



Armed Forces' Pay Review Body

Thirty-Sixth Report – 2007

Chairman: Professor David Greenaway

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

March 2007

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Armed Forces' Pay Review Body

TERMS OF REFERENCE

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

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

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

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

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

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

The members of the Review Body are:

Professor David Greenaway (Chairman)¹
Robert Burgin
Alison Gallico
Dr Peter Knight CBE
Professor Derek Leslie
Neil Sherlock
Air Vice Marshal (Retired) Ian Stewart CB
Dr Anne Wright CBE
Lord Young of Norwood Green

The secretariat is provided by the Office of Manpower Economics.

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

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ARMED FORCES' PAY REVIEW BODY 2007 REPORT – SUMMARY

Key recommendations

- A 3.3 per cent increase in military salaries;
- Targeted restructuring of Pay Range 1 for Junior Ranks;
- New Financial Retention Incentives for Royal Marine Other Ranks and Infantry Other Ranks, and an extension for Aircrew;
- A 3.3 per cent increase in Reserves' Bounties, the Call-Out Gratuity, Specialist Pay and Compensatory Allowances, but no increase to Recruitment and Retention Allowance (London);
- Endorsement of a new, tax-free Operational Allowance of £2,240 from April 2006 and the removal of the 100-day initial qualifying period for Longer Separation Allowance;
- A 2.7 per cent increase to Grade 1 SFA/SLA rental charges and lower graduated increases below Grade 1, a phased increase to garage rent, and a 2.7 per cent increase to food charges.

Introduction (*Chapter 1*)

Our recommendations are designed to support Armed Forces' recruitment, retention and motivation through maintaining broad pay comparability while targeting areas of particular need. We draw on a range of evidence from: the Government; the Ministry of Defence and the Services; our visits; and our independently commissioned research. For this report we met 13 times to hold extensive briefings and oral evidence sessions, we examined over 120 evidence papers, and made 30 visits during which we held 320 meetings with around 4,000 Service personnel and spouses.

Our work programme (*Chapter 2*)

We undertook four major research projects to strengthen our evidence base. Our pay comparisons on job weight indicated that military pay for Other Ranks and Junior Officers was broadly in line with civilians but Lt Colonels' to Brigadiers' (and equivalents') pay was behind the market. Uniformed civilian services continued to offer favourable packages compared to the military. Comparisons with pay for young people and graduates showed civilian earnings ahead on starting pay but the advantage then shifting to the military. Our valuation of Armed Forces' pensions suggested that the adjustment we apply to comparator pay to reflect the relative value of pensions should be 4 per cent. We developed a framework for X-Factor which provides a sound basis for our full review for our 2008 Report. Finally, our review of the basis of SFA charges confirmed the validity of our approach to civilian comparators and the discount.

Military Pay (*Chapter 3*)

We recommend an increase of 3.3 per cent to military salaries from 1 April 2007. We also recommend targeted restructuring of Pay Range 1 to improve the overall package for Junior Ranks. The manning deficit had doubled between April and October 2006 to 3.4 per cent (or 6,330 personnel) moving outside the manning balance target. While recruitment had improved, numbers were below target and considerably so for major recruiting arms and Operational Pinch Points at a time when the Services face the challenge of a reducing supply of young people. Voluntary Outflow continued on an upward trend with rates reaching highs of recent years at 5.6 per cent for Other Ranks and 3.6 per cent for Officers at October 2006. Retention was under pressure from operational commitments and tempo, and the impact of Service life. The imbalance between operational commitments and current manning levels featured in the evidence to us and in two major independent reports in 2006. We took account of the Government's view that awards should be consistent with the 2 per cent CPI inflation target, should account for "total reward" and should reflect affordability pressures going into the forthcoming Comprehensive Spending Review, but we also drew on wider economic evidence including a range of inflation, earnings and settlement indicators. Our overall pay recommendation seeks to maintain broad comparability while achieving a balanced package to support recruitment in a competitive market and to motivate, value and retain personnel against a background of heavy operational commitments.

Other pay measures (*Chapter 4*)

As part of the balanced and targeted package we recommend or endorse the following:

- **New Financial Retention Incentives for Royal Marine Other Ranks and Infantry Other Ranks, and an extension for Aircrew;**
- **Proposed new pay arrangements, under the Strategic Remuneration Review, for Allied Health Professions;**
- **An increase of 3.3 per cent for Reserves' Bounties, the Call-Out Gratuity, Specialist Pay and Compensatory Allowances, but no increase to Recruitment and Retention Allowance (London);**
- **A new, tax-free Operational Allowance of £2,240 from April 2006; and**
- **The removal of the 100-day initial qualifying period for Longer Separation Allowance.**

Accommodation and other charges (*Chapter 5*)

We continue to be disappointed that accommodation budgets continue to be pared back and urge MOD to reconsider available funding. Accommodation standards play an important role in retention. In the light of slow progress on improvements and other evidence, we recommend a 2.7 per cent increase to Grade 1 SFA/SLA rental charges and lower graduated increases for Grades 2-3 with no increase to Grade 4 (SFA Grade 4 rental charges have been frozen since 1997 and SLA since 1998). We recommend a phased increase to garage rent to bring it in line with civilian charges. We recommend a 2.7 per cent increase to food charges in line with the Catering grouping of the RPI.

Conclusion (*Chapter 6*)

We estimate that our recommendations, if accepted, will add a net 3.9 per cent to the pay bill.

GLOSSARY OF TERMS

ACDS (RC)	Assistant Chief of Defence Staff (Reserves and Cadets)
AEI	Average Earnings Index
AFPRB	Armed Forces' Pay Review Body
AFPS75	Armed Forces' Pension Scheme (introduced in 1975)
AFPS05	Armed Forces' Pension Scheme (introduced in 2005)
AGR	Association of Graduate Recruiters
AHPs	Allied Health Professions
CPI	Consumer Prices Index
DASA	Defence Analytical Services Agency
DE	Defence Estates
DRFC	Director of Reserve Forces and Cadets
EDP	Early Departure Payment
ERNIC	Employers' National Insurance Contributions
EU	European Union
FRI	Financial Retention Incentive
HQNI	Headquarters Northern Ireland
IPP	Immediate Pension Point
JPA	Joint Personnel Administration
LSA	Longer Separation Allowance
LSSA	Longer Separated Service Allowance
MOD	Ministry of Defence
NAO	National Audit Office
NCA	Non-Commissioned Aircrew
NCO	Non-Commissioned Officer
NHS	National Health Service
NI	Northern Ireland
NIRS	Northern Ireland Resident's Supplement
NMW	National Minimum Wage
PAYD	Pay As You Dine
PPOs	Principal Personnel Officers
PSA	Public Service Agreement
PVR	Premature Voluntary Retirement/Release (Officers/Other Ranks)
RAF	Royal Air Force
RAuxAF	Royal Auxiliary Air Force
REME	Royal Electrical and Mechanical Engineers
RFCA	Reserve Forces' and Cadets' Association

RLC	Royal Logistic Corps
RM	Royal Marines
RMR	Royal Marine Reserve
RN	Royal Navy
RNR	Royal Naval Reserve
RPI	Retail Prices Index
RPIX	Retail Prices Index (excluding Mortgage Interest Payments)
RRA(L)	Recruitment and Retention Allowance (London)
SFA	Service Family Accommodation
SLA	Single Living Accommodation
SLAM	Single Living Accommodation Modernisation
SNCO	Senior Non-Commissioned Officer
SRR	Strategic Remuneration Review
TA	Territorial Army
UK	United Kingdom
VO	Voluntary Outflow (formerly Premature Voluntary Retirement/Release)
WSO	Weapons Systems Officer

Chapter 1

INTRODUCTION

Introduction

1.1 The recommendations we make in this report seek to support Armed Forces' recruitment, retention and motivation through maintaining, overall, broad pay comparability and targeting areas subject to particular pressure. To make our assessment we draw on an extensive evidence base including data on manning and working arrangements, the Government's and MOD's view of the Defence context and affordability, the latest economic indicators and our independently commissioned research.

2006 recommendations

1.2 We submitted our 2006 recommendations on 31 January 2006. They were accepted in full by the Government on 16 February 2006. Last year, we recommended from 1 April 2006:

- A 3 per cent increase in military salaries, a 3.3 per cent increase for Privates/Lance Corporals in Pay Range 1 (lower) and a new entrant rate of £12,162;
- A 3 per cent increase in Reserves' Bounties and all rates of Specialist Pay and Compensatory Allowances;
- The introduction of Unpleasant Living Allowance at a daily rate of £3.00 under Joint Personnel Administration (JPA);
- MOD to undertake a thorough review of arrangements for Service Nurses and Allied Health Professions and to present proposals for our 2007 Report; and
- Graduated increases in accommodation rental charges from zero to 15 per cent (excluding increases to utilities) and a 3.2 per cent increase in food charges.

Our evidence base

1.3 Our work programme leading up to this report comprised three main strands: our visits to Service units in the UK and overseas; our independently commissioned research; and the written and oral evidence from MOD. Extensive briefings from MOD and the three Services in March 2006 (covering pay and personnel matters) provided useful background for our visits programme. Between March and August 2006 we visited 30 Service units across all three Services in the UK and overseas. Details of these visits are at Appendix 4. We are grateful to the Services for all their support in arranging these visits and for including a visit to see operations in Iraq. Our visits included some 320 formal and informal discussion groups enabling us to hear, first hand, the views of around 4,000 Service personnel and spouses. We also use our visits to better inform us of the jobs undertaken by the workforce and to view the full range of Service accommodation.

1.4 Between September 2006 and January 2007, we held 13 meetings and considered over 120 evidence papers. These covered: the Government's evidence on public sector pay and economic conditions; MOD's perspective on the Defence context and affordability; data on manning, working hours (including assessments against the National Minimum Wage), leave and Continuous Attitude Surveys; independently commissioned research on pay comparability, pensions, X-Factor¹, non-pay benefits and accommodation charges; updates on economic indicators; and evidence on specific groups of personnel

¹ The full explanation of X-Factor is given in Chapter 2, paragraph 2.27.

or elements of remuneration. We considered specific targeted proposals for Junior Ranks, retention incentives (for Royal Marine Other Ranks, Infantry Other Ranks and Aircrew), pay arrangements for Allied Health Professions, Specialist Pay and Compensatory Allowances, the new Operational Allowance and Reserves' Bounties. We also received written evidence from the Reserve Forces' and Cadets' Association and the Forces' Pension Society.

- 1.5 We held six oral briefing sessions which provided us with essential evidence and the context for our deliberations. These sessions are also important in maintaining the credibility of our work with the remit group. We met: the Secretary of State, the Chief of the Defence Staff and the MOD Permanent Under Secretary, accompanied by senior HM Treasury representatives; the Principal Personnel Officers (PPOs) and the Deputy Chief of Defence Staff (Personnel); the Assistant Chief of Defence Staff (Reserves and Cadets) and the Director of Reserve Forces and Cadets; the Deputy Chief of Defence Staff (Health); and the Chief Executive of Defence Estates.
- 1.6 In addition to meeting spouses during our visits programme, we also met informally with the Chairs of the three Service Families' Federations. The Chairs drew on their wider experience of working with families to provide a helpful perspective on the concerns of families which mirrored those put to us on our visits.

Key themes for this report

- 1.7 We introduce below the key themes for this report which set the context for our recommendations. These include the Government's approach to public sector pay, the Defence context, MOD's programme to develop the package for personnel (covering its Strategic Remuneration Review, employment legislation and targeted measures) and our independent reviews.

Public sector pay

- 1.8 The Government, through its evidence and the Chancellor's July 2006 letter to all Pay Review Body Chairs, emphasised its desire to keep public sector pay settlements consistent with its Consumer Prices Index (CPI) target of a 2 per cent increase. In making that case, the Government asked all Pay Review Bodies to note its view that the impact of higher oil prices on inflation rates would be temporary, the constraints on Government funding and the forthcoming Comprehensive Spending Review, recent improvements in pay through pay reform and the "total reward" package. We set out in Chapter 3 how we have taken account of the Government's approach to public sector pay alongside the specific requirements of our terms of reference.

The Defence context

- 1.9 The Defence context provides important background for our deliberations and, in the evidence, focused on effective support to operations. The evidence suggested that operational commitments and tempo within operations have accelerated. This assessment was confirmed in reports by the House of Commons Defence Committee on UK operations in Iraq and the National Audit Office on Armed Forces' recruitment and retention. Commitment levels are a constant theme raised by personnel on our visits. Personnel we met stressed the importance of targeting improvements to the remuneration package to personnel on operations. After consultation, we therefore endorsed the introduction of the tax-free Operational Allowance announced in October 2006. We cover this and other measures in Chapter 4.

- 1.10 Alongside operational commitments, we consider the manning levels, on-going force restructuring, and risks to recruitment and retention. We also examine evidence relating to the Department's budgetary constraints and affordability. In Chapter 3 we set out how we balance these considerations to reach our recommendations.

Developing the package

- 1.11 It is important, given our role in recommending pay, that we understand the wider developments under MOD's personnel and pay reform agenda. We are, therefore, grateful to MOD for keeping us up to date with developments in the Armed Forces' remuneration package. These were presented in evidence within the framework of MOD's Pay and Workforce Strategy and the Service Personnel Plan. The developments centre around MOD's Strategic Remuneration Review, in-year changes to the package, employment legislation and regulations, and the development of targeted measures.

MOD's Strategic Remuneration Review

- 1.12 MOD briefed us in September 2006 on progress with its Strategic Remuneration Review which is examining the strategic rationale and effectiveness of the whole financial reward package in terms of recruiting, retaining and motivating sufficient, capable people to meet manning requirements. Initially the review has focused on two elements: measures to support MOD's "mixed housing economy" (both Service provision and support for home ownership); and the "concept" of the whole remuneration structure. A "concept" paper would be produced by May 2007 with final proposals by December 2007.
- 1.13 To support the review, MOD had gathered 27 Focus Groups on 7 sites covering all ranks and families. Broad conclusions from these groups were that: the package was too complex; basic pay and pensions were "satisfactory"; parts of the package had unwanted outcomes (e.g. some allowances promoted mobility and pay increases might not be sufficient incentive for promotion); some factors impacted directly on recruitment; and there was an overall desire for less stretch and disruption. This last point particularly highlighted the importance of spouses' incomes and access to education, and medical and dental provision.
- 1.14 On the concept of the package as a whole, MOD was studying the relationship between pay, allowances and pensions. MOD was considering options for the basic pay structure and greater flexibility; ensuring equal value; the role of job evaluation; the ability to effectively respond to market forces; common principles for location allowances; and appropriate operational support.
- 1.15 The development of packages to support "mobility and stability" was closely linked to MOD's Defence Living Accommodation Strategy. A range of options was under consideration with the aim of matching individual Services' needs. Options for "mobility" packages would need to cover support for relocation and children's education needs. "Stability" packages would focus on assisted house purchase, which had significant implications for provision of Service accommodation – both Service Family Accommodation (SFA) and Single Living Accommodation (SLA). It is clear from our visits that Service personnel have a strong focus on the need to get on the property ladder in the current market. Service life constrains this ambition and threatens retention. In this regard, personnel we met frequently commented on the Long Service Advance of Pay for house purchase – while new eligibility rules were welcomed, the level of £8,500 was universally considered insufficient.

- 1.16 We welcome MOD's Strategic Remuneration Review and note that each of the development strands will have implications for our recommendations on pay and charges in the longer term. We look forward to MOD's evidence when appropriate. In the meantime, we observe that the continued need to target shortages in manning areas with financial measures highlights the inability of the existing military pay structure to recruit, retain and motivate Service personnel or respond flexibly to changing circumstances. This fundamental concern about the pay structure is, in our view, growing as targeted financial measures become more widely based and apply to larger groups within the Armed Forces.

Developments in the remuneration and support package

- 1.17 Our annual review has been conducted against the background of a series of developments in the package for Service personnel. MOD has introduced enhancements to the package for personnel on operations. A new Operational Allowance was introduced in 2006 in response to growing concern among personnel that the package did not focus sufficiently on those on operations. We set out the details of the allowance in Chapter 4. At MOD's request, we have also endorsed the removal of the 100-day initial qualifying period for Longer Separation Allowance (see Chapter 4 for details).
- 1.18 Continuing to focus the package on operations, MOD announced changes to the Operational Welfare Package including increased free telephone time from 20 to 30 minutes. On our visits, particularly to operational theatres, this has been a source of much frustration and we therefore welcome the enhancement. On 5 October 2006, MOD announced a series of enhanced allowances, improved family travel support and improved facilities for Service hospital patients, focused on casualties returning from operational theatres to the Royal Centre for Defence Medicine, Selly Oak and the Defence Medical Services Rehabilitation Centre at Headley Court.
- 1.19 MOD kept us up to date with information on current allowances. This helps us to set into context the elements of the package within our terms of reference. MOD's evidence helpfully included descriptions of the allowances and relevant harmonisation under JPA. We are also grateful to MOD for keeping us up to date on JPA during the roll-out to the Services. MOD briefed us on planned developments plus how JPA impacts on individual pay elements and allowances. During our early 2006 visits, RAF personnel were very critical of the difficulties encountered with JPA. We hope that the lessons have been learned and that we receive more positive feedback from the Services during 2007.
- 1.20 On 20 September 2006, the Department for Communities and Local Government announced the expansion of the Key Worker Programme on housing to include Service personnel who live and work in London, the South East and East of England and have incomes under £60,000. The programme could apply to as many as 10,000 Service personnel and, as at early November 2006, MOD had received around 800 enquiries. We welcome this development and have asked MOD to provide details of the take-up in its annual evidence on accommodation.

Employment legislation and regulations

- 1.21 In the context of the development of the package, we have asked to be kept informed of MOD's position in relation to changes in employment legislation and regulations. MOD confirmed that the Armed Forces are exempt from age discrimination and disability regulations but are subject to anti-discrimination legislation on gender, race, sexual orientation, religion and belief. In practice, MOD aims to avoid age discrimination as a matter of policy in the same way that it endeavours to conform to the "spirit" of the National Minimum Wage (from which the Armed Forces are exempt) and the Working Time Regulations (under which the Armed Forces have certain exemptions). We comment on these issues in Chapter 3.

- 1.22 With regard to wider developments in employment law, our Secretariat has kept us informed of the progress of landmark equal value cases and the introduction of the Employment Equality (Age) Regulations from 1 October 2006. MOD confirmed in oral evidence that it was awaiting further legal advice but would audit the Armed Forces' pay structure for equal value purposes under its Strategic Remuneration Review. MOD also informed us that its policy work to harmonise allowances in preparation for JPA involved checking for any discrimination. We ask MOD to keep us informed of any changes resulting from the need to comply with legislation that could impact on our remit. In addition, we ask MOD to confirm formally that any pay and charges proposals comply with employment legislation and regulations.

Targeted measures

- 1.23 The package is significantly influenced by the need to respond to changing circumstances. In Chapter 4, we review the evidence on a series of targeted pay measures including Financial Retention Incentives (FRIs), Reserves' Bounties, pay arrangements for Allied Health Professions, Specialist Pay and Compensatory Allowances – the latter including a new Operational Allowance and the Longer Separation Allowance.

Our independent reviews

- 1.24 Alongside our annual research programme to collect data to support our recommendations on pay and charges, we have engaged in specific in-depth research covering major elements of the package. Further detail on each is set out in Chapter 2.
- 1.25 First, we examined the relative value of military pensions compared to civilian comparators. More precisely, we compare the cost of providing a member of the Armed Forces with the employer-financed component of civilian comparator schemes. This relative value is accounted for as part of our assessment of pay comparability and is reviewed every five years. Military pensions are an important element of the total remuneration package and are highly influential for Service personnel, particularly on retention. We commented in our 2006 Report on the changing environment for pensions – for the military, the introduction of a new pension scheme from April 2005 and, for civilians, major changes in pension provision. We commissioned Watson Wyatt to conduct the valuation and we summarise our conclusions in Chapter 2.
- 1.26 Second, in advance of our full review of X-Factor scheduled for our 2008 Report, we commissioned Inbucon to review the basis of X-Factor following comments from the remit group on its coverage. This provided an opportunity to confirm and define the elements assessed within X-Factor, and to establish appropriate civilian and military data sources. We comment further in Chapter 2.
- 1.27 Finally, we asked our Secretariat to examine the basis for Service Family Accommodation charges. We defined our strategy for setting SFA charges to reach a target level of discount against civilian comparator housing costs in our 2002 Report. Our 2006 Report noted that a review of the basis of SFA charges would be timely. For this report, we asked our Secretariat to carry out an in-depth review of the principle and level of discount, the components of civilian comparator costs and the weighting given to them. The conclusions from this review (set out in Chapter 2) and MOD's evidence have informed our recommendations on accommodation charges (in Chapter 5).

