



Armed Forces' Pay Review Body

Fortieth Report – 2011

Chairman: Professor Alasdair Smith

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

March 2011

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Armed Forces' Pay Review Body

TERMS OF REFERENCE

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

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

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

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

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

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

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The secretariat is provided by the Office of Manpower Economics.

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

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GLOSSARY OF TERMS

AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
AFPS	Armed Forces Pension Scheme
AGR	Association of Graduate Recruiters
AHP	Allied Health Professional
ALA	Annual Leave Allowance
ASHE	Annual Survey of Hours and Earnings
BDA	British Dental Association
BMA	British Medical Association
CEA	Clinical Excellence Award
CMT	Combat Medical Technician
CPI	Consumer Prices Index
DASA	Defence Analytical Services Agency
DB	Defined Benefit
DC	Defined Contribution
DDRB	Review Body on Doctors' and Dentists' Remuneration
DE	Defence Estates
DFC	Daily Food Charge
DMS	Defence Medical Services
DO	Dental Officer
EOD	Explosive Ordnance Disposal
ERNIC	Employers' National Insurance Contributions
FRI	Financial Retention Incentive
FTRS	Full Time Reserve Service
GDP	Gross Domestic Product
GTS	Gains to Trained Strength
IDS	Income Data Services
ILA	Individual Leave Allowance
IRP	Immediate Retirement Point
JPA	Joint Personnel Administration
JPAC	Joint Personnel Administration Centre
LSA	Longer Separation Allowance
MESM	Marine Engineer Submariner
MO	Medical Officer
MOD	Ministry of Defence
MPP	Manning Pinch Point
NHS	National Health Service

NI	Northern Ireland
NIRS	Northern Ireland Resident's Supplement
NMW	National Minimum Wage
OF	Officer
OME	Office of Manpower Economics
OPP	Operational Pinch Point
OR	Other Rank
OTT	Offer to transfer
PAYD	Pay As You Dine
PPOs	Principal Personnel Officers
RAF	Royal Air Force
RM	Royal Marines
RN	Royal Navy
RPI	Retail Prices Index
SDSR	Strategic Defence and Security Review
SFA	Service Family Accommodation
SLA	Single Living Accommodation
SLAM	Single Living Accommodation Modernisation
SPVA	Service Personnel & Veterans Agency
SR	Spending Review
SSFA	Substitute Service Families Accommodation
SSSA	Substitute Service Single Accommodation
TW	Towers Watson
UK	United Kingdom
VO	Voluntary Outflow
WO	Warrant Officer

ARMED FORCES' PAY REVIEW BODY 2011 REPORT – SUMMARY

Key recommendations

- An increase of £250 in military salaries for those earning £21,000 or less;
- Targeted pay measures:
 - Restructuring and uplift of Specialist Pay for Explosive Ordnance Disposal Operators and Royal Marine Mountain Leaders;
 - New Financial Retention Incentives for Marine Engineer Submariner personnel and changes to Specialist Pay;
 - Introduction of a 'Golden Hello' for direct entrant Pharmacists;
 - Increase to the rate of the Northern Ireland Residents' Supplement and its extension to cover Full Time Reserve Service and Northern Ireland based Reserve Forces personnel;
- A 1.4 per cent increase to Grade 1 Service Families Accommodation and Single Living Accommodation rental charges and lower graduated increases below Grade 1;
- A Daily Food Charge of £4.25 (an increase of 2.9 per cent).

Introduction (*Chapter 1*)

This Report sets out our recommendations on military pay for 2011-12. The Secretary of State directed us in his remit letter to make recommendations for pay increases only for military personnel earning £21,000 or less, as the Government had announced a two-year pay freeze for those earning above this level in the public sector. As an independent pay review body we believe such restrictions on our remit should be exceptional and were reassured to hear from the Secretary of State for Defence that he expects us to return to making our full range of recommendations following the pay freeze.

The demands made by the continuing deployment in Afghanistan formed the backdrop to our year's work. During the autumn the results of the Spending Review (SR) and the Strategic Defence and Security Review (SDSR) were announced. There have already been consequences for Service personnel and their families, such as cuts to allowances, and there are longer term implications for the future of the Armed Forces.

Our recommendations take account of the views of Service personnel which we heard on visits both at home and abroad, evidence from the Government, the MOD, the Service Families' Federations, the British Medical Association and British Dental Association (BMA/BDA) and our own research. Between March and July 2010 we made 29 visits to the three Services, including one to Afghanistan. We were also able to view the full range of Service accommodation. We held 255 formal discussion groups with over 3,400 personnel and met Service families whenever feasible.

Military pay (Chapter 2)

The Government's evidence emphasised the challenging economic context. The UK had a budget deficit of 11 per cent of GDP in 2009-10, and the Government saw deficit reduction as the top priority. It sought to achieve this primarily via a reduction in public spending and had decided that a public sector pay freeze for all those earning over £21,000 was one of the measures needed to achieve this. Planned spending reductions across Government include an 8 per cent reduction in real terms in the defence budget to 2015.

Operational tempo continued to affect the Armed Forces' ability to conduct the full range of training and to prepare effectively for operations. The level of commitment to Afghanistan continued to place heavy demands on Service personnel, particularly where there are key skills shortages. They and their families also bear the strains of separation.

The overall full-time trained strength of the Armed Forces was 99.5 per cent of requirement at 1 April 2010, an increase of 2.3 percentage points over the same time last year and the highest manning level for 10 years. Fewer recruits had joined compared with the previous year, but this was due to a reduction in recruitment targets. The full-time trained strength increased as outflow reduced. However, while the overall picture was positive, there are problems in certain key shortage trades which continued to have difficulty in recruiting and retaining sufficient personnel.

We considered a number of issues before arriving at our recommendation, including a range of options on how to treat increments and X-Factor. Recruitment and retention are currently healthy and resources are scarce. On balance, we decided that the best approach was to ensure that all full-time personnel receive a fixed £250 increase in pay, regardless of X-Factor, in line with the minimum proposed for others in the public sector. Given the wider context of pressures on public finances we do not feel that a higher increase can be justified. Accordingly we recommend that the military pay scales for Other Ranks and Officers earning £21,000 or less be uprated by £250. About 26 per cent of the total Regular workforce will benefit from this increase and all personnel who are below the top of their pay scale, including three quarters of those earning over £21,000, will receive their annual increment.

Targeted pay measures (Chapter 3)

Targeted pay measures play an important role in helping MOD recruit and retain personnel in key areas and are particularly important during a two-year public sector pay freeze and with the uncertainties arising from the SDSR and SR. Specialist Pay (SP) is paid to certain groups in response to specific recruitment or retention needs. Both the level and coverage of SP need regular review. This year we considered SP, and recommended restructuring and uplift, for Explosive Ordnance Disposal (EOD) Operators, Marine Engineer Submariners, Special Forces and Royal Marine Mountain Leaders. Our recommendations on Special Forces are made in a separate letter to the Prime Minister. Where we have not made specific recommendations arising from our reviews, we recommend no change to the SP scales for this pay round. Next year, we will undertake a fundamental review of all aspects of SP to ensure it remains an appropriate selective mechanism to aid recruitment and retention.

Financial Retention Incentives (FRIs) are short-term measures aimed at retaining personnel who are essential to delivering key operational capabilities. This year MOD proposed only one new FRI – for Marine Engineer Submariner personnel. We also reviewed Allied Health Professionals (AHPs) and the Northern Ireland Residents' Allowance (NIRS). For AHPs, we recommend the introduction of a 'Golden Hello' for direct entrant Pharmacists. In Northern Ireland, the security situation continues to have an adverse impact on Service personnel and their families. Many disruptive restrictions are placed on everyday life. The cumulative impact of these restrictions is considerable, and the disruption means that personnel are often reluctant to volunteer for posts in NI and their families are reluctant to accompany them if they do get posted. We recommend that there should be an increase in the level of NIRS and that eligibility

be extended to locally recruited Full Time Reserve Service (FTRS) personnel and NI based Reserve Forces personnel.

Service Medical and Dental Officers (Chapter 4)

Because of the public sector pay freeze, the Review Body on Doctors' and Dentists' Remuneration is not making recommendations on pay this year. We will not therefore make our regular Service Medical and Dental Officers supplementary report this year. We keep in touch with developments and issues for these vital groups and therefore considered information notes from MOD and the BMA/BDA covering the latest manning situation and important developments over the year. We also met many personnel on our visits to medical facilities both in the UK and in Afghanistan, who provided extremely valuable insights into their work. Medical and Dental Cadets, who earn below the £21,000 threshold, are covered by our recommendation for the main remit group (Chapter 2).

Accommodation and other charges (Chapter 5)

Accommodation is a key issue for personnel and their families. The provision of good quality living accommodation for both married and single Service personnel must be an MOD priority. Our long term approach has been to set charges which are consistent with civilian comparators, less a discount which, in our view, appropriately recognises the negative aspects for Service personnel and their families of living in Service accommodation.

As in previous years, MOD asked us to reconsider our approach of not recommending increases for the very lowest grade of accommodation. We recognise there are instances when good standard for condition accommodation is given a low grading for charge due to, for example, location factors. However, until the grading system is changed, we are not inclined to change our policy on Grade 4 charges. We therefore recommend that rental charges for Grade 1 accommodation should increase in accordance with the rental component of the Retail Prices Index (RPI), as at November 2010, of 1.4 per cent with lower graduated increases below Grade 1 and none on Grade 4.

We based the Daily Food Charge recommendation on the average of the Food Supply Contract data for the 12 months to October 2010 which generates an increase of 2.9 per cent to £4.25.

Validation of the Armed Forces Pension Scheme 2005 (AFPS05) (Chapter 6)

In 2004 it was agreed that AFPRB would periodically carry out an external assessment or 'validation' of AFPS05 in the context of pension provision in the wider economy, the special needs of the Armed Forces and the role played by the scheme in recruitment and retention. Our remit required us to make a broad comparison of AFPS05 benefits with other schemes and identify any significant implications, positive and negative, for recruitment and retention. We examined both private and public sector comparators.

AFPS05 compares favourably with other public and private sector schemes. In a fighting Service, where risk of death or injury is likely to be higher than most other occupations, pension and related benefits can be a significant aspect of the remuneration package. The view of the remit group and the AFPRB is that AFPS05 is an important part of the current remuneration package and has been generally well received. It has not been a strong recruitment tool in the past, but may become more so as the spotlight falls increasingly on pension rights. There is strong evidence that AFPS05, like its predecessor, acts as a powerful retention tool, particularly for some experienced Service personnel.

Conclusion (Chapter 7)

Our recommendations on the elements of pay and benefits within our remit would, if accepted, add 0.3 per cent to the paybill. We have made this year's recommendations in a particularly difficult climate. The impact on individuals, as the changes announced in the SR

and SDSR are implemented, will form the backdrop to our next round. The public sector pay freeze will remain in place for a second year with inflation forecast to remain high throughout 2011. The changes in the allowance package announced by MOD in January will also have a significant impact on Service personnel, as will the future impact of the Government's decision to use the CPI rather than RPI to up-rate pensions. These changes, combined with redundancies, possible further pension changes following Lord Hutton's final report, and other policies to deal with continuing downward pressure on the defence budget, will be felt by the remit group in numerous ways. At a difficult time for Service personnel and their families, with obvious risks to morale and motivation, it is of the utmost importance that MOD ensures that clear, sensitive and effective communication of important changes affecting personnel and their families is given high priority.

Against the planned reduction in overall numbers, it remains important to recruit, retain and motivate the right people as the wider economy recovers. The changing profile of potential recruits suggests it should remain a priority to recruit from a broad base, and to ensure the Armed Forces offer a welcoming culture and fulfilling career paths for women and for those from ethnic minority groups. However, investment in recruiting has been scaled back, which increases the risk of future shortages. We found signs that some personnel in key shortage trades intend to find alternative employment as and when the economy improves. Given the reduction in recruiting, this could lead to serious shortages in some areas which could prove difficult and expensive to rectify.

Chapter 1

INTRODUCTION

Introduction

- 1.1 This Report sets out our recommendations on military pay for 2011-12. Following the Government's announcement of a public sector pay freeze, our overall pay recommendation is restricted to those earning £21,000 or less. We also make recommendations on certain targeted recruitment and retention measures and on charges for food and accommodation.
- 1.2 The demands made on military personnel and their families by the operations in Afghanistan continued to form the backdrop to our work. During the autumn, the results of the Spending Review (SR) and the Strategic Defence and Security Review (SDSR) were announced, and already have had consequences for Service personnel and their families. There are also longer term implications for the future of the Armed Forces and those who serve in them.

Context for this Report

- 1.3 The Government's emergency budget in June included as part of its deficit reduction plan a two-year pay freeze for public sector employees earning £21,000 or more. This affects about 75 per cent of the Armed Forces, but those Service personnel eligible to receive annual increments will continue to receive them.
- 1.4 Our remit letter from the Secretary of State for Defence (Appendix 6) reaffirmed the Government's commitment to the Review Body process and set out the AFPRB's work programme for this unusual round.
- 1.5 Under the SR the defence budget will be reduced by 8 per cent in real terms by 2015. To achieve this, the MOD has to find short-term savings which include a series of revisions and reductions to the allowances package for Service personnel. Longer-term initiatives such as the development of new career and pay structures may well be delayed by the cuts.
- 1.6 The SDSR examined the structure of defence forces required for the next ten years. It identified capabilities that could be reduced or removed, and others which should be enhanced. Overall, the SDSR concluded that a reduction of approximately 17,000 Service personnel is needed by 2015, and this will require some compulsory redundancies.
- 1.7 The prospect of these changes adds uncertainty for military personnel and their families already under pressure from enduring operations in Afghanistan. In November 2010 about 12,400 Service personnel were deployed overseas on operations with about 9,700 in Afghanistan at any one time. Deployment and pre-deployment training continue to place heavy demands on personnel, particularly in key shortage trades. This operational tempo also affects those who are involved in preparing personnel and equipment for operations. Separation from family and friends continues to be a key theme of our discussions on visits.

Our 2010-11 work programme and evidence base

- 1.8 Our work for the year began in March 2010 with a briefing from MOD and the three Services on the major personnel and pay issues. Between March and July we paid 29 visits to the three Services in the UK and abroad, including visits to Germany, Switzerland and Afghanistan. On each visit we held formal discussion sessions, 255 in all, meeting

over 3,400 personnel and their families and met many more in informal discussions. The views they expressed on the remuneration package and wider issues are essential to our understanding of recruitment, retention and motivation.

- 1.9 The visit to Afghanistan gave us valuable insight into the pressures on Service personnel on operations, especially on the front line. We were able to see the living and working conditions in Forward Operating Bases (FOBs), Patrol Bases (PBs) and Checkpoints as well as in the main operating base.
- 1.10 On all our visits, we asked for feedback on the measures we recommended in 2010. Our recommended 2 per cent increase in military pay was generally well received, but we heard some concern about the impact of inflation and of reductions in some allowances. The improvements in Longer Separation Allowance (LSA) were welcomed. The extension of Unpleasant Living Allowance (ULA) to FOBs and PBs in Afghanistan was also welcomed, but there was concern that it still did not provide sufficient compensation for the very worst living conditions in operational areas.
- 1.11 All Services provided consistent and excellent support to our visits, and we thank them for this. Details of our visits programme can be found in Appendix 8.
- 1.12 We received papers of evidence from the Government, the MOD and the individual Services; the Service Families' Federations, and the BMA and BDA. We reviewed 75 papers in total, and these were supplemented by oral evidence sessions which allowed us to discuss issues of particular importance and to follow up matters raised on our visits.
- 1.13 Oral evidence was given by the Secretary of State for Defence; Chief of the Defence Staff; the Principal Personnel Officers; Deputy Chief of Defence Staff (Personnel); Assistant Chief of Defence Staff (Reserve and Cadets); and Deputy Chief Executive of Defence Estates (DE). We also received oral evidence from the Service Families' Federations.
- 1.14 We commissioned external research on pensions for our validation of the Armed Forces Pension Scheme (on which we report in Chapter 6). We also received internal research papers from the Office of Manpower Economics (OME) on the wider labour market, on the employment terms of other uniformed services, and on civilian housing costs.

Emerging issues of concern

- 1.15 The pay freeze was announced towards the end of our programme of visits, and we met reactions of personnel ranging from resigned acceptance to anxiety and annoyance. We are very conscious that our role is to provide *independent* advice on the pay of Service personnel who do not have the right to take industrial action and (with the exception of doctors and dentists in DMS) do not have union representation. While we recognise the economic circumstances facing the country and the resulting pay freeze, which has led the Secretary of State to restrict our remit this year, we believe that such restrictions on our scope should be exceptional. We were glad therefore to receive the Secretary of State's confirmation of the Government's commitment to our independence and to the resumption of our role with the whole remit group when the pay freeze ends.
- 1.16 On our visits, we found that Service personnel and their families were apprehensive about the possible changes to their pension scheme that might result from the recommendations of Lord Hutton's Independent Public Service Pensions Commission which is due to report in March 2011. The Government's decision to up-rate public sector pensions by the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) will have a more significant impact for Service personnel, who typically draw their pension at an earlier stage than most public sector workers.

- 1.17 During 2011 we shall carry out a full valuation of the pension scheme which will take account of the indexation change and any other changes introduced as a result of Lord Hutton's final report.
- 1.18 In January 2011 the MOD announced changes to several allowances for Service personnel, including some within our remit. We were surprised that MOD did not consult us about these changes or inform us in advance of the announcement. Although we recognise the financial pressures which led to the savings being sought, we believe it would have been helpful if MOD and the Review Body had been able to discuss the rationale for and the proposed handling and communication of these changes ahead of the announcement.
- 1.19 Service personnel and their families have concerns and apprehensions about the implications of the SDSR, especially for reductions in number of personnel. We are concerned about the quality and timing of communication. We have seen previous examples of poor communication down the chain of command which lead to confusion and uncertainty and can damage morale.
- 1.20 We are seriously concerned about the cumulative impact of the overall changes in prospect. Inflation is higher than was expected when the pay freeze was announced, allowances have been cut, and the change in pensions indexation reduces the value of the pension more than other public sector groups. Taken together, these changes pose considerable risks to morale and potentially to recruitment and retention.

Our 2011 Report

- 1.21 Our remit requires us to consider the impact of pay on recruitment, retention and motivation of the Armed Forces. While we make a recommendation in Chapter 2 to increase the pay of those earning £21,000 or less, we continue to monitor the position of the wider remit group and the constraints on recruitment and retention. We therefore assess overall labour market trends, and look at manning issues, workloads and some pay comparisons.
- 1.22 Chapter 3 sets out our recommendations on targeted measures to support recruitment and retention for groups where there are specific manning pressures. We consider Marine Engineer Submariners, Pharmacists, Royal Marine Mountain Leaders, and the structure of Specialist Pay for Explosive Ordnance Disposal (EOD) Operators. The Northern Ireland Residents' Supplement (NIRS) was reviewed this year. We also reviewed pay arrangements for Special Forces and associated groups; as usual, our recommendations on these groups are made in a separate letter to the Prime Minister.
- 1.23 Since pay is frozen for military doctors and dentists other than some cadets, we agreed with MOD and BMA/BDA not to undertake our usual review for Service Medical and Dental Officers. However, there is a short review of manning and other issues in Chapter 4.
- 1.24 MOD has deferred or cancelled our review of several topics that were on our agenda for this year. Specifically, New Entrants' Rates of Pay, originally due for our 2010 Report, has been deferred until autumn 2011 because of the potential changes to personnel requirement following from the SDSR.
- 1.25 Last year we recommended two improvements to LSA to increase compensation for those experiencing the highest levels of separated service. We had intended to revisit LSA this year to consider if the targeting and parameters remain appropriate. However MOD has deferred this further review in the light of the financial situation.

- 1.26 In Chapter 5 we recommend charges for Service Families Accommodation, Single Living Accommodation and other related costs. The Daily Food Charge is also covered in Chapter 5.
- 1.27 The AFPRB is charged with carrying out a periodic assessment of the Armed Forces Pension Scheme 2005. This 'validation' considers the scheme in the context of pension provision in the wider economy, and looks at the role played by the scheme in recruitment and retention. Chapter 6 reports on our first validation.
- 1.28 Chapter 7 sets out the cost of our recommendations, comments on our work this year, and outlines our expected work programme for 2011-12.

Chapter 2

MILITARY PAY

Key points:

- We recommend an increase of £250 in salaries for those earning £21,000 or less. We have taken account of:
 - The continuing commitment in Afghanistan which makes heavy demands on personnel, particularly where there are key skills shortages;
 - The highest manning level for 10 years and a low outflow rate;
 - The Government's evidence on the challenging economic context and the public sector pay freeze;
 - The changes following from the Spending Review and the Strategic Defence and Security Review.

Introduction

- 2.1 The Secretary of State directed us in his remit letter to make recommendations for pay increases only for military personnel earning £21,000 or less. However, we expect to return to making a full range of pay recommendations after the end of the pay freeze and we therefore considered data on matters affecting the recruitment and retention of all the Armed Forces.
- 2.2 In this chapter we summarise the evidence we received from the Government and the MOD, in addition to the information we received on labour market trends, recruitment, retention, morale, workload pressures and pay comparisons. A fuller summary of the data we considered is in Appendix 5.

Government evidence on the general economic context

- 2.3 The Government's evidence centred on the need to reduce the budget deficit which was 11 per cent of GDP in 2009-10. It has imposed a public sector pay freeze for those paid more than £21,000 as part of its planned spending reductions, which also included an 8 per cent reduction in real-terms in the defence budget by 2015.
- 2.4 The Secretary of State for Defence emphasised that the SDSR focused on both the requirements for national defence to 2020 and on the urgent need to reduce the current defence budget and the national fiscal deficit. For the present he felt that it was right for the Armed Forces to be included in the pay freeze but there is an aspiration for increased real terms defence expenditure from 2015-20.
- 2.5 The Government's evidence forecast that recruitment and retention would improve, with public sector packages being seen as relatively attractive in the light of workforce reduction and wage restraint in the private sector. The Government sees pay restraint as a key factor in protecting public services.
- 2.6 During the round we were briefed by OME analysts on changes in the economy. We noted:

- after three successive quarters of GDP growth, the economy contracted in the last quarter of 2010;
- the CPI measure of inflation was 4.0 per cent in January 2011, well above the Government's target for CPI inflation of 2 per cent;
- the RPI inflation measure rose to 5.1 per cent in January 2011;
- total employment in the three months to December 2010 was 29.1 million, and the rate of employment for people aged 16 to 64 was 70.5 per cent, only 0.1 percentage points lower than a year earlier;
- unemployment was 2.5 million in the three months to December 2010, a rate of 7.9 per cent, 0.1 percentage points higher than a year earlier;
- youth unemployment increased by 32,000 over the year to three quarters of a million, representing 18.1 per cent of economically active 18-24 year olds; and
- average earnings growth began to recover during 2010 driven by growth of pay in the private sector, while pay growth in the public sector slowed down.

