

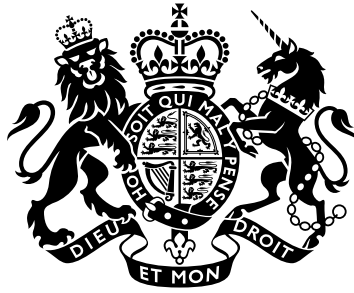


Armed Forces'
Pay Review Body

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Forty-Sixth Report 2017

Chair: John Steele



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

March 2017



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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 John Steele is also a member of the Review Body on Senior Salaries.

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GLOSSARY OF TERMS

AAC	Army Air Corps
AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
AFPS	Armed Forces' Pension Scheme
AHL	Annington Homes Ltd
ASHE	Annual Survey of Hours and Earnings
BIS	Department for Business, Innovation and Skills
BAME	Black, Asian and Minority Ethnic
CA	CarillionAmey
CAAS	Combined Accommodation Assessment System
CCB	Career Continuous Basis
CILCOT	Contribution in Lieu of Council Tax
CISSM	Communications Information Systems (Submariner)
CMD	Countermeasures and Diving
CPI	Consumer Prices Index
CPIH	Consumer Prices Index including Owner Occupiers' Housing Costs
CTB	Continuous Task Basis
CST	Chief Secretary to the Treasury
DDIP	Defence Diversity and Inclusivity Programme
DERR	Defence Engineer Remuneration Review
DFC	Daily Food Charge
DIO	Defence Infrastructure Organisation
EGS	Engineering General Service
EOD	Explosive Ordnance Disposal
4TG	Four-Tier Grading
FAM	Future Accommodation Model
FAMCAS	Armed Forces Families Continuous Attitude Survey
FES	Flexible Engagement System
FOI	Freedom of Information
FRI	Financial Retention Incentive
FR20	Future Reserves 2020
FTRS	Full Time Reserve Service
GDP	Gross Domestic Product
GTS	Gains to Trained Strength

HMRC	Her Majesty's Revenue and Customs
HR	Human Resources
IES	Institute for Employment Studies
IHG_s	Individual Harmony Guidelines
ILA	Individual Leave Allowance
ISTAR	Intelligence, Surveillance, Target Acquisition and Reconnaissance
JPA	Joint Personnel Administration
JSJET	Joint Services Job Evaluation Team
JSP	Joint Service Publication
KPI_s	Key Performance Indicators
LSA	Longer Separation Allowance
MCMV_s	Mine Counter Measures Vessels
MESM	Marine Engineering Submariner
MET	Meteorology
ML	Mountain Leader
ML1	Mountain Leader 1 st Class
ML2	Mountain Leader 2 nd Class
ML3	Mountain Leader 3 rd Class
MLO	Mountain Leader Officer
MOD	Ministry of Defence
MPGS	Military Provost Guard Service
NATO	North Atlantic Treaty Organisation
NCB	Non-Continuous Basis
NCO	Non-Commissioned Officer
NEM	New Employment Model
NERP	New Entrants' Rates of Pay
NHP	National Housing Prime
NI	Northern Ireland
NIRS	Northern Ireland Residents' Supplement
NLW	National Living Wage
NMW	National Minimum Wage
OBR	The Office for Budget Responsibility
OCU	Operational Conversion Unit
OF	Officer
OME	Office of Manpower Economics
OPP	Operational Pinch Point

PAC	Public Accounts Committee
PAYD	Pay As You Dine
PBF	Professional Body Fees
PJI	Parachute Jumping Instructor
PPOs	Principal Personnel Officers
PQOs	Professionally Qualified Officers
PSA	Public Service Agreement
PVR	Premature Voluntary Release
PwC	PricewaterhouseCoopers
RAF	Royal Air Force
RE	Royal Engineers
ResCAS	Armed Forces Reserves Continuous Attitude Survey
RLC	Royal Logistics Corp
RM	Royal Marines
RN	Royal Navy
RPAS	Remotely Piloted Aircraft Systems
RPI	Retail Prices Index
RRP	Recruitment and Retention Payment
RRP(EOD)	Recruitment and Retention Payment (Explosive Ordnance Disposal)
RRP(F)	Recruitment and Retention Payment (Flying)
RRP(ML)	Recruitment and Retention Payment (Mountain Leader)
RRP(PJI)	Recruitment and Retention Payment (Parachute Jumping Instructor)
RRP(SC)	Recruitment and Retention Payment (Special Communications)
RRP(SF)	Recruitment and Retention Payment (Special Forces)
RRP(SFC)	Recruitment and Retention Payment (Special Forces Communications)
RRP(SRR)	Recruitment and Retention Payment (Special Reconnaissance Regiment)
RRP(WESM)	Recruitment and Retention Payment (Weapons Engineering Submariner)
SCAPE	Superannuation Contributions Adjusted for Past Experience
SDSR	Strategic Defence and Security Review
SF	Special Forces
SFC	Special Forces Communications
SF(SDV)	Special Forces (Swimmer Delivery Vehicle)
SFA	Service Family Accommodation
SFF	Service Families' Federation
SI	Special Intelligence
SLA	Single Living Accommodation

SLA (MIS)	Single Living Accommodation (Management Information System)
SLAM	Single Living Accommodation Modernisation
SM	Submarine
SNCO	Senior Non-Commissioned Officer
SP	Service Personnel
SR	Special Reconnaissance
SSFA	Substitute Service Family Accommodation
STEM	Science, Technology, Engineering and Mathematics
SWS	Strategic Weapons System
TB	Training Bounty
TSP	Trade Supplement Placement
TWS	Tactical Weapons System
ULA	Unpleasant Living Allowance
UN	United Nations
VAT	Value Added Tax
VO	Voluntary Outflow
WESM	Weapons Engineering Submariner
WMS	Written Ministerial Statement
WO	Warrant Officer

ARMED FORCES' PAY REVIEW BODY

2017 REPORT – SUMMARY

Summary of recommendations (from 1 April 2017 unless otherwise stated):

- Rates of base pay to be increased by one per cent.
- MOD to provide us with specific proposals for engineers for the next pay round.
- Targeted measures (full details in Chapter 3):
 - Recruitment and Retention Payment (RRP) (Flying): A new spine and Retention Payment to be introduced for Officer Aircrew and Army Non-Commissioned Officers, with a one per cent increase for other groups.
 - RRP (Parachute Jumping Instructor) to remain at current rates.
 - RRP (Mountain Leader) to remain at current rates but payment of RRP (Mountain Leader)(Initial) no longer to be backdated to the beginning of the ML2 course.
 - The introduction of a new RRP (Weapons Engineering Submariner) (WESM) to be implemented for ratings in the Royal Navy's WESM branch (Strategic Weapons Systems and Tactical Weapons Systems).
 - Other RRP rates to be increased by one per cent.
 - MOD to provide detailed consideration for the next round of how they will review RRP rates to ensure they remain appropriate in relation to Pay16, and to adopt a consistent approach to the routine review of RRP rates in future with a greater focus on measures of success.
 - Full reviews of RRP (Flying Crew), RRP (Hydrographic), RRP (Parachute), RRP (Special Communications), RRP (Special Intelligence) and RRP (Special Reconnaissance Regiment) to be conducted next year.
- The Northern Ireland Residents' Supplement to be increased by one per cent.
- Pay arrangements for pre-career (OF0) feeder groups (University Cadets, Army Gap Year Commissions and University Cadet Entrants) to be harmonised as part of housekeeping resulting from the transition to Pay16 with the creation of a new OF0 pay scale.
- All other rates of compensatory allowances and Reserves' Bounties to be increased by one per cent.
- For Service Family Accommodation (SFA), Combined Accommodation Assessment System Band A charges to be increased by 1.0 per cent. This recommendation will affect the charges for all lower bands, as they are in descending steps of ten per cent of the Band A rate.
- Legacy Four-Tier Grading SFA charges in Germany to be increased by 1.0 per cent.
- For Single Living Accommodation, charges for grade 1 to be increased by 1.00 per cent, with increases of 0.67 per cent to grade 2, 0.33 per cent for grade 3 and zero to grade 4.
- The Daily Food Charge to remain at its current rate of £4.79.

This Report sets out our recommendations on military pay, allowances and charges from April 2017. As usual, we considered a wide range of evidence from: the Ministry of Defence (MOD), including the Secretary of State and the individual Services; the Service Families' Federations

(SFFs); the Defence Infrastructure Organisation (DIO); and our analysis of pay comparability. We also heard directly from Service personnel and their families on 15 visits in the UK and overseas.

Context

The overall Armed Forces' staffing picture shows a deficit of full-time military trained strength of 4.4 per cent. In general the recruitment picture is satisfactory, but targets have been increased and remain stretching. Voluntary outflow rates remain at historically high levels with particular areas of concern in specific cadres like engineering and aviation. The Strategic Defence and Security Review in November 2015 announced an increasing budget for defence equipment which will clearly need qualified Service personnel, probably in greater numbers than currently endorsed, to deliver the anticipated capability.

The economic context is that the UK economy continued to grow in 2016, by 2.0 per cent over the previous year. Inflation remained low, but increased from 0.3 per cent to 1.6 per cent during the year, mainly influenced by increasing fuel prices. Employment reached its highest ever level in 2016 and unemployment fell to a 20-year low. Average earnings growth was broadly stable at 2 to 2.5 per cent in 2016, with a pick-up to 2.8 per cent at the end of the year, and median private sector pay settlements were at 2.0 per cent, with forecasts for 2017 at about the same level. We note, however, the uncertainty of forecasts following the EU referendum.

The Government continued with its policy of public sector pay restraint announced in the 2015 Budget. The letter we received from the Chief Secretary to the Treasury reaffirmed that public sector workforces were funded for pay awards of an average of one per cent and sought consideration of targeted, differentiated pay awards. The letter from the Secretary of State for Defence reinforced the Government's position and highlighted concerns in the aviation and engineering cadres. In its strategic management evidence to us, MOD proposed an increase of one per cent to basic pay across all ranks, with most targeted measures and compensatory allowances raised in line with the main award. Commenting further on targeting, it said that Pay16 had increased pay differentiation by design. It argued that a uniform percentage pay award would therefore reinforce that design aim and that further differentiation would be a risk to retention amongst the workforce. MOD added that within a constrained pay environment, targeted measures such as Recruitment and Retention Payments (RRPs) and Financial Retention Incentives (FRIs) would still be required to counter external labour market pressures affecting particular groups.

On the strategic context, MOD said that it continued to restructure, whilst maintaining a high level of operational commitment across all three Services. As in previous years, overstretch and gapping were problems in some areas. Tempo and uncertainty and the consequent impact on work-life balance and family life were among the most prominent issues of dissatisfaction raised by Service personnel on our visits.

During our visit programme we continued to hear feedback that Service personnel believe the value of the overall 'offer' continues to decline. Many noted the 'perfect storm' of increasing National Insurance, changes in tax credits and, for those in Service Family Accommodation (SFA), increases in rental charges under the new Combined Accommodation Assessment System, all with effect from 1 April 2016.

Of particular concern is the way the military families are supported. Due to the nature of Service life, it can be difficult for spouses and partners to continue their careers or secure employment, and this often has a negative impact on family incomes. The results of the 2016 Armed Forces Continuous Attitude Survey showed a significant worsening of attitudes to accommodation in particular, a critical part of the overall package for Service personnel and their families. We are concerned about this, because there is a strong link between disruptions to family life (of which accommodation is a vital element) and Service personnel's decisions to leave. Voluntary outflow rates are already high, particularly for personnel with transferable skills.

This year, we reviewed our methods of assessing pay comparability and commissioned the Institute for Employment Studies to research possible different approaches. Based on that work, we have concluded that the best way forward for future years is a three pronged approach: a 'light touch' annual update on broad comparators with the civilian market; a comparison based on job evaluation every few years to address roles in the Armed Forces with no obvious civilian comparators; and specific comparisons for roles where there are more obvious civilian comparators (such as jobs to which Service personnel apply when leaving the Armed Forces). For this year, our analysis of pay comparison based on data from the Annual Survey of Hours and Earnings suggested that, overall, Armed Forces' salaries for 2016 remain broadly comparable with those in civilian life.

Recommendations

In line with our terms of reference, we make recommendations based on all the evidence we receive, including what is presented formally, what we hear from Service personnel on visits, and the data on pay comparability discussed above. We gave appropriate weight to the Government's evidence on the economy, affordability and public sector pay policy, and considered the cost of living and pay settlements more generally, taking into account that Service personnel retain incremental pay scales and a non-contributory pension scheme. We also looked at recruitment, retention and motivation in the Armed Forces overall. We continue to have significant concerns, especially in respect of retention and motivation, but on balance, we conclude that the evidence justifies a **one per cent across the board increase in base pay for 2017-18**.

Separate from base pay, we also consider targeted measures that continue to play an important role in supporting recruitment and retention in areas where there are existing staffing pressures. Our process for reviewing RRP allows cadres to be examined when needed rather than on a fixed timetable, and we expect MOD to continue to be proactive in this area. MOD's evidence to us proposed an increase for most categories of RRP up to the level of the pay award. We support this and **recommend an increase of one per cent in RRP for most cadres with the rates of RRP (Mountain Leader) and RRP (Parachute Jumping Instructor) held at existing levels**. We also **recommend that RRP (Flying) be reprofiled for pilots to target current exit spikes**. We considered the case for **a new RRP (Weapons Engineering Submariner) and recommend its introduction for Service personnel within Strategic Weapons Systems and Tactical Weapons Systems**. Further details of these measures are discussed in Chapter 3. We also **recommend MOD to provide detailed consideration next year of how they will review RRP to ensure they remain appropriate in relation to Pay16, and to adopt a consistent approach to the routine review of RRP in future with a greater focus on measures of success**.

We carried out a review of New Entrants' Rates of Pay (NERP). We noted that the existing NERP arrangements continue to be sufficient to support Armed Forces' recruitment, and **recommended that pay arrangements for NERP be harmonised as part of the transition to Pay16, with the creation of a new OF0 pay scale for feeder groups (University Cadets, Army Gap Year Commissions and University Cadet Entrants)**.

We also reviewed the Northern Ireland Residents' Supplement, and **recommend that it be increased in line with our main pay award**.

Our review of non-pay benefits concluded that we should give this issue further consideration as part of our analysis of X-Factor, which we are due to undertake in our next round.

We **recommend an increase of one per cent in the rates of compensatory allowances not reviewed separately**.

As usual, our Report contains details of financial measures we considered outside the main pay round. These included: an FRI for Royal Navy Technicians in the Engineering General Service sub-branch; follow-on FRIs for Petty Officer Engineering Technicians and Chief Petty Officer Engineering Technicians; and a proposal to broaden eligibility of the Army Reserves Commitment Bonus to Professional Qualified Officer posts within the Army Medical Services and Royal Army Chaplains' Department of the Army Reserves.

The pay award last year was made alongside the introduction of Pay16. Understandably we heard a lot about the new pay system on our visits, with the main concerns being around the placement of cadres within the four trade supplements. Given the scale and complexity of the exercise, we consider that MOD has done a good job in creating and introducing a fair pay system that strikes a balance between flexibility for the employer and predictability of career earnings for Service personnel, although we would want MOD to continue to consider expeditiously any anomalies identified. It is crucial in our view that senior management take ownership of Pay16 decisions and provide an effective communication mechanism that engages and utilises the full command chain to comprehensively brief Service personnel proactively and consistently. We support ongoing pay protection policy for Service personnel who have transitioned to Pay16.

We also support reimbursement of professional body fees (PBFs) for Service personnel where holding those PBFs are an essential requirement for carrying out Service duties. We strongly believe that MOD should implement a mechanism to enable the reimbursement of PBFs for all cohorts where membership of a professional body is essential given the nature of their role.

Accommodation is a key component of the overall military package and remains one of the most important issues for Service personnel and their families. We always try to see first-hand the full range of accommodation when on visits, and hear directly from Service personnel and families. We received written and oral evidence from the SFFs, MOD, individual Services and DIO. A new accommodation grading system known as Combined Accommodation Assessment System (CAAS) was implemented for SFA in April 2016, and as a consequence, another of the main issues we heard about during our visit programme was the transition to CAAS.

There were a range of concerns about the surveying process used to determine the banding and charging of SFA under the new arrangements. However, the overwhelming concern for Service personnel and their families remained the very poor operation of the maintenance service for SFA by CarillionAmey. In response to this, MOD told us they plan to implement a new compensation scheme, the detail of which is still being worked up. We reserve judgement on such a scheme, but note that MOD should also ensure that existing compensation mechanisms are more accessible and responsive for Service personnel to use. We would like to see an independent arbitration process for compensation decisions (which might also consider appeals against CAAS banding decisions), to reinforce and improve the confidence that we and Service personnel need to have in the process.

We believe that maintaining the level of subsidy between rents for military personnel and those in the civilian sector is important, and are therefore content to recommend an inflation-based increase to SFA charges this year. We have traditionally used the rental component of the Retail Prices Index (RPI) as our measure of changes in the civilian rental market. However, now that the RPI has lost its 'National Statistic' status, we consider a more appropriate index to be the equivalent component used in both the Consumer Prices Index (CPI) and the Consumer Prices Index including Owner Occupiers' Housing Costs (CPIH). In line with the annual increase in this measure to November 2016, we therefore **recommend an increase to Band A charges of 1.0 per cent with effect from 1 April 2017**. This recommendation will affect the rents of lower SFA bands, as they are in descending steps of ten per cent of the Band A rate.

Our report sets out our concerns with the ongoing use of some very poor pockets of Single Living Accommodation (SLA) which we consider unacceptable. In view of the continued absence of meaningful management data on quality and usage of SLA which we have

called for repeatedly, we have no evidential basis for an alternative approach to our SLA recommendations at this time, and we consider it appropriate to retain our existing, tiered approach. As with SFA, we are linking our recommendation to the rental component of CPI/ CPIH. We therefore **recommend an increase of 1.00 per cent to grade 1 SLA rental charges, 0.67 per cent to grade 2, 0.33 per cent to grade 3 and zero to grade 4 from 1 April 2017.** Chapter 4 also includes our recommendation on the charges for garages and carports.

On the **Daily Food Charge (DFC)**, we have used the same methodology as in previous years and base any adjustments on the cost of food according to MOD's supply contract data over the previous year. As with last year, this showed no increase. We therefore **recommend that the DFC remain at £4.79 from 1 April 2017.**

Looking ahead

Over several years of public sector 'austerity', Armed Forces' recruitment and retention has in general held up well and the overall offer has remained broadly competitive. However, the most recent outlook for inflation and private sector pay suggest that external pressures are growing. If these pressures start to have a widespread effect on recruitment, retention and motivation, we will need to consider whether maintaining operational effectiveness requires a more forceful pay response.

In some areas of skill shortage, this situation has already arrived. We were disappointed not to be asked to consider proposals to address the serious issues with the recruitment and retention of specific engineering groups this year. We consider it essential that MOD present us with detailed proposals for engineers during the next pay round. We also note that, given the recruitment and retention challenges for this group, and the persistent shortage of engineering skills in the external market it seems likely, that alongside other initiatives, bespoke pay solutions may be needed for these cadres. Along with any non-pay proposals, we believe that MOD should give consideration to a separate pay scale for the engineering groups identified, and that their pay arrangements may need to be tailored to meet the individual requirements of the three Services.

In the broader context, MOD continues with its significant and wide ranging transformation programme, delivered through the various strands of the People Programme, and we received a number of helpful briefings on this from MOD in the course of the year. The scale and speed of the proposed changes continue to concern us, since they risk impacting the morale of our remit groups, potentially damaging recruitment and retention. Service personnel are very much aware of the ongoing changes in the offer, which they see as driven primarily by cost savings. There is an over-riding sense of uncertainty and an increasing perception that the offer will get worse. We suggest that MOD should consider whether additional funding should be earmarked to assist with the successful implementation of the remaining elements of the People Programme, as was done for Pay16. It is important for Service personnel to see that the willingness to invest in equipment is matched by a corresponding investment in people.

On accommodation specifically, MOD briefed us on its thinking for the **Future Accommodation Model (FAM)**. Its objective is to reform the accommodation offer to help more Service personnel live in private accommodation and meet aspirations for home ownership, whilst still providing Service accommodation for those who require it. FAM does appear to offer some genuine improvements in that it will be accessible by more of the overall Service population. But MOD will need to provide clear and open communications to Service personnel and their families on the proposed changes and it will be particularly important to be transparent about the savings FAM is intended to deliver. The Forces Help To Buy scheme, launched in April 2014 to encourage and support home ownership amongst military personnel, remains very popular. Consequently, we believe MOD should give serious consideration to extending the scheme beyond 2018 and ensuring that it is part of the overall FAM offering.

The need for clear communication is a common thread that runs through many of the issues in our report. Service personnel have continuing concerns about ongoing change and the uncertainties created. This requires communications to be owned by everyone in the chain of command and to be open, transparent, and regularly reinforced. This, of course, is a two way process, and it will be vital that MOD listens and responds appropriately to feedback from Service personnel and their families.

The uncertainties and challenges in the immediate and longer-term UK defence and security arena put continuing pressure on our Armed Forces. We shall support them in our areas of responsibility to the best of our ability. It is imperative that our Armed Forces' terms and conditions are fit for purpose and enable all three Services to continue to attract, retain and motivate the high quality people that they need to deliver their and the nation's operational commitments and requirements.

Chapter 1

INTRODUCTION

Introduction

- 1.1. This Report sets out our recommendations on military pay, allowances and charges for 2017-18. In its response to our last Report, the Government accepted all our recommendations effective from 1 April 2016, which included a one per cent increase in base pay in advance of the transition to the New Employment Model (NEM) pay structure and a one per cent increase in most types of Recruitment and Retention Payment (RRP), compensatory allowances, and Reserves' Bounties and Call-Out Gratuity.
- 1.2. In setting out the remit for this year's round (letter at Appendix 6), the Secretary of State for Defence reaffirmed that the Government's public sector pay policy remained in place "to enable prudent long term planning that assists in protecting jobs, and reflecting a very challenging fiscal context following the outcome of the EU referendum vote." He added that the Government was not complacent about the enduring commitment, professionalism and skills displayed by the remit group as it continued to develop a supporting employment offer that was simpler, efficient and more modern.
- 1.3. In addition to considering an overall pay uplift and charges, our work programme this year included reviews of: RRP (Flying); RRP (Parachute Jumping Instructor); RRP (Mountain Leader); RRP (Weapons Engineering Submariner); Northern Ireland Residents' Supplement; New Entrants' Rates of Pay; and non-pay benefits.

Context

- 1.4. 2016 saw further growth in the UK economy but the economic picture at the end of the year was uncertain following the outcome of the EU referendum: GDP grew by 0.6 per cent in the third quarter of 2016 and was expected to be close to 2 per cent in 2016 as a whole but to fall below 1.5 per cent in 2017. CPI inflation was at 1.6 per cent in December 2016, and forecast to increase to around 2.5 per cent by the end of 2017. Employment levels were at a record high, with particularly high growth in the people registering as self-employed. Average earnings growth was broadly stable at 2–2.5 per cent in 2016, with a pick-up to 2.8 per cent at the end of the year, and median private sector pay settlements were 2.0 per cent, with forecasts for 2017 at a similar level. In line with public sector pay policy, median public sector pay settlements were 1.0 per cent in 2016.
- 1.5. The Strategic Defence and Security Review that was published in November 2015 (SDSR15) updated future developments regarding Defence activity, and remains the key strategic context for the Armed Forces. The SDSR highlighted the changing and increasingly uncertain international security environment in which the UK military operates. It sets out additions to Defence funding, and provided for limited growth in the size of the Armed Forces with some additional manpower for both the Royal Navy and the Royal Air Force (RAF), and an Army that is refocused on war-fighting at the divisional level with the creation of two new strike brigades. The Services continue to restructure to meet Future Force 2020¹ and the outcomes of SDSR15, including Joint Force 2025.²
- 1.6. The UK Armed Forces continue to deliver operations around the world whilst maintaining defence of the UK and Sovereign Territories on land, in the air and at sea. Operations

¹ The Defence Planning Assumptions for the size, shape and structure of the Armed Forces in 2020. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/62487/Factsheet5-Future-Force-2020.pdf

² As announced in SDSR15, the evolution of Future Force 2020. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/492800/20150118-SDSR_Factsheets_1_to_17_ver_13.pdf

include counter-Daesh measures, stabilisation in Afghanistan, UN commitments in Africa, contributions to NATO, assistance to the migrant crisis, maintaining the nuclear Continuous At Sea Deterrent, providing support to the Border Force in the Mediterranean and UK waters, and providing manpower for the flood crisis across parts of the UK.

- 1.7. MOD continued with its programme of modernising the employment offer to the Armed Forces. As we discuss later, this year saw the introduction of significant changes to both the pay system and the charging system for Service Family Accommodation (SFA). Further work is underway to make available: opportunities to work flexibly, a revised offer for new joiners, an approach to enable easier transition of Service personnel between the Armed Forces and industry; and to further amend the accommodation strand of the overall package. The MOD is committed to deliver these changes by 2020. It sees them as a top priority, not only making significant cost savings, but importantly, ensuring that the enthusiasm and commitment of Service personnel and their families is maintained.

Our evidence base

- 1.8. We received written and oral evidence as usual from the Secretary of State for Defence and officials from MOD, the single Services, the Defence Infrastructure Organisation (DIO) and the Service Families' Federations (SFFs). We also commissioned research that reviewed pay comparability methodologies, and we carried out our usual assessment of the broad comparability of Service pay with civilian pay levels.
- 1.9. Our visits programme provides a vital opportunity for us to gather evidence for the round by hearing first-hand from Service personnel and families about Service life and current concerns and pressures related to it. It allows us to put the evidence we receive later in the year from MOD, the individual Services, DIO and the SFFs into context. We undertook 15 visits both in the UK and overseas, including Germany, Iraq, the Middle East and several locations in the United States. We met with over 2,100 Service personnel in 153 discussion groups and also with 123 spouses and partners in an additional 18 families' discussion groups. We would like to thank all of those who took part in these meetings and MOD and the three Services for organising such a varied and comprehensive programme for us again this year. Some of the detailed feedback from these visits is recorded in subsequent chapters of this report, but we outline below some of the main themes that emerged during the last year.
- 1.10. Tempo of operations, gapping and overstretch continued to be among the key concerns expressed by Service personnel. They reported significant workload pressure due to staff reductions under SDSR10, which were increasingly compounded by new operational and UK contingency requirements. Another issue raised was repeated deployments, with some commenting on what they saw as disparities among Service personnel in the frequency of being deployed, both by specialisation and due to the perceived high proportion of personnel deemed "un-deployable". There appeared to be a disconnect between the views of senior management/MOD head office and wider Service personnel on the sustainability of the current workload. Concerns were expressed over the apparent inability of MOD to say "no" to extra tasks, even when their people appeared to be at breaking point. At the junior officer level there were frequent comments that it was considered detrimental to career and promotion prospects to voice concerns about the short notice given regarding posting changes or other appointment issues made by manpower planners. Given the limited population sample we met during our visits, it is not possible to determine the full extent of these concerns but within the groups we met they were commonly expressed opinions and indicated a different position to that represented by MOD of an improving career management process being delivered under the New Employment Model.
- 1.11. Unsurprisingly, the introduction of the new pay structure, Pay16, was another major theme we heard about on visits. The allocation of trades to different supplements has

led to a strong feeling from some Service personnel about being undervalued, either compared to other trades in their Service, or in relation to equivalent trades in the other Services. For some Service personnel, their pay under Pay2000 was higher than that under Pay16, but the transitional arrangements included pay protection for at least three years at Pay2000 rates with affected Service personnel marking time (although the marked time rate remains eligible for any future awards we might recommend). Nevertheless some Service personnel now in this situation saw the arrangement as a disincentive for promotion as they would not necessarily see a commensurate increase in pay. Whilst some of these outcomes were addressing pay anomalies in the previous pay system (Pay2000), it was not clear to us that the professional leadership for trades was communicating effectively and taking ownership of key decisions affecting employment terms as a result of Pay16. Service personnel were also concerned about what would happen after the initial three years of pay protection for Pay16.

- 1.12. On pay, the main pay award for 2016-17 was not viewed by many Service personnel as a pay increase, as it coincided with the 'perfect storm' of increasing National Insurance, changes in tax credits and (for those in SFA) increases in accommodation charges under the new Combined Accommodation Assessment System (CAAS). Some Service personnel noted that their take-home pay had reduced. Service personnel also questioned the sustainability of the Government's public sector pay policy until 2019-20.
- 1.13. Many staff commented that the value of the overall offer had declined significantly in recent years and that the investment in new military equipment was not being matched by investment in Service personnel to operate or maintain it. In general, we heard about the lack of trust in the employer to maintain the offer in future, and an increasing feeling that people were not joining the services for a career, but to obtain training and skills before moving on to alternative (and possibly better paid) employment elsewhere. Pensions were another key theme: the introduction of the Armed Forces Pension Scheme 2015 (AFPS15) elicited many negative comments, particularly from some senior ranks, who we note may well have lived through three pension schemes and, while it may be true that their pension is not as good as it was, their negative views appeared to us to be having an unfortunate corrosive effect on junior ranks. We encountered extensive suspicion that further inroads into the pension scheme were being contemplated. This is a considerable issue of concern for us, given that we still regard the AFPS15 as one of the very best pension schemes, and we would be concerned if Service personnel thought that not to be the case. In our view MOD should be doing more to communicate the benefits and value of the new pension scheme.
- 1.14. Accommodation continues to be a prominent issue given ongoing changes. We cannot ignore the impact of CAAS from our visit programme findings: there were major concerns expressed about the robustness of the survey process used to determine the relevant banding; and there was an overwhelming view that the maintenance service provided by CarrillionAmey was continuing to fall well short of the needs of Service personnel and their families. The impact on morale on Service personnel and their families from these changes and failures should not be underestimated, particularly as the poor situation with maintenance has been a problem for those in SFA over a prolonged period. We were also very concerned at the appalling quality of the some of the Single Living Accommodation in use on some bases. We discuss accommodation in detail in Chapter 4.

Our 2017 Report

- 1.15. As always, we adopted the approach of considering all the relevant evidence available to us, rather than being directed by Government. We have taken full account of MOD's affordability constraints and the Government's wider evidence on the economy and pay restraint. We have considered evidence on recruitment and retention, motivation and

pay comparability, adhering to our terms of reference.³ Our recommendations have been formulated after assessing all the various and competing arguments.

