



Armed Forces'
Pay Review Body

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Forty-Seventh Report 2018

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

July 2018



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

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GLOSSARY OF TERMS

1AMW	No. 1 Air Mobility Wing (RAF)
4TG	Four-Tier Grading
A2020	Army 2020
AAC	Army Air Corps
AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
AFPS	Armed Forces' Pension Scheme
AGE	Aircraft Ground Engineer (RAF)
AHL	Annington Homes Ltd
ASHE	Annual Survey of Hours and Earnings
AWE	Average Weekly Earnings
BAME	Black, Asian and Minority Ethnic
BDA	British Dental Association
BEIS	Department for Business, Energy and Industrial Strategy
BMA	British Medical Association
CA	CarillionAmey
CAAS	Combined Accommodation Assessment System
CCB	Continuous Career Basis
CEA	Clinical Excellence Award (DMS and NHS)
CEng	Chartered Engineer status
CILCOT	Contribution in Lieu of Council Tax
CPI	Consumer Prices Index
CPIH	Consumer Prices Index including Owner Occupiers' Housing Costs
CST	Chief Secretary to the Treasury
CTB	Completion of Task Basis
DDIP	Defence Diversity and Inclusivity Programme
DDRB	Review Body on Doctors' and Dentists' Remuneration (OME)
DERR	Defence Engineering Remuneration Review
DFC	Daily Food Charge
DHSC	Department of Health and Social Care
DIO	Defence Infrastructure Organisation
DMS	Defence Medical Services
DMS20	Defence Medical Services 2020
DMSCAS	Defence Medical Services Continuous Attitudes Survey

EDP	Early Departure Payment
Eng Tech	Engineering Technician
EPRA	Engineer Professional Recognition Award
FAM	Future Accommodation Model
FAMCAS	Armed Forces Families Continuous Attitude Survey
FES	Flexible Engagements System
FHTB	Forces Help to Buy
FI	Financial Incentive
FOI	Freedom of Information
FR20	Future Reserves 2020
FRI	Financial Retention Incentive
FTRS	Full Time Reserve Service
GDP	Gross Domestic Product <i>or</i> General Dental Practitioner
GMP	General Medical Practitioner
GPMS	General and Personal Medical Services
GTS	Gains to Trained Strength
HESA	Higher Education Statistics Agency
HM(H)	Hydrographic and Meteorology Branch (Hydrography) (RN)
HMRC	Her Majesty's Revenue and Customs
HoE	Head of Establishment
HR	Human Resources
IDR	Incomes Data Research
IEng	Incorporated Engineer
IES	Institute for Employment Studies
IHG's	Individual Harmony Guidelines
ILA	Individual Leave Allowance
IP	Industry Partners
JHSS	Joint Helicopter Support Squadron
JPA	Joint Personnel Administration
JSJET	Joint Services Job Evaluation Team
JSP	Joint Service Publication
KPIs	Key Performance Indicators
LGBT	Lesbian, Gay, Bisexual and Transgender
LSA	Longer Separation Allowance
MCMVs	Mine Counter Measures Vessels
MEA	Mine Counter Measures Vessels Environmental Allowance

MET	Meteorology
MIS	Minimum Income Standard
MOD	Ministry of Defence
MODO	Medical and Dental Officers
MPGS	Military Provost Guard Service
NATO	North Atlantic Treaty Organisation
NCA	Non-Commissioned Aircrew
NCB	Non-Continuous Basis
NCO	Non-Commissioned Officer
NEM	New Employment Model
NERP	New Entrants' Rates of Pay
NHP	National Housing Prime
NHS	National Health Service
NI	Northern Ireland
NIRS	Northern Ireland Residents' Supplement
NJO	New Joiner Offer
NLW	National Living Wage
NMW	National Minimum Wage
NTM	Notice to Move
OBR	The Office for Budget Responsibility
OCFR	Officer(s) Commissioned from the Ranks
OF	Officer
OFWAT	Water Services Regulation Authority
OME	Office of Manpower Economics
OPP	Operational Pinch Point
OR	Other Rank
PAC	Public Accounts Committee
PAs	Programmed Activities
PAYD	Pay As You Dine
PBF	Professional Body Fees
PFI	Private Finance Initiative
PI	Performance Indicator
PJI	Parachute Jumping Instructor
PPOs	Principal Personnel Officers
PQOs	Professionally Qualified Officers
PR18	Pay Round 2018

PR19	Pay Round 2019
PR20	Pay Round 2020
PSA	Public Service Agreement
PVR	Premature Voluntary Release
PwC	PricewaterhouseCoopers
RAF	Royal Air Force
RAFR	Royal Air Force Reserves
RE	Royal Engineers
REME	Royal Electrical and Mechanical Engineers
ResCAS	Armed Forces Reserves Continuous Attitude Survey
RG	Royal Gibraltar Regiment
RLC	Royal Logistic Corps
RM	Royal Marines
RMR	Royal Marines Reserve
RN	Royal Navy
RNR	Royal Naval Reserve
RoS	Return of Service
RPAS	Remotely Piloted Aircraft Systems
RPI	Retail Prices Index
RRA(L)	Recruitment and Retention Allowance (London)
RRP	Recruitment and Retention Payment
RRP(FC)	Recruitment and Retention Payment (Flying Crew)
RRP(H)	Recruitment and Retention Payment (Hydrographic)
RRP(ML)	Recruitment and Retention Payment (Mountain Leader)
RRP(NSE)	Recruitment and Retention Payment (Naval Service Engineer)
RRP(P)	Recruitment and Retention Payment (Parachute)
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
SCPD	State Ceremonial and Public Duties
SDSR	Strategic Defence and Security Review
SF	Special Forces

SFA	Service Family Accommodation
SFC	Special Forces Communications
SFF	Service Families' Federation
SG	Surgeon General (DMS)
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
SQEP	Suitably Qualified and Experienced Personnel
SR	Special Reconnaissance or Senior Rate
SSFA	Substitute Service Family Accommodation
SSRB	Review Body on Senior Salaries (OME)
STEM	Science, Technology, Engineering and Mathematics
TB	Training Bounty
TLB	Top Level Budget
TSP	Trade Supplement Placement
UK	United Kingdom of Great Britain and Northern Ireland
ULA	Unpleasant Living Allowance
UN	United Nations
USA	United States of America
UWA	Unpleasant Work Allowance
VAT	Value Added Tax
VBA	Virtual Bank Account
VO	Voluntary Outflow
WMS	Written Ministerial Statement
WO	Warrant Officer

ARMED FORCES' PAY REVIEW BODY

2018 REPORT – SUMMARY

Summary of recommendations from 1 April 2018 (unless otherwise stated):

- Rates of base pay for the main remit group to be increased by 2.9 per cent.
- All rates of X-Factor should remain unchanged.
- The following targeted measures as part of the Defence Engineering Remuneration Review (DERR) pay proposals:
 - Category 1: core pay, supplements and bespoke pay spine
 - Royal Air Force (RAF)-led tri-Service work on the case for a bespoke pay spine for professional engineers, to report to us in Pay Round 19 (PR19); and
 - Consideration of using the Pay16 pay model to better target engineers in core pay, again to report to us in PR19.
 - Category 2: qualifications and professional registration
 - an Engineer Professional Recognition Award (EPRA) for Army Officers (OFs) and Other Ranks (ORs) for implementation in the current pay round (PR18);
 - an EPRA for Royal Navy Officers, that includes retrospective recognition of qualifications, for implementation in PR19; and
 - an EPRA targeted at all RAF OFs and ORs tied to professional attainment from Eng Tech through to IEng and CEng, and that again includes retrospective recognition, for implementation in PR18.
 - Category 3: targeted remuneration measures
 - Possible RAF-led Financial Retention Incentives (FRIs) targeted at specific cohorts (including both OFs and ORs) for implementation in PR18. These FRIs have not yet been submitted for our consideration but we are content to consider them out of round;
 - A Royal Navy-led targeted Recruitment and Retention Payment (RRP) (Naval Service Engineer) for Royal Navy ORs, for implementation in PR19, synchronised with the rundown of existing FRIs for Marine and Weapon Engineer, General Service and for Submariners; and
 - Two Army-led FRIs, one targeted at Royal Electrical and Mechanical Engineers (REME) Aircraft and Avionics Technicians and the other targeted at REME Artificer Aircraft and Avionics Technicians, both for implementation in PR18.
- Other targeted measures (full details in Chapter 3):
 - RRP (Mountain Leaders) and RRP (Parachute Jumping Instructors) to remain at current rates.
 - RRP (Flying Crew) (FC):
 - RRP(FC) to remain at current rates.
 - Royal Navy Flying Maintainers to continue to be eligible for RRP(FC) on a Non-Continuous Basis (NCB).
 - An enduring requirement to pay RRP(FC) to Royal Navy Flight Winchmen on a NCB under existing arrangements.

- RRP(FC) should be re-profiled for Royal Logistic Corps (RLC) Air Despatchers under existing NCB arrangements, focusing the payment on the retention of more experienced personnel.
 - Army Air Corps Aviation Crew transfer to RRP (Flying) Non-Commissioned Aircrew with effect from 1 April 2018.
 - No ongoing requirement to pay RRP(FC) to REME Aircraft Technicians.
 - An ongoing requirement to pay RRP(FC) to RAF Aircraft Ground Engineers; however, the recruitment and retention issues affecting the cohort should be considered as part of the DERR and single Service work to improve retention within engineering cadres.
 - An ongoing requirement to pay RRP(FC) on a NCB for Suitably Qualified and Experienced Personnel working as RAF Air Mobility Movers within No 1 Mobility Wing; however, it is not necessary to pay new entrants at the base level.
 - RRP(FC) should be maintained for RAF Cabin Crew under existing arrangements.
 - RRP(FC) should be maintained for RAF Intelligence Analyst Linguists (TG11) assigned to essential operational flying duties on the Rivet Joint aircraft on a NCB.
 - Joint Helicopter Support Squadron personnel employed in Helicopter Handling posts continue to receive RRP(FC) on a Completion of Task Basis (CTB).
- RRP (Hydrographic) to be retained and re-profiled, with changes to be implemented on 1 April 2019, and OF changes to be applied to newly qualified OFs only, with legacy protection for all currently qualified OFs.
 - RRP (Parachute) and RRP (High Altitude Parachute) to remain at current rates, with the impact on manning and Voluntary Outflow of holding the rates to be reviewed during PR20 to decide the appropriate way forward.
 - RRP (Special Forces) to remain at current rates.
 - Other RRP rates to be increased by 2.9 per cent.
 - The system of RRP should stay in place for now following the introduction of Pay16; and quinquennial review RRP papers should be considered in the normal way.
 - Full reviews of RRP (Diving), RRP (Explosive Ordnance Disposal) and RRP (Special Forces Communications) to be conducted next year.
- The continued payment of the Mine Counter Measure Vessels (MCMV) Environmental Allowance (MEA) for personnel assigned to a qualifying MCMV, uplifted in line with our main pay award; and that given the particularly poor living conditions on board for the most junior members of the crews, an additional (higher) value tier should be introduced for Junior Ratings at £5.00 per day.
 - The continuation of: the bespoke pay spine for the main Officers Commissioned From the Ranks (OCFR) cohorts; the equivalent bespoke pay spines for analogous groups in the Special Forces and the Royal Gibraltar Regiment; and the established practice of applying our annual pay awards equally to the OCFR pay spines to ensure that there continues to be an effective bridge between ORs' and OFs' pay spines.

- **Recruitment and Retention Allowance (London) to be increased by 2.9 per cent.**
- **The retention of the Unpleasant Working Allowance, with the three Daily Rates to be increased by 2.9 per cent.**
- **Rates of compensatory allowances not reviewed separately, and Reserves' Bounties, to be increased by 2.9 per cent.**
- **The following recommendations for Defence Medical Services (DMS):**
 - **A 2.9 per cent increase in base pay for all ranks within the Medical and Dental Officer cadre.**
 - **A 2.9 per cent increase in General Medical Practitioner (GMP) and General Dental Practitioner (GDP) Trainer Pay and Associate Trainer Pay.**
 - **A 2.9 per cent increase in the value of military Clinical Excellence Awards and legacy Distinction Awards.**
 - **DMS, the British Medical Association (BMA) and the British Dental Association (BDA) should identify the specific staff groups within the NHS with which they propose Medical and Dental Officers should be compared.**
 - **DMS, the BMA and the BDA should come forward with proposals for a new methodology to adjust for the difference between the NHS and Medical Officer and Dental Officer (MODO) pension schemes.**
- **For Service Family Accommodation (SFA), Combined Accommodation Assessment System (CAAS) Band A charges to be increased by 0.6 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 0.6 per cent.**
- **For Single Living Accommodation (SLA), charges for grade 1 to be increased by 0.6 per cent, with increases of 0.4 per cent to grade 2, 0.2 per cent for grade 3 and no increase to grade 4, against the expectation that MOD will remove from use the worst pockets of SLA by 2020 at the latest.**
- **The Daily Food Charge should be increased by 18 pence to £4.97.**

This Report sets out our recommendations on military pay, allowances and charges from April 2018. As usual, we considered a wide range of evidence from: the Ministry of Defence (MOD), including the Secretary of State and the individual Services; HM Treasury; the Service Families' Federations (SFFs); the Defence Infrastructure Organisation (DIO); the BMA; the BDA; and our own analyses of pay comparability. We also heard directly from Service personnel and their families on 19 visits in the UK and overseas.

Context

The overall Armed Forces' staffing picture shows a deficit of full-time military trained strength of 5.7 per cent. Despite the efforts of the Services to improve their recruitment pipelines, they forecast a shortfall against their overall targets. Voluntary outflow rates remain at historically high levels with some rates continuing to increase: there are particular areas of concern in specific cadres including engineering and other technical groups.

The economy grew by an estimated 1.7 per cent in 2017, with forecasts suggesting a similar rate of Gross Domestic Product (GDP) growth in 2018 and 2019. As anticipated, inflation increased with the Consumer Prices Index (CPI) annual rate moving from 1.8 per cent in January 2017 to 3.0 per cent in January 2018. Inflation is forecast to fall gradually in 2018, as the food and fuel price rises of a year earlier fall out of the 12-month index and the effect of sterling's depreciation on import prices wanes.

The labour market remains strong, with the level of employment increasing by 320,000 in the year to December 2017 and the employment rate at 75.2 per cent, having reached record highs in the year. Employment growth was mainly among full-time employment and part-time self-employment. Average earnings growth was 2.3 per cent in 2017 (2.4 per cent in the private sector and 1.5 per cent in the public sector excluding financial services). Pay settlement medians were at 2.0 per cent in 2017. Earnings growth is expected to show an increase in 2018.

In late 2017, the Government announced an end to the one per cent public sector pay policy. The letter we received from the Chief Secretary to the Treasury said that with a more flexible public sector pay policy, it was of even greater importance that recommendations on annual pay awards are based on independent advice and underpinned by robust evidence that takes into account the context of wider economic circumstances, private sector comparators, and overall remuneration of public sector workers (including pay progression and pension entitlements). The letter from the Secretary of State for Defence reaffirmed this more flexible approach to public sector pay, particularly in areas of skill shortages and including in return for improvements to productivity. In its strategic management evidence, MOD did not propose a specific increase to base pay, but in oral evidence it told us it was seeking a uniform award for all ranks. It also proposed that most targeted measures and compensatory allowances should be raised by up to the level of the main award. It also confirmed that targeted measures such as RRP's and FRI's remain necessary to counter external labour market pressures affecting particular groups.

MOD continues to maintain a high level of operational commitment across all three Services. Tempo and workload were important issues raised by Service personnel during our visit programme. Gapped posts often resulted in extra pressure on those remaining since the required output was not reduced, and, in some cases, had increased.

Recommendations

In line with our terms of reference, we make recommendations based on all the evidence we receive, including that presented formally, what we hear from Service personnel on visits, and data on pay comparability. We take account of the Government's evidence on the economy, affordability, its more flexible public sector pay policy, and consider the cost of living and external pay settlements more generally, taking into account that Service personnel retain incremental pay scales and a non-contributory pension scheme. We also consider recruitment, retention and motivation in the Armed Forces overall.

We are concerned about the picture that has emerged from our visits and evidence this year. While there has been no sudden deterioration in any particular indicator, trends that have worried us over several previous years, and on which we have commented in our previous Reports, have continued. In our view, the cumulative impact is now serious. Recruitment, across all Services, is challenging, and targets are regularly being missed. Outflow figures, including voluntary outflow, remain at historically high levels. Overall, the deficit in military full-time trained strength has increased. All three Services remain below their staffing targets set in the Strategic Defence and Security Review 2015 (SDSR 15), and none are confident of meeting these targets by 2021. This is a worrying position, given that MOD still has an ambitious workforce reform programme in prospect, and it will need active engagement from Service personnel if it is to achieve the desired benefits.

The evidence on Service morale is, if anything, of even more concern, and helps to explain some of the recruitment and retention difficulties. According to the Armed Forces Continuous Attitude Survey (AFCAS), satisfaction with Service life in general has steadily decreased since 2009. Satisfaction with pay and benefits is at a historic low, emphasising the messages we heard on visits. Service personnel perceive that the value of the overall “offer” has significantly decreased in recent years, citing changes to pensions, increases to accommodation and food charges, as well as restrictions on pay increases. They also commented on the impact of workload and units being held at high readiness for long periods, which are exacerbated by general shortages of personnel. In the round, they draw the conclusion that the Armed Forces are becoming less valued.

We have considered our overall pay recommendations against this background. We believe that this year’s award needs to signal a change, firstly to begin addressing the issues we highlight above, and secondly so that serving personnel speak more positively to new and potential recruits about a career in the military. We note that forecasts for the wider economy suggest there are reasonable prospects for growth, with unemployment at very low levels, so the Armed Forces will face even greater competition to recruit and retain the right people. We have also taken account of both the current level of average earnings growth and pay settlements. Looking at broader pay comparability data, most ranks have seen relative falls in the value of their pay, compared to wider earnings growth in the whole economy since 2006-07 (screening out the impact of the recession); and with rather steeper falls in comparison to the private sector. We note also that the most recent CPI inflation figure is at 3 per cent, with the Retail Prices Inflation (RPI) figure at 4 per cent; while no longer an official measure, RPI remains a figure that service personnel recognise, and regularly mention to us.

We considered whether a pay award that was consciously above inflation was necessary to achieve the results we are seeking. However, against that, we need to take into account the evidence on affordability, and the continuing pressures on public finances. On balance, we **recommend an across-the-board increase of 2.9 per cent in base pay for 2018-19**. While it is below CPI inflation, it represents a significant change from the 1 per cent that we have recommended for the last five years. We believe that Service personnel will recognise that affordability constraints remain.

We are proposing that this increase should be across-the-board, as was supported by MOD during oral evidence, since we wish to send a general message this year. However, the future needs of the Armed Forces require some different and very specialist skills, some of which are in great demand externally. MOD needs to consider carefully if, in future, it should be proposing pay awards that differentiate in response to labour market pressures and strategic Service needs.

This year, MOD submitted proposals to address issues with the recruitment and retention of engineers. We are strongly supportive of the work it and the single Services have carried out in this area and **concur with its Defence Engineering Remuneration Review pay proposals**, details of which are included in Chapter 3. We recognise this is only a step in the direction of a comprehensive solution and we expect further proposals on engineering pay for our next round.

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 current and ongoing 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 by “up to” the level of the pay award. We **recommend an increase of 2.9 per cent in RRP for most cadres with the rates of RRP (Flying Crew), RRP (Mountain Leader), RRP (Parachute), RRP (Parachute Jumping Instructor) and RRP (Special Forces) held at existing levels**. Our review of RRP (Flying Crew) sets out our detailed recommendations for each cadre in receipt of this payment, including our recommendation for the reprofiling of RRP(FC) for Royal Logistic Corps Air Despatchers, and the transfer of Army Air Corps Aviation Aircrew from RRP(FC) to RRP

(Flying). Our review of RRP (Hydrographic) led to our recommendation for the reprofiling of this RRP. We also reviewed RRP (Parachute): we will monitor the impact of the freeze of this RRP before considering the appropriate way forward for this group. Finally, we also considered whether Pay16 had any consequences for our consideration of RRPs but are recommending that the current review programme should continue in the usual way, although we have welcomed the fact that MOD intends using a new framework to ensure transparency to help inform the evidence it provides to us for future RRP reviews.

We carried out a review of the Mine Counter Measure Vessels Environmental Allowance (MEA). Given the poor living conditions on board for the most junior members of the crews, we are recommending the introduction of an additional higher rate tier of £5 per day for such personnel; the existing rate (currently £3.49) should be increased by 2.9 per cent. If necessary, MOD should ensure our recommendations are backdated.

We recommend the continuation of the bespoke pay spines for Officers Commissioned From the Ranks, Special Forces and the Royal Gibraltar Regiment; these pay spines should be increased by 2.9 per cent.

We were also asked to consider the freeze and staged withdrawal of Recruitment and Retention Allowance (London) (RRA(L)). However, we are not prepared to consider its removal until MOD brings forward acceptable proposals for the introduction of an alternative allowance for those undertaking State Ceremonial and Public Duties in London. For this year we recommend that RRA(L) should be uplifted by 2.9 per cent.

Following its review, we recommend the retention of the Unpleasant Working Allowance and the maintenance of the three previously defined Daily Rates, increased by 2.9 per cent.

We recommend an increase of 2.9 per cent in the rates of all other compensatory allowances not reviewed separately.

As usual, our Report contains details of financial measures we considered outside the main pay round. These included: an extension to the current Reservist Enlistment Payment until March 2020; and extension of the Reservist Training Completion Bonus; a refined Reserve Commitment Bonus Scheme; and a Financial Incentive for Royal Signals Communications Systems Engineers and Communication Systems Operators.

We continue to monitor the impact of the new pay system, Pay16, that is based around job evaluation and is an important part of MOD's ongoing workforce reform programme. We believe it is critical that senior management take ownership of Pay16 decisions and provide an effective communication mechanism that engages and utilises the full chain of command to brief Service personnel proactively and comprehensively. Pay16 pay protection will continue until March 2024, and in our next round we give further consideration to the specific issue of those Service personnel in receipt of Specially Determined Rates of Pay (when certain individuals transitioned from Pay 2000 at a pay value higher than the highest increment in Pay16 for their rank and supplement).

We are considering pay recommendations for MODOs this year as part of our main report. Our analysis of pay comparability strongly suggests that MODOs are earning significantly more than their NHS counterparts, but we are restricted in our deliberations by the absence of any agreement from the parties on what constitutes appropriate NHS comparators for our consideration. We also recognise that contractual arrangements for some NHS staffing groups are currently in flux. We therefore recommend DMS, the BMA and the BDA should identify as soon as possible the specific staff groups within the NHS with which they propose Medical and Dental Officers should be compared. We also recommend DMS, BMA and BDA should come forward with proposals for a new methodology to adjust for the difference between the NHS and MODO pension schemes. In the absence of better evidence, we recommend a 2.9 per cent increase across the board for MODOs this year.

We also recommend that GMP and GDP Trainer Pay and Associate Trainer Pay, and MOD Clinical Excellence Awards (and legacy Distinction Awards) should all be increased by 2.9 per cent.

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, the individual Services and DIO.

The poor quality of the maintenance service for accommodation continued to be a common theme during our visits. Given its importance, we remain concerned about the lack of progress by MOD in maintaining and improving the quality of service accommodation commensurate with the scale of the issues which have emerged from our reports over the last few years. We will be monitoring the maintenance contract and the Performance Indicators closely over coming months. There are clearly major lessons for MOD in the shortcomings of the contract and, as we move towards the end of the contract period, we will be looking for those lessons to be learned.

We believe that maintaining the level of subsidy between rents for military personnel and those in the civilian sector is important, and we therefore recommend an inflation-based increase to SFA charges this year. The annual increase (at November 2017) in the actual rents component of the CPI was 0.6 per cent. We therefore **recommend an increase to Band A charges of 0.6 per cent with effect from 1 April 2018**. 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 again sets out our concerns with the ongoing use of some very poor pockets of SLA which we consider unacceptable and a potential breach of duty of care. MOD has again been unable to provide us with meaningful management data on quality and usage of SLA. For this year, we consider it appropriate to retain our existing, tiered approach. As with SFA, we are linking our recommendation to the actual rents component of CPI. We therefore **recommend an increase of 0.6 per cent to grade 1 SLA rental charges, 0.4 per cent to grade 2, 0.2 per cent to grade 3 and zero increase to grade 4 from 1 April 2018, against the expectation that MOD will remove from use the worst pockets of SLA by 2020 at the latest**. Chapter 5 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. Consequently, we **recommend that the DFC should increase by 18 pence to £4.97 with effect from 1 April 2018**. In future, we accept a proposal that food cost data will be reviewed by MOD on a quarterly basis, and the DFC adjusted in-year if the cost has increased or decreased by at least two per cent. We expect this new arrangement to ensure the quality of the ingredients can be maintained by caterers and lead to an increase in both the quality and take-up of the core meal. AFPRB will continue to be responsible for setting the level of the DFC in our annual reports. We will review the impact of the new arrangements in the coming year.

This year we also carried out the quinquennial review of X-Factor. Our detailed analysis suggested a slight relative worsening for the military (compared to civilians) in three components (spouse/partner employment; separation; and stress, personal relationships and impact of the job), a slight improvement in two components (danger; and individual, trade union and collective rights), with the remaining eight components relatively unchanged. Whilst, overall, we concluded there was some evidence of a slight net deterioration in military life, this was confined to a small number of areas and we did not believe it to be sufficiently significant to support an increase in the level of X-Factor. We therefore **recommend that all rates of X-Factor remain unchanged**.

Senior officers in our remit group receive a reduced rate of X-Factor through tapering arrangements. While we do not believe that we have seen evidence this year to justify any immediate amendment to the current situation, we think that this issue merits future consideration and will seek to explore it further with relevant parties, co-ordinating with the Review Body on Senior Salaries as appropriate.

Looking ahead

We have begun to explore market-facing data for engineering groups in greater detail and plan to develop this work further to include other specialisms to inform any future recommendations. We have also continued to consider comparisons between earnings for Armed Forces' personnel with their full-time civilian counterparts using the Annual Survey of Hours and Earnings (ASHE). In broad terms, this survey shows that compared to civilian counterparts, Armed Forces' pay tends to be competitive, and increasingly so with higher rank.

Skill shortages in certain groups continue to be a concern. We have welcomed MOD's progress in addressing issues with the engineering cohort through its Defence Engineering Remuneration Review, but it will be important not to lose focus on this. For our next round, MOD will be submitting proposals for our consideration that may include bespoke pay spines or new pay mechanisms. We look forward to receiving this evidence.

Other cadres are also subject to external market forces. Bespoke arrangements for those with cyber skills for instance are under development, and we encourage MOD to give this increasingly important group urgent attention.

MOD continues with its significant and wide ranging transformation and workforce reform programme, delivered through the various strands of the People Programme. The scale and speed of the proposed changes continue to concern us, and the perception of Service personnel is that any changes are being driven by the need to make savings, leading to a worsening offer. This has the potential to further impact on the morale of our remit group, particularly in the context of recruitment and retention. The uncertainty surrounding the Future Accommodation Model (FAM) was one of the key concerns raised during our visit programme. We note that FAM is due to be piloted later this year: it will be critical for MOD to learn any lessons from the pilot, and be clear and timely in its communications with Service personnel and their families.

As indicated earlier, for our next report, we will want to consider pay comparability for MODOs. We do not accept that any ongoing delay in agreement to changes to the NHS consultant contract should prevent us from considering other aspects of pay comparability, such as the appropriate comparators for general medical practitioners or general dental practitioners, or the methodology for taking account of the apparent relative advantage of pensions for MODOs. We expect the parties to submit evidence for our consideration next year.

We make no apology for emphasising the need for, and importance of, clear communication. Service personnel have and are continuing to deal with significant ongoing change. Naturally they are apprehensive, particularly about the outcomes from the current People Programme. Communication must be open, transparent, owned throughout the chain of command, and regularly reinforced. We want MOD to continue with its communication efforts to increase awareness and understanding of the relative advantages of the pension scheme, which in turn should help retention. It is essential that those passing on messages do not undermine them, but are adequately briefed, so that they can convey them properly, and deal appropriately with any concerns that Service personnel raise. In our view, this is a critical issue, given the potential to affect motivation, morale and retention both positively and negatively. MOD must listen and respond appropriately to feedback on any proposed changes from Service personnel and their families.

It continues to be a challenging time for our Armed Forces against an external background of a tightening and competitive labour market with particular focus on key skills. There is also higher inflation and projected increases in national average earnings. In the UK, the military face heightened national security requirements as well as ongoing international operations. The significant transformation and workforce reform programme of recent years also continues and, following the introduction of the new pension scheme and pay structure, further changes are in progress through the Armed Forces People Programme. These cover important areas such as the new Future Accommodation Model and the Flexible Engagements System, all in addition to restructuring, rebasing and sustained high tempo and workload. Given the fast pace and extent of change, there is perhaps unsurprisingly an atmosphere of uncertainty and doubt which also impacts recruitment, retention and morale. This requires ongoing excellent communications and a high level of leadership throughout the chain of command.

We hope that our recommendations in this year's Report help to create an environment where the dedication, professionalism and resilience of our Armed Forces is recognised and safeguarded in the overall interests of the UK's national defence and security.

Chapter 1

INTRODUCTION

Introduction

- 1.1 This Report sets out our recommendations on military pay, allowances and charges for 2018-19. In its response to our last Report, the Government accepted all our recommendations effective from 1 April 2017, which included a one per cent increase in base pay 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 5), the Secretary of State for Defence confirmed that the Government had adopted a more flexible approach to public sector pay, particularly in areas of skill shortages and including in return for improvements to productivity. He said that there would still be a need for pay discipline to ensure the affordability of the public service and the sustainability of public sector employment which should remain a consideration when making our recommendations.
- 1.3 As usual, our work programme included a number of periodic reviews: Mine Countermeasures Vessels Environmental Allowance; Non-pay benefits; Officers Commissioned from the Ranks; Recruitment and Retention Allowance (London); RRP (Flying Crew); RRP (Hydrographic); RRP (Parachute); Unpleasant Work Allowance; and X-Factor.

Context

- 1.4 The economy grew by an estimated 1.7 per cent in 2017, with forecasts suggesting a similar rate of Gross Domestic Product (GDP) growth in 2018 and 2019. Inflation increased as expected, with the Consumer Prices Index (CPI) rate moving from 1.8 per cent in January 2017 to 3.0 per cent in January 2018. Inflation is forecast to fall gradually in 2018, as the food and fuel price rises of a year earlier fall out of the 12-month index and the effect of sterling's depreciation on import prices wanes. The labour market showed continuing strength, with the level of employment increasing by 320,000 in the year to December 2017, and the employment rate, at 75.2 per cent, having reached record highs in the year. Some of this employment growth has been of poor quality, including zero hours contracts. Average earnings growth remained modest, averaging 2.3 per cent in 2017 (2.4 per cent in the private sector and 1.5 per cent in the public sector, excluding financial services). Pay settlement medians were at 2.0 per cent in 2017. Earnings growth is expected to pick up in 2018.
- 1.5 The Strategic Defence and Security Review published in November 2015 (SDSR15) set out the future direction of travel 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 set out additions to Defence funding, and provided for limited growth in the size of the Armed Forces with small staffing increases for both the Royal Navy and the Royal Air Force (RAF), and an Army refocused on war-fighting 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 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

- 1.6 In January 2018, the Secretary of State for Defence announced the launch of the Modernising Defence Programme. He said the programme will involve four strands of work. The first three will: optimise how the Ministry of Defence (MOD) is organised and is operating; identify further efficiencies and ways to be more productive, including an aggressive programme of business modernisation; and improve its performance on commercial and industrial issues. The fourth strand will look at the capabilities that defence requires to contribute to national security objectives and to understand the ever-changing threats the UK faces. The aim is to publish the findings before the 2018 Summer recess.
- 1.7 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 include maintaining the nuclear Continuous At Sea Deterrent, preventing smuggling, counter terrorism, handling the migration crisis in the Mediterranean, maritime search and rescue, counter-ISIL and counter-Daesh measures, stabilisation efforts in Afghanistan, United Nations (UN) commitments in Africa and contributions to North Atlantic Treaty Organisation (NATO) activities in the Baltic and Poland.
- 1.8 MOD continued with its programme of modernising the employment offer to the Armed Forces through its People Programme which contains four main strands. Firstly, the Future Accommodation Model, which aims to ensure that accommodation remains affordable and flexible for the needs of Defence and improves the offