



Armed Forces'
Pay Review Body

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Forty-Second Report 2013

Chair: Professor Alasdair Smith



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

March 2013

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Armed Forces' Pay Review Body

TERMS OF REFERENCE

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

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

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

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

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

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

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¹ Professor Smith is also a member of the Review Body on Senior Salaries.

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GLOSSARY OF TERMS

AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
AFPS	Armed Forces Pension Scheme
ASHE	Annual Survey of Hours and Earnings
AT	Adventure and Travel
BIS	Department for Business, Innovation and Skills
BME	Black and Minority Ethnic
CCB	Career Continuous Basis
CF	Chaplain to the Forces (Pay Scale)
COG	Call-Out Gratuity
CPI	Consumer Prices Index
CRL	Catering, Retail and Leisure
CS	Army Combat Support
CSS	Combat Service Support
CV	Curriculum Vitae
DFC	Daily Food Charge
DIO	Defence Infrastructure Organisation
DMS	Defence Medical Services
DMSCAS	Defence Medical Services Continuous Attitude Survey
FAP	Future Accommodation Project
FRI	Financial Retention Incentive
FR20	Future Reserves 2020
GTS	Gains to Trained Strength
HASC	Housing Allocation Service Centre
HIC	Housing Information Centre
IDS	Incomes Data Services
ILA	Individual Leave Allowance
ILLA	Inner London Living Allowance
JPA	Joint Personnel Administration
LSA	Longer Separation Allowance
MOD	Ministry of Defence
MPGS	Military Provost Guard Service
MWD	Military Working Dog
NATO	North Atlantic Treaty Organisation
NCB	Non-Continuous Basis
NEM	New Employment Model
NHS	National Health Service

NIRS	Northern Ireland Residents' Supplement
NMW	National Minimum Wage
OA	Operational Allowance
OBR	Office for Budgetary Responsibility
OCFR	Officers Commissioned from the Ranks
OF	Officer
OPP	Operational Pinch Point
OR	Other Rank
PAYD	Pay As You Dine
PC	Principal Chaplain (Pay Scale)
PwC	PricewaterhouseCoopers
RAF	Royal Air Force
RG	Royal Gibraltar Regiment
RM	Royal Marines
RN	Royal Navy
RPI	Retail Prices Index
RRA(L)	Recruitment and Retention Allowance (London)
SCAPE	Superannuation Contributions Adjusted for Past Experience
SDSR	Strategic Defence and Security Review
SETT	Submarine Escape Tank Training
SFA	Service Family Accommodation
SLA	Single Living Accommodation
SNCO	Senior Non-Commissioned Officer
SP	Specialist Pay
SWS	Strategic Weapons System
TA	Territorial Army
UK	United Kingdom
UWA	Unpleasant Work Allowance
VAT	Value Added Tax
VO	Voluntary Outflow
WO	Warrant Officer

ARMED FORCES' PAY REVIEW BODY

2013 REPORT – SUMMARY

Recommendations

- A one per cent increase in base pay;
- A 0.5 percentage point increase in X-Factor from 14.0 to 14.5 per cent;
- A one per cent increase in Specialist Pay, Compensatory Allowances and Reserves' Bounties;
- Targeted pay measures:
 - Merging the existing Chaplains CF1 and Principal Chaplain pay scales to create a new Chaplains CF1 scale;
 - A new Financial Retention Incentive for Weapon Engineering Submarines Strategic Weapons System personnel;
 - A new Commitment Bonus for Direct Entrant Territorial Army Junior Officers and ex-Regulars in the early years of their Reserve service.
- A 3.7 per cent increase to grade 1 for charge Service Family Accommodation and Single Living Accommodation rental charges in line with the rental component of RPI; and increases of 2.5 per cent to grade 2, 1.2 per cent to grade 3 and zero to grade 4;
- A Daily Food Charge of £4.43 (a decrease of 3 pence, or 0.7 per cent).

This Report sets out our recommendations on military pay from April 2013. It includes two substantial pieces of work undertaken for this round: our scheduled five-year review of X-Factor; and a valuation of the Armed Forces Pension Scheme. Our work was informed by a range of evidence: from the Ministry of Defence (MOD), including the Secretary of State in oral evidence; from the Service Families' Federations; and by independent research commissioned by our secretariat. As usual, we also heard directly from Service personnel and their families, visiting over 40 establishments at home and overseas, including Afghanistan.

We considered our approach to this round against the background of continuing economic fragility and the Government's announcement that a period of public sector pay restraint would follow the two-year pay freeze. The Secretary of State made it clear in his remit letter to us that the policy applied to the Armed Forces and that any pay award should be limited to one per cent on average.

We heard concerns from Service personnel about the impact of continuing pay restraint at a time when families faced increased costs. Some questioned our role as an independent review body in these circumstances. We decided it was important to make recommendations based on the whole range of evidence we received in line with our terms of reference. These require us to take full account of MOD's affordability constraints and the Government's wider evidence on the economy and pay restraint and also to look at recruitment and retention, motivation and broad pay comparability.

Having considered the full range of evidence, we reached conclusions based on our assessment of all the various and competing arguments. **Our recommendations constitute a package which we invite Government to consider as a whole.**

On the **overall context**, the Government's evidence to us emphasised its priority of reducing the deficit and returning the economy to sustainable growth. The high operational tempo continued, with additional, sometimes short-notice, demands being placed on the Armed Forces to provide support for events of national importance. The impacts of changes made under the Strategic Defence and Security Review began to be felt, leading to widespread feelings of uncertainty. Many personnel told us that they felt overstretched as the redundancy programme took effect – staff reductions were implemented ahead of structural changes.

In reaching our conclusion on our **base pay recommendation** we noted there were some serious gaps in the manning of certain key trades and that voluntary outflow levels have been increasing recently. However, MOD reported few problems on recruitment and retention overall, against the background of the continuing restructuring of the Armed Forces. Our analysis on pay comparability found that military pay was broadly in line with civilian pay. Overall, we conclude after consideration of the full range of evidence that a **one per cent across the board increase in base pay is appropriate this year**.

X-Factor is an addition to pay which recognises the special conditions of service experienced by members of the Armed Forces compared with civilian employment. Our **review of X-Factor** assessed changes since the previous review. We undertook a full examination of a wide range of evidence including MOD's assessment of changes for the military; independent research on civilian trends; and views of Service personnel and their families. Our independent analysis of the evidence leads us to conclude there has been a deterioration in the conditions of military life relative to civilian life. We therefore **recommend that X-Factor should increase by 0.5 percentage point to 14.5 per cent**.

X-Factor is a feature of the reward package unique to military life normally reviewed every five years. In our view this distinguishes it from base pay which, consistent with its overall policy on public sector pay restraint, the Government wishes to constrain this year. We hope the Government will take account of the distinctive nature of the X-Factor when considering our recommendation, which affects military pay for the next five years.

We considered a **new approach to reviewing Specialist Pay (SP)** which is intended to respond more quickly to factors affecting recruitment and retention and focus resources where the manning situation is most demanding. MOD proposed an annual manning review for each SP-earning cadre, with fuller attention given to individual groups where needed. This should be more responsive than the current arrangements for periodic review. We broadly endorse the proposed approach, but invite MOD to consider further communication of the change including perhaps renaming it as a recruitment and retention payment. For this year we endorse MOD's proposal that **all rates of SP be increased in line with the overall pay award**.

We undertook **periodic reviews** in a number of other areas: Specialist Pay (Parachute); Reserves' Bounties and Call-Out Gratuity; Unpleasant Work Allowance; Northern Ireland Residents' Supplement; Officers Commissioned from the Ranks; Chaplains' Pay; and Veterinary Officers. We recommend that the rates for all of these are increased in line with the overall pay award. We also make recommendations on a Financial Retention Incentive for some personnel serving in the Weapon Engineering Submarines Strategic Weapons System specialisation and an early years Territorial Army Commitment Bonus.

We also considered evidence on the justification, effectiveness and targeting of **Recruitment and Retention Allowance (London) (RRA(L))** during this round. The allowance is intended to compensate for the factors which make serving in London a less attractive posting for personnel. MOD proposed a revised allowance (called Inner London Living Allowance) to be paid to all eligible personnel who both live and work in defined inner London locations. However we were concerned that consideration of the options had been unduly constrained by cost neutrality and we did not endorse the proposal. We recognise the current arrangements under which the allowance is withdrawn above OR4 (Corporal) are unsatisfactory but hope to

be able to consider a revised proposal next year. For this year, we **recommend that the level of RRA(L) be increased in line with the overall pay award.**

Our **pension valuation** updates the previous valuation included in our 2007 Report. It is intended to inform our assessment of whether military pay is broadly comparable with pay levels in civilian life, as required by our terms of reference. As such, it is just one aspect of our deliberations on an overall pay award. No contributions are taken from Service personnel to fund their pension provision, and this valuation does not change that.

We adopted a new approach compared with previous valuations, aimed at illuminating the different value of pension provision according to career path. We constructed eight alternative career paths, to be broadly representative of a wide range of Service careers and compared these with a number of alternative civilian careers in both the public and private sectors. The results suggest that for the majority of Armed Forces personnel, their pension benefits are, on average, more generous than comparative civilian pension benefits (between one per cent and six per cent depending on the career path). A small sub-set of individuals (Officers who stay in service to retire at age 55) appear to benefit from significantly higher relative levels of pension provision than those in alternative civilian careers. Our overall pay comparability judgement will in future take account of both the pension valuation and the wider reward packages for comparator groups at this level.

Accommodation continues to play an important part in the overall package and remains one of the top concerns for Service personnel and their families. On our visits we always try to see first hand the best and worst accommodation as well as hearing the views of personnel and families in discussion groups. We also received written and oral evidence from the Service Families' Federations. This year we heard a range of concerns on housing which included allocations, maintenance and charges.

In its evidence, MOD expressed concern about the gap between its expenditure on and income from accommodation. As we highlighted in previous reports, our tiered approach to recommendations and the existence of two concurrent grading systems for accommodation have had the effect of widening the gap. MOD considered it vital to prevent any further divergence and proposed that we applied any increase to accommodation charges uniformly across all grades, rather than using our normal, tiered approach. While recognising the significant improvements made by MOD to Service Families Accommodation, there is still much progress to be made on Single Living Accommodation. Having weighed the evidence, we judge, on balance, that it remains appropriate to apply our usual methodology of recommending an increase in line with the rental component of RPI in the year to November 2012, graduated according to grade for charge. We therefore **recommend an increase to grade 1 for charge accommodation from 1 April 2013 of 3.7 per cent.**

We remain open to reviewing our methodology once there is a new grading system which more accurately reflects the improvements that have been made to the condition of Service accommodation. We recognise that for those currently in good 'standard for condition' property which are deemed low 'grade for charge' the consequence of such a review is likely to be a significant future increase in rental charges, which will be larger because of our decision not to recommend an across-the-board increase this year.

On the **Daily Food Charge (DFC)** we decided that it remained appropriate for us to continue our policy of recommending a DFC based on the cost of food to MOD over the previous year. The daily food supply contract price was below the existing DFC for the average of the year to the end of October 2012. Consistent with the approach we have taken in recent years, we therefore **recommend a decrease in the DFC, to £4.43** (a decrease of three pence, or 0.7 per cent). We note, however, MOD advice that food prices rose sharply after the period we take into account, which could lead to a substantial increase next year.

Looking ahead

We plan to approach our remit for next year in the same way as we have this year, examining the full range of evidence in line with our terms of reference.

We also expect to hear further details of policies under MOD's New Employment Model. These should include plans on the accommodation strategy and a new pay system, although full implementation of both will take some time. Because of the effect that the reforms may have on our remit, we ask that MOD continues to keep us well-briefed and await with interest their detailed proposals.

The fundamental changes to the size and shape of the Armed Forces and the re-design of the package MOD offers to Service personnel will present significant challenges in the years ahead. MOD should remain alert to the potential for dips in morale and increased outflow of key personnel. It is also essential that throughout this period of change MOD communicates effectively with Service personnel and their families, so that they can prepare for future changes.

We look forward to receiving more information for our next round on the increased role for Reservists envisaged in Future Reserves 2020. We would welcome a broader remit on Reserves' pay and allowances as their role expands.

Chapter 1

INTRODUCTION

Introduction

- 1.1. This Report sets out our recommendations on military pay for 2013–14. In its response to last year's Report the Government accepted each of our recommendations for 2012–13. The main recommendations were: a £250 increase in military salaries for those earning £21,000 or less; a reduction in the qualifying interval between levels of Longer Separation Allowance from 240 to 180 days; and harmonisation of New Entrant Rates of Pay for direct entrant graduate and non-graduate Officers.
- 1.2. In setting the remit for this year's round the Secretary of State for Defence recognised the importance of the Review Body being able to make recommendations across the full range of issues that fell within its terms of reference, but said the Government's policy was that public sector pay awards should average one per cent in 2013–14. He made clear his view that pay for the Armed Forces was within the terms of the policy which limits the average increase to one per cent. His remit letter is reproduced in full at Appendix 6. We were also asked to conduct our usual reviews on accommodation and food charges which the Secretary of State said were outside the policy of pay restraint.
- 1.3. As usual, our work programme also included a number of periodic reviews: Unpleasant Work Allowance; Reserves' Bounties; Chaplains' Pay; Northern Ireland Residents' Supplement; Specialist Pay (Parachute) and Veterinary Officers' Pay. We also reviewed our overall approach to making recommendations on Specialist Pay. In addition we undertook two substantial pieces of work relevant to all in the remit group. The first was our planned review of X-Factor (an addition to pay recognising the special conditions of Service life compared with civilian employment), looking back over the previous five years. The second was a valuation of the Armed Forces Pension Scheme to inform our work on pay comparability. We devote separate chapters of the Report to these two reviews.

Context

- 1.4. The implementation of major changes flowing from the 2010 Strategic Defence and Security Review (SDSR) has continued this year. For many Service personnel this has again meant high levels of uncertainty about job security and planned moves as part of the rebasing strategy. During 2012 the redundancy programme continued across the Services, with the greatest impact on the Army. The final tranches of RAF and Naval redundancies were announced during 2012, but there are further tranches scheduled for the Army. In June 2012 MOD announced that it was notifying about 2,900 Army personnel that they had been selected for redundancy in the second tranche. In the RAF and Navy, the second tranche covered some 730 and 170 personnel respectively¹. MOD reported in their strategy document '*Transforming the British Army*' that they aimed to reduce the Regular Force down to 82,000, augmented by 30,000 Reservists by 2018.
- 1.5. Under the SDSR changes, all 19,000 personnel based in Germany are set to return to the UK by 2020. MOD informed us it was on track to deliver this target and aimed to have returned half of personnel by 2015.

¹ The details of the third tranche of the redundancy programme for the Army were announced on 22 January 2013. MOD said that there was the likelihood of a further tranche for the Army plus medical and dental personnel in the Royal Navy and RAF.

- 1.6. The wider economic context remained bleak. The Government's Autumn Statement, issued in December 2012, estimated that economic output would fall by 0.1 per cent in 2012. The Office for Budget Responsibility (OBR) downgraded its growth estimates for the years ahead to 1.2 per cent in 2013, 2 per cent in 2014 and 2.3 per cent in 2015. In its Economic and Fiscal Outlook published in December 2012, the OBR said that it was more pessimistic about the UK's medium-term growth prospects than in March and expected that the difficulties in the Euro area would further weaken confidence.

Our 2012–13 work programme and evidence base

- 1.7. The visits programme, which is an integral part of our evidence-gathering, took place from April to August 2012. As usual, MOD provided us with a valuable initial briefing in March on the pay and personnel issues affecting the military. This year we had a particularly intensive visits programme, travelling throughout the UK and to overseas locations including Afghanistan, the Falkland Islands, Cyprus and the Middle East. We conducted 215 formal discussion groups involving 3,260 Service personnel. We also had the chance to meet 18 groups of spouses, partners and other family members.
- 1.8. To help inform our review of X-Factor, we asked all participants in discussion groups for their views on how military life had changed since 2007. We learned about the challenges facing Service personnel given the continuing high operational tempo. We also sought evidence to help with our reviews of targeted measures this round.
- 1.9. We would like to express our gratitude to all those who participated in our discussion groups as they greatly informed our thinking on the reviews we undertook. We are also very grateful to MOD and each of the Services for their hard work in delivering a comprehensive and well-organised visit programme. Full details of our programme are set out at Appendix 4.

Issues of concern

- 1.10. Unsurprisingly, a major concern raised in our discussions was the Government's announcement that the two-year pay freeze would be followed by two years of pay restraint. As last year, we found that Service personnel reluctantly accepted that in the wider economic and fiscal climate, restraints would continue to affect their pay. They understood that there were limited funds available for public sector pay rises and were realistic about the prospect of 'catch up' awards. However, there was widespread disappointment that after two years of pay freeze during which inflation averaged between two and five per cent and food and some accommodation charges increased by more than inflation, a one per cent pay rise would mean that their income would continue to fall in real terms. In the light of the Government's announcement of a one per cent cap for the next two years, we discussed how any recommended increase should be apportioned. The majority of personnel thought that any increase should be shared equally across the whole remit group.
- 1.11. Some discussion group participants expressed concern that an independent review body was unable to fulfil its remit due to Government constraints on pay. Some thought that simply accepting the Government's position on pay undermined our independence. Many participants told us that we should make evidence-based recommendations, even if we believed that the Government would reject them. We set out below our approach to this round.
- 1.12. As SDSR changes took effect, many personnel felt overstretched as high levels of operational tempo continued. There were increased demands on the military both at home and abroad. The Armed Forces were asked to prepare to intervene in a potential fuel tanker drivers' strike, prepare to cover for a potential prison officers' strike and to provide extra, short-notice security protection for the Olympics. Because of this, many Service personnel had their leave plans disrupted. The Service Families' Federations told

us in their oral evidence session that the cumulative pressures on the military were mounting. Many personnel they had spoken to felt overstretched and believed that their original terms and conditions of service had been eroded. Reflecting this, we heard frequently on our visits that personnel were feeling the pressure of covering gapped posts as staff reductions were implemented ahead of structural changes. When we discussed X-Factor on visits, most discussion group participants believed that the conditions of military life had deteriorated over the previous five years. Turbulence (the impact on family life of frequent changes in the location and type of work) was the component most commonly cited as worsening over the last five years. We assess in detail the changes in military life relative to civilian life in our X-Factor review in Chapter 4.

- 1.13. Pension reform was another common theme during our visits programme. MOD had run a series of roadshows to communicate the proposals the Government had accepted from Lord Hutton's Independent Public Service Pensions Commission. We generally heard positive feedback from personnel and from the Service Families' Federations about communication on the reforms. They also suggested that a revised pensions calculator be made available as soon as practically possible to enable personnel to see how they would be affected individually by the changes. In October 2012 MOD published details of the new pension scheme which it plans to implement in April 2015.

Our 2013 Report

- 1.14. At the outset of this round we considered what our approach should be to our remit. We recognised the concerns we had heard on visits about our independence and acknowledged the continuing difficult economic and fiscal position the country faces. As stated in our last Report, and as our visits confirmed, we are well aware that a further two years of pay restraint is disappointing for Service personnel. We note that the Secretary of State's remit letter for this round acknowledges the importance of our being able to make recommendations across the full range of issues that fall within our terms of reference, but regret that it also significantly constrains our remit for a third year.
- 1.15. Our role is independent both of Government and of Service personnel. Our terms of reference ask us to have regard to 'the need to recruit, retain and motivate suitably able and qualified people taking account of the particular circumstances of Service life'. We decided we should revert to our usual approach of making recommendations based on the whole range of evidence we received, in line with our terms of reference. Of course, this includes taking full account of MOD's affordability constraints and the Government's wider evidence on the economy and pay restraint. In line with our terms of reference we also consider recruitment and retention, motivation and pay comparability. Having considered all of the evidence, we reached conclusions based on our assessment of all the various and competing arguments. Our recommendations constitute a package that we invite Government to consider as a whole.
- 1.16. In Chapter 2 of this Report, we set out the Government's evidence, manning data, pay comparability studies, information on equality and diversity issues and a range of evidence on morale and motivation. In Chapter 3, we describe our approach to the pay and allowances recommendations and comment on individual periodic reviews we have undertaken. We also comment on a proposed new approach to Specialist Pay reviews.
- 1.17. Chapter 4 contains our X-Factor review, in which we set out the evidence we used to reach our recommendations. Chapter 5 describes our pension valuation exercise, and in Chapter 6 we report on our annual review of accommodation and food charges. For the last two years, Defence Medical Services have been covered in our main Report, but this year we return to our normal practice and will produce a supplementary report later in the year.

Chapter 2

CONTEXT AND EVIDENCE

Introduction

- 2.1. In this chapter we report on the Government's economic evidence and MOD's evidence on the strategic context and on manning, motivation and morale, workload and pay comparability. We include a section on Reserve Forces and, for the first time, report on MOD's approach to promoting equality and diversity in the Armed Forces. A more detailed summary of the data we considered is in Appendix 5.

Government evidence

General economic context

- 2.2. The Government's evidence on the general economic context emphasised the difficult fiscal position of the UK and confirmed that the overriding priority was to return the economy to sustainable growth. Official statistics showed that the economy had been contracting. Inflation had reduced over the previous year, and the labour market remained relatively subdued, with particular concerns about youth and long-term unemployment. The Government's view was that, in the light of all these factors, there was a strong case for public sector pay restraint. The Government believed that the overall remuneration of public sector employees was above that of the private sector. Its policy was that all public sector pay awards should be an average of one per cent for each of the two years following the pay freeze.
- 2.3. The Government's evidence on affordability stated that MOD had balanced its budget by exercising disciplined financial control. It said that any increases in the level of Armed Forces' pay above the one per cent stipulated in the remit letter would drive the defence programme out of balance, leading to damaging reductions elsewhere in the defence budget. In his oral evidence session, the Secretary of State for Defence reiterated this point, emphasising that money would have to be taken away from equipment and training budgets to fund any increase above one per cent.

MOD evidence on strategic management

- 2.4. While acknowledging the difficult economic circumstances outlined above, in its strategic management evidence MOD recognised that pay restraint, together with continuing change and uncertainty could adversely affect recruitment and retention. Voluntary outflow had steadily risen over the past year, even though wider economic conditions remained difficult. MOD highlighted that incremental pay progression was to be retained over both years of pay restraint. It also said that the uncertainty faced by Service personnel would reduce over the next year as the redundancy schemes in the RAF and Naval Service concluded, full details of the future Armed Forces Pension Scheme were disseminated, and emerging policies under the New Employment Model (NEM) were articulated. However, MOD acknowledged that the full impact of Strategic Defence and Security Review changes would be felt more acutely in 2013–14.
- 2.5. MOD set out its operational context and stated that all Services were heavily committed to operations. For example, ten per cent (3,510) of the RAF's trained deployable strength was away on overseas operations as at July 2011. The Army had over 20 per cent of its personnel committed to Afghanistan, with soldiers also involved in many other international operations. The Army committed over 12,000 personnel for the Olympics and 2,300 had to be prepared to cover for a potential fuel tanker drivers' strike earlier in 2012.

Manning

- 2.6. The deficit of military full-time trained strength doubled from 1.4 per cent of requirement at 1 April 2011 to 2.8 per cent at 1 April 2012. There were further reductions in both strength and requirement throughout 2012, reflecting planned changes in the Armed Forces, and the overall deficit narrowed to 1.8 per cent at 1 October 2012. Whilst restructuring is in progress, the Armed Forces must continue to recruit to avoid skills gaps and to fill the lowest ranks. Further details of manning levels can be found in Appendix 5. The level of recruitment increased by 16 per cent from the low base of 2010–11 but remained considerably below historical norms.
- 2.7. Outflow increased sharply by 27 per cent in 2011–12. Personnel leaving the Services in the first tranche of the redundancy programme accounted for less than half of the increase in outflow across the period. Despite the redundancy programme and continued economic uncertainty, voluntary outflow increased and continues to rise. By October 2012 rates of voluntary outflow were 3.8 per cent for Officers and 5.2 per cent for Other Ranks compared with 2.9 per cent and 4.0 per cent respectively in April 2011.

Motivation and morale

- 2.8. We assess morale and motivation from a range of sources including written and oral evidence from the Service Families' Federations, first hand views of Service personnel and their families from our visits and the 2012 Armed Forces Continuous Attitude Survey (AFCAS – on which greater detail is set out in Appendix 5). The issues of most concern were: the high operational tempo and the feeling of being inadequately resourced and overstretched; the continuing uncertainty about the future; redundancies; accommodation and maintenance (including the prospect of increased charges under the NEM); and the need for continued communication on the future Armed Forces Pension Scheme.
- 2.9. We also heard on our visits that the Government's public sector pay policy continued to cause concern for personnel and their families. The second year of the two-year pay freeze coincided with a period of above-target inflation, allowances cuts and increased charges. A further two years of pay restraint was expected to increase the financial burden on personnel. We were told, especially by more junior personnel, of the cumulative impact on families, with many more saying they were fast approaching the 'tipping point' which would result in them leaving the Services.

Workload

Operational and other commitments

- 2.10. In August 2012 there were approximately 11,000 personnel¹ serving overseas on operations including 9,500 in Afghanistan. Many more were called upon at short notice to provide assistance to civilian life. Over the Easter period personnel from across the Services were prepared to provide cover for the potential fuel tanker drivers' strike, some at very short notice. Following well-publicised concerns about a shortage of trained civilian staff to support the Olympics, MOD announced that a total of 17,000 personnel would be deployed on security arrangements for the Games. This was higher than the planned commitment and resulted in 3,500 personnel being called up at short notice in the summer, causing unexpected disruption to work and family life.
- 2.11. Harmony Guidelines are set to ensure balance between competing aspects of the lives of Service personnel: operations; time recuperating after operational tours; personal and professional development; unit formation training; and time with families. Each Service

¹ Excludes personnel on Pre-Deployment training, Rest and Recuperation and Post Operational Deployment Leave.

has different criteria for Harmony Guidelines², reflecting different operational requirements and practices. The guidelines are: separation levels of about 60 per cent for the Naval Service; 45 per cent for the Army; and 38 per cent for the RAF. Any personnel exceeding these limits across a rolling period will have breached these guidelines. Quarterly figures show that the levels of breaches have been fairly constant over the past two years within each Service at about one per cent for the Naval Service, almost three per cent for the RAF and just over five per cent for the Army. However, these figures mask higher individual levels of harmony breaches in specific trades and ranks.

- 2.12. The continued high level of operational tempo affects the levels of separation from family and friends. Army Unit Harmony statistics show that in the fourth quarter of 2011–12 16 per cent of trained strength continued to break Operational Harmony guidelines, with particular pressures on those who trained and deployed together as part of formed units. Reflecting this, we heard frequently on our visits that personnel were feeling the pressure of covering vacant posts as staff reductions were implemented ahead of structural changes.

Working hours

- 2.13. The average number of working hours for Armed Forces personnel fell by half an hour to 46.3 hours per week in 2011–12 from 46.8 hours in 2010–11. Unsocial hours worked also fell slightly, as did average weekly duty hours to 67.0 hours. The proportion of personnel working excessive hours fell to nine per cent from ten per cent. Comparative civilian data for full-time workers (including paid and unpaid overtime) showed average weekly hours of 37.5 hours (39.4 for men and 34.1 for women) in the three months to September 2012, up from 37.2 hours (39.1 for men and 33.7 for women) a year earlier.
- 2.14. Personnel 'at sea' or on 'overseas operations' typically work longer hours than their UK based colleagues. The Survey of Continuous Working Patterns showed the Royal Navy averaged 57.9 hours per week when at sea, while the Army and RAF averaged 72.8 hours and 67.4 hours respectively when on overseas operations. These figures are all over an hour less than those for 2010–11.

National Minimum Wage

- 2.15. Armed Forces personnel remain exempt from National Minimum Wage (NMW) legislation, but MOD aims to act within its spirit. Data from the Working Patterns Survey enable us to make a broad assessment of whether there may be personnel earning below NMW rates. Junior Ranks, across all Services, worked on average 44.5 hours per week during 2011–12. When applied to the basic pay (including X-Factor) of Junior Ranks on the lowest level of pay range 1 (£17,515 from April 2012) this equates to an hourly rate of £7.55. This compares favourably with the NMW figures of £6.08 per hour for those aged 21 and over and £4.98 per hour for those aged 18–20.
- 2.16. As the number of hours worked is variable, it is possible for those on the lowest pay level to be earning below NMW levels if they work in excess of 55 hours per week, for those aged 21 or over, or more than 67 hours per week if aged between 18 and 20. From October 2012 NMW rates increased for those aged 21 or over to £6.18 per hour but remained unchanged for 18–20 year olds. This reduces the number of hours personnel aged 21 or over would have to work before earning below the NMW by one hour to more than 54 hours per week.

² Royal Navy – In any 36 month period, no one to exceed 660 days of separated service; Army – Over a rolling 30 month period no one to exceed 415 days of separated service; RAF – not to experience separated service in excess of 280 days (all codes) in any 24 month period.

Leave arrangements

2.17. In 2011–12 personnel had an average Individual Leave Allowance (ILA)³ entitlement of 52.5 days, unchanged from 2010–11. Of this entitlement (2010–11 figures in brackets):

- 42.6 days were used (42.1 days);
- 8.2 days were carried forward (8.5 days);
- 1.8 days were lost (1.9 days); and
- Some element of ILA was lost by 17 per cent of personnel (19 per cent).

2.18. While we welcome the reported improvements, with more leave being taken and less being lost, the taking of leave and specifically the opportunity to take it when personnel want to remain an issue for many. The 2012 AFCAS reported a reduction in the proportion of personnel satisfied with the opportunity to take leave when they want to from 43 per cent to 40 per cent. The results echo views we heard on visits where, despite the best intentions of commanding officers, last minute programme changes often resulted in approved leave having to be changed.

Pay comparability

2.19. Our terms of reference require us to ‘have regard for the need for the pay of the Armed Forces to be broadly comparable with pay levels in civilian life.’ While it is often difficult to find direct civilian comparators for military roles, we see pay comparability as important in ensuring the Armed Forces pay enough to recruit, retain and motivate the personnel they need. Pay comparisons are not simply a mechanical exercise, and we make judgements based on the evidence we receive.

2.20. As last year we decided not to commission any external research on pay comparability for this round. Instead we considered data from the Annual Survey of Hours and Earnings (ASHE) to provide an indication of the pay of broad civilian comparators, on the basis of age. We also compared the Armed Forces’ graduate entrant salaries for the first three years of service with graduates’ salaries in other public sector professions.

Comparisons with ASHE data

2.21. We compared the pay of Armed Forces personnel⁴ with their full-time civilian counterparts in the same age group, as recorded in the 2011 ASHE⁵. Comparisons with the 2011 ASHE data showed that, as military rank increases, so do military salaries relative to civilian salaries.

- For a Private on the lower band, annual weekly pay is between £302 (level 1) and £391 (level 7); this compares to a civilian median of £313 for the same age group.
- For a Sergeant on the lower band, the range is £525 to £597 weekly pay compared to a civilian median of £527 for the same age group.
- For a Captain, the weekly pay range is £663 to £789 compared to a civilian median of £460 for the same age group.

2.22. Looking at ASHE data over the last ten years we observed that the new entrant salary has risen over recent years relative to civilian comparators and the salary for the lowest trained personnel (Private Level 1) has also increased. However, for other personnel, salaries have not changed relative to civilian full-time employees.

³ Comprises Annual Leave Allowance, Seagoers Leave, Post Operational Leave and Authorised Absence. Does not include rest and recuperation, re-engagement leave and relocation leave.

⁴ Armed Forces pay adjusted for X-Factor (/1.14) and for pensions (x1.04).

⁵ We used the 2011 ASHE to support our analysis because the 2012 ASHE was not available at the time of our deliberations.

Graduates in public sector professions

2.23. The information we received about graduate pay showed that the starting salary and early pay progression for graduates entering the Armed Forces as direct entrants to the Officer cadre compared favourably with that for other public sector professions. As Table 2.1 below shows, after adjustments for X-Factor and pensions, an Armed Forces Officer received higher starting pay than a doctor, nurse or teacher, although less than a Police Officer. However, salary progression for the Armed Forces Officer mean that after three years, the Armed Forces graduate entrant might expect to be paid more than the Police Officer also. Most direct entrant Officers are now graduates, though it should be acknowledged that a proportion are drawn from non-graduates who have demonstrated equal leadership potential. It is also important to recognise that many graduates join the Other Ranks as enlisted personnel. There is no specific graduate entry to the police service. Thus the police salaries quoted are paid solely on the basis of service, regardless of educational qualifications.

Table 2.1: Graduate pay of public sector professions in 2012^a

	Graduate starting pay	Graduate pay after:	
		1 year	3 years
Police Officer ^b	£23,259	£25,963	£27,471 ^c
Armed Forces' Officer ^d	£22,456	£26,992	£34,590
Doctor ^e	£22,412	£27,798	£31,523
Fast-Stream Civil Servant (BIS) ^f	£22,300	£23,300	£25,300
Teacher ^g	£21,588	£23,295	£27,104
NHS Nurse ^h	£21,176	£22,676	£24,554

^a Most figures are unchanged from two years ago as a result of the public sector pay freeze.

^b Excludes overtime payments. Rates at 1 Sep 2012.

^c Incremental progression was frozen above point 2 during the pay freeze (point 2 is shown).

^d Armed Forces pay adjusted for X-Factor (/1.14) and for pensions (x1.04). Assumes starting at OF1 Level 5 and progression to OF2 after 3 years.

^e Hospital doctors expect to progress from Foundation Year 1 to Foundation Year 2 after one year and then to Specialty Registrar after a second year.

^f Figures are 2012 national salaries assuming successful performance (London salaries are £3,500 more on all three points).

^g Outside London. Assumes satisfactory performance. Rates at 1 Sep 2012.

^h Agenda for Change pay rates at April 2012.

Future plans

2.24. We plan to explore approaches to pay comparability this coming year with the aim of having a suitable method in place for our future work. We will look in more detail at possible job comparisons, building on the work carried out for our pension valuation this year. We will also seek evidence on the jobs personnel take after leaving the Armed Forces.

Promoting equality and diversity in the Armed Forces

2.25. Last year we asked MOD to submit formal evidence to us on its approach to promoting equality and diversity in the Armed Forces. This is an important dimension of both recruitment and retention. We believe the Armed Forces should recruit from the widest possible pool of talent and provide opportunities which enable all Service personnel to fulfil their potential. We were therefore pleased to receive a paper from MOD setting out its approach to equality and diversity, including its Strategic Equality Objectives published in April 2012. MOD acknowledged that progress on equality and diversity issues had been slow, but said that much of this was due to the Armed Forces recruiting to the junior ranks, which meant it took time for progress to be reflected in more senior positions.

- 2.26. Representation of women in the Armed Forces is a consequence of both variable patterns of intake and differential progression paths once in the Services. Overall, women make up less than ten per cent of UK Regular Forces. The RAF has the largest proportion, with the Army having the smallest. Women tend to be in the lower ranks of each Service, with very small proportions in Senior Ranks or Senior Officers. MOD explained that much of the concentration of women in more junior positions was because of historical trends of shorter career lengths. More recently, women have been widely deployed on operations, gaining experience that should stand them in better stead for career advancement. On average 22 per cent of deployed Service personnel are female, with 30 per cent of young Officers and 25 per cent of Other Ranks gaining operational experience.
- 2.27. MOD told us that the proportion of women in the Armed Forces was unlikely to increase in the future unless specific action was taken on recruitment and noted a recent decline in recruitment to the Naval Service. To help increase the attractiveness of careers in the Armed Forces, the roles that are available to women are occasionally reviewed. This resulted in the announcement that women would be allowed to serve on submarines. In May 2012 the Army established a 'Female Retention and Progression' review, which aims to develop a gender strategy. The RAF benchmarks its recruitment and retention strategies with 'Opportunity Now' and is in The Times Top 50 Employers for Women. The NEM will provide an opportunity to consider how terms and conditions of service could be altered to make starting and maintaining a career in the Armed Forces more attractive to women.
- 2.28. We expressed concern in our last Report that ethnic minority recruitment patterns did not reflect the diversity of the UK. In our view demographic changes imply an imperative to improve recruitment and retention of Black and Minority Ethnic (BME) personnel. BME personnel at present make up less than seven per cent of UK Regular Forces. Less than three per cent are UK BME citizens. The Army has the largest proportion of BME personnel and the RAF the smallest. However, only a third of the Army's BME personnel are UK nationals. Within Other Ranks, BME personnel are more concentrated in the lower Ranks compared with white personnel, although there is less disparity among Officers. In its evidence MOD recognised that while the overall population aged 16–24 (the key recruitment group) was declining, the proportion of BME people in that group was increasing. MOD said that it engages with communities at all levels to build trust and improve understanding to try to encourage people from UK ethnic minority groups to consider a career in the Armed Forces.
- 2.29. MOD considers religion to be a private matter, but is committed to removing barriers to prevent people from joining the Armed Forces on religious grounds. Actions include appointing civilian advisors to the military from Jewish, Buddhist, Hindu, Muslim and Sikh faiths.
- 2.30. The ban on lesbian, gay and bisexual people serving in the Armed Forces was lifted in 2000 following a judgement by the European Court of Human Rights. Since then the Armed Forces have joined Stonewall's Diversity Champions Programme and allowed personnel in uniform to participate at Gay Pride events.
- 2.31. We welcome the evidence MOD has presented this year and its direction of travel appears to offer a sound basis for making further progress. We look forward to further reports on progress and in these reports we would like to learn more about MOD's strategies for recruiting and retaining a more diverse Armed Forces, including single Service policies, target setting and information on mentors and diversity champions within the Forces. We consider these and other steps will be important in helping promote a more inclusive culture in which all Service personnel can reach their full potential.

Reserve Forces

- 2.32. In 'Future Reserves 2020' (FR20) the Independent Commission on the Reserves set out a strategy for the Reserves, increasing their proportion of the Armed Forces as a whole and developing their role. FR20 outlines a 'whole force concept' and a ten-year strategy to achieve it. Key to the whole force concept is increasing Reservist numbers to a fully trained complement of 35,000. MOD is confident it can reach this target by 2018, noting that while the target seems high compared with the current level, it is comparatively low in historical terms.
- 2.33. The personnel we met on visits said that there was a need for improved employer engagement and understanding about what it means to be a Reservist. Some said that their commitment meant they had found job opportunities limited, were overlooked for promotion and had to take annual leave to attend training days. This has resulted in some Reservists being unable to attend training and/or choosing not to disclose their military service on CVs. On training incentives they were generally content with the levels of Bounty; we consider this issue in greater depth together with the Call-Out Gratuity in Chapter 3. We also heard from a number of Full Time Reserve Service personnel who told us that they were delivering 'more for less' and their goodwill was being stretched to the limit.
- 2.34. MOD recognises that it will need a new strategy for recruiting and retaining an enhanced cohort of Reservists. A framework for achieving the 2018 target is set out in the Green Paper *Future Reserves 2020: Delivering the Nation's Security Together*. MOD aims to create a proposition for employers which means that both industry and the military share the capabilities of some of the nation's most talented people. In recognition of this task MOD told us that it will undertake a review of Reservists' terms and conditions in 2013. This wide-ranging review will look at the current remuneration package including Bounties and Call-Out Gratuity and the overall Reserve experience. MOD has promised to provide us with more information for our next round. At present our remit covers only Bounties and Call-Out Gratuity: we would welcome a broader remit on Reserves' pay and allowances as their role expands.

Chapter 3

PAY AND ALLOWANCES

We recommend that (from 1 April 2013 unless otherwise indicated):

- all rates of base pay be uplifted by one per cent;
- all Specialist Pay rates be increased by one per cent;
- the level of SP(Parachute) be increased by one per cent and from 1 April 2014 the basis for payment for Parachute Regiment OF4 personnel be changed from Career Continuous Basis to Non-Continuous Basis;
- the existing Reserves Bounties and Call-Out Gratuity be retained and increased by one per cent;
- the level of Recruitment and Retention Allowance (London) be increased by one per cent;
- all levels of Unpleasant Work Allowance be increased by one per cent;
- the Northern Ireland Residents' Supplement be increased by one per cent;
- the pay rates for Officers Commissioned from the Ranks be increased by one per cent;
- the CF1 and PC pay scales be merged, as soon as possible creating a new CF1 scale. All other Chaplains' rates of pay be increased by one per cent;
- Veterinary Officers' pay be increased by one per cent;
- the proposed Financial Retention Incentive for suitably qualified OR6-8 personnel serving in the Weapon Engineering Submarines Strategic Weapons System specialty be implemented (from 1 November 2012);
- the Territorial Army Commitment Bonus – Early Years be implemented;
- all rates of compensatory allowances not reviewed separately be increased by one per cent.

Introduction

- 3.1. This chapter sets out (i) our recommendation on the overall pay award for the Armed Forces, (ii) our recommendations on how to approach future reviews of Specialist Pay (SP), and (iii) our recommendations arising from reviews of a number of targeted measures and specific groups.
- 3.2. As we set out in our last Report, the Government announced in November 2011 that following the two-year public sector pay freeze, there would be a further two years of pay restraint with public sector pay awards limited to an average of one per cent. However, as we explained in Chapter 1, we decided our approach to this round should be to consider all of the relevant evidence available to us, including the Government's evidence

on affordability and policy statements on public sector pay, along with other evidence on recruitment, retention and motivation and broad pay comparability in keeping with our terms of reference. We assessed all this evidence before reaching our recommendation on the overall pay award.

- 3.3. We are pleased that MOD submitted evidence to allow us to review our approach to making recommendations on SP. We welcome the proposals and, with a few minor adjustments, intend to adopt the new approach in our next round.
- 3.4. Targeted measures play an important role in supporting recruitment and retention, particularly where there are manning pressures. Each year we look at specific compensatory allowances, pay arrangements and Financial Retention Incentives (FRIs) for certain groups. For this Report we reviewed: SP (Parachute); Reserves Bounties and Call-Out Gratuity; Recruitment and Retention Allowance (London); Unpleasant Work Allowance; Northern Ireland Residents' Supplement; Officers Commissioned from the Ranks; Chaplains' Pay; Veterinary Officers; and FRIs for Territorial Army – Early Years and Weapon Engineering Submarines Strategic Weapons System.

Recommendation on military pay

- 3.5. The Chief Secretary to the Treasury wrote to Review Body Chairs on 16 July 2012 (Appendix 6) setting out the Government's policy on public sector pay restraint in more detail. He stated that pay restraint was necessary for the country's fiscal sustainability and to protect public sector jobs. He said that the Review Bodies should focus on how the one per cent should be divided within the remit group. He made it clear that the one per cent uplift should be applied to the normal interpretation of basic salary.
- 3.6. Our remit letter from the Secretary of State for Defence (Appendix 6) set out the Government's policy in relation to the Armed Forces specifically. It defined basic pay as the combination of base pay and X-Factor. It also said that increases in SP and compensatory allowances were within the policy that limits the average increase for Service personnel to one per cent. In oral evidence the Secretary of State said that the one per cent restraint on pay was necessary in a period of adjustment of public expenditure and that public sector pay had got out of kilter with the wider economy. He emphasised that if pay increased by more than one per cent, savings would have to be found in other parts of the MOD budget, such as equipment and training.
- 3.7. MOD proposed that there should be an increase of one per cent to basic pay across all ranks and that allowances within our remit should also be increased by the same amount. MOD did not wish to see a differential approach adopted as it would be seen as divisive by personnel. During discussion groups on our visits this year, we asked personnel for their views on how any pay award should be handled. The majority agreed that any increase should be distributed evenly as an across-the-board percentage increase, although there were a few other proposals suggested such as a flat cash award to all, using the amount to re-establish the differentials eroded by the £250 uplift awarded to the lowest paid in the previous two years, or adding extra points to the top of incremental pay scales.
- 3.8. MOD's evidence noted that incremental pay progression would be retained over the period of the Government's public sector pay restraint, as it had been during the pay freeze. About 75 per cent of personnel are not at the top of their pay scale so should receive an incremental increase. In the light of concerns we had heard on our visits we looked at the impact of the pay freeze on take-home pay of different ranks, taking account of tax and National Insurance changes and inflation. The results can be seen in Appendix 5.

- 3.9. On *recruitment and retention* MOD reported few problems overall. While targets were generally lower than historical norms, they were broadly met, and recruitment was higher than in the previous year. We noted there were some serious gaps in the manning of certain key trades, although the number of Operational Pinch Point trades reduced compared with the previous year. Voluntary outflow levels have been increasing slowly but steadily, contributing to increased overall outflow.
- 3.10. On *motivation and morale* we noted that against the background of the continuing restructuring of the Armed Forces, satisfaction levels have generally been falling, according to the Armed Forces Continuous Attitude Survey. Compared with the previous year, reductions in satisfaction were observed over basic pay and pension benefits. Morale (both own and Service) was less positive as was satisfaction with Service life in general. Our visits evidence also highlighted a range of concerns including overstretch and uncertainty, both of which continued to affect personnel and their families.
- 3.11. Our analysis on *pay comparability* which included data from the Annual Survey of Hours and Earnings found that military pay was broadly in line with civilian pay across both the public and private sectors. In keeping with our terms of reference we also gave due weight to the Government's evidence on public sector pay policy and on affordability to MOD, as amplified by the Secretary of State in his oral evidence.
- 3.12. Overall, we conclude on a careful consideration of the full range of evidence that a one per cent across the board increase in base pay is appropriate this year.

Recommendation 1: We recommend that all rates of base pay be uplifted by one per cent from 1 April 2013.

Specialist Pay review

- 3.13. In our 2012 Report we gave initial consideration to a comprehensive review of Specialist Pay (SP). While we welcomed the direction of travel set out in MOD's evidence, we asked for further thought to be given to a number of important issues in order to make evidence-based decisions on this important area of remuneration. We particularly welcomed the proposed new approach to reviewing individual SP-earning cadres, which is intended to increase speed and flexibility of response. We sought more information and a shadow-running of the approach to judge how it might work in practice. Additionally, we asked for an explanation of MOD's strategic approach to recruitment and retention payments and for proposed safeguards should any revised process of reviewing SP lead to a recommendation of a decrease in payments for an individual group.
- 3.14. SP is paid to assist recruitment and retention in specific groups within the Armed Forces. It is used where there is a longer-term need to support recruitment and retention in individual specialisations but, despite its name, it is not a reward for possessing particular skills. There are 19 different categories of SP, with an annual cost of £124m. Over 17,250 personnel receive SP, about ten per cent of trained full-time strength. Two categories, SP (Flying) and SP (Submarine), account for the bulk of expenditure on SP.
- 3.15. MOD also uses other forms of recruitment and retention payments. Bespoke pay spines are a long-term solution for groups with different career progression to the mainstream (such as Pilots or Chaplains) or who have pay aligned with direct comparator groups (such as Nurses). Some 9,500 personnel are on bespoke pay spines, less than six per cent of trained strength. FRIs by contrast are short-term measures aimed at addressing manning shortfalls in key specialisations (including Operational Pinch Points), by encouraging existing personnel to remain for a set return of service. Golden Hellos are

sometimes used to encourage recruitment into certain specialisations. MOD judges which type of payment to use in what circumstance by considering duration, coverage, comparable groups and variability of the particular recruitment and retention issue.

- 3.16. There were three main issues for us to consider in this round: a proposal on the rate of SP to be payable from April 2013; MOD's intention to rename SP; and a better-developed model and trial running of a potential new process for reviewing SP. Each of these is examined in more detail below.

Uplift for SP this year

- 3.17. Except where we have made recommendations for certain key groups (such as Explosive Ordnance Disposal Operators and Royal Marine Mountain Leaders), all rates of SP have been frozen for the past two years, under the public sector pay freeze. MOD believed that the freeze diminished the value of SP as a recruitment and retention incentive. As the majority of SP-earning cadres are considered to be operationally essential, MOD proposed that we recommend an increase to the rates of SP in line with any overall pay award. We are content to endorse this proposal. We note however that it is not MOD's intention to apply such a standard uplift in future years: under the new arrangements for review of individual cadres, described below, MOD anticipates the possibility of differential changes where appropriate.

Proposed name change

- 3.18. We have long regarded the name 'Specialist Pay' as a misnomer – it does not communicate the recruitment and retention purpose behind the payment. MOD's evidence asked us to note that it intended to change the name to 'Recruitment and Retention Incentive' with effect from April 2013. The new name would be used in communications with personnel, with the intention of helping to reinforce the purpose of SP and supporting the introduction of the more flexible model of review. However, work to upgrade MOD's Joint Personnel Administration (JPA) system means that any name change cannot be reflected on payslips or the online system until April 2014 at the earliest. We have concerns about the proposed name change. First, we do not believe that the suggested name adequately reflects the intent of the payments. We believe 'Recruitment and Retention Payment' may be more appropriate. Second, we consider that changing the name in some, but not all communication with Service personnel could cause further confusion rather than clarification. We therefore recommend that the name change should be implemented only when it can be used consistently in all communications with personnel.

Future review process

- 3.19. Building on the work submitted last year on a potential new approach to reviewing SP, MOD provided a detailed outline of the process, together with a trial run to allow us to gauge whether it would be appropriate to adopt the approach in future. MOD said in its evidence that the proposed approach would respond more quickly to factors affecting recruitment and retention and focus resources on the groups that need them most. The new process includes an annual manning review for each SP-earning cadre which should be more flexible and agile than the current arrangements for periodic review. The analyses of individual cadres are intended to provide the basis for proposed annual adjustments in levels of SP and trigger an in-depth review of groups where needed, replacing the current fixed schedule of reviews. The trial run of this process provided us with examples of the manning review templates for each SP group.
- 3.20. We noted in our last Report that in principle such a flexible approach should allow levels of SP to move down as well as up in response to manning levels. There will need to be some safeguards in place for those personnel whose pay could be cut if SP were reduced for their cadre following review. MOD proposed in their evidence that a standard 12 months notice would be given prior to any reduction in SP coming in to effect and that

additional transitional arrangements could be put in place for those facing more substantial reductions in income if their SP was to be decreased or stopped altogether.

- 3.21. The New Employment Model (NEM) includes work to develop a new pay structure and will also examine all recruitment and retention payments in an attempt to develop a more coherent approach. MOD told us they considered the new approach to reviewing SP was consistent with the principles underpinning the NEM.

Our conclusions on the new system

- 3.22. We broadly endorse the new approach proposed by MOD and the associated safeguarding of pay if SP rates are reduced. We welcome the greater flexibility of the proposed new process compared with current arrangements, but make some detailed suggestions on practical arrangements. First, we invite MOD to consider how best to ensure timely reviews. Under its proposals, if one group's manning data suggests an in-depth review is needed, this would be flagged in year one, then reviewed in year two. We suggest that the individual manning analysis templates are supplied to us at the beginning of our round, and if the data suggested that a group needed to be reviewed, the evidence should be provided in the autumn of the same year.
- 3.23. Second, we considered the information MOD intend to include in each of the manning review templates, to ensure it would meet our needs and provide enough evidence for us to decide whether an individual group required an in-depth review. Overall, we thought the information was sufficient, although we will require guidance in the accompanying commentary to give us the context to make a judgement. For example, a certain level of under-manning could be acceptable for one group, but dangerously low for another, and the narrative should explain the circumstances in each case.
- 3.24. Third, we suggest that in addition to reviews being triggered by manning levels, there should be some form of underpinning to ensure that no category of SP goes without a full review for too long (perhaps triggering an automatic review after, say, a five-year interval). For this year, the evidence provided in the trial run suggested that full reviews should be conducted on SP (Diving) and SP (Parachute Jump Instructor) during the next round and we are content to review these groups.

Other issues

- 3.25. In previous Reports we have commented on the changes imposed on SP as a result of Strategic Defence and Security Review (SDSR) cuts. MOD told us that it would not consider revisiting the changes to Reserve Banding¹ or the termination of SP on submitting notice to quit as it did not consider the increased expenditure would bring any benefit. The changes made to Reserve Banding still appear to us to be inconsistent with MOD's wish to move towards three-year postings in many areas. In evidence submitted for a proposed FRI, MOD acknowledged that the loss of SP on giving notice to quit could lead to more personnel leaving at optional leaving points. We would like MOD to report back on whether this proves to be the case in forthcoming years.
- 3.26. We also invite MOD to consider a suggestion raised in a discussion group on one of our visits. We understand that some personnel in key pinch point groups are allowed, indeed actively encouraged, to withdraw their notice to quit before their notice period has expired. However, once notice is submitted, their SP is stopped and if the individual subsequently withdraws their notice, the 'lost' SP is not repaid. For those in trades with the most fragile manning, it could be a retention incentive if MOD were to repay personnel this lost SP should they choose to withdraw their notice. We therefore ask MOD to consider the application of their current policy and report back to us next year.

¹ With effect from 1 April 2012, for the first three years away from an SP-tagged post, a Reserve Band is paid: 100 per cent of the full rate for the first two years and 50 per cent of the full rate during the third year. Payment then ceases.

- 3.27. In our 2012 Report we asked MOD for further information on a number of specific issues in relation to SP. When looking at *personnel in receipt of multiple forms of SP*, MOD found that the arrangements were mostly appropriate, but did need to clarify some of the rules around entitlements. In considering the instances when SP was paid when there was an *existing return-of-service commitment*, MOD again found that when this happened, the arrangements were complementary rather than conflicting, as it usually arose where SP alone was insufficient to meet recruitment and retention needs. In order to inform AFPRB when this is the case, the SP review templates include information on what other remunerative measures are in place for the specific group in question. MOD recognises that when a training commitment is associated with a return-of-service commitment there is more scope to reconsider the appropriateness of paying SP. We request that MOD examines this further and reports back to us in time for our next Report.
- 3.28. MOD also reviewed the payment of SP to those at OF5 (Colonel and equivalents) and above. About 250 personnel at OF5 and above were in receipt of some form of SP, over 200 of whom received SP (Flying). MOD acknowledged that there was some inconsistency in the approach to SP for more senior personnel and undertook to investigate this further. We look forward to receiving a further report on this matter for our next Report.

Recommendation 2: We recommend that:

- **all Specialist Pay rates be increased by one per cent from 1 April 2013;**
- **the new process is adopted subject to some detailed amendments (for example to ensure timely reviews and clear commentary on individual groups) and that as a minimum one-year safeguarding is adopted as appropriate to individual circumstances;**
- **full reviews of SP(Diving) and SP(Parachute Jump Instructor) are conducted next year;**
- **MOD reconsiders the name change, including its timing, to ensure consistency and clarity.**

Targeted Measures

Specialist Pay (Parachute)

- 3.29. We were due to review Specialist Pay (Parachute) (SP(P)) last year, alongside all other SP earning groups, but MOD evidence was not available in time. We were pleased to receive the evidence for our review this year. SP(P) is paid to qualified military parachutists occupying a tagged post. An enhanced rate is paid to those in Pathfinder Platoon. It is paid on a Career Continuous Basis (CCB) to those in the Parachute Regiment, up to OF4 (Lieutenant Colonel), providing personnel meet the qualifying criteria. It is paid on a Non-Continuous Basis (NCB) to those in Army Combat Support (CS) and Combat Service Support (CSS) units only while filling an SP(P)-tagged post.
- 3.30. In its evidence to us, MOD emphasised the rigorous nature of the selection and training process to qualify as a parachutist. Pathfinder Platoon personnel undergo further training in advanced parachuting techniques. MOD reported a sizeable deficit in the manning of SP(P) designated posts, both within and outside the Parachute Regiment. MOD stated that SP(P) remains a key element of the offer to help meet recruitment targets (and in encouraging CS and CSS personnel to become military parachutists), and to help with retention, especially up to OR6 (Sergeant) level. It also serves as an important pool from which to recruit UK Special Forces. We understand that there will be a continuing need to

pull through individuals with certain attitudes and aptitudes and expect the remuneration strand of work under the NEM to examine this issue in some detail.

- 3.31. We have already agreed two changes to SP(P) since our previous review. Firstly, at the last review of Specialist Pay (Submarine Escape Tank Training) (SP(SETT)) in our 2010 Report, we agreed that once SETT has been decommissioned in 2014–15, SP(SETT) will cease and then Submarine Parachute Assistance Group qualified personnel will receive the full rate of SP(P) on a non-continuous basis while in approved qualifying roles. Secondly, in March 2012, we gave approval for a change to start date arrangements for SP(P) so not to penalise those who were unable to qualify (or remain current) through no fault of their own.
- 3.32. In the evidence for this review, MOD stated that it regarded the basis for paying SP(P) as appropriate, with one exception. MOD proposed that the basis of payment be changed from CCB to NCB for those at OF4. The rationale given was that parachuting was no longer core to the role of a Parachute Regiment OF4. MOD proposed that the change should take effect from April 2014, allowing all of those who could lose out in the change to be given 12 months notice. We are content to endorse this proposal, although we would like MOD to monitor the impact of the change.

Recommendation 3: We recommend that the level of SP(Parachute) be increased by one per cent from 1 April 2013 and the basis for payment for Parachute Regiment OF4 personnel be changed from Career Continuous Basis to Non-Continuous Basis from 1 April 2014.

Reserves Bounties & Call-Out Gratuity

- 3.33. MOD provided us with evidence on Reserves Bounties and the Call-Out Gratuity (COG). There are four types of bounty: the Training Bounty, Ex-Regular and Other Ranks Training, High Readiness Reserve; and University Units. They are paid as incentives for Reserves to complete their training programmes. The COG is a one-off payment to personnel to assist them through the transition from civilian to military life in the event they are required for operational duty.
- 3.34. In its evidence to us, MOD emphasised the critical contribution Reservists make, adding that during 2012 over 4,000 Reservists would be mobilised at home and abroad, including over 2,100 who were mobilised for the Olympics. Since 2003 over 28,000 Reservists have been deployed on operations. They continue to make a major contribution to the effectiveness of the Armed Forces.
- 3.35. During our evidence-gathering visits, the Reservists we met told us that the current Bounty and COG levels were about right. We did however hear concerns about the burden of training and the administrative processes associated with being mobilised. We note from MOD's evidence that the proportion of Reservists who met their annual training obligation, and therefore qualified for bounty, was relatively low at 64 per cent. We were told that in future the Bounties and COG will be unlikely to meet operational needs and that a review of Reserves terms and conditions, including training incentives, will take place during 2013. We expect to consider MOD's developing thinking in our next round. MOD proposed that the four bounties and the COG should be retained in their existing format and be increased in line with the overall annual pay award. In view of the forthcoming review, we are content to support MOD's suggestion for this round.

Recommendation 4: We recommend that the existing Bounties and Call-Out Gratuity be retained and increased by one per cent from 1 April 2013.

Recruitment and Retention Allowance (London)

- 3.36. We intended to review Recruitment and Retention Allowance (London) (RRA(L)) in our 2012 Report but the evidence we received was insufficient to allow us to undertake a proper review. MOD had already implemented cuts to RRA(L) under the SDSR including the cessation of payments to those above OR4 (Corporal). We were concerned that the changes were not well-justified. Therefore we asked MOD to provide us with sufficient evidence to allow us to review the justification, effectiveness and targeting of RRA(L) during this round.
- 3.37. RRA(L) is intended to compensate for the factors which make serving in London a less attractive posting for personnel. These include the higher costs of living and limited support infrastructure. It is paid to those serving at least six months in a location within five miles of Charing Cross, or at either Cavalry Barracks (Hounslow) or Woolwich Garrison. It was originally paid to those at OF6 (Brigadier) and below, but cut for those personnel above OR4 (Corporal) from April 2012. The problems of serving in London are the same for all personnel regardless of rank. The changes made by MOD could create a disincentive for promotion from Corporal to Sergeant since losing RRA(L) would (for some) negate much of the minimum five per cent increase in base pay.
- 3.38. MOD examined the factors and eligibility criteria for RRA(L), within a constraint that any alternative proposition would have to be broadly cost-neutral. MOD's analysis suggested that some of the original factors underpinning RRA(L) remained relevant, while others were no longer justified. Data from the Office for National Statistics suggested that the price for a fixed basket of goods and services was 7.9 per cent higher in London than the national average. Therefore the higher cost-of-living factor remained relevant, as did the reluctance to serve in London among personnel with any choice in the matter. MOD regarded accommodation as being no worse than in the rest of the country and while there were limited sports and mess facilities in inner London, there was adequate provision in Woolwich and Hounslow. Four additional factors that had previously justified the payment of RRA(L) to personnel in Woolwich and Hounslow (impact of public duties, local community hostility, disruption caused by the Heathrow flight path and high local crime rates) were considered by MOD to no longer be unique to these areas and therefore irrelevant.
- 3.39. When considering the eligibility criteria, MOD considered that paying the allowance according to workplace was not as relevant as place of residence, that it should be paid to all ranks up to OF6 as previously and that the qualifying period of service should be reduced from 182 to 91 continuous days. MOD also compared the practices of other large London employers who pay some form of premium. Following its analyses, MOD proposed a revised RRA(L) (called Inner London Living Allowance (ILLA)) to be paid at a rate of £3.50 per day to all eligible personnel up to and including OF6 who both live and work in defined inner London locations for at least three months.
- 3.40. We welcome the fact that MOD has conducted a thorough examination of the options for RRA(L) but we remain concerned that the conclusions have been excessively constrained by the search for cost-neutrality. We are not convinced by the focus of the new proposal on an allowance to be paid to those who both live and work in a clearly defined area of inner London. Most employers pay London allowances based on where their staff work. MOD justifies its different approach on the basis that Service personnel are eligible for subsidised accommodation and are partially shielded from commuting costs.
- 3.41. As Woolwich and Hounslow would be outside of the new area, over 1,000 personnel at OR4 and below would lose their entitlement to RRA(L) if the proposed arrangements were implemented. However, during oral evidence, MOD said that transitional

arrangements would be made so that those who currently received RRA(L) would receive the new rate until they were posted elsewhere. This appears to be a sensible and proportionate arrangement.

- 3.42. We considered two possible options on RRA(L) for this year: to endorse the proposed ILLA; or to request that MOD provide evidence on an alternative. On the first, we did not feel that the evidence presented allowed us to endorse the proposed ILLA. The review had been clouded by the constraints of cost-neutrality and some of the arguments put forward to justify the removal of the allowance from specific locations were not convincing (for example the impact of aircraft noise at Hounslow). While the evidence refers to examples of arrangements in other organisations, MOD appears to depart from common practice by making the workplace and residence the basis of payment, rather than just the workplace. Although personnel benefit from the provision of subsidised accommodation and travel, we were not clear that the impact of place of work (including on length/stress of commuting time and overall living costs) had been fully taken into account in considering the options.
- 3.43. Given our concerns about the proposed ILLA, we prefer the second option and request that MOD undertakes further consideration of RRA(L). We wish to receive evidence to support an allowance which is informed by practice in other organisations, assesses the impact on personnel of serving in inner London but living elsewhere and is not rigidly constrained by cost-neutrality. We recognise that this decision will result in the current, undesirable, situation remaining in place for another year. However, we are unwilling to recommend a change until we are satisfied that MOD is proposing a new arrangement which will be fair and sustainable. For this year, we recommend that the level of RRA(L) be increased in line with the overall pay award.
- 3.44. There is a question about whether RRA(L) should be in our remit. It can be seen as a recruitment and retention allowance, which would normally be in our remit, or as a cost of living allowance which would usually be for MOD to set. When asked in oral evidence about the nature of the proposed new allowance, MOD said it was a cost of living allowance for inner London to offset the increased cost of basic items compared with the rest of the UK. However, it remains in our remit and we wish to see a suitable framework established following the changes made under the SDSR.

Recommendation 5: We recommend that:

- **the level of Recruitment and Retention Allowance (London) be increased by one per cent from 1 April 2013;**
- **MOD undertakes a further review and reports back to us next year.**

Unpleasant Work Allowance

- 3.45. We carried out our five-yearly review of Unpleasant Work Allowance (UWA). UWA is paid for work outside of an individual's usual range of duties considered to be of an objectionable or harrowing nature. It is also paid to Service personnel operating in conditions involving an exceptional degree of discomfort or fatigue, or exposure to noxious substances.
- 3.46. All Service personnel irrespective of rank can be eligible for UWA. It is paid at three rates depending on the unpleasantness of the task. UWA has a strong operational bias and costs rise with activity. It is also used, for example, at home bases, for cleaning aircraft and at sea. UWA has an important role to play in rewarding and retaining Service personnel who have to undertake undesirable tasks outside their normal duties. It can be earned while Unpleasant Living Allowance is also being paid.

- 3.47. MOD's evidence said the allowance appropriately compensated Service personnel for unpleasant working. Our impression from visits was that Service personnel were generally content with the current arrangements of UWA. There were some examples given during visits where the application of the rules was unclear, but overall UWA appears to meet its intended purpose. In its evidence, MOD proposed that the structure of UWA remained unaltered and that the rates of pay be uplifted in line with the annual pay award. We are content to endorse this proposal.

Recommendation 6: We recommend that all levels of UWA be increased by one per cent from 1 April 2013.

Northern Ireland Residents' Supplement

- 3.48. We conduct a biennial review of the Northern Ireland Residents' Supplement (NIRS) in order to measure any change of circumstances for Service personnel who live and work in Northern Ireland. The allowance is paid in recognition of the particular circumstances that personnel and their families face while based in Northern Ireland and is paid over and above X-Factor. The circumstances include the level of security threat and restrictions on living conditions, compared with counterparts in the rest of the UK, such as 'out-of-bounds' areas and a ban on wearing uniforms in public. Overall conditions give rise to difficulties in integrating dependents.
- 3.49. We heard on our visit to Northern Ireland how the restrictions affect personnel and their families. A higher proportion of personnel serve unaccompanied compared to other postings, partly due to the unique difficulties their spouses have in finding employment. Personnel and families in discussion groups expressed strong support for the rationale behind NIRS and for its retention.
- 3.50. The security situation in Northern Ireland has been generally similar to when we last reviewed NIRS in 2011. In the light of this and evidence gathered during our visit, we endorse MOD's proposal that NIRS be increased in line with the annual pay award. Our next scheduled review is in two years time. However, should the security situation change in the meantime, we ask MOD provide us with the necessary evidence to conduct an earlier review.

Recommendation 7: We recommend that the Northern Ireland Residents' Supplement be increased by one per cent from 1 April 2013.

Officers Commissioned from the Ranks

- 3.51. Officers are recruited via two distinct routes, either as Direct Entrants from civilian life or indirectly via the Other Ranks. Officers Commissioned from the Ranks (OCFR) will have been invited to apply for a commission within their Service based on the experience they have gained and having proven their leadership potential. The core constituency of OCFRs is from Service personnel who have usually attained the rank and pay level of at least Sergeant or equivalent. OCFRs are highly regarded among the Officer corps, bringing with them experience and knowledge from time served in the Other Ranks. Many commission at the end of their 22 year service in the Other Ranks (particularly in the Army). The OCFR route can represent a career incentive for Service personnel who may be considering taking up a civilian career. Once commissioned, their terms and conditions change and in effect they undertake a second career within the Armed Forces.
- 3.52. Evidence for our five-year review of OCFR suggested surplus manning levels across all Services, particularly Army Late Entrant Officers. As SDSR changes continue to take effect and the numbers of Service personnel decline within the Army, MOD projects that the

surplus will end by 2018. MOD evidence noted that OCFRs brought unique experience and knowledge to the Officer corps and that the surplus was a reflection of the talent pool at Senior Non-Commissioned Officer (SNCO) level.

- 3.53. We heard on visits from many SNCOs that the attraction of taking a commission was lessening. They cited increased workloads, short contracts being offered and some postings being unattractive. Although the current OCFR manning levels are in surplus, we encourage MOD to keep this cadre under review. If an economic upturn led to a spike of voluntary outflow from this group it might be necessary to consider further whether the pay arrangements for this group remain appropriate. Having considered the evidence overall, we conclude for now that the current pay arrangements should be retained and increased in line with the overall recommended award.

Recommendation 8: We recommend that pay rates for Officers Commissioned from the Ranks be increased by one per cent from 1 April 2013.

Chaplains

- 3.54. We review the pay arrangements for Service Chaplains every five years. Service Chaplains' objectives are broadly similar across the three Services. They assist the units they serve by providing welfare support and spiritual guidance for all personnel and by acting as 'eyes and ears' for Commanding Officers. Additionally, they provide spiritual guidance through training and education and carry out ecclesiastical services whenever required. Their skills make them ideal to carry out training of, and support for, Casualty Notification Officers and Casualty Visiting Officers. Service Chaplains also play an important role on operations. In 2011, 15 Royal Navy Chaplains were deployed operationally at sea, with eight concurrently in Afghanistan. In April 2012, 12 Army Chaplains were deployed to Forward Operating Bases. Twenty two RAF Chaplains were deployed in operations during 2011 and many others offered UK-based support to operations.
- 3.55. Chaplains are a unique cadre within the Armed Forces and this is reflected by the existence of their own bespoke pay spine. Service Chaplains will have had a civilian career before joining the Armed Forces and can face financial and accommodation transition problems at the time they join. These can include the cost of moving the contents of an established family home and the size of Service accommodation to which they are entitled. When we raised this with MOD we were told that a review of the current transitional arrangements would be considered at a tri-Service Chaplaincy event in 2013. We regret that this issue was not considered earlier so it could inform part of our review this year but we look forward to learning more about it next year.
- 3.56. During our visits programme we had the opportunity to go to Amport House Chaplaincy Centre. The Chaplains we met there told us that they were generally content with their pay and allowances, but suggested that on those bases with a Chaplain, an appropriate 'tied' house could be allocated to the Chaplain. We hope that this issue can also be considered at the tri-Service Chaplaincy event referred to above.
- 3.57. MOD pointed out an anomaly that existed in the Chaplaincy pay scales between CF2/3/4 and CF1. In practice, a CF2/3/4 Chaplain at the top of their pay scale could earn more than a CF1 who had additional responsibilities but who had less than 24 years accrued service. MOD proposed a merger of the CF1 pay scale and the under-utilised Principal Chaplain (PC) pay scale into a new CF1 scale. The change would create pay progression on promotion from CF2/3/4 regardless of years served and reduce inter-Service differences. We endorse this proposal and recommend that all other Chaplain pay scales are uplifted in line with the overall pay award. MOD stated that it would be unable to

implement the new scale until 1 April 2014 because of the JPA upgrade programme. As the number of people affected is relatively small, we hope that MOD will be able to make an exception and implement the change on 1 April 2013.

Recommendation 9: We recommend that the CF1 and PC pay scales be merged, creating a new CF1 scale as soon as possible. We recommend all other Chaplains' rates of pay be increased by one per cent from 1 April 2013.

Veterinary Officers

- 3.58. After hearing concerns raised during our 2011 visits programme we asked MOD to submit evidence for our review of Veterinary Officers' pay one year earlier than originally scheduled. Last year we reported that there was an Operational Pinch Point at the OF3 (Major) rank. The shortfall has continued and MOD reported a 31 per cent deficit at OF3. To help to address the situation, MOD introduced a range of non-remunerative measures, which include the offer of increased responsibilities, a wider range of training and extended Commissions. The measures aim to offer a better career structure for Veterinary Officers to help minimise outflow and incentivise recruitment across this cadre.
- 3.59. We had the opportunity to discuss a range of issues with Veterinary Officers during our visit to Defence Medical Services (DMS) Whittington. They told us that morale was low within the Veterinary Corps for a variety of reasons. There was dissatisfaction on pay for higher ranks, a lack of variety in their work and issues with the current career structure. They also said that their morale was adversely affected by the perception of many within the military that the Veterinary Officer role was inferior to that of other medical groups. There were also negative comments about pay from Veterinary Officers in the DMS Continuous Attitude Survey (DMSCAS).
- 3.60. In its evidence, MOD requested that the non-remunerative measures be allowed time to take effect. In the meantime, the current pay scales for Veterinary Officers should be retained and uplifted in line with any overall pay award.
- 3.61. In our 2012 Report, we asked to be kept updated on the implementation of a Principal Personnel Officer² delegated FRI targeted at Military Working Dog (MWD) handlers. Manning requirements in this cohort have increased in recent years, due partly to increased demand for MWD capabilities. The FRI would provide a payment of £7,500 (before tax) for three-years completed service. MOD told us that the FRI would be introduced in early 2012. However, at the time of writing this Report, it has still to be implemented.
- 3.62. Given the comments we heard during visits and the non-remunerative measures MOD has initiated, we intend to revisit this issue next year. MOD will then have had the opportunity to assess the effectiveness of those measures. Further consideration can then be given to remunerative measures if need be. We would therefore like further evidence from MOD for our 2014 Report. Specifically, we ask for an update on manning levels, a broader set of Veterinary Officers' DMSCAS data than we received this year (which only covered pay) and confirmation about the implementation of the FRI.