Chapter 2

OUR WORK PROGRAMME

Introduction

- 2.1 This year we commissioned a number of major research projects designed to strengthen the evidence base for this and future reports. Four of the research projects looked at elements that play into our comparability assessment as it applies to pay and charges – information on pay comparability (including civilian and military non-pay benefits), the value of Armed Forces' pensions, the X-Factor framework (ahead of the full review scheduled for our 2008 Report) and the basis for SFA charges.

Pay comparability

- 2.2 Our terms of reference state that we "*shall have regard for the need for the pay of the Armed Forces to be broadly comparable with pay levels in civilian life*". Given the unique nature of our remit group, exact comparisons between military and civilian jobs are not possible. We must necessarily exercise our judgement in interpreting pay comparability evidence which does not always provide a consistent pattern. We assess pay comparability evidence in conjunction with other evidence, particularly that relating to recruitment and retention given the importance of ensuring that the Armed Forces are able to compete effectively in the labour market and recruit and retain the personnel they require.
- 2.3 We examine three main strands of evidence: (i) comparisons of pay levels and movements between the military and civilians based on job weight; (ii) comparisons with the packages available to uniformed civilian services; and (iii) comparisons for those at entry points to, and in the early stages of, their careers. We then measure our conclusions on comparability against other indicators, such as recruitment and retention, and the overall manning position within the Services, but also against macro-economic indicators such as inflation, settlements and earnings.

Comparisons on job weight

- 2.4 Although some Service jobs are similar to those in civilian life, many are not. We therefore make a comparison based on job weight. Since 2005 we have worked with Hay Group to access data on civilian pay levels and movements as at 1 April each year.
- 2.5 The methodology that Hay uses has three stages: (i) the "benchmarking" of a representative sample of military jobs; (ii) the conversion of the job weights of this sample into Hay's job evaluation scores; and (iii) the read across to civilian pay. Hay evaluated 240 military jobs in 2005, and a further 37 jobs in 2006, chosen to be representative of the Armed Forces population as a whole, representative of each Service and of the differing job weights at each rank. Hay then finalised its evaluations under its own scoring system and correlated these with MOD's scores. In Hay's judgement, the correlation between MOD job scores and Hay points established a sound relationship from which decisions on the read across into civilian pay data could be made.

- 2.6 For the purpose of comparisons, Hay used the average military pay, weighted to reflect the population in that rank and adjusted for X-Factor, for each military pay range. For 2006 data, average weighted military pay was assessed separately for each rank in Pay Ranges covering more than one rank. Civilian comparators were established using base salary (annualised base salary including contractual bonuses and permanent payments) and total cash (base salary plus variable bonuses and incentives) adjusted to reflect the relative advantage of the military pension. The comparisons did not include overtime and shift premia as we assess comparative working hours as part of X-Factor considerations. To ensure the broadest coverage of civilian comparators, the Hay database of 600,000 employees was supplemented by pay data from Incomes Data Services covering 7½ million employees. Hay also provided example civilian jobs and responsibilities to illustrate the comparisons. We take a comprehensive approach to assessing pay comparability and Hay therefore provides a range of comparisons. For 2006 data, we added civilian comparisons for minimum, median and maximum job scores at each rank and we intend to further develop this for our 2007 comparisons.
- 2.7 Overall, the Hay comparisons of pay levels suggest that at 1 April 2006 pay comparability was broadly maintained for both base pay and total cash. Within that broad comparability it is worth noting that average weighted military pay for Other Ranks tended to be above the median level of base pay for those at comparator job weights as judged by Hay. However, we are aware how civilian comparators' pay levels can be significantly influenced by age and experience especially for Junior Ranks' comparators. Similarly, it is important to remember that these comparisons do not take account of contributions to civilian earnings from overtime and unsocial hours premia which can be important additions to earnings at this level. At the other end of the spectrum, the average weighted military salary for Lt Colonels to Brigadiers (and equivalents) was below the median level of pay for those at comparator job weights as judged by Hay, especially using the total cash measure. Many senior posts in the civilian world will have bonuses or payments related to individual or company performance which are not available to those in the Services.
- 2.8 For our 2006 Report, as it was the first year of using this method, Hay was only able to provide indicative data on base pay movements. However, the movements data at April 2006 showed that the 2006-07 increases we recommended for base pay in the Services were broadly in line with those seen in the civilian sector. Pay movements for Other Ranks' comparators were between 2 and 4.8 per cent, and for Officers' comparators between 3.2 and 5.3 per cent.

Uniformed civilian services

- 2.9 In addition to looking at comparisons based on job weight we also undertake an analysis of the packages available to uniformed civilian services. Often on our visits Service personnel draw direct comparisons with people in these services, as they are seen in some ways as doing a similar job, and as potential alternative or second careers.
- 2.10 Our analysis covered the Fire Service, Police, Prison Service, MOD Police Service and Ambulance Service. Because of the different career structures attached to these services, and the varying ages of entry and terms and conditions, the overall package available in each service varies widely. Nevertheless, after making adjustments for X-Factor and pensions, the packages available to other uniformed civilian services continue to appear to be comparatively advantageous, especially compared to the most Junior Ranks.

Young people and graduates

- 2.11 Our assessment of pay comparisons for young people uses median gross earnings from the 2006 Annual Survey of Hours and Earnings which analyses data by age groups. Looking at those aged 18-21 years, the data suggest that the military starting salary is below median gross earnings of civilians of a similar age but military pay rates compare more favourably after completion of basic military training. At ages 22-29, which broadly covers the age span for Privates through to Corporals (and their equivalents), we note that the average military salary of Privates/Lance Corporals is below civilian median gross earnings but average military salaries for Corporals are ahead. These data confirm the pattern of previous years.
- 2.12 The Association of Graduate Recruiters (AGR) reported that the median civilian graduate starting salary rose by 2.9 per cent in 2005-06, broadly in line with our recommendations for 2006-07. The AGR also reported that for the third consecutive year the number of graduate vacancies increased during 2005-06, by almost 17 per cent. This suggests that graduates will be able to exercise a greater degree of choice relating to their employment. Officer graduate starting salaries are still behind civilian salaries. However, they remain comparable to those paid to graduates in other public services and the military does appear to have competitive salary progression in the early years of service.

Non-pay benefits

- 2.13 As part of our pay comparability assessment, we periodically review the non-pay benefits available to Service personnel relative to their civilian counterparts. When this review was last undertaken for our 2002 Report, it concluded that a minimal advantage lay with civilians. Military information on allowances and other non-pay benefits is supplied by MOD whilst civilian information is obtained from published surveys¹. The information shows that Service personnel have access to a range of allowances, either for reimbursement or compensatory, and other non-pay benefits. We recommend on some of these and others are assessed as part of the review of X-Factor.
- 2.14 Civilian comparators access a range of benefits often used by employers to recruit and retain in addition to competitive rates of basic pay. The move among civilian employers towards a flexible or menu approach to benefits and total reward means employees are likely to be attracted to employers offering a range of benefits that closely match their needs. Some civilian benefits have increased in provision since our last review including childcare facilities, flexible working arrangements (such as reduced hours and home working) and sabbatical leave. Benefits that have reduced in provision include company cars and sports/social facilities.
- 2.15 The shifts in both military and civilian packages since 2001 and the wide range of available benefits means an accurate assessment of the balance of advantage between military and civilians is difficult. However, the information provides useful background to colour our comparability assessment and we note the increasing importance attached to benefits from the civilian data and the views expressed on our visits.

¹ Croner Reward's *Employee Benefits Report 2005-06* and Hay Group's *Benefits Reports 2005-06*.

Pension valuation

Background

- 2.16 Armed Forces' personnel have non-contributory pension schemes – that is there are no deductions from their pay to fund the schemes. The AFPS75 was introduced in 1975 and the AFPS05 in 2005 for new entrants and those serving personnel who elected to transfer to the new scheme. We periodically value military pensions relative to civilian pensions so that we can take the value, expressed as a percentage of pay, into account as part of our assessment of broad pay comparability. We do not deduct the pension value from military pay but deduct it from civilian comparator pay (excluding employer national insurance contributions and employer pension contributions) as part of our pay comparability calculations and then make a judgement on appropriate pay recommendations. Our last valuation was carried out for our 2001 Report, when we concluded that the relative advantage of the military pension over civilian comparators was 7 per cent and we have used this figure in our pay comparability assessment each year.
- 2.17 Our 2006 Report summarised preparatory research by Watson Wyatt on changes in civilian pension arrangements, provisions in the Armed Forces' schemes, valuation methodologies and data requirements. We concluded that this provided a firm basis for a valuation. We are grateful to MOD for the relevant military pensions data and for updates on the introduction of the new scheme (AFPS05) and on the numbers remaining in the old scheme (AFPS75).

The valuation study

- 2.18 We commissioned Watson Wyatt to undertake the valuation² for this report. The valuation considered the pension benefits that an individual member of the Armed Forces, with a similar length of service, would receive in the civilian sector. Watson Wyatt highlighted factors that influenced the valuation, namely:
- Changes to pension benefits available under AFPS75, including increased death benefits, a wider definition of adult dependant and an increase in the age for receiving preserved pensions to 65;
 - Changes to benefits from the introduction of AFPS05 and the balance of Service personnel between AFPS75 and AFPS05;
 - The proportion of Immediate Pension (under AFPS75) and Early Departure Payments (under AFPS05) deemed to be compensation for a short career;
 - Changes to the age distribution of serving Armed Forces' personnel;
 - Changes to civilian comparator pensions including the shift from defined benefit to defined contribution schemes for new entrants and the increase in member contribution rates;
 - Changes to financial assumptions decreasing the rate of investment return;
 - Changes to demographic assumptions to reflect Armed Forces' mortality, withdrawal and retirement rates; and
 - Methodology considerations including valuing defined contribution benefits, the treatment of member choice and assumptions on eligibility to receive pension benefits.

² *Armed Forces' Pension Scheme Valuation: A Report by Watson Wyatt*, December 2006 published on www.ome.uk.com.

- 2.19 Full details of the impact of the above factors on Watson Wyatt's valuation are in their report. We particularly note the significant changes taking place to civilian comparator benefits. However, there is a difference between pension arrangements for new entrants and those for existing employees who, the research showed, tended to remain in defined benefit schemes. To avoid bias towards new entrants and, therefore, defined contribution schemes, Watson Wyatt advised that the civilian data be weighted to reflect wider information on the membership of civilian schemes drawn from their own and the Government Actuary's Department surveys. Watson Wyatt added that, while drawing on pension data from a different civilian database than that used in the last valuation in 2000 produced different valuation results, this approach maintained consistency with data used for pay comparisons.
- 2.20 The 2000 valuation was informed by a Re-employment Survey of former Service personnel to establish the proportion of the value of the Immediate Pension under AFPS75 deemed to be compensation for a short career. The survey provided evidence to support the assumption that around 50 per cent of the value of the Immediate Pension should be treated as compensation. We have no evidence to suggest that this proportion should change and Watson Wyatt applied the same method in valuing benefits under AFPS75. Under AFPS05, however, Early Departure Payments (EDPs) replaced the Immediate Pension and MOD advised that, although these payments were not pension, they should be valued as part of the benefits package for Service personnel. Watson Wyatt added that excluding these payments would distort the analysis of available benefits. On the basis of this advice, we concluded that if EDPs were not assessed as part of the pension valuation we would need to take account of them elsewhere in our pay comparability considerations. As there was no evidence to suggest EDPs should be treated differently to the Immediate Pension, Watson Wyatt valued them following the same approach. We will revisit EDPs at our next valuation.
- 2.21 We asked Watson Wyatt to undertake various sensitivity analyses to test the robustness of their valuation results. Watson Wyatt tested out the differences between the value of benefits: (i) for Officers and Other Ranks; (ii) for each rank to show differences over a career; (iii) for both AFPS75 and AFPS05; and (iv) accounting for different treatments of Immediate Pension and EDPs as compensation for a short career. These analyses are available in Watson Wyatt's Report.
- 2.22 We consider the revisions to the methodology set out above are appropriate in the light of our remit on pay comparability. The valuation draws on the same civilian database as our pay comparability exercise and this has led to a rebasing of our pension valuation. We also consider it appropriate to value pension benefits for the military under both AFPS75 and AFPS05 against a range of civilian comparator schemes. We accept Watson Wyatt's advice that the valuation should account for the fact that, while new entrants tend to be in defined contribution schemes, the comparator for Armed Forces' personnel continues to be predominantly established employees in defined benefit schemes. However, we also accept Watson Wyatt's view that the valuation should reflect the growing influence of new entrant arrangements and have therefore accounted for the pension benefits available to new entrant Officers and Other Ranks and their civilian comparators. The valuation results reflect these methodological changes which, importantly, are consistent with our approach to pay comparability.

Forces' Pension Society evidence

2.23 We invited written evidence from the Forces' Pension Society in which the Society set out its views on the merits of comparing the value of benefits to the beneficiaries, the potential widening of differences in valuations between Officers and Other Ranks, the different impact of the two Armed Forces' schemes and support for using a long term discount rate rather than a market-related rate. We are grateful to the Society for its contribution and hope they will continue to keep us informed on their views on Armed Forces' pensions.

Results

2.24 Having examined carefully changes to benefits, assumptions, methodology and profiles of the Armed Forces, Watson Wyatt concluded that the value of Armed Forces' pension benefits for Officers was broadly the same as in 2000 but the value for Other Ranks had risen. The value of civilian comparator pension benefits had also risen and significantly so for Other Ranks' comparators. This value reflects the weighting of comparator pension schemes between defined benefit and defined contribution schemes rather than the pension benefits available to civilian new entrants, which are typically less valuable. The valuation results indicated that Armed Forces' Officers had a relative pension advantage of 3.9 per cent and Other Ranks 3.7 per cent. Watson Wyatt advised, on the basis of these findings, that a reduction to around 4 per cent in the value deducted from civilian comparator pay would be fair and should remain valid for the next few years. Looking forward, Watson Wyatt advised that the trend in civilian schemes would be towards lower benefits and this may be an issue for the next valuation.

Conclusion

2.25 We apply a degree of judgement to the value of pensions. In our view, the value must have validity over the period until our next valuation, scheduled for our 2012 Report. In this context we note Watson Wyatt's expert advice that a reduced pension value would be robust for the intervening period. Given changes in the military pension and a changing civilian pension environment, we will keep this under review. The closeness of the results for Officers and Other Ranks suggest to us that a single value remains appropriate. Our overall conclusions are set out below.

We conclude that:

- **With revisions to reflect changing circumstances, our methodology to determine the relative pension value and how we apply that value to civilian comparator pay remain appropriate given that the Armed Forces have non-contributory pension schemes;**
- **The value should be 4 per cent; and**
- **The value will be deducted from the civilian pay comparisons from 1 April 2007, which will be part of the evidence for our 2008 Report.**

Communications

2.26 During our visits, Service personnel frequently express concern at the apparent complexity of the way in which we account for the value of Armed Forces' pensions. We have set out our approach (paragraph 2.16) to show how it is consistent with our remit on broad comparability, which encompasses a range of relative benefits including pensions. It is vital that MOD communicates our approach clearly to Service personnel and other interested parties. We ask MOD to review urgently its communications material, particularly to emphasise that the Armed Forces' schemes are non-contributory and that our valuation does not result in any deduction from military pay.

X-Factor framework review

2.27 X-Factor is a component of military pay that recognises the relative disadvantage of conditions of service experienced by members of the Armed Forces compared to those in the civilian sector. It takes account of a range of elements, advantages and disadvantages, which cannot be evaluated when assessing pay comparability. The level of X-Factor, set at 13 per cent in 2000, is not linked to any mechanistic formulae but combines evidence with judgements.

2.28 We usually review the X-Factor every five years although we reserve the right to vary the interval should circumstances so dictate. Our next full review will be for our 2008 Report. As we made no change to X-Factor in our last review in 2003, we consider it necessary to examine trends since the previous review in 2000. On our visits, X-Factor continues to prompt much debate, centred primarily around: its level and coverage; the impact of operational commitments on frequency of deployments, separation and working hours; the difficulties of achieving home ownership; and the varied impacts of turbulence on personnel and their families.

2.29 In preparation for the full X-Factor review, we trailed in our 2006 Report our intention to review the framework we use for assessing the relative advantages and disadvantages of "modern" Service and civilian life. For this report, we commissioned Inbucon to work closely with us to: (i) appraise critically the current components of X-Factor; (ii) examine the basis for new components; and (iii) suggest potential data sources for civilian comparators. The research also included information on relevant MOD allowances against each component and an assessment of comments from Service personnel on our visits.

2.30 Inbucon presented initial results to us in September 2006 and a final report in October 2006³. In summary, Inbucon's findings were:

- Existing X-Factor components remained relevant and no new X-Factor components were identified;
- X-Factor components were re-defined to better reflect the positive and negative aspects of "modern" Service and civilian life under three headings
 - Features of the job
 - Impact of the job and
 - Social aspects of the job;
- Existing allowances provide some degree of compensation for certain aspects of Service life;
- Changes in employment and other legislation will require further assessment; and
- Military and civilian data sources remained appropriate but additional civilian sources were suggested.

³ Report on the definitions of the components of the X-Factor, Inbucon, October 2006 published on www.ome.uk.com.

- 2.31 Looking forward to our 2008 Report, the framework review helpfully clarified and updated the X-Factor definitions we use. Inbucon's Report should help MOD, other interested parties and our commissioned researchers to collect and analyse relevant evidence for the full review. At that time we will examine recent developments in the remuneration and allowances package in relation to the relevant X-Factor elements. We also look forward to evidence on the various groups receiving less than 13 per cent X-Factor and the taper for Officers which currently applies from the mid-point on the pay scale for Lieutenant Colonels (and equivalents). Finally, we have asked our Secretariat to discuss with MOD whether, and when, further information relevant to X-Factor might be available under JPA.

Review of Service Family Accommodation charges

Background

- 2.32 In our 2006 Report, we commented on MOD's intention to explore alternative solutions to the accommodation requirements of Service personnel, the growing importance of home ownership, and the funding for, and pace of, SFA improvements. This changing environment led us to conclude that we should re-examine the basis on which we recommend SFA charges including the principle and level of the discount, and the components and their weightings for civilian comparator costs. Our recommended accommodation charges are in Chapter 5.
- 2.33 We asked our Secretariat to undertake an extensive review of our approach to SFA charges. As part of this review they examined: previous AFPRB Reports; consultants' advice and reports; MOD's evidence; the views of personnel and families on our visits; and results from the Services' Continuous Attitude Surveys. They also consulted with MOD on housing policy, development of the Defence Living Accommodation Strategy and the Strategic Remuneration Review.
- 2.34 Our current methodology seeks to achieve broad comparability between SFA charges and civilian housing costs less a discount to account for the disadvantages of living in Service accommodation, such as lack of choice, quality of decoration, lack of security of tenure on leaving the Armed Forces and no right to buy. Our approach to charges has been modified several times since our inception in 1971. At that time the Review Body sought to base charges on Local Authority rents for Other Ranks and owner-occupied private accommodation for Officers (although the latter was curtailed by rapidly rising house prices). Following several years of concern about the differences between Service accommodation and Local Authority rents, a discount to military charges was introduced in 1980. In 1996 after consultants' advice, our predecessors began to use comparators to reflect a "broad range of housing available to the comparator population" – a weighted average of owner-occupiers, private rents, and Local Authority and Housing Association rents, plus an element for maintenance costs. Even with the discount to military charges, a large gap existed with civilian housing costs and the Review Body sought "gradual alignment".
- 2.35 Since 2002 we have employed a strategy to achieve a set discount to coincide with MOD's targets for improvements to SFA. During our visits in recent years, Service personnel and their families have widely criticised increases to SFA charges in the light of poor SFA standards, slow progress with improvements, the growing desire for home ownership and, latterly, what personnel often described as a disastrous effect of moving maintenance provision to the Housing Prime Contract in 2006. These overall concerns were borne out in the Services' Continuous Attitude Surveys. Our review of SFA charges was also set in the context of MOD's strategic direction for housing provision. Under MOD's Defence Living Accommodation Strategy work was underway to seek a "mixed economy" of housing (both Service provision and owner-occupied housing).

Our overall approach to SFA charges

2.36 We consider that our approach to accommodation charges should be informed by:

- Our terms of reference on maintaining broad comparability on pay *and* charges;
- Service accommodation and charges are important elements of the package for personnel. Our recommendations on charges should not result in any Service personnel receiving a decrease in pay net of charges;
- A sound evidence-base including appropriate civilian comparator costs;
- Our judgement on elements such as the level of discount, on progress with improvements, and on the implications for recruitment and retention; and
- The need for our recommendations to complement MOD's strategy to improve accommodation standards and support initiatives for "stability/mobility" and home ownership.

2.37 With these principles in mind, we reviewed the three elements of our approach – the basis for comparison, the discount and the timescale for our SFA charging strategy.

