



Armed Forces'
Pay Review Body

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Forty-Sixth Report 2017

Chair: John Steele

Executive Summary

Armed Forces' Pay Review Body

TERMS OF REFERENCE

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

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

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

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

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

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

The members of the Review Body are:

John Steele (Chair)¹
Brendan Connor
Tim Flesher CB
Paul Kernaghan CBE QPM
Professor Ken Mayhew
Lesley Mercer
Vilma Patterson MBE
Rear Admiral (Ret'd) Jon Westbrook CBE

The secretariat is provided by the Office of Manpower Economics.

¹ John Steele is also a member of the Review Body on Senior Salaries.

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'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) 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.