Recommendation 10: We recommend that Veterinary Officers' pay be increased by one per cent from 1 April 2013.

² Principal Personnel Officers (PPOs) have delegated authority to authorise Financial Incentives, within agreed limits. A PPO-endorsed scheme will usually apply to a small number of individuals, last for no more than 2 years, involve relatively low sums of money and require to be implemented within a timescale which precludes AFPRB approval.

Weapon Engineering Submarines Strategic Weapons System Financial Retention Incentive

- 3.63. We were asked by MOD to consider evidence, at short notice, for an urgent FRI for suitably qualified OR6-8 (Petty Officer – Chief Petty Officer) personnel serving in the Weapon Engineering Submarines Strategic Weapons System (SWS) specialisation. While SWS personnel are a small group, with a required strength of just 129, they are vital to the Submarine Service and any increase in voluntary outflow (VO) has a very large impact. MOD regarded recent outflow rates (both VO and personnel electing to leave at optional exit points) as unsustainable and not reversible via normal manning levers.
- 3.64. In its evidence, MOD identified several factors that may encourage SWS personnel to leave at option points or by submitting notice to terminate. These included: possession of transferrable skills which are prized by major defence contractors and in wider civil industry; the nature of serving on a submarine; impact on family life; lack of promotion prospects; gradual erosion of allowances; and the reduction of Specialist Pay to zero upon submitting notice to terminate. Therefore, MOD proposed an FRI of £25,000 (before tax) for a five-year return of service. The purpose of the FRI is to reduce the level of outflow to allow time for the next cohorts of Senior Rates to come through.

Recommendation 11: We endorse the proposed Financial Retention Incentive for suitably qualified OR6-8 personnel serving in the Weapon Engineering Submarines Strategic Weapons System specialisation with effect from 1 November 2012.

Territorial Army Commitment Bonus – Early Years

- 3.65. We received a proposal from MOD on a Commitment Bonus, which would be paid to Direct Entrant Territorial Army (TA) Junior Officers, and ex-Regulars in the early years of their Reserve service. It would provide an initial payment of £2,000, followed by three staged annual payments of £1,000 to encourage recruitment and retention. This total incentive of £5,000 (before tax) is offered to those identified as critical to meeting MOD's 2018 target of 30,000 fully trained TA Reservists. MOD acknowledges that current non-remunerative and remunerative measures have failed to recruit and retain sufficient levels of TA personnel, even before the ambitious 2018 target. It is expected to cost £17.6m over the next five years with the aim of having 22,500 deployable TA by 2015.
- 3.66. MOD proposed to review the effectiveness of the policy with a review submitted to us during the 2015–16 round. While we are content to endorse the package, we would like regular updates on the impact of this measure on recruitment and retention, and we are prepared to revisit the issue before the next scheduled review if that should be necessary.

Recommendation 12: We recommend that the Territorial Army Commitment Bonus – Early Years be implemented.

Rates of Compensatory Allowances

- 3.67. For all rates of compensatory allowances not reviewed above we recommend increases in line with our overall pay recommendation.

Recommendation 13: We recommend that all rates of compensatory allowances, not reviewed separately, be increased by one per cent with effect from 1 April 2013. The recommended rates are in Appendix 2.

Chapter 4

X-FACTOR

Introduction

- 4.1. This chapter sets out the evidence for and our recommendations on X-Factor following our five-yearly review. X-Factor is a pensionable addition to pay that recognises the special conditions of service experienced by members of the Armed Forces compared with civilian employment. It accounts for a range of potential advantages and disadvantages which cannot be evaluated when assessing pay comparability. X-Factor is not intended to compensate for the particular circumstances that Service personnel face at any one time but instead reflects the balance of advantage and disadvantage averaged out across a whole career.
- 4.2. Our last review, for the 2008 Report, concluded there had been a material change in the degree of disadvantage for the military relative to civilian life and that the rate of X-Factor should be increased by one percentage point to 14 per cent. For this review we examine the trends in the period since then. We also assess the evidence for the X-Factor taper and groups receiving differential levels of X-Factor.
- 4.3. In conducting our review we have considered a range of evidence including:
- MOD's assessment of changes for the military since 2007;
 - independent research on civilian trends commissioned from Incomes Data Services¹ (IDS);
 - views expressed to us by all ranks of Service personnel and their families on our visits;
 - information from the Armed Forces Continuous Attitude Survey (AFCAS);
 - views heard during oral evidence including the Service Families' Federations, the Principal Personnel Officers and the Secretary of State; and
 - our secretariat's analysis of military and civilian information.

We have sought as far as possible to base our assessment on data across the whole review period.

The rationale for X-Factor

- 4.4. X-Factor has been a component of Armed Forces' pay since the introduction of the military salary in 1970. At the time X-Factor was introduced, the special conditions of military life (as compared to normal civilian employment) were deemed to include disadvantages such as the liability to danger, being subject to discipline, turbulence and the adverse balance of Service conditions of employment. The advantages included breadth of training and early responsibility. These elements were viewed as requiring special, but not specific, compensation. The National Board of Prices and Incomes² acknowledged that an 'element of judgement must inevitably enter into the measurement of them in financial terms' and that the amount 'may need to be varied from time to time'.

¹ *A review of the X-Factor, a report for the AFPRB* – Incomes Data Services, November 2012 published on www.ome.uk.com.

² Recommended by the National Board of Prices and Incomes – Report No 116, 1969.

- 4.5. This element of judgment remains important when reviewing X-Factor. There is no mathematical formula used to determine the outcome and no standard weighting is applied. While we assess the components individually to identify any movement since the previous review, we view them as a complete package when reaching our recommendation.

Previous reviews and current level

- 4.6. In general, we review X-Factor every five years, but more frequently when the pace of military or civilian change so merits. As Table 4.1 below shows, X-Factor was stable for many years up to the late 1980s when the AFPRB identified a deterioration in the quality of Service life and urged MOD to take management action.

Table 4.1: Rates of X-Factor since 1970

Year	Percentage of base pay	
	Men	Women
1970	5	1
1974	10	5
1982	10	7.5
1988	10	9
1990	10.5	9
1991		11.5
1994		12
2000		13
2008		14

- 4.7. Previous reviews of X-Factor have thoroughly assessed all components, have applied an appropriate judgement to the level of X-Factor and recommended changes as and when justified. We note that the absolute level of X-Factor has changed by only four percentage points in total since 1974 and individual increases have typically been modest at either 0.5 per cent or one per cent. The 2003 review recommended no change. We also note MOD's consistent endorsement of the basis for and coverage of X-Factor, the endorsement by the 1995 Independent Review³, and the consistent acceptance by Government of our recommendations on X-Factor.

Context

- 4.8. There have been significant changes in both military and civilian life during the period since our last X-Factor review. The deepest recession in living memory in 2008–2009 was followed by slow and uncertain recovery. Civilians felt the impact of unemployment, long periods of above-target inflation and reductions in job security for those in work.
- 4.9. For the military, the commitment to overseas operations has remained across the period. Despite the move from two medium scale operations to one following the end of operations in Iraq, operational demands including preparation have remained high. The Strategic Defence and Security Review (SDSR) in 2010 set the tone for a period of significant uncertainty and cost-saving. Changes with the greatest impact included the tri-Service redundancy programme, basing changes, and cuts to allowances. During the whole of this five-year period the Armed Forces have continued to operate at a high tempo. They have reacted to support contingency operations such as the NATO-led operation in Libya and they have been called upon to deal with civil emergencies at home and abroad, including potential strikes and the Olympics.

³ *Independent Review of Armed Forces' Manpower, Career and Remuneration Structures* – Chaired by Sir Michael Bett, March 1995.

Analysis of X-Factor components – military and civilian

- 4.10. The components of X-Factor are reviewed from time to time, most recently in October 2006, when the relevance of the existing components was confirmed. Accordingly for this round, we sought evidence from MOD and others based on these components. Our approach to this review was to undertake a thorough analysis of the military and civilian evidence for each component of X-Factor in turn. We then assessed the relative change in terms of the military since the last review. Our conclusion on each component does not necessarily correspond with that of MOD and IDS as presented in their analyses but it represents our considered assessment of all the evidence we received, acknowledging the variation in the quality of evidence and applying our judgement throughout. In reaching our overall assessment based on the analysis of individual components, we do not apply a formulaic weighting but do recognise that the 18 individual components are not of equal value. A summary of our assessments is at Table 4.2.
- 4.11. *Turbulence*. This is defined as dislocation to family and social life caused by regular changes to the type and physical location of work. Turbulence is an inherent part of Service life. The evidence presented to us showed increased levels of spousal unemployment, reductions in spouse salaries and promotion opportunities and falling levels of home ownership. Evidence from the Army showed increased levels of turbulence. We heard compelling evidence on our visits of increased levels of turbulence linked to SDSR changes as well as the preparation for operations and civil contingencies. These elements outweighed improvements in access to education and medical care (which MOD cited but which are included in a separate X-Factor component). In contrast, we found civilian data inconclusive. The evidence we received did not establish whether the falling proportion of young married women in employment was due to economic or social factors. We assess that this component has **worsened** for the military.
- 4.12. *Danger*. The definition of danger within the X-Factor includes: a threat of real or perceived violence; an environment or area which is deemed physically unsafe or uncomfortable for natural, manmade and/or political reasons; the potential loss of life or limb; and injury to oneself or others. Our evidence demonstrated that Service personnel can be exposed to danger both on operations and in other areas of their work. On the former, mortality rates of 91 per 100,000 between 2007–2011 compared with 84 per 100,000 between 2002–2006 show that Service personnel have been exposed to increased levels of danger. The numbers of non-battlefield injuries have also increased across the period. Major and serious injuries and illnesses to UK regular Armed Forces personnel increased from 1,500 in 2007–08 to a peak of 2,500 in 2010–11 before falling back to about 2,000 in 2011–12. These included injuries and illnesses incurred during training and on exercise, partaking in sport or recreation and whilst on normal duties, highlighting the fact that Service life is inherently dangerous. We noted that on our visits danger was rarely highlighted, as Armed Forces personnel accepted it was a feature of military life. This reflects well on the ethos of military life but should not detract from the assessment of this component.
- 4.13. In its evidence, MOD suggested that there was a need to reassess the role of X-Factor in dealing with elements such as danger (and separation), and that we should take account of the payment of the Operational Allowance (OA) as compensation for increased levels of danger on operations. However, when OA was introduced in 2006 it was specifically ‘to recognise the increased and enduring nature of danger in specified operational locations, over and above that compensated for in X-Factor’⁴. In our assessment, we have recognised and taken account of the role of OA in relation to the specific dangers of operations (although we note it is not paid in all operational locations) and we have given weight to the trends in non-battlefield injuries.

⁴ AFPRB Thirty-Sixth Report – 2007 paragraph 4.29.

- 4.14. Health and Safety Executive data show there has been a reduction in both fatal and non-fatal workplace injury rates in the civilian workplace. We assess that this component has **worsened** for the military.
- 4.15. *Separation*. X-Factor compensates for the short periods of separation⁵ from home and family which are an inherent part of military life. MOD presented data on Individual Harmony Guidelines which were inconclusive but said that short term separation is not currently captured in Harmony data. MOD evidence confirmed that additional pre-deployment training and churn associated with increased collective training and individual augmentation had increased short term separation ahead of deployments.
- 4.16. MOD said it believed the improvements to Longer Separation Allowance (LSA) had already compensated personnel. We acknowledge the series of improvements made to LSA between 2009 and 2012 which have reduced the intervals between levels from 300 days to 180 days, reduced the qualifying period from ten to seven days and introduced LSA from day one for those operating under field conditions. However, we heard on our visits very many examples from Service personnel of how the incidence of short-term separation had increased over the previous five years. Civilian data are limited, but show a reduction in business trips across the period. We assess that this component has **worsened** for the military.
- 4.17. *Job satisfaction*. Evidence on this component is mixed. For the military, AFCAS data show improvements in satisfaction levels across the earlier years before falling back in latter years to levels similar to those in 2007. Civilian data are less clear with examples of both increasing and decreasing levels of satisfaction. We assess that this component is **unchanged**.
- 4.18. *Job security*. Post-SDSR structural changes resulted in a redundancy programme which has eroded the perception of job security. Over 6,600 personnel were notified from tranches one and two. Following the downturn in the economy, job security has also deteriorated in the civilian sector. Rising unemployment levels, especially youth unemployment, and increasing redundancies across the period have been observed. Staff turnover has reduced suggesting a lack of confidence in finding alternative employment. We assess that this component is **unchanged**.
- 4.19. *Working hours*. Despite continuing to work longer hours than civilians, MOD data show there has been little change in working hours since our last review. Similarly average working hours for civilians are unchanged. We assess that this component is **unchanged**.
- 4.20. *Stress at work*. There are limited military statistical data but our visits and MOD's evidence provide qualitative data suggesting increasing levels of work-related strain. Civilian data are limited and not sufficiently robust to determine if the position has changed. On balance we assess that this component has **worsened** for the military but note that the evidence base is weak.
- 4.21. *Leave*. Changes in recording practice by the military mean that no reliable trend data are available and therefore assessment is difficult. We note from our visits and the views of the Service Families' Federations that there is a continuing inability for many personnel to be able to take leave when they want. The IDS analysis showed an unchanged situation for civilians. We assess that this component is **unchanged**.
- 4.22. *Support to personnel and their families*. This component has a number of strands with some covered elsewhere in our overall review, for example assistance with travel. For those elements not covered elsewhere there was a slight worsening for the military although we acknowledge that the Armed Forces Covenant is designed to address some

⁵ Longer Separation Allowance compensates for periods of separation beyond 7 days.

of these issues. Support for civilian workers and their families has improved. Non-cash employee benefits including maternity and paternity pay and leave, childcare support and employee assistance programmes have all improved. We assess that overall this component has slightly **worsened**.

- 4.23. *Training*. This component is difficult to compare on a like-for-like basis. Training for the military is an integral part of the job. MOD pointed to a number of developments in vocational training since 2007 but assessed the overall situation as unchanged. In comparison, IDS presented results from several surveys that suggested a reduction in civilian training. The proportion of employers providing job-related training fell during this period with a corresponding increase in the proportion of employees receiving no training. We assess that this component has **improved**.
- 4.24. *Opportunities for promotion*. MOD assessed the overall picture of promotion opportunities as mixed but unchanged. It accepts there has been a reduction in command positions, with single Service views also suggesting a slight deterioration. However, the average age on promotion has remained fairly consistent across the period, and AFCAS data are mostly positive. Civilian data are again limited with any changes in trend being marginal. We assess that this component is **unchanged**.
- 4.25. *Autonomy*. There is an absence of robust data for both the military and civilian positions. We could not find any divergence between the two since the last review and therefore assess that this component is **unchanged**.
- 4.26. *Divorce*. MOD data on this component are inadequate as Joint Personnel Administration does not record divorce as a personal status category of personnel. We note the intention of MOD to address the difficulty in making direct comparisons with civilian data through amendments to future AFCAS. There was a small fall in civilian divorce levels but without clear comparative Armed Forces data we assess that this component should be considered **unchanged**.
- 4.27. *Healthcare and education*. MOD highlighted several improvements in this component including the introduction of the Pupil Premium to provide additional funding for schools with Service children, the introduction of the childcare voucher scheme and improved retention of NHS waiting list places through the Armed Forces Covenant. The IDS report presented data showing improvements in the NHS that would apply equally to both civilians and the military. Civilian education data are broadly unchanged. Overall we assess that there has been a slight **improvement**.
- 4.28. *Individual Rights*. The introduction of new legislation has improved the position for both the military and civilians. We assess that this component is **unchanged**.
- 4.29. *Adventure and travel*. This is another area where comparisons are difficult. Adventure and travel (AT) are an almost unique feature of military life. AFCAS data and the evidence from visits show that opportunities have reduced and that even when opportunities are available, the overall tempo is often such that they cannot be taken up. Army data showed that while about half of personnel undertook some form of AT between 2007–08 and 2009–10, the proportion reduced to only 32 per cent by 2011–12. The civilian comparison of holidays and leisure trips do not in our view provide a meaningful comparison. Based on the worsening situation for the military we assess that this component has **worsened**.
- 4.30. *Trade union membership*. MOD assessed that this component is unchanged for the military. IDS assessed that in civilian life increased industrial action and falling trade union membership counterbalanced each other. We understand that it is a consequence of military life that personnel do not have collective trade union representation. We note that the Armed Forces have been asked to provide cover for civilian workers who were

exercising their right to withdraw their labour, and this has raised awareness of personnel of their distinct position, as we frequently heard on visits. The absence of union representation during critical discussions over pension entitlement provided a marked illustration of Service personnel having fewer rights than civilians. However, we note that the position has not deteriorated for the military during the last five years and so we assess that this component is **unchanged**.

4.31. *Travel to work*. Cuts to allowances following the SDSR have resulted in reductions to the Motor Mileage Allowance element, impacting on both Home to Duty Travel and Get You Home (Travel). Personnel also had their personal contribution increased from one to three miles. While commuting times and distances are unchanged for civilians, data from the Office for National Statistics show that road and rail travel costs have both outstripped RPI inflation. It is clear that both the civilian and military positions have worsened and we therefore assess that overall this component is **unchanged**.

Table 4.2: X-Factor Review – assessment by component

- Component has improved since last review
- Component has worsened since last review
- = Component is unchanged since last review

X-Factor component	Military	Civilian	Net change
Turbulence	●	=	●
Danger	●	●	●
Separation from home and family	●	●	●
Job satisfaction	=	=	=
Job security	●	●	=
Hours of work	=	=	=
Stress at work	●	=	●
Leave	=	=	=
Support to personnel and families	●	●	●
Training	=	●	●
Promotion and early responsibility	=	=	=
Autonomy/management control/flexibility	=	=	=
Divorce	=	=	=
Health and education	●	=	●
Individual rights	●	●	=
Adventure and travel	●	=	●
Trade union membership and industrial action	=	=	=
Travel to work	●	●	=

Conclusions

4.32. This X-Factor review has been one of the most important areas of work for us this year. Our assessment leads us to conclude that there has been a relative worsening for the military in six components, an improvement in two components with the position for the remaining ten components relatively unchanged. Components showing a net deterioration include turbulence, danger and separation from home and family, all of which we consider to be among the most important. Indeed, for danger and separation the worsening military position is accentuated by relative improvements for those in civilian life. We acknowledge the improvements to both OA and LSA and, to the extent they are relevant, have taken them into account.

- 4.33. Some components previously seen as advantages for the military have also worsened over the period. Adventure and travel opportunities have reduced while SDSR allowance cuts impacted on assistance provided to personnel travelling to work, although the net change for the latter was balanced by increasing civilian costs.
- 4.34. Our independent analysis of the evidence leads us to conclude there has been a deterioration in the conditions of military life relative to civilian life. The weight of evidence is less strong than our previous review when 13 components were assessed as having deteriorated, pointing to a clear increase in the disadvantage for Service personnel and resulting in a recommendation of an increase of one percentage point. We were also concerned about the quality of some of the supporting data and this is reflected in our modest recommendation. However, we are confident in our overall assessment that the relative position for Service personnel and the impact on their families has worsened relative to civilians. We therefore conclude for this review that X-Factor should increase by 0.5 percentage points to 14.5 per cent.

Recommendation 14: We recommend a 0.5 percentage point increase in the level of X-Factor from 14 to 14.5 per cent from 1 April 2013. Appendix 1 shows military pay scales inclusive of X-Factor.

Looking forward

- 4.35. During oral evidence the Secretary of State for Defence listed a number of proposals aimed at improving life for Service personnel and their families in the future. These included ideas to seek to reduce levels of separation, improve stability and offer more local opportunities for spousal employment. Reducing any disadvantages faced by personnel and families through the continued work of the Armed Forces Covenant was also seen as a positive step. We acknowledge the work to date of the Covenant but reiterate the words of the Service Families' Federations that all parties should continue working towards equity of treatment across the United Kingdom.
- 4.36. When the full impact of these initiatives is felt, in combination with the planned withdrawal of combat operations from Afghanistan, we could envisage a more stable position in the future for military personnel and their families. This could mean that in our next scheduled review in 2017 we will be considering an improving military picture relative to civilians. The retrospective nature of our X-Factor review ensures that any recommendation is evidence based, assessing changes that have taken place since the previous review. We intend to examine the components which underpin X-Factor, with a view to ensuring MOD and our secretariat can start to gather a firm evidence base for our next five-yearly X-Factor review.

The X-Factor taper

- 4.37. From the introduction of X-Factor in 1970 until the last review in 2008 a taper existed for Officers above Level 5 of the OF4 (Lieutenant Colonel and equivalents) payscale. OF4s above this point and OF5s (Colonel and equivalents) received two-thirds of the cash value received at Level 5 OF4. OF6s (Brigadier and equivalents) received one-third of the same cash value, with no payment to Officers above the rank of OF6. The evidence at the last review highlighted the frequency and longer duration of operational deployments for more senior Officers and resulted in a change to their tapering arrangements. The result was full X-Factor being paid to all OF4s, 75 per cent (of the cash value at the top of the OF4 payscale) at OF5 and 50 per cent (of that same cash value) at OF6. OF7 and OF8 ranks (covered by the Senior Salaries Review Body) received X-Factor for the first time, set at 25 per cent of the same cash value.

- 4.38. Since the last review Officers at OF5 and above have continued to deploy for longer periods (in excess of nine months) where continuity of tenure is required. However, Campaign Continuity Allowance of £60 per day is paid to such specific appointments after 228 days in theatre to compensate. We received no other evidence from MOD or from personnel on our visits to suggest that the current tapering arrangements require amending at this time.

Evidence on other groups

- 4.39. Reserves, Military Provost Guard Service (MPGS), Gibraltar Regiment (RG) and RG Reserves all receive a lower rate of X-Factor. We assess the evidence below for these groups.

Reserves

- 4.40. Reserve Forces currently receive 0 per cent, 5 per cent or 14 per cent X-Factor depending on the level and type of commitment. Mobilised Reserves and Full-Commitment Full Time Reserve Service receive full X-Factor. MOD's evidence recommended retaining this link with Regular Forces. As a result of Future Reserves 2020, Reservists will play a much more integrated role alongside their regular counterparts in the future. The major review of Reserve terms and conditions of service will examine all elements of pay, including X-Factor. MOD told us that we may be required specifically to review the X-Factor for Reserves upon completion of this important piece of work. In oral evidence, the Assistant Chief of Defence Staff (Reserves & Cadets) said he felt the level of X-Factor was about right for Reservists.
- 4.41. We have heard on our visits to Regular as well as Reserve units how the Reserves have been used in greater numbers to great effect operationally since our last review. We therefore consider it appropriate that Reservists continue to receive the full rate of X-Factor when mobilised.

Military Provost Guard Service

- 4.42. MPGS personnel provide an armed guarding service at defence establishments and receive five per cent X-Factor to reflect the less restrictive and local nature of their employment compared with Regular Forces. MOD's evidence stated there have been no changes to their terms and conditions of service to merit altering the current level of X-Factor. We are content that the existing level remains appropriate.

Royal Gibraltar Regiment and RG Reserves

- 4.43. Personnel from the Royal Gibraltar Regiment (RG) receive 6 per cent X-Factor (RG Reserves 3 per cent) due to the different balance of X-Factor elements and the unique and local nature of their employment. MOD's evidence highlighted the changing role of the Regiment, from a home guard role towards a formed cycle with increasing operational and training commitments. MOD invited us to note that the gap between X-Factor levels for RG and regular UK personnel should not be allowed to widen.
- 4.44. We are content to endorse MOD's proposal that the level of change in X-Factor for UK Regulars should be equally applied to RG personnel thereby maintaining the differential between RG and UK Regulars. The X-Factor for RG Regulars should be increased to 6.5 per cent, and for the RG Reserves to 3.25 per cent to remain at 50 per cent of the RG Regulars' level.