Basis for civilian comparisons

2.38 The methodology we use to compare housing costs has been in place since our 1996 Report. At that time we explored significant concerns about basing comparisons on rents alone and concluded that they should reflect the make-up of each comparator group by income, employment status and age. An independent housing consultant reviewed and confirmed the methodology in 2000. Our most recent advice from our independent consultant in 2005 suggested that there had been little change to the mix of civilian comparators in the housing market in Britain since the 2000 review. This advice noted that owner-occupiers with a mortgage continued as the predominant comparator although the balance of rentals had shifted slightly from social housing to private provision.

2.39 For this review, we looked at data from the Survey of English Housing on the relative weights of mortgages, private rent and social rent within comparator groups relevant to each military rank. In general, the proportion of civilian comparators with a mortgage increases and the proportion of social rentals decreases with rank. We looked at additional data from the Survey of English Housing to ensure the weighting of Junior Ranks' comparators remained appropriate. We also undertook a sensitivity analysis looking at the effect of reweighting comparators. MOD confirmed that it supported our approach to comparisons and sought no change to the methodology. We conclude from this evidence that the comparator groups and the relative weightings remain appropriate though we will continue to review these for subsequent reports.

The discount

2.40 The factors contributing to the discount and its level are a matter of judgement on our part. The discount is applied to ensure comparisons are appropriate and reflect the differences between Service and civilian accommodation. Again, our 1996 Report set out the factors contributing to the discount as:

- Lack of choice;
- Quality of decoration i.e. inability to make changes due to length of occupation;
- Lack of security of tenure on leaving the Armed Forces; and
- No right to buy.

- 2.41 In reviewing the discount factors, we note that they have different implications relative to civilian rented accommodation and owner-occupied housing. We consider that we should continue to make a judgement on the discount so that we can respond to changes in relativities with civilians and reflect MOD's housing strategy for Service personnel. We also conclude that a single discount figure, regardless of property type, contributes to clarity in setting charges. MOD's evidence confirmed that a discount should continue to be applied as long as Service personnel manifestly suffer relative disadvantages.
- 2.42 The factors that influence the level of discount can vary in impact over time. For instance, we became aware during our visits of the widespread concern among Service personnel and their families about the provision of maintenance services under the Housing Prime Contract in 2006. MOD also commented on initial poor performance in written and oral evidence. The level of service provided is a matter for MOD and, in oral evidence, the Chief Executive of Defence Estates said that he was fully aware of the difficulties experienced with the Housing Prime Contract but that progress was being made. However, we note that, relative to civilian tenants, Service personnel have a lack of choice in maintenance supplier and a limited right of recourse to, for example, withhold rent. We intend to monitor the position, and its relevance to the discount, as the new arrangements bed down.
- 2.43 We also looked at the interaction between the discount and other elements of the package. We are reassured that our review of X-Factor clearly captures the impact of turbulence, including frequent moves and the impact on home ownership. We note that the grading of properties and tiered charges take appropriate account of the quality of accommodation and proximity to amenities.

Our SFA charging strategy

- 2.44 We have linked our SFA charging strategy to the timescale for bringing SFA improvements to "Standard 1 for condition"⁴. We conclude from MOD's evidence that:
- Defence Estates made progress with SFA improvements in Great Britain above relatively low targets in 2005-06 – 1,467 upgrades against a target of 600. Targets will increase to 1,200 in 2006-07 and 900 in the following three years;
 - No target date is set to achieve "Standard 1 for condition" for all SFA – though we estimate that, at the current pace of delivery, it would take until beyond 2020;
 - There are significant differences in "Standard 1 for condition" and Grade 1 for charges. At April 2006, 57 per cent of SFA was "Standard 1 for condition" whereas only 27.4 per cent was at Grade 1; and
 - For SFA outside Great Britain, improvements were also slow – Northern Ireland has 96 per cent of SFA below "Standard 1 for condition", in Germany uncertainty over sites and funding reductions have lengthened timescales, in Cyprus local contract negotiations have delayed progress, and in Gibraltar completion dates have been extended.

⁴ "Standard 1 for condition" relates exclusively to the condition of the property whereas MOD's grading system for charges takes account of other factors such as proximity to certain amenities.

- 2.45 The Secretary of State acknowledged in oral evidence that, while Service accommodation remained a priority, delivery of improvements had taken longer than anticipated and future plans would be subject to affordability constraints. MOD also acknowledged that Service accommodation had suffered from under-investment thereby reducing targets for improvements. Accommodation needed to be balanced against other Defence Estates' priorities arising from estate rationalisation. MOD estimated that it would cost £750 million in total to bring all SFA to "Standard 1 for condition" but a minimum of £50 million would be required each year to make necessary improvements.

Conclusions

- 2.46 We believe that it remains necessary to gradually reduce the significant gap between SFA charges and civilian costs – less the discount. However, a review of our strategy is timely in view of MOD's agenda to develop the supporting package for personnel. We conclude from our review that our civilian comparators and their weighting remain appropriate and that our approach of drawing on civilian housing costs by income group and employment status is consistent with our pay comparability analyses. We have made one minor modification to improve the calculation of charges by property type, using weighted averages according to the military population in each relevant rank. Going forward, the factors influencing the level of discount will continue to be a matter of judgement.
- 2.47 In addition to our review, we emphasise the importance of other factors that influence our recommendations. First, that MOD secures the required funding to support a reasonable pace of improvements. We are disappointed that successive Secretaries of State have been unable to deliver on their promises to us and, more importantly, to Service personnel. Second, acceptable standards of accommodation are essential to retaining personnel (and influential on families). Third, our visits in 2006 highlighted the potential for "unintended consequences" of our SFA charging strategy, particularly the perception that increases to charges forced Service families towards house purchase which could impact on mobility and, ultimately, on retention. Finally, we consider our recommendations should support MOD's emerging housing strategy and we look forward to further developments in 2007. Our recommendations on SFA and other charges are set out in Chapter 5.

Chapter 3

MILITARY PAY

Introduction

3.1 We set out our work programme for this report in the previous chapter and now examine how that and other evidence inform our military pay recommendations. Our assessment draws on our independent research, the Government's evidence on public sector pay and the economy, MOD's evidence on the Defence context and affordability, data on manning, recruitment and retention, and survey information on working hours and leave.

Government evidence on the general context

3.2 The Government presented evidence covering the economic context, the fiscal context, recent improvements in public sector pay levels and the importance of total reward. The Government expressed concern at the potential for Pay Review Body recommendations to feed into public sector pay increases and those in the wider economy. The evidence pointed to the economic background as one of long term, sustained economic growth with low and stable inflation. The Government's evidence repeated the thrust of the Chancellor's letter of 13 July 2006 to all Pay Review Body Chairs which suggested that recommendations should be consistent with the CPI inflation target of a 2 per cent increase. That letter also argued that the effect of higher oil prices on CPI would be temporary and without it "underlying inflation" would be below 2 per cent.

3.3 We have considered the Government's evidence very carefully. However, when we look at the wider economic indicators we observe that, in November 2006, CPI inflation was at 2.7 per cent, RPIX inflation was at 3.4 per cent and RPI inflation at 3.9 per cent. Inflation has been on an upward trend since our 2006 Report. The latest independent forecasts point to rising inflation in the final quarter of 2006 but reducing during 2007. The HM Treasury average of independent forecasts points to RPI at 3.7 per cent and CPI at 2.6 per cent by the end of 2006 with RPI falling to 2.9 per cent and CPI falling to 2.0 per cent by the end of 2007. The Bank of England Inflation Report (November 2006) pointed to CPI on a slightly lower trajectory than its August 2006 assessment and returning to target earlier than originally forecast. The Bank of England considered the risks to inflation were "broadly balanced". Completing the range of economic indicators, we also note that the Average Earnings Index (AEI), excluding bonuses, increased by 3.8 per cent in the three months to October 2006 and, importantly for our pay comparability considerations, median pay settlements remained at around 3 per cent.

3.4 The Government's evidence went on to suggest that fiscal constraints over the period of the next Comprehensive Spending Review would require more efficient public services. In this context, the Government argued that public sector paybill growth of 6 per cent per annum since 1997 (2 per cent from workforce growth and 4 per cent in pay per person) would be "unsustainable" going forward. It argued that pay reform accounted for much of the increase in paybills and asked us to take into account factors that increase earnings, including pay restructuring, targeted recruitment and retention measures, pay progression and bonuses. The Government emphasised that all Pay Review Bodies should consider the impact of their recommendations on paybill growth per head as an indication of changes in average earnings and overall paybill growth reflecting the cost to the employer. The Government added that individual Departments should provide a suite of information on "pay metrics" for their remit group to support any pay recommendations. We consider such data would be helpful and look forward to receiving this information in the future.

- 3.5 Finally, the Government asked us to consider our overall pay recommendation within the wider context of the “total reward” package (including pay, pensions, annual leave, flexible working and work/life balance, career development and access to training). It argued that it was this total package that allowed employers to recruit, retain and motivate their workforces. Overall, the Government commented on the need for affordable pay recommendations which are necessary to respond to the remit group’s circumstances where the outcome would improve service delivery by supporting recruitment, retention and motivation. We recognise the pressures faced by MOD for affordable pay awards, but must balance this against the ability of the Armed Forces to recruit, retain and motivate personnel and our remit to maintain broad pay comparability.

MOD’s strategic management evidence

Defence context

- 3.6 MOD’s evidence set out its perspective on the Defence context, affordability, personnel factors and pay priorities. Overall, MOD highlighted: the need for an appropriate and affordable remuneration package; the need to support recruitment and retention of sufficient, capable, experienced and motivated personnel to sustain operational capability when commitment levels were high; and the need to maintain an appropriate standard of living for Service personnel. It drew attention to the Chancellor’s view that pay settlements should be guided by the 2 per cent CPI inflation target, affordability within Departmental resources and the targeting of high priority groups (through FRIs and Specialist Pay) plus new entrants.
- 3.7 MOD considered that the strategic context was set by the Armed Forces’ active engagement worldwide, including major operations in two theatres. In addition to Iraq and Afghanistan, significant commitments remained in the Balkans and Northern Ireland (to August 2007). While the Strategic Defence Review placed emphasis on expeditionary operations, MOD commented that commitments exceeded the planning assumptions for concurrent operations which had determined the force structure. The Armed Forces were also ready to assist the UK civil community where required, for example emergencies covering food relief, foot and mouth disease, and the firefighters’ strike. Against the background of high commitment levels, MOD was embarking on a significant change programme, including lessons learned from operational experience, on-going force restructuring and modernisation through improving effectiveness. MOD, and the PPOs in oral evidence, commented on the importance of the pay award in “valuing” personnel based on their higher than planned operational levels and recruitment and retention fragility.

Affordability

- 3.8 MOD told us that it was working within the 2007-08 Defence budget that was set in 2004. However, it commented that affordability considerations should be seen in the context of the forthcoming Comprehensive Spending Review which was being conducted against a tight fiscal background. Rigorous planning and financial management were required to control costs and deliver capability.
- 3.9 MOD referred to affordability in the light of tight Defence funding, rising costs (including equipment, pay and personnel-related costs), the need to balance pay awards with targeted measures for specific groups and the effect of recommendations on the pay package above the “affordable” 2 per cent increase. MOD expanded by drawing attention to the way in which pay recommendations which exceeded provision in the Defence programme could put other Defence resources under threat, including the package for personnel, accommodation (particularly Single Living Accommodation Modernisation), allowances, manpower, and, ultimately, Defence capability. MOD stated that the Service pay bill was 29 per cent of the Defence budget.

- 3.10 In oral evidence, the Secretary of State emphasised that affordability was a key concern in determining the pay award but that a “careful balance” between affordability, recruitment and retention, and pay comparability was needed. He added that a “fair pay award” needed to be set against MOD’s priorities for targeted measures.

Personnel factors

- 3.11 MOD’s summary of the strategic personnel factors focused again on operational commitments compared with manpower levels. The pressures on Service personnel were evident from breaches in harmony guidelines¹, the degree of risk in current operations, and the impact of Service lifestyle and separation on morale and retention. On this latter point, MOD commented on the negative and positive factors influencing retention as shown in the Services’ Continuous Attitude Surveys. MOD highlighted the actions planned under both the Service Personnel Plan and the Pay and Workforce Strategy (see below).
- 3.12 On the overall manning position, MOD considered that recruitment was “generally satisfactory” but that recruitment in MOD’s priority groups was poor and that manning levels in some key areas were critical. MOD commented on the importance of pay in a competitive labour market, particularly in supporting the Services’ recruitment effort. MOD drew attention to the conclusions in our 2006 Report that the packages of uniformed civilian services appeared advantageous compared with the military both in competition for recruitment and as second careers. In oral evidence, the Secretary of State reiterated the “perceived fairness” of Armed Forces’ pay awards compared with other public sector groups.

MOD’s Pay and Workforce Strategy

- 3.13 MOD provided us with its Pay and Workforce Strategy which encompasses both military and civilian personnel. The “strategic goal” within the Defence Strategic Guidance 2005 remains “*the delivery of sufficient numbers of capable and motivated Service personnel and civilians to develop and sustain the people element of operational capability at a reasonable cost, while reflecting the domestic, EU and international legal framework*”.
- 3.14 The Service Personnel Plan 2006 set the strategic direction to deliver the Service personnel contribution to operational capability to 2015 and beyond by delivering “the right number of people, with the right skills, who are willing and able to use them”. The Plan continued to focus on seven programmes designed to deliver benefits across the personnel area, including manpower planning and forecasting, exploiting all sources of personnel provision, the military personnel package, personnel factors in Defence Estates, research and aspects of change programmes (such as the Defence Health Programme, the Defence Training Review and the JPA programme).

Manning

- 3.15 The overall manning position continues to be influenced by the Services restructuring to 2008. By that time, manning levels will have reduced from around 37,500 to 36,000 in the Royal Navy, 103,500 to 102,000 in the Army (on achieving Future Army Structures and normalisation in Northern Ireland) and from 48,500 to 41,000 in the RAF. The Services said that they continued to manage these reductions through natural wastage or redundancy while maintaining effective career structures and closing the manning deficit by April 2008.

¹ Harmony guidelines comprise: Royal Navy and Royal Marines – 60 per cent deployed and 40 per cent at base in a 3-year cycle with no more than 660 days away from home over a rolling 3-year period; Army – 6 months on operations in every 30-month period with separated service no more than 415 days away over a rolling 30-month period; RAF – 4 months on operations in a 20-month period with separated service no more than 140 days over a rolling 12-month period.

3.16 In this context we considered the manning and recruitment evidence presented for this report showing:

- At 1 April 2006, the Armed Forces' full-time trained strength was 183,180 (including Full Time Reserve Service and Gurkhas) against a requirement of 185,920 – a deficit against requirement of 1.5 per cent, a slight fall from April 2005, and within tolerance² for the Public Sector Agreement³ (PSA) manning balance target;
- However, by 1 October 2006, overall trained strength had fallen back further to 179,420 against a slightly reduced requirement of 185,750 – a deficit of 3.4 per cent and outside the PSA manning balance target; and
- Between April 2005 and April 2006 the requirement fell by 2.7 per cent while the trained strength fell by 2.5 per cent.

3.17 Single Service manning showed:

- Royal Navy full-time trained strength was 35,620 (including Royal Marines) at 1 April 2006, a shortfall of 1,220 or 3.3 per cent against requirement (5.3 per cent excluding Full Time Reserve Service) – by October 2006 the shortfall increased to 3.8 per cent. The RN continued to describe this as “achieving a controlled convergence” with the PSA target although shortages in pinch points will remain beyond April 2008;
- Army full-time trained strength was 100,620 at 1 April 2006 – a shortfall of 1.2 per cent (2.2 per cent by October 2006). The Army repeated its view that it would “need to do everything possible within current funding” to counter the predicted worsening recruitment environment; and
- RAF full-time trained strength was 46,940 at 1 April 2006 – a deficit of 0.7 per cent and in broad manning balance although masking severe deficits in key specialisations. By October 2006 the deficit increased to 5.7 per cent as manning levels reduced faster than the requirement.

3.18 We examined the manning position of Officers and Other Ranks in each Service – Charts 3.1 and 3.2 show surplus/deficit between 2002 and 2006 – and found:

- There was an overall surplus of full-time trained Officers of 310 at 1 April 2006, compared with a deficit of 300 at 1 April 2005. Although the deficit of RAF Officers widened this was more than offset by a reduction in the RN Officer deficit and an increase in the surplus of Army Officers;
- Between April and October 2006, the overall Officer trained strength fell by 340 to a level in line with the requirement;
- For trained Other Ranks, the deficit increased from 2,740 to 3,050 between April 2005 and April 2006 – the deficit in the RN narrowed as the requirement fell by a greater amount than the strength. The deficit in the Army widened slightly as the strength fell more than the requirement. Most of the surplus in the RAF was eliminated as the strength fell by much more than the requirement; and
- Between April and October 2006, the overall Other Ranks' full-time trained strength decreased by 3,410.

² Tolerance is defined as achieving between –2 per cent and +1 per cent of full manning against requirement to reflect routine structural and organisational change within the Armed Forces.

³ Following the Spending Review 2004, the Department has a revised Public Service Agreement manning target covering the period 2005-06 to 2007-08 to “recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives”.

Chart 3.1: Full-time trained strength surplus/deficit, Officers

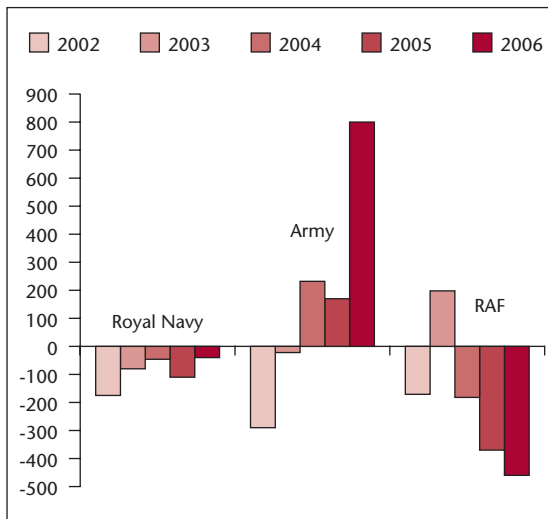
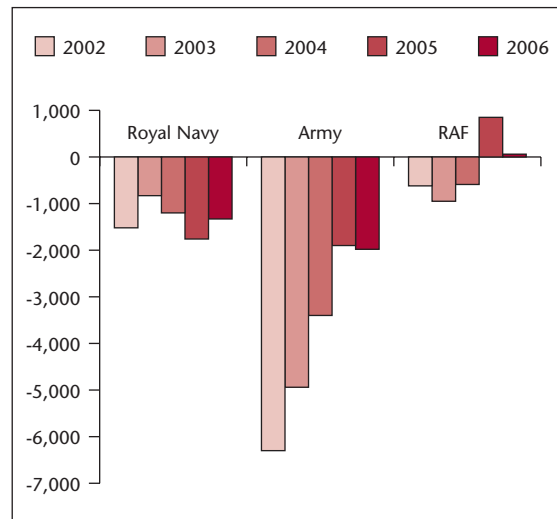


Chart 3.2: Full-time trained strength surplus/deficit, Other Ranks



3.19 To complete the manning picture we also look at data on Gains to Trained Strength comprising new recruits completing training, re-entrants and transfers from other Services or countries. Between 2004-05 and 2005-06 overall Gains to Trained Strength fell by 12 per cent, following on from a similar fall the previous year. This was attributed “partly to Army and RAF restructuring but also reflects the challenges the Services continue to face in recruiting”. Gains to Officer Trained Strength decreased by 9 per cent between 2004-05 and 2005-06 from 2,020 to 1,840 reflecting a 31 per cent fall in the RAF, a 10 per cent fall in the RN and a rise of 4 per cent in the Army. Gains to Other Ranks’ strength decreased by 12 per cent from 14,760 to 12,940, reflecting reductions in the Army and RAF but an increase in the RN.

3.20 At first glance the overall manning position at April 2006 is similar to that at April 2005 as changes to manning levels keep pace with changes in requirement and are within Public Service Agreement targets. However, MOD acknowledges that there are “significant challenges, and shortages in specific areas remain”. Indeed, figures for the six months to October 2006 show further falls in the trained strength and a deficit, against the requirement, which has more than doubled during that period. We note that, although MOD considered there was “no Armed Forces manning crisis” at April 2006, it did recognise that operational commitments were higher than planned and that “some people” were breaching harmony guidelines. MOD added that there was a number of specialist groups in each Service where commitments or manpower shortages created pressures and that in some instances those shortages will persist beyond April 2008. We explore Operational Pinch Points further in paragraphs 3.39 to 3.45 below.

Recruitment

3.21 The numbers of personnel recruited in 2005-06 were 3 per cent higher than in 2004-05 as the Services achieved 96 per cent of their target. Although the numbers actually recruited were close to target overall, there remain areas for concern, particularly the Royal Artillery and Infantry which met just 74 and 83 per cent of their respective targets. In the six months between April and October 2006, 10,180 personnel joined the Services, up from 8,810 in the same period in 2005. However, meeting the 2006-07 recruitment target of 19,556 “remained challenging” according to MOD.