MOD evidence on strategic management

Defence context

2.7 The Armed Forces have operated above Defence Planning Assumptions¹ for more than seven years. While this remained manageable, the level of commitment to Afghanistan placed heavy demands on personnel and affected the Armed Forces' ability to conduct the full range of training and to prepare effectively for operations. This was especially the case where there are key skills shortages ('pinch point trades'²).

Service pay and affordability

2.8 Pay awards for the Armed Forces over the last three years were among the highest in the public sector. The cost of the 2010 pay award of 2 per cent with additional targeted measures adding a further 0.3 per cent was slightly above MOD's budget planning assumptions.

2.9 For 2011-12 MOD has assumed that pay increases for those paid £21,000 or less together with the net cost of increments for eligible personnel will add 1 per cent to their pay bill, while a further 0.1 per cent will be the cost of targeted measures. Recommendations above this level would require compensating savings to be found from elsewhere in the defence budget.

Manning

2.10 The overall full-time trained strength of the Armed Forces at 1 April 2010 was 99.5 per cent of requirement, 2.3 percentage points higher than in April 2009, and the highest manning level for 10 years. While fewer recruits joined in the year to 1 April 2010 compared with the previous year, this was due to a reduction in recruitment targets. The full-time trained strength increased as outflow reduced. However, while the overall picture was positive, there are problems in certain pinch point trades which have difficulty in recruiting and retaining sufficient personnel. Recruiting and retaining the right personnel to meet defence obligations are a continuing challenge.

¹ Under pre-SDSR Defence Planning Assumptions, the Armed Forces are manned to sustain one medium-scale and two small-scale operations.

² An Operational Pinch Point is a branch specialisation or area of expertise where the shortfall in trained strength is such that it has a potentially detrimental impact on operational effectiveness. A Manning Pinch Point is where the shortfall in trained strength has affected the branch structure and will require a number of recruitment/retention measures to rectify.

- 2.11 MOD emphasised the importance of developing innovative non-remunerative measures to ease manning pressures as the Department's budget contracted. Work was going on to develop new career and pay structures to increase stability for personnel and to reduce Service accommodation costs in the long term, but the need for short-term savings could delay this and other projects.

Motivation and morale

- 2.12 We received formal written and oral evidence from the Service Families' Federations on the motivation and morale of personnel; this supplemented the views we heard on visits. Common themes included: the continued high operational tempo and its impact on family life; concerns about employment security post-SDSR; changes to the allowances package and the value of the pension; poor quality accommodation and maintenance; and poor communication from MOD. Our consideration of the 2009 Armed Forces Continuous Attitude Survey (AFCAS) is included in Appendix 5.
- 2.13 Perhaps the most significant concerns we encountered on our visits were about the impact of the public sector pay freeze which was announced towards the end of our visits programme. We noted an immediate deterioration in morale among Service personnel. Many were disappointed and angry that the Armed Forces had been included in the pay freeze. In oral evidence, the Chief of the Defence Staff described morale as 'OK but fragile' and said that the situation should be monitored carefully, while the redundancy scheme and reductions in allowances were implemented.

Workload

Operational and other commitments

- 2.14 In November 2010, 12,400 personnel were deployed overseas on operations, around 9,700 in Afghanistan. In any year, about 25,000 personnel will undertake an overseas deployment lasting from four to six months. Of the 1,800 personnel supporting operations in Iraq only around 100 now remain in theatre. There are also ongoing commitments to Defence support elsewhere.
- 2.15 The high level of operational tempo affects the Services' ability to meet their Harmony Guidelines³ which aim to limit the adverse effects on family life. The Army is most seriously affected with breaches at 10.3 per cent. Breaches in the RN and RAF reduced during the year to 1.3 per cent and 4 per cent respectively.
- 2.16 These figures mask higher individual levels of Harmony breaches in specific trades, particularly Operational Pinch Points (OPPs). Those supporting and preparing for operations may also have to work long hours and undergo increased levels of family separation for many months. A typical six-month deployment may require 10-12 months of separation.

Working hours

- 2.17 Average working hours across all Services fell from 46.4 hours per week in 2008-09 to 45.9 hours per week in 2009-10. Unsocial hours⁴ worked also fell, but average weekly duty hours⁵ rose by almost an hour to 68.6 and the proportion of personnel working

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

⁴ Any hours worked: between 00.00 and 06.00 Monday-Friday; between 18.00 and 24.00 Monday-Friday; and on Saturday or Sunday.

⁵ All time spent at work, on breaks or on call.

excessive hours⁶ rose slightly from 9 per cent to 10 per cent. In comparison, the average working week for full-time civilian workers was 37.1 hours (38.9 for men and 33.8 for women)⁷.

- 2.18 MOD and the Services have in the past expressed to us their concern that a low response rate, especially from those on operations, had affected the results of the *Working Patterns Survey*. The 2009-10 survey now separately identifies those on 'overseas operations' and those 'elsewhere abroad' which gives a clearer picture of hours worked. The response rate has also improved, from 34 per cent to 40 per cent for the latest survey. However, in spite of survey results suggesting falling working hours, we continue to hear directly from personnel that working hours remain long, both in the UK and overseas.

National Minimum Wage

- 2.19 The Armed Forces are exempt from the National Minimum Wage (NMW) legislation, but MOD is committed to acting within its spirit. Junior Ranks across all Services worked on average 44 hours per week during 2009-10, giving an hourly base pay rate of £7.42. The October 2009 NMW⁸ rates were £5.80 per hour for those aged at least 22 and £4.83 per hour for those aged 18-21.
- 2.20 However, any Junior Ranks aged 22 or over working 57 or more hours per week, or younger personnel working 68 or more hours could potentially have earned less than the NMW⁹. Following increases to NMW rates from October 2010, the weekly working hours required to breach the NMW rates fell to 55 and 67 hours per week for the respective age groups.
- 2.21 The hours worked by those on operations or at sea are much higher¹⁰ than average, so there is a greater risk that such individuals will breach the NMW thresholds over a 12 month period. For those aged 22 and above, personnel would need to spend 203-272 days a year at sea or on operations (dependent on Service) to fall below the NMW. However, if Operational Allowance and LSA were included in the calculation, nobody would breach the NMW.

Leave arrangements

- 2.22 We have found evidence on our visits in the past that personnel were not, as required, recording their leave on Joint Personnel Administration (JPA), so that JPA leave data were unreliable. This year, MOD instituted a *Survey of Leave* to provide us with better information.
- 2.23 In 2009-10 the survey showed that the average Service man or woman had an Individual Leave Allowance (ILA)¹¹ of 53 days, an increase of 2 days from 2008-09. Of this allowance (2008-09 figures in brackets):
- roughly 44 days were used (38 days);
 - 8 days were carried forward (10 days);
 - only 1½ days were lost on average (2½ days);
 - 85 per cent lost none of their ILA (74 per cent);

⁶ Personnel working in excess of 70 hours or more a week.

⁷ *Statistical Bulletin: Labour Market statistics, January 2011* – Office for National Statistics, 2011.

⁸ The October 2009 NMW rates are used to be consistent with the timing of the Working Patterns Survey. The hourly NMW rates from 1 October 2010 were £5.93 for those aged 21+ and £4.92 for those aged 18-20.

⁹ Excluding any LSA or Operational Allowance payments.

¹⁰ 61.1 hours for the Royal Navy, 68.2 for the Army and 62.3 for the RAF.

¹¹ Comprises Annual Leave Allowance, Seagoers Leave, Post Operational Leave and Authorised Absence. Does not include rest and recuperation, re-engagement leave and relocation leave.

- 82 per cent were satisfied with their entitlement (75 per cent); and
 - 61 per cent were satisfied with their ability to take leave when they wanted (51 per cent).
- 2.24 In 2009-10 individual Annual Leave Allowance (ALA) entitlement (awarded and brought forward) averaged 47 days including 8 days of public holidays. Thirty-seven days were used, 8 days carried forward and 2 days were lost. Eighty-five per cent of Other Ranks and 65 per cent of Officers lost none of their ALA.
- 2.25 We are pleased that both the management of leave has improved and personnel are happier with their entitlements and with their ability to take leave when they want to.
- 2.26 Defence Analytical Services and Advice (DASA) has carried out an analysis of leave data held on JPA to assess whether it is sufficiently reliable to use for our 2011-12 Report. Existing AFCAS questions can provide the qualitative material we need; we are content in principle to move to using JPA data to obtain important information on leave patterns.

Pay comparability

- 2.27 Our terms of reference require us to 'have regard for the need for the pay of the Armed Forces to be *broadly comparable* with pay levels in civilian life.' While it is not always possible to find a direct civilian comparator for military roles, pay comparability helps us to ensure that the Armed Forces are able to recruit and retain the personnel they need. We use our judgement when analysing the evidence, rather than simply adopting a mechanistic process.
- 2.28 We have usually commissioned research to provide technical evidence on comparability, but this year we decided not to do so in the light of our restricted remit. Instead, we focused on comparisons for those at entry points to, and in the early stages of, their careers. We also considered the pay of the other uniformed services. We used the latest available (2010) *Annual Survey of Hours and Earnings (ASHE)* to support our analysis.

Early career stages

- 2.29 We compared the pay of young people entering the Armed Forces with their full-time civilian counterparts, using data from ASHE at April 2010. Military age profiles (by rank) were used to establish appropriate civilian comparator age ranges. Military salaries (adjusted for X-Factor) were then compared with the civilian earnings distributions (adjusted for pension value).
- 2.30 Our evidence showed:
- Military salaries improved in 2010 relative to civilian earnings;
 - New entrant starting pay levels continued to be slightly ahead of median gross earnings for civilians aged 16-18 years;
 - for Privates to Lance Corporals and equivalents on Pay Range 1, Level 1 military salaries were just above the lower quartile of civilian salaries (aged 16-29). The maximum of the Lower Band was above the median, and the top of the Higher Band was at the upper quartile of civilian salaries;
 - Corporals and equivalent at the bottom of Lower Pay Band 2 and Sergeants and equivalent at the bottom of Lower Pay Band 3 were paid at median salary levels when compared with civilians aged 25-34 and 30-39 respectively;
 - Higher Pay Band staff within Ranges 2 and 3 received above median civilian earnings at all points on the pay ranges.

- 2.31 Time series analysis of the ASHE data from 2001-2010 allows movement in the relative position of military salaries to be assessed. The data showed:
- the pay of the lowest paid ranks (new entrants, Privates and Lance Corporals) has improved relative to civilian pay over the period;
 - Corporals and Sergeants in the Lower Band have remained consistently around the median earnings of civilians;
 - Officers at OF1 (Lieutenant and Sub-Lieutenant and equivalent) Level 6 or higher and all those at OF2 (Captain and equivalent) have remained within the upper quartile of civilian salaries.

Uniformed civilian services

- 2.32 Service personnel often tell us that they regard the uniformed civilian services as direct or 'natural' comparators and also as potential alternative or subsequent careers. While there are perceived similarities with the Armed Forces, these other services have their own career structures and terms and conditions of service, so direct pay comparisons need to be viewed with caution.
- 2.33 Our analysis covered the Fire, Police, Prison and Ambulance Services. To illustrate the difficulty of making comparisons, 58 per cent of new recruits to the Armed Forces in 2009-10 were aged 16-20. By contrast, only 0.1 per cent of Prison Officers (the traditional entry rank in the Prison Service), were aged under 20. More than half the Armed Forces are aged under 30, while fewer than 15 per cent of Prison Officers are under 30. However, Armed Forces' personnel work longer hours than these other groups.
- 2.34 Final salary defined benefit pension schemes are valued parts of the total remuneration package for all these groups. The Armed Forces' schemes (AFPS75 and AFPS05) are currently non-contributory, unlike those for other uniformed occupations which have employee contribution rates of up to 11 per cent. Lord Hutton's interim report¹² on public sector pensions stated that the Government 'should have regard to protecting the low paid and should not introduce contribution rates for the Armed Forces at this time'.
- 2.35 However, the Government's decision to uprate pensions by CPI rather than RPI will have an especially significant impact on the value of Armed Forces pensions which are typically taken earlier than other public sector pensions and are therefore in payment for longer. We await further changes that may be proposed by Lord Hutton in his final report, scheduled for publication in March 2011.
- 2.36 On our visits, Armed Forces personnel consistently pointed out that their starting salary is lower than that of Police Officers, Prison Officers and Firefighters. The other uniformed services traditionally provide second careers for those who have already served in the Armed Forces so starting salaries may not be an appropriate comparator. We also heard on our visits of new entrants who had been rejected by other uniformed services as having insufficient life experience.
- 2.37 In summary, the packages offered to members of the uniformed civilian services continue to be more generous than military salaries, particularly on entry. However, those differences are reduced once their pension contributions are taken into account.

¹² Independent Public Service Pensions Commission: Interim Report
http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf

Graduates

- 2.38 Median starting salaries for graduates in 2010 were found by the Association of Graduate Recruiters (AGR)¹³ to be £25,000, unchanged since 2008. Income Data Services (IDS)¹⁴ gave a slightly higher forecast of £25,600. Against these figures, the position of graduates¹⁵ entering the Armed Forces has deteriorated slightly in recent years. After adjusting for X-Factor and pension differences, military graduate Officer starting salaries are 11-14 per cent behind forecast starting salaries for civilian counterparts.
- 2.39 AGR said that the market demand for graduates would fall for a second year in succession, contracting by 7 per cent in 2010; IDS forecast a recovery of 4 per cent after a fall of 11 per cent in 2009.
- 2.40 Graduate entry salaries for Officers in the Armed Forces are above median salaries for all civilians aged 20-29 (according to ASHE data), but are slightly lower than the salaries on recruitment in other public sector professions which average £23,000 according to IDS. However, young Officers tend to have faster salary progression than their public sector counterparts.

Our pay recommendation for those earning £21,000 or less

- 2.41 On the basis of the Government's guidance (in Appendix 7) and MOD evidence, we took the definition of £21,000 as normal interpretation of salary, including X-Factor, but excluding supplements such as Specialist Pay (SP). A full list of the groups whose salary is £21,000 or less on this definition is given in Appendix 1, with our recommended salary scales. In total, these groups represent around 26 per cent of the total Regular workforce.
- 2.42 Unlike for many other public sector employees, incremental progression will continue for all Service personnel who qualify, both above and below the threshold. Of those earning more than £21,000, around 75 per cent are below the top of their pay scale and will therefore receive an increment during the year. The 25 per cent already at the top of their scale and earning more than £21,000 will not receive any form of increase this year.
- 2.43 We considered several options before arriving at our recommendation. All Service personnel earning £21,000 or less will in any case receive more than £250 during the year as their normal annual increment, and this could be regarded as delivering the pay increase of 'at least £250' without further adjustment. However, increments form part of the existing pay structure, supporting retention and reflecting experience and performance in rank. We do not therefore think it is appropriate to take increments into account when making our recommendation.
- 2.44 We also considered carefully how best to take account of the X-Factor element of pay. There is a case in principle for awarding those on full X-Factor more, while guaranteeing £250 for those groups on reduced X-Factor (such as the Military Provost Guard Service) in order to maintain the X-Factor differential. Such an award would, however, lead to a narrowing of the gap between those earning just under £21,000 and those just above who are caught by the pay freeze. It would also be a more expensive option.
- 2.45 On balance, we recommend that all full-time personnel earning £21,000 or less receive a fixed £250 increase in pay, regardless of X-Factor. This reduces differentials towards the bottom of the pay spines, but leaves the pay structure intact. Given the pressures on the

¹³ AGR Graduate Recruitment Summer Survey 2010.

¹⁴ IDS Executive Compensation Review – March 2010.

¹⁵ Starting on Level 5 of the OF1 payscale.

defence budget and the fact that recruitment and retention are currently healthy, we do not feel that a higher increase is justified.

- 2.46 We did not undertake a separate review of Defence Medical and Dental Officers this year, as the majority of personnel earn more than £21,000. Medical and Dental Cadets fall below the threshold and BMA/BDA submitted evidence supporting a pay increase above £250 for them. Their evidence on the impact of demographic trends on recruitment is set out in Chapter 4. However, as the recruitment target for Medical Officer Cadets was met in 2009-10, we consider that an increase of £250, in line with other groups below the threshold, is appropriate.

Recommendation 1: We recommend that the military pay scales for Other Ranks and Officers earning £21,000 or less be updated by £250 with effect from 1 April 2011. The annual salary scales arising from our recommendation are in Appendix 1.

Chapter 3

TARGETED PAY MEASURES

Key points:

- Our targeted measures are aimed at improving the recruitment and retention of essential personnel in key operational areas.
- We recommend:
 - Restructuring and uplift of Specialist Pay for Explosive Ordnance Disposal Operators;
 - Restructuring and uplift of Specialist Pay for Royal Marine Mountain Leaders;
 - New Financial Retention Incentives for Marine Engineer Submariner Personnel, together with some restructuring of Specialist Pay (Nuclear Propulsion);
 - Introduction of a ‘Golden Hello’ for direct entrant Pharmacists;
 - An increase to the rate of the Northern Ireland Residents’ Supplement and its extension to cover FTRS and Northern Ireland based Reserve Forces personnel;
 - No other changes to the rates of Specialist Pay or Compensatory Allowances.

Introduction

3.1 Targeted pay measures continue to play an important role in helping MOD recruit and retain personnel in key areas. They are particularly important during a two-year public sector pay freeze and the period of uncertainty following the SDSR and SR. We review specific components of the pay structure in accordance with our schedule (shown in Appendix 9), plus other pressing areas as requirements become apparent.

Specialist Pay (SP)

3.2 SP is a non-pensionable payment, over and above the basic military salary, paid to certain groups in response to specific recruitment or retention factors. It is not a reward for particular skills or compensation for risk but a payment to encourage personnel to join, or remain in, certain trades. Around 40 per cent of personnel receive SP. The coverage and level of SP payments need to be regularly re-assessed. We have a rolling programme for reviewing SP, with each category being reviewed at least once every five years.

3.3 This year we reviewed SP for EOD Operators, Special Forces, Royal Marine Mountain Leaders and Marine Engineer Submariners. Our recommendations for Special Forces and associated groups are made in a separate letter to the Prime Minister. We visited all these groups during the year and have the same robust evidence base for these as for our other recommendations.

- 3.4 Where we have not made separate recommendations arising from our reviews this year, we recommend no change to the SP scales for this pay round in line with the public sector pay freeze. Next year we will undertake a fundamental review of all aspects of SP to assess whether it remains an appropriate mechanism to aid recruitment and retention of certain key cadres.

Recommendation 2: We recommend no change to all rates of Specialist Pay, unless otherwise stated. The rates are in Appendix 2.

Specialist Pay – Explosive Ordnance Disposal

- 3.5 All Services maintain an EOD capability, providing support to military operations overseas and military aid to the civil power in the UK. The demand for EOD Operators is high, particularly for operations in Afghanistan, and there are plans to increase further the number of teams deployed there. Operations in Afghanistan, together with other overseas and UK demands on these personnel, cause Harmony breaches and short intervals between operational tours. Personnel with the aptitude to complete the rigorous training may be put off by the level of personal risk. There is also a perception of limited military career opportunities. Retaining trained operators is also a problem. Lucrative and less stressful private and other public sector opportunities contribute to this.
- 3.6 MOD has restructured the training courses and produced a range of updated qualifications to increase the available pool. MOD proposed a restructuring and uplift of SP(EOD), and we agree that the introduction of the revised three levels of SP(EOD) is an appropriate measure.
- 3.7 We will add SP(EOD) to our work programme for review every three years as requested by MOD. We will bring reviews forward if necessary, in what is a rapidly changing area. For our next review we would like to see evidence on the detail and effectiveness of the non-remunerative measures MOD has put in place to encourage recruitment and retention.

Recommendation 3: We recommend that, with effect from 1 April 2011, Specialist Pay – Explosive Ordnance Disposal should be restructured in the following way:

- Level 1 be removed;
- Level 2 be increased from £15.16 to £16.38 per day;
- Level 2A be introduced at £21.82 per day for a new category of High Threat Explosive Ordnance Disposal Operators;
- Level 3 be increased from £19.98 to £27.87 per day.

The recommended rates are in Appendix 2.

Royal Marine Mountain Leaders

- 3.8 Royal Marine Mountain Leaders (RM ML) deliver niche capabilities across a number of specialist areas, including: Mountain and Cold Weather Warfare; Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) capabilities; and they deliver cold weather, high altitude and vertical assault training to all the Armed Forces when

required. MLs will take the lead when the Brigade Reconnaissance Force is mobile, having responsibility for moving troops into theatre and providing advice to the chain of command.

- 3.9 There are three grades of ML: ML Officer (MLO); ML 1st Class (ML1); and ML 2nd Class (ML2). SP(ML) is currently awarded on completion of the ML2/MLO course and paid to all personnel in a Mountain Leader position at the current rate of £10.31 per day.
- 3.10 ML manning levels are at 80 per cent on average across all ranks; but at the Corporal level, which is a key rank, the manning level is 64 per cent, and falls to only 49 per cent when the required numbers of Corporals move on to take the annual ML1 course. Recruitment is challenging with a limited pool of possible recruits while retention is currently a problem after personnel who have qualified at the initial ML2 level complete their required 30 month return of service. MOD regards current levels of SP(ML) as insufficient to encourage personnel into the trade initially or, once in, to remain and advance to ML1 status.
- 3.11 The MOD proposed raising the initial rate of SP(ML) to £15.16 per day, and we endorse this as to do nothing would seriously jeopardise the long-term future of this capability. A two-tier structure was proposed in order to encourage retention of the vital ML1 group. The enhanced rate would require a further 30 month return of service, by which time it is hoped that most would choose to remain for reasons of age and stability. Once again we believe this is a sensible targeted response.

Recommendation 4: We recommend:

- an increase in the initial level of Specialist Pay (Mountain Leader) from £10.31 per day to £15.16 per day;
- the introduction of a new rate of Specialist Pay (Mountain Leader) of £20.60 per day to be paid to ML1 qualified personnel.

The recommended rates are in Appendix 2.

Financial Retention Incentives

- 3.12 Financial Retention Incentives (FRIs) are short-term measures aimed at retaining personnel who are essential to delivering key operational capabilities. Any new proposals should include well-defined time limits and exit strategies. This year MOD proposed only one new FRI for Marine Engineer Submariner personnel. Other financial and non-financial measures are being used to try to address shortages in other key pinch point trades.
- 3.13 We have long-held concerns over the nature and effectiveness of FRIs. They are often used to 'patch up' structural problems in the pay system but risk becoming a permanent part of the system. By their nature they are selective, so those who do not benefit see them as divisive. Whilst FRIs may be useful for dealing with problems in the short-term, we believe they should be replaced at the earliest opportunity by reform of the pay structure itself.

Marine Engineer Submariner Personnel

- 3.14 Recruiting, developing and retaining enough suitably qualified and experienced Marine Engineer Submariner (MESM) personnel are essential to the sustainability of the Defence Nuclear Programme. MOD provided evidence outlining the pressures on manning in this cadre and proposed an improved FRI. We invited MOD to an oral evidence session to clarify these complex and important issues.

- 3.15 For certain well-qualified MESM personnel there is a large and growing demand from the civilian nuclear sector. For Officers the greatest concern is over 'post-charge' SO2s – experienced operators who have managed nuclear power units. These highly skilled individuals are particularly attractive to the civilian nuclear sector. There is a general skills shortage in the UK in this area, and demand for qualified personnel is predicted to grow with the planned building of new plant and the decommissioning of old. The civilian nuclear sector can offer competitive pay and a more flexible lifestyle. The RN considers its nuclear engineer manning is sustainable so long as outflow rates remain low. While recruitment into the MESM trade is a top priority, the training pipeline limits personnel getting to the key post-charge SO2 stage. Much of the training has to be undertaken at sea, so is limited by the number of available submarines. MOD proposed an FRI to incentivise personnel to complete their training and then remain in the Service to provide shore-based future strategic leadership.
- 3.16 The RN would like WO2s to remain in the Service for multiple sea tours, and the proposed FRI aims to counter outflow. To reflect the recent restructuring of the trade, the RN also proposed that Specialist Pay (Nuclear Propulsion) (SP(NP)) be introduced at a new point for Ratings.
- 3.17 Because of the unique nature of the skills required, there is no scope to bring in qualified people from outside. The RN considered alternative means of encouraging retention, such as a bespoke pay spine, but did not consider that this offered the same immediate impact on retention or guarantee the return of service. We encourage the RN to examine the management and training of this group, perhaps drawing comparisons with the civilian nuclear sector. While content to recommend the introduction of these FRIs, we are mindful that they do not represent a long-term solution. We expect MOD to monitor and report on the impact of these changes and to continue work on a long-term pay strategy for this group.

Recommendation 5: We recommend, with effect from 1 April 2011:

- **The introduction of two Financial Retention Incentives for post-Charge SO2s:**
 - **£65,000 upon reaching the initial pension point with a five-year return of service;**
 - **£35,000 five years later, with a five-year return of service.**
- **The introduction of Specialist Pay (Nuclear Propulsion) at £2.42 per day for Category C qualified Other Ranks;**
- **The retention of the existing Financial Retention Incentives for Category A and Category B and the introduction of a Financial Retention Incentive of £35,000 for Category A personnel who re-qualify during extended commitment, with a five-year return of service.**

Periodic reviews

Allied Health Professionals

- 3.18 MOD provided evidence for our review of Allied Health Professionals (AHPs). Military AHPs cover many different cadres (similar to NHS Healthcare Scientists and Allied Health Professionals) who are fundamental to providing deployed healthcare and crucial to the health of the Armed Forces.

- 3.19 Manning levels for AHPs broadly match the requirement. However, there are specific shortages in certain groups, particularly Pharmacists, Radiographers, Physiological Measurement Technicians, Environmental Health Officers and certain ranks of Army Combat Medical Technicians (CMTs). AHP Reserves face significant shortages across the majority of groups. In comparison with their NHS counterparts, AHPs in DMS face lower starting salaries, perceived poor pay comparability, and less attractive terms and conditions. For promotion, AHPs have to meet military as well as clinical skills requirements. National shortages of particular groups further exacerbate the problems.
- 3.20 With the exception of direct entrant Pharmacists (see below), MOD did not believe that there were manning problems which required any change to pay or pay structure. MOD proposes to initiate an independent review of the roles and responsibilities of individual AHP cadres. This is to be undertaken by the independent AHP bodies, in the same way as the Royal College for Nursing assisted with the development of the DMS Nurses pay spine.
- 3.21 On our visits many personnel who belonged to the smaller AHP specialisations said that they felt neglected. They did not consider that the job evaluation system fully recognised the nature and importance of the work they undertake, especially when deployed on operations. CMTs (and equivalents) face particularly high pressures, in relation to both their clinical skills and decision making, taking more responsibility at a lower level than NHS counterparts.
- 3.22 Closer management of some of these groups, together with consideration of some relatively simple non-remunerative measures, such as transferrable qualifications and more work on professional accreditation, may help improve their morale and motivation. In the Army CMTs will in future be managed under the Army Medical Corps rather than their individual units. We look forward to hearing in due course about the effect of this change as well as the outcome of the independent review.
- 3.23 There is a UK-wide shortage of pharmacists, with the private sector frequently offering higher starting salaries and more flexible terms than both the NHS and DMS. While a forthcoming increase in available training places should help to ease this situation, MOD suggested that it would be appropriate to offer a 'Golden Hello' to direct entrant Pharmacists. This would be at such a level as to negate the pay differential in the first two years of service. If successful, it would reduce reliance on contractors for operational deployments and therefore save money overall. We are content that this is a sensible initiative and request that MOD report back in due course on its effectiveness.
- 3.24 When we last reviewed AHPs, MOD proposed separate and flexible pay arrangements to address comparability and career concerns. While cautiously welcoming this latest proposal, we urge MOD to provide a firm timetable and further details of the reviews.

Recommendation 6: We recommend the introduction of a 'Golden Hello' of £14,000 to direct entrant Pharmacists with effect from 1 April 2011 and secure a three-year return of service. This should remain in place for two years or until manning reaches 95 per cent.

Northern Ireland Residents' Supplement

- 3.25 We review NIRS every two years to reflect any changing circumstances. NIRS is a key element of the Northern Ireland (NI) allowance package for Service personnel, aimed at compensating for the additional pressures and restrictions faced. Since June 2007, the threat level in NI rose from 'moderate' through 'substantial' to stand at 'severe' in summer 2010. The security situation continues to have an adverse impact on Service personnel and their families compared with the rest of the UK. Everyday life is subject

to many restrictions, and the cumulative impact is considerable. As a result, personnel are often reluctant to volunteer for posts in NI and their families are reluctant to accompany them. This results in more separation and a much higher proportion of personnel serving 'married unaccompanied' than in comparable mainland units.

- 3.26 Our visit to NI provided a valuable insight into life for personnel and their families. The disruptive restrictions described to us included 'out of bounds' areas which are subject to frequent change; a ban on the wearing of uniform off the base; and no opportunity to participate in 'welcome home' parades on returning from operations. We were told that it was often extremely difficult for those accompanying Service personnel to find work and they also faced practical difficulties such as getting goods delivered to Service accommodation behind security barriers. Some bases are geographically isolated with very limited on-site facilities. As the threat level has increased since our last review and life for Service personnel and their families is far from normal, we believe an uplift in the level of NIRS is justified.
- 3.27 Locally recruited FTRS personnel and NI based Reserve Forces personnel were not eligible to claim NIRS. However, all Service personnel, regardless of where they were recruited from or the hours they work, face similar threats and restrictions. MOD therefore proposed the extension of eligibility to cover these groups. We heard a very strong supporting case for this extension while on our visit and recommend that eligibility to NIRS is extended to these groups. MOD also proposed the extension of eligibility to cover those personnel who are on temporary duty in NI for longer than six months. As these personnel also face the same restrictions as others, we regard it as appropriate for them to receive NIRS.

Recommendation 7: We recommend that the Northern Ireland Residents' Supplement increase from £6.41 to £7.29 per day with effect from 1 April 2011. Eligibility should be extended to locally recruited Full Time Regular Service and Northern Ireland based Reserve Forces personnel. Eligibility should also be extended to those personnel on temporary duty in Northern Ireland for more than six months.

Rates of Compensatory Allowances

- 3.28 Where we have not made separate recommendations, we recommend no change to rates of Compensatory Allowances, in accordance with the public sector pay freeze.

Recommendation 8: We recommend no change to rates of Compensatory Allowances unless otherwise recommended. The recommended rates are in Appendix 2.

Chapter 4

SERVICE MEDICAL AND DENTAL OFFICERS

Introduction

- 4.1 The public sector pay freeze on salaries above £21,000 encompasses all doctors and dentists except some cadets in the Defence Medical Services (DMS) whose salary increases are covered by our recommendations in Chapter 2. The Review Body on Doctors' and Dentists' Remuneration (DDRB) is not making recommendations on pay this year. We shall not therefore produce our normal supplementary report on Service Medical and Dental Officers' pay. However, we continue to monitor the manning, recruitment and retention of these vital groups and we were grateful to the many medical personnel whom we met on our visits in the UK and in Afghanistan who discussed these issues with us.
- 4.2 MOD and the BMA/BDA submitted information notes to describe the latest manning situation and important developments over the year. The BMA and BDA told us that restriction of our remit to salaries of £21,000 or less was inappropriate as it prevents us considering structural pay issues. However, we are constrained by the Secretary of State's remit.

Manning

- 4.3 In April 2010, overall DMS strength was at 93.6 per cent of liability (7,727 against 8,251), while trained strength was at 85.2 per cent. There was a requirement for 1,024 trained Medical Officers (MOs) and Dental Officers (DOs) and the manning positions for these groups are shown in the charts below. There were:
- 520 trained MOs, a shortfall of 32 per cent against the requirement of 770. While this is a decrease of 48 on the previous year, it is based on April 2010 specialty requirements and there are other options in place to meet defence commitments;
 - 560 graduate MOs in training, an increase of 46 on the previous year and almost 100 more than in 2008;
 - 214 DOs against the requirement of 254 with an additional 18 DOs in training.

Chart 4.1: Strength and deficit/surplus of Medical Officers 2001-2010

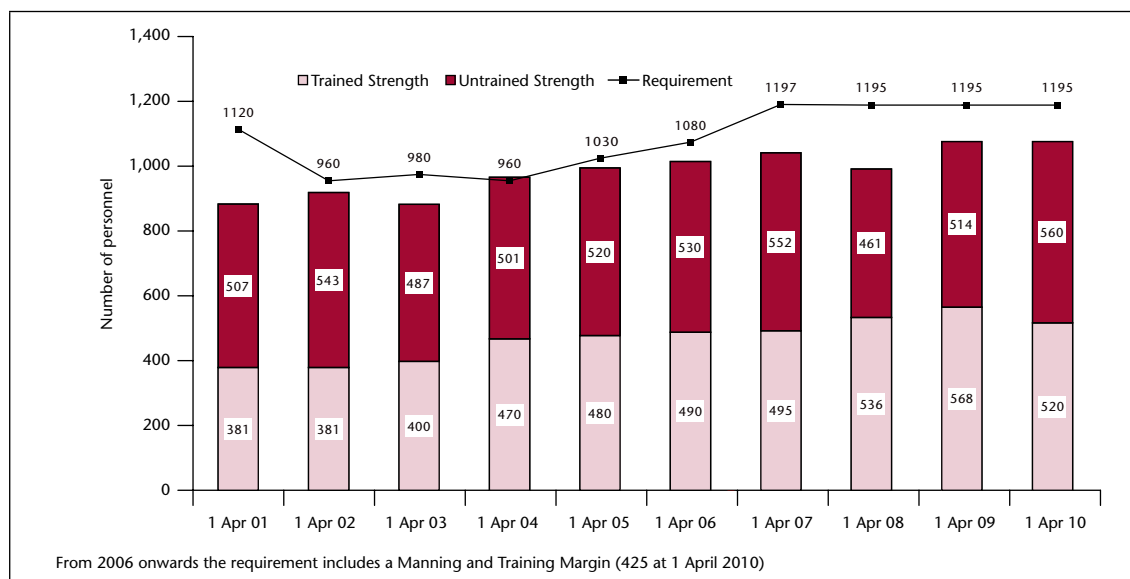
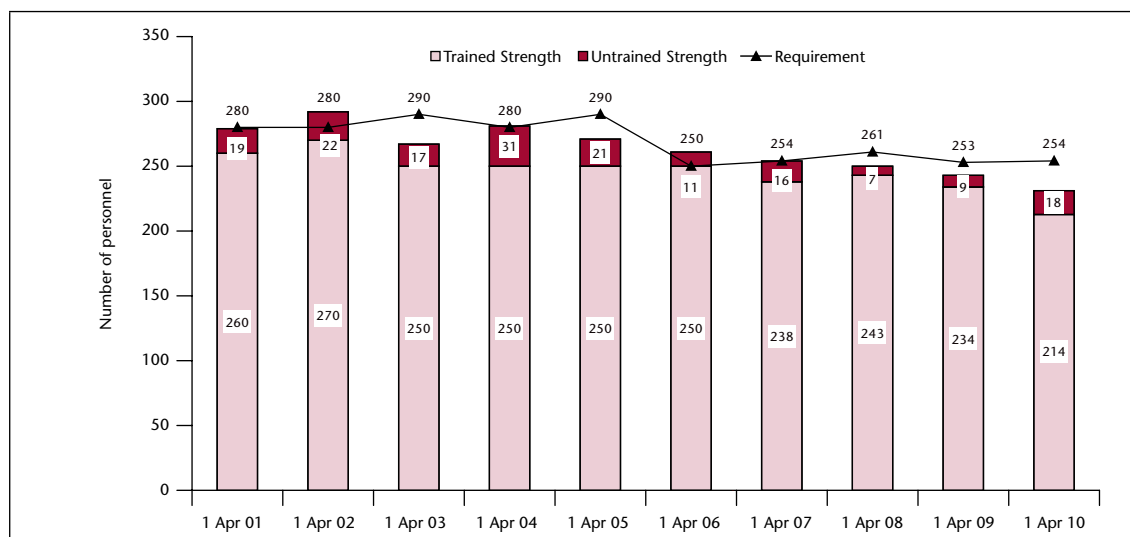


Chart 4.2: Strength and deficit/surplus of Dental Officers 2001-2010



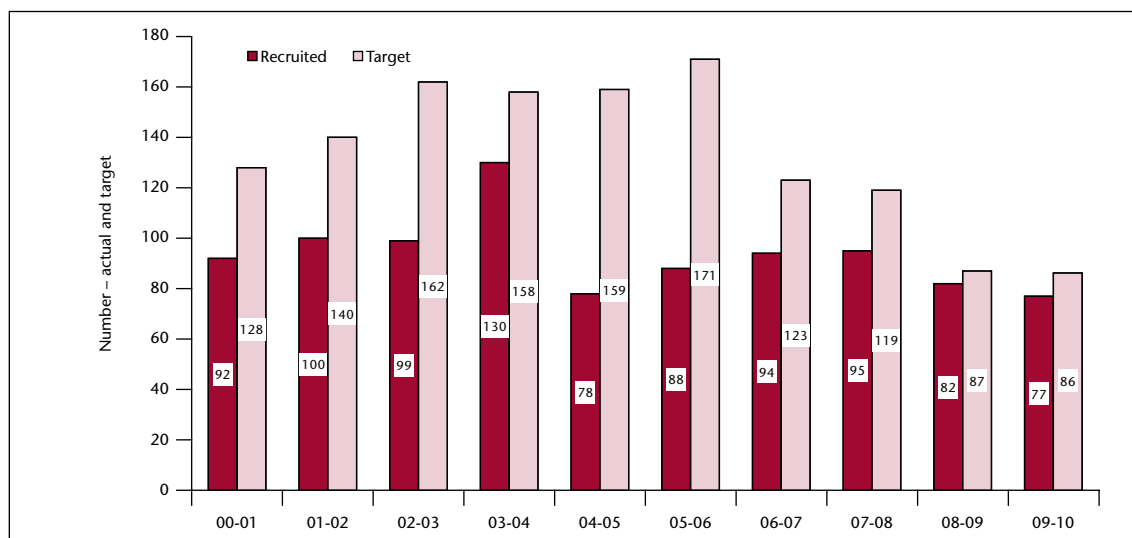
4.4 MOD was able to meet operational requirements with a combination of Regulars and Reserves plus support from military allies and some specialist staff from the NHS and contractors. BMA/BDA expressed concern about the continuing shortfalls in DMS manning, particularly in certain specialties. These result in further pressure on the few consultants and place greater demands on Reservists.

4.5 MOD provided useful data on the age, gender and rank composition of DMS. We noted that the gender disparity increases with age and rank, and is particularly striking for Consultants.

Recruitment

4.6 Chart 4.3 illustrates long-term progress in recruitment of MOs. The latest target for the year to April 2010 (60 cadets) was met in full and there is strong interest from pre-registration MOs, but recruitment of direct-entry accredited MOs remains difficult. Fifteen DOs were recruited against a target of 19. Proposed changes to university funding and a reduction in NHS requirements may improve recruitment in the medium term.

Chart 4.3: Total Medical Officer recruitment 2000-01 to 2009-10



4.7 The increasing proportion of women in the medical profession and the significant increases in applications to medical school from ethnic minorities is likely to reduce the number of doctors attracted to military careers unless serious steps are taken to attract these groups into the DMS. We urge MOD to ensure that conditions of service, career progression of MOs and DOs, and the ethos of the Service develop and adapt so as to attract the full range of talent into the medical and dental professions.

Retention

4.8 In the year to April 2010, the rate of outflow of MOs decreased slightly from 6.2 per cent to 5.7 per cent. The overall outflow of DOs was marginally higher than in the previous year, at 6.5 per cent. MOD expects the outflow of both groups to decrease in the near future in response to the overall economic situation and to changes in the NHS.

4.9 MOD told us about the non-remunerative measures it was putting in place to improve retention, including more flexible working hours and better access to childcare. Such lifestyle measures are increasingly important for both recruitment and retention, as medical staff see the NHS and private medical sectors improving conditions for their staff. BMA/BDA fully support these initiatives and expressed a willingness to work with MOD on further developments.

Morale and motivation

4.10 We are grateful to MOD for providing us with some initial results from the 2010 DMS Continuous Attitude Survey. These suggested that satisfaction with pay and pension was quite high. Those who left did so largely because of family commitments and were influenced by the availability of an immediate pension payment on leaving.

4.11 Fifty-seven per cent of the MOs who responded and 36 per cent of the DOs had deployed in the previous three years. Those who had not deployed were usually still in training. DMS personnel were generally pleased with the frequency and duration of deployments and the support they received, though this was not true for all individual specialties.

4.12 MOD told us that morale is good within DMS, but the survey results showed MOs 'neutral' or 'satisfied', to some extent depending on their rank and role. Like their NHS counterparts, their areas of greatest concern were the quality of management of DMS and their own overall career development.

- 4.13 BDA told us that DOs were increasingly worried about the pay differential with their civilian colleagues, and also felt there were not enough opportunities for professional and military training.

Pension valuation and pay comparability

- 4.14 In 2011 we shall carry out a pension valuation for DMS along with all other Service personnel. We shall also be considering the method we use to compare pay for MOs and DOs with the pay of their civilian counterparts. We made it clear in earlier reports that we do not think that the existing valuation and comparison methods are appropriate. We are disappointed that MOD and BMA/BDA have not progressed their thinking on pension valuation. Although Lord Hutton's independent review of public sector pensions may affect future pension provision, this should not delay our planned work on pension valuation which is based on the present construction of the scheme. We urge MOD and the BMA/BDA to give this matter attention to help us to establish the most appropriate methodology to ensure robust comparisons can be made.
- 4.15 BMA has always maintained that the DMS Clinical Excellence Awards (CEA) scheme disadvantages military consultants early in their career in comparison with their NHS colleagues. Although MOD and BMA/BDA have discussed possible changes to the scheme, further work on the DMS's own CEA scheme and on national CEAs must now await the comprehensive review of CEAs being undertaken by DDRB in 2011.

Chapter 5

ACCOMMODATION AND OTHER CHARGES

Key points:

- We recommend rental charges for Grade 1 accommodation increase in line with the rental component of RPI as at November 2010, of 1.4 per cent, with proportionately lower increases in rental charges for Grades 2 and 3 and no increase in Grade 4;
- We base the Daily Food Charge recommendation on the average of the 12 months Food Supply Contract data to October 2010 which generates an increase of 2.9 per cent to £4.25;
- We recommend increases to Garage Rent and Furniture Hire in line with the rental component of RPI as at November 2010, of 1.4 per cent;
- We recommend no change to the Water and Sewerage charges for all SFA and SLA.

Introduction

5.1 An important part of our role is to recommend charges for Service accommodation including furniture hire, water, and garage rent and food charges.

Accommodation

MOD strategies

5.2 Service accommodation is a major issue for many personnel and their families, and we hear many concerns during our visits. Accommodation plays an important role in attracting and retaining personnel, and is a key part of the overall military package. Defence Estates (DE), the organisation responsible for providing housing, is facing many challenges following the SDSR and SR. Investment both in housing upgrade and in new building is likely to fall, and this may well damage morale and harm retention. We have a more general concern about the provision of accommodation no longer being seen as an important element of the employment relationship and becoming simply a commercial transaction between DE and Service personnel.

5.3 The *Defence Living Accommodation Strategy* recognises that more Service personnel now want to own their own home. Future accommodation needs will therefore be addressed in a 'mixed economy', in which some housing is provided by DE and some is privately owned or rented by personnel. Over time, the need for Service Family Accommodation (SFA) should therefore fall, although any fall may be offset in the short term by the return of personnel to the UK from Germany. The strategy for Single Living Accommodation (SLA) provision is driven by the aspiration to provide single en-suite rooms.

Grading

5.4 MOD accepts that the current method of grading accommodation is confusing. There are separate 'Standard for Condition' and 'Grade for Charge' scales, set by different agencies. While only 0.5 per cent of SFA is Standard 4 for Condition, some 20 per cent is Grade 4 for Charge. MOD started work on a new single methodology for grading, but put this on hold until it received the results of a 12-month 'Future Living

Accommodation Model' study, due in late 2011. In the meantime, DE is making some interim changes to the allocation of points in the present system.

Home ownership

- 5.5 Demand for the Armed Forces Home Ownership pilot scheme, launched in January 2010, far outstripped supply. The pilot scheme is one element of wider support becoming available to help personnel wishing to own their own home. Service personnel have access to the Key Worker Living Programme in England and similar schemes in Scotland and Wales. The Long Service Advance of Pay scheme provides a loan of up to £8,500 to eligible personnel to assist in the purchase of a home. On our visits we regularly hear that although it is much welcomed, personnel see this amount as insufficient and we therefore regret that MOD regards any uplift as unaffordable in the light of the SR.

Service Family Accommodation and Single Living Accommodation

MOD aspiration and intent

- 5.6 The *Defence Accommodation Management Strategy* set out DE's quality targets for Service accommodation. For SFA, the aims are that by March 2013 no Service families in the UK will be living in Standard 3 or 4 for Condition properties and that by 2020 all SFA in the UK will be Standard 1. For SLA, the aims are that by March 2013 50 per cent of bed spaces for trained personnel will be at Grade 1 and that by 2020 70 per cent will be at Grade 1, with none at Grades 3 and 4. In oral evidence, the Deputy Chief Executive of DE told us that while the 2013 targets were likely to be met, the 2020 targets were unlikely to be met because of financial cutbacks: phase 3 of project SLAM has been cancelled, and funds are not available in years two and three of the SR period to continue the SFA upgrade programme.

Service Family Accommodation

- 5.7 DE manages 49,500 SFA properties in the UK, of which 41,000 (in England and Wales) are leased from a commercial partner with the remainder owned by MOD, rented commercially or managed through PFI initiatives. Most SFA in Scotland and Northern Ireland is owned by MOD.
- 5.8 Around 95 per cent of UK SFA is either Standard 1 or 2 for Condition. While some families still live in Standard 4 accommodation, empty properties of this standard are no longer being allocated. The intention is that no further Standard 3 accommodation will be allocated from January 2012. The programme of upgrades continued during 2009-10, with 850 SFA units upgraded to Standard 1 (against a target of 800), over 100 more than the previous year. Smaller-scale improvements such as new boilers, bathrooms, kitchens and double glazing were made to about 4,000 UK properties.
- 5.9 There will always need to be a number of empty homes to allow for movement of personnel, but it is wasteful to have more empty homes than necessary. Over the year, MOD has reduced the number of empty homes. The 'management margin' of empty homes is now 13 per cent and the aim is to get it down to 10 per cent by March 2012. While there are surplus properties in some areas, in others there is a shortage of family accommodation, which is met by the use of Substitute Service Families Accommodation (SSFA). At 30 September 2010, there were over 1,600 families living in SSFA in the UK, at a cost of around £26 million per year.
- 5.10 On our visits, we heard many concerns about the allocation process. The eligibility criteria were felt to be inflexible and out of step with modern life. Families were sometimes expected to move into a property without first viewing it or even seeing a floorplan. The stress on families is increased by remote housing management and the unavailability of housing officers. DE is trying to address these concerns by increasing

local 'patch management' and building relationships with local housing officers. DE hopes to introduce a 'self-allocation' system in the future, along the same lines as those in Canada and Australia, to increase choice and reduce the stress of moving. Progress on the Future Living Accommodation Model requires closer working between DE and MOD's personnel policy area.

- 5.11 The maintenance service provided for SFA is another common cause for complaint. MOD evidence notes that a large number of complaints are made about maintenance, and there is a relatively low level of satisfaction with the service. On our visits we were told that maintenance problems often take several visits to be fixed and that the complaints procedure is opaque.
- 5.12 About 500,000 repairs are made each year, and the service is being benchmarked by DE against housing association performance. DE told us that there is a new approach to reporting which should give better information and higher quality service.
- 5.13 When so many Service personnel and their families have bad experiences with the maintenance of their accommodation, there are likely to be effects on morale and on retention. We therefore welcome DE's recognition of the continuing importance of this issue. MOD must secure service improvements through better contract management. We look forward to seeing evidence of progress in our next round of visits and in the evidence we receive from the Service Families' Federations.

Single Living Accommodation

- 5.14 MOD has made progress in meeting its target of a single en-suite room for all trained personnel. Some 5,800 Grade 1 bedspaces were delivered in 2009-10; contributing to a total of 40,500 since 2003-04. In 2010, 21 per cent of all occupied SLA was at Grade 1. However, some 40 per cent of SLA was Grade 4 and this remains a major cause for concern. As with SFA, SLA is not always available where it is needed, and at the end of September 2010 around 6,300 personnel were living in Substitute Service Single Accommodation.

Approach to recommendations

- 5.15 Our long term approach has been to set charges that are comparable with the housing costs faced by civilians, less a discount which we judge reflects the disadvantages of living in Service accommodation. In light of the public sector pay freeze and other changes affecting the Armed Forces, we carefully considered whether we should recommend no increase in charges this year. However, employees in the rest of the public sector face increases in the cost of living including housing costs, so we thought it appropriate to continue with our normal methodology of raising accommodation charges in line with the rental component of RPI in the year to November 2010. We therefore recommend an increase to rental charges for Grade 1 accommodation of 1.4 per cent.
- 5.16 As in previous years, MOD asked us to reconsider our approach of not recommending increases for the very lowest grade of accommodation. In oral evidence, the distinction between Standard 4 for Condition and Grade 4 for Charge was made clear. We recognise there are instances where accommodation of a good standard is given a low Grade for Charge due, for example, to location factors. However, in devising the Grade for Charge system, the MOD recognised that location and other factors do make certain accommodation less attractive, with the resulting lower rental. Until the grading system is changed, we are not inclined to change our policy on Grade 4 charges. We therefore continue with our tiered approach to SFA and SLA rental charges below Grade 1.

Service Family Accommodation rental charges

5.17 We recommend that SFA Grade 1 rental charges increase by 1.4 per cent, with smaller graduated increases to Grades 2 and 3 and no increase for Grade 4.

Recommendation 7: We recommend a 1.4 per cent increase to Grade 1 Service Family Accommodation rental charges, 0.9 per cent to Grade 2, 0.5 per cent to Grade 3 and zero to Grade 4 from 1 April 2011. The resulting charges are shown in Tables 5.1 and 5.2.

Other components of SFA charges¹

5.18 Increases to elements of the charge other than rent (for example utility charges) are based on evidence provided by MOD and on economic indicators. The total SFA charge increases will therefore differ from our rental element recommendations. Total SFA charge increases will therefore increase by between 0.0 and 1.4 per cent.

Single Living Accommodation rental charges

5.19 As with SFA, we recommend that SLA Grade 1 rental charges (which include a furniture element) increase by 1.4 per cent, with smaller graduated increases for Grade 2 and 3 SLA and no increase to the rental charge for Grade 4.

Recommendation 8: We recommend a 1.4 per cent increase to Grade 1 Single Living Accommodation rental charges, 0.9 per cent to Grade 2, 0.5 per cent to Grade 3 and zero to Grade 4 from 1 April 2011. The resulting charges are shown in Table 5.3.

Other components of SLA charges²

5.20 Increases to elements of the charge other than rent, including utility charges, are based on evidence provided by MOD and on economic indicators. The total SLA charge will therefore increase by between 0.6 and 2.7 per cent.

Other charges

5.21 We are also responsible for recommending water and sewerage charges, furniture charges and garage rent. Our recommendations are based on the following evidence:

- Water charges – the forecast weighted national household average water bill for SFA Type C properties tapered according to the size of the SFA. The SLA charge is one-third of the SFA Type C figure;
- Furniture Hire – the increase in the rental component of the RPI in the year to November 2010; and
- Garage Rent including carports – following our review of garage rent charges by local authorities, our recommendation for 2011-12 is that the service charge for standard garages and carports be increased by the rental component of the RPI in the year to November 2010 with no increase for substandard garages and substandard carports.

¹ Includes charges for water and furniture.

² Includes charges for water and heating and lighting.

Recommendation 9: We recommend the following charges:

- Water and Sewerage – no increase in charges for SFA or SLA;
- Furniture Hire – rates to be applied to SFA as shown in Table 5.1; and
- Garage Rent – the annual charge for standard garages and standard carports be increased by 1.4 per cent. Zero increase to substandard garages and substandard carports.

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	7,895	1,029	380	9,304
II	7,081	913	376	8,369
III	6,205	785	372	7,362
IV	4,588	704	369	5,661
V	3,522	624	365	4,511
Other Ranks				
D	3,369	453	361	4,183
C	2,803	402	358	3,562
B	2,351	332	354	3,037
A	1,675	281	350	2,307

^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
(with change from 2010-11 in brackets)**

Type of SFA	Annual charge ^b							
	Grade 1		Grade 2		Grade 3		Grade 4	
	£ per year		£ per year		£ per year		£ per year	
Officers								
I	9,304	(124)	6,833	(62)	3,814	(22)	1,993	(4)
II	8,369	(110)	6,154	(58)	3,453	(18)	1,818	(4)
III	7,362	(95)	5,406	(51)	3,051	(18)	1,635	(4)
IV	5,661	(73)	4,263	(37)	2,551	(15)	1,409	(4)
V	4,511	(55)	3,541	(33)	2,183	(11)	1,281	(4)
Other Ranks								
D	4,183	(55)	3,113	(29)	1,858	(11)	1,044	(4)
C	3,562	(47)	2,716	(22)	1,697	(7)	989	(4)
B	3,037	(37)	2,398	(18)	1,533	(7)	923	(0)
A	2,307	(26)	1,836	(15)	1,205	(7)	785	(0)

^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
(with change from 2010-11 in brackets)**

Type of SLA	Annual charge ^b							
	Grade 1		Grade 2		Grade 3		Grade 4	
	£ per year		£ per year		£ per year		£ per year	
Major and above	2,241	(33)	1,821	(22)	1,194	(11)	708	(7)
Captain and below	1,825	(26)	1,478	(15)	967	(7)	577	(4)
Warrant Officer and SNCO	1,376	(22)	1,121	(15)	734	(11)	438	(7)
Corporal and below	788	(15)	653	(11)	431	(7)	274	(7)
New Entrant ^c	635	(11)	515	(7)	343	(4)	230	(4)

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

^b Annual charges are rounded to the nearest £.

^c Those receiving less than the minimum trained rate.

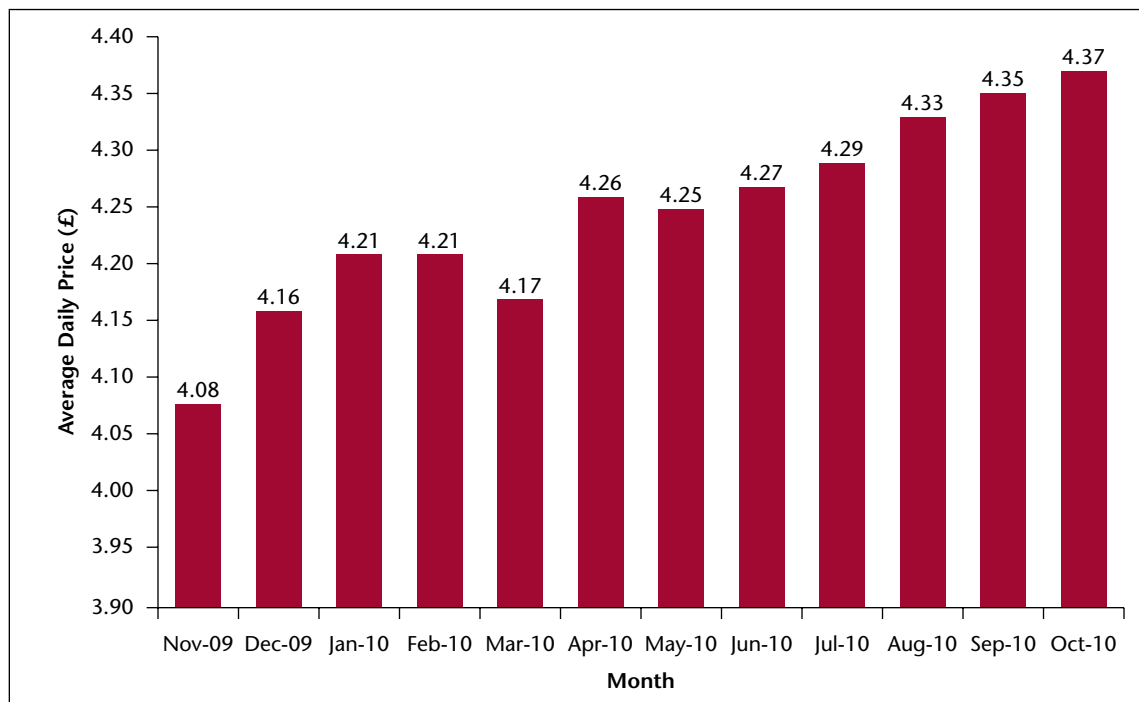
Daily Food Charge

5.22 The single Daily Food Charge (DFC) was introduced in April 2008. From April 2009, we recommended that the charge should be uprated by the average of the cost of the Food Supply Contract data. This resulted in a DFC of £4.13 last year.

5.23 More Service establishments have moved over to Catering, Retail and Leisure/Pay As You Dine (CRL/PAYD): in November 2010 the proportion was 77 per cent of the Army estate, 85 per cent of living-in RN personnel and 20 per cent for the RAF. As with accommodation, we hear many concerns in our visits about the quality and price of food and especially about whether PAYD is an appropriate way to meet the needs of the most junior ranks.

- 5.24 As the switch to PAYD continues, a smaller number of personnel will be directly affected by the DFC, until only Phase 1 (and some Phase 2) trainees will pay for their food this way. However, the DFC does affect the core menu charge in PAYD establishments. While the DFC is affected only by our recommendations, the core menu charge is subject to changes in VAT, and will therefore cost more than the DFC as a result of the increase in VAT to 20 per cent.
- 5.25 In previous years we recommended that the DFC increase in line with the average cost in the Food Supply Contract data. This year MOD brought the trend of rising food prices to our attention and told us that the DFC does not cover the cost of the core meal. While MOD was working with contractors to maintain quality, this could suffer if the gap was not addressed. We believe that MOD should provide a decent standard and quantity of food for its personnel and has a particular duty towards junior ranks, and that this cannot simply be determined by the DFC.
- 5.26 In previous years we used average Food Contract Supply data for the period up to October to calculate the change in the DFC. This year, because of the timing of the SR and the SDSR, our cycle of business was a later schedule than usual and we would have used data for the 12 month period to December. However, we expect to return to our normal schedule next year, so we have used the average Food Contract Supply data for the 12 months to October 2010, to give a recommended DFC of £4.25, an increase of 2.9 per cent.

Chart 5.1: MOD Daily Food Supply Contract Prices, November 2009 to October 2010



Recommendation 10: We recommend the Daily Food Charge be increased to £4.25 from 1 April 2011.

Chapter 6

VALIDATION OF THE ARMED FORCES PENSION SCHEME 2005

Introduction

- 6.1 The Armed Forces Pension Scheme (AFPS) is a non-contributory, defined benefit scheme providing pensions both to retired personnel and their dependants. All regular Armed Forces' personnel who joined before 6 April 2005 were members of the AFPS75 Scheme which is now closed to new members. Those joining the Armed Forces after 6 April 2005 are automatically eligible for the Armed Forces' Pension Scheme (AFPS05). During 2005, serving members of the Armed Forces were given the option to transfer (OTT) to AFPS05 up to April 2006.
- 6.2 In 2003 the House of Commons Select Committee on Defence considered proposals for the AFPS05 pension scheme and was particularly concerned by the lack of independent oversight of the scheme, especially since there is no trade union to represent the interests of Service personnel. The Select Committee wanted there to be an independent assessment of the new scheme (such as is usually undertaken by trustees in funded schemes). The Parliamentary Under Secretary for Defence rejected the establishment of a separate board of trustees or commission, but suggested that AFPS05 was part of the remuneration package for which the AFPRB already has a widely recognised role. A ministerial statement to Parliament on 30 April 2004 announced (as we noted in our 2005 Report) that the AFPRB would periodically carry out an external assessment or 'validation' of the AFPS05 in the context of pension provision in the wider economy, the special needs of the Armed Forces and the role played by the scheme in recruitment and retention.
- 6.3 The terms of the validation require the AFPRB to:
- review the provisions of the AFPS05 in the light of developments in the public and private sector, as well any legislative changes;
 - assess how the overall package of pension benefits in the AFPS05 compares with the package available to comparators in the private and public sectors;
 - assess how the AFPS05 and comparator pension provisions contribute to, or impact on, recruitment and retention; and
 - review how the AFPS05 provides for the 'special demands of a career in the Armed Forces'.
- 6.4 This chapter sets out the conclusions of this first validation exercise. We do not consider the Armed Forces Compensation Scheme or resettlement schemes in this study.
- 6.5 We commissioned PricewaterhouseCoopers (PwC) to undertake a scoping study¹ to identify what the validation might entail. The PwC study gave advice on possible approaches to conducting the validation, on the coverage of the exercise, on the appropriate military and civilian evidence base including currently available data and the requirement for new data and on the potential cost of the main validation exercise.
- 6.6 We chose to concentrate on a fairly narrow range of issues for this first validation. We excluded those aspects we considered to be the responsibility of the employer and those we were not specifically asked to cover (for example, questions relating to value for

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

money and overall cost, and issues about the relationship with the AFPS75). We looked at AFPS05 within the context of the current remuneration package, and were careful not to make assumptions about future changes. Most of our evidence gathering was done before the publication of Lord Hutton's interim report on public service pensions and ahead of the 2010 SDSR.

6.7 We thought it was right to have a fairly limited exercise this time. The evidence available on some of the areas we would have liked to explore was inadequate after only five years of operation and it was too early to make judgements on other aspects of the scheme. Future validations might well range more widely.

6.8 We concentrated therefore on the following issues:

- comparable Schemes – what has happened to comparable defined benefit (DB) schemes in both public and private sectors, and what are the coverage and benefits of other public sector schemes;
- recruitment – the significance of AFPS05 for new recruits;
- retention – the perceived value of AFPS05 to different elements of the Armed Forces, the point at which AFPS05 becomes a retention tool, and the impact of the early departure scheme;
- information and communication – the quality of information provided and the understanding of the pension scheme by its members.

6.9 To get as balanced and authoritative a picture as possible, we:

- asked specific questions at each discussion group on our 2010 visit programme so we could hear first-hand opinions of the value of AFPS05;
- interviewed those responsible for the management of AFPS05 in each Service, for Reservists, and for DMS;
- invited contributions from specific groups, such as Service Families' Federations and the Forces Pension Society;
- considered relevant information from the AFCAS;
- discussed the administration of the scheme with the Service Personnel & Veterans' Agency;
- compared other public-sector pension schemes;
- commissioned Towers Watson (TW) to report on comparable private-sector pension schemes²;
- commissioned TW also to undertake a communications audit of AFPS05 and selected comparator schemes.

Overview of the private sector pension landscape

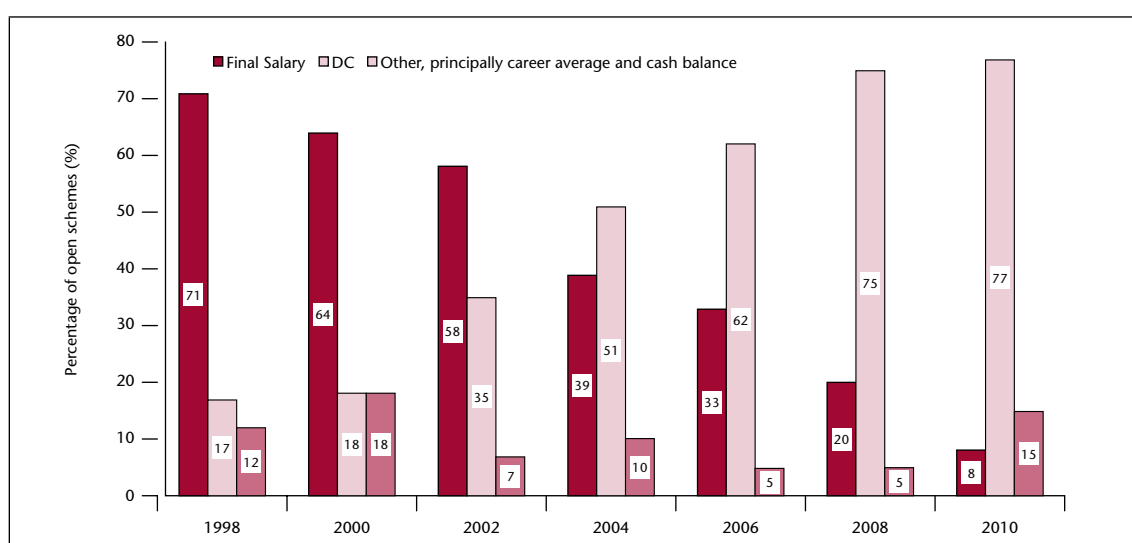
6.10 TW's overview of the trends in private sector pension provision gives a credible benchmark for AFPS05. The research concentrated on the trends for DB and defined contribution (DC) schemes in the private sector and considers how such schemes treat dependants: TW also provided a detailed communications audit of three large companies.

² The study can be found at: http://www.ome.uk.com/AFPRB_Research_Reports.aspx

Trends

6.11 Historically, DB schemes were the most common type of occupational pension scheme in the private sector. However, the vast majority of these are now closed to new joiners. Around 80 per cent of open private sector schemes are DC. This implies a significant shift in risks. Employers bear the investment and mortality risk in DB schemes, whereas it is employees who bear these risks in DC schemes. When DC schemes came into being in the 1980s, the shift in provision usually applied only to new employees, with existing members being able to continue to accrue benefits in the DB scheme they originally joined. However, in recent years, there has been a trend for employers to make changes to the pension arrangements for existing members. There have been new developments in DB design, such as career average, hybrid and cash balance arrangements. Compared with traditional final salary DB schemes, these new schemes reduce the risk to the employer, while still giving the members some certainty. Such DB variants are still much less common than DC schemes. These trends are summarised in Chart 6.1.

Chart 6.1: Trends in pension provision in the private sector



Benefits

6.12 In private sector DB schemes, there has been a trend towards members making a higher contribution to pension costs. Three-quarters of DB schemes require contributions of 4-8 per cent of salary. Only 5 per cent of schemes are non-contributory. The most common accrual rate in private sector schemes is 1/60th (that is, each year of contributions adds 1/60th of final salary to the pension entitlement). Unlike AFPS05 these schemes usually require member contributions, and to get a lump sum on retirement, members typically have to give up ('commute') part of their pension entitlement. In four fifths of schemes, the normal retirement age is 65.

6.13 Most private sector DB schemes offer ill-health retirement benefits, with over half paying two different tiers of benefit depending on the severity of illness. Around 60 per cent of DC schemes offer incapacity benefits, with a level of income replacement being more common than a lump sum. Almost all companies provide a lump sum benefit on death in service, most commonly at four times salary. It is becoming more common for DC schemes to offer a higher lump sum, although this is often instead of a dependant's pension. Most private schemes will pay a dependant's pension to an unmarried partner, if there is proof of financial dependency in a long-term, stable relationship.

Overview of the public sector pension landscape

- 6.14 As part of the validation of AFPS05, OME examined some of the pension schemes available to other public sector employees, including those groups that Service personnel most often compare themselves with – such as the Police and Fire Service.
- 6.15 Table 6.1 shows that many public sector schemes have been reformed in the last 5-6 years; the effect has often been to reduce members' benefits. The Civil Service, Teachers' and NHS pensions all increased the normal retirement age from 60 to 65 for new entrants. Some schemes have introduced caps on the employer contribution to protect against further increases in the cost of benefits and some have introduced cost-sharing to split additional rises in scheme costs between the employer and employees.
- 6.16 Most of the changes described above have been implemented by closing an existing scheme to new members. New employees have to join a new scheme with different conditions while existing members of the original schemes continue to accrue benefits as they had done previously. The Armed Forces offered existing personnel the choice of switching to AFPS05 when it was introduced, although the majority chose to remain on the existing scheme.
- 6.17 The forthcoming report of Lord Hutton's Public Service Pensions Commission may lead to more changes. The Commission is conducting a fundamental structural review of public sector pension provision, and making recommendations to the government on pension arrangements that are sustainable and affordable in the long term, and fair to both the workforce and the taxpayer, while protecting accrued rights.

Table 6.1: Comparison of public sector pension schemes

Employer	Scheme	Normal retirement age	Employee contribution	Employer contribution	Accrual	Lump sum
Armed Forces	2005 AFPS	55	0%	c. 27%	1/70th	3 x pension
	1975 AFPS	55	0%	c. 25-40% – varies by rank	varies depending on career point	3 x pension
Police	2006 NPPS	55	9.5%	c. 19%	1/70th	4 x pension
	1987 PPS	48-55	11%	c. 26%	1/60th – first 20 yrs; 2/60th thereafter	by commutation (depending on age)
Fire Service	2006 FPS	60	8.5%	14.2%	1/60th	commutation at 12:1 ratio
	1992 FPS	50-55	11%	26.5%	1/60th – first 20 yrs; 2/60th thereafter	by commutation (depending on age)
NHS	2008 scheme	65	5-8.5%	14%	1/60th	commutation at 12:1 ratio
	1995 scheme	60		14%	1/80th	3 x pension
Teachers	post 2007	65	6.4%	14.1%	1/60th	commutation at 12:1 ratio
	pre 2007	60	6.4%	14.1%	1/80th	3 x pension and option of commutation at 12:1 ratio
Civil Service	Nuvos	65	3.5%	16.7-24.3%	2.3% of annual salary	commutation at 12:1 ratio
	Premium	60	3.5%		1/60th	commutation at 12:1 ratio
	Classic	60	1.5%		1/80th	3 x pension
Local Government	LGPS	65 (transitional protection for certain members with 'Rule of 85' for early retirement)	5.5-7.5%	varies by employer as administered by LA and some schemes funded (notional rate approx. 13%)	1/60th	commutation at 12:1 ratio

6.18 Table 6.1 shows that pension benefits for uniformed public sector employees are generally more favourable than for others, with AFPS05 the most generous of current schemes. However, it must be remembered that AFPS05 applies to a fighting force and the benefits provided for personnel and their families provide an important safety net. AFPS05 gives less generous pension benefits than its predecessor scheme, but it makes better provision for surviving spouses and dependants, and it takes a more modern approach to unmarried partners. It therefore aims to be more suitable for a force trained for combat.

Benefits

6.19 The most important features of the benefits in public sector schemes are the level of employer contribution, the accrual rate and the normal retirement age. With the exception of the Civil Service Partnership scheme, all the comparator schemes are DB, though in the current Civil Service scheme the pension is based on average salary through the employee's career rather than final salary. Employee contributions in schemes still open to members range from nil (in AFPS05) to 9.5 per cent (Police – 2006 NPPS). Some schemes, like the NHS scheme, have a rate of contribution which rises with salary.

6.20 The accrual rates of current public sector schemes are usually 1/60th or 1/70th. Earlier schemes tended to have lower rates (often 1/80th), but typically provided more generous lump sum payments on retirement. Tax-free lump sums in newer schemes are usually available via commutation at a 12:1 ratio. AFPS05 (and 2006 NPPS) have lower accrual rates (at 1/70th) than some other schemes but lump sums are provided without commutation. Notional employer contributions in the defined benefit schemes range from around 13 per cent to around 27 per cent – the most generous being AFPS05. Normal retirement ages vary from 55 to 65, with the uniformed services tending to retire earlier reflecting the physical and other challenges of their roles.

6.21 All the public sector pension schemes considered here offer some form of benefits to members or their dependants on retirement due to ill-health. These benefits may vary according to the severity of the illness. For example, the NHS and teachers schemes offer two levels of ill-health retirement benefit, while the AFPS05 has three. The schemes also offer death-in-service benefits, providing a lump sum upon death of a member, plus a survivor's pension to eligible partner and children. The lump sum varies between two (Civil Service) and four (AFPS05) times salary. The AFPS05 will pay full spouse's benefits to an unmarried partner, providing there is proven financial inter-dependence. Unlike the AFPS75, any pension payable to a survivor remains in payment for life, regardless of whether the spouse remarries.

AFPS05 – a summary of benefits

6.22 AFPS05 is, like most public service pension schemes, a DB scheme whose benefits are based on final salary at retirement and on length of service. Like most public sector schemes AFPS05 is funded out of current revenue, and does not rely on a fund established by the employer or jointly by employer and employees. The employer, in this case the state, bears all the risk of changes in mortality and economic circumstances. The key AFPS05 benefits are:

- Non-contributory;
- Pension benefits based on final pensionable pay;
- Pension benefits earned from first day of paid service;
- Normal Retirement Age of 55, with full index-linked pensions for those who retire at 55 or beyond;

- Entitlement to a pension of 50 per cent of final salary after 35 years service, plus a lump sum;
- Members who have served at least 18 years and reached the age of 40 or more may leave and receive a tax-free Early Departure Payment lump sum plus income paid until age 65 when they receive their pension plus a further lump sum. Payments are non-indexed to the age of 55;
- Index-linked preserved pension at the age of 65 for those who leave before the Early Departure Point;
- Pension payments increase in line with inflation³;
- Three-tier system of payments for medical discharges;
- Death-in-service lump sum of 4 times pensionable pay; and
- Spouse/partner's pension of 62.5 per cent plus dependants' pension.

Evidence received from Service personnel

6.23 AFPRB Members asked a number of specific questions of Service personnel in each discussion group we held during the 2010 visit programme. This enabled us to obtain feedback from those who are most affected by the pension – its members. We were aware of the concern in our remit group about public pension schemes raised by media reports during 2008-09 that there could be significant changes introduced by whichever party assumed power after the 2010 General Election. Under each heading below is a summary of the responses to give the overall flavour of the views of personnel.

Recruitment

6.24 The vast majority of personnel did not feel that the pension was a factor in their decision to join the Armed Forces. This was particularly true for Other Ranks (ORs), where awareness of the overall package was generally low. The few who did think that the pension was a factor in joining either had family who had been in the Armed Forces or were later entrants. Among Officers (OFs), particularly those who had joined more recently, awareness of the pension benefits was higher and played more of a part in the decision. However, this was still only the case for a minority.

Benefits

6.25 The benefits that personnel considered to be most important were the lump sum received when leaving (subject to meeting required service conditions), and the flexibility to leave the Armed Forces at different career points and still have a pension entitlement. The possibility of leaving at the 18-years service/age 40 point with a lump sum and early departure payments was seen as particularly important.

6.26 Views on communication of pension benefits were very mixed. In general, there was a much lower level of awareness of pension benefits among those who had spent the least time in the Services. While information on the pension is provided to personnel soon after joining, it was at a time when they were overwhelmed with material, so they often did not take it in. It was suggested that further information could be provided 1-2 years after entry, with occasional reminders afterwards.

6.27 There was criticism, particularly from ORs, about communication around the Offer to Transfer (OTT) and many said that they would like another opportunity to transfer. Some ORs said that they had not seen the information in 2006, that they had not understood

³ The increase was linked to the RPI. In the Budget of June 2010, the Chancellor announced that the increase would be linked to the CPI for the 12 months ending September 2010 onwards.

it, or that their seniors had told them not to take the option because AFPS05 was 'just a money saving device by the MOD – if they are offering you something it must be worse'. We did not regard this as serious criticism of the OTT process (but for those affected, it was a major issue). AFPRB commented in its Report in 2006 that the exercise appeared to have been well planned and executed, with a good level of communication.

- 6.28 Some felt that it remained difficult to get information on pension entitlement. However, in general, it was felt that communication on pensions was improving and those who had used the on-line Pensions Calculator held it in high regard.

Retention

- 6.29 While the majority of personnel did not see the pension as a recruitment factor, they did see it as a very important retention factor, particularly as length of service increased. Service families also saw the pension as important. It becomes gradually more important at around the 8-year point and then vital at 12 years and onwards. Key life events, such as marriage and children, influenced perception of the retention effects of the pension, with many seniors claiming that they remained in service in order to achieve their full pension entitlement – the 'pension trap'. The Early Departure Payment provisions could, however, also have the opposite effect of incentivising people, who may have key skills for the Armed Forces, to leave earlier than was desirable from the Services' viewpoint.

Other issues

- 6.30 Pension 'abatement' rules apply to those in receipt of pensions and limit their ability to earn from re-engaging in their former employment. Some staff considered that these rules were unfair and could dissuade some with extremely valuable skills from re-engaging, for example in FTRS or the Military Provost Guard Service.

Evidence received from the Service Families' Federations

- 6.31 Families regard the Armed Forces pension highly and feel that it has an important role in determining how long an individual is prepared to serve. The Federations consider that the pension acts as a strong pull factor, retaining personnel until the date they can access Early Departure Payments (EDPs). However, once they have reached that stage, the pension may act as a push factor as personnel compare the disadvantages of continuing with a military career to the advantages of a second career in civilian life, supplemented by the lump sum and EDPs.

Evidence received from the single Services

- 6.32 We also sought views from each of the Services, from the Reserves and from DMS, on the role AFPS05 plays in their personnel policy. The Service representatives from the Army, Navy and RAF gave many similar responses, highlighted below.

Recruitment

- AFPS05 has little impact on recruitment, particularly for younger, OR recruits;
- more mature recruits, who were perhaps previously employed, are generally more aware;
- direct entrant OFs were more aware, but the pension was seen by them as a 'comfort blanket' rather than an incentive to join;
- pension benefits are mentioned during the recruitment process, but not in detail.

Retention

- AFPS05 is seen as retention positive by all Services;
- it becomes more important to personnel at certain life stages;
- the provision for dependents was seen as very important, particularly given the current operational intensity;
- it gives personnel the opportunity to start a second career around the age of 40, when entitlement to EDPs and a lump sum become available;
- AFPS05 particularly retains those who chose to join the scheme at the OTT point with a view to undertaking a long career.

Information

- the Pension Calculator was very well regarded;
- all Services recognised that more could be done to promote the awareness of the pension benefits.

6.33 There were also some Service-specific issues that became apparent. The Army considered that awareness of the pension among potential and new recruits had been rising over the last three years, even if the details were unclear. The RAF are generally more likely than the other Services to recruit older personnel, particularly in the more technical trades, and these recruits will often have better awareness of the pension and its part in the overall offer.

Evidence received from Reserves

6.34 Those who start (or restart) a commitment on FTRS, including Additional Duties Commitments, are eligible to join the Reserve Forces Pension Scheme (RFPS). The majority of the Volunteer Reserve Forces are not eligible as they are part-time voluntary reserves. However, if a Reservist is mobilised, they can choose to have that period of service counted under the RFPS. A total of around 8,000 out of 33,000 Reservists meet the qualifying terms.

Recruitment

6.35 There is little evidence about the financial motivation of Reservists. However, the operation of the pension abatement rules may deter former Service personnel from joining FTRS, thus preventing the Armed Forces from retaining skills that are in short supply.

Retention

6.36 FTRS sign up to a fixed commitment, so the pension is less of a retention factor. However, for those who sign on for further commitments, the pension can act as an incentive to stay. The length of commitment varies between Services and branches and there is no guarantee of being re-hired. Each commitment is a separate block of pension accrual thus creating an incentive to remain for longer.

Information

6.37 Information on the pensions and benefits calculators was sent out to all units. However, the calculators are available on the internet, so all can gain access. Civilian employers can access information via MOD's support and information service, 'Sabre'.

Evidence received from Defence Medical Services

- 6.38 Service Medical and Dental Officers are eligible to join a modified version of AFPS05. This replaces the EDP scheme with a bonus scheme which aims to retain trained staff for longer than is the case with AFPS75.

Recruitment

- 6.39 As for other groups, the pension is not generally a recruitment factor. It can be used as a means to pull personnel in to a longer commitment after a short-service commission. Only those who are recruited very late in their careers (for example at age 50) comment on the pension. For direct entrants, the perception that some military Clinical Excellence Awards (CEAs) are not pensionable may be a deterrent (they are pensionable in the NHS and there is no guarantee that they can be transferred in).

Retention

- 6.40 It was felt to be a little too early to judge the effectiveness of AFPS05 as a retention tool. At the OTT, those who knew they were going to stay in service (usually older personnel) moved to AFPS05, while junior personnel generally remained in AFPS75. Potential changes to the scheme as a result of the Hutton Review were a source of concern particularly among those on the new scheme. There was some belief that the 'recession' in the NHS could encourage consultants to remain in the military for longer.
- 6.41 Personnel do seem to be taking advantage of the bonus scheme, although there is a complex relationship between it and the pension in terms of influencing retention. When the situation reaches 'steady state' (when AFPS05 has been running for longer) the retention effects will become clearer.

Other issues

- 6.42 Consultants were concerned about the non-pensionability of CEAs. NHS National CEAs are pensionable, but consultants working in NHS hospitals as part of their Service career could not be awarded NHS excellence awards (although there are military equivalents, they are not pensionable).
- 6.43 There was a general feeling that personnel may not appreciate just how valuable their pension is in their total reward. This perception may change as the scheme matures, and interest may increase as more, older, direct entrants join.

Summary of evidence received from the remit group

- 6.44 All Service representatives felt that it was life events as much as length of service that influenced at what point the pension scheme began to act as a retention factor. Getting married and/or having children made personnel consider their overall financial situation.
- 6.45 All the Services felt that the pensions (and benefits) calculators were reasonably well publicised, but personnel tended to find out about them only when they needed to. The pensions calculator was extremely well regarded and the information it provided was of very high quality. While it could potentially be made quicker, it was probably not worth investing money in improving the tool as it was already achieving its purpose.

Service Personnel and Veterans' Agency

- 6.46 SPVA carries out the administration of pensions for the Services. The SPVA call centre staff are equipped to respond to basic pensions queries, or to route them to specialist advisors for more detailed information.

- 6.47 Unfortunately, the enquiry line does not keep a record of the number or type of pension queries it receives. However, we were told that of all the remuneration queries received by the Joint Personnel Administration Centre (JPAC), pensions queries constitute only a very small proportion. For AFPS05 in particular, pension queries tend to relate only to changes in circumstance for the individual member. The most common of these is the impact of divorce proceedings on the pension.
- 6.48 The other principal request is for a pension statement. Personnel call to obtain a print out of pension entitlement when applying for a mortgage – personnel can obtain their own print-out from the Pension Calculator but lenders seem not to accept this, while a print from JPAC usually suffices. Some personnel have circumstances that are too complicated for the Pension Calculator to deal with, so they approach JPAC for an estimate of their entitlement. JPAC also informed us that the Pension Calculator had received around 1.4 million hits since its introduction in 2005.

Armed Forces Continuous Attitude Survey

- 6.49 AFCAS asks Service personnel, among other things, which factors influence their intentions to stay in the Services. Of a list of 23 factors, 'Pension' was ranked as the greatest influence on retention. This was the case for both OFs and ORs. While this does not take career stage into account, it does support the evidence we received from personnel themselves.

Communication study

- 6.50 We also asked TW to undertake an independent assessment of how the information and communication around AFPS05 compared with three major private sector organisations. The research aimed to gauge how the pension arrangements were presented to and perceived by members, identifying strengths and weaknesses in each. While the Armed Forces are unique, TW identified three large companies with large and diverse workforces which face similar challenges in pension communication. Information was obtained from interviews with company representatives and through an audit of member communications, including an assessment of the various communication channels adopted to target members and provide them with information about their pension scheme.

Table 6.2: Comparison with private sector organisations

	Company A	Company B	Company C	Armed Forces
Background	100,000 staff worldwide, but mostly UK based	55,000 active scheme members; primarily office based staff	300,000 staff in UK, 90% shop-floor based	180,000 staff worldwide, but mostly UK based
Communication challenges	Diverse & fluid workforce; multiple sites; ensuring understanding of & engagement with the schemes; pre-retirement support	Diverse workforce; very widely spread, often in small offices; flexible working patterns; lack of PC access; differing benefits for DB & DC	Very diverse workforce; encouraging staff to join scheme; ensuring appreciation of value of scheme; pre-retirement support	Very diverse & mobile workforce; 3 distinct Services; lack of choice in scheme; ensuring appreciation of value of scheme & risk benefits; Hutton review
DB scheme	Closed to new entrants 2001. Members receive generic information only; formal & technical	Closed to new entrants 1996; annual targeted newsletter; formal style	Final salary scheme (closed in 2001) & career average scheme (5% member contribution); clear, formal tone	Neutral & factual material; formal tone; information sent when key changes are made
DC scheme	Employees contribute 5-8% of salary. Receive targeted information with interactive website; informal style; wide variety of formats	Framework to help member understanding; informal style; research to inform future comms; awarded Pension Quality Mark	N/A	N/A
Key strengths	Increasing use of internet; introduction of pension portal for DB has reduced queries; strong & clear new joiners pack for DC	Rolling, structured programme; info sent to home address; user-friendly interactive website & helpline; clear in 'Plain English'; reference to other benefits	Variety of formats; reference other benefits; website & modeller backed up with on-site info & helpline	Pension calculator & helpline; formal dissemination process; much information held on-line; face-to-face briefings can be used
Key weaknesses	Limited direct personal contact; assumed level of knowledge for DB members; little promotion of DB website	Limited use currently made of website; complex pensions modeller; inconsistent approach to new members	Assumed level of knowledge; lack of at-work internet access; website not well structured, little signposting between different schemes; could be better promoted; inconsistent approach to new members	Heavy reliance on website & formal processes; poor signposting on website; engaging new recruits on pensions

- 6.51 TW found that MOD makes limited use of targeted communication, although the pension calculator and a helpline are available to help with personal queries. Content on the website, while clear, tends to be heavy and technical, with little attempt made to emphasise the value of the pension as part of the overall package. Formal structures exist to disseminate information and face-to-face briefings can be used if needed.

Conclusion

- 6.52 Our remit required us to make a broad comparison of AFPS05 benefits with other schemes and identify any significant implications, positive and negative, for recruitment and selection. We were particularly mindful in seeking views of the remit group that we did not raise unnecessary concerns at a time when public sector funding was under critical review. We examined both private and the public sector comparators. Since this was the first review of the scheme, 5 years after introduction, evidence was limited – new recruits on the scheme had little in-depth knowledge and those few who transferred from AFPS75 were not yet in a position to assess the benefits.
- 6.53 AFPS05 is a non-contributory DB and compares favourably with other public and private sector schemes. In a fighting Service, where risk of death or injury is likely to be higher than most other occupations, pension and related benefits are a significant aspect of the remuneration package. The view of the remit group, and the AFPRB, is that AFPS05 is an important part of the current remuneration package, and has been generally well received.
- 6.54 It has not been a strong recruitment tool in the past but may become more so as the spotlight falls increasingly on pension rights. There is strong evidence that the pension acts, like its predecessor, as a very powerful retention tool, particularly for experienced Service personnel.
- 6.55 Negative comments from serving personnel relate more to the timing and content of the provision of information on the scheme than the scheme itself, though the Pensions Calculator was widely praised by those who used it. Consideration could be given to developing a more structured, rolling communications plan presented in clear, simple language and timed to pre-date critical career points.

Chapter 7

CONCLUSIONS, COSTINGS AND A LOOK FORWARD

Conclusions and cost of recommendations

7.1 We considered very carefully the appropriate recommendation for those groups earning £21,000 or less per year, taking account of the Government's policy on pay across the public sector, including the pay freeze for those above that threshold. Our recommendations on targeted measures and charges reflect the extensive evidence we received. We also noted the severe financial pressure on MOD in the context of wider public sector cutbacks.

Table 7.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	0
Other Ranks	11
	11
Specialist Pay, allowances and other emoluments in the nature of pay (all Regular Services)	8
Total pay (all Regular Services)	20
Reserve Forces	0
Employers' national insurance contribution – all Services	1
Estimated effect of SCAPE ^b	3
<i>Total paybill cost including Reserves</i>	24
Less: total increased yield from charges	(3)
Net cost of recommendations	21

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

^b Superannuation Contributions Adjusted for Past Experience.

7.2 The estimated cost of our recommendations is based on the average manpower strength of the Armed Forces in 2011-12, as forecast by MOD. Actual strengths may vary from forecasts and, therefore, the actual costs of implementing our recommendations may change. Our recommendations on those aspects of pay within our remit would add 0.3 per cent to the paybill (including the employers' national insurance and superannuation costs). When the yield from the recommended increased accommodation and other charges is taken into account the net paybill cost remains 0.3 per cent.

Looking forward

7.3 We have made this year's recommendations in a particularly difficult climate. The impact on individuals of the changes announced in the SR and SDSR will form the backdrop to our next round. The public sector pay freeze will remain in place for a second year with inflation forecast to remain high throughout 2011. Reductions in allowances, the threat of redundancies, possible further pension changes, and other consequences of the continuing downward pressure on the defence budget will be felt by the remit group.