Recommendation 15: We recommend that the level of X-Factor for:

- **MPGS, Home-Commitment and Limited-Commitment Full Time Reserve Service remain unchanged;**
- **Mobilised Reservists and Full-Commitment Full Time Reserve Service should increase from 14 to 14.5 per cent from 1 April 2013;**
- **the Gibraltar Regiment Regulars should increase from 6 to 6.5 per cent and for Gibraltar Regiment Reserves from 3 to 3.25 per cent from 1 April 2013.**

Chapter 5

PENSION VALUATION

Introduction

- 5.1. Our terms of reference require us to make recommendations that ensure that military pay is broadly comparable with pay levels in civilian life, taking into account the need to recruit, retain and motivate Service personnel. When working to our normal remit, we take into account evidence on pay comparability alongside that on a range of subjects including manning, recruitment, retention, the economy and departmental targets and budgets. As part of our consideration of broad pay comparability, we take into account the value of the Armed Forces' Pension Scheme (AFPS) compared with that of comparator civilian schemes. The last valuation was included in our 2007 Report.
- 5.2. AFPS is a non-contributory scheme for both personnel and dependants' pensions – no deductions are made from pay to fund their pension. All regular Armed Forces' personnel (excluding Medical and Dental Officers) joining the Armed Forces from 6 April 2005 are automatically members of the newer Armed Forces' Pension Scheme (AFPS05). Those who joined prior to 6 April 2005 were members of the AFPS75 Scheme and were also given a one-off opportunity to transfer to AFPS05. This valuation considered military and civilian pensions before changes across the public sector following the Independent Public Service Pensions Commission's report.

The valuation study

- 5.3. Previous valuations adopted an actuarial approach and produced a single figure that was then used as an adjustment factor for civilian comparator pay, when we made our broad pay comparisons. The last valuation suggested that civilian comparator pay should be reduced by four per cent to account for the relative value of the AFPS. We considered that an alternative approach was needed to take account of the wide variation in career paths within the military. Therefore, for the first time in undertaking such a valuation, we adopted a 'sample career' approach in an attempt to better understand the differential value of the pension to individuals depending on the nature of their Service career. Using information supplied by MOD's Defence Analytical Services and Advice, we identified eight potential sample careers for personnel with different lengths of service and ranks to be considered as the starting point for comparative valuation. The sample careers were split between Other Ranks and Officers, with some being in AFPS75 and the remainder in AFPS05.
- 5.4. We commissioned PricewaterhouseCoopers (PwC) to carry out the valuation and they undertook some sensitivity analysis to ensure the sample careers were broadly representative of the full range of Service careers. While we realise there is no such thing as a 'typical' career in the Armed Forces, we believe the sample careers we selected are appropriate and reasonable. The sample careers are shown in Table 5.1. For the purposes of the review, PwC assumed that each individual was mid-way through their career. Full details of the alternative careers and all of the methodology used can be found in the report itself¹.

¹ The report can be found at: http://www.ome.uk.com/AFPRB_Research_Reports.aspx

Table 5.1: Sample careers*Other Ranks*

Career path	Age at joining	Length of service	Scheme	Rank on leaving
A	18	4	AFPS05	Private
B	18	12	AFPS05	Corporal
C	18	22	AFPS75	Sergeant
D	18	22	AFPS75	WO1

Officers

Career path	Age at joining	Length of service	Scheme	Rank on leaving
E	22	8	AFPS05	Captain
F	22	18	AFPS05	Major
G	22	33	AFPS75	Lt Colonel
H	22	33	AFPS75	Brigadier

5.5. Personnel in our sample careers C, D and F on leaving the Armed Forces will receive continuing payments which are paid to those with sufficient qualifying service. In AFPS75 the payment is known as an Immediate Pension and in AFPS05 as an Early Departure Payment but for simplicity we will refer to both below as early departure payments.

5.6. In constructing their report, PwC was asked to provide:

- Proposals and rationale for data to be used on broad civilian comparators for each of the military sample careers;
- An innovative methodology for a broad comparison of the value of AFPS with that of civilian comparators' pensions;
- A methodology for providing broad comparator data, which takes account of earnings over Service careers, the typically longer length of civilian careers and the range of pension provision available. The methodology was to be transparent, repeatable and robust;
- A comparison focused on the relationship between pension value and base pay in 2012 for Armed Forces personnel in the sample careers against appropriate civilian comparators;
- Advice on the level of relative pension advantage/disadvantage for members of the AFPS;
- Advice on any potential issues to be considered for future valuations.

5.7. It is important to note that the work makes certain assumptions about the pensions of both public and private sector comparators. In particular, it compares the value of the Armed Forces pension with other public sector workers and private sector employees with pensions. The valuation assumes that early departure payments act as income replacement up to the age of 60, and thereafter are included in the value of the pension. We comment further on this approach, and the implication of alternative assumptions below.

Results

- 5.8. The first stage of calculating the relative value of Armed Forces pension benefits to those provided in alternative careers was to value the pension as a percentage of salary. The results can be seen in Table 5.2 below.

Table 5.2: Pension benefits as a percentage of salary

Career path	Length of service	Rank on leaving	Pension benefits as a percentage of salary
A	4	Private	10.6
B	12	Corporal	13.2
C	22	Sergeant	14.5
D	22	WO1	15.6
E	8	Captain	14.5
F	18	Major	16.3
G	33	Lt Colonel	36.9
H	33	Brigadier	38.4

- 5.9. PwC then compared the results with those in the eight alternative comparator careers to try to understand the relative values. The comparators were drawn from both public and private sectors. Details are set out in the report. The results suggest that for the majority of Armed Forces personnel their pension benefits are, on average, slightly more generous than comparative civilian pension benefits (between one per cent and six per cent depending on the career path). A small sub-set of individuals, however, appear to benefit from significantly higher relative levels of pension provision than those in alternative civilian careers (some 20 per cent higher on average). These are Officers who stay in service to retire at age 55, whom PwC estimates make up less than six per cent of total Armed Forces personnel. Overall, the total value of pension benefits increases in line with length of service and age at leaving, which is to be expected in a final salary scheme. The full methodology is set out in the report.

- 5.10. Table 5.3 below shows the overall relative advantage for each of our sample career paths over public and private sector civilian careers. More detailed results are contained in the report.

Table 5.3: Relative value of Armed Forces pension benefits

Career path	Pension benefits as a percentage of salary	Average advantage over public sector %	Average advantage over private sector %	Overall average advantage %
A	10.6	2.9	4.3	3.6
B	13.2	-2.5	6.6	2.0
C	14.5	-1.4	6.5	2.5
D	15.6	-2.3	6.2	2.0
E	14.5	5.4	6.1	5.7
F	16.3	-3.1	5.4	1.2
G	36.9	16.8	23.4	20.1
H	38.4	15.1	23.2	19.1

- 5.11. PwC note that other benefits such as bonuses and share incentive plans were not taken into account when assessing civilian careers, but may be a feature of comparable private sector remuneration packages. Nor did the valuation take account of the ability to work beyond 55 (receiving salary not pension) in many civilian careers. These broader elements should however be considered when applying the analysis to Armed Forces salary levels for pay comparability purposes. The results are quite similar to our previous valuation, but provide a wider illustration of the comparative value of the pension for differing careers. It is also worth noting that, according to MOD data, the average length of a career in the Armed Forces is nine years.
- 5.12. There are two key sensitivities to the findings outlined in Table 5.3: private sector pension coverage and the treatment of early departure payments.
- The report compares the value of the Armed Forces pension with other public sector workers and private sector employees with pensions. PwC's analysis compared the value of pension benefits for the Armed Forces with selected civilian careers, where such benefits are provided. However, private sector pension coverage has been decreasing in recent years. There has also been a move from defined benefit to defined contribution schemes with reductions in pension benefits expected. Many individuals have no pension savings. A similar approach was adopted in the previous valuation, although the wider pension situation has changed since then.
 - The valuation also assumes that departure payments act as income replacement for recipients up to the age of 60. Thereafter it is included in the value of the pension. This differs from the approach in previous valuations, where 50 per cent of the departure payments were assumed to be income replacement, with the other 50 per cent as pension payment. Altering the assumption has an impact on the projected value to personnel. We were unable to obtain data on the subsequent careers of personnel leaving the Armed Forces for this valuation.
- 5.13. If the projections allowed both for actual private sector pension coverage rates and counted more of the departure payments as pension rather than income replacement, the comparative value of the Armed Forces pension would be increased, especially for those personnel in careers that end at around age 40. Table 5.4 below illustrates the effect on the findings of including the whole value of early departure payments as pension benefits and making allowance for the reduced coverage of private sector pension provision. For careers C, D and F (with service of 22 or 18 years) the total value of their pension would rise significantly and be in the range 24–32 per cent of their salary, increasing the advantage over civilian comparators.

Table 5.4: Relative value including early departure payments and private sector pension coverage

Career path	Pension benefits as a percentage of salary	Average advantage over public sector %	Average advantage over private sector %	Overall average advantage %
A	10.6	2.9	9.0	5.9
B	13.2	-2.5	11.6	4.5
C	29.8	11.8	27.5	19.7
D	32.9	14.1	30.2	22.1
E	14.5	5.4	11.6	8.5
F	24.5	3.8	20.7	12.2
G	36.9	16.8	32.2	24.4
H	38.4	15.1	33.1	24.1

5.14. PwC considered the pension landscape as it stood in early 2012, before implementation of the Government's reforms to public sector pension schemes. These changes will impact on the future pension valuation for the Armed Forces and for public sector comparator groups (fire, police, and prison service). Some changes (such as the move to career average schemes and CPI uprating) affect all public sector pension schemes. Increases in contributions will however only affect the comparator groups as Service personnel have not been required to make any contribution.

Consultation with MOD

5.15. We offered MOD the opportunity to comment on the PwC report before we concluded our deliberations. In doing so we noted that the value of the Armed Forces pension to the individuals in a number of the sample careers does not align with the Superannuation Contribution Adjusted for Past Experience (SCAPE) payments that MOD makes to the Treasury to cover the cost of pension provision. The SCAPE calculations are about the cost of the pension, including the costs of early departure payments. We note that were all AFPS benefits, including early departure payments, valued as a percentage of Armed forces salary only, the values would be significantly higher for career paths C (38.0 per cent), D (42.9 per cent) and F (33.3 per cent). For the other career paths, the values shown in the first column of Table 5.4 would be unchanged. This highlights the value of departure payments to those who have such careers and these data also reflect the cost to MOD of the pension provision including early departure payments.

5.16. MOD recognised that different methodologies make it difficult to compare the PwC data with results produced by other studies of the relative value of public sector pensions but noted in particular that PwC's treatment of early departure payments significantly reduced the apparent value of the pension to those who will claim these benefits. We have set out above how alternative assumptions on early departure payments and on pension coverage in the private sector would affect the relative advantage of the sample career pension benefits over civilian career paths. We hope that MOD will be able to supply better data on subsequent careers of Service personnel to help inform future valuations.

The Future Armed Forces Pension Scheme

5.17. From April 2015 there will be a new pension scheme for all Service personnel. MOD has gone to considerable effort to communicate with personnel on the shape of the new scheme. The final scheme design was published in October 2012². As our next pension valuation is due in 2018, we would expect it to consider how the new pension compares with civilian provision at that time.

Conclusions

5.18. Our valuation of the Armed Forces pension, informed by the PwC report, helps inform our wider judgement on the value of the pension, in the context of our assessment of broad pay comparability. We note the important conclusion that the comparative value of the Armed Forces pension to Service personnel is, for the majority of personnel, higher than that for civilian comparators, but that the extent of the benefit varies according to the length of service career. For a minority of Officers who stay in the service to age 55 it is significantly higher. However, in our future judgements about overall pay comparability we will also need to take account of wider benefits often available to equivalent private sector comparators such as bonuses and share incentive plans.

² Details of the new scheme can be found here:
<https://www.gov.uk/government/publications/final-agreement-for-the-new-armed-forces-pension>

- 5.19. We expect to use the findings of this valuation to inform our overall judgement on pay comparability until our next pension valuation. That valuation will be able to reflect the full extent of the changes made to public sector pensions, the impact of auto-enrolment in the private sector and the changes proposed in the Chancellor's 2012 Autumn Statement.
- 5.20. It is worth emphasising that the results of our pension valuation merely inform our overall consideration of pay comparability for the Armed Forces, which in turn is just one aspect of our deliberations on an overall pay award. No contributions are taken from Service personnel to fund their pension provision, and this valuation does not change that.

Chapter 6

ACCOMMODATION AND FOOD CHARGES

We recommend that:

- rental charges for grade 1 for charge accommodation increase in line with the rental component of RPI as at November 2012, of 3.7 per cent, with increases of 2.5 per cent to grade 2, 1.2 per cent to grade 3 and zero to grade 4;
- the Daily Food Charge decrease by three pence to £4.43 (0.7 per cent), based on the average of the 12 months Food Supply Contract data to October 2012;
- garage rent and furniture hire charges increase by 3.7 per cent, in line with the rental component of RPI as at November 2012;
- water and sewerage charges for all Service Family Accommodation increase by £21.90 to between £391 and £420 a year (5.5 to 5.9 per cent) and the water charge for Single Living Accommodation increase by £7.30 to £131 a year (5.9 per cent).

Introduction

- 6.1. Our terms of reference require us to recommend charges for Service accommodation, including furniture hire, water and garage rent, and also for food.

Accommodation

- 6.2. Accommodation continues to play an important part in the overall package and remains one of the top concerns for Service personnel and their families. On our visits we always try to see first hand the best and worst accommodation as well as hearing the views of personnel and families in discussion groups. We also received written and oral evidence from the Service Families' Federations.
- 6.3. This year we heard a range of concerns on housing which included allocations, maintenance and charges. We heard concern and frustration about the way in which the new Housing Allocation Service Centres (HASCs) had been introduced. The HASCs centralise Service Family Accommodation (SFA) allocation and are intended to standardise delivery and improve efficiency. The closure, earlier than expected, of the Housing Information Centres (HICs) led to Defence Infrastructure Organisation (DIO) opening the HASCs ahead of schedule and 40 per cent understaffed. This resulted in a limited Service being offered. DIO acknowledged this was poorly handled although it said that the IT programmes were now all working, 95 per cent of housing allocations were now made online and the HASCs were running effectively.
- 6.4. The standard of maintenance appeared very mixed across the country with some areas showing signs of improvement whilst in others there is still much work to be done. Common themes of slow response times, missed appointments, sending the wrong trades people and the need for repeat call-outs all highlighted the poor customer service still being received by many families. A new 'National Housing Prime Contract' is due to begin in April 2013 covering maintenance and management for all UK SFA. We hope this will lead to an improved, more consistent service for personnel and families.

- 6.5. On our visits, we were frequently asked about accommodation charges increases. Personnel and families found it hard to understand the justification for an increase in charges while pay was frozen. They also expressed concern that accommodation charges might move towards market rates. Our recent methodology has been to link increases in charges to the rental component of the RPI, reflecting increases in the wider market. The aim of this is to keep rents broadly in line with those in the wider rental market, less a discount.
- 6.6. MOD expressed concern about the gap between its expenditure on, and income from, accommodation and considered it vital to prevent any further divergence. It said steps were needed to close the gap through: establishing an appropriate benchmark; delivering a modernised grading system; and developing a migration plan to ensure no sudden step changes in charges. This work is currently being developed by the Future Accommodation Programme (FAP) under the New Employment Model.
- 6.7. MOD said that in order to meet the changing demands of a restructured Armed Forces, the FAP will seek to make an accommodation offer which provides Service personnel with choice and meets their family needs. This could include new Home Purchase Incentives replacing Long Service Advance of Pay with the aim of increasing home ownership and reducing reliance on publicly-funded accommodation.
- 6.8. We have consistently heard that accommodation entitlement policy is no longer appropriate for modern family structures and welcome MOD's intention to look at current anomalies as it develops its future policy.
- 6.9. Central to the FAP are proposals for a revised grading system that would combine 'standard for condition' and 'grade for charge' into a single measure. The aim is to better reflect the standard of the property and to be more transparent and straightforward for tenants. MOD would also seek to link charges to a market average rate less a reasonable discount. We were assured by MOD in oral evidence that this would not result in a proposal for sudden increases in rental charges and that increases proposed would be phased in over at least five years.

Approach to recommendations

- 6.10. Our approach to accommodation rentals is to recommend rental charges that are broadly comparable with the costs faced by civilians, but with a sufficient discount to recognise the disadvantages of living in Service accommodation, including lack of choice, restrictions on decoration and quality of service. We considered very carefully whether to recommend any increase in charges, in light of the continuing public sector pay restraint following the two-year pay freeze. We were very conscious of the concerns of personnel and their families about pay restraint but also noted that other public and private sector workers continue to face low wage growth and rising costs.
- 6.11. We also considered MOD's proposal to apply the increase uniformly across all grades. We welcome the significant progress made by MOD on improvements to families' accommodation, with 96 per cent of SFA now either standard 1 or 2 for condition. We recognise that this has not been reflected in increased rental receipts because of our tiered approach to recommendations which was intended to incentivise MOD to improve the quality of accommodation. The MOD's dual grading system also means that improvements in quality of accommodation are often not reflected in grade for charge. Whilst families accommodation has improved, progress on single accommodation still has some way to go and will not be helped by the three-year funding pause to the upgrade programme. There have been welcome improvements in the last decade through the delivery of over 50,000 bedspaces under the Single Living Accommodation (SLA) Modernisation programme, but only 41 per cent of SLA is at standard 1 or 2.

- 6.12. Having considered these issues we therefore judge, on balance, that it remains appropriate to apply our usual methodology of recommending an increase in line with the rental component of RPI in the year to November 2012, graduated according to grade for charge. We therefore recommend an increase to grade 1 for charge accommodation from 1 April 2013 of 3.7 per cent.
- 6.13. The existence of two concurrent grading systems for SFA has been a long-standing concern to us and is confusing for residents. We remain open to reviewing our methodology when there is a new grading system which more accurately reflects the improvements that have been made to the condition of Service accommodation. We recognise that for those currently in good standard for condition property which are deemed low grade for charge the consequence of such a review is likely to be a significant increase in rental charges, which will be larger because of our decision not to recommend an across-the-board increase this year.

Service Family Accommodation rental charges

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

Recommendation 16: We recommend increases of 3.7 per cent 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 2013. The resulting charges are shown in Tables 6.1 and 6.2.

Other components of SFA charges¹

- 6.15. Increases to elements of the charge other than rent (for example utility charges) are based on evidence provided by MOD and on economic indicators. Total SFA charge increases will therefore differ from our rental recommendations. From 1 April 2013 total SFA charge increases will be between 1.8 and 4.0 per cent.

Single Living Accommodation rental charges

- 6.16. We recommend that SLA grade 1 rental charges (which include a furniture element) increase by 3.7 per cent, with smaller graduated increases for grade 2 and grade 3 SLA and no increase to the rental charge for grade 4.

Recommendation 17: We recommend increases of 3.7 per cent 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 2013. The resulting charges are shown in Table 6.3.

Other components of SLA charges²

- 6.17. Increases to elements of the charge other than rent, including utility charges, are based on evidence provided by MOD and on economic indicators. Total SLA charges will therefore increase from 1 April 2013 by between 3.3 and 6.5 per cent.

¹ Includes charges for water and furniture.

² Includes charges for water and heating and lighting.

Other charges

6.18. We are also responsible for recommending water and sewerage charges, furniture charges and garage rent. Our recommendations are based 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 2012; and
- garage rent including carports – standard garages and carports to be increased by the rental component of the RPI in the year to November 2012 with no increase for substandard garages and substandard carports.

Recommendation 18: We recommend the following charges:

- water and sewerage – charges for all SFA increase by £21.90 to between £391 and £420 a year (5.5 to 5.9 per cent) and the water charge for SLA increases by £7.30 to £131 a year (5.9 per cent);
- furniture hire – SFA rates to be increased by 3.7 per cent; and
- garage rent – the annual charge for standard garages and standard carports be increased by 3.7 per cent. Zero increase to substandard garages and substandard carports.

Table 6.1: 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	8,424	1,099	420	9,943
II	7,556	975	416	8,946
III	6,621	836	412	7,869
IV	4,895	752	409	6,055
V	3,760	668	405	4,833
Other Ranks				
D	3,595	485	402	4,482
C	2,989	427	398	3,814
B	2,511	354	394	3,259
A	1,785	299	391	2,475

^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 6.2: SFA: recommended charges for furnished accommodation^a
(with change from 2012–13 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	9,943	(361)	7,176	(193)	3,960	(84)	2,059	(37)
II	8,946	(329)	6,464	(175)	3,588	(77)	1,880	(33)
III	7,869	(288)	5,683	(157)	3,172	(66)	1,694	(33)
IV	6,055	(223)	4,493	(131)	2,665	(62)	1,467	(33)
V	4,833	(183)	3,734	(110)	2,281	(55)	1,336	(29)
Other Ranks								
D	4,482	(168)	3,281	(95)	1,942	(47)	1,095	(29)
C	3,814	(142)	2,873	(88)	1,781	(47)	1,037	(26)
B	3,259	(124)	2,533	(77)	1,610	(40)	971	(26)
A	2,475	(95)	1,953	(66)	1,270	(37)	832	(26)

^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 6.3: SLA: recommended charges^a (with change from 2012–13 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	2,416	(110)	1,935	(73)	1,259	(47)	756	(37)
Captain and below	1,964	(84)	1,566	(55)	1,018	(33)	613	(26)
Warrant Officer and SNCO	1,482	(62)	1,190	(40)	774	(26)	467	(18)
Corporal and below	850	(40)	697	(29)	464	(22)	299	(18)
New Entrant^c	686	(33)	551	(22)	365	(15)	252	(15)

^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.

Daily Food Charge

6.19. Our remit includes the responsibility to make recommendations on the Daily Food Charge (DFC). From April 2009 we have used the average cost of MOD's food supply contract data for the previous year to inform the adjustment to the charge. This resulted in a DFC of £4.46 last year.

6.20. We considered last year whether any increase to the DFC was appropriate, given the impact on personnel of the public sector pay freeze. We concluded, on balance, that we should apply the methodology we had used since 2009. Having heard on visits the concerns of personnel about the increasing cost of living, including food charges, we reflected again this year on whether any increase would be appropriate, in the light of the continuing pay restraint policy imposed on our remit group. We decided, before seeing the actual food supply contract data in November 2012, that it remained appropriate for us to continue to recommend a DFC based on the cost of food over the previous year.

6.21. In fact, the daily food supply contract price was below the existing DFC for the average of the year to the end of October 2012. Consistent with the approach we have taken in recent years, we therefore recommend the first decrease in the DFC, to £4.43. We note, however, MOD advice that food prices rose sharply after the period we take into account, which could lead to a substantial increase next year.

Review of our remit on food charges

6.22. The DFC, on which our remit focuses, has become less relevant in recent years as Service establishments have moved over to Catering, Retail and Leisure (CRL) contracts which include the provision of food under Pay As You Dine (PAYD) arrangements. We therefore asked MOD to provide us with evidence to allow us to review our remit on food charges for our 2013 review. Progress on rolling out PAYD has varied by Service. In September 2012, it had been fully implemented in the Naval Service and covered 74 per cent of Army units. The RAF has been slower to implement, but is due to have 'super CRL' contracts covering 98 per cent of units by February 2013.

6.23. MOD sets the minimum number of core meal choices to be served based on the average number of customers at each establishment. However, MOD reports that contractors find it difficult to deliver the requirements under their financial constraints. An important reason for this appears to be the difference in treatment of VAT between the DFC and PAYD. VAT is charged on meals provided under PAYD, while DFC meals are exempt. Contractors therefore have to deliver the same PAYD provision for 20 per cent less if the price of the core meal remains linked to the DFC. MOD initially proposed that, from April 2014, the price of the core meal under PAYD should be 'delinked' from the DFC. The change would allow MOD to increase the price of the core meal incrementally to a level 20 per cent above the DFC, to take account of the difference in VAT treatment between the two services. The increase in charge would be used to provide greater quality and choice for personnel at PAYD establishments. MOD proposed that the price of the core meal would be subject to annual review, with a recommended price set by DIO. However, it said that any subsequent increase above the level of the VAT rate would not be levied without first consulting us.

