

GLOSSARY OF TERMS

ACDS (RC)	Assistant Chief of Defence Staff (Reserves and Cadets)
AEI	Average Earnings Index
AFPRB	Armed Forces' Pay Review Body
AFCAS	Armed Forces Continuous Attitude Survey
AFPS	Armed Forces' Pension Scheme
AGR	Association of Graduate Recruiters
ASHE	Annual Survey of Hours and Earnings
CPI	Consumer Prices Index
CSR	Comprehensive Spending Review
DASA	Defence Analytical Services Agency
DE	Defence Estates
DFC	Daily Food Charge
DRFC	Director of Reserve Forces and Cadets
EOD	Explosive Ordnance Disposal
ERNIC	Employers' National Insurance Contributions
EU	European Union
FRI	Financial Retention Incentive
FTRS	Full Time Reserve Service
GTS	Gains to Trained Strength
JPA	Joint Personnel Administration
IRP	Immediate Retirement Point
LSA	Longer Separation Allowance
LSAP	Long Service Advance Pay
MPGS	Military Provost Guard Service
MOD	Ministry of Defence
NCO	Non-Commissioned Officer
NHS	National Health Service
NI	Northern Ireland
NIRS	Northern Ireland Resident's Supplement
NMW	National Minimum Wage
PAS	Professional Aviator Pay Spine
PAYD	Pay As You Dine
PPOs	Principal Personnel Officers

RAF	Royal Air Force
RAuxAF	Royal Auxiliary Air Force
RAVC	Royal Army Veterinary Corps
REME	Royal Electrical and Mechanical Engineers
RM	Royal Marines
RMR	Royal Marine Reserve
RN	Royal Navy
RNR	Royal Naval Reserve
RPI	Retail Prices Index
RPIX	Retail Prices Index (excluding Mortgage Interest Payments)
SCAPE	Superannuation Contributions Adjusted for Past Experience
SFA	Service Family Accommodation
SLA	Single Living Accommodation
SLAM	Single Living Accommodation Modernisation
SRR	Strategic Remuneration Review
TA	Territorial Army
UK	United Kingdom
UWA	Unpleasant Work Allowance
VO	Voluntary Outflow
WO	Warrant Officer

ARMED FORCES' PAY REVIEW BODY 2009 REPORT – SUMMARY

Key recommendations

A 2.8 per cent increase in military salaries;

Targeted pay measures including:

- A 5 per cent minimum pay increase on promotion to OR6;
- New Commitment Bonuses and associated transitional arrangements;
- A reduction in the qualifying periods for Longer Separation Allowance;
- New pay spines and Specialist Pay for Service Nurses;
- A new RN Clearance Divers' pay spine and two new supplementary rates of Diving Pay for EOD qualified Divers; and
- Targeted increases to Hydrographic Pay;

A 2.8 per cent increase in Specialist Pay, Compensatory Allowances and Reserves' Bounties; and

A 3.7 per cent increase to Grade 1 SFA/SLA rental charges and lower graduated increases below Grade 1, a further phased increase to garage rent and a Daily Food Charge of £4.07.

Introduction (*Chapter 1*)

Our report sets out a balanced package of evidence-based recommendations that fulfil our terms of reference. The context for our report is one of rapidly changing and uncertain economic and labour market conditions. We have also considered MOD's affordability constraints and the pressures on the Armed Forces' from enduring operational commitments and continuing challenges to recruitment and retention. Our recommendations draw on the evidence to provide a balanced package across base pay, targeted measures and charges. To reach our recommendations, we undertook 21 visits in which we met 3,400 personnel and spouses; considered around 100 papers covering evidence, independent research and information; and held 13 meetings including oral evidence and briefing sessions.

Military pay (*Chapter 2*)

We recommend a 2.8 per cent increase to military salaries from 1 April 2009.

The economic situation changed rapidly in the latter half of 2008. CPI inflation fell from a peak at September 2008 and forecasters point to further falls during 2009. The Government maintained its policy that public sector pay awards should be affordable, consistent with the CPI inflation target of 2 per cent, and help recruit and retain quality workforces. As the labour market weakened, the Government stressed that public sector employment would become more attractive. However, we took the view that the implications of labour market change were unlikely to emerge until later in 2009. Meanwhile, the Armed Forces face significant recruitment and retention challenges: a persistent manning deficit, currently at 3.2 per cent, and manning balance not expected until 2011; acute shortages of key operational deliverers; below target recruitment; outflow rates close to historically high levels; and pay increasingly a source of dissatisfaction. The imbalance between resources and commitments continues, leading to ongoing breaches of harmony guidelines, significantly influencing retention. Our analysis indicated that broad pay comparability with civilians was maintained across most ranks

at April 2008. We acknowledge the importance of achieving value for money from the paybill given the many pressures on MOD's budget. We share the Secretary of State's view that Service personnel should feel valued in relation to the rest of the public sector and that any award should reflect their personal sacrifice and the esteem in which they are held by the public. Our pay recommendation responds to these considerations: it supports recruitment, retention and motivation and signals that personnel are valued; is consistent with Government policy; and reflects prevailing labour market conditions.

Targeted pay measures (*Chapter 3*)

Targeted measures to address specific recruitment and retention concerns are an increasingly significant part of the overall remuneration package for Armed Forces' personnel. We endorse the following, effective from 1 April 2009 unless otherwise specified:

- A 5 per cent minimum pay increase on promotion to OR6 (Sergeant and Petty Officer);
- New Commitment Bonuses for new entrants and those with less than 4 years' service, plus transitional arrangements for those with 4 to 8 years' service;
- A qualifying period of 240 days for each level of Longer Separation Allowance;
- The introduction of pay spines and Specialist Pay for Service Nurses (from 1 August 2009);
- The introduction of a RN Clearance Divers' pay spine for Petty Officers and above after 15 years' service and two new rates of Diving Pay for Explosive Ordnance Disposal qualified Divers (from 1 August 2009);
- Targeted increases to Levels 3, 4 and 5 of Hydrographic Pay; and
- A 2.8 per cent increase in all other rates of Specialist Pay, Compensatory Allowances and Reserves' Bounties.

Accommodation and other charges (*Chapter 4*)

MOD fully recognises the need to provide good quality Service accommodation but adds that an historical lack of investment means that over 50 per cent of personnel live in poor accommodation. Our approach to charges reflects the current scope for, and pace of, delivery of improvements to SLA and SFA and insufficient improvement in maintenance services. All those giving evidence proposed increasing rental charges in line with inflation. With this evidence in mind, we judge that rental charges for Grade 1 accommodation should again increase in line with the rental component of the RPI at November 2008 with lower graduated increases below Grade 1. MOD requested increases to Grade 4 rents to avoid the risk that some personnel might prefer to stay in poor accommodation. However, we consider our approach should continue to reflect differences in quality and that Grade 4 rents are fair. **We therefore recommend a 3.7 per cent increase to Grade 1 SFA and SLA rental charges, lower graduated increases for Grades 2-3, and no increase to Grade 4. We recommend a further phased increase to garage rent to reflect civilian charges.** Our recommendation on the Daily Food Charge is based on MOD's Food Supply Contract Data averaged over the most recent 12 months. **We recommend a Daily Food Charge of £4.07.**

Conclusion (*Chapter 5*)

We estimate that our recommendations, if accepted, will add 3.4 per cent to the Armed Forces' pay bill. Looking forward, the weakening labour market may give the Services an advantage for recruitment and retention but they will need policies to compete in the labour market as we emerge from recession. We consider a more strategic approach is required to review elements of the remuneration package. Finally, we stress the need to deliver on the Government's commitments under the Service Personnel Command Paper and, specifically, to push forward on support for home ownership.

Chapter 1

INTRODUCTION

Introduction

1.1 Our report sets out a balanced package of evidence based recommendations that fulfil our terms of reference. The background for our report is characterised by rapidly changing economic conditions and MOD's affordability constraints on the one hand; and, on the other, the pressures on the Armed Forces from enduring operational commitments and continuing challenges to recruitment and retention. We draw on our extensive evidence base to assess these factors and how they influence our overall pay recommendation, targeted measures and charges.

2008 recommendations

1.2 We submitted our 2008 recommendations on 31 January 2008. These were accepted in full by the Government on 7 February 2008 as follows:

- A 2.6 per cent increase in military salaries;
- A range of targeted pay measures including new Financial Retention Incentives (FRIs) for Submarine Nuclear Watchkeepers, RAF Regiment Gunners, RAF Firefighters, REME Vehicle Mechanics and the Royal Artillery;
- A new category of Specialist Pay for Explosive Ordnance Disposal Operators and a targeted enhancement to Submarine Pay;
- An increase to X-Factor from 13 to 14 per cent plus revised tapering arrangements;
- A 2.6 per cent increase in Specialist Pay, Compensatory Allowances and Reserves' Bounties; and
- A 3.7 per cent increase to Grade 1 SFA/SLA rental charges and lower graduated increases below Grade 1, a phased increase to garage rent, and the introduction of the Daily Food Charge.

Context for this report

1.3 Our recent reports have been delivered against a background of relative economic stability. This year we are faced with unusually volatile and uncertain conditions. The economic and labour market contexts are essential components of our evidence base. The Government's evidence to all Pay Review Bodies, which was submitted in September 2008 and updated in December 2008, highlighted the substantial change in the macroeconomic context for pay decisions. It stressed that the twin effects of the "credit crunch" and the rapid rise in food and energy prices had hit the economy and argued that, while the UK had strong economic foundations, decisions in the next year would be critical in determining how well the economy responded. The Government noted the latest forecasts for negative economic growth and falling CPI inflation in 2009. It stressed the importance of managing wage expectations in the public sector as well as the rest of the economy. The Government's public sector pay policy remained unchanged and it highlighted the improving position of public sector employment against the labour market.

- 1.4 In November 2008, the Bank of England¹ and the Government² reported on the general economic outlook. They pointed to the marked deterioration in the outlook for domestic and global economic activity. For the UK, forecasts for GDP growth and business prospects weakened sharply and the Bank of England concluded that the economy “probably entered recession” in the second half of 2008. Its central projection, based on market interest rate expectations, was for negative economic growth for much of 2009. In the near term, it anticipated that inflationary pressures would weaken significantly following reductions in commodity prices and sharp falls in energy and food prices. CPI inflation was forecast to fall below the 2 per cent target during 2009. The Bank of England concluded that the prospects for both economic growth and inflation were “unusually uncertain”.
- 1.5 The Government’s Pre-Budget Report updated forecasts for the economy and public finances. The Government acknowledged that credit conditions and high prices had squeezed household incomes and company profits – the combined effects of which had been to push the UK economy into recession and inflation to a 16-year high. It predicted negative economic growth in 2009 and, with support, recovery in the second half of 2009 with economic growth picking up further in 2010 and 2011. The Government announced fiscal measures to support the economy, businesses and households, including bringing forward £3 billion of capital spending and an additional Government “value for money” target of £5 billion in 2010-11.
- 1.6 Economic circumstances dominated the Government’s evidence to all Pay Review Bodies. We examine how the changing economy and the Government’s public sector pay policy feed into the environment for our recommendations in Chapter 2. We also describe the Defence context, including MOD’s affordability constraints within its Comprehensive Spending Review (CSR) settlement and the requirement on MOD to balance resources across its priorities for people, equipment and support.

Our 2008-09 work programme and evidence base

- 1.7 Our evidence base for this report comprises our visits to meet Service personnel, the Government’s economic evidence, MOD’s annual and periodic evidence papers, oral evidence from stakeholders and our independently commissioned research. We began our annual work programme in March 2008 with extensive briefs from MOD and the three Services. These established a starting point for our visits by covering operational circumstances, the manning position, and emerging pay and personnel issues.
- 1.8 Between March and July 2008, we made 21 visits to military establishments to meet personnel and families, to discuss their priorities, to better understand the role of the Services and to explain our approach to pay. Our visits covered operations in Iraq and Afghanistan, and units in Great Britain, Northern Ireland, Belgium and Cyprus. Visiting operational areas is essential to deliver our remit, to understand the front line role of the Services, and to assess the balance of pay and other priorities across the remuneration package. Across all our visits, we met around 3,400 personnel and spouses and held over 240 formal and informal discussion groups. Our discussion groups gave us first hand information and views on pay priorities. We also met Commanding Officers and their management teams to hear their perspective and view all standards of Service accommodation. We are grateful to the Services for organising these visits and providing excellent support throughout.

¹ *Inflation Report* – Bank of England, 12 November 2008.

² *Pre-Budget Report – Facing Global Challenges: Supporting People Through Difficult Times* – HM Treasury, 24 November 2008, Cm 7484.

- 1.9 Between September 2008 and January 2009, we received 29 evidence submissions from the Government, MOD and the Services. These comprised the Government's economic evidence and public sector pay policy, MOD's strategic management evidence, statistical and survey data, periodic reviews of elements of the package, and evidence on accommodation and food charges. Over the year, we reviewed approximately 100 evidence and information papers. We held 13 meetings to consider the evidence including two major briefing sessions and four formal oral evidence sessions. The formal sessions allowed us to discuss the evidence with: the Secretary of State and Chief of the Defence Staff, accompanied by the MOD's Permanent Under Secretary and HM Treasury representatives; the Principal Personnel Officers (PPOs) and Deputy Chief of Defence Staff (Personnel); the Assistant Chief of Defence Staff (Reserves and Cadets) and the Director of Reserve Forces and Cadets; and the Chief Executive of Defence Estates. In addition, we met with the three Service Families' Federations which gave us a helpful, wider perspective on Service life. For our 2010 Report and thereafter, our session with the Service Families' Federations will form part of our formal evidence base.
- 1.10 Finally, our evidence base is completed by our commissioned research and provision of independent analysis of the economy and the labour market. Our research for this report focused on: (i) pay comparisons based on analysis by job weight, supplemented by information for young people and on the packages available to other uniformed public services; (ii) information on economic indicators, the labour market, employment legislation and pay developments; and (iii) civilian housing costs to support recommendations on accommodation charges.

Our report

- 1.11 Our report considers several key themes – those influencing our overall pay recommendations, developments in the package including targeted measures, and our approach to charges.
- 1.12 Alongside the Government's evidence on public sector pay policy, Chapter 2 considers the impact of the economic climate. We also assess the Defence context which continues to highlight the pressures on Armed Forces' personnel from operational and other commitments. Our analysis captures the latest position on Armed Forces' manning, recruitment and retention, and the emerging impact of changing and uncertain economic conditions on the labour market. We also examine how military pay aligned with pay of civilian comparators at April 2008. These analyses inform our conclusions on military pay.
- 1.13 Understanding wider developments in the Armed Forces' remuneration package remains important to delivering our remit. Developments in the package in recent years have focused on targeted measures to address specific recruitment and retention concerns. These are forming an increasingly significant part of the overall remuneration package for Armed Forces' personnel. Chapter 3 assesses targeted measures proposed for 2009. These cover bonuses and compensation for particular circumstances, such as: extending service through major revisions to Commitment Bonuses; a review of Longer Separation Allowance; and specific measures for specialist groups. We look at proposals on Service Nurses, Divers, Aircrew and Hydrographers plus periodic reviews of Royal Marine Mountain Leaders, Veterinary Officers, the Military Provost Guard Service and specific Compensatory Allowances. We also recommend on Reserves' Bounties.

- 1.14 Under our remit on comparability and to achieve a set of balanced recommendations across the package, we also recommend on charges levied on Service personnel in Chapter 4. Our approach to accommodation charges is set in the light of the Defence Living Accommodation Strategy and the Defence Estates Development Plan 2008. These plans and MOD's evidence help us to assess progress with improvements to Service Family and Single Living Accommodation which are an important influence on our recommendations. They also set out MOD's policy on achieving a "mixed economy" of Service provision and home ownership. Despite the economic downturn and its impact on the housing market, home ownership remains a major priority for personnel and families we meet on our visits. The level of home ownership support is, for them, a measure of how they are valued by their employer and therefore an influence on retention. Chapter 4 also recommends on other related charges and the Daily Food Charge.
- 1.15 Finally, Chapter 5 looks forward to how MOD's long term pay and workforce strategy will need to respond to changing circumstances and sets out our 2009-10 work programme.

Conclusions

- 1.16 Our report explores the changing context for the evidence base and explains how this evidence drives our recommendations on pay and targeted measures for 2009. On a wider note, we have commented before on our general concerns about the ever increasing reliance on targeted measures and their relationship with the overall pay structure. Affordability constraints further complicate the task of arriving at a balanced package. For this report, we have been faced with several difficult decisions on parts of the package stemming from, in our view, the lack of a strategic, longer term approach to priorities. The piecemeal approach to reviewing remuneration elements constrains this wider view. Specifically, we ask MOD to examine the impact for specialists of competing internal and external labour markets. We return to this in our forward look in Chapter 5.

Chapter 2

MILITARY PAY

Introduction

2.1 We set out in this chapter the evidence underpinning our overall pay recommendation. We start with the macro evidence from the Government on the economy and public sector pay, and from MOD covering the Defence context and affordability. We also assess labour market conditions, Armed Forces' recruitment and retention, data on workload pressures, and independent research on pay comparability.

Government's economic evidence

2.2 We have already commented in Chapter 1 on the rapid change in economic conditions in the latter part of 2008 and the latest reports from the Government and the Bank of England. The Government's evidence on the general economic context was submitted in September 2008 and updated in December 2008. In the Government's view, the macroeconomic context for pay decisions had substantially changed because of the unprecedented twin global effects of the "credit crunch" and rapid rise in food and energy prices. The Government noted that GDP growth was forecast to be negative in 2009 before picking up in 2010 and 2011. By the end of 2008, CPI inflation had fallen and the average of independent forecasts put CPI inflation at 1.7 per cent by the end of 2009. While the Government considered that the UK had a strong economic foundation from which to handle the challenges, it emphasised that decisions taken in the next year would be critical in determining the UK response and who would bear the inevitable cost of the adjustment. In its Pre-Budget Report, the Government announced fiscal stimulus policies to support the economy based on ensuring sustainable public finances in the long run.

2.3 While the economic downturn deepened, the Government's policy remained that public sector pay awards should help recruit and retain quality workforces, be affordable and offer value for money, and be consistent with the inflation target. The Government pointed to the need for Departments to ensure that overall spending on the workforce was affordable. The Government endorsed the Bank of England's view that pay restraint across the economy would be key to low and stable inflation and avoiding "second round effects" such as a wage-price spiral. The Government considered the public sector, employing one in five workers and whose pay represented a quarter of Government expenditure, could have a signalling effect on wage setting decisions in the private sector. In this context, it considered that Pay Review Body workforces, making up 40 per cent of the public sector, played an important role in setting the direction of public sector pay.

2.4 The Government emphasised that expenditure should stay within the CSR settlement which, overall, allowed for spending growth of 1.9 per cent per annum in real terms between 2008-09 and 2010-11. The Government regarded this as the tightest settlement in nearly a decade. The CSR settlement had to fund a range of competing pressures including pay and non-pay measures.

2.5 According to the Government at September 2008, recruitment and retention was broadly healthy across the public sector, although the downward pressure on employment growth across the economy was acknowledged. The Government viewed Armed Forces' recruitment and retention as "satisfactory" and "stable". It considered that the relative attractiveness of the public sector would strengthen further as labour market conditions worsened thereby improving its ability to recruit and retain staff. Against this background, the Government's evidence requested that Pay Review Bodies

should take into account: circumstances for the specific remit group; the expansion of the frontline public sector workforce; the cumulative 3.0 per cent increase in average earnings (in nominal terms) above the private sector since 2000; earnings increases from restructuring, targeting, progression and bonus payments; the influence of pay and non-pay elements in the employment offer; the “total reward” approach to pay and benefits; and the value of public sector pensions (which generally represents a more valuable part of the package than in the private sector).

