



information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Order through the Parliamentary Hotline Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone: 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

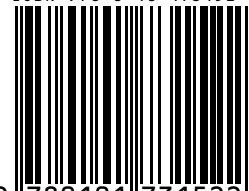
The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-173152-2



9 780101 731522



Armed Forces' Pay Review Body

Thirty-Seventh Report – 2008

Chairman: Professor David Greenaway

Cm 7315
£18.55



Armed Forces' Pay Review Body

Thirty-Seventh Report 2008

Chairman: Professor David Greenaway

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

February 2008

© Crown Copyright 2008

The text in this document (excluding the Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be addressed to The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ. Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk

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 members¹ of the Review Body are:

Professor David Greenaway (Chairman)²
Robert Burgin
Alison Gallico
Dr Peter Knight CBE
Professor Derek Leslie
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 Keith McNeish was a member of the Review Body between March and September 2007.

² Professor Greenaway is also a member of the Review Body on Senior Salaries.

Contents

	<i>Paragraph</i>	<i>Page</i>
	Glossary of terms	vii
	Summary	ix
<i>Chapter 1</i>	Introduction1.1	1
	2007 recommendations1.2	1
	Themes for the 2008 Report1.3	1
	– Government’s approach to public sector pay1.4	1
	– The Defence context1.5	2
	– The package1.10	2
	– Pay and targeted measures1.13	3
	– Accommodation and other charges1.18	4
	Our work programme and evidence base1.19	4
<i>Chapter 2</i>	Military Pay2.1	5
	Introduction2.1	5
	Government evidence on the general context2.2	5
	MOD’s strategic management evidence2.6	6
	– General2.6	6
	– Defence context2.9	7
	– Personnel2.11	7
	– Affordability2.13	8
	Manning2.17	8
	Recruitment2.25	11
	Retention2.28	12
	Trends in the UK labour market2.34	14
	Commitments2.38	15
	Operational Pinch Points2.42	16
	– Royal Navy2.44	16
	– Army2.45	16
	– Royal Air Force2.46	17
	Pay comparability2.47	17
	– Job weight2.49	17
	– Uniformed civilian services2.55	18
	– Young people2.57	18
	– Graduates2.58	19
	National Minimum Wage (NMW)2.59	19
	Our military pay recommendations for 2008-092.61	20
	Bespoke pay scales2.72	22
<i>Chapter 3</i>	Targeted pay measures3.1	23
	Introduction3.1	23
	Submariners3.2	23
	Financial Retention Incentives3.7	24
	– Submarine Nuclear Watchkeepers3.9	24
	– RAF Regiment Gunners3.11	25
	– RAF Firefighters3.14	26
	– REME Vehicle Mechanics3.16	26
	– Royal Artillery3.19	27

	Specialist Pay	3.22	28
	– Submarine Pay	3.23	28
	– Explosive Ordnance Disposal Operators’ Pay	3.26	29
	Compensatory Allowances	3.29	29
	– Unpleasant Work Allowance	3.29	29
	– Rates of Compensatory Allowances	3.30	30
	Commitment Bonuses	3.31	30
	Reserves	3.32	30
<i>Chapter 4</i>	X-Factor	4.1	32
	Introduction	4.1	32
	The rationale for X-Factor	4.3	32
	Previous reviews and current level	4.8	33
	Our approach for this review	4.10	34
	The context 2000-2007	4.13	35
	Analysis of X-Factor components	4.15	35
	Conclusions and recommendation	4.32	39
	The X-Factor taper	4.34	43
	Evidence on other groups	4.38	44
	– Reserves	4.39	44
	– Military Provost Guard Service	4.41	44
	– University Units	4.42	45
	– Gibraltar Regiment and GR Reserves	4.43	45
<i>Chapter 5</i>	Accommodation and Other Charges	5.1	46
	Introduction	5.1	46
	Accommodation	5.2	46
	– Accommodation standards and funding	5.2	46
	– Service Family Accommodation	5.5	46
	– Single Living Accommodation	5.6	46
	Approach to recommendations	5.7	46
	Service Family Accommodation rental charges	5.10	47
	– Other components of SFA charges	5.11	47
	Single Living Accommodation rental charges	5.12	47
	– Other components of SLA charges	5.13	48
	Other charges	5.14	48
	Food charges	5.15	49
<i>Chapter 6</i>	Conclusion	6.1	51
	Cost of recommendations	6.2	51
	The year ahead	6.4	51
<i>Appendix 1</i>	1 April 2008 recommended military salaries including X-Factor		53
<i>Appendix 2</i>	1 April 2008 recommended rates of Specialist Pay and Compensatory Allowances		61
<i>Appendix 3</i>	Military annual salaries inclusive of X-Factor from 1 April 2007		68
<i>Appendix 4</i>	AFPRB 2007 visits		71

GLOSSARY OF TERMS

ACDS (RC)	Assistant Chief of Defence Staff (Reserves and Cadets)
AEI	Average Earnings Index
AFPRB	Armed Forces' Pay Review Body
AGR	Association of Graduate Recruiters
CPI	Consumer Prices Index
CSR	Comprehensive Spending Review
DASA	Defence Analytical Services Agency
DE	Defence Estates
DRFC	Director of Reserve Forces and Cadets
EOD	Explosive Ordnance Disposal
ERNIC	Employers' National Insurance Contributions
EU	European Union
FRI	Financial Retention Incentive
GR	Gibraltar Regiment
JPA	Joint Personnel Administration
LSA	Longer Separation Allowance
MPGS	Military Provost Guard Service
MOD	Ministry of Defence
NAO	National Audit Office
NCO	Non-Commissioned Officer
NHS	National Health Service
NI	Northern Ireland
NIRS	Northern Ireland Resident's Supplement
NMW	National Minimum Wage
OCFR	Officers Commissioned From the Ranks
PAYD	Pay As You Dine
PPOs	Principal Personnel Officers
PSA	Public Service Agreement
RA	Royal Artillery
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)
SFA	Service Family Accommodation
SLA	Single Living Accommodation
SLAM	Single Living Accommodation Modernisation
SRR	Strategic Remuneration Review
TA	Territorial Army
UK	United Kingdom
UWA	Unpleasant Work Allowance
VO	Voluntary Outflow
WO	Warrant Officer

ARMED FORCES' PAY REVIEW BODY

2008 REPORT – SUMMARY

Key recommendations

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

Introduction (*Chapter 1*)

Our recommendations aim to deliver a balanced remuneration package for the Armed Forces that will support recruitment, retention and motivation at a time of particularly high operational pressure. We have weighed the Government's approach to public sector pay, maintaining low inflation and MOD's affordability constraints against demanding operations and the challenges they pose to manning and morale. Our deliberations were informed by evidence from the Government, MOD and the Services; our own independent research; and 25 visits during which we held 300 meetings with 3,800 Service personnel and spouses. In the course of our review, we held 11 meetings including briefings and oral evidence sessions, and examined over 130 evidence papers.

Military pay (*Chapter 2*)

We recommend an increase of 2.6 per cent to military salaries from 1 April 2008. The Government's evidence sought settlements guided by its CPI inflation target of 2 per cent and affordable within the CSR settlement. MOD added that affordability constraints require pay awards above those planned for in the CSR settlement to be funded from other areas of Defence. Our recommendations balance these considerations against the pressures on personnel from intense warfighting operations and continuing manning shortfalls. The manning deficit doubled to 3.2 per cent by April 2007 with significant shortages in Operational Pinch Points which cover 20 per cent of the workforce. Recruiting slightly improved but Voluntary Outflow is on an upward trend at 3.6 per cent for Officers and 5.6 per cent for Other Ranks. Retention is affected by operational pressure, separation and the impact on family life. Our research shows Other Ranks' base pay (excluding X-Factor) to be broadly in line with civilians but Senior Officers to have fallen further behind the market. Our recommendation accounts for the prevailing inflation and earnings indicators.

Targeted pay measures (*Chapter 3*)

Targeted measures to alleviate manning shortages are an increasingly important part of the remuneration package. Alongside our overall recommendations, MOD proposed, and we endorse, the following measures:

- **New Financial Retention Incentives for Submarine Nuclear Watchkeepers, RAF Regiment Gunners, RAF Firefighters, REME Vehicle Mechanics and the Royal Artillery;**
- **A new category of Specialist Pay for Explosive Ordnance Disposal Operators;**
- **A £5 daily enhancement to Submarine Pay for personnel assigned to seagoing submarines either deployed or in base port (excluding extended readiness or deep maintenance); and**
- **An increase of 2.6 per cent for Specialist Pay, Compensatory Allowances and Reserves' Bounties.**

X-Factor (*Chapter 4*)

We compiled a comprehensive and robust evidence base for our assessment of changes since 2000. We conclude that there has been an increase in the disadvantages of Service life (most pronounced in priority areas such as increased danger, turbulence, separation and hours of work) but an improvement in civilian life. We also note improvements to the allowances package since 2000 and that some aspects of military life remain positive. The net effect of changes over the period increases the Services' relative disadvantage compared with civilians and **we therefore recommend:**

- **An increase in the X-Factor of 1 per cent to 14 per cent;**
- **Revised tapering arrangements at OF4 to OF6 with consequential pay restructuring to allow appropriate pay on promotion and pay progression in rank; and**
- **An increase in the X-Factor for the Gibraltar Regiment to 6 per cent (3 per cent for Reserves).**

Accommodation and other charges (*Chapter 5*)

The provision of good quality accommodation remains important to MOD and the Armed Forces, not least for retention. We are encouraged that the CSR specifically set out the resources to be devoted to accommodation improvements and the Secretary of State's view that resources are in place to make significant progress. Provision of maintenance services also appears to be improving. Our approach to SFA/SLA charges is closely linked to the pace of improvements and we will review it in the light of progress for our 2009 Report. In the meantime, we consider the rental component of the RPI an appropriate measure and therefore **recommend a 3.7 per cent increase to Grade 1 SFA/SLA rental charges and lower, graduated increases for Grades 2-3 with no increase to Grade 4 (Grade 4 SFA rental charges have been frozen since 1997 and SLA since 1998). We recommend a phased increase to garage rent to reflect increases to civilian charges.** Ahead of moving to a new methodology in 2009 and to facilitate the move to Pay As You Dine, **we recommend the introduction of the Daily Food Charge at £3.89.**

Conclusion (*Chapter 6*)

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

Chapter 1

INTRODUCTION

Introduction

- 1.1 Our recommendations for 2008 aim to deliver an overall remuneration package for the Armed Forces that will support recruitment, retention and motivation at a time of particularly high operational pressure. Under our terms of reference, we consider evidence specific to particular elements within the package including basic pay, X-Factor, a range of targeted measures, Specialist Pay, Compensatory Allowances, Reserves' Bounties, and accommodation and food charges. Our assessment is based on wide-ranging and detailed evidence from the Government and MOD, our own independently commissioned research and the views of personnel and families.

2007 recommendations

- 1.2 Our 2007 Report was submitted on 29 January 2007 and accepted in full by the Government on 1 March 2007 with implementation on 1 April 2007 as follows:
- A 3.3 per cent increase in military salaries plus targeted restructuring of Pay Range 1 for Junior Ranks;
 - New Financial Retention Incentives (FRIs) for Infantry and Royal Marine Other Ranks, and an extension of the Aircrew FRI;
 - A 3.3 per cent increase in Reserves' Bounties, 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; and
 - A 2.7 per cent increase to Grade 1 SFA/SLA rental charges and lower graduated increases below Grade 1, a phased increase in garage rent, and a 2.7 per cent increase to food charges.

Themes for the 2008 Report

- 1.3 The context for our report is one of contrasts. On the one hand, the Government has clearly set out its overall approach to public sector pay and the MOD faces difficult affordability decisions within the finite resources of the Comprehensive Spending Review (CSR) settlement. On the other hand, the Armed Forces face demanding operational pressures and challenges to manning, recruitment, retention and morale. Our report sets out the evidence covering these themes and how they impact on our remit's requirement that we deliver an effective and balanced remuneration package for the Armed Forces.

Government's approach to public sector pay

- 1.4 We examine the Government's evidence on public sector pay in Chapter 2. High on the Government's agenda is its desire to control the level of inflation and growth in public expenditure. The Government aims to moderate the level of public sector pay awards since pay comprises a significant proportion of public expenditure – around £135 billion, which is about a quarter of Government expenditure. The Government views the level of public sector awards as influencing awards more generally across the economy. In this regard, we note the Government's response to the Pay Review Bodies' reports and to other public sector pay settlements during 2007. More recently in early January 2008, the Prime Minister reaffirmed the Government's position on controlling public sector pay as part of the Government's wider policy on controlling inflation.

The Defence context

- 1.5 Also in Chapter 2, we look at the specific aspects of Defence that shape the environment in which our recommendations are made. Our recommendations apply to the first year of a CSR settlement that the Government described as the tightest for nearly a decade. We consider the affordability pressures currently experienced by MOD and, under our terms of reference, how these influence our deliberations.
- 1.6 The Defence context is also shaped by continuing and enduring operational commitments. While the numbers deployed across the two warfighting theatres vary, commitment levels have remained high for a number of years and we look at their impact on recruitment, retention and motivation. It is important that, in the eyes of Armed Forces' personnel and their families, the package adequately compensates for the impact on them of sustained operational pressure.
- 1.7 A Report¹ by the think-tank DEMOS in 2007 pointed to "overstretch" and "resource constraints" estimating that perhaps a decade would be needed to recover from the intensity of operations since 2000. DEMOS added that operational pressure had combined with a competitive labour market to contribute to manning problems. It argued for a greater proportion of MOD resources to be applied to personnel, pay, working conditions and accommodation.
- 1.8 In July 2007, the House of Commons Public Accounts Committee² made a series of recommendations to address recruitment and retention including adopting a staffing model, over-recruiting, extending non-financial measures, fully costing and evaluating initiatives, and using flexible pay systems. Many of these themes were repeated from the 2006 National Audit Office Report³; MOD provided us with an interim update of its intentions in relation to that report and we look forward to firmer plans in the near future.
- 1.9 The House of Commons Defence Committee reported⁴ in January 2008 on MOD's progress against its Public Sector Agreement targets. It commented that MOD did not expect to meet the target relating to generating forces as a consequence of continuing high deployment levels. The Defence Committee added that the Armed Forces operated at or above the level they were resourced and structured to deliver and that the "failure" to meet harmony guidelines was unacceptable. It observed that MOD "only partly" expected to meet recruitment and retention targets. Chapter 2 sets out our assessment of the latest recruitment and retention position.

The package

- 1.10 Our 2007 Report commented on the importance of the whole package and recommended or endorsed a series of enhancements. On our visits, the Operational Allowance was universally well-received as clearly targeting those exposed to the most dangerous operations and worst conditions. The uprating of the Allowance in April 2007 was welcomed and we will retain a watching brief over its effectiveness as it plays into other areas of the package. The ten-minute increase to telephone time under the Operational Welfare Package announced in 2006 was also welcomed on our visits. On 25 September 2007, the Secretary of State announced a Council Tax relief payment for those personnel in receipt of Operational Allowance effective from April 2008. On 28 January 2008, the relief was extended to cover all those deployed on operations overseas.

¹ *Out of Step* – A DEMOS Report on the State of the Armed Forces, 5 November 2007.

² *Recruitment and Retention in the Armed Forces* – House of Commons Committee of Public Accounts Report, The Stationery Office HC43, 3 July 2007.

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

⁴ *Ministry of Defence Annual Report and Accounts 2006-07, Fifth Report of Session 2007-08* – House of Commons Defence Committee, The Stationery Office HC61, 28 January 2008.

- 1.11 On 8 November 2007, the Secretary of State announced the intention to publish a Command Paper in 2008 which took stock of the agenda for Service personnel, their families and veterans. It would set out the existing and future support for Service personnel. Given our remit, we look forward to contributing to MOD's work and the Command Paper's publication.
- 1.12 Developments in the wider package also impact on recruitment, retention and motivation and it is important, therefore, that we are mindful of this impact when we consider our own recommendations. In this regard, we note that the Service personnel and family members we meet on visits prioritise the need to ensure that personnel feel valued; the retention of expensively trained and operationally experienced personnel to avoid a loss of operational capability; recruitment to full Manning both overall and in Operational Pinch Point areas; the need for flexible responses across the remuneration package; and the increasing desire for home ownership. Several of these priority areas are being considered as part of MOD's Strategic Remuneration Review on which we were briefed during 2007 and we await further progress in 2008. In addition, we wish to explore further with MOD the management information capabilities of Joint Personnel Administration.

Pay and targeted measures

- 1.13 We set out the factors influencing our conclusions on military pay in Chapter 2. These draw on a wide evidence base covering the Government's and MOD's evidence in particular that relating to the inflation target and affordability, economic indicators, recruitment, retention, morale and civilian pay comparisons.
- 1.14 In Chapter 3 we examine the cases made for targeted pay measures. We consider Financial Retention Incentives, Specialist Pay, Compensatory Allowances and Reserves' Bounties. We commented in our 2007 Report on the proliferation of targeted incentives and the questions they raise about the ability of the basic pay structure to respond flexibly to changing circumstances. While we accept the need for targeting and that the Services have become much more responsive to emerging problems, we continue to consider that a fundamental review of the pay structure is required.
- 1.15 With regard to effective targeting of pay arrangements, we commented in 2007, and in previous reports, on the longstanding Manning difficulties experienced in Service Nursing. In May 2007 (subsequent to our 2007 Report), we endorsed a package of measures including a targeted FRI of £20,000 and an increased Golden Hello of £20,000 (both aimed at Emergency, Intensive Therapy Unit and Operating Theatre Nurses) plus a single Commitment Bonus payment at 7 years. We did this in the expectation that permanent, bespoke pay arrangements would be developed for Service Nurses alongside effective professional career structures and continuing professional development comparable to that available in the NHS. We are therefore dismayed to learn that these have been delayed further at a time when civilian nursing pay and career structures were established under Agenda for Change in 2004.
- 1.16 We have agreed to a request from MOD to postpone our periodic review of Veterinary Officers' pay arrangements to our 2009 Report to allow the Army to fully consider further Corps restructuring and any pay implications.
- 1.17 We conducted a comprehensive review of the components which drive the X-Factor and set out our findings and conclusions in Chapter 4. Our visits highlighted the high priority attached to X-Factor by Service personnel who view it as an essential mechanism to compensate for the very real and unique differences between the military and civilians.

Accommodation and other charges

- 1.18 Finally, we make recommendations on accommodation and other charges in Chapter 5. These impact on the overall value of the package and in making our recommendations we assess evidence from the civilian sector. Our approach to accommodation charges continues to be linked to progress with improvements. The Secretary of State told us that he was encouraged that the resources and management practices were now in place to make significant progress. The Service Families' Federations also commented on noticeable improvements in the provision of maintenance services. We await further developments with interest given the link between improving standards and our charging strategy and the role that the quality of accommodation plays in retaining – or losing – personnel. We note that others are monitoring MOD's progress; the House of Commons Defence Committee's 2007 Report⁵ drew a series of conclusions and made recommendations of interest to us including MOD reviewing targets, prioritising improvements to the worst accommodation, improving maintenance services and offering increased loans for house purchase.

Our work programme and evidence base

- 1.19 Our work programme began in March 2007 with full briefings from MOD and each of the Services on the issues relevant to our review. These briefings set the scene for our visits programme which enables us to engage with personnel and families, to hear their priorities first hand, to understand the role of the military and to explain our approach. We visited 25 Service units between March and July 2007 in the UK, Germany, Gibraltar and on operations in Afghanistan. We met with around 3,800 personnel and spouses in 300 formal and informal discussion groups. Our visits also enabled us to hear the views of Commanding Officers and their management teams and to view all standards of Service accommodation. All Services provided excellent support throughout these visits and, in the current operational climate, we cannot over-emphasise the importance of our operational visits to gain an understanding of the frontline role of the Armed Forces and to enable us to deliver our remit.
- 1.20 We commissioned research on a range of topics to support our analysis. Our review of X-Factor was underpinned by extensive research by Incomes Data Services on how elements had changed for civilians, MOD's evidence on the military environment, and our Secretariat's in depth analysis of military and civilian information. Pay comparability evidence based on job weight was provided by Hay and supplemented by our assessments of comparability for young people and with other uniformed public services. Our Secretariat researched civilian housing and other costs to support recommendations on accommodation and other charges. The Office of Manpower Economics also provided generic research and information to all Pay Review Bodies on economic indicators, the labour market, employment legislation and pay developments.
- 1.21 We held 11 meetings between September 2007 and January 2008 to consider the evidence presented and our commissioned research. We reviewed over 130 evidence papers and held six oral evidence sessions which allowed us to test out the written evidence. These sessions were with: the Secretary of State accompanied by MOD's 2nd Permanent Under Secretary and HM Treasury; the Principal Personnel Officers (PPOs) and Deputy Chief of Defence Staff (Personnel); the Assistant Chief of Defence Staff (Reserves and Cadets) and the Director of Reserve Forces and Cadets; and the Deputy Chief Executive of Defence Estates. We also helpfully met with the three Service Families' Federations, specifically focusing on the review of X-Factor.

⁵ *Defence Estates Responsibilities and Performance* – House of Commons Defence Committee's Fifteenth Report, July 2007.

Chapter 2

MILITARY PAY

Introduction

- 2.1 In this chapter we review the evidence relating to our military pay recommendations. This constitutes the Government's evidence on the general context, MOD's evidence on the Defence context and affordability, our assessment of the position on manning, recruitment, retention, and morale, independent research on pay comparability, and economic and labour market analysis from our Secretariat.

Government evidence on the general context

- 2.2 The Government presented evidence to all Pay Review Bodies commenting that public servants were vital to the delivery of good public services and formed a large part of the UK's workforce. It added that pay awards were key to the ability to recruit, retain and motivate but also key to delivery of the Government's pay strategy, public finances, meeting other spending pressures and the level of inflation in the wider economy.
- 2.3 The Government placed strong emphasis on affordability and inflationary pressures and therefore the macroeconomic situation was particularly important. In its view the UK economy continued to experience an unprecedented period of growth and stability. It considered that this longest period of sustained low inflation since the 1960s provided a platform for high employment, investment and productivity, and there was no significant upward pressure on wages across the economy. On inflation, the Government argued that if what it viewed as short term influences (in particular energy and food price inflation) were stripped out underlying "core" inflation had remained low and generally under 2 per cent. Its forecast was for CPI inflation to return to its target of 2 per cent in the second half of 2007 as temporary factors receded and utility price cuts fed through. The Government highlighted that CPI was the standard measure of inflation across the European Union, that it took better account of the substitution between cheaper and more expensive goods and services, and that it had a wider population coverage. It added that wage setting based on RPI would exacerbate inflation by including increases in interest rates which were designed to reduce inflation.
- 2.4 On public expenditure, the Government's evidence pointed to the "golden rule" of borrowing only to invest over the economic cycle. Disruption to financial markets led to uncertain economic prospects – GDP growth was forecast to slow to 2-2.5 per cent in 2008, below trend, before returning to trend rates from 2009. Against this background, the Government's Comprehensive Spending Review¹ fixed spending to grow on average by 1.9 per cent per annum in real terms between 2008-09 and 2010-11. Departmental budgets to meet recurring costs would grow by 1.8 per cent per annum in real terms. The Government described this as the tightest spending review in nearly a decade and, as expenditure on pay was a significant component of spending, it implied therefore a different fiscal context existed for Pay Review Bodies. It added that investment in public services (including pay reform) and the success of the economy should not be put at risk by "unaffordable" pay awards.
- 2.5 The Government's evidence said that investment in public service pay had overcome recruitment and retention problems and increased numbers of key frontline workers. The Government argued that pay settlements should account for the earnings increases from restructuring pay systems, targeted payments, progression payments and bonuses.

¹ The Comprehensive Spending Review and Pre-Budget Report were published on 9 October 2007.

Paybill growth and paybill per head growth should also be considered. It suggested incremental and other increases were worth 2-9 per cent above base pay increases depending on workforce and individual circumstances. Pay was also only one part of the total reward package – public sector pensions were more generous, on average, than those in the private sector, recruitment and retention hotspots had been successfully targeted and non-pay measures were more important to morale. In conclusion, the Government pointed to overall healthy recruitment and retention no longer justifying high base pay awards and therefore awards should be consistent with achievement of the CPI inflation target of 2 per cent.

MOD's strategic management evidence

General

- 2.6 MOD's evidence set out the Defence context, particularly ongoing operations, the manning situation, the effect of remuneration and non-remuneration measures, the approach to encouraging long term retention through the Service Personnel Plan and Strategic Remuneration Review, and the main remuneration issues. MOD proposed our base pay recommendation should be informed by the Government's public sector pay policy, including:
- The need to recruit and retain personnel and sustain motivation and morale and to maintain a competitive remuneration package (at a time of enduring high levels of operational commitment);
 - The imperative for pay settlements to be guided by the achievement of the Bank of England's CPI target rate for inflation of 2 per cent; and
 - The Government imperative to achieve affordability within the resources available to MOD.
- 2.7 MOD argued that a pay recommendation accounting for the above factors would allow the targeting of resources at areas of most benefit to personnel. As context, MOD pointed to its 2007 pay outcomes which it considered led to the highest pay award in the public sector, benefited 19,000 of the lowest paid Service personnel, included the tax-free Operational Allowance for 31,000 personnel and included new Financial Retention Incentives. The evidence added that our recommendations had exceeded the average for all Pay Review Bodies for five years and that Armed Forces' "salary growth" exceeded whole economy average earnings in all of the last five years except 2004-05. MOD estimated that the Armed Forces' paybill per head (as an indicator of average earnings) had increased by 4.7 per cent between 2006-07 and 2007-08. In addition to views on the factors influencing Armed Forces' base pay, MOD identified high priority measures for 2008 including X-Factor and specific proposals for shortage groups.
- 2.8 In oral evidence, the Secretary of State reinforced that Armed Forces' pay awards must be affordable within the Comprehensive Spending Review settlement and that pay awards above those planned for in the CSR settlement would create pressures elsewhere in Defence spending. He accepted that the factors within our remit required careful balancing. The Secretary of State emphasised that all parties to the process sought a fair pay award that should be towards the top end of other public sector pay awards to send a message of value to Service personnel.

Defence context

- 2.9 The evidence pointed to the Armed Forces operating above Defence Planning Assumptions for more than five years. They were engaged in two warfighting theatres, while maintaining preparedness for operations and operating worldwide. On our visits, units made powerful presentations to us emphasising the intensity of warfighting operations. Numbers committed to Iraq had reduced and would reduce further by spring 2008 but would be counterbalanced by increases in the numbers deployed to Afghanistan. We examine the detail on operational commitment levels in paragraph 2.38. MOD added that there had been a “qualitative transformation” in the intensity of warfighting and associated stresses. Operations in Northern Ireland ceased on 31 July 2007 but an enduring commitment remained to maintain security and also routine and contingency support to the Balkans. All three Services have assisted civil powers in the UK including the floods of July 2007 and ongoing counter-terrorism operations. MOD emphasised that the commitment to operations was more acute for specialisations with manning shortfalls.
- 2.10 The impact of high operational commitments was described by MOD as enduring breaches of harmony guidelines² and significant effort and disruption for personnel and their families. Overall, harmony guidelines were difficult to meet for each of the Services and more difficult for Operational Pinch Point groups (see paragraph 2.42). Augmentation of deployed forces left gaps in other areas placing pressure on training and career courses and those recovering from deployments. Necessary rationalisation and efficiency programmes also disrupted personnel. Increased working hours, separation and unpredictable deployments adversely affected retention.

Personnel

- 2.11 MOD summarised the Armed Forces’ manning situation. It said that overall recruitment had reached at least 96 per cent target for the last three years and that applications had held steady, demonstrating that the Armed Forces were still an attractive option. Retention was stable and better than other private and public organisations. However, overall manning remained outside the Public Sector Agreement and, while making progress, would remain outside manning balance by the April 2009 target. Underneath overall manning, significant shortfalls were experienced in Operational Pinch Points requiring targeted action. We examine the manning, recruitment and retention position in more detail from paragraph 2.17.
- 2.12 MOD provided an update on its Pay and Workforce Strategy and the Service Personnel Plan. These sought to recruit and retain capable and well motivated personnel needed during a period of high operational commitment and to provide stable manning in the longer term. To support this, the pay package had grown incrementally in recent years including specific reviews of many components. MOD cited an analysis³ of the military package which suggested it delivered against civilian best practice but relied on short term fixes. MOD concluded that pay and pensions were satisfactory but inflexible and that aspirations differed with length of service. MOD also highlighted its review of terms and conditions of service which, among other things, would look at transition between different commitments and flexible employment. MOD also had work in hand to develop an interactive tool for individuals to identify their total remuneration package.

² 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 A Chartered Institute for Personnel Development-based Gap Analysis.

Affordability

- 2.13 The Defence budget under the Comprehensive Spending Review for 2008-2011 was announced in Parliament on 25 July 2007 followed by the 2007 Pre-Budget Report on 9 October 2007. The Defence budget would increase by 1.5 per cent average annual real growth plus savings generated from “value for money” reforms. The cost of Iraq and Afghanistan operations would continue to be met from the Reserve. Expenditure would be focused on improving capability. The budget included planned investment of £550 million in Service accommodation over the three-year CSR period.
- 2.14 Within the CSR settlement, MOD planned for a total paybill increase of 2.5 per cent. This assumed a base pay increase of 2 per cent in line with Government policy, an additional 0.3 per cent for targeted measures and 0.2 per cent for other pressures, including X-Factor. MOD cautioned that pay awards above this level would require compensating cuts to other Defence priorities. For instance, the 2007 pay award had cost an additional £140 million thereby directly impacting on military capability.
- 2.15 MOD highlighted that the current Service paybill accounted for 29 per cent of the Defence Budget. It provided a breakdown of the costs of various pay awards above 2 per cent indicating that each additional 0.5 per cent cost £37 million. All Defence budgets would be under significant pressure. Additional affordability pressure arose from phased rising employer contributions to the Armed Forces’ Pension Scheme due to increasing longevity. Against this background, MOD suggested that pay recommendations exceeding a 2.5 per cent paybill increase would require compensating savings from areas which benefited personnel (remuneration, benefits, accommodation and personnel numbers) and for areas which affected Defence capability (aircraft flying hours, training exercises and equipment).
- 2.16 We recognise the importance of affordability to our pay recommendations. The evidence has clearly set out the financial pressures experienced by MOD and further pressures could be brought by the CSR settlement. We are required to consider affordability alongside other elements of our terms of reference, particularly recruitment, retention and morale. However, while we take affordability into account, it is for MOD to determine the prioritisation of its resources within the budgets allocated by the Government.

Manning

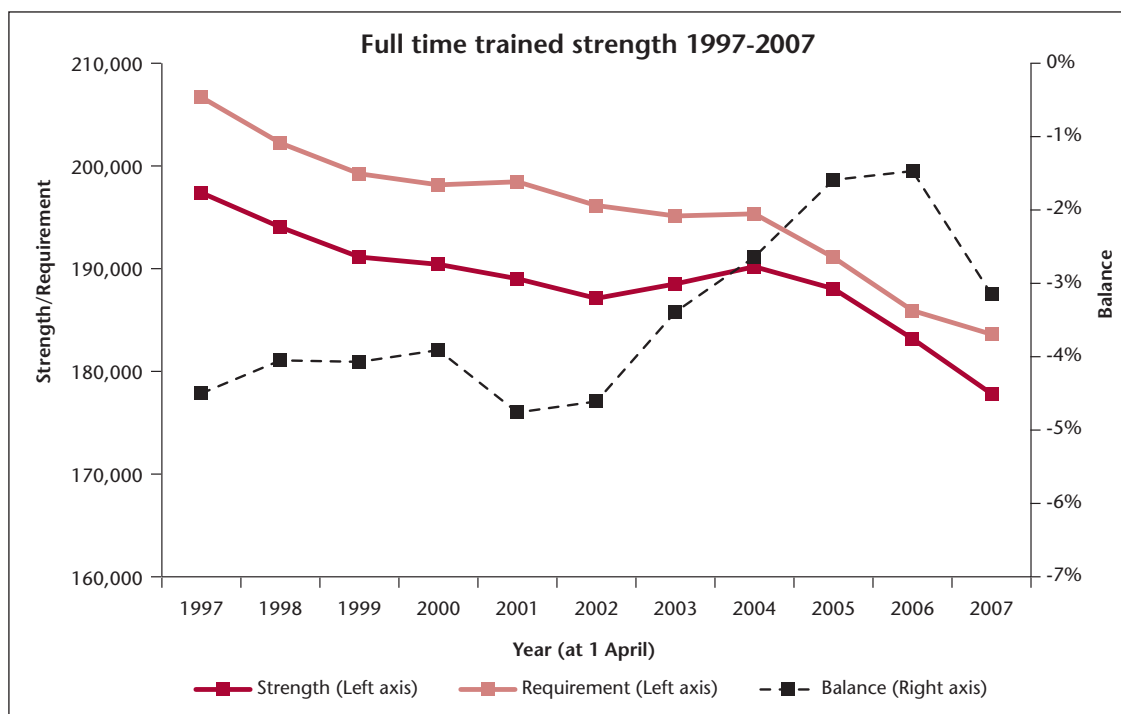
- 2.17 All three Services report a decrease in trained strength at 1 April 2007, compared with a year earlier. This is due in part to the current restructuring, which requires a drawdown in strength by 2008 and is being achieved through a combination of natural wastage and redundancy. The drawdown is happening at a time when operational commitments are at a significantly higher level than planned and continue to be in excess of Defence Planning Assumptions.
- 2.18 The manning evidence presented for this report showed:
- At 1 April 2007, the Armed Forces’ full-time trained strength was 177,820 (including Full Time Reserve Service and Gurkhas) against a requirement of 183,610 – a deficit against requirement of 3.2 per cent and the largest deficit since April 2003 (Chart 2.1). The deficit was outside the tolerance for the Public Sector Agreement⁴ (PSA) manning balance⁵ target;

⁴ The Government has a Public Sector 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”.

⁵ Manning balance is defined as between –2 per cent and +1 per cent of the requirement, and is measured against the target prevailing at the time.

- By 1 October 2007 full-time trained strength had declined further to 174,780 against a reduced requirement of 181,510 – a deficit of 3.7 per cent; and
- Between April 2006 and April 2007 the requirement fell by 1.2 per cent while the trained strength fell by 2.9 per cent.

Chart 2.1: Full time trained strength and requirement



2.19 Single Service manning showed:

- Royal Navy full-time trained strength was 34,920 (including Royal Marines) at 1 April 2007, a shortfall of 1,880 or 5.1 per cent. By October 2007 the shortfall had fallen to 4.6 per cent but manning balance was not expected to be achieved before April 2009;
- Army full-time trained strength was 99,350 at 1 April 2007, a shortfall of 2.4 per cent (widened to 3.6 per cent by October 2007). However, the overall position masked significantly greater shortfalls among junior soldiers in the Infantry and Royal Artillery and among specialists such as Royal Electrical and Mechanical Engineers (REME) Vehicle Mechanics. At the same time, the Army carried an overall surplus of Officers; and
- RAF full-time trained strength was 43,550 at 1 April 2007, a deficit of 3.2 per cent. By October 2007 the deficit was little changed and manning balance was not expected to be achieved by April 2008, but was expected before April 2009.

2.20 We examined the manning position of Officers and Other Ranks in each Service – Charts 2.2 and 2.3 show surpluses and deficits between 2003 and 2007 – and found:

- Compared with the requirement, there was an overall surplus of full-time trained Officers of 0.8 per cent at 1 April 2007, compared with a surplus of 1.0 per cent at 1 April 2006. Although the surplus of Army Officers increased from 6.0 per cent to 6.7 per cent this was more than offset by a widening of the deficit for both RAF Officers (from 4.7 per cent to 6.4 per cent) and RN Officers (from 0.4 per cent to 0.6 per cent);

- Between April and October 2007 the overall Officer trained strength fell by 1.1 per cent to a level 0.3 per cent below requirement;
- For Other Ranks the deficit of full-time trained personnel almost doubled, from 2.0 per cent at 1 April 2006 to 3.9 per cent at 1 April 2007. The deficits widened in both the RN (from 4.0 per cent to 6.1 per cent) and the Army (from 2.2 per cent to 3.8 per cent) while for the RAF a small surplus of 0.3 per cent became a deficit of 2.4 per cent; and
- Between April and October 2007 the overall Other Ranks' deficit widened further to 4.4 per cent as the trained strength fell more quickly than the requirement.

Chart 2.2: Full-time trained strength surplus/deficit, Officers

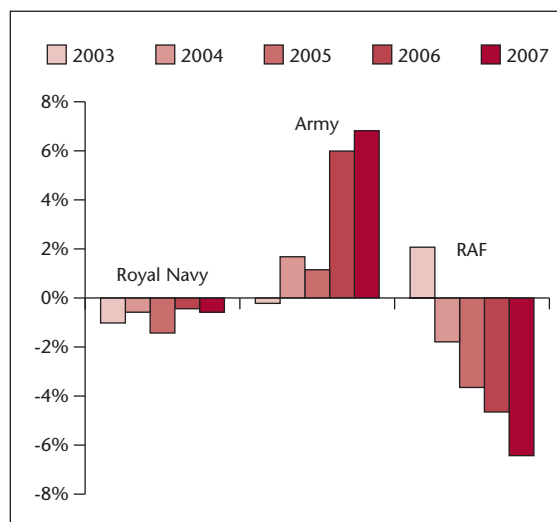
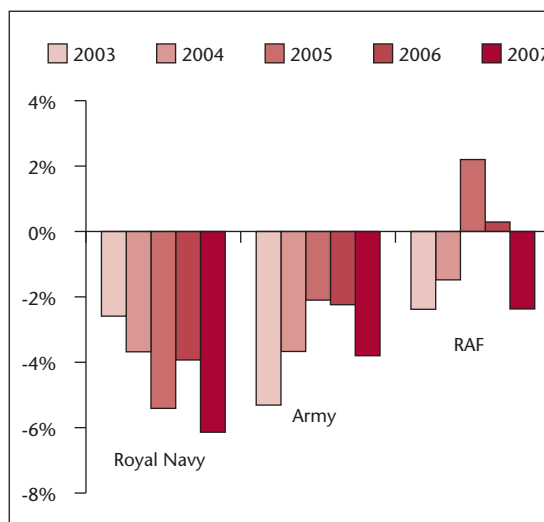


Chart 2.3: Full-time trained strength surplus/deficit, Other Ranks



2.21 Gains to Trained Strength (GTS) comprises new recruits completing training, re-entrants and transfers from other Services or countries. Between 2005-06 and 2006-07 Gains to Trained Strength were little changed, following 12 per cent falls in each of the previous two years. However, there was a distinction between Officers where GTS increased in each Service, and by 8 per cent overall (Chart 2.4), and Other Ranks which experienced a fall of 2 per cent (Chart 2.5).

Chart 2.4: Gains to Trained Strength, Officers

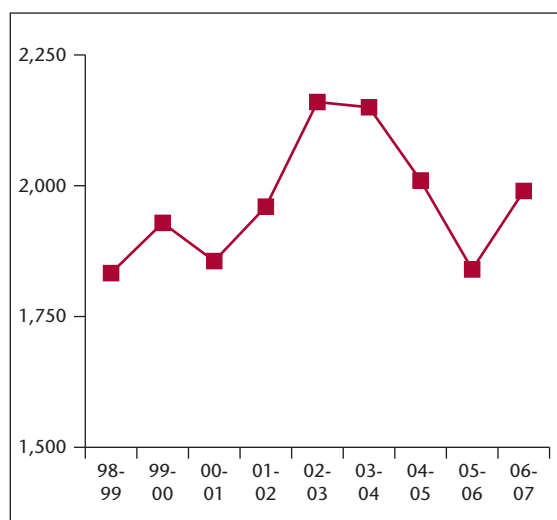
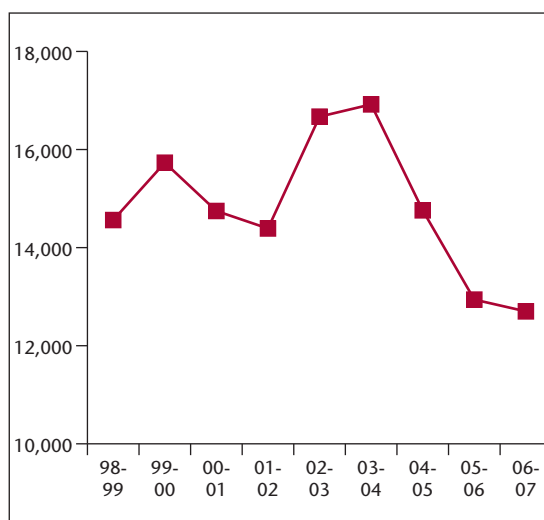


Chart 2.5: Gains to Trained Strength, Other Ranks

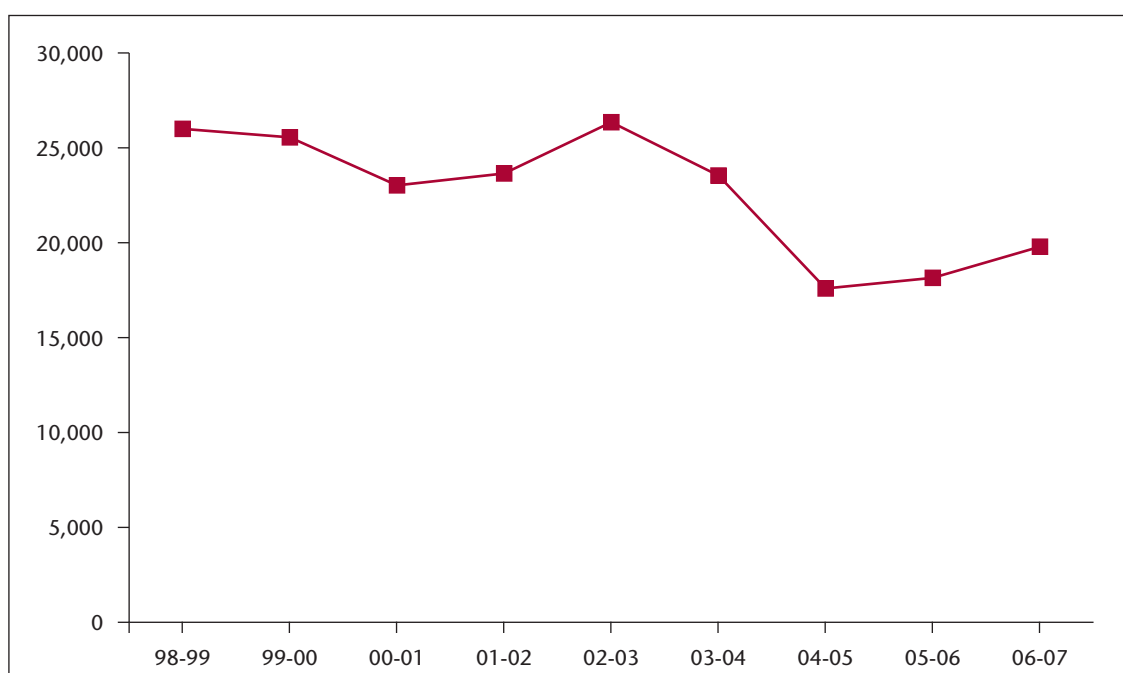


- 2.22 In 2006-07 the RN (96 per cent), Royal Marines (84 per cent) and the Army (84 per cent) failed to meet their targets for GTS. Indeed the Army has only achieved its soldier GTS target in two of the last ten years. The RAF exceeded its target for 2006-07 but is running more than 10 per cent below its 2007-08 target.
- 2.23 The overall manning position at April 2007 is markedly worse than at April 2006. Although the trained strength declined between 2002 and 2006 it did so at a slower rate than the requirement, thus the manning deficit reduced from almost 5 per cent in 2002 to 1½ per cent in 2006. However, further personnel reductions during 2006-07 in excess of the reduced requirement have pushed the manning deficit to 3.2 per cent at April 2007, and have widened it further in the six months to October 2007 to 3.7 per cent.
- 2.24 The size of the manning deficit is crucial to running the business of the Armed Forces. The deficit leads to gapping of posts, additional workload pressures on individuals and challenges delivering manpower requirements for operations. These effects are most keenly felt in the Operational Pinch Points. The manning deficit can only be rectified by improved recruitment, reducing training wastage and encouraging longer service. It might be normal business practice for other employers in many sectors of the economy to carry a manpower shortage. However, since the Services only recruit at base ranks and grow their experience, they cannot respond in the same way as other employers in the wider economy who have a greater range of employment or resource options.

Recruitment

- 2.25 The numbers of personnel recruited in 2006-07, 19,790, were 9 per cent higher than in 2005-06 and in line with the target for the year. This followed an increase of 3 per cent in 2005-06 compared with 2004-05. Chart 2.6 shows that although encouraging these increases were from a low base. In 2006-07 Officer intake was 3.9 per cent higher than in 2005-06 while Other Ranks intake increased by 9.5 per cent over the same period. Intake to the RN fell by 4.3 per cent (and was just 94 per cent of target), with falls for both Officers and Other Ranks. Intake to the Army increased by 12.3 per cent and by 16.2 per cent to the RAF, although levels of intake to the RAF are still less than half those achieved as recently as 2003-04.

Chart 2.6: Intake from Civil Life to UK Regular Forces 1998-99 to 2006-07



- 2.26 The numbers recruited across the Services as a whole in the first half of 2007-08, 10,660, were 4.7 per cent higher than in the first half of 2006-07, and represented 49 per cent of the annual target. However, there were some continuing areas of concern, including the Royal Marines who expected to recruit only 78 per cent of their 2007-08 target. Compared with the same period a year earlier, RAF recruitment increased by 39 per cent in the first half of 2007-08. As the target had increased by over 70 per cent, this still represented a shortfall of 31 per cent.
- 2.27 MOD's strategic management evidence pointed to a mixed overall recruitment picture with numbers applying to join the RAF significantly reduced and applications to join the Army on an upward trend. It noted that the Armed Forces continued to offer attractive pay and specific groups experiencing recruitment problems were targeted. It added that some factors both encouraged and discouraged recruitment, such as current operations. Other recruiting challenges included decreasing numbers of 16-24 year olds, increasing numbers into further education, a buoyant job market, recruitment of ethnic minorities and women, and the impact of the Deepcut Review⁶. In response to the National Audit Office Report⁷, MOD investigated among other things the potential for lateral recruitment (opening up direct recruitment to appropriate posts or ranks). While the requirement was not widespread, the work identified some trades and branches where lateral recruitment might be appropriate.

Retention

- 2.28 During 2006-07, DASA figures showed 17,770 trained regular personnel left the Armed Forces, of which 2,210 were Officers and 15,560 were Other Ranks. However, these figures only included data for the Army covering 11 months of the year⁸ which makes comparisons with earlier years difficult. The published figures showed the numbers leaving the Armed Forces fell by 2 per cent, but had complete data for the Army been available then the figures would almost certainly have shown an increase. Figures for the RN showed outflow falling while data for the RAF showed increased outflow, with the increase accounted for by over 1,100 personnel who left as part of the phased RAF redundancy programme.
- 2.29 Data for Voluntary Outflow, those requesting to leave, show an upturn in exit rates for both Officers and Other Ranks. Chart 2.7 shows exit rates for Officers have increased in each of the last four years, and in 2006-07 were 3.6 per cent, the highest rate since 2001-02. There were increases for both the RN and RAF while the outflow rate for the Army was unchanged. Chart 2.8 shows the exit rate for Other Ranks also increased, to 5.6 per cent in 2006-07, the highest rate of exits since 2001-02. There was an increase for both the RN and Army while the rate for the RAF fell slightly, albeit from a historically high level.

⁶ *The Deepcut Review – A review of the circumstances surrounding the deaths of four soldiers at Princess Royal Barracks, Deepcut between 1995 and 2002* – Nicholas Blake QC, The Stationery Office HC795, March 2006.

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

⁸ Due to the introduction of the Joint Personnel Administration System. Army outflow figures for 2006-07 comprise 11 months during the period 1 April 2006 to 28 February 2007.

Chart 2.7: Voluntary Outflow exit rates, Officers – 1997-98 to 2006-07

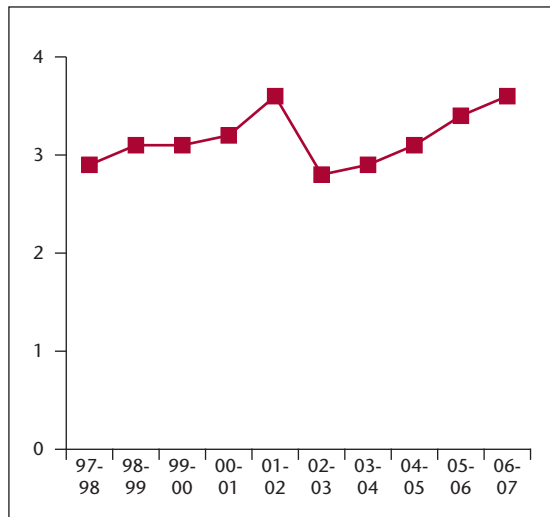
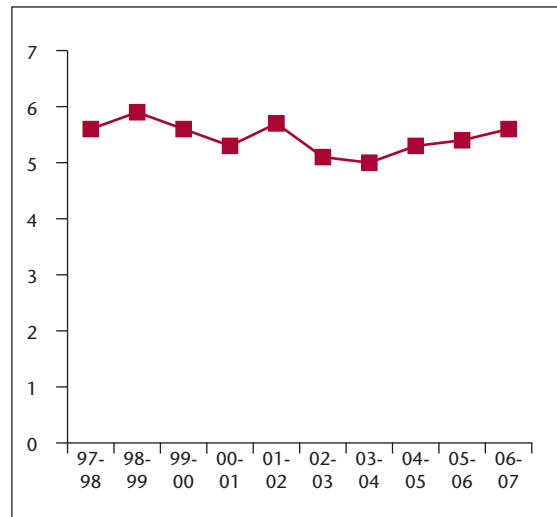


Chart 2.8: Voluntary Outflow exit rates, Other Ranks – 1997-98 to 2006-07



- 2.30 In previous years, we have found Voluntary Outflow application rates helpful in assessing which direction Voluntary Outflow exits were likely to move in the following year. However, during 2006-07 DASA have been unable to publish information covering each of the Services for that period. Nevertheless, the RN observed in the twelve months to October 2007 an increase in Voluntary Outflow applications for Officers and no change for Ratings, the Army expected Voluntary Outflow exit rates to increase during 2007-08 and the RAF saw little change to Officer and Ground Trade Voluntary Outflow, although they had concerns over the number of Aircrew applying for Voluntary Outflow.
- 2.31 We also analyse evidence from the Services' Continuous Attitude Surveys. Data relating to retention from the most recent surveys were mixed. Army and RN Officers said they were more likely to leave than a year earlier while RM Officers said they were less likely to leave, with the RAF data showing little change. For Other Ranks, data for RN, Army and RAF showed little change but those in the RM said they were less likely to leave. For those personnel indicating an intention to leave the Armed Forces, the most frequent reasons given for wanting to leave relate to the impact of Service life on personal and family life and the impact of operational commitments and overstretch.
- 2.32 Some of the retention evidence we have used in the past was not available or was incomplete for 2006-07. The redundancy programme has distorted the figures and also had an impact on behaviour as individuals made decisions on whether to remain in the Armed Forces based on how the redundancy programme affected them. It is not clear yet what impact the Financial Retention Incentives introduced in April 2007 have had, especially those covering large numbers of personnel such as the RM and Infantry. However, the available evidence shows Voluntary Outflow rates continuing to increase and, although tri-Service data is not available on those applying to leave, the single Service data does not suggest an imminent decrease in Voluntary Outflow.
- 2.33 The Government's evidence considered retention stable and satisfactory compared to other public sector professions and the private sector. However, MOD emphasised the importance of retention when only recruiting at base ranks and developing individuals into senior ranks. Even small increases to length of service in some areas would bring considerable benefits. Again, Operational Pinch Points experiencing high outflow were being targeted through short term financial measures. MOD added that reliance on solely financial measures would not secure retention and pointed to the wider use of personnel and family support to help morale. In this regard, we note the Secretary of

State's intention to publish a Command Paper in 2008 setting out the Government's view on existing and further support to Service personnel. It is difficult to measure the effectiveness of support measures in relation to retention but their importance is frequently raised on our visits. On morale and wider aspirations, MOD commented that pay remained a positive source of satisfaction according to the Continuous Attitude Surveys (although we note levels of satisfaction are falling), home ownership was desired and the Armed Forces' package included many positive benefits.

Trends in the UK labour market

- 2.34 Our 2007 Report examined forecasts of labour supply and demand to 2013-14⁹. This analysis identified increasing employment and economic activity among the population, an ageing labour force, higher female employment and declining numbers of young people "not in full time education". These all presented challenges to the Armed Forces in maintaining a competitive position in the labour market. We observed that the Armed Forces needed to improve its share of the recruitment market, to develop flexible entry points and training routes, to develop careers for those from non-traditional labour market sources, and to attract the higher skills required to support operational capability.
- 2.35 The latest data in 2007 pointed towards a tighter labour market but with sufficient capacity. Employment reached the highest recorded level of 29¼ million in the three months to October 2007. Compared to data a year earlier, almost all of this growth was from employment in finance and business services, distribution, hotels and restaurants, and construction. Employment rates picked up modestly – the largest increase was for those above state retirement age with steady declines for 16-17 year olds and for 18-24 year olds. Private sector employment continues to grow – by 128,000 jobs in the three months to September 2007. However, public sector employment fell, mainly in "other" health and social work, public administration, the Armed Forces and construction, although there was employment growth in education and the police. Vacancies rose by 13.5 per cent in November 2007 compared with the same month in 2006. Unemployment levels and rates have fallen recently and are on a downward trend. Redundancy rates (over the three months to October 2007) remained at low levels. Economic inactivity rates are stable but rose steeply for 18-24 year olds reflecting the increase in those remaining in education.
- 2.36 Productivity growth remained strong and above its long term trend of 2 per cent. Whole economy output per worker was 2.7 per cent higher in the second quarter of 2007 than the same period in 2006. Unit labour costs were only 1.2 per cent higher than the previous year.
- 2.37 A tight labour market continues to present a challenge to Armed Forces' recruitment and retention not least because they "grow their own". For this reason it is important to monitor the supply and demand issues for young people. The supply of young people¹⁰ aged 16-24 has been on a downward trend since 1981 when at 8.1 million, declining to 6.5 million by 2001. The forecast is for an increase to 7.3 million by 2011 and thereafter declining to 6.7 million by 2021. This overall supply is compounded by the increasing numbers remaining in education¹¹. In 2006, the proportion of 16 year olds in full time education reached its highest level at 78.1 per cent. The proportion of 17 year olds also increased to 65 per cent with a smaller increase for 18 year olds to 40.8 per cent. As a result there were commensurate falls in the numbers "not in education or training" with the proportion of 16 year olds down to 10.3 per cent, 17 year olds down to 18.5 per cent but the proportion of 18 year olds slightly increasing to 38.9 per cent.

⁹ *Projections of the UK Labour Force, 2006-2013 – Labour Market Trends Vol 114 No 1, January 2006 and Working Futures 2004-2014 – National Report, Sector Skill Development Agency, 2006.*

¹⁰ *Social Trends 2007 – Office of National Statistics.*

¹¹ *Participation in Education, Training and Employment by 16-18 year olds in England – DfES Statistical First Release 22/2007.*

Commitments

- 2.38 Under the Strategic Defence Review, the Armed Forces are resourced to sustain one medium scale and two small scale operations. MOD's evidence highlighted the effects of concurrent warfighting in two theatres and enduring operational commitments worldwide. After accounting for the cessation of operations in Northern Ireland on 31 July 2007, 17,000 personnel were deployed on operations as at 1 December 2007. A further 4,600 personnel were deployed to Permanent Joint Operating Bases in the rest of the world. The numbers deployed to Iraq had reduced to 7,400 and were scheduled to reduce further to 2,500 by spring 2008. However, numbers deployed to Afghanistan increased to 7,000 and were set to rise to 8,000 during 2008. MOD pointed to the Armed Forces continued support to the Government's wider counter-terrorism operations and civil emergencies. For example, in 2007 all Services were heavily committed to responding to widespread UK flooding.
- 2.39 Against this backdrop of increasing commitments, MOD assessed that the Armed Forces "can cope but only just and that they have a very limited capacity to generate a reserve to meet the unexpected". In its Annual Report¹² MOD stated that the Armed Forces had operated significantly beyond resources since 2002 and had limited readiness capacity to take on new operations. In oral evidence, MOD confirmed that the Armed Forces were operating outside Defence Planning Assumptions adding that the situation was "not sustainable long term". Effects of high operational commitments also included risks to training delivery and important preparations for deployments. MOD added that there had been a qualitative transformation in the intensity of warfighting engagements on operations so increasing the stresses on personnel.
- 2.40 MOD highlighted the impact of operations on delivering harmony guidelines which continued to be breached. For the Services, the Army reported that 10.3 per cent of personnel had exceeded the 415 days involuntary separation guideline over 30 months. Significant pressures were experienced by the Infantry, Royal Armoured Corps and Royal Artillery. The RAF had 6.2 per cent of personnel on detached duty for more than the 140 days guideline in a 12 month period. The RN policy to minimise harmony breaches had led to significant increases in frontline gapping (12.9 per cent RN and Royal Marines 17.7 per cent). Breaches in harmony guidelines were particularly acute for those specialists essential to operational capability who already experienced severe manning shortfalls. We assess the position for Operational Pinch Points below and for specialists requiring a remuneration response in Chapter 3.
- 2.41 The House of Commons Public Accounts Committee Report on Recruitment and Retention¹³ commented on how continuous breaches of harmony guidelines impact on retention. The Committee also confirmed that planning assumptions had been exceeded and that manning levels had not kept pace with operational commitments. The Committee added that targeted financial measures had had some success but pointed out that MOD had not addressed key retention factors. These were highlighted in the NAO's 2006 survey¹⁴ of pinch point trades and included high workloads, the inability to plan ahead and the impact on family life. The Committee made a series of recommendations to MOD to alleviate these concerns. We plan to assess MOD's progress against these for our 2009 Report.

¹² MOD *Annual Report and Accounts 2006-2007*.

¹³ *Recruitment and Retention in the Armed Forces* – House of Commons Committee of Public Accounts, The Stationery Office HC43, 3 July 2007.

¹⁴ *Recruitment and Retention in the Armed Forces Detailed Survey Results and Case Studies* – National Audit Office, The Stationery Office HC1633-II, November 2006.

Operational Pinch Points

- 2.42 As we note above, pressure continued to be felt by those in Operational Pinch Points. Overall Armed Forces' manning masked acute shortfalls in these pinch points. Across the Armed Forces there were almost 35,000 personnel (20 per cent of trained strength) in 67 pinch point trades and critical manning groups. The numbers involved and level of operational tempo continues to make the management of pinch points a priority. However, MOD conceded that, even if overall full manning was achieved, pinch points would remain and harmony guidelines would continue to be breached in these trades.
- 2.43 MOD's approach to pinch points has included use of targeted financial measures combined with tackling wider non-remuneration aspects. Financial measures have increasingly included retention incentives capturing larger groups within the Armed Forces. In addition, since 2005 the Principal Personnel Officers of each Service have had delegated authority to target financial measures. This authority is limited by a capped amount for each Service and for each measure by size of group and level of incentive. We comment below on the specific groups and how financial measures have been used by the Services. We noted in our 2007 Report, as did the National Audit Office, that a thorough cost benefit analysis was required to assess these measures and MOD was considering general research into their effectiveness. MOD has made strategic and widespread use of financial measures which have emerged as an important part of the remuneration package to target retention. We consider it essential that MOD urgently implements robust cost benefit analysis including estimating the additional numbers retained rather than looking at absolute numbers who benefit. In our view, and that of the NAO, this would enable a more accurate assessment of their cost effectiveness.

Royal Navy

- 2.44 The Naval Service pointed to 25 pinch points or critical manning constraints. Significant shortfalls were among Submariners, Fleet Air Arm, Divers and Royal Marines Other Ranks. Royal Marines' Gains to Trained Strength were expected to be only 81 per cent of target and take-up of the FRI had been modest at just under 40 per cent. Widespread shortfalls in the Submarine Service continued and the shortages were almost unsustainable despite a number of targeted measures including FRIs and "Golden Hellos". The RN reported specific issues with Nuclear Watchkeepers at Chief Petty Officer and Warrant Officer and Submarine Warfare Officers at Lieutenant. Additionally, the RN used its delegated authority to implement a FRI for Submariner Medical Assistants and a Golden Hello for Leading Aircraft Controllers.

Army

- 2.45 The Army cited 25 Operational Pinch Points. Due to sustained operational tempo, the Army were unable to deliver 24 month tour interval targets for many units and specialist areas. Significant pinch points of concern were Royal Artillery soldiers, REME Vehicle Mechanics and Explosive Ordnance Disposal Operators. The Infantry FRI introduced in 2007 secured 88 per cent take-up and was likely to increase further as remaining soldiers approached their notice to terminate departure dates. The Army implemented a FRI under delegated authority for Royal Artillery Unmanned Aerial Vehicle Operators which achieved a 100 per cent take-up and aimed at full manning within 18 months. Also introduced was a FRI for Courier Despatch Riders (including RN and RAF personnel).

Royal Air Force

- 2.46 The RAF had 17 pinch points. Areas for concern were the Support Helicopter and Harrier Forces where the level of operational tempo and pull of the civilian sector were viewed as major risks to retention and operational sustainability. Other manning deficits were significant in the Fast Jet cadre, Registered General Nurses and Medical Assistants. RAF measures to address manning concerns in pinch points included a significant increase in recruiting targets through to 2011. Take-up of the 2007 Aircrew FRI was almost 50 per cent securing 34 RAF Aircrew although numbers opting to leave at their Immediate Pension Point remained high. The RAF used delegated authority to introduce FRIs to address RAF Regiment and RAF Firefighter shortfalls.

Pay comparability

- 2.47 Our terms of reference instruct us to “have regard for the need for the pay of the Armed Forces to be *broadly comparable* with pay levels in civilian life”. Pay comparability is a key part of our remit and an important strand of evidence to ensure that the Armed Forces are appropriately positioned against the market, and are able to recruit and retain the personnel they require. Given the nature of the remit group it is not always possible to make direct comparisons between military and civilian jobs. This is not a mechanistic process and we are required to use our judgement when analysing the evidence.
- 2.48 Broad comparability is assessed across three areas: (i) comparisons of pay levels and movements between the military and civilians based on job weight; (ii) comparisons with the packages available to uniformed civilian services; and (iii) comparisons for those at entry points to, and in the early stages of, their careers. We then set our conclusions on broad comparability against other evidence, including that relating to recruitment and retention and the overall manning position, macroeconomic indicators (such as price and earnings inflation and pay settlements) and the affordability implications for MOD.

Job weight

- 2.49 Although some military jobs have precise civilian comparators many do not. We therefore make comparisons based on job weight. Since 2005 we have worked with the Hay Group to access data on civilian pay levels and movements at 1 April each year.
- 2.50 The Hay Group approach follows three stages: (i) “benchmarking” a representative sample of military jobs; (ii) converting the job weights of this sample into Hay job evaluation scores; and (iii) reading across to civilian pay. The Hay Group evaluated 277 military jobs between 2005 and 2006, chosen to be representative of the Armed Forces as a whole, each Service and of the different job weights at each rank. The Hay Group correlated the evaluations derived from its own scoring system against the job scores produced by MOD’s job evaluation system and judged that there was a sound relationship from which decisions on the read across into civilian pay data could be made.
- 2.51 The Hay Group have used, for each rank, average military pay, weighted to reflect the population in that rank and removing the level of X-Factor. Civilian comparators were established which use base salary (annualised basic salary including contractual bonuses and permanent payments) and total cash (basic salary plus variable bonuses and incentives), adjusted to reflect the relative value of the military pension. Overtime and shift premia are not included as comparative working hours are assessed as part of X-Factor considerations.

- 2.52 Overall the Hay Group comparisons of pay levels draw a distinction between Other Ranks and Officers. Broadly speaking as at April 2007 Other Ranks, using the base salary measure, were paid between the market median and upper quartile level of pay of those civilians in jobs with comparable weight. The comparisons suggest that Privates in the lower pay band and Warrant Officer 1s were closest to the median pay of civilian comparators and further from civilian pay at the upper quartile. The remainder of the Other Ranks showed a consistent pattern against the civilian market although Lance Corporals (higher) and Corporals (lower) were ahead of the civilian upper quartile. The data, using the total cash measure, tells a similar story, although military pay is slightly closer to the market median, and further away from the upper quartile, as a result of Armed Forces' personnel not having access to the variable bonuses and incentives that might be available in the civilian sector. It is also important to recognise that these data do not include overtime, or a shift allowance, which as the Hay Group point out can account for around 20 per cent of salary where paid. Overall, our assessment is that pay for Other Ranks, between the market median and upper quartile, is positioned appropriately.
- 2.53 The Hay Group's comparisons broadly showed Officers' base pay was below the market median for civilians and in some instances was below the lower quartile in jobs with comparable weight. Lieutenants' median pay was behind that for civilians as a result of the weighting towards the lowest military pay rates by new entrants in training. The largest differences between the military and civilians were for the more Senior Officers from Lieutenant Colonel and above, especially those in the more highly weighted jobs. Using the total cash measure the differences became larger, especially at the higher ranks, as senior civilian comparators will often have bonuses or payments related to performance which are not available to military personnel. The position for Officers remains similar to that in 2007 with a slight widening of the gap between military pay for Lieutenant Colonels and above and their civilian comparators.
- 2.54 Data between April 2006 and April 2007 showed base pay movements for Other Ranks' comparators between 1.5 and 4.5 per cent, and between 2.6 and 8.4 per cent for Officer comparators. The largest increases were for Senior Officer comparators.

Uniformed civilian services

- 2.55 In addition to the analysis based on job weight we also examine the packages available to uniformed civilian services. Many Service personnel draw comparisons with people in these services as they are seen in many ways as doing a similar job. Indeed for some these are seen as potential second or alternative careers.
- 2.56 Our analysis covered the Fire Service, Police, Prison Service, MOD Police Service and Ambulance Service. Although there are perceived similarities these services offer a range of different career structures with different entry points and different terms and conditions. For instance, two-thirds of new recruits to the Armed Forces in 2006-07 were aged 16-20 while the average age on entry to the Police was 27 years. Despite these differences, after adjusting comparisons for X-Factor and pensions, the packages available to the uniformed civilian services appear to remain comparatively advantageous.

Young people

- 2.57 We continue to make pay comparisons between young people serving in the military with their civilian counterparts. Data from the 2007 Annual Survey of Hours and Earnings (ASHE) showed that military starting pay was significantly ahead of median gross earnings for civilians aged 16-17 year old but below that for 18-21 year olds. Upon completion of training Service earnings were ahead for both age groups. For 22-29 year

olds (the age range in ASHE which broadly covers Privates to Corporals (and equivalents)) the average military pay of Privates/Lance Corporals was behind civilian earnings but Corporals' pay was ahead by almost a third. These findings are consistent with recent trends although we acknowledge the relative improvement of the position of the most junior military personnel following the targeted pay increases in 2007.

Graduates

- 2.58 Median starting salaries for graduates rose by 2.4 per cent in 2006-07 according to the Association of Graduate Recruiters (AGR). Employers remained buoyed by the current recruitment position with vacancies in 2006-07 continuing the recent trend of year on year increases. AGR expected similar vacancy levels to 2007 to continue into 2008. Military graduate starting salaries for Officers remained lower than civilian salaries but were comparable with their peers in other public sector professions. Graduate Officers received competitive salary progression early in their careers.

National Minimum Wage (NMW)

- 2.59 During 2006 there was wide ranging media coverage concerning the position of Junior Ranks' pay compared to the National Minimum Wage (NMW). Specific comparisons were made for those on operations when personnel can be working very long hours. The targeted restructuring of Pay Range 1 and the introduction of the Operational Allowance in 2007 have since improved the position of the most junior trained personnel in relation to the NMW. While we acknowledge that the military are exempt from the NMW, MOD has stated that they are committed to acting within the "spirit" of the legislation operational considerations permitting. We therefore continue to monitor the position of Junior Ranks as part of our terms of reference on broad pay comparability.
- 2.60 In 2006-07, average working hours for all Service personnel were 48.0 hours per week and for Junior Ranks were 46.7¹⁵ hours – equating to a minimum weekly rate of £300.65. Table 2.3 shows NMW rates and effective weekly salaries during 2007 using average working hours of Junior Ranks. The table illustrates the number of hours that would need to be worked by the most Junior Ranks before their pay would fall below the NMW¹⁶. The illustrations show that, at October 2006 rates, Junior Ranks potentially working in excess of 56 hours per week (aged 22 and over) and 68 hours (aged 18-21) could have earned below the NMW. NMW rates from October 1 2007 reduce the potential weekly hours to fall below the NMW to 55 and 65 hours per week respectively.

Table 2.3: Weekly salaries at National Minimum Wage (NMW) hourly rates

Age	NMW Rate as at October	NMW Rate (£)	Weekly Salary at NMW ¹⁷ (£)	No. of hours worked to be below NMW ¹⁸
18-21	October 2006	4.45	207.82	67.6
	October 2007	4.60	214.82	65.4
22+	October 2006	5.35	249.85	56.2
	October 2007	5.52	257.78	54.5

¹⁵ DASA Survey of Working Patterns 2006-07.

¹⁶ Further details on definitions relating to the National Minimum Wage can be found at www.berr.gov.uk.

¹⁷ Calculated using average weekly working hours for Junior Ranks of 46.7.

¹⁸ Calculated using a lowest weekly pay rate for Junior Ranks of £300.65.

Our military pay recommendation for 2008-09

- 2.61 In reaching our recommendations we have taken account of the Government's public sector pay policy, its inflation target and the prevailing economic circumstances, the Defence context and affordability. We have balanced these against the manning position including recruitment, retention and morale and the need to maintain broad pay comparability with civilians. We set out the key drivers for our recommendation below. We have remained mindful throughout our deliberations of the need to deliver an effective and balanced remuneration package.
- 2.62 The Government's evidence clearly acknowledged that public sector pay needs to be sufficient to recruit and retain, and sustain motivation and morale but it also stressed the Government's view that settlements should be guided by the CPI inflation target of 2 per cent. Public sector pay is a large proportion of public expenditure; the Government also considers that the level of public sector pay awards plays a significant part in controlling inflation within the economy. We note also the Government's emphasis on the affordability of awards in the context of the 2008-11 CSR which was the tightest for nearly a decade.
- 2.63 Turning to the broader economic context, we note that CPI inflation has been at or around the Government's target of 2 per cent since July 2007. By December 2007, inflation measures were CPI at 2.1 per cent, RPIX at 3.1 per cent and RPI at 4.0 per cent. Forecasts pointed to CPI remaining slightly above target for 2008 during which time RPI and CPI measures were expected to converge. In the three months to November 2007, the whole economy Average Earnings Index (including bonuses) was at 4.0 per cent (private sector at 4.2 per cent and public sector at 3.3 per cent). Excluding bonuses, the Average Earnings Index was at 3.6 per cent (public sector 3.5 per cent). Across the economy, median pay settlements had moved ahead of 3 per cent after three years of stability.
- 2.64 The Secretary of State placed emphasis on MOD's specific affordability concerns within its CSR settlement. The evidence explicitly stated that paybill increases above 2.5 per cent would need to be funded from elsewhere in Defence budgets including provision for personnel, accommodation and military capability. We accept that MOD is under financial pressure and that it faces difficult management decisions on the allocation of resources. However, we must base our recommendations on all the evidence available to us.
- 2.65 The Defence context is also influenced by the pressures arising from operations. We note the reducing numbers in Iraq and the cessation of operations in Northern Ireland in 2007. However, plans anticipate increasing numbers in Afghanistan and we note MOD's assessment relating to the increased intensity of warfighting operations. It is widely accepted that the Armed Forces have operated outside Defence Planning Assumptions for more than five years. A DEMOS Report concluded that the Armed Forces are "overstretched" and resources constrained. MOD itself accepted that it could only just cope with current pressures. While the numbers committed to operations remain high and manning deficits persist, personnel and their families will continue to come under pressure posing real risks to recruitment, retention and morale. In the interests of retention, our recommendations should deliver a package which adequately compensates for these circumstances. In this context, we note the Secretary of State's view that the Armed Forces' pay award should be towards the top end of those in the public sector.

- 2.66 The manning position is complex. MOD informed us that manning balance will not be achieved by 2008 and was unlikely to be achieved before 2009. The evidence showed that the manning deficit at April 2007 had more than doubled since 2006 to 3.2 per cent and had widened further to 3.7 per cent by October 2007. Trained strength was falling faster than the manning requirement. Beneath this headline figure, the Services continued to experience specific shortages amounting to almost 35,000 personnel (20 per cent of the workforce) in 67 Operational Pinch Points or crucial manning groups. We share MOD's concern that these pinch points will continue over the longer term, even if overall manning balance is achieved. While targeted financial measures aim to alleviate some of these shortages, the overall level of basic pay and our recommendation still has a role to play in recruiting and retaining these essential cadres.
- 2.67 On a more positive note, overall recruitment to the Armed Forces has improved – increasing by 9 per cent between 2005-06 and 2006-07. The increase was, however, from a low base. Some major arms (such as the Royal Marines) continue to undershoot recruiting targets and 2007-08 targets for all three Services were described as challenging. Gains to Trained Strength were 0.6 per cent lower at April 2007 than a year earlier but had improved to October 2007. The Army warned that output from Phase 2 training was likely to be only 83 per cent of the 2007-08 target and was forecast to remain under target to 2011.
- 2.68 Against the background of manning shortages and improving but still fragile recruitment, retention remains critical to operational capability. Voluntary Outflow continued the gentle upward trend of the previous three years, increasing during 2006-07 from 3.4 to 3.6 per cent for Officers and from 5.4 to 5.6 per cent for Other Ranks. Operational pressure, separation and the impact on family life continue to have a negative influence on retention. While survey data indicate that, overall, pay in the Armed Forces remains a positive source of satisfaction, dissatisfaction with absolute and relative pay is increasing.
- 2.69 The labour market is tightening with increasing competition for higher skilled personnel; demographic changes have reduced the supply of young people and increasing numbers are continuing in education. The Armed Forces cannot respond as other employers do to these changes in the labour market; for example they cannot readily fill gaps or skill shortages by recruiting older workers or non-commonwealth foreign nationals. Moreover, increases in labour supply are mainly from groups that traditionally have not entered the Armed Forces. These factors point to ongoing recruitment challenges and the continued importance of retention. Further progress on non-pay developments is required to support retention; several reports have highlighted this and made detailed recommendations, not least in 2007 the House of Commons Public Accounts Committee and the National Audit Office in 2006. However, pay also has a role to play.
- 2.70 The final aspect of our remit is to achieve broad pay comparability with civilians (excluding X-Factor). Our comparisons on job weight at April 2007 suggest that *pay levels* were broadly in line for Other Ranks and Junior Officers but the significant gap with civilian pay levels at Lieutenant Colonel through to Brigadier (and equivalents) had widened. *Pay movements* for civilians of similar job weight were in a range of 1.5 to 4.5 per cent for Other Ranks and 2.6 to 8.4 per cent for Officers. The packages available to uniformed civilian occupations, who Service personnel consider to be natural comparators, continue to be advantageous compared to the military, particularly on starting pay although civilian entry ages are much higher. An analysis of starting pay suggested that Armed Forces' pay was favourable compared with civilian median

starting salaries up to age 21. Between ages 22-29, pay for Privates/Lance Corporals was generally behind civilians, though well ahead for Corporals. Officers' starting pay was behind that for graduates entering civilian employment but the Armed Forces offer significant progression in the early years and starting pay compared well with the public sector.

- 2.71 We draw our conclusions from all the evidence presented including the Government's approach, the Defence context, economic considerations, the manning position and pay comparisons. From our assessment of the evidence, we conclude that our pay recommendation should support recruitment and retention and appropriately recognise the contribution of Service personnel. We therefore recommend a 2.6 per cent increase to military salaries. We consider that an award at this level is consistent with Government public sector pay policy, including the achievement of the CPI inflation target, and is, in our view, manageable within MOD's budgets.

Recommendation 1: We recommend that the military pay ranges under Pay 2000 for Other Ranks and Officers be uprated by 2.6 per cent from 1 April 2008. The annual salary scales arising from our recommendation are in Appendix 1.

Bespoke pay scales

- 2.72 As part of our periodic review of bespoke payscales, we reviewed Officers Commissioned From the Ranks (OCFRs) and Chaplains for this report. OCFRs are paid according to previous length of service in the Other Ranks before commissioning. Around 19 per cent of RN Officers progress through this route, 20 per cent in the Army and fewer in the RAF because of differing Other Ranks' career structures. MOD commented that OCFRs were a valuable group in retaining experience, that they provided a major saving on training (compared to direct entrants) and that bespoke arrangements were appropriate until the outcome of its Strategic Remuneration Review was known. We conclude that the current system is working effectively in pulling through sufficient Officer numbers and provides appropriate remuneration when commissioning. We therefore endorse its continuation.
- 2.73 Our review of Chaplains' pay also included a helpful visit to the Armed Forces' Chaplaincy Centre during which Chaplains raised many issues later confirmed in MOD's evidence. Service Chaplains were increasingly deployed to operational areas and gaps at home increased workload and unsocial hours. Current manning deficits were up to 15 per cent across the Services with recruitment being from an ageing and decreasing civilian pool (entry is usually from age 36 in the RAF and 41 and over in the RN and Army).
- 2.74 MOD considered the current bespoke pay structure appropriate as it effectively captures the Services' different rank and career structures. However, MOD recognised the perception among Service Chaplains that remuneration could be insufficient when compared to the shorter guarantee for a military career compared to civilian employment. In 2006-07, 85 per cent of Army Chaplains had five years or more experience in civilian clergy. Previous civilian seniority can be taken into account up to four years but to counter this perception MOD proposed extending this to six years. MOD also proposed harmonised access to Class 1 Chaplains' pay rates following RAF promotion changes away from time-served. Both of these issues were raised on our visit and we welcome MOD's prompt action to resolve them and also endorse continuation of the current payscales. In the longer term, MOD's recent job evaluation which identified four major Chaplains' roles might provide the basis for further consideration of remuneration arrangements under the Strategic Remuneration Review.

Chapter 3

TARGETED PAY MEASURES

Introduction

- 3.1 There has been a growing emphasis in recent years on targeted measures, particularly those where shortages in specialist groups directly impact on operational capability. These measures are important to the remuneration package. MOD considered its targeted proposals for 2008 to be affordable as part of the total package. In this chapter we comment on MOD's review of Submariners, the introduction or extension of Financial Retention Incentives (FRIs), and examine the ongoing recruitment and retention requirements for Specialist Pay (including new proposals for a Submarine Pay supplement and Explosive Ordnance Disposal Operators' Pay) and Compensatory Allowances. Finally, we review Commitment Bonuses and make recommendations on Reserves' Bounties.

Submariners

- 3.2 MOD's periodic review of Submariners proposed a range of measures to improve manning, recruitment and retention. We examine the overall position of Submariners below and MOD's proposals for FRIs and continuation of the Golden Hello in paragraph 3.9. We assess the case for a new Submarine Pay supplement in paragraph 3.23.
- 3.3 Undermanning in the Submarine Service has been a longstanding issue. Serious shortages led to restructuring of and substantial increases to Submarine Pay in 2000 and 2001. These had limited effect prompting MOD's Submarine Manning and Retention Review in 2003 which aimed to address both shortfalls for specific critical groups as well as a wide range of groups approaching critical levels. We endorsed a range of targeted pay solutions (including FRIs, significant increases in Submarine Pay between 5 and 50 per cent, and a £5,000 Golden Hello). These were accompanied by a strategy to address non-pay issues to improve recruitment and retention.
- 3.4 For this review, MOD commented that the initiatives helped improve retention in the short term while a range of non-remuneration recruitment measures were less successful. MOD considered the manning position had deteriorated further:
- The deficit against overall trained strength had increased to 8.6 per cent since 2002;
 - Two thirds of Submarine branches had failed to achieve recruitment targets, some significantly – recruitment initiatives had focused on direct recruiting and entry from General Service;
 - Gains to Trained Strength targets set in 2003 had failed to exceed 86 per cent and were forecast at 70 per cent for 2007-08 (only 50 per cent for warfare specialisations);
 - Three Submariner Operational Pinch Points existed (plus four critical manning groups) with significant shortfalls of Category A and B Nuclear Watchkeepers (deficits of 31 and 26 per cent respectively) and serious shortfalls for Junior Officers and Ratings below Warrant Officer 2;
 - Financial measures had suppressed Voluntary Outflow (to less than 3 per cent) but even a small increase in Voluntary Outflow would threaten operational capability and nuclear safety; and

- Retention was fragile, influenced by the enduring effect of unique living and working conditions at sea and alongside, exclusion from improved support and financial packages on operations, reduced pay differentials with General Service following transition to Longer Separation Allowance, and the market pull for experienced nuclear personnel.
- 3.5 We are disappointed that the remuneration and non-pay measures implemented since 2003 appear to have had little overall impact on the manning, recruitment and retention position. However, MOD clearly acknowledges that addressing Submariner shortfalls is a major priority. MOD and the Royal Navy commented that necessary recruitment and retention measures were predicated on several key factors (all reinforced on our visits): the Government's commitment to the UK nuclear deterrent; submarine capability being a vital component of UK defence policy; the requirement for full manning to fulfil operational capability and stringent nuclear safety arrangements; the retention of experienced personnel when Submarine Service is unpopular and the working environment difficult; and improving pay relative to General Service.
- 3.6 We were reassured by the RN PPO that non-remuneration measures designed to compensate for the isolation and erosion of the overall submarine package would be actively pursued. It should also be borne in mind that the costs of recruitment and retention measures are relatively small compared to the significant capital investment and maintenance costs involved in running the Submarine Service. We consider FRIs below and an enhancement to Submarine Pay later in the chapter. We are also content to endorse the continuation of the Golden Hello as future manning levels continue to be at risk when undershooting recruitment targets.

Financial Retention Incentives

- 3.7 FRIs have increasingly become MOD's strategic choice of measure to influence retention. In recent years we have endorsed a series of FRIs designed to retain personnel essential to delivering operational capability. Smaller groups have also been targeted through the Principal Personnel Officers' delegated authority which enables each Service, within limits, to implement quick remuneration responses to emerging manning problems.
- 3.8 We accept the necessity of this short term approach and welcome the time limits and exit strategies MOD has attached to each measure. We also note the NAO's acknowledgement of their effectiveness notwithstanding our view that cost benefit measures are urgently needed to assess effectiveness. The widespread use of such temporary measures could, however, point to potential structural problems in the pay system which MOD should keep under review. For the remit group, targeted financial measures can also be divisive and we look to MOD and the Services to actively manage other groups not receiving these incentives. For introduction on 1 April 2008, we received evidence on FRIs for Submarine Nuclear Watchkeepers, RAF Regiment Gunners, RAF Firefighters, REME Vehicle Mechanics and Royal Artillery.

Submarine Nuclear Watchkeepers

- 3.9 Previous FRIs for Junior Warfare Officers and Chief Petty Officer Weapons Engineering Artificers had been successful in addressing specific specialist shortages and were removed although the Nuclear Watchkeeper (Category B2) FRI was extended to 2008. Shortages across the Watchkeeper categories remained significant and were a high priority given their critical role in submarine running. Category C numbers had improved (a 31 per cent surplus) but Category B and A shortages had increased since 2003 (by 2 and 5 percentage points respectively). Category B manning targets will not be met on cessation of the FRI in 2008 and will be hampered by high outflow on promotion to meet deteriorating Category A shortfalls. The substantial increase to Nuclear Propulsion Pay (20 per cent) in 2003 did not improve manning to the intended level.

- 3.10 MOD considered the situation unsustainable and favoured targeted retention incentives to address manning given the long training times. It takes a minimum of 8½ years to reach Category B and a minimum of 13½ years to qualify at Category A2. Based on the fragile manning position and mandatory requirements for these personnel both at sea and alongside, MOD proposed a new FRI for Category A2 Nuclear Watchkeepers of £25,000 and an extended FRI for Category B2 Nuclear Watchkeepers reduced to £20,000. We are content to endorse these carefully targeted FRIs.

Recommendation 2: We recommend Financial Retention Incentives for Submarine Nuclear Watchkeepers from 1 April 2008 to 2012 subject to a four-year return of service as follows:

- For Category A2 Nuclear Watchkeepers at £25,000; and
- For Category B2 Nuclear Watchkeepers at £20,000.

RAF Regiment Gunners

- 3.11 MOD proposed extending the RAF Regiment Gunners' FRI introduced under PPOs' delegated authority to a FRI of £10,000 for Senior Aircraftsman. RAF Gunners manning was 28 per cent in deficit with a 26 per cent shortfall for Corporals. Recruitment, although good, fell short of requirement and achievement of a 60 per cent Gains to Trained Strength target would be challenging. Gunners Voluntary Outflow at 18.1 per cent was 13.6 percentage points above the RAF trade average – the majority leaving between three and six years influenced by increased levels of operational tempo, separation, additional workload and dissatisfaction with pay.
- 3.12 MOD highlighted the serious risk to the ground defence of Deployed Operating Bases posed by the serious manning shortfall. Gunners were crucial to operational delivery and we have seen their roles first hand on our visits to operational areas. We recognise the similarities with the Infantry and Royal Marines FRIs in terms of roles, required attributes and recruitment sources. The FRI helpfully targets specific cadres over the next three years combining Commitment Bonuses to pull Gunners beyond the vulnerable three-six year point and through to the seven year point. This will also secure a cadre for promotion to Corporal thereby alleviating their manning shortfalls. The FRI anticipates take-up of 70 per cent to address the manning shortfall before the combined Commitment Bonus payment at four years can be introduced in 2009.
- 3.13 We are content to endorse the FRI proposals recognising RAF Regiment Gunners are key operational enablers necessary for enduring expeditionary air operations. Alongside the FRI we welcome the RAF's recognition of wider action under the RAF Regiment Manpower Strategy that aims to raise training standards, to improve courses and optimise pass rates, to review commitments, to reconfigure secondary roles, to monitor attitude surveys and to enable adventure training. We look forward to regular progress updates.

Recommendation 3: We recommend the introduction of a RAF Regiment Gunners' Financial Retention Incentive of £10,000 (including Commitment Bonuses) from 1 April 2008 for three specific cadres to 2010 subject to completing seven years reckonable service.

RAF Firefighters

- 3.14 A FRI of £9,000 was proposed for RAF Firefighters incorporating existing Commitment Bonuses (adjusted dependent on date of entry and length of service). The FRI would extend the 2007 PPOs' delegated authority FRI to stem the significant outflow of Firefighters that threatens operational flying capability. Senior Aircraftsman provide the core of the cadre's manpower with a deficit of 12 per cent forecast compounded by current medically downgrading at 9 per cent. Recruitment targets have been met but Overall Outflow was 10.6 per cent – a 77 per cent increase for Senior Aircraftsman since 2005. Outflow was pronounced between three and six years' service when operational tempo, separation, and disparity of pay with Defence and civilian counterparts were influential.
- 3.15 RAF Firefighters are vital for providing air safety and sustaining airbridges to operational theatres. Manning shortages put operational capability and safety of UK air bases at risk. The initial 2007 FRI achieved 56 per cent take-up and generated increased return of service. The extended FRI would build on this success by specifically targeting three cadres at key retention points. We are content that the FRI is sufficiently targeted ahead of consolidating the Commitment Bonuses to a single payment in 2009. We endorse the FRI and would welcome updates on long term non-remuneration measures including examining the necessity of using Service personnel.

Recommendation 4: We recommend the introduction of a RAF Firefighters' Financial Retention Incentive of £9,000 (including Commitment Bonuses) from 1 April 2008 for three separate cadres to 2010 subject to completing seven and a half years reckonable service.

REME Vehicle Mechanics

- 3.16 MOD proposed the introduction of a £7,000 FRI for REME Lance Corporal Vehicle Mechanics with between four and six years' service. MOD cited that REME Vehicle Mechanics had been an Operational Pinch Point since 2003. Manning showed structural imbalances with shortages particularly acute at Lance Corporal (25 per cent) between five and seven years' service – a deficit of 320 (which increased to 386 or 31 per cent by October 2007). Lance Corporal Voluntary Outflow was at 13.5 per cent compared with the Army average of 5.8 per cent. Reasons for leaving were common to other areas of the Army – separation, impact on domestic life and morale. These were exacerbated by a tour interval of 12 months (target 24 months) and 15.5 per cent breaking individual harmony guidelines for number of days separated. Current recruitment was described as strong but training capacity was limited without significant further investment.
- 3.17 MOD reassured us that the Army had been active in developing the REME Manning Plan and the REME Retention Strategy. These included non-remuneration measures, a structure review, a review of promotion rates and attracting rejoiners/transfers. The Army was confident that recruiting would plug the manning gap in the medium term as new entrants were just over target in 2006-07.
- 3.18 We conclude from MOD's evidence and our visits that a temporary solution is required to support this front line operational capability. Unless addressed a downward spiral of gapping, reducing tour intervals and outflow is inevitable. The high level of responsibility held by these Junior NCOs on operations and the value of their skills to the civilian market also bring manning pressures. With these factors in mind, we endorse the introduction of the FRI. We note that MOD requires the level of the FRI (at £12,500 including Commitment Bonuses) to influence retention, to recognise the skill set required and Lance Corporals' length of service, and to reflect training costs. A 70 per cent take-up was estimated and the FRI would terminate before the three-year lifespan if manning reaches 98 per cent of requirement.

Recommendation 5: We recommend the introduction of a REME Vehicle Mechanics' Financial Retention Incentive of £7,000 from 1 April 2008 for Lance Corporals with between four and six years' service subject to a three-year return of service. The FRI would run to 2011.

Royal Artillery

- 3.19 A £4,500 FRI was proposed for Royal Artillery (RA) Bombardiers and below with between five and six years' service. Royal Artillery manning deficits were the highest of the major arms within the Army. Junior NCOs and below were 13 per cent undermanned (or 660 personnel) with Bombardiers at 19 per cent. Recruitment in 2005-06 had been 27 per cent under target and 4 per cent under target in 2006-07. While trained output from Phase 2 training was encouraging, experienced personnel were required and shortfalls would reduce the pool for promotion to Sergeant. RA Voluntary Outflow averaged 5.9 per cent between 2005 and 2007 – above the Army average – and was influenced by frequency of operational tours. Length of RA service was below the Army average with over half of RA soldiers serving six years or less (only the Infantry had a worse wastage rate).
- 3.20 MOD's evidence provided an analysis of the deployment of RA units commenting that manning was supported only by backfilling and use of TA units. In addition to operational pressure, one-third of RA units are being retrained and converting to new equipment over the next five years to support operations. MOD commented that the effect of these pressures was that the RA was approaching a point where either quality or numbers of Junior NCOs will be inadequate to meet operational commitments. While the RA Manning Plan focused on improving numbers e.g. through rejoiners, MOD concluded that a FRI offered the best value for money to pull personnel through and to support the RA retraining programme. A take-up of 40 per cent was predicted with achievement of 98 per cent manning triggering its closure if before 2012.
- 3.21 The case for the RA FRI is predicated on a growing risk to manning and retention. Deployments at the current rate, backfilling and the pressures on retraining between tours all carry risks to retention. MOD's sustainable experience profile for ranks up to Bombardier shows the potential manning "black hole" and reinforces the need for a proactive remuneration solution. We note the importance to the Army of capturing the whole RA cadre at Bombardier and below, the need for a comparable level with the Infantry FRI and the combination with the Commitment Bonus to maximise return of service. We endorse the FRI as a temporary solution to allow the Army to build on encouraging numbers being recruited and coming through training.

Recommendation 6: We recommend the introduction of a Royal Artillery Financial Retention Incentive of £4,500 from 1 April 2008 for Bombardiers and below with between five and six years' service subject to a three-year return of service. The FRI would run to 2012.

Specialist Pay

- 3.22 Specialist Pay continues to play a vital role in ensuring the recruitment and retention of cadres key to operational delivery. MOD informed us that the Services continue to review the posts that attract Specialist Pay – the Royal Navy review one-third of these posts annually, the Army completed a full review ahead of JPA roll-out and the RAF periodically review appropriate posts. On our visits, specialists emphasise the importance of Specialist Pay to their overall package although frequently observing that it is not pensionable. MOD invited us to consider increasing Specialist Pay rates taking account of any increase to basic pay. We therefore recommend that all rates of Specialist Pay should be increased in line with our overall pay recommendation so as to maintain their value and support recruitment and retention. We consider below separate proposals for a Submarine Pay supplement and new arrangements for Explosive Ordnance Disposal Operators.

Recommendation 7: We recommend that all rates of Specialist Pay, including Reserve Bands, be increased by 2.6 per cent from 1 April 2008. The recommended rates are set out at Appendix 2.

Submarine Pay

- 3.23 We set out the detailed evidence for the periodic review of submariners in paragraphs 3.2 to 3.6. Among its range of measures, MOD proposed an additional Submarine Pay supplement and increases to Submarine Pay and Nuclear Propulsion Pay in line with our overall pay recommendation. We comment in paragraph 3.22 on uprating Specialist Pay.
- 3.24 MOD proposed a £5.00 daily Submarine Pay supplement to target personnel assigned to seagoing submarines either deployed or in base port (excluding those in extended readiness or deep maintenance). The supplement is required as an additional incentive to distinguish between types of Submarine Service and to attract personnel from General Service where better pay and conditions were perceived. MOD considered the pay differential with General Service had been eroded following changes to Separation Allowances (an average reduction of 17 per cent in submariners' income). The RN PPO emphasised in oral evidence that the supplement would provide the desired pay differential, would be appropriately targeted at those serving on seagoing submarines and would send an important signal for recruitment and retention.
- 3.25 MOD clearly attaches a priority to submariners across the Operational Pinch Points. Our visits also highlighted personnel's views that Submarine Pay was insufficient compensation for the unique hardships endured on board compounded by the additional workload pressures created by existing manning shortages and sustained operational tempo. We agree that the supplement should be introduced from 1 April 2008. However, we note that increasing Submarine Pay permanently builds an addition into the remuneration package. With this in mind, we will be monitoring the effect closely and the longer term manning position. We therefore request that MOD vigorously pursues all avenues to support submariner manning and provides us with regular progress updates.

Recommendation 8: We recommend the introduction of a Submarine Pay supplement for those assigned to seagoing submarines at £5 per day from 1 April 2008.

Explosive Ordnance Disposal Operators' Pay

- 3.26 MOD sought the introduction of a new category of Specialist Pay to counter recruitment and retention problems for Explosive Ordnance Disposal (EOD) Operators in the Army and RAF. MOD's evidence emphasised the importance of EOD capability for operations, in the UK and in military aid to the civil power. Demand for operational and civil tasks was expected to significantly increase the EOD manning requirement.
- 3.27 Manning shortages averaged up to 30 per cent among EOD Officers, Warrant Officers and Senior NCOs in the Royal Engineers, Royal Logistics Corps and the RAF. Shortages had led to breaches of harmony guidelines with Army tour intervals averaging 12 months and the RAF being unable to effectively man roulement operational support. Current manning gaps were filled by extending service and calling back personnel from other areas. Training capacity and output rates were not producing sufficient numbers even to maintain current manning deficits. MOD reported three factors influencing EOD manning, recruitment and retention: (i) the demanding skill set; (ii) the adverse career impact of EOD not being a separate trade; and (iii) a growing pull from the civilian market with the Armed Forces being the main supplier of trained personnel to civilian industry. RAF Voluntary Outflow was at 14 per cent although data was unavailable for the Army and Royal Navy.
- 3.28 Meeting manning requirements for EOD Operators has been a longstanding concern and pressures will continue as demands are set to increase. MOD considered remuneration options covering variable bonuses and FRIs but concluded that Specialist Pay was a cost-effective solution structured in three levels to encourage recruitment and support retention by allowing pay progression according to competence and careers. The measure would be on a Non-Career Continuous basis and target the Army and RAF as Royal Navy manning currently had much smaller manning deficits. We recognise the enduring nature of EOD manning that requires a permanent rather than temporary solution which targets both recruitment and retention. In recommending the implementation of Specialist Pay, we emphasise that MOD and the Services must make progress with non-remuneration measures (including investing in training, improving throughput and removing negative career impacts of EOD posts) and undertake an early periodic review (including monitoring Voluntary Outflow data). We note that payments will apply from 1 April 2008 but implementation might be delayed during 2008 under JPA.

Recommendation 9: We recommend the introduction of Explosive Ordnance Disposal Operators' Pay from 1 April 2008. The rates are at Appendix 2.

Compensatory Allowances

Unpleasant Work Allowance

- 3.29 We received evidence on the first periodic review of Unpleasant Work Allowance (UWA) since its introduction in 2005 (replacing two previous allowances). UWA is paid for unpleasant duties at three rates depending on the nature of the activity. We note its extensive use in operational areas and for duties in the UK or at sea. From our visits, we understand that some difficulties were experienced in making cases for payment in operational areas and eligibility has now been clarified to better reflect operational circumstances. UWA's utility in operational areas, its role in providing compensation and its importance to retention were emphasised on our visits. We conclude that UWA is operating effectively and that the structure of payments remains appropriate.

Rates of Compensatory Allowances

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

Recommendation 10: We recommend that all rates of Compensatory Allowances be increased by 2.6 per cent from 1 April 2008. The recommended rates are set out at Appendix 2.

Commitment Bonuses

- 3.31 Our periodic review of Commitment Bonuses has been delayed while MOD conducts its Strategic Remuneration Review. MOD provided information on the purpose of the Bonuses in extending service, the single-Services' flexibilities introduced under JPA and the numbers receiving payment (around 14,000 in 2005-06). We await the outcome of MOD's review but in the meantime note the Services' use of Commitment Bonuses combined with FRIs and that Bonus rates have not been increased since 1997-98.

Reserves

- 3.32 To support our annual assessment of Reserves' Bounties, MOD provided manning and Continuous Attitude Survey evidence. We also gathered views from our visits and discussed these with the Assistant Chief of Defence Staff (Reserves and Cadets) and the Director of Reserve Forces and Cadets. The 2006 National Audit Office Report¹ and MOD's evidence demonstrate the enduring commitment to Reserves supporting operations. The Territorial Army (TA) mobilise 1,200 personnel annually and 26 per cent of Royal Naval Reserve (RNR) and 73 per cent of Royal Marine Reserve (RMR) have mobilised since the start of Op TELIC. RAF Reserves (RAuxAF) deploying at 25 per cent have doubled since 2006. MOD commented that the commitment to operations was stable, manning levels were sustainable without compulsory mobilisation, and greater forward planning had improved preparation and training.
- 3.33 Reserves' trained strength continues to fall short of requirement – TA 85 per cent strength, RNR 71 per cent, RMR 88 per cent and RAuxAF 65 per cent. Recruitment has been in decline since 1999 and remains a significant challenge but a "One Service" recruiting initiative is underway. Retention is complex, influenced by the quality of training and external pressures from employers and families. Further work was planned, alongside the review of Reserve Terms and Conditions of Service, to improve the mix between full and part time service. In this regard, we urge MOD to maintain progress integrating Reserves and Regulars, particularly on operations, to look at single-Service Bounty requirements and to ensure employer goodwill is maintained. In the meantime, MOD, and those we met on visits, continued to emphasise the importance to retention of the Bounties. We also note that Reserves continue to be an integral part of operational capability. With these in mind, we recommend Bounties and the Call-Out Gratuity be increased in line with our overall pay recommendation.

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

Recommendation 11: We recommend the following rates of Reserves' Bounty from 1 April 2008:

- **Volunteer Reserve Forces Training Bounty – Year 1 £405, Year 2 £891, Year 3 £1,376 and Year 5 £1,596;**
- **Ex-Regular Officers and Other Ranks Training Bounty – £359;**
- **University Units Bounty – Year 1 £139, Year 2 £161 and Year 3 £196;**
- **High Readiness Reserve Bounty – £405;**
- **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 – £485.**

Chapter 4

X-FACTOR

Introduction

4.1 This chapter sets out the evidence for and our recommendations on X-Factor. We usually review the X-Factor every five years. Our last review was for the 2003 Report which concluded there was insufficient evidence for a change in the rate of X-Factor. For this review, therefore, we have examined trends since the X-Factor was last adjusted in 2000. We also assess the evidence for the X-Factor taper and groups receiving less than the full X-Factor.

4.2 The evidence base for this review included:

- MOD's assessment of changes for the military since 2000;
- Independent research on civilian trends commissioned from IDS¹;
- The views expressed to us by all ranks of Service personnel and their families on our visits over the last two years;
- Evidence from the Service Families' Federations, the Reserve Forces' and Cadets' Associations, and the British Medical and Dental Associations; and
- Our Secretariat's analysis of military and civilian information.

The rationale for X-Factor

4.3 X-Factor has been a component of Armed Forces' pay since the introduction of the military salary in 1970. It is a pensionable addition to pay that recognises the relative disadvantage of conditions of service experienced by members of the Armed Forces compared to those in the civilian sector. X-Factor accounts for a range of potential advantages and disadvantages which cannot be evaluated when assessing pay comparability. Advantages for the military include job satisfaction, job security, promotion and early responsibility, and adventure and travel. The disadvantages cover among other things danger, turbulence, separation, hours of work, restrictions on leave and access to trade union membership.

4.4 The balance of advantage and disadvantage is averaged across a career and across the Services. X-Factor is not intended to reflect the particular circumstances that Service personnel face at any one time. The Government's evidence for this review recognised that there was necessarily a degree of judgement involved in setting the level of X-Factor.

4.5 When X-Factor was introduced in 1970², it aimed to compensate for the special conditions of employment in the Services compared to the normal run of civilian employment. At that time these were deemed to include on the one side liability to danger, being subject to discipline, turbulence and the adverse balance of Service conditions of employment, and on the other side the advantages including breadth of training and early responsibility. These elements were viewed as requiring special, but not specific, compensation. It acknowledged that an "element of judgement must inevitably enter into the measurement of them in financial terms" and that the amount "may need to be varied from time to time".

¹ A review of the X-Factor, a report for the AFPRB – Incomes Data Services, August 2007 published on www.ome.uk.com.

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

- 4.6 X-Factor covers a range of components which reflect differences in military and civilian life. Ahead of our five-year review, we commissioned Inbucon to conduct an independent review of the components. Inbucon's Report³ confirmed that existing components remained relevant but redefined them to better reflect "modern" Service and civilian life within a framework covering features of the job, impact of the job and social aspects of the job. This framework provided a firm basis for our assessment and for those presenting evidence.
- 4.7 All those providing evidence were unanimous and emphatic in their view that X-Factor is an important part of the overall remuneration package. In oral evidence, the Secretary of State commented that X-Factor was embedded in the "psyche" of the Armed Forces and that a mechanism would always be required to reflect differences with civilians beyond pay comparability. The PPOs also pointed to X-Factor as essential to reflect military and civilian differences, and its significant contribution to Armed Forces' morale and motivation. They highlighted key changes since 2000 and the enduring nature of these changes going forward for the next 10 years. MOD's evidence suggested X-Factor was among its high priority measures for 2008. Our visits in recent years emphasised the priority attached to X-Factor by personnel, families and Senior Officers.

Previous reviews and current level

- 4.8 In general, we have reviewed X-Factor every five years or more frequently when the pace of military or civilian change so merits. The following summarises previous reviews and outcomes:
- The initial setting of X-Factor at 5 per cent (1 per cent for women) in 1970 was considered to be at an "experimental" level;
 - In 1972⁴, we acknowledged it was too early to recommend changes; the balance of disadvantage or advantage had not changed significantly and the level should remain at 5 per cent;
 - By 1974⁵, we concluded that the experimental levels had become inadequate for their purpose. Although a "Pay Code" was in operation, our full review recommended X-Factor at 10 per cent (5 per cent for women) based on increased working and unsocial hours, and increased turbulence;
 - Regular reviews reaffirmed the level of X-Factor between 1975 and 1989. However, in the late 1980s we identified a deterioration in the quality of Service life on which we urged MOD to take management action;
 - In 1990⁶, we recommended X-Factor at 10.5 per cent to reflect increasing separation, inadequate allowances and increasing turbulence, particularly the impact on house purchase and spouse employment. Additional management action was called for to avoid the position deteriorating further;
 - In our 1991 Report⁷, our detailed review showed evidence of increased working hours, restrictions on leave, increased effects of turbulence and uncertainty about job security. These resulted in a recommended X-Factor of 11.5 per cent (and the same rate for women⁸);

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

⁴ AFPRB First Report – 1972.

⁵ AFPRB Third Report – 1974.

⁶ AFPRB Nineteenth Report – 1990.

⁷ AFPRB Twentieth Report – 1991.

⁸ Between 1982 and 1991 there were progressive increases in the X-Factor rate for women to reflect their changing role in the Armed Forces and alignment was implemented in 1991.

- Five years later in 1996⁹, we set out the Independent Review's¹⁰ endorsement of our judgement-based approach to X-Factor and that "precise calculation would be impossible and undesirable". We recommended a level of 12 per cent to account for a worsening position (overstretch, turbulence, separation and job security) although recognising a parallel but lesser decline in civilian conditions;
- Our next review in 2000¹¹ drew on independent research to conclude the level of X-Factor should be 13 per cent based on changes across a range of components; and
- Our review in 2003¹² concluded there had been insufficient change to recommend any adjustment – the current level of 13 per cent continued to reflect the disadvantage of the Services compared with civilians.

4.9 Previous reviews of X-Factor have thoroughly assessed all components, have applied an appropriate judgement to the level of X-Factor and, where appropriate, recommended no change to its level. We note that the absolute level of X-Factor has only changed by 3 percentage points since 1974. We also note MOD's consistent endorsement of the basis for and coverage of X-Factor, the endorsement by the 1995 Independent Review, and the consistent acceptance by Government of our recommendations on X-Factor.

Our approach for this review

4.10 While the assessment of X-Factor involves a judgement, it must be underpinned by credible and robust evidence. Our evidence sources are set out in paragraph 4.2. We have made significant improvements to our evidence base for this review including:

- Drawing on Inbucon's 2006 framework and definitions for X-Factor;
- A comprehensive reassessment of civilian data sources by IDS which provided a much wider range of information and data on civilian practice;
- Significant improvements to military data and the coverage of MOD evidence;
- Structured discussions with personnel and spouses on our visits over two years (our review was announced in 2006); and
- Wider consultation with interested parties including the Service Families' Federations.

4.11 We continue to monitor developments and data across the X-Factor components between major reviews. This provided us with a useful starting point on trends going back to 1999 (the reference point for data for our 2000 review). Preparations for this review started in 2006 when we established an AFPRB Project Group to oversee Inbucon's X-Factor framework and definitions review. In 2007, the Project Group managed the main review between February and November by designing the research specifications; commissioning civilian and military research; determining military and other data requirements; collating and analysing the information for each component; considering the ranking of components; drawing summary conclusions; and presenting the information (including a presentation by IDS) to the full Review Body.

⁹ AFPRB Twenty-Fifth Report – 1996.

¹⁰ *Independent Review of Armed Forces' Manpower, Career and Remuneration Structures* – Chaired by Sir Michael Bett, March 1995.

¹¹ AFPRB Twenty-Ninth Report – 2000.

¹² AFPRB Thirty-Second Report – 2003.

- 4.12 Once military and civilian data and information were collated we undertook a ranking exercise across all 18 components of X-Factor. This established the highest priority components (and reflected the priority attached by personnel and spouses), those of moderate ranking and those of less importance. These rankings could change for each five-year assessment to reflect changes in military and civilian life.

The context 2000-2007

- 4.13 Defence has seen a period of significant change since our last X-Factor review. The 1998 Strategic Defence Review and subsequent Defence White Papers set the framework for the Defence environment, expeditionary operations and force restructuring. Planning assumed support for one medium scale and two small scale operations but since 2001 Defence Planning Assumptions have been consistently exceeded year-on-year. Over this period, the Armed Forces have also assisted with civil emergencies at home and abroad, including fuel and fire disputes, disaster relief, and foot and mouth. Rationalisation programmes have also encompassed training, estates and Service locations.
- 4.14 The changing Defence environment has led to a range of policies to tackle personnel issues including an overarching personnel policy, a pay and workforce strategy (including the Service Personnel Plan) and the move to Joint Personnel Administration. A harmonised remuneration, allowances and support package has also been implemented. Improvements have included better compensation for separation, a tax-free Operational Allowance, an Operational Welfare Package and access to the Key Worker Scheme for home ownership. Council Tax relief for those serving on overseas operations will be introduced from 2008.

Analysis of X-Factor components – military and civilian

- 4.15 We analyse below the military and civilian evidence for each component of X-Factor and the degree of change since the last review in 2000. A summary of the analysis is at Table 4.1 and the full analysis is on our website¹³.
- 4.16 Danger. We frequently heard from all sources that there had been a step change in the level of danger faced by personnel, reflecting the nature and intensity of operations in Iraq and Afghanistan. Between 1999 and 2002, there were 70 deaths per year per 100,000 strength, rising to 96 per 100,000 strength in 2006. Between 2003 and the end of 2007, there were 174 fatalities and 212 personnel seriously or very seriously injured or wounded as part of Op TELIC¹⁴ and since the start of 2006 there were 2,602 admissions to Field Hospitals and 1,304 Aeromed evacuations. Between 2001 and the end of 2007, there were 86 fatalities and 104 personnel seriously or very seriously injured or wounded as part of Op HERRICK¹⁵ and since the start of 2006 there were 1,068 admissions to Field Hospitals and 834 Aeromed evacuations. In October 2006, MOD, with our support, introduced the Operational Allowance “to recognise the increased and enduring nature of danger in specified operational locations, over and above that compensated for in X-Factor” and 36,000 personnel had received the Allowance up to June 2007. Over the review period in the civilian sector, there had been a reduction in both fatal and non-fatal workplace injury rates.

¹³ X-Factor summary of IDS and military analysis – Office of Manpower Economics, October 2007 www.ome.uk.com.

¹⁴ DASA Op TELIC Casualty and Fatality Tables to December 2007.

¹⁵ DASA Op HERRICK Casualty and Fatality Tables to December 2007.

- 4.17 Turbulence. This is defined as dislocation to family and social life caused by regular changes to the type and physical location of work. Turbulence is an inherent part of Service life but MOD recognised that it had increased, with more postings requiring a change of location, more postings at short notice and more requiring a change of accommodation. The impact is felt by personnel and their families, especially spouses and partners – repeated disruption affects their: ability to find employment or develop a career; lifetime earnings; and pension accrual. This effect is acutely felt as dual income households are more prevalent and often essential to home ownership. The proportion of married women in civilian employment had increased as had the proportion reaching supervisory or managerial levels. Increased military turbulence also restricted home ownership although overall home ownership rates among civilians were little changed over the period. Turbulence for civilian 16-24 year olds is indicated by increased turnover in the private rented sector.
- 4.18 Separation. X-Factor compensates for short term separation¹⁶ from home and family – again a significant factor in Service life. Although there were no hard data, the Services judged that short term separation had been increased by additional pre-deployment training, individual augmentation and backfilling. Personnel and families stressed these increases on our visits and that operations squeezed the time available for trade and career courses and restricted leave. MOD reported that sustained operational commitments significantly increased medium to long term separation as evidenced by the breaking of harmony guidelines. Separation Allowances progressively improved between 1997 and 2006 with increased rates and reduced qualifying periods – for those on a six month tour the current value is between £1,100 and £4,800 depending on cumulative separation. Between 1999 and 2006, the proportion of personnel in receipt of Longer Separated Service Allowance increased from under 20 per cent to almost 40 per cent. Other developments linked to separation include the Operational Welfare Package which provides communication and welfare facilities for those deployed. In the civilian sector, separation had relatively low significance and there was little evidence of change since 2000.
- 4.19 Working hours. In 2006-07, the weekly average number of hours worked by Armed Forces personnel was 48.0, in line with the maximum recommended by the European Union Working Time Directive. When on operations, exercises or at sea this figure increased to around 70 hours per week. On average, personnel spend over 73 hours a week on duty. The average number of hours worked per week was on a downward trend between 1999-2000 and 2005-06, but reversed sharply in 2006-07. MOD considered there was a significant risk that working hours will increase in the future. On our visits we heard that working hours had increased for those on operations but also for those back at UK bases where often the same volume of work was required from a reduced number of personnel. Unsocial and on-call hours have also increased, often at short notice, restricting personal life. This often contrasted with civilian life where overtime and shift payments were available. The mean weekly working hours for full-time civilian employees in 2006 was 38.0 – little changed since 1998. The percentage of full-time civilian employees working overtime or long hours had declined, although there were increases in numbers working long, unpaid, overtime hours.
- 4.20 Job satisfaction. The Armed Forces' picture is mixed. On operations, job satisfaction remained high as people were doing the job they joined and trained for; but away from operations job satisfaction was less positive as maintaining a healthy balance between work and personal life was harder. It was difficult to draw conclusions from the survey data on changes to levels of job satisfaction and morale in the Services although, on balance, MOD considered that job satisfaction had declined. Job satisfaction for civilians remained broadly stable.

¹⁶ Longer Separation Allowance compensates for periods of separation beyond 10 days.

- 4.21 Job security. Historically, job security has been a benefit to the Armed Forces, compared with civilians, with a more stable career pattern and less risk of job losses. The average length of military service of leavers had changed little since 1999. Survey data showed that job security was still a positive factor, although perhaps less so in the RAF because of the recent redundancy programme. The continued fall in the requirement for trained personnel has generated uncertainty and a degree of concern over medium and long term security in what some personnel see as a “profession in decline”. For civilians over the period there were fewer redundancies, higher employment rates and lower unemployment rates, a fall in temporary working and an increase in the time spent with the current employer, all pointing to improvements in civilian job security.
- 4.22 Autonomy. The degree of autonomy varies. On operations, command and decision-making can be devolved to the lowest level to enable a flexible response to rapidly changing situations – a point emphasised on our operational visits. Away from operations, MOD concluded that a raft of pan-defence change programmes required an increased level of centralised management control, reducing individual autonomy. Survey data suggest little change to the opportunities for decision-making. For civilians, an increasing number of employees had a say in workplace decisions and the number who think they should have more say in workplace decisions had decreased slightly.
- 4.23 Stress at work. MOD cited research from the King’s Centre for Military Health Research showing an increase in stress and psychiatric problems for the Armed Forces, including those not on operations. It found evidence that some personnel returned from operations with psychological problems such as Post Traumatic Stress Disorder particularly when tour lengths exceeded expectations. Mental health problems increased when harmony guidelines were breached and when personnel were deployed for more than 13 months in 3 years. Stress was also felt by personnel at home bases and their families. MOD suggested that sustained operational tempo generated a downward spiral of stress at work and impacted on home life. 41 per cent of civilian employers found stress among employees a serious or significant problem – only 6 per cent did not consider it a problem. We could not establish any civilian change over time.
- 4.24 Training. MOD commented on improvements for personnel such as: basic literacy and numeracy training; changes to the training environment to reduce risks to the welfare and wellbeing of trainees; civilian accreditation; and the Standard and Enhanced Learning Credit Schemes. However, the emphasis on training for current operations could lead to skill fade and a lack of preparation for future operations. Also operational commitments and budget constraints restricted training resources. There had been little change in the proportion of civilian employees receiving job related training.
- 4.25 Legal rights of individual Service personnel. The Armed Forces Discipline Act 2000 and the Armed Forces Acts of 2001 and 2006 have strengthened rights through compliance with the Human Rights Act, aligning with the Police and Criminal Evidence Act 1984 and extending membership of courts-martial to include Warrant Officers. A Service Complaints Commissioner has also been introduced. A number of significant civilian employment-related legislative changes had been introduced since 1998. Some of these changes apply to the military but others do not, such as the National Minimum Wage, EU Working Time and Young Workers Directives, Employment Relations Act and the Disability Discrimination Act. However, we note MOD aims to operate within the spirit of the legislation where possible.

- 4.26 Support to personnel and their families. Recent developments in the military included: provision of Service Life Insurance; a shared equity scheme and expansion of the Key Worker Scheme for property purchase in defined areas; improvements to maternity and paternity leave; recognition of civil partnerships; the success of Service schools overseas and developing childcare policy. It is too early to assess the impact of these changes. The data available showed the provisions of Employee Assistance Programmes were little changed between 2002 and 2006 for those civilian organisations with programmes.
- 4.27 Annual leave. Changes to policy included a tri-Service annual allowance of 30 days, paternal and adoption leave, the harmonisation of Post Operational and Terminal Leave, and allowing RN/Army personnel to automatically carry forward some leave that would otherwise have been lost. In recent years the Services had actively managed leave leading to a small increase in the amount of leave taken since 1999 but less freedom on when leave could be taken. Over a fifth of personnel lost annual leave because they were unable to take their full allocation. Army personnel were less satisfied about their ability to take leave when they wished. The proportion of personnel changing already approved periods of leave fell from 52 per cent in 1999-00 to 44 per cent in 2006-07. However, personnel told us on visits that they did not submit leave requests when they knew they would be refused and that readiness levels impacted on leave. Restrictions on the timing of leave often conflicted with or disrupted family plans. There had been an increase in the proportion of civilian employees with 26 or more days paid holiday. The Working Time Regulations 1998 stipulated that employees are entitled to 28 days paid leave from April 2009 (inclusive of Bank Holidays). Some civilian organisations bought, sold or exchanged holidays if employees were unable to take leave or their entitlement was insufficient.
- 4.28 Opportunities for promotion. Service careers provide opportunities for promotion at an earlier age than do civilian occupations. There has been no significant change to age on promotion but, especially on operations, the level of responsibility placed on individuals has increased, in some cases without change to rank or remuneration. RN and RAF reconfiguration had led to fewer command opportunities. The proportion of civilian employees describing themselves as managers had increased between 1998 and 2006 while the proportion describing themselves as a foreman/supervisor decreased.
- 4.29 Healthcare and education. Military healthcare initiatives included fast track access to routine NHS surgery, recourse to private health care where necessary, and the establishment of Regional Rehabilitation Units and the Complex Rehabilitation and Amputee Unit at Headley Court. Attitude surveys showed healthcare had a positive influence on retention, and satisfaction with healthcare had increased, while that for dental care had remained stable. However, there was dissatisfaction with healthcare and education access for families. Around 90 per cent of Service families relied on the NHS and state schools but frequent moves made it more difficult for them to access these services than it was for civilians. For civilians, referrals from GPs had increased as had the proportion being seen in the secondary care sector within 13 weeks. The percentage of civilians having to wait more than 2 days to see a GP had also fallen.
- 4.30 Adventure and travel. These continued to be seen as a positive, but diminishing, aspect of military life. Our visits pointed to operational commitments restricting opportunities for adventure training and, where opportunities were available, to personnel not taking them up to avoid further separation from families. The proportion of RAF personnel undertaking adventure training reduced from 25 per cent in 2000-01 to 17 per cent in 2006-07, while the RN showed no change. Travel opportunities have reduced with fewer foreign posts in a reduced number of locations. Excluding operational deployments, 16 per cent of Service personnel were posted abroad in 2006, compared with 23 per cent in 1999. Civilians were making more journeys abroad, for both business and pleasure and activities such as extreme sports or travel to unusual destinations had increased.

- 4.31 Divorce, travel to work and trade union membership. For both military and civilians, the available evidence showed little change relating to both divorce rates and travel to work. Military personnel are still unable to take industrial action and have no trade union to represent their interests. While trade union membership had declined among civilians, the proportion of employees covered by collective agreements had increased slightly. For civilians, the Trade Union and Labour Relations (Consolidation) Act, which came into force in 2000, provides the current legal framework for the recognition of trade unions for collective bargaining.

Conclusions and recommendation on level of X-Factor

- 4.32 We have drawn on a comprehensive and robust evidence base for our X-Factor deliberations covering trends since our 2000 review. Overall, the evidence points to a clear increase in the disadvantages for Service personnel across a range of X-Factor components. The change is most pronounced in those components with the highest priority among Service personnel – namely increased danger, turbulence, separation and hours of work (including the lack of access to overtime and shift premia). These are also the components that most clearly set apart military personnel from those working in the civilian sector. However, we must also factor in significant, targeted improvements to Compensatory Allowances (such as the Operational Allowance and Longer Separation Allowance) and the Operational Welfare Package in response to changes in military circumstances. Some positive aspects of Service life have diminished, including adventure and travel, whereas there have been some improvements to military training and support to personnel and families.
- 4.33 The independent analysis from IDS shows that the overall deterioration in Service life has been accompanied by some improvements in civilian life. The net effect of the changes in both military and civilian life leads us to conclude that the Services remain disadvantaged and that there has been a material change in the degree of disadvantage since 2000. We conclude from all the evidence that X-Factor should increase by 1 per cent to 14 per cent.

Recommendation 12: We recommend a 1 per cent increase in the level of X-Factor from 13 to 14 per cent from 1 April 2008. Appendix 1 shows military pay scales inclusive of X-Factor.

Table 4.1: X-Factor Review – evidence summary by component

- ➡ Evidence shows improvement ➡ Evidence shows worsening
- = Evidence shows no change

The net change is our assessment of the change in the relative position for each component

Component	Change			Summary
	Military (MOD)	Civilian (IDS)	Net change	
Danger	➡	➡	➡	Increase in danger experienced by military, compensated to some extent by Operational Allowance, while civilian workplaces becoming less dangerous.
Turbulence	➡	➡	➡	Military personnel having to move more frequently and with less notice. This has a knock on effect on spouse career and earnings prospects at a time when a second household income is becoming more widespread and important. Issue of more frequent moves and spouse employment has impact on pensions and the ability to get on the property ladder.
Separation	➡	=	➡	Short term separation from family has increased due to increased pre-deployment training, individual augmentation and backfilling. Harmony guidelines for both units and individuals are being breached. Larger proportion of military personnel in receipt of improved separation allowances.
Hours of work	➡	➡	➡	Military personnel average 48 hours per week (the EWT maximum), and around 70 hours per week on Operations. After falling since 1999-00, increased sharply in 06-07. Similar pattern for unsociable hours, hours on duty and working in excess of 70 hours. Civilian working hours have reduced slightly.
Job satisfaction	➡	=	➡	Mixed picture for the military. Satisfaction on Operations remains high but weaker once back at base. Survey data suggest morale/satisfaction has improved for RN but worsened for Army with RAF in between. Little change in job satisfaction levels in civilian sector.

Component	Change			Summary
	Military (MOD)	Civilian (IDS)	Net change	
Job security	=	◀	➡	Seen as a positive aspect of military service. RN, RM and Army survey data show job security a more positive factor while RAF less positive, because of recent redundancies. Job security has improved for civilians with fewer redundancies, lower unemployment, higher employment, less temporary working.
Degree of autonomy, management control, workplace flexibility	➡	◀	➡	On Operations command devolved to lower levels but at home base a range of change initiatives require centralised management. Little change in attitude survey results. For civilians slightly more employees have say in workplace decisions and slightly fewer think they should have more say.
Stress at work	➡	=	➡	Research suggests increase in both general occupational stress and stress from deployment on operations. Also increased stress for Service families. Civilian data mixed, no clear change.
Training	◀	=	◀	Improvements to training for new recruits, increased emphasis on basic literacy and numeracy skills, improved civilian accreditation of military training, against training for current Ops leading to skill fade. Little change to percentage of civilian employees receiving job related training.
Individual rights	◀	◀	➡	Introduction of Armed Forces Acts, justice and policing systems adapted to be similar to civilian systems. Some new employment related legislation does not apply to the military – National Minimum Wage, EU Working Time and Young Workers Directives, Disability Discrimination Act.
Support to personnel and families	=	=	=	Recent changes such as Service Life Insurance Scheme, Key Worker Living Status, improved childcare policy yet to have significant impact. Number of civilian organisations with Employee Assistance Programme little changed.
Leave	➡	◀	➡	Number of days leave taken has increased, proportion of personnel having to change leave plans has fallen. But less discretion about when leave can be taken, and quality of leave affected by heightened states of readiness. Increased leave entitlement for civilians and more flexibility to buy, sell or exchange holidays.

Component	Change			Summary
	Military (MOD)	Civilian (IDS)	Net change	
Promotion and early responsibility	=	=	=	Service careers seen as providing relatively early opportunity for promotion. No significant change to age on promotion. Level of responsibility on operations increases, often without extra rank or remuneration. Fewer ships and air stations mean fewer chances of command in the RN and RAF.
Health and education	➡	⬅	➡	Ability to fast-track NHS surgery and use of private healthcare. Healthcare seen as retention positive, but personnel dissatisfied with impact of Service life on family education and healthcare. For civilians more seen inside 13 weeks after GP referral and fewer having to wait more than 2 days to see GP.
Adventure and travel	➡	⬅	➡	Still seen as positive aspect of military life, but to a lesser extent than previously. Fewer personnel able to undertake adventure training, fewer overseas postings. Civilians travelling more for both business and pleasure and getting involved in a wider range of sporting activities.
Divorce	=	=	=	Little change in the proportion of Army and RAF personnel who are divorced. Civilian divorce rate remains stable.
Trade Union membership and industrial action	=	⬅	➡	As before, there is no military trade union and Service personnel unable to participate in industrial action. Civilian membership of Trade Unions continues to fall but Trade Union and Labour Relations Act provides for recognition of Trade Unions and ability to apply for compulsory recognition.
Travel to work	=	=	=	Dislocation of service accommodation from work establishments has had an impact on travel to work but covered financially through the allowances package. For civilians commuting time increased slightly.

The X-Factor taper

- 4.34 X-Factor currently tapers from the mid-point of the OF4 (Lieutenant Colonel and equivalents) payscale to recognise the diminishing impact of its components on higher ranks. A cash value for X-Factor equivalent to 2/3rds of full X-Factor at point 5 of the OF4 payscale is applied from point 6 of that payscale through to the top of the OF5 (Colonel and equivalents) payscale. This cash value is reduced further to 1/3rd for the OF6 (Brigadier and equivalents) payscale. X-Factor is not paid at OF7 (Major General and equivalents) and above. Tapering dates from 1970 when an upper cash limit was placed on the value of X-Factor (effective on the OF4 payscale at the time). This was revised in 1974 to a cash figure at each of OF4, OF5 and OF6, and uprated relative to changes in X-Factor at subsequent reviews.
- 4.35 MOD's evidence on the taper drew on the shift in X-Factor elements for the Armed Forces as a whole and, for OF4-OF6, concluded that:
- Deployments were more frequent and longer, particularly for OF4s, both with units and as part of multi-national/coalition headquarters – these deployments increased danger, turbulence, separation and other related X-Factor elements; and
 - Personnel were marrying and becoming parents later – this had a knock-on effect later in a military career, increasing the impact for X-Factor elements covering turbulence, divorce, health/education and support to personnel and families.
- 4.36 These points were put strongly to us on our visits in recent years particularly the increasing exposure to the components affected by operations. We note that the taper has not been reviewed since 1974 although it is clear to us that, as with the main X-Factor evidence, the effect has been most keenly felt since 2000. We have seen on our operational visits that many senior commanders are now required in field headquarters. We conclude from MOD's evidence and our own assessment that the taper should be moved and revalorised. Our starting point is the particular effect of X-Factor components on OF4s who are key operational deliverers. In our judgement, the change in the OF4 role since 1974 means they now merit full X-Factor. At OF5 and OF6, the increased effect is still felt but to a lesser extent; we consider the taper remains an appropriate mechanism to recognise these differences. We therefore recommend full X-Factor at OF4, 75 per cent (of the cash value at the top of the OF4 payscale) at OF5 and 50 per cent (of that same cash value) at OF6.
- 4.37 These recommendations will compress the OF5 and OF6 payscales, reducing the level of increase on promotion and available pay progression. In its evidence, MOD asked us to carefully consider the affordability of all our recommendations and the presentational aspects of increases for Senior Officers. We have assessed the consequential restructuring of the OF5 and OF6 payscales and consider it is both an appropriate response to the evidence and affordable. Our recommendations on base pay, X-Factor, the taper and pay restructuring will also have consequential effects on 2 Star Officers and above. We have liaised with the Senior Salaries Review Body which covers this group to ensure a consistent approach.

Recommendation 13: We recommend that, from 1 April 2008, the X-Factor taper should:

- Start from the first point of the OF5 pay scale and that OF4 ranks should receive full X-Factor;
- Be set for OF5 ranks at 75 per cent of the cash value of X-Factor at the final point of the OF4 pay scale; and
- Be set for OF6 ranks at 50 per cent of that same cash value.

As a result of these recommendations the OF5 and OF6 pay scales require restructuring to allow appropriate pay on promotion and progression in rank. The resulting pay scales are at Appendix 1.

Evidence on other groups

- 4.38 Reserves, Military Provost Guard Service (MPGS), University Units and Gibraltar Regiment (RG) and RG Reserves receive less than full X- Factor. We assess the evidence below for these groups.

Reserves

- 4.39 Reserve Forces currently receive 0 per cent, 5 per cent or 13 per cent depending on the level and type of commitment. Mobilised Reserves and Full-Commitment Full Time Reserve Service receive full X-Factor and MOD's evidence recommended retaining this link with Regular Forces. However, for other Reserve groups (and Non Regular Permanent Staff) MOD reported insufficient evidence on changes to relative quality of life to warrant any adjustment. This was reinforced by the Director of Reserve Forces in oral evidence who added that personnel were aware of their commitment to deploy on joining and the vast majority volunteered for mobilisation. In separate evidence, the Reserve Forces' and Cadets' Association and the British Medical and Dental Associations emphasised the evolving role of Reserves, their greater integration into the Regular Services, and that Reservists experienced increased responsibilities, commitment, deployments and associated separation/turbulence.
- 4.40 On our visits, Reserves suggested that stress increased with the likelihood of being deployed and training and mobilisation preparations impacted on family life. We note that Reserves may have been affected by some components within X-Factor but concur with MOD's conclusion that this is insufficient to warrant any change to existing arrangements. X-Factor levels should continue to be geared to different types of Reserve service including the full rate when mobilised.

Military Provost Guard Service

- 4.41 MPGS personnel provide an armed guarding Service at Defence establishments and receive 5 per cent X-Factor to reflect the less restrictive and local nature of their employment compared to Regular Forces. MOD's evidence showed little material change across the X-Factor components with the exception of a slight increase in the levels of danger faced in the UK. We are content that the existing level remains appropriate.

University Units

- 4.42 University Units receive 5 per cent X-Factor and, as members of volunteer Reserve forces, personnel are eligible for tax-free training bounties. MOD highlighted that X-Factor components have little detrimental effect on this group – most University Units benefit from the advantages of Service life (including adventure and travel) without experiencing the significant disadvantages endured by Regulars such as danger, turbulence, separation and long working hours. MOD therefore proposed, and we endorse, the withdrawal of X-Factor for University Units. We note MOD will review their remuneration arrangements including the timing of the withdrawal.

Gibraltar Regiment and RG Reserves

- 4.43 The Gibraltar Regiment receive 5 per cent X-Factor (RG Reserves 2.5 per cent) due to the different balance of X-Factor elements and the unique and local nature of their employment. Our Gibraltar visit and MOD's evidence highlighted that, overall, X-Factor components showed an increase in the disadvantages of conditions of service experienced by RG personnel. Those we met on our visit were aggrieved that X-Factor had not been increased since its introduction in 1970 and argued that the RG undertook the same duties, and were therefore subject to similar disadvantages, as any UK infantry battalion. Much RG training, including career development courses and pre-operation training, was UK based and personnel increasingly experienced lengthy periods of separation (up to 3 months every year). We were also told on our visit that RG personnel voluntarily supported all operations with 15 per cent currently deployed and around 150 deployed since 2003. It was acknowledged, however, that full X-Factor was paid for deployments and that they helped career advancement.
- 4.44 On our visit, the Gibraltar Regiment pointed to radical changes since they took over the role of Resident Battalion in the 1990s. Demands on the Regiment and individuals had increased further since the events of 9/11 including additional responsibilities, increasing security, leave restrictions and lost leave, increased turbulence, and reductions in sport and adventure training. The RG recognised that they did not experience the same levels of turbulence as UK Regulars and enjoyed greater family stability with spouses generally employed locally and having access to extended families. However, they concluded that their duties and increasing focus on operational commitments had led to a deterioration in their position similar to UK Regular personnel.
- 4.45 These changes in circumstances and the unique position of the Gibraltar Regiment suggest to us and to MOD that a change in the level of X-Factor is required. We are therefore content to endorse MOD's proposal that the level of change in X-Factor for UK Regulars should be equally applied to RG personnel thereby maintaining the differential between RG and UK Regulars. The X-Factor for RG Regulars should be increased to 6 per cent, and for the RG Reserves to 3 per cent to remain at 50 per cent of the RG Regulars' level. MOD should ensure that the position of the Gibraltar Regiment is kept under review so that it can be fully covered in future X-Factor reviews.

Recommendation 14: We recommend that the level of X-Factor for the Gibraltar Regiment Regulars should increase from 5 to 6 per cent and for Gibraltar Regiment Reserves from 2.5 to 3 per cent from 1 April 2008.

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 As well as maintaining broad comparability with civilians for pay we also look to achieve broad comparability for accommodation charges. To help us in this task during our visits to Service units we were able to see a wide range of both Single Living Accommodation (SLA) and Service Family Accommodation (SFA), including the new, higher quality upgraded accommodation but also the older, lower quality accommodation which is still used by many.
- 5.3 MOD recognises that the reduction of upgrades in bedspaces from the level originally planned and the time taken to deliver SLA improvements and SFA upgrades continues to have a severe impact on the quality of life for Service personnel and their families.
- 5.4 However, in its evidence MOD reiterated its commitment to the provision of good quality accommodation for Service personnel with £550 million allocated through the CSR to investment in accommodation over the next three years. In addition a further £80 million has been allocated to improve SLAM¹, taking investment to £415 million for all SLA over the next five years.

Service Family Accommodation

- 5.5 During 2006-07 1,215 properties were upgraded, against a target of 1,200 and almost 60 per cent of the long term SFA requirement in Great Britain is now classed as "Standard 1 for Condition". However, because of differences between "Standard for Condition" and "Grade for Charges" just 18 per cent of current stock is "Grade 1 for Charges". A further 600 priority upgrades are planned for 2007-08, with the focus on properties of the poorest standard.

Single Living Accommodation

- 5.6 During 2006-07 5,700 bedspaces were delivered, through a combination of SLAM and parallel projects. Between 2003-04 and 2006-07, 19,200 bedspaces have been delivered with a further 27,500 bedspaces planned for between 2007-08 and 2010-11. In addition, in September 2007 the Secretary of State for Defence announced £80 million of extra funding to provide 1,350 new bedspaces. At the end of June 2007 less than a quarter of worldwide SLA is Grade 1 while almost half remains at Grade 4. Latest forecasts suggest that by 2018 53 per cent of SLA will be Grade 1.

Approach to recommendations

- 5.7 Our long term approach to setting SFA charges has been to achieve broad comparability with the accommodation costs of civilian comparators, but with a discount that reflects the disadvantages of living in Service accommodation such as a lack of choice, quality of decoration, lack of security of tenure on leaving the Armed Forces and no right to buy. In considering accommodation charges, we recognise that the Services seek to encourage residence on or close to units as this improves availability and on-call times.

¹ Single Living Accommodation Modernisation (SLAM).

- 5.8 In 2007, we noted that there had been insufficient improvement in the quality of accommodation and a marked deterioration in maintenance services, leading to our recommendations based on CPI inflation. For this report, MOD's evidence again sought a low increase in charges as it was concerned about the reduced scope and the delayed delivery of both SLA and SFA improvement programmes and its view on the discrepancy between Standard for Condition and Grade for Charge across the estate. We have balanced this evidence with the information on housing costs for civilian comparators and the encouraging evidence on resources for improvements and delivery of maintenance services. The Secretary of State emphasised to us that the resources (under the CSR) and management practices were now in place to make significant improvements to accommodation standards. He added that MOD remained committed to improvements which had seen a rise in the proportion of SFA at Standard 1 for Condition from 40 to 60 per cent in the last five years. Our sessions with Defence Estates and the Service Families' Federations showed a more positive, but "patchy", picture emerging on improved performance of the Housing Prime Contract in England and Wales in delivering maintenance services.
- 5.9 In view of this evidence we judge that SFA and SLA rental charges for 2008-09 should rise in line with the rental component of the RPI as at November 2007. We consider this inflation measure provides an appropriate read across to the increases in housing costs experienced by civilians. In line with our longer term strategy on charges, this approach prevents the existing gap between civilian and military housing costs (even after the discount) widening further. We shall review this approach for our 2009 Report alongside the level of discount applied to SFA and SLA charges and the approach to charges below Grade 1.

Service Family Accommodation rental charges

- 5.10 We recommend SFA Grade 1 rental charges increase by 3.7 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 which continues to reflect the widely differing standards of available Service accommodation.

Recommendation 15: We recommend a 3.7 per cent increase to Grade 1 Service Family Accommodation rental charges, 2.5 per cent to Grade 2, 1.2 per cent to Grade 3 and zero to Grade 4 from 1 April 2008. The resulting charges are shown in Tables 5.1 and 5.2.

Other components of SFA charges

- 5.11 Increases to elements of the charge other than rent vary based on evidence provided by MOD. They produce different total SFA charges increases to that for the rental element alone and total SFA charges will therefore increase by between 1.0 and 4.1 per cent.

Single Living Accommodation rental charges

- 5.12 We recommend SLA Grade 1 rental charges increase by 3.7 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 16: We recommend a 3.7 per cent increase to Grade 1 Single Living Accommodation rental charges, 2.5 per cent to Grade 2, 1.2 per cent to Grade 3 and zero to Grade 4 from 1 April 2008. The resulting charges are shown in Table 5.3.

Other components of SLA charges

5.13 Increases to elements of the charge other than rent, including utilities charges, vary based on evidence from MOD. They therefore produce different total changes to SLA charges to that for the rental element alone. The range of change to total SLA charges is between an increase of 2.2 per cent and a decrease of 4.2 per cent.

Other charges

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

- *Water Charges* – the forecast weighted national household average water bill for SFA Type C properties tapered according to the size of the SFA. The SLA charge is one-third of the SFA Type C figure;
- *Furniture Hire* – the increase in the rental component of the RPI in the year to November 2007; and
- *Garage Rent* – our 2006 survey of charges suggested that the Service charge was around 6 per cent below the civilian comparator and we recommended then that this difference be eliminated over a three year period at 2 per cent per year. Our recommendation for 2008-09 is that the Service charge be increased by 2 per cent over and above the increase in the rental component of the RPI in the year to November 2007.

Recommendation 17: We recommend the following charges:

- **Water and Sewerage** – charges for all SFA of between £310 and £339 a year and a water charge for SLA of £106 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 £291.20.

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	7,420	967	339	8,727
	II	6,654	858	336	7,848
	III	5,833	737	332	6,902
	IV	4,311	661	329	5,300
	V	3,311	588	325	4,223
Other Ranks					
	D	3,165	427	321	3,913
	C	2,632	376	318	3,325
	B	2,208	314	314	2,836
	A	1,577	263	310	2,150

^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	8,727	6,512	3,679	1,931
	II	7,848	5,858	3,329	1,759
	III	6,902	5,150	2,935	1,577
	IV	5,300	4,055	2,449	1,351
	V	4,223	3,358	2,088	1,226
Other Ranks					
	D	3,913	2,953	1,774	989
	C	3,325	2,577	1,621	942
	B	2,836	2,270	1,460	880
	A	2,150	1,730	1,135	741

^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		2,095	1,730	1,142	675
Captain and below		1,705	1,402	927	551
Warrant Officer and SNCO		1,281	1,059	694	412
Corporal and below		730	610	402	248
New Entrant^c		588	478	321	208

^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

5.15 In our 2007 Report, we endorsed the move to a single Daily Food Charge and a methodology based on ingredient costs under MOD's Food Supply Contract. This move would bring together the food charges and the core menu charge under Pay As You Dine (PAYD). Importantly, it removes the distinction between single and married unaccompanied personnel which has hitherto been divisive. MOD's evidence sought the introduction of the Daily Food Charge from 1 April 2008 uprated using our current methodology of the increase in the Catering Grouping of RPI. The revised methodology using the Food Supply Contract data could then be introduced in 2009 when trend data become available. We note and concur with MOD's view that we should retain an independent oversight of food charges in the longer term.

5.16 Around 40 per cent of personnel are currently under PAYD and roll-out will continue to 2010. Once fully implemented, the Daily Food Charge will only be paid by those in Phase 1 (and some Phase 2) training. Continuing progress with PAYD necessitates the move to the Daily Food Charge and we therefore endorse its introduction from 1 April 2008. The revised methodology would result in a charge of £3.90 whereas our current approach (uprating the single food charge by 3.5 per cent based on the Catering Grouping of RPI at November 2007) produces a charge of £3.89 and we recommend accordingly. We look forward to trend data and further proposals from MOD.

Recommendation 18: We recommend the introduction of the Daily Food Charge at £3.89 from 1 April 2008.

Chapter 6

CONCLUSION

- 6.1 Our assessment of the evidence points to a package of recommendations which allows an increase in base pay and X-Factor, revised X-Factor tapering, targeted measures for specific shortage groups, increases in Specialist Pay, Compensatory Allowances and Reserves' Bounties plus increases in accommodation, food and other charges. We consider this package manageable, consistent with Government policy and supportive of Service recruitment, retention and morale.

Costs of recommendations

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

Table 6.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	57
Other Ranks	135
New Entrants	4
	196
Additional pay, allowances and other emoluments in the nature of pay (all Regular Services)	26
Total pay (all Regular Services)	222
Reserve Forces	4
Employers' national insurance contribution (ERNIC) – all Services	21
Estimated effect of accruing superannuation liability contributions	45
Total paybill cost including Reserves	292
Less: total increased yield from charges	(9)
Net cost of recommendations	282

^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 2008-09, 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 paybill (including the employers' national insurance and superannuation liabilities). When the yield from the recommended increased accommodation and other charges is taken into account the net paybill cost remains 3.9 per cent.

The year ahead

- 6.4 For our 2009 Report, we look forward to three main strands of information and evidence all of which impact on our remit: (i) progress with MOD's reviews and on-going work; (ii) our independent research; and (iii) our periodic reviews.

6.5 The following reviews or on-going work are expected in 2008 covering:

- Progress with **MOD's Strategic Remuneration Review** and **any Pay 2000 update**;
- Publication of **MOD's Command Paper** setting out the Government's view on **existing and further support to Service personnel**;
- The outcome of MOD's review of **Terms and Conditions of Service**; and
- Progress with implementing robust **cost benefit analysis** of financial measures to improve retention.

6.6 Our work programme will include research on:

- Further consideration of our approach to, and the evidence base for, **pay comparability** with civilian comparators;
- Initial scoping research for our **pensions validation** role (scheduled to first report in 2011); and
- Reviewing our **strategy for accommodation charges**, including our approach to the discount.

6.7 Our periodic reviews will cover the following elements of the remuneration package:

- **Commitment Bonuses** (depending on progress with MOD's Strategic Remuneration Review);
- Pay arrangements for **Veterinary Officers**;
- Pay arrangements for **New Entrants**;
- **Specialist Pay** – Diving Pay, Hydrographic Pay and Royal Marine Mountain Leaders' Pay; and
- **Compensatory Allowances** – Longer Separation Allowance, Unpleasant Living Allowance and Northern Ireland Resident's Supplement.

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

31 January 2008

Appendix 1

1 April 2008 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
		£
OF-6		
Commodore (Royal Navy)	Level 5	96,288
Brigadier (Royal Marines)	Level 4	95,343
Brigadier (Army)	Level 3	94,410
Air Commodore (Royal Air Force)	Level 2	93,473
	Level 1	92,537
OF-5		
Captain (RN)	Level 9	85,268
Colonel (RM)	Level 8	84,300
Colonel (Army)	Level 7	83,332
Group Captain (RAF)	Level 6	82,368
	Level 5	81,404
	Level 4	80,440
	Level 3	79,477
	Level 2	78,509
	Level 1	77,545
OF-4		
Commander (RN)	Level 9	74,023
Lieutenant Colonel (RM)	Level 8	73,065
Lieutenant Colonel (Army)	Level 7	72,107
Wing Commander (RAF)	Level 6	71,159
	Level 5	67,294
	Level 4	66,454
	Level 3	65,614
	Level 2	64,775
	Level 1	63,927

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

Rank		Military salary
		£
OF-3		
Lieutenant Commander (RN)	Level 9	54,550
Major (RM)	Level 8	53,422
Major (Army)	Level 7	52,301
Squadron Leader (RAF)	Level 6	51,176
	Level 5	50,044
	Level 4	48,923
	Level 3	47,790
	Level 2	46,673
	Level 1	45,549
OF-2		
Lieutenant (RN)	Level 9	43,002
Captain (RM)	Level 8	42,514
Captain (Army)	Level 7	42,018
Flight Lieutenant (RAF)	Level 6	41,046
	Level 5	40,065
	Level 4	39,093
	Level 3	38,109
	Level 2	37,129
	Level 1	36,160
OF-1		
Sub-Lieutenant (RN)	Level 10	31,188
Lieutenant, 2nd Lieutenant (RM)	Level 9	30,443
Lieutenant, 2nd Lieutenant (Army)	Level 8	29,704
Flying Officer, Pilot Officer (RAF)	Level 7	28,962
	Level 6	28,216
	Level 5	23,475
	Level 4	20,800
	Level 3	17,711
	Level 2	16,231
	Level 1	14,852
University Cadet Entrants	Level 4	17,070
	Level 3	15,638
	Level 2	13,927
	Level 1	12,130

Table 1.2: Recommended annual scales for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5 (OR-9):	Level 7	42,077	44,588
Warrant Officer I (Royal Navy)	Level 6	40,921	43,916
Warrant Officer I (Royal Marines)	Level 5	39,804	43,147
Warrant Officer I (Army)	Level 4	39,042	42,389
Warrant Officer (Royal Air Force)	Level 3	38,284	41,624
	Level 2	37,527	40,921
	Level 1	36,812	40,132
Range 4 (OR-7 – OR-8):	Level 9	37,792	41,249
Warrant Officer II, Chief Petty Officer (RN)	Level 8	36,957	40,667
Warrant Officer II, Colour Sergeant (RM)	Level 7	36,484	40,097
Warrant Officer II, Staff Sergeant (Army)	Level 6	35,934	39,526
Flight Sergeant, Chief Technician (RAF)	Level 5	34,379	38,671
	Level 4	33,918	37,812
	Level 3	33,141	36,957
	Level 2	32,098	36,094
	Level 1	31,684	35,242
Range 3 (OR-6):	Level 7	32,532	35,219
Petty Officer (RN)	Level 6	32,286	34,570
Sergeant (RM)	Level 5	31,208	33,922
Sergeant (Army)	Level 4	30,415	33,274
Sergeant (RAF)	Level 3	30,110	32,860
	Level 2	29,372	32,048
	Level 1	28,623	31,239
Range 2 (OR-4):	Level 7	28,459	31,645
Leading Rate (RN)	Level 6	28,252	30,970
Corporal (RM)	Level 5	28,029	30,341
Corporal (Army)	Level 4	27,810	29,626
Corporal (RAF)	Level 3	27,599	28,951
	Level 2	26,315	27,599
	Level 1	25,182	26,315
Range 1 (OR-2 – OR-3):	Level 9	23,108	27,599
Able Rating (RN)	Level 8	22,300	26,315
Marine (RM)	Level 7	21,323	25,182
Lance Corporal, Private (Army)	Level 6	20,449	24,077
Junior Technician, Leading Aircraftman,	Level 5	19,628	22,960
Senior Aircraftman, Aircraftman (RAF)	Level 4	18,625	20,765
	Level 3	17,125	19,312
	Level 2	16,676	17,492
	Level 1	16,227	16,227

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

Table 1.3: Recommended annual salary for new entrants

	Military salary
	£
All entrants	13,013

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

	Military salary
	£
Fourth year	22,960
Third year	15,965
Second year	15,071
First year	13,399

Table 1.5: Recommended annual scales for Chaplains^a

Rank/length of service		Military salary
		£
Chaplain-General	Level 5	92,581
	Level 4	91,628
	Level 3	90,687
	Level 2	89,742
	Level 1	88,797
Deputy Chaplain-General ^a	Level 5	81,822
	Level 4	80,845
	Level 3	79,869
	Level 2	78,897
	Level 1	77,924
Principal Chaplain	Level 4	76,952
	Level 3	75,979
	Level 2	75,003
	Level 1	74,031
Chaplain (Class 1) ^b	Level 2 ^c	69,899
	Level 1 ^d	67,298

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

Rank/length of service		Military salary
		£
Chaplains Class 2/3/4 (or equivalent)	Level 27	69,899
	Level 26	68,598
	Level 25	67,298
	Level 24	66,005
	Level 23	64,732
	Level 22	63,431
	Level 21	62,127
	Level 20	60,830
	Level 19	59,530
	Level 18	58,233
	Level 17	56,933
	Level 16	55,636
	Level 15	54,336
	Level 14	53,039
	Level 13	51,743
	Level 12	50,438
	Level 11	49,146
	Level 10	47,845
	Level 9	46,548
	Level 8	45,244
	Level 7	43,951
	Level 6	42,643
	Level 5	41,350
	Level 4	40,054
	Level 3	38,757
	Level 2	37,453
	Level 1	36,160

^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^a

Rank/length of service		Military salary
		£
Lieutenant Colonel	Level 5	70,668
	Level 4	69,598
	Level 3	68,532
	Level 2	67,458
	Level 1	66,396
Major, Captain	Level 22	64,455
	Level 21	63,123
	Level 20	61,787
	Level 19	60,455
	Level 18	59,128
	Level 17	57,792
	Level 16	56,464
	Level 15	55,125
	Level 14	53,804
	Level 13	52,649
	Level 12	51,508
	Level 11	50,227
	Level 10	48,942
	Level 9	47,661
	Level 8	46,388
	Level 7	45,107
	Level 6	43,826
	Level 5	42,549
	Level 4	41,268
	Level 3	39,991
	Level 2	38,710
	Level 1	36,160

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

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

Increment Level	Military salary
	£
Level 15	48,333
Level 14	48,017
Level 13	47,685
Level 12	47,040
Level 11 ^b	46,400
Level 10	45,752
Level 9	45,107
Level 8	44,463
Level 7 ^c	43,658
Level 6	43,162
Level 5	42,659
Level 4 ^d	41,663
Level 3	41,167
Level 2	40,659
Level 1 ^e	39,667

^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	74,031
Level 34	73,015
Level 33	71,996
Level 32	70,980
Level 31	69,969
Level 30 ^a	68,946
Level 29	67,938
Level 28 ^b	66,919
Level 27	65,896
Level 26	64,888
Level 25	63,865
Level 24	62,853
Level 23	61,912
Level 22 ^c	60,733
Level 21	59,604
Level 20 ^d	58,467
Level 19	57,343
Level 18	56,214
Level 17	55,086
Level 16 ^e	53,957
Level 15	52,828
Level 14	51,700
Level 13	50,563
Level 12 ^f	49,438
Level 11	48,310
Level 10	47,661
Level 9	46,919
Level 8	46,170
Level 7	45,427
Level 6	44,682
Level 5	43,932
Level 4	43,186
Level 3	42,440
Level 2	41,690
Level 1	40,940

^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 2008 recommended rates of Specialist Pay and Compensatory Allowances

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

SPECIALIST PAY	Rate £ per day	Reserve Band rate		
		75% £ per day	50% £ per day	25% £ per day
SP (Flying) ^a				
Officer aircrew (trained)				
All Officer aircrew in the rank of				
Squadron Leader ^b and below except				
RAF specialist aircrew Flight Lieutenant				
Initial rate	13.29	9.97	6.65	3.32
Middle rate ^c	22.54	16.91	11.27	5.64
Top rate ^c	35.84	26.88	17.92	8.96
Enhanced rate ^d	42.19	31.64	21.10	10.55
Enhanced rate ^e	39.88	29.91	19.94	9.97
Wing Commander ^b				
On appointment	37.00	27.75	18.50	9.25
After 6 years	34.68	26.01	17.34	8.67
After 8 years	32.36	24.27	16.18	8.09
Group Captain ^b				
On appointment	28.33	21.25	14.17	7.08
After 2 years	26.58	19.94	13.29	6.65
After 4 years	24.84	18.63	12.42	6.21
After 6 years	21.96	16.47	10.98	5.49
After 8 years	19.06	14.30	9.53	4.77
Air Commodore ^b	11.56	8.67	5.78	2.89

^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	43.92	32.94	21.96	10.98
After 1 year as specialist aircrew	44.51	33.38	22.26	11.13
After 2 years as specialist aircrew	45.66	34.25	22.83	11.42
After 3 years as specialist aircrew	46.23	34.67	23.12	11.56
After 4 years as specialist aircrew	46.82	35.12	23.41	11.71
After 5 years as specialist aircrew	47.97	35.98	23.99	11.99
After 6 years as specialist aircrew	48.55	36.41	24.28	12.14
After 7 years as specialist aircrew	49.12	36.84	24.56	12.28
After 8 years as specialist aircrew	50.28	37.71	25.14	12.57
After 9 years as specialist aircrew	50.86	38.15	25.43	12.72
After 10 years as specialist aircrew	51.43	38.52	25.72	12.86
After 11 years as specialist aircrew	52.59	39.44	26.30	13.15
After 12 years as specialist aircrew	53.18	39.89	26.59	13.30
After 13 years as specialist aircrew	54.33	40.75	27.17	13.58
After 14 years as specialist aircrew	54.90	41.18	27.45	13.73
After 15 years as specialist aircrew	55.48	41.61	27.74	13.87
After 16 years as specialist aircrew	57.22	42.92	28.61	14.31
(b) <i>Branch Officers</i>				
On designation as specialist aircrew	35.84	26.88	17.92	8.96
After 5 years as specialist aircrew	39.88	29.91	19.94	9.97

	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	13.29	9.97	6.65	3.32
Middle rate ^f	22.54	16.91	11.27	5.64
Top rate ^f	35.84	26.88	17.92	8.96
Enhanced rate ^g	42.19	31.64	21.10	10.55
RM and Army pilots ^h				
Initial rate	6.95	5.21	3.48	1.74
Middle rate ⁱ	15.02	11.22	7.51	3.76
Top rate ⁱ	17.91	13.43	8.96	4.48
RN/RM, Army and RAF aircrewmembers				
Initial rate	6.95	5.21	3.48	1.74
Middle rate ⁱ	14.46	10.85	7.23	3.62
Top rate ⁱ	19.06	14.30	9.53	4.77
Aero-medical and escort duties pay (RAF)				
Royal Logistic Corps air despatch pay ^k	7.51		3.76	
Lower rate	4.62		2.31	
Higher rate ^f	7.51		3.76	
Flying crew pay (RN), crew pay (RAF), Joint Helicopter Support Unit helicopter crew pay				
	4.62		2.31	

^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) Category				
1 RN Diver (Able rate) prior to Category 3 qualification Ship's Diver – all ranks and ratings	4.05	3.04	2.03	1.01
2 RN Search and Rescue Diver – all ratings Ship Divers' Supervisors Army Compressed Air Diver – all ranks	8.10	6.08	4.05	2.03
3 RN Diver (Able rate) when qualified to Category 3 standards Army Diver Class 1 – all ranks	10.98	8.24	5.49	2.75
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	19.06	14.30	9.53	4.77
5 RN Diver (Petty Officer and above) when qualified to Category 5 standards on appointment after 3 years after 5 years	27.17 29.48 31.21	20.38 22.11 23.41	13.59 14.74 15.61	6.79 7.37 7.80
(Unfit to dive) on appointment after 3 years after 5 years	8.67 10.40 12.13	6.50 7.80 9.10	4.34 5.20 6.07	2.17 2.60 3.03

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	11.56	8.67	5.78	2.89
Level 2 – payable after 5 years on Level 1	15.02	11.27	7.51	3.76
Level 3 – payable after 5 years on Level 2	17.91	13.43	8.96	4.48
Level 4 – payable after 5 years on Level 3	20.23	15.17	10.12	5.06
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	25.43	19.07	12.72	6.36
Submarine Supplement	5.00		2.50	
SP(Nuclear Propulsion)				
Category B watchkeeper – Single qualified	4.62	3.47	2.31	1.16
Category B watchkeeper – Double qualified	8.67	6.56	4.34	2.37
Category A watchkeeper (Nuclear Chief of Watch)	19.65	14.74	9.83	4.91
Appropriately qualified Junior Officers	19.65	14.74	9.83	4.91
SP(Submarine Escape Tank Training)				
Additional Daily Supplement for Cat 1 Divers	11.56		5.78	
Additional Daily Supplement for Cat 2 Divers	2.31		1.16	
Additional Daily Supplement for SubsunK Parachute Assistance	4.05		2.03	
Group personnel	2.89		1.45	

	Rate £ per day	Reserve Band rate		
		75% £ per day	50% £ per day	25% £ per day
SP(Hydrographic)				
On attaining Charge qualification (H Ch)	12.72	9.54	6.36	3.18
Surveyor 1st Class (H1)	10.40	7.80	5.20	2.60
On promotion to Chief Petty Officer or attainment of NVQ4 whichever is sooner	8.67	6.50	4.34	2.17
Surveyor 2nd Class (H2), On promotion to Petty Officer or attainment of NVQ3 whichever is sooner	4.62	3.47	2.31	1.16
On promotion to Leading Hand	3.47	2.60	1.74	0.87
On completion of Initial Hydrographic Training	1.73	1.30	0.87	0.43
SP(Mountain Leader)	9.83	7.37	4.92	2.46
SP(Parachute Jump Instructor)				
Less than 8 years' experience	7.51	5.63	3.76	1.88
8 or more years' experience	10.98	8.24	5.49	2.75
SP(Parachute)	5.20	3.90	2.60	1.30
SP(High Altitude Parachute)^m	9.83		4.92	
SP(Explosive Ordnance Disposal Operators)				
Level 1	6.95		3.48	
Level 2	14.46		7.23	
Level 3	19.06		9.53	

^m Rate applies to members of the Pathfinder Platoon.

COMPENSATORY ALLOWANCES	Rate £ per day
LONGER SEPARATION ALLOWANCE	
Level 1 (up to 400 days qualifying separation)	6.38
Level 2 (401-700 days qualifying separation)	9.97
Level 3 (701-1000)	13.58
Level 4 (1001-1300)	14.90
Level 5 (1301-1600)	16.05
Level 6 (1601-1900)	17.20
Level 7 (1901-2200)	18.33
Level 8 (2201-2500)	20.06
Level 9 (2501-2800)	21.21
Level 10 (2801-3100)	22.36
Level 11 (3101-3400)	23.50
Level 12 (3401-3700)	24.65
Level 13 (3701-4000)	25.79
Level 14 (4001+)	26.94
UNPLEASANT WORK ALLOWANCE	
Level 1	2.38
Level 2	5.87
Level 3	17.32
UNPLEASANT LIVING ALLOWANCE	3.18
NORTHERN IRELAND RESIDENT'S SUPPLEMENT	6.11
LONDON RECRUITMENT AND RETENTION ALLOWANCE	3.66
EXPERIMENTAL TEST ALLOWANCE (per test)	2.57
EXPERIMENTAL DIVING ALLOWANCE	
Lump sum per dive	
Grade 5	286.21
Grade 4	143.11
Grade 3	107.33
Grade 2	71.54
Grade 1	14.31
Additional hourly rates	
Grade 5	57.24
Grade 4	14.31
Grade 3	10.72
Grade 2	7.15
Grade 1	—

Appendix 3

Military annual salaries inclusive of X-Factor from 1 April 2007

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

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

Rank		Military salary
		£
OF-6		
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
OF-5		
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
OF-4		
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

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

Rank		Military salary
		£
OF-3		
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
OF-2		
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
OF-1		
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 3.2: Recommended annual scales for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5 (OR-9):	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 (OR7-8):	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 (OR-6):	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 (OR-4):	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 (OR-2 – OR-3):	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,	Level 5	18,963	22,182
Senior Aircraftman, Aircraftman (RAF)	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.

Appendix 4

AFPRB 2007 visits

In assembling the evidence base for our 2008 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
HMS RALEIGH, Torpoint	Royal Navy	Derek Leslie Ian Stewart
HMS ARGYLL	Royal Navy	Derek Leslie Ian Stewart
40 Commando Royal Marines, Taunton	Royal Navy	Alison Gallico Tony Young
Chaplains, Amport House	tri-Service	Alison Gallico Anne Wright
Veterinary Officers, Camberley	Army	Alison Gallico Anne Wright
Special Reconnaissance Regiment	Army	Derek Leslie Anne Wright
RAF Leeming	RAF	Robert Burgin Keith McNeish
RAF Boulmer	RAF	Robert Burgin Alison Gallico
3rd Battalion Parachute Regiment, Colchester	Army	Peter Knight Derek Leslie
RNAS Yeovilton, incl. Joint Helicopter Command and RNAS Culdrose representatives	Royal Navy	David Greenaway Anne Wright
Gibraltar, including Gibraltar Regiment	tri-Service (Royal Navy lead)	Peter Knight Tony Young
HMS NORTHUMBERLAND	Royal Navy	Peter Knight Tony Young
HQ 20 Armoured Brigade and Paderborn Garrison, Germany	Army	Robert Burgin Alison Gallico
RAF Cranwell, Lincolnshire	RAF	Peter Knight Ian Stewart
RAF Marham, Norfolk	RAF	David Greenaway Ian Stewart

ESTABLISHMENT/LOCATION	SERVICE	MEMBERS
HMS TURBULENT	Royal Navy	David Greenaway Robert Burgin
Southern Diving Group	Royal Navy	David Greenaway Robert Burgin
Afghanistan, Kandahar and Camp Bastion	tri-Service	David Greenaway Ian Stewart
202 (Midlands) TA Field Hospital, Birmingham	Army	Alison Gallico Keith McNeish
RCDM MOD Hospital Unit, Birmingham	tri-Service	Alison Gallico Keith McNeish
RAF Lyneham, Wiltshire	RAF	Derek Leslie Tony Young
RAF Benson, Oxfordshire	RAF	Derek Leslie Tony Young
Defence Academy, Shrivenham, Wiltshire	tri-Service	David Greenaway Tony Young
9 Regiment Army Air Corps, Yorkshire	Army	Peter Knight Ian Stewart
Defence Medical Rehabilitation Centre Headley Court, Surrey	tri-Service	Alison Gallico

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5700853 02/08

Printed on Paper containing 75% fibre content minimum.