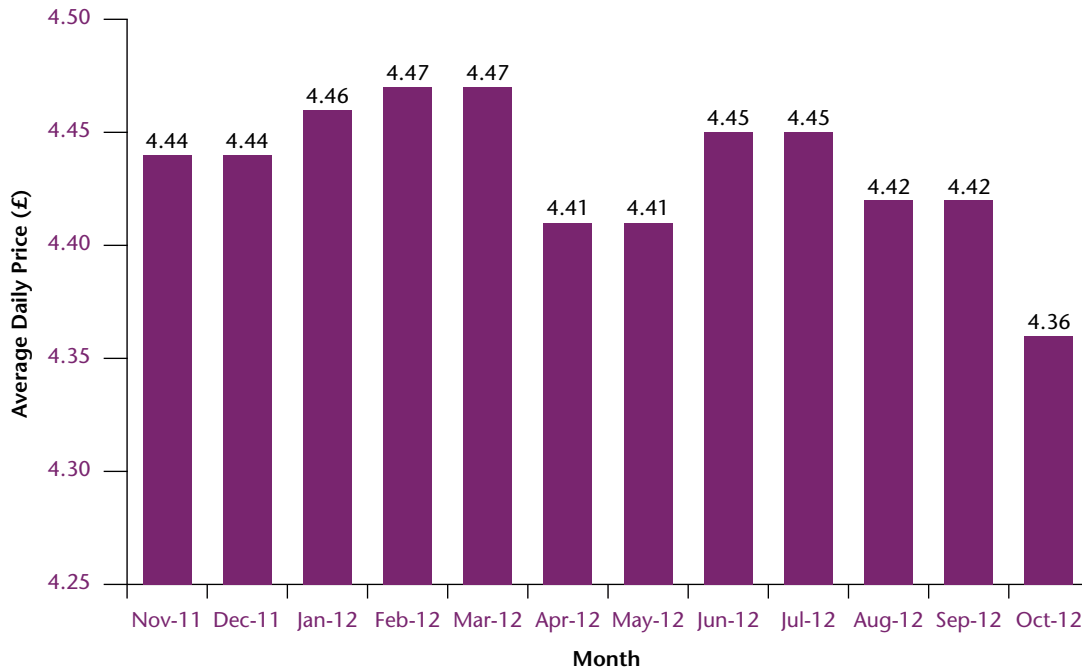
6.24. The most obvious problem with PAYD that we notice on our visits is the wide variation in quality between establishments. Effective contract management has a vital role to play, especially in trying to ensure that smaller units can get the same quality of offer as larger ones. MOD acknowledged that the sporadic quality and delivery of PAYD was a contract management issue. However, the initial evidence we received contained little consideration of options to improve the service other than by asking personnel to pay more. In a later submission, DIO informed us that it will establish four new posts for assuring catering standards and value for money.

6.25. One possible option to improve quality could be to remove breakfast, which generally has a low level of take up in PAYD establishments, from the core menu which contractors have to provide. The amount contractors had to spend could then be spread across two meals rather than three. We understand this approach is being trialled at Catterick garrison and will be interested to hear whether personnel consider the approach works.

6.26. In the evidence that accompanied the updated food price data which we received in November 2012 MOD proposed that we bring forward the delinking mentioned above by one year to April 2013. MOD considered that the slight decrease in the DFC, read across to the PAYD core meal price, would further impact on the ability of the service providers to deliver quality core meals. We are not inclined to agree to immediate delinking of the core menu under PAYD from the DFC and would like further assurances on improvements in food quality and contract management before we endorse the change. We would like DIO to provide for consideration in our next round a detailed strategy to deliver improvements, ensuring that any extra increase in the cost of the core

menu would translate into improved quality and choice rather than being taken in profit by contractors. This implies an exercise to 'benchmark' current provision. We would also like more detailed proposals on how the increase in prices would be introduced incrementally.

Chart 6.1: MOD Daily Food Supply Contract Prices, November 2011 to October 2012



Recommendation 19: We recommend from 1 April 2013:

- that the Daily Food Charge be decreased from £4.46 to £4.43, a decrease of three pence (0.7 per cent).

Chapter 7

CONCLUSIONS AND LOOKING AHEAD

Conclusions and cost of recommendations

7.1. Our recommendations on pay, targeted measures and charges are based on an assessment of the full range of evidence we received and take due account of the Government's public sector pay policy, as well as the wider considerations set out in our terms of reference. On base pay, we concluded, on the evidence, that an uplift of one per cent was appropriate. On X-Factor, we note that it is a feature of the reward package unique to military life. In our view, this distinguishes it from normal base pay which, consistent with its overall policy on public sector pay restraint, the Government wishes to constrain this year. Our X-Factor review required us to take account of trends in military and civilian life over the whole of the last five years and will affect pay of Service personnel for the next five years. We hope the Government will take account of this, and the distinctive nature of the X-Factor, when considering our recommendation.

Table 7.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	20
Other Ranks	57
of which X-Factor	23
	<hr/> 77
Specialist Pay, allowances and other targeted payments (all Regular Services)	3
Total pay (all Regular Services)	<hr/> 80
Reserve Forces	5
Employers' national insurance contribution – all Services	11 ^b
Estimated effect of SCAPE ^c	26 ^d
<i>Total paybill cost including Reserves</i>	123
Less: total increased yield from charges	(5)
Net cost of recommendations	<hr/> 117

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

^b Of which £3m is due to X-Factor.

^c Superannuation Contributions Adjusted for Past Experience.

^d Of which £8m is due to X-Factor.

Looking forward

7.2. Service personnel told us they were disappointed that the Government intended two further years of public sector pay restraint, including for the Armed Forces. Pay restraint was particularly hard to take after a two-year pay freeze, while food and accommodation charges increased. Personnel also faced other cost of living increases as well as decreases in some allowances. Many perceived a general erosion of the overall military package. The situation was exacerbated by the uncertainty caused by the redundancy programme and basing decisions, a feeling of being overstretched and the disruption caused by covering for potential strikes and the failure of a private contract for security at the Olympics. While the overall manning picture remains acceptable, especially against a reducing requirement, we are concerned that voluntary outflow rates appear to be increasing, even when the economic situation remains fragile. MOD should monitor closely the voluntary outflow rates over the forthcoming year.

- 7.3. We expect to hear further details of policies under MOD's New Employment Model (NEM) during 2013. These should include plans on the accommodation strategy and a new pay system, although full implementation of both will take some time. MOD emphasised to us that NEM is not a cost-cutting programme and that it will take at least until 2020 to implement fully this broad-ranging reform. We believe it will take some investment up-front to implement the changes effectively. MOD kept us informed throughout the year on developments on the various components of the NEM programme¹. Given the impact the reforms have on our remit, we ask that MOD continues to keep us well-briefed and await with interest their detailed proposals.
- 7.4. In our last Report, we reflected on the great anxiety expressed by personnel regarding the future of the Armed Forces Pension Scheme (AFPS) and noted that MOD intended to consult with personnel in 2012. We are pleased that the consultation and communication programme went ahead, and that it did much to allay many of the fears held by personnel. The final outline of the future AFPS was published in October 2012, and the new scheme will be introduced from April 2015.
- 7.5. MOD informed us that it would undertake a wide-ranging review of Reservists' terms and conditions to help achieve the vision set out in Future Reserves 2020. MOD published a green paper in November 2012² to gather views from interested parties. MOD undertook to provide us with more information regarding Reserves for our 2013–14 round, possibly including a review of X-Factor for Reserves. We would welcome a broader remit on Reserves' pay and allowances as their role expands.
- 7.6. The fundamental changes to the size and shape of the Armed Forces and the re-design of the package MOD offers to Service personnel will present significant challenges in the years ahead. We said in our Report last year that MOD should remain alert to the potential for dips in morale and increased outflow of key personnel. We also said that it was essential that throughout this period of change MOD communicates effectively with Service personnel and their families, so that they can prepare for the changes ahead. This year, we wish to reinforce that message. On communication, MOD received positive feedback on its presentation of the proposed pension changes and we would encourage a similar approach when dealing with the delivery of NEM. We also encourage MOD to monitor and react swiftly to changes in morale within the remit group. The evidence we heard on visits and in meetings indicated that while the 'fighting spirit' was as strong as ever, there is widespread discontent over a perceived reduction in the total 'package'. We believe MOD should keep the assessment of the morale of Service personnel at the forefront of its decision-making and believe an effective communication strategy is an essential part of the programme.

Our next Report

- 7.7. We plan to approach our remit for next year in the same way as we have this year, examining the full range of evidence in line with our terms of reference.
- 7.8. Our next Report will include the first run of the new process for reviewing Specialist Pay (SP). We hope the new process will be flexible and timely. As suggested in the trial run for this round, we will undertake full reviews on SP (Diving) and SP (Parachute Jump Instructor). We would also like MOD to report back to us on: the payment of SP when there is an associated training commitment; payment of SP to those at OF5 (Colonel and equivalents) and above; payment of SP to those in key trades who withdraw their notice to quit; personnel in receipt of SP leaving at option points; and that it reconsiders the name change proposed for this year.

¹ MOD has five NEM projects. They are: Manpower Utilisation and Terms of Service; Financial and Non-Financial Conditions of Service; Future Accommodation; Training and Education; NEM Delivery. MOD is expected to report findings during 2013.

² Future Reserves 2020: Delivering the Nation's Security Together – A Consultation Paper.

7.9. There are a number of issues on which we request further consideration or information for our next Report:

- Recruitment and Retention Allowance (London);
- Veterinary Officers;
- Delinking the price of the core menu under Pay As You Dine from the Daily Food Charge;
- The accommodation grading system and home purchase incentives;
- Reserves' terms and conditions;
- Transitional arrangements for new entrant Service Chaplains;
- Equality and diversity policies.

7.10. Ahead of our next Report we will commission research on pay comparability, to inform our future judgements on military pay. We also intend to examine the components which underpin X-Factor, with a view to ensuring MOD and our secretariat can start to gather a firm evidence base for our next five-yearly X-Factor review.

7.11. We also intend to progress some important work on our programme of regular reviews. In particular:

- Longer Separation Allowance;
- Service Nurses;
- Military Provost Guard Service;
- Unpleasant Living Allowance.

Conclusion

7.12. We recognise that Service personnel have faced another challenging year, and our recommendations reflect that, while taking account of the economic situation and fiscal pressures faced by the Government and MOD. We consider that the recommendations in this Report constitute a measured package, based on consideration of all the available evidence, consistent with our responsibilities as an independent Pay Review Body.

Alasdair Smith
Mary Carter
Peter Dolton
Graham Forbes
Richard Ibbotson
Paul Kernaghan
Judy McKnight
John Steele

January 2013

Appendix 1

Recommended military salaries from 1 April 2013, 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 £		
	1 Apr 2012	1 Apr 2013	
OF-6			
Commodore (Royal Navy)	Level 5	100,964	102,145
Brigadier (Royal Marines)	Level 4	99,973	101,145
Brigadier (Army)	Level 3	98,995	100,157
Air Commodore (Royal Air Force)	Level 2	98,013	99,165
	Level 1	97,030	98,172
OF-5			
Captain (RN)	Level 9	89,408	90,560
Colonel (RM)	Level 8	88,394	89,535
Colonel (Army)	Level 7	87,379	88,511
Group Captain (RAF)	Level 6	86,368	87,490
	Level 5	85,357	86,469
	Level 4	84,347	85,448
	Level 3	83,336	84,427
	Level 2	82,321	83,402
	Level 1	81,310	82,381
OF-4			
Commander (RN)	Level 9	77,617	78,737
Lieutenant Colonel (RM)	Level 8	76,613	77,718
Lieutenant Colonel (Army)	Level 7	75,609	76,700
Wing Commander (RAF)	Level 6	74,614	75,691
	Level 5	70,562	71,580
	Level 4	69,681	70,687
	Level 3	68,801	69,793
	Level 2	67,920	68,900
	Level 1	67,032	67,999
OF-3			
Lieutenant Commander (RN)	Level 9	57,199	58,025
Major (RM)	Level 8	56,016	56,824
Major (Army)	Level 7	54,841	55,632
Squadron Leader (RAF)	Level 6	53,661	54,436
	Level 5	52,474	53,231
	Level 4	51,298	52,039
	Level 3	50,111	50,834
	Level 2	48,940	49,646
	Level 1	47,760	48,450

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

Rank		Military salary £	
		1 Apr 2012	1 Apr 2013
OF-2			
Lieutenant (RN)	Level 9	45,090	45,741
Captain (RM)	Level 8	44,579	45,222
Captain (Army)	Level 7	44,059	44,694
Flight Lieutenant (RAF)	Level 6	43,039	43,660
	Level 5	42,011	42,617
	Level 4	40,991	41,583
	Level 3	39,959	40,536
	Level 2	38,932	39,493
	Level 1	37,916	38,463
OF-1			
Sub-Lieutenant (RN)	Level 10	32,703	33,175
Lieutenant, 2 nd Lieutenant (RM)	Level 9	31,921	32,381
Lieutenant, 2 nd Lieutenant (Army)	Level 8	31,147	31,596
Flying Officer, Pilot Officer (RAF)	Level 7	30,369	30,807
	Level 6	29,587	30,014
	Level 5	24,615	24,971
	Level 4	21,810	22,125
	Level 3	19,071	19,346
	Level 2	17,519	17,772
	Level 1	16,073	16,305
University Cadet Entrants	Level 4	18,399	18,665
	Level 3	16,897	17,141
	Level 2	15,103	15,321
	Level 1	13,219	13,410

Table 1.2: Recommended annual scales for Other Ranks

Rank		Military salary £			
		Lower band ^a		Higher band ^a	
		1 Apr 2012	1 Apr 2013	1 Apr 2012	1 Apr 2013
Range 5 (OR-9):	Level 7	44,120	44,757	46,753	47,428
Warrant Officer I (Royal Navy)	Level 6	42,908	43,527	46,049	46,713
Warrant Officer I (Royal Marines)	Level 5	41,737	42,339	45,242	45,895
Warrant Officer I (Army)	Level 4	40,938	41,529	44,448	45,089
Warrant Officer (Royal Air Force)	Level 3	40,144	40,723	43,645	44,275
	Level 2	39,349	39,917	42,908	43,527
	Level 1	38,600	39,157	42,080	42,688
Range 4 (OR-7 – OR-8):	Level 9	39,628	40,200	43,252	43,876
Warrant Officer II, Chief Petty Officer (RN)	Level 8	38,751	39,310	42,642	43,257
Warrant Officer II, Colour Sergeant (RM)	Level 7	38,256	38,808	42,044	42,650
Warrant Officer II, Staff Sergeant (Army)	Level 6	37,678	38,222	41,446	42,044
Flight Sergeant, Chief Technician (RAF)	Level 5	36,049	36,569	40,549	41,134
	Level 4	35,565	36,079	39,648	40,220
	Level 3	34,750	35,252	38,751	39,310
	Level 2	33,657	34,143	37,846	38,393
	Level 1	33,223	33,702	36,954	37,487
Range 3 (OR-6):	Level 7	34,112	34,604	36,929	37,462
Petty Officer (RN)	Level 6	33,854	34,342	36,249	36,772
Sergeant (RM)	Level 5	32,723	33,196	35,570	36,083
Sergeant (Army)	Level 4	31,892	32,352	34,890	35,393
Sergeant (RAF)	Level 3	31,573	32,028	34,456	34,953
	Level 2	30,799	31,243	33,604	34,089
	Level 1	30,013	30,446	32,756	33,229
Range 2 (OR-4):	Level 7	29,840	30,271	33,182	33,661
Leading Rate (RN)	Level 6	29,624	30,051	32,474	32,942
Corporal (RM)	Level 5	29,390	29,814	31,814	32,274
Corporal (Army)	Level 4	29,161	29,582	31,065	31,513
Corporal (RAF)	Level 3	28,940	29,357	30,357	30,795
	Level 2	27,592	27,991	28,940	29,357
	Level 1	26,405	26,786	27,592	27,991
Range 1 (OR-2 – OR-3):	Level 9	24,230	24,580	28,940	29,357
Able Rating (RN)	Level 8	23,383	23,720	27,592	27,991
Lance Corporal, Marine (RM)	Level 7	22,359	22,682	26,405	26,786
Lance Corporal, Private (Army)	Level 6	21,442	21,751	25,246	25,610
Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)	Level 5	21,082	21,386	24,075	24,422
	Level 4	20,029	20,318	21,773	22,088
	Level 3	18,457	18,723	20,750	21,049
	Level 2	17,986	18,245	18,842	19,113
	Level 1	17,515	17,767	17,515	17,767

^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 £	
	1 Apr 2012	1 Apr 2013
All entrants	14,145	14,349

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

	Military salary £	
	1 Apr 2012	1 Apr 2013
Fourth year	24,075	24,422
Third year	17,241	17,489
Second year	16,303	16,538
First year	14,550	14,760

Table 1.5: Recommended annual scales for Chaplains^a

Rank/length of service		Military salary £	
		1 Apr 2012	1 Apr 2013
Chaplain-General	Level 5	97,077	98,478
	Level 4	96,078	97,464
	Level 3	95,091	96,463
	Level 2	94,100	95,458
	Level 1	93,109	94,452
Deputy Chaplain-General ^b	Level 5	85,795	87,032
	Level 4	84,771	85,995
	Level 3	83,748	84,956
	Level 2	82,728	83,922
	Level 1	81,708	82,887
Principal Chaplain	Level 4	80,689	81,853
	Level 3	79,669	80,819
	Level 2	78,645	79,780
	Level 1	77,625	78,745
Chaplain (Class 1) ^c	Level 2 ^d	73,293	74,351
	Level 1 ^e	70,566	71,584

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

Rank/length of service		Military salary £	
		1 Apr 2012	1 Apr 2013
Chaplains Class 2/3/4 (or equivalent)	Level 27	73,293	74,351
	Level 26	71,929	72,967
	Level 25	70,566	71,584
	Level 24	69,210	70,209
	Level 23	67,875	68,855
	Level 22	66,512	67,471
	Level 21	65,144	66,084
	Level 20	63,784	64,705
	Level 19	62,421	63,321
	Level 18	61,061	61,942
	Level 17	59,697	60,559
	Level 16	58,338	59,180
	Level 15	56,974	57,796
	Level 14	55,615	56,417
	Level 13	54,255	55,038
	Level 12	52,887	53,651
	Level 11	51,532	52,276
	Level 10	50,168	50,892
	Level 9	48,809	49,513
	Level 8	47,441	48,126
	Level 7	46,086	46,751
	Level 6	44,714	45,359
	Level 5	43,358	43,984
	Level 4	41,999	42,605
	Level 3	40,639	41,226
	Level 2	39,271	39,838
	Level 1	37,916	38,463

^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.

^f Entry level for Deputy Chaplain of the Fleet on appointment.

^g Entry level for Deputy Chaplains-in Chief.

[Proposed new Chaplain Class 1 pay scale if delivered from 1 April 2013]

Rank/length of service		Military salary £	
		1 Apr 2012	1 Apr 2013
Chaplain (Class 1)	Level 6	–	81,853
	Level 5	–	80,819
	Level 4	–	79,780
	Level 3 ^f	–	78,745
	Level 2 ^g	–	77,292
	Level 1	–	75,838

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

Rank/length of service		Military salary £	
		1 Apr 2012	1 Apr 2013
Lieutenant Colonel	Level 5	74,100	75,169
	Level 4	72,978	74,031
	Level 3	71,860	72,897
	Level 2	70,734	71,754
	Level 1	69,620	70,624
Major, Captain	Level 22	67,585	68,560
	Level 21	66,188	67,143
	Level 20	64,788	65,722
	Level 19	63,391	64,306
	Level 18	61,999	62,893
	Level 17	60,598	61,473
	Level 16	59,206	60,060
	Level 15	57,801	58,636
	Level 14	56,417	57,231
	Level 13	55,205	56,002
	Level 12	54,009	54,789
	Level 11	52,666	53,426
	Level 10	51,319	52,059
	Level 9	49,976	50,697
	Level 8	48,641	49,343
	Level 7	47,298	47,980
	Level 6	45,955	46,618
	Level 5	44,615	45,259
	Level 4	43,272	43,897
	Level 3	41,933	42,538
Level 2	40,590	41,176	
Level 1	37,916	38,463	

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

Increment Level	Military Salary £	
	1 Apr 2012	1 Apr 2013
Level 15	50,680	51,411
Level 14	50,349	51,075
Level 13	50,000	50,722
Level 12	49,325	50,037
Level 11 ^b	48,653	49,355
Level 10	47,973	48,665
Level 9	47,298	47,980
Level 8	46,622	47,295
Level 7 ^c	45,778	46,439
Level 6	45,258	45,911
Level 5	44,730	45,375
Level 4 ^d	43,686	44,316
Level 3	43,166	43,789
Level 2	42,633	43,249
Level 1 ^e	41,593	42,193

^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 £	
	1 Apr 2012	1 Apr 2013
Level 35	77,625	78,745
Level 34	76,561	77,666
Level 33 ^a	75,492	76,581
Level 32	74,427	75,501
Level 31	73,367	74,425
Level 30 ^{b,c}	72,294	73,337
Level 29	71,237	72,265
Level 28	70,168	71,181
Level 27 ^d	69,095	70,093
Level 26	68,039	69,021
Level 25	66,966	67,932
Level 24 ^e	65,906	66,857
Level 23	64,919	65,855
Level 22 ^f	63,682	64,601
Level 21	62,498	63,400
Level 20 ^g	61,307	62,191
Level 19	60,127	60,995
Level 18	58,944	59,794
Level 17	57,760	58,594
Level 16 ^h	56,577	57,393
Level 15	55,394	56,193
Level 14	54,210	54,992
Level 13	53,018	53,784
Level 12 ⁱ	51,839	52,587
Level 11	50,656	51,387
Level 10	49,976	50,697
Level 9	49,198	49,908
Level 8	48,412	49,110
Level 7	47,633	48,321
Level 6	46,851	47,527
Level 5	46,065	46,730
Level 4	45,283	45,936
Level 3	44,501	45,143
Level 2	43,715	44,345
Level 1	42,928	43,548

^a RAF OF3 Non-pilots cannot progress beyond Increment Level 33.

^b OF2 Aircrew cannot progress beyond Increment Level 30.

^c AAC WO1 pilots cannot progress beyond Increment Level 30.

^d AAC WO2 pilots cannot progress beyond Increment Level 27.

^e AAC Staff Sergeant pilots cannot progress beyond Increment Level 24.

^f AAC Sergeant pilots cannot progress beyond Increment Level 22.