- 2.6 The Government concluded that public servants were vital to the delivery of good public services. The level of public sector pay was important to keeping within tight fiscal constraints and lowering inflationary pressures. The Government argued that pay restraint and obtaining better value for money from the paybill were becoming more important and that these were required to sustain investment in public services and to manage baseline costs ahead of the next CSR.

Strategic management evidence

General

- 2.7 MOD’s evidence placed its views on military pay in the context of the macroeconomic position, the Government’s public sector pay policy and the Department’s affordability constraints from the CSR settlement. MOD stressed that paybill increases above 2.5 per cent (including targeted measures) would reduce resources for other pay and non-pay measures and result in cuts to other Defence priorities. It added that MOD’s Service Personnel Plan and its Strategic Remuneration Review were in place to address personnel priorities. MOD concluded that the Armed Forces’ pay award should meet recruitment, retention and motivation needs, be guided by the CPI inflation target and be affordable within MOD budgets.
- 2.8 The Secretary of State observed in oral evidence that Service personnel benchmarked their pay with other public sector workers and that they expected a fair and proportionate award that reflected the sacrifice they make and the esteem in which the public hold them. The PPOs emphasised that increases should be at the top end of public sector awards, adding that Service personnel watched closely the relative position of their award against inflation. In the context of valuing personnel and affordability, the Secretary of State commented that MOD and other Government departments had made a clear commitment to improve the lives of Service personnel and families in responding to the recommendations of the Service Personnel Command Paper¹.

Defence context

- 2.9 MOD acknowledged that operational commitments continued to exceed Defence Planning Assumptions because of commitments in Afghanistan and Iraq. Overall, numbers deployed to Afghanistan had risen and they were engaged in high intensity warfighting operations where casualty rates had increased markedly. However, numbers deployed to Iraq had reduced and the intensity of warfighting had decreased. MOD outlined ongoing commitments worldwide and contributions to UK security and contingencies. The proportions deployed on operations and undertaking other military tasks² fell for each Service in 2007-08. However, meeting harmony guidelines³ remained

¹ *The Nation’s Commitment: Cross Government Support to our Armed Forces, their Families and Veterans* – Ministry of Defence Cm7424, July 2008.

² Military tasks refer to everything detailed in Defence Strategic Guidance that is required to be achieved by UK Armed Forces not deployed on contingent operations. Examples are Nuclear Deterrence, Military Aid to the Civil Authority, Ceremonial, Bomb Disposal, UK Resilience and Home Defence, Search and Rescue.

³ Harmony guidelines comprise: Royal Navy and Royal Marines – 60 per cent deployed and 40 per cent at base in a 3-year cycle with no more than 660 days away from home over a rolling 3-year period; Army – 6 months on operations in every 30-month period with separated service no more than 415 days away over a rolling 30-month period; RAF – 4 months on operations in a 20-month period with separated service no more than 280 days over a rolling 24-month period.

challenging with large proportions of the Services experiencing a breach, with significant breaches among Operational and Manning Pinch Points⁴.

Service pay

2.10 MOD's evidence highlighted that Service pay costs £9.1 billion⁵ with the package growing in recent years. Personnel costs (military and civilian) represented about one third of the Defence budget. MOD cited the 2008 Armed Forces' base pay award as "one of the highest" in the public sector and pointed to awards having exceeded the average of Pay Review Body settlements in each of the last six years. Armed Forces' paybill per head had grown by 2.7 per cent in 2008-09 compared with 3.8 per cent growth in the whole economy Average Earnings Index (AEI). However, MOD noted that Armed Forces' paybill per head had exceeded AEI for the last five years, except 2004-05. Going forward, Armed Forces' pay drift was estimated to be minus 0.2 per cent in 2009-10 driven by the changing workforce mix.

Personnel

2.11 Manning levels at April 2008 were outside MOD's Departmental Strategic Objective tolerances. MOD estimated that manning balance would not be achieved until 2010-11 (with Service variations) and in the longer term would only be solved operational pressures were relieved. Recruitment in 2007-08 had increased by 1,520 compared with 2006-07 but was still below target and, for 2008-09, the target had been set at a challenging 11 per cent higher. MOD recognised that the recruitment package needed to be competitive but considered that the Armed Forces were attractive employers in pay terms and offered better job security compared with an uncertain labour market. Recruitment challenges centred on the diminishing pool of 16-24 year olds, increased take-up of further education, recruiting ethnic minorities and women, and the negative impact of inquiries into training establishments. Gains to Trained Strength (GTS) were also below targets – for Army Other Ranks by around 15 per cent per annum.

2.12 While the Government regarded retention as "stable and satisfactory" compared with the wider public and private sectors, the Services considered turnover was above the desired level and retaining experienced personnel remained important when the Armed Forces must "grow" personnel with the necessary skill sets and experience to undertake senior roles. Voluntary Outflow⁶ was at historic levels but particularly high in Operational Pinch Point trades. MOD placed store in social and community support measures to retain personnel. It assessed morale as generally satisfactory and expected that it would be further supported by delivering on the findings of the Service Personnel Command Paper and the National Recognition Study⁷. While pay was considered a source of satisfaction for many, MOD acknowledged that it was becoming an increasingly significant retention-negative factor. MOD also provided details of a range of work under the Service Personnel Plan to deliver the right numbers of properly trained and motivated personnel.

⁴ An Operational Pinch Point is a branch specialisation or area of expertise where the shortfall in trained strength is such that it has a detrimental impact on operational effectiveness. A Manning Pinch Point is where the shortfall in trained strength has affected the branch structure and will require a number of recruitment/retention measures to rectify.

⁵ Comprising pay, allowances, SCAPE and employer National Insurance contributions. Includes elements not covered by AFPRB's remit.

⁶ Voluntary Outflow – all exits from trained personnel that are voluntarily generated by the individual before the end of their agreed engagement or commission period.

⁷ *National Recognition of our Armed Forces* – Report to the Prime Minister by Quentin Davies, Bill Clark and Air Commodore Martin Sharp, May 2008.

Affordability

- 2.13 MOD's financial planning assumption included a 2.5 per cent paybill increase in 2009-10; 2 per cent for the "core pay settlement" and 0.5 per cent for targeted measures. Illustrations were provided of the additional cost of pay awards above this level. MOD emphasised that a paybill increase above 2.5 per cent would affect investment in Service accommodation and allowances, and could also reduce manpower numbers, military activity and the equipment programme. MOD pointed to the 2008 pay award which had cost an additional £109 million above planning assumptions and had forced further savings measures which directly impacted on military capability.
- 2.14 MOD told us, in oral evidence, that the Government's inflation target had been the basis for setting budgets under the CSR. It stated that budgets had been managed through efficiency savings without detriment to personnel budgets. Negative pay drift was forecast for 2009-10 as a result of change in the workforce mix, although MOD suggested that this did not allow much flexibility for pay awards that did not conform to the Government's public sector pay policy. The PPOs added that achieving affordability was important but pay awards were a key personnel issue that required funding in full.
- 2.15 We note that in the context of affordability, some personnel on our visits were highly critical of the resources available as a consequence of funding constraints which added to a sense that personnel were undervalued.

Correspondence from the Secretary of State

- 2.16 The Secretary of State wrote to us on 13 January 2009, to set out the Government's view on the impact of developing economic conditions. He pointed to forecasts of continuing recession in 2009 with rapidly falling inflation and a weakening labour market. The letter emphasised the Government's fiscal measures to support the economy and its priority to ensure the sustainability of public finances. The Secretary of State commented on the relative attractiveness of public sector employment and his confidence that the "excellent" Armed Forces' package will lead to improved recruitment and retention in the coming months with some improvements already seen in the latter part of 2008. Finally, the Secretary of State commented on the importance of a fair pay award that ensured sufficient resources for other parts of the package and emphasised that awards above paybill assumptions would require compensating cuts to other Defence priorities.

Trends in the UK labour market

- 2.17 Latest data suggest that the uncertainty in the wider economy is beginning to affect the labour market. Employment levels were at a record high during the spring of 2008, however, by November 2008, they were at 29.4 million, easing back from their peak by almost 150,000. This left the rate of employment at 74.2 per cent, down 0.2 percentage points from the previous quarter.
- 2.18 In the three months to September 2008, the number of people in public sector employment was 14,000 higher than in the previous three months and 15,000 higher than a year earlier. This compares with private sector employment which was 128,000 lower than the previous quarter, but 43,000 higher than the same period a year earlier. In the three months to December 2008, the number of job vacancies was 530,000, a fall of 69,000 from the previous quarter and 153,000 lower than a year earlier.

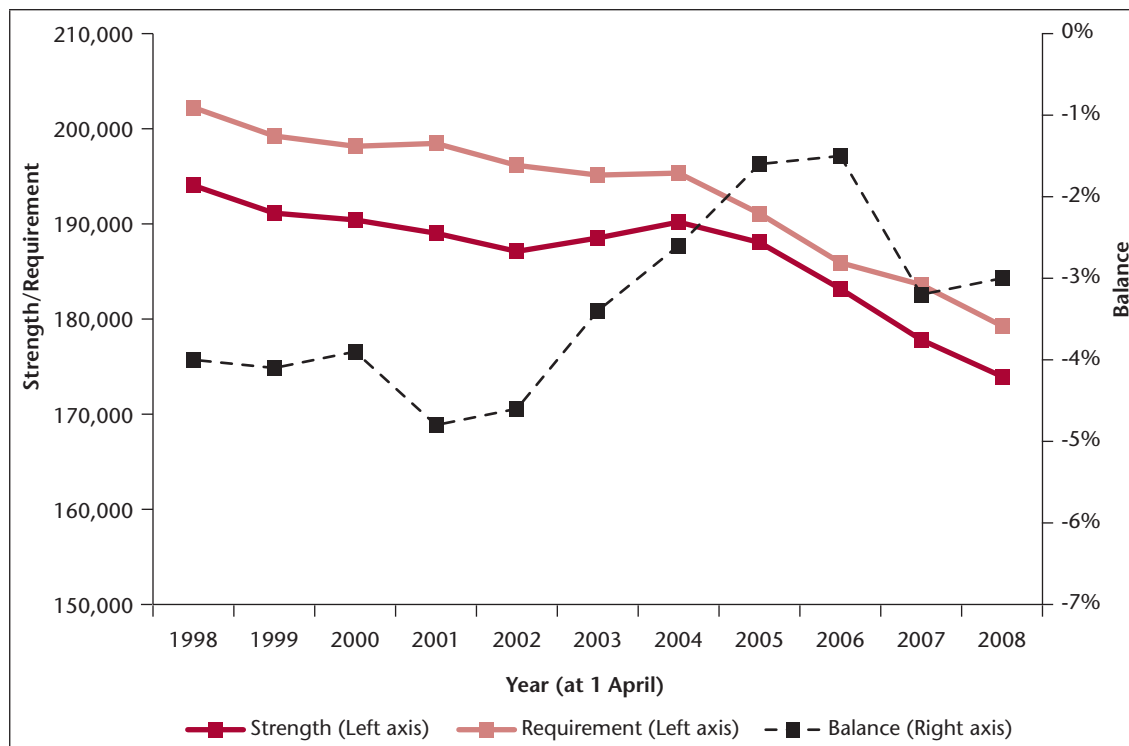
- 2.19 In the three months to November 2008, unemployment rose by 131,000 to 1.92 million, a rate of 6.1 per cent. Forecasters expected the numbers unemployed to reach 2 million by the end of 2008. Over the same period, unemployment levels for 18-24 year olds increased by 55,000 to 614,000 (14.5 per cent of economically active people of that age).
- 2.20 The Armed Forces rely heavily on the supply of young people to meet recruitment targets. In recent years, Government policy has encouraged young people to stay in full-time education. In 2007, the proportion of 16 year olds in full-time education reached a record high of 79.3 per cent. There were also rises in the proportion of 17 and 18 year olds – two thirds of 17 year olds and 43.7 per cent of 18 year olds remained in full-time education. Similarly, declines were observed in the rate of those not in education or training – 9.2 per cent of 16 year olds, 17.6 per cent of 17 year olds and 37 per cent of 18 year olds.
- 2.21 It is too early to make a judgement on the extent to which the reduced supply of young people and its impact on Armed Forces' recruiting will be offset by the attraction of a military career during uncertain economic and labour market conditions. The remuneration package and good career prospects are aspects that MOD could use to their advantage to improve both recruitment and retention.

Armed Forces' manning

- 2.22 Between 1998 and 2008 (Chart 2.1) the UK Armed Forces have observed a steady decline in both the full-time requirement (11 per cent) and the trained strength (10 per cent). The one constant over this period has been the persistent manning deficit. The Armed Forces remain severely stretched with levels of operational commitments in excess of Defence Planning Assumptions, yet manning levels continue to fall outside the agreed DSO Manning Balance⁸ target. The Services do not expect to achieve manning balance before 2010-11.
- 2.23 MOD commented that recruitment and retention problems continued and were serious in some areas because of operational pressure. The PPOs warned, in oral evidence, that manning levels remained fragile against the level of operational tempo. They stressed the need to achieve full manning, not just manning balance; indeed they posited that fulfilling all commitments and meeting harmony guidelines would require an additional 10 per cent manning.
- 2.24 The manning evidence shows that:
- At 1 April 2008, the Armed Forces' full-time trained strength (including Full Time Reserve Service (FTRS) and Gurkhas) was 173,960 against a requirement of 179,270 – a deficit of 3.0 per cent, slightly reduced from 3.2 per cent a year earlier;
 - At 1 October 2008, full-time trained strength had fallen slightly to 173,270 against a requirement of 179,060 – a deficit of 3.2 per cent; and
 - In the year to April 2008, the full-time trained requirement fell by 2.4 per cent while the full-time trained strength fell by 2.2 per cent.

⁸ Departmental Strategic Objective target for manning balance is defined as between –2% and +1% of the requirement.

Chart 2.1: Full-time trained strength and requirement 1998-2008



2.25 Single Service manning evidence showed:

- Royal Navy (RN) full-time trained strength (including Royal Marines) at 1 April 2008 was 35,070, a shortfall of 3.3 per cent. At October 2008, the deficit had widened to 3.6 per cent. These figures masked more severe gaps within some units, especially Submariners, the Fleet Air Arm, Royal Marines Other Ranks and Divers. RN manning was forecast to be in balance by April 2010;
- Army full-time trained strength at 1 April 2008 was 98,270, a deficit of 3.5 per cent. By October 2008, this shortfall had reduced to 3.2 per cent. While the Army continued to have a surplus of Officers, the manning deficit for Other Ranks increased to 4.8 per cent from 3.8 per cent in 2007. An increase in the trained strength requirement for 2011-12 of almost 1,000 will delay manning balance until 2011 and may result in full manning not being reached within current forecasts; and
- RAF full-time trained strength at 1 April 2008 was 40,620, a shortfall of 1.4 per cent. At October 2008, this deficit had widened to 3.1 per cent. Despite a planned fall in requirement of 400 in the next four years, strength was forecast to decrease by twice that number during the same period. Manning balance was reached briefly during early 2008, but the RAF did not expect to return to manning balance until 2011.

2.26 We looked at the trained strength position of Other Ranks and Officers between 2007 and 2008. Charts 2.2 and 2.3 show:

- Overall for Other Ranks, there was at a 3.9 per cent deficit at 1 April 2008, no change from a year earlier. The shortfalls for both the RN and RAF had reduced since April 2007 to 3.9 per cent and 1.3 per cent (from 6.1 per cent and 2.4 per cent respectively). The Army deficit widened to 4.8 per cent from 3.8 per cent;
- By October 2008, the deficit for Other Ranks had widened to 4.1 per cent with the fall in trained strength greater than the fall in the requirement;

- For Officers, there was an overall surplus of 1.7 per cent, increasing from a surplus of 0.8 per cent at 1 April 2007. The Army surplus had reduced slightly from 6.7 per cent to 5.4 per cent. The deficit of RAF Officers had narrowed from 6.4 per cent to 2.0 per cent; and
- Between April and October 2008, the surplus of trained Officers reduced to 1.2 per cent.

Chart 2.2: Full-time trained strength (surplus/deficit) – Other Ranks

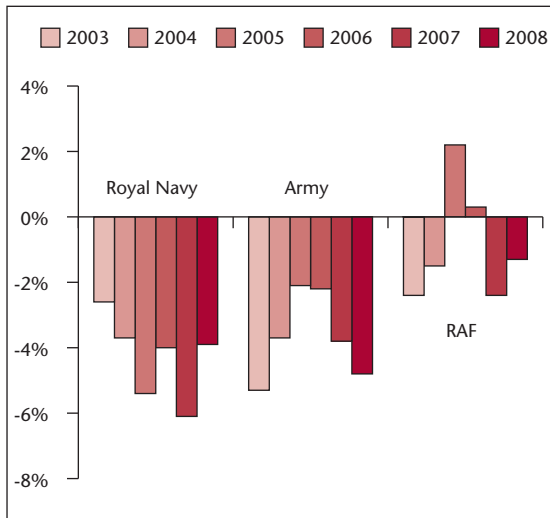
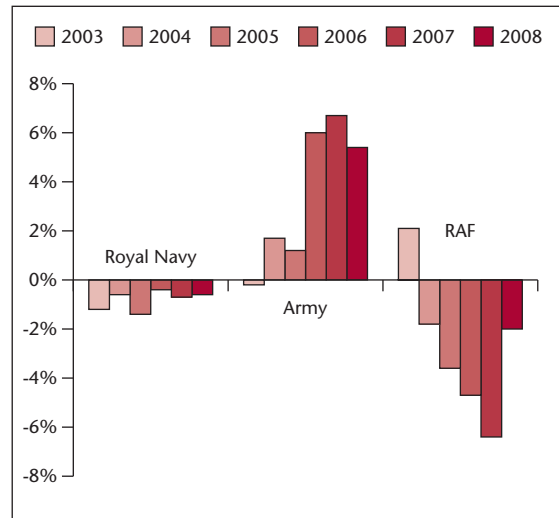


Chart 2.3: Full-time trained strength (surplus/deficit) – Officers



2.27 Gains to Trained Strength (GTS) represent the number of new recruits having completed training as well as direct entrants (including trained re-entrants, transfers from other Services and countries, professionally qualified Officers and FTRS). Between 2006-07 and 2007-08, there was a 5.7 per cent overall increase in the GTS. Other Ranks witnessed an increase of 8.1 per cent during this period (albeit from a low base) following falls during the previous three years, while GTS for Officers fell by 10.1 per cent. In the year to 30 September 2008, GTS continued to increase and were 11.1 per cent higher than for the year to 31 March 2008.