7.4 The impact on individuals of such difficult changes needs to be managed carefully. On our visits we found that some Service personnel had not been well informed about changes which directly affected them or were concerned by a lack of information. We

urge MOD to ensure that communication is clear, well-disseminated, sustained and in good time, ahead of the changes taking place, and that families are central to the communication strategy.

- 7.5 Even though overall numbers are being reduced, it remains important to recruit, retain and motivate the right people. Investment in recruiting has been scaled back, and the fact that there are fewer new recruits could create future shortages as cohorts progress through the rank structure. We found signs that some personnel in pinch-point trades intend to find alternative employment when the economy improves. Future shortages in some areas could prove difficult and expensive to rectify.
- 7.6 We expressed concern in Chapter 4 that many of those considering a career in medicine or dentistry are female and/or from ethnic minority groups and may not see a career in the Armed Forces as attractive. Effort to encourage broad-based recruitment should continue to be a priority for the wider Armed Forces, not just DMS. The traditional recruitment pool for the Armed Forces is decreasing with the increasing propensity of young people to remain in education (see Appendix 5). To attract candidates of the highest calibre across the Services, more needs to be done to ensure that women and people from ethnic minority groups view the Armed Forces as an attractive career option, with a culture that is welcoming and encourages them to look forward to a fulfilling career. While recognising the steps already taken, we urge MOD to consider what more can be done to ensure the Services both recruit and retain personnel who represent our wider society.
- 7.7 In this round we received good evidence from MOD to underpin our targeted recommendations. However, when developing proposals, it is helpful if MOD presents a range of options for us to assess. We were concerned this year that expectations were set of particular recommendations for some Service groups ahead of our being able to review the evidence.
- 7.8 As we made clear in Chapter 1, we were disappointed that MOD was unable to share with us details of the changes to the allowances package in January 2011 until after the announcement was made. The changes affected a number of items which fall within our remit. We believe it is unhelpful for such changes to be announced unilaterally. Over the next year, we hope to see clearer lines of demarcation between our and MOD's responsibilities on allowances and to ensure that our terms of reference are unambiguous.
- 7.9 We have previously expressed concern over the current Armed Forces pay structure, Pay 2000. In 2009, MOD launched the feasibility stage of a 'Future Pay Structure Study' which aimed to design a more suitable replacement. This study was incorporated into work on a 'New Employment Model' for the Armed Forces which began in 2010. Some papers of evidence looked to the New Employment Model to provide some of the important non-remunerative measures that could improve conditions for Service personnel, such as flexible working and greater stability. The current pay freeze and the pressing need for reform following the SDSR provides an opportunity to progress this important work, which will be needed all the more when economic growth resumes. We were concerned by some suggestions in oral evidence that the reform might be postponed for a number of years, and encourage MOD to introduce a modernised pay structure as soon as possible.
- 7.10 The New Employment Model envisages a more geographically stable workforce, primarily based in the UK, with less frequent postings for most. A higher proportion of Service personnel will be able to own their own homes. A shift towards more owner-occupation of housing will be welcomed by many and could reduce the costs of maintaining the domestic estate of Service accommodation. However, any shift by MOD towards a more

commercial approach to the provision of the remaining Service accommodation must be tempered by the fact that a significant number of personnel will continue to be unable to afford their own property, and their motivation and retention is heavily influenced by how their families are housed and supported while they are away on duty. In a young fighting force, required to deploy (often at short notice), the availability of employer-provided accommodation is a very high priority for many personnel and their families. We hope that Defence Estates priorities will continue to give full attention to meeting the housing needs of all Service personnel and their families in a way that appropriately acknowledges their commitment to serving their country and reflects the emphasis which the Prime Minister has given to the Military Covenant.

7.11 We look forward to hearing of progress in this area, including on the recommendations of the Task Force on the Military Covenant¹ which made a number of proposals for improving opportunities for home purchase for Service personnel and improving SFA which could be implemented at relatively little cost. MOD should seek the views of the remit group and their families on future accommodation options.

Our year ahead

7.12 In addition to considering pay for those earning £21,000 or less, the elements of the package scheduled for review in 2011 are:

- New Entrant Pay – for Other Ranks and Officers – postponed from 2009-10;
- Pension Valuation;
- Review of Specialist Pay;
- Military Provost Guard Service;
- Commitment Bonuses;
- Recruitment and Retention Allowance (London);
- An assessment of non-pay benefits in comparison with civilian employees; and
- Food Charges, including PAYD.

7.13 Following the announcement on the reduction and rationalisation of allowances in January 2011, we have been asked to undertake a full review of SP in our next round; we have been assured by MOD that their evidence to this review will not treat it just as a cost-cutting exercise. The announcement itself outlined changes to Specialist Pay Reserve Banding which have the potential to affect the willingness of skilled personnel to extend their career. We will wish to examine the evidence on these changes and other detailed issues as part of our full review.

7.14 Commitment Bonuses and Recruitment and Retention Allowance (London) are on our list of issues for review, subject to the clarification we are seeking from MOD of our respective roles in setting allowances. We will ensure that we have a robust evidence base available for any review we do undertake.

7.15 Finally, we have our regular pension valuation scheduled for the coming year. The forthcoming recommendations of the Independent Public Service Pensions Commission may well raise important issues for us to consider within the valuation, and we will also link the pension valuation to our work on an appropriate methodology for pay comparisons.

¹ The report can be found at: <http://www.mod.uk/NR/rdonlyres/3C6A501D-5A85-47C9-9D89-B99C5E428061/0/militarycovenanttaskforcerpt.pdf>

7.16 The public sector pay freeze will remain in effect next year and, coupled with reductions in allowances and potential redundancies, will make for another difficult period for Service personnel. Hearing directly from personnel and their families about the impact of these changes will be vital to our continuing work of providing independent advice to Government on Armed Forces' pay.

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Mary Carter
Graham Forbes
Alison Gallico
Derek Leslie
Judy McKnight
John Steele
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February 2011

Appendix 1

1 April 2011 military salaries including X-Factor incorporating our recommendations for those earning £21,000 or less which are highlighted

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

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

Rank		Military salary £
OF-6		
Commodore (Royal Navy)	Level 5	100,964
Brigadier (Royal Marines)	Level 4	99,973
Brigadier (Army)	Level 3	98,995
Air Commodore (Royal Air Force)	Level 2	98,013
	Level 1	97,030
OF-5		
Captain (RN)	Level 9	89,408
Colonel (RM)	Level 8	88,394
Colonel (Army)	Level 7	87,379
Group Captain (RAF)	Level 6	86,368
	Level 5	85,357
	Level 4	84,347
	Level 3	83,336
	Level 2	82,321
	Level 1	81,310
OF-4		
Commander (RN)	Level 9	77,617
Lieutenant Colonel (RM)	Level 8	76,613
Lieutenant Colonel (Army)	Level 7	75,609
Wing Commander (RAF)	Level 6	74,614
	Level 5	70,562
	Level 4	69,681
	Level 3	68,801
	Level 2	67,920
	Level 1	67,032
OF-3		
Lieutenant Commander (RN)	Level 9	57,199
Major (RM)	Level 8	56,016
Major (Army)	Level 7	54,841
Squadron Leader (RAF)	Level 6	53,661
	Level 5	52,474
	Level 4	51,298
	Level 3	50,111
	Level 2	48,940
	Level 1	47,760

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

Rank		Military salary £
OF-2		
Lieutenant (RN)	Level 9	45,090
Captain (RM)	Level 8	44,579
Captain (Army)	Level 7	44,059
Flight Lieutenant (RAF)	Level 6	43,039
	Level 5	42,011
	Level 4	40,991
	Level 3	39,959
	Level 2	38,932
	Level 1	37,916
OF-1		
Sub-Lieutenant (RN)	Level 10	32,703
Lieutenant, 2nd Lieutenant (RM)	Level 9	31,921
Lieutenant, 2nd Lieutenant (Army)	Level 8	31,147
Flying Officer, Pilot Officer (RAF)	Level 7	30,369
	Level 6	29,587
	Level 5	24,615
	Level 4	21,810
	Level 3	18,821
	Level 2	17,269
	Level 1	15,823
University Cadet Entrants	Level 4	18,149
	Level 3	16,647
	Level 2	14,853
	Level 1	12,969

Table 1.2: Recommended annual scales for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5 (OR-9):	Level 7	44,120	46,753
Warrant Officer I (Royal Navy)	Level 6	42,908	46,049
Warrant Officer I (Royal Marines)	Level 5	41,737	45,242
Warrant Officer I (Army)	Level 4	40,938	44,448
Warrant Officer (Royal Air Force)	Level 3	40,144	43,645
	Level 2	39,349	42,908
	Level 1	38,600	42,080
Range 4 (OR-7 – OR-8):	Level 9	39,628	43,252
Warrant Officer II, Chief Petty Officer (RN)	Level 8	38,751	42,642
Warrant Officer II, Colour Sergeant (RM)	Level 7	38,256	42,044
Warrant Officer II, Staff Sergeant (Army)	Level 6	37,678	41,446
Flight Sergeant, Chief Technician (RAF)	Level 5	36,049	40,549
	Level 4	35,565	39,648
	Level 3	34,750	38,751
	Level 2	33,657	37,846
	Level 1	33,223	36,954
Range 3 (OR-6):	Level 7	34,112	36,929
Petty Officer (RN)	Level 6	33,854	36,249
Sergeant (RM)	Level 5	32,723	35,570
Sergeant (Army)	Level 4	31,892	34,890
Sergeant (RAF)	Level 3	31,573	34,456
	Level 2	30,799	33,604
	Level 1	30,013	32,756
Range 2 (OR-4):	Level 7	29,840	33,182
Leading Rate (RN)	Level 6	29,624	32,474
Corporal (RM)	Level 5	29,390	31,814
Corporal (Army)	Level 4	29,161	31,065
Corporal (RAF)	Level 3	28,940	30,357
	Level 2	27,592	28,940
	Level 1	26,405	27,592
Range 1 (OR-2 – OR-3):	Level 9	24,230	28,940
Able Rating (RN)	Level 8	23,383	27,592
Lance Corporal, Marine (RM)	Level 7	22,359	26,405
Lance Corporal, Private (Army)	Level 6	21,442	25,246
Junior Technician, Leading Aircraftman,	Level 5	20,832	24,075
Senior Aircraftman, Aircraftman (RAF)	Level 4	19,779	21,773
	Level 3	18,207	20,500
	Level 2	17,736	18,592
	Level 1	17,265	17,265

^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	13,895

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

	Military salary
	£
Fourth year	24,075
Third year	16,991
Second year	16,053
First year	14,300

Table 1.5: Recommended annual scales for Chaplains^a

Rank/length of service	Military salary	
	£	
Chaplain-General	Level 5	97,077
	Level 4	96,078
	Level 3	95,091
	Level 2	94,100
	Level 1	93,109
Deputy Chaplain-General ^b	Level 5	85,795
	Level 4	84,771
	Level 3	83,748
	Level 2	82,728
	Level 1	81,708
Principal Chaplain	Level 4	80,689
	Level 3	79,669
	Level 2	78,645
	Level 1	77,625
Chaplain (Class 1) ^c	Level 2 ^d	73,293
	Level 1 ^e	70,566

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	73,293
	Level 26	71,929
	Level 25	70,566
	Level 24	69,210
	Level 23	67,875
	Level 22	66,512
	Level 21	65,144
	Level 20	63,784
	Level 19	62,421
	Level 18	61,061
	Level 17	59,697
	Level 16	58,338
	Level 15	56,974
	Level 14	55,615
	Level 13	54,255
	Level 12	52,887
	Level 11	51,532
	Level 10	50,168
	Level 9	48,809
	Level 8	47,441
	Level 7	46,086
	Level 6	44,714
	Level 5	43,358
	Level 4	41,999
	Level 3	40,639
	Level 2	39,271
	Level 1	37,916

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

^b Army only.

^c Army and RAF only.

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

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

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

Rank/length of service		Military salary
		£
Lieutenant Colonel	Level 5	74,100
	Level 4	72,978
	Level 3	71,860
	Level 2	70,734
	Level 1	69,620
Major, Captain	Level 22	67,585
	Level 21	66,188
	Level 20	64,788
	Level 19	63,391
	Level 18	61,999
	Level 17	60,598
	Level 16	59,206
	Level 15	57,801
	Level 14	56,417
	Level 13	55,205
	Level 12	54,009
	Level 11	52,666
	Level 10	51,319
	Level 9	49,976
	Level 8	48,641
	Level 7	47,298
	Level 6	45,955
	Level 5	44,615
	Level 4	43,272
	Level 3	41,933
Level 2	40,590	
Level 1	37,916	

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

Increment Level	Military salary £
Level 15	50,680
Level 14	50,349
Level 13	50,000
Level 12	49,325
Level 11 ^b	48,653
Level 10	47,973
Level 9	47,298
Level 8	46,622
Level 7 ^c	45,778
Level 6	45,258
Level 5	44,730
Level 4 ^d	43,686
Level 3	43,166
Level 2	42,633
Level 1 ^e	41,593

^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	77,625
Level 34	76,561
Level 33 ^a	75,492
Level 32	74,427
Level 31	73,367
Level 30 ^{b,c}	72,294
Level 29	71,237
Level 28	70,168
Level 27 ^d	69,095
Level 26	68,039
Level 25	66,966
Level 24 ^e	65,906
Level 23	64,919
Level 22 ^f	63,682
Level 21	62,498
Level 20 ^g	61,307
Level 19	60,127
Level 18	58,944
Level 17	57,760
Level 16 ^h	56,577
Level 15	55,394
Level 14	54,210
Level 13	53,018
Level 12 ⁱ	51,839
Level 11	50,656
Level 10	49,976
Level 9	49,198
Level 8	48,412
Level 7	47,633
Level 6	46,851
Level 5	46,065
Level 4	45,283
Level 3	44,501
Level 2	43,715
Level 1	42,928

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

^b OF2 Aircrew cannot progress beyond Increment Level 30.

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

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

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

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

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

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

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

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

Rank		Military salary £
OF-5 Colonel	Level 9	91,325
	Level 8	90,287
	Level 7	89,249
	Level 6	88,210
	Level 5	87,167
	Level 4	86,124
	Level 3	85,082
	Level 2	84,038
	Level 1	82,994
OF-4 Lieutenant Colonel	Level 9	79,780
	Level 8	78,745
	Level 7	77,711
	Level 6	76,687
	Level 5	72,589
	Level 4	71,663
	Level 3	70,738
	Level 2	69,813
	Level 1	68,879
OF-3 Major	Level 9	60,817
	Level 8	58,616
	Level 7	57,389
	Level 6	56,162
	Level 5	54,928
	Level 4	53,706
	Level 3	52,488
	Level 2	51,258
	Level 1	50,021
OF-2 Captain	Level 9	47,483
	Level 8	46,434
	Level 7	45,386
	Level 6	44,338
	Level 5	43,283
	Level 4	42,234
	Level 3	41,174
	Level 2	40,090
	Level 1	39,020

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

Rank		Military salary
		£
OF-1		
Lieutenant, 2nd Lieutenant	Level 10	33,860
	Level 9	33,025
	Level 8	32,203
	Level 7	31,378
	Level 6	30,549
	Level 5	25,486
	Level 4	22,620
	Level 3	19,555
	Level 2	17,950
	Level 1	16,446

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

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

Rank		Military salary £
Range 5 (OR-9): Warrant Officer I	Level 7	48,623
	Level 6	47,891
	Level 5	47,052
	Level 4	46,225
	Level 3	45,391
	Level 2	44,624
	Level 1	43,764
Range 4 (OR-7 – OR-8): Warrant Officer II	Level 9	45,415
	Level 8	44,774
	Level 7	44,146
	Level 6	43,518
	Level 5	42,576
	Level 4	41,631
	Level 3	40,689
	Level 2	39,739
Range 3 (OR-6): Sergeant	Level 7	39,477
	Level 6	38,750
	Level 5	38,024
	Level 4	37,297
	Level 3	36,833
	Level 2	35,923
	Level 1	35,016
Range 2 (OR-4): Corporal	Level 7	34,509
	Level 6	33,773
	Level 5	33,087
	Level 4	32,307
	Level 3	31,571
	Level 2	30,097
	Level 1	28,697
Range 1 (OR-2 – OR-3): Lance Corporal, Private	Level 9	28,940
	Level 8	27,592
	Level 7	26,405
	Level 6	25,246
	Level 5	24,075
	Level 4	21,773
	Level 3	20,500
	Level 2	18,592
	Level 1	17,265

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

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

Rank		Military salary
		£
Range 5 (OR-9): Warrant Officer I	Level 7	60,497
	Level 6	59,792
	Level 5	58,986
	Level 4	58,191
	Level 3	57,388
	Level 2	56,651
	Level 1	55,824
Range 4 (OR-7 – OR-8): Chief Petty Officer	Level 9	56,995
	Level 8	56,385
	Level 7	55,787
	Level 6	55,189
	Level 5	54,293
	Level 4	53,392
	Level 3	52,495
	Level 2	51,590
Level 1	50,697	
Range 3 (OR-6): Petty Officer	Level 7	50,673
	Level 6	49,993
	Level 5	48,651
	Level 4	47,971
	Level 3	46,653
	Level 2	45,801
Level 1	44,954	

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

Appendix 2

1 April 2011 recommended rates of Specialist Pay and Compensatory Allowances

With the introduction of JPA a Reserve Band system for Specialist Pay (SP) became 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	Reserve Band rate		
		75%	50%	25%
SP(Flying) ^a	£ per day	£ per day	£ per day	£ per day
Officer aircrew (trained)				
All Officer aircrew in the rank of Squadron Leader ^b and below except RAF specialist aircrew Flight Lieutenant				
Initial rate	13.93	10.45	6.97	3.48
Middle rate ^c	23.63	17.72	11.82	5.91
Top rate ^c	37.58	28.19	18.79	9.40
Enhanced rate ^d	44.24	33.18	22.12	11.06
Enhanced rate ^e	41.82	31.37	20.91	10.46
Wing Commander^b				
On appointment	38.80	29.10	19.40	9.70
After 6 years	36.36	27.27	18.18	9.09
After 8 years	33.94	25.46	16.97	8.49
Group Captain^b				
On appointment	29.70	22.28	14.85	7.43
After 2 years	27.87	20.90	13.94	6.97
After 4 years	26.05	19.54	13.03	6.51
After 6 years	23.02	17.27	11.51	5.76
After 8 years	19.98	14.99	9.99	5.00
Air Commodore^b	12.12	9.09	6.06	3.03

^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	46.05	34.54	23.03	11.51
After 1 year as specialist aircrew	46.68	35.01	23.34	11.67
After 2 years as specialist aircrew	47.88	35.91	23.94	11.97
After 3 years as specialist aircrew	48.47	36.35	24.24	12.12
After 4 years as specialist aircrew	49.09	36.82	24.55	12.27
After 5 years as specialist aircrew	50.30	37.73	25.15	12.58
After 6 years as specialist aircrew	50.91	38.18	25.46	12.73
After 7 years as specialist aircrew	51.51	38.63	25.76	12.88
After 8 years as specialist aircrew	52.72	39.54	26.36	13.18
After 9 years as specialist aircrew	53.33	40.00	26.67	13.33
After 10 years as specialist aircrew	53.93	40.45	26.97	13.48
After 11 years as specialist aircrew	55.14	41.36	27.57	13.79
After 12 years as specialist aircrew	55.76	41.82	27.88	13.94
After 13 years as specialist aircrew	56.97	42.73	28.49	14.24
After 14 years as specialist aircrew	57.57	43.18	28.79	14.39
After 15 years as specialist aircrew	58.17	43.63	29.09	14.54
After 16 years as specialist aircrew	60.00	45.00	30.00	15.00
(b) <i>Branch Officers</i>				
On designation as specialist aircrew	37.58	28.19	18.79	9.40
After 5 years as specialist aircrew	41.82	31.37	20.91	10.46

	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	13.93	10.45	6.97	3.48
Middle rate ^f	23.63	17.72	11.82	5.91
Top rate ^f	37.58	28.19	18.79	9.40
Enhanced rate ^g	44.24	33.18	22.12	11.06
RM and Army pilots ^h				
Initial rate	7.28	5.46	3.64	1.82
Middle rate ⁱ	15.75	11.81	7.88	3.94
Top rate ⁱ	18.78	14.09	9.39	4.70
RN/RM, Army and RAF aircrewmen				
Initial rate	7.28	5.46	3.64	1.82
Middle rate ⁱ	15.16	11.37	7.58	3.79
Top rate ⁱ	19.98	14.99	9.99	5.00
Aero-medical and escort duties pay (RAF)	7.87		3.94	
Flying Crew pay ^k				
Lower rate	4.85		2.43	
Higher rate ^f	7.87		3.94	

^f After 4 years on the preceding rate.

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

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

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

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

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

	Rate	Reserve Band rate		
		75%	50%	25%
	£ per day	£ per day	£ per day	£ per day
SP (Diving)				
<i>Category</i>				
1 RN Diver (Able rate) prior to Category 3 qualification Ship's Diver – all ranks and ratings	4.24	3.18	2.12	1.06
2 RN Search and Rescue Diver – all ratings Ship Divers' Supervisors Army Compressed Air Diver – all ranks	8.50	6.38	4.25	2.13
3 RN Diver (Able rate) when qualified to Category 3 standards Army Diver Class 1 – all ranks	11.52	8.64	5.76	2.88
3a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of SP(Diving) Level 3 and completed EOD course 0804	3.36	2.52	1.68	0.84
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	19.98	14.99	9.99	5.00
4a Supplement for EOD Operators. In receipt of SP(Diving) Level 4 and completed EOD course 0804	3.36	2.52	1.68	0.84

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

	Rate	Reserve Band rate		
		75%	50%	25%
	£ per day	£ per day	£ per day	£ per day
5 RN Diver (Petty Officer and above) when qualified to Category 5 standards				
on appointment	28.49	21.37	14.25	7.12
after 3 years	30.92	23.19	15.46	7.73
after 5 years	32.72	24.54	16.36	8.18
5a Supplement for EOD Operators. In receipt of SP(Diving) Level 5 and completed EOD course 0801	4.93	3.70	2.47	1.23
(Unfit to dive)				
on appointment	9.09		4.55	
after 3 years	10.90		5.45	
after 5 years	12.72		6.36	

	Rate	Reserve Band rate		
		75%	50%	25%
	£ per day	£ per day	£ per day	£ per day
SP(Submarine)				
Level 1 – payable on qualification	12.12	9.09	6.06	3.03
Level 2 – payable after 5 years on Level 1	15.75	11.81	7.88	3.94
Level 3 – payable after 5 years on Level 2	18.78	14.09	9.39	4.70
Level 4 – payable after 5 years on Level 3	21.22	15.92	10.61	5.31
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	26.66	20.00	13.33	6.67
Submarine Supplement	5.24			
SP(Nuclear Propulsion)				
Category C watchkeeper	2.42	1.82	1.21	0.61
Category B watchkeeper – Single qualified	4.85	3.64	2.43	1.21
Category B watchkeeper – Double qualified	9.09	6.82	4.55	2.27
Category A watchkeeper (Nuclear Chief of Watch)	20.60	15.45	10.30	5.15
Appropriately qualified Junior Officers	20.60	15.45	10.30	5.15
SP(Submarine Escape Tank Training)				
Additional Daily Supplement for Tank Top Chiefs (Cat 1)	12.12		6.06	
Additional Daily Supplement for Control Officers (Cat 2)	2.42		1.21	
Additional Daily Supplement for Submarine Parachute Assistance Group personnel	4.24		2.12	
	3.03		1.52	
SP(Hydrographic)				
On attaining Charge qualification (H Ch)	13.34	10.01	6.67	3.34
Surveyor 1st Class (H1)	12.12	9.09	6.06	3.03
On promotion to Chief Petty Officer or attainment of NVQ4, whichever is sooner	10.01	7.51	5.01	2.50
Surveyor 2nd Class (H2), on promotion to Petty Officer or attainment of NVQ3, whichever is sooner	5.46	4.10	2.73	1.37
On promotion to Leading Hand	3.64	2.73	1.82	0.91
On completion of Initial Hydrographic Training	1.82	1.37	0.91	0.46

	Rate	Reserve Band rate		
		75%	50%	25%
	£ per day	£ per day	£ per day	£ per day
SP(Mountain Leader)				
Initial	15.16	11.37	7.58	3.79
Enhanced	20.60	15.45	10.30	5.15
SP(Parachute Jump Instructor)				
Less than 8 years' experience	7.87	5.90	3.94	1.97
8 or more years' experience	11.52	8.64	5.76	2.88
Joint Air Delivery Test & Evaluation Unit Supplement	3.64		1.82	
SP(Parachute)	5.46	4.10	2.73	1.37
SP(High Altitude Parachute)^m	10.31		5.16	
SP(Explosive Ordnance Disposal Operators)ⁿ				
Level 2 (Defence EOD Operators)	16.38		8.19	
Level 2A (Advanced EOD Operators)	21.82		10.91	
Level 3 (Advanced Manual Techniques Operators)	27.87		13.94	
SP(Nursing)				
Generalist nurses on achievement of Defence Nursing Operational Competency Framework (DNOCF) Level 2 and working in a DNOCF Level 2 post	4.85		2.43	
Specialist nurses who acquire the specified academic qualification of specialist practice DNOCF Level 3	10.31	7.73	5.16	2.58

^m Rate applies to members of the Pathfinder Platoon.

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

COMPENSATORY ALLOWANCES	Rate
	£ per day
LONGER SEPARATION ALLOWANCE	
Level 1 (up to 340 days qualifying separation)	6.69
Level 2 (341-580 days qualifying separation)	10.46
Level 3 (581-820)	14.24
Level 4 (821-1060)	15.63
Level 5 (1061-1300)	16.83
Level 6 (1301-1540)	18.03
Level 7 (1541-1780)	19.22
Level 8 (1781-2020)	21.03
Level 9 (2021-2260)	22.24
Level 10 (2261-2500)	23.45
Level 11 (2501-2740)	24.64
Level 12 (2741-2980)	25.85
Level 13 (2981-3220)	27.04
Level 14 (3221+)	28.24
UNPLEASANT WORK ALLOWANCE	
Level 1	2.50
Level 2	6.15
Level 3	18.16
UNPLEASANT LIVING ALLOWANCE	3.34
NORTHERN IRELAND RESIDENTS' SUPPLEMENT	7.29
RECRUITMENT AND RETENTION ALLOWANCE (LONDON)	3.84
EXPERIMENTAL TEST ALLOWANCE (per test)	2.69
EXPERIMENTAL DIVING ALLOWANCE	
Lump sum per dive	
Grade 5	300.10
Grade 4	150.06
Grade 3	112.55
Grade 2	75.01
Grade 1	15.00
Additional hourly rates	
Grade 5	60.02
Grade 4	15.00
Grade 3	11.24
Grade 2	7.50
Grade 1	-

Appendix 3

Military annual salaries inclusive of X-Factor from 1 April 2010

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

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

Rank		Military salary £
OF-6		
Commodore (Royal Navy)	Level 5	100,964
Brigadier (Royal Marines)	Level 4	99,973
Brigadier (Army)	Level 3	98,995
Air Commodore (Royal Air Force)	Level 2	98,013
	Level 1	97,030
OF-5		
Captain (RN)	Level 9	89,408
Colonel (RM)	Level 8	88,394
Colonel (Army)	Level 7	87,379
Group Captain (RAF)	Level 6	86,368
	Level 5	85,357
	Level 4	84,347
	Level 3	83,336
	Level 2	82,321
	Level 1	81,310
OF-4		
Commander (RN)	Level 9	77,617
Lieutenant Colonel (RM)	Level 8	76,613
Lieutenant Colonel (Army)	Level 7	75,609
Wing Commander (RAF)	Level 6	74,614
	Level 5	70,562
	Level 4	69,681
	Level 3	68,801
	Level 2	67,920
	Level 1	67,032
OF-3		
Lieutenant Commander (RN)	Level 9	57,199
Major (RM)	Level 8	56,016
Major (Army)	Level 7	54,841
Squadron Leader (RAF)	Level 6	53,661
	Level 5	52,474
	Level 4	51,298
	Level 3	50,111
	Level 2	48,940
	Level 1	47,760

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

Rank		Military salary £
OF-2		
Lieutenant (RN)	Level 9	45,090
Captain (RM)	Level 8	44,579
Captain (Army)	Level 7	44,059
Flight Lieutenant (RAF)	Level 6	43,039
	Level 5	42,011
	Level 4	40,991
	Level 3	39,959
	Level 2	38,932
	Level 1	37,916
OF-1		
Sub-Lieutenant (RN)	Level 10	32,703
Lieutenant, 2nd Lieutenant (RM)	Level 9	31,921
Lieutenant, 2nd Lieutenant (Army)	Level 8	31,147
Flying Officer, Pilot Officer (RAF)	Level 7	30,369
	Level 6	29,587
	Level 5	24,615
	Level 4	21,810
	Level 3	18,571
	Level 2	17,019
	Level 1	15,573
University Cadet Entrants	Level 4	17,899
	Level 3	16,397
	Level 2	14,603
	Level 1	12,719

Table 3.2: Annual scales for Other Ranks

Rank		Military salary	
		Lower band ^a	Higher band ^a
		£	£
Range 5 (OR-9):	Level 7	44,120	46,753
Warrant Officer I (Royal Navy)	Level 6	42,908	46,049
Warrant Officer I (Royal Marines)	Level 5	41,737	45,242
Warrant Officer I (Army)	Level 4	40,938	44,448
Warrant Officer (Royal Air Force)	Level 3	40,144	43,645
	Level 2	39,349	42,908
	Level 1	38,600	42,080
Range 4 (OR-7 – OR-8):	Level 9	39,628	43,252
Warrant Officer II, Chief Petty Officer (RN)	Level 8	38,751	42,642
Warrant Officer II, Colour Sergeant (RM)	Level 7	38,256	42,044
Warrant Officer II, Staff Sergeant (Army)	Level 6	37,678	41,446
Flight Sergeant, Chief Technician (RAF)	Level 5	36,049	40,549
	Level 4	35,565	39,648
	Level 3	34,750	38,751
	Level 2	33,657	37,846
	Level 1	33,223	36,954
Range 3 (OR-6):	Level 7	34,112	36,929
Petty Officer (RN)	Level 6	33,854	36,249
Sergeant (RM)	Level 5	32,723	35,570
Sergeant (Army)	Level 4	31,892	34,890
Sergeant (RAF)	Level 3	31,573	34,456
	Level 2	30,799	33,604
	Level 1	30,013	32,756
Range 2 (OR-4):	Level 7	29,840	33,182
Leading Rate (RN)	Level 6	29,624	32,474
Corporal (RM)	Level 5	29,390	31,814
Corporal (Army)	Level 4	29,161	31,065
Corporal (RAF)	Level 3	28,940	30,357
	Level 2	27,592	28,940
	Level 1	26,405	27,592
Range 1 (OR-2 – OR-3):	Level 9	24,230	28,940
Able Rating (RN)	Level 8	23,383	27,592
Lance Corporal, Marine (RM)	Level 7	22,359	26,405
Lance Corporal, Private (Army)	Level 6	21,442	25,246
Junior Technician, Leading Aircraftman,	Level 5	20,582	24,075
Senior Aircraftman, Aircraftman (RAF)	Level 4	19,529	21,773
	Level 3	17,957	20,250
	Level 2	17,486	18,342
	Level 1	17,015	17,015

^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 2010 recommendations

We submitted our 2010 recommendations on 29 January. These were accepted in full by the Government on 10 March 2010 as follows:

- **A 2 per cent increase in military salaries;**
- **Targeted pay measures, including several aimed at those undertaking the most active service:**
 - **Reduction in the Longer Separation Allowance minimum entitlement threshold from ten to seven days;**
 - **Extension of Longer Separation Allowance to cover personnel operating under field conditions;**
 - **Extension of Unpleasant Living Allowance to cover Service personnel in Forward Operating Bases and Patrol Bases in Afghanistan; and**
 - **A set of additional Financial Retention Incentives for: High Threat Improvised Explosive Device Disposal Operators; Royal Electrical and Mechanical Engineers Class 1 Avionic Technicians; and Apache Helicopter SNCO Aircrew;**
- **A 2 per cent increase in Specialist Pay, Compensatory Allowances and Reserves' Bounties;**
- **A 1.2 per cent increase to Grade 1 Service Families Accommodation and Single Living Accommodation rental charges and lower graduated increases below Grade 1;**
- **A Daily Food Charge of £4.13 (an increase of 1.5 per cent).**

Appendix 5

Details on recruitment and retention, and findings from the 2009 AFCAS

Introduction

- 1 We set out in this appendix the detailed data we review regularly to ensure we are fully informed about the trends in Service recruitment, manning and morale and motivation. The main points which have informed our recommendations this year were summarised in Chapter 2.

Recruitment

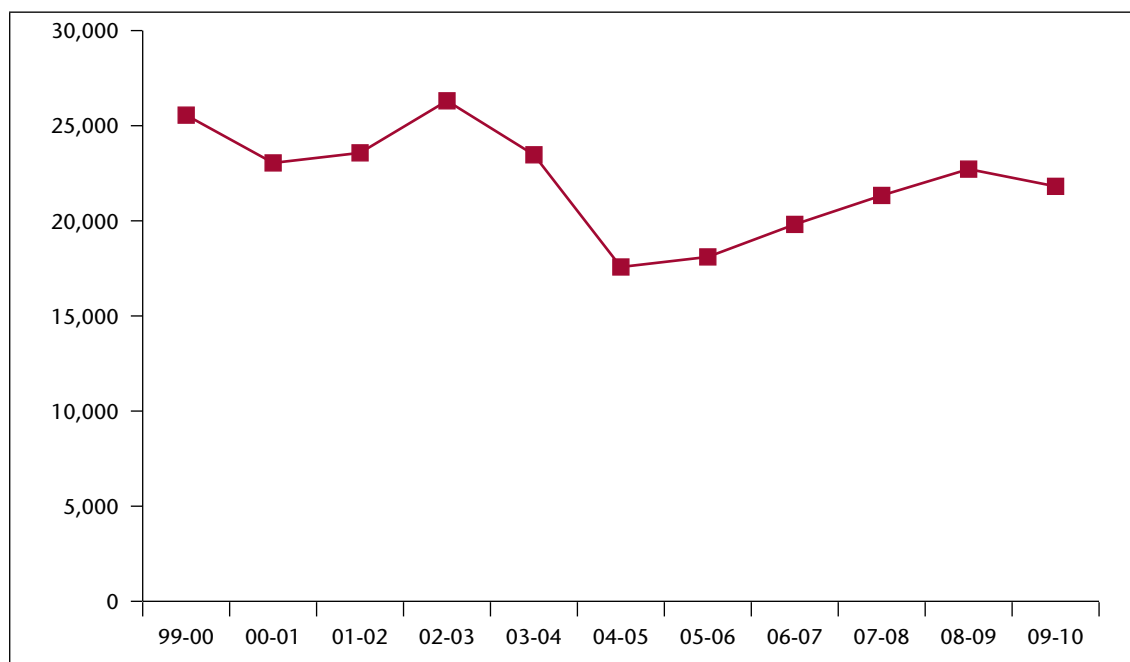
- 2 In 2009-10, 21,800 personnel were recruited into the Armed Forces, around 1,000 or 4.3 per cent fewer than in 2008-09. This represents 99 per cent of a reduced recruitment requirement as each of the Services moved into manning balance.¹ The end of 2009-10 saw a decline in enquiries from possible new recruits, and there is concern that this reduced level of interest, coupled with a reduction in marketing, could result in fewer applications in 2010-11. Chart A5.1 shows the recruitment picture over the last 10 years and illustrates the fall observed in 2009-10 following four consecutive years of increasing numbers across the Services.
- 3 Recruitment of Other Ranks was down 4.9 per cent to 20,210 while Officer intake increased by 6.0 per cent to 1,590 in 2009-10. Other Ranks recruitment fell for each Service – the RN 1.1 per cent, the Army 1.7 per cent and the RAF 20 per cent. Officer recruitment increased by 86 per cent for the RN (following a dip in 2008-09 recruitment) but there were decreases of 10 per cent for the Army and 2.4 per cent for the RAF.
- 4 In the 12 months to 31 March 2010 there were 1,940 female recruits into the Services, representing 8.9 per cent of all those joining. Female recruitment of Other Ranks fell by 7.5 per cent, with Officer intake down 2.4 per cent. At 1 April 2010 female personnel comprised 9.6 per cent of the UK Regular Forces, a slight increase from 9.5 per cent at 1 April 2009.

¹ Departmental Strategic Objective target for manning balance is defined as trained strength standing between -2% and +1% of the requirement.

Key points from single Service evidence:

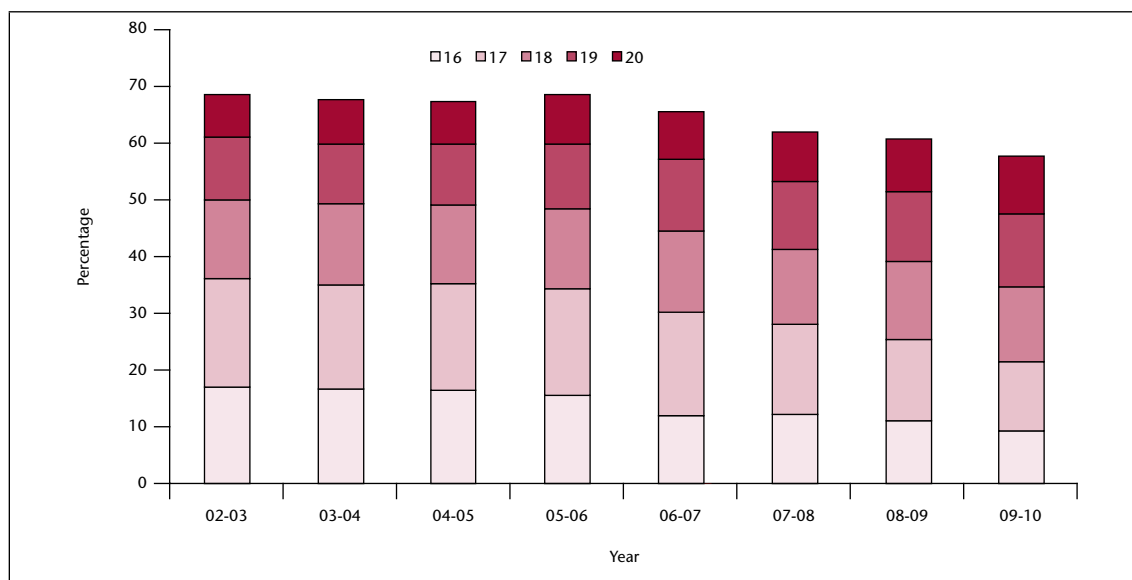
- *Naval Service* – overall recruitment in 2009-10 increased to 98 per cent of target for the RN from 92 per cent in 2008-09 and 103 per cent from 99 per cent for the RM. Some RN Officer cadre targets including Warfare Submariner and various Engineering trades remained a challenge. Against a reduced recruiting requirement for 2010-11, achievement was forecast to be 97 per cent for the RN and 100 per cent for the RM. Further improvements in the critical Engineer Officer areas were forecast including Weapons Engineers increasing to 93 per cent from 47 per cent in 2009-10;
- *Army* – recruitment targets were lowered to 8,500 for 2010-11 compared with almost 15,000 in 2009-10 as the Army reached a period of full strength. Recruiting against this reduced target appeared to be going well. While acknowledging that the economic recession has aided recruitment, allowing the Army to select higher quality soldier applicants, there was concern that an improving labour market may result in failure to meet future targets. Additionally, research suggested there was reluctance from ‘influencers’ and ‘gatekeepers’ (normally parents) to allow their under-18 year olds to join the Army – ‘the Afghanistan effect’. Officer recruitment failed to meet 2009-10 targets (700 against a requirement of 775) despite good levels of attendance at the Army Officers Selection Board and during an apparently favourable recruiting period given the wider labour market context;
- *RAF* – the RAF achieved 94 per cent overall (92 per cent Other Ranks, 96 per cent Officers) against a reduced Into Training Target (ITT) of 3,832 for 2009-10, despite a 50 per cent cut in its marketing budget. Applications to join the RAF fell by 45 per cent for Other Ranks yet rose by 20 per cent for Officers. Recruitment achievement continued to fall below target for some pinch point Branches. A further halving in marketing for 2010-11 will present additional recruiting difficulties, albeit against a reduced ITT.

Chart A5.1: Recruitment to UK Regular Forces 1999-2000 to 2009-10



- 5 Furthermore, recruitment numbers dropped significantly in the six months to 30 September 2010 with only 6,090 recruited across the Services, less than half of the 12,330 employed during the six months to 30 September 2009. In the 12 months to 30 September 2010, 15,570 personnel were recruited into the Services, 29 per cent less than the 12 months to 31 March 2010.
- 6 The proportion of new recruits aged between 16 and 20 has declined steadily in recent years as shown in Chart A5.2. In 2005-06 they comprised 68 per cent of recruits. Latest figures, for 2009-10, show a reduction to 58 per cent, as a result of fewer 16 and 17 year olds joining. This period of reduced intake to the Armed Forces of young people coincided with an increase in the proportion electing to remain in full-time education. In 2009 the proportion of 16 year olds in full-time education rose to 85 per cent from 83 per cent in 2008. There were also increases in the proportion of 17 and 18 year olds – 74 per cent of 17 year olds and 46 per cent of 18 year olds were in full-time education, compared with 69 per cent and 44 per cent in 2008 respectively. Whilst this may not be of immediate concern given the current healthy recruitment picture, increasing employment opportunities elsewhere for young people as the economy recovers could make recruitment more difficult.

Chart A5.2: Recruitment of 16-20 year olds as a proportion of the total recruits to the Regular Forces



- 7 People from ethnic minority backgrounds are a growing proportion of this key recruitment pool. However, recruiting young people from UK ethnic minorities continues to prove difficult and is an area of concern for all three Services. According to the Army the reasons are varied and include cultural barriers, concerns about practicing faith and attitudes to operations in Iraq and Afghanistan. Existing overall recruitment levels of 2 per cent from UK ethnic minorities are significantly below the MOD target of 8 per cent² by 2013. In 2009-10 the Naval Service achieved 2.2 per cent (2.1 per cent in 2008-09) against a target of 3.5 per cent, the Army continued its recent trend of declining UK ethnic minority recruitment and achieved 2.5 per cent (3.1 per cent in 2008-09) against a 4.3 per cent target and the RAF recruited 2.4 per cent (2.4 per cent in 2008-09) against a target of 3.6 per cent. MOD acknowledges that more needs to be done to attain a balance that results in the Armed Forces better reflecting the ethnic make-up of the UK population. It has put in place strategies, including targeted marketing

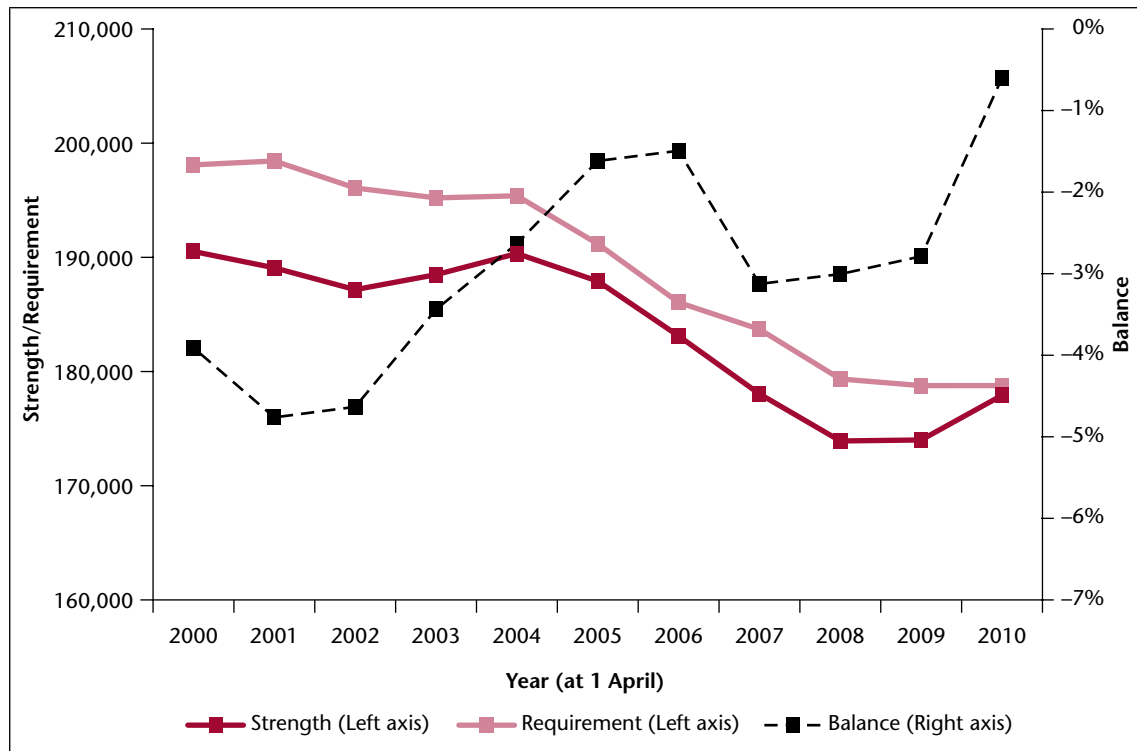
² 7.9 per cent of the UK population is from a minority ethnic group (Source: ONS, 2001 Census).

campaigns and more Community Liaison Officers, in an effort to foster better engagement with ethnic minority communities.

Armed Forces' manning

8 A consistent theme of recent years has been the continued manning deficit, with requirement exceeding trained strength anywhere between 1 per cent and 5 per cent. However, figures at April 2010 (Chart A5.3) showed a significant reduction of the deficit to 0.5 per cent from 2.8 per cent a year earlier. The Army was at full strength³ and both the Royal Navy and the RAF were in manning balance. While undoubtedly helped by the economic downturn both in terms of recruitment and retention, this has also been achieved at a time when the Armed Forces remain stretched, with operational commitments continuing to exceed planning assumptions.

Chart A5.3: Full-time trained strength and requirement 2000-2010



9 Despite the improved manning figures, shortages remain in some key trades. MOD had real concerns that any economic recovery will lead to a reduction in recruits and increased outflow, especially for those groups with transferable skills, to the civilian market place.

10 Table A5.1 illustrates the manning position at 1 April 2010. It shows that:

- the full-time trained strength (including Full Time Reserve Service (FTRS) and Gurkhas) of the Armed Forces was 177,840 against a requirement of 178,750 – a deficit of 910 personnel or 0.5 per cent, reduced from 2.8 per cent a year earlier;
- the Royal Navy faced an overall deficit of 0.8 per cent, although Officers were at full strength;
- the Army trained strength of 102,200 matched total requirement;

³ The point at which Trained Strength equals Requirement. However, this does not mean that every trade is at full strength.

- the RAF were 660 personnel below requirement, a deficit of 1.6 per cent;
- by 1 October 2010 the deficit had narrowed further to 0.3 per cent, with a full-time trained strength of 178,470 against a requirement of 179,000.

Table A5.1: UK Armed Forces full-time trained strengths and requirements, 1 April 2010

Service	Rank	Trained requirement	Full-time trained strength	Surplus/Deficit	Surplus/Deficit as a % of requirement
RN (inc RM)	Officers	6,630	6,640	+10	+0.2%
	Other Ranks	29,160	28,860	-310	-1.1%
	Total	35,790	35,500	-290	-0.8%
Army	Officers	13,680	14,240	+560	+4.1%
	Other Ranks	88,480	87,960	-520	-0.6%
	Total	102,160	102,200	+40	+0.0%
RAF	Officers	8,610	8,580	-30	-0.3%
	Other Ranks	32,190	31,560	-630	-2.0%
	Total	40,800	40,140	-660	-1.6%
Total		178,750	177,840	-910	-0.5%

Key points from single Service manning evidence:

- The Naval Service at 1 April 2010 had, as predicted, achieved manning balance. Despite improvements in strength, gaps continued to exist in key cadres including Submariners, the Fleet Air Arm, RM Other Ranks and Principal Warfare Officers;
- The Army stood at full strength for the first time in over 20 years yet was still some way off achieving full manning. A surplus of Officers (4.1 per cent) continued, while the deficit of Other Ranks has reduced from 3.8 per cent to 0.6 per cent; and
- The RAF deficit reduced from 4.0 per cent to 1.6 per cent at 1 April 2010, with manning balance expected to be maintained over the next two years. There were general concerns over retention once recruitment picks up in the wider economy, especially within the civil aviation industry.

Chart A5.4: Full-time trained strength (surplus/deficit) – Other Ranks

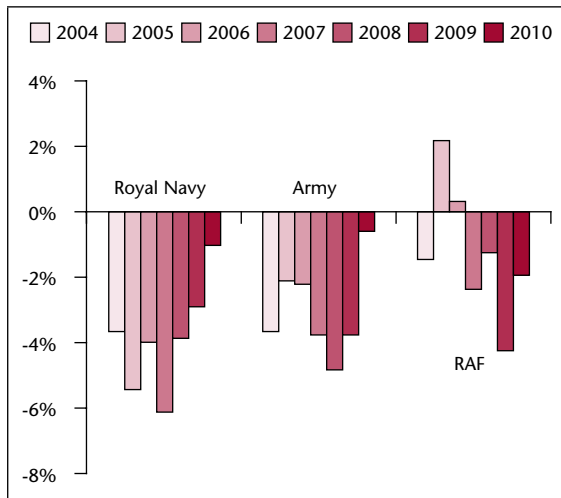
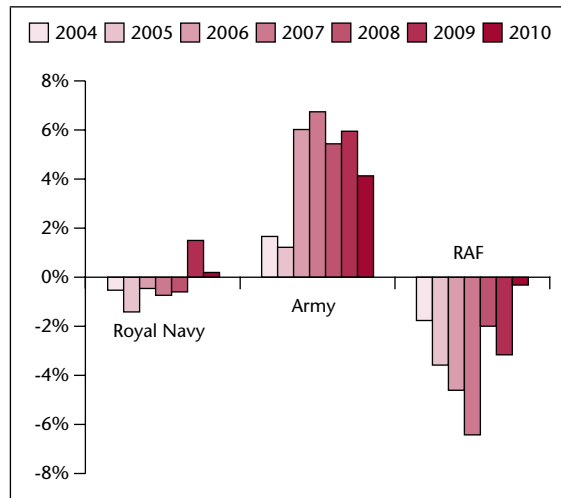


Chart A5.5: Full-time trained strength (surplus/deficit) – Officers



11 Gains to Trained Strength (GTS) represent the number of new recruits having completed training and moving from the untrained to the trained strength, as well as direct entrants (including trained re-entrants, transfers from other Services and countries, professionally qualified Officers and FTRS). Levels of GTS are directly related to previous intake patterns, as personnel recruited some time ago become trained⁴. Between 2008-09 and 2009-10 there was an 8.1 per cent increase in the overall GTS from 16,260 to 17,580. Other Ranks had an increase of 9.9 per cent during this period while GTS for Officers fell by 4.8 per cent. In the 6 months to 30 September 2010, GTS were 8,040.

Chart A5.6: Gains to Trained Strength – Other Ranks

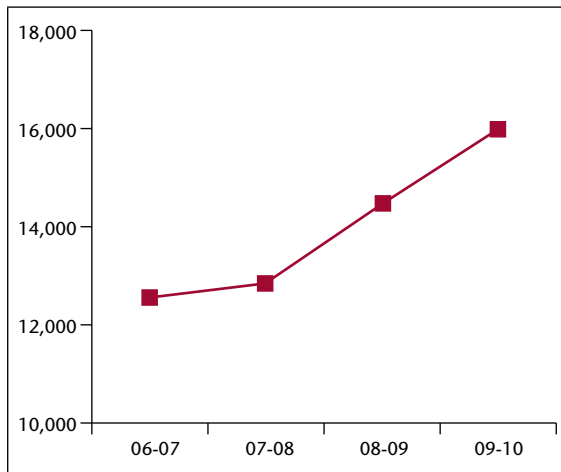
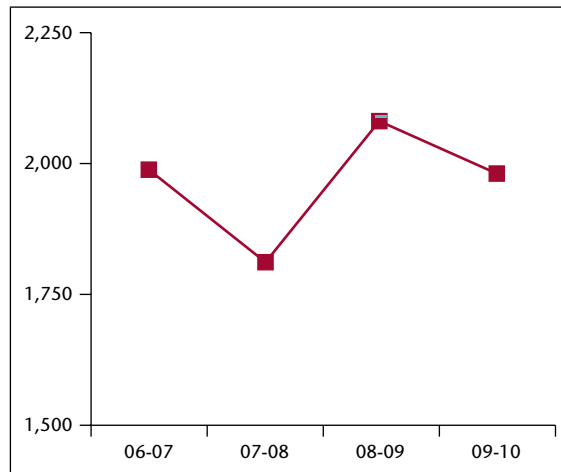


Chart A5.7: Gains to Trained Strength – Officers



⁴ Time spent on training can vary from around 9 months for some Other Ranks to up to 7 years for some specialist Officers.

Key points from single Service recruitment evidence:

- The RN met its target for Other Ranks but fell short for some Officer cadres. This was explained by a failure to meet recruiting targets and a higher than expected rate of wastage during training;
- Army GTS for soldiers were up in 2009-10 compared with previous years. This was a result: of a higher uptake of available training places; a training surge; and a drop in wastage rates during initial training from 33 per cent to 29 per cent as recruits are now loaded according to a graded selection score. There are concerns about the recruitment and training pipeline for Army Officers where, despite a favourable recruiting climate, selection board pass rates are falling resulting in commissioning targets not being met; and
- RAF GTS figures represented 94 per cent of its target.

- 12 As the manning position has improved, the main effort for the Services has been to attempt to correct the imbalances in structures and pinch point trades. The high operational tempo continues to make the management of Operational Pinch Points (OPPs) a manning priority. At September 2010 some 44,000 personnel from 50 different trades were in OPP trades across the Services – one quarter of the total requirement of the UK Armed Forces. However, these figures include several large cadres such as Infantry soldiers (Private to Corporal – around 18,000 personnel), Royal Marine Other Ranks (around 6,000 personnel) and RAF Pilots (Junior Officer and Squadron Leader – 2,000 personnel). There were a further 22,000 personnel in Manning Pinch Point (MPP) trades. In total this means some 40 per cent of the trained strength of the Armed Forces is either an OPP or MPP. OPPs by their very nature are fluid and as one trade is removed another emerges. MOD uses incentives, predominantly financial, to encourage people to join pinch point trades and motivate trained personnel to remain in the Armed Forces. This year's proposal for a Financial Retention Incentive (FRI) to address manning issues for Marine Engineer Submariners is considered in Chapter 3.

Retention

- 13 The number of trained personnel leaving UK regular forces fell for the third year running in 2009-10 to 12,280, an overall reduction of 24 per cent (for both Officers and Other Ranks) from 2008-09 which in turn was 11 per cent lower than the previous year. There were decreases across each of the Services for both Officers and Other Ranks. Outflow rates reduced sharply to 5.6 per cent for Officers (down from 7.4 per cent in 2008-09) and 7.5 per cent for Other Ranks (from 10.0 per cent in 2008-09).

Table A5.2: Outflow from UK Trained Regular Forces

		Overall	Officers	Other Ranks
2009-10		12,280	1,620	10,660
2008-09		16,070	2,120	13,950
Change %		-23.6	-23.6	-23.6
		Outflow rates %		
RN	2009-10		5.5	7.4
	2008-09		6.4	10.2
Army	2009-10		6.1	8.2
	2008-09		8.1	10.2
RAF	2009-10		5.0	6.0
	2008-09		7.0	9.3

14 Tri-Service breakdowns of personnel leaving the Armed Forces by Voluntary Outflow (VO) in Table A5.3 show a significant reduction in the exit rates from 2008-09 to 2009-10. Figures for both Officers and Other Ranks across each of the Services fell by at least one percentage point. However, MOD expects a surge of VO (as much as one per cent above the historic norm) in the initial years of economic recovery as post-SDSR force structures are implemented.

Table A5.3: Voluntary Outflow rates (%)

		12 months to Sep 2010	2009-10	2008-09
Officers				
All Services		2.6	2.9	4.4
RN		2.5	3.4	4.0
Army		3.2	3.2	5.5
RAF		1.8	1.9	2.9
Other Ranks				
All Services		3.8	4.0	5.5
RN		3.5	4.2	6.0
Army		4.4	4.3	5.4
RAF		2.5	2.9	5.5

Motivation and Morale

15 The major source of information on Service morale and factors impacting on retention is the Armed Forces Continuous Attitude Survey (AFCAS). The latest available information is from 2009, the third tri-Service survey. Results from the 2009 AFCAS were generally more positive across a range of questions compared to the 2008 survey. We are, however, conscious of the major changes announced since this survey, including the pay freeze for those earning more than £21,000, the reductions implied by the Spending Review and SDSR and the cuts to the allowances package. These will undoubtedly affect morale as mentioned in Chapter 1. Some of the findings which in the 2009 survey related more specifically to morale and motivation are highlighted below:

- There were significant increases in the percentage of Service personnel who said they:
 - were satisfied with both basic pay (including X-Factor) and allowances – especially Army and RAF personnel;
 - were satisfied with Service life in general;
 - rated their morale as high;
 - were reluctant to leave the Service; and
 - would recommend joining the Service to others.
- There was a decrease in the percentage of personnel who felt that opportunities and better pay outside the Service increased their intentions to leave.
- A majority of personnel:
 - were satisfied with their overall leave entitlement and the amount of leave they were able to take, although a majority was dissatisfied with the opportunity to take leave when they wanted to;
 - were dissatisfied with the effect of Service life on their spouse's or partner's career and their children's education;
 - were satisfied with the standard of their Service accommodation and that it offers value for money. However, a majority continue to be dissatisfied with efforts made to improve/maintain their accommodation; and
 - felt that the frequency and length of operational tours were about right and were satisfied with the amount of time spent away from home in the previous 12 months.

16 The main retention-positive factors for both Officers and Other Ranks were the pension, excitement of the job, healthcare provision, career and personal development opportunities, all of which showed increased levels of satisfaction compared with the 2008 survey. Job satisfaction and Continuity of Education Allowance were more retention positive factors for Officers while FRIs remain more important for Other Ranks. Retention-negative aspects for both Officers and Other Ranks were the impact of Service life on family and personal life, the effect of operational commitments and stretch, spouse/partner's career and Service accommodation. For Officers, opportunities outside the Service were important, while how they were managed was more important for Other Ranks.

Appendix 6

Our remit letter from 2010:



SECRETARY OF STATE

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

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

MSU 4/4/2/1

30 July 2010

Dear Professor Smith,

In his letter to you dated 26 July, Danny Alexander reaffirmed the Government's commitment to the review body process and outlined how the Government proposes working with the Review Bodies in relation to 2011/12. I am now writing with more detail about the remit for 2011/12 and my initial thoughts on the approach to 2012/13.

Clearly there is a need for us to submit evidence to you to enable the Review Body to make recommendations for Service personnel earning less than £21,000 as well as extant requirements to make recommendations on food and accommodation charges and some allowances. We will also provide information to you about recruitment, retention and other non-pay related issues.

Danny's letter made it clear that the Government may ask the Review Bodies to consider specific issues, other than a general pay uplift, that lie within their Terms of Reference. For Defence, it will be important during the period of the freeze that we retain sufficient flexibility to be able to address important operational or critical recruitment and retention issues.

Therefore in addition to submitting annual papers of evidence such as the Strategic Management paper, my officials are also producing a number of others which are due either as part of the periodic review or which focus on targeted financial measures for critical groups. However, there are other issues on which evidence was due to be presented but which do not serve the imperatives outlined above. It is now considered inappropriate for these to go forward during the period of the pay freeze, hence they have been removed from the previously agreed programme.

A current list of the papers which are being developed is attached (also highlighting those that have been discontinued) and my officials will keep in close touch with staff at the Office of Manpower Economics to discuss and agree any further changes. It is still my intention to submit evidence relating to Service Medical and Dental Officers despite both cadres being subject to the public sector pay freeze. I would not however, anticipate any specific

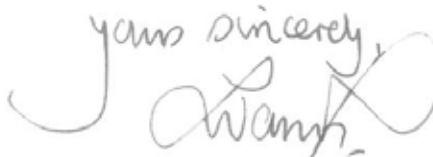
recommendations on either cadre other than for the lowest earning cadets which should be included within the main pay round.

Whilst I envisage similar arrangements applying in 2012/13, I propose that the planned programme is reviewed to ensure that the focus is on areas of significant operational and recruitment and retention pressures. Other issues related to non-pay benefits, pensions and certain allowances may also be considered. It is accepted too that in order to continue to meet your remit, a full complement of members is required. I understand that three Body members are due to retire at the end of this pay round and I endorse the recruitment of three new members to bring the Body back to full complement for the 2011/12 round.

I would like to close by reaffirming that the AFPRB remains a highly valued body by the most senior leadership within Defence and is seen to provide sound independent advice and act as a voice for Service personnel who do not have the same recourse to collective bargaining arrangements available to other public sector workforces.

I look forward to discussing the evidence for the 2011 pay round at the Oral Evidence session planned for 10 November.

I am copying this letter to Danny Alexander, Ian Jones (Office of Manpower Economics), and to Jeremy Pocklington (Cabinet Office).

Yours sincerely,

The Rt Hon Dr Liam Fox MP

Appendix 7

Guidance on the Definition of those earning £21,000 or less from HM Treasury.

Definition of employees earning £21,000 or less

- This should be determined on the basis of basic salary of a full-time equivalent employee, pro-rated on the basis of the hours worked, using the standard number of hours per week for that organisation.
- Part-time workers with an FTE salary of less than £21,000 should receive a pro-rata increase on the basis of the number of hours worked.
- The £21,000 is based on the normal interpretation of basic salary and does not include overtime or any regular payments such as London weighting, recruitment or retention premia or other allowances.

Size of increase

It is for the Review Bodies to recommend on the size of the uplift of at least £250. When considering their recommendations, Review Bodies may want to consider:

- the level of progression pay provided to the workforce;
- affordability;
- the potential for payments to be more generous for those on the lowest earnings; and
- how best to avoid 'leapfrogging' of those earning just under £21,000 with those earning just over £21,000, potentially through the use of a taper.

Appendix 8

AFPRB 2010 visits

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

ESTABLISHMENT/LOCATION	SERVICE	MEMBERS
Lossiemouth, Kinloss, Moray	Royal Air Force	Alasdair Smith Graham Forbes
256 Field Hosp (Volunteers), London	Army	Judy McKnight Mary Carter
HMS ALBION	Royal Navy	Ian Stewart John Steele
Defence Intelligence & Security Centre, Chicksands	Army	Alasdair Smith Derek Leslie
Special Forces and associated niche trades	Joint	Alasdair Smith Alison Gallico Derek Leslie
MOD Hospital Unit (Frimley Park), Army Primary Health Care Service, Camberley	DMS (Army lead)	Alasdair Smith Mary Carter
Submarine, Plymouth	DMS (Army lead)	Alasdair Smith Mary Carter
Submarine, Plymouth	Royal Navy	John Steele Ian Stewart
RAF Benson, Wallingford	Royal Navy	Alison Gallico John Steele
RAF Benson, Wallingford	Royal Air Force	Alison Gallico John Steele
RMR Bristol & RNAS Yeovilton, Bristol & Yeovil	Royal Air Force	Alison Gallico John Steele
RMR Bristol & RNAS Yeovilton, Bristol & Yeovil	Royal Navy	Mary Carter Graham Forbes
Fleet, PJHQ, DE&S, NATO, Wildfire, Northwood	Joint (Royal Navy lead)	Judy McKnight Graham Forbes
HM Naval Base Clyde, RMR Glasgow, HMS Scotia (Faslane, Glasgow, Rosyth)	Royal Navy	Alasdair Smith Derek Leslie
7 RIFLES (Volunteers), Milton Keynes	Army	Alison Gallico
Army Personnel Centre, Glasgow	Army	John Steele Graham Forbes
2 SCOTS, Edinburgh	Army	John Steele Graham Forbes
RAF Shawbury, Shrewsbury	Royal Air Force	John Steele Ian Stewart
RAF Brampton, Wyton, Henlow, JARIC Huntingdon	Royal Air Force	Alison Gallico Mary Carter
38 Brigade, Northern Ireland	Army	Ian Stewart Graham Forbes

RAF Leeming, Northallerton	Royal Air Force	Derek Leslie Judy McKnight
Mountain Leaders, Switzerland	Royal Navy	Ian Stewart Derek Leslie
Op HERRICK, Afghanistan	Army	Alasdair Smith Mary Carter
HMS DARING	Royal Navy	Judy McKnight Alison Gallico
HMS COLLINGWOOD, Gosport	Royal Navy	Judy McKnight Alison Gallico
1 (UK) Division, Germany	Army	Judy McKnight Graham Forbes
Armed Forces Recruiting Briefing Day, London	Joint (Army lead)	Mary Carter John Steele
Service Personnel and Veterans Agency	Joint	Alasdair Smith Derek Leslie Ian Stewart John Steele Alison Gallico Judy McKnight
Royal Centre for Defence Medicine, Birmingham; and Defence Medical Rehabilitation Centre, Headley Court	DMS (Army lead)	Alasdair Smith Mary Carter

Appendix 9

AFPRB'S five-year work programme schedule

Bold items for review for the AFPRB Report to be published in 2012.

SUBJECT	2011-12	2012-13	2013-14	2014-15	2015-16
Allied Health Professions					5
Chaplains		5			
Commitment Bonuses	3			3	
Diving Pay (pay spines and Specialist Pay)			5		
Experimental Diving Tests			5		
Experimental Test Allowance				5	
Explosive Ordnance Disposal Operators' Pay		5			
Flying Pay				5	
Food charges (inc. PAYD)	5				
Hydrographic Pay			5		
Longer Separation Allowance			5		
Military Provost Guard Service	3			3	
Minor forms of Aircrew Pay				5	
New Entrants	5				
NI Resident's Supplement		2		2	
Non-pay benefits	5				
Nuclear Propulsion Pay		5			
Officers Commissioned from the Ranks		5			
Parachute Jump Instructors' Pay				5	
Parachute Pay (inc. High Altitude Parachute Pay and SPAG)				5	
Pension valuation	5				
Reserves' Bounties		3			3
Recruitment and Retention Allowance (London)	5				
Service Nurses (pay spines and Specialist Pay)			5		
Sub Escape Tank Training Pay				5	
Submarine Pay		5			
Unpleasant Living Allowance			5		
Unpleasant Work Allowance		5			
Veterinary Officers			5		
X-Factor		5			

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



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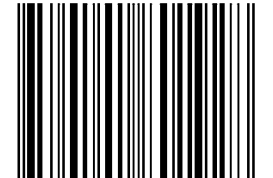
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