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

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

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

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

Rank		Military salary £	
		1 Apr 2012	1 Apr 2013
OF-5			
Colonel	Level 9	91,325	92,503
	Level 8	90,287	91,455
	Level 7	89,249	90,406
	Level 6	88,210	89,357
	Level 5	87,167	88,303
	Level 4	86,124	87,250
	Level 3	85,082	86,198
	Level 2	84,038	85,143
	Level 1	82,994	84,089
OF-4			
Lieutenant Colonel	Level 9	79,780	80,931
	Level 8	78,745	79,881
	Level 7	77,711	78,832
	Level 6	76,687	77,793
	Level 5	72,589	73,637
	Level 4	71,663	72,698
	Level 3	70,738	71,759
	Level 2	69,813	70,820
	Level 1	68,879	69,873
OF-3			
Major	Level 9	60,817	61,694
	Level 8	58,616	59,462
	Level 7	57,389	58,217
	Level 6	56,162	56,973
	Level 5	54,928	55,721
	Level 4	53,706	54,481
	Level 3	52,488	53,246
	Level 2	51,258	51,998
	Level 1	50,021	50,743
OF-2			
Captain	Level 9	47,483	48,168
	Level 8	46,434	47,104
	Level 7	45,386	46,041
	Level 6	44,338	44,978
	Level 5	43,283	43,908
	Level 4	42,234	42,843
	Level 3	41,174	41,768
	Level 2	40,090	40,668
	Level 1	39,020	39,583

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

Table 1.9: Recommended pay spine for Nurses, Officers^a (continued)

Rank	Military salary £		
	1 Apr 2012	1 Apr 2013	
OF-1			
Lieutenant, 2 nd Lieutenant (Army)	Level 10	33,860	34,349
	Level 9	33,025	33,502
	Level 8	32,203	32,667
	Level 7	31,378	31,831
	Level 6	30,549	30,990
	Level 5	25,486	25,854
	Level 4	22,620	22,946
	Level 3	19,805	20,091
	Level 2	18,200	18,462
	Level 1	16,696	16,937

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

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

Rank		Military salary £	
		1 Apr 2012	1 Apr 2013
Range 5 (OR-9): Warrant Officer I	Level 7	48,623	49,325
	Level 6	47,891	48,582
	Level 5	47,052	47,731
	Level 4	46,225	46,892
	Level 3	45,391	46,046
	Level 2	44,624	45,268
	Level 1	43,764	44,396
Range 4 (OR-7 – OR-8): Warrant Officer II, Staff Sergeant	Level 9	45,415	46,070
	Level 8	44,774	45,420
	Level 7	44,146	44,783
	Level 6	43,518	44,146
	Level 5	42,576	43,191
	Level 4	41,631	42,231
	Level 3	40,689	41,277
	Level 2	39,739	40,312
Range 3 (OR-6): Sergeant	Level 1	38,801	39,361
	Level 7	39,477	40,047
	Level 6	38,750	39,309
	Level 5	38,024	38,572
	Level 4	37,297	37,835
	Level 3	36,833	37,365
	Level 2	35,923	36,441
Range 2 (OR-4): Corporal	Level 1	35,016	35,521
	Level 7	34,509	35,007
	Level 6	33,773	34,260
	Level 5	33,087	33,564
	Level 4	32,307	32,773
	Level 3	31,571	32,027
	Level 2	30,097	30,531
Range 1 (OR-2 – OR-3): Lance Corporal, Private	Level 1	28,697	29,111
	Level 9	28,940	29,357
	Level 8	27,592	27,991
	Level 7	26,405	26,786
	Level 6	25,246	25,610
	Level 5	24,075	24,422
	Level 4	21,773	22,088
	Level 3	20,750	21,049
	Level 2	18,842	19,113
Level 1	17,515	17,767	

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

Table 1.11: Recommended pay spine for Royal Navy Clearance Divers^a

Rank		Military salary £	
		1 Apr 2012	1 Apr 2013
Range 5 (OR-9): Warrant Officer I	Level 7	60,497	61,370
	Level 6	59,792	60,655
	Level 5	58,986	59,837
	Level 4	58,191	59,031
	Level 3	57,388	58,217
	Level 2	56,651	57,469
	Level 1	55,824	56,630
Range 4 (OR-7 – OR-8): Chief Petty Officer	Level 9	56,995	57,818
	Level 8	56,385	57,199
	Level 7	55,787	56,592
	Level 6	55,189	55,986
	Level 5	54,293	55,076
	Level 4	53,392	54,162
	Level 3	52,495	53,252
	Level 2	51,590	52,334
Range 3 (OR-6): Petty Officer	Level 1	50,697	51,429
	Level 7	50,673	51,404
	Level 6	49,993	50,714
	Level 5	48,651	49,353
	Level 4	47,971	48,663
	Level 3	46,653	47,326
	Level 2	45,801	46,462
	Level 1	44,954	45,602

^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.

Table 1.12: Recommended pay spine for Special Forces Officers Commissioned From the Ranks

Rank		Military salary £	
		1 Apr 2012	1 Apr 2013
OF-3	Level 9	66,942	67,908
Major	Level 8	66,270	67,226
	Level 7	65,598	66,545
	Level 6	64,931	65,868
	Level 5	64,263	65,191
	Level 4	63,776	64,696
	Level 3	62,920	63,828
	Level 2	62,253	63,151
	Level 1	61,585	62,474
OF-1 – OF-2	Level 15	62,208	63,105
Lieutenant, 2nd Lieutenant, Captain	Level 14	61,847	62,740
	Level 13	61,491	62,379
	Level 12	60,590	61,465
	Level 11	59,685	60,547
	Level 10	58,780	59,628
	Level 9	57,884	58,719
	Level 8	56,974	57,796
	Level 7	56,069	56,878
	Level 6	55,361	56,160
	Level 5	54,685	55,474
	Level 4	54,001	54,780
	Level 3	53,313	54,083
	Level 2	52,630	53,389
	Level 1	51,945	52,695

Table 1.13: Recommended pay spine for Special Forces Other Ranks

Rank		Military salary £	
		1 Apr 2012	1 Apr 2013
Range 5 (OR-9): Warrant Officer I	Level 7	58,563	59,408
	Level 6	57,703	58,536
	Level 5	56,843	57,663
	Level 4	55,983	56,791
	Level 3	55,127	55,923
	Level 2	54,264	55,047
	Level 1	53,403	54,174
Range 4 (OR-7 – OR-8): Warrant Officer II, Staff Sergeant	Level 9	52,728	53,489
	Level 8	52,081	52,832
	Level 7	51,426	52,168
	Level 6	50,778	51,511
	Level 5	50,127	50,851
	Level 4	49,480	50,194
	Level 3	48,825	49,530
	Level 2	48,178	48,873
Range 3 (OR-6): Sergeant	Level 7	47,527	48,213
	Level 6	46,380	47,050
	Level 5	45,635	46,294
	Level 4	44,882	45,529
	Level 3	44,141	44,778
	Level 2	43,391	44,017
	Level 1	42,699	43,315
Range 2 (OR-4): Corporal	Level 7	41,909	42,513
	Level 6	43,252	43,876
	Level 5	42,642	43,257
	Level 4	42,044	42,651
	Level 3	41,446	42,044
	Level 2	40,549	41,134
	Level 1	39,648	40,220
Range 1 (OR-2 – OR-3): Lance Corporal, Private	Level 7	38,751	39,310
	Level 9	37,846	38,392
	Level 8	37,408	37,948
	Level 7	36,929	37,462
	Level 6	36,249	36,772
	Level 5	35,570	36,083
	Level 4	34,890	35,393
	Level 3	34,456	34,953
	Level 2	33,604	34,089
Level 1	32,756	33,229	

Appendix 2

1 April 2013 recommended rates of Specialist Pay and Compensatory Allowances

Changes to the Reserve Band system for Specialist Pay (SP) came into effect from 1 April 2012. For the first 3 years away from an SP or SP Related post, a Reserve Band will be paid: for the first 2 years at 100% of the full rate and 50% of the full rate during the third year. Payment will then cease. Personnel who submit an application to Premature Voluntary Release (PVR) will lose their entitlement to SP with immediate effect.

SPECIALIST PAY	<i>Rate</i>	<i>Reserve Band</i>
	<i>£ per day</i>	<i>rate 50%</i>
<i>SP(Flying)^a</i>	<i>£ per day</i>	<i>£ per day</i>
Officer aircrew (trained)		
All Officer aircrew in the rank of Squadron Leader ^b and below except RAF specialist aircrew Flight Lieutenant		
Initial rate	14.07	7.04
Middle rate ^c	23.87	11.94
Top rate ^c	37.96	18.98
Enhanced rate ^d	44.68	22.34
Enhanced rate ^e	42.24	21.12
Wing Commander ^b		
On appointment	39.19	19.60
After 6 years	36.72	18.36
After 8 years	34.28	17.14
Group Captain ^b		
On appointment	30.00	15.00
After 2 years	28.15	14.08
After 4 years	26.31	13.16
After 6 years	23.25	11.63
After 8 years	20.18	10.09
Air Commodore ^b		
	12.24	6.12

^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 50% £ per day
RAF specialist aircrew		
<i>(a) Flight Lieutenants (not Branch Officers)</i>		
On designation as specialist aircrew	46.51	23.26
After 1 year as specialist aircrew	47.15	23.58
After 2 years as specialist aircrew	48.36	24.18
After 3 years as specialist aircrew	48.95	24.48
After 4 years as specialist aircrew	49.58	24.79
After 5 years as specialist aircrew	50.80	25.40
After 6 years as specialist aircrew	51.42	25.71
After 7 years as specialist aircrew	52.03	26.02
After 8 years as specialist aircrew	53.25	26.63
After 9 years as specialist aircrew	53.86	26.93
After 10 years as specialist aircrew	54.47	27.24
After 11 years as specialist aircrew	55.69	27.85
After 12 years as specialist aircrew	56.32	28.16
After 13 years as specialist aircrew	57.54	28.77
After 14 years as specialist aircrew	58.15	29.08
After 15 years as specialist aircrew	58.75	29.38
After 16 years as specialist aircrew	60.60	30.30
<i>(b) Branch Officers</i>		
On designation as specialist aircrew	37.96	18.98
After 5 years as specialist aircrew	42.24	21.12
Non-commissioned aircrew (trained)		
RM and Army pilots qualified as aircraft commanders		
Initial rate	14.07	7.04
Middle rate ^f	23.87	11.94
Top rate ^f	37.96	18.98
Enhanced rate ^g	44.68	22.34
RM and Army pilots^h		
Initial rate	7.35	3.68
Middle rate ⁱ	15.91	7.96
Top rate ^j	18.97	9.49
RN/RM, Army and RAF aircrewmembers		
Initial rate	7.35	3.68
Middle rate ⁱ	15.31	7.66
Top rate ^j	20.18	10.09
Aero-medical and escort duties pay (RAF)	7.95	–
Flying Crew pay^k		
Lower rate	4.90	–
Higher rate ^f	7.95	–

^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 incorporates those previously covered by SP(Air Despatch) and SP(Joint Helicopter Support Unit Helicopter Crew)

	<i>Rate</i> <i>£ per day</i>	<i>Reserve Band</i> <i>rate 50%</i> <i>£ per day</i>
SP(Diving)		
<i>Category</i>		
1 RN Diver (Able rate) prior to Category 3 qualification Ship's Diver – all ranks and ratings	4.28	2.14
2 RN Search and Rescue Diver – all ratings Ship Divers' Supervisors Army Compressed Air Diver – all ranks	8.59	4.30
3 RN Diver (Able rate) when qualified to Category 3 standards Army Diver Class 1 – all ranks	11.64	5.82
3a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of SP(Diving) Level 3 and completed EOD course 0804	3.39	1.70
4 RN Diver (Leading rate) when qualified to Category 4 standards Army Diving Supervisor and Instructor – all ranks RN Mine Countermeasures and Diving Officer ¹	20.18	10.09
4a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of SP(Diving) Level 4 and completed EOD course 0804	3.39	1.70
5 RN Diver (Petty Officer and above) when qualified to Category 5 standards		
on appointment	28.77	14.39
after 3 years	31.23	15.62
after 5 years	33.05	16.53
5a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of SP(Diving) Level 5 and completed EOD course 0801	4.98	2.49
(Unfit to dive)		
on appointment	9.18	–
after 3 years	11.01	–
after 5 years	12.85	–
SP(Submarine)		
Level 1 – payable on qualification	12.24	6.12
Level 2 – payable after 5 years on Level 1	15.91	7.96
Level 3 – payable after 5 years on Level 2	18.97	9.49
Level 4 – payable after 5 years on Level 3	21.43	10.72
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	26.93	13.47
Submarine Supplement	5.29	

¹ To be paid Category 5 Diving Pay when in post requiring immediate control of diving operations.

	<i>Rate</i>	<i>Reserve Band</i>
	<i>£ per day</i>	<i>rate 50%</i>
		<i>£ per day</i>
SP(Nuclear Propulsion)		
Category C watchkeeper	2.44	1.22
Category B watchkeeper – Single qualified	4.90	2.45
Category B watchkeeper – Double qualified	9.18	4.59
Category A watchkeeper (Nuclear Chief of Watch)	20.81	10.41
Appropriately qualified Junior Officers	20.81	10.41
SP(Submarine Escape Tank Training)		
Additional Daily Supplement for Tank Top Chiefs (Cat 1)	12.24	–
Additional Daily Supplement for Control Officers (Cat 2)	2.44	–
Additional Daily Supplement for Submarine Parachute Assistance Group personnel	4.28	–
	3.06	–
SP(Hydrographic)		
On attaining Charge qualification (H Ch)	13.47	6.74
Surveyor 1st Class (H1)	12.24	6.12
On promotion to Chief Petty Officer or attainment of NVQ4 whichever is sooner	10.11	5.06
Surveyor 2nd Class (H2), On promotion to Petty Officer or attainment of NVQ3 whichever is sooner	5.51	2.76
On promotion to Leading Hand	3.68	1.84
On completion of Initial Hydrographic Training	1.84	0.92
SP(SF) Officers		
Level 1	39.77	19.89
Level 2	46.51	23.26
Level 3	50.80	25.40
SP(SF) Other Ranks		
Level 1	19.59	9.80
Level 2	27.53	13.77
Level 3	31.84	15.92
Level 4	37.96	18.98
Level 5	41.62	20.81
Level 6	46.51	23.26
Level 7	50.80	25.40
SP(SF-SDV)	11.64	–
SP(SR) Officers		
Level 1	37.96	18.98
Level 2	44.68	22.34
Level 3	48.36	24.18
SP(SR) Other Ranks		
Level 1	18.61	9.31
Level 2	26.31	13.16
Level 3	30.00	15.00
Level 4	36.72	18.36
Level 5	39.77	19.89
Level 6	44.68	22.34
Level 7	48.36	24.18

	<i>Rate</i>	<i>Reserve Band</i>
	<i>£ per day</i>	<i>rate 50%</i>
		<i>£ per day</i>
SP(SFC)		
Level 1	17.75	8.88
Level 2	20.81	10.41
SP(SC)		
Level 1	11.64	–
SP(SI)		
Level 0	12.24	–
Level 1	20.81	–
Level 2	31.23	–
SP(Mountain Leader)		
Initial	15.31	7.66
Enhanced	20.81	10.41
SP(Parachute Jump Instructor)		
Less than 8 years' experience	7.95	3.98
8 or more years' experience	11.64	5.82
Joint Air Delivery Test & Evaluation Unit Supplement	3.68	–
SP(Parachute)	5.51	2.76
SP(High Altitude Parachute)^m	10.41	–
SP(Explosive Ordnance Disposal Operators)ⁿ		
Level 2 (Defence EOD Operators)	16.54	–
Level 2A (Advanced EOD Operators)	22.04	–
Level 3 (Advanced Manual Techniques Operators)	28.15	–
SP(Nursing)		
Generalist nurses on achievement of Defence Nursing Operational Competency Framework (DNOCF) Level 2 and working in a DNOCF Level 2 post	4.90	–
Specialist nurses who acquire the specified academic qualification of specialist practice (Defence Nursing Operational Competency Framework (DNOCF) Level 3	10.41	5.21

^m Rate applies to members of the Pathfinder Platoon.

ⁿ 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.

COMPENSATORY ALLOWANCES	<i>Rate £ per day</i>
LONGER SEPARATION ALLOWANCE	
Level 1 (up to 280 days qualifying separation)	6.76
Level 2 (281–460 days qualifying separation)	10.56
Level 3 (461–640)	14.38
Level 4 (641–820)	15.79
Level 5 (821–1000)	17.00
Level 6 (1001–1180)	18.21
Level 7 (1181–1360)	19.41
Level 8 (1361–1540)	21.24
Level 9 (1541–1720)	22.46
Level 10 (1721–1900)	23.68
Level 11 (1901–2080)	24.89
Level 12 (2081–2260)	26.11
Level 13 (2261–2440)	27.31
Level 14 (2441+)	28.52
UNPLEASANT WORK ALLOWANCE	
Level 1	2.53
Level 2	6.21
Level 3	18.34
UNPLEASANT LIVING ALLOWANCE	3.37
NORTHERN IRELAND RESIDENTS' SUPPLEMENT	7.36
RECRUITMENT AND RETENTION ALLOWANCE (LONDON)	3.88
EXPERIMENTAL TEST ALLOWANCE (per test)	2.72
EXPERIMENTAL DIVING ALLOWANCE	
Lump sum per dive	
Grade 5	303.10
Grade 4	151.56
Grade 3	113.68
Grade 2	75.76
Grade 1	15.15
Additional hourly rates	
Grade 5	60.62
Grade 4	15.15
Grade 3	11.35
Grade 2	7.58
Grade 1	–

Appendix 3

AFPRB 2012 recommendations

We submitted our 2012 recommendations on 3 February 2012. These were accepted in full by the Government on 13 March 2012 as follows:

- An increase of £250 in military salaries for those earning £21,000 or less;
- A reduction in the qualifying interval between levels of Longer Separation Allowance from 240 to 180 days;
- New Entrants' Rates of Pay for direct entrant graduate and non-graduate Officers harmonised at OF1 Increment Level 5 (£24,615) from 1 April 2013; and career progression for these groups harmonised within individual Services;
- A 2.9 per cent increase to grade 1 for charge Service Family Accommodation and Single Living Accommodation rental charges in line with the rental component of RPI; and increases of 1.9 per cent to grade 2, 1.0 per cent to grade 3 and zero to grade 4;
- A Daily Food Charge of £4.46 (an increase of 21 pence, or 4.9 per cent).

Appendix 4

AFPRB 2012 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
Armoured Division, Germany	Army	Richard Ibbotson, John Steele
Submarine, Faslane	Royal Navy	Graham Forbes
Headquarters Air Command; RAF High Wycombe	Royal Air Force	Richard Ibbotson, Judy McKnight
Navy Command Headquarters; HMS Collingwood, Portsmouth	Royal Navy	Peter Dolton, John Steele
Army Headquarters; Andover Support Unit; Armed Forces Chaplaincy Centre	Army	Alasdair Smith, John Steele
RAF Brize Norton, Oxfordshire	Royal Air Force	Alasdair Smith, Mary Carter
NATO Joint Forces Command, Naples	Joint (Royal Navy lead)	Mary Carter, Paul Kernaghan
RAF Marham, Norfolk; RAF Coningsby, Lincolnshire	Royal Air Force	Mary Carter, John Steele
HQ 3rd (UK) Division and Signal Regiment, Bulford; 2nd Royal Tank Regiment, Tidworth; Tedworth House	Army	Richard Ibbotson, Paul Kernaghan
Various locations, Middle East	Joint (Royal Navy lead)	Graham Forbes, Richard Ibbotson
Army HQ London District; The Royal Military School of Music (Kneller Hall)	Army	Mary Carter, Peter Dolton
38 Brigade; 19 Lt Brigade; HMS Hibernia and RM Reserve, Northern Ireland	Army/Royal Navy	Peter Dolton, Paul Kernaghan
HQ Royal Logistic Corps Territorial Army; HQ 49 (East) Brigade; Reinforcements Training and Mobilisation Centre; 3rd Battalion The Royal Anglian Regiment	Army	Mary Carter, Judy McKnight
RAF Wittering, Cambridgeshire	Royal Air Force	Alasdair Smith, Graham Forbes
British Forces Cyprus	Joint (Army lead)	Judy McKnight, John Steele
British Forces South Atlantic Islands; Ascension Island Base	Joint (Royal Air Force lead)	Alasdair Smith, Graham Forbes
RAF Leeming, North Yorkshire	Royal Air Force	Paul Kernaghan, John Steele
45 Commando, Arbroath; HM Naval Base Clyde, Faslane; SPVA, Glasgow	Royal Navy	Richard Ibbotson, Judy McKnight
Armed Forces Recruiting Briefing Day, London	Joint	Paul Kernaghan
Op Herrick, Afghanistan	Joint (Army lead)	Peter Dolton, Paul Kernaghan
Defence Medical Services, DMS Whittington, Lichfield	DMS	Richard Ibbotson, Judy McKnight

Appendix 5

Details on recruitment and retention, and findings from the 2012 AFCAS

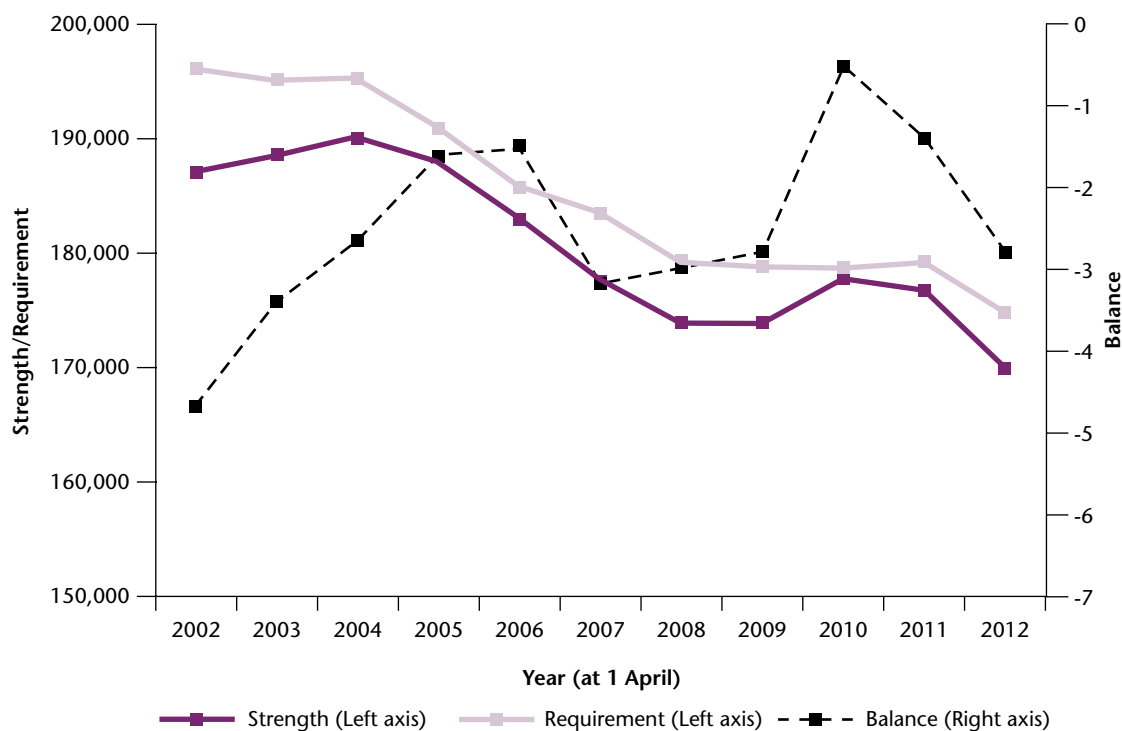
Introduction

- 1 This appendix sets out the detailed contextual data that we regularly review to ensure we are fully informed about the trends in Service recruitment, manning and morale and motivation. The main points that have helped to inform our recommendations this year are summarised in Chapter 2.

Armed Forces' manning

- 2 At 1 April 2012 the tri-Service manning position showed trained strength at 97.2% of the liability and outside manning balance¹: the Naval Service (4.3 per cent deficit) and the Army (2.6 per cent deficit) were both below manning balance whilst the RAF (1.8 per cent) was just within balance. MOD believes there will be periods where the Armed Forces exceed as well as fall below liability during the transition towards post SDSR requirements.
- 3 Recruitment for 2011–12 broadly met targets both in terms of intake and Gains to Trained Strength although this has generally been against reducing targets. A new Recruiting Policy Cell has been set up to offer strategic direction with the aim of saving £45m per annum by 2015 with increased jointery sought between the Services. Ethnic Minority recruitment continued to undershoot targets but was acknowledged as an important issue by the Services and strategies are being implemented to try and address the problem. As highlighted a year ago, there are continuing signs of voluntary outflow increasing, especially for those groups with easily transferable skills to the wider economy.

Chart A5.1: Full-time trained strength and requirement 2002–2012



¹ Public Service Agreement manning balance target is defined as between -2% and +1% of the Defence Planning Liability.

4 Table A5.1 illustrates the manning position at 1 April 2012. It shows that:

- The full-time trained strength of the Armed Forces was 170,010 against a requirement of 174,840 – a deficit of 4,830 personnel or 2.8 per cent, doubling from a 1.4 per cent deficit a year earlier;
- The Royal Navy faced an overall deficit of 4.3 per cent, with Other Ranks 5.0 per cent below requirement;
- The Army were 2.6 per cent below total requirement although it continued to have a surplus of officers (albeit greatly reduced from previous years); and
- The RAF deficit was 1.8 per cent.

5 By 1 October 2012 the deficit had reduced to 1.8 per cent, as the reduction in requirement outpaced the reducing trained strength.