Chart 2.4: Gains to Trained Strength – Other Ranks

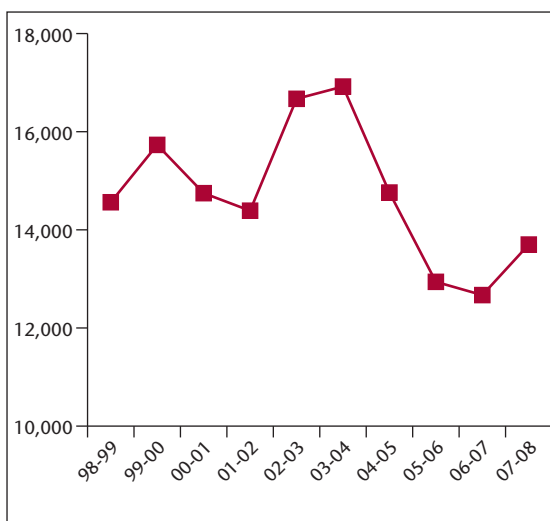
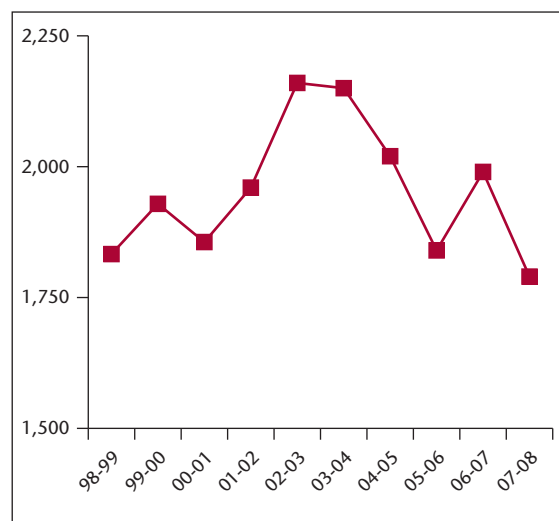


Chart 2.5: Gains to Trained Strength – Officers



2.28 In terms of achieving GTS targets during 2007-08:

- The Naval Service achieved 91 per cent of its target though this masked shortages in some areas, especially Submariners;
- The Army sees GTS as a key indicator of performance in inflow, but failed to meet its Other Ranks' GTS target for the third consecutive year, achieving only 83 per cent. Plans to increase the GTS are concentrated on attracting higher quality entrants and improving retention in training (the current initial training wastage rate is 38 per cent). Army Officer GTS stood at 95 per cent; and
- The RAF achieved 115 per cent of its target. However, the overall reduction in RAF requirement by April 2008 meant that GTS targets were considerably below the historical norm. The excess over target was also in response to higher than expected outflow, and a realisation that the target for the numbers moving into training was going to be missed.

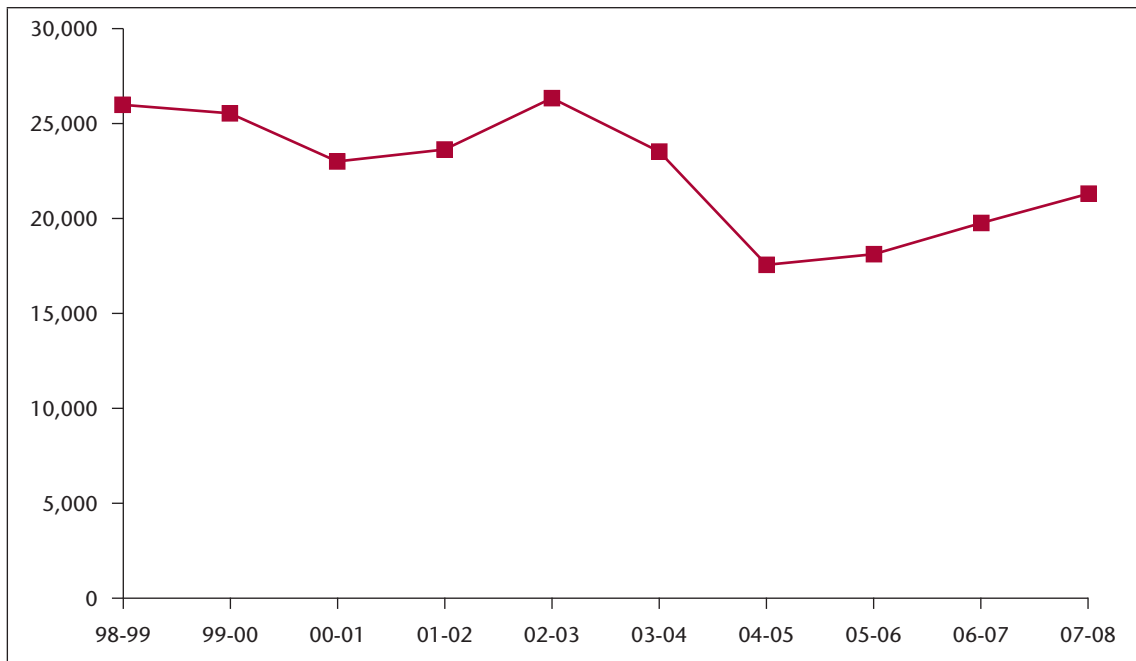
2.29 The manning deficit affects the Armed Forces' ability to deliver operational capability. Sustained high operational tempo makes the management of key Operational and Manning Pinch Points a priority in terms of manning for the Services. At September 2008, there were 87 Pinch Points across the Services, representing around 55,500 personnel – almost one third of the total strength of the UK Armed Forces. The key Pinch Points include MERLIN Pilots, Observers and Aircrewmen, RM Other Ranks, Infantrymen (Private and Lance Corporal), REME Vehicle Mechanics (Private to Corporal), RAF Medics and Junior Officer Pilots. Some of these groups have been offered targeted FRIs to aid retention including under the PPOs' delegated authority to target smaller groups (e.g. RAF Paramedics). MOD's evidence trailed the introduction of a series of measures over the next few years to achieve manning balance and meet the key challenge of Pinch Points.

2.30 An overarching theme of the evidence in recent years has been the imbalance between commitments and resources. The persistent manning deficit over the last decade has been accompanied by a considerable reduction in manning strength and requirement while operational and other commitments have risen. Armed Forces' manning has been reconfigured to meet modern demands but remains significantly in deficit and we are constantly told by personnel on visits that overstretch, possibly moving towards breaking point, is an enduring feature of Service life. Improvements in recruitment (numbers and quality), combined with a reduction in wastage during training and greater retention of personnel are key to narrowing the deficit, especially as MOD is unable to respond as other employers can by purchasing skills from the labour market. The PPOs continued to point out, however, that even with full manning, shortages within specialist categories may remain. The Chief of the Defence Staff commented on the need to reduce commitments, achieve full manning and then to address restructuring. Personnel told us on our visits that manning shortfalls led to frequent "crisis management" across the Services. Shortfalls in manning and downsizing had, according to the Service Families' Federations, increased the pressure on personnel and disruption to family life.

Recruitment

2.31 In 2007-08, 21,330 personnel were recruited into the Armed Forces, almost 8 per cent higher than in 2006-07, which in turn was 9 per cent higher than 2005-06. Chart 2.6 shows that, while recruitment has improved year on year since the 10-year low of 2004-05, numbers are still below those achieved at the start of the millennium. Officer recruitment was up 10.1 per cent in 2007-08 while Other Ranks intake increased by 7.6 per cent. RN intake was 2.4 per cent higher, the Army increased by 1.7 per cent and the RAF saw recruitment increase by 70 per cent (from the low base stemming from reduced recruiting during the manning drawdown).

Chart 2.6: Intake from Civil Life to UK Regular Forces 1998-99 to 2007-08



2.32 In the six months to 1 October 2008, 10,870 people were recruited across the Services, compared with 10,660 during the first half of 2007-08. This represents 44 per cent of an increased 2008-09 recruitment target. The Naval Service expects to achieve 91 per cent of its 2008-09 target but with some shortfall areas, and soldier recruitment in the Army is forecast at 85 per cent. The RAF achieved 45 per cent of target in the first six months of 2008-09. In the year to 1 October 2008, 21,510 personnel were recruited into the Services, 0.8 per cent higher than the year to 1 April 2008.

2.33 The following points regarding recruitment were made by the Services:

- *Naval Service* – in 2007-08 the RN achieved 95 per cent of its recruiting target and the RM just 87 per cent of its target and both are expected to significantly undershoot their target for 2008-09. Resources have been directed at the following critical shortage areas: Submariner Ratings and Officers, Royal Marines Other Ranks, Engineering Officers, Fleet Air Arm Aircrew and Air Engineering Technician Ratings;
- *Army* – the Army commented on the need to improve the “offer” to potential recruits. Although pay and conditions are only a part of the offer, they are significant headlines against which potential recruits compare career options. Pay and service conditions will be central to any effort to improve manning;
- *RAF* – the number of people seeking information on RAF careers rose by 28 per cent in 2007-08. Officer applications increased by 17 per cent while Other Ranks increased by 37 per cent. Recruitment initiatives will continue to focus on Pinch Point trades. The RAF strategy aimed to recruit more females into technical branches and trades where they are currently under-represented.

2.34 Overall, the proportion of personnel from ethnic minority backgrounds in the Armed Forces increased to 6.1 per cent at April 2008, from 5.8 per cent a year earlier, but recruiting targets for UK ethnic minorities in 2007-08 were not met. The Naval Service achieved 2.1 per cent against a target of 3.5 per cent, the Army achieved 3.6 per cent against a target of 4.3 per cent and the RAF achieved 1.8 per cent against a target of 3.6 per cent. The overall MOD target is 8 per cent by 2013.

2.35 MOD has set a 15 per cent limit on the proportion of Foreign & Commonwealth citizens within each Service (and within each arm of the Army). Factors considered were promoting diversity, maintaining important historical links and reviewing how other countries recruit non-nationals. The number of Foreign & Commonwealth personnel has increased significantly in recent years and currently stands at 1.5 per cent for the RN, 6.6 per cent for the Army and 0.5 per cent for the RAF.

Retention

2.36 The number of personnel leaving the trained strength to enter civilian life during 2007-08 was 18,010, a reduction of 4.6 per cent from 2006-07. Officer Outflow rates increased slightly to 8.1 per cent from 7.9 per cent in 2006-07. RN Officer Outflow rose from 6.0 to 7.0 per cent and the Army increased from 8.1 to 8.4 per cent, while RAF Officer Outflow decreased from 8.9 to 8.3 per cent. The rate of exits for Other Ranks decreased to 11.1 per cent in 2007-08, yet remained close to the historical high level of 2006-07. RN rates fell from 10.0 to 9.5 per cent and the Army saw a reduction in Outflow from 12.0 to 11.6 per cent but RAF exits increased slightly from 11.1 to 11.3 per cent. Detailed tri-Service breakdowns of outflow by Voluntary Outflow (VO), Time Expiry, Redundancy and Other Wastage remain unavailable due to ongoing limitations on Army data under the Joint Personnel Administration (JPA) system. We look forward to these problems being resolved speedily as incomplete data constrains our assessment of this vital piece of the evidence base.

2.37 Voluntary Outflow at 31 March 2008 for Officers was 4.3 per cent for the RN (an increase from 3.1 per cent) and 3.0 per cent for the RAF (up from 2.9 per cent). For Other Ranks, the RN exit rate was 6.3 per cent (unchanged from 2006-07) and for the RAF 5.1 per cent (an increase from 4.6 per cent). In the six months to the end of September 2008, RN VO rates reduced slightly for both Officers and Ratings. RAF Officer VO remained unchanged, while there was an increase to 5.9 per cent (from 5.1 per cent) for RAF Ground Trades. As mentioned in paragraph 2.36 accurate Army VO data is unavailable, although provisional Army estimates put VO rates at 5.9 per cent, in line with the 10-year average of 6.0 per cent.

2.38 One important tool to aid retention is the use of FRIs. MOD's approach in recent years has been targeted FRIs covering large and small groups of personnel where shortfalls exist to such an extent that operational capabilities are affected. We realise the necessity of such measures during times of high operational tempo and manning shortages and acknowledge they enable the employer to retain targeted key personnel and to respond swiftly to emerging manning concerns. However, in both our 2007 and 2008 Reports we pointed to the need for thorough cost benefit analyses to be undertaken of new or extended FRIs to ensure that they represent value for money. We await further evidence.

2.39 The Armed Forces Continuous Attitude Survey highlighted the following retention issues:

- Almost half of Other Ranks and around 40 per cent of Officers regularly felt like leaving the Service although there was a general reluctance to do so and around a half would miss the benefits of Service life if they did leave;
- A majority of personnel agreed that more pay outside would make them seriously think about leaving the Service; and
- Over 40 per cent of Officers across each Service and around a third of Other Ranks would recommend joining the Service to others.

- 2.40 The main retention-positive factors identified were the pension, healthcare provision, opportunities for personal development and the excitement of the job. Retention-negative aspects continued to be the impact of Service life on family and personal life, the effect of operational commitment and stretch, opportunities outside the Armed Forces, and the level of pay.

House of Commons Defence Committee Report

- 2.41 We were pleased to contribute evidence to the House of Commons Defence Committee's Report on Armed Forces' recruitment and retention⁹. The Report summarised key concerns, most of which we have seen in evidence and reported on over a number of years. The Committee concluded that: commitments were outstripping resources; not enough people were joining; those leaving earlier were increasing; deficits in Pinch Points impacted on operational capability; harmony guidelines were broken; and the tempo of Service life impacted on retention. The Committee acknowledged the developments proposed under the Service Personnel Command Paper but concluded that MOD was not responding to recruitment and retention problems with "sufficient flexibility and imagination".
- 2.42 We were interested to note that, in the Committee's view, pay did not feature as a particular concern and that pay was not a main cause of people leaving. Other findings relating to our remit were:
- *Recruitment* – the need to engage with society, better co-ordination of school activity, strategies to reflect the changing recruitment environment and targeting other groups, a more systematic approach to Pinch Point recruitment, assessing "One Army Recruiting", using gap year initiatives, and wider use of educational initiatives;
 - *Training* – further analysis required of the causes of training wastage;
 - *Retention* – giving priority to family stability, supporting delivery of the Service Personnel Command Paper, co-ordinating voluntary provision and handling welfare support through the Command structure. Housing standards played an important part in retention and improvements should be "pushed forward as quickly as possible" with increased resources. Standards of maintenance should be improved. New home ownership initiatives should be developed "now" in partnership with the social housing sector; and
 - *Others* – concern over the growing use of FRIs and the need to assess their effectiveness, criticisms surrounding JPA and customer service, better alignment of terms and conditions across the Services, an examination of retirement policies focusing on retention of experienced personnel, and consideration of setting up an Armed Forces Federation.
- 2.43 The Government's response to the Committee's report¹⁰ welcomed the recognition of the impact of high operational tempo and highlighted the positive elements of the current package in supporting recruitment and retention. The Government rebutted the Committee's view that it was not responding to challenges with enough flexibility by citing: single-Service recruiting initiatives including those that attract diverse groups; work on reducing training wastage; efforts to minimise the disruption of Service life; improvements to welfare provision (through the Service Personnel Command Paper); commitments to housing improvements; and aligning terms and conditions. The

⁹ *Recruiting and retaining Armed Forces personnel* – House of Commons Defence Committee, Fourteenth Report of Session 2007-08, HC424, 30 July 2008.

¹⁰ *Recruiting and Retaining Armed Forces Personnel: Government Response to the Committee's Fourteenth Report of Session 2007-08* – HC1074, 3 November 2008.

Government also commented on the great importance attached to our independent process and that full acceptance of our recommendations demonstrated that the Government and the nation valued the Armed Forces.

Workload

2.44 Our assessment of the workload pressures on Service personnel draws on the latest levels of operational and other commitments and their impact on harmony guidelines, plus evidence on working hours (including the position against the National Minimum Wage) and leave arrangements.

Operational and other commitments

2.45 As we noted earlier, the Armed Forces continue to operate beyond the Defence Planning Assumptions made under the Strategic Defence Review. MOD's evidence highlighted the effects of concurrent high intensity warfighting operations and enduring operational commitments worldwide commenting that the Services were "very stretched" but that the situation was, for now, manageable. The Secretary of State, in oral evidence, confirmed the Armed Forces had not been challenged by such sustained commitment since the end of the Second World War. The House of Commons Defence Committee in its recruitment and retention report (see paragraphs 2.41 to 2.43) stated that the Armed Forces were operating at an unprecedented tempo with commitments outstripping the levels for which they were resourced. We see first hand on our visits the pressures created by this imbalance between commitments and resources.

2.46 As at 17 November 2008, the total number of personnel committed to operations at any one time was 19,400. This included 1,700 who were in direct support of current operations while deployed in Permanent Joint Operating Bases. The number supporting operations in Iraq was 7,600 with troop numbers in Southern Iraq remaining at 4,100 rather than the 2,500 previously envisaged. The Government has announced a fundamental change of mission in Iraq in 2009 and anticipates a reduction in troops. Numbers deployed to Afghanistan increased to 8,500 in 2008 with indications from the Government of a further increase in 2009. MOD's evidence also pointed to ongoing commitments to Defence support in Northern Ireland, the deployment to Kosovo in spring 2008, and other operations in Pakistan, the Lebanon and in the UK.

2.47 Despite these commitments, there was a reduction in numbers on operations between 2006-07 and 2007-08 for each Service. The proportion of Naval Service personnel deployed on operations and undertaking other military tasks fell from 22 to 19 per cent; RAF from 17 to 14 per cent; and Army from 27 to 20 per cent. Nevertheless, the high level of operational tempo continued to adversely impact on the Services' capacity to meet harmony guidelines. The Army estimated that 10.3 per cent of its trained personnel exceeded the separation guideline. Significant breaches of harmony guidelines were seen by many, including Royal Logistic Corps Ammunition Technician Officers and Royal Engineer Explosive Ordnance Disposal Operators, Forward Observation Officers from the Royal Artillery, and the Infantry. Tour intervals were under pressure for the Infantry, Royal Armoured Corps and Royal Artillery with some units experiencing tour intervals of less than 12 months. The RAF had 9.2 per cent of personnel breaking harmony guidelines in 2007-08. However, following a change to the threshold from 140 days separation per year to 280 days over 24 months, the RAF reported breaches of between 3.2 and 7.7 per cent, dependent upon rank. The RN proactively took action to minimise harmony breaches which, consequently, affected less than 1 per cent of RN/RM personnel. However, frontline gapping was considerable at 12.9 per cent for the RN (with ships unable to man to the required level) and 17.7 per cent for the RM. A consequence of action to manage harmony guidelines was significant churn and turbulence for individuals, especially within Pinch Point trades.

Working hours

2.48 In 2007-08, average working hours for all Service personnel were 47.3 hours per week, slightly down from 48.0 hours in 2006-07. There were also falls reported in the number of duty hours and unsocial hours worked and the proportion of personnel working in excess of 70 hours or more a week. For comparison, the Labour Force Survey¹¹ indicates an average working week for full-time civilian workers of 37.1 hours (38.9 for men and 33.9 for women). There were concerns from MOD and the Services that the reduced response rate to the Working Patterns Survey, especially from those on operations, was having an impact on the results. The messages from our visits were that the period of relatively heavy workload continues, both for those on operations and those in direct support areas.

National Minimum Wage

2.49 Although the Armed Forces are exempt from the National Minimum Wage (NMW) legislation, MOD is committed to acting within its spirit. Junior Ranks, across all Services, worked on average 46.2 hours per week during 2007-08, equating to an hourly base pay rate of £6.74. This compared with the October 2007 NMW¹² rates of £5.52 per hour for those aged at least 22 and £4.60 per hour for those aged 18-21.

2.50 Using October 2007 NMW rates, Junior Ranks working in excess of 56 hours per week (aged 22 and over) and 68 hours (aged 18-21) potentially could have earned below the NMW¹³. Following increases to NMW rates from October 2008, the weekly hours required to fall below the NMW reduced to 54 and 65 hours per week for the respective age groups.

Leave arrangements

2.51 Individuals are now responsible for recording details of their annual leave on JPA. However, MOD advised us that details were not being recorded sufficiently accurately to produce 2007-08 estimates of the amount of leave personnel were taking, carrying forward or losing. Data from the Armed Forces' Continuous Attitude Survey for 2007 suggested that, overall, personnel were satisfied with their leave entitlement and with the amount of leave they were able to take but had some concerns about their ability to take leave when they wanted. Data from the Working Patterns Survey reported 43 per cent of personnel having to change already approved leave. These conclusions concur with the views expressed on our visits during 2008. Leave data are essential to our remit both for our annual assessment and trends for X-Factor reviews. MOD must ensure that robust data on leave are available for our 2010 Report.

Pay comparability

2.52 We repeat here the premise for our pay comparability analysis which was set out in detail in our 2008 Report¹⁴ (paragraphs 2.47 to 2.51). 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". Pay comparability is a key part of our remit and an important strand of evidence to ensure that the Armed Forces are appropriately positioned against the market, and are able to recruit and retain the personnel they require. Given the nature of the remit group it is not always possible to make direct comparisons between military and civilian jobs. Hence, ours is not a mechanistic process and we are required to use our judgement when analysing the evidence.