- 1.16. As ever, we remain alive to the concerns of Service personnel, including the impact of what is the sixth successive year of pay restraint, and the wider challenges for them and their families as Defence undergoes continued transformational change and seeks to introduce policies and programmes to modernise the overall offer. We re-emphasise the importance of effective communication of any changes that affect Service personnel. We were pleased to hear about the efforts of MOD to communicate about pensions, but there is more to be done and such messages need to be regularly reinforced throughout the entire chain of command. It is also critical for MOD to be upfront about the rationale for future changes: whilst some, such as the proposals to amend the accommodation model, may be attractive to many Service personnel, MOD needs to be open about any savings that some People Programme strands are intended to deliver. Explaining clearly the impact of these possible changes will be vitally important to restoring trust in the leadership and ensuring that the Armed Forces can continue to recruit, retain and motivate the brightest, best and most able personnel.
- 1.17. Chapter 2 of this Report considers evidence on: the economy from the Government; strategic management from MOD; staffing; morale and motivation; workload; pay comparability; diversity and inclusion; Reserve Forces; and overseas service.
- 1.18. In Chapter 3 we review the evidence and make recommendations on the overall pay award and on specific groups.
- 1.19. Chapter 4 contains our recommendations on accommodation and food charges.
- 1.20. In Chapter 5 we look ahead to the issues which are likely to arise as MOD continues to implement changes to the overall offer and consider the wider issues and prospects for our next round.

³ Our Terms of Reference are reproduced in the opening pages of this Report.

Chapter 2

CONTEXT AND EVIDENCE

Introduction

- 2.1. This chapter covers the Government's economic evidence, MOD's evidence on the strategic context, and the Strategic Defence and Security Review of November 2015 (SDSR15). It also reports on staffing, motivation and morale, workload, and pay comparability. We reflect on progress made in promoting diversity and inclusivity in the Armed Forces, and comment on Reserve Forces. A more detailed summary of the information we considered on recruitment, retention and motivation is in Appendix 5.

Government evidence

General economic context

- 2.2. The Government's evidence on the general economic environment (submitted in November 2016) stated that, following the outcome of the EU referendum, the UK economy was entering a new phase that would pose different challenges to the public finances. It said that public debt stood at its highest share of GDP since the late 1960s, and the deficit remained amongst the highest in advanced economies. The UK's economic performance was described as strong in recent years, with GDP having grown by 13.8 per cent since Q1 2010, and being 7.7 per cent bigger at Q2 2016 than at its pre-crisis peak. Inflation was close to zero throughout 2015, but in recent months had started to edge higher as past falls in fuel prices dropped out of the annual comparison. At 74.5 per cent, the employment rate was the highest on record, and unemployment had fallen to an 11 year low of 4.9 per cent. It said that earnings growth was fairly stable in the first half of 2016, and that in April to June 2016, total pay was up 2.4 per cent on the year in nominal terms and by 2.1 per cent in real terms. This marked the 21st successive month that average earnings had outstripped inflation, continuing the longest period of real wage growth since 2008. It said that, in the three months to June 2016, private sector total pay growth (including bonuses) stood at 2.5 per cent, while private sector regular pay growth (excluding bonuses) stood at 2.4 per cent. For the public sector, it said that total pay growth (including bonuses) was 1.9 per cent in the three months to June 2016, with regular earnings (excluding bonuses) increasing by 1.7 per cent.
- 2.3. Our own analysis of the economy and recent forecasts noted that GDP grew by 0.6 per cent in the third quarter of 2016 and was expected to be close to 2 per cent in 2016 as a whole but to fall below 1.5 per cent in 2017. CPI inflation was at 1.6 per cent in December 2016, and forecast to increase to around 2.5 per cent by the end of 2017. Average earnings growth was stable at 2 – 2.5 per cent in 2016, with a pick-up to 2.8 per cent at the end of the year, and median private sector pay settlements were 2.0 per cent, with forecasts for 2017 at about the same level.
- 2.4. The Government said that its public sector pay policy would continue to play an important role in delivering its objective of reducing the deficit over an appropriate time frame, protecting jobs and maintaining public services. Following the 2015 Election, it announced that it would fund public sector workforces for pay awards of an average of one per cent for four years from 2016-17 to 2019-20.
- 2.5. The letter we received from the Chief Secretary to the Treasury (see Appendix 6) reaffirmed the Government's adherence to its public sector pay policy and said that it expected to see targeted pay awards in order to support the continued delivery of public services and to address recruitment and retention pressures, with no expectation that every worker would receive a one per cent pay award.

MOD evidence on strategic management

- 2.6. In its strategic management evidence, MOD proposed a one per cent increase to base pay across all ranks, and that compensatory allowances within our remit should increase in line with the main pay award. MOD said that with Pay16 in its first year and with significant numbers of Service personnel under pay protection, it considered that the base pay award should not be targeted at particular cohorts. It also said that Pay16 had increased pay differentiation by design and therefore any uniform percentage pay award would target in effect. Any additional differentiation was viewed as a further risk to retention. MOD pointed to the importance of other targeted measures such as Financial Retention Incentives and Recruitment and Retention Payments (RRPs) to counter external market pressures and longer-term workforce shortages. The evidence highlighted recruitment challenges and said that engineering remained a critical skills shortage across the Armed Forces. Voluntary outflows (VO) were said broadly to remain towards the high end of historic levels.
- 2.7. MOD provided us with details of the Armed Forces' operational activities for each of the Services. The **Royal Navy** continues to operate at a high tempo, with commitments in the Arabian Gulf, Horn of Africa, South Atlantic, North Atlantic, Baltic and Mediterranean. Longer deployments continue to be the norm at the moment: 9-month deployments for HMS Duncan, Richmond and Lancaster; and Survey and Patrol vessels routinely spending 260 days at sea per year. The Royal Navy also provides the nuclear Continuous At Sea Deterrent. At any given point, around 8,500 (31 per cent) of its personnel are deployed on operations, held at short notice to deploy, or are preparing for operations. The evidence from the **Army** stated that commitments have risen over the past year. Stabilisation efforts in Afghanistan, counter-Daesh activities in Iraq, and building the capacity of indigenous forces were all cited, along with the work for the UK's Joint Expeditionary Force. It continues to face many and varied demands; in 2015, Army personnel conducted over 383 commitments in 69 countries. The **RAF** retains its high level of operational commitment. Its main focus has been the counter-Daesh campaign. The RAF also contributed to many short-notice operations including humanitarian assistance in India and disaster relief in Nepal. Other tasks include UK and Falkland Islands Quick Reaction Alert, Air and Space Surveillance, and providing the control of Reapers. At March 2016, 2,551 personnel (8.3 per cent) of the RAF's trained strength were deployed overseas.
- 2.8. In relation to the strategic context, MOD said that in addition to operational commitments, the Services are continuing to restructure to meet Future Force 2020 and the outcomes from SDSR15, and that the trained strength of the Armed Forces was 96.1 per cent at April 2016. The number of Reserves mobilised in 2015 reduced from 1,013 the previous year to 734, but for a wider range of operations and tasks. Harmony rates were broadly steady for the Royal Navy; but reduced for both the Army and RAF; however the overall rates masked areas of concern, particularly for Royal Navy engineers where harmony rates are cited as a main factor influencing VO rates. MOD again provided data on Service personnel held at short notice to move, which we note has a huge impact on family life. While the Royal Navy and Army both increased to 16 and 18 per cent respectively (compared with 13 and 11 per cent the previous year), the RAF was unchanged at 15 per cent.
- 2.9. SDSR15 was published in November 2015 and figured in many of our presentations from MOD. While much has been made of the plans for new equipment, we have seen less about plans to ensure the Services will have the qualified personnel to operate and maintain it. **We would welcome updates in future that set out the implications for staffing of the delivery into service and operation of new planned capabilities.**

Staffing¹

- 2.10. The deficit of military full-time trained strength was at 4.4 per cent at 1 April 2016, the same as the previous year. By 1 October 2016, the liability for the year had been revised with the deficit slightly reduced at 4.3 per cent. In evidence MOD stated that there were recruitment and retention challenges across all Services for certain groups in the engineering and aviation cadres. It stated that recruitment of Regulars had continued to be challenging throughout 2015-16, partly due to the impact of continuing economic upturn in the wider economy. Whilst recruitment to the Volunteer Reserves across all three Services did not meet the overall yearly target, all three overachieved the Gains to Trained Strength² target for 2015-16. Further details of staffing levels can be found in Appendix 5. Generally speaking, despite reported problems with the introduction of new candidate tracking software, the recruitment picture is satisfactory: more Service personnel are being recruited, but the targets continue to increase and remain stretching, particularly for the Army and its Reserves. MOD is monitoring developments closely.
- 2.11. The number of Service personnel leaving the Regular trained strength during the 12 months to 31 March 2016 was 13,540, down from 16,320 for the year before, a decrease of 17 per cent. VO slightly increased to 4.9 per cent for Officers during 2015-16 (from 4.4 per cent) and 5.8 per cent (from 5.5 per cent) for Other Ranks. These were still both above the five year average rates of 4.1 per cent for Officers and 5.3 per cent for Other Ranks. An update on staffing for the 12 months to 30 September 2016 showed VO had decreased, to 4.4 per cent for Officers and to 5.7 per cent for Other Ranks. All three Services are continuing to monitor VO closely. MOD noted that the overall VO rates masked key areas of concern within the Services particularly in important cadres such as engineering and aviation where rates were considerably higher.

Motivation and morale

- 2.12. We take evidence from a wide range of sources into consideration when assessing levels of motivation and morale in the Armed Forces. These include evidence from MOD and the Service Families' Federations (SFFs), the views we hear first-hand on visits, and the results of the 2016 Armed Forces Continuous Attitude Survey (AFCAS).
- 2.13. The response rate to this year's AFCAS was just 45 per cent, and disappointingly this was just a small (one percentage point) increase from last year. Results from AFCAS showed that levels of morale remained largely unchanged from last year (and from the earlier reference year of 2012) with 40 per cent of Service personnel who responded agreeing that their own morale was high, but only 12 per cent agreeing that morale of the Armed Forces as a whole was high. Over three-quarters of respondents agreed that they were proud to be in the Service while just under half (46 per cent of respondents) were satisfied with Service life in general. The highest levels of satisfaction were reported by Royal Marine Officers (75 per cent) and the lowest levels by Royal Navy Other Ranks (39 per cent). The proportion of respondents satisfied with their basic pay (35 per cent satisfied) and with their RRP (26 per cent satisfied) showed no significant change from the previous year. However, there had been a fall of two percentage points from last year to 30 per cent of Service personnel who were satisfied with their pension benefits.
- 2.14. There was a significant drop in satisfaction with all aspects of accommodation compared to last year on: overall standard (down five percentage points to 53 per cent); value for money (down six percentage points to 61 per cent); responses to requests to maintain/repair (down six percentage points to 34 per cent); and the quality of maintenance/

¹ This section used the figures from the MOD *UK armed forces monthly service personnel statistics: April 2016* publication unless stated otherwise.

² Gains to Trained Strength counts the number of new recruits that have completed their training and moved from the untrained to the trained strength, as well as direct entrants (including trained re-entrants, transfers from other Service and countries, professionally qualified Officers and Full Time Reserve Service).

repair (down seven percentage points to 33 per cent). We note that these reductions in satisfaction even pre-date the rent increases associated with the new Combined Accommodation Assessment System (CAAS).

- 2.15. More detail on the results of the AFCAS is set out in Appendix 5. We continue to encourage MOD to work to improve the response rates to AFCAS and other related surveys. This will enable it to better understand the morale and motivation of its Service personnel, to provide relevant feedback and, most importantly, to take appropriate action.
- 2.16. We found on our visits again this year that levels of morale varied between establishments and between cadres. However, morale overall seemed to be at the same fairly low levels we experienced during last year's visits. We were aware of the impact that the introduction of CAAS, changes to National Insurance and to tax credits all had on take home pay during the continuing period of pay restraint. Service personnel pointed this out to us during visits and, for many, motivation had clearly been impacted by these factors. Another common theme affecting morale that emerged from the visits was that many Service personnel felt that, because of high tempo, they were increasingly being called on for deployment while, at the same time, there was a large group of Service personnel who were 'un-deployable'. Many felt that this needed tighter management. We also heard concerns about the reduction in numbers of non-military civil servants who support Service personnel in the delivery of their work, and what this might mean for work pressure on the remit group going forward. This was particularly apparent, for example, in the area of Defence Equipment & Support, that impacted on the ability to deliver maintenance and repairs to equipment and the workload of uniformed Service personnel. The under-performance of a support contract was given as the reason why naval engineers had to resort to using MOD funds to buy tools from a high street supplier.
- 2.17. The introduction of Pay16, while addressing some of the concerns with Pay 2000, appeared to have had a significant impact on how valued (or not) some Service personnel felt in comparison to other trade groups, depending on the pay supplement in which they had been placed. We comment on this in Chapter 3.
- 2.18. Many Service personnel told us they continued to be affected by the constant high tempo, change and uncertainty, with significant numbers held at high readiness, unable to take leave or having it cancelled at short notice. This had a negative effect on their work-life balance and made it harder for spouses and partners to take up employment. Examples were provided of gapped posts, placing extra pressure on those remaining since the required output was not reduced, and, in some cases, had increased. Additional pressures were also felt by those Service personnel who were deployed more frequently. We were also told about changes to the eligibility criteria for the Operational Allowance, which combined with the lack of medallic recognition for operations, had a negative impact on the morale and motivation of those deployed.
- 2.19. The SFFs told us that morale overall was low. They said that the amount and rate of change to the military offer over the last few years, including changes to the pension, had eroded the trust of Service personnel and families. This was an issue we also picked up on our visits this year. The SFFs said that most Service personnel thought the changes implemented under the New Employment Model and those proposed under the People Programme were just cost saving exercises that have not led to improvements, but had made them worse off and will continue to impact them negatively in the future. The SFFs said that honest and clear communication around the implementation of the People Programme strands, especially the Future Accommodation Model, will be essential as housing is seen as a key element of the overall military offer, particularly for the Army. They said that there appeared to be a lack of confidence in the ability of Senior Leadership to influence issues and their perceived lack of awareness of the impact various

changes have on lower ranking Service personnel and families. Worryingly, SFFs told us that respondents to surveys such as AFCAS and FAMCAS do not think anything will be done to address the key issues.

- 2.20. We know that there is a strong link between retention and the disruption of a predictable family life. We are therefore concerned that the continuing low levels of morale and the other factors impacting negatively on family life will sustain the historically high voluntary outflow rates, particularly for those with transferable skills who are highly sought after by civilian employers, able to offer more stable employment packages with a better work-life balance.

Workload

Operational and other commitments

- 2.21. At 31 October 2016, just under 4,000 Service personnel were deployed on operations in the Middle East, compared with around 2,500 in early November 2015, an increase of 60 per cent over the period. The total number of Service personnel deployed overseas globally on operations at the end of October 2016 was around 5,000, an increase from around 3,600 six months earlier – a clear indication of the pressure of operations.
- 2.22. Individual Harmony Guidelines (IHGs) aim to ensure balance between competing aspects of the lives of Service personnel, including: operations; time recuperating after operational tours; personal and professional development; unit and formation training; and time with families and friends. Each Service has different IHGs, reflecting different practices and requirements. The guidelines are: 660 days away in a three-year rolling period for the Royal Navy; 498 days away in a three-year rolling period for the Army; and 468 days away in a three-year rolling period for the RAF. On average, the percentage of breaches of harmony remained relatively steady for the Royal Navy but had reduced for the Army and RAF. The MOD stated in evidence this year that these rates masked some key areas of concern. It said that for the Royal Navy harmony breaches were one of the factors cited as contributing to high VO levels for engineers, and for the RAF they were particularly high for some cohorts, such as pilots.
- 2.23. Tempo was one of the key themes on visits again this year. We heard that many Service personnel felt worn down by the high levels of activity and workload pressures caused by staffing reductions and gapping. While combat operations had ended in Afghanistan at the end of 2014, Armed Forces personnel remained committed to a significant number of operations and tasks worldwide. Service personnel raised with us the issue of the same people being repeatedly used for deployments, often at short notice. In addition, we heard that Service personnel no longer saw the peaks and troughs of deployment and harmony in the UK. These concerns about tempo, workload, gapping and deployment were allied to worries over the move to CAAS, disruption to family life, and perceived worsening terms and conditions. We were told that all these factors were pushing more personnel to consider leaving the Services.

Working hours

- 2.24. Evidence received from MOD relating to working patterns showed that overall there had been slight increases in working hours in all three Services. The average number of working hours for Armed Forces personnel increased by 0.4 hours to 44.9 hours per week in 2015-16 (from 44.5 hours in 2014-15). Unsociable hours³ worked fell slightly to 6.5 hours from 6.6 hours, and average weekly duty hours⁴ increased to 64.4 hours (from 63.8 hours). In 2015-16, eight per cent of Service personnel were working excessive

³ Unsociable hours are defined as any hours worked between 00:00 and 06:00 Monday to Friday; between 18:00 and 24:00 Monday to Friday and any hours worked on Saturday or Sunday.

⁴ Time spent working, on-call and on meal breaks. On-call includes all time when available as necessary, including all time away at sea, time spent on exercise (including periods of stand down) and fully kitted for immediate call out.

hours,⁵ an increase of one percentage point from 2014-15. On visits again this year, many Service personnel told us that they were working longer hours. Civilian data for full-time employees (median working hours taken from the Revised Annual Survey of Hours and Earnings (ASHE) at April 2015) were 37.5 basic hours plus 3.8 hours paid overtime, largely unchanged from the previous year (37.5 basic hours and 4.0 hours paid overtime). However, it is not clear to us when examining civilian data whether or not we are making like-for-like comparisons and it should be acknowledged that there is great variation in the number of hours worked in civilian life, even among those in full-time employment, with regular unpaid overtime in some sectors. The Armed Forces are exempt from the Working Time Directive and do not receive overtime payments.

- 2.25. Service personnel at sea or on overseas operations typically work longer hours than their UK-based colleagues. Data provided by MOD for 2015-16 showed the Royal Navy averaged 62.2 hours per week when at sea, 1.0 hours more than the previous year. The Army averaged 53.8 hours per week on overseas operations (down significantly by 9.0 hours) and the RAF 58.8 hours per week on overseas operations (down significantly by 11.0 hours) when on overseas operations.
- 2.26. Alongside visits, surveys provide us with evidence to aid our deliberations and contribute to the gathering of management data for MOD. The response rate to the 2015-16 Working Patterns Survey was just 24 per cent, the same as the previous year. We continue to encourage MOD to examine methods to achieve a higher response rate to improve the quality and quantity of data. We sometimes find it difficult to reconcile the survey results with information from Service personnel on visits and from our formal evidence, and a higher response rate may help in this regard. The use of secure, on-line surveys should be encouraged.

National Minimum Wage and National Living Wage

- 2.27. While Armed Forces' personnel remain exempt from National Minimum Wage (NMW) legislation, MOD aims to act within its spirit. Data from the Working Patterns Survey on the number of hours worked per week enable us to consider whether some Service personnel might be earning below NMW rates. Junior Ranks, across all Services, worked on average 42.2 hours per week during 2015-16 (up from 42.0 for the previous year). When applied to the basic pay of Junior Ranks on the lowest level of pay range 1 from April 2016 (£18,306) we calculate that this equates to an hourly rate of £8.31. This compares with the relevant NMW figures⁶ of £6.70 per hour for those aged 21-24 and £5.30 per hour for those aged 18-20, and it is a very slight increase from the calculated hourly rate of £8.28 for Junior Ranks a year earlier.
- 2.28. The Government announced in July 2015 that it would introduce a new National Living Wage (NLW) on 1 April 2016. The NLW is meant to reflect the basic cost of living in the UK, and was set at an hourly rate of £7.20 per hour for workers aged 25 and over.⁷ The NMW continues to apply for workers aged between 21 and 24 years. This means that Junior Ranks on the lowest level of the pay range with an average hourly rate of £8.31 per hour would still earn above the new NLW rate. We comment further on these issues in Chapter 3 when we consider the New Entrants' Rates of Pay.
- 2.29. As the hours worked by Service personnel vary, consideration needs to be given as to whether it is possible for those on the lowest pay level to be earning below NMW levels if they work significantly in excess of the average recorded hours per week. As might be expected, the number of hours worked was much higher for those Service personnel on overseas operations or at sea for long periods of time. Such service attracts Longer Separation Allowance (LSA) in addition to base pay and in previous reports we have

⁵ Excessive hours defined as working 70 hours or more per week.

⁶ These are those that apply from October 2015.

⁷ <https://www.gov.uk/government/publications/national-living-wage-nlw/national-living-wage-nlw>

commented that LSA mitigates, or removes altogether, any potential risk of an hourly rate falling below the NMW. On reflection, we no longer consider this adjustment appropriate; the payment of LSA is to compensate for a specific circumstance and should not count towards the calculation of a basic rate of pay for comparison with NMW rates. **We ask MOD to take account of this revised view and report back to us for the next pay round on the implications of current plans for the levels of the National Minimum Wage and the National Living Wage for pay in the Armed Forces.**

Leave arrangements

- 2.30. In 2015-16, Service personnel had an average Individual Leave Allowance⁸ (ILA) entitlement of 51.2 days, similar to 51.1 days in 2014-15. Of this entitlement (2014-15 figures in brackets):
- 42.5 days were used (same as the previous year);
 - 7.7 days were carried forward (7.6 days);
 - 1.1 days were lost (1.0 days); and
 - Some element of ILA was lost by 13 per cent of Service personnel (12 per cent).
- 2.31. AFCAS found that 70 per cent of Service personnel were satisfied with their overall leave entitlement, unchanged from the previous two years. Some 62 per cent were satisfied with the amount of leave they were able to take in the previous 12 months (same figure as the previous year); and 44 per cent of Service personnel were satisfied with the opportunity to take leave when they wished, down slightly from 46 per cent in 2015. Data collected via the Continuous Working Patterns Survey suggested that 43 per cent of Service personnel had to change approved periods of leave for Service reasons compared to 45 per cent in 2014-15. It also noted that 34 per cent had to change leave once or twice (36 per cent in 2014-15), and ten per cent had to change leave three or more times (eight per cent in 2014-15). While we understand there are generally good reasons for these changes, we encourage the single Services to monitor the need for such disruption to Service personnel and their families' lives, and minimise it in the future.

Pay comparability

- 2.32. 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 very difficult to find direct civilian equivalents for some military roles, we see pay comparability as important in ensuring the Armed Forces pay enough to recruit, retain and motivate the quality personnel they need. It is just one aspect of our overall evidence base on which to base recommendations on remuneration for the Armed Forces, and as we stated earlier, we make judgements based on all the evidence we receive.

Review of our approach to pay comparability

- 2.33. This year, we decided to review our approach to pay comparability. The Institute for Employment Studies (IES) carried out research on possible different approaches on our behalf and produced a report, *A Review of Pay Comparability Methodologies*.⁹
- 2.34. The IES stated in its report that undertaking a pay and reward comparability exercise for the Armed Forces' roles was a vital but difficult exercise, whatever methodology was used. However, its analysis suggested to the authors that the previous methodology, in research carried out for us in past years, had focused too much on internal job evaluation

⁸ Comprises Annual Leave Allowance, Seagoers Leave, Post Operational Leave and Authorised Absence. Does not include rest and recuperation, re-engagement leave and relocation leave.

⁹ The report of this work is available on our website at: <https://www.gov.uk/government/publications/a-review-of-pay-comparability-methodologies>

and job matching rather than external 'real world' market comparisons and was too reliant on a single data source. Consequently, IES proposed that having a stronger external focus would appear to have benefits, if supporting recruitment and retention of Service personnel was the key purpose of the exercise.

2.35. We have considered this research and concluded that the best way forward is to adopt multiple approaches:

- a "light touch" annual update on broad comparators with the civilian market such as pay settlements and annual earnings,
- a periodic comparison based on job evaluation to address roles in the Armed Forces with no obvious civilian comparisons, and
- specific comparisons for roles where there is some sort of civilian comparison, such as jobs to which Service personnel commonly apply when leaving the Armed Forces.

We remain aware that the roles undertaken by the Armed Forces are not precisely mirrored elsewhere and that any comparison needs to be carefully considered within this context.

2.36. As a result of the IES research we are planning to cover the three strands set out in the previous paragraph. We will continue to monitor broad pay comparators such as the Average Weekly Earnings index and pay settlements as well as continue and extend our yearly research on data from ASHE and on public sector graduate pay. We have not looked at job evaluation this year, having received yearly results for some time and given the recent extensive exercise carried out for Pay16, but plan to return to it at regular intervals. Finally, in future years we will be considering in detail Armed Forces' roles for which there are relevant external comparators.

Average weekly earnings and pay settlements

2.37. Whole economy average earnings growth (including bonuses) was an annual rate of 2.3 per cent in the three months to November, having increased from 1.9 per cent at the end of 2015. Within this, private sector earnings growth was at 3.1 per cent, while public sector earnings growth (excluding financial services) was at 1.4 per cent. The Office for Budget Responsibility (OBR) revised down its forecast for average earnings growth in its November 2016 report, published alongside the *Autumn Statement*, in the light of lower expected investment and productivity growth. Average earnings growth is forecast to be at 2.4 per cent in 2017. This means that real earnings growth (adjusted for inflation) would be close to zero.

2.38. Private sector pay settlement medians were at 2 per cent throughout 2016, with little signs of upward pressure on pay bargaining, according to the main pay research organisations.¹⁰ Forward looking surveys suggest a similar level of private sector pay reviews in 2017, despite the pick-up in inflation.¹¹

¹⁰ These organisations are XperthHR, Incomes Data Research and the Labour Research Department.

¹¹ CIPD and XperthHR.

Comparisons with data from the Annual Survey of Hours and Earnings¹²

- 2.39. For this year, we continued our practice of considering comparisons between remuneration¹³ for Armed Forces' personnel with their full-time civilian counterparts using ASHE to provide an indication of the pay of broad civilian counterparts. For the first time this year we were able to make more up-to-date comparisons as the 2016 data was available, having been published earlier than its equivalent in previous years.
- 2.40. We compared the pay of Armed Forces' personnel with their full-time civilian employee counterparts in the same age group, as recorded in the 2016 ASHE survey data. Comparisons with the 2016 ASHE data showed that, as military rank increases, so does base pay (adjusted to exclude X-Factor and for pension) relative to civilian salaries. This was true for Service personnel on all pay supplements:¹⁴
- Looking at the minimum and maximum, a Private has an annual weekly base pay at level 1 of £318 (all Supplements) and at level 6 it is between £419 (Supplement 1) and £442 (Supplement 4); these compare with a civilian median of £356 for the same age group.
 - For a Sergeant, the annual weekly base pay range between levels 1 and 6 is between £569 and £628 for Supplement 1 and between £633 and £704 for Supplement 4; these compare with a civilian median of £579 for the same age group.
 - For an OF1 the range is between £448 and £595 weekly base pay and this compares with a civilian median of £432 for the same age group.

Graduates in public sector professions

- 2.41. We again compared Armed Forces' graduate salaries¹⁵ for the first three years of employment with graduates' salaries in other public sector professions. The information we received showed that the starting salary and early pay progression for those entering the Armed Forces as direct entrants to the Officer cadre continued to compare favourably with that for other public sector professions. As Table 2.1 shows, after adjustments for both X-Factor and pensions, an Armed Forces' Officer received higher starting pay than a doctor, nurse, teacher or police officer but less than a fast stream civil servant. In addition, salary progression for the Armed Forces' Officer means that after three years, the Armed Forces' entrant might expect to be paid more than any of these other professions. Direct entrant Officers are a mix of graduates and non-graduates, with both groups demonstrating equal potential. There is no specific graduate entry scheme to the police service. Thus the police salaries quoted in the table are paid solely on the basis of service, regardless of educational qualifications.

¹² OME analysis of ONS Annual Survey of Hours and Earnings (ASHE) microdata and Armed Forces' pay data. The ASHE results are survey estimates.

¹³ Armed Forces' pay adjusted down to exclude X-Factor and up to reflect comparative pension value (based on the PwC pension valuation in 2012 which varied by rank). This is the approach that we have applied in previous years.

¹⁴ Most Service personnel are on Supplement 2 or 3 – Supplements 1 and 4 are used simply to show the full range. A Private on level 6 on Supplement 2 is on £428 and on Supplement 3 is £437. The range for a Sergeant on Supplement 2 is £588 to £655, for Supplement 3 is £613 to £677.

¹⁵ As for our yearly ASHE comparisons, this also uses Armed Forces' pay adjusted down to exclude X-Factor and up to reflect the comparative value of Armed Forces' pensions.

Table 2.1: 'Graduate' pay of public sector professions in 2016^a

	Graduate starting pay	Graduate pay after:	
		1 year	3 years
Fast-Stream Civil Servant (BIS) ^b	£27,591	£27,897	£28,509
Armed Forces' Officer ^c	£23,750	£28,546	£36,583
Doctor ^d	£22,862	£28,357	£32,156
Teacher ^e	£22,467	£24,243	£28,207
NHS Nurse ^f	£21,909	£22,458	£24,304
Police officer ^g	£19,773	£22,896	£24,975

Notes:

^a Armed Forces' pay adjusted for X-Factor (/1.145) and for pensions (x1.057) as for last year.

^b Figures are national August 2016 salaries assuming successful performance (and that the current steps of £306 apply in the structure this year).

^c Assumes starting at OF1 (on pay 2000 this was Level 5), progressing after a year and then reaching OF2 after 3 years.

^d Hospital doctors in England expect to progress from Foundation Year 1 to Foundation Year 2 after one year and then to Specialty Registrar after a second year. These figures relate to basic pay in England as of 1 April 2016. The doctors' pay is based on the basic pay in the pre-2016 contract, the new contract (being introduced from October 2016) will include an increase to basic pay.

^e Applies to teachers outside London. Recent pay reforms give schools flexibility to offer starting salaries above the minimum quoted and to progress teachers differentially based on performance. Figures provided are indicative and based on typical expectations for teachers starting on the minimum and with successful appraisal outcomes in the first three years, but high performers may earn more. Rates at 1 September 2016.

^f Agenda for Change England pay rates at 1 April 2016 assuming starting point as band 5 pay point 16.

^g This is the new entry pay for constables, England and Wales following the Winsor review. The entry pay can be flexed up to £22,896 by forces if there that are local recruitment needs or the officer possesses a policing qualification (as defined by the chief officer) or relevant experience (such as serving as a Special Constable). If someone enters on £22,896 the pay after one and three years would be £23,931 and £26,016 respectively. Excludes overtime payments. Rates at 1 September 2016.

Diversity and Inclusivity in the Armed Forces

2.42. We have consistently emphasised in previous Reports the importance of the Armed Forces reflecting the society it defends and of it being able to recruit from the widest possible pool to ensure it attracts the highest quality individuals. The Secretary of State re-emphasised this in his oral evidence when he referred to the brightest and best of every generation. The culture and ethos in the Armed Forces must be fair and inclusive to facilitate the recruitment, retention and progression of individuals so they can reach their full potential irrespective of gender, culture, race, religion, marital status or sexual orientation. MOD recognises the need to improve the diversity and inclusivity of its workforce and that failure to do so will seriously impact on its ability to deliver defence outputs and to succeed nationally and internationally. It acknowledges that despite significant efforts in this area, the demographic make-up of the Armed Forces is a considerable way from being representative of the UK workforce.

2.43. While making up some 50 per cent of the population, MOD data for 1 April 2016 shows women formed just over ten per cent of UK Regular Forces, around the same as the previous year. The RAF had the largest proportion (at 14 per cent), while the Army and the Royal Navy both had around 9 per cent. The figure was slightly higher for Reserves with women representing just under 14 per cent of all Volunteer Reserves, a figure that has remained stable since October 2012. While more female Service personnel left the UK Regular Forces in the 12 months to 31 March 2016 (1,520 personnel) than joined (1,340), retention rates have improved over the last four years.

- 2.44. Around 14 per cent of the current UK population and 22 per cent of secondary school children are from Black, Asian and Minority Ethnic (BAME) backgrounds. BAME Service personnel made up 7.0 per cent of the UK Regular Armed Forces on 1 April 2016, with just under half of these being UK BAME citizens (3.3 per cent of the total). Representation by BAME individuals in the FR20 Volunteer Reserves had increased slightly to 5.2 per cent on 1 April 2016 (4.1 per cent were UK BAME and 1.1 per cent were non-UK BAME) from 4.9 per cent a year earlier.
- 2.45. The Defence Board established the Defence Diversity and Inclusivity Programme (DDIP) in 2013, with the aim of improving the diversity and inclusivity of the military and civilian workforce through the delivery of the revised Defence and Inclusion Strategy (published in August 2015). We were pleased to receive a copy of the DDIP mandate from MOD this year, which contains details of the Programmes' objectives under the four strands of Leadership and Culture, Recruitment, Retention/Progression, and Outreach. It also included, for the first time, the Key Performance Indicators (KPIs) by which MOD will be able to measure its progress against each of these strands. We expect to receive annual updates against these KPIs to enable us to monitor developments.
- 2.46. MOD confirmed its commitment to meeting the recruitment target set by the previous Prime Minister in spring 2015 that ten per cent of all recruits should be from BAME backgrounds by 2020 (increasing to 20 per cent thereafter); and the target subsequently set by the Minister of the Armed Forces to increase the number of female recruits to 15 per cent of all recruits by 2020. SDSR15 confirmed these targets and pledged an additional £188 million to help meet them. Data provided by MOD show that in the 12 months to 1 April 2016, 11.3 per cent of all recruits were female and that the RAF as a single Service has already exceeded the 15 per cent female recruitment target. Data for the 12 months to 31 March 2016 show that 5.7 per cent of recruits are from BAME backgrounds. So while the Armed Forces look set to meet the recruitment target for female Service personnel, MOD admits that meeting the recruitment target for BAME Service personnel will be far more challenging, particularly beyond 2020. The Armed Forces will need to make a sustained effort to meet all the DDIP objectives but particularly the outreach objective, that aims to develop better relations with, and support from, the wide range of communities within British society. This would also support recruitment of BAME groups from within the UK, as the current BAME targets do not distinguish between UK and non-UK BAME groups. We believe that this distinction is not sufficiently recognised by MOD in achieving a balanced and representative workforce.
- 2.47. In relation to all of its recruitment targets, MOD told us it was gathering evidence relating to the return on investment in recruitment and best practice in other outside organisations to help them to identify where best to direct resources. We were surprised, however, that more work had not been carried out on research into beliefs and values and therefore what motivates each of the constituent groups that make up BAME, as a generic BAME approach will not be as effective as a more targeted approach. Indeed, more focused targeting – by both BAME and gender – is likely to result in better recruitment and retention outcomes.
- 2.48. Meeting the recruitment targets should over time lead to increased representation of both BAME and female Service personnel, provided the culture and ethos facilitates the retention and progression of these individuals. MOD's evidence included details of an impressive range of initiatives aimed at improving recruitment in general and at specifically improving the recruitment and retention of both female and BAME Service personnel. Examples include: increasing the resources in area recruitment offices for regional recruiting and outreach work; the RAF's ten Science, Technology, Engineering and Mathematics (STEM) Residential Programmes that run each year for female and BAME year 8 and 9 students to increase awareness of availability of careers in STEM subjects in the Armed Forces; and the Army sponsored "British Army Girls" documentary

that followed a platoon of female recruits through their training at Pirbright. Those aimed at increasing retention include: the Army's launching of the Female Retention and Progression Study and the BAME Retention and Progression Study; the establishment of an Army Servicewoman's Network; the establishment of the Royal Navy's Maternity Divisional Officers; the Graduated Return to Work Scheme; and the Horizon 50 Leadership initiative. The RAF has its 3* Air Member for Personnel and Capability in the role of RAF Diversity Champion and has established a network of Equality and Diversity Advisors and Assistants who deliver diversity and inclusivity training and promote positive and inclusive working cultures throughout the Service.

- 2.49. The announcement by the Prime Minister in July 2016 that, following a review, a ban on women serving in close combat roles would be lifted, continues the trend over recent years of more cadres being opened up to female Service personnel and is further evidence of increasing gender equality in the Armed Forces.
- 2.50. MOD told us that the introduction of the flexible working trial across the Armed Forces has proved very successful and that it will be continued and incorporated into policy through the Flexible Engagements System (FES) strand of the People Programme. Flexible working is intended to allow different working patterns, including variable start and finish times, compressed hours and home working. We fully endorse the introduction of this policy as we have consistently stated in our Reports that the introduction of flexible working will prove invaluable in improving the recruitment and retention and therefore progression of, not only women, but of all Service personnel with caring responsibilities. We also recognise the benefit of Service personnel being able to temporarily adjust their liability for deployment through FES, subject to operational requirements. The Chief of the Defence Staff told us at oral evidence that the introduction of FES would be a "game changer" in terms of the retention of female Service personnel. We encourage MOD and the Services to consider any additional steps that they can take in relation to improving the availability of reasonably priced childcare, which will also assist with the retention of Service personnel with parental responsibilities and be welcomed by potential recruits.
- 2.51. The fact that Ministers and Senior Leaders from Defence have continued to play an active role in a variety of diversity events over the last year is evidence that MOD recognises the essential role that Senior Leadership plays in promoting diversity and inclusivity. The crucial role of leaders in underpinning real cultural change to take place in the Armed Forces is something we have highlighted in our last two reports. All employees should be treated with equality, dignity and respect, and this mindset should flow throughout the organisation.
- 2.52. Progress continues in terms of greater recognition of Lesbian, Gay, Bisexual and Transgender (LGBT) Service personnel. MOD confirmed that all three Services have introduced sexual orientation monitoring to allow them to better understand LGBT representation within the individual Services. In June 2016, the Chief of Defence People and the MOD Permanent Secretary both spoke at the Defence LGBT Conference about the important role that leadership plays in creating and sustaining a diverse and inclusive workforce. The Minister for the Armed Forces, together with over 200 Service personnel, attended the London LGBT Pride March in 2016.
- 2.53. In terms of external recognition for diversity and inclusivity, we were told that the Army was included in The Times Top 50 Employers for Women for the first time this year, and that the Royal Navy rose to 10th place and the Army also rose 14 places to 32nd in Stonewall's list of Top 100 Employers. The RAF was recognised for its commitment to increasing BAME representation in the workforce through its inclusion as a finalist in the Business in the Community Race Equality Awards 2016.

- 2.54. As we have said in previous reports, we understand that increasing the diversity and inclusivity of an organisation such as the Armed Forces will take some time. MOD acknowledges that it will take a considerable and sustained effort to achieve the vision outlined in the DDIP. The meeting of the recruitment targets should lead gradually to increased representation of BAME and female Service personnel. The Senior Military will need to ensure the culture, ethos and initiatives are in place to facilitate these individuals remaining in Service enabling them to progress through the ranks on merit.
- 2.55. We support the embedding of flexible and part-time working through the FES strand of the People Programme since we have stated on many occasions that this will facilitate the recruitment, retention, and potentially the progression, of all Service personnel with caring responsibilities.
- 2.56. We recognise that the Armed Forces are making progress, have taken positive action over a number of years, and have some encouraging initiatives in place. The increase in the amount of external recognition the Armed Forces have received this year from Stonewall and the media and the opening up of close combat roles to female Service personnel is further evidence that they are embedding diversity and inclusivity in their culture. With continued and sustained effort in this area over the next few years, they should be in a better place to potentially meet their stated diversity objective: *Defence outputs delivered by the right mix of capable and motivated people, that appropriately represent the breadth of society we exist to defend*. We look forward to receiving regular updates from the Armed Forces on their progress.

Reserve Forces

- 2.57. There has been an increased focus on Reserves over the last few years due to the 'Whole Force' approach and the Future Reserves 2020 (FR20) programme. We make some observations on Reserve Forces in this section.
- 2.58. SDSR15 confirmed that the Reserves would continue to play a vital role in the Armed Forces and that the target to grow the Reserve Force to a total of 35,000 by 1 April 2019 would remain. However, a Written Ministerial Statement (WMS) published on 8 November 2016 announced slightly revised FR20 targets for 2018-19 of 35,060, (broken down as 3,100 Maritime Reserves, 30,100 Army Reserves and 1,860 RAF Reserves). The WMS also confirmed changes to the definition of the Army Trained Strength (Regulars and Reserves) to include all Service personnel that have completed Phase 1 training. It also stated that the reporting of the growth of Reserves will be based on the trained strength profiles only.
- 2.59. During our visits programme this year we heard views on a range of issues both from Reserves and about Reserves. There was still some scepticism from Regulars and Reserves about whether the FR20 recruitment targets would be met. MOD's written evidence stated that there had been significant improvements in the Reserve recruiting processes over the last year including: the introduction of streamlined, on-line application forms; accelerated medical processes; improved communication between candidates and recruiters to reduce the amount of time between application and enlistment; changing the maximum and minimum ages for joining the Army Reserves; and relaxation of the policy on tattoos.
- 2.60. MOD said that although recruitment remained challenging, particularly for the Army, all three Services had met their recruitment targets for 2015-16. The trained strength of the Reserves was 30,575¹⁶ on 1 October 2016, consisting of 2,400 Maritime Reserves, 26,190 Army Reserves and 1,980 RAF Reserves. These latest staffing figures from MOD show that the single Services are also on track to meet their individual trained staffing targets

¹⁶ Numbers do not sum due to rounding.

for 2016-17 but note that the overall rate at which the Reserves are growing has slowed down in the six months from 1 April 2016 to 1 October 2016 compared to the same period a year earlier.

- 2.61. The RAF has already exceeded its FR20 target but the Army still needs to recruit, train and retain fairly large numbers of Reserves in order to meet its final target. The Chief of Defence People told us at oral evidence that he was confident that the FR20 targets could be achieved and that the change in the definition of the trained strength for the Army and the large number of ex-Regulars joining the Reserves would assist with this. MOD stated that the External Scrutiny Team Report, submitted to the Secretary of State for Defence in June 2016, "expresses increased confidence that FR20 will be substantially achieved".
- 2.62. MOD told us that the number of Reserves deployed in 2015-16 had reduced to 734, from 1,013 the previous year. This was due to a reduction in the number of larger scale combat operations involving the UK. New powers under the Defence Reform Act of 2014 continued to allow Reserves to be deployed on a wider range of military tasks and operations. Reserves played a leading role in the support of operations to combat the Ebola outbreak in Sierra Leone, in support of the counter-Daesh operation, and a Reserve Battalion was scheduled to lead a deployment to Cyprus at the end of 2016.
- 2.63. During this round we endorsed a proposal from MOD to broaden the eligibility of the Army Reserves Commitment Bonus to ex-Regular Professionally Qualified Officers at OF3 and OF4 who join the Army Medical Services and the Royal Army Chaplains' Department of the Army Reserves. Further details on this can be found in Chapter 3. Some Reserves told us that they thought the recruitment of too many ex-Regulars was not necessarily a positive step as this could change the overall culture of the Reserves, could lead to shortages in the Regulars, and could block promotion opportunities for less experienced Reserves.
- 2.64. In its evidence to us this year, MOD again emphasised the recent improvements that had been made to the Reserves offer. These include: entitlement to paid annual leave from 1 April 2013; membership of the Armed Forces Pension Scheme 2015 from 1 April 2015; accredited training and access to Standard Learning Credits; improved access to occupational health checks; improved access to welfare support; and eligibility to hold a Forces Railcard from July 2014.
- 2.65. To support the changes to the offer, MOD told us there had also been improvements in the relationship between MOD and employers, including the establishment of the Defence Relationship Management team which provides a single point of contact within Defence for employers to use. Financial incentives are payable to small and medium sized businesses and the Armed Forces Covenant has now been signed by over 1,000 employers. MOD said that this year's results from the annual Employers Survey showed improvements compared to last year, with 89 per cent of employers being supportive of their employees serving as Reserves (up from 80 per cent) and 45 per cent of employers being likely to encourage other employees to serve as Reserves (up from 22 per cent).
- 2.66. Longer serving Reserves we met with on visits were on the whole appreciative of the improvements to their terms and conditions. However, one of the most frequent complaints we heard again this year, particularly for those on Full Time Reserve Service (FTRS), was that they did not qualify for military medical and dental care. Many felt that taking time off work to travel to civilian medical and dental facilities was an inefficient use of time particularly if there was spare capacity within the military facilities. Some on FTRS contracts thought it was unfair that their pension from serving as a Regular was abated when they re-joined as a Reserve. Others pointed out that Reserves were expected

to leave the Service at age 55 but that AFPS15 did not pay out until age 60 and asked if there were plans to change terms and conditions to reflect this. It was pointed out that in practice most contracts could be extended if required.

- 2.67. Part-time Volunteer Reserves we met with in Northern Ireland thought it unfair that they only received payment of the Northern Ireland Residents Supplement (NIRS) on a pro-rata basis for the days they trained/worked. They argued that by serving as a Reserve they, and their families, were at an increased risk due to the security situation, 365 days a year. They also said they were more exposed than Regulars as they lived in local communities rather than on a Service base. We mention this issue in Chapter 3 when we discuss the biannual review of NIRS. **We have asked MOD to consider this in its evidence to us for the next review of NIRS in 2018-19.**
- 2.68. In our last two reports we have highlighted the issues that Reserves have experienced with HM Revenue and Customs (HMRC) when trying to sort out issues with their tax codes, particularly as a result of being mobilised or when combining civilian and military salaries. Our suggestion that HMRC should set up a dedicated help-line for Reserves was discussed but not taken up. We were however reassured that a more responsive approach to tax coding for Reserves had been adopted and that advice to civilian employers had been updated and published on-line. We were disappointed, therefore, to receive feedback from Reserves suggesting that the promised improvements in procedures had not been realised and many were still encountering the same problems in relation to their tax codes. **We ask that MOD take action to review and improve the communication of the procedures and we will continue to seek feedback from both Reserves and the chain of command on this issue.**
- 2.69. We were told that it was becoming increasingly difficult to fill London FTRS positions as these Service personnel did not qualify for Recruitment and Retention Allowance (London) and were not entitled to the accommodation offer, but were still expected to be on short periods of notice to move. There still appeared to be issues with some Reserves, particularly those in London and Northern Ireland, being asked to operate at higher levels of commitment than they had been employed for. The importance of the appropriate use of FTRS contracts is an issue that we have raised in our last two reports which we believe needs addressing.
- 2.70. Other issues raised by Reserves on visits this year included: the lack of access to medical support (following immediate treatment) or sick pay if they were injured on training or deployment, particularly for those that ran their own businesses; the lack of availability of facilities (including catering) and equipment at bases used for training at the weekends; and the lack of local support to sort out pay and expenses issues.
- 2.71. Medical Reserves raised the issue of maintaining clinical capability for those that did not have medical day jobs and some units were paying for individuals to work one day a week at NHS Trusts to ensure they were kept fully trained and deployable. Relationships with NHS Trusts varied, with many Reserves increasingly being expected to take their annual leave in order to complete their annual summer camp training, a trend highlighted in our previous two reports.
- 2.72. We received results from the third tri-Service Reserves Continuous Attitude Survey (ResCAS), which was carried out between January and March 2016. The ResCAS was open to all Reserves and there was a response rate of 34 per cent (5,713 returns). The response rates and results were very similar to last year (figures in brackets) and the main points included:
- 77 (77) per cent were satisfied with Reserve life in general and 81 (80) per cent said they felt motivated to do the best job they could for the Reserves;

- 32 (30) per cent felt valued by Regulars while 49 (50) per cent felt valued by society in general;
- 73 (70) per cent of those employed said their employers supported their service;
- 51 (54) per cent were satisfied with pay, 70 (72) per cent were satisfied with the annual bounty but only 46 (45) per cent were satisfied with the expense allowances.

2.73. It is concerning that the results of ResCAS show only 32 per cent of Reserves felt valued by Regulars. Scepticism about how embedded the “Whole Force” approach is in the Armed Forces was raised by Reserves on visits this year. MOD highlights the findings of the 2016 External Scrutiny Team’s Report which emphasises that one of the main challenges will be overcoming cultural resistance to the changes being made. The Head of the Reserve Forces and Cadets told us, however, that the reality was that many Service personnel could not tell the difference between Reserves and Regulars, particularly when used on operations. MOD also envisages that the introduction of the Flexible Engagements System will result in a fundamental change in the terms under which all Service personnel serve. In addition the ability to move between a range of different commitment types, and to move between Regular and Reserve Service will break down any existing barriers between the two.

2.74. We will continue to monitor developments in relation to Reserves’ terms and conditions and the issues affecting them that impact on recruitment, retention and morale, and ask MOD to keep us informed.

Overseas service

2.75. During our visit programme, we met with Service personnel who are stationed overseas. The feedback we received from those visits highlighted a number of irritants with the current package, but the main ones were that: overseas service was not seen as particularly valued by senior management, and could be potentially career limiting rather than career enhancing; there was little flexibility in the financial support available, with some families being ‘out of pocket’; and local commanders had little flexibility to interpret policy pragmatically on issues such as housing allocation or the amounts available for different elements of the package (such as white goods and linens), without having to produce business cases in each and every situation.

2.76. We acknowledge that there have been some improvements in the overseas package, such as the increase in the number of return flights for schoolchildren each year. However, given what we picked up during our visits, we consider it important that the overall package is appropriate, balanced and sufficiently attractive to ensure that the right and best people will want to take up overseas assignments and can operate optimally. We were told by the Secretary of State during oral evidence that the package is reviewed regularly, so we hope that our observations from our visits can help to address any shortcomings with the current package. We look forward to further updates on any changes.

Chapter 3

PAY AND ALLOWANCES

We recommend that (from 1 April 2017 unless otherwise stated):

- Rates of base pay be increased by one per cent.
- MOD provide us with specific proposals for engineers for the next pay round, appropriate to each of the Services and proportionate to the scale of the problem both within the Services and nationally.
- A separate Officer Aircrew and Army Non-Commissioned Officer (NCO) Pilot Recruitment and Retention Payment (RRP) (Flying) spine is established with a single level Tier One Rate and a seven level Tier Two Rate, with Tier One being £4,000 per annum starting six years from the commencement of Phase II flying training and a tapered Tier Two Rate of £13,250 per annum increasing to a maximum of £19,200, commencing six years from completion of the individuals' Operational Conversion Unit.
- A Retention Payment of £70,000 (pre-tax) is paid to Officer Aircrew seven years from the end of the Operational Conversion Unit, which is one year after the end of the Initial Training Return of Service and at the 40/20 point for NCO pilots. The Retention Payment attracts a six year Return of Service.
- Senior Officer entitlement and tapering of RRP (Flying) remains unchanged at OF4-6 and the rates increased by one per cent.
- RRP (Parachute Jumping Instructor) remains at current rates.
- The Continuous Career Basis, Non-Continuous Career Basis and the Joint Air Delivery Test and Evaluation Supplement Pay for RRP (Parachute Jumping Instructor) remains at the current rate of £3.68.
- The overall RRP (Mountain Leader) construct be retained and remain at current rates but payment of RRP (Mountain Leader) (Initial) no longer be backdated to the beginning of the ML2 course.
- RRP (Weapons Engineering Submariner)(WESM) be implemented for ratings in the Royal Navy's WESM branch (Strategic Weapons Systems and Tactical Weapons Systems).
- Other RRP rates be increased by one per cent.
- MOD provides detailed consideration for the next round of how they will review RRP's to ensure they remain appropriate in relation to Pay16, and to adopt a consistent approach to the routine review of RRP's in future with a greater focus on measures of success.
- Full reviews of RRP (Flying Crew); RRP (Hydrographic); RRP (Parachute); RRP (Special Communications); RRP (Special Intelligence); and RRP (Special Reconnaissance Regiment) be conducted next year.
- The Northern Ireland Residents' Supplement be increased by one per cent.
- Pay arrangements for pre-career (OF0) feeder groups (University Cadets, Army Gap Year Commissions and University Cadet Entrants) be harmonised as part of housekeeping resulting from the transition to Pay16 with the creation of a new OF0 pay scale.
- The next review of New Entrants' Rates of Pay (NERP) be determined by MOD's ongoing monitoring of inflow and survey data.
- All rates of compensatory allowances not reviewed separately, and the Reserves' Bounties, be increased by one per cent.

Introduction

- 3.1. This chapter sets out (i) our recommendations on the overall pay award and allowances for the Armed Forces, (ii) our recommendations on Recruitment and Retention Payments (RRPs), and (iii) our recommendations arising from reviews of a number of targeted measures and specific groups. It also records our views on financial incentives that were considered outside the main pay round and offers our views on the new Armed Forces' pay structure, Pay16, that was introduced on 1 April 2016.
- 3.2. In line with its pay policy announced in the Budget of July 2015, the Government said that it would fund public sector workforces for a pay award of an average of one per cent a year for four years from 2016-17. This report therefore covers the second year of that policy, which follows previous public sector pay restraint policies in effect since 2011-12. We commented last year that we were concerned about the sustainability of the current ongoing pay restraint policy, and that continues to be our view, particularly given the developments in the private sector.
- 3.3. We have considered all the relevant evidence available to us. We have taken full account of MOD's affordability constraints and the Government's wider evidence on the economy and public sector pay restraint. We have considered recruitment and retention evidence, motivation and pay comparability, adhering to our terms of reference. We also considered evidence from the Service Families' Federations (SFFs), and views obtained first hand from Service personnel and their families on our visits. We reached our recommendation on the overall pay award after assessing all the various and competing arguments.
- 3.4. Targeted measures are used in the military pay system when required to support recruitment and retention, particularly where there are staffing pressures. Each year we look at specific compensatory allowances, pay arrangements and Financial Retention Incentives (FRIs) for the relevant groups. Our consideration of RRP allows specific RRP-earning cadres to be reviewed when necessary rather than reviewing them on a fixed timetable.
- 3.5. Whilst we were expecting to review RRP (Special Forces), RRP (Special Forces Communications) and RRP (Special Reconnaissance Regiment) this year, MOD told us that it was not ready to provide us with the evidence to enable us to undertake such reviews. It said that next year we would review the following categories of RRP: Flying Crew; Hydrographic; Parachute; Special Communications; Special Intelligence; and Special Reconnaissance Regiment. Reviews of Special Forces and Special Forces Communication would take place in the subsequent year. We ask that MOD keeps us closely engaged on the timing of RRP reviews, as we are concerned that any delays could compromise our ability to make effective recommendations. RRP should be reviewed on the basis of operational requirement rather than financial constraint. MOD should also consider the timing of reviews of related RRP, as there are clear benefits in taking a holistic approach.
- 3.6. In this report, we comment on the delayed review of engineering remuneration and consider RRP (Flying), RRP (Mountain Leader), RRP (Parachute Jumping Instructor) and a new RRP (Weapons Engineering Submariner). In addition, our report includes our consideration of New Entrants' Rates of Pay, the Northern Ireland Residents' Supplement and Non-pay benefits. We also report on measures we endorsed outside our usual round.
- 3.7. A new pay structure for Armed Forces' personnel, Pay16, was introduced on 1 April 2016. Service personnel gave us feedback on Pay16 during our visit programme and we offer our views at the end of this chapter.

- 3.8. MOD told us that its Joint Personnel Administration (JPA) system that administers pay and allowances was due for a Technical Refresh next year to provide an upgrade to the hardware and software that operates the HR system and payroll. We have previously voiced our frustration with JPA and its inability to implement our recommendations from the April following our reports. **We expect MOD to ensure that our recommendations are implemented on the date that we intend them to take effect and ask that the Refresh take this into account.**

Base pay: the evidence

- 3.9. In keeping with our terms of reference, we took account of the usual wide range of evidence before reaching our recommendation on base pay. We considered evidence from MOD, including the Government's evidence on the economy and on affordability, the results of the Continuous Attitude Survey, views obtained first hand from our visits, and evidence on pay comparability produced for us by OME. We summarise the evidence below.
- 3.10. The Chief Secretary to the Treasury (CST) wrote to us on 13 July 2016 (Appendix 6) stating that the fiscal context remained very challenging following the outcome of the EU referendum vote, and that the Government's public sector pay policy as set out in the Budget of July 2015, and reaffirmed in the Autumn Statement of 2015, remained in place. The letter said that this policy was intended to enable prudent long-term planning while protecting jobs and that public sector workforces would be funded for pay awards of an average of one per cent per year, up to 2019-20. The CST said that he expected to see targeted pay awards in order to support the continued delivery of public services and to address recruitment and retention pressures, with no expectation that every worker would receive a one per cent pay award.
- 3.11. Our remit letter of 10 August 2016 from the Secretary of State for Defence (Appendix 6) followed up on the letter from the CST, restating the Government's position. The letter said that MOD was continuing to develop its understanding of some of the key areas of concern, particularly the engineering and aviation cadres and that it intended to bring forward some specific proposals for our consideration this year. It also referred to ongoing work on the People Change Programme that it said would continue to modernise the offer for Service personnel in support of 21st century lifestyles whilst preserving the specific elements that reflected the unique demands imposed upon the Armed Forces.
- 3.12. MOD said that, with Pay16 in its first year and with significant numbers of Service personnel under pay protection, it considered that the available base pay award should not be further targeted at particular groups. Targeting is already delivered by the structure of the system and via RRP and FRI. MOD said that Pay16 had increased pay differentiation by design and therefore a uniform percentage pay award would reinforce that differentiation. It said that further differentiation would be a further risk to retention amongst a workforce who continued to perceive a declining and fragile offer. MOD's view was that headline pay recommendations for this year should continue to be made on the basis of equal distribution of available resources across the whole workforce, and invited us to recommend a one per cent uniform increase to basic pay across the ranks, with compensatory allowances raised in line with the main pay award. It added that, within a constrained pay environment, targeted measures such as RRP and FRI would still be needed to counter external labour market pressures affecting particular groups.
- 3.13. MOD said that operational commitments remained high, and the Service continued to restructure. The picture on staffing was that the Armed Forces remained below manning balance, but that the deficit had reduced compared to last year as the Army and RAF liabilities had reduced, although the Naval Service deficit had worsened slightly. Meeting future recruitment targets was said to continue to be challenging, a view reinforced by

the Secretary of State during oral evidence. Voluntary outflow (VO) remained towards the high end of historic levels, and there was particular concern over some key cadres, including engineering and aviation. Survey data showed an increase in working hours, but a decrease in the number rating their workload as being too high.

- 3.14. Results from the 2016 Armed Forces Continuous Attitude Survey (AFCAS) showed (compared to last year) small decreases in satisfaction with basic pay and allowances, a small but significant decrease in satisfaction with pension benefits, and a small increase in satisfaction with X-Factor. Satisfaction with RRP remained unchanged. The most notable changes recorded by AFCAS were that Service personnel's views significantly worsened by five to seven percentage points on accommodation, in terms of standard, value for money and the response to and quality of maintenance and repairs. We address accommodation in detail in Chapter 4. Further details on the results from AFCAS can be found in Appendix 5.
- 3.15. A common theme from our visits was that the one per cent basic pay award for 2016-17 was not perceived as an increase as it coincided with increases in National Insurance, changes in tax credits and CAAS increases (the 'perfect storm') that left a number of Service personnel seeing a reduction in take home pay. Some Service personnel questioned our independence and others thought that affordability 'trumped' any other evidence and commented on the inevitability of the one per cent outcome, as they saw it. Many Service personnel focused on pensions, feeling that the Armed Forces Pension Scheme 15 (AFPS15) was worse than its predecessor and resented that it had been imposed without any choice (as there had been with previous schemes); they also noted that pension increases were now linked to the Consumer Prices Index, not the Retail Prices Index. Some Service personnel commented that the pension was inadequate and that staff would need to have a second career later in life; and many Service personnel expressed concern that the pension scheme could be further eroded in future years.
- 3.16. We outlined in Chapter 2 the evidence we considered on pay comparability, including results from the Annual Survey of Hours and Earnings, graduate pay and public sector pay. The evidence suggests that base pay for the Armed Forces remains broadly comparable with civilian pay, in both the public and private sectors.

Comment and Recommendation

- 3.17. In previous reports, we have welcomed key aspects of the new Pay16 system. We were pleased that its trade supplement structure increased pay differentiation in a targeted manner, while retaining incremental progression for Service personnel, which we consider an important part of the overall offer. We noted that additional targeted pay interventions can be appropriately provided through RRP and FRI, and indeed we have seen and commented on several such proposals from MOD during the course of last year. Given the scale and complexity, we consider that MOD has done a good job in creating and introducing a pay system that strikes a balance between more flexibility for the employer with security and predictability for Service personnel. However, we want MOD to continue to deal with any anomalies that are identified in a timely manner.
- 3.18. It is implicit in the Pay16 model that we should consider basic pay separately from targeted measures such as RRP and FRI. It is explicit in our terms of reference that we should consider the funds available to the MOD alongside the need for the Armed Forces' pay to be broadly comparable with pay levels in civilian life. In reaching our decision on basic pay, we have looked at the latest data on the cost of living, and on pay settlements more generally. We have disregarded changes in taxation or National Insurance, since these are government decisions that affect the whole UK workforce, but have taken into

account incremental progression and the continuing value of the Armed Forces' non-contributory pension scheme, which despite recent changes, offers significantly better benefits than are generally available elsewhere both in the public and private sectors.

- 3.19. VO rates remain at historically high levels with particular areas of concern in specific cadres like engineering and aviation. Compared to the position last year, there is evidence of rising inflation, and growth in average pay across the economy. We considered whether MOD's proposals would be sufficient, in that context. However, the economic picture remains very uncertain. We also noted the government's position on affordability. However, we were concerned by the levels of morale we encountered during our visit programme. On balance, we conclude that the evidence still justifies a one per cent across the board increase in base pay, as a general uplift for all Service personnel. Given the vital need for the Services to recruit and retain personnel with particular skills, and the high demand for such skills in the wider labour market, we would expect that targeted allowances will also continue to be required; the position on engineers is particularly challenging, and we discuss this further below.
- 3.20. Looking forward, some forecasts for pay in the wider economy, and for inflation, suggest there could be rapid increases. Clearly, if these did materialise, and there was consequential pressure on Service recruitment, retention and motivation, we would need to consider what pay response was needed. However, at present this question remains theoretical. We will continue to look at the evidence year by year, in line with our terms of reference, and make recommendations accordingly.

Recommendation 1: We recommend that rates of base pay be increased by one per cent from 1 April 2017.

- 3.21. It is now the case that some longer serving Service personnel will have experienced three different pension schemes; we believe that their complaints and views, highlighted during our visits, are having a corrosive effect on junior ranks. This is a considerable issue of concern for us, given that we still regard the Armed Forces' pension scheme as a very good one, and we would be disappointed if Service personnel thought that not to be the case. There is also an issue with the presentation, quality and accuracy of the individual pension statements available to Service personnel. Whilst we acknowledge that MOD has been making efforts to provide better information on pensions, it should do more to improve the communication of pension benefits – both absolute and relative to those available in the outside world – as part of the overall employment package. Properly communicated, this has the potential to provide significant retention benefits for relatively little cost, and underlines our belief that the current pension scheme remains one of the best available.

Defence Engineer Remuneration Review

- 3.22. The Armed Forces are experiencing significant problems in both recruiting and retaining sufficient numbers of engineers for both officers and other ranks (ORs). In an Information Note, MOD said that it was operating in an increasingly competitive market given the overall skills shortage with national infrastructure projects acting as a particular 'pull' on these highly trained and skilled individuals. At January 2016, the overall deficit of engineers was 2,310 (4.9 per cent), but this masked specific cadres with deficits as high as 14.7 per cent and some unsustainable VO rates as high as nine per cent. Engineering

groups also make up a significant number of the groups formally defined as Operational and Manning Pinch Points:¹ the Army has 20; the RAF has five; and the Royal Navy has five, all assessed as having a significant impact on operations.

- 3.23. The Defence Engineer Remuneration Review (DERR) was established to look at the offer to engineers and propose both remunerative and non-remunerative measures that could be applied to address the issues associated with their recruitment and retention. Whilst the intention had been to provide us with a paper of evidence this year with specific proposals to consider, the MOD said that the review had uncovered a level of complexity requiring further analysis. It said that the delay in providing firm recommendations had not been due to a lack of resolve by the single Services, but noted that the DERR had to take place alongside a number of competing pay round proposals, all set within a constrained pay budget. The importance placed on addressing engineering was reinforced throughout our oral evidence sessions, including by the Secretary of State.
- 3.24. We met with members of the Defence Engineering Team. They described the work undertaken to date on the DERR and set out a number of proposals that were under consideration. The Team also pointed to some early success it had achieved in obtaining authority for some engineers to have their professional fees reimbursed, which had been well received by those concerned.
- 3.25. It is clear to us that the state of engineering recruitment and retention is critical. We welcome the work of the Defence Engineering Team to date and its success in having professional body fees reimbursed. We also recognise the constraints that public sector pay policy puts on MOD. Nevertheless, it is very disappointing that MOD has not been able yet to present, for our consideration, specific proposals to tackle the issue.
- 3.26. We expect MOD to provide us with specific proposals no later than next year and recommend that it do so. We also note that, given the recruitment and retention challenges for this group, and the persistent shortage of engineering skills in the external market, it seems likely that, alongside other initiatives, bespoke pay solutions will be needed for these cadres. In the circumstances MOD should give consideration to a separate pay scale for engineers. It should also consider whether a common approach across the military should be the objective; pay arrangements may need to be tailored to meet the individual requirements of the three Services. MOD's proposals will therefore need to be appropriate to each of the Services and proportionate to the scale of the problem both within the Services and nationally.
- 3.27. Our terms of reference direct us to have regard to the requirement on the MOD to meet the output targets for the delivery of departmental services. Given the extent of the threat to Defence – for example, ships may not be able to put to sea – radical measures may be necessary to confront the engineering problem. We will be undertaking our own comparability studies to help identify the most severe pressure points within the engineering cadre and recommend any appropriate action.

Recommendation 2: We recommend that MOD provide us with specific proposals for engineers for the next pay round, appropriate to each of the Services and proportionate to the scale of the problem both within the Services and nationally.

Recruitment and Retention Payments

- 3.28. RRP is paid to specific groups where there are long-standing recruitment and retention issues involving difficulties inherent to some cadres/trades or an external market competitive pressure on a particular group, but where MOD does not consider a

¹ An Operational Pinch Point (OPP) 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 at an earlier stage than an OPP – it has affected the branch structure and will take a number of recruitment and retention measures to rectify it.

bespoke pay spine² is warranted. The three bases for the payment of RRP are: Continuous Career Basis (CCB); Non-Continuous Basis (NCB); and Completion of Task Basis (CTB).³ In April 2016, there were 16 different categories of RRP, costing around £107m per year. There were 17,582 RRP payments made in April 2016, although the number of Service personnel who receive RRP will be lower, as some receive more than one category.

- 3.29. MOD uses other forms of targeted remuneration alongside RRP, judging which type of payment to use in what circumstance by considering duration, coverage, affordability, comparable groups, and the particular recruitment and retention issue. Golden Hellos are sometimes used to encourage recruitment into certain specialisations; and FRIs are shorter-term measures aimed at addressing staffing shortfalls in key skill groups (including those identified as Operational Pinch Points) by encouraging existing personnel to remain within the Armed Forces for a set return of service. In our examination of the evidence over the years, we have noted that many of the skills shortages were identified well before action was proposed. We have commented previously, but it bears repeating, that we believe MOD should be more proactive in preparing proposals to address such issues before they require emergency action in response to a crisis in a particular group.
- 3.30. We continued with our revised approach for reviewing RRP this year, whereby each RRP category is subject to an annual review where the analysis is focused on key manning data such as strengths, requirements, inflow and outflow. The annual review of RRP categories informs recommendations on the levels of RRP and when each category should next be given a full review. Whilst the evidence on RRP has improved in recent years, we expect to see continued improvement year on year. In their annual reviews, we would ask that MOD uses a consistent methodology for considering the case for RRP, and that the overview includes analysis of the sustainability of RRP and in each case whether RRP is considered to be delivering the desired outcome and if its continuance can be justified. We welcome the fact that following the introduction of Pay16 and trade supplements, MOD is to review the overall framework for RRP to ensure its ongoing coherence and we look forward to receiving further evidence for the next round.
- 3.31. For most rates of RRP, MOD proposed an increase up to the level of the pay award. In accordance with the revised approach to reviewing RRP, MOD proposed no increase in the rate for two cadres: Mountain Leaders (ML); and Parachute Jumping Instructors (PJI). Both of these groups had full reviews this year and we consider them both later in this Chapter, along with the full review of RRP (Flying) (RRP(F)) and the case for a new RRP for Weapons Engineering Submariners (RRP(WESM)).
- 3.32. Our 2016 Report recorded our expectation that this year we would review RRP for Special Forces, Special Forces Communications and Special Reconnaissance Regiment. However, MOD did not provide full reviews for any of these three groups this year. For the next round, MOD told us that full reviews would be carried out for: Flying Crew; Hydrographic; Parachute; Special Communications; Special Intelligence; and Special Reconnaissance Regiment.
- 3.33. MOD continued to monitor the payment of RRP to Service personnel at OF5 and above. It restated its belief that a single policy for rank cut-off or payment basis was inappropriate and that future arrangements, including the application of tapering arrangements if relevant, would be considered as part of the full future reviews of RRP.

² Bespoke pay spines provide a long-term solution for groups with different career progression to the mainstream (such as Pilots or Chaplains) or who have pay aligned with direct comparator groups (such as Nurses).

³ CCB is paid where the specialism is fundamental to the core role of the individual, and will remain so for the duration of their career providing they remain qualified for the relevant RRP. NCB is paid where the specialism is a secondary skill for the individual, but is a core task within the unit in which the qualifying post has been established. Individuals move in and out of the unit/post in question and, providing they are qualified, while in a qualifying post they receive RRP. CTB is paid where the specialism is a secondary skill for the individual, and is an occasional task undertaken in support of the unit within whose role the use of the specialism is required. Individuals will be paid RRP only for those days for which they are undertaking RRP duties.

Flying represented the largest proportion of RRP recipients at OF5 or above, accounting for 79 per cent of the total. Overall, the annual cost of RRP for OF5 and above was £2.153 million.

- 3.34. MOD updated us with developments related to the impact of cuts imposed by the 2010 Strategic Defence and Security Review (SDSR) on RRP. The cuts mean that when an individual applies voluntarily to terminate their service, entitlement to all forms of RRP ceases from the date of their application being approved. In our view, this policy seems unjustified for certain groups such as submariners who will still be required to be at sea after having given notice. This issue continues to impact morale and retention negatively, particularly among those who have served a full career or are on career extensions, and are expected to serve this notice without receiving any RRP. **We were disappointed to be told in evidence that there were no plans to further review the policy at this time; we believe this to be misconceived and wholly unjustified and it should be given further consideration.** On Reserve Banding arrangements, MOD said that the current system covered three years, where a rate of 100 per cent of RRP was paid for the first two years and 50 per cent in year three. However, as a result of average assignment lengths being greater than three years, it had agreed that the policy needed reviewing. It said that any changes needed to be consistent with Pay16, and that it would submit evidence to us for our next review. We look forward to receiving it.
- 3.35. Given the evidence presented by MOD and that gathered during our visits on RRP overall, and each of the individual cadres, we are content to endorse the proposal to uplift most rates of RRP by the level of the pay award, unless specified separately.

RRP (Flying)

- 3.36. RRP(F) is paid to pilots and some aircrew in all three Services in recognition of the competition for this cadre from external employers. It is paid at levels that vary by rank and length of service as set out in Appendix 2.
- 3.37. MOD told us that prior to the introduction of the 2015 SDSR, the majority of non-commissioned aircrew cadres were broadly in staffing balance, but that SDSR15 had increased the requirement for Combat Air, Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) and Remotely Piloted Aircraft Systems (RPAS) capability. It said that junior officer and Army Non-Commissioned Officer (NCO) pilots were of critical concern, with deficits increasing across all three Services. MOD said that numbers could not easily be increased via the training pipeline as doing so would divert current pilots away from operations and exacerbate the current short-term problem, and it took four to five years before an individual graduated from an Operational Conversion Unit⁴ (OCU). The civil aviation industry was said to be in a period of considerable growth with widespread job opportunities for pilots, offering attractive remunerative packages when set against the military comparator.
- 3.38. MOD's review of RRP(F) considered four main areas: non-commissioned aircrew; ground branch personnel; officer aircrew and Army NCO pilots; and senior officers.
- For **non-commissioned aircrew**, MOD considered the commencement of the initial rate of RRP(F), banding periods and the value of rates, but concluded that the current structure was fit for purpose without alteration, but that it would be re-examined in the next annual review.
 - For **ground branch personnel**, MOD said that RRP(F) was targeted correctly and achieved an appropriate level of cost effectiveness, but that a separate review into the recruitment, training and sustainment of the cadre would be prepared for the 2017 review.

⁴ Operation Conversion Units are training units that prepare aircrew for operations on a particular type or types of aircraft or roles.

- For **officer aircrew and Army NCO pilots**, MOD put forward proposals to re-profile RRP(F) to target critical exit spikes: the end of initial training Return of Service; and individuals in their mid-40s. It proposed tackling the latter by increasing RRP(F) incrementally year on year once an individual was in receipt of the Tier Two Rate to a maximum of £19,200 per annum. MOD also proposed the introduction of a Retention Payment of £70,000 to officer pilots seven years from the end of the OCU, with a six year Return of Service.
- For **senior officer aircrew**, MOD considered entitlement and tapering, noted that the OF4-6 cadre is largely in manning balance, and recommended no change to RRP(F).

- 3.39. During oral evidence, we explored MOD's proposals on RRP(F) further. We were told that work was underway to try and widen the training pipeline to deliver more pilots, but that this was problematical as it involved taking experienced pilots away from the front-line. One of the suggestions put forward to us during our visit programme that could help with retention was for the MOD to provide a managed pathway for pilots to be able to obtain a civilian pilot's license, although this too had problems associated with diluting the front-line. We also asked about whether the proposals for RRP(F) had any success criteria attached to them to enable us to assess them appropriately in future years. Whilst the proposals did include a reference to a 20 per cent improvement in retention, MOD said that it was difficult to set out clear success criteria, as any change in retention rates could also be a result of factors other than changes to RRP(F). This is reasonable in itself, but there does have to be an assessment of whether the changes to RRP(F) represent value for money. We also questioned whether the Retention Payment of £70,000 would be sufficient: MOD said that it would be prepared to review the situation, should it prove necessary. We noted that the scope of RRP(F) did not allow any consideration of Remotely Piloted Aircraft Systems (RPAS) but we are aware from our visits that this related cadre is also under great pressure.
- 3.40. Our concerns over the risk that the 20 per cent improvement in retention would not be achieved by the proposed changes to RRP(F) were further increased by the evidence from MOD that the overall shortfall beyond 2020 in the pilot cadre would remain in excess of 20 per cent (against commitment) and at a considerably higher level in the Fast Jet (FJ) cadre. Given the considerable investment in pilot training and development generally, and the FJ cadre in particular, MOD may need to adopt a more radical and targeted approach in order to close this long running shortfall which has a direct impact on defence capability. Given the duration of the current situation, it cannot afford to be complacent in this area.
- 3.41. On balance, we are content to support MOD's proposals for RRP(F). We agree that the proposals on re-profiling RRP(F) to target exit spikes are sensible, and such a proposal received broad support during our visit programme. The proposals we are endorsing are for the establishment of a separate Officer Aircrew and Army NCO Pilot RRP(F) spine with a single level Tier One Rate of £4,000 per annum starting six years from the commencement of Phase II flying training and a seven level Tier Two Rate of £13,250 per annum increasing to a maximum of £19,200, commencing six years from completion of the individuals' Operational Conversion Unit. In addition, a Retention Payment of £70,000 (pre-tax) should be paid to Officer Aircrew seven years from the end of the Operational Conversion Unit, which is one year after the end of the Initial Training Return of Service and at the 40/20 point for NCO pilots. The Retention Payment attracts a six year Return of Service. Finally, Senior Officer entitlement and tapering of RRP(F) remains unchanged at OF4-6 and the rates increased by one per cent.
- 3.42. It will be important for MOD to continue to both explore ways of widening and shortening the training pipeline and to consider whether there could be other ways of improving retention, such as the suggestion put forward on providing access to civilian

licenses. We welcome the fact that MOD will return to us if the Retention Payment needs further review and encourage it to do so at the earliest opportunity should it be necessary. Whilst we acknowledge, of course, that there are also affordability issues, we consider it vital that MOD comes forward with more radical proposals if there is a risk to Defence outputs.

RRP (Parachute Jumping Instructor)

- 3.43. We last carried out a full review of RRP(PJI) for our 2014 Report. Our recommendations then changed RRP(PJI) for those at OR4 and above from a career continuous basis, to a non-continuous basis; and left the rates of RRP unchanged. We also recommended that RRP(PJI) should remain at existing rates in our 2015 and 2016 Reports. Currently, RRP(PJI) is paid at two rates: a Lower Rate (£7.95 per day) during the first eight years of continuous PJI duty; and a Higher Rate (£11.64 per day) thereafter. Qualified PJIs posted to the Parachute Testing and Trials of the Joint Air Delivery Test and Evaluation Unit also receive Supplement Pay (£3.68 per day).
- 3.44. PJIs perform an essential role training approximately 3,000 Service personnel to undertake military parachute descents. The need to become and remain competent across a diverse mix of parachuting configurations has increased the demands placed on PJIs, along with the need to conduct trials and testing of new parachute equipment.
- 3.45. MOD provided evidence that showed overall staffing was above liability, but that given the small numbers of posts, any sudden drop in trained strength would have a significant impact on the delivery of outputs they support. It highlighted a spike in VO rates amongst experienced staff that would lead to significant challenges if the trend continued.
- 3.46. During our visit programme, we met with PJIs who noted the challenge of maintaining the required competencies to continue to meet their performance levels and deliver in the role as a PJI, and who supported the proposal that RRP might usefully be re-profiled to provide more focus on retention, rather than recruitment. In its evidence to us, MOD considered the option of re-profiling RRP to increase the higher daily rate to target more experienced Service personnel. However, as the proposal was cost neutral it also involved reducing the lower daily rate, and MOD said that the impact on recruitment would be unknown. Its preferred option was therefore to maintain the status quo at this time, but carry out a further review next year to see if the spike in VO rates continues.
- 3.47. On balance, we agree that MOD's proposal to do nothing this year but to review again next year whilst monitoring VO rates seems sensible. We are, however, attracted by the proposal to re-profile RRP(PJI) to target more experienced Service personnel. Whilst we note MOD's comment that the effect of this option on recruitment would be unknown, equally the re-profiling option has an unknown impact on retention and arguably recruitment problems are easier to recover from than retention problems. We encourage MOD to think innovatively when coming forward with any proposals for RRP(PJI) next year. We would be prepared to consider such a re-profiling approach, if supported by the appropriate evidence.
- 3.48. Given the overall recruitment picture for PJIs, we are content to support MOD's proposal that RRP(PJI) should remain at existing rates. MOD also told us that there were no problems filling posts concerned with testing and trials, and we therefore also agree that the current level of Supplement Pay does not need adjusting.

RRP (Mountain Leader)

- 3.49. Mountain Leaders are a unique group that provide knowledge and skills that enable the Royal Marines to operate in a wide range of conditions, from the hostile environments of the Arctic to the plains of Afghanistan, and to successfully execute seaborne assaults.
- 3.50. There are four grades of Mountain Leaders: Mountain Leader Officer (MLO); Mountain Leader 1st Class (ML1); Mountain Leader 2nd Class (ML2); and Mountain Leader 3rd Class (ML3). ML3 does not attract RRP(ML), although priority to attend the ML2 course is given to members of the ML3 cohort. The current initial rate of RRP(ML) is £15.31 per day, paid to all Mountain Leaders on successful completion of the ML2 course, and backdated to the beginning of the course (the course lasts seven months). The ML1 course also last seven months, and upon successful completion, an enhanced rate of £20.81 per day is paid, regardless of rank. MLs OR4 to OR8 receive RRP(ML) on a Continuous Career Basis; and OR9 to OF3 receive it on a Non-Continuous Basis.
- 3.51. Our last full review of RRP(ML) was in our 2011 Report. In our last three reports, we have recommended that RRP(ML) should remain at current rates, given evidence of strong recruitment and low outflow.
- 3.52. The current staffing position has a liability of 97 and a strength of 93, with deficits at OR4 (-5) and OR7 (-2) levels. The nature of the role results in high levels of separated service and is an important consideration for those with family commitments.
- 3.53. MOD noted that the overall picture on staffing balance masked variations in surpluses and deficits between the ranks, and said that any additional outflow following changes to remuneration in such a niche cadre would be subject to exceptionally slow recovery owing to the length and challenge of the training pipeline. Despite this, it said that its preferred option was to propose that the overall RRP(ML) construct be retained, but that payment of the initial rate of RRP(ML) should no longer be backdated to the beginning of the ML2 course and that rates of RRP(ML) should be held at the current levels.
- 3.54. Despite the deficits at OR4 and OR7, the overall staffing picture supports the proposal that RRP(ML) should remain at existing rates. With regard to the backdating of RRP(ML) to the beginning of the ML2 course, we note from MOD that this is the only example of RRP being backdated, and in the absence of any evidence as to why such an arrangement was originally put in place, we consider that the access to RRP(ML) should prove incentive enough to recruit enough Service personnel, without backdating. Whilst willing to recommend that RRP(ML) remain at current rates and payment of RRP(ML) (Initial) be no longer backdated to the beginning of the ML2 course, we ask MOD to consider whether the impact of both these elements together might be a step too far: it should consider the relatively small sums of money involved, balanced against damaging motivation in the Royal Marines, and its own evidence about the risk to recruitment and retention given the length and challenge of the training pipeline. Should MOD wish to proceed with both strands, then we expect that it will be necessary to review RRP(ML) sooner rather than later, but currently we are content to recommend that the overall construct of RRP(ML) be retained.

RRP (Weapons Engineering Submariner)

- 3.55. MOD submitted evidence outlining its proposal for the introduction of a new RRP for ratings in the Royal Navy's WESM branch, for both Strategic Weapons Systems (SWS) and Tactical Weapons Systems (TWS).
- 3.56. The Royal Navy Submarine Service delivers maritime capability including the UK's nuclear Continuous at Sea Deterrent, and operations take place in a unique and arduous working environment. The Service has significant manpower challenges, with some of the most acute and severe issues being with WESM ratings where shortfalls exist that are

forecast to continue for a number of years. MOD's key concern is outflow at OR4 level with unsustainable VO rates for both SWS and TWS staff (12 per cent and 10 per cent, respectively). At OR6 level, SWS has a 42 per cent deficit, and TWS a 62 per cent deficit. Naturally, the gaps put greater pressure on those remaining in service. MOD said that the demand of engineers in the wider economy was a significant pull factor, particularly for those past the pension point for whom a second income allied to increased personal stability could offer a substantial increase in quality of life.

- 3.57. We considered and recommended the introduction of an FRI for SWS (in 2012) and TWS (in 2013) ratings. The associated five year Return of Service is due to run out in 2018, and MOD said it was aware that Service personnel could submit notice to quit in 2017, so wished to take preventative action now. It said that FRIs could be both expensive and divisive, and that their impact diminished over time and with repetition in any particular cadre.
- 3.58. The staffing evidence overwhelmingly supports the introduction of RRP for WESMs. Whilst we often hear that retention issues are not pay related, it appears to us that, given the pull of the civilian market, for this particular cadre pay is a significant factor affecting recruitment and retention. MOD proposes three rates of RRP at OR4 (£3 per day), OR6 (£12 per day) and OR7-9 (£20 per day). On the basis of the evidence provided, we are unable to ascertain whether the proposed OR4 'taster' rate of £3 per day will be sufficient to pull through enough Service personnel to the higher rates of RRP. It will therefore be important for MOD's first 12-month review of the proposed RRP to consider whether the proposed construct is delivering the desired outcomes. We note that the RRP proposal did not set out success criteria, and request that such measures are put in place: indeed, we believe this is appropriate for all remunerative measures. We expect that MOD provides us with evidence on this new RRP for our next round.
- 3.59. MOD also said that it would closely monitor the staffing position for Communications Information Systems (Submariner) (CISSM) personnel. It pointed to the fact that CISSM personnel had been placed in Supplement 2 under Pay16, noting that WESM personnel fell within Supplement 3. MOD was therefore concerned that the introduction of RRP for WESM personnel and the subsequent widening of the pay differential could impact retention of CISSM personnel. It said it would monitor VO rates, particularly at OR7+, with a view to extending the WESM RRP to CISSM if it became evident that staffing had deteriorated. We support a proactive approach, particularly as this can be more cost and operationally effective in the long run.
- 3.60. The introduction of Pay16 will have changed the through career pay expectations for Service personnel in a number of groups in receipt of RRP. It will be important to ensure that the way in which RRP is paid remains appropriate given these revised expectations of base pay. **We recommend that MOD provide detailed consideration for the next round of how they will review RRP to ensure they remain appropriate in relation to Pay16, and to adopt a consistent approach to the routine review of RRP in future with a greater focus on measures of success.**

Recommendation 3: We recommend that (from 1 April 2017 unless otherwise stated):

- A separate Officer Aircrew and Army Non-Commissioned Officer (NCO) Pilot Recruitment and Retention Payment (RRP) (Flying) spine is established with a single level Tier One Rate and a seven level Tier Two Rate, with Tier One being £4,000 per annum starting six years from the commencement of Phase II flying training and a tapered Tier Two Rate of £13,250 per annum increasing to a maximum of £19,200, commencing six years from completion of the individuals' Operational Conversion Unit.
- A Retention Payment of £70,000 (pre-tax) is paid to Officer Aircrew seven years from the end of the Operational Conversion Unit, which is one year after the end of the Initial Training Return of Service and at the 40/20 point for NCO pilots. The Retention Payment attracts a six year Return of Service.
- Senior Officer entitlement and tapering of RRP (Flying) remains unchanged at OF4-6 and the rates increased by one per cent.
- RRP (Parachute Jumping Instructor) remains at current rates.
- The Continuous Career Basis, Non-Continuous Career Basis and the Joint Air Delivery Test and Evaluation Supplement Pay for RRP (Parachute Jumping Instructor) remains at the current rate of £3.68.
- The overall RRP (Mountain Leader) construct be retained and remain at current rates but payment of RRP (Mountain Leader) (Initial) no longer be backdated to the beginning of the ML2 course.
- RRP (Weapons Engineering Submariner)(WESM) be implemented for ratings in the Royal Navy's WESM branch (Strategic Weapons Systems and Tactical Weapons Systems).
- Other RRP rates be increased by one per cent.
- MOD provides detailed consideration for the next round of how they will review RRP's to ensure they remain appropriate in relation to Pay16, and to adopt a consistent approach to the routine review of RRP's in future with a greater focus on measures of success.
- Full reviews of RRP (Flying Crew); RRP (Hydrographic); RRP (Parachute); RRP (Special Communications); RRP (Special Intelligence); and RRP (Special Reconnaissance Regiment) be conducted next year.

Northern Ireland Residents' Supplement

- 3.61. We conduct a biennial review of the Northern Ireland Residents' Supplement (NIRS) in order to measure any change of circumstances for Service personnel who live and work in Northern Ireland (NI). The allowance recognises the particular circumstances that Service personnel and their families face while based in NI and is paid over and above X-Factor. NIRS forms part of an NI package which also includes: funded trips to the mainland for Service personnel and their families; a contribution towards the extra cost of motor insurance in NI (compared with central London); and a contribution to house moving costs if such a move is required for security reasons.
- 3.62. The increased security threat in NI leads to living conditions being more restrictive and Service personnel and their families being under more pressure compared with counterparts in the rest of the UK. There are 'out-of-bounds' areas, restrictions on what can be disclosed about being in or associated with the Armed Forces including a ban on wearing uniforms in public, and families and single Service personnel can find it difficult to integrate and socialise with the local community, leading to feelings of isolation. These factors can make it harder for spouses to find employment in NI than in other parts of

the UK. The requirement for discretion means Service personnel are unable to use the Forces Railcard and the Forces Discount Card, although an on-line discount system is now available. MOD told us that Service personnel are often reluctant to serve in NI and statistics show there is a much lower rate of accompanied service in NI compared to the mainland and overseas locations.

- 3.63. Service personnel and their families to whom we spoke on our visit to NI strongly supported retaining NIRS, considering that it remained highly relevant and appropriate. Some thought NIRS should be paid at a higher rate to married Service personnel who were serving accompanied in NI. MOD told us it was aware that the current policy of paying the same rate of NIRS to single/married unaccompanied and married accompanied Service personnel was in breach of the aim of NIRS as laid out in JSP 752. It is therefore disappointing that MOD was unable to put forward a proposal to address the disparity this year, particularly as it also recognised the difficulties that spouses have in securing and sustaining employment in NI. **We would like to be kept informed of any evidence MOD gathers on the impact this disparity is having on Service personnel's choices in respect of serving in NI and ask that MOD considers modifying the construct of NIRS to address the issue in the next review.**
- 3.64. As we set out in Chapter 2, many Part-Time Volunteer Reserves whom we met thought it unfair that they only received NIRS on a pro-rata basis for the days they actually served/trained, since serving as a Reserve exposed them, and their families, to increased risk every day. Whilst MOD maintain that the pro-rata payment is commensurate with the amount of risk to which Reserves are exposed, **we would like MOD to consider some form of recognition for the additional pressure Reserves face included in the next review of NIRS.**
- 3.65. MOD evidence acknowledged the additional pressure that Service personnel working in support of operations in NI face as they are required to work at high tempo, for extended periods alongside other security forces and are kept on a short 'notice to move' for the duration of tours. The relevant Service personnel we met with in NI felt very strongly that there should be some form of additional recognition for this work. We raised this with the Secretary of State at oral evidence and he agreed to take the issue away for further consideration. We look forward to hearing the outcome in due course.
- 3.66. The circumstances for personnel serving in NI appear broadly similar to when we last reviewed NIRS for our 2015 Report and the security threat remains at Severe. In the light of this and evidence gathered during our visit, we endorse MOD's proposal that NIRS be increased in line with the annual pay award. We are content for the next review of NIRS to take place in 2018-19 but are prepared to look at it sooner if the situation for Service personnel in NI changes.

Recommendation 4: We recommend that the Northern Ireland Residents' Supplement be increased by one per cent from 1 April 2017.

New Entrants' Rates of Pay

- 3.67. This year saw the quinquennial review of the New Entrants' Rates of Pay (NERP) for Officers and Other Ranks within the Armed Forces. NERP is the rate of pay for all new recruits to the Armed Forces, at the start of initial training (Phase 1).
- 3.68. When we last considered NERP for our 2012 Report, we recommended that NERP for direct entrant graduate and non-graduate Officers should be harmonised for all three Services at OF1. We were therefore pleased to note from the evidence supplied by MOD for this review that this had been implemented at the Pay16 increment OF1-1 (currently £25,727 per annum).

- 3.69. All Other Ranks join Phase 1 training on a NERP (currently £14,784 per annum) before moving after 6 months onto the starting level of the OR2 pay range, currently at the Pay16 increment OR2-1 (£18,306 per annum).
- 3.70. MOD pointed to increases in intake numbers for all three Services, but also referred to the challenging recruitment targets and recruiting environment. It cited evidence from relevant survey data suggesting that initial salary levels did not feature highly among the factors influencing potential and new recruits' decisions to join the Armed Forces. We note that that is the case, although salary still accounts as an important/fairly important factor for 67 per cent of both Officer Cadet and Recruit Trainees. The findings of the recruitment surveys are largely borne out by the views expressed during our visit programme. We note from MOD's evidence that the results of the recruitment survey could be influenced by respondents answering in a manner in keeping with the military ethos: we would support future surveys being carried out anonymously to provide more robust data.
- 3.71. Another issue of increasing significance is the question of whether the MOD is honouring the commitment to comply with the spirit of the National Minimum Wage (NMW) (and now the National Living Wage (NLW)). While the Armed Forces are exempt from the legislation, MOD has committed to comply with the spirit of the law. We discussed the current position in Chapter 2 and concluded that current rates remain above NMW levels. But it is becoming more marginal for those Service personnel who work particularly long hours and, as the NMW rates increase and the new NLW rate is introduced for the 25s and over, it will be important for the MOD to consider this point carefully in future reviews of both NERP and the lower levels of the pay scales.
- 3.72. On balance, we agree with MOD that the existing NERP arrangements continue to be sufficient to support Armed Forces' recruitment. MOD also put forward proposals to harmonise the pay arrangements for a number of pre-career (OF0) feeder groups (University Cadets, Army Gap Year Commissions and University Cadet Entrants) resulting from the transition to Pay16. We endorsed Pay16 in our last report and are therefore content to similarly endorse these proposals.
- 3.73. We ask that MOD's ongoing monitoring of inflow and survey data be used to help inform the date of the next review of NERP, bringing it forward if supported by evidence. We also ask that the next review consider the question of how NERP compares with the NMW and the NLW, again bringing forward for review if it feels that the evidence suggests some action may be necessary.

Recommendation 5: We recommend that:

- **pay arrangements for pre-career (OF0) feeder groups (University Cadets, Army Gap Year Commissions and University Cadet Entrants) be harmonised as part of housekeeping resulting from the transition to Pay16 with the creation of a new OF0 pay scale.**
- **the next review of New Entrants' Rates of Pay be determined by MOD's ongoing monitoring of inflow and survey data.**

Non-pay benefits

- 3.74. MOD provided us with evidence for what it described as the quinquennial review of the Defence employer 'offer' made to Service personnel beyond pay, pensions and allowances. It described the offer by placing the components into four main categories: opportunity; work; people; and factors external to Defence.

- 3.75. We note that the last review of non-pay benefits was in fact carried out for our 2007 Report. At that time, the analysis identified several categories including company cars, annual leave, season ticket loans, subsidised mortgages, meals and lunch allowances, private medical insurance, employee share schemes, educational assistance, flexible working and sports and social facilities. We would welcome a similar breakdown of current non-pay benefits. That kind of analysis would allow us to make comparisons with civilian comparators, and to consider whether the balance of advantages lies with Service personnel or their civilian counterparts, and ultimately, whether we think that any pay recommendations are necessary.
- 3.76. Our programme of work for the next round will include the scheduled review of X-Factor: the pensionable addition to pay that recognises the different conditions of service experienced by members of the Armed Forces compared with civilian employment over a career. It accounts for a range of potential advantages and disadvantages which cannot be evaluated when assessing pay comparability. MOD will be providing us with evidence for our review of X-Factor: we expect that its evidence will also give consideration to non-pay benefits compared to civilian counterparts, so that we can assess X-Factor and non-pay benefits together.

Rates of compensatory allowances

- 3.77. For all rates of compensatory allowances not reviewed above, and for Reserves' Bounties, we recommend increases in line with our overall pay recommendation.

Recommendation 6: We recommend that all rates of compensatory allowances not reviewed separately, and the Reserves' Bounties, be increased by one per cent with effect from 1 April 2017. The recommended rates are in Appendix 2.

Financial Incentives considered outside our usual timetable

- 3.78. In February 2016, we were asked to consider a proposal for a Financial Retention Incentive (FRI) of £24,000 for Royal Navy Technicians in the Engineering General Service (EGS) sub-branch, and a follow-on FRI for Petty Officer Engineering Technicians and Chief Petty Officer Engineering Technicians (£28,000 and £32,000, respectively). All of these FRIs involved a four year Return of Service. Given the stark picture on retention, we endorsed the FRI proposals from MOD.
- 3.79. We will expect the engineering paper of evidence that we have been promised for next year's review to include an evaluation by MOD of these FRIs as part of the overall remuneration strategy for engineering.
- 3.80. We were also asked by MOD to consider an urgent proposal to broaden the eligibility of the Army Reserves Commitment Bonus to help recruit and retain Professionally Qualified Officer (PQO) posts within the Army Medical Services and Royal Army Chaplains' Department of the Army Reserves, giving ex-Regular OF3 and OF4 PQOs access to the Army Reserves Commitment Bonus Scheme from 1 October 2016.
- 3.81. We considered and endorsed the proposal in October 2016. We recognised that it would provide a targeted incentive for ex-Regulars to join the Reserves to help address a recruitment issue at PQO level. We note that MOD intends monitoring the effectiveness of the Commitment Bonus Scheme and ask that it keeps us informed.

Pay16

- 3.82. In our last report, we noted the introduction of the New Employment Model pay structure, known as Pay16. The new structure was designed to address issues with the previous model (Pay 2000) that were a source of significant dissatisfaction with Service

personnel. Pay16 retains incremental pay scales and progression, and we know from our conversations with Service personnel that predictable pay progression over several years to a scale maximum is greatly valued by them. By offering some stability amid the inherent risks and uncertainties of Service life, it is an important part of the offer and supports recruitment, retention, motivation and morale.

- 3.83. Under Pay16, each trade is assigned to one of four trade supplements. An individual in a specific trade can then expect to remain in that supplement for the duration of their military career. This is intended to allow appropriate differentiation in pay between trades and give an individual more clarity in what they might expect to be paid in the future. Trades were assigned to the four trade supplements on the basis of a comprehensive job evaluation exercise which was validated by the various trade sponsors, senior Military staff from each Service and the central Joint Services Job Evaluation Team (JSJET) to ensure it was fair and equitable.
- 3.84. In evidence to us this year, MOD commented that Pay16 was not a savings exercise, but rather a re-balancing of pay resources to provide a simpler, more efficient and transparent core pay model. It said there had been a 'no loss' policy on go live, which was 1 April 2016: those Service personnel who benefited from a pay increase received the gains immediately, whilst additional money was provided to ensure that pay protection was applied to those who would otherwise see a reduction. Pay protection either maintained an individual's specific rate of pay, or transitioned individuals to the nearest 'no-loss' Pay16 rate, where they will remain (retaining eligibility for any annual pay awards) until accrued seniority moves them on and they re-start incremental progression. MOD said that pay protection would be in place for at least three years, with a review held at the end of the first year of operation to assess the role pay protection might play over the longer term.
- 3.85. MOD said that the placement of trades to supplements will continue to be based on job analysis and that there will be a rolling programme of job evaluation reviews of each trade by the JSJET. The mechanism for future review of the placements of trades to supplements will be considered by the Defence People and Training Board, but the principle is that a full formal review should occur no less frequently than every five years. MOD said that as required, there would be a process to review individual trades and make any necessary adjustments. However, any resultant pay bill costs would need to be considered and prioritised alongside other competing financial pressures.
- 3.86. Our 2016 visit programme took place shortly after the implementation of Pay16, so it was perhaps unsurprising that it was one of the major themes during our discussion groups with Service personnel. The allocation of trades to supplements led to a strong feeling from a minority of Service personnel about being undervalued, either compared to other trades within their service, or in relation to equivalent trades in other parts of the Armed Forces. Some Service personnel placed on protected rates of pay told us that there was now little benefit in being promoted, as they would not see an increase in their pay commensurate with the additional responsibility. Many of these outcomes are an inevitable consequence of addressing the pay anomalies in Pay2000. Service personnel were also concerned about what would happen after the initial three years of pay protection for Pay16. It was often not clear to us that the professional leadership for trades were communicating and taking ownership of key decisions affecting employment terms as a result of Pay16.
- 3.87. In our last report, we commented on the importance of a comprehensive communication exercise to ensure that all Service personnel understand the new pay structure and its implications both in the short and long term. That view has been reinforced by what we heard during our visit programme. It is crucial in our view that senior management take ownership of Pay16 decisions and provide an effective communication mechanism that engages and utilises the full command chain to comprehensively brief Service personnel,

and that such communications should be proactive rather than simply reactive. We noted that there could be nuanced reasons why trades had been placed within particular supplements, and can appreciate that decisions might look questionable to an individual making comparisons from their specific and personal perspective. Some branches took an 'all of one company' approach, whilst some others used management discretion in their decision making. The ongoing reviews of all trade supplements will provide a vehicle to carry forward staff engagement in the pay system, but as with all communication, it is vital that messaging is ongoing and reinforced regularly. We return to the issue of communications in Chapter 5.

- 3.88. MOD will be reviewing the role of pay protection in early 2017. We have previously signalled our support for the initial three years of pay protection and look forward to learning the outcome of the review. Nevertheless, it is worth putting on record that **we support ongoing pay protection policy for Service personnel who have transitioned to Pay16.**

Payment of professional body fees

- 3.89. MOD told us that following our earlier request for the consideration of the reimbursement of professional body fees (PBFs) for Allied Health Professionals, approval from HMRC had been obtained backdated to April 2016 and reimbursement had begun, which we welcome. MOD said that in the case of PBFs for engineers, there was no overarching policy or consistency, but that an early outcome of the work undertaken by the Defence Engineer Remuneration Review had agreed that from April 2016, annual subscription fees for Professional Engineering Institutions and the annual Engineering Council registration fees would be reimbursed to all qualifying members of the Armed Forces. MOD said that further work continues to identify any additional cohorts for whom the reimbursement of PBFs was appropriate. We believe that a consistent approach should be taken to the reimbursement of PBFs for all relevant groups. By way of example, we identified farriers as an affected group during our visit programme. We support reimbursement of PBFs for Service personnel where those PBFs are an essential requirement for carrying out Service duties and **strongly believe that MOD should implement a mechanism to enable the reimbursement of PBFs for all cohorts where membership of a professional body is essential given the nature of their role.**

Chapter 4

ACCOMMODATION AND FOOD CHARGES

We recommend that from 1 April 2017:

- For Service Family Accommodation (SFA), Combined Accommodation Assessment System Band A charges be increased by 1.0 per cent. This recommendation will affect the charges for lower bands, as they are all in descending steps of ten per cent of the Band A rate.
- Legacy Four-Tier Grading SFA charges in Germany be increased by 1.0 per cent.
- For Single Living Accommodation, charges for grade 1 be increased by 1.00 per cent, with increases of 0.67 per cent to grade 2, 0.33 per cent to grade 3 and zero to grade 4.
- Annual charges for standard garages and standard carports be increased by 1.0 per cent, with no increase to charges for substandard garages and substandard carports.
- The Daily Food Charge remains at its current rate of £4.79.

Introduction

- 4.1. Under our terms of reference, we are required to recommend charges for Service accommodation and garage rent, and for the Daily Food Charge (DFC).
- 4.2. The provision of subsidised accommodation remains a very important part of the overall offer to Service personnel and their families. It is important that the levels of charge are set appropriately for the different types and condition of accommodation, and that the properties are effectively serviced and maintained.
- 4.3. Our recommendations for 1 April 2017 follow a summary of the evidence we considered this year. Our visit programme allowed us to see at first hand examples of the accommodation used by Service personnel and their families. We always try to see both the best and worst accommodation during visits, along with hearing the views directly of those personnel and families living in either Service Family Accommodation (SFA) or Single Living Accommodation (SLA). We received written and oral evidence from the Service Families' Federations (SFFs), MOD/individual Services and the Defence Infrastructure Organisation (DIO). We also explore accommodation issues during our oral evidence sessions with the Principal Personnel Officers (PPOs) and the Secretary of State for Defence.

Service Family Accommodation

- 4.4. MOD controls around 65,000 SFA properties worldwide, 49,679 of which are in the UK. The majority of UK homes (38,659, all in England and Wales) are leased from Annington Homes Ltd (AHL) with the remainder MOD owned, PFI or sourced from the open market (including an additional 867 Substitute SFA (SSFA)). In 2015-16, £63 million was spent on improvements to UK SFA, including bringing many properties up to the government's 'Decent Homes Standard', which is now used as the relevant benchmark level (see below). As at July 2016, 91.6 per cent of SFA in the UK was at Decent Homes Standard or above. An additional £12.6 million was spent on purchasing 51 new SFA units in the UK. MOD planned to spend £68 million on improvements to SFA in 2016-17, and to reduce its reliance on SSFA.

- 4.5. From 1 April 2016, a new accommodation grading system was implemented for SFA – the Combined Accommodation Assessment System (CAAS). CAAS has replaced the previous grading system known as the four-tier grading system (4TG): a system that was considered unfit for purpose, led to inappropriate charging in many instances and was regarded as unfair and not transparent. 4TG had separate measurements of standard for condition (state of repair) and grade for charge (reflecting size and facilities relative to other houses of the same broad type), with the responsibility for evaluating condition resting with the local command. Consequently, evaluations were often out of date, did not happen consistently across the estate, and erred on the side of undercharging. As a result there were significant cumulative mismatches between condition and charges. Under CAAS, charges are based on assessment of three factors: condition (measured against the Decent Homes Standard); scale (size according to entitlement); and location. These are then combined into a single charge band for each property (with double weighting given to condition as it was regarded as the most important aspect of SFA by personnel). In our previous report, we set out our support for the introduction of CAAS. We remain supportive of the intent, the overall design of the new system, particularly the principles of independent evaluation and use of the Decent Homes Standard. Service accommodation should be charged for appropriately and fairly, with a significant discount, recognising the disadvantages faced by Service personnel compared with their civilian equivalents, including relative lack of choice, restrictions on decoration and their reliance on the maintenance service provided under a single, DIO-managed contract.
- 4.6. In advance of the introduction of CAAS on 1 April, all occupants of SFA were sent letters setting out the charge band to which their house had been allocated. MOD told us that all SFA subject to CAAS were assessed by physical survey and/or extrapolation from like properties on the same estate. It said that 62 per cent of all SFA was surveyed by February 2016, and that the range of surveys varied from estate to estate with the assurance that extrapolated houses would include desktop and additional physical surveys prior to CAAS charging letters being issued. MOD said it was confident that this approach went well beyond what was necessary to ensure a reasonable degree of accuracy in charging. It said that surveys were not undertaken randomly: for example, where there was evidence that charge bands might be different for ostensibly similar properties, surveys were targeted to ensure such differences were captured. MOD said that the approach had been clearly communicated to Service personnel and their families.
- 4.7. MOD also said that a key feature of the communications plan was for families to understand how they could challenge and appeal CAAS banding decisions. It commented that the process had resulted in fewer appeals than expected, but that some appeals had been complex. As a consequence, reviewing each appeal had taken longer than expected and resulted in a backlog. However, it said that the backlog had since been cleared. It said that Stage 1 challenges related to the evidence for how CAAS banding had been determined and were addressed to CarillionAmey (CA) in the first instance. At July 2016, 107 cases had been upheld, and 1,534 cases were rejected. Stage 2 appeals were made directly to DIO and related to where the occupant is not satisfied with the response at Stage 1: at July 2016, 27 cases had been upheld, and 101 cases were rejected. MOD argued that whilst there would always be errors in surveying an estate of such size, the outcome of challenges and appeals suggested a reasonable level of accuracy had been achieved.
- 4.8. During our visit programme, Service personnel and their families gave us their views on the surveying process. Personnel questioned its robustness, and pointed to a lack of transparency and consistency. There were a number of reports of adjacent or near identical properties being graded differently. For example, we saw two apparently identical properties that had been graded A and E respectively. We were subsequently told by MOD that after re-assessment, the properties had been graded A and C. Service personnel commented that DIO had made it very difficult to challenge

banding decisions, in some cases forcing personnel to make Freedom of Information (FOI) requests to obtain the survey information needed to challenge their properties' banding. At oral evidence with DIO, its Chief Executive agreed that it was unacceptable to require personnel to obtain information on banding via FOI, and that the situation had since been corrected – letters issued on move-in now contained more detailed information. We comment further on the appeals process when discussing compensation arrangements later in this chapter.

- 4.9. We described the transitional arrangements from 4TG to CAAS in detail in our previous report. While the new system was initially designed to bring in the same revenue as 4TG, the systemic under-grading and therefore undercharging under the old system meant that, in correcting this on transition, a significant number of personnel would see increases in the charges associated with their property. Basically, those paying a higher charge under the previous 4TG system than their confirmed CAAS charge saw an immediate reduction to the new level on 1 April 2016. Those whose CAAS charge was higher than their 4TG charge started the move towards the correct CAAS level on 1 April 2016, moving to the first CAAS band above their existing 4TG rate. These transitional arrangements will continue with affected properties continuing to move up another CAAS banding level each year on 1 April, until they reach the correct level for charge. We expressed considerable concern at the short-term financial implications of these changes for SFA occupants in our previous report. MOD acknowledged our concerns but said it continued to believe that these transitional arrangements were as fair as possible, balancing the need to protect Service personnel from sharp increases, whilst moving over a reasonable period to a position where they are collecting the correct level of receipts based on the quality and size of accommodation provided. It noted that the transition plans would extend out seven years for some properties, completing in 2022. MOD and the Secretary of State committed that all additional receipts resulting from CAAS would be reinvested back into military accommodation (which could be either SFA or SLA).
- 4.10. During oral evidence with the SFFs, we were told that while there was support for a revised grading system, the numbers of Service personnel seeing increases in charging had been greater than expected. We looked at the information that was available about CAAS on the gov.uk website and noted that it showed two different estimates: the main infographic on CAAS suggested that 55 per cent of Service personnel would see an increase; but the detailed information on the website put the figure at 75 per cent. We sought an explanation for the discrepancy. MOD said that after the survey work, in fact 81 per cent of properties had been allocated to a CAAS band higher than their 4TG level. It explained that the data used for the original estimates were based on outdated survey information and that many properties had been improved by the time the CAAS surveys were undertaken, and its modelling assumptions on the condition of properties had also not been adequate. However reasonable this explanation might be, the discrepancy did not improve confidence in the process. MOD argued that the increases had been offset to some degree by a greater than predicted number of properties being at a lower grade than its original estimate: it originally expected 5 per cent of properties to see a drop in charge, but after the survey process, this had turned out to be 17 per cent.
- 4.11. We sought additional information on the expected level of receipts from SFA, based on what DIO now knew about CAAS bandings and the projected path for Service personnel as they moved through bands under the transitional arrangements to the 'correct' level of CAAS banding. DIO was unable to provide us with a sufficiently robust breakdown of future estimates, and it is not clear to us that it has a proper understanding of the finances for its estate. Looking ahead, **we would expect to see a detailed analysis of current and projected future receipts, not least so that we and Service personnel can be reassured that the commitment to reinvest any increase in rental receipts in accommodation is being delivered.**

- 4.12. A key consideration in people accepting the increases in charges being seen under CAAS will be a clear improvement in both the overall quality of the housing stock and the effective delivery of maintenance services. Following the introduction of the new National Housing Prime (NHP) contract in late 2014, CA was given the contract for housing allocations, removals, and furniture as well as maintenance and improvements. MOD told us that CA's performance against a number of Key Performance Indicators (KPIs) had been extremely disappointing despite numerous warnings, withholding of payments and MOD/CA Board to Board meetings throughout 2015. In March 2016, following the personal intervention of the Secretary of State for Defence, an Improvement Plan was agreed under which CA committed to achieve all its repair and maintenance and statutory and mandatory KPIs by the end of May 2016. MOD told us that there had been a notable improvement and that the KPIs were all met by May 2016, but that it was essential that CA and DIO ensured that the level of performance was sustained and where possible further improved. However, our analysis of the September 2016 figures showed that CA's performance had deteriorated against all of its KPIs relative to May 2016, and that the KPIs relating to 'emergency', 'urgent', and 'wind and weatherproof' were no longer being met.
- 4.13. We have taken note of the findings of the Public Accounts Committee (PAC) into SFA. The PAC took evidence from CA, DIO and the SFFs on the performance of CA, with some of the SFFs commenting on a recent improvement in the service delivered by CA. However, in our oral evidence with the SFFs, they said that any improvement by CA had not been sustained. This is borne out by the data on KPIs, set out in the previous paragraph, which shows a peak performance at May 2016. In oral evidence MOD told us that there had been a marked improvement in performance by CA, but that it needed to be sustained across the country. The MOD said it had been made clear to CA that it would look at options (including termination of the contract) if the improvement was not sustained.
- 4.14. We questioned MOD about whether the existing KPIs in the CA contract were sufficient to deliver an appropriate level of service to personnel. MOD said that realism was also needed: more demanding KPIs came at a cost. It said that the CA KPIs were based on those in the old contract and comparable with other public sector KPIs.
- 4.15. However, MOD recognised the poor service being experienced by Service personnel and described the improvements that had been put in place by CA. It said that 125 additional permanent staff had been employed to address underperformance since March 2016, with a further commitment to improving service delivery by investing in Customer Service Training for customer-facing operatives and engineers, and the appointment of four regional complaints managers.
- 4.16. MOD said it wanted to improve the "lived experience" of Service personnel, and that it was therefore considering the implementation of a compensation scheme from 1 April 2017. It said that work continued to fully develop proposals, but its assessment was that it would be a financially meaningful scheme. It said that any decision to introduce the scheme would include consideration of value for money. It added that DIO had proposed that it should only be introduced if there was an inflation increase to rents, as not increasing charges would effectively provide an alternative approach to compensation in which all SFA occupants were compensated for CA's poor performance through an increase in the subsidy relative to the civilian rental market.
- 4.17. Alongside proposals for a new compensation scheme, MOD described the measures that were already in place to deliver compensation to Service personnel for accommodation related failings. They include: MOD providing a temporary reduction to charges following a significant deficiency or reduction in amenities that lasted for seven days or more; Service personnel being able to apply to MOD Claims for compensation; and CA's own voluntary compensation scheme, mainly relating to the loss of utilities or cooking

facilities over a specific period. In terms of the amount of compensation paid out under these three categories, we were told that: during the period April to October 2016, DIO had authorised 333 temporary reductions (but that this total also included reductions for disruptions caused by improvement works); that data on MOD Claims were not available; and that CA had paid out compensation totalling £92,000 involving 392 cases for the period January to September 2016.

- 4.18. We have considered the plans to introduce an additional compensation scheme for Service personnel. It could be argued that rather than developing a new compensation scheme, MOD should concentrate on making the existing compensation mechanisms more accessible and responsive for Service personnel to use and certainly it would appear that this would be worth pursuing simultaneously. The current scheme for MOD Claims requires Service personnel to make a formal Service complaint, and some personnel may not wish to do so as they could perceive that it would have a detrimental impact on their careers. **It would improve confidence in the objectivity of the system if there was an independent arbitration process for compensation decisions. In our view, a similar mechanism should be put in place for the consideration of appeals against CAAS banding decisions so that an independent judgement can be reached, particularly for Stage 2 appeals.**
- 4.19. In relation to the proposals for a new compensation scheme, it is not clear to us why it was not covered by the original contract with CA, and suggests to us that the fault in no small part lies with the negotiation of the original contract. **If compensation payments are introduced, then mechanisms should be put in place to ensure that payments are automatic, and do not require Service personnel to apply for them.**

Our approach to recommendations

- 4.20. After considering all of the evidence set out above, we need to make recommendations for charging levels from 1 April 2017. We have taken account of the evidence from DIO, SFFs, the Principal Personnel Officers for each of the three Services, and evidence from the Secretary of State and MOD officials. We have given due consideration of the operation of the National Housing Prime contract, the impact of continuing transition to CAAS and the views gathered during our visit programme.
- 4.21. A large range of issues relating to SFA were raised during our visit programme:
- the overwhelming view was that the main problem was the perceived lack of any improvement in the maintenance service, with the majority view being that the level of service had declined under CA;
 - the complaints system was failing to deal with maintenance issues in a timely manner and was thought to be unaccountable;
 - some commented that the 'Decent Homes Standard' to which CAAS aspired was the lowest possible standard, below that of council housing;
 - another common issue raised was the "marching out" charge when leaving a property – personnel complained that when moving in, the property still needed cleaning, despite the previous occupant paying for the marching out service;
 - many personnel replayed the rumour that there was an intention for rental charges to move to market rates, although many also recognised the value for money offer of service accommodation (although there were concerns about how standards varied from base to base, and some thought the CAAS changes significantly devalued the 'offer');

- there was widespread support for more equitable accommodation charging arrangements between married and non-married personnel and for SFA to be available for unmarried couples;
- some said that because of poor insulation in SFA, heating bills were higher than the norm;
- some pointed to the benefit provided when locations had CA liaison officers on site to help deal with issues; and
- some were concerned about the uncertain nature of the Future Accommodation Model.

4.22. Issues relating to allocation and eligibility were also raised by personnel. Some commented on the high costs of personnel living in hotels whilst waiting for Substitute Service Single Accommodation. It appeared to many that government was unwilling to take a long-term view that building new accommodation would result in savings. Personnel also thought that accommodation allocations were unfair and biased, with officers being allocated properties close to the work station compared with other ranks. We also heard the views of personnel about accommodation overseas: in the USA, lack of flexibility (dictated by Washington) when choosing SFA was a major issue in the West Coast – personnel were unable to take up accommodation in a higher grade, even when the charge for higher grade accommodation was lower than the allowance for the lower grade; SFA with just two bedrooms did not (as a general rule) have a garden, which was an issue for those with children, and it was too hot in the summer months to let children play in outdoor park areas; some USA areas offered no support in finding housing, and competition with tourists for housing was a problem in some areas.

4.23. MOD said it continued to develop its methodology to show how SFA charges compared to rents in the civilian sector. Using data from the 2014-15 English Housing survey, it said that all SFA types remained significantly subsidised compared to private sector rates; by between 57 per cent and 66 per cent for Other Ranks, and between 43 per cent and 60 per cent for Officers. MOD said that the rent-to-salary ratio ranged from 20 per cent for owner occupiers to 40 per cent for private renters, with social renters spending on average 30 per cent of their salary on rents: these ratios outstripped the impact on almost all Service personnel, who were estimated in 2013 to spend less than 12 per cent of their salary on SFA charges. MOD said that it acknowledged that the subsidy existed to ensure Service accommodation was charged for fairly and appropriately, recognising the disadvantages of living in Service accommodation compared with the civilian equivalent, and was in no way intended to compensate for deficiencies in how well SFA was managed or maintained. MOD reaffirmed that it saw subsidised accommodation as a key part of the offer to Service personnel and that it had no plans to link charging with market rates.

4.24. Under CAAS, the rental charge¹ for furniture is separated out from the accommodation charge (meaning all SFA will be 'let' as unfurnished) and there will be one level of furnished or part-furnished charge for each type of SFA. MOD said that for the time being, it proposed to continue making furniture available to Service personnel with charges standardised at the equivalent of the Grade 4 charge under 4TG. It said that this would provide a financial advantage for the vast majority of SFA occupants that rented furniture, but it considered this to be fairest approach in the early years of CAAS transition. However, MOD said that this policy was not deemed to be value for money to Defence in the long term and said it would be conducting a review of furniture policy as part of its work for the Future Accommodation Model.

¹ The rental charge is calculated as the difference between furnished and unfurnished.

- 4.25. MOD argued that applying an inflation increase to SFA charges would maintain comparability with civilian life. It pointed to our previous commentary that noted our concern with cost of living pressures affecting Service personnel, but noted that similar pressures applied to civilian counterparts. MOD said that recommending an inflation increase was both justifiable and fair in relation to wider society and would maintain (rather than increase or decrease) the existing level of subsidy for Service accommodation and support efforts to maintain investment levels into accommodation. In line with the methodology we have used in recent years, MOD proposed an increase linked to the rental component of the Retail Prices Index (RPI).
- 4.26. Our report last year set out our justification for our recommendations relating to SFA charges. It noted that the recommendations were linked to the introduction of CAAS, and were taken alongside considerations relating to the transitional arrangements to the new system. We were concerned about the impact of the transitional arrangements on Service personnel and families affected, and concluded that an inflation-based increase on top of that was, in our view, inappropriate. We were told last year that MOD regarded the maintenance service and new CAAS charging regime as separate issues, and we reluctantly accepted that fact, at the same time voicing disappointment that MOD had not proposed alternative transition arrangements. Our recommendation last year on SFA charging was therefore primarily about the financial impact on Service personnel of the transition to CAAS and not linked directly to the evidence we received of a deteriorating maintenance contract. For the same reason, whilst we note this year that MOD has put forward evidence for a new compensation scheme, this has not influenced our decision on the main SFA charge recommendations.
- 4.27. Notwithstanding our decision last year not to recommend an inflation increase to SFA charges because of the impact of the introduction of CAAS, we believe that maintaining the level of subsidy between rents for military personnel and those in the civilian sector is important. Having taken account of all of the evidence this year, we are prepared to recommend an inflation-based increase to SFA charges.
- 4.28. In recent years the index we have used for uprating accommodation charges has been the private rents component of RPI. This approach was established when RPI was the main, official measure of inflation. However, in 2013 RPI lost its 'National Statistic' status as some of the formulae used to calculate it did not meet international standards. Consequently, we have considered this year whether there might be a better index to use in setting accommodation charges for the Military. The most obvious choice would be to move to the equivalent private rents component in the Government's now preferred measure of inflation, the Consumer Prices Index (CPI), a component which is also used in constructing the separately reported Consumer Prices Index including Owner Occupiers' Housing Costs (CPIH), under consideration as the preferred inflation index.²
- 4.29. At the time of writing, the Office for National Statistics is doing some work to review the National Statistic status of CPIH. Notwithstanding that work, we believe that it is appropriate for us to now move to using the private rents component of CPI/CPIH for uplifting accommodation charges from this point forward. Whilst the CPIH is still under review, and the underlying rents data are still part of that review, any issues with these data will also affect the rents components used in both CPI and RPI. In addition, CPI remains a National Statistic.
- 4.30. The CPI private rents component annual percentage increase for November 2016 was 1.0 per cent. For comparison with our previous methodology, the RPI private rents component was 1.2 per cent for the same period.

² The same underlying data are used to construct both the RPI and CPI/CPIH rental components, although the formulae used to calculate the components are slightly different.

Service Family Accommodation rental charges

- 4.31. We recommend an increase to CAAS Band A rental charges of 1.0 per cent. This recommendation will affect the rents of lower bands, as they are all in descending steps of ten per cent of the Band A rate. This increase will apply to the rental charge for both furnished and unfurnished properties.³

Recommendation 7: We recommend that from 1 April 2017 Service Family Accommodation Combined Accommodation Assessment System Band A charges be increased by 1.0 per cent.

- 4.32. As SFA for British Forces Germany remains under the 4TG charging regime, MOD proposed separately that 4TG accommodation charges for British Forces Germany should also be uplifted in line with the rental component of the RPI.
- 4.33. Service personnel in Germany receive a reduction in their SFA charges of one 4TG band as part of the 'Enhancing the Overseas Offer Package' (personnel in other overseas countries now receive a reduction of two CAAS bands). They also have their Contribution in Lieu of Council Tax (CILCOT) waived (worth over £1,200 per annum on average).
- 4.34. Our reasoning for moving to an alternative index for measuring inflation equally applies to our recommendation for 4TG accommodation charges in Germany. As noted earlier, the private rents component of CPI annual percentage increase for November 2016 was 1.0 per cent. Consequently, we recommend an increase to 4TG accommodation (rental and furniture) charges in Germany of 1.0 per cent.

Recommendation 8: We recommend that from 1 April 2017 legacy Four-Tier Grading SFA charges in Germany increase by 1.0 per cent.

Other components of SFA charges

- 4.35. Changes to elements of the charges other than rent and furniture are based on evidence provided by MOD as follows:
- Water and sewerage charges increase in line with OFWAT forecast charges for Great Britain; and

When these additional charges are factored in, the changes in the total SFA charges paid by Service personnel on 1 April 2017 (set out in Tables 4.1 and 4.2 for CAAS and legacy 4TG respectively) can differ from our headline rental charge recommendation.

Single Living Accommodation

- 4.36. Our information on Single Living Accommodation (SLA) is drawn from MOD's 2012 audit. It suggests that there are around 145,000 MOD owned SLA bed-spaces, 126,000 of which are in the UK. Almost 79,800 personnel occupied SLA in April 2016, the same as in the previous year. About 44 per cent of SLA is considered to be in good condition (Grade 1 or 2 for charge).
- 4.37. MOD has been due to introduce an SLA Management Information System (MIS) to provide a single source database, containing full, up-to-date evidence on the location, occupancy and condition of the SLA estate, since 2015. The database would support the planned introduction of CAAS for SLA. We have repeatedly called for such information. In its evidence to us this year, MOD said that the full roll out of the database would not

³ Those in furnished properties pay an additional charge under CAAS which was set on transition at the furniture charge for a Grade 4 property of the same type under 4TG. These furniture charges have effectively also been increased by 1.0 per cent this year.

now happen until 2017 at the earliest. During oral evidence, DIO explained to us how it was trying to tie real-time occupancy information with data on the condition of SLA. It said that a pilot study had been carried out to consider whether the methodology for charging needed refining, but that the study had revealed some issues with the methodology and assessment criteria. MOD had therefore concluded that it would be premature to proceed with introducing CAAS SLA in April 2017 until more data and a more robust methodology was in place. It also stressed the importance of CAAS SLA being coherent with the Future Accommodation Model.

- 4.38. While on visits, we heard mixed views on the quality of SLA according to location (with rats and mice mentioned in London), and many personnel commenting on the lack of cooking facilities, internet access and having to share rooms, sometimes for a considerable number of years. The lack of SLA choice in some locations was also an issue. At one location, we heard about the use of the 'virtual bank account'⁴ (VBA) to upgrade the shower facilities for SLA, but this was an isolated case. For our next review, we would **welcome evidence on the increased use of the VBA to improve accommodation**, and we will also be looking for evidence of the application of the VBA during our visit programme. While some Service personnel described SLA as "excellent", we also saw some appalling SLA accommodation at some locations. The Secretary of State told us that he wants to recruit the brightest and best of each generation. To accommodate them in such poor housing in the 21st century is wholly unacceptable and will be, in our view, self-defeating.
- 4.39. During oral evidence, we raised the issue of unacceptable pockets of SLA accommodation. We were told that there were plans for budget responsibility for SLA to be delegated to local commands. This would encourage a more efficient use of the SLA estate through better incentivisation for the closure of excess capacity. We welcome this and expect delegated responsibility to lead to decisions to abstain from using the very poor pockets of SLA that we experienced during our visit programme. **We believe strongly that a modern 21st century employer should not be utilising such accommodation.** For our next report, we ask MOD to provide us with a clear explanation of how the delegated responsibility for SLA will work in practice.
- 4.40. MOD argued that the most effective way to improve the condition of the SLA estate was to apply a uniform increase to 4TG charges, linked to the rental element of the RPI. As with our recommendations for SFA above, whilst supporting an inflation-based increase, we are minded to move to using the rental component of CPI/CPIH as the basis for our recommendation.
- 4.41. However, given the lack of progress in the SLA MIS and thus the limited evidence on the overall extent of improvement secured to date, we consider it appropriate to retain our existing tiered approach to rental charges for SLA. We are willing to consider moving to an inflation-based increase for all tiers, but we wish to see genuine progress in the management information. We acknowledge that our tiered approach which includes no increase to grade 4 SLA creates a perverse incentive for personnel remaining in such accommodation, but consider that the onus should remain on MOD to take control of the SLA estate, avoid placing personnel into such poor quality accommodation and improving the quality of SLA. Whilst MOD argues that this will allow for increased investment in SLA, we note that any increase in receipts from SLA (or indeed SFA) is not ring-fenced to be spent on any particular category of accommodation.

⁴ Virtual bank account is made up of funding from DIO and single Service funding from Front Line Commands.

Single Living Accommodation rental charges

4.42. As set out above, the private rents component of CPI annual percentage increase for November 2016 was 1.0 per cent. We therefore recommend that SLA grade 1 rental charges (which include a furniture element) increase by 1.0 per cent, with smaller graduated increases for grade 2 and grade 3 SLA⁵ and no increase to the rental charge for grade 4.

Recommendation 9: We recommend that from 1 April 2017 Single Living Accommodation rental charges for grade 1 be increased by 1.00 per cent, with increases of 0.67 per cent to grade 2, 0.33 per cent to grade 3 and zero to grade 4.

Other components of SLA charges⁶

4.43. Changes to elements of the charge other than rent, are based on evidence provided by MOD;

- Water and sewerage charges increase in line with OFWAT forecast charges for Great Britain.
- Fuel and light charges increase in line with MOD forecasts of fuel and light charges and allowances.

Therefore, as with SFA, when these additional charges are factored in, the changes in the total SLA charges paid by Service personnel on 1 April 2017 (set out in Table 4.3) can differ from our headline increases.

Other charges

4.44. We are also responsible for recommending garage rent. To maintain consistency with other accommodation charges, we recommend that charges for standard garages and standard carports should be increased in line with the increase in the private rents component of CPI/CPIH in the year to November 2016, with no increase for substandard garages and substandard carports.

Recommendation 10: We recommend that from 1 April 2017, the annual charges for standard garages and standard carports be increased by 1.0 per cent, with no increase to charges for substandard garages and substandard carports.

⁵ These are two-thirds of 1.0 per cent and one-third of 1.0 per cent (rounded to two decimal places in the recommendation).

⁶ Includes charges for water and heating and lighting.

Table 4.1: SFA (CAAS): charges for furnished accommodation^a (with change from 2016-17 in brackets)

Type	Annual charge ^b											
	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Band I	Band J	Band K	
	£ per year	£ per year	£ per year	£ per year	£ per year	£ per year	£ per year	£ per year	£ per year	£ per year	£ per year	£ per year
I	9,804 (99)	8,859 (91)	7,910 (80)	6,964 (69)	6,015 (58)	5,070 (51)	4,125 (44)	3,176 (33)	2,230 (22)	1,281 (11)	336 (4)	
II	8,833 (91)	7,979 (80)	7,125 (73)	6,271 (62)	5,417 (55)	4,566 (47)	3,712 (36)	2,858 (29)	2,004 (18)	1,150 (11)	296 (0)	
III	7,782 (80)	7,030 (73)	6,274 (62)	5,522 (55)	4,771 (47)	4,019 (40)	3,263 (33)	2,511 (26)	1,759 (18)	1,004 (7)	252 (0)	
IV	5,928 (62)	5,358 (55)	4,792 (51)	4,223 (44)	3,654 (37)	3,088 (33)	2,519 (29)	1,949 (22)	1,380 (15)	814 (11)	245 (4)	
V	4,687 (51)	4,241 (47)	3,792 (40)	3,347 (37)	2,898 (29)	2,453 (26)	2,008 (26)	1,559 (18)	1,113 (15)	664 (7)	219 (4)	
Extra Bedroom	336 (4)	303 (4)	270 (4)	234 (0)	201 (0)	168 (0)	135 (4)	102 (4)	66 (0)	33 (0)	- (0)	
D	4,424 (47)	3,997 (44)	3,566 (36)	3,139 (33)	2,708 (26)	2,281 (22)	1,854 (22)	1,424 (15)	996 (11)	566 (4)	139 (0)	
C	3,749 (40)	3,387 (37)	3,022 (33)	2,661 (29)	2,296 (22)	1,935 (18)	1,573 (18)	1,208 (11)	847 (7)	482 (4)	120 (0)	
B	3,216 (33)	2,905 (29)	2,592 (26)	2,281 (22)	1,971 (22)	1,661 (18)	1,347 (11)	1,037 (11)	726 (7)	412 (4)	102 (0)	
A	2,431 (26)	2,197 (22)	1,964 (22)	1,730 (18)	1,497 (15)	1,263 (11)	1,029 (11)	796 (7)	562 (4)	329 (4)	95 (0)	
Extra Bedroom	113 (0)	102 (0)	91 (0)	80 (0)	69 (0)	58 (0)	44 (0)	33 (0)	22 (0)	11 (0)	- (0)	

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

^b Annual charges are rounded to the nearest £ (actual increases are made so that all figures are whole pence for daily rates).

Table 4.2: SFA (4TG): charges for furnished accommodation^a (with change from 2016-17 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	9,804	(99)	7,019	(73)	3,902	(40)	2,179	(26)
II	8,833	(91)	6,322	(66)	3,544	(37)	1,993	(22)
III	7,782	(80)	5,581	(58)	3,135	(33)	1,796	(22)
IV	5,928	(62)	4,362	(47)	2,624	(29)	1,555	(18)
V	4,687	(51)	3,614	(40)	2,245	(26)	1,416	(18)
Other Ranks								
D	4,424	(47)	3,208	(37)	1,920	(26)	1,157	(15)
C	3,749	(40)	2,814	(29)	1,756	(18)	1,095	(11)
B	3,216	(33)	2,486	(26)	1,599	(18)	1,029	(11)
A	2,431	(26)	1,916	(22)	1,274	(15)	883	(11)

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

^b Annual charges are rounded to the nearest £ (actual increases are made so that all figures are whole pence for daily rates).

Table 4.3: SLA: charges^a (with change from 2016-17 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	2,628	(11)	2,051	(0)	1,310	(-7)	777	(-11)
Captain and below	2,139	(11)	1,664	(0)	1,059	(-4)	631	(-7)
Warrant Officer and SNCO	1,613	(7)	1,267	(0)	803	(-7)	482	(-7)
Corporal and below	927	(4)	741	(0)	485	(-4)	314	(-4)
New Entrant ^c	745	(4)	588	(4)	380	(0)	266	(0)

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

^b Annual charges are rounded to the nearest £ (actual increases are made so that all figures are whole pence for daily rates).

^c Those receiving less than the minimum trained rate.

Daily Food Charge

4.45. Our remit includes the responsibility to make recommendations on the DFC. Our recommendations for each year since April 2009 have used the average cost of MOD's food supply contract data⁷ for the previous year to inform the adjustment to the charge. This resulted in no increase to the DFC last year and it remained at £4.79 for 2016-17.

4.46. We note that, following the introduction of Pay As You Dine (PAYD), the DFC now applies to far fewer personnel. DIO informed us that the remaining five per cent of establishments still to transition to PAYD should all have done so by the end of 2018.

⁷ Data for the cost of provisioning the core menu using the MOD's food supply contractor price lists for the period November 2015 to October 2016.

The DFC will however still apply to Service personnel on initial training and to those on operations. The price of the core meal under PAYD is also linked to the DFC so it remains important.

- 4.47. Data supplied by MOD showed there was again no increase to the daily food supply contract price for the average of the year to the end of October 2016. Applying our usual methodology, we therefore recommend that there is no increase to the DFC and that it remains at £4.79 for 2017-18.

Recommendation 11: We recommend that from 1 April 2017 the Daily Food Charge should remain at its current rate of £4.79.

Future Accommodation Model

- 4.48. During the past year, MOD described its plans for the Future Accommodation Model (FAM). This is designed to modify the overall accommodation offer to include those Service personnel with aspirations for home ownership. It also said that the current accommodation offer did not support 21st century families, as entitlement to SFA is based primarily on marriage, explicitly excluding unmarried families, and when allocating accommodation for officers, it considers rank before need. MOD said that SDSR 2015 had committed to reducing the built estate by 30 per cent, and that widening entitlement to unmarried families and building homes to accommodate forces in new locations across the UK was likely to be unaffordable. The FAM aims to deliver a more flexible and affordable way forward, while also offering greater choice to Service personnel. Detailed options are still being developed, but MOD said it had been agreed in principle that there would be two packages: a “Mobility Package” that supports Service personnel to rent from the private market near to their base; and a “Stability Package” that supports Service personnel to buy or rent in a permanent location. In some locations, the private rental market would not be able to support the Service population and MOD said it would need to retain SFA. SLA would be largely retained as it was said to be the most cost effective method of accommodating unaccompanied Service personnel.
- 4.49. MOD said that whilst maintaining the total subsidy that Service personnel receive, FAM would deliver around £500 million savings over ten years. It said this will be delivered primarily through reduced running costs, capital receipts and savings.
- 4.50. MOD said it was conscious of the importance of subsidised accommodation to Service personnel. For many, FAM would signal a cultural change in how they live and it said it would be consulting them and their families actively over the coming months. It will be important for such consultation to capture the views of all concerned, including the new groups which will benefit from FAM. MOD said work would continue this year with the focus on agreeing an implementation programme ahead of a pilot in 2018. The objective is to plan the transition for most Service personnel to the new model within the next ten years.
- 4.51. On our visit programme we heard widespread support for more equitable accommodation charging arrangements between married and non-married personnel and for SFA to be available for unmarried couples, although some were understandably concerned about the uncertain nature of the FAM and the possibility of SFA being totally removed from the offer. As we have already emphasised, in further developing the FAM, MOD will need to provide clear and honest communications to Service personnel and their families on the proposed changes. FAM does appear to propose some genuine improvements in that it will be accessible by more of the overall Service population and, as noted above, this is largely supported by those we met on visits. However, alongside the benefits of FAM, it will be important for MOD to be up-front about the savings that it is intended to deliver. Clearly, if the benefits of FAM are available to a larger

population, the cost savings of the Programme will mean that the current recipients of accommodation are likely to see some reduction in the level of their benefits. Given the scale of change being delivered by the various strands of the People Programme, we are concerned about the potential impact of such changes on the morale of our remit group, and thus on recruitment and retention. With such uncertainty about workforce numbers, MOD will need to develop alternative models that mitigate such risks.

Forces Help to Buy

- 4.52. MOD said that the £200 million three-year Forces Help to Buy scheme, launched in April 2014, to encourage and support home ownership amongst military personnel, remains very popular. The scheme offers Service personnel an advance of up to 50 per cent of their annual salary (capped at a maximum of £25,000) with which to either purchase their first property or move to another property. The advance is then repaid, interest free, over a ten-year period.
- 4.53. MOD said that, to the end of July 2016, payments had been made to over 7,900 applicants, totalling just over £121 million, an average of £15,200 per loan. Around 81 per cent of recipients were Other Ranks, and 19 per cent were Officers. MOD said that the majority of lenders are offering mortgages in conjunction with the scheme, and many are allowing it to be used as the sole source of deposit. MOD said that the scheme had achieved its aim of encouraging home ownership and that one in five Service personnel stated they were considering using the scheme. It said it intended to continue with the scheme until at least 2018.
- 4.54. We received many comments about the Forces Help to Buy scheme during our visit programme. The scheme received widespread praise and positive comments on the ease of applying, although some Service personnel commented that it was a canny retention initiative, locking staff into remaining in service. Some asked that the scheme should allow for larger loans for properties in London. There were a few instances of people saying it had been hard to get mortgages from some providers on the basis of the scheme providing the deposit, although these seemed to be isolated incidents resulting from a lack of understanding in specific mortgage company branches. Those based in Germany highlighted the difficulties in accessing the scheme and buying a property while based in another country. Others highlighted the dichotomy of the military promoting 'stability' through the scheme but still expecting some 'mobility' from Service personnel. Many predicted greater demand for SLA during the week as more families purchased their own homes and the Service person weekly commuted.
- 4.55. It is clear to us that the Forces Help to Buy scheme is a success. Given its popularity, **we believe that MOD should give serious consideration to extending the scheme beyond 2018, and to build inclusion of the scheme into the overall FAM.** We look forward to receiving further updates on the scheme in future.

Chapter 5

LOOKING AHEAD

Cost of recommendations

- 5.1. Our recommendations on pay, targeted measures and charges are based on an assessment of the full range of evidence we received and take due account of the Government's public sector pay policy, as well as the wider considerations set out in our terms of reference. On base pay, we concluded, based on the evidence, that an uplift of one per cent was appropriate.

Table 5.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	13
Other Ranks	38
	51^c
RRP, allowances & other targeted payments (all Regular Services)	14
Total pay (all Regular Services)	66
Reserve Forces	3
Employers' national insurance contribution – all	9
Estimated effect of SCAPE ^b	28
Total paybill cost including Reserves	107
<i>Less: total increased yield from charges</i>	<i>(1)</i>
Net cost of recommendations	106

^a Recommendations from 1 April 2017. Components may not sum to the total due to rounding.

^b Superannuation Contributions Adjusted for Past Experience.

^c Includes cadets.

Looking ahead

- 5.2. On levels of pay generally, our visit programme made clear that Service personnel are becoming increasingly frustrated with public sector pay policy. They feel their pay is being unfairly constrained in a period when costs are rising, private sector earnings are starting to recover, and the high tempo demands on the Armed Forces have not diminished. We believe that our decision this year for an increase of one per cent in base pay taken alongside the incremental progression that the majority of staff receive, will broadly maintain pay comparability with the civilian sector. In addition, the overall economic picture is very uncertain following the EU referendum. Nevertheless, if the private sector continues to recover and if inflation continues its upward trajectory, we could foresee recruitment becoming more challenging and morale being adversely impacted. If there was clear evidence of this, we would need to consider very carefully whether a one per cent average limit on base pay was compatible with continued operational effectiveness.
- 5.3. In certain areas of skill shortage, this is already becoming reality. As discussed in Chapter 3, the state of engineering recruitment and retention is critical. We consider it essential that MOD present us with specific proposals for engineers for the next pay round. Given the employment challenges for this group, and the persistent shortage of engineering skills in the external market, it seems likely that alongside other initiatives, bespoke pay solutions will be needed for some specialisations within these cadres. Along with any non-pay proposals, we believe that MOD should give consideration

to a separate pay scale for those engineering groups identified, and also that their pay arrangements may need to be tailored to meet the individual requirements of the three Services.

- 5.4. A number of other cadres are also subject to external market forces, not necessarily just those tied to specific trade groups. For example, our visit programme highlighted the competition for those with cyber skills, an area developing and expanding rapidly. MOD will need to be proactive in dealing with such threats to recruitment and retention and take appropriate action to safeguard these critical skills.
- 5.5. On accommodation, whilst we continue to support the broad principles of the Combined Accommodation Assessment System (CAAS), we remain concerned that the transitional arrangements will continue to affect many Service personnel over the next few years as they move to the appropriate charge band. For some this will have a significant impact on their take-home pay and their perception of their remuneration. That said, the main issue raised during our visit programme remained the very poor standard of service and maintenance (which of course affects SLA as well as SFA). It is critical that CarillionAmey (CA) is held to account for its failings, and that improvement is sustained over the long-term. We look forward to receiving evidence of significant progress with CA for our next review. We are reserving judgement on the proposal to compensate people for failings in maintenance, but, as we set out in Chapter 4, consider that MOD should, at least, make the existing compensation schemes more accessible and put in place an independent arbitration process to ensure that any compensation claims are seen to be dealt with in a fair and transparent way.
- 5.6. Specifically on Single Living Accommodation (SLA), we expect MOD to deliver on its promises of better management information sooner rather than later. The plans for more local control over SLA budgets should incentivise local commanders to make more informed decisions about the use of the SLA estate. In any event, we strongly believe that a modern 21st century employer should not be utilising the pockets of extremely poor accommodation we have witnessed during our visit programmes in recent years.
- 5.7. MOD continues with its significant and wide ranging transformation programme, currently being delivered through the various strands of the People Programme, and we received a number of helpful briefings on this from MOD in the course of the year. The scale and pace of the proposed changes concern us. Service personnel are aware of the continuous change in the 'offer', changes which are clearly being developed in the context of constrained resources, and there is an over-riding sense of uncertainty and an increasing view that the offer will only get worse with the main objective being to save money. Given the scale of change being proposed by the various strands of the People Programme, there is a growing risk that the morale of our remit group will be impacted adversely, potentially damaging recruitment and retention. We consider that MOD should give consideration to providing additional funding that might assist with the successful implementation of the remaining elements of the People Programme, as occurred with Pay16. In our view, an indication of a preparedness to invest in Service personnel commensurate with MOD's plans to invest in new equipment would have a disproportionate positive impact on morale.
- 5.8. The other main ongoing theme we heard about during our visit programme was overstretch and workload. Whilst these issues are not strictly within our remit, they are clearly having an impact on the general morale and motivation of our remit group and have the potential to affect retention in the longer-term. The seeming inability of senior officers to say 'no' to additional tasks adds to the emerging view from our remit group that the overall offer continues to be eroded and reinforces the lack of trust in the employer.

- 5.9. A concerning message that we picked up during our visit programme to a greater extent this year than previously was that some Service personnel appear reluctant to raise issues related to their employment and responsibilities which they believe will have a detrimental impact on their careers. It is critically important that Service personnel feel free to highlight any issues of concern without negative consequences for the individual: this is particularly important within an organisation such as the Armed Forces, that has a clearly delineated career structure and depends on good leadership and trust in the chain of command.

Our next Report

- 5.10. Our next Report will as usual incorporate our recommendations on pay, allowances, and on accommodation and food charges. We will continue to monitor staffing levels to assess the impacts of the ongoing recruitment processes that seem under pressure and other measures that are introduced to counter specific workload issues within the Armed Forces.
- 5.11. Specific scheduled reviews we intend to undertake next year are: Chaplains (pay and pay spines); Officers Commissioned from the Ranks; and Unpleasant Work Allowance. We also ask that the next review of the Recruitment and Retention Allowance (London) be brought forward to next year from its scheduled review date of 2019-20. Additionally, we will carry out full reviews of the following categories of Recruitment and Retention Payment: Flying Crew; Hydrographic; Parachute; Special Communications; Special Intelligence; and Special Reconnaissance Regiment.
- 5.12. Next year will also see our quinquennial review of X-Factor which we continue to see as a key element in properly remunerating Service personnel for the work they do for the country. As discussed in Chapter 2, we will also continue to monitor broad pay comparators, the Average Weekly Earnings index, pay settlements and continue to extend our yearly research on data from the Annual Survey of Hours and Earnings and on public sector graduate pay. We will also consider Armed Forces' roles for which there are relevant external comparators as recommended by the IES study (see Chapter 2).

Conclusions

- 5.13. We reiterate a point that we have made before; that a critical common thread runs through many of these issues – the need for clear communication. Service personnel have experienced substantial change for several years now and are naturally apprehensive about change that will result from the ongoing People Programme, so communications need to be open, transparent, and owned throughout the chain of command, and regularly reinforced. In this context, MOD should ensure that those passing on messages do not undermine them, but are adequately briefed, convey them properly, and deal with any concerns that Service personnel raise. Again as we have said this before, it is impossible to overstate the importance of MOD getting this right, given the potential to affect morale, motivation and retention in a negative way. Of course, communication works both ways, and it will be vital that MOD listens and responds appropriately to feedback on its changes from Service personnel and their families. We will continue to explore on our visit programme the extent to which Service personnel are aware of the various planned changes and their rationale, and the effectiveness of the communications arrangements.
- 5.14. The uncertainties and challenges in the immediate and longer-term UK defence and security arena put continuing pressure on our Armed Forces. We shall support them in our areas of responsibility to the best of our ability. It is imperative that our Armed Forces'

terms and conditions are fit for purpose and enable all three Services to continue to attract, retain and motivate the high quality people that they need to deliver their and the nation's operational commitments and requirements.

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January 2017

Appendix 1

Pay16: Pay structure and mapping¹

Trade Supplement Placement (TSP)

The Trades within each Supplement are listed alphabetically, and colour coded to represent each Service (dark blue for Naval Service, red for Army, light blue for RAF and purple for the Allied Health Professionals).

Supplement 1		Supplement 2		Supplement 3	
RAF	Aerospace Systems Operating and Air Traffic Control including Aerospace Systems Operator/Manager, Flight Operations Assistant/Manager	ARMY	AAC Groundcrew Sldr	RAF	Aircraft Engineering (Avionics) including Aircraft Engineering Technician, Aircraft Technician (Avionics) and Aircraft Maintenance Mechanic (Avionics)
ARMY	Army Welfare Worker	RAF	Air Cartographer	RAF	Air Engineering (Mechanical) including Aircraft Engineering Technician, Aircraft Technician (Mechanical) and Aircraft Maintenance (Mechanical)
ARMY	Custodial NCO	RN/RM	Comms Inf Sys inc SM & WS	RN/RM	Air Engineering Technician including Aircraft Engineering Technician, Aircraft Technician (Avionics) & Aircraft Maintenance Mechanic (Avionics)
AHP	Dental Nurse	ARMY	Crewman 2	RAF	Air Traffic Controller
RN/RM	Family Services	AHP	Dental Hygienist	AHP	Biomedical Scientist
RAF	Firefighter	AHP	Dental Technician	ARMY	Combat Med Tech
AHP	Health Care Assistant	RAF	Aircraft Engineering (Weapon) including Engineering Weapon and Weapon Technician	RN/RM	Comms Tech
RN/RM	Hydrography & MET (including legacy NA(MET))	RAF	General Engineering including General Engineering Technician, General Technician Electrical, General Technician (Mechanical) and General Technician Workshops	RN/RM	Coxn (SM)
RN/RM	Logs (Writer) inc SM	RAF	Gunner RAF Regiment	RN/RM	Diver
RAF	Logistics (Caterer) including Logistics (Catering Manager)	RAF	Information and Communications Technology	RN/RM	Eng Tech (ME & MESM)
RAF	Logistics (Chef) including Logistics (Catering Manager (Chef))	RAF	Communications Infrastructure Technician/Manager	RN/RM	Eng Tech (WE & WESM)
RN/RM	Logs (Steward) inc SM	RAF	Information and Communications Technology Technician/Manager	AHP	Environmental Health Tech
RN/RM	Logs (Chef) inc SM	ARMY	Infantry	RAF	Intelligence Analyst
RAF	Logistics (Driver)	ARMY	Instructor SASC	RAF	Intelligence Analyst (Voice)
RAF	Logistics (Supplier)	RN/RM	Logs (Supply Chain) inc SM	ARMY	MAN ACCT
ARMY	ME Trade Gp 2	RAF	Logistics (Mover)	ARMY	ME Trade Gp 1
ARMY	Mil Pol (GPD)	ARMY	ME GEO & Trade Gp 3	RN/RM	Naval Airman (AC)
ARMY	Mil Pers Admin	ARMY	Mil Pol (SIB)	AHP	Operating Department Practitioner
ARMY	Musician	RN/RM	Mine Warfare	ARMY	OP MI
RAF	Musician	RN/RM	Naval Airman (AH)	ARMY	OP TI
RN/RM	Naval Airman (Phot)	RN/RM	Naval Airman (SE)	ARMY	R SIGS Gp 1A
RAF	Personnel (Support)	AHP	Pharm Tech	AHP	Radiographer
RAF	Photographer	ARMY	RA GW	ARMY	ME Clk of Wks
RN/RM	PTI	ARMY	RA SPEC OP	ARMY	REME Artificer
ARMY	R Sigs Gp 3	ARMY	RA Targeting	ARMY	REME TECH AC/AV
ARMY	RA Command Systems	ARMY	RA TUAS Pilot	ARMY	REME Tech Elect
ARMY	RA Logistics	ARMY	RA UAS	ARMY	RLC Ammo Tech
ARMY	RA Strike	ARMY	R Sigs Gp 1B	ARMY	RLC Marine Engineer
ARMY	RAPTC Instr	ARMY	R Sigs Gp 2	RN/RM	RM Art Veh & Y of S
RAF	RAF Medic	RAF	RAF Police	RN/RM	RM Comms Tech
RAF	RAF Physical Training Instructor	ARMY	REME Armourer	RN/RM	RM Info Sys
ARMY	RAVC Dog Trainer	ARMY	REME Metalsmith	RN/RM	RN & RM Medic
ARMY	RAVC Veterinary Tech	ARMY	REME Rec Mec	RAF	SNCO Weapons Controller
RN/RM	Regulator	ARMY	REME Shipwright		
ARMY	REME Tech Support Spec	ARMY	REME VM		
ARMY	RLC Chef	ARMY	RLC Air Desp		
ARMY	RLC Driver	ARMY	RLC Mariner		
ARMY	RLC Dvr Comms Spec	ARMY	RLC Mov Con		
ARMY	RLC Dvr TK Tptr	ARMY	RLC Mov Op		
ARMY	RLC Laundry Op	RN/RM	RM GD SQ		
ARMY	RLC Log Spec (Sup)	RN/RM	RM MESM, Mech & Tech		
ARMY	RLC Pet Op	RN/RM	Seaman Spec		
ARMY	RLC Photographer	RAF	Survival Equipment Fitter		
ARMY	RLC Pioneer	RN/RM	Warfare Spec		
ARMY	RLC Port Op	RAF	Non-Commissioned Aircrew – Weapon Systems Operator		
ARMY	RLC Postal & Courier Op				
ARMY	RLC System Analyst				
ARMY	RLC VSS				
RN/RM	RM Musician				

¹ Data in these tables are supplied by MOD.

Salaries (including X-Factor)² for 1 April 2016 and recommendations for 1 April 2017

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

Table 1.1: Other Ranks

Range and Ranks	Level	1 April 2016 (£)				1 April 2017 (£)			
		Supp 1	Supp 2	Supp 3	Supp 4	Supp 1	Supp 2	Supp 3	Supp 4
Range 5 (OR-9):									
Warrant Officer I (Royal Navy)	OR-9-5	48,865	48,865	48,865	50,183	49,354	49,354	49,354	50,685
Warrant Officer I (Royal Marines)	OR-9-4	48,370	48,370	48,370	49,737	48,854	48,854	48,854	50,234
Warrant Officer I (Army)	OR-9-3	47,830	47,830	47,830	49,263	48,308	48,308	48,308	49,756
Warrant Officer (Royal Air Force)	OR-9-2	47,289	47,289	47,289	48,795	47,762	47,762	47,762	49,283
	OR-9-1	47,018	47,018	47,018	48,381	47,488	47,488	47,488	48,865
	OR-9-1	47,018	47,018	47,018	48,381	47,488	47,488	47,488	48,865
Range 4 (OR-7 – OR-8):									
Warrant Officer II, Chief Petty Officer (RN)	OR-7-10	43,738	45,125	46,095	47,421	44,175	45,576	46,556	47,895
Warrant Officer II, Colour Sergeant (RM)	OR-7-9	43,005	44,545	45,821	47,147	43,435	44,991	46,279	47,619
Warrant Officer II, Staff Sergeant (Army)	OR-7-8	42,288	43,948	45,530	46,856	42,711	44,388	45,985	47,325
Flight Sergeant, Chief Technician (RAF)	OR-7-7	41,466	43,347	45,206	46,509	41,880	43,781	45,658	46,974
	OR-7-6	40,596	42,478	44,568	46,022	41,002	42,903	45,014	46,482
	OR-7-6	40,596	42,478	44,568	46,022	41,002	42,903	45,014	46,482
	OR-7-5	39,724	41,385	43,343	44,768	40,122	41,799	43,777	45,216
	OR-7-4	39,109	40,771	42,490	44,077	39,501	41,178	42,915	44,517
	OR-7-3	38,521	40,183	41,749	43,335	38,907	40,585	42,166	43,768
	OR-7-2	37,913	39,573	41,026	42,614	38,292	39,969	41,437	43,040
	OR-7-1	37,325	38,895	40,305	41,932	37,698	39,284	40,708	42,352
	OR-7-1	37,325	38,895	40,305	41,932	37,698	39,284	40,708	42,352

² Personnel remain on Increment Level 1 for the first two years in rank, except for OR2s where they will remain on Increment Level 2 for two years.

Range and Ranks	Level	Level	1 April 2016 (£)				1 April 2017 (£)			
			Supp 1	Supp 2	Supp 3	Supp 4	Supp 1	Supp 2	Supp 3	Supp 4
Range 3 (OR-6):										
Petty Officer (RN)	OR-6-5		36,582	38,123	39,459	41,030	36,948	38,504	39,854	41,441
Sergeant (RM)	OR-6-4		35,707	37,178	38,474	39,978	36,064	37,550	38,859	40,378
Sergeant (Army)	OR-6-3		34,840	36,134	37,537	38,965	35,188	36,495	37,912	39,354
Sergeant (RAF)	OR-6-2		33,985	35,184	36,637	37,963	34,324	35,535	37,003	38,343
	OR-6-1		33,159	34,275	35,724	36,897	33,490	34,618	36,081	37,266
	OR-6-1		33,159	34,275	35,724	36,897	33,490	34,618	36,081	37,266
Range 2 (OR-4):										
Leading Rate (RN)	OR-4-5		31,573	32,633	34,011	35,028	31,888	32,960	34,351	35,378
Corporal (RM)	OR-4-4		31,129	32,191	33,405	34,341	31,441	32,513	33,739	34,685
Corporal (Army)	OR-4-3		30,710	31,756	32,716	33,537	31,017	32,074	33,043	33,873
Corporal (RAF)	OR-4-2		30,262	31,138	31,996	32,769	30,565	31,449	32,316	33,096
	OR-4-1		29,474	30,332	31,166	31,939	29,769	30,635	31,478	32,259
	OR-4-1		29,474	30,332	31,166	31,939	29,769	30,635	31,478	32,259
Range 1 (OR-2 – OR-3):										
Able Rating (RN)	OR-2-9	OR-3-3	27,672	28,437	29,037	29,603	27,949	28,721	29,327	29,899
Lance Corporal, Marine (RM)	OR-2-8	OR-3-2	26,443	27,137	27,667	28,157	26,708	27,408	27,944	28,438
Lance Corporal, Private (Army)	OR-2-7	OR-3-1	25,272	25,859	26,364	26,824	25,525	26,118	26,628	27,092
Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)	OR-2-6		24,173	24,652	25,157	25,479	24,414	24,899	25,409	25,733
	OR-2-5		23,103	23,435	23,851	24,160	23,334	23,670	24,090	24,402
	OR-2-4		22,034	22,281	22,613	22,922	22,255	22,503	22,839	23,151
	OR-2-3		20,939	21,186	21,443	21,443	21,148	21,398	21,657	21,657
	OR-2-2		19,635	19,635	19,635	19,635	19,831	19,831	19,831	19,831
	OR-2-2		19,635	19,635	19,635	19,635	19,831	19,831	19,831	19,831
	OR-2-1		18,306	18,306	18,306	18,306	18,489	18,489	18,489	18,489
	NERP		14,784	14,784	14,784	14,784	14,931	14,931	14,931	14,931

Table 1.2: Officers

Range and Rank	Step	1 April 2016 (£)	1 April 2017 (£)
OF-6			
Commodore (Royal Navy)	5	105,240	106,293
Brigadier (Royal Marines)	4	104,217	105,259
Brigadier (Army)	3	103,194	104,226
Air Commodore (Royal Air Force)	2	102,171	103,192
	1	101,147	102,159
	1	101,147	102,159
OF-5			
Captain (RN)	7	93,304	94,237
Colonel (RM)	6	91,900	92,819
Colonel (Army)	5	90,496	91,401
Group Captain (RAF)	4	89,091	89,982
	3	87,687	88,563
	2	86,282	87,145
	1	84,878	85,726
	1	84,878	85,726
OF-4			
Commander (RN)	7	81,123	81,934
Lieutenant Colonel (RM)	6	79,279	80,072
Lieutenant Colonel (Army)	5	77,435	78,209
Wing Commander (RAF)	4	75,591	76,347
	3	73,747	74,485
	2	71,909	72,628
	1	70,059	70,760
	1	70,059	70,760
OF-3			
Lieutenant Commander (RN)	7	59,783	60,381
Major (RM)	6	58,139	58,721
Major (Army)	5	56,495	57,060
Squadron Leader (RAF)	4	54,851	55,399
	3	53,207	53,739
	2	51,562	52,078
	1	49,918	50,417
	1	49,918	50,417
OF-2			
Lieutenant (RN)	7	47,127	47,598
Captain (RM)	6	45,877	46,336
Captain (Army)	5	44,628	45,074
Flight Lieutenant (RAF)	4	43,378	43,812
	3	42,128	42,550
	2	40,879	41,287
	1	39,629	40,025
	1	39,629	40,025

Range and Rank	Step	1 April 2016 (£)	1 April 2017 (£)
OF-1			
Sub-Lieutenant (RN)	5	34,180	34,522
Lieutenant, 2 nd Lieutenant (RM)	4	33,094	33,425
Lieutenant, 2 nd Lieutenant (Army)	3	32,009	32,329
Flying Officer, Pilot Officer (RAF)	2	30,923	31,232
	1	25,727	25,984
OF-0			
	3		19,423
	2		17,582
	1		14,819

Table 1.3: Clearance Divers

Range and Ranks	Level	Level	1 April 2016 (£)	1 April 2017 (£)
Range 5 (OR-9):				
Warrant Officer I	OR-9-5		65,572	66,228
	OR-9-4		64,967	65,616
	OR-9-3		64,361	65,005
	OR-9-2		63,756	64,394
	OR-9-1		63,151	63,782
	OR-9-1		63,151	63,782
Range 4 (OR-7 – OR-8):				
Chief Petty Officer	OR-7-10	OR-8-5	61,913	62,532
	OR-7-9	OR-8-4	61,372	61,986
	OR-7-8	OR-8-3	60,832	61,440
	OR-7-7	OR-8-2	60,292	60,895
	OR-7-6	OR-8-1	59,752	60,349
	OR-7-6	OR-8-1	59,752	60,349
	OR-7-5		58,580	59,166
	OR-7-4		58,051	58,632
	OR-7-3		57,522	58,098
	OR-7-2		56,994	57,564
	OR-7-1		56,465	57,030
	OR-7-1		56,465	57,030
	Range 3 (OR-6):			
Petty Officer	OR-6-5		55,304	55,857
	OR-6-4		53,809	54,348
	OR-6-3		52,315	52,838
	OR-6-2		50,821	51,329
	OR-6-1		49,327	49,820
	OR-6-1		49,327	49,820

Table 1.4: Military Provost Guard Service (MPGS)

Range and Ranks	Level	Level	1 April 2016 (£)	1 April 2017 (£)
Range 5 (OR-9):				
	OR-9-5		42,287	42,709
	OR-9-4		41,581	41,997
	OR-9-3		40,875	41,284
	OR-9-2		40,169	40,571
	OR-9-1		39,462	39,857
	OR-9-1		39,462	39,857
Range 4 (OR-7 – OR-8):				
	OR-7-10	OR-8-5	38,688	39,075
	OR-7-9	OR-8-4	38,045	38,425
	OR-7-8	OR-8-3	37,410	37,784
	OR-7-7	OR-8-2	36,682	37,049
	OR-7-6	OR-8-1	35,913	36,272
	OR-7-6	OR-8-1	35,913	36,272
	OR-7-5		35,151	35,502
	OR-7-4		34,607	34,953
	OR-7-3		34,088	34,428
	OR-7-2		33,548	33,883
	OR-7-1		33,027	33,357
	OR-7-1		33,027	33,357
Range 3 (OR-6):				
	OR-6-5		32,370	32,694
	OR-6-4		31,595	31,911
	OR-6-3		30,829	31,137
	OR-6-2		30,072	30,373
	OR-6-1		29,333	29,627
	OR-6-1		29,333	29,627
Range 2 (OR-4):				
	OR-4-5		27,934	28,214
	OR-4-4		27,537	27,812
	OR-4-3		27,166	27,438
	OR-4-2		26,775	27,043
	OR-4-1		26,074	26,335
	OR-4-1		26,074	26,335
Range 1 (OR-2 – OR-3):				
	OR-2-9	OR-3-3	24,806	25,054
	OR-2-8	OR-3-2	23,664	23,900
	OR-2-7	OR-3-1	22,430	22,655
	OR-2-6		21,352	21,566
	OR-2-5		20,384	20,588
	OR-2-4		19,497	19,692
	OR-2-3		18,524	18,709
	OR-2-2		17,425	17,599
	OR-2-2		17,425	17,599
	OR-2-1		16,787	16,955
	NERP			13,693

Table 1.5: Nursing – Other Ranks^a

Range and Ranks	Level	Level	1 April 2016 (£)	1 April 2017 (£)
Range 5 (OR-9):				
Warrant Officer I	OR-9-5		50,820	51,328
	OR-9-4		50,284	50,787
	OR-9-3		49,748	50,246
	OR-9-2		49,213	49,705
	OR-9-1		48,677	49,164
	OR-9-1		48,677	49,164
Range 4 (OR-7 – OR-8):				
Warrant Officer II, Staff Sergeant	OR-7-10	OR-8-5	47,722	48,200
	OR-7-9	OR-8-4	47,034	47,504
	OR-7-8	OR-8-3	46,345	46,809
	OR-7-7	OR-8-2	45,657	46,113
	OR-7-6	OR-8-1	44,968	45,418
	OR-7-6	OR-8-1	44,968	45,418
	OR-7-5		44,087	44,527
	OR-7-4		43,391	43,825
	OR-7-3		42,696	43,123
	OR-7-2		42,001	42,421
	OR-7-1		41,306	41,719
	OR-7-1		41,306	41,719
Range 3 (OR-6):				
Sergeant	OR-6-5		40,456	40,861
	OR-6-4		39,683	40,080
	OR-6-3		38,911	39,300
	OR-6-2		38,138	38,519
	OR-6-1		37,365	37,739
	OR-6-1		37,365	37,739
Range 2 (OR-4):				
Corporal	OR-4-5		35,552	35,907
	OR-4-4		34,604	34,950
	OR-4-3		33,655	33,992
	OR-4-2		32,707	33,034
	OR-4-1		31,759	32,076
	OR-4-1		31,759	32,076
Range 1 (OR-2 – OR-3):				
Lance Corporal, Private	OR-2-9	OR-3-3	30,247	30,549
	OR-2-8	OR-3-2	28,738	29,026
	OR-2-7	OR-3-1	27,230	27,502
	OR-2-6		25,722	25,979
	OR-2-5		24,214	24,456
	OR-2-4		22,705	22,932
	OR-2-3		21,197	21,409
	OR-2-2		19,689	19,886
	OR-2-2		19,689	19,886
	OR-2-1		18,306	18,489

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

Table 1.6: Nursing Officers^a

Range and Rank	Step	1 April 2016 (£)	1 April 2017 (£)
OF-5			
Colonel	7	95,306	96,259
	6	93,861	94,800
	5	92,416	93,340
	4	90,971	91,881
	3	89,526	90,422
	2	88,082	88,962
	1	86,637	87,503
	1	86,637	87,503
OF-4			
Lieutenant Colonel	7	83,384	84,218
	6	81,485	82,300
	5	79,586	80,382
	4	77,687	78,464
	3	75,788	76,546
	2	73,895	74,634
	1	71,990	72,710
	1	71,990	72,710
OF-3			
Major	7	63,563	64,199
	6	61,683	62,300
	5	59,802	60,400
	4	57,922	58,501
	3	56,041	56,602
	2	54,161	54,703
	1	52,280	52,803
	1	52,280	52,803
OF-2			
Captain	7	49,628	50,124
	6	48,153	48,635
	5	46,679	47,146
	4	45,205	45,657
	3	43,731	44,168
	2	42,256	42,679
	1	40,782	41,190
	1	40,782	41,190
OF-1			
Lieutenant, 2 nd Lieutenant (Army)	5	35,390	35,744
	4	34,266	34,609
	3	33,142	33,474
	2	32,018	32,338
	1	26,637	26,903

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

Table 1.7: Special Forces

Range and Ranks	Level	Level	1 April 2016 (£)	1 April 2017 (£)
Range 5 (OR-9):				
Warrant Officer I	OR-9-6		61,208	61,820
	OR-9-5		60,608	61,214
	OR-9-4		60,007	60,607
	OR-9-3		59,407	60,001
	OR-9-2		58,806	59,394
	OR-9-1		58,206	58,788
Range 4 (OR-7 – OR-8):				
Warrant Officer II, Staff Sergeant	OR-7-12	OR-8-6	57,064	57,635
	OR-7-11	OR-8-5	56,408	56,972
	OR-7-10	OR-8-4	55,751	56,309
	OR-7-9	OR-8-3	55,095	55,646
	OR-7-8	OR-8-2	54,438	54,983
	OR-7-7	OR-8-1	53,782	54,320
	OR-7-6		52,727	53,255
	OR-7-5		52,071	52,592
	OR-7-4		51,414	51,929
	OR-7-3		50,758	51,266
	OR-7-2		50,101	50,602
	OR-7-1		49,445	49,940
	Range 3 (OR-6):			
Sergeant	OR-6-6		48,475	48,960
	OR-6-5		47,975	48,455
	OR-6-4		47,475	47,950
	OR-6-3		46,974	47,444
	OR-6-2		46,474	46,939
	OR-6-1		45,974	46,434
Range 2 (OR-4):				
Corporal	OR-4-6		43,784	44,222
	OR-4-5		43,128	43,559
	OR-4-4		42,471	42,896
	OR-4-3		41,815	42,233
	OR-4-2		41,159	41,570
	OR-4-1		40,502	40,907
Range 1 (OR-2 – OR-3):				
Lance Corporal, Private	OR-2-10	OR-3-3	39,556	39,951
	OR-2-9	OR-3-2	38,965	39,354
	OR-2-8	OR-3-1	38,373	38,757
	OR-2-7		37,782	38,160
	OR-2-6		37,191	37,563
	OR-2-5		36,600	36,966
	OR-2-4		36,009	36,369
	OR-2-3		35,418	35,772
	OR-2-2		34,827	35,175
	OR-2-1		34,236	34,578

Table 1.8: Professional Aviator

Increment level	1 April 2016 (£)	1 April 2017 (£)
Level 35	81,131	81,943
Level 34	80,019	80,819
Level 33 ^a	78,902	79,691
Level 32	77,789	78,567
Level 31	76,680	77,447
Level 30 ^{b,c}	75,559	76,315
Level 29	74,455	75,199
Level 28	73,338	74,071
Level 27 ^d	72,216	72,939
Level 26	71,112	71,824
Level 25	69,991	70,691
Level 24 ^e	68,882	69,571
Level 23	67,851	68,529
Level 22 ^f	66,559	67,224
Level 21	65,321	65,974
Level 20 ^g	64,076	64,717
Level 19	62,843	63,472
Level 18	61,606	62,222
Level 17	60,369	60,973
Level 16 ^h	59,133	59,724
Level 15	57,896	58,475
Level 14	56,659	57,225
Level 13	55,413	55,967
Level 12 ⁱ	54,181	54,723
Level 11	52,944	53,473
Level 10	52,233	52,755
Level 9	51,420	51,934
Level 8	50,598	51,104
Level 7	49,785	50,283
Level 6	48,967	49,457
Level 5	48,146	48,627
Level 4	47,328	47,802
Level 3	46,511	46,976
Level 2	45,689	46,146
Level 1	44,867	45,316

^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: Chaplains^a

Rank/ length of service	Level	1 April 2016 (£)	1 April 2017 (£)
Chaplain-General	Level 5	101,462	102,477
	Level 4	100,417	101,422
	Level 3	99,386	100,380
	Level 2	98,350	99,334
	Level 1	97,314	98,287
Deputy Chaplain-General ^b	Level 5	89,670	90,567
	Level 4	88,600	89,486
	Level 3	87,530	88,406
	Level 2	86,465	87,329
	Level 1	85,399	86,253
Chaplain (Class 1)	Level 6	84,333	85,177
	Level 5	83,267	84,100
	Level 4	82,197	83,019
	Level 3 ^c	81,131	81,943
	Level 2 ^d	79,634	80,430
	Level 1	78,136	78,917
Chaplains Class 2/3/4 (or equivalent)	Level 27	76,604	77,370
	Level 26	75,178	75,930
	Level 25	73,753	74,491
	Level 24	72,336	73,060
	Level 23	70,941	71,650
	Level 22	69,516	70,211
	Level 21	68,086	68,767
	Level 20	66,666	67,332
	Level 19	65,240	65,892
	Level 18	63,819	64,457
	Level 17	62,394	63,018
	Level 16	60,973	61,582
	Level 15	59,547	60,143
	Level 14	58,126	58,708
	Level 13	56,706	57,273
	Level 12	55,276	55,829
	Level 11	53,860	54,398
	Level 10	52,434	52,959
	Level 9	51,013	51,524
	Level 8	49,584	50,080
Level 7	48,167	48,649	
Level 6	46,733	47,201	
Level 5	45,317	45,770	
Level 4	43,896	44,335	
Level 3	42,475	42,899	
Level 2	41,045	41,456	
Level 1	39,629	40,025	

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

^b Army only.

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

^d Entry level for Deputy Chaplains-in Chief.

Table 1.10: Veterinary Officers of the Royal Army Veterinary Corps

Rank/ length of service	Level	1 April 2016 (£)	1 April 2017 (£)
Lieutenant Colonel	Level 5	77,447	78,221
	Level 4	76,274	77,037
	Level 3	75,105	75,856
	Level 2	73,928	74,668
	Level 1	72,764	73,492
Major, Captain	Level 22	70,637	71,344
	Level 21	69,178	69,870
	Level 20	67,714	68,391
	Level 19	66,254	66,917
	Level 18	64,799	65,447
	Level 17	63,336	63,969
	Level 16	61,880	62,499
	Level 15	60,412	61,017
	Level 14	58,965	59,555
	Level 13	57,699	58,276
	Level 12	56,449	57,013
	Level 11	55,045	55,596
	Level 10	53,637	54,173
	Level 9	52,233	52,755
	Level 8	50,838	51,346
	Level 7	49,434	49,928
	Level 6	48,030	48,511
	Level 5	46,630	47,097
	Level 4	45,227	45,679
	Level 3	43,827	44,265
Level 2	42,423	42,848	
Level 1	39,629	40,025	

Table 1.11: Officers Commissioned From the Ranks^a

Increment level	1 April 2016 (£)	1 April 2017 (£)
Level 15	52,969	53,499
Level 14	52,623	53,149
Level 13	52,259	52,781
Level 12	51,553	52,068
Level 11 ^b	50,851	51,359
Level 10	50,140	50,642
Level 9	49,434	49,928
Level 8	48,728	49,215
Level 7 ^c	47,846	48,325
Level 6	47,303	47,776
Level 5	46,750	47,218
Level 4 ^d	45,659	46,116
Level 3	45,115	45,567
Level 2	44,559	45,005
Level 1 ^e	43,472	43,907

^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 1.12: Special Forces Officers Commissioned From the Ranks

Rank	Level	1 April 2016 (£)	1 April 2017 (£)
OF-3			
Major	Level 9	69,965	70,665
	Level 8	69,263	69,956
	Level 7	68,561	69,247
	Level 6	67,864	68,542
	Level 5	67,166	67,838
	Level 4	66,657	67,323
	Level 3	65,762	66,420
	Level 2	65,064	65,715
	Level 1	64,367	65,010
OF-1 – OF-2			
Captain, Lieutenant, 2 nd Lieutenant	Level 15	65,018	65,668
	Level 14	64,641	65,287
	Level 13	64,269	64,911
	Level 12	63,327	63,960
	Level 11	62,381	63,005
	Level 10	61,435	62,050
	Level 9	60,498	61,103
	Level 8	59,548	60,143
	Level 7	58,602	59,188
	Level 6	57,861	58,440
	Level 5	57,155	57,726
	Level 4	56,440	57,005
	Level 3	55,722	56,279
	Level 2	55,007	55,557
	Level 1	54,292	54,835

Appendix 2

1 April 2017 recommended rates of Recruitment and Retention Payments and compensatory allowances

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

RECRUITMENT AND RETENTION PAYMENT	<i>Reserve Band</i>	
RRP (Flying)^a	<i>Rate</i>	<i>Rate 50%</i>
Officer aircrew (trained)	<i>£ per day</i>	<i>£ per day</i>
Trained Army NCO Pilots and Officer Aircrew in the rank of Squadron Leader ^b and below ^c		
Tier 1	10.96	5.48
Tier 2		
Rate 1	36.30	18.15
Rate 2	39.04	19.52
Rate 3	45.21	22.61
Rate 4	47.95	23.98
Rate 5	49.32	24.66
Rate 6	50.68	25.34
Rate 7	52.60	26.30
Wing Commander ^b		
On appointment	40.78	20.39
After 6 years	38.21	19.11
After 8 years	35.67	17.84
Group Captain ^b		
On appointment	31.22	15.61
After 2 years	29.29	14.65
After 4 years	27.38	13.69
After 6 years	24.19	12.10
After 8 years	21.00	10.50
Air Commodore ^b		
	12.73	6.37

^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 Except RAF Specialist Aircrew Flight Lieutenant and Ground Branch aircrew.

	Rate £ per day	Reserve Band Rate 50% £ per day
RAF specialist aircrew		
<i>(a) Flight Lieutenants (not Branch Officers)</i>		
On designation as specialist aircrew	48.40	24.20
After 1 year as specialist aircrew	49.07	24.54
After 2 years as specialist aircrew	50.32	25.16
After 3 years as specialist aircrew	50.93	25.47
After 4 years as specialist aircrew	51.60	25.80
After 5 years as specialist aircrew	52.86	26.43
After 6 years as specialist aircrew	53.50	26.75
After 7 years as specialist aircrew	54.15	27.08
After 8 years as specialist aircrew	55.41	27.71
After 9 years as specialist aircrew	56.04	28.02
After 10 years as specialist aircrew	56.68	28.34
After 11 years as specialist aircrew	57.95	28.98
After 12 years as specialist aircrew	58.60	29.30
After 13 years as specialist aircrew	59.88	29.94
After 14 years as specialist aircrew	60.51	30.26
After 15 years as specialist aircrew	61.14	30.57
After 16 years as specialist aircrew	63.06	31.53
<i>(b) Branch Officers</i>		
On designation as specialist aircrew	39.50	19.75
After 5 years as specialist aircrew	43.96	21.98
Ground Branch Officer aircrew (trained) and aircrew under transitional arrangements in the rank of Squadron Leader and below		
RM and Army pilots qualified as aircraft commanders		
Initial rate	14.63	7.32
Middle rate ^d	24.84	12.42
Top rate ^d	39.50	19.75
Enhanced rate ^e	46.50	23.25
Enhanced rate ^f	43.96	21.98
Non-commissioned aircrew (trained) RN/RM, Army and RAF aircrewmembers		
Initial rate	7.64	3.82
Middle rate ^g	15.93	7.97
Top rate ^h	21.00	10.50

^d After 4 years on the preceding rate.

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

^f 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.

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

^h After 18 years' reckonable service, subject to a minimum of 9 years' service in receipt of RRP (Flying).

	<i>Rate £ per day</i>	<i>Reserve Band Rate 50% £ per day</i>
RRP (Diving)		
<i>Category</i>		
1 RN Diver (Able rate) prior to Category 3 qualification Ship's Diver – all ranks and ratings	4.44	2.22
2 RN Search and Rescue Diver – all ratings Ship Divers' Supervisors Army Compressed Air Diver – all ranks	8.95	4.48
3 RN Diver (Able rate) when qualified to Category 3 standards Army Diver Class 1 – all ranks	12.12	6.06
3a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of RRP (Diving) Level 3 and completed EOD course 0804	7.95	3.98
4 RN Diver (Leading rate) when qualified to Category 4 standards Army Diving Supervisor and Instructor – all ranks RN Mine Countermeasures and Diving Officer ⁱ	21.00	10.50
4a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of RRP (Diving) Level 4 and completed EOD course 0804	7.95	3.98
5 RN Diver (Petty Officer and above) when qualified to Category 5 standards		
on appointment	29.94	14.97
after 3 years	32.50	16.25
after 5 years	34.39	17.20
5a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of RRP (Diving) Level 5 and qualified beyond CMD level	11.66	5.83
5b Qualified only in CMD skills	5.18	2.59
RRP (Submarine)		
Level 1 – payable on qualification	12.73	6.37
Level 2 – payable after 5 years on Level 1	16.55	8.28
Level 3 – payable after 5 years on Level 2	19.74	9.87
Level 4 – payable after 5 years on Level 3	22.30	11.15
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	28.02	14.01
RRP (Submarine Supplement)		
Harbour rate	5.10	–
Sea rate	15.30	–
RRP (Submarine) Engineer Officers' Supplement		
Level 1: pre-charge assignments in submarines ⁱ	10.20	–
Level 2: charge assignments in submarines	20.40	–

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

^j MESM Officers were ineligible for Level 1 before 1 April 2016.

	<i>Rate £ per day</i>	<i>Reserve Band Rate 50% £ per day</i>
RRP (Nuclear Propulsion)		
ORs Category C	3.06	1.53
ORs Category B	6.12	3.06
ORs Category B2	12.24	6.12
ORs Category A2	40.80	20.40
Category A1 Watchkeeper – MESM Officer – Pre Charge ^k	12.12	6.06
Category A1 Watchkeeper – MESM Officer – Charge and post Charge	20.20	10.10
RRP (Hydrographic)		
On attaining Charge qualification (H Ch)	14.02	7.01
Surveyor 1st Class (H1)	12.73	6.37
On promotion to Chief Petty Officer or attainment of NVQ4 whichever is sooner	10.51	5.26
Surveyor 2nd Class (H2), on promotion to Petty Officer or attainment of NVQ3 whichever is sooner	5.75	2.88
On promotion to Leading Hand	3.84	1.92
On completion of Initial Hydrographic Training	1.92	0.96
RRP (SF) Officers		
Level 1	41.39	20.70
Level 2	48.40	24.20
Level 3	52.86	26.43
Level 4	57.61	28.81
RRP (SF) Other Ranks		
Level 1	20.39	10.20
Level 2	28.65	14.33
Level 3	33.13	16.57
Level 4	39.50	19.75
Level 5	43.31	21.66
Level 6	48.40	24.20
Level 7	52.86	26.43
Level 8	57.61	28.81
Level 9	61.64	30.82
Level 10	64.72	32.36
RRP (SF-SDV)	12.12	–
RRP (SR) Officers		
Level 1	39.50	19.75
Level 2	46.50	23.25
Level 3	50.32	25.16
Level 4	54.85	27.43

^k This is a new category from 1 April 2016: Category A1 Watchkeeper – MESM Officer – Pre Charge.

	<i>Rate £ per day</i>	<i>Reserve Band Rate 50% £ per day</i>
RRP (SR) Other Ranks		
Level 1	19.37	9.69
Level 2	27.38	13.69
Level 3	31.22	15.61
Level 4	38.21	19.11
Level 5	41.39	20.70
Level 6	46.50	23.25
Level 7	50.32	25.16
Level 8	54.85	27.43
Level 9	58.70	29.35
Level 10	61.63	30.82
RRP (SFC)		
Level 1	18.47	9.24
Level 2	21.65	10.83
RRP (SC)		
Level 1	12.12	–
RRP (SI)		
Level 0	12.73	–
Level 1	21.65	–
Level 2	32.50	–
RRP (Mountain Leader)		
Initial	15.31	7.66
Enhanced	20.81	10.41
RRP (Parachute Jumping Instructor)		
Less than 8 years' experience	7.95	3.98
8 or more years' experience	11.64	5.82
Joint Air Delivery Test & Evaluation Unit Supplement	3.68	–
RRP (Parachute)	5.75	2.88
RRP (High Altitude Parachute)^l	10.84	–
RRP (Flying Crew)^m		
Lower rate	5.10	–
Higher rate ^d	8.27	–

^l Rate applies to members of the Pathfinder Platoon.

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

	<i>Rate £ per day</i>	<i>Reserve Band Rate 50% £ per day</i>
RRP (Explosive Ordnance Disposal Operators)ⁿ		
Level 2 (Defence EOD Operators)	17.22	–
Level 2A (Advanced EOD Operators)	22.93	–
Level 3 (Advanced Manual Techniques Operators)	29.29	–
RRP (WESM)		
Strategic Weapon System (SWS) and Tactical Weapon System (TWS) ^o		
OR7-9	20.00	10.00
OR6	12.00	6.00
OR4	3.00	1.50
RRP (Nursing)		
Specialist nurses who acquire the specified academic qualification of specialist practice (Defence Nursing Operational Competency Framework (DNOCF) Level 3)	10.84	5.42

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 RRP 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.

^o Payable on achievement of Role Performance Statement.

COMPENSATORY ALLOWANCES	<i>Rate £ per day</i>
LONGER SEPARATION ALLOWANCE	
Level 1 (up to 280 days qualifying separation)	7.04
Level 2 (281-460 days qualifying separation)	11.00
Level 3 (461-640)	14.97
Level 4 (641-820)	16.43
Level 5 (821-1000)	17.69
Level 6 (1001-1180)	18.95
Level 7 (1181-1360)	20.20
Level 8 (1361-1540)	22.10
Level 9 (1541-1720)	23.37
Level 10 (1721-1900)	24.64
Level 11 (1901-2080)	25.90
Level 12 (2081-2260)	27.17
Level 13 (2261-2440)	28.42
Level 14 (2441-2800)	29.68
Level 15 (2801-3160)	30.93
Level 16 (3161+)	32.18
UNPLEASANT WORK ALLOWANCE	
Level 1	2.65
Level 2	6.45
Level 3	19.09
UNPLEASANT LIVING ALLOWANCE	3.49
NORTHERN IRELAND RESIDENTS' SUPPLEMENT	7.66
RECRUITMENT AND RETENTION ALLOWANCE (LONDON)	4.04
EXPERIMENTAL TEST ALLOWANCE (per test)	2.84
EXPERIMENTAL DIVING ALLOWANCE	
Lump sum per dive	
Grade 5	315.40
Grade 4	157.72
Grade 3	118.30
Grade 2	78.84
Grade 1	15.76
Additional hourly rates	
Grade 5	63.08
Grade 4	15.76
Grade 3	11.81
Grade 2	7.90
Grade 1	-
MINE COUNTERMEASURES VESSELS ENVIRONMENTAL ALLOWANCE	3.49

Appendix 3

AFPRB 2016 recommendations

We submitted our 2016 recommendations on 29 January 2016. These were accepted by the Government on 8 March 2016 as follows:

Recommendations (from 1 April 2016 unless otherwise stated):

- A one per cent increase in base pay in advance of the transition to the NEM Pay structure.
- Targeted pay measures:
 - Recruitment and Retention Payment (RRP) rates to be held at 2015-16 levels for those receiving RRP (Mountain Leader) and RRP (Parachute Jumping Instructor).
 - All other rates of RRP to be increased by one per cent.
 - Full reviews of RRP (Flying), RRP (Mountain Leader), RRP (Parachute Jumping Instructor), RRP (Special Forces), RRP (Special Forces Communications) and RRP (Special Reconnaissance Regiment) to be conducted next year.
 - Reserves' Bounties and Call-out Gratuity to be increased by one per cent.
 - All rates of compensatory allowances to be increased by one per cent.
- No increase to rental charges for Service Family Accommodation (SFA) under the four-tier grading system in advance of the transition to Combined Accommodation Assessment System (CAAS).
- The top charge band for each type of SFA in the CAAS to be set at the top charge of the four-tier grading system for that type and that the level of reduction for lower bands for each type should be in steps of ten per cent of that top rate.
- Rental charges for Single Living Accommodation grade 1 for charge to be increased by 3.2 per cent (in line with the rental component of RPI as at November 2015), with increases of 2.1 per cent to grade 2, 1.1 per cent to grade 3 and zero to grade 4.
- No increase to the Daily Food Charge, which remains at £4.79.
- The daily price of the Core Meal (for all three meals) under Pay As You Dine to be set at the values of the Daily Food Charge plus VAT (an increase from £4.89 to £5.75).