Table A5.1: UK Armed Forces full-time trained strengths and requirements, 1 April 2012

Service	Rank	Trained requirement	Full time trained strength	Surplus/Deficit	Surplus/Deficit as a % of requirement
RN					
	Officers	6,510	6,410	-100	-1.5%
	Other Ranks	28,290	26,880	-1,420	-5.0%
	Total	34,800	33,290	-1,510	-4.3%
Army					
	Officers	13,480	13,520	+50	+0.4%
	Other Ranks	87,730	85,080	-2,660	-3.0%
	Total	101,210	98,600	-2,610	-2.6%
RAF					
	Officers	8,270	8,220	-50	-0.6%
	Other Ranks	30,560	29,900	-650	-2.1%
	Total	38,830	38,120	-700	-1.8%
Total		174,840	170,010	-4,830	-2.8%

Chart A5.2: Full-time trained strength (surplus/deficit) – Other Ranks

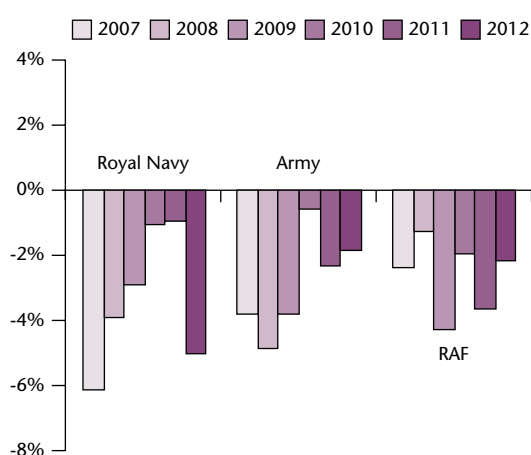
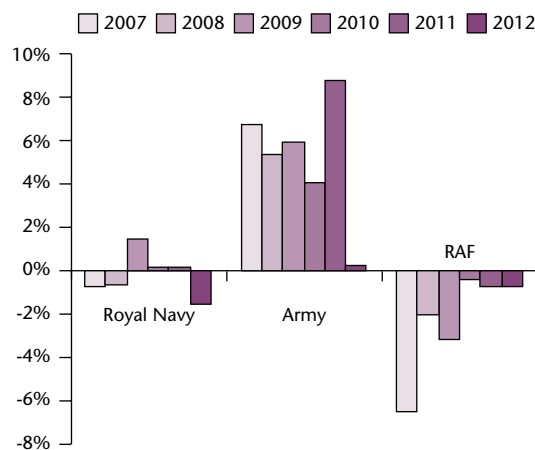


Chart A5.3: Full-time trained strength (surplus/deficit) – Officers



- 6 The high operational tempo continues to make the management of Operational Pinch Points (OPPs)² a Manning priority. At the last quarter of 2011–12 there were 33 different OPPs across the Services representing a liability of about 30,000 personnel or 17 per cent of the total requirement of the UK Armed Forces (at 1 April 2012). This was an improvement compared with the previous year when 46 trades or one fifth of all personnel were designated as OPPs. These continue to include some large cadres such as Infantry soldiers (Private to Corporal), Royal Marine Other Ranks (Corporal to Warrant Officer II), Royal Military Police (Lance Corporal to Staff Sergeant) and RAF General Technician (Mechanical) (Senior Aircraftman to Sergeant).
- 7 By the second quarter of 2012–13 the number of OPPs had increased to 39, a result of expanding liabilities within the Army for niche capabilities. However, the removal of Infantry soldiers as an OPP in 2012–13 reduced the OPP liability to 10,000 personnel or six per cent of the total Armed Forces requirement (at 1 October 2012).

Recruitment

- 8 In 2011–12 there were 14,800 personnel recruited into the Armed Forces, 16 per cent up on the previous year. This highlights that despite the need to significantly reduce in size, recruitment must continue to avoid future skills gaps. The numbers recruited broadly met single Service targets although these were generally lower than previous years. There were concerns about the quality of new Army officer recruits: MOD stated that entry standards will be raised to improve this. The Naval Service was predicting a significant shortfall in Royal Marine Other Ranks intake for 2012–13.
- 9 Charts A5.4 and A5.5 show the recruitment picture over the last 10 years for both Other Ranks and Officers and highlight the downward overall trend. Other Ranks intake was up 20 per cent to 13,740 in 2011–12 from the low of twelve months earlier while Officer recruitment fell by 21 per cent to 1,070. Recruitment of Other Ranks reduced by 14 per cent for the RN but rose by 30 per cent for the Army and 15 per cent for the RAF. Officer recruitment was down seven per cent for the RN, nine per cent for the Army and 71 per cent for the RAF who recruited only 80 personnel compared with 280 a year previously.
- 10 A similar recruitment picture has continued in the six months to 30 September 2012 with 7,400 new recruits to the Armed Forces.
- 11 In the year to 31 March 2012 there were 1,290 female recruits into the Services or 8.7 per cent of all new joiners. Across all UK Regular Forces female personnel comprised 9.7 per cent of the workforce at 1 April 2012, a slight increase from 9.6 per cent at 1 April 2011.

² An Operational Pinch Point is a branch specialisation or area of expertise where the shortfall in trained strength is such that it has a potentially detrimental impact on operational effectiveness.

Chart A5.4: Intake – Other Ranks

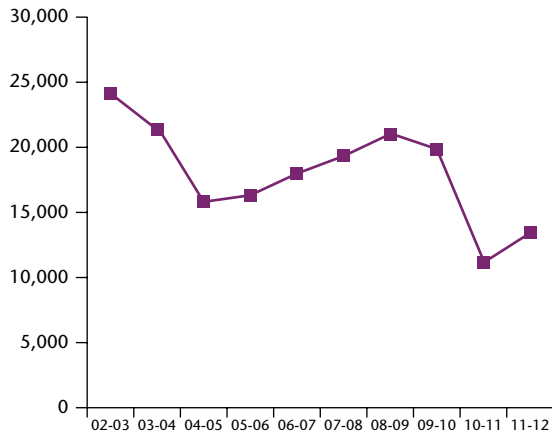
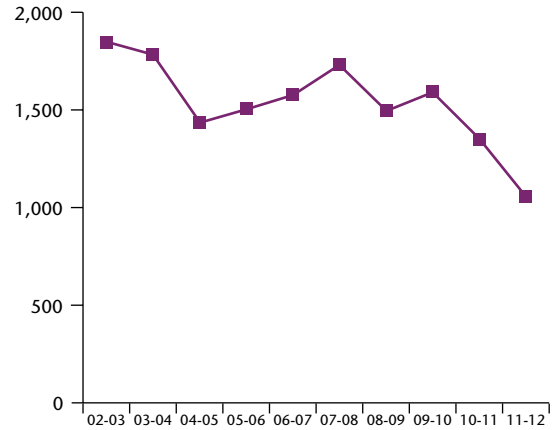
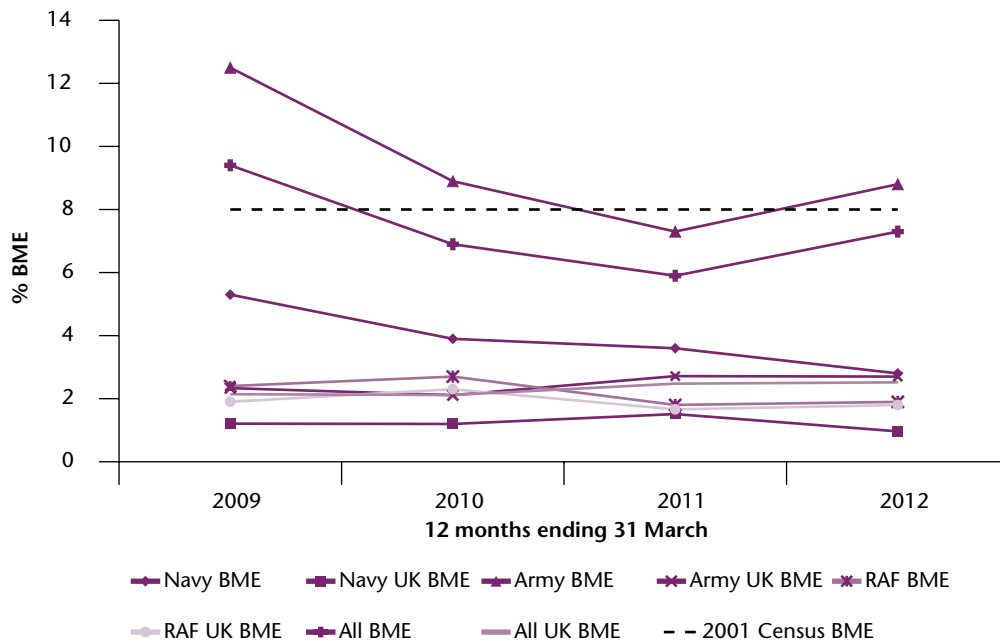


Chart A5.5: Intake – Officers



12 Ethnic minority recruitment remains a concern across the Armed Forces. Only 2.7 per cent of all UK regular forces are currently from UK black and minority ethnic (BME) backgrounds, considerably short of the minority ethnic population of the UK at 14 per cent according to 2011 Census data released in December 2012. The proportions across the Services vary with the Naval Service at 1.9 per cent, the Army 3.3 per cent and the RAF 1.8 per cent. Only the Army has shown a slight increase from figures a year previous. Chart A5.6 highlights the proportions of UK BME across the Services relative to all BME personnel within each Service.

Chart A5.6: BME intake 2009–2012 as a percentage of total intake



- 13 Gains to Trained Strength (GTS) show the number of new recruits that have completed their training and moved from the untrained to the trained strength, as well as direct entrants (including trained re-entrants, transfers from other Services and countries, professionally qualified Officers and Full Time Reserve Service). There is a direct link between GTS and previous intake figures, as personnel previously recruited become trained³. In the year to 31 March 2012 there was a 17 per cent decrease in the overall GTS from 13,600 to 11,340. Other ranks GTS fell by 16 per cent with officers down by 23 per cent.

Chart A5.7: Gains to Trained Strength – Other Ranks

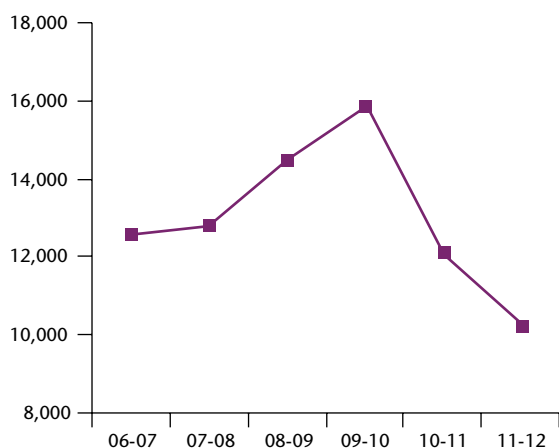
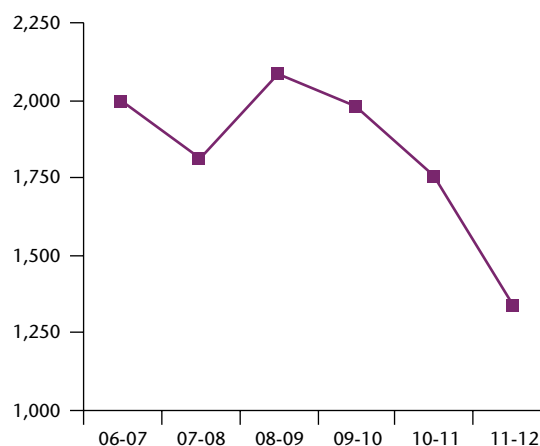


Chart A5.8: Gains to Trained Strength – Officers



Retention

- 14 The numbers of personnel leaving the regular trained strength rose to 17,660 at 31 March 2012 from 13,950 a year earlier, a significant increase of 27 per cent. Officer outflow was 39 per cent higher with Other Ranks outflow increasing by 25 per cent. Outflow rates from the trained strength also rose sharply in 2011–12: Other Ranks at 10.8 per cent, up from 8.5 per cent in 2010–11 and Officers at 8.3 per cent, increasing from 5.9 per cent a year earlier.

Table A5.2: Outflow rates from UK trained Regular Forces (%)

	2010–11	2011–12
Other Ranks		
RN	8.0	11.6
Army	9.2	11.1
RAF	6.9	9.4
All Services	8.5	10.8
Officers		
RN	5.9	7.9
Army	6.3	8.6
RAF	5.1	8.1
All Services	5.9	8.3

³ Time spent on training can vary from around 9 months for some Other Ranks to up to 7 years for some specialist Officers.

Redundancy

- 15 The SDSR announced a reduction of 17,000 Service personnel by March 2015 plus a further 12,000 reduction in the Army (to 82,000) following the Three Month Exercise. In tranche one of the redundancy programme 2,900 personnel were selected of whom 62 per cent were applicants. In June 2012 a further 3,800 were selected for tranche two (72 per cent applicants). Tranche one is complete whilst tranche two non-applicants will leave by June 2013. The Army is likely to require two further major tranches of redundancy whilst the RN and RAF may require a small number of redundancies for senior Officers (OF5/OF6) and medical staff.
- 16 The outflow figures shown in Table A5.2 include 1,650 personnel (360 Officers and 1,290 Other Ranks) leaving as a result of tranche one of the redundancy programme. This equates to nine per cent of total outflow but accounts for less than half of the total increase in outflow across the twelve month period.

Voluntary Outflow

- 17 Voluntary Outflow (VO) rates increased steadily across 2011–12. In the twelve months to 31 March 2012 the rate for Other Ranks was 4.8 per cent, up from 4.0 per cent compared with the previous year whilst the rate for Officers was up to 3.5 per cent from 2.9 per cent. There were variations across the Services. For Other Ranks the RN rate increased to 4.4 per cent from 3.9 per cent, the Army was up to 5.4 per cent from 4.5 per cent and the RAF rose to 3.5 per cent from 2.8 per cent. For Officers there were also increases across the Services with the RN rising to 3.1 per cent from 2.8 per cent, the Army up to 4.1 per cent from 3.4 per cent and the RAF at 2.8 per cent from 2.1 per cent.
- 18 These increases have continued into 2012–13. Data for the 12 months to 30 September 2012 show tri-Service VO rates of 5.2 per cent for Other Ranks and 3.8 per cent for Officers. These compare against tri-Service ten year average VO rates of 5.1 per cent for Other Ranks and 3.3 per cent for Officers. The largest increases since 31 March 2012 have been for RN Other Ranks, RN Officers and Army Officers.

Table A5.3: Voluntary Outflow rates from trained UK Regular Forces (%)

	2010–11	2011–12	12 months to Sep 2012
Other Ranks			
RN	3.9	4.4	5.1
Army	4.5	5.4	5.7
RAF	2.8	3.5	3.9
All Services	4.0	4.8	5.2
Officers			
RN	2.8	3.1	3.7
Army	3.4	4.1	4.6
RAF	2.1	2.8	2.7
All Services	2.9	3.5	3.8

Motivation and Morale

- 19 The Armed Forces Continuous Attitude Survey (AFCAS) provides us with an important contextual source of information on Service morale and the factors impacting on retention. We examined the results of the sixth tri-Service survey, a selection of which is shown in Table A5.4. In line with those views heard on our early visits, uncertainty over changes to pensions and post SDSR redundancies were likely to have been issues concerning many Service personnel around the time of the survey (January to May 2012) and AFCAS results may reflect their perceptions.

- 20 Levels of satisfaction generally fell in 2012 compared to the 2011 survey results. Falls were observed about basic pay with significant reductions on the topic of pension benefits. Morale (both own and Service) was less positive as was satisfaction with Service life in general. Pay became more of a negative retention factor, as did outside opportunities and spouse/partner's career. Personnel increasingly felt Service accommodation represented good value for money but were less impressed about the quality of maintenance and repairs.
- 21 The main retention-positive factors for both Officers and Other Ranks were the dental provision, healthcare provision, job security and pension. The excitement of the job was also one of the most positive factors for Officers whilst mental health provision was considered retention positive by Other Ranks. Retention-negative aspects for both Officers and Other Ranks were the impact of Service life on family and personal life followed by spouse/partner's career. Outside opportunities have continued to be a more important factor for Officers and Royal Marine Other Ranks, for whom pay is also a factor. Service morale was an increasing factor for Army Officers.

Table A5.4: 2012 Armed Forces Continuous Attitude Survey results

Key Stats	% of positive responses		Change in positive responses from		
			2011		2007
Basic Pay	40	↓	3%	=	–
Allowances	41	↑	4%	↑	8%
Pension benefits	40	↓	10%	↓	21%
Own morale is high	42	↓	4%	↑	3%
Overall standard of Service accommodation	57	↑	3%	↑	9%
Value for money of Service accommodation	65	↑	2%	↑	8%
Response to requests to maintain/repair	43		New		N/A
Quality of maintenance/repair to accommodation	42		New		N/A
I would recommend joining the Services to others	47	↓	5%	↑	8%
The amount of pay increases my intentions to stay	39	↑	4%	↑	19%
Overall leave entitlement	71	=	–	↑	3%
Amount of leave able to take in the last 12 months	60	↑	4%	↑	8%
Opportunity to take leave when they wanted to	43	↑	4%	↑	9%

Take-home pay

22 We looked at a number of take-home pay comparisons for Armed Forces personnel of different ranks to better understand the impact of the pay freeze and changes to tax and National Insurance. These examples showed that the lowest paid trained personnel had been relatively protected by the £250 annual increases and also the tax and National Insurance changes, which included a larger tax-free personal allowance. In contrast, the middle and more senior ranks were hard hit by the pay freeze in combination with inflation and a higher National Insurance rate. We noted that the figures did not take account of subsidised housing costs. Table A5.5 shows the changes since April 2010.

Table A5.5: Effects of the two-year pay freeze, tax, NI changes and inflation on sample members of AFPRB remit groups 2010–11 – 2012–13

Grade and scale point 2010–11	Gross pay in 2010–11 £	Take-home pay 2010–11 £	Grade and scale point 2012–13	Gross pay in 2012–13 £	Take-home pay 2012–13 £	Take-home pay after inflation 2012–13		Percentage change 2010–11 – 2012–13 ^a	
						RPI	CPI	RPI	CPI
Pri L2 lower band	17,486	14,188	Pri L4 lower band	20,029	16,356	14,837	15,015	4.6	5.8
Cpl L3 higher band	30,357	23,275	Sgt L2 higher band	33,604	25,777	23,384	23,663	0.5	1.7
WO2 L9 lower band	39,628	29,820	WO2 L9 lower band	39,628	29,958	27,176	27,501	-8.9	-7.8
Lt Col L3	68,801	47,464	Lt Col L5	70,562	48,190	43,716	44,238	-7.9	-6.8

^a Uses inflation between April 2010 and November 2012.

Appendix 6

Remit letter from the Secretary of State for Defence and letter from the Chief Secretary to the Treasury



SECRETARY OF STATE

MINISTRY OF DEFENCE
FLOOR 5, ZONE D, MAIN BUILDING
WHITEHALL LONDON SW1A 2HB

Telephone 020 721 89000
Fax: 020 721 87140
E-mail: defencesecretary-group@mod.uk

MSU 4/4/2/1

6th September 2012

Dear Alasdair

In his letter to you dated 16th July, the Chief Secretary to the Treasury reaffirmed the Government's commitment to the review body process and outlined how the Government proposes that Review Bodies should approach the 2013/14 pay round. I am now writing with more detail about the AFPRB remit for 2013/14.

The Chief Secretary's letter states that the overall approach to the 2013/14 pay round will be based on public sector wage awards averaging 1% per annum for the two years following the pay freeze. The Department has made provision for Armed Forces basic pay, defined as the combination of Base Pay and the X-Factor, to rise by 1%, as an average across the workforce.

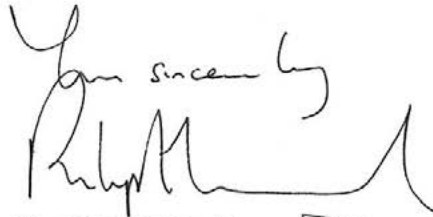
The elements of Specialist Pay and compensatory allowances also fall within the AFPRB's purview. Recognising the importance of the Review Body being able to make recommendations across the full range of issues that fall within its terms of reference, we will therefore submit evidence to enable the Review Body to make recommendations for the pay of Armed Forces personnel, including Specialist Pay and compensatory allowances, within the terms of the policy that limits the average increase for Service personnel to 1% across these elements. I also look forward to a discussion of the X-Factor element of basic pay following the conclusion of your scheduled review. We will also be submitting evidence relating to food and accommodation charges, which fall outside the policy of pay restraint.

The AFPRB remains highly valued by the most senior leadership within Defence, providing sound independent advice and acting as a voice for Service personnel who do not have the same recourse to collective bargaining

Professor Alasdair Smith
Chair
Armed Forces Pay Review Body
Office of Manpower Economics
6th Floor, Victoria House
Southampton Row
London WC1B 4AD

arrangements available to other public sector workforces. I look forward to our further discussions at the Oral Evidence session on 7th November.

I am copying this letter to the Chief Secretary to the Treasury, Geoff Dart (Office of Manpower Economics), and to Jillian Kay (Cabinet Office).

Yours sincerely


The Rt Hon Philip Hammond MP



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Prof. Alasdair Smith, Chair
Armed Forces Pay Review Body
Office of Manpower Economics
6th Floor
Victoria House
Southampton Row
London
WC1B 4AD

16 July 2012

Dear Alasdair,

PUBLIC SECTOR PAY 2013-14

I would like to thank you for your work on the 2012-13 pay round. The Government greatly values the contribution of the Armed Forces Pay Review Body in delivering robust, evidence-based pay outcomes for public sector workers.

2. At the 2011 Autumn Statement, the Government announced that public sector pay awards will average 1% for the two years following the pay freeze. The Government has also asked certain Review Bodies to consider how to make public sector pay more responsive to local labour markets in their remit groups—who will be reporting from July 2012. I am now writing to set out how the Government proposes that the Armed Forces Pay Review Body approach the 2013-14 round.

2. The Government believes that the case for continued pay restraint across the public sector remains strong. Detailed evidence will be set out in the round, but at the highest level, reasons for this include:

- Recruitment and retention: While recognising some variation between remit groups, the evidence so far is that, given the current labour market



position, there are unlikely to be significant recruitment and retention issues for the majority of public sector workforces over the next year.

- **Affordability:** Pay restraint remains a crucial part of the consolidation plans that will help to put the UK back onto the path of fiscal sustainability – and continued restraint in relation to public sector pay will help to protect jobs in the public sector and support the quality of public services.

3. The Government recognises the Review Bodies role in providing independent advice on pay uplifts. In 2013-14, the Government will limit uplifts to an average of 1% in each workforce. The Review Body should therefore focus on considering how the 1% will be divided within their remit group. When considering their recommendations, Review Bodies may additionally want to consider the level of progression pay provided to the workforce and the potential for payments to be more generous for certain groups of staff.

4. The 1% average uplift should be applied to the basic salary based on the normal interpretation of basic salary in each workforce. This definition does not include overtime or any regular payments such as London weighting, recruitment or retention premia or other allowances.

5. I would like to express my gratitude to the Armed Forces Pay Review Body once again and look forward to continued dialogue with you in the future.

Best wishes

DANNY ALEXANDER

Appendix 7

AFPRB's five-year work programme schedule

Bold items for review for the AFPRB Report to be published in 2014.

SUBJECT	2013-14	2014-15	2015-16	2016-17	2017-18
Allied Health Professionals			5		
Chaplains (pay & pay spines)					5
Commitment Bonuses		3			3
Experimental Test Allowance		5			
Longer Separation Allowance	5				
Military Provost Guard Service	5				
New Entrants				5	
NI Residents' Supplement		2		2	
Non-pay benefits				5	
Officers Commissioned from the Ranks					5
Pension valuation					5
Reserves' Bounties			3		
Recruitment and Retention Allowance (London)	5				
Service Nurses (pay spines and Specialist Pay)	5				
Unpleasant Living Allowance	5				
Unpleasant Work Allowance					5
Veterinary Officers	5				
X-Factor					5

Key: 2 – reviewed every two years, 3 – every three years, 5 – every five years

Specialist Pay Reviews

In line with our recommendation in Chapter 3, we will adopt a new approach to reviewing Specialist Pay. Manning data for each group will be analysed annually to assess whether an in-depth review is needed. In our 2014 Report, we will review SP(Diving) and SP(Parachute Jump Instructor). The list of Specialist Pay earning cadres is below:

Diving (spines, Specialist Pay and experimental), Explosive Ordnance Disposal Operators, Flying Pay, Flying Crew, Hydrographic, Mountain Leaders, Nuclear Propulsion Pay, Parachute Jump Instructors, Parachute Pay (inc. High Altitude Parachute Pay and SPAG), Submarine Escape Tank Training Pay, Submarine Pay.



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