¹¹ First release: *Labour Market, December 2008* – Office for National Statistics, 2008.

¹² The October 2007 NMW rates are used to be consistent with the timing of the Working Patterns Survey. The hourly NMW rates from 1 October 2008 were £5.73 for those aged 22+ and £4.77 for those aged 18-21.

¹³ Not taking into account any Longer Separation Allowance or Operational Allowance payments.

¹⁴ AFPRB Thirty-Seventh Report – 2008 Cm 7315 available on www.ome.uk.com.

2.53 Broad comparability is assessed across three areas: (i) comparisons of pay levels and movements between the military and civilians based on job weight; (ii) comparisons with the packages available to uniformed civilian services; and (iii) comparisons for those at entry points to, and in the early stages of, their careers. We then set our conclusions on broad comparability against other evidence, including movements in average earnings and pay settlements across the economy, and that relating to recruitment and retention.

Job weight

- 2.54 Since 2005 we have commissioned the Hay Group to access data on civilian pay levels and movements at 1 April each year. The Hay Group approach comprises three stages: (i) "benchmarking" a sample of 277 military jobs, chosen to be representative of the Armed Forces as a whole, and of each Service; (ii) converting the job weights, produced by the MOD's job evaluation system, of this sample into Hay job evaluation scores; and (iii) reading across to civilian pay, via a database covering the earnings of 600,000 employees.
- 2.55 The Hay Group have used, for each rank, average military pay, less X-Factor. Civilian comparators were established which use base salary (annualised basic salary including contractual bonuses and permanent payments) and total cash (basic salary plus variable bonuses and incentives), adjusted to reflect the relative value of the military pension. Overtime and shift premia are not included as comparative working hours are assessed as part of X-Factor considerations.
- 2.56 Broadly speaking as at April 2008, using the Other Ranks' base salary measure, Privates, Lance Corporals in the lower pay band and Warrant Officers were paid between the market median and upper quartile of civilians jobs of comparable weight. The remainder of the Other Ranks were paid at or slightly above the civilian upper quartile. However, on the total cash measure, those in the Armed Forces are closer to the market median. Moreover, it is also important to recognise that, as the Hay Group point out, manual workers can increase their base pay by between 40 and 80 per cent through evening and weekend overtime and by working shifts.
- 2.57 As in recent years, the Hay Group's comparisons showed Officers' base pay was at or below the market median for civilian jobs of comparable weight and in some instances below the lower quartile. The largest differences between the military and civilians were for the more Senior Officers at Lieutenant Colonel and above, especially those in the more heavily weighted jobs. Using the total cash measure the differences became larger, especially at the higher ranks, as senior civilian comparators will often have bonus earning opportunities which are not available to military personnel. Overall, the position for Officers remained similar to that in 2007 with a slight widening of the gap between military pay and their civilian comparators. For Lieutenant Colonels and above the gap with civilian comparators remained significant.
- 2.58 Data between April 2007 and April 2008 showed base pay movements for Other Ranks' comparators between 1.9 per cent (Lance Corporal) and 3.1 per cent (Warrant Officer 1). For Officer comparators, base pay increased with rank from between 2.5 per cent (Lieutenant) and 6.7 per cent (Brigadier). Restricting this analysis to pay movements for those in the same job as a year earlier shows a median figure of 4.0 per cent for most ranks (Other Ranks and Officers).
- 2.59 In 2009-10 we will be reviewing our approach to pay comparability including whether "total reward" would provide an appropriate platform for comparisons. We note that the Government's evidence placed emphasis on the need for all Pay Review Bodies to examine "total reward" and, in particular, the value of public sector pensions.

Pension valuation

2.60 In the context of “total reward”, we were asked in the Government’s evidence to further explain the rationale behind the outcomes from our 2007 pension valuation. Our 2007 Report set out a full explanation of our approach¹⁵ and the supporting detailed research¹⁶ was made available when our report was published. We subsequently exchanged correspondence with the Secretary of State on this issue and our Secretariat provided explanations to both MOD and HM Treasury. We will keep our methodology under review for the next valuation for our 2012 Report.

Uniformed civilian services

2.61 We also examine the packages available to uniformed civilian services. Many of the personnel we meet see these services as directly competing for recruits, direct or “natural” comparators in similar trades and, most importantly, as potential second or alternative careers. Our visits continue to highlight the importance of these comparisons and how the relative value of such packages can influence retention in the Armed Forces.

2.62 Our analysis covered the: Fire, Police, Prison, MOD Police and Ambulance Services. Although there are perceived similarities, these services offer a range of different career structures with different entry points and different terms and conditions making comparisons difficult. For instance, over 60 per cent of new recruits to the Armed Forces in 2007-08 were aged 16-20 while the average age on entry to the Police was 27 years. Over half of UK Regular Forces are aged under 30, compared with under 15 per cent of uniformed Prison Service personnel. Armed Forces’ personnel have a non-contributory pension scheme while schemes for other groups, such as the Police and Ambulance personnel are contributory. Armed Forces’ personnel also tend to work longer hours than these other groups. On AFPRB visits personnel often point out that they have a lower starting salary than Police Officers, Prison Officers and Firefighters. However, the relatively early age of entry for those joining the Armed Forces suggests that other uniformed occupations can provide second careers for those who have already spent some time in the Armed Forces rather than being in direct competition for those looking to join the Armed Forces. The broad conclusion of recent years (taking no account of job weight) remains that the packages on offer are generous compared to the Armed Forces, particularly on starting salaries.

Young people

2.63 We also make age-based pay comparisons between young people serving in the military and their civilian counterparts. Data from the 2008 Annual Survey of Hours and Earnings (ASHE) showed that military starting pay remained significantly ahead of median gross earnings for civilians aged 16-17 years but below that for 18-21 year olds. Upon completion of training, Service earnings continued to be ahead for both age groups. For 22-29 year olds (the age range in ASHE which broadly covers Privates to Corporals and equivalents) the average military pay of Privates/Lance Corporals remained behind civilian earnings but the lead for Corporals’ pay was now almost 40 per cent.

2.64 We conducted an analysis of the ASHE data from 2001-2007 to track movement in the position of military salaries relative to full-time civilian earnings. Military age profiles (by rank) were used to determine age ranges for the appropriate civilian comparator. Military salaries (adjusted for X-Factor) by rank were compared with the civilian earnings distribution (adjusted for pension value) and showed:

¹⁵ AFPRB Thirty-Sixth Report 2007, paragraphs 2.16 to 2.26 – Cm 7016 available on www.ome.uk.com.

¹⁶ *Armed Forces’ Pension Scheme Valuation: A Report by Watson Wyatt*, December 2006 published on www.ome.uk.com.

- The position for the lowest paid Service personnel (Private Level 1) had improved relative to civilian pay;
- For 2007 data, the median level of civilian earnings was positioned within the military pay ranges (Ranges 1-3) for those on the lower band, suggesting broadly comparable military pay levels. For higher pay bands, Range 1 contained the median level of civilian earnings while all military pay in Ranges 2 and 3 was above median civilian earnings; and
- The ASHE data is consistent with the findings of our job weight pay comparisons.

Graduates

2.65 Median starting salaries for graduates rose by 1.8 per cent in 2007-08 according to the Association of Graduate Recruiters (AGR). The graduate recruitment market remained buoyant over that period with a 12 per cent annual increase in vacancies. AGR reported almost half of all employers expected 2009 starting salaries to increase in line with the cost of living, but a quarter predicted no change from 2008. Military graduate starting salaries for Officers remained lower than civilian salaries but were broadly comparable with the salaries available in other public sector professions. We also note that the military salary for graduate Officers offers significant progression early in a career compared with other public sector professions.

Our military pay recommendation for 2008-09

- 2.66 Our recommendations must support recruitment and retention, maintain morale and motivation and ensure broad comparability. We must also take account of affordability considerations, and economic and labour market conditions which, this year, are unusually challenging. We assess below how each of these factors plays into our pay recommendation for 1 April 2009.
- 2.67 Given the unusual circumstances we are facing this year, we start with the economic factors that have influenced our recommendations. CPI inflation peaked at 5.2 per cent in September 2008; it fell to 3.1 per cent in December 2008 with RPI falling to 0.9 per cent. The Government and the Bank of England expect to see both GDP and inflation falling in 2009; forecasters suggest that inflation will fall to, and then below, the CPI target of 2 per cent. At November 2008, whole economy average earnings growth, including bonuses was 3.1 per cent – with the gap between public (4.0 per cent) and private sector (2.9 per cent) earnings growth widening. Forecasts suggest average earnings growth of 2.7 per cent for 2009. Similarly, median pay settlements remained around 3.5 per cent in 2008.
- 2.68 We began to see a weakening of the labour market towards the end of 2008. After reaching record highs in the summer, employment levels fell substantially later in 2008 and unemployment was forecast to reach 2 million by the end of the year. A falling number of vacancies and employers' lowered recruitment intentions were symptomatic of weaker employment prospects. The Government stressed that, in this period of economic uncertainty, public sector employment (pay, benefits and job security) would become more attractive and this would help to recruit and retain staff. The evidence suggests, however, that recruitment to the Armed Forces presents ongoing challenges as the number of young people decreases, the proportion continuing in education increases and the Services continue to compete for higher skills. In our judgement, the full implications for the Armed Forces of changes in the labour market are unlikely to emerge until later in 2009 and will therefore be an issue for us to address in our 2010 Report.

- 2.69 Against the uncertain economic background, the Government's public sector pay policy remains essentially unchanged, though there is increased emphasis on obtaining value for money from expenditure on public sector pay.
- 2.70 We note from our pay comparisons between military and civilians that broad comparability was maintained across most ranks as at April 2008. Looking to 2009, the Secretary of State in his evidence to us sought to balance the need for Armed Forces' pay awards to conform to the Government's public sector pay policy and be affordable, with the need to support recruitment and retention. The Secretary of State considered that Service personnel should feel valued in relation to the rest of the public sector and any award should reflect their personal sacrifice and the esteem in which they are held by the public. In this context, we note that a number of public sector pay awards for 2009 have already been agreed under multi-year deals, notably for the Police at 2.6 per cent, NHS staff at 2.4 per cent and an indicative award of 2.3 per cent for School Teachers.
- 2.71 Manning, recruitment and retention evidence (as in recent years) points to significant challenges. The manning deficit has been persistent over the last decade despite reduced manning requirements, and stood at 3.2 per cent at October 2008. Manning remained outside tolerances and MOD did not forecast it coming into balance before 2010-11. Acute shortages of key operational deliverers continued with 87 Operational and Manning Pinch Points covering some 55,500 personnel (approximately one-third of the total workforce).
- 2.72 We agree with MOD that full manning across the Services will only be achieved in the longer term when operational pressure is relieved. Meanwhile, the emphasis must be on achieving recruitment targets and improving retention. While recruitment in 2007-08 was more positive than recent years, it remained below target and the increased targets for 2008-09 are also expected to be missed. There are challenges also in converting recruitment into Gains to Trained Strength. Overall Outflow rates remain at historically high levels, though rates have eased slightly in the first half of 2008-09. The clear message from the Continuous Attitude Survey is that, under existing pressures, pay is becoming a source of dissatisfaction and increasingly a significant retention-negative factor. We conclude that current trends in Armed Forces' recruitment and retention are having little impact on reducing the manning deficit. This is compounded by the Armed Forces having to develop their own middle ranking and senior personnel rather than the range of options open to most other employers.
- 2.73 A central theme of our recent reports has been the imbalance of Armed Forces' resources and commitments. While some changes are expected in deployment levels and patterns during 2009, current operational and other commitments impact heavily on personnel and families and, importantly, are a significant influence on retention. Numbers on operations and other military tasks have fallen across the Services but breaches of harmony guidelines are significant and affect large proportions of the Armed Forces, notably in Operational and Manning Pinch Points. We have seen on our visits that manning gaps are widespread and impact on the level and pace of workload across each of the three Services.
- 2.74 Finally, we accept that value for money from the paybill is essential given the many pressures on MOD's budget. We received much clearer evidence for this Report on MOD's funding position for the current CSR period. Evidence on the Armed Forces' paybill, including pay drift, was also informative. It is clear that MOD faces difficult management decisions within limited resources to balance budgets across personnel, equipment and support. We have, of course, taken MOD's affordability evidence fully into account in arriving at our recommendations.

- 2.75 We conclude from the evidence that a pay recommendation of 2.8 per cent is required to support Armed Forces' recruitment, retention, morale and motivation and to signal that personnel are valued. This recommendation is, in our judgement, consistent with the Government's public sector pay policy, reflects prevailing labour market conditions and is affordable. Our recommendation on base pay forms part of our wider agenda to deliver a balanced package including targeted measures and charges.

Recommendation 1: We recommend that the military pay scales for Other Ranks and Officers be uprated by 2.8 per cent from 1 April 2009. The annual salary scales arising from our recommendation are in Appendix 1.

Pay on promotion to Senior Non-Commissioned Officer

- 2.76 During our visits, Armed Forces' personnel continue to raise anomalies across the pay structure. Two issues are frequently aired and were covered in MOD's evidence for this report: (i) the minimum 2 per cent on promotion; and (ii) trades and branches that "flop" from the higher to lower band on promotion. On the first issue, MOD proposed a 5 per cent minimum increase in pay on promotion to OR6 (Sergeants and Petty Officers). On the latter, MOD took the view that major change to either job evaluation or pay range allocations would not resolve the significant concerns and should await any longer term development of the pay structure. MOD had examined other options but required further time to consider all the consequences. These included the promotion uplifts across Other Ranks, uniform incremental steps and the extension of Accelerated Incremental Progression.
- 2.77 We concur with MOD's view that no major structural change should be attempted ahead of any long term developments to the pay structure but that there should be an interim solution focused on the key OR6 promotion group. We are told on visits that promotion to Sergeant and Petty Officer is a major career step involving a significant change in responsibilities and additional personal cost (e.g. mess kit). Pay can be influential in incentivising promotion and a 2 per cent minimum was widely regarded as insufficient and unfair by both personnel and Commanding Officers. Currently, some 3,500 promotees to OR6 (around 75 per cent) receive less than 4 per cent on promotion. We also note that civilian promotion increases would generally be significantly more than 2 per cent.

Recommendation 2: We recommend that the minimum pay increase on promotion to OR6 should be 5 per cent from 1 April 2009.

- 2.78 In order to avoid any adverse impact on morale or motivation, we urge MOD to fully brief those in line for promotion either side of the implementation date; those who will have limited pay progression following promotion; and those moving to Specially Determined Rates of Pay. MOD should monitor the effects on promotion rates and any emerging consequences of the change.

Chapter 3

TARGETED PAY MEASURES

Introduction

3.1 Targeted measures to support recruitment and retention have become an increasing feature of the Armed Forces' package and our recommendations in recent years. For this report, we review revised Commitment Bonuses, a periodic review of Longer Separation Allowance, specific pay proposals for Aircrew, Service Nurses and Divers, and periodic reviews of Specialist Pay and Compensatory Allowances. We also make recommendations on Reserves' Bounties.

Major reviews

Commitment Bonuses

- 3.2 Commitment Bonuses were introduced in 1991, reviewed and revalued in 1998, and tailored to single-Service needs in 2005. They aim to extend service and retain experienced personnel with payments worth a total of £5,500 between the 4½ and 8 year points with a two year return of service. We postponed our periodic review scheduled for our 2008 Report to allow MOD to consider Commitment Bonuses alongside other measures as part of its Strategic Review of Remuneration.
- 3.3 In March 2008, the Prime Minister announced new Commitment Bonuses up to £15,000 designed to reward service already given. The Prime Minister's proposals will add up to £80 million per annum to the paybill depending on take-up. From 1 April 2009, new entrants and those with up to 4 years' service will move to the new scheme which will allow individuals to take the bonus in full at 8 years or in two instalments at reduced rates. Timing and amounts will vary for each Service and tailored arrangements will be introduced for RAF Non-Commissioned Aircrew, RN Artificers and Band Service, and Service Nurses. MOD acknowledged that new Commitment Bonuses will offer, in the first instance, additional reward alongside FRIs but, over time by extending service, the requirement for FRIs will reduce. Where FRIs were combined with Commitment Bonuses (for Royal Marine Other Ranks, RAF Regiment and RAF Firefighters) new arrangements would apply.
- 3.4 We are content to endorse the new Commitment Bonuses which focus on the key groups where extending length of service should make a considerable contribution to achieving the required manning levels. The new bonuses were widely welcomed by personnel during our 2008 visits but they also highlighted a potentially retention-negative impact on existing personnel excluded from the new arrangements. We are pleased to endorse the transitional arrangements for the current scheme. On 1 April 2009, those between 4 and 8 years' service will be able to receive a total bonus of £8,000 at the 8 year point (or the second bonus payment if not paid in a single lump sum). The value reflects the increases in military pay since 1998, the last time the bonuses were updated. MOD's transitional arrangements will add approximately £20 million to the paybill and represent over two-thirds of the cost of MOD's targeted measures for 2009-10.

Recommendation 3: We endorse the new Commitment Bonuses from 1 April 2009 for new entrants and those with less than 4 years' service. We also endorse the transitional arrangements for the current scheme which increases the total bonus to £8,000 for those with between 4 and 8 years' service.

Longer Separation Allowance

- 3.5 We undertook our first periodic review of Longer Separation Allowance (LSA) since its introduction under JPA from 2005. Personnel on our visits in recent years have welcomed the restructured, tri-Service allowance and its better targeting of those experiencing more frequent separation.
- 3.6 Since 2005, however, patterns of deployment have evolved to meet the direct and indirect demands of operations and several aspects of LSA qualification have been raised throughout our visits. First, personnel have commented that the 300 day qualification for each level might be changed to better match deployment lengths which would also provide a retention-positive increase in LSA levels for each operational deployment thereby targeting those who experience the greatest degree of separation. Second, improving compensation was particularly important for longer serving Junior NCOs and middle ranking Senior NCOs who provide essential operational experience. Finally, personnel commented on the increase in and extent of separation required for pre-operational training, often in field conditions. Many felt that the increased frequency of separated service in the UK had changed to such a degree that the initial qualifying period of 10 days for LSA should be reduced. Commanding Officers also commented that this rule precluded any LSA compensation when they tried to return personnel to home bases for weekends to minimise separation from families.
- 3.7 When Service personnel were asked the question “how does the effect of operational commitment and stretch impact on intention to stay or leave the Service” as part of the Armed Forces Continuous Attitude Survey, the proportion stating it had increased their intention to leave ranged from 40 per cent to 60 per cent dependent on rank and Service. The Service Families’ Federations considered the level of operational and other commitments, with the resulting separation, reduced the quality of family life and constrained the ability to plan ahead. Separation of personnel from families was particularly disturbing for their very young children. Many families had told the Federations that the level of commitments was unsustainable and that the degree of separation was the “final straw” in prompting personnel to leave.
- 3.8 In oral evidence, the PPOs recognised the critical need to reduce operational tempo and relieve the effects of separation. They noted that separation was increasing, impacted differently across a career and was quoted as an influential factor by 75-80 per cent of those leaving the Services. There had been welcome improvements to the Operational Welfare Package but LSA was acknowledged as the best vehicle to compensate for separation.
- 3.9 The evidence from our visits, the Services, the Continuous Attitude Survey and the Service Families’ Federations points to the increasingly retention-negative aspects of prolonged and frequent separation. We consider Longer Separation Allowance is the best tool to compensate personnel as it targets those experiencing the most separation, ameliorates the effects on retention and communicates the message to personnel that they are valued.
- 3.10 In determining an appropriate response, we are mindful that the new structure of LSA was established in 2005 on the basis of deployment and separation patterns at that time. Subsequent evidence points to the need for structural change to better match separation patterns, primarily operational deployments and the associated training, rather than uplifts to rates. We examined several structural options. In our judgement, the initial qualifying period of 10 days is appropriately set and recognises that a degree of routine separation over a career is compensated for under X-Factor. This aspect, while considered an irritant among personnel on our visits, does not appear to significantly impact on retention.

- 3.11 We consider that a change to the qualifying levels represents the most appropriate mechanism to effectively target compensation and would be retention-positive and readily identifiable to personnel. We note the PPOs' comments in oral evidence on finding a closer link between the qualifying days and operational tours including pre-deployment training. Changing from a 300 to a 240 day qualifying period between levels would better reflect common operational tours of up to six months (plus the required pre-operational training) thereby providing a step change in compensation between each major deployment. In our judgement, this change is affordable in the context of the overall package and other targeted measures and we recommend accordingly. In doing so, we ask that MOD keeps the structural aspects of LSA under review in the light of actual separation patterns. For our part, we will review LSA every five years but reserve the right to review earlier should circumstances dictate.

Recommendation 4: We recommend that the qualifying period for each level of Longer Separation Allowance should be 240 days from 1 April 2009. The recommended levels and rates are at Appendix 2.

Officer Aircrew retention

- 3.12 MOD sought our early endorsement of pay proposals to head off continuing problems retaining Aircrew beyond the Immediate Retirement Point (IRP). Effective from April 2010, MOD proposed a continuation of the current FRI to 2013 for Career Stream Senior Officer Aircrew and extension of the Professional Aviator Pay Spine (PAS) for all OF3 Aircrew (plus adjustments to bars to incentivise promotion). The need for early endorsement of these measures was predicated on influencing Aircrew career decisions which tend to be taken some years before leaving the Services.
- 3.13 MOD explained that it had a 13 per cent shortage of Pilots – 15 per cent in the RAF which the RAF predicted would rise to 20 per cent by 2011. Significantly, the Services were failing to keep sufficient Pilots beyond the IRP because of the “push” of pension arrangements and draw of civilian aviation. MOD told us that the Senior Officer Aircrew cadre needed to expand to “deliver the operational effect” through improved manning of cockpit and staff posts. Stemming from previous Aircrew retention reviews, the FRIs had been successful in securing a 75 per cent take-up and the PAS had successfully retained more experienced OF2/3 Aircrew. The attractiveness of the PAS had increased since the introduction of Armed Forces' Pension Scheme (AFPS)05 which linked pension to final year salary, which for the PAS effectively includes the Flying Pay element. Meanwhile, Career Stream Aircrew were experiencing reduced career expectations as the RAF downsized and restructured. MOD judged that Aircrew retention was further influenced by the continuing long term growth in demand for Pilots from civil aviation, which offered attractive packages to counter FRIs, and the “push” factor through to 2023 of the AFPS75 immediate pension and lump sum.
- 3.14 MOD considered that a combination of an early extension of the FRI and the extension of the PAS would counter retention concerns and retain the Senior Officer Aircrew required to deliver military airpower. It argued that continuing the FRI would pull Aircrew through to the IRP and beyond and extending the PAS to Career Stream Aircrew would encourage more to serve to the Normal Retirement Date. MOD advised that increasing the PAS maximum cadre to 1,550 in 2010 would provide greater flexibility over career management. MOD would also introduce incremental bars to restore the OF2 and OF3 differential and incentivise promotion, and remove the OF3 bar for Weapons Systems Operators. Joining the PAS at the IRP would require five years return of service – three years for those joining later.

- 3.15 We have assessed MOD's proposals carefully given that Aircrew retention has been a longstanding problem. Successive major reviews since 2001 have sought to retain Aircrew through significant increases to Flying Pay, new and modified FRIs, and the introduction of the PAS. These accompanied other measures to support manning through bringing training capacity up to requirement and addressing non-remuneration measures. In this respect, we continue to hear on our visits that retention is influenced by a mix of financial measures and the importance attached to improving career management and family stability.
- 3.16 We recognise that Aircrew retention is sensitive to both the perceived value of the Service package and the volatility of the civilian aviation market. The package, within which the more closely targeted FRI and the PAS have become key retention levers, can influence decisions some way in advance of exit or retirement points. We also note MOD's intention to develop a permanent replacement for the FRI in the form of a bespoke retention payment. We welcome MOD's efforts to develop a long term strategy for the package with the aim of establishing a stronger cadre of Senior Officer Aircrew.
- 3.17 Information on the civilian aviation market as at November 2008 provided by MOD suggested that of the 11 major airlines routinely recruiting from the Services, 4 had no vacancies and 6 were recruiting in small numbers. The market was, at that stage, described as "neutral" but the airline industry predicted an upturn in summer 2009 which MOD considered might feed through to Aircrew recruitment.
- 3.18 While we acknowledge the Services' view that early decisions on the pay package are desirable, in our view these proposals require further consideration. There are uncertainties over whether economic conditions are weakening demand within the civilian aviation market, slowing recruitment and impacting on retention decisions by Service Aircrew. The market position needs to be reassessed during 2009 to determine more accurately what pay measures will be required. The 2009 periodic review of Flying Pay will provide the vehicle for the market assessment, a reappraisal of the effectiveness of all proposed solutions and further analysis of the single-Service manning positions.

Service Nurses

- 3.19 Service Nursing has experienced longstanding manning difficulties on which we have commented extensively in our previous reports. Following the introduction of new pay and career structures in the NHS under "Agenda for Change", we recommended (in our 2006 Report) a thorough review of pay and non-pay reasons for these manning difficulties. For this report, MOD provided evidence of a shortfall in 2007-08 of 374 Nurses or 22 per cent; recruitment fell short of target despite previous success and outflow had increased (although data was incomplete). Operational specialists continued to be in short supply, for example, Emergency Medicine was at 47 per cent manning and Intensive Therapy Unit (ITU) at 39 per cent.
- 3.20 Retention was the key to restoring manning balance for Service Nurses but, according to the Continuous Attitude Survey, was threatened by frequency of deployment and growing dissatisfaction with pay relative to the NHS. To assess relative pay, MOD conducted job evaluations, in consultation with the Royal College of Nursing, which placed Service Nurses in NHS "Agenda for Change" grades. The resulting pay comparisons showed "favourable" NHS rates and a noticeable pay gap at the initial return of service point for Generalist and Specialist Nurses.

- 3.21 In considering the pay options, MOD accepted that the current military pay structure did not provide the flexibility to attract Service Nurse recruits, retain Generalists (as a recruiting pool for Specialists) or reward Specialist competences. A bespoke solution was required governed by the following principles: achieving comparability with the NHS; retaining promotion incentives and targeting career points; improving numbers “clinically current”; and providing differentiation between Generalists and Specialists. MOD concluded that two pay spines should be introduced for Officers and Other Ranks (and Reserves) which should cover all Nurses. Additionally, for Specialists, MOD proposed new Specialist Pay be paid on a Career Continuous Basis for those qualified to the equivalent of the Defence Nursing Operational Competency Framework Level 3. For Generalist Nurses, Specialist Pay would be paid on a Non-Continuous Basis for those in a specialist post requiring specialist Defence Nursing Operational Competency Framework Level 2.
- 3.22 We are pleased to endorse MOD’s pay arrangements with effect from 1 August 2009 to allow JPA programming. In our view these are long overdue. The manning and comparability evidence fully justifies their implementation and our visits confirmed the key points to be addressed for retention. We note that the new pay spines provide for broad pay comparability with the NHS – they are not intended to match at all pay points but to offer pay progression appropriate to a military career. The new pay spines achieve a broad match with the NHS across a career for Other Ranks’ Generalist Nurses. Specialists match early in a career but fall behind the NHS later therefore reinforcing the need for Specialist Pay. Officer Specialists are behind the NHS in the early years and then move ahead. MOD will need to continuously monitor rank and pension implications to ensure that the new arrangements continue to meet their objectives. We anticipate the new arrangements will be subject to periodic review every five years.
- 3.23 We note that the FRIs have had a 52 per cent take-up and will cease for Operating Theatre Nurses in July 2009 but will continue for Emergency Medicine and ITU Nurses until July 2010. Although Golden Hellos had achieved only moderate success, MOD considered they should be retained.
- 3.24 In recommending these pay solutions, we continue to emphasise the importance attached to effective career structures (accounting for multi-disciplines and specialisms) by Service Nurses we meet on our visits. In this regard, we acknowledge the range of non-remuneration measures to be delivered under the Defence Nursing Strategy specifically providing “challenging and satisfying career pathways”, “embracing strategic healthcare developments” and the essential move to develop flexible working patterns.

Recommendation 5: We recommend from 1 August 2009:

- **The introduction of two Service Nurses’ pay spines for Officers and Other Ranks – the recommended pay spines are at Appendix 1; and**
- **The introduction of two levels of Specialist Pay for those qualified to the equivalent of the Defence Nursing Operational Competency Framework Levels 2 and 3 – the recommended rates are at Appendix 2.**

Service Divers

- 3.25 MOD provided evidence for the periodic review of Diving Pay. It pointed to significant change since the last review including a buoyant civilian market, the RN manning “black hole” at Petty Officer, the impact on Divers’ morale and retention of the introduction of Explosive Ordnance Disposal (EOD) Pay in 2008, the move to Specialist RN Divers (rather than ship diving teams) reducing the recruiting pool, and increasing operational commitments. The civilian market has seen sustained growth with additional demand from the civilian EOD market resulting in a worldwide shortage of Divers, recruitment of Service Divers earlier in their careers and lucrative civilian rates (up to £110,000 per annum). Service Divers’ manning levels were worsening evidenced by significant shortfalls: 44 per cent of RN Officers (at OF2); 22 per cent at Petty Officer; 12 per cent at Chief Petty Officer; and 10 per cent at Warrant Officer. Training wastage was over 60 per cent. Voluntary Outflow was at significant levels: Able Rates at 12 per cent; Leading Hands at 17 per cent; and Petty Officers at 8.5 per cent.
- 3.26 MOD considered several pay options and concluded that two targeted solutions were required to bolster manning levels. First, it proposed a new RN Clearance Divers’ pay spine for Petty Officers and above after 15 years’ service. This approach provides a long term solution to an enduring market pull, offers incentives to promotion, performance and training, allows manning controls, and improves retention by requiring a five-year return of service. The spine would incorporate base pay, Diving Pay and new EOD Diving Pay rates. It would target the small eligible population of around 75 in total, capturing 80 per cent of Petty Officers and above. Second, MOD proposed new supplementary Diving Pay rates for EOD qualified Divers which would target those most attractive to the external market. New rates would provide incentives to career progression, bring RN EOD Divers into line with the RAF and Army, and would target 98 per cent of Leading Hand and Petty Officer Divers. The two new supplementary rates would be linked to current Diving Pay Levels 3 and 4, and Level 5.
- 3.27 We have considered the evidence carefully and conclude that the market evidence and current risks to manning levels justify a pay response. Our visits confirmed the need for urgent pay action which, while not fully addressing the market gap, does acknowledge the market pull and sends a retention-positive message to the RN diving population. We conclude that MOD’s two proposals provide a targeted and cost-effective approach which is supported by the Service diving community. We are encouraged by the accompanying efforts to address other factors influencing manning including extending service, improving access for volunteers, reducing training wastage, better marketing, career changes on promotion to Senior NCO and increasing diving at sea. We ask MOD to also keep pension implications under review.

Recommendation 6: We recommend from 1 August 2009:

- **The introduction of a RN Clearance Divers’ pay spine for Petty Officers and above after 15 years’ service – the recommended pay spine is at Appendix 1; and**
- **The introduction of two supplementary rates of Diving Pay for EOD qualified Divers – the recommended rates are at Appendix 2.**

Other groups

- 3.28 We undertook a series of periodic reviews of specific groups and report on these in the following paragraphs.

Hydrographic Pay

- 3.29 Hydrographic Pay is paid to Officers in the RN Warfare Branch's Hydrographic and Meteorology specialisation and to Ratings in the Survey Recorder specialisation. The number of Ratings was in balance against requirement and Gains to Trained Strength targets had been met. However, given the small cadre, deficits at Petty Officer of 20 per cent and Chief Petty Officer of 30 per cent led to retention concerns. Despite the offer of extensions to those eligible to leave in the next three years, around half have chosen to move to the commercial sector. Officers were below strength, especially at Lieutenant (a deficit of 47 per cent), with volunteers falling sharply in the last two years. Current Voluntary Outflow rates were unsustainable given the manning deficit.
- 3.30 MOD commented on the impact for Ratings of a perceived lack of specialist reward, long deployments and civilian employment opportunities. For Officers, initiatives to support manning were in place including a focused recruitment drive and awareness seminars, more flexible training and broadening appointments to counter the draw to wider RN careers. MOD proposed targeted increases to Hydrographic Pay for those in shortage groups which we are content to endorse. The targeted increase to Levels 3 and 4 should provide an incentive to retain Senior Ratings and encourage pull through on promotion. An increase to Level 5 should help to suppress outflow among Officers. We note, however, the increasing pull from the commercial sector which directly draws on RN specialists and suggest direct recruitment to the speciality might be considered.

Recommendation 7: We recommend targeted increases to Levels 3, 4 and 5 of Hydrographic Pay, and all rates to be increased by 2.8 per cent from 1 April 2009. The recommended rates are at Appendix 2.

Royal Marine Mountain Leaders' Pay

- 3.31 We have agreed to postpone the periodic review of Royal Marine Mountain Leaders' Pay to our 2010 Report. This will allow us to visit these specialists in 2009 and for MOD to consider the relevant internal market and provide an appropriate assessment of recruitment and retention.

Nuclear Propulsion Pay

- 3.32 MOD proposed moving Nuclear Propulsion Pay to Career Continuous payment for Lieutenant Commander Marine Engineering Submariners. This was driven by several factors: a 5 per cent manning shortage with manning balance taking 10 years to achieve; the long training pipeline; the active targeting of this group by a resurgent nuclear power industry and improved packages being offered by oil, gas and defence industries; and the need to address a pay reduction on promotion. We welcome MOD's prompt response to this emerging issue and for keeping us informed. We consider it is for MOD to decide which posts should attract Specialist Pay and the basis for payment.

Veterinary Officers

- 3.33 Our review was postponed from our 2008 Report to allow the reorganisation of the Royal Army Veterinary Corps (RAVC) to bed down. MOD informed us that Veterinary Officers were in manning balance through the use of RAVC Support Officers and that the Reserve requirement had been met. However, recruitment targets, albeit small, had not been met and retention, although improved, was threatened by increasing deployment requirements and attractive civilian veterinary salaries. MOD had pursued other measures to support manning including an expanded undergraduate programme, improved training and professional development, and reconfigured organisation to improve capacity.

- 3.34 Our visits have highlighted the importance of the Veterinary Officers' pay scales to retention, reinforced at a time of recruitment shortfalls. We note that, while military salaries compare favourably against civilian salaries early in a career, Veterinary Officers (particularly more Senior Officers) frequently compare their position with that of civilian partners who can achieve partner status in as little as five years. The evidence confirmed the increasing value of this group to operations. Against this background, we are content to endorse the continuation of the pay scales.

Military Provost Guard Service

- 3.35 From our visits and the evidence, we note that the Military Provost Guard Service (MPGS) is playing a vital role and relieving pressure on Regular personnel helping them to meet harmony guidelines. The MPGS was 19 per cent undermanned although this was a function of the challenging expansion of the role and manning requirement. Levels of interest in the MPGS remained high although decisions on site requirements could hamper recruitment. Retention was considered good reflecting the stability of the MPGS as a second career. We are pleased to note that, following our previous visits, action has been taken to ensure no pay loss on promotion under the public sector rule that restricts payment of pay and pensions together. However, the lack of financial incentive on promotion requires monitoring in future reviews. We intend to maintain the three-year frequency of our reviews given the rapidly expanding MPGS role across military sites.

Specialist Pay

- 3.36 Our approach is to review each category of Specialist Pay on a periodic schedule to ensure that recruitment and retention criteria for payment remain appropriate and to assess any changes to structure or rates. However, as specialists and sub-specialists develop and MOD has re-examined trade structures, our review schedule has become disjointed resulting in some specialists being considered in isolation. This can lead to pay solutions which might simply shift a recruitment or retention problem from one group to another. We consider it essential that specialists are reviewed alongside related groups, specifically those operating in the same internal and external labour markets, so that recruitment and retention can be accurately assessed. We have therefore asked our Secretariat to establish a coherent schedule with MOD for future periodic reviews.
- 3.37 During our visits, personnel had concerns about the significant impact on morale of a 50 per cent reduction in Specialist Pay rates on submitting notice to terminate. These concerns were amplified for those leaving early during extended service often discouraging specialists from accepting extensions. We understand MOD's policy that the basis of these payments is recruitment and retention, and they should decrease on notice to terminate. We ask MOD to review this policy to counter the deleterious effect on the morale of much needed specialists and to encourage volunteers.
- 3.38 MOD asked us to recommend increases to Specialist Pay taking account of our recommendation on base pay. The evidence and feedback from specialist groups on our visits confirm the need to maintain the value of Specialist Pay rates to ensure they are effective in supporting recruitment and retention. Rates should therefore be increased in line with our overall pay recommendation.

Recommendation 8: We recommend that all rates of Specialist Pay, including Reserve Bands, be increased by 2.8 per cent from 1 April 2009. The recommended rates are at Appendix 2.

Compensatory Allowances

Northern Ireland Resident's Supplement

- 3.39 To capture changing circumstances we review the Northern Ireland Resident's Supplement (NIRS) every two years. MOD's evidence highlighted that, even with the normalisation programme to 2012, Service personnel and families in Northern Ireland remained subject to the security threat, constraints and antipathy from some elements of the community. The threat from Dissident Republican groups was "substantial" as confirmed by the most recent Independent Monitoring Commission report. Living conditions continued to be adverse compared to Great Britain with restrictions from out-of-bounds areas, difficulties integrating dependants (particularly education and employment), inability to wear uniforms and the requirement to use cleared taxi services. MOD concluded the factors requiring compensation were difficult to measure but that NIRS remained justified.
- 3.40 Our visit to Northern Ireland reinforced the fact that, despite normalisation, Service life was "not normal". The threat and restrictions had a significant impact on personnel and families, possibly more disruptive by its randomness. Restrictions required a constant check of out-of-bounds areas and led to difficulties engaging with the community. The Service community in Ballykinler appeared to be at a serious disadvantage because of its remote location. NIRS is not intended to compensate for cost of living differences although much of our discussions centred around additional costs from limits on fuel types and suppliers. We were disappointed by the content and coverage of MOD's evidence although the evidence from our visits leads us to conclude that compensation via NIRS continues to be justified and should be updated. For our next review we require full evidence on the factors underpinning NIRS, and suggest its basis be reviewed to closer match changing circumstances and to ensure that it fits with the overall Northern Ireland package.

Unpleasant Work Allowance

- 3.41 We reviewed Unpleasant Work Allowance for our 2008 Report. On our operational visits in 2008 we were able to see its effectiveness on the ground. In Iraq, there were well established conditions for payment which were generally understood but required clarification in some units. However, in Afghanistan personnel were far more critical commenting on: the bureaucracy of current rules which were difficult to implement; a lack of understanding of eligibility; the inadequacy of the lowest rate and its widespread use regardless of circumstances; and inconsistent applications between main camps and Forward Operating Bases. We alerted the PPOs and reinforced the need to ensure Unpleasant Work Allowance is consistently applied and understood by personnel.

Unpleasant Living Allowance

- 3.42 Unpleasant Living Allowance was introduced in 2006 to complement the transition to Longer Separation Allowance as part of the sea-goers package. It compensates those experiencing the worst living conditions in ships alongside in the UK. Our first review of the allowance indicated that it continued to effectively compensate those in surface units who had no entitlement to Single Living Accommodation and endured living conditions significantly below Defence Standards. We are content to endorse its continuation and note that, as the Fleet is replaced by ships built to modern accommodation standards, the requirement for the allowance will reduce.