- 3.22 The intake of Officers from civilian life increased from 1,450 in 2004-05 to 1,520 in 2005-06, increasing in the Army and RAF and showing no change in the Royal Navy. The intake of Other Ranks from civilian life increased from 16,140 to 16,630 over the same period – increases of 250 in the Royal Navy, 970 in the Army and a reduction of 730 in the RAF. The Royal Navy reported an increase overall in the number of applications, reversing a downward trend but still have concerns about a fall in the number of applications for Graduate Engineering Officers. However, at October 2006 the Naval Service forecast meeting only 94 per cent of the recruitment target for 2006-07 in both the Royal Navy and the Royal Marines. Enlistments in the Army increased by 10 per cent in 2005-06 but were still 10 per cent below target and training “output” to the Field Army was estimated at October 2006 to be around 8,000 of the 9,050 required. The reduction in RAF recruiting in 2005-06 reflected a reduction in target as the RAF drawdown continues although improvements were made against training targets.
- 3.23 A difficult recruitment environment with high employment and increasing numbers of young people entering further and higher education continued to be reported by MOD. However, each of the Services is taking steps to maximise the impact of their recruiting efforts. The Naval Service has implemented a new marketing strategy for the RN and RM, the Army have focused efforts on significant shortages in the Infantry and increased the upper age limit for joining, while the RAF, given their lower than normal recruitment targets, have been concentrating efforts on encouraging youngsters to consider the RAF as career of first choice.

Retention

- 3.24 For the second consecutive year outflow from the Armed Forces increased in 2005-06 to 18,140 compared with 17,600 in 2004-05. This increase is almost all accounted for by the 500 personnel who left the RAF as part of the first phase of the RAF redundancy programme. Army and RAF trained outflow decreased during 2005-06 while that of the RN was unchanged.
- 3.25 The Services’ in-year measures to meet reduced manning requirements continue to influence overall outflow. Information on Voluntary Outflow (formerly PVR) shows the trends on those requesting to leave for a variety of external reasons. We reported in 2006 that a worrying reverse of recent stable trends was emerging. While the picture is relatively stable, the upturn in Voluntary Outflow⁴ exit rates continued during 2005-06 and into early 2006-07. Charts 3.3 and 3.4 below show exit and application rates between 2000-01 and 2005-06. Exit rates for Officers have increased in each of the last four years and were 3.4 per cent in 2005-06. Each Service experienced an increase in Voluntary Outflow exit rates for Officers during 2005-06. Voluntary Outflow exit rates for Other Ranks have also increased, to 5.4 per cent in 2005-06, with an increase in RAF Voluntary Outflow exit rates more than offsetting a fall in RN and Army Voluntary Outflow exit rates. More recent data, for the 12 months to October 2006, shows Officer Voluntary Outflow exits increasing further to 3.6 per cent, while Voluntary Outflow exits for Other Ranks increased to 5.6 per cent.
- 3.26 Alongside exit rates, Voluntary Outflow application rates are also a useful measure in assessing intentions within the Armed Forces. The Officer Voluntary Outflow application rate for 2005-06 was 4.0 per cent, the highest rate since 2000-01. Application rates rose for RAF and Naval personnel and remained steady for the Army. For Other Ranks Voluntary Outflow applications have fallen back slightly in 2005-06 as a fall in Voluntary Outflow applications from the Army more than offset a slight increase in the application rate from the RAF – application rates in the Navy were unchanged.

⁴ Voluntary Outflow rates are measured on a rolling 12-month period.

Chart 3.3: Voluntary Outflow rates, Officers – 1 April 2000 to 31 March 2006

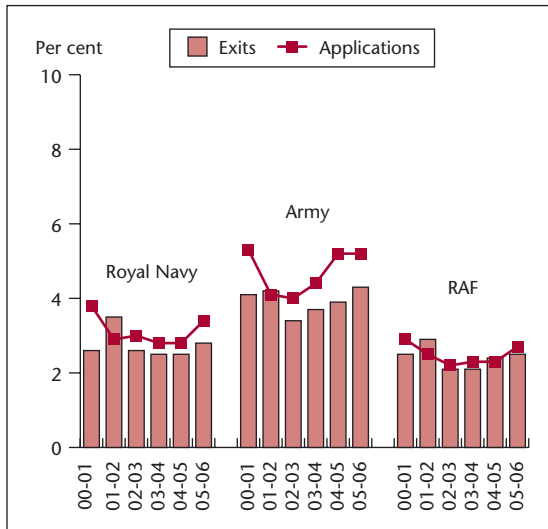
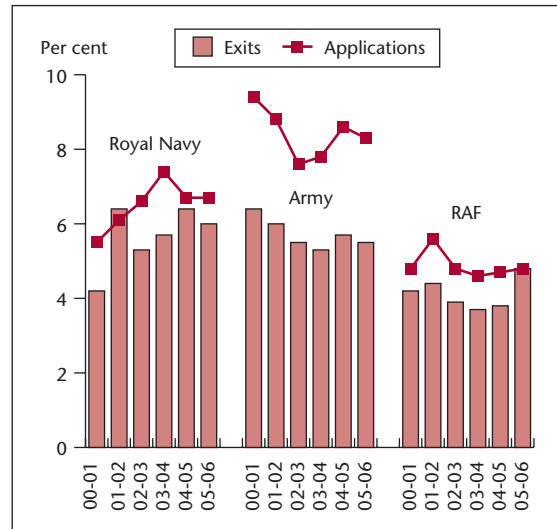


Chart 3.4: Voluntary Outflow rates, Other Ranks – 1 April 2000 to 31 March 2006



3.27 We received extensive evidence on the factors influencing retention in the Services' Continuous Attitude Surveys conducted during 2005. The results suggest, on balance, that most personnel appear to be satisfied with Service life, with the following positive factors identified as influencing retention: job satisfaction; job security; promotion/career prospects; and pension entitlement. However, factors influencing personnel to leave were the effects of operational commitments and overstretch and Service lifestyle. These factors were also widely cited on our visits. Looking forward, we welcome the move to conduct a single tri-Service Attitude Survey from 2007 and the comparative data this will bring.

3.28 We consider the latest Voluntary Outflow data show Officer outflow rates increasing since 2004-05 with the increase in applications suggesting a further increase in 2007. The position for Other Ranks is less clear – with falling outflow rates for the RN and Army and applications falling or flat, while outflow for the RAF is distorted by the on-going redundancy programme. Nevertheless, MOD considers the manning position to be fragile and has set priorities to address retention through targeted Financial Retention Incentives to ensure the position does not deteriorate further.

Labour supply and demand

3.29 We examined forecasts of labour supply⁵ and demand⁶ to 2013-14. The expectation was that: the labour force would increase by 2.5 per cent; economic activity among the population would increase to 79.3 per cent; the labour force would continue to age; the trend towards higher female employment would continue reaching 46.2 per cent; the number of people aged 25 to 49 would decline after 2011; and the number of young people "not in full time education" would continue on a downward trend. Forecasts of labour demand indicate an increase in employment of 1.3 million by 2014 and that around 12 million job opportunities will arise from replacement demand mostly to replace retirees. Generally, labour demand will continue to decline in manufacturing and grow in the service sector. Growth by occupation will continue in knowledge areas such as management, some professions, protective services, culture and caring.

⁵ *Projections of the UK Labour Force, 2006-2013 – Labour Market Trends Vol 114 No 1, January 2006.*

⁶ *Working Futures 2004-2014 – National Report, Sector Skill Development Agency, 2006.*

3.30 Our analysis of forecast labour supply and demand suggests a number of challenges for the Armed Forces in recruiting and retaining capable personnel. First, the reducing supply of young people “not in full time education” means that the Services will need to improve their share of the recruitment market given their focus on “growing their own” and the constraints on their ability to respond flexibly to manning shortages compared to other employers. As further and higher education participation rates increase, the Services will need to develop more flexible entry points and training routes, particularly to attract those with, or the potential to acquire, higher skills. Second, increases in labour supply will mainly be from older people, females, ethnic minorities and migrant workers – groups either not traditionally attracted to the Armed Forces or ineligible to join. The Services will need to develop careers that can maximise the contribution of these labour sources. Finally, the Armed Forces are becoming increasingly dependent on higher skills to support operations. Current shortages in Operational Pinch Points and increasing competition for higher skills require effective responses in improving recruitment and extending the return on training investment. The changing labour market suggests that the Armed Forces will continue to require a competitive and responsive overall package coupled with appropriately targeted measures.

National Audit Office Report on Armed Forces’ recruitment and retention

3.31 National Audit Office published a report on Armed Forces’ recruitment and retention⁷ on 3 November 2006 which reflected the manning pressures currently faced by the Armed Forces. The NAO Report drew on a range of information, including a survey of around 5,500 current and former Service personnel and case studies of Operational Pinch Points. The main findings were:

- Manning was “not in balance” as at July 2006 and full manning was a “distant prospect” for 88 Operational Pinch Points;
- Deployment levels within the Defence Planning Assumptions had been exceeded since 2001, manning requirements had not been subsequently adjusted and harmony guidelines on separation were frequently breached for large proportions of the Services;
- Recruitment targets had been broadly achieved but numbers will take time to close manning gaps. Steps were being taken to meet the recruitment challenges of changing demographics;
- Voluntary Outflow was rising but had not yet reached previous peaks with a range of reasons for leaving identified, including the impact of Service life, workload and separation, available civilian employment, being valued, uncertainty over the future and concerns over equipment. It was acknowledged in case studies, however, that deployments can be retention-positive; and
- Non-pay measures, such as extended service, fast track promotion and internal transfers were improving manning. Financial Retention Incentives were considered a key short term tool for tackling retention but many were paid to those who would stay anyway.

⁷ *Recruitment and Retention in the Armed Forces* – National Audit Office, The Stationery Office, HC1633-I, 3 November 2006.

3.32 The NAO observed that both military judgement and costs drive decisions to implement recruitment and retention measures, that the cost-effectiveness of measures was difficult to assess and that information gaps existed on training and “through life” costs. The NAO concluded that short term retention measures represented better value for money than recruiting and training personnel but that addressing complex structural measures, such as stability, will prove more effective over the longer term. The report made a series of recommendations summarised as:

- Improving information through more detailed and timely manning and costs data by trade and more focused Attitude Surveys. Specifically, there should be better cost benefit analyses of recruitment and retention measures;
- Reviewing targets including manning requirements against operational commitments, retention targets for Operational Pinch Points and reassessing harmony guidelines; and
- Recommended actions including more stable working patterns, decoupling rank from pay for specific recruitment and retention problem areas, lateral recruitment, fast track promotion, commitment to (and funding of) long term Service Personnel Plans, and maintaining recruitment levels when restructuring.

3.33 We welcome the NAO’s Report and its balanced analysis of current recruitment and retention concerns. The NAO Report reflects the themes and conclusions of our recent reports as well as the broad thrust of MOD’s evidence for this report. The focus on Operational Pinch Points and case studies reinforces the use of targeted measures to improve retention which we explore in Chapter 4. We particularly welcome the emphasis on greater cost benefit analyses of recruitment and retention measures and ask MOD to pursue this in reviewing FRIs. We look forward to MOD’s response to the NAO’s recommendations in future evidence.

Commitments

3.34 MOD’s strategic management evidence drew attention to the high levels of operational commitments continuing to exceed planning assumptions. The Armed Forces were resourced to sustain one “medium scale” and two “small scale” operations⁸ but had operated above this level for the last five years. As at 11 September 2006, 8,236 personnel were committed to operations in Iraq, 5,709 in Afghanistan and 829 in the Balkans, plus, at 31 August 2006, a further 8,121 in Northern Ireland. Around 24,000 Service personnel were committed to operations in September 2006 – representing 13 per cent of the Armed Forces. The major deployment to Afghanistan in June 2006 saw the highest level of deployment (28,400 or 16 per cent of personnel) since the height of operations in Iraq during 2003. The NAO Report on recruitment and retention confirmed that the Armed Forces had **exceeded** Defence Planning Assumptions since 2001.

3.35 Within the overall picture on commitments, MOD pointed to those groups most heavily involved in operations, including the Royal Marines, the Infantry, Medical Specialists and elements of the Support Helicopter Force. Harmony guidelines were being breached with the Army reporting almost 15 per cent of personnel exceeding 415 days involuntary separation over 30 months and the RAF seeing an increase to 4.6 per cent in the proportion of personnel on detached duty for more than 140 days in a 12-month period. Average tour intervals in the Army, set at 24 months, had reduced between March and June 2006 in each of the Infantry, Royal Armoured Corps, Royal Artillery,

⁸ Definitions of medium and small scale operations vary according to the nature of the task – the *Defence Strategic Guidance* sets out the various scales for each of the Services.

Royal Engineers, Royal Signals and Royal Logistic Corps. However, the Royal Navy had generally managed to minimise breaches of harmony guidelines. MOD concluded that recruitment, retention and restructuring all had a part to play in rebalancing commitments.

- 3.36 The House of Commons Defence Committee reported on operations in Iraq in August 2006⁹. The Defence Committee highlighted concern at the deteriorating security situation in South East Iraq, concerns over equipment (e.g. protection for Snatch Land Rovers and the shortage of helicopters) and the pressures on Service personnel from operational overstretch. The latter point was evidenced by dual deployments to Iraq and Afghanistan, pressures on helicopter crews, routine breaches of harmony guidelines, the impact on Pinch Point trades, shortages of Medical Officers and doubts over whether the reliance on Reservists' was sustainable. The Defence Committee observed concern among personnel at the structure and level of allowances and posited whether personnel should expect "*financial recognition for active service overseas*". It concluded by asking whether the Armed Forces were "structured, trained and equipped to fulfil the role envisaged for them in the Strategic Defence Review" – the answer being, in its view, at the "*heart of Government Defence policy*".
- 3.37 In December 2006, the House of Commons Defence Committee's analysis¹⁰ of MOD's Annual Report and Accounts 2005-06 commented on the "understandable" deterioration of MOD's performance in generating forces given levels of operational deployments. It considered that manning levels had only been achieved because of a reduction in requirement and that MOD needed to revise Defence Planning Assumptions to take account of increased operational activity. The Defence Committee concluded *inter alia* that, with continued undermanning, there is "*a clear danger that the Armed Forces will not be capable of maintaining current commitments over the medium term*".
- 3.38 Our recent reports have commented on the growing concern about the mismatch between manning levels and the level of commitments. During this review, these independent reports highlighted the operational pressures placed on the Armed Forces and the impact on recruitment and retention, so reinforcing our concerns.

Operational Pinch Points

- 3.39 MOD reported on a number of specialist groups in each Service where the level of operational commitments and manpower shortages created pressure. In total the evidence pointed to over 80 Operational Pinch Point Trades – 18 in the Royal Navy and Royal Marines, 24 in the Army and 41 individual areas in the RAF. Proportionately, these represent 14 per cent of the Army and 45 per cent of the RAF requirements (figures were not available for the RN). This is consistent with the NAO Report. The Secretary of State commented in oral evidence that all employers faced similar challenges in competitive specialist fields although the Services were required to "grow their own" and therefore needed improved recruitment and training, greater flexibility within ranks and across posts, and targeted financial incentives. MOD's evidence outlined the main groups in each Service and the measures in place or planned to alleviate the shortages.

⁹ *UK Operations in Iraq* – House of Commons Defence Committee, The Stationery Office, HC1241, 10 August 2006.

¹⁰ *MOD Annual Report and Accounts 2005-06* – House of Commons Defence Committee – Second Report of Session 2006-07, The Stationery Office Limited, HC57 (incorporating HC1655, Session 2005-06) 13 December 2006.

Royal Navy

- 3.40 The RN considered that it was significant manpower deficits and resulting gapping, rather than current levels of operational tempo, that posed the greatest risk to operational capability. The RN policy of not permitting breaches in individual harmony guidelines masked the true effect of manning shortages. It had a series of shortage groups including Royal Marine Other Ranks (see Chapter 4 for details), Warfare Branch Leading Hands and Petty Officers, Aircraft Engineering Technicians and Leading Aircraft Engineering Technicians, and Leading Aircraft Controllers. Overall, the RN pointed to the lasting effects of freezing recruitment in the 1990s and the difficulties of retaining personnel in the first 10-12 years and under the 2nd Open Engagement¹¹. The main focus of mitigating action was on rebalancing structures and faster promotion.
- 3.41 For Submariners, despite the success of FRIs and other measures under the 2002 Submariner Manning and Retention Review, shortages persisted for Nuclear Watchkeepers (particularly Category B where the FRI had been extended to 2008), Lieutenants (Warfare Branch), Marine Engineering Artificers and Medical Assistants (now receiving a £10,000 retention bonus for three years return of service). RN Aircrew shortages persisted with a doubling of the Voluntary Outflow rate (see Chapter 4 on the extension of the Aircrew FRI). Shortages of Flying Instructors were also having an impact on developing capability in the Joint Force Harrier and Merlin Helicopter Force.

Army

- 3.42 The Army reported that it was managing the range of Operational Pinch Points and that manning deficits for most had reduced in 2005-06. It was concerned, however, for those trades that carried a disproportionate burden of operational commitments. A FRI was proposed for Infantry Other Ranks but specific concerns were emerging at Corporal, and to a lesser extent at Sergeant, for Royal Electrical and Mechanical Engineers (REME) Vehicle Mechanics, REME Armourers, REME Recovery Mechanics and Royal Logistic Corps (RLC) Ammunition Technicians. Other manning deficits were significant in the RLC trades, Royal Engineers, Intelligence Corps and the Army Medical Service. Deficits in Royal Signals' manning continued, notably Information Systems Engineers (at Corporal and Sergeant) and Foreman of Signals (at Staff Sergeant).
- 3.43 As part of the measures to address manning shortages during 2005-06, the Army awarded 358 Golden Hellos, 26 Re-Joining Bounties and 200 Transfer Bonuses for those moving into Operational Pinch Points. As an indication of the effectiveness of short term measures, the manning position for Army Aircrew had improved with a surplus of Lynx and Gazelle Aircrew leading to withdrawal of the FRI in April 2006, a year earlier than planned.

Royal Air Force

- 3.44 Manning deficits within many RAF Operational Pinch Points had grown in 2005-06 despite management action, including targeted drawdown and redundancy programmes. Frequency of operational detachments and management of expectations during a period of uncertainty were key retention factors. Deficits were reported across a range of Flying, Ground and Support Branches. Revised Commitment Bonuses, continuance of service, re-enlistment, Aircrew FRIs and a Senior Aircraftsman Firefighters' FRI (to be introduced during 2007 at £9,000 for three years return of service) were seen as the main tools to manage Operational Pinch Points.

¹¹ Extension of service beyond the Immediate Pension Point for selected personnel. From 1 November 2006, the 2nd Open Engagement was replaced by the Extended Career (between 2 and 15 years) alongside new Full Career and Tailored Career arrangements.

3.45 Despite reducing Aircrew manning requirements, significant deficits remained among Junior Officer cadres. The remaining FRI at the Immediate Pension Point continued to attract a high take-up in 2005-06 (77 out of 93 eligible personnel) although numbers of Fast Jet Squadron Leader Pilots were a concern (see Chapter 4 for the extension of the FRI). Many Aircrew continue to “keep their options open” with promotion prospects an important factor for retention. Changes to Non-Commissioned Aircrew (NCA) requirements and cross-training had alleviated some manning concerns although shortages persisted. Take-up of the NCA FRI during 2005-06 was very high (54 out of 56 eligible personnel) and the FRI was withdrawn from April 2006 as manning within the cadre became more robust. The Professional Aviator Pay Spine continued to provide the RAF with some control over cockpit manning – take-up since its introduction was 74 per cent for Officers and 100 per cent for NCA. Comparative figures were 98 per cent take-up in the RN and 76 per cent of Army Officers and 94 per cent of Army NCOs.

Leave

3.46 In response to our 2004 Report, MOD developed harmonised performance indicators to monitor individuals’ annual and post operational leave, which are reported against on an annual basis. These are: (i) *annual leave – manage leave to ensure that Service personnel do not lose any of their annual leave*; and (ii) *post operational leave – manage leave to ensure that Service personnel are able to take their full entitlement of operational leave*. Performance against these indicators in 2005-06 was mixed: while the RN and Army saw a fall in the number of days leave lost the RAF saw a marginal increase; the Army surpassed its target for post operational leave but the RAF and RN undershot their targets. The table below summarises the results of the leave survey between 2000-01 and 2005-06.

