. Recent pay reforms give schools flexibility to offer starting salaries above the minimum quoted and to progress teachers differentially based on performance. Figures provided are indicative and based on typical expectations for teachers starting on the minimum and with successful appraisal outcomes in the first three years. Rates on 1 September 2020.

³⁰ Agenda for Change England rates on 1 April 2020 assuming starting point as band 5.

³¹ Note that there is currently no specific graduate entry scheme to the police service, so the police salaries quoted in the table are paid solely on the basis of service, regardless of educational qualifications. The pay figures are new entry pay for constables, England and Wales following the Winsor review. Entry pay can be flexed up to £24,780 by forces if there that are local recruitment needs or the officer possesses a policing qualification (as defined by the chief officer) or relevant experience (such as serving as a Special Constable). If someone enters on £24,780 the pay after one and three years would be £25,902 and, £28,158 respectively. Excludes overtime payments. Rates on 1 September 2020.

Our comments

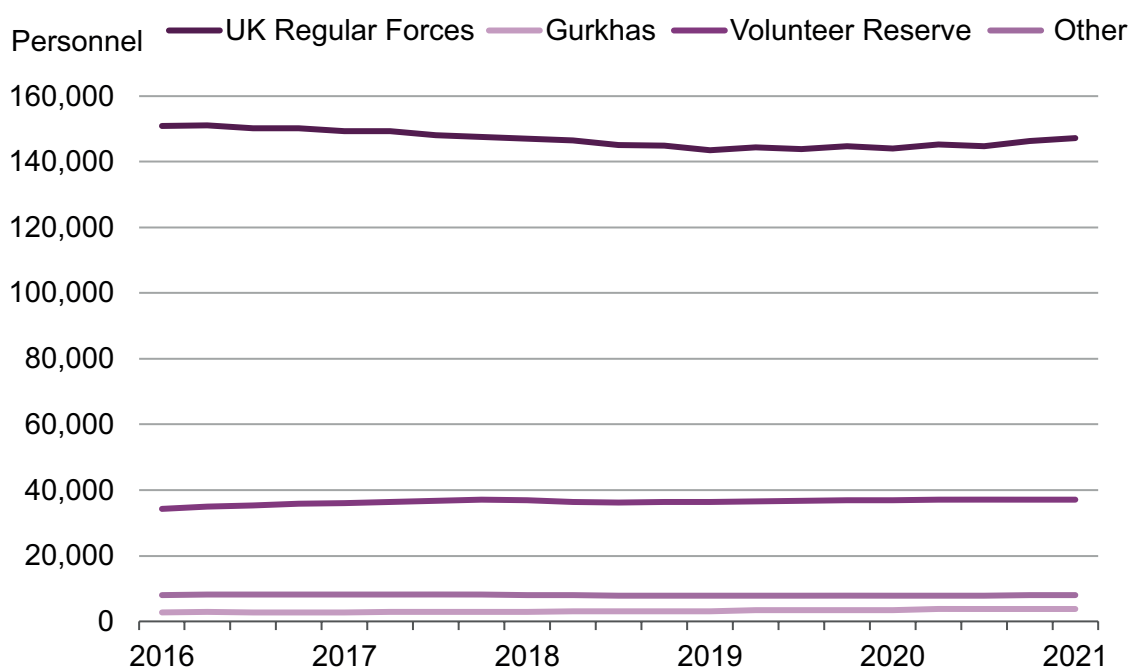
- 2.46 Throughout this round we have monitored economic data from a range of sources. A common theme at all stages of the round has been the sense of economic uncertainty and complexity, and the extent to which data have been distorted or influenced by the range of government intervention schemes implemented in response to the impact of the COVID-19 pandemic. We also note that the focus of much of the data has been about the response to and effects of COVID-19 with little reference to the impact of EU Exit on the economy.
- 2.47 We observe that there have been changes in remuneration for some of the lower paid in the workforce, for example those employed by supermarkets and in distribution, with an increasing emphasis on payment of the NLW, rather than NMW. Further, we note that around 7,000 employers in the UK have voluntarily adopted the Living Wage. This is calculated annually by the Resolution Foundation based on the cost of living, rather than as a percentage of median earnings, which is the case for the National Living Wage³². **We invite MOD to look closely at these changes, particularly in its planned review of early years' pay to ensure that the pay offer remains attractive and competitive for those it aims to recruit.** We note that there are shortages of, and fierce competition for, skills in certain areas, for example, delivery drivers. We suggest that the review of early years' pay should be more informed by data about starting salaries offered by other relevant organisations.

Workforce

- 2.48 This section presents statistics on the overall size of the workforce and its characteristics.
- 2.49 On 1 January 2021, there were a total of 196,139 UK Forces Personnel. Of these, 147,252 were UK Regulars, 3,725 were Gurkhas and 37,105 were Volunteer Reserve. As shown in Figure 2.6 there has been relatively little change to either the composition, or overall size of the armed forces across the last five years. However, between January 2020 and January 2021, the overall strength of UK Forces increased by 2.1% (3,975 personnel). This was driven by an increase in the number of UK Regular Forces.

³² Living Wage Foundation *What Is The Real Living Wage?* (online) Available at: <https://www.livingwage.org.uk/what-real-living-wage> [Accessed 01 July 2021].

Figure 2.6: UK Forces Personnel, Tri-Service, 1 January 2016 to 1 January 2021^{33,34}.



2.50 It was not possible to compare the change in trained strength over this period, as there was a break in the series after July 2020 and again after October 2020, meaning that the figures before these dates are not comparable with figures after these dates³⁵. However, as of 1 January 2021, the overall Full-Time Trained Royal Navy and Royal Marines, and RAF and Trade Trained (Army) strength was 135,444 personnel.

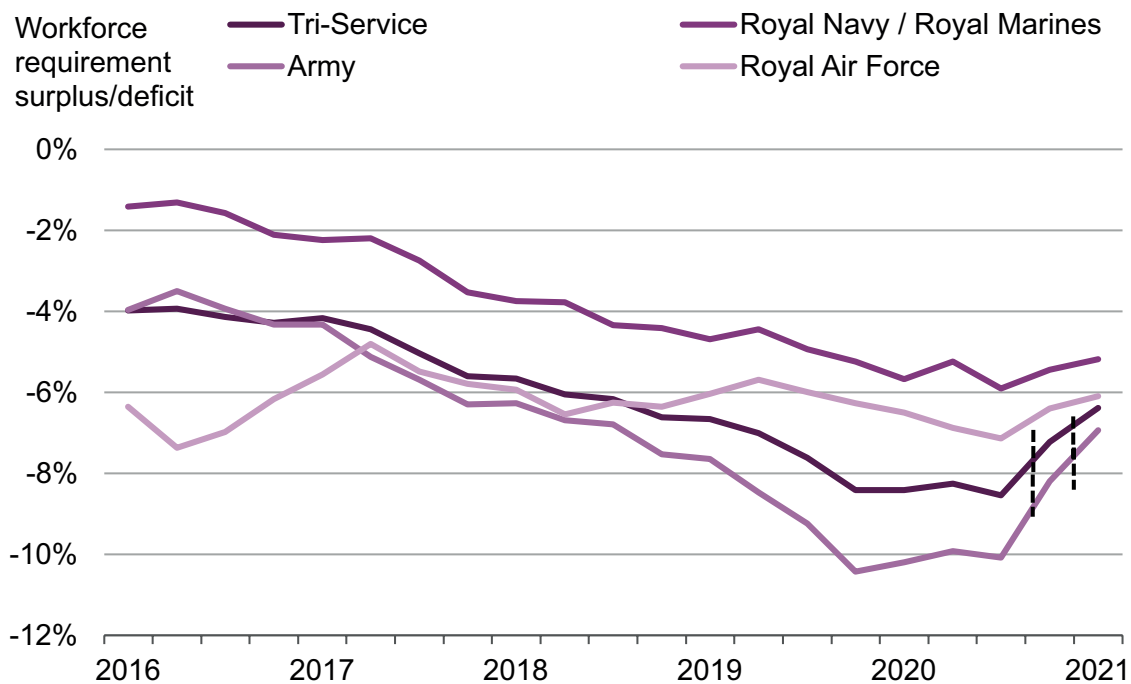
2.51 All Services were below their strength requirement. In addition, there has been a decline in the proportion of the strength met over the last five years (January 2016 to January 2021), except for in the RAF, as shown in Figure 2.7. However, there have been some signs of improvement in the Royal Navy/Royal Marines over the six months to January 2021. This may in part be due to reduced Voluntary Outflows (VOs) as a result of the economic effect of COVID-19. A break in the series means it is not possible to comment accurately on the trend within the Army, or across Tri-Service over the six months to January 2021.

³³ 'Other' includes Serving Regular Reserve, Sponsored Reserve, Military Provost Guard Service and Locally Engaged Personnel.

³⁴ OME analysis of MOD *Quarterly Service personnel statistics 1 January 2021* (online) Available at: <https://www.gov.uk/government/statistics/quarterly-service-personnel-statistics-2021/quarterly-service-personnel-statistics-1-january-2021> [Accessed 01 July 2021].

³⁵ Break in series post 1 October 2020 is a step change that has affected the Army personnel Trade Trained strength and the number of Gains to Trade Trained strength due to administration error.

Figure 2.7: Full Time Trained Strength (RN&RM and RAF) and Full Time Trade Trained Strength (Army), 1 January 2016 to 1 January 2021^{36,37}.



MOD evidence on the workforce

2.52 In their evidence to us, MOD cited improvements in Army recruitment as well as the economic uncertainty from COVID-19 as reasons for the slight increase in trained strength of the armed forces in tax year 2019/20.

2.53 This year, MOD informed us of their new approach to describe pinch points³⁸. This is based on two points:

- Delivery Pinch Points (DPP) – DPPs are declared when current people issues impact on the delivery of a defence output.
- Sustainability Pinch Points (SPP) – SPPs are declared when people shortfalls present a risk to the delivery of a defence output in the future.

2.54 At 30 September 2020 there were 41 DPPs. The Naval Service had 19 DPPs (of which four were within the Royal Fleet Auxiliary (RFA)); the Army had ten; the RAF had not declared any DPPs and UK Strategic Command had 12 DPPs. There were 66 SPPs: the Naval Service had 12; the Army had 38; the RAF had six and ten were Tri-Service, apportioned to UK Strategic Command.

³⁶ OME analysis of MOD *Quarterly Service personnel statistics 1 January 2021* (online) Available at: <https://www.gov.uk/government/statistics/quarterly-service-personnel-statistics-2021/quarterly-service-personnel-statistics-1-january-2021> [Accessed 01 July 2021].

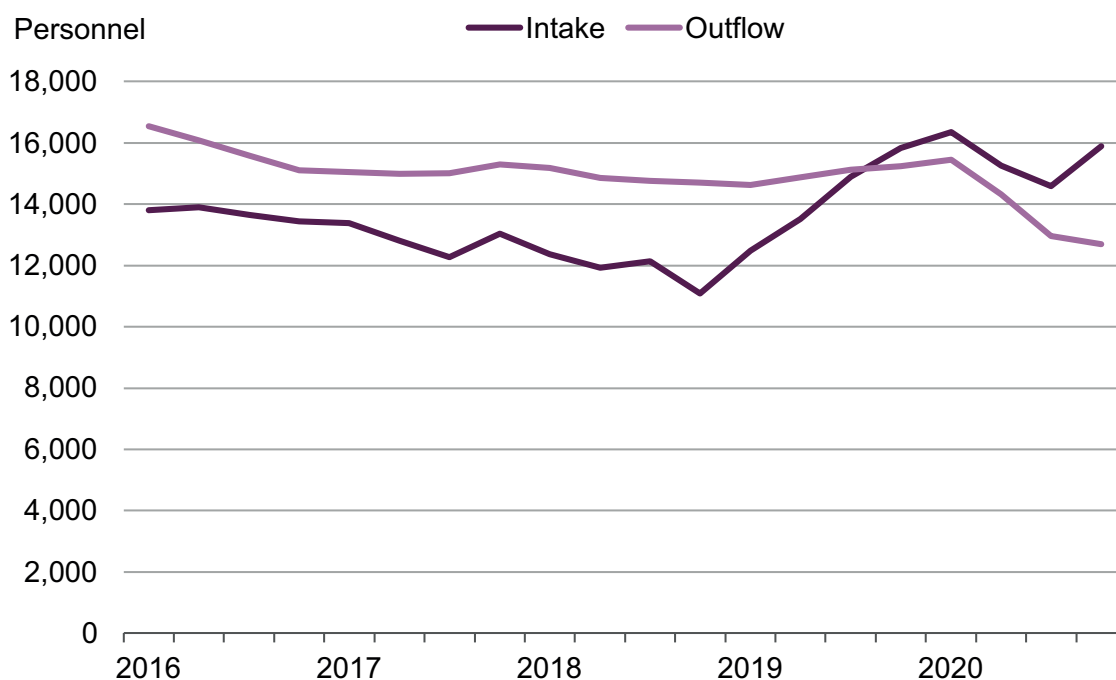
³⁷ The black vertical lines denote a series break in the data for Tri-Service and Army between 1 July 2020 and 1 October 2020, and then between 1 October 2020 and 1 January 2021.

³⁸ The previous definitions were: Operational Pinch Points (OPPs). These were defined as a branch specialisation, sub-specialisation, or area of expertise, where the shortfall in trained strength (Officers or ratings/other ranks) was such that, it had a measurable, detrimental impact on operations. Manning Pinch Points (MPPs). The focus of MPPs was branch specialisations, sub-specialisations, or areas of expertise, where the shortfall in trained strength (Officers or other ranks) affected the branch structure and would take a number of recruitment/retention measures to rectify.

Recruitment and retention

2.55 In each of the last five quarters to 31 December 2020 at a Tri-Service level, intake exceeded outflow, as shown in Figure 2.8. Before this, outflow was higher than intake in each quarter since the series began in 2013. In the 12 months to December 2020, intake into the UK Regular Forces was 15,894, 0.4% above the previous year. However, the picture varied considerably by Service. The RN/RM intake increased by 10.6% and the Army by 0.6%, whilst the RAF decreased by 13.8%. Outflow decreased in all Services. The Army showed the largest decrease of 19.5% and the RN/RM the smallest decrease (8.2%).

Figure 2.8: Tri-Service strength, intake and outflow, 12 months to March 2016 to 12 months to December 2020^{39,40}.



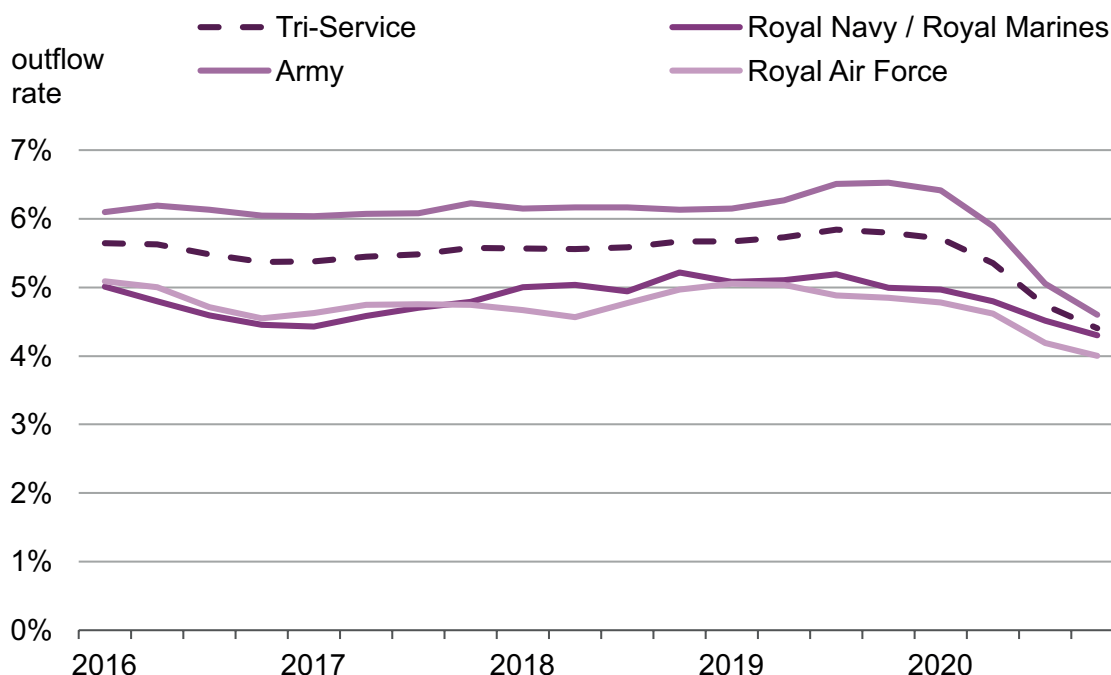
2.56 VO encompasses all personnel who voluntarily exit before the end of their agreed engagement or contracted period (time expiry). It can therefore be used as a measure of the armed forces' ability to retain personnel. In December 2020, the Tri-Service VO rate was 4.4%, a decrease of 1.4 percentage points on a year earlier. This was the largest annual decrease seen since the data began to be recorded in 2013.

2.57 All Services, for both Officers and Other Ranks, saw a decrease in their VO rates in 2020. However, as shown in Figure 2.9, the change in the VO rate and the overall VO rate differed somewhat across the Services. During the last five years (between the end of 2015 and the end of 2020), the Army consistently had a higher VO rate than the RN/RM and RAF, which tended to be similar to each other. The Army also saw the greatest decrease in VO rate in the year to December 2020; down 1.9 percentage points on the year before.

³⁹ OME analysis of MOD *Quarterly Service personnel statistics 1 January 2021* (online) Available at: <https://www.gov.uk/government/statistics/quarterly-service-personnel-statistics-2021/quarterly-service-personnel-statistics-1-january-2021> [Accessed 01 July 2021].

⁴⁰ Excluding Intake and Outflow from Long Term Absentees (Service personnel who have been absent without leave (AWOL) for more than 21 days).

Figure 2.9: Voluntary Outflow (VO) rate, 31 December 2015 to 31 December 2020⁴¹.



MOD evidence on recruitment and retention

- 2.58 MOD informed us that in the recruiting year to April 2020, before the impact of COVID-19, and despite the challenges of a strong national economic picture, low unemployment, and competition for a diminishing pool of candidates, the armed forces had achieved strong recruiting performance. This applied particularly to Other Ranks recruitment in the Army. However, between April and September 2020, both intake and outflow were lower than the previous year because of COVID-19 measures. We were told that the lockdown measures had disrupted the flow of new joiners, following mitigations, including the move of elements of the recruitment process online and measures to address training capacity. It was expected that the Services would be close to their original targets by the end of the year.
- 2.59 In their written evidence, MOD told us that their analysis concluded that VO rates would fall because of COVID-19, but their subsequent rate of increase would depend on the speed and strength of the wider economy, unemployment levels, inflation, and relative military salaries. MOD acknowledged that it was unclear whether the decrease in VO rates represented a short-term deferral of departure or a longer and sustained improvement in retention.

Motivation and morale

- 2.60 We took evidence from a wide range of sources into consideration when assessing levels of motivation and morale in the armed forces. These included the results of the annual Armed Forces' Continuous Attitude Survey (AFCAS), evidence from the Service Families' Federations (SFFs) and the views we heard first-hand on our virtual visits.