Rates of Compensatory Allowances

- 3.43 For all rates of Compensatory Allowances, we recommend increases in line with our overall pay recommendation.

Recommendation 9: We recommend that all rates of Compensatory Allowances be increased by 2.8 per cent from 1 April 2009. The recommended rates are set out at Appendix 2.

Reserves

- 3.44 In March 2008, the Secretary of State announced a strategic review of Reserve Forces. MOD's vision is for Reserve Forces to provide an integral part of Defence capability and the review focuses on the efficient generation of that capability. Specifically, it will assess: the balance between Reserves and Regulars (capability, readiness and integration); how to capitalise on civilian skills and fill niche capabilities; the use of Reserves for stabilisation tasks and improvements to the Civil Contingency Reaction Force; and flexible management of Reserves.
- 3.45 Reserve manning levels at October 2008 continued to cause concern – Royal Naval Reserve (RNR) strength was at 87 per cent, Royal Marines Reserve (RMR) at 95 per cent, Territorial Army (TA) at 82 per cent, and Royal Auxiliary Air Force (RAuxAF) at 66 per cent. Use of Full Time Reserve Service had increased and represented 1 per cent of Regular trained strength. Reserves played a vital part in mounting and sustaining operations – since March 2003 over 17,000 Reserves had served on operations and they currently made up 9 per cent of British Forces in Afghanistan and 4 per cent of those in Iraq. The TA and Regular Reserve mobilise 1,200 personnel annually; 21 per cent of RAuxAF are currently mobilised or in receipt of a call-out notice; and 34 per cent of the RNR and 73 per cent of the RMR had mobilised since 2003.
- 3.46 Our visits to Reserve units in the UK raised a series of points that we were able to discuss with the Assistant Chief of Defence Staff (Reserves and Cadets) and the Director of Reserve Forces and Cadets. These centred on: types of Reserve service to better reflect the changing role; non-remuneration measures to support recruitment and retention, particularly quality and availability of training; whether Bounties should be tailored to each Service; and encouraging employer support. We ask that these and any implications for remuneration arrangements from the strategic review be covered in evidence for the periodic review for our 2010 Report. In the meantime, we recommend increasing Reserves' Bounties and the Call-Out Gratuity in line with our overall pay recommendation to support the manning levels required for operations and other tasks.

Recommendation 10: We recommend the following rates of Reserves' Bounty from 1 April 2009:

- **Volunteer Reserve Forces Training Bounty – Year 1 £416, Year 2 £916, Year 3 £1,415 and Year 5 £1,641;**
- **Ex-Regular Officers and Other Ranks Training Bounty – £369;**
- **University Units Bounty – Year 1 £143, Year 2 £166 and Year 3 £201;**
- **High Readiness Reserve Bounty – £416;**
- **Sponsored Reserve Bounty – based on the Training Bounty with rates varying between 50 per cent and 100 per cent depending on training commitment; and**
- **Call-Out Gratuity – £499.**

Chapter 4

ACCOMMODATION AND OTHER CHARGES

Introduction

- 4.1 Our terms of reference require us to recommend charges for Service accommodation together with furniture hire, water and sewerage, garage rent and food charges.

Accommodation

MOD strategies

- 4.2 MOD accepts it has a responsibility to provide good quality accommodation. In evidence, MOD confirmed its commitment “to the provision of good quality, fairly priced publicly-funded accommodation of an appropriate standard”, but acknowledged that “a lack of investment means that over 50 per cent of personnel continue to live in poor Service accommodation”. MOD’s Defence Living Accommodation Strategy and Defence Estates Development Plan 2008 provide the context against which we recommend accommodation charges.

Defence Living Accommodation Strategy

- 4.3 The Defence Living Accommodation Strategy sets out MOD’s plans for future accommodation recognising the different requirements of the three Services and the changing social and economic environment. It aims to provide Service personnel with the opportunity to make choices that meet their aspirations for living accommodation. The strategy encompasses Single Living Accommodation (SLA) and Service Family Accommodation (SFA) within a “mixed economy” of Service provision and support for home ownership. MOD is reviewing the existing 4 tier grading system for SLA and SFA charges which has recognised drawbacks. A new grading system is under development which is expected to bring benefits to occupants in terms of transparency, coherence and fairness. We ask to be kept informed of developments so that we can assess any implications for our approach to charges.

Defence Estates Development Plan 2008

- 4.4 The Defence Estates Development Plan 2008 outlines long term priorities for MOD estates through to 2030. The plan sets out estate rationalisation and aims to establish the core estate requirements in fewer but larger sites. It draws on single-Service estate plans, the move to Super Garrisons, Base Ports, Main Operating Bases and Permanent Joint Operating Bases, and the Defence Training Review. The plan emphasises that a modern estate is “critical to enabling operational capability” and protecting MOD’s commitment to people.

Home ownership

- 4.5 Evidence from our visits confirmed that home ownership remains a high priority for Service personnel and families. To facilitate MOD’s plans for a “mixed economy”, a commercial shared equity scheme was introduced for the Armed Forces in 2006. This dovetailed with the Key Worker Programme which was widened to cover all areas of England from December 2007. The granting of Key Worker status encourages the retention of Service personnel in high cost areas. Up to 10,000 personnel could access the scheme’s shared equity products. MOD is working to extend the benefits of Key Worker status and to develop other commercial schemes that offer preferential home ownership deals for Service personnel. In oral evidence, MOD confirmed that options for supporting home ownership would focus on shared equity.

- 4.6 In addition, MOD's Strategic Remuneration Review was considering options for improved support for home ownership and occupancy through allowances. The Long Service Advance of Pay (LSAP) scheme currently allows a loan of £8,500 after 4 years' service to purchase a property in the UK for the applicant's own occupation. Discussions on our visits point to the inadequacy of this amount compared to the overall cost of house purchase. The outcome of MOD's deliberations is expected in 2009.
- 4.7 Three further developments were highlighted in evidence. On 19 March 2008, the Prime Minister announced that £20 million had been ring-fenced for a home ownership pilot scheme over the 4 years from 2009-10. In July 2008, MOD's Service Personnel Command Paper reaffirmed its support to maximise the number of Service personnel who can get on the housing ladder. Finally, to help Service personnel gain access to social housing after a Service career, MOD had sought an amendment to the 1996 Housing Act to ensure that local authorities give due recognition to the local connection and contribution of Armed Forces' personnel living in the area.

Service Family Accommodation

- 4.8 During 2007-08, 637 properties were upgraded to "Standard 1 for Condition", against a target of 600. Although almost 60 per cent of SFA stock in Great Britain is now classed as "Standard 1 for Condition", because of differences in the criteria for "Standard for Condition" and "Grade for Charges", just 18 per cent of current stock is "Grade 1 for Charges". A further 600 upgrades are planned for 2008-09 at a cost of £38 million, with 800 planned in each of 2009-10 and 2010-11, at an annual cost of £48 million. We were concerned to learn in oral evidence with the Chief Executive of Defence Estates that the level of funding would never be enough to fully meet objectives and that the current improvement programme equated to each SFA unit getting a major upgrade every 70 years.

Single Living Accommodation

- 4.9 During 2007-08 6,900 bedspaces were delivered, through a combination of SLAM¹ and parallel projects. Between 2003-04 and 2007-08, 26,800 bedspaces were delivered with a further 29,800 bedspaces planned for between 2008-09 and 2012-13. At March 2008, a fifth of occupied worldwide SLA was at "Grade 1 for Charges" while almost 30 per cent remained at Grade 4. With current investment, it will take over 10 years to bring all SLA to the highest standard.

Approach to recommendations

- 4.10 Our long term approach has been to set charges that are comparable with the costs faced by civilian comparators, less a discount which, in our judgement, appropriately reflects the disadvantages of living in Service accommodation. These disadvantages include a lack of choice, no right to buy, quality of decoration and lack of security of tenure on leaving the Armed Forces.
- 4.11 In its evidence, MOD again highlighted the current scope and pace of delivery of the SLA and SFA improvement programmes. It also cited improvements in maintenance services for SFA (also recognised by the Service Families' Federations), but Defence Estates accepted in oral evidence that the current level of service is still not good enough. There were also concerns about the performance of the new Housing Information Centres, especially those in the South. The Secretary of State argued that, while there was a strong Ministerial commitment to improving accommodation within current CSR budgets, after decades of under-investment it would take time. MOD was considering bringing forward capital programmes as part of Government measures to bolster the economy. Against this background, the Secretary of State, the PPOs and Defence Estates all proposed increasing rental charges in line with inflation.

¹ Single Living Accommodation Modernisation (SLAM).

- 4.12 Taking this evidence into account we judge, as last year, that rental charges for Grade 1 accommodation should increase in line with the rental component of the RPI, at November 2008. This will ensure that the increase for Service personnel is similar to that experienced by civilians, and that the gap between civilian and military housing costs is maintained at or close to existing levels.
- 4.13 In recent years we have recommended a graduated approach to SLA and SFA rental charges below Grade 1. This results in proportionately lower increases in rental charges for Grades 2 and 3 and no increase (for the past 10 years) for Grade 4, reflecting the widely differing standards of available Service accommodation. However, for 2009-10 MOD asked us to reconsider our policy of not increasing rental charges for Grade 4 accommodation. It felt that the differential between Grade 1 and Grade 4 charges posed the risk that some individuals would prefer to stay in poor accommodation instead of moving into better quality, but more expensive, accommodation. The Department also considered that habitable accommodation, however poor, should be charged at a fair rent. Nevertheless, we consider that our existing approach remains appropriate to reflect the wide difference in the quality of available accommodation and that, given the standard of Grade 4 accommodation, current rents are fair. Our graduated approach also adds impetus to MOD's improvement programmes to tackle the poorest Service accommodation.

Service Family Accommodation rental charges

- 4.14 We recommend that SFA Grade 1 rental charges increase by 3.7 per cent, with smaller graduated increases to Grades 2 and 3 and no increase for Grade 4.

Recommendation 11: We recommend a 3.7 per cent increase to Grade 1 Service Family Accommodation rental charges, 2.5 per cent to Grade 2, 1.2 per cent to Grade 3 and zero to Grade 4 from 1 April 2009. The resulting charges are shown in Tables 4.1 and 4.2.

Other components of SFA charges²

- 4.15 Increases to elements of the charge other than rent vary based on evidence provided by MOD. Hence the total SFA charge increases will differ from our recommended rental element. Total SFA charges will therefore increase by between 2.1 and 4.4 per cent.

Single Living Accommodation rental charges

- 4.16 We recommend that SLA Grade 1 rental charges increase by 3.7 per cent, with smaller graduated increases to Grades 2 and 3 and no increase for Grade 4.

Recommendation 12: We recommend a 3.7 per cent increase to Grade 1 Single Living Accommodation rental charges, 2.5 per cent to Grade 2, 1.2 per cent to Grade 3 and zero to Grade 4 from 1 April 2009. The resulting charges are shown in Table 4.3.

Other components of SLA charges³

- 4.17 Increases to elements of the charge other than rent, including utilities charges, vary based on evidence provided by MOD. Hence the total SLA charge increases will differ from our recommended rental element. Total SLA charges will therefore increase by between 2.4 and 5.9 per cent.

² Includes charges for water and furniture.

³ Includes charges for water, furniture, and heating and lighting.

Other charges

4.18 As part of our remit on broad comparability, we are also responsible for setting water and sewerage charges, furniture charges and garage rent. We base our recommendations on the following evidence:

- *Water Charges* – the forecast weighted national household average water bill for SFA Type C properties tapered according to the size of the SFA. The SLA charge is one-third of the SFA Type C figure;
- *Furniture Hire* – the increase in the rental component of the RPI in the year to November 2008; and
- *Garage Rent* – our 2006 survey of charges suggested that the Service charge was around 6 per cent below the civilian comparator and we recommended then that this difference be eliminated over a three year period at 2 per cent per year. Our recommendation for 2009-10, therefore, is that the Service charge be increased by 2 per cent over and above the increase in the rental component of the RPI in the year to November 2008.

Recommendation 13: We recommend the following charges:

- **Water and Sewerage** – charges for all SFA of between £336 and £365 a year and a water charge for SLA of £113 a year;
- **Furniture Hire** – rates to be applied to SFA as shown in Table 4.1; and
- **Garage Rent** – the annual charge be increased to £310.25.

Table 4.1: Breakdown of recommended annual charges for Grade 1 SFA^a

Type of SFA	Basic rent	Furniture	Water	Recommended total charge ^b
	£ per year	£ per year	£ per year	£ per year
Officers				
I	7,694	1,004	365	9,063
II	6,899	891	361	8,150
III	6,048	763	358	7,169
IV	4,471	686	354	5,512
V	3,435	610	350	4,395
Other Ranks				
D	3,281	442	347	4,070
C	2,730	391	343	3,464
B	2,289	325	339	2,953
A	1,635	274	336	2,245

^a The charge for unfurnished SFA includes the basic rent and the water charge plus a charge for carpets, curtains and a cooker.

^b The recommended charge may not be the exact sum of the components because these have been rounded to the nearest £.

**Table 4.2: SFA: recommended charges for furnished accommodation^a
(with change from 2008-09 in brackets)**

Type of SFA	Annual charge ^b							
	Grade 1		Grade 2		Grade 3		Grade 4	
	£ per year		£ per year		£ per year		£ per year	
Officers								
I	9,063	(336)	6,701	(189)	3,760	(81)	1,971	(40)
II	8,150	(302)	6,030	(172)	3,402	(73)	1,796	(37)
III	7,169	(267)	5,300	(150)	3,004	(69)	1,613	(37)
IV	5,512	(212)	4,179	(124)	2,511	(62)	1,387	(37)
V	4,395	(172)	3,464	(106)	2,146	(58)	1,259	(33)
Other Ranks								
D	4,070	(157)	3,048	(95)	1,825	(51)	1,022	(33)
C	3,464	(139)	2,661	(84)	1,668	(47)	971	(29)
B	2,953	(117)	2,347	(77)	1,504	(44)	909	(29)
A	2,245	(95)	1,792	(62)	1,175	(40)	770	(29)

^a Charges comprise a rental element (including additional maintenance), furniture hire and a water and sewerage charge.

^b Annual charges are rounded to the nearest £.

Table 4.3: SLA: recommended charges^a (with change from 2008-09 in brackets)

Type of SLA	Annual charge ^b							
	Grade 1		Grade 2		Grade 3		Grade 4	
	£ per year		£ per year		£ per year		£ per year	
Major and above	2,183	(88)	1,785	(55)	1,175	(33)	697	(22)
Captain and below	1,774	(69)	1,445	(43)	949	(22)	566	(15)
Warrant Officer and SNCO	1,336	(55)	1,095	(36)	715	(21)	427	(15)
Corporal and below	763	(33)	635	(25)	420	(18)	263	(15)
New Entrant ^c	613	(25)	496	(18)	332	(11)	219	(11)

^a Charges comprise a rental element (including additional maintenance), furniture hire, heating and lighting, and a water and sewerage charge.

^b Annual charges are rounded to the nearest £.

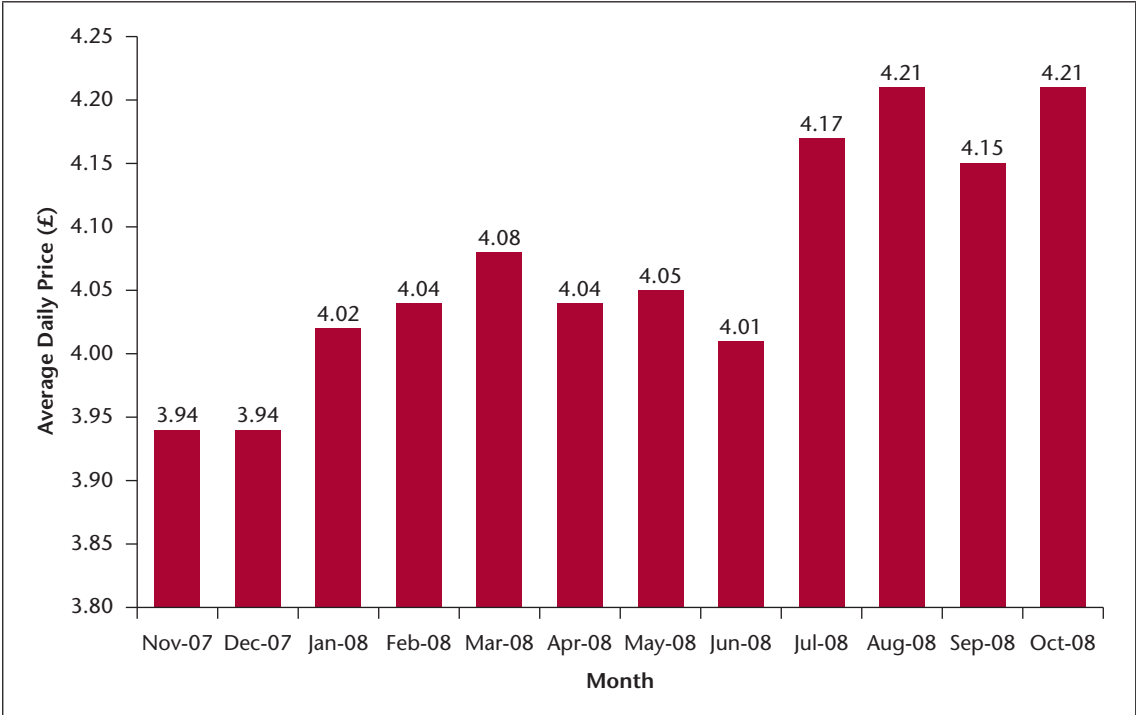
^c Those receiving less than the minimum trained rate.

Food charges

4.19 In our 2007 Report, we endorsed the move to a single Daily Food Charge (DFC) and a pricing methodology based on ingredient costs under MOD's Food Supply Contract. In our 2008 Report, we recommended setting the DFC from 1 April 2008 based on the Catering Grouping of RPI and uprating it from 1 April 2009, in relation to the Food Supply Contract information, by which time trend data should be available.

4.20 As Pay As You Dine (PAYD) rolls out, the numbers directly affected by the DFC will decline. Once PAYD is fully implemented, the DFC will be paid only by Phase 1 (and some Phase 2) trainees. MOD proposed in evidence that the DFC should be set at £4.21 from April 2009, based on the Food Supply Contract Data as at October 2008, the latest month for which data was available. However, as Chart 4.1 shows, the data for the twelve months to October 2008 show significant volatility which argues against basing the DFC on the data for just one month. We feel it is more appropriate to base the DFC on the Food Supply Contract Data averaged over the most recent 12 months, which reduces the impact of volatility and any seasonal effects. This approach generates a DFC from 1 April 2009 of £4.07, an increase of 4.6 per cent from the current charge. We intend to keep this approach under review in the light of data produced in evidence.

Chart 4.1: MOD Daily Food Supply Contract Prices, November 2007 to October 2008



Recommendation 14: We recommend the Daily Food Charge be increased to £4.07 from 1 April 2009.

Chapter 5

CONCLUSIONS, COSTINGS AND A LOOK FORWARD

Conclusions and cost of recommendations

5.1 Our recommendations on base pay, targeted measures and charges aim to provide a balanced package which reflects our substantial evidence base and meets our terms of reference. We conclude that these recommendations are consistent with the Government's public sector pay policy, are affordable within MOD's funding constraints and should support Armed Forces' recruitment, retention and motivation.

Table 5.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	40
Other Ranks	111
New Entrants	3
	<hr/> 154
Specialist Pay, allowances and other emoluments in the nature of pay (all Regular Services)	43
	<hr/>
Total pay (all Regular Services)	198
Reserve Forces	6
Employers' national insurance contribution (ERNIC) – all Services	14
Estimated effect of SCAPE ^b	39
	<hr/>
<i>Total paybill cost including Reserves</i>	257
Less: total increased yield from charges	(8)
	<hr/>
Net cost of recommendations	249

^a Components may not sum to the total due to rounding.