Table 3.1: Annual leave taken, lost and carried forward by Service personnel, 2000-01 – 2005-06

	2000-01	2001-02 ¹²	2002-03	2003-04	2004-05	2005-06
Average number of days annual leave taken	27.3	25 Army 22.9 RAF	26.5	27.6	28.1	27.2
Average number of days annual leave lost	1.8	5 Army 5.6 RAF	2.8	2.3	1.7	1.7
Personnel losing at least 1 day of annual leave	23%	55% Army N/A RAF	32%	26%	26%	23%
Average number of days annual leave carried forward ¹³				4.2	3.8	4.4
Proportion of personnel reported having to change their leave plans for Service reasons	48%	53%	53%	51%	44%	40%

¹² DASA encountered unforeseen difficulties whilst capturing the RN data electronically, hence no data was available and no tri-Service comparisons could be made.

¹³ Annual Leave carried forward statistics calculated for the first time in 2003-04.

3.47 The 2005-06 leave survey painted a mixed picture:

- The average number of annual leave days taken in each of the Services has fallen;
- The average number of days annual leave lost¹⁴ was unchanged;
- Overall, annual leave carried forward averaged 4.4 days, up from 3.8 in 2004-05. There were large differences between the Services: 2.0 days were carried forward in the RN, 2.5 days in the Army and 10.1 days in the RAF (the latter reflecting the RAF automated leave records system); and
- The proportion of personnel changing leave plans for Service reasons¹⁵ decreased to 40 per cent – the lowest proportion since data were first collected in 1999-2000.

3.48 After year-on-year improvements in the number of days annual leave taken and the number of days lost, the 2005-06 survey suggests that the impact of steps taken to proactively manage leave might be reaching the limit of their effectiveness, especially given the current operational pressures and manning levels.

3.49 The evidence from the survey echoes the views heard on our visits that, although leave is generally managed well by the Services, there remain issues around carrying forward and losing leave, especially for those individuals and units under the most pressure. In addition, the quality and timing of leave, the ability to take leave when required or to do so without restriction of movement while on leave, remain important. Although we welcome the reduction in the proportion of personnel having to change leave for Service reasons, there remains a high proportion of personnel having to take such action. The Continuous Attitude Surveys bear this out in the Army (where only 52 per cent of Officers and 32 per cent of Soldiers were satisfied with the opportunity to take leave when they want it) and the RAF (where 42 per cent of those not able to take their full leave cited Service commitments as the reason). We will continue to monitor leave arrangements, particularly restrictions on leave, in reviewing X-Factor for our 2008 Report.

Working hours

3.50 Table 3.2 shows information taken from DASA's Survey of Working Patterns for the period from 2001-02 to 2005-06. These figures include personnel deployed on operations.

Table 3.2: Average weekly working, duty and unsocial hours for Service personnel, 2001-02 – 2005-06

	2001-02 ¹⁶	2002-03	2003-04	2004-05	2005-06
Average working hours	47.3	47.1	47.7	47.3	46.5
Average hours on duty	73.3	73.0	70.8	71.3	67.4
Average number of unsocial hours	11.0	9.6	9.9	9.4	8.6
Percentage of personnel working over 40 hours per week	79%	75%	69%	73%	62%

¹⁴ Service personnel are able to carry forward, from one leave year to the next, up to 15 days of untaken annual leave – lost leave represents untaken leave in excess of 15 days.

¹⁵ DASA Survey of Working Patterns 2005-06.

¹⁶ DASA revised figures for 2001-02 taking account of the correction of a programming error and a change in methodology.

3.51 The results of the 2005-06 survey showed that:

- Average weekly working hours have decreased from 47.3 in 2004-05 to 46.5 in 2005-06. Falls were observed for both the Army and RAF to 47 and 42 hours respectively but the RN saw average weekly working hours rise to over 51;
- Average weekly hours on duty are down by almost four hours from 2004-05 and have fallen by almost six hours since 2002-03;
- The average number of unsocial hours worked by personnel has fallen below nine hours per week for the first time since 2000-01;
- The proportion of personnel working over 40 hours per week has fallen by 11 percentage points from 2004-05;
- The proportion working excessive hours (defined as working 70 hours or more a week) varies by rank and Service with a tri-Service figure of 9 per cent. The Army and RAF both witnessed a reduction though the proportion working excessive hours in the RN increased from 16 per cent to 20 per cent in 2005-06; and
- 23 per cent of RN Junior Ranks/Rates were working excessive hours with 25 per cent of RN Junior Officers and 17 per cent of Army Junior Officers similarly affected.

3.52 Within the single Services:

- The RN commented that the increase in working hours was a concern, especially to Junior Rates and Junior Officers, which supports feedback from our visits;
- The Army welcomed the slight reduction in working hours but stated that it must be viewed in the context of the unusually high and sustained tempo of operations. The Army also commented that the survey did not capture evidence as to the intensity of work within the reported working hours, which had increased significantly; and
- The RAF stated that the small reduction in working hours should be balanced against the fact that more time was spent at work due to leave not being taken.

3.53 MOD commented that while the evidence shows signs of working hours reducing they are still relatively high. Sustained commitment continues to result in average weekly hours close to the maximum 48 hour week recommended by the EU Working Time Directive, with high proportions of personnel working excessive hours and on duty for periods far in excess of civilian counterparts. MOD added that with no sign of abatement in the operational situation there is a significant risk that working hours would increase in future. Average working hours in the military continue to be well in excess of those in civilian life. The Labour Force Survey¹⁷ indicates an average working week for full-time workers of 37.2 hours (38.9 for men and 34.0 for women). Personnel on our visits often complain of long working hours, in contrast to the average working hours emerging from the survey results. We are aware that working hours in some units and for some individuals far outstrip the averages in the survey. We ask MOD to ensure that the samples used in the survey allow appropriate coverage of the full range of working circumstances in the Armed Forces.

¹⁷ First Release: *Labour Market, December 2006* – Office for National Statistics, (Table 7) for Aug-Oct 2006.

3.54 Although the Armed Forces are exempt from the National Minimum Wage (NMW), which came into effect on 1 April 1999, Ian McCartney, the then Department of Trade and Industry Minister of State, stated that “...the current Review Body arrangements are flexible enough to provide a sufficiently robust arrangement to provide a fair level of remuneration for the Armed Forces and at the same time ensure that Services pay does not fall below the National Minimum Wage”. Assessing the position against the NMW is based on both remuneration and hours worked and is therefore complicated by the unique circumstances of Armed Forces’ operations. The NMW in relation to Junior Ranks’ pay has been the subject of extensive media interest and was also widely raised during our visits. During discussions with the Secretary of State and PPOs it was stated that the Armed Forces’ exemption was predicated on being able to undertake military operations where personnel worked intense, concentrated periods of time often in dangerous and difficult conditions. However, MOD commented that compliance with the “spirit” of the NMW remained a priority.

3.55 We continue to assess the position of Junior Ranks against the NMW as part of our terms of reference on broad pay comparability. In 2006-07, the lowest weekly rate paid to a trained Junior Rank is £274.69 using an average working week of 45.1 hours¹⁸. Table 3.3 shows NMW salaries during 2006 based upon Junior Ranks’ average working hours, and details of the number of hours required to work before Junior Ranks’ pay falls below the NMW. Using October 2005 rates Junior Ranks could earn below the NMW if they consistently worked 54 hours and above (aged 22 and over) or 65 hours and above (aged 18-21). Following the introduction of new NMW rates on October 1 2006 the number of hours required to fall below the NMW reduces to 51 hours and 62 hours respectively.

Table 3.3: Weekly salaries at National Minimum Wage hourly rates

Age	NMW Rate as at	NMW Rate	Salary at NMW ¹⁹	No. of hours worked to be below NMW ²⁰
18-21	Oct 05	4.25	191.68	64.6
	Oct 06	4.45	200.70	61.7
22+	Oct 05	5.05	227.76	54.4
	Oct 06	5.35	241.29	51.3

Pay Range 1 restructuring

3.56 We have responded to the recruitment, retention and pay comparability evidence relating to Junior Ranks through differential pay recommendations for Pay Range 1 (lower) in four of our last five reports. In our 2006 Report, we asked MOD to review the package for this group to enable us to assess whether a more targeted response was appropriate.

¹⁸ DASA Survey of Working Patterns 2005-06.

¹⁹ Calculated using average weekly working hours for Junior Ranks of 45.1.

²⁰ Calculated using a lowest weekly pay rate for Junior Ranks of £274.69.

- 3.57 In response, MOD put forward two options. First, MOD proposed changes to the structure of Pay Range 1. The changes would target increment Levels 1 and 2 in Pay Range 1 (lower) and would maintain the alignment between Level 1 on the lower and higher bands. MOD proposed setting Level 1 at the current Level 2 rate and Level 2 midway between the new Levels 1 and 3. Pay progression from Level 3 would be unchanged and, therefore, there would be no compression of pay ranges but the differential between higher and lower bands would be narrowed in the first two years of service. MOD set these proposals in the context of what it saw as an affordable overall pay recommendation that was guided by the CPI inflation target. MOD's second option was to defer consideration of Pay Range 1 issues for inclusion in its Strategic Remuneration Review.
- 3.58 In support of its proposals for immediate change, MOD argued that, although recruitment was generally holding up, the quality of recruits varied by Service and many priority/specialist trades had recruitment difficulties. While the evidence pointed to the difficulty of isolating pay as the single most determinant for recruitment, MOD stressed the need for a wage "offer" to meet the challenges of a diminishing supply of young people, increasing competition for those with better qualifications and direct competition with uniformed public services who offered better starting pay on completion of training and had different entry standards. Voluntary Outflow for Privates/Lance Corporals (and equivalents) in 2005-06 had been the highest among Other Ranks for five years. MOD emphasised the Armed Forces' exemption from the National Minimum Wage but expressed concern at the negative comparisons with NMW rates presented in the media, particularly for personnel on operations. We assess the position against the NMW in paragraphs 3.54 and 3.55 above.
- 3.59 We said in our 2006 Report that Junior Ranks' pay required review. We continue to consider urgent action is required if the Services are to remain competitive in a changing labour market. To delay any action pending MOD's Strategic Remuneration Review would carry significant risks for recruitment and retention. We therefore welcome the proposals for targeted restructuring of Pay Range 1 as part of MOD's wider efforts to improve the package for Junior Ranks to which the Secretary of State and the PPOs gave priority in oral evidence. MOD's proposals are consistent with our pay comparability evidence which shows comparatively generous starting pay offered by uniformed civilian services and with the need to ensure military pay can compete with the pay available to young people in civilian employment. Our visits in recent years have also focused on pay levels for the most Junior Ranks reinforced by views from Senior NCOs and Officers.
- 3.60 In our view, restructuring Pay Range 1 taken together with other targeted measures covering the Operational Allowance, the Longer Separation Allowance, and FRIs for the Infantry and Royal Marines will help the Services to meet challenging recruitment targets and maximise the pull through of personnel during training. We therefore recommend the targeted restructuring of Pay Range 1 updated by our overall pay recommendation from 1 April 2007. The recommended rates are at Recommendation 2 and Appendix 1.

Our military pay recommendations for 2007-08

- 3.61 Three main considerations underpin our recommendations on military pay: (i) the need to recruit, retain and motivate suitably qualified people taking account of the particular circumstances of Service life; (ii) the need for military pay to be broadly comparable with civilians; and (iii) economic and affordability considerations, including the funds available to MOD and the Government's inflation target. We consider below the key evidence relating to each of these considerations.

- 3.62 Armed Forces' manning levels will continue to be under significant pressure until April 2008 when the current restructuring is completed. Nevertheless, we note that, although overall manning was within "tolerance" with a deficit of 1.5 per cent at April 2006, the deficit, against a further reducing requirement, had more than doubled to 3.4 per cent or 6,330 personnel by October 2006 – now outside the PSA manning balance target. This worsening position is a major concern given the emphasis in the Government's evidence, and from other sources, on the imbalance between manning and current commitment levels. Manning shortages add to the pressures on personnel. In this context we note that the evidence points to high separation levels, working hours significantly in excess of civilian counterparts and difficulties taking leave.
- 3.63 2005-06 saw an improvement in recruiting, but this only enabled the Services to maintain a static position rather than to achieve the improvements needed to support long term manning balance. Recruitment in 2005-06 achieved only 96 percent of target with an even greater undershoot for the main recruiting arms including the Infantry and Royal Artillery which achieved 83 and 74 per cent of respective targets. The 2006-07 recruiting target remained challenging. There was variable success in recruiting to Operational Pinch Points, including specialist areas. This poses a considerable risk to long term operational capability. Converting recruitment activity into Gains to Trained Strength is critical to achieving the manning requirement levels and the fall of 12 per cent in 2005-06 is in part due to the drawdown but also reflects past recruitment shortfalls.
- 3.64 We are not alone in our assessment that the manning position is fragile. Our conclusions are consistent with recent reports from the NAO and House of Commons Defence Committee which added that commitments had exceeded Defence Planning Assumptions since 2001. The NAO added that it would be some time before improved recruiting would close the manning gap.
- 3.65 The Secretary of State reminded us in oral evidence that the Armed Forces must "grow their own". This means that they are unable to respond relatively quickly to manning shortages as other employers do by, for example, recruiting temporary or short term contract staff or staff from overseas. As the overall number of young people in the workforce reduces and the competition for higher skills increases, the Armed Forces will face increasingly difficult recruitment and retention challenges and, therefore, the competitiveness of the Armed Forces' package in attracting new people and retaining vital skills will become increasingly important.
- 3.66 Recent trends in Armed Forces' recruitment and in the labour market point to the importance of retaining Service personnel. In 2005-06, the overall outflow from the Armed Forces increased for the second successive year to 18,140. This primarily reflected RAF redundancies. However, if we focus on Voluntary Outflow, which provides a clearer measure of retention, we note that it has been on a rising trend in recent years – Other Ranks has increased to 5.6 per cent at October 2006 and Officers to 3.6 per cent (the highest rates since 2001-02). Operational levels and tempo and their impact on personnel and their families continue to influence retention. This is consistently borne out by Continuous Attitude Surveys, the feedback we receive during our visits and, latterly, by the NAO Report. A key issue from our visits, and underpinned in our oral evidence sessions, is whether serving men and women perceive that they are valued by their employer and the nation. Unless they feel their work is valued, the risk to retention will be considerable.

- 3.67 Delivering broad pay comparability is important to recruitment and retention. Our analysis of comparisons based on job weight indicates that comparators' pay movements were between 2.0 and 5.3 per cent at April 2006. This is consistent with our military pay recommendations for 2006-07 and is supported by median settlements across the economy remaining around 3 per cent over the last three years. From our analysis of comparators' pay levels, we conclude that pay for Other Ranks and Junior Officers remains broadly comparable, although we note the noisy pay environment for Junior Ranks' comparators. Our analysis suggests that Lt Colonels' to Brigadiers' (and equivalents') pay is behind civilian comparators although civilian bonuses can cloud the comparison. This is an area that we wish to explore in greater depth for our 2008 Report.
- 3.68 Service personnel frequently tell us that other uniformed civilian services are often in direct competition for recruits and can exert a significant pull at an increasingly early career point. Our comparisons with uniformed civilian services indicate that the packages available to them continue to compare favourably to the Armed Forces, particularly for Junior Ranks.
- 3.69 Our comparisons for young people showed that military starting pay is below civilian earnings for 18-21 year olds but compares favourably after completion of training. The pattern is repeated for 22-29 year olds where Privates/Lance Corporals' pay is behind that of civilians but Corporals' pay is greater. Comparative pay levels for young people in the Armed Forces have aroused increasing media interest. While the Armed Forces are exempt from the National Minimum Wage, our comparisons show that the NMW rates could be breached for those aged 22 and over if they worked above 51.3 hours per week and that the position has deteriorated with successive increases to NMW rates. We consider military starting rates need to be competitive to contribute to effective recruitment and that pay progression is essential to retention in the early years to promote a military career and to provide a reasonable return on the Services' considerable investment in training.
- 3.70 The Government set its approach to public sector pay against a background of sustained economic growth, low inflation, the fiscal context and recent improvements to public sector pay. It concluded that pay recommendations should be consistent with achieving its CPI inflation target of 2 per cent. We note the Government's focus on "total reward" within public sector pay and that our remit specifically covers an assessment of comparability which takes account of many elements within "total reward", including base pay, pensions, pay additions, allowances, non-pay benefits, and accommodation and other charges.
- 3.71 In reaching our recommendations we are aware of the need to achieve an appropriate balance between the overall pay recommendation and targeted pay measures to maximise the impact in terms of recruitment, retention and motivation. MOD proposed, and in some cases implemented, a number of targeted pay measures in 2006, and has embarked on a pay development agenda to support its personnel strategies. We are aware of MOD's budgetary constraints, and the financial context of the forthcoming Comprehensive Spending Review. We were alerted to rising Defence costs, the need to find continuing efficiency savings and the effect on the Defence programme of pay recommendations above an "affordable" level of 2 per cent.

- 3.72 In assessing the economic context for our recommendations, we have drawn on a range of economic indicators. The Government's preferred measure of inflation, CPI, was at 2.7 per cent in November 2006 with RPIX inflation at 3.4 per cent and RPI inflation at 3.9 per cent. However, the Bank of England forecast that CPI should fall back towards the target of 2 per cent during 2007. Independent forecasters also pointed to RPI falling in 2007 although, depending on any change to interest rates, at a slightly slower rate than CPI. We note that inflation increases had not, as yet, influenced median pay settlements which remained at around 3 per cent. The Average Earnings Index (AEI), excluding bonuses, increased by 3.8 per cent in the three months to October 2006 with the public sector increase at 3.1 per cent and the private sector increase at 3.9 per cent.
- 3.73 We conclude that, in the context of broad comparability and achieving a balanced package to promote recruitment, retention and motivation, we should recommend that military salaries be increased by 3.3 per cent for 2007-08. In our view, this would be an appropriate response to the individual Services' priorities, would complement targeted measures, would support recruitment in a competitive market, and would motivate, value, and thereby retain, personnel against a background of high operational commitments.

Recommendation 1: We recommend that the military pay ranges under Pay 2000 for Other Ranks and Officers be updated by 3.3 per cent from 1 April 2007. The annual salary scales arising from our recommendations are at Appendix 1.

Recommendation 2: We recommend the targeted restructuring of Pay Range 1 from 1 April 2007 as follows (see paragraphs 3.56 to 3.60):

- The rate for Pay Range 1 (higher and lower band) increment Level 1 be increased to £15,677; and
- The rate for Pay Range 1 (lower band) increment Level 2 be increased to £16,111.

The annual salary scales arising from our recommendations are at Appendix 1.

Chapter 4

OTHER PAY MEASURES

Introduction

4.1 In Chapter 3 we set out the evidence to support our recommendations on basic pay. There are, however, a number of other pay measures in the overall remuneration package which respond to specific market or other pressures on recruitment and retention. In this chapter we report on these targeted measures including new FRIs for Royal Marines and Infantry and an extension to the Aircrew FRI, measures for specific groups, Specialist Pay and Compensatory Allowances.

Financial Retention Incentives

4.2 We were asked to recommend on three FRIs: Royal Marine Other Ranks; Infantry Other Ranks; and Aircrew. The Secretary of State and the PPOs, in oral evidence, attached great importance to these manning groups as priorities for 2007-08 and their essential contribution to operational capability.

Royal Marine Other Ranks

4.3 MOD proposed an FRI for Royal Marine Other Ranks of £10,000, which would include existing Commitment Bonuses, targeted at those with four years' service. The FRI would attract a three-year return of service and would include, for 2007-08 only, *pro rata* payments for those with five and six years' service. MOD's case was predicated on significant increases in the Royal Marine Other Ranks' manning requirement – up 6.5 per cent in the last six years as a result of growing operational demands – and the 9 per cent, or 550 personnel, manning deficit at April 2006. RM operational units were only at 85 per cent manning with a subsequent impact on operational capability. Deficits were mainly among those with four to eight years' service and around 50 per cent leave by six years' service. The RM Continuous Attitude Survey pointed to dissatisfaction with pay levels and allowances along with the impact of operational tempo and separation. Additional funding had improved recruiting but only to 95 per cent of target in a competitive market including direct competition from uniformed emergency services. MOD told us that, if recruitment and retention targets were not met and Voluntary Outflow not reduced, RM full manning could be as far away as 2020.

4.4 MOD reported that the Navy Board Personnel Change Programme was working towards a long term sustainable structure. In the meantime, extending service by three years would enable the RM to achieve full manning by 2009-10, allow a managed reduction in recruitment and Gains to Trained Strength targets with associated cost savings, increase the number of experienced people available for promotion to Corporal and Sergeant, reduce the risk to operational capability, and improve RMs' quality of life by reducing individuals' deployment. MOD considered that the level of the FRI would reflect the value of other financial retention measures and, alongside Long Service Advance of Pay, help Marines with house purchase. MOD estimated that 785 personnel would take-up the FRI at a cost of £5.6 million in 2007-08 and £6.4 million from 2008-09 to 2010-11. Estimated savings of £5.9 million in 2010-11 and £8.7 million per annum from 2011-12 would be generated from reduced recruitment and training costs.

- 4.5 We recognise the increasingly important role the Royal Marines play in delivering operational capability and the risks of continued undermanning. Financial recognition, the importance of retaining trained Marines and the value of their skills to civilian employers have been the main themes of our visits to the Marines in recent years. We consider MOD's solution makes effective use of existing Commitment Bonuses, is tightly targeted and demonstrates long term cost-effectiveness. We also note that there will be a *pro rata* FRI for those with five and six years' service in 2007-08 only and contingencies for those not qualifying for the FRI. We recommend the FRI for four years and request annual updates on its effectiveness in achieving the sustainable experience profile, further cost benefit analysis and progress with long term measures.

Recommendation 3: We recommend the introduction of a Royal Marine Other Ranks' Financial Retention Incentive of £10,000 (including existing Commitment Bonuses) from 1 April 2007, for a period of four years, for those with four years' service subject to a three-year return of service.

Infantry Other Ranks

- 4.6 MOD sought an Infantry Other Ranks FRI of £4,500 targeted at those with four years' service. Because of the different approach to Commitment Bonuses across Army cap badges, they would remain in place for existing personnel and the FRI would complement the five and eight-year bonuses. The total value, over eight years' service, would be £10,000. MOD pointed to a deficit of 1,160 (or 6.3 per cent) of Privates and Corporals against 2006 manning requirements. Forecasts suggested that the Infantry deficit would worsen to 1,760 soldiers by April 2008 and would be 10 per cent under strength until 2011. The FRI would be taken up by an estimated 1,520 personnel.
- 4.7 The evidence showed that only 22 per cent of the Infantry served beyond the four-year point compared to 32 per cent of the Army as a whole and Infantry Voluntary Outflow was 6.5 per cent compared to the Army average of 5.5 per cent. Recruiting undershot the 2005-06 target by 17 per cent, and only 74 per cent of the Gains to Trained Strength target was achieved and was forecast to be 20 per cent short of the 2006-07 Gains to Trained Strength target. Retention concerns centred around operational tempo where tour intervals were reducing and 15.4 per cent of the Infantry breached harmony guidelines. MOD pointed out that Infantry manning difficulties needed to be viewed against their impact on operational capability, a reducing civilian recruiting pool and the need to improve pull through to Corporal. The FRI was required to improve retention while other measures in the Infantry Manning Plan took effect, including a high profile recruitment campaign, recruitment of non-UK nationals, wider use of Full Time Reserve Service, and measures to boost re-enlistment and re-joining. We note that many of these measures have been used in the past and yet the Infantry remains undermanned. The Army will therefore need to review these measures regularly to ensure they will be effective in the long term. 2007-08 FRI costs are estimated at £7.8 million with a total cost over four years of £28.7 million.
- 4.8 In the light of operational requirements and the Army drawdown, the FRI appears an appropriate mechanism to extend service. However, in recommending the FRI we would point out the need for effective communications within the Army to manage the complicated arrangements, particularly to clarify the relationship to Commitment Bonuses. The FRI will run for four years and over that period we expect to receive annual updates on the FRI's contribution to achieving a sustainable experience profile, a cost benefit analysis, and measures for the longer term to boost recruitment and retention.

Recommendation 4: We recommend the introduction of an Infantry Other Ranks' Financial Retention Incentive of £4,500 from 1 April 2007, for a period of four years, for those with four years' service subject to a two-year return of service.

Aircrew

- 4.9 The Aircrew Retention Review in 2001 introduced a package of improvements to bolster Aircrew manning, including FRIs (which were re-defined in 2005 and 2006), a Professional Aviator Pay Spine and a series of non-remuneration measures. However, Senior Officer Aircrew manning difficulties persist, with: 72 per cent of RAF Squadron Leader Fast Jet Pilots (18 out of 25) aiming to leave at the Immediate Pension Point and another 14 through Voluntary Outflow; a three-fold increase in Voluntary Outflow in the last three years; and RN manning showing an 18 per cent deficit up to Lt Commander and 28 per cent between Commander and Commodore. MOD therefore proposed a three-year extension to the Aircrew FRI to retain sufficient Career Stream Senior Officer Aircrew to maintain the viability of the senior staff structure. It was anticipated that 47 RAF Aircrew and 22 RN Aircrew would take-up the FRI. The £50,000 FRI at the Immediate Pension Point would be continued for all RAF and RN Career Stream Senior Officer Pilots and selected Weapons Systems Officers (WSOs). Senior Officer Pilots only would attract an additional £50,000 payment.
- 4.10 MOD highlighted that RAF restructuring will reduce squadrons and restrict command opportunities thereby influencing retention. At the same time, the civilian commercial aviation sector was expanding and offering increasingly attractive financial and career packages. Against this background, MOD concluded that the FRI was required for Career Stream Senior Officers with an anticipated take-up by 60 per cent of eligible Pilots and 80 per cent of WSOs/Observers. Costs were anticipated at £3.6 million in 2007-08 and £14.6 million over three years (depending on take-up) compared to, for example, the £6 million costs of training and retaining a Harrier Pilot.
- 4.11 Concerns over RAF and RN Aircrew retention have been an enduring theme in our recent reports. Despite an array of temporary and permanent financial measures, there continues to be a strong pull from the commercial market, particularly during the RAF drawdown and against the background of high levels of operational commitment. We recognise the requirement to retain Career Stream Aircrew and welcome the intention that those taking the FRI should occupy Flying-Related posts. We consider the FRI is narrowly targeted and clearly cost-effective compared to the costs of recruiting, training and retaining new Aircrew. The extended payment also offers an important incentive compared to the pension gratuity. In recommending the FRI, we request annual updates on proposed work on pension arrangements between the Professional Aviator Pay Spine and the Career Stream, developing sustainable experience profiles, improving numbers through the training pipeline and a cost benefit analysis.

Recommendation 5: We recommend the £50,000 Aircrew Financial Retention Incentive be extended from 1 April 2007 for three years payable to RAF and RN Career Stream Senior Officer Aircrew at the Immediate Pension Point for a five-year return of service. An additional £50,000 will be payable to RAF and RN Career Stream Senior Officer Pilots only.

Specific groups

4.12 We recommended in our 2006 Report that MOD should review the position for Service Nurses and Allied Health Professions and present any pay proposals for this report. We comment on MOD's evidence for Allied Health Professions below but we are disappointed to note that evidence on Service Nurses has been delayed. We hope to report on Nurses in our Supplementary Report on the Defence Medical Services. We also called for evidence to review Reserves' Bounties.

Allied Health Professions

- 4.13 MOD updated us on the manning and pay position for Allied Health Professions (AHPs) and proposals for specific pay arrangements under JPA. Military AHPs cover 14 different cadres and, within those cadres, varied jobs and careers across the three Services. Pressure was building from the NHS where 99 per cent of non-Medical staff had moved to "Agenda for Change" pay arrangements delivering significant average earnings growth. While Continuous Attitude Surveys indicated military AHPs were broadly content with salary comparisons, MOD's assessment against the NHS showed a mixed picture. The comparisons suggested that, generally, Other Ranks were ahead of the NHS until Senior NCO level where military pay flattened out and fell behind the NHS, although this varied considerably according to which NHS pay band was used for comparison. For Officers, military pay was behind the NHS until OF3 where it moved ahead.
- 4.14 MOD predicted manning balance would be achieved by 2010 although 9 of the 14 AHP cadres had manning shortfalls. It added that manning requirements across the DMS were under review and, overall, the RN and RAF were currently in balance. However, the Army had shortfalls mainly among Biomedical Scientists, Operating Department Practitioners, Pharmacists and Radiographers. Despite these shortages, operational commitments were being met at the expense of other roles and with tri-Service support. The three Services considered short term measures were required to address manning including improvements to training, aligning promotion, considering a move to all graduate entrants being Commissioned Officers, improving Direct Entrant terms of service and professional education support. In addition, the RN had introduced a £10,000 retention bonus for Submariner Medical Assistants. MOD concluded that retaining experienced AHPs in the longer term would require pay differences with the NHS to be addressed. To achieve this, separate pay arrangements were proposed to "flexibly" reward military abilities, experience and additional clinical skills. The proposed solution was being considered under MOD's Strategic Remuneration Review and therefore might not be in place until 2011.
- 4.15 We recognise the difficulties MOD faces in addressing the competition for AHPs with new NHS pay and career arrangements. Shortages of military AHPs tend to reflect those more widely in the NHS and early establishment of revised manning requirements would help. Pay comparisons indicate that the NHS will continue to present an attractive option to experienced military AHPs, a view firmly expressed on our visits. However, achieving exact pay comparability across the disparate AHP groups and career paths may prove difficult and therefore MOD's intended flexible approach to a pay solution is welcomed. However, the lengthy delay to implementation will risk further recruitment and retention difficulties. We endorse MOD's proposals to introduce new pay arrangements at the earliest opportunity and call for further evidence under MOD's Strategic Remuneration Review.

- 4.16 We consider, as did those AHPs we met on visits, that addressing career concerns will be equally important to achieving manning balance by 2010. While operational commitments are being met, it is possible that frequent deployments could impact on the training required for career progression and ultimately influence retention. In this regard, we are pleased to note MOD's moves to align training and promotion, to widen the opportunities to commission and to look at Direct Entry routes.

Reserves

- 4.17 In our 2006 Report, we anticipated evidence on MOD's structural review of Reserves' Bounties for this report. MOD's evidence was supplemented by written evidence from the Reserve Forces' and Cadets' Associations (RFCA) and views gathered on our visits to three Reserve units and from Reserves we met during other visits, including those on operations in Iraq. We also held informative discussions with the Assistant Chief of Defence Staff (Reserves and Cadets) and the Director of Reserve Forces and Cadets.
- 4.18 MOD's and the RFCA's evidence highlighted the key role Reserves play alongside Regular Forces as an integral component of the UK's military operational capability. Sufficient numbers of Reserves operationally "fit for role" were critical to meeting operational commitments and the Assistant Chief of Defence Staff (Reserves and Cadets) emphasised the significant changes to the role of a Reservist in recent years. The greater integration with, and support to, Regulars on operations was shown by the 18,000 Reserves mobilised since 2003 to support operations. Reserves were now deployed in 10 countries worldwide.
- 4.19 Serious manning shortfalls existed across the Reserve Forces at 1 May 2006: Royal Navy Reserves (RNR) had a 23 per cent shortfall; Royal Marine Reserves (RMR) 26 per cent; Territorial Army (TA) 11 per cent; and Royal Auxiliary Air Force (RAuxAF) 40 per cent. Outflow for the RNR/RMR remained steady while TA strength was on the increase (up by over 740 in the year to January 2006) following years of decline but RAuxAF leavers continued to outnumber new entrants. Combined single-Service Regular and Reserve recruitment initiatives were underway alongside more traditional recruitment methods. Retention remained a high priority particularly sustaining numbers during the early years of service – 12 per cent of the RAuxAF and 70 per cent of the TA left by the third year of service. All the evidence confirmed the competing pressures of civilian careers and families and, importantly, motivation through access to quality training. The TA was looking to improve the availability, frequency and standards of training, Unit leadership qualities and to better manage new Reservists' expectations for immediate operational deployment following training. Despite the manning fragility, we heard in oral evidence that Reserves' support to existing operations was considered sustainable. The Army had successfully mobilised 1,200 TA personnel per annum and compulsory deployment instruments were used only in exceptional circumstances.
- 4.20 The National Audit Office Report on Reserve Forces¹ concluded that Reserve Forces provided invaluable contributions to operations, with greater integration with Regular Forces, and costs represented good value for money. The NAO recognised MOD's fostering of the requirement for Reserves to serve on operations and improved mobilisation, training and support. However, the NAO made a series of recommendations to sustain Reserve Forces' capability and we look forward to MOD's progress in future evidence to us.

¹ *Reserve Forces* – National Audit Office, 31 March 2006.

- 4.21 In oral evidence, the Assistant Chief of Defence Staff (Reserves and Cadets) commented on the difficulty of achieving single-Service consensus on the future structure of Bounties. A TA survey showed that only 15 per cent of personnel were dissatisfied with Bounty arrangements in the first three years. MOD concluded that the existing structure was appropriate and external factors were more likely to influence retention in the early years. Its work on linking Bounties to operational readiness and basic training standards would need to also consider MOD's review of Reserves' Terms and Conditions.
- 4.22 Against this background, MOD proposed uplifting the Bounties and the Call-Out Gratuity in line with the CPI inflation target pending a periodic review for our 2010 Report. The RFCA requested uplifts in line with the military salary increase with specific increases to the Ex-Regular Reserve Bounty, University Units Bounty and Call-Out Gratuity. MOD responded, in oral evidence, that the level of the Ex-Regular Bounty was appropriate as they had to fulfil different requirements and that as University Units were often oversubscribed encouraging conversion to Reserve Units was a better option than increasing their Bounty. No evidence was provided to support a specific increase to the Call-Out Gratuity.
- 4.23 Our visits emphasised the influence of Bounty payments on retention alongside a range of non-pay considerations. Current manning and the continuing levels of Reserves' support to operations highlight the need to retain personnel, particularly during the early years of service. The Bounties are the main tool to support retention and we therefore consider they should be uplifted in line with our recommendations for the military salary. We look forward to the comprehensive review of Bounties for our 2010 Report and ask that MOD considers further, as the RFCA proposed, whether Bounties could be better tailored to single-Service requirements.

Recommendation 6: We recommend the following rates of Reserves' Bounty from 1 April 2007:

- **Volunteer Reserve Forces Training Bounty – Year 1 £395, Year 2 £868, Year 3 £1,341 and Year 5 £1,556;**
- **Ex-Regular Officers and Other Ranks Training Bounty – £350;**
- **University Units Bounty – Year 1 £135, Year 2 £157 and Year 3 £191;**
- **High Readiness Reserve Bounty – £395;**
- **Sponsored Reserve Bounty – based on the Training Bounty with rates varying between 50 per cent and 100 per cent depending on training commitment; and**
- **Call-Out Gratuity – £473.**

- 4.24 Several other aspects of the Reserves' package were raised with us on visits and in oral evidence. First, the level of Reserves' pay for training nights against the National Minimum Wage. TA personnel argued that pay for a typical two-hour Drill Night was calculated at one quarter of the daily rate and therefore could fall below the National Minimum Wage for a prolonged period, particularly for those not completing training requirements and therefore remaining on the lower pay increments. Our independent calculations suggest that pay for New Entrants and Junior Ranks in Pay Range 1 (lower band levels 1-3 and higher band levels 1 and 2) could be below the National Minimum

Wage. We note in Chapter 3 that the Armed Forces are exempt from National Minimum Wage legislation but would ask MOD to keep this position under review in the light of the potential impact on recruitment and retention of Reserves.

- 4.25 Second, we are due to review X-Factor for our 2008 Report and note that X-Factor for Reserves had remained at 5 per cent since 1970. We were told on visits and in oral evidence that this no longer reflected the reality of Reserve service. Reserves could now reasonably expect to be deployed on operations, face far greater military discipline and encounter the same negative factors of Regular Service life including separation, turbulence, danger and physical injury that could, specifically for Reserves, impact on civilian employment and result in loss of civilian earnings. To balance this, MOD acknowledged the positive elements of Reserve Service, including adventure training, travel and the opportunity to learn a specialist military trade that was highly “saleable” in the civilian sector. We look forward to MOD’s evidence for our X-Factor review covering all types of Reserve service.
- 4.26 Finally, we were told by MOD that active support to civilian employers helped to secure Reserves’ service. MOD considered employer support was “holding firm”, particularly in the public sector which provided 33 per cent of Reservists, adding that £3 million had been invested to improve communications and support.

Specialist Pay

- 4.27 Specialist Pay is an important element of the overall remuneration package. Common payment principles apply based on recruitment and retention requirements for specified posts that attract a market premium and common Reserve Bands with reduced rates for those medically downgraded or who apply for Voluntary Outflow. For this report, MOD provided overarching proposals for Specialist Pay that:
- Rates be increased in line with the CPI inflation target to ensure their recruitment and retention values were not eroded;
 - Reserves will be subject to the common principles of Specialist Pay applying to Regulars following implementation of JPA; and
 - Specialist Pay for Deep and Experimental Diving Tests will be reclassified as a Compensatory Allowance in 2007-08.
- 4.28 As our work programme for this report did not include any periodic reviews of major items of Specialist Pay, our recommendation will cover all rates in Appendix 2. MOD’s request for an increase in line with the CPI inflation target was consistent with its strategic management evidence and the Government’s overall approach to public sector pay. However, Specialist Pay is a very cost-effective measure which we must assess in the light of manning evidence and other developments in the package. Its purpose, under common principles, is to support recruitment and retention, particularly of specialists crucial to operational capability – a theme extensively discussed with Service personnel on our visits. We therefore recommend Specialist Pay rates should be increased in line with our overall pay recommendation. In doing so, we welcome the application of common principles of Specialist Pay for Reserves and note the reclassification of Deep and Experimental Diving Pay as a Compensatory Allowance.

Recommendation 7: We recommend that all rates of Specialist Pay, including Reserve Bands, be increased by 3.3 per cent from 1 April 2007. The recommended rates are set out at Appendix 2.

Compensatory Allowances

Operational Allowance

- 4.29 On 10 October 2006, after consulting with us, the Secretary of State announced a new (tax-free) Operational Allowance to support those on operations in Afghanistan, Iraq, and the Balkans and other personnel undertaking specific duties in prescribed areas. Personnel on RN ships in Iraqi territorial waters would be covered and the eligibility for Aircrew was being determined. The allowance, which was effective from 1 April 2006, would be paid at £2,240 on completion of a six-month operational tour (*pro rata* for shorter and longer tours) to Regulars, Mobilised Reserves and Full Time Reserve Service. The Government had made available £60 million of "new money" to fund the allowance without taking any existing defence funding away from "front line needs". MOD confirmed that the allowance was "*to recognise the increased and enduring nature of danger in specified operational locations, over and above that compensated for in X-Factor*".
- 4.30 In endorsing the new allowance we recognised the importance of early implementation and the targeting at personnel in the front line. The allowance acknowledged that the remuneration package needed to focus better on operations, a view consistently put forward in our discussions with personnel. We also welcomed MOD's assurance that the allowance would not impinge on X-Factor. We look forward to MOD's assessment of the impact of the allowance in future evidence.

Longer Separation Allowance

- 4.31 MOD's evidence proposed the removal of the initial qualifying period of 100-days qualifying separation for Longer Separation Allowance (LSA) from 1 April 2007. MOD cited the high levels of operational tempo and the need to ensure separation was better recognised, particularly for Junior Ranks. The move responds to criticism of qualifying periods in the Services' Continuous Attitude Surveys and that personnel experiencing the same impact of separation were compensated differently – a constant theme on our visits. As an example, at June 2006 only around two-thirds of Army personnel deployed on operations were in receipt of Longer Separated Service Allowance. MOD viewed the change, at a cost of £4.3 million per annum, as part of the overall improvement to the package for Junior Ranks. The Secretary of State and the PPOs all commented, in oral evidence, on the importance of this change to retention. We welcome, and have endorsed, the removal of the initial qualifying period which was then announced by the Secretary of State on 26 November 2006. We welcome also MOD's evidence which helpfully defined Longer Separation Allowance as compensation for separation over and above that in the X-Factor.
- 4.32 As LSA is being phased in for each Service under JPA, we reinforce our view from the 2005 Report that it represents a clearer, better targeted response to separation with higher levels of compensation for those enduring the greatest amount of separation. For this report, MOD asked us to consider whether compensation for separation should be targeted through LSA daily rates. Personnel on our visits also questioned the level of payments and we are aware from Continuous Attitude Surveys of the influence separation has on retention. We note that the RAF and RN moved to LSA during 2006 and that the Army will do so in April 2007. To allow sufficient time to assess the new allowance, we have rescheduled our periodic review for our 2009 Report and will further consider the rates and structure at that point. In the meantime and given the importance of LSA to retention, we recommend LSA rates are increased in line with our overall pay recommendation.

Recommendation 8: We recommend that all levels of Longer Separation Allowance be increased by 3.3 per cent from 1 April 2007. The recommended rates are set out at Appendix 2.