⁴¹ OME analysis of MOD *Quarterly Service personnel statistics 1 January 2021* (online) Available at: <https://www.gov.uk/government/statistics/quarterly-service-personnel-statistics-2021/quarterly-service-personnel-statistics-1-january-2021> [Accessed 01 July 2021].

AFCAS

2.61 The 2020 AFCAS provided us with a sense of the views of Service personnel on a range of issues⁴². The survey was conducted between September 2019 and February 2020, so did not capture the impact of COVID-19. It was sent to a sample of 27,000 Service personnel and achieved a response rate of 38% (some 10,000 responses). The key points are discussed below. Where percentages are shown in the commentary below, these relate to the personnel who responded to AFCAS.

Pay

- 2.62 Of all respondents, 39% were satisfied with their basic rate of pay, an increase of four percentage points on the preceding year. However, this was still well below peak satisfaction in 2010 (52%). Officers were generally more satisfied with their pay than Other Ranks.
- 2.63 The Royal Marines was the only service not to show a significant increase in personnel agreeing that their pay and benefits were fair for the work they do. At 30%, they had the lowest rate of agreement out of all the services, which had been the case since the series began in 2015. In comparison, this rate was 39% at a Tri-Service level.
- 2.64 Two questions were added to the 2020 survey to ask personnel whether they had been in receipt of an RRP and if so, how satisfied they were with the payment. 12% of personnel who responded had received an RRP in the last 12 months. The Royal Navy had the highest percentage of personnel receiving a payment (32% of personnel who responded) and the Army had the lowest percentage (6% of personnel who responded). Of those who reported receiving an RRP, 50% were satisfied, with Officers more satisfied than Other Ranks (61% compared to 47%).

Morale

- 2.65 The proportion of all personnel reporting high self-morale was 41%. This was unchanged from the previous year but well below previous peak of 52% in 2010. Self-morale was higher for Officers than for Other Ranks. Reported self-morale was highest in the Army and lowest in the RAF. The Royal Marines was the only service to show a statistically significant increase in self-morale compared to last year.
- 2.66 45% of all personnel were satisfied with Service life in general in 2020, higher than in 2017 or 2018, but not a statistically significant difference from 2019. Satisfaction levels were higher for Officers than for Other Ranks and were broadly similar across the single Services.
- 2.67 Overall, 24% of personnel rated the level of their unit morale as high; 42% rated unit morale as low. Among Other Ranks, these figures were 21% and 46% respectively. These figures were an improvement on recent years.
- 2.68 Whilst 90% of Service personnel felt that they had fulfilled their commitments/promises to the Service in the last 12 months, only 48% felt that the Service had fulfilled its commitments/promises to them.

Work-life balance

- 2.69 45% of personnel rated their workload over the last 12 months as too high (51% of Officers and 43% of Other Ranks). Figures for Other Ranks were broadly stable over recent years while the figure for Officers (51%) was the lowest recorded since this question was first posed in 2011.

⁴² MOD *Armed Forces Continuous Attitude Survey 2020* (online) Available at: <https://www.gov.uk/government/statistics/armed-forces-continuous-attitude-survey-2020> [Accessed 01 July 2021].

- 2.70 The amount of time personnel spent away from families was largely unchanged on 2019. Overall, 42% of Service personnel reported spending over three months away from their family for service reasons (53% in the Navy and 54% Royal Marines).

Leave

- 2.71 Overall, 53% of Service personnel were satisfied with the opportunity to take leave when they wanted to, the highest level since 2007. This figure varied across the Services: Royal Navy 46%, Royal Marines 35%, Army 52% and RAF 66%.
- 2.72 Overall, 37% of personnel reported taking all of their annual leave allowance within the last leave year, broadly similar to recent years. This varied across the Services: Royal Navy 36%, Royal Marines 46%, Army 38%, RAF 34%.

Senior leadership

- 2.73 27% of Service personnel agreed that senior leaders understood and represented their interests; 39% disagreed. Figures were generally more favourable amongst Officers than Other Ranks. Across the single Services the least favourable result was for the RAF where 20% agreed that senior leaders understood and represented respondents' interests.

Future plans

- 2.74 Overall, 13% of personnel who responded said they intended to leave before the end of their current engagement or commission. These figures were broadly similar across recent years and across the Services with the RAF reporting the highest figure at 17%.
- 2.75 The impact of Service life on family and personal life remained the top factor influencing intentions to leave. This was followed by 'opportunities outside the Service', 'spouse/partner's career', 'my morale' and 'Service morale'. 'Amount of pay' was cited by 39% of personnel as a factor impacting on their intention to leave, compared to 42% in 2019. Conversely, the percentage of personnel citing this as a factor influencing their intention to stay increased by three percentage points to 38%.

Accommodation

- 2.76 Following significant decreases in 2016, satisfaction with the overall standard, value for money, and quality of maintenance and repair had since remained steady. Officers were more satisfied with the overall standard of Service accommodation (55%) compared to Other Ranks (50%).
- 2.77 Overall, 31% of personnel were satisfied with the quality of maintenance/repair work, 46% were dissatisfied.

Food

- 2.78 Less than a third (29%) of personnel were satisfied with the standard of service from catering contractors on their unit, unchanged since 2017.
- 2.79 75% of personnel never or rarely used Service-provided catering facilities for breakfast, 46% never or rarely used them for lunch and 69% never or rarely used them for evening meals.

Fairness at work

- 2.80 Service personnel were asked about their experience of bullying, discrimination, and harassment in the previous 12 months. 12% of personnel who responded believed that they had been the subject of bullying, discrimination, or harassment. Significantly higher percentages of female (20%) and BAME (19%) personnel believed that they had been

the subject of bullying, discrimination or harassment compared to male (11%) and White (11%) personnel, respectively. There has been no statistically significant change in these rates since the question was introduced in 2016⁴³.

Service Families' Federations

2.81 We had a virtual meeting with representatives of the SFF. During this session they shared with us their evidence on issues impacting Service life and as usual themes of provision and standard of accommodation and speed and effectiveness of maintenance were emphasised. However, we were also told that separation was a concern, particularly the effect that it was having on children of Service personnel. We were also told that, while Army families understood the importance of mobility, the constant moving and uprooting of a family, who may have settled into their home and developed roots in an area, was not beneficial. We also heard about the impact of stress on families when an individual was the subject of a Service complaint. We were told that it often took a long time for allegations to be resolved and that in this period little support was available for the person being complained against.

Diversity and inclusion in the armed forces

2.82 We have previously reported our belief about the importance of the armed forces of the nation reflecting the diversity of the society it defends and represents, and we continue to support this as an important principle. MOD has various strategies in place to try to ensure that it recruits, retains, and empowers its workforce equally and fairly to get the most from the full breadth of personnel and their latent talents.

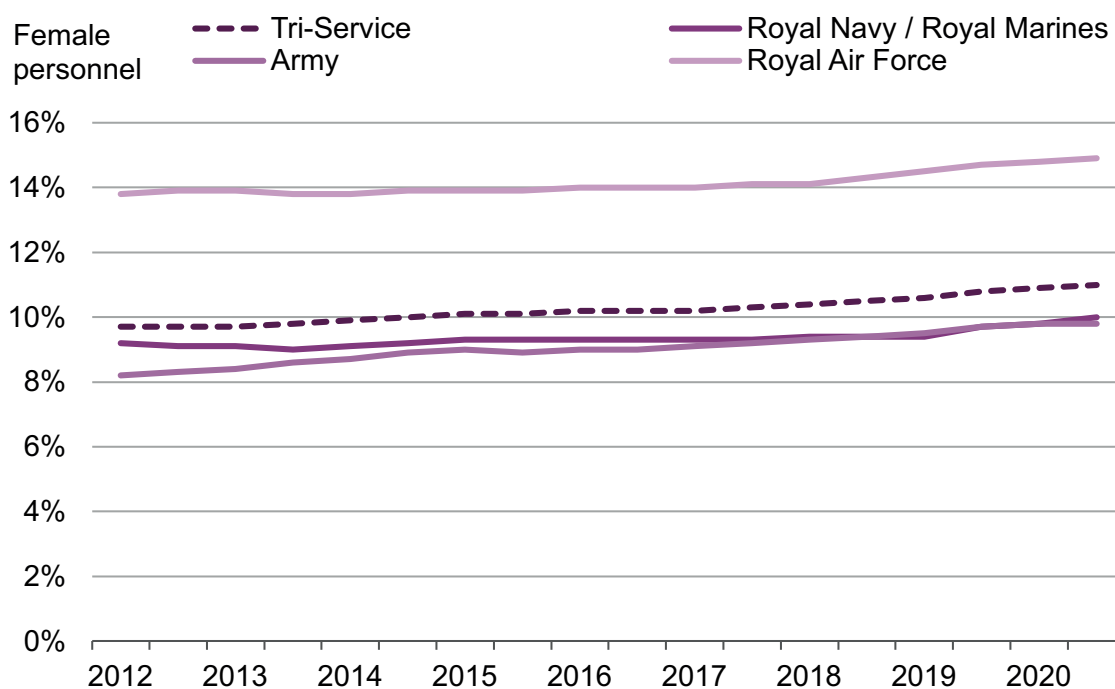
2.83 We note that there is some debate around the best terms to use when discussing ethnicity and that in March 2021, the Commission on Race and Ethnic Disparities recommended that the government stop using the term Black, Asian and Minority Ethnic (BAME)⁴⁴. However, we recognise that this work was received with criticism from some groups and, for now, we will continue to use this term for consistency.

2.84 At 1 October 2020, females represented 11.0% of the Regular military, largely unchanged since 1 October 2019. Over the period since 1 April 2012, female representation increased by 1.3 percentage points. There was a slightly higher proportion of females in Officer ranks, 13.6% compared to 10.4% in Other Ranks. Amongst the Services, the RAF had substantially higher levels of female personnel at 14.9% on 1 October 2020, compared to 9.8% and 10.0% in the Army and RN/RM respectively. Figure 2.10 demonstrates that this has been the case consistently since 2012. In the Future Reserves 2020, female representation was 15.0%, an increase of 0.3 percentage points since 1 October 2019.

⁴³ Measured at the 99% confidence interval.

⁴⁴ HMG *Writing about ethnicity* (online) Available at: <https://www.ethnicity-facts-figures.service.gov.uk/style-guide/writing-about-ethnicity> [Accessed 01 July 2021].

Figure 2.10: Percentage of female personnel Tri-Service and in each Single Service, 1 April 2012 to 1 October 2020⁴⁵.

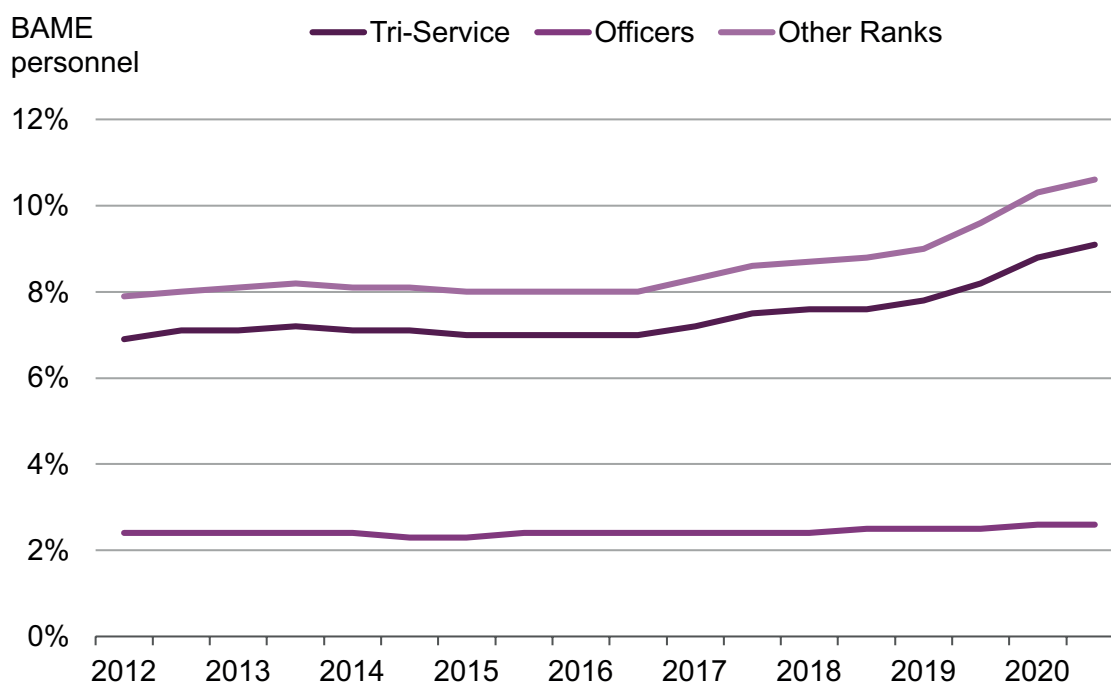


2.85 In the Regulars, BAME representation was 9.1% on 1 October 2020, an increase of 0.9 percentage points since 1 October 2019. BAME representation was 2.6% for Regular Officers and 10.6% for Regular Other Ranks. Since 2016, the proportion of BAME personnel has been slowly increasing. However, as Figure 2.11 shows, this has been driven by an increase in the proportion of BAME personnel in Other Ranks, which increased from 8.0% on 1 April 2015 to 10.6% on 1 October 2020. Over this same period, the proportion of BAME personnel in Officer ranks increased by just 0.2 percentage points from 2.4% to 2.6%. On 30 September 2020, BAME recruits were 17.7% of all Army recruits, but just 7.7% of RN/RM recruits and 5.8% of RAF recruits. In the Future Reserves 2020, BAME Reserve representation was broadly unchanged at 5.6% on 1 October 2020, compared to 5.5% on 1 October 2019. According to the 2011 Census, 14.0% of the population of England and Wales were from a BAME background⁴⁶. Although overall BAME representation was 9.1%, when looking at personnel with a UK nationality just over 5% were from a BAME background. A significant proportion of BAME personnel (some 40%) are from a non-UK nationality. We anticipate that data on this have changed significantly since the 2011 Census.

⁴⁵ OME analysis of MOD *UK armed forces biannual diversity statistics: 1 October 2020* (online) Available at: <https://www.gov.uk/government/statistics/uk-armed-forces-biannual-diversity-statistics-2020/html> [Accessed 01 July 2021].

⁴⁶ This includes the categories Asian, Black, Mixed and Other. ONS (2020) *Population of England and Wales* (online) Available at: <https://www.ethnicity-facts-figures.service.gov.uk/uk-population-by-ethnicity/national-and-regional-populations/population-of-england-and-wales/latest> [Accessed 01 July 2021].

Figure 2.11: Proportion of BAME personnel, 1 April 2012 to 1 October 2020⁴⁷.



2.86 Intake figures show that the 2020 female recruitment target was missed. The total intake for all Regular and Reserve forces for women was 12.2% on 30 September 2020 against a target of 15.0%. The 2020 target for BAME personnel recruitment (10.0%) was surpassed and stood at 11.2% on 30 September 2020.

MOD evidence on diversity and inclusion

2.87 MOD stated their commitment to inclusivity and recognition regardless of protected characteristics and emphasised that defence outputs should be delivered by capable and motivated people who represent the breadth of society. Further, MOD told us that it recognised diversity as not only the morally right thing to do, but the value of an organisation that encourages people to be themselves in the workplace and the link between embracing individual diversity and the successful delivery of defence outputs.

2.88 MOD data showed that reasons for leaving the military were varied, with some difference between male and female personnel, and between BAME and White personnel. For example:

- Only 6.9% of women selected 'dissatisfaction with overall career/promotion' as a reason to leave compared to 34.7% of men.
- Only 11.7% of women selected 'pay and allowances' as a reason for leaving the armed forces compared to 28.9% of men.
- Men were more likely to cite stability factors, spouse's/partner's employment, and child's education as reasons for leaving than were women.
- 30.9% of BAME personnel cited 'to live in own home/settle in one area' as a reason for leaving the armed forces compared to 44.9% of White personnel.

⁴⁷ OME analysis of MOD UK armed forces biannual diversity statistics: 1 October 2020 (online) Available at: <https://www.gov.uk/government/statistics/uk-armed-forces-biannual-diversity-statistics-2020/html> [Accessed 01 July 2021].

Our comments on workforce data

- 2.89 Before making specific points on various aspects of workforce data, we make the general point that it is very difficult to discern how the economic and broader effects of COVID-19 have impacted on the data presented. We note that the AFCAS was concluded before the impact of COVID-19 was felt.

Workforce

- 2.90 Regarding the evidence on pinch points, and the information provided about new pinch point measures, we invite MOD to provide us with evidence on what the risk is from each of the pinch points identified. We also note that pilots are not identified as a category at risk, despite there being historical shortages in this role. For this reason, we question how accurate these new measures are in recording shortages and **we would welcome more information from MOD on the identification of pinch points and whether the new definitions will facilitate improvement.**

Recruitment and retention

- 2.91 We acknowledge that there has been a fall in VO over the last year and, indeed, that intake exceeded outflow. We suspect that this may be short-lived, and that outflow is likely to increase again as the economy recovers. Therefore, it is vital that recruiters deliver their targets in this area.
- 2.92 We were encouraged and interested to learn of the ways in which the Services have modified their recruitment practices in the light of restrictions imposed in response to COVID-19 and that some revised ways of working will be continued.
- 2.93 **For our next Report we will be interested to see more data on the plans for and the take-up of apprenticeships, including on the different qualification levels.**
- 2.94 On recruitment generally, **we invite MOD to provide data on the number of applicants to the armed forces and how this relates to actual recruits.** We want to understand what data are held about the reasons why people are unsuccessful at turning an application into an offer which they then accept. **We would also like to see a breakdown of this information by nationality of recruits.** We are concerned that MOD could do more to encourage BAME recruitment and that the inclusion of non-UK personnel in summary data is obscuring the picture on UK national BAME recruitment.
- 2.95 **We are interested in understanding the impact of the introduction of flexible working and whether this is supporting retention.** We encourage those responsible for authorising flexible working to take a bold approach. We suggest to MOD that the success of the flexible working arrangements needs to be tracked. We would be interested to learn whether Service personnel leave their Service if their application for flexible working is declined.
- 2.96 For future reports **we would welcome data from MOD on any financial initiatives that we agreed in previous rounds** for specific groups of personnel including, for example, FRIs in response to particular workforce shortages, to enable us to understand the impact of these.

Motivation and morale

- 2.97 **We encourage MOD to maximise the potential value of AFCAS – and related surveys – by facilitating work to increase the response rate.** We question the reliability of surveys if they are based on a low response rate. We suggest that surveys will be seen to be of value if personnel can see that MOD is taking timely and informed action to address the issues raised.