^b Superannuation Contributions Adjusted for Past Experience.

5.2 The estimated cost of our recommendations is based on the average manpower strength of the Armed Forces in 2009-10, as forecast by MOD. Actual strengths may vary from forecasts and, therefore, the actual costs of implementing our recommendations may differ. Our recommendations on those aspects of pay within our remit would add 3.4 per cent to the paybill (including the employers' national insurance and superannuation liabilities). When the yield from the recommended increased accommodation and other charges is taken into account the net paybill cost remains 3.4 per cent. Our endorsement of the Prime Minister's announcement on Commitment Bonuses will add up to £80 million per annum to the paybill in future years, depending on take-up. These costs will be included in the baseline costings for future reports.

Looking forward

MOD's pay and workforce strategy

5.3 We have made our recommendations this year against a particularly uncertain backdrop. Looking forward, MOD's pay and workforce strategy will need to accommodate several developments. First, changing economic circumstances will impact on the labour market. In the short term, this may give the Services an advantage for recruitment and retention but they must also take the opportunity to develop recruitment and retention policies that will enable them to compete in the labour market as we emerge from

recession. A strategic approach to personnel and pay policy should address the manning deficit and ensure that the Services are well positioned in the market to recruit and retain specialists. We understand that a new Service Personnel Plan is due early in 2009 which will need to be flexible to respond to these challenges.

- 5.4 Second, following MOD's Strategic Remuneration Review and given affordability constraints, we recognise that the scope for significant change across the pay structure is limited. In this environment MOD reaffirmed that the pay and allowances structure (including targeted measures) was sustainable for the present time. As targeted measures are increasingly used, we repeat that robust cost benefit analysis is required before and after implementation to ensure their effectiveness. We also reiterate our longstanding observation that the need for such a range of targeted measures covering large populations suggests that the current pay structure may not be sufficiently flexible to respond to recruitment and retention needs. We would welcome further views from MOD so that we have a clear understanding of its long term pay strategy for the Armed Forces.
- 5.5 We commented in Chapter 1 (paragraph 1.16) on the current piecemeal approach to reviewing elements of the remuneration package. From our periodic reviews over the last few years, it is clear that some pay measures are being considered in isolation. We require a simultaneous assessment of all groups operating in the same internal or external labour market. We have raised this in the context of Specialist Pay categories in Chapter 3 (paragraph 3.36). As part of the long term pay strategy, we have asked our Secretariat to liaise with MOD on a coherent review schedule for the next five years.
- 5.6 We highlight two specific issues raised on our visits for MOD's attention:
- *Extended service* is becoming vital to fill manning gaps. Targeted measures to extend service often seek simply to offset the "pensions push". We have highlighted the negative impact of moving to reduced rates of Specialist Pay (Reserve Bands) for those who elect to leave early (paragraph 3.37). More imaginative solutions should be sought to support essential extension of service; and
 - Operational pressure and gapping have led to a prevalence of *acting rank and substitution pay*. These present development opportunities for individuals, but the rules and entitlement to substitution pay were unclear to personnel and seemed to differ from location to location. These arrangements might benefit from review to closer match current practice.
- 5.7 Third, we share the PPOs' view on the importance of promoting the full value of the package to personnel. Our visits suggest that more comprehensive information is important to retention decisions and should be further encouraged, particularly for those working directly alongside contractors. The launch of the Armed Forces' Benefits Calculator in 2008 was warmly received and had clearly had an impact on those who had used it. The impetus on communicating the value of the package should be maintained.
- 5.8 Finally, non-remuneration measures are essential to the overall package and heavily influence recruitment and retention. Three major aspects were raised with us:
- *The Service Personnel Command Paper* – the Secretary of State and other Ministers have made a major public commitment to address non-pay concerns of personnel and families. The Government recognises the benefits to be gained from quick and visible progress on the proposed measures. We consider that rapid action would have a positive influence and underpin a message to personnel of how they are valued;

- *The review of terms and conditions of service* – we await the outcomes from this review with interest; and
- *Support services* – we received several criticisms of support services from personnel and families on our visits relating to Joint Personnel Administration, Modern Housing Solutions and Housing Information Centres. These appear remote to personnel and families and can convey a lack of understanding of the difficulties associated with Service life.

Our year ahead

5.9 For 2009-10, we will be considering our planned research programme and periodic reviews. We trailed in Chapter 2 that we will be reviewing our **approach to pay comparability** based on job weight. We will consider the approach in the context of “total reward”. Importantly, our approach must remain robust and transparent, and retain the confidence of all parties to our process including the remit group.

5.10 Other planned research for 2009 will include:

- **International comparisons** – an assessment of packages of other nations serving alongside UK Forces to inform our visit discussions;
- **Pension validation** – scoping work to inform the evidence base for our first pension validation report in 2011; and
- **Charges** – collection of civilian data on housing and garage costs.

5.11 The elements of the package scheduled for review in 2009 are:

- **New Entrant Pay** – for Other Ranks and Officers;
- All forms of **Flying Pay**;
- **Parachute Pay**, including Parachute Jump Instructors’ Pay and Submarine Escape Tank Training Pay;
- **Royal Marine Mountain Leaders’ Pay**;
- **Experimental Test Allowance**; and
- **Reserves’ Bounties**, including the outcomes of MOD’s strategic review.

David Greenaway
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28 January 2009

Appendix 1

1 April 2009 recommended military salaries including X-Factor

All salaries are annual JPA salaries rounded to the nearest £.

Table 1.1: Recommended annual scales for Officers up to and including Commodore, Brigadier and Air Commodore

Rank		Military salary £
OF-6		
Commodore (Royal Navy)	Level 5	98,984
Brigadier (Royal Marines)	Level 4	98,013
Brigadier (Army)	Level 3	97,054
Air Commodore (Royal Air Force)	Level 2	96,091
	Level 1	95,128
OF-5		
Captain (RN)	Level 9	87,655
Colonel (RM)	Level 8	86,660
Colonel (Army)	Level 7	85,666
Group Captain (RAF)	Level 6	84,675
	Level 5	83,684
	Level 4	82,693
	Level 3	81,702
	Level 2	80,707
	Level 1	79,716
OF-4		
Commander (RN)	Level 9	76,095
Lieutenant Colonel (RM)	Level 8	75,111
Lieutenant Colonel (Army)	Level 7	74,126
Wing Commander (RAF)	Level 6	73,151
	Level 5	69,178
	Level 4	68,315
	Level 3	67,452
	Level 2	66,589
	Level 1	65,717
OF-3		
Lieutenant Commander (RN)	Level 9	56,078
Major (RM)	Level 8	54,918
Major (Army)	Level 7	53,765
Squadron Leader (RAF)	Level 6	52,609
	Level 5	51,445
	Level 4	50,293
	Level 3	49,128
	Level 2	47,980
	Level 1	46,824

Table 1.1: Recommended annual scales for Officers up to and including Commodore, Brigadier and Air Commodore (*continued*)

Rank		Military salary £
OF-2		
Lieutenant (RN)	Level 9	44,206
Captain (RM)	Level 8	43,704
Captain (Army)	Level 7	43,195
Flight Lieutenant (RAF)	Level 6	42,195
	Level 5	41,187
	Level 4	40,188
	Level 3	39,176
	Level 2	38,168
	Level 1	37,172
OF-1		
Sub-Lieutenant (RN)	Level 10	32,062
Lieutenant, 2nd Lieutenant (RM)	Level 9	31,295
Lieutenant, 2nd Lieutenant (Army)	Level 8	30,536
Flying Officer, Pilot Officer (RAF)	Level 7	29,773
	Level 6	29,006
	Level 5	24,133
	Level 4	21,382
	Level 3	18,207
	Level 2	16,685
	Level 1	15,268
University Cadet Entrants	Level 4	17,548
	Level 3	16,075
	Level 2	14,317
	Level 1	12,470

Table 1.2: Recommended annual scales for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5 (OR-9):	Level 7	43,255	45,836
Warrant Officer I (Royal Navy)	Level 6	42,066	45,146
Warrant Officer I (Royal Marines)	Level 5	40,918	44,355
Warrant Officer I (Army)	Level 4	40,135	43,576
Warrant Officer (Royal Air Force)	Level 3	39,356	42,789
	Level 2	38,578	42,066
	Level 1	37,843	41,255
Range 4 (OR-7 – OR-8):	Level 9	38,851	42,404
Warrant Officer II, Chief Petty Officer (RN)	Level 8	37,991	41,806
Warrant Officer II, Colour Sergeant (RM)	Level 7	37,506	41,219
Warrant Officer II, Staff Sergeant (Army)	Level 6	36,940	40,633
Flight Sergeant, Chief Technician (RAF)	Level 5	35,342	39,754
	Level 4	34,868	38,871
	Level 3	34,069	37,991
	Level 2	32,997	37,104
	Level 1	32,572	36,229
Range 3 (OR-6):	Level 7	33,443	36,205
Petty Officer (RN)	Level 6	33,190	35,538
Sergeant (RM)	Level 5	32,082	34,872
Sergeant (Army)	Level 4	31,267	34,206
Sergeant (RAF)	Level 3	30,954	33,780
	Level 2	30,195	32,945
	Level 1	29,424	32,114
Range 2 (OR-4):	Level 7	29,255	32,532
Leading Rate (RN)	Level 6	29,043	31,837
Corporal (RM)	Level 5	28,814	31,191
Corporal (Army)	Level 4	28,589	30,456
Corporal (RAF)	Level 3	28,372	29,761
	Level 2	27,051	28,372
	Level 1	25,887	27,051
Range 1 (OR-2 – OR-3):	Level 9	23,755	28,372
Able Rating (RN)	Level 8	22,924	27,051
Marine (RM)	Level 7	21,920	25,887
Lance Corporal, Private (Army)	Level 6	21,021	24,751
Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)	Level 5	20,178	23,603
	Level 4	19,146	21,346
	Level 3	17,605	19,853
	Level 2	17,143	17,982
	Level 1	16,681	16,681

^a The pay structure for Other Ranks is divided into pay bands. Trades at each rank are allocated to bands according to their score in the job evaluation system.

Table 1.3: Recommended annual salary for new entrants

	Military salary
	£
All entrants	13,377

Table 1.4: Recommended annual scales for naval apprentices and probationary medical and communications technicians

	Military salary
	£
Fourth year	23,603
Third year	16,412
Second year	15,493
First year	13,775

Table 1.5: Recommended annual scales for Chaplains^a

Rank/length of service		Military salary
		£
Chaplain-General	Level 5	95,174
	Level 4	94,194
	Level 3	93,226
	Level 2	92,255
	Level 1	91,283
Deputy Chaplain-General ^b	Level 5	84,112
	Level 4	83,109
	Level 3	82,105
	Level 2	81,106
	Level 1	80,106
Principal Chaplain	Level 4	79,107
	Level 3	78,107
	Level 2	77,103
	Level 1	76,103
Chaplain (Class 1) ^c	Level 2 ^d	71,856
	Level 1 ^e	69,182

Table 1.5: Recommended annual scales for Chaplains^a (*continued*)

Rank/length of service	Military salary	
	£	
Chaplains Class 2/3/4 (or equivalent)	Level 27	71,856
	Level 26	70,519
	Level 25	69,182
	Level 24	67,853
	Level 23	66,544
	Level 22	65,207
	Level 21	63,866
	Level 20	62,534
	Level 19	61,197
	Level 18	59,864
	Level 17	58,527
	Level 16	57,194
	Level 15	55,857
	Level 14	54,524
	Level 13	53,191
	Level 12	51,850
	Level 11	50,522
	Level 10	49,185
	Level 9	47,852
	Level 8	46,511
	Level 7	45,182
	Level 6	43,837
	Level 5	42,508
	Level 4	41,175
	Level 3	39,842
	Level 2	38,501
	Level 1	37,172

^a Army ranks are shown in this table: the pay rates apply equally to equivalent ranks in the other Services.

^b Army only.

^c Army and RAF only.

^d Rate applicable for those with more than 24 years' service.

^e Rate applicable for those with less than 24 years' service.

Table 1.6: Recommended annual scales for Veterinary Officers of the Royal Army Veterinary Corps

Rank/length of service	Military salary	
	£	
Lieutenant Colonel	Level 5	72,647
	Level 4	71,547
	Level 3	70,451
	Level 2	69,347
	Level 1	68,255
Major, Captain	Level 22	66,259
	Level 21	64,890
	Level 20	63,517
	Level 19	62,148
	Level 18	60,783
	Level 17	59,410
	Level 16	58,045
	Level 15	56,668
	Level 14	55,311
	Level 13	54,123
	Level 12	52,950
	Level 11	51,634
	Level 10	50,313
	Level 9	48,996
	Level 8	47,687
	Level 7	46,370
	Level 6	45,053
	Level 5	43,741
	Level 4	42,424
	Level 3	41,111
Level 2	39,794	
Level 1	37,172	

Table 1.7: Recommended annual scales for Officers Commissioned from the Ranks^a

Increment Level	Military salary £
Level 15	49,686
Level 14	49,361
Level 13	49,020
Level 12	48,358
Level 11 ^b	47,699
Level 10	47,033
Level 9	46,370
Level 8	45,708
Level 7 ^c	44,881
Level 6	44,371
Level 5	43,853
Level 4 ^d	42,829
Level 3	42,319
Level 2	41,797
Level 1 ^e	40,778

^a Also applies to Naval Personal and Family Service Officers, Naval Career Service Officers, RAF Directors of Music commissioned prior to 2000 and RAF Medical Technician Officers commissioned prior to 1998 except Squadron Leaders who have been assimilated into the main Officer pay scales.

^b Naval Career Service Officers cannot progress beyond this pay point.

^c Officers Commissioned from the Ranks with more than 15 years' service in the Ranks enter on Level 7.

^d Officers Commissioned from the Ranks with between 12 and 15 years' service in the Ranks enter on Level 4.

^e Officers Commissioned from the Ranks with less than 12 years' service in the Ranks enter on Level 1.

Table 1.8: Recommended Professional Aviator Pay Spine

Increment Level	Military salary £
Level 35	76,103
Level 34	75,060
Level 33	74,012
Level 32	72,968
Level 31	71,928
Level 30 ^a	70,876
Level 29	69,840
Level 28 ^b	68,793
Level 27	67,741
Level 26	66,705
Level 25	65,653
Level 24	64,613
Level 23	63,646
Level 22 ^c	62,433
Level 21	61,273
Level 20 ^d	60,105
Level 19	58,948
Level 18	57,788
Level 17	56,628
Level 16 ^e	55,468
Level 15	54,307
Level 14	53,147
Level 13	51,979
Level 12 ^f	50,823
Level 11	49,662
Level 10	48,996
Level 9	48,233
Level 8	47,462
Level 7	46,699
Level 6	45,933
Level 5	45,162
Level 4	44,395
Level 3	43,628
Level 2	42,857
Level 1	42,087

^a Weapon Systems Officers (Navigators) cannot progress beyond Increment Level 30.

^b Rear Crew cannot progress beyond Increment Level 28.

^c NCO Pilots cannot progress beyond Increment Level 22.

^d RAF Non-Commissioned Master Aircrew cannot progress beyond Increment Level 20.

^e RAF Non-Commissioned Aircrew Flight Sergeants cannot progress beyond Increment Level 16.

^f RAF Non-Commissioned Aircrew Sergeants cannot progress beyond Increment Level 12.

Table 1.9: Recommended pay spine for Nurses, Officers^{a, b}

Rank		Military salary £
OF-5 Colonel	Level 9	89,534
	Level 8	88,516
	Level 7	87,499
	Level 6	86,480
	Level 5	85,458
	Level 4	84,435
	Level 3	83,414
	Level 2	82,390
	Level 1	81,366
OF-4 Lieutenant Colonel	Level 9	78,216
	Level 8	77,201
	Level 7	76,187
	Level 6	75,183
	Level 5	71,166
	Level 4	70,258
	Level 3	69,351
	Level 2	68,444
	Level 1	67,528
OF-3 Major	Level 9	59,624
	Level 8	57,466
	Level 7	56,264
	Level 6	55,061
	Level 5	53,851
	Level 4	52,653
	Level 3	51,459
	Level 2	50,253
	Level 1	49,040
OF-2 Captain	Level 9	46,552
	Level 8	45,524
	Level 7	44,496
	Level 6	43,469
	Level 5	42,434
	Level 4	41,406
	Level 3	40,367
	Level 2	39,303
	Level 1	38,255

Table 1.9: Recommended pay spine for Nurses, Officers^{a, b} (*continued*)

Rank	Military salary
	£
OF-1	
Lieutenant, 2nd Lieutenant	
	Level 10
	33,196
	Level 9
	32,377
	Level 8
	31,571
	Level 7
	30,763
	Level 6
	29,950
	Level 5
	24,986
	Level 4
	22,177
	Level 3
	18,926
	Level 2
	17,353
	Level 1
	15,879

^a Army ranks are shown in this table: the pay rates apply equally to equivalent ranks in the other Services.

^b From 1 August 2009 personnel will transfer from their current position on the main pay spine to the equivalent incremental level on the new pay spine.

Table 1.10: Recommended pay spine for Nurses, Other Ranks^{a, b}

Rank		Military salary £
Range 5 (OR-9): Warrant Officer I	Level 7	47,670
	Level 6	46,951
	Level 5	46,129
	Level 4	45,319
	Level 3	44,501
	Level 2	43,749
	Level 1	42,906
Range 4 (OR-7 – OR-8): Warrant Officer II, Staff Sergeant	Level 9	44,524
	Level 8	43,896
	Level 7	43,281
	Level 6	42,664
	Level 5	41,741
	Level 4	40,814
	Level 3	39,891
	Level 2	38,960
Range 3 (OR-6): Sergeant	Level 7	38,703
	Level 6	37,990
	Level 5	37,278
	Level 4	36,566
	Level 3	36,111
	Level 2	35,219
	Level 1	34,330
Range 2 (OR-4): Corporal	Level 7	33,832
	Level 6	33,111
	Level 5	32,438
	Level 4	31,674
	Level 3	30,952
	Level 2	29,507
	Level 1	28,134
Range 1 (OR-2 – OR-3): Lance Corporal, Private	Level 9	28,372
	Level 8	27,051
	Level 7	25,887
	Level 6	24,751
	Level 5	23,603
	Level 4	21,346
	Level 3	19,853
	Level 2	17,982
	Level 1	16,681

^a Army ranks are shown in this table: the pay rates apply equally to equivalent ranks in the other Services.

^b From 1 August 2009 personnel will transfer from their current position on the main pay spine to the equivalent incremental level on the new pay spine.

Table 1.11: Recommended pay spine for Royal Navy Clearance Divers^{a, b}

Rank		Military salary
		£
Range 5 (OR-9): Warrant Officer I	Level 7	59,310
	Level 6	58,620
	Level 5	57,829
	Level 4	57,050
	Level 3	56,263
	Level 2	55,541
	Level 1	54,729
Range 4 (OR-7 – OR-8): Warrant Officer II, Chief Petty Officer	Level 9	55,878
	Level 8	55,280
	Level 7	54,694
	Level 6	54,107
	Level 5	53,228
	Level 4	52,345
	Level 3	51,466
	Level 2	50,578
Range 3 (OR-6): Petty Officer	Level 1	49,703
	Level 7	49,679
	Level 6	49,013
	Level 5	47,697
	Level 4	47,031
	Level 3	45,738
	Level 2	44,903
Level 1	44,072	

^a To be eligible for selection for the Clearance Divers' Pay Spine personnel must have completed the Petty Officer (Diver) Professional Qualifying Course (including DEODS elements), have 15 years paid service, be in receipt of SP(Diving) and not be permanently medically downgraded as unfit to dive.

^b From 1 August 2009 personnel will transfer from their current position on the main pay spine to the equivalent incremental level on the new pay spine.

Appendix 2

1 April 2009 recommended rates of Specialist Pay and Compensatory Allowances

With the introduction of JPA a Reserve Band system for Specialist Pay (SP) has become operational. For the first 6 years away from an SP or SP Related post, a Reserve Band will be paid: for the first 3 years at 100% of the full rate; 75% of the full rate during the fourth year; 50% of the full rate during the fifth year; and 25% of the full rate during the sixth year. Payment will then cease. Personnel who submit an application to PVR will be placed on the 50% rate or remain on the 25% rate if already in payment.

	Rate		Reserve Band rate	
	£ per day	£ per day	75% £ per day	50% £ per day
SPECIALIST PAY				
SP(Flying)^a				
Officer aircrew (trained)				
All Officer aircrew in the rank of Squadron Leader ^b and below except RAF specialist aircrew Flight Lieutenant				
Initial rate	13.66	10.25	6.83	3.42
Middle rate ^c	23.17	17.38	11.59	5.79
Top rate ^c	36.84	27.63	18.42	9.21
Enhanced rate ^d	43.37	32.53	21.69	10.84
Enhanced rate ^e	41.00	30.75	20.50	10.25
Wing Commander^b				
On appointment	38.04	28.53	19.02	9.51
After 6 years	35.65	26.74	17.83	8.91
After 8 years	33.27	24.95	16.64	8.32
Group Captain^b				
On appointment	29.12	21.84	14.56	7.28
After 2 years	27.32	20.49	13.66	6.83
After 4 years	25.54	19.16	12.77	6.39
After 6 years	22.57	16.93	11.29	5.64
After 8 years	19.59	14.69	9.80	4.90
Air Commodore^b				
	11.88	8.91	5.94	2.97

^a Flying Pay is not payable to personnel on the Professional Aviator Pay Spine.

^b Including equivalent ranks in the other Services. However, Pilots in the Army and RM who are not qualified as aircraft commanders do not receive the Officer rate of Flying Pay but receive the Army pilot rate of Flying Pay.

^c After 4 years on the preceding rate.

^d Payable only to pilots in the ranks of Squadron Leader and below who have received the top rate of Flying Pay for 4 years.

^e Payable only to Weapon Systems Officers and observers in the ranks of Squadron Leader and below who have received the top rate of Flying Pay for 4 years.

	Rate £ per day	Reserve Band rate		
		75%	50%	25%
		£ per day	£ per day	£ per day
RAF specialist aircrew				
(a) Flight Lieutenants (not Branch Officers)				
On designation as specialist aircrew	45.15	33.86	22.58	11.29
After 1 year as specialist aircrew	45.76	34.32	22.88	11.44
After 2 years as specialist aircrew	46.94	35.21	23.47	11.74
After 3 years as specialist aircrew	47.52	35.64	23.76	11.88
After 4 years as specialist aircrew	48.13	36.10	24.07	12.03
After 5 years as specialist aircrew	49.31	36.98	24.66	12.33
After 6 years as specialist aircrew	49.91	37.43	24.96	12.48
After 7 years as specialist aircrew	50.50	37.88	25.25	12.63
After 8 years as specialist aircrew	51.69	38.77	25.85	12.92
After 9 years as specialist aircrew	52.28	39.21	26.14	13.07
After 10 years as specialist aircrew	52.87	39.65	26.44	13.22
After 11 years as specialist aircrew	54.06	40.55	27.03	13.52
After 12 years as specialist aircrew	54.67	41.00	27.34	13.67
After 13 years as specialist aircrew	55.85	41.89	27.93	13.96
After 14 years as specialist aircrew	56.44	42.33	28.22	14.11
After 15 years as specialist aircrew	57.03	42.77	28.52	14.26
After 16 years as specialist aircrew	58.82	44.12	29.41	14.71
(b) Branch Officers				
On designation as specialist aircrew	36.84	27.63	18.42	9.21
After 5 years as specialist aircrew	41.00	30.75	20.50	10.25

	Rate		Reserve Band rate		
	£ per day	£ per day	75% £ per day	50% £ per day	25% £ per day
Non-commissioned aircrew (trained)					
RM and Army pilots qualified as aircraft commanders					
Initial rate	13.66	10.25	6.83	3.42	
Middle rate ^f	23.17	17.38	11.59	5.79	
Top rate ^f	36.84	27.63	18.42	9.21	
Enhanced rate ^g	43.37	32.53	21.69	10.84	
RM and Army pilots ^h					
Initial rate	7.14	5.36	3.57	1.79	
Middle rate ⁱ	15.44	11.58	7.72	3.86	
Top rate ^j	18.41	13.81	9.21	4.60	
RN/RM, Army and RAF aircrewmembers					
Initial rate	7.14	5.36	3.57	1.79	
Middle rate ⁱ	14.86	11.15	7.43	3.72	
Top rate ^j	19.59	14.69	9.80	4.90	
Aero-medical and escort duties pay (RAF)					
	7.72		3.86		
Royal Logistic Corps air despatch pay ^k					
Lower rate	4.75		2.38		
Higher rate ^f	7.72		3.86		
Flying crew pay (RN), crew pay (RAF), Joint Helicopter Support Unit helicopter crew pay					
	4.75		2.38		

^f After 4 years on the preceding rate.

^g Payable only to pilots who have received the top rate of SP(Flying) for 4 years.

^h RM and Army pilots not qualified as aircraft commanders.

ⁱ After 9 years' total service, subject to a minimum of 3 years' aircrew service.

^j After 18 years' reckonable service subject to a minimum of 9 years' service in receipt of SP(Flying).

^k Also payable while under training.

SP(Diving) Category	Rate £ per day	Reserve Band rate		
		75%	50%	25%
		£ per day	£ per day	£ per day
1 RN Diver (Able rate) prior to Category 3 qualification Ship's Diver – all ranks and ratings	4.16	3.12	2.08	1.04
2 RN Search and Rescue Diver – all ratings Ship Divers' Supervisors Army Compressed Air Diver – all ranks	8.33	6.25	4.17	2.08
3 RN Diver (Able rate) when qualified to Category 3 standards Army Diver Class 1 – all ranks	11.29	8.47	5.65	2.82
3a Supplement for Explosive Ordnance Disposal (EOD) Operators ^l . In receipt of SP(Diving) Level 3 and completed EOD course 0804	3.29	2.47	1.65	0.82
4 RN Diver (Leading rate) when qualified to Category 4 standards Army Diving Supervisor and Instructor – all ranks RN Mine Countermeasures and Diving Officer ^m	19.59	14.69	9.80	4.90
4a Supplement for Explosive Ordnance Disposal (EOD) Operators ⁿ . In receipt of SP(Diving) Level 4 and completed EOD course 0804	3.29	2.47	1.65	0.82

^l Introduced with effect from 1 August 2009.

^m To be paid Category 5 Diving Pay when in post requiring immediate control of diving operations.

ⁿ Introduced with effect from 1 August 2009.

	Rate £ per day	Reserve Band rate		
		75% £ per day	50% £ per day	25% £ per day
5 RN Diver (Petty Officer and above) when qualified to Category 5 standards on appointment	27.93	20.95	13.97	6.98
after 3 years	30.31	22.73	15.16	7.58
after 5 years	32.08	24.06	16.04	8.02
5a Supplement for Explosive Ordnance Disposal (EOD) Operators ^o . In receipt of SP(Diving) Level 5 and completed EOD course 0801	4.83	3.62	2.42	1.21
(Unfit to dive) on appointment	8.91		4.46	
after 3 years	10.69		5.35	
after 5 years	12.47		6.24	

^o Introduced with effect from 1 August 2009.

	Rate £ per day	Reserve Band rate		
		75%	50%	25%
		£ per day	£ per day	£ per day
SP(Submarine)				
Level 1 – payable on qualification	11.88	8.91	5.94	2.97
Level 2 – payable after 5 years on Level 1	15.44	11.58	7.72	3.86
Level 3 – payable after 5 years on Level 2	18.41	13.81	9.21	4.60
Level 4 – payable after 5 years on Level 3	20.80	15.60	10.40	5.20
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	26.14	19.61	13.07	6.54
Submarine Supplement	5.14			
SP(Nuclear Propulsion)				
Category B watchkeeper – Single qualified	4.75	3.56	2.38	1.19
Category B watchkeeper – Double qualified	8.91	6.68	4.46	2.23
Category A watchkeeper (Nuclear Chief of Watch)	20.20	15.15	10.10	5.05
Appropriately qualified Junior Officers	20.20	15.15	10.10	5.05
SP(Submarine Escape Tank Training)				
Additional Daily Supplement for Cat 1 Divers	11.88		5.94	
Additional Daily Supplement for Cat 2 Divers	2.37		1.19	
Additional Daily Supplement for Subsunk Parachute Assistance Group personnel	4.16		2.08	
	2.97		1.49	
SP(Hydrographic)				
On attaining Charge qualification (H Ch)	13.08	9.81	6.54	3.27
Surveyor 1st Class (H1)	11.88	8.91	5.94	2.97
On promotion to Chief Petty Officer or attainment of NVQ4 whichever is sooner	9.81	7.36	4.91	2.45
Surveyor 2nd Class (H2), On promotion to Petty Officer or attainment of NVQ3 whichever is sooner	5.35	4.01	2.68	1.34
On promotion to Leading Hand	3.57	2.68	1.79	0.89
On completion of Initial Hydrographic Training	1.78	1.34	0.89	0.45

	Rate		Reserve Band rate		
	£ per day	75% £ per day	50% £ per day	25% £ per day	
SP(Mountain Leader)	10.11	7.58	5.06	2.53	
SP(Parachute Jump Instructor)					
Less than 8 years' experience	7.72	5.79	3.86	1.93	
8 or more years' experience	11.29	8.47	5.65	2.82	
SP(Parachute)	5.35	4.01	2.68	1.34	
SP(High Altitude Parachute)^P	10.11		5.06		
SP(Explosive Ordnance Disposal Operators)^q					
Level 1	7.14		3.57		
Level 2	14.86		7.43		
Level 3	19.59		9.80		
SP(Nursing)^r					
Generalist nurses on achievement of Defence Nursing Operational Competency Framework (DNOCF) Level 2 and working in a DNOCF Level 2 post	4.75		2.38		
Specialist nurses who acquire the specified academic qualification of specialist practice (Defence Nursing Operational Competency Framework (Level 3))	10.11	7.58	5.06	2.53	

^P Rate applies to members of the Pathfinder Platoon.

^q Payable on a Non-continuous Basis (NCB) to RLC Officer and SNCO EOD Operators filling an EOD appointment and qualified to low-threat environment level. Payable on a NCB to RLC, RE and RAF Officer and SNCO EOD Operators filling an EOD appointment and qualified to high-threat environment level. RE TA Officers and SNCOs will receive SP for each day they are in receipt of basic pay. RAF Officers and SNCOs occupying a Secondary War Role EOD Post will be paid on a Completion of Task Basis. Payable on a NCB to qualified officers and SNCOs when filling an Advanced Manual Techniques annotated appointment.

^r With effect from 1 August 2009.

COMPENSATORY ALLOWANCES	Rate £ per day
LONGER SEPARATION ALLOWANCE	
Level 1 (up to 340 days qualifying separation)	6.56
Level 2 (341-580 days qualifying separation)	10.25
Level 3 (581-820)	13.96
Level 4 (821-1060)	15.32
Level 5 (1061-1300)	16.50
Level 6 (1301-1540)	17.68
Level 7 (1541-1780)	18.84
Level 8 (1781-2020)	20.62
Level 9 (2021-2260)	21.80
Level 10 (2261-2500)	22.99
Level 11 (2501-2740)	24.16
Level 12 (2741-2980)	25.34
Level 13 (2981-3220)	26.51
Level 14 (3221+)	27.69
UNPLEASANT WORK ALLOWANCE	
Level 1	2.45
Level 2	6.03
Level 3	17.80
UNPLEASANT LIVING ALLOWANCE	3.27
NORTHERN IRELAND RESIDENT'S SUPPLEMENT	6.28
LONDON RECRUITMENT AND RETENTION ALLOWANCE	3.76
EXPERIMENTAL TEST ALLOWANCE (per test)	2.64
EXPERIMENTAL DIVING ALLOWANCE	
Lump sum per dive	
Grade 5	294.22
Grade 4	147.12
Grade 3	110.34
Grade 2	73.54
Grade 1	14.71
Additional hourly rates	
Grade 5	58.84
Grade 4	14.71
Grade 3	11.02
Grade 2	7.35
Grade 1	-

Appendix 3

Military annual salaries inclusive of X-Factor from 1 April 2008

All salaries are annual JPA salaries rounded to the nearest £.

Table 3.1: Annual scales for Officers up to and including Commodore, Brigadier and Air Commodore

Rank		Military salary £
OF-6		
Commodore (Royal Navy)	Level 5	96,288
Brigadier (Royal Marines)	Level 4	95,343
Brigadier (Army)	Level 3	94,410
Air Commodore (Royal Air Force)	Level 2	93,473
	Level 1	92,537
OF-5		
Captain (RN)	Level 9	85,268
Colonel (RM)	Level 8	84,300
Colonel (Army)	Level 7	83,332
Group Captain (RAF)	Level 6	82,368
	Level 5	81,404
	Level 4	80,440
	Level 3	79,477
	Level 2	78,509
	Level 1	77,545
OF-4		
Commander (RN)	Level 9	74,023
Lieutenant Colonel (RM)	Level 8	73,065
Lieutenant Colonel (Army)	Level 7	72,108
Wing Commander (RAF)	Level 6	71,159
	Level 5	67,294
	Level 4	66,454
	Level 3	65,614
	Level 2	64,775
	Level 1	63,927
OF-3		
Lieutenant Commander (RN)	Level 9	54,551
Major (RM)	Level 8	53,422
Major (Army)	Level 7	52,301
Squadron Leader (RAF)	Level 6	51,176
	Level 5	50,044
	Level 4	48,923
	Level 3	47,790
	Level 2	46,673
	Level 1	45,549

Table 3.1: Annual scales for Officers up to and including Commodore, Brigadier and Air Commodore (*continued*)

Rank		Military salary £
OF-2		
Lieutenant (RN)	Level 9	43,002
Captain (RM)	Level 8	42,514
Captain (Army)	Level 7	42,018
Flight Lieutenant (RAF)	Level 6	41,046
	Level 5	40,065
	Level 4	39,093
	Level 3	38,109
	Level 2	37,129
	Level 1	36,160
OF-1		
Sub-Lieutenant (RN)	Level 10	31,188
Lieutenant, 2nd Lieutenant (RM)	Level 9	30,443
Lieutenant, 2nd Lieutenant (Army)	Level 8	29,704
Flying Officer, Pilot Officer (RAF)	Level 7	28,962
	Level 6	28,216
	Level 5	23,475
	Level 4	20,800
	Level 3	17,711
	Level 2	16,231
	Level 1	14,852
University Cadet Entrants	Level 4	17,070
	Level 3	15,637
	Level 2	13,927
	Level 1	12,130

Table 3.2: Annual scales for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5 (OR-9):			
Warrant Officer I (Royal Navy)	Level 7	42,077	44,588
Warrant Officer I (Royal Marines)	Level 6	40,921	43,916
Warrant Officer I (Army)	Level 5	39,804	43,147
Warrant Officer (Royal Air Force)	Level 4	39,042	42,389
	Level 3	38,284	41,624
	Level 2	37,527	40,921
	Level 1	36,812	40,132
Range 4 (OR-7 – OR-8):			
Warrant Officer II, Chief Petty Officer (RN)	Level 9	37,792	41,249
Warrant Officer II, Colour Sergeant (RM)	Level 8	36,957	40,667
Warrant Officer II, Staff Sergeant (Army)	Level 7	36,484	40,097
Flight Sergeant, Chief Technician (RAF)	Level 6	35,934	39,526
	Level 5	34,379	38,671
	Level 4	33,918	37,812
	Level 3	33,141	36,957
	Level 2	32,098	36,094
	Level 1	31,685	35,242
Range 3 (OR-6):			
Petty Officer (RN)	Level 7	32,532	35,219
Sergeant (RM)	Level 6	32,286	34,570
Sergeant (Army)	Level 5	31,208	33,922
Sergeant (RAF)	Level 4	30,415	33,274
	Level 3	30,111	32,860
	Level 2	29,373	32,048
	Level 1	28,623	31,239
Range 2 (OR-4):			
Leading Rate (RN)	Level 7	28,458	31,646
Corporal (RM)	Level 6	28,252	30,970
Corporal (Army)	Level 5	28,029	30,341
Corporal (RAF)	Level 4	27,810	29,626
	Level 3	27,599	28,951
	Level 2	26,315	27,599
	Level 1	25,182	26,315

^a The pay structure for Other Ranks is divided into pay bands. Trades at each rank are allocated to bands according to their score in the job evaluation system.

Table 3.2: Annual scales for Other Ranks (*continued*)

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 1 (OR-2 – OR-3):			
Able Rating (RN)	Level 9	23,108	27,599
Marine (RM)	Level 8	22,300	26,315
Lance Corporal, Private (Army)	Level 7	21,323	25,182
Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)	Level 6	20,449	24,077
	Level 5	19,629	22,960
	Level 4	18,625	20,765
	Level 3	17,125	19,312
	Level 2	16,676	17,492
	Level 1	16,227	16,227

^a The pay structure for Other Ranks is divided into pay bands. Trades at each rank are allocated to bands according to their score in the job evaluation system.

Appendix 4

AFPRB 2008 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.

ESTABLISHMENT/LOCATION	SERVICE	MEMBERS
NATO Brussels	Tri-Service (Royal Navy lead)	Peter Knight, Anne Wright
OP TELIC Iraq	Tri-Service (Army lead)	Derek Leslie, Ian Stewart
Royal College of Defence Studies, London	Tri-Service (Royal Navy lead)	Peter Knight, Anne Wright
RAF Cosford	RAF	Robert Burgin, Derek Leslie
RAF Honington	RAF	Ian Stewart, Anne Wright
1 Royal Horse Artillery, Tidworth	Army	Derek Leslie, Ian Stewart
1 Royal Anglian, Pirbright	Army	Robert Burgin, Anne Wright
RNAS Yeovilton including 815 Air Squadron & Commando Helicopter Force	Royal Navy	Robert Burgin, Peter Knight
Royal Marines Poole	Royal Navy	Anne Wright, Robert Burgin
RAF Brize Norton	RAF	Robert Burgin, Derek Leslie
British Forces, Cyprus	Tri-Service (RAF lead)	Robert Burgin, Alison Gallico
Defence Intelligence Services	Army	Alison Gallico, Tony Young
HMS NOTTINGHAM, Portsmouth	Royal Navy	Derek Leslie
Clyde Submarine Base, Faslane	Royal Navy	Derek Leslie, Ian Stewart
Territorial Army, Redhill	Army	David Greenaway, Alison Gallico
RAF Leuchars	RAF	Alison Gallico, Tony Young
OP HERRICK, Afghanistan	Tri-Service (Army lead)	Peter Knight, Tony Young
RAF Cottesmore	RAF/Royal Navy (RAF lead)	David Greenaway, Peter Knight
Royal Centre for Defence Medicine (RCDM) Selly Oak, Birmingham	Tri-Service Defence Medical Services Department (DMSD lead)	David Greenaway, Ian Stewart
Northern Ireland (HQ NI)	Army	David Greenaway, Peter Knight
Recruitment Centre, Central London	Tri-Service	David Greenaway, Alison Gallico



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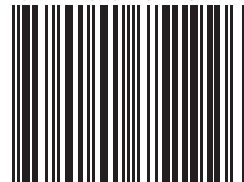
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