Northern Ireland Resident's Supplement

- 4.33 The Northern Ireland Resident's Supplement (NIRS) is paid to Service personnel to compensate for the diminished quality of life for them and their families when serving in Northern Ireland. NIRS is often perceived as a "cost of living" allowance which it is not. Rather, it compensates for factors that arise from the security situation including the personal security risks, additional stress and strain, restrictions on leave, freedom of movement and association, long and unsociable working hours, and restrictions on spouse employment.
- 4.34 MOD's review highlighted the staged normalisation process in Northern Ireland to 2012 with plans to reduce numbers of Service personnel to 5,000. Operational status would cease from 31 July 2007 and the Northern Ireland package revised accordingly following MOD's Strategic Remuneration Review. In the interim, MOD concluded that the security situation continued to threaten Service personnel and the restrictions imposed on them and their families persisted justifying the continued payment of NIRS which it proposed should be increased in line with the CPI inflation target. It considered that NIRS should be reviewed biennially until "full normalisation" in 2012. MOD added that the 28-day "out-of-theatre" rule would be removed under JPA so ending payment for single and unaccompanied personnel but accompanied personnel would retain NIRS if their families remained in Northern Ireland.
- 4.35 During our visit to Northern Ireland, personnel, their families and HQNI Senior Staff highlighted the importance of NIRS in attracting and keeping personnel on Northern Ireland tours, particularly given other revisions to the package. The evidence reinforced the security situation and continuing high levels of military support to the NI Police Service especially during the marching season, when full manning was required and leave taking restricted. The security situation continued to restrict freedom of movement and association for Service personnel and their families. Average Army working hours² in Northern Ireland were down from 51.8 hours in 2004-05 to 47.1 hours in 2005-06 but remained above the overall tri-Service average weekly hours of 46.5 hours per week and Army average of 46.9 hours per week. Army personnel spent an average of 85.6 hours per week on duty in NI of which 32.6 hours were spent on-call. Our visit emphasised that spouse employment continued to be limited compared to service elsewhere and was, generally, mundane and poorly paid.
- 4.36 We acknowledge that the revised NI package recognises the changing environment but could have a significant financial impact on personnel. Our visit and MOD's evidence continued to confirm that the threats and restrictions still apply and that NIRS plays a valuable role in compensation and retention. We therefore recommend an uplift in line with the overall pay recommendation and look forward to continued assessment of the position under biennial reviews.

Recommendation 9: We recommend that the rate of Northern Ireland Resident's Supplement be increased by 3.3 per cent from 1 April 2007. The recommended rate is set out at Appendix 2.

² DASA Survey of Working Patterns 2005-06.

Recruitment and Retention Allowance (London)

4.37 Recruitment and Retention Allowance (London) was introduced in 1997 following the phasing out of London Pay under recommendations from the 1995 Independent Review. The allowance moved away from simply recognising “additional costs” to target recruitment and retention factors contributing to the unpopularity of service in London, including limited Service accommodation and facilities, commuting and additional costs. It applies to Service personnel working in Central London (within 5 miles of Charing Cross) and extends to the Cavalry Barracks, Hounslow and Woolwich Station. MOD’s evidence sought an increase in line with the CPI inflation target based on its view that the manning and recruitment position was fragile and that there were risks to retention. The Army, predominantly Other Ranks, accounted for 80 per cent of personnel serving in London and was 15 per cent undermanned with outflow at 8.9 per cent (compared with the overall Army outflow of 8.5 per cent). There were no significant manning difficulties for the Royal Navy or the RAF (which have predominantly Officers in London). MOD cited a series of factors relating to the allowance including: higher London costs (7.1 per cent greater than the national average); poor accommodation in terms of standards and locations; the stress of commuting; the lack of Service sporting and leisure facilities; and limited access to schools and health provision. It concluded that RRA(L) remained an effective and appropriately targeted Compensatory Allowance. MOD acknowledged that some improvements had been made to MOD Main Building but that Woolwich and Hounslow had seen little change and should continue to qualify for RRA(L).

4.38 We are aware, from MOD’s evidence and our visits to several London establishments, of the disparate range of circumstances covered by RRA(L) for personnel serving and living in London. However, the evidence did not indicate any specific recruitment and retention problems linked to serving in London. Given that this is the fundamental premise of the allowance we can see no compelling evidence to warrant any increase at this stage. In our view, the circumstances used to justify payment of this allowance appear to relate more to additional costs incurred than to recruitment and retention factors. We note from MOD’s evidence that location-based allowances will be reviewed under the Strategic Remuneration Review. We hope the review will result in a more appropriate response to compensating personnel for the additional difficulties they face when serving in London.

Recommendation 10: We recommend no increase to Recruitment and Retention Allowance (London) from 1 April 2007. The recommended rate is set out at Appendix 2.

Other rates of Compensatory Allowances

4.39 For all other rates of Compensatory Allowances we recommend increases in line with our overall recommended increase to military salaries.

Recommendation 11: We recommend that all rates of Compensatory Allowances, not covered by other recommendations or conclusions, be increased by 3.3 per cent from 1 April 2007. The recommended rates are set out at Appendix 2.

Chapter 5

ACCOMMODATION AND OTHER CHARGES

Introduction

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

Accommodation

Accommodation standards and funding

- 5.2 During our visits to Service units, both in the UK and overseas, we continue to see a wide range of SLA and SFA. These visits inform our consideration of accommodation charges as they enable us to see, at first hand, the standard of the accommodation that we are asked to recommend upon. We can also assess differences between new, upgraded accommodation and older, lower quality accommodation which many Service personnel still experience.
- 5.3 We also discuss with Service personnel and their families the advantages and disadvantages of living in Service accommodation. The standard of SLA and SFA is one of the main issues raised repeatedly with us on our visits. Where personnel have access to new and upgraded accommodation they are generally positive. However, for those personnel moving from such accommodation to that of a lower standard the difference in quality becomes even more stark and, as anecdotal evidence suggests, can contribute to retention problems. Similarly, those who enjoy high quality accommodation during initial training periods often tell us that, on posting to units, accommodation fails to meet expectations. In its evidence MOD remained committed to the provision of good quality accommodation for Service personnel, but recognised that reductions in targets for improvements set in previous years, and the time taken to deliver the improvement programmes, did impact on the quality of life for Service personnel and their families.
- 5.4 We have repeatedly expressed our disappointment that accommodation budgets have been pared back in successive years. The consequences for Service accommodation in the long term and the potential impact on retention were widely recognised by the Secretary of State, the PPOs and the Chief Executive of Defence Estates in oral evidence. We urge MOD to reconsider the funding made available for accommodation new build, improvement programmes and ongoing maintenance, and to ensure it is ring-fenced, to deliver on promises to Service personnel.

Service Family Accommodation

- 5.5 We set out information on SFA standards and funding in Chapter 2. In summary, targets for SFA upgrades for 2005-06 were exceeded, with almost 1,500 properties upgraded to "Standard 1 for condition"¹ but against a low target of 600. 57 per cent of SFA is now classed as "Standard 1 for condition". A further 3,900 properties (8 per cent of SFA stock) are expected to be upgraded over the next four years.

¹ The "Standard 1 for condition" relates exclusively to the condition of the property and should not be confused with MOD's grading system which is used to set charges and takes account of other factors such as proximity to certain amenities.

Single Living Accommodation

- 5.6 The initial SLAM² programme launched in 2001 was scheduled to deliver 26,000 bedspaces at a cost of £750 million. Latest estimates show allocated funding of just £463 million to deliver 12,000 bedspaces. In addition the second phase of SLAM, which was to have delivered an already reduced target of 8,800 bedspaces by 2013 is now scheduled to deliver just 3,400 bedspaces. We note that, at April 2006, 85 per cent of SLA was below Grade 1 with 46 per cent at Grade 4 and during 2005-06 the SLA improvement programme upgraded 5,540 bedspaces, compared with a target of 7,800. We also note that MOD still expects that 30 per cent of SLA will be Grade 3 or 4 after 2013, even assuming full implementation of the SLA improvement programme.

Approach to recommendations

- 5.7 Our long term approach to setting SFA charges has been to achieve broad comparability in accommodation rental charges but with a substantial discount that reflects the disadvantages of living in Service accommodation. During 2006 we reviewed this approach and concluded that it remains valid (see Chapter 2). We have not adopted such a strategy for SLA charges because of the size of the upgrade task and changes in targets and completion dates.
- 5.8 MOD's evidence highlighted the reduced scope and delivery of the SFA and SLA improvement programmes and the initial poor performance of the new Housing Prime Contract, responsible for maintenance of SFA. It also drew our attention to the difference between "Standard 1 for condition" and Grade 1 for charges. MOD asked that charges for both SLA and SFA be increased in line with inflation. Although we still consider our approach to SFA charges to be valid we recognise that Service personnel, while seeing a significant increase in charges for 2006-07, did not see a commensurate improvement in accommodation quality and, indeed, in the short term saw a significant deterioration in the quality of maintenance services. In light of this evidence, our judgement is that SFA and SLA rental charges for 2007-08 should only rise in line with CPI inflation as at November 2006.

Service Family Accommodation rental charges

- 5.9 We recommend SFA Grade 1 rental charges increase by 2.7 per cent. In recent years we have recommended a graduated approach to SFA rental charges below Grade 1. This results in proportionately lower increases in rental charges for Grades 2 and 3 and no increase for Grade 4. We continue to believe that this is an appropriate response to the widely differing standards of available accommodation.

Recommendation 12: We recommend a 2.7 per cent increase to Grade 1 Service Family Accommodation rental charges, 1.8 per cent to Grade 2, 0.9 per cent to Grade 3 and zero to Grade 4 from 1 April 2007. The resulting charges are shown in Tables 5.1 and 5.2.

Other components of SFA charges

- 5.10 Increases to elements of the charge other than rent vary based on evidence provided by MOD. They therefore produce different total SFA charges increases to that for the rental element alone and will increase between 1.3 and 3.1 per cent.

² Single Living Accommodation Modernisation (SLAM).

Single Living Accommodation rental charges

5.11 We recommend SLA Grade 1 rental charges increase by 2.7 per cent. Additionally, we recommend graduated lower increases for Grade 2 and 3 SLA rental charges with no increase to the rental charge for Grade 4.

Recommendation 13: We recommend a 2.7 per cent increase to Grade 1 Single Living Accommodation rental charges, 1.8 per cent to Grade 2, 0.9 per cent to Grade 3 and zero to Grade 4 from 1 April 2007. The resulting charges are shown in Table 5.3.

Other components of SLA charges

5.12 Increases to elements of the charge other than rent, including utilities charges, vary based on evidence from MOD. They therefore produce different total SLA charge increases to that for the rental element alone and will increase between 4.1 and 12.7 per cent.

Other charges

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

- *Water Charges* – the forecast weighted national household average water bill for SFA Type C properties tapered according to the size of the SFA. The SLA charge is one-third of the SFA Type C figure;
- *Furniture Hire* – the increase in CPI in the year to November 2006; and
- *Garage Rent* – during 2006 we carried out a survey of charges levied by housing associations and local authorities for a garage which showed that the Service charge was around 6 per cent below the civilian comparator. We recommend that this be phased in over a three-year period at 2 per cent per year and an additional element, based on the increase in CPI in the year to November 2006, to reflect the increases in civilian charges during 2006-07.

Recommendation 14: We recommend the following charges:

- **Water and Sewerage** – charges for all SFA of between £292 and £321 a year and a water charge for SLA of £99 a year;
- **Furniture Hire** – rates to be applied to SFA as shown in Table 5.1; and
- **Garage Rent** – the annual charge be increased to £275.30.

Table 5.1: Breakdown of recommended annual charges for Grade 1 SFA^a

Type of SFA	Basic rent	Furniture	Water	Recommended total charge ^b
	£ per year	£ per year	£ per year	£ per year
Officers				
I	7,154	934	321	8,410
II	6,417	829	318	7,563
III	5,625	712	314	6,650
IV	4,157	639	310	5,106
V	3,194	566	307	4,066
Other Ranks				
D	3,051	412	303	3,767
C	2,537	361	299	3,197
B	2,128	303	296	2,727
A	1,522	252	292	2,066

^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 5.2: SFA: recommended charges for furnished accommodation^a

Type of SFA	Annual charge ^b			
	Grade 1	Grade 2	Grade 3	Grade 4
	£ per year	£ per year	£ per year	£ per year
Officers				
I	8,410	6,336	3,606	1,913
II	7,563	5,701	3,263	1,737
III	6,650	5,008	2,876	1,555
IV	5,106	3,938	2,394	1,332
V	4,066	3,259	2,037	1,208
Other Ranks				
D	3,767	2,865	1,730	971
C	3,197	2,500	1,580	923
B	2,727	2,201	1,424	861
A	2,066	1,675	1,102	723

^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 5.3: SLA: recommended charges^a

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	2,062	1,726	1,161	704
Captain and below	1,668	1,387	934	566
Warrant Officer and SNCO	1,256	1,048	697	423
Corporal and below	723	610	409	259
New Entrant ^c	577	475	325	212

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

^b Annual charges are rounded to the nearest £.

^c Those receiving less than the minimum trained rate.

Food charges

- 5.14 MOD provided evidence on the periodic review of food charges including, as requested, clarification of our role under Pay As You Dine (PAYD). Following approval in May 2005, PAYD is being rolled out through Multi Activity Contracts. By April 2007, MOD anticipated that 46 per cent of units would be on PAYD rising to 70 per cent by April 2008 with complete roll-out by 2009. Specified training sites would be excluded.
- 5.15 A MOD review group concluded that, from 1 April 2008, a Daily Food Charge should replace current charges for single and married unaccompanied personnel. The charge would be based on ingredient costs under MOD's Food Supply Contract and also apply to the PAYD Core Menu. MOD provided an example calculation. This indicated a £0.01 difference from the current charge, the removal of the service provision element being offset against the removal of the abatement of charges for absences.
- 5.16 We support this approach for our 2008 Report. In our view, it will provide a direct link to PAYD arrangements, continue our independent role in setting charges and exclude the potential for double-counting preparation costs. We also welcome the removal of the distinction between single and married unaccompanied personnel which is cited on our visits as unnecessarily divisive. We look forward to MOD's full proposal for our 2008 Report which should include trend data so that we can ensure that costs are not subject to volatile movements. In the meantime, we continue to recommend that food charges for 2007-08 should increase in line with the Catering Grouping of RPI at 2.7 per cent in the year to November 2006. We note that MOD proposes various revisions to entitlements, some linked to the proposed methodology, including:
- Refunds of charges for periods of leave (including weekends and stand downs);
 - A reduction in the Entitled Casual Meal Charge for those at non-PAYD sites;
 - Removal of free food when on detached duty, for day duty visitors and personnel serving on HM Ships who live ashore when in base port; and
 - Continuation of the regulations for Duty Meals including a change to procedures under PAYD.

Chapter 6

CONCLUSION

6.1 Our recommendations provide a balanced package configured to help the Services to recruit, retain and motivate personnel against a backcloth of steadily increasing pressure on the Armed Forces. We have drawn on a comprehensive evidence-base for this report which has enabled us to balance our recommendations across an overall pay increase, a range of measures targeted to recruit and retain specific groups, and increases to accommodation and food charges.

Costs of recommendations

6.2 The estimated costs of our recommendations are detailed in Table 6.1 below.

Table 6.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	44
Other Ranks	139
New Entrants	3
	<hr/> 186
Additional pay, allowances and other emoluments in the nature of pay (all Regular Services)	<hr/> 29
Total pay (all Regular Services)	<hr/> 215
Reserve Forces	6
Employers' national insurance contribution (ERNIC) – all Services	20
Estimated effect of accruing superannuation liability contributions	41
Total paybill cost including Reserves	<hr/> 282
Less: total increased yield from charges	<hr/> (7)
Net cost of recommendations	<hr/> 275

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

6.3 The estimated cost of our recommendations is based on the average manpower strength of the Armed Forces in 2007-08, as forecast by MOD. Actual strengths may differ from forecasts and therefore the costs of implementing our recommendations will differ. Our recommendations on those aspects of pay within our remit would add 3.9 per cent to the pay bill (including the employers' national insurance and superannuation liabilities). When the yield from the recommended increased accommodation and other charges is taken into account the net paybill cost remains 3.9 per cent.

The year ahead

6.4 We look forward to the following evidence for our 2008 Report:

- Progress with MOD's **Strategic Remuneration Review** (paragraph 1.16) and any further developments in the package;
- Feedback on the continuing roll-out of **Joint Personnel Administration** and any developments which impact on our work programme (paragraph 1.19);

- Information and analysis on military data to support our **X-Factor review** (paragraph 2.31). We would welcome evidence from the British Medical and Dental Associations, the Service Families' Federations and the Reserve Forces' and Cadets' Association;
- Progress with the **Defence Living Accommodation Strategy** (paragraph 2.47);
- MOD's information on **pay metrics** for the remit group (paragraph 3.4);
- Progress with the **tri-Service Attitude Survey** and, in the longer term, improved comparative data for our X-Factor reviews (paragraph 3.27);
- Further development of **cost-benefit analysis of recruitment and retention measures** (paragraph 3.33);
- Samples for the **survey of working patterns** should cover the full range of Armed Forces' working circumstances (paragraph 3.53);
- Updates on progress with **Financial Retention Incentives** (Chapter 4);
- Scheduled periodic reviews of pay arrangements for **Officers Commissioned From the Ranks, Veterinary Officers and Chaplains, and Submarine Pay and Nuclear Propulsion Pay**;
- Progress on funding for and improvements to **Service accommodation** (paragraph 5.4); and
- Full proposals for the new methodology underpinning **food charges** (paragraph 5.14).

6.5 Our independent research for our 2008 Report will include:

- Further refinement of our **pay comparability methodology** (paragraph 2.6);
- The full review of **X-Factor** using the framework research conducted for this report (paragraphs 2.27 to 2.31); and
- Initial research on the evidence-base for our remit to independently assess the **new Armed Forces' Pension Scheme** (see our 2006 Report).

David Greenaway
 Robert Burgin
 Alison Gallico
 Peter Knight
 Derek Leslie
 Neil Sherlock
 Ian Stewart
 Anne Wright
 Tony Young

29 January 2007

Appendix 1

1 April 2007 recommended military salaries including X-Factor

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

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

Rank		Military salary
		£
Commodore (Royal Navy)	Level 5	89,444
Brigadier (Royal Marines)	Level 4	88,523
Brigadier (Army)	Level 3	87,614
Air Commodore (Royal Air Force)	Level 2	86,701
	Level 1	85,787
Captain (RN)	Level 9	79,049
Colonel (RM)	Level 8	78,105
Colonel (Army)	Level 7	77,162
Group Captain (RAF)	Level 6	76,223
	Level 5	75,283
	Level 4	74,344
	Level 3	73,404
	Level 2	72,461
	Level 1	71,522
Commander (RN)	Level 9	68,273
Lieutenant Colonel (RM)	Level 8	67,454
Lieutenant Colonel (Army)	Level 7	66,636
Wing Commander (RAF)	Level 6	65,824
	Level 5	65,013
	Level 4	64,202
	Level 3	63,391
	Level 2	62,580
	Level 1	61,761
Lieutenant Commander (RN)	Level 9	52,702
Major (RM)	Level 8	51,611
Major (Army)	Level 7	50,528
Squadron Leader (RAF)	Level 6	49,442
	Level 5	48,348
	Level 4	47,265
	Level 3	46,171
	Level 2	45,092
	Level 1	44,005

Rank		Military salary
Lieutenant (RN)	Level 9	41,545
Captain (RM)	Level 8	41,073
Captain (Army)	Level 7	40,594
Flight Lieutenant (RAF)	Level 6	39,655
	Level 5	38,708
	Level 4	37,768
	Level 3	36,817
	Level 2	35,870
	Level 1	34,935
Sub-Lieutenant (RN)	Level 10	30,131
Lieutenant, 2nd Lieutenant (RM)	Level 9	29,411
Lieutenant, 2nd Lieutenant (Army)	Level 8	28,698
Flying Officer, Pilot Officer (RAF)	Level 7	27,981
	Level 6	27,260
	Level 5	22,680
	Level 4	20,095
	Level 3	17,111
	Level 2	15,681
	Level 1	14,349
University Cadet Entrants	Level 4	16,492
	Level 3	15,108
	Level 2	13,455
	Level 1	11,719

Table 1.2: Recommended annual scales for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5:	Level 7	40,651	43,077
Warrant Officer I (Royal Navy)	Level 6	39,534	42,428
Warrant Officer I (Royal Marines)	Level 5	38,455	41,685
Warrant Officer I (Army)	Level 4	37,719	40,953
Warrant Officer (Royal Air Force)	Level 3	36,987	40,213
	Level 2	36,255	39,534
	Level 1	35,565	38,772
Range 4:	Level 9	36,512	39,851
Warrant Officer II, Chief Petty Officer (RN)	Level 8	35,704	39,289
Warrant Officer II, Colour Sergeant (RM)	Level 7	35,248	38,738
Warrant Officer II, Staff Sergeant (Army)	Level 6	34,716	38,187
Flight Sergeant, Chief Technician (RAF)	Level 5	33,214	37,361
	Level 4	32,769	36,530
	Level 3	32,018	35,704
	Level 2	31,010	34,870
	Level 1	30,611	34,048
Range 3:	Level 7	31,429	34,025
Petty Officer (RN)	Level 6	31,192	33,399
Sergeant (RM)	Level 5	30,150	32,773
Sergeant (Army)	Level 4	29,384	32,146
Sergeant (RAF)	Level 3	29,090	31,746
	Level 2	28,377	30,961
	Level 1	27,653	30,180
Range 2:	Level 7	27,494	30,573
Leading Rate (RN)	Level 6	27,294	29,920
Corporal (RM)	Level 5	27,079	29,313
Corporal (Army)	Level 4	26,868	28,622
Corporal (RAF)	Level 3	26,664	27,970
	Level 2	25,423	26,664
	Level 1	24,328	25,423
Range 1:	Level 9	22,325	26,664
Able Rating (RN)	Level 8	21,544	25,423
Marine (RM)	Level 7	20,601	24,328
Lance Corporal, Private (Army)	Level 6	19,756	23,261
Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)	Level 5	18,963	22,182
	Level 4	17,994	20,061
	Level 3	16,545	18,658
	Level 2	16,111	16,899
	Level 1	15,677	15,677

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

Table 1.3: Recommended annual salary for new entrants

	Military salary
	£
All entrants	12,572

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

	Military salary
	£
Fourth year	22,182
Third year	15,424
Second year	14,560
First year	12,945

Table 1.5: Recommended annual scales for Chaplains^a

Rank/length of service		Military salary
		£
Chaplain-General	Level 5	89,444
	Level 4	88,523
	Level 3	87,614
	Level 2	86,701
	Level 1	85,787
Deputy Chaplain-General ^b	Level 5	79,049
	Level 4	78,105
	Level 3	77,162
	Level 2	76,223
	Level 1	75,283
Principal Chaplain	Level 4	74,344
	Level 3	73,404
	Level 2	72,461
	Level 1	71,522
Chaplain (Class 1) ^b	Level 2 ^c	67,530
	Level 1 ^d	65,017

Rank/length of service	Military salary
	£
Chaplains Class 2/3/4 (or equivalent)	Level 27 67,530
	Level 26 66,273
	Level 25 65,017
	Level 24 63,768
	Level 23 62,538
	Level 22 61,282
	Level 21 60,021
	Level 20 58,769
	Level 19 57,512
	Level 18 56,260
	Level 17 55,003
	Level 16 53,751
	Level 15 52,494
	Level 14 51,241
	Level 13 49,989
	Level 12 48,729
	Level 11 47,480
	Level 10 46,223
	Level 9 44,971
	Level 8 43,711
	Level 7 42,462
	Level 6 41,198
	Level 5 39,949
	Level 4 38,696
	Level 3 37,444
	Level 2 36,183
	Level 1 34,935

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

^b Army only.