Diversity and inclusion

- 2.98 We are concerned to see that the proportions of BAME and female personnel were still very low and that the target for female intake was missed. We note that the evidence provided by MOD on reasons for leaving did not detail any of the reasons commonly given by female personnel and focussed on those given more frequently by male personnel. Where data were provided, we thought that it was either incomplete or selective so that it did not drill into or provide evidence of the reasons why female personnel were leaving.
- 2.99 Given the apparent challenge in recruiting and retaining female and BAME personnel, **we would ask MOD to provide us with more detail on reasons given by these personnel for leaving the Service. We also suggest that MOD considers the effectiveness of the exit interview process for gathering such data.**
- 2.100 We note that a significant proportion of BAME personnel are recruited from outside the UK. We are also aware that the term BAME includes a number of diverse categories and there are likely to be many differences within this group. While we support recruitment from the Commonwealth and a range of backgrounds, we are concerned that there are still very low proportions of BAME personnel recruited from the UK. **We encourage MOD to continue to improve its representation across different backgrounds and to separate out data so that those relating to non-UK personnel are shown separately from data for UK nationals.**
- 2.101 We noted that while progress had been made to increase the intake of BAME personnel, much more needed to be done. We welcome the recognition at the highest level in MOD that this is a leadership issue, and also the appointment in MOD of a Diversity and Inclusion Director to lead and inspire this work. We assess that there are many factors, internal and external that need to be addressed to effect positive change, including work to identify the inhibitors of change. We note that, while targets should be more challenging, more importantly MOD should review the recruiting process and consider changing the way that it approaches recruitment, including looking at how it can increase representation from a range of groups, for example the Asian community.
- 2.102 We hope next year not only to report an improvement but that there is a sense of urgency and pace behind this. To facilitate progress, we invite MOD to consider:
- how it effectively equips all those responsible for recruitment with inclusive recruitment practices;
 - the importance of role models and look at what it can learn from the experience in other large organisations; and
 - the composition of recruiting staff so that they better represent the groups being recruited.
- 2.103 We sense that within MOD and the Services there has been a focus on gender at the expense of looking more widely at other aspects of diversity, including protected characteristics. The critical success factor should be that the armed forces are seen as a real option for choice of career by all elements of the UK population.

Reserve Forces

- 2.104 The combined Reserve Forces are a key constituent element of the armed forces which provide capabilities in generalist roles as well as in a range of niche and specialist roles not catered for in the Regular Forces. They comprise the Royal Naval Reserve (RNR), the Royal Marines Reserve (RMR), the Army Reserve (AR) and the Royal Auxiliary Air Force

and Royal Air Force Reserve (RAFR). These Reserves operate under a different range of TACOS – from Part-Time Volunteer Reserve (PTVR) to Full-Time Reserve Service (FTRS) – depending upon their role and Service.

- 2.105 Recruitment and retention figures for Future Reserves 2020 show that, overall, intake exceeded outflow in the year to 31 December 2020⁴⁸. However, across all Services, both intake and outflow decreased compared to the previous year.
- 2.106 At 1 January 2021, the trade-trained (i.e. post-Phase Two training) strength for Future Reserve 2020 forces was 32,646, a net overall decrease of 205 personnel since the same date in 2020. Over the same period, the AR and Maritime (Naval and Marine) Reserve strengths both decreased, by 323 and 38 personnel respectively. The RAFR was the only Service to see an increase in strength (156 personnel).
- 2.107 The 2020 Reserve Forces Continuous Attitude Survey (ResCAS) had a response rate of 33%, down one percentage point from 2019⁴⁹. The survey was distributed between January and March 2020. It reported that: 78% of Reservists were satisfied with life in their Service, 94% were proud to serve, and 87% would recommend joining. These levels were unchanged compared with the 2015 baseline. However, they were somewhat higher than the levels seen in the Regulars (45%, 75% and 50% for each question respectively). Most Volunteer Reserves (81%) agreed that they were fairly treated at work. This was higher than the proportion seen in the Regulars (73%). However, Volunteer Reserves from a BAME background were less likely to agree that they were treated fairly at work and were more likely to report being subject to bullying discrimination, or harassment in a Service environment. Although a similar proportion of male and female Reserves agreed that they were treated fairly, female Reserves were more likely to report being subject to bullying, discrimination, or harassment in a Service environment.

Our comments

- 2.108 On our virtual visit to a Reserve unit we met both PTVR personnel and the unit's FTRS supporting staff. The majority of the people that we spoke with were PTVR and they told us that they were concerned that they were not being used to their best effect. There was a sense of dissatisfaction generally with the point made that a key motivating factor was to feel that they were doing something worthwhile and that added value.
- 2.109 We also heard of concerns about discrepancies between Reserve and Regular service and complaints about the lack of parity with Regulars in both pay and access to allowances. We observe that there has been no movement on the subject of the annual pay divisor used for Reserves' pay (a daily rate of 1/365th versus 1/220th which is more common in the civilian world). We recognise that this is an issue for Volunteer Reserves. We suggest that MOD needs to find a holistic approach to resolve the pay anomalies between Regular and Reserve personnel as it develops plans for a more cohesive 'Whole Force'. We will follow with interest the development of policy for the better integration of Reserves, including the way that MOD takes forward the recommendations from the Reserve Forces Review 2030⁵⁰.

⁴⁸ FR20 includes Volunteer Reserves who are mobilised, High Readiness Reserves and Volunteer Reserves serving on Full Time Reserve Service and Additional Duties Commitments. Sponsored Reserves who provide a more cost-effective solution than Volunteer Reserves are also included in the Army Reserve FR20. Non-Regular Permanent Staff, Expeditionary Forces Institute and University Officer Cadets and Regular Reserves are excluded.

⁴⁹ MOD *Tri-service reserves continuous attitude survey 2020* (online) Available at: <https://www.gov.uk/government/statistics/tri-service-reserves-continuous-attitude-survey-2020> [Accessed 01 July 2021].

⁵⁰ MOD *Reserves Forces Review 2030 12 May 2021* (online) Available at: <https://www.gov.uk/government/publications/reserve-forces-review-2030> [Accessed 06 July 2021].

Chapter 3

PAY AND ALLOWANCES

Introduction

- 3.1 This chapter sets out our recommendation on the award of a £250 pay increase to those earning £24,000 and below in the armed forces and a recommendation on the payment of RRP (Diving). It also includes commentary on the other pay-related evidence and information presented to us as part of this round. We report on a Financial Retention Incentive (FRI) that we endorsed outside our usual round. Finally, we note the cost of our pay recommendation.
- 3.2 As discussed in Chapter 2, the range of evidence presented to us by MOD has been limited to that considered relevant within the constraints of the public sector ‘pay pause’. We had expected in this round to undertake reviews of RRP (Parachute Jump Instructor) and the Mine Counter Measures Environmental Allowance and to consider evidence on remuneration for the cyber cadre. These papers have been deferred by MOD and we expect to see evidence on these subjects as part of next year’s round.
- 3.3 In the remit letter to initiate the round⁵¹, the Secretary of State for Defence set out the government’s rationale for a temporary pause to pay awards for most of the public sector and we were told that this pause would apply to all members of the armed forces. We were advised, therefore, that MOD would not be seeking recommendations from us on pay uplifts for the armed forces, but that MOD would provide details on how it proposed to implement the Chancellor’s announcement of a £250 pay uplift for those earning £24,000 and below. The Secretary of State invited us to provide views on MOD’s proposed approach and we do so in this chapter.
- 3.4 The remit letter (dated 2 March 2021) asked us to submit our Report during May 2021. After receipt of the remit letter, there were significant delays in the provision of evidence from MOD with most of it not received until early May. We regret that there has been a delay in the process this year. **We invite MOD to endeavour to deliver a remit letter and evidence to us to enable next year’s round to be completed to a more conventional timetable and, specifically, to allow personnel to receive any pay award on time.**

MOD proposal for a pay award for those earning £24,000 or below

- 3.5 MOD set out a proposal to implement the government’s intention that those earning £24,000 and below should be awarded a £250 pay uplift. This proposal, which MOD said mirrored the approach taken during the pay freeze in 2011 and 2012, calculated the threshold for payment as basic pay inclusive of X-Factor. MOD told us that some 35,600 personnel would be in scope for a pay increase at a cost of around £16 million.
- 3.6 In setting out its detailed proposals, MOD indicated that it had taken steps to ensure that:
- boundary issues, such as leapfrogging, arising between different Trade Supplements around the OR2-4 increment level were avoided; and,
 - intrinsic deliverability issues arising from different levels of X-Factor applying to the base pay values were mitigated.

⁵¹ See Appendix 3.

- 3.7 Under the proposal, the differential between Trade Supplement 1 and 2 at the OR2-4 increment level would erode to £16.20 and MOD told us that it planned to remedy this during the planned review of early years' pay in next year's pay round.

Comment and recommendation

- 3.8 We were asked in the remit letter to set out our view on MOD's proposed approach and we note that in providing written evidence, MOD asked us to recommend a preferred option to implement the government's central policy of providing a consolidated uplift of £250 for those earning £24,000 and below. We note that the remit letter was clear that the 'pay pause' would not apply to incremental progression.
- 3.9 We considered the MOD proposal at length. We concluded that we do not agree with the MOD proposal and believe base pay should be exclusive of X-Factor. The reasons for this are discussed below and broadly fall into two categories:
- misuse of X-Factor; and
 - the integrity of the pay structure.

Misuse of X-Factor

- 3.10 As discussed later in this chapter, X-Factor is 'a pensionable addition to pay that recognises the special conditions of service experienced by members of the armed forces compared with civilian employment'. We understand this to mean that base pay is pay excluding X-Factor. We have argued in our approach to the NLW, that we do not expect MOD to include the value of X-Factor as part of any such calculation⁵². In general employment, premium payments and allowances (e.g. for anti-social hours) are not included in an employee's basic pay figure and we believe we should be consistent with this ethos in ignoring X-Factor for minimum wage considerations and in the application of the £24,000 earnings threshold for this year's £250 increase. By excluding the X-Factor we also believe this will ensure a consistent approach with other public services who have excluded allowances and calculated eligibility to receive the £250 uplift on basic pay only⁵³.
- 3.11 We understand that the intention of the £250 being awarded to low earners in the public sector is designed to ensure that base pay for this group is not eroded by inflation and that the rationale for a small increase to the pay of the lowest paid public sector earners is about maintaining minimum levels of income. Indeed, in its evidence to us, HM Treasury indicated that the policy was about ensuring that the lowest paid across the public sector would be protected, with those earning less than a £24,000 basic wage in scope of a pay increase. X-Factor has never been seen as a subsidy to base income: its purpose is completely different and therefore, if it is not a basic earnings subsidy, it should not be used to offset an increase in base pay.
- 3.12 X-Factor is important to our remit group as it compensates for the balance of advantages and disadvantages in Service life and reflects the service and commitment that they make to the nation. To include X-Factor in the way proposed by MOD undermines the rationale for its payment and potentially sends unhelpful messages about the value placed on Service personnel. In our view, Service personnel would be justified in feeling aggrieved if the lowest paid did not access the minimum payment being offered across all other public sector employees simply because of their X-Factor.

⁵² See, for example, 49th Report, paragraphs 3.29 and 3.30.

⁵³ See, for example, Civil Service Pay Remit Guidance 2021/22, section 2.1 (online) Available at <https://www.gov.uk/government/publications/civil-service-pay-remit-guidance-2021-22/civil-service-pay-remit-guidance-2021-22> [Accessed 01 July 2021] and remit letter to the Chair of the School Teachers' Review Body (online) Available at: <https://www.gov.uk/government/publications/school-teachers-review-body-strb-remit-letter-for-2021> [Accessed 01 July 2021].

The integrity of the pay structure

- 3.13 The MOD proposal would break what we see as a fundamental link between the pay of Regular and Reserve personnel. We assess that this would be inconsistent with other strategic intentions to deliver a 'Whole Force'.

Our conclusion and recommendation

- 3.14 We note MOD's statement about the way that pay was assessed in the pay freeze that affected the pay awards in 2011 and 2012. However, arguments and situations evolve, and we believe that we would be creating an unhelpful precedent by agreeing to a proposal that includes X-Factor as part of the calculation of base pay. We have set out the reasons why we believe that it is important to maintain the integrity of the pay structure. We also suggest to MOD that the status of X-Factor is considered in the planned independent review of remuneration and that MOD uses X-Factor in a way that is consistent with its rationale and definition.
- 3.15 We noted the reasons why the government had imposed a 'pay pause'. Given the Defence Secretary's direction to us in our remit letter and MOD's Strategic Management paper of evidence, we considered whether we should assess alternative implementation processes to the one shared with us for the award of a £250 pay increase for the lowest earners in our remit group. We concluded that we should.
- 3.16 We asked MOD to provide us with data on the number of personnel who would be in scope for a pay increase and the cost, if the pay baseline for determining eligibility for a pay increase was base pay excluding X-Factor. Based on this information we have developed a proposal that excludes X-Factor in assessment of the £24,000 threshold. We calculate that around 43,800 personnel would be in scope for a pay increase at a cost of some £22.4 million⁵⁴. Compared to MOD's proposal that included X-Factor in determination of the £24,000 threshold, this is an increase of 8,200 personnel and a cost increase of £6.5 million. We believe that this is a better proposal as it:
- uses base pay, which is a figure excluding X-Factor and therefore reinforces the rationale behind the payment of X-Factor;
 - gives the lowest paid within our remit group the full benefit of the £250 pay award; and
 - maintains the integrity of the pay structure and the relationship between Regular and Reserve pay (and therefore should be easier for MOD to deliver).
- 3.17 In discussing our proposal, we considered issues of leapfrogging given that this was an issue that MOD told us it had addressed in developing its own proposal. Although in our proposal the pay gap between those in receipt of a pay increase and those not in receipt would narrow, our modelling indicated that there would be no instances of pay being overtaken between Trade Supplement ranges. In fact, the greatest narrowing of the gap would be between Supplement 3 and Supplement 4 for OR2-6 where it would be reduced to just over £60. We also assessed that there would be no unintended consequences when looking at increment levels with the smallest gap here now being slightly under £1,000 (OR3-1 to OR3-2 on Supplement 1).
- 3.18 In conclusion, we have been asked to set out a preferred option to implement the government's policy of providing a consolidated uplift of £250 for those Service personnel earning £24,000 or below. **We recommend that the calculation for the threshold payment should exclude X-Factor.**

⁵⁴ This includes employer costs, i.e. Employers' National Insurance Contribution (ERNIC) and Superannuation Contributions Adjusted for Past Experience (SCAPE).

Recommendation 1: We recommend that rates of base pay for those earning £24,000 or below, with the threshold for payment calculated as base pay excluding X-Factor, be increased by £250 from 1 April 2021.

Pay development and the review of Pay 16

- 3.19 This year's pay round coincided with the quinquennial review of Pay 16. MOD provided us with an information note to update us on the steps taken by MOD to develop and refine the pay model to ensure its continued relevance and effectiveness.
- 3.20 MOD told us that it had developed a range of initiatives as part of this review. MOD stated that one of these provided for extended increment levels to allow additional incremental progression to be considered where promotion opportunities were limited. We note the intention to develop options for the cyber cadre but that from 1 April 2021, Other Ranks personnel would be paid from Trade Supplement 4. We were also told that there would be initiatives to streamline the Pay 16 Model, to develop policies to encourage greater use of lateral entry, to facilitate higher starting pay and to support accelerated advancement for key cohorts. MOD also advised that it was examining options for increased PPO delegation to enable increased flexibility and agility. We will watch these developments with interest, not least the first, which appears to be about enabling access to higher rates of pay, without being promoted. This relates to key points we discuss further in Chapter 6 about the challenge of delivering reward for skill in a rank-based pay structure.
- 3.21 Specifically, MOD told us that it had reviewed the Trade Supplement Placement (TSP) for 134 Trades, which represented most of the Other Ranks within the armed forces. MOD explained to us that this review facilitated further refinement and reprofiling of the TSP using job evaluation and management discretion, with the new supplementary construct agreed at Principal Personnel Officer level for implementation from April 2021. It was conducted taking account of Delivery Pinch Points and Sustainability Pinch Points⁵⁵, with a focus upon how reward could be utilised to address defence priorities. MOD told us that the outcome of the TSP review had generated a small reapportionment of Other Ranks trade placements and that the movements had been based on evidence from job evaluation and that the changes mainly reflected an increase in skills within the diverse but reducing workforce. We note these changes.
- 3.22 MOD told us that further development of the Pay 16 Model was planned through successive pay rounds to better target reward, increase agility and focus upon skills and experience whilst also addressing enduring recruitment and retention issues. MOD set out its plans for a focus upon rewards for key career cohorts and set out a proposed multi-year approach that would cover the early years, intermediate and executive career cohorts in a programme of work expected to be complete by Pay Round 26.
- 3.23 We note the range of pay development work and look forward to seeing the results of the initiatives in place and the proposed reviews in future pay rounds. We would welcome early clarification from MOD on the extent to which any of these initiatives might be consolidated into the independent review of remuneration. **We also invite MOD to clarify its position on the NLW before commencing work on early years' pay.**

⁵⁵ These new terms are defined in Chapter 2 paragraph 2.53.

Review of the components of X-Factor

- 3.24 X-Factor is a pensionable addition to pay that recognises the special conditions of service experienced by members of the armed forces compared with civilian employment. It accounts for a range of potential advantages and disadvantages which cannot be evaluated when assessing pay comparability. X-Factor is not intended to compensate for specific circumstances that Service personnel face at any one time; rather it reflects the broad balance of advantages and disadvantages averaged out across a whole career.
- 3.25 We reassess the value of X-Factor every five years. X-Factor takes account of a range of components but is not linked to mechanistic formulae. The last assessment was concluded in 2018, when the value of X-Factor was maintained at 14.5%. The next review is planned to conclude in 2023. To support this X-Factor review, in 2019 Incomes Data Research (IDR) was commissioned to undertake a review of the components of X-Factor to assess their suitability for making comparisons between modern Service and civilian life.
- 3.26 IDR was asked to critically review each of the 13 existing components, considering the views of Review Body members and other key stakeholders, including evidence from our visits programme, and to recommend a revised set of components to form the basis for future comparisons of key aspects of military and civilian employment. This also included identifying suitable, credible, and available data for the next review of the X-Factor value.
- 3.27 Based on the IDR research, we recommend that the X-Factor should comprise of 12 components, reduced from 13. Except for 'travel to work', we conclude that the components, with some minor changes to the definitions, remain valid.
- 3.28 The main changes to the definitions that we will take forward are:
- Spousal/partner employment: the addition of conditions that may exacerbate the difficulties.
 - Danger: now explicitly states physical and mental health; the removal of who the danger applies to and the force that may be used by personnel to mitigate this. The resulting definition now covers a wider range of the possible effects of danger.
 - Individual, trade union and collective rights: the removal that Officers have no automatic right to resign their commission.
 - Separation: addition of recognising that this may include being unable to electronically communicate with loved ones.
 - Stress, personal relationships, and impact of the job: removal that this may lead to divorce/curtailing of relationships. This is now encompassed in a broader statement which acknowledges the impact on various relationships.
- 3.29 We recommend the removal of the 'travel to work' component because it is covered by the Home to Duty Travel (HDT) allowance.
- 3.30 For the next review, X-Factor will comprise the following components. Full details of the new definitions are given in Appendix 2.
- i. Autonomy, management control and flexibility
 - ii. Danger to physical and mental health
 - iii. Hours of work
 - iv. Individual, trade union and collective rights
 - v. Job security
 - vi. Leave

- vii. Promotion and early responsibility
- viii. Separation
- ix. Spousal/partner employment
- x. Stress, personal relationships, and impact of the job
- xi. Turbulence
- xii. Training, education, adventure training and personal development

X-Factor points of principle

- 3.31 The review also provided some broader points of principle for when we next consider the level of X-Factor.
- X-Factor components should continue to cover both positive and negative aspects of military life. At the time X-Factor was introduced in 1970, the special conditions of military life (as compared to normal civilian employment) were deemed to include both disadvantages and advantages. The level of X-Factor was set to compensate for the overall net disadvantage.
 - Reviews of the level of X-Factor are based on an assessment of the net change in military life compared to civilian life, across all components.
 - X-Factor should reflect the general experience of armed forces personnel over a career.
 - Components should be measurable, where possible.
 - In cases where there is limited or inconclusive data, a qualitative judgment will need to be taken on any change.
- 3.32 In addition to these points made in the review, it is our position that X-Factor should not overlap with other allowances paid for specific circumstances, such as Longer Separation Allowance (LSA), and should not be considered as part of base pay.