Appendix 4

AFPRB 2016 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
United States (East Coast): Senior British Military Advisors (SBMA) MacDill Air Force Base, Tampa; Marine Corps Air Station Beaufort, South Carolina; Joint Service Signal Unit (Digby) Fort Gordon, Georgia; NATO HQ Supreme Allied Commander Transformation (SACT) and Naval Ocean Processing Facility Dam Neck (NOPF DN), Norfolk, Virginia; and British Defence Staff, British Embassy, Washington DC	Royal Navy	Paul Kernaghan
United States (West Coast): Airborne Delivery Wing (ADW) Blythe Airfield; 17 Squadron, Edwards Air Force Base; 39 Squadron Creech, Las Vegas; and British Defence Staff, British Embassy, Washington DC	Royal Air Force	John Steele
RAF Wittering, Lincolnshire	Royal Air Force	Paul Kernaghan Ken Mayhew
HQ LONDIST, LCG, 20 Squadron RLC, HCMR, 1IG, UK Based Units, London	Army	Brendan Connor Wilma Patterson
Defence Equipment & Support, Abbey Wood and RAF Cosford, Shropshire	Royal Air Force	Brendan Connor Tim Flesher
38 (Irish) Brigade, Northern Ireland: HQ 38 (Irish) Brigade; The Royal Scots Borderers, 1 st Battalion The Royal Regiment of Scotland; 2 nd Battalion, The Rifles; 5 th Regiment, Army Air Corps; Northern Ireland Garrison Support Unit; and HMS Hibernia	Army/Royal Navy	Paul Kernaghan Lesley Mercer
Middle East: 906 Expeditionary Air Wing (EAW) Al Minhad, Dubai; 83 Expeditionary Air Group (EAG) Al Udeid, Doha; United Kingdom Maritime Component Command HQ, Bahrain; Mine Warfare Battle Staff and HMS Chiddingfold, Bahrain; HMS Defender, Bahrain	Royal Navy	Ken Mayhew Jon Westbrook
8 Engineer Brigade, Royal Military Academy, Sandhurst (RMAS), Army Training Centre Pirbright, Surrey and 3 rd Division Signal Regiment, Wiltshire	Army	Tim Flesher Jon Westbrook
HMNB Clyde Faslane, Scotland	Royal Navy	Brendan Connor Tim Flesher
Commando Training Centre, Lymington and HMS Raleigh and Submarine School, Plymouth	Royal Navy	Brendan Connor Lesley Mercer

ESTABLISHMENT/LOCATION	SERVICE	MEMBERS
Camp Arifjan, Kuwait and Joint Operating Base, Zorbash, Erbil, Iraq	Army	Ken Mayhew Vilma Patterson
Tactical Medical Wing, RAF Brize Norton, and 243 Field Hospital, Bristol	DMS	Ken Mayhew Jon Westbrook
RAF Coningsby and RAF Digby, Lincolnshire	Royal Air Force	Vilma Patterson John Steele
20 th Armoured Infantry Brigade inc HQ 20 Armoured Infantry Brigade, Queens Royal Hussars, 1 st Battalion Princess of Wales Regiment and 1 Armoured Medical Regiment, Paderborn, Germany	Army	Tim Flesher Jon Westbrook
Armed Forces Careers Office (AFCO) and MOD Recruiting Day	Royal Navy	Vilma Patterson Jon Westbrook

Appendix 5

Details on recruitment and retention, and findings from the 2016 AFCAS

Introduction

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

Armed Forces' staffing¹

2. MOD stated that current challenges are to re-balance manpower structures to reflect the Service requirements of Joint Forces 2025 and the 2015 Strategic Defence and Security Review (SDSR15). MOD highlighted that, to meet this, each of the three Services were using different measures and initiatives, and had made some progress in specific areas. However, the Armed Forces, in particular the Royal Navy and the Royal Air Force (RAF), will need to deliver further manpower efficiencies to meet the requirements of SDSR15. Overall, the staffing position in 2015-16 was similar to 2014-15 as there were specific recruitment challenges for both Regulars and Reserves, particularly for certain cadres critical to capability.
3. Chart A5.1 and Table A5.1 illustrate the staffing position at 1 April 2016. At that point, the tri-Service staffing position showed trained strength at 95.6 per cent of the liability, outside of staffing balance²: the Royal Navy has a 1.7 per cent deficit (within staffing balance), the Army a 4.6 per cent deficit and the RAF a 6.3 per cent deficit (both therefore out of staffing balance). MOD commented in its evidence that the "macro view" masked significant shortfalls across all three Services in specific groups. Figures published for 1 October 2016 showed the overall deficit little changed at 4.3 per cent.

¹ Data in this appendix are taken from the April 2016 data publication (produced in May) unless it is stated otherwise. Some data are marked in that publication as provisional (e.g. requirement and voluntary outflow). The publication can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522122/Monthly_Service_Personnel_Statistics_April_2016.xlsx

² The staffing balance target is defined as between -2 per cent and +1 per cent of the Defence Planning Liability.

Chart A5.1: Full-time trained strength and requirement 2006-2016

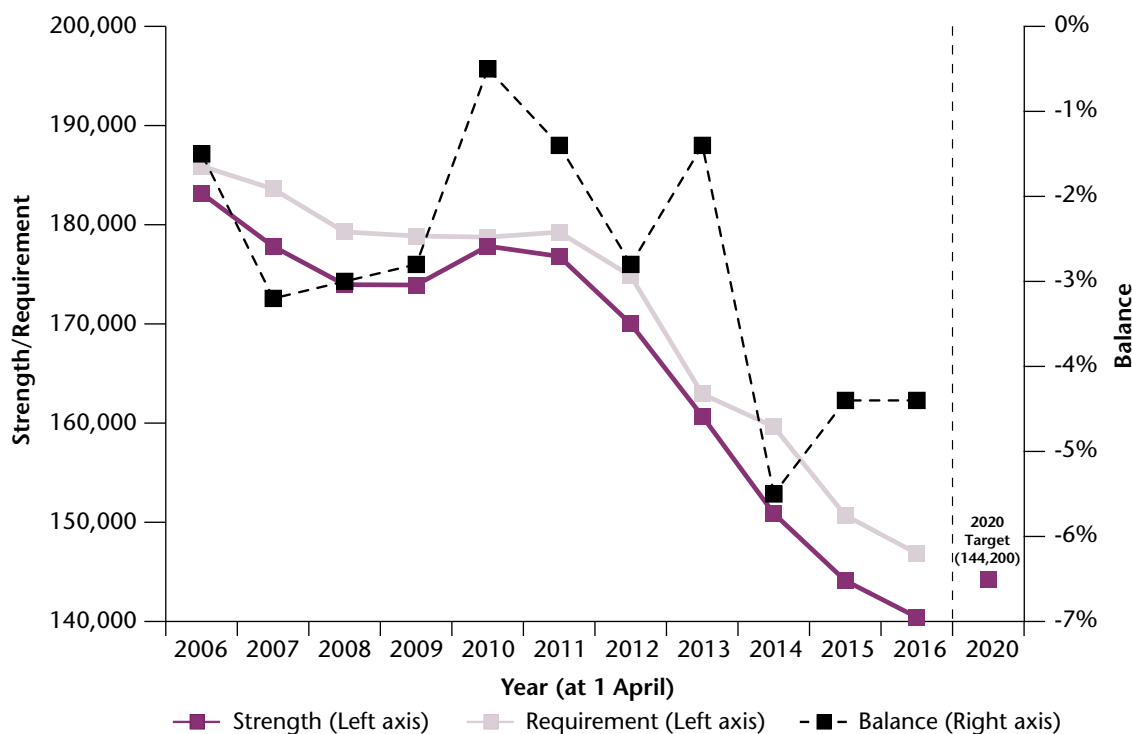


Table A5.1: UK Armed Forces full-time trained strengths and requirements, 1 April 2016

Service	Rank	Trained requirement	Full-time trained strength	Surplus/Deficit	Surplus/Deficit as a % of requirement
Royal Navy					
	Officers	5,960	5,920	-40	-0.6%
	Other Ranks	24,250	23,780	-470	-2.0%
	<i>Total</i>	<i>30,210</i>	<i>29,700</i>	<i>-510</i>	<i>-1.7%</i>
Army					
	Officers	11,920	11,960	40	0.3%
	Other Ranks	71,640	67,790	-3,850	-5.4%
	<i>Total</i>	<i>83,560</i>	<i>79,750</i>	<i>-3,810</i>	<i>-4.6%</i>
RAF					
	Officers	7,280	6,690	-590	-8.1%
	Other Ranks	25,800	24,290	-1,510	-5.8%
	<i>Total</i>	<i>33,080</i>	<i>30,980</i>	<i>-2,100</i>	<i>-6.3%</i>
Total		146,860	140,430	-6,420	-4.4%

Note: All MOD figures are rounded to the nearest 10 separately so may not equal the sum of their parts.

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

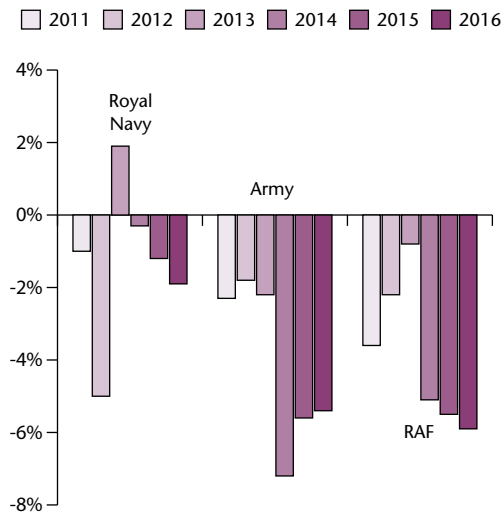
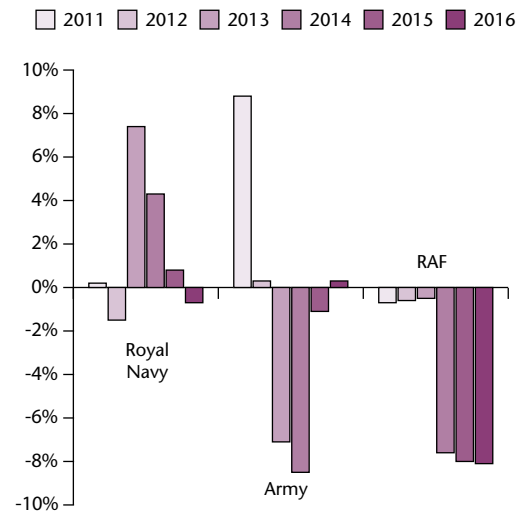


Chart A5.3: Full-time trained strength (surplus/deficit) – Officers



- The management of Operational Pinch Points (OPPs) continued to be a priority. At the last quarter of 2015-16 there were 38 OPPs across the Services, a slight decrease from the previous year (41). Efforts continued to incentivise personnel to join and remain within pinch point trades.

Recruitment

- In 2015-16, 13,800 personnel were recruited into the Armed Forces, an increase of 6 per cent over the previous year. This year all three Services failed to meet their 2015-16 Gains to Trained Strength targets for Regulars. The Royal Navy and RAF faced challenges in recruiting in engineering trades in particular, while the Army remained concerned about the competitive employment market.
- Charts A5.4 and A5.5 show the recruitment picture over the last ten years separately for Other Ranks and Officers. Other Ranks intake was up 6 per cent to 12,580 in 2015-16 from 11,850 a year earlier, while Officer recruitment increased by 8 per cent to 1,220 (from 1,130). Recruitment to Other Ranks increased by 5 per cent for the Army, 18 per cent for the RAF and 2 per cent for the Royal Navy. Officer recruitment for the Army and RAF increased, by 12 and 8 per cent respectively, while Royal Navy Officer recruitment remained at the same level as in the previous year.
- Recruitment decreased slightly between March and September and was 1.1 per cent lower in the year to 30 September 2016 (intake at 13,650) than in the year to 31 March 2016 (13,800).
- In the year to 31 March 2016, 1,340 female personnel joined the UK Regular Forces (9.7 per cent of the total intake). Across all UK Regular Forces female personnel comprised 10.2 per cent of the workforce at 1 April 2016, similar to the proportion the previous year (10.1 per cent).

Chart A5.4: Intake – Other Ranks

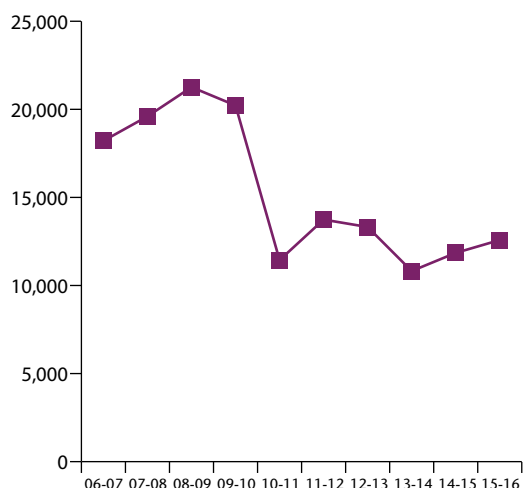
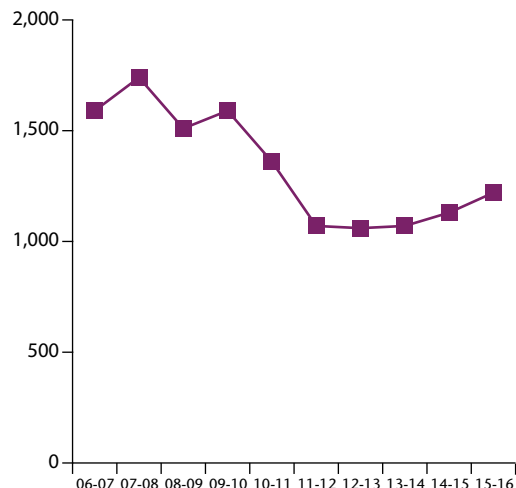


Chart A5.5: Intake – Officers



9. Black, Asian and Minority Ethnic (BAME) recruitment remained a concern. In the year to 31 March 2016, overall BAME intake fell to 700 (from 720) making up 5.2 per cent of total intake. UK BAME intake increased to 530 (from 430), representing three-quarters of all BAME intake or 3.8 per cent of total intake. Only 3.3 per cent of all UK Regular Forces were from UK BAME backgrounds at 1 April 2016 (3.4 per cent on 1 October 2016). The minority ethnic population of the UK, according to 2011 Census data released in December 2012, was 14 per cent.

10. Gains to Trained Strength (GTS) counts the number of new recruits that have completed their training and therefore moved from the untrained to the trained strength, as well as direct entrants (which includes trained re-entrants, transfers from other Services and countries, professionally qualified Officers and Full Time Reserve Service). There is a direct link between GTS and previous intake figures, as personnel previously recruited become trained.³ In the year to 31 March 2016 there was an increase of 2 per cent in the overall GTS to 10,120 (from 9,960). Other Ranks GTS increased by 3 per cent; that for Officers fell by 5 per cent.

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

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

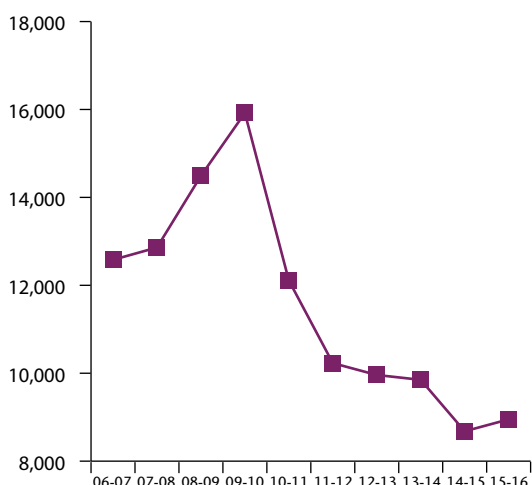
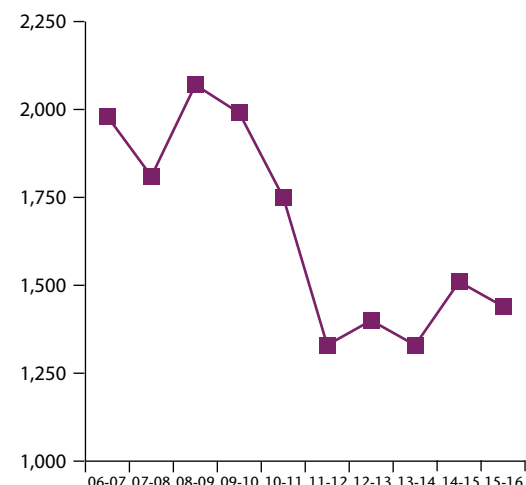


Chart A5.8: Gains to Trained Strength – Officers



Retention

11. The numbers of personnel leaving the Regular trained strength decreased to 13,540 at 31 March 2016 from 16,320 a year earlier, a decrease of 17 per cent. This continued the downward trend observed last year: in the previous three years outflow decreased by 19 per cent (the year to 31 March 2015), increased by 1 per cent (to 31 March 2014), and increased 13 per cent (to 31 March 2013). Overall outflow rates from the trained strength also decreased in 2015-16. Within this, Other Ranks was at 10.0 per cent, down from 11.9 per cent in 2014-15, and Officers was at 8.4 per cent, the same as for the previous year.

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

	2013-14	2014-15	2015-16
Other Ranks			
Royal Navy	10.6	10.1	8.6
Army	16.4	13.4	11.3
RAF	10.1	9.5	8.0
All Services	14.0	11.9	10.0
Officers			
Royal Navy	7.5	7.2	7.1
Army	11.2	9.1	9.1
RAF	8.5	8.2	8.2
All Services	9.6	8.4	8.4

Voluntary Outflow

12. Voluntary outflow (VO) in the twelve months to 31 March 2016 was broadly similar to the previous year. For Other Ranks the overall VO rate was 5.8 per cent, a slight increase from 5.5 per cent the year before. The Royal Navy rate was 5.2 per cent (down from 6.2 per cent), the Army was 6.2 per cent (up from 5.2 per cent), and the RAF was 5.4 per cent (slightly down from 5.5 per cent).
13. The rate for Officers increased slightly to 4.9 per cent in the 12 months to 31 March 2016, from 4.4 per cent the year before. For the Royal Navy, VO was 4.1 per cent (slightly down from 4.2 per cent), it was 5.8 per cent for the Army (up from 4.8 per cent), and 4.0 per cent for RAF (up from 3.7 per cent a year previously).
14. Data for the 12 months to 30 September 2016 showed tri-Service VO rates of 5.7 per cent for Other Ranks and 4.4 per cent for Officers. These rates remain above the tri-Service five year averages for VO of 5.3 per cent for Other Ranks and 4.1 per cent for Officers. The MOD said that, for the Royal Navy and RAF, VO rates were expected to decrease in 2016. It also said the overall VO rates masked more acute problems within specific engineering branches across all three Services.

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

	2014-15	2015-16	12 months to Sep 2016
Other Ranks			
Royal Navy	6.2	5.2	4.8
Army	5.2	6.2	6.3
RAF	5.5	5.4	5.1
All Services	5.5	5.8	5.7
Officers			
Royal Navy	4.2	4.1	3.7
Army	4.8	5.8	5.4
RAF	3.7	4.0	3.4
All Services	4.4	4.9	4.4

Motivation and Morale

15. The Armed Forces Continuous Attitude Survey (AFCAS) provides an important contextual source of information on Service morale and the factors impacting on retention. During 2014, a major review of AFCAS recommended a reduction in survey length, to focus the survey on key areas for the MOD as identified by customers and stakeholders. This resulted in a shorter survey than before. We examined the results of the tenth tri-Service survey, a selection of which is shown in Table A5.4. For this year the survey was conducted between September 2015 and February 2016. Personnel in the sample were sent both the online version and the paper version in order to maximise response rates. From the sample of approximately 28,000 the response rate was 45 per cent, an increase of one percentage point from the previous year.
16. Overall levels of satisfaction on many topics showed a slightly downward trend compared with 2015 and with 2012. The most notable changes were that respondents' proportion of positive responses decreased significantly on accommodation issues; specifically in terms of standard, value for money and the response to and quality of maintenance and repairs (see Table A5.4). This reflected the views that we heard on visits.

17. Pay and outside opportunities are important factors in retention. The survey shows a significant decrease in satisfaction with most pay and allowances since 2012 (with the exception of X-Factor). While the survey took place before the introduction of Pay16, it is possible that some of the responses will have been influenced by early communications on the pay changes being introduced under the New Employment Model.

Table A5.4: 2016 Armed Forces Continuous Attitude Survey results

Key Stats	% of positive responses 2016	Change in positive responses from			
		2015	2012		
Basic Pay	35%	↓	1%pts	↓	5%pts
Allowances	42%	↓	1%pts	↑	1%pts
Pension benefits	30%	↓	2%pts	↓	10%pts
Own morale is high	40%	↔	Unchanged	↓	2%pts
Overall standard of Service accommodation	53%	↓	5%pts	↓	3%pts
Value for money of Service accommodation	61%	↓	6%pts	↓	6%pts
Response to requests to maintain/repair	34%	↓	6%pts	↓	8%pts
Quality of maintenance/repair to accommodation	33%	↓	7%pts	↓	6%pts
How fairly Service accommodation is allocated	45%	↓	2%pts	↑	4%pts
I would recommend joining the Services to others	45%	↓	2%pts	↑	1%pts
The amount of pay increases my intentions to stay	35%	↓	3%pts	↓	1%pts
Outside opportunities increases my intentions to leave	52%	↔	Unchanged	↑	16%pts
Overall leave entitlement	70%	↔	Unchanged	↓	3%pts
Amount of leave able to take in the last 12 months	62%	↔	Unchanged	↑	2%pts
Opportunity to take leave when they wanted to	44%	↓	2%pts	↑	4%pts

Note: Those arrows with lighter shading are not statistically significant changes.

Armed Forces Families Continuous Attitude Survey results

18. The Armed Forces Families Continuous Attitude Survey (FAMCAS) provides a picture of the morale of Armed Forces families and their attitudes to Service life. It covers their views on Service accommodation, access to schools and childcare and the Armed Forces' Covenant. This was the seventh tri-Service FAMCAS and the response rate was 28 per cent (an increase of three percentage points from the previous year). As for the AFCAS, a comprehensive review was carried out of the FAMCAS in 2014. As a result, many questions were altered and fewer comparisons can be made with previous years. The main points included: 59 per cent of respondents lived in Service Family Accommodation or Substitute Service Family Accommodation and 53 per cent of those were satisfied with it; the majority of those with children (77 per cent) were able to place them in their first choice of childcare or school; and 44 per cent of partners were in full-time employment. Of those spouses or partners who accompanied personnel abroad, 48 per cent were able to find paid work. Surprisingly, and of some concern, more than half of respondents were not at all aware of the Covenant.

Armed Forces Reserves Continuous Attitude Survey results

19. The Armed Forces Reserves Continuous Attitude Survey (ResCAS) was undertaken for the first time in 2014 and provided insight of the attitudes and morale of Reservists. For the second survey in 2015, substantial changes were made to the distribution methodology and target populations so that the results are not comparable with the first survey. This year the response rate was 34 per cent. The main points included: 77 per cent of

respondents were satisfied with Reserve life in general; and 81 per cent said they felt motivated to do the best job they could for the Reserves. Only 32 per cent felt valued by Regulars, while 49 per cent felt valued by society in general. Some 73 per cent of those employed said their employer supported their service. A reported 51 per cent were satisfied with pay and 70 per cent with the Bounty but only 46 per cent with the expense allowances.

Appendix 6

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

OFFICIAL



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

John Steele
Chair of the AFPRB
c/o Office of Manpower Economics
Fleetbank House
2-6 Salisbury House
EC4Y 8JX

Dear Mr. Steele,

13th July 2016

PUBLIC SECTOR PAY 2017-18

1. Thank you for your work on the 2016-17 pay round. The Pay Review Bodies continue to play an invaluable role in making independent, evidence-based recommendations on public sector pay awards, as well as continuing to provide high-quality advice on wider reforms to pay and allowances policy. I am extremely grateful to you and your colleagues for your considered work. Over the remainder of the Parliament I look forward to the Pay Review Bodies continuing to advise the Government on how best to achieve pay reforms and deliver fair and sustainable pay awards for public sector workforces

2. As you know the fiscal context remains very challenging following the outcome of the EU referendum vote. However, the Government's public sector pay policy, announced at Summer Budget 2015 and reaffirmed in the Autumn Statement and Spending Review 2015, was intended to enable prudent long-term planning while protecting jobs, and I can confirm that this policy remains in place. We will fund public sector workforces for pay awards of an average of 1 per cent a year, up to 2019/20.

3. As I set out in my letter to you last year, I expect to see targeted pay awards, in order to support the continued delivery of public services, and to address

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recruitment and retention pressures. This may mean that some workers could receive more than 1 per cent whilst others receive less, and there should be no expectation that every worker will receive a 1 per cent pay award. I am aware that this requires you to receive good, evidence-based propositions to consider.

4. Relevant Secretaries of State will write to you shortly with their remit letters, as and where needed. Relevant departments will submit their proposals covering the specific needs of their workforces in their evidence to you in the early autumn. I look forward to your 2017-18 recommendations.

Your sincerely,

A handwritten signature in blue ink, appearing to read "Greg Hands".

GREG HANDS

OFFICIAL

2



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

Telephone: 020 721 82111/2/3
Fax: 020 721 87140
E-mail: defencesecretary-group@mod.uk

4.4.2.4

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August 2016

Dear John,

You will have seen the Chief Secretary to the Treasury's letter of 13 July setting out the Government's position on Public Sector Pay for 2017-18. The Government's public sector pay policy remains in place to enable prudent long term planning that assists in protecting jobs, and reflecting a very challenging fiscal context following the outcome of the EU referendum vote. The Government continues to appreciate the expert advice and contribution that the Armed Forces' Pay Review Body (AFPRB) makes, including upon how best to achieve pay reform and deliver fair and sustainable pay awards for the Armed Forces.

When I last met with the Body it was just after the successful announcement of the Strategic Defence and Security Review that unveiled Joint Force 2025, bolstered by a ten-year £178bn equipment budget. This followed on from the Government's summer budget announcement where we stated we would not only choose to stick to NATO's two per cent target for the Defence Budget but would also ensure growth in real terms for the first time in six years and increase in every year of this parliament. However, we are not complacent over the enduring commitment, professionalism and skills displayed by our people as we continue to develop a supporting employment offer that is simpler, efficient and more modern. I was therefore very grateful for the Body's recent support for policies that underpinned Pay 16 and the Combined Accommodation Assessment System that were both introduced on 1 April 2016.

The Chief Secretary's letter again confirmed that the Government expects pay awards to be targeted in the most effective way to support outputs and to address recruitment and retention pressures. It states that whilst the Government will continue to fund pay awards of an average of one per cent, there should be no expectation of a uniform one per cent pay award for all (albeit good evidence-based submissions are acknowledged as the basis for Departmental proposals). We have continued to develop our understanding of some of our key areas of concern, particularly aviation and engineering cadres and intend to bring forward some specific proposals for your consideration this year. Equally, we may need to continue to approach you during the course of the year where targeted measures are felt necessary.

Mr John Steele
Chair, Armed Forces' Pay Review Body
Office of Manpower Economics
8th Floor, Fleetbank House
2-6 Salisbury Square
London
EC4Y 8JX

I am aware that we have continued to keep you informed over the emerging range of major People Change Programmes that are underway which will ensure we are well positioned for future strategic challenges. The programme will deliver a modernised offer for our Service Personnel in support of 21st Century lifestyles whilst preserving the specific elements that reflect the unique demands imposed upon the Armed Forces. In doing so we will create a sustainable and affordable workforce for the long term and your counsel will be routinely sought as we develop our own policies to better enable the Body to make considered recommendations on pay and reward.

As ever, the AFPRB's sound independent advice remains highly valued by the most senior leadership within Defence and by Service personnel. I am copying this letter to the Chief Secretary to the Treasury.

A handwritten signature in black ink, appearing to read 'Michael Fallon'. The signature is written in a cursive, slightly stylized font. The first part 'Mich' is written in a larger, more prominent script, followed by 'Fallon' in a similar but slightly smaller script.

THE RT HON MICHAEL FALLON MP

Appendix 7

AFPRB's five-year work programme schedule

Bold items for review for the AFPRB Report to be published in 2018.

SUBJECT	2017-18	2018-19	2019-20	2020-21	2021-22
Allied Health Professionals			5		
Chaplains (pay & pay spines)	5				
Experimental Test Allowance			5		
Longer Separation Allowance		5			
Military Provost Guard Service		5			
Mine Countermeasures Vessels Environmental Allowance	3				
New Entrants					5
NI Residents' Supplement		2		2	
Non-pay benefits	5				
Officers Commissioned from the Ranks	5				
Reserves' Bounties		3			3
Recruitment and Retention Allowance (London)	5				
Service Nurses (pay spines and Recruitment and Retention 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

Recruitment and Retention Payment Reviews

In our 2018 Report we will review RRP (Flying Crew), RRP (Hydrographic), RRP (Parachute), RRP (Special Communications), RRP (Special Intelligence) and RRP (Special Reconnaissance Regiment).

The list of other Recruitment and Retention Pay earning cadres is below:

Diving, Explosive Ordnance Disposal Operator, Flying, Mountain Leader, Nuclear Propulsion, Nursing, Parachute Jumping Instructor, Special Forces, Special Forces Communications, Submarine and Weapons Engineering Submariner.

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