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

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

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

Rank/length of service		Military salary
		£
Lieutenant Colonel	Level 5	68,273
	Level 4	67,239
	Level 3	66,209
	Level 2	65,172
	Level 1	64,145
Major, Captain	Level 22	62,270
	Level 21	60,984
	Level 20	59,693
	Level 19	58,407
	Level 18	57,124
	Level 17	55,833
	Level 16	54,550
	Level 15	53,256
	Level 14	51,981
	Level 13	50,864
	Level 12	49,763
	Level 11	48,525
	Level 10	47,284
	Level 9	46,046
	Level 8	44,816
	Level 7	43,578
	Level 6	42,341
Level 5	41,107	
Level 4	39,870	
Level 3	38,636	
Level 2	37,398	
Level 1	34,935	

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

Increment Level	Military Salary
	£
Level 15	46,695
Level 14	46,390
Level 13	46,069
Level 12	45,446
Level 11 ^b	44,827
Level 10	44,201
Level 9	43,578
Level 8	42,956
Level 7 ^c	42,179
Level 6	41,700
Level 5	41,213
Level 4 ^d	40,251
Level 3	39,772
Level 2	39,281
Level 1 ^e	38,323

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

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

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

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

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

Table 1.8: Recommended Professional Aviator Pay Spine

Increment Level	Military Salary
	£
Level 35	71,522
Level 34	70,541
Level 33	69,556
Level 32	68,575
Level 31	67,598
Level 30 ^a	66,609
Level 29	65,636
Level 28 ^b	64,651
Level 27	63,662
Level 26	62,689
Level 25	61,700
Level 24	60,723
Level 23	59,814
Level 22 ^c	58,674
Level 21	57,584
Level 20 ^d	56,486
Level 19	55,399
Level 18	54,309
Level 17	53,219
Level 16 ^e	52,128
Level 15	51,038
Level 14	49,947
Level 13	48,850
Level 12 ^f	47,763
Level 11	46,672
Level 10	46,046
Level 9	45,329
Level 8	44,605
Level 7	43,888
Level 6	43,167
Level 5	42,443
Level 4	41,722
Level 3	41,001
Level 2	40,277
Level 1	39,553

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

^b Rear Crew cannot progress beyond Increment Level 28.

^c NCO Pilots cannot progress beyond Increment Level 22.

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

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

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

Appendix 2

1 April 2007 recommended rates of Specialist Pay and Compensatory Allowances

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

	Rate		Reserve Band rate	
	£ per day	75% £ per day	50% £ per day	25% £ per day
SPECIALIST PAY				
SP(Flying)^a				
Officer aircrew (trained)				
All Officer aircrew in the rank of Squadron Leader ^b and below except RAF specialist aircrew Flight Lieutenant				
Initial rate	12.95	9.71	6.48	3.24
Middle rate ^c	21.97	16.48	10.99	5.49
Top rate ^c	34.93	26.20	17.47	8.73
Enhanced rate ^d	41.12	30.84	20.56	10.28
Enhanced rate ^e	38.87	29.15	19.44	9.72
Wing Commander^b				
On appointment	36.06	27.05	18.03	9.02
After 6 years	33.80	25.35	16.90	8.45
After 8 years	31.54	23.66	15.77	7.89
Group Captain^b				
On appointment	27.61	20.71	13.81	6.90
After 2 years	25.91	19.43	12.96	6.48
After 4 years	24.21	18.16	12.11	6.05
After 6 years	21.40	16.05	10.70	5.35
After 8 years	18.58	13.94	9.29	4.65
Air Commodore^b				
Air Commodore ^b	11.27	8.45	5.64	2.82

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

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

^c After 4 years on the preceding rate.

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

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

	Rate £ per day	Reserve Band rate		
		75% £ per day	50% £ per day	25% £ per day
RAF specialist aircrew				
(a) <i>Flight Lieutenants (not Branch Officers)</i>				
On designation as specialist aircrew	42.81	32.11	21.41	10.70
After 1 year as specialist aircrew	43.38	32.54	21.69	10.85
After 2 years as specialist aircrew	44.50	33.38	22.25	11.13
After 3 years as specialist aircrew	45.06	33.80	22.53	11.27
After 4 years as specialist aircrew	45.63	34.22	22.82	11.41
After 5 years as specialist aircrew	46.75	35.06	23.38	11.69
After 6 years as specialist aircrew	47.32	35.49	23.66	11.83
After 7 years as specialist aircrew	47.88	35.91	23.94	11.97
After 8 years as specialist aircrew	49.01	36.76	24.51	12.25
After 9 years as specialist aircrew	49.57	37.18	24.79	12.39
After 10 years as specialist aircrew	50.13	37.60	25.07	12.53
After 11 years as specialist aircrew	51.26	38.45	25.63	12.82
After 12 years as specialist aircrew	51.83	38.87	25.92	12.96
After 13 years as specialist aircrew	52.95	39.71	26.48	13.24
After 14 years as specialist aircrew	53.51	40.13	26.76	13.38
After 15 years as specialist aircrew	54.07	40.55	27.04	13.52
After 16 years as specialist aircrew	55.77	41.83	27.89	13.94
(b) <i>Branch Officers</i>				
On designation as specialist aircrew	34.93	26.20	17.47	8.73
After 5 years as specialist aircrew	38.87	29.15	19.44	9.72

	Rate £ per day	Reserve Band rate		
		75% £ per day	50% £ per day	25% £ per day
Non-commissioned aircrew (trained)				
RM and Army pilots qualified as aircraft commanders				
Initial rate	12.95	9.71	6.48	3.24
Middle rate ^f	21.97	16.48	10.99	5.49
Top rate ^f	34.93	26.20	17.47	8.73
Enhanced rate ^g	41.12	30.84	20.56	10.28
RM and Army pilots ^h				
Initial rate	6.77	5.08	3.39	1.69
Middle rate ⁱ	14.64	10.98	7.32	3.66
Top rate ^j	17.46	13.10	8.73	4.37
RN/RM, Army and RAF aircrewmen				
Initial rate	6.77	5.08	3.39	1.69
Middle rate ⁱ	14.09	10.57	7.05	3.52
Top rate ^j	18.58	13.94	9.29	4.65
Aero-medical and escort duties pay (RAF)				
Royal Logistic Corps air despatch pay ^k				
Lower rate	7.32		3.66	
Higher rate ^f	4.50		2.25	
	7.32		3.66	
Flying crew pay (RN), crew pay (RAF), Joint Helicopter Support				
Unit helicopter crew pay	4.50		2.25	

^f After 4 years on the preceding rate.

^g Payable only to pilots who have received the top rate of Flying Pay 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.

^k Also payable while under training.

	Rate £ per day	Reserve Band rate			
		75% £ per day	50% £ per day	25% £ per day	
SP(Diving)					
<i>Category</i>					
1	RN Diver (Able rate) prior to Category 3 qualification Ship's Diver – all ranks and ratings	3.95	2.96	1.98	0.99
2	RN Search and Rescue Diver – all ratings Ship Divers' Supervisors	7.89	5.92	3.95	1.97
3	RN Diver (Able rate) when qualified to Category 3 standards Army Diver – all ranks	10.70	8.03	5.35	2.68
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	18.58	13.94	9.29	4.65
5	RN Diver (Petty Officer and above) when qualified to Category 5 standards				
	on appointment	26.48	19.86	13.24	6.62
	after 3 years	28.73	21.55	14.37	7.18
	after 5 years	30.42	22.82	15.21	7.61
	(Unfit to dive)				
	on appointment	8.45		4.23	
	after 3 years	10.14		5.07	
	after 5 years	11.82		5.91	

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

	Rate £ per day	Reserve Band rate		
		75% £ per day	50% £ per day	25% £ per day
SP(Submarine)				
Level 1 – payable on qualification	11.27	8.45	5.64	2.82
Level 2 – payable after 5 years on Level 1	14.64	10.98	7.32	3.66
Level 3 – payable after 5 years on Level 2	17.46	13.10	8.73	4.37
Level 4 – payable after 5 years on Level 3	19.72	14.79	9.86	4.93
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	24.79	18.59	12.40	6.20
SP(Nuclear Propulsion)				
Category B watchkeeper – Single qualified	4.50	3.38	2.25	1.13
Category B watchkeeper – Double qualified	8.45	6.34	4.23	2.11
Category A watchkeeper (Nuclear Chief of Watch)	19.15	14.36	9.58	4.79
Appropriately qualified Junior Officers	19.15	14.36	9.58	4.79
SP(Submarine Escape Tank Training)				
Additional Daily Supplement for Cat 1 Divers	11.27	8.45	5.64	2.82
Additional Daily Supplement for Cat 2 Divers	2.25	1.69	1.13	0.56
Additional Daily Supplement for Subsunk Parachute Assistance Group personnel	3.95	2.96	1.98	0.99
	2.82	2.12	1.41	0.71
SP(Hydrographic)				
On attaining Charge qualification (H Ch)	12.40	9.30	6.20	3.10
Surveyor 1st Class (H1)	10.14	7.61	5.07	2.54
On promotion to Chief Petty Officer or attainment of NVQ4 whichever is sooner	8.45	6.34	4.23	2.11
Surveyor 2nd Class (H2), on promotion to Petty Officer or attainment of NVQ3 whichever is sooner	4.50	3.38	2.25	1.13
On promotion to Leading Hand	3.38	2.54	1.69	0.85
On completion of Initial Hydrographic Training	1.69	1.27	0.85	0.42

	Rate		Reserve Band rate	
	£ per day	75% £ per day	50% £ per day	25% £ per day
SP(Mountain Leader)	9.58	7.19	4.79	2.40
SP(Parachute Jump Instructor)				
Less than 8 years' experience	7.32	5.49	3.66	1.83
8 or more years' experience	10.70	8.03	5.35	2.68
SP(Parachute)	5.07	3.80	2.54	1.27
SP(High Altitude Parachute)^m	9.58		4.79	

^m Rate applies to members of the Pathfinder Platoon.

COMPENSATORY ALLOWANCES	Rate <i>£ per day</i>
LONGER SEPARATION ALLOWANCE	
Level 1 (up to 400 days qualifying separation)	6.22
Level 2 (401-700 days qualifying separation)	9.72
Level 3 (701-1000)	13.24
Level 4 (1001-1300)	14.52
Level 5 (1301-1600)	15.64
Level 6 (1601-1900)	16.76
Level 7 (1901-2200)	17.87
Level 8 (2201-2500)	19.55
Level 9 (2501-2800)	20.67
Level 10 (2801-3100)	21.79
Level 11 (3101-3400)	22.90
Level 12 (3401-3700)	24.03
Level 13 (3701-4000)	25.14
Level 14 (4001+)	26.26
UNPLEASANT WORK ALLOWANCE	
Level 1	2.32
Level 2	5.72
Level 3	16.88
UNPLEASANT LIVING ALLOWANCE	3.10
NORTHERN IRELAND RESIDENT'S SUPPLEMENT	5.96
LONDON RECRUITMENT AND RETENTION ALLOWANCE	3.57
EXPERIMENTAL TEST ALLOWANCE (per test)	2.50
EXPERIMENTAL DIVING ALLOWANCEⁿ	
Lump sum per dive	
Grade 5	278.96
Grade 4	139.48
Grade 3	104.61
Grade 2	69.73
Grade 1	13.95
Additional hourly rates	
Grade 5	55.79
Grade 4	13.95
Grade 3	10.45
Grade 2	6.97
Grade 1	-

ⁿ SP(Experimental Diving) is to be reclassified as a Compensatory Allowance in 2007-08.

Appendix 3

Military annual salaries inclusive of X-Factor from 1 April 2006

All annual salaries are derived from daily rates in whole pence and rounded to the nearest £, calculated on a 365-day year.

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

Rank		Military salary
		£
Commodore (Royal Navy)	Level 5	86,527
Brigadier (Royal Marines)	Level 4	85,636
Brigadier (Army)	Level 3	84,757
Air Commodore (Royal Air Force)	Level 2	83,873
	Level 1	82,990
Captain (RN)	Level 9	76,471
Colonel (RM)	Level 8	75,559
Colonel (Army)	Level 7	74,646
Group Captain (RAF)	Level 6	73,737
	Level 5	72,828
	Level 4	71,920
	Level 3	71,011
	Level 2	70,098
	Level 1	69,189
Commander (RN)	Level 9	66,047
Lieutenant Colonel (RM)	Level 8	65,255
Lieutenant Colonel (Army)	Level 7	64,463
Wing Commander (RAF)	Level 6	63,678
	Level 5	62,893
	Level 4	62,108
	Level 3	61,324
	Level 2	60,539
	Level 1	59,747
Lieutenant Commander (RN)	Level 9	50,983
Major (RM)	Level 8	49,928
Major (Army)	Level 7	48,881
Squadron Leader (RAF)	Level 6	47,830
	Level 5	46,771
	Level 4	45,724
	Level 3	44,665
	Level 2	43,621
	Level 1	42,570

Rank		Military salary
		£
Lieutenant (RN)	Level 9	40,190
Captain (RM)	Level 8	39,734
Captain (Army)	Level 7	39,270
Flight Lieutenant (RAF)	Level 6	38,362
	Level 5	37,445
	Level 4	36,537
	Level 3	35,617
	Level 2	34,701
	Level 1	33,795
Sub-Lieutenant (RN)	Level 10	29,149
Lieutenant, 2nd Lieutenant (RM)	Level 9	28,452
Lieutenant, 2nd Lieutenant (Army)	Level 8	27,762
Flying Officer, Pilot Officer (RAF)	Level 7	27,068
	Level 6	26,371
	Level 5	21,940
	Level 4	19,440
	Level 3	16,553
	Level 2	15,169
	Level 1	13,881
University Cadet Entrants	Level 4	15,954
	Level 3	14,615
	Level 2	13,016
	Level 1	11,337

Table 3.2: Annual salaries for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5:	Level 7	39,325	41,672
Warrant Officer I (Royal Navy)	Level 6	38,245	41,044
Warrant Officer I (Royal Marines)	Level 5	37,201	40,325
Warrant Officer I (Army)	Level 4	36,489	39,617
Warrant Officer (Royal Air Force)	Level 3	35,781	38,902
	Level 2	35,073	38,245
	Level 1	34,405	37,507
Range 4:	Level 9	35,321	38,551
Warrant Officer II, Chief Petty Officer (RN)	Level 8	34,540	38,007
Warrant Officer II, Colour Sergeant (RM)	Level 7	34,098	37,475
Warrant Officer II, Staff Sergeant (Army)	Level 6	33,584	36,942
Flight Sergeant, Chief Technician (RAF)	Level 5	32,131	36,142
	Level 4	31,700	35,339
	Level 3	30,974	34,540
	Level 2	29,999	33,733
	Level 1	29,612	32,938
Range 3:	Level 7	30,405	32,916
Petty Officer (RN)	Level 6	30,175	32,310
Sergeant (RM)	Level 5	29,167	31,704
Sergeant (Army)	Level 4	28,426	31,098
Sergeant (RAF)	Level 3	28,142	30,711
	Level 2	27,452	29,952
	Level 1	26,751	29,196
Range 2:	Level 7	26,598	29,576
Leading Rate (RN)	Level 6	26,404	28,945
Corporal (RM)	Level 5	26,196	28,357
Corporal (Army)	Level 4	25,992	27,689
Corporal (RAF)	Level 3	25,795	27,057
	Level 2	24,594	25,795
	Level 1	23,535	24,594
Range 1:	Level 9	21,597	25,795
Able Rating (RN)	Level 8	20,842	24,594
Marine (RM)	Level 7	19,929	23,535
Lance Corporal, Private (Army)	Level 6	19,111	22,502
Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)	Level 5	18,345	21,458
	Level 4	17,407	19,407
	Level 3	16,005	18,049
	Level 2	15,166	16,348
	Level 1	14,323	14,323

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

Appendix 4

AFPRB 2006 visits

In assembling the evidence base for our 2007 Report we made a significant number of visits to better understand working conditions and workforce perceptions of pay and pay related issues.

ESTABLISHMENT/LOCATION	SERVICE	MEMBERS
MOD Main Building	tri-Service	Robert Burgin Alison Gallico Dr Peter Knight
1st Battalion Irish Guards, Wellington Barracks	Army	Robert Burgin Alison Gallico Dr Peter Knight
HMS ALBION	Royal Navy	Robert Burgin Dr Peter Knight
2nd Battalion the Royal Welsh, Tidworth Barracks, Wiltshire	Army	Alison Gallico AVM Ian Stewart
Army Training Regiment, Bassingbourn (ATR(B)), Cambridgeshire	Army	Dr Peter Knight Dr Anne Wright
HM Naval Base Portsmouth, including HMS HURWORTH, Fleet Diving Squadron and HMS EDINBURGH	Royal Navy	Robert Burgin AVM Ian Stewart
RAF Odiham, Hampshire	RAF	Alison Gallico Professor Derek Leslie
18 (UKSF) Signal Regiment	tri-Service	Alison Gallico Professor Derek Leslie
RAF Honington	RAF	Robert Burgin Dr Peter Knight
Defence Human Intelligence (HUMINT) Unit (DHU), Chicksands	tri-Service	Professor David Greenaway Dr Peter Knight
JSU and PJHQ Northwood, London	tri-Service	AVM Ian Stewart Dr Anne Wright Lord Young
HMS WILDFIRE RNR, Northwood	Royal Navy	Dr Anne Wright Lord Young
Northern Ireland	tri-Service	Professor David Greenaway Neil Sherlock
HMSM TIRELESS and HMS OCEAN	Royal Navy	Professor David Greenaway Professor Derek Leslie
Royal Marines, Stonehouse Barracks, Plymouth	Royal Navy	Professor David Greenaway Professor Derek Leslie
RAF Kinloss	RAF	Neil Sherlock AVM Ian Stewart

ESTABLISHMENT/LOCATION	SERVICE	MEMBERS
RAF Lossiemouth and 2622 (Highland) Squadron RauxAF Regiment, Morayshire	RAF	Neil Sherlock AVM Ian Stewart
1 (UK) Armoured Division, Germany	Army	AVM Ian Stewart Dr Anne Wright
HMS SULTAN and MOD Hospital Unit, HASLAR, Gosport	Royal Navy	Alison Gallico Dr Peter Knight Professor David Greenaway
RAF Wittering	RAF	Robert Burgin Professor David Greenaway
RAF Coningsby	RAF	Professor David Greenaway Dr Anne Wright
The Royal Wessex TA Yeomanry	Army	Robert Burgin Professor Derek Leslie
9 Supply Regiment Royal Logistic Corps	Army	Robert Burgin Professor Derek Leslie
OP TELIC, Iraq	tri-Service	Professor Derek Leslie Lord Young



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