Future work

- 3.33 The next review of the percentage rate of X-Factor is scheduled for 2023. The X-Factor taper was not part of the commissioned review of X-Factor components but will form part of our 2023 review.
- 3.34 In the 2022 pay round, we will commission research to investigate the differential impact of the components on Service personnel and the civilian workforce to inform this review. **We also expect MOD to submit an information note responding to the review of the X-Factor components and any evidence to support the review of the X-Factor taper.**

Pension matters

- 3.35 MOD told us that the Armed Forces' Pension Scheme (AFPS) remained a significant retention tool and was one of the best pension schemes available in the public sector. In response to the McCloud Judgement⁵⁶, the government announced that a Deferred Choice Underpin (DCU) would be used to remedy the identified age discrimination in public sector pension schemes. This meant that 'in scope' members would be given a choice, at the point of retirement, of which pension scheme benefits they would prefer

⁵⁶ In December 2018, the Court of Appeal found that transitional protection arrangements, which allowed older members of the judicial and firefighters pension schemes to remain in their existing schemes after the introduction of reformed pension schemes in 2015, gave rise to unlawful discrimination. In July 2019, the government confirmed that it accepted the Court's judgment had implications for the other public service schemes that had similar transitional arrangements.

to take for the period of their service between 1 April 2015 to 31 March 2022. Public consultation identified this as the preferred approach. MOD indicated that this measure would take time to deliver as the necessary policies and legislation were developed and IT changes implemented. MOD told us that personnel would be supported through benefits statements and online tools to enable them to make an informed choice at the appropriate time and that a comprehensive communications strategy was in place to ensure that personnel were engaged, informed, and educated.

- 3.36 Separately, on the issue of pensions taxation, MOD explained that the Chancellor's March 2020 Budget Statement confirmed that the tapered element of the Annual Allowance (AA) for both the threshold and adjusted income limits would rise to £200,000 and £240,000 respectively from tax year 2020/21, and that this change was expected to reduce the tax impact on those affected by the pension taxation.
- 3.37 MOD advised that COVID-19 had a significant impact on the pension administrator's ability to issue all Pensions Savings Statements (PSS) on time. This meant that personnel had less time to determine whether they had a tax charge to pay, and this was of particular concern for some who were receiving a PSS for the first time. MOD also confirmed that it had provided pension taxation seminars to Service personnel who had received a PSS and that those who attracted a tax charge had been able to attend a one-to-one session with a tax specialist to work through their various payment options.
- 3.38 While pensions do not fall within our Terms of Reference, on our visits this year, we heard that pension taxation issues remain a cause of considerable and growing concern for the Officers in our remit group and some longer-serving non-commissioned Officers. While we believe that the pension is a critical retention tool, we have also heard that for some the tax arrangements provided a disincentive for promotion. We ask MOD to keep us informed about developments in this area.

Defence Aircrew Remuneration Review

- 3.39 MOD provided us with an information note that set out its plans for a Defence Aircrew Remuneration Review (DARR). MOD told us that it was the intention that this review would replace two Tri-Service Quinquennial Reviews (that for RRP (Flying) and the Professional Aviator Pay Spine) planned for next year's pay round. MOD advised us that, informed by several drivers for change, a different approach to aircrew remuneration was required. MOD told us that it aimed to set in place an enduring aircrew remuneration package with a solution that, among other things, was affordable, provided value for money, focused on retention, recognised aircrew skills, experience and their criticality to defence capability, and demonstrated the value placed on aircrew by Defence. MOD told us that the DERR would provide the model for this work. We welcome MOD's intentions to deliver a long-term solution to aircrew remuneration and look forward to receiving evidence on DARR for our next Report.

Recruitment and Retention Payments

- 3.40 RRPs are paid at MOD's discretion, subject to our endorsement, to address recruitment or retention issues for specific groups in the armed forces. The three bases for the payment of RRPs are: Continuous Career Basis (CCB); Non-Continuous Basis (NCB); and Completion of Task Basis (CTB).
- CCB is paid where the specialism is fundamental to the core role of the individual and will remain so for the duration of their career, providing they remain qualified for the relevant RRP. CCB attracts Reserve Banding (RB)⁵⁷.

⁵⁷ RB payments are explained at paragraph 3.47.

- NCB is paid where the specialism is a secondary skill for the individual but is a core task within the unit in which the qualifying post has been established. Individuals move in and out of the unit/post in question and, providing they are qualified, while in a qualifying post they receive RRP.
- CTB is paid where the specialism is a secondary skill for the individual, and is an occasional task undertaken in support of the unit within whose role the use of the specialism is required. Individuals will be paid an RRP only for those days for which they are undertaking RRP duties.

- 3.41 In 2019-20, there were 18 categories of RRPs⁵⁸, which cost approximately £125 million. Around 20,011 Service personnel were paid some form of RRP.
- 3.42 With the exception of RRP (Diving), we were not invited to review any specific forms of RRP this year.
- 3.43 MOD told us that all RRPs were included within the public sector 'pay pause' and we make no recommendation in this regard. We note also that a factor driving the requirement for an RRP is the workforce strength versus liability. MOD indicated that it expected VO rates to fall in the short-term as a consequence of COVID-19 and retention rates to improve.
- 3.44 In its discussion of RRPs, MOD argued that there would always be a requirement to pay extra for certain unique and in-demand skill sets and that it would be challenging to attract people into certain roles, including submarine service, because of the arduous operating environment. In last year's Report we said that we would welcome MOD's analysis of all RRPs so that they could be appropriately re-categorised in order to move away from the description of payments as being for 'recruitment and retention'. We also suggested that MOD should give serious consideration to the creation or amendment of bespoke pay spines that integrate the current skill category wide RRPs for such groups where RRPs are effectively structural components of pay such as Special Forces, submariners, and pilots⁵⁹. In response to this, MOD told us that it was looking at a range of options for certain forms of RRPs. As discussed elsewhere in this Report, we hope that MOD's planned independent review of remuneration will provide the opportunity for such a holistic review.
- 3.45 We have long commented adversely on the policy of RRPs being completely removed upon a Service person submitting their notice to terminate. In this year's evidence, MOD indicated that, should there be a move away from the current structure of RRPs, any new payments might be structured so there would be no loss of pay on early termination. We will watch with interest to see how this translates into revised arrangements.

RRP (Diving)

- 3.46 Following the last periodic review of RRP (Diving) in 2018, the Army undertook to update us on the outcome of its Diving Capability Review. It was anticipated that this review would result in an appraisal of the size and shape of the Army's diving capability and the way that RRP (Diving) might support this. MOD told us that other issues had prevented the Army from redesigning its capability in the way expected and, at the time of submitting evidence, further work was ongoing. However, we were told that the Army had concluded that RRP (Diving) could be delivered in a more targeted way.
- 3.47 We were informed that the Army had a diving requirement of 303 against a strength of 208 (a shortfall of some 31%) and that the VO rate among trained divers was 2.2% against an overall Army VO rate of 6.1%. MOD explained that for a combination of

⁵⁸ RRP(SM) includes two supplements – RRP Sub Supplement and Engineer Officers Supplement.

⁵⁹ 49th Report, paragraph 3.41.

reasons there had been a disruption to initial diver training and this reduced training throughput had led to a reduction of some 80 newly qualified personnel. Nevertheless, MOD assessed that, despite the apparent gulf that it reported to us between the requirement and trained diver numbers, the cohort of divers was however, sufficient and consequently that remunerative solutions alone were not the way to address the shortfall. MOD shared anecdotal evidence that suggested that diving was a popular specialisation and that, in the short-to-medium term, MOD expected that all diving courses would be well subscribed.

- 3.48 MOD explained that Army divers are paid RRP (Diving) on a CCB which means that trained and in-date personnel received the RRP at the full rate while they remain in an RRP flagged post. Upon movement to a non-RRP flagged post, personnel are paid an RB payment at the full RRP rate for two years followed by 50% of the RRP rate in the third year, so long as the individual meets the eligibility criteria of the RRP.
- 3.49 MOD advised that the continued payment of RRP (Diving) was required to incentivise volunteers to take on the additional duty of serving in an Army dive team and the associated extra commitment and demands; and that the provision of RRP (Diving) underpinned the ability of the Army to deliver the mandated diving capability.
- 3.50 MOD told us that it had reviewed the remuneration options for diving against affordability considerations and that it recommended that RRP (Diving) be paid on an NCB basis to Army divers. MOD indicated that diving in the Army was considered an additional duty over and above core trade and role, with divers drawn from the Royal Engineers or Royal Logistic Corps. The policy intention for RRP to be paid on a CCB basis applied to those for whom the role was a core task (as it is for Royal Navy personnel). MOD told us that, given the high number of personnel in receipt of RB payments, there were indicators that a move to NCB payment would result in dive teams being at full strength. MOD said that it was hoped that this option would encourage trained divers to spend a greater proportion of their career as active members of a dive team as an additional duty over and above their core trade and role.
- 3.51 MOD calculated that the removal of RB payments (which cost around £533,000 in 2019/20) would provide a limited saving but noted that this could be offset by an increased number of people earning the RRP. MOD nevertheless argued that this option would provide better value for money because individuals would only be entitled to the payment when delivering the capability. MOD said that if this change were to be implemented, it proposed a year's transitional period so that those already on an RB when the change was announced (expected to coincide with the publication of this Report) would retain the RB under existing conditions for the year.
- 3.52 **Having reviewed the evidence, we recommend that, for the Army only, RRP (Diving) is paid on an NCB from the date of publication of this Report. We consider it important that there is no back-dating of any changes.** We observe that the effectiveness of this measure will depend on the ability of Army career managers to allow diving qualified personnel to remain in diving related appointments. In agreeing to this change, we support in principle a move to entitlement for an RRP when an individual is undertaking the role and observe that there is potential inconsistency across professions in the treatment of RRP. **We invite MOD to consider whether there is scope to move other RRP from payment on a CCB to NCB.**

Recommendation 2: We recommend that (from the date of the publication of this Report), for the Army only, RRP (Diving) is paid on a Non-Continuous Basis.

Volunteer Reserves Training Bounty

- 3.53 In last year's Report we noted that the Volunteer Reserves TB remained a valued part of the Reservist remunerative offer in recognising the annual commitment to training of PTVRs. We had expected to see a paper of evidence in this year's round that would build on the strategic review of the Reserves being undertaken during 2020. We had thought that this would present an opportunity to consider the TB within the wider context of the Reserves and their remuneration.
- 3.54 MOD provided us with an information note for this year's round and told us that there were several wide-ranging reviews, including the Reserve Forces Review 2030, into the structure, utility and terms and conditions of service of the Reserve Force. We were told that these reviews would consider the wider elements of Reserves' remuneration, including the TB, and that we would be provided with a paper of evidence for next year's pay round that would include discussion on the future of the TB. **We look forward to receiving evidence on the TB for our next Report.**

Longer Separation Allowance

- 3.55 Last year we considered MOD's review of LSA and recommended the introduction of LSA (Cumulative) and LSA (High Readiness)⁶⁰. We were pleased that the government accepted this recommendation. MOD informed us that it had not been possible to progress work on the proposed LSA (Cumulative) initiative because of a lack of recorded data on separated service due to the COVID-19 pandemic. MOD told us that it was still considering the introduction of a form of LSA for high levels of cumulative separation and for when Service personnel were held at high readiness for prolonged periods. We are concerned at the lack of progress, especially given the connection between separation and voluntary outflow and urge MOD to press ahead with this work.

Rates of compensatory allowances

- 3.56 We have not been asked to review any compensatory allowances for this pay round and, in line with the 'pay pause', have not been asked to recommend an increase in rates.

Financial incentives considered outside our usual timetable

- 3.57 In June 2020, we were asked to consider a proposal for the introduction of an FRI to address an acute shortage of Royal Marine personnel. We were told that this shortage impacted on delivery of operational capability. We were invited to agree the introduction of a graduated FRI for all OR2-4 Regular Royal Marines at the four-and-a-half-year length of service point (LoS) in return for a return of service (RoS). We were told that the intention was that the FRI would be available in a one-year window at a maximum cost of £9,104,000, assuming a 100% take-up. MOD proposed that the FRI value/RoS would be:
- £10,000 for 24-month RoS;
 - £15,000 for 36-month RoS; and
 - £20,000 for 48-month RoS.
- 3.58 We were content to endorse the proposal as a necessary short-term measure to address retention. We suggested to MOD that there would be benefit in a more fundamental examination of the overall pay structure and the need for FRIs.

⁶⁰ 49th Report, Recommendation 9.

Cost of pay recommendation

3.59 The cost of our recommendation to uplift the pay of those earning £24,000 and below by £250 is set out in Table 3.1. Revised recommended rates of pay are shown in Appendix 1. This appendix only includes tables where there is a recommended change in a rate of pay.

Table 3.1: Cost of pay recommendation⁶¹.

	X-Factor rate	Uplift	Number of personnel	Cost (£ millions)
Full (14.5%)		£286	43,200	12.37
Limited (5%)		£263	500	0.13
Zero (0%)		£250	70	0.02
Subtotal				12.52
ERNIC				1.73
SCAPE				8.20
Total				22.44

⁶¹ Recommendations from 1 April 2021. Components may not sum to the total due to rounding.

Chapter 4

DEFENCE MEDICAL SERVICES

Introduction

4.1 This chapter sets out the evidence we received for MODOs working within Defence Medical Services (DMS) and a discussion of broader issues relating to DMS.

Our evidence base

4.2 We considered evidence from a range of sources including:

- the government's response to the recommendations of the Doctors' and Dentists' Review Body (DDRB) on NHS doctors' and dentists' pay in its 2020 Report;
- MOD's written evidence on MODOs and an Information Note on Allied Health Professionals (AHPs);
- written evidence from the BMA and BDA; and
- oral evidence from DMS and from the BMA and BDA Armed Forces' Committees.

4.3 We acknowledge that the COVID-19 health emergency has had a considerable impact on DMS personnel and on the progress of the workforce reforms highlighted to us during the 2020 pay round. Given the circumstances of this year's round, the evidence we received was more limited than normal. We did not receive an expected paper of evidence on pay for AHPs although, as indicated above, we were provided with an information note. MOD told us that the DMS Continuous Attitude Survey was not conducted in 2020 because of various factors relating to COVID-19. We did not meet any groups of medical personnel during our virtual visit programme.

NHS developments

4.4 We keep up to date with developments in the NHS relevant to the groups covered by DMS.

4.5 We noted the government's response to last year's recommendations from the DDRB applicable to personnel in the NHS. The government⁶²:

- accepted the recommendation for a uniform 2.8% uplift in pay across the whole of the DDRB remit group except for those already in multi-year deals. This included uplifting the value of the General Medical Practitioner (GMP) trainers' grant, the GMP appraisers' grant and the minimum and maximum of the pay range for salaried GMPs;
- accepted the recommendation to freeze the value of national and local clinical excellence awards (CEAs), commitment awards, distinction awards and discretionary points;
- said that for salaried GMPs it was left to individual practices to determine how they distributed pay to their employees. Employers were given flexibility to offer enhanced terms and conditions; for example, to aid recruitment and retention;

⁶² Hansard *Doctors and Dentists Remuneration Body: Government Response 21 July 2020* (online) Available at: <https://hansard.parliament.uk/commons/2020-07-21/debates/20072154000023/DoctorsAndDentistsRemunerationBodyGovernmentResponse> [Accessed 01 July 2021].

- noted the DDRB's comments on the need for improved recognition and career development for specialty doctors and associate specialists (SAS doctors). It said that negotiations on a multi-year pay agreement, incorporating contract reform, for this group of doctors was progressing with the hope of reaching agreement in time for the next pay year;
- acknowledged the DDRB's comments on CEAs and its reasons for not recommending an increase in their value. The government said that it would progress plans to reform these awards with a view to introducing new arrangements from 2022; and
- agreed, for General Dental Practitioners (GDPs), a 2.8% general uplift in the pay element of their contract backdated to April 2020. The government acknowledged the DDRB's comments on the lack of progress on the dental contract reform and explained that NHS England and the Department of Health and Social Care (DHSC) needed to be confident that the prototype contract, which has been tested, had proven that it had the ability to maintain or increase access, improve oral health, and was affordable for the NHS while also being sustainable for dental practices, before it took decisions on wider national implementation.

4.6 We also noted the government's response to the Report of the NHS Pay Review Body (NHSPRB), which stated that this was the third and final year of the three-year Agenda for Change pay and contract reform deal, and that the NHSPRB did not make any pay recommendations for 2020/21⁶³. As we remarked last year, the Agenda for Change deal included a 6.5% cumulative increase over the three-year period to the value of the top point of each pay band for Bands 2 to 8c; variable increases for other Agenda for Change staff of between 9% and 29% will be delivered through pay progression, changes to starting salaries and/or restructuring pay bands.

Defence Medical Services overview

4.7 During this year's round we received updates on several cross-cutting issues affecting DMS and discuss these below.

- We have been told that all DMS personnel had been involved in the national response to the COVID-19 pandemic. We know that many DMS personnel were already embedded into the NHS, working alongside their civilian counterparts. We understand that many deployed to a range of additional roles, including to assist in the establishment of the Nightingale hospitals, as part of the armed forces' response to the COVID-19 pandemic. We were told during oral evidence that DMS is an organisation with outstanding people, who have done a phenomenal job during very trying times, with very little recognition.
- We reviewed the Care Quality Commission (CQC) inspection programme of Defence Medical Services, Annual Report for Year 3 (2019/20)⁶⁴. We noted that the report identified several risks around DMS staffing levels and infrastructure. In oral evidence, DMS indicated that many of the facilities had been improved and we were encouraged by the plans to transform and rationalise medical centres into better facilities.
- DMS told us in oral evidence that the organisation was going through a transformation programme which would, through an ambitious people plan, deliver changes to the workforce. We were informed that this plan included

⁶³ Government Response to the 33rd Report of the NHS Pay Review Body (online) Available at: <https://questions-statements.parliament.uk/written-statements/detail/2020-07-21/HCWS409> [Accessed 01 July 2021].

⁶⁴ CQC Defence Medical Services CQC Inspection Programme Annual Report (online) Available at: <https://www.cqc.org.uk/publications/major-report/Defence-medical-services-cqc-inspection-programme-annual-report> [Accessed 01 July 2021].

diversity, inclusion, engagement, and empowerment to build the workforce for the future and the leadership capacity required. We will watch these developments with interest, noting also that the BMA highlighted a deteriorating recruitment and retention picture that it said put at risk the delivery of a high level of service.

- In the paper of evidence on MODO pay, MOD stated that, in line with a drive across Defence to increase the diversity of its military and civilian workforce, DMS had created a central Diversity and Inclusion team with the Director of Medical Personnel and Training appointed as diversity champion. MOD told us that in recent years there had been a change in the proportion of males and females, and that females represented 30% of the Service MODO cohort. We were told also that ethnic minority representation in the MODO cohort was 9%. We welcome the work that has been initiated to address diversity, but observe that there is still a considerable way to go, and we will continue to monitor the data.
- When discussing morale and motivation, MOD told us that COVID-19 had provided a particularly challenging context for all armed forces' health professionals, especially those working alongside their NHS counterparts to provide treatment for patients during the pandemic. This contributed to the decision to cancel the DMS Continuous Attitude Survey for 2020. In its evidence to us, the BMA indicated that there were several factors contributing to low morale and motivation including pay, pensions, opportunities for career progression, and frustration with information technology and administration. We look forward to being able to review data on morale and motivation for next year's pay round.

Unified Career Management Medical programme

- 4.8 In its evidence to us, MOD said that the Unified Career Management Medical (UCM Med) programme was paused in March 2020 for five months due to the re-prioritising of staff within DMS in response to the COVID-19 pandemic. MOD explained that the UCM Med programme aimed to enable better cross-Service working and that it would provide for central management of DMS personnel to enable key defence medical outputs to be met more effectively and efficiently. MOD also explained that UCM Med would promote retention through harmonisation of terms and conditions of service and broadening of opportunities.
- 4.9 We note that UCM Med could be a key development for DMS and has the potential to deliver significant improvements for individuals and for Defence, especially if DMS is required to match the government's ambition, as set out in the outcome of the Integrated Review, for a more persistent global presence. However, we suggest that if more Tri-Service working is to become the norm, with personnel working in various locations and on various platforms (for example if RAF doctors are to be deployed at sea), then it will be important to communicate this so that individuals know what might be expected of them.

Nurses

- 4.10 During last year's pay round, we were told that the Nurse Placement Strategy aimed to improve stability for individuals and allow military nurses to compete for senior banded positions within the NHS and that this would help to address key retention issues. MOD reported that as part of its Defence Nursing Change Programme, a new career structure for nurses was being explored. We welcomed these developments, not least as we assessed that this would potentially address the concerns that we had heard about parity with NHS personnel on access to career opportunities. **We invite MOD to update us on developments in these workstreams in next year's evidence.**

Allied Health Professionals

- 4.11 Staff within the AHP grouping include: pharmacists; physiotherapists; biomedical scientists; operating departmental practitioners; radiographers; pharmacy technicians; paramedics; environmental health officers and environmental health technicians; psychologists; dental nurses; dental hygienists; healthcare assistants; Royal Navy medical assistants; Army combat medical technicians; and RAF medics.
- 4.12 We expected to receive a full paper of evidence in respect of AHPs. MOD told us that the work to reform pay and career management for AHPs was halted due to the requirement for DMS to provide comprehensive support to the national and international health emergency arising from COVID-19. Furthermore, MOD said that most of the proposals to improve the lived experience of AHP staff hinged upon the UCM Med programme, which, as explained above, was delayed.
- 4.13 MOD reported that AHPs are a disparate group, with different career structures depending on Service, cadre, and engagement type. MOD advised us that many AHPs had direct comparators in the NHS. Consequently, individuals could leave the armed forces and easily secure employment elsewhere. MOD highlighted issues with pay comparability, promotion opportunities, commitments to operations, work-life balance, and restricted variety. MOD indicated that it was anticipated that many of these issues would be addressed by the UCM Med Programme. MOD said that it was hoped that next year's paper of evidence would examine the options for future remuneration to better recruit, retain, and improve the morale and motivation of AHPs.
- 4.14 **We look forward to receiving a paper of evidence on AHPs for next year's pay round and remind MOD that in last year's Report we suggested that MOD should contact the various professional bodies representing AHP cadres in good time to seek their advice and support for this work.**

Medical Officers and Dental Officers

Pay comparators

- 4.15 Further to the discussion in last year's Report about appropriate pay comparators for MODOs, our secretariat, supported by MOD, has commissioned research to identify appropriate NHS benchmarks for different MODO roles, with a particular focus on GMPs and GDPs.
- 4.16 In their evidence to us, the BMA and BDA made representations to us about what they consider to be the comparator groups. However, we note that they welcomed the launch of the pay comparability research, and we are grateful for their support in this work.
- 4.17 This research is being undertaken by IDR, an independent pay data and research company. As part of this, the IDR team has undertaken interviews with senior leaders within the DMS and a small representative sample of GMPs and GDPs as well as doctors and dentists working in the NHS. This research will be of value in understanding the similarities and differences between MODO and NHS roles and we look forward to reviewing the findings of this work as part of next year's pay round. The outcome of this work will be the starting point for a separate strand of research to look into comparisons between the armed forces' and NHS pension schemes.

Pay for Medical Officers and Dental Officers

- 4.18 In its evidence to us, MOD reported there should be no increase to basic pay on any of the MODO pay spines (for those earning more than £24,000) in accordance with the government's direction on public sector pay⁶⁵. In its paper of evidence on MODO pay, MOD made it clear that it was not looking for us to make a separate recommendation for this cadre. MOD acknowledged that there might be dissatisfaction among DMS personnel who had been working alongside their NHS counterparts throughout the COVID-19 pandemic. MOD also told us that most MOD civilian healthcare professionals employed on NHS terms of service would receive a pay rise in line with any made for the NHS. MOD highlighted that both medical and non-medical Service personnel have provided significant support to the NHS during the response to the COVID-19 pandemic and that it remained committed to the 'all of one company' approach and that pay for MODOs should continue to be aligned to that for the armed forces as a whole.
- 4.19 In its evidence to us the BMA argued that there had been a real-term decline in DMS doctors' pay over the last 14 years and proposed a pay award that mirrored the Retail Price Index (RPI) and included a mechanism to address the real-term pay cuts. The BDA called for a 2021 pay award of no less than 2.5% for all Dental Officers. In a supplementary letter to their evidence, the BMA and BDA told us that, like their NHS colleagues, the burden of COVID-19 had fallen equally on many doctors and dentists within the DMS and that they believed that contributions of MODOs throughout the pandemic should be recognised in the same way as their NHS counterparts. The BMA and BDA said that they thought that failure to recognise the efforts of DMS doctors and dentists in the fight against COVID-19, while their NHS colleagues were rewarded for the same efforts, could further exacerbate the current recruitment, retention and motivational issues facing the DMS. The BMA and BDA asked us to develop equivalent pay recommendations for MODOs. When we asked BMA for a view on MOD's 'all of one company' approach and the importance of aligning MODO pay to that of the armed forces, the BMA said that it thought that all the armed forces should be treated consistently and that, given its recommendation for a pay award for MODOs, all armed forces' personnel should be in scope for a pay award.
- 4.20 The BMA also repeated its call, made in evidence in previous years, for the daily pay of Reservists to be calculated using the divisor of 220 rather than 365. As discussed in Chapter 2, this is an issue that affects all Reservists and needs to be considered as part of a wider consideration of Reserves' remuneration.
- 4.21 We note the argument of the BMA and BDA regarding the alignment of the DMS pay award this year with that of colleagues in the NHS. As we were not asked to make a pay recommendation for MODOs, we have not developed a separate proposal for this group. We are conscious that there are civilian doctors working alongside Service MODOs who will be in scope for a pay rise as part of any award to NHS personnel. However, we note that both MOD and BMA support an 'all of one company' approach. We agree that it is right that MODOs are treated alongside other members of our remit group given the contribution of so many across Defence to the national COVID-19 response. Therefore, for 2020-21, we concur that pay for MODOs should continue to be in line with the recommendation for our main remit group as discussed in Chapter 3.

Pensions and the annual allowance

- 4.22 We have noted in previous reports the concerns of MODOs about the negative impact of pension taxation. MOD highlighted to us that in the Budget on 11 March 2020 the Chancellor announced an increase of £90,000 to both the threshold income level and the adjusted income level for the triggering of the taper, whilst reducing the minimum

⁶⁵ As discussed in Chapter 3.

tapered annual allowance. MOD told us that for the majority of MODOs this reform was welcome news and would mean that they would be unaffected by the taper and hence pay less tax.

- 4.23 MOD did, nevertheless, indicate that a small cohort of MODOs would be negatively affected by these changes; principally those who had received retention bonuses in tax year 2020/21 and who had no 'carry forward' unused allowance from the previous three years. MOD indicated that most MODOs would continue to be impacted by the annual allowance rules and told us that it would continue to monitor whether this had any effect on the rates of VO among the affected cohort.
- 4.24 We welcome this update from MOD and note that while there have been some changes in pension taxation, the issue is potentially still one of concern to MODOs. **We invite MOD to share any relevant outflow data with us for next year's Report.**
- 4.25 The BMA and BDA both raised another issue in relation to pension taxation, and one which they had flagged to us last year. They claimed that doctors and dentists working in the NHS had been given flexibilities for dealing with pension taxation and called upon the government to ensure that members of the armed forces had access to the same flexibility as they perceived was enjoyed by their civilian counterparts. The BMA and BDA argued that failure to deliver comparability would be a breach of the Armed Forces Covenant and should be labelled as such. We do not consider this issue to fall within our remit and so offer no comment.

Trainer pay

- 4.26 MOD said the levels of GMP trainer pay, associate trainer pay and GDP trainer pay were closely aligned to the value of the NHS GMP trainers' grant. While MOD told us that was important for this link to be maintained, given the unique circumstances of this pay round, MOD stated that there should be a pause in uplift to GMP and GDP trainer pay. We note this approach.

Clinical Excellence Awards

- 4.27 MOD said its CEA Scheme closely mirrored DHSC's National CEA Scheme. In last year's Report, we asked to be kept informed on progress towards achieving a reduction in the number of CEAs so that military CEAs mirrored the proportion of NHS CEAs⁶⁶. MOD indicated that the scheme was suspended for new entrants due to COVID-19 and that those due to renew in 2020 had been granted an automatic 12-month extension. In oral evidence we were told that DMS aimed to reduce the number of CEAs by two awards each year. **We understand the challenges faced this year and invite MOD to keep us informed on progress towards a reduction in the proportion of CEAs.**
- 4.28 The BMA expressed disappointment that our recommendations last year did not include an increase for CEAs and legacy Distinction Awards and told us that this year the awards should be uplifted in line with the main pay award. MOD recommended to us that the value of MOD CEAs should be paused in line with the DDRB's decision not to recommend an increase to CEAs for consultants in England and Wales in 2020. We note this approach.

⁶⁶ See AFPRB Forty-Ninth Report 2020 paragraph 4.29.

Chapter 5

ACCOMMODATION AND FOOD CHARGES

Introduction

- 5.1 Under our Terms of Reference, we are required to recommend charges for Service personnel. Historically, this has included charges for accommodation and garage/carport rent, and the Daily Food Charge (DFC).
- 5.2 Access to subsidised accommodation remains a vital part of the overall offer to Service personnel and their families. It is important that the levels of charge are set fairly for the different types and condition of accommodation, and that the properties are effectively serviced and maintained.
- 5.3 Our recommendations follow a summary of the evidence we considered this year. Although our visit programme this year was virtual it allowed us to gain some insight into issues regarding Service accommodation.

Service Family Accommodation

- 5.4 MOD controls around 58,000 SFA properties worldwide, 49,568 of which are in the UK. Most UK homes (38,319, all in England and Wales) are leased from Annington Homes Ltd, with the remainder MOD owned, Private Finance Initiative funded or sourced from the open market (including an additional 346 Substitute SFA on average). In 2019-20, £123 million was spent on the SFA upgrade programme, compared to £116 million in the previous year. The focus was to increase energy efficiency of the estate, thus improving thermal comfort for occupants whilst reducing fuel bills, lowering the carbon footprint for MOD and contributing to government targets for energy efficiency. The funding for the upgrade programme in financial year 2020/21 was anticipated to remain at this increased level to allow for energy efficiency work to continue. MOD told us that it continued to allocate SFA in the UK that meets at least the government's Decent Home Standard (DHS), at the point of occupation.
- 5.5 Since April 2016, SFA has been graded by the Combined Accommodation Assessment System (CAAS). Under CAAS, charges are based on assessment of three factors: condition (measured against the DHS); scale (size according to entitlement); and location. We remain supportive of the intent and the overall design of CAAS, particularly the principles of independent evaluation and use of the DHS. Service accommodation should be charged fairly, maintaining a significant subsidy, recognising the disadvantages faced by Service personnel compared with their civilian equivalents. For example, Service personnel and their families are regularly required to move at short notice.
- 5.6 MOD told us that due to the age of housing stock and limited past investment there was a £800 million backlog of life cycle expired assets and infrastructure. It said that this continued to be addressed by focussed funding through application of a Facilities Condition Model to ensure the most operationally important and badly degraded assets were replaced first. Nevertheless, echoing last year's evidence, MOD reported that the backlog of life cycle expired assets would continue to increase driving facility degradation and that a sustained increase in funding was needed to meet the cost of maintaining the housing stock and replacement of assets. MOD said that without this increase in funding, this would negatively affect the lived experience of the families it supports.

- 5.7 We were told that the CAAS transitional arrangements were still in place. These are intended to protect Service personnel from sharp increases in rental charges. Under the CAAS transition arrangements, those paying a higher charge under the previous Four Tier Grading (4TG) system than their confirmed CAAS charge saw an immediate reduction to the new level in April 2016. Those whose CAAS charge was higher than their 4TG charge started the move towards the correct CAAS level in April 2016, moving to the first CAAS band above their existing 4TG rate. MOD confirmed that these transitional arrangements would continue, with affected properties moving up another CAAS banding level each year in April, until the correct level for charge was reached. These transitional arrangements apply only for those Service personnel that have remained within a property: any move to a different property would result in the full CAAS charge being applied immediately. MOD told us that the transition arrangements that protect Service personnel from sharp increases meant that around 52% of SFA increased one CAAS band on 1 April 2019 and 35% on 1 April 2020.
- 5.8 MOD updated us with its forecast of CAAS receipts. It suggested that by 2024-25, the total revenue increase from the 2016 baseline was expected to be £28.8 million.
- 5.9 MOD updated us on the challenge and appeals system. When compared to last year, the number of challenges about CAAS bandings had reduced from 6.46% to 5.16% (assessed against the total number of move-ins) and the number of appeals reduced from 1.18% to 0.94%.
- 5.10 Issues raised during our virtual visits programme in relation to SFA included:
- the lack of speed with which maintenance matters were addressed, including hot water, power, and heating;
 - the ongoing disparity in the way that accommodation charges are levied based on marital status; and
 - a general unhappiness with increases in accommodation charges for those in poor accommodation.
- 5.11 We will continue to take account of the duty of care, lived experience and human impact of SFA allocation when formulating our recommendations.
- 5.12 In 1996, MOD sold the 999-year lease of its SFA to Annington Homes Ltd, immediately taking back a 200-year lease from Annington Homes Ltd. The main purpose of the deal was to transfer ownership of the bulk of the SFA estate to the private sector; including to secure funds for upgrading work and improve the management of the estate. MOD currently benefits from a 58% reduction in the market rent that Annington Homes Ltd charges for these homes. In their report on improving the standards of Single Living Accommodation⁶⁷, the Public Accounts Committee (PAC) noted that the current discount arrangement was due to end in 2025. MOD told the PAC that they had differing views to Annington Homes Ltd regarding a fair and reasonable level of discount and as a result, the matter was subject to formal arbitration. The PAC report noted that MOD agreed that the sums of money at stake are potentially very significant and could, depending on the result of the arbitration, put significant additional pressures on the MOD budget.
- 5.13 MOD referred to the metrics used for measuring satisfaction with SFA. DIO's 2019-20 Satisfaction Survey showed an increase in the rolling 12-month average in overall satisfaction level from 64% to 67%. Satisfaction in two areas remained especially low: 'the way contractors deal with repairs and maintenance' and 'listens to views and acts upon them'. MOD said that despite evidence of more consistent, above Performance

⁶⁷ Public Accounts Committee *Improving Single Living Accommodation for Service Personnel 15 April 2021* (online) Available at: <https://committees.parliament.uk/work/1004/mod-improving-single-living-accommodation-for-service-personnel/publications/> [Accessed 06 July 2021]

Indicator (PI) response on repair performance, and positive feedback from stakeholders, this had yet to manifest itself in increasing satisfaction levels. MOD said it believed that poor customer perception is at its root, as opposed to a direct experience of dealing with Amey⁶⁸. The 2020 AFCAS showed increases in the scores for the response to maintenance/repair (37%, up from 33% in 2019) and the quality of maintenance/repair (31%, up from 30% in 2019). There was no change in the scores for the overall standard and value for money (51% and 60% respectively). The Tri-Service Families Continuous Attitude Survey for 2020 recorded a slight decrease since 2019 in the satisfaction score with the overall standard of SFA (56% from 57%), an increase in the satisfaction score for value for money with SFA (68% from 67%), a four percentage point decrease since 2019 in the satisfaction scores for the response to maintenance/repair (37%) and a three percentage point decrease in the quality of maintenance/repair (33%).

- 5.14 MOD stated that it believed that its review of the accommodation complaints system had provided greater clarity and guidance on the scope of the process, including the powers of redress available at each stage, timelines for submissions and responses, and how each stage of the process is assured. Stage 1 complaints reduced by 5% from April 2019 to March 2020, with a corresponding minor positive impact on the overall complaint rate. Stage 2 complaints fell to the lowest rate since the start of the contract, which was linked to the significant reduction in Stage 1 complaints. There were 13 Stage 3 complaints in the year to March 2020, compared to 12 the previous year. We will continue to monitor the data on complaints as we view this as an important part of the evidence base when considering our recommendations on rental increases.
- 5.15 MOD also told us that the SFA compensation scheme, established in 2017 and administered by DIO, continued to operate effectively and was well established. The compensation scheme for occupants of SFA provides financial compensation, in the form of widely accepted vouchers, in two areas – missed appointments and significant problems at move-in. Between April 2019 and March 2020, 2,056 claims had been paid out, valued at over £73,770; the vast majority were related to missed appointments.

Our recommendations on Service Family Accommodation rental charges

- 5.16 After considering all the evidence set out above, we need to make recommendations for charging levels from 1 April 2021.
- 5.17 MOD told us that SFA continued to be heavily subsidised compared to equivalent properties charged at private rents. It said that the subsidy ranges from 57% to 61% for Other Ranks, and 43% to 59% for Officers at CAAS Band A. When compared to CAAS Band C (which MOD said most Service personnel would pay once transition was complete), the subsidy ranged from 65% to 68% for Other Ranks, and from 54% to 66% for Officers. MOD reported that based on the continuing improvements to the provision of SFA and to maintain the level of subsidy between charges for military personnel and those in the civilian sector, there should be an uplift in Band A charges backdated to April 2021 in line with the ‘actual rentals for housing’ component⁶⁹ of the CPI.
- 5.18 Under CAAS, the rental charge⁷⁰ for furniture is separated out from the accommodation charge (meaning all SFA is let unfurnished) and there is one level of furnished or part-furnished charge for each type of SFA. MOD said that furniture charges should continue to remain at the 4TG Grade 4 SFA furniture charge, uplifted from 1 April 2021 in line with the ‘actual rentals for housing’ component of CPI.

⁶⁸ Amey – The contractor responsible for the National Housing Prime contract for SFA and Regional Prime Maintenance contracts for SLA.

⁶⁹ Note that in previous reports, this was referred to as the ‘private rent’ component.

⁷⁰ The rental charge is calculated as the difference between furnished and unfurnished.

- 5.19 In our view, it is important to maintain the level of subsidy between rents for military personnel and those in the civilian sector. To deliver that outcome, we base our accommodation rental charge recommendations on the ‘actual rentals for housing’ component of the CPI. We are pleased that the government has previously supported this approach.
- 5.20 To inform our recommendations, we have traditionally used the annual November inflation figure. The CPI ‘actual rentals for housing’ component annual percentage increase for November 2020 was 1.7%⁷¹. We have carefully considered the impact that this year’s ‘pay pause’ has had on Service personnel, and how this should inform our recommendations.
- 5.21 **We recommend an increase to CAAS Band A rental charges of 1.7%.** This recommendation will affect the rents of lower bands, as their levels are in descending steps of 10% of the Band A rate. This increase will apply to the rental charge for both furnished and unfurnished properties⁷².
- 5.22 **We also recommend that the legacy Four Tier Grading charges for SFA in Germany should be uplifted in line with the ‘actual rentals for housing’ component of the CPI, 1.7%.**
- 5.23 Considering the public sector ‘pay pause’ as well as significant delays in the round, **we recommend that these increases should not be subject to any backdating.**
- 5.24 **We recommend that Grade 4 SFA furniture charges are retained but uplifted by 1.7% in line with the ‘actual rentals for housing’ component of the CPI but that these charges should not be subject to any backdating.** This increase will apply to the rental charge for both furnished and unfurnished properties.

Recommendation 3: We recommend that SFA CAAS Band A charges be increased by 1.7%, but that this increase should not be subject to any backdating.

Recommendation 4: We recommend that the 4TG SFA charges in Germany be increased by 1.7%, but that this increase should not be subject to any backdating.

Recommendation 5: We recommend that Grade 4 SFA furniture charges are retained but uplifted by 1.7%, but that this increase should not be subject to any backdating.

Single Living Accommodation

- 5.25 MOD informed us that SLA Management Information System project (SLAMIS) has now entered Phase 2. In their paper of evidence this year, MOD told us that the project scope for financial year 2020/21 would enable Development of the Preferred Option (SLA booking/allocation capability); provision of single source of accurate information regarding SLA assets; a Defence-wide record of SLA 4TG, SLA occupancy and utilisation, and an assessment of current SLA allocation overseas. MOD told us that it was planned that full implementation of SLAMIS would take place across Top Level Budgets (TLBs) during financial year 2021/22.
- 5.26 MOD informed us that it continued to report against MOD’s 2012 audit, but that more accurate data were continually being captured through the SLAMIS project which recommenced in April 2019. Data from Project SLAMIS suggested that there were

⁷¹ ONS (2020) *Consumer price inflation tables* (online) Available at: <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation> [Accessed 02 July 2021].

⁷² Those in furnished properties pay an additional charge under CAAS which was set on transition at the furniture charge for a Grade 4 property of the same type under 4TG.

around 136,000 MOD owned SLA bed-spaces, 125,000 of which were in the UK. At February 2020, 75,613 personnel occupied SLA; an additional average of 3,737 per month occupied Substitute Service Single Accommodation or were on-board ships or submarines. MOD said that the 4TG system had undergone a comprehensive review resulting in changes to the assessment methodology to ensure a more accurate reflection of the condition of the SLA on which to base charges. However, Facilities Condition Management data was not available for 7% of UK SLA blocks.

- 5.27 SLA was a common theme raised during our visit programme. Among the issues raised by Service personnel were the lack of cooking facilities; the additional charges levied for Wi-Fi provision; lack of heating and hot water; the inequity of the married/non-married SLA provision rules and the lack of sound-proofing and air-conditioning for those who had to work nights.
- 5.28 As part of this year's evidence, we also read the National Audit Office (NAO) report⁷³ on improving single living accommodation. The NAO concluded in this report, that SLA has not been a priority for MOD, and that there had been no clear strategy, limited investment in buildings and a 'fix on fail' approach to maintenance. Whilst some of the findings in the report were worrying, we were not surprised by them as over the years we have urged MOD to improve their standard of SLA provision and maintenance, particularly relating to the issues that have been described to us during our visits programme.

Our recommendation on Single Living Accommodation rental charges

- 5.29 MOD argued that whilst SLA does not have a direct civilian comparator, its provision was subject to the same cost growth as other accommodation and it said that many other forms of accommodation, such as student accommodation, had seen above inflation cost increases. It said that to ensure fairness with other Service personnel, there should be parity with SFA 'on overall increased revenue however, incrementally divided based on accommodation quality'. It therefore proposed that there should be a tiered/ graduated uplift to SLA charges from 1 April 2021, broadly in line with the 'actual rentals for housing' component of the CPI, with the smallest increase applied to the lowest standard accommodation.
- 5.30 In considering our recommendation for SLA, we have taken account of our long-term view that there are serious problems with some of the estate, which we consider unfit for purpose. We hope that, in any consideration of terms of service, the independent review of remuneration will address this matter.
- 5.31 **We recommend that there should be a tiered/graduated uplift to SLA charges (in line with the usual tiering framework) and that SLA charges for Grade 1 accommodation should be increased by 1.7%, with smaller graduated increases for Grade 2 and Grade 3 SLA⁷⁴ and no increase to the rental charge for Grade 4.**
- 5.32 **Considering the public sector 'pay pause' as well as significant delays in the round, we recommend that these increases should not be subject to any backdating.**

Recommendation 6: We recommend that Single Living Accommodation rental charges for Grade 1 be increased by 1.7%, with increases of 1.13% for Grade 2, 0.57% for Grade 3 and no increase for Grade 4, but that these increases should not be subject to any backdating.

⁷³ National Audit Office *Improving Single Living Accommodation* (online) Available at: <https://www.nao.org.uk/report/improving-single-living-accommodation/> [Accessed 01 July 2021].

⁷⁴ These are two-thirds of 1.7% and one-third of 1.7% respectively.

Other charges

- 5.33 We are also responsible for recommending garage rent. To maintain consistency with other accommodation charges, **we recommend that charges for standard garages and carports should be increased in line with the increase in the 'actual rentals for housing' component of CPI in the year to November 2020, with no increase for substandard garages and substandard carports. We also recommend that this increase should not be subject to any backdating.**

Recommendation 7: We recommend that the annual charges for standard garages and standard carports be increased by 1.7%, with no increase to charges for substandard garages and substandard carports, but that this increase should not be subject to any backdating.

Other accommodation matters

Forces Help to Buy

- 5.34 In the last pay round, MOD announced that the Forces Help to Buy (FHTB) scheme, launched in April 2014, had been extended until 31 December 2022. MOD recognised that many Service personnel sought stability for their families, and a key part of this was helping them to buy a home of their own. AFCAS data indicated that there had been a 17% increase in home ownership by Other Ranks since the launch of FHTB, a reversal of declining home ownership prevalent before that point. MOD stated in their paper of evidence this year that since the scheme began 46,405 First Stage FHTB applications had been received. Payments had been made to around 21,000 applicants, totalling around £317 million, an average of approximately £15,100 per claim. We encourage MOD to make FHTB a permanent scheme.

Future Accommodation Model

- 5.35 MOD updated us on the Future Accommodation Model (FAM) initiative. MOD said that FAM has been well received by Service personnel in the three pilot sites: Her Majesty's Naval Base Clyde, Aldershot Garrison and RAF Wittering. MOD said that the FAM Central Team continued to be aware of the requirement for a robust evidence base to inform policy and pilot development.
- 5.36 During our virtual visit programme (which included Aldershot Garrison and RAF Wittering), we received plenty of comments about FAM. Issues raised included: concerns that FAM cannot apply to those who had already bought a home; the requirement to serve four years before being eligible for FAM; concerns that more money seemed to be available to those wanting to rent rather than choosing to buy a home; issues with storage of furniture of Service personnel who move station and are put into furnished accommodation.

Cohabitation

- 5.37 MOD reported that from 1 February 2020, the requirement for Service personnel wishing to cohabit to have four years' length of service had been removed, although the four years' service criterion remained for those Service personnel located within the three FAM pilot sites. MOD told us that the cohabitation policy was reviewed three months after implementation and that changes were made to the evidence requirements for joint parents. The intention was to make it easier for Service personnel who were parents with their partner of joint children to qualify for cohabitation by providing a birth certificate or proof of adoption showing the names of both parents. **We welcome this development in policy, but we call for further progress to be made to end the current discrimination on grounds of marital status.**

Overseas living

- 5.38 MOD informed us that from 1 July 2021, following a three-year review, a new methodology for calculating Local Overseas Allowance (LOA) for the armed forces would be introduced. We were told that this methodology would mean that recipients would experience a change in their daily rate, however, MOD said that it would provide Service personnel, and (where applicable) their families, with a more accurate contribution to the additional costs incurred when serving overseas. MOD advised us that the most significant change would be that LOA would be paid at a single band, irrespective of rank, so that all Service personnel permanently assigned to an overseas location would receive the same daily rate. Whilst LOA falls outside of our remit, we are concerned that an adjustment made to the LOA will have a negative impact on morale for any personnel who experiences a reduction and **invite MOD to provide an update on the scale of any winners and losers from this new arrangement.**
- 5.39 During one of our virtual visits, we heard concerns from Service personnel regarding MOD's overseas 'offer', particularly the administrative processes of moving overseas. Some of the comments included: being left 'out of pocket' financially, disruption to families, the amount available (in terms of money and packing space) for those moving location and that this varied according to personal status. We were also told that there was a lack of clear guidance on what the overseas 'offer' is. MOD told us that LOA was designed to compensate for any increase in the cost of living overseas compared to the UK and that would help to resolve some of the issues highlighted to us during the visit. **We continue to monitor this and look forward to hearing about the improvements during next year's round.** We note however that LOA addresses the daily cost of living, as opposed to the cost of moving overseas which is reflected, in part, by the Disturbance Allowance but not to the satisfaction of Service personnel.

Future Defence Infrastructure Services

- 5.40 MOD told us about the new FDIS programme which will provide the framework for future delivery of Facilities Management (FM) across the defence estate, including Hard FM requirements, housing occupancy management and maintenance services. MOD informed us that this programme is worth £1.6 billion. The principal change in the contracting model is the replacement of a single National Housing Prime (NHP) contract with a National Accommodation Management contract and four Regional Accommodation Maintenance contracts. FDIS has identified specific areas where improvements can be introduced in FM service delivery including increased customer flexibility for specifying services and service levels; options for including planned preventative maintenance; the lifecycle replacement of assets as a core service; and increased responsiveness of suppliers to undertake additional work services to deliver customer requirements.
- 5.41 Given the importance of FDIS and our concern about accommodation, we will be interested to see how the transition to the new arrangements delivers improvements. **We invite MOD to share with us information about the Key Performance Indicators set in respect of maintenance of Service accommodation and hope that these will be sufficiently challenging and specific so that personnel in Service accommodation will start to notice significant improvements in their living environment.**

Daily Food Charge

- 5.42 Evidence for setting the DFC is based on actual food cost data for some 785 products that support a menu cycle developed in conjunction with the Institute of Naval Medicine that maintains a nutritional and calorific balance in line with Public Health England standards. Core meal prices are derived from the DFC: breakfast 25%; main meal 41%; and third meal 34%. On a quarterly basis, MOD examines the cost of ingredients for the

menu cycle: if the cost of those ingredients changes by 2% or more, then the DFC is adjusted in-year: this could be an increase or a decrease. The price component threshold of the DFC (since April 2020) of £5.45 was indeed breached in the quarter of data for October to December 2020, so we were advised that a new DFC of £5.61 was implemented in February 2021.

- 5.43 Comments received during our last visit programme in relation to food included: poor quality; lack of choice in the menu; the commercial nature of food provision; the high cost of fresh, healthy food. As our visit programme was virtual this year, we were not able to sample food as we have done in previous years.
- 5.44 From the comments this year and our sampling last year, we expect the caterers to provide higher quality meals. We also recognise that in many locations there has been a low uptake of meals. We assess that an improvement in quality could result in an increase in the uptake of the core meal. MOD should continue to provide us with annual evidence that reports on the changes to the DFC. **It would be helpful to know whether MOD is taking action to address the low uptake of food and we would also like to remind MOD that they have promised to make regular reports to us about the quality of food. We have not received any such reports since 2018.**

Chapter 6

LOOKING AHEAD

- 6.1 In this chapter, we look ahead to issues that we think will form an important backdrop to our future deliberations.

Strategic issues

- 6.2 As discussed in Chapter 1, in March 2021, the government published the outcome of its Integrated Review of Security, Defence and Foreign Policy. The subsequent Defence Command Paper, *Defence in a Competitive Age*, described the contribution of Defence to the Integrated Review. We were informed that this second paper set out how Defence would deliver against the multi-year settlement it received in 2020 and how it would transform the armed forces to meet the threats of the future. This publication reinforced our observation last year that the character of warfare is changing with an increasing reliance on new technologies.
- 6.3 Our focus in considering the outcome of the multi-year financial settlement is to understand the impact on our remit group and how this will facilitate delivery of the strategic intent. Looking forward, we will be interested to see how it will relate to Defence's ability to invest in personnel and personnel-related initiatives. We observe that if Defence wants to enable a transformed and optimised workforce, with the skills needed to deliver some new and complex capabilities, it will need to make an attractive offer to recruit and retain these people. We will also be interested in what this might mean for longer-term investment in the accommodation estate and how MOD will manage what we see as a major financial risk from the ongoing arbitration in respect of the lease of SFA to Annington Homes Ltd.
- 6.4 In his foreword to *Defence in a Competitive Age* the Secretary of State for Defence stated that 'diplomacy is underwritten by the credibility of the UK armed forces and they will be more integrated, active and agile, capable of both deterring threats and defeating enemies'. The Secretary of State went on to say that 'the notion of war and peace as binary states has given way to a continuum of conflict, requiring us to prepare our forces for more persistent global engagement and constant campaigning, moving seamlessly from operating to war fighting'. It is clear to us that there is an expectation within government that the armed forces will become more persistently deployed around the world. We will be interested to see what this change will mean for Service personnel, particularly on separation and how this might affect Service families. We will also be interested to understand the implications of these changes for the provision and delivery of Service accommodation.
- 6.5 We were pleased to see the recognition given to the importance of people in the delivery of Defence capability with the reference to 'people, who are truly our finest asset'. As MOD implements the Integrated Review, we look forward to hearing how the Services will recruit and retain the personnel with the skills necessary to deliver the new capabilities. We will, as ever, seek to assist MOD to meet this challenge through our recommendations.
- 6.6 In *Defence in a Competitive Age* MOD announced it would reflect on the increasingly specialised nature of many of the armed forces' roles and that it would place skills at the heart of how it organised and rewarded its workforce. MOD said that this would mean transforming career structures, introducing new ways of recruiting talent, and breaking down barriers to movement between the military, the civil service and industry. Critically for us, MOD announced that it would be commissioning a comprehensive and independent review of how military personnel are paid and rewarded. MOD informed us

that this review would be led by an expert with a proven track record of managing global talent, and that this would guide the efforts of Defence to develop a modern, holistic, through life approach to the military offer.

- 6.7 We are grateful to MOD for consulting us about the Terms of Reference for this review of remuneration. At the time of finalising this Report we are awaiting clarification as to how MOD wishes us to engage with the review. We stand ready to assist and, indeed, want to be engaged at all stages of the review. We feel that we could have been invited to make more of a contribution in the development of Pay 16 and would be troubled if the outcomes of this review were presented to us as a *fait accompli*. We have told MOD that we would appreciate clarity as to how the review will relate to our planned programme of work in the next and subsequent pay rounds.
- 6.8 It is clear to us that this independent review will be ambitious in both scope and timeframe with the potential to recommend fundamental changes to the pay structure. We understand that this independent review will take a holistic approach and encourage MOD to use it as an opportunity to address many of the long-standing issues that we have commented on in this and previous reports. We hope that the review will address issues which, in our view, present serious structural difficulties to the establishment of TACOS fit for the future. The ambitions set out for the independent review suggest that a root and branch reform of personnel strategy and practice is required to enable a more agile and adaptive capability for the future. We hope that the review will look at the following:
- The capacity and ability of the individual Services to develop specific solutions at pace in response to changing technology requirements, market pressures and Service needs including by allowing a greater degree of delegation.
 - The recognition that particular career skills and experience require bespoke pay structures to reflect both the competition from external markets and the substantial training investment required to fulfil these roles such as pilots, cyber, submariners and Special Forces.
 - The need to reduce the overall complexity and scale of allowances and that these should be based on an assessment of future requirements rather than historic precedent.
 - The IT systems needed to deliver change at pace.
 - The cohesive and consistent alignment of Regular and Reserve TACOS to provide a basis for the better delivery of the 'Whole Force' concept.
 - The entitlement to X-Factor, and its application to different occupational groups.
 - The discriminatory entitlement differences arising from personal status used in current TACOS⁷⁵.
 - The ability to vary IP to reflect skills and experience, as well as lateral entry opportunities.
 - The balance between length of service, experience and individual promotion potential providing a more dynamic career structure.
- 6.9 We hope that this will assist the independent review and look forward to discussion on these issues.

⁷⁵ The personal status categories are defined in Joint Service Publication 752, Chapter 2, Section 2, see: <https://www.gov.uk/government/publications/jsp-752-tri-service-regulations-for-expenses-and-allowances> [accessed 13 July 2021]. This section opens with the statement that in order to determine eligibility for expenses, allowances and service accommodation (including any liability for charges) and to ensure that the relevant regulations are properly applied, all Service personnel are to declare their Personal Status Category (paragraph 02.0201).

- 6.10 During the round we heard about wide-ranging single Service plans for transformation. We observe that, taken together with pan-defence programmes (including the new independent review of remuneration and the Reserve Forces Review 2030), there are many initiatives and reviews underway which have the potential to overlap and possibly conflict. If this is the case, we would be concerned about short-term stagnation if MOD needed to resolve any inconsistencies. We note that our Terms of Reference require us to have regard to the ability of the armed forces to recruit, retain and motivate suitably able and qualified personnel. We encourage MOD to ensure that these various initiatives do not combine to create a period of uncertainty or lead to a lack of momentum.
- 6.11 We note the development of the Unified Career Management programme and how this is designed to facilitate cross-Service working for certain specialist groups. We understand that the programme intends to deliver benefits for Defence by delivering skills more efficiently, while at the same time providing opportunities and supporting individual career aspirations. We welcome its development. We will be interested to observe how MOD addresses the practical challenges of applying this more broadly outside of specialist areas.
- 6.12 Persistent and long-standing skills shortages remain a major concern given the competitive labour market and the challenge of recruiting people with specific skills. In last year's Report⁷⁶ we commented that MOD's success in dealing with workforce shortages in traditional areas of operations, as measured by its pinch point indicators, had been poor. We continue to be concerned that fulfilling the future skill requirements of cyber, artificial intelligence, space and robotics will be a major challenge unless MOD changes its traditional approach to TACOS. We observe that there is an intrinsic tension if the workforce is both reliant on people with specialist skills and intends, at the same time, to be agile. We will be interested to see how MOD's independent review addresses these issues.
- 6.13 Reserve Forces are seen as an increasingly important part of the overall workforce. We note with interest the publication of the Reserve Forces Review 2030 and that one of the intentions of the review was to look at skills and how Reserve Forces can provide capability. Despite the mantra of a 'Whole Force approach' we have noted that there appear to be some points of tension between Regular and Reserve personnel with many of the latter sensing that they are seen as a subsidiary partner. This is often reinforced by inconsistencies in entitlements between Regular and Reserve personnel. Whatever the intentions of the Reserve Forces Review 2030, it will ultimately be for MOD to decide how it wants to use the skills on offer. The way that it decides to do this will be critical if it is to maintain a motivated workforce.

Pay

- 6.14 We are aware that irrespective of the impact of MOD's planned independent review on our programme of work, the scope of our work in next year's pay round will be dictated by the government's decisions on public sector pay policy. We noted the reasoning behind the government's decision to impose a 'pay pause' and that the government has been specific in the use of this term. We will wait to see what will happen for next year's round, but we hope that 'pause' is an accurate term and that we will be invited to make more wide-ranging recommendations in next year's round. We assess that a further pay pause, or more extensive pay freeze, would not be helpful if MOD is to develop pay to support workforce transformation and a reward package which is attractive for recruitment and retention, and addresses competition within the labour market.

⁷⁶ AFPRB 49th Report, Paragraph 6.3.

- 6.15 We anticipate that our next Report will incorporate recommendations on pay, allowances and accommodation charges. We will continue to monitor workforce levels and other measures that have been introduced to counter specific workload and skill issues within the armed forces. We await confirmation from MOD as to any detailed reviews that it would like us to undertake as part of next year's pay round.
- 6.16 We will watch with interest how this year's recommendations, and the 'pay pause', is received by our remit group. We will observe the way that MOD communicates our recommendations and the way in which pay is presented as being part of a wider offer. From our visits we observe that Service personnel do not always understand the value of the broader package on offer, including accommodation, education and training, and the non-contributory pension. We encourage MOD and the single Services to work to improve awareness of this.
- 6.17 We will continue to monitor earnings in the wider economy, an essential part of evidence given the requirement within our Terms of Reference to have regard to the need for the pay of the armed forces to be broadly comparable with pay levels in civilian life. We will pay close attention to the ongoing impact of the COVID-19 pandemic on all economic indicators. We will also continue to monitor the emerging trend of employers paying younger workers the NLW instead of an age-related NMW, and the impact that this might have on military recruitment. We also note that many employers recognise the significance of the campaign to promote the Living Wage. This will be particularly relevant for next year's pay round as we understand that MOD plans to invite us to examine early years' pay.
- 6.18 In Chapter 3 we discuss our plans to review X-Factor and note that during the next pay round we will gather evidence to inform our recommendations on the rate of X-Factor in the subsequent pay round. Our work will include a review of the X-Factor taper which applies to Officers at OF5 and above. We will co-ordinate any action with the Senior Salaries Review Body given their interest in the X-Factor taper and the application of this to senior military Officers.
- 6.19 During our visits we heard recurring comments from personnel who recognised the challenge of rewarding for skills, and to a lesser extent experience, in a rank-based pay structure. We note that the relationship between skills, experience, responsibility and ability is complicated. We also recognise that pay for rank has been the mechanism by which the Services have traditionally rewarded these attributes. The Services need to find ways to reward skills in traditional areas such as engineering and aircrew. We welcome MOD's plans for a review of aircrew remuneration, the DARR (see Chapter 3). However, MOD also needs to find ways to make an attractive offer in areas where it is competing for new niche skills and where it is especially important to get the person with the right skills and abilities for the job. We will watch with interest to see how these themes are developed in the independent review of remuneration.
- 6.20 Building on the comments that we made in last year's Report⁷⁷, we were aware that MOD had planned to deliver a paper to us on a pay solution for the Defence Cyber Cadre. If it is determined that a new pay spine is required, it would mean that there would be an additional group with bespoke pay arrangements. If MOD decides to develop a different reward package for this group, we urge it to be imaginative in its approach and to take the opportunity to create a flexible and responsive pay mechanism and to move away from the framework of RRP's.

⁷⁷ AFPRB 49th Report, Paragraph 6.7.

Accommodation

- 6.21 Accommodation is an important part of the overall offer to Service personnel and their families. In Chapter 5 we discuss the Service accommodation estate and observe that investment is needed to bring the accommodation estate up to 21st century standards. In particular, our views on the poor condition of parts of the SLA estate are well recorded, and we will continue to watch for investment and improvements. We also note the announcement of the first phase of the FDIS programme. Given the importance of FDIS and our concern about accommodation, we wish to see how the transition to the new contractual arrangements delivers improvements.
- 6.22 We are concerned that there are several strategic issues that could influence the provision of Service accommodation. We suggest that it may be difficult for MOD to plan and deliver policies which facilitate personal choice and responsibility (FAM, FHTB) against a need to make plans for investment in, and maintenance of, a large and dispersed accommodation estate. We will be interested in how the requirement for a more agile and deployable force plays out in the planning and provision of accommodation for Service personnel and Service families.

Our remit group

- 6.23 As ever, the state of motivation and morale will continue to be an important part of our evidence base. Our usual approach to measuring motivation and morale includes examining the results of the annual AFCAS and considering the views of those we meet during our visit programme. At the time of writing, we are optimistic that some in-person visits will be possible to enable us to meet members of our remit group, and their families, as part of next year's pay round. However, AFCAS will continue to be an important source of data for us. We encourage all those who receive AFCAS to complete it. We will use AFCAS to help us to assess the impact of this year's pay outcome on the morale and motivation of Service personnel.
- 6.24 In Chapter 2 we discuss diversity and inclusion. This issue is of concern. We encourage MOD to take action to deliver change at pace. We hope to meet MOD's new Director of Diversity and Inclusion in the coming round and will impress on them the importance we place on action leading to improvements in diversity.
- 6.25 We will be interested to see next year's workforce data on recruitment and retention and to understand the impact of the expected upturn in the economy. We heard that COVID-19 has led to changes in the way that the Services are delivering recruitment activity. We encourage them to develop their recruiting approach and processes so that they can reach and engage with all segments of the population.

COVID-19

- 6.26 This round has been conducted entirely virtually. Despite the understandable restrictions that the implications of COVID-19 placed on our activities, we were determined to follow our agreed processes. We do not yet know what the consequences of COVID-19 will be for next year's round but, at the time of writing, we are hopeful that some face-to-face contact, including visits will be possible. However, it is likely that some of the changes that were made for this round have proved beneficial and will be carried forward into future visit programmes, including the opportunity to undertake discussion group sessions with personnel from several locations.
- 6.27 We record our thanks to all those who took part in the discussion groups during our visit programme, and indeed to all of those that helped organise the visits and all others who have facilitated this year's round in exceptional circumstances. We invite all parties to continue to work with us to deliver a successful round next year.

Conduct of next year's round

6.28 We are disappointed that this year's round has been delayed, again. Our disappointment stems from the fact that we have been unable to deliver our recommendations to the government for them to be implemented on time, that is on 1 April. In the current year we feel especially that the ability to deliver a timely award, for those eligible, would have mitigated the impact of the 'pay pause'. We hope that the delays we experienced in the receipt of evidence will not be repeated and that next year's round follows a more conventional timetable.

Conclusions

6.29 Throughout this Report we have highlighted in bold areas of particular importance. We would welcome evidence for our next Report that addresses these issues.

6.30 Finally, we pay tribute to the unique role that the armed forces undertake on behalf of the nation. We also acknowledge the support provided by partners and families. It is important that the armed forces' terms and conditions are fit for purpose and enable all three Services to continue to attract, retain and motivate the high-quality personnel that they need to deliver their and the nation's operational commitments and requirements.

Peter Maddison QPM

David Billingham

Brendan Connor OBE JP DL

Jenni Douglas-Todd

William Entwisle OBE MVO

Kerry Holden

Ken Mayhew

Julian Miller CB

Paul Moloney

Dougie Peedle

July 2021

Appendix 1

Salaries (including X-Factor) for 1 April 2020 and recommendations for 1 April 2021 for those earning £24,000 and below⁷⁸.

All salaries are annual JPA salaries rounded to the nearest £.
Rate of X-Factor is shown in brackets in the table title.

Table 1.1: Other Ranks Supplement 1 (14.5% X-Factor).

Level	1 April 2020 (£)	1 April 2021 (£)
OR-9-5	52,837	52,837
OR-9-4	52,301	52,301
OR-9-3	51,717	51,717
OR-9-2	51,133	51,133
OR-9-1 (year 2)	50,839	50,839
OR-9-1 (year 1)	50,839	50,839
OR-7-10 / OR-8-5	47,293	47,293
OR-7-9 / OR-8-4	46,500	46,500
OR-7-8 / OR-8-3	45,725	45,725
OR-7-7 / OR-8-2	44,836	44,836
OR-7-6 / OR-8-1 (year 2)	43,896	43,896
OR-7-6 / OR-8-1 (year 1)	43,896	43,896
OR-7-5	42,953	42,953
OR-7-4	42,288	42,288
OR-7-3	41,652	41,652
OR-7-2	40,994	40,994
OR-7-1 (year 2)	40,358	40,358
OR-7-1 (year 1)	40,358	40,358
OR-6-5	39,556	39,556
OR-6-4	38,609	38,609
OR-6-3	37,672	37,672
OR-6-2	36,747	36,747
OR-6-1 (year 2)	35,854	35,854
OR-6-1 (year 1)	35,854	35,854
OR-4-5	34,139	34,139
OR-4-4	33,660	33,660
OR-4-3	33,206	33,206
OR-4-2	32,721	32,721
OR-4-1 (year 2)	31,870	31,870
OR-4-1 (year 1)	31,870	31,870
OR-2-9 / OR-3-3	29,921	29,921
OR-2-8 / OR-3-2	28,592	28,592
OR-2-7 / OR-3-1	27,327	27,613
OR-2-6	26,137	26,424
OR-2-5	24,981	25,267
OR-2-4	23,825	24,112
OR-2-3	22,641	22,927
OR-2-2 (year 2)	21,230	21,517
OR-2-2 (year 1)	21,230	21,517
OR-2-1	20,400	20,686
IP	15,985	16,272

⁷⁸ Personnel remain in Increment Level 1 for the first two years in rank, except for OR2s where they will remain in Increment Level 2 for two years.

Table 1.2: Other Ranks Supplement 2 (14.5% X-Factor).

Level	1 April 2020 (£)	1 April 2021 (£)
OR-9-5	52,837	52,837
OR-9-4	52,301	52,301
OR-9-3	51,717	51,717
OR-9-2	51,133	51,133
OR-9-1 (year 2)	50,839	50,839
OR-9-1 (year 1)	50,839	50,839
OR-7-10 / OR-8-5	48,792	48,792
OR-7-9 / OR-8-4	48,166	48,166
OR-7-8 / OR-8-3	47,520	47,520
OR-7-7 / OR-8-2	46,870	46,870
OR-7-6 / OR-8-1 (year 2)	45,930	45,930
OR-7-6 / OR-8-1 (year 1)	45,930	45,930
OR-7-5	44,749	44,749
OR-7-4	44,085	44,085
OR-7-3	43,449	43,449
OR-7-2	42,789	42,789
OR-7-1 (year 2)	42,056	42,056
OR-7-1 (year 1)	42,056	42,056
OR-6-5	41,221	41,221
OR-6-4	40,200	40,200
OR-6-3	39,071	39,071
OR-6-2	38,043	38,043
OR-6-1 (year 2)	37,061	37,061
OR-6-1 (year 1)	37,061	37,061
OR-4-5	35,285	35,285
OR-4-4	34,807	34,807
OR-4-3	34,338	34,338
OR-4-2	33,668	33,668
OR-4-1 (year 2)	32,797	32,797
OR-4-1 (year 1)	32,797	32,797
OR-2-9 / OR-3-3	30,748	30,748
OR-2-8 / OR-3-2	29,342	29,342
OR-2-7 / OR-3-1	27,961	27,961
OR-2-6	26,656	26,942
OR-2-5	25,340	25,626
OR-2-4	24,092	24,378
OR-2-3	22,908	23,194
OR-2-2 (year 2)	21,230	21,517
OR-2-2 (year 1)	21,230	21,517
OR-2-1	20,400	20,686
IP	15,985	16,272

Table 1.3: Other Ranks Supplement 3 (14.5% X-Factor).

Level	1 April 2020 (£)	1 April 2021 (£)
OR-9-5	52,837	52,837
OR-9-4	52,301	52,301
OR-9-3	51,717	51,717
OR-9-2	51,133	51,133
OR-9-1 (year 2)	50,839	50,839
OR-9-1 (year 1)	50,839	50,839
OR-7-10 / OR-8-5	49,841	49,841
OR-7-9 / OR-8-4	49,545	49,545
OR-7-8 / OR-8-3	49,231	49,231
OR-7-7 / OR-8-2	48,880	48,880
OR-7-6 / OR-8-1 (year 2)	48,191	48,191
OR-7-6 / OR-8-1 (year 1)	48,191	48,191
OR-7-5	46,866	46,866
OR-7-4	45,943	45,943
OR-7-3	45,142	45,142
OR-7-2	44,361	44,361
OR-7-1 (year 2)	43,581	43,581
OR-7-1 (year 1)	43,581	43,581
OR-6-5	42,666	42,666
OR-6-4	41,601	41,601
OR-6-3	40,588	40,588
OR-6-2	39,615	39,615
OR-6-1 (year 2)	38,628	38,628
OR-6-1 (year 1)	38,628	38,628
OR-4-5	36,775	36,775
OR-4-4	36,120	36,120
OR-4-3	35,375	35,375
OR-4-2	34,597	34,597
OR-4-1 (year 2)	33,699	33,699
OR-4-1 (year 1)	33,699	33,699
OR-2-9 / OR-3-3	31,397	31,397
OR-2-8 / OR-3-2	29,916	29,916
OR-2-7 / OR-3-1	28,507	28,507
OR-2-6	27,202	27,488
OR-2-5	25,790	26,076
OR-2-4	24,451	24,737
OR-2-3	23,185	23,472
OR-2-2 (year 2)	21,230	21,517
OR-2-2 (year 1)	21,230	21,517
OR-2-1	20,400	20,686
IP	15,985	16,272

Table 1.4: Other Ranks Supplement 4 (14.5% X-Factor).

Level	1 April 2020 (£)	1 April 2021 (£)
OR-9-5	54,262	54,262
OR-9-4	53,779	53,779
OR-9-3	53,267	53,267
OR-9-2	52,761	52,761
OR-9-1 (year 2)	52,314	52,314
OR-9-1 (year 1)	52,314	52,314
OR-7-10 / OR-8-5	51,275	51,275
OR-7-9 / OR-8-4	50,979	50,979
OR-7-8 / OR-8-3	50,664	50,664
OR-7-7 / OR-8-2	50,289	50,289
OR-7-6 / OR-8-1 (year 2)	49,762	49,762
OR-7-6 / OR-8-1 (year 1)	49,762	49,762
OR-7-5	48,407	48,407
OR-7-4	47,659	47,659
OR-7-3	46,857	46,857
OR-7-2	46,078	46,078
OR-7-1 (year 2)	45,340	45,340
OR-7-1 (year 1)	45,340	45,340
OR-6-5	44,365	44,365
OR-6-4	43,227	43,227
OR-6-3	42,132	42,132
OR-6-2	41,049	41,049
OR-6-1 (year 2)	39,896	39,896
OR-6-1 (year 1)	39,896	39,896
OR-4-5	37,875	37,875
OR-4-4	37,132	37,132
OR-4-3	36,263	36,263
OR-4-2	35,432	35,432
OR-4-1 (year 2)	34,536	34,536
OR-4-1 (year 1)	34,536	34,536
OR-2-9 / OR-3-3	32,009	32,009
OR-2-8 / OR-3-2	30,445	30,445
OR-2-7 / OR-3-1	29,004	29,004
OR-2-6	27,549	27,549
OR-2-5	26,124	26,411
OR-2-4	24,785	25,071
OR-2-3	23,185	23,472
OR-2-2 (year 2)	21,230	21,517
OR-2-2 (year 1)	21,230	21,517
OR-2-1	20,400	20,686
IP	15,985	16,272

Table 1.5: Officers (14.5% X-Factor).

Step	1 April 2020 (£)	1 April 2021 (£)
OF-6-5	113,794	113,794
OF-6-4	112,688	112,688
OF-6-3	111,581	111,581
OF-6-2	110,475	110,475
OF-6-1 (year 2)	109,368	109,368
OF-6-1 (year 1)	109,368	109,368
OF-5-7	100,888	100,888
OF-5-6	99,369	99,369
OF-5-5	97,851	97,851
OF-5-4	96,332	96,332
OF-5-3	94,814	94,814
OF-5-2	93,295	93,295
OF-5-1 (year 2)	91,776	91,776
OF-5-1 (year 1)	91,776	91,776
OF-4-7	87,716	87,716
OF-4-6	85,723	85,723
OF-4-5	83,729	83,729
OF-4-4	81,735	81,735
OF-4-3	79,741	79,741
OF-4-2	77,753	77,753
OF-4-1 (year 2)	75,754	75,754
OF-4-1 (year 1)	75,754	75,754
OF-3-12	71,370	71,370
OF-3-11	69,971	69,971
OF-3-10	68,599	68,599
OF-3-9	67,254	67,254
OF-3-8 ⁷⁹	65,935	65,935
OF-3-7	64,642	64,642
OF-3-6	62,865	62,865
OF-3-5	61,087	61,087
OF-3-4	59,309	59,309
OF-3-3	57,531	57,531
OF-3-2	55,753	55,753
OF-3-1 (year 2)	53,975	53,975
OF-3-1 (year 1)	53,975	53,975
OF-2-7	50,957	50,957
OF-2-6	49,606	49,606
OF-2-5	48,255	48,255
OF-2-4	46,904	46,904
OF-2-3	45,552	45,552
OF-2-2	44,201	44,201
OF-2-1 (year 2)	42,850	42,850
OF-2-1 (year 1)	42,850	42,850
OF-1-5	36,958	36,958
OF-1-4	35,784	35,784
OF-1-3	34,610	34,610
OF-1-2	33,436	33,436
OF-1-1	27,818	27,818
OF-0-3	20,793	21,044
OF-0-2	18,823	19,073
OF-0-1	15,864	16,115

⁷⁹ Step 8 onwards for RAF only, by selection

Table 1.6: Military Provost Guard Service (MPGS) (5% X-Factor).

Level	1 April 2020 (£)	1 April 2021 (£)
OR-9-5	45,724	45,724
OR-9-4	44,961	44,961
OR-9-3	44,198	44,198
OR-9-2	43,434	43,434
OR-9-1 (year 2)	42,670	42,670
OR-9-1 (year 1)	42,670	42,670
OR-7-10 / OR-8-5	41,833	41,833
OR-7-9 / OR-8-4	41,137	41,137
OR-7-8 / OR-8-3	40,451	40,451
OR-7-7 / OR-8-2	39,664	39,664
OR-7-6 / OR-8-1 (year 2)	38,831	38,831
OR-7-6 / OR-8-1 (year 1)	38,831	38,831
OR-7-5	38,007	38,007
OR-7-4	37,420	37,420
OR-7-3	36,858	36,858
OR-7-2	36,274	36,274
OR-7-1 (year 2)	35,711	35,711
OR-7-1 (year 1)	35,711	35,711
OR-6-5	35,001	35,001
OR-6-4	34,163	34,163
OR-6-3	33,335	33,335
OR-6-2	32,516	32,516
OR-6-1 (year 2)	31,718	31,718
OR-6-1 (year 1)	31,718	31,718
OR-4-5	30,205	30,205
OR-4-4	29,775	29,775
OR-4-3	29,374	29,374
OR-4-2	28,951	28,951
OR-4-1 (year 2)	28,194	28,194
OR-4-1 (year 1)	28,194	28,194
OR-2-9 / OR-3-3	26,822	26,822
OR-2-8 / OR-3-2	25,587	25,587
OR-2-7 / OR-3-1	24,253	24,516
OR-2-6	23,088	23,350
OR-2-5	22,041	22,303
OR-2-4	21,082	21,345
OR-2-3	20,029	20,292
OR-2-2 (year 2)	18,841	19,104
OR-2-2 (year 1)	18,841	19,104
OR-2-1	18,151	18,414
IP	14,659	14,921

Table 1.7: Nursing - Other Ranks (14.5% X-Factor).

Level	1 April 2020 (£)	1 April 2021 (£)
OR-9-5	54,950	54,950
OR-9-4	54,371	54,371
OR-9-3	53,792	53,792
OR-9-2	53,213	53,213
OR-9-1 (year 2)	52,633	52,633
OR-9-1 (year 1)	52,633	52,633
OR-7-10 / OR-8-5	51,601	51,601
OR-7-9 / OR-8-4	50,857	50,857
OR-7-8 / OR-8-3	50,112	50,112
OR-7-7 / OR-8-2	49,368	49,368
OR-7-6 / OR-8-1 (year 2)	48,623	48,623
OR-7-6 / OR-8-1 (year 1)	48,623	48,623
OR-7-5	47,670	47,670
OR-7-4	46,918	46,918
OR-7-3	46,166	46,166
OR-7-2	45,415	45,415
OR-7-1 (year 2)	44,663	44,663
OR-7-1 (year 1)	44,663	44,663
OR-6-5	43,744	43,744
OR-6-4	42,909	42,909
OR-6-3	42,073	42,073
OR-6-2	41,238	41,238
OR-6-1 (year 2)	40,402	40,402
OR-6-1 (year 1)	40,402	40,402
OR-4-5	38,442	38,442
OR-4-4	37,416	37,416
OR-4-3	36,391	36,391
OR-4-2	35,365	35,365
OR-4-1 (year 2)	34,340	34,340
OR-4-1 (year 1)	34,340	34,340
OR-2-9 / OR-3-3	32,705	32,705
OR-2-8 / OR-3-2	31,074	31,074
OR-2-7 / OR-3-1	29,443	29,443
OR-2-6	27,813	27,813
OR-2-5	26,182	26,468
OR-2-4	24,551	24,837
OR-2-3	22,920	23,206
OR-2-2 (year 2)	21,289	21,576
OR-2-2 (year 1)	21,289	21,576
OR-2-1	20,400	20,686
IP	15,985	16,272

Table 1.8: Recommended annual salaries for Medical and Dental Cadets (0% X-Factor).

Length of Service	1 April 2020 (£)	1 April 2021 (£)
After 2 years	21,281	21,531
After 1 year	19,202	19,452
On appointment	17,133	17,384

Appendix 2

New X-Factor components

In this round IDR undertook independent work to review the components of X-Factor. The below components are the new X-Factor component definitions following this work.

Component	Definition
Autonomy, management control and flexibility	<p>Autonomy, management control and flexibility is defined as the degree of management control exercised over the individual. It assesses the scope allowed to the jobholder to exercise initiative and take independent actions and considers the degree of latitude and discretion allowed in making decisions. This factor also takes into account the amount of control that individuals have over their immediate working environment.</p> <p>Due to the unique nature of their work, armed forces personnel operate within a tightly controlled structure (i.e. the Command Structure). In general, civilians have significantly more freedom and flexibility in making decisions which impacts upon their immediate working environment.</p>
Danger to physical and mental health	<p>Danger to physical and mental health covers the impact on individual personnel of operating:</p> <ol style="list-style-type: none">with a threat of real or perceived violence;in an environment or area which is deemed physically unsafe or uncomfortable for either natural, manmade and/or political reasons;when there is a danger of death. <p>Those impacts cover:</p> <ol style="list-style-type: none">short and long-term injury to physical health;short and long-term impact on mental health. <p>For armed forces personnel these impacts may arise from a number of circumstances including:</p> <ol style="list-style-type: none">the conduct of military operations;training;terrorism;the understanding of mental and physical health issues.
Hours of work	<p>Hours of work would normally be defined within the employment contract and need to accord with related legislation, albeit that UK companies may request employees to sign an agreement which exempts the individual from restrictions imposed by the hours of work legislation.</p> <p>Unsocial hours are those worked outside regular 'office hours' between Monday and Friday. Such hours may be the requirement of the job, especially where it is necessary to operate 24 hours a day.</p> <p>Employees in many industries and roles receive overtime and shift premia for hours worked in addition to, or outside, normal working hours. However, in some roles, flexibility over hours is expected and accounted for in basic pay.</p> <p>Armed forces personnel have a contractual requirement to be available for duty 24 hours a day and 365 days a year. Overtime and shift premia are not paid to armed forces personnel.</p>

Component	Definition
Individual, trade union and collective rights	<p>Individual, trade union and collective rights are enjoyed by UK citizens and by those with a right to remain and work in the UK. These rights include:</p> <ul style="list-style-type: none"> a) Human Rights legislation; b) Equal Opportunities legislation; c) Age Discrimination legislation; d) Minimum Wage legislation; e) Working Time legislation; f) Trade Union membership. <p>Armed forces are not subject to any of these pieces of legislation.</p> <p>Residents of the UK may belong to a trade union and may actively participate in union activity, including the right to strike. Armed forces personnel are permitted to join a trade union that enhances their trade skills and knowledge. However, they are not permitted to participate in collective bargaining. Armed forces personnel are, therefore, unable to benefit from worker representation through a collective body such as a trade union or staff association.</p> <p>In addition to Civil and Criminal Law, armed forces personnel are subject at all times to military discipline, as set out in the Armed Forces Act 2006. There are also other restrictions that are imposed on armed forces personnel by their employment conditions.</p> <p>The notice periods for armed forces personnel are fixed by reference to laid down procedures. The inability to leave the Services at will means that Service personnel are prevented from securing a job and then handing in their notice – the norm in civilian life for those in employment. Other Ranks are eligible, once they have completed an initial (and variable) return of service, to give notice to leave but, other than in exceptional (e.g. compassionate) circumstances, can be required to serve out a standard 12-month period of notice. Earlier release is sometimes permitted depending on the manning requirements of the individual's branch/trade.</p> <p>Service personnel can also be prevented from leaving for operational reasons and may also be required to give a 'Return of Service' on completion of their particular career courses (for example 36 months for a full-time degree course). On leaving, Service personnel remain liable for call out or re-call for periods which vary depending on their engagement/commission.</p> <p>Service personnel families may also be subject to restrictions, especially when they are living in Service accommodation.</p>
Job security	<p>Job security is defined as the knowledge, based on past history, that the individual will be able to work within the same organisation, albeit within different divisions, for a significant number of years and enjoy similar or increased levels of remuneration.</p> <p>Within the armed forces, job security has long been recognised as a key benefit compared with the more fluid employment market in civilian life. The more stable career pattern may persuade some personnel to accept the disadvantages that come from service life.</p> <p>Job security may be affected by the level of personal fitness.</p>

Component	Definition
Leave	<p>Annual leave is defined as the entitlement to a fixed number of working days off from one's job as stated in the employment contract.</p> <p>It would generally be expected that the employer would not be able to dictate the manner that this time would be utilised and that such leisure time can be booked with prior agreement from the employer and/or colleagues in accordance with personal or family requirements. Employees working shifts would normally expect that at main holidays, e.g. Christmas, New Year and summer holiday time, that they would be able to take time off, subject to the needs of the business and that where necessary the business would hire additional staff to cover such times.</p> <p>In the event that the holiday time is lost, the employee would expect to be compensated in some way. For some employees, leave would be included in the flexible benefits system and can therefore be traded (i.e. increased or decreased) for other benefits or money.</p> <p>All ranks across the Services have an allocation of 30 'working days' leave per year. However, leave can be lost for military reasons.</p> <p>In practice it may be difficult for Service personnel to take leave when they wish (because of programmed commitments and the wider unpredictability of Service commitments) or to be able to take their full complement of leave. It remains MOD policy that commanders enable their personnel to take the full 30 working days leave allowance unless operational imperatives dictate otherwise. Those required to work at weekends or during 'stand-downs' do not necessarily achieve time off in lieu.</p>
Promotion and early responsibility	<p>Career development is a clear goal of armed forces personnel. Promotion is the endorsement of an individual's ability in the form of an elevation in both status and responsibility. This could be demonstrated in a variety of forms, including:</p> <ul style="list-style-type: none"> a) responsibility for teams/manpower; b) responsibility for assets; c) responsibility for strategy and planning. <p>Service careers provide earlier opportunities for promotion, and thus increased responsibility, than are experienced by those of similar ages in civilian occupations.</p>

Component	Definition
Separation	<p>Separation is defined as being separated from normal personal or family life for a period of time because of working commitments. This component covers physical separation and also recognises that, depending on their precise role/location, armed forces personnel may also be restricted in their wider [electronic] communications with family and friends.</p> <p>The length of time for which separation takes place will vary according to the nature of the job. Normally the length of separation would be standardised, e.g. a North Sea worker would normally work for a set period of weeks and then return home for a set period of time. This is less the case in the armed forces where many personnel enjoy a lower level of predictability in relation to their working lives.</p> <p>There are two broad categories of separation:</p> <ul style="list-style-type: none"> (i) voluntary separation (i.e. where a soldier chooses to serve unaccompanied in order to give family stability); (ii) involuntary separation (for example operations and pre-deployment training). <p>Some separation is an inevitable part of Service life and the X-Factor takes into account short periods of separation. Longer periods of separation are compensated by Longer Separation Allowance. These allowances are not dependent upon marital status.</p>
Spousal/partner employment	<p>The turbulent nature of life in the armed forces may have a varied and detrimental impact on spouse/partner employment.</p> <p>This includes:</p> <ul style="list-style-type: none"> a) employability – limited employment opportunities for spouses or partners which covers finding employment, finding employment within a specific field or industry and/or employment suitably matched to the spouse’s or partner’s skills, work experience and qualifications; b) training and career development – difficulties for spouse/partner to continue their career, professional training and achieve promotion (i.e. an employer may be less likely to consider them for promotion as their personal situation is likely to be taken into account by their employer); c) earnings – spouse/partner is likely to have to accept a lower level of salary due to (a) and (b) above. This is also likely to affect the benefits package, and in particular the pension. <p>These effects are likely to be exacerbated when:</p> <ul style="list-style-type: none"> (i) Service personnel and their spouses/partners require childcare provision in order to be able to work. (ii) Service personnel are posted overseas.

Component	Definition
Stress, personal relationships and impact of the job	<p>Stress at work arises when individuals have excessive pressures or other demands placed on them at work. In the armed forces, it may be a consequence of individuals having difficulty coping with certain aspects of the job.</p> <p>Employers would expect to minimise stress by planning, providing new or additional resources, and/or re-organising work. However, depending on the organisation, this may not always be possible in the armed forces due to lack of resources or manpower.</p> <p>Depending on the level of deployment, armed forces personnel may experience significantly greater levels of stress than would normally be acceptable in civilian occupations. The armed forces may also experience additional stress because of overstretch for operational reasons.</p> <p>Stress may have short- and long-term impacts on Service personnel both during and after employment in the armed forces. The impact of this can be varied and detrimental. As a result, individuals may experience difficulties adjusting to civilian life, including difficulties in finding and maintaining civilian employment.</p> <p>Stress, including post-Service stress, may also contribute to difficulties maintaining relationships with spouse, partner, children, friends and family, having a detrimental impact on family and personal life.</p> <p>A minority may also experience social and mental problems, such as issues misusing alcohol or drugs, vagrancy, criminal activity and/or suicide.</p>
Turbulence	<p>Turbulence is defined as the dislocation to personal, family and social life caused by regular changes to both the type and geographical location of work the effect of which is exacerbated when the employee receives short notice about these changes.</p> <p>Turbulence has an impact on the following:</p> <ul style="list-style-type: none"> a) home ownership is more difficult as personnel need to move frequently; b) maintaining friendships and family contacts outside work; c) developing external interests; d) accessing state education; e) continuity and stability of education for the children of Service personnel; f) accessing NHS medical and dental care; g) impact upon credit rating generally. <p>Armed forces' personnel can be held at high readiness and must be able to move at short notice, and sometimes frequently, between units and theatres. However, this may vary considerably between different personnel and vary over a career. Such significant and repeated pressure may have a major impact on the quality of life they experience.</p>

Component	Definition
Training, education, adventure training and personal development	<p>Training is the facilitation of learning new skills, or improving existing skills, which enhance the abilities of individuals to do their job or further their career. This in turn will facilitate career progression and increased responsibility where appropriate.</p> <p>Training may include:</p> <ul style="list-style-type: none"> a) technical skills; b) trade skills; c) academic skills; d) management skills; e) people skills; f) transferable skills. <p>For the armed forces this includes the opportunity to undertake a range of non job-specific training and development opportunities, which are often paid for or subsidised by their employer. This may include skills training at the end of their career prior to retirement outside the armed forces.</p> <p>Adventure training is also an attraction for Service personnel. Adventure training is undertaken by Officers and Other Ranks as part of their initial training and subsequently, to encourage personal fitness and develop individual skills.</p> <p>The armed forces also provide the opportunity to participate in sport on an individual and team basis at no cost to personnel. In particular, individuals may spend significant amounts of time on training for competitions as this is regarded as part of the job.</p>

Appendix 3

PR21 Remit Letter to AFPRB – 2 March 2021

Dear Peter

I should first of all like to offer my thanks for the Armed Forces' Pay Review Body's (AFPRB) work over the past year for producing their 49th Annual Report and your recommendations for Pay Round 2020-21. The Government continues to value the independent expert advice and contribution that the AFPRB makes, and I was delighted to be able to accept your 2020 recommendations in full.

The timing of the Spending Review (SR) announcement has unfortunately delayed the commencement of Pay Round 2021/22. I am writing now to set out how the Government proposes working with the AFPRB in relation to the 2021/22 Pay Round and to formally invite you to begin the Review Body process.

You will be aware of the Chancellor of the Exchequer's announcement that pay rises in the public sector will be restrained and targeted in 2021/22 at the SR. As the Chancellor set out, Covid-19 is having a very significant impact on the economy, labour market and the fiscal position and has suppressed earnings growth and increased redundancies in the private sector. Public sector pay has been shielded from the pandemic's economic effects. In the six months to September, the private sector has seen a pay cut of nearly 1% compared to last year, yet public sector earnings were up by almost 4%. Since March, the number of people in employment in the UK fell by 782,000, whilst over a similar period of time public sector employment increased. Hours worked were down 18% in Q2 (the largest drop since 1971) having a significant impact on people's pay and even into Q3 remain below pre-Covid levels.

If we carried on with blanket, across the board pay rises, the existing gap between public sector reward and the private sector would widen significantly. Therefore, it is right to temporarily pause pay awards for the majority of the public sector as we assess the impact Covid-19 has had on the wider economy and labour market. This approach will also allow us to protect public sector jobs and investment in public services as Covid-19 continues to have an impact. We will be able to reassess this picture after 2021/22 when the fuller impact of Covid-19 on the wider labour market will be clearer. This policy will apply to all members of the Armed Forces, regardless of their trade or profession. No member of the Armed Forces will experience a cut to their existing reward package and the pause will apply to headline pay uplifts only – other payments such as incremental progression and special allowances will continue as before, where appropriate.

HM Treasury have already set out the justification and evidence for this policy in more detail in the informal economic discussion, and the subsequent publication of the official economic evidence paper.

For 2021/22 the Ministry of Defence (MOD) will submit evidence for the Armed Forces in the usual way, including recommendations on service provided accommodation and food charges, covering the usual factors and in line with the pay policy announced at the SR.

Following the Chancellor's announcement of the public sector pay pause, the MOD will not be seeking recommendations from the AFPRB on pay uplifts for the Armed Forces in this Pay Round. Further details on how the MOD proposes to implement the Chancellor's £250 pay uplift for those earning £24,000 or below will be provided in the MOD's evidence. We very much welcome the AFPRB's view on the proposed approach and recommendations.

Whilst recognising that it has not been ideal, I am grateful that the AFPRB have been able to continue undertaking their annual visit programme, albeit virtually, to ensure that our Service Personnel have the opportunity to provide you with their thoughts, concerns and views on their pay and other related matters. I appreciate the flexibility of the Review Body Members throughout this unprecedented period.

I would be grateful if you could submit your report for the 2021-22 Pay Round in May 2021.

Finally, I would like to thank you again for your invaluable contribution to our Armed Forces, and for supporting our Service Personnel. I look forward to continuing our dialogue.

I am copying this letter to the Chancellor, Chief Secretary of the Treasury and Cabinet Secretary.

Yours sincerely,

The Rt Hon BEN WALLACE MP
SECRETARY OF STATE FOR DEFENCE

Appendix 4

AFPRB 2020 visits

Our evidence-base for this Report included visits to the units below to better understand working conditions and perceptions of pay and related issues.

Due to Covid-19 all this years' visits were held virtually.

Establishment/Location	Service	Members	
NATO – European Locations	Army	Jenni Douglas-Todd	
	Royal Navy	William Entwisle	
	RAF	Kerry Holden Ken Mayhew	
Recruitment – Various Locations	Army	Brendan Connor	
	Royal Navy	Jenni Douglas-Todd	
	RAF	William Entwisle Kerry Holden Peter Maddison Ken Mayhew Julian Miller	
	RAF Waddington	RAF	Ken Mayhew Kerry Holden
	RAF Wittering	RAF	Brendan Connor William Entwisle
MOD DE&S Abbey Wood, Bristol	Army	Ken Mayhew Julian Miller	
RN Command- Clyde, Portsmouth, Devonport Flotilla, 3 Commando	Royal Navy	Peter Maddison Brendan Connor	
RN Air Station Culdrose	Royal Navy	Kerry Holden Julian Miller	
27 Regiment Royal Logistic Corps – Aldershot	Army	Jenni Douglas-Todd Ken Mayhew	
RM Marines (Reserves) Bristol	Royal Navy	Peter Maddison Jenni Douglas-Todd	
77th Brigade (77X) Denison Barracks – Hermitage	Army	Peter Maddison William Entwisle	

Establishment/Location	Service	Members
HQ Air Command, RAF High Wycombe	RAF	Brendan Connor Jenni Douglas-Todd William Entwisle Kerry Holden Peter Maddison Ken Mayhew Julian Miller
HQ UK Strategic Command, Northwood Headquarters	UK Strat Comm	Brendan Connor Jenni Douglas-Todd William Entwisle Kerry Holden Peter Maddison Ken Mayhew Julian Miller
Army Headquarters, Marlborough Lines, Andover	Army	Brendan Connor Jenni Douglas-Todd William Entwisle Kerry Holden Peter Maddison Ken Mayhew Julian Miller
Navy Command Headquarters, HMS Excellent	Royal Navy	Brendan Connor Jenni Douglas-Todd William Entwisle Kerry Holden Peter Maddison Ken Mayhew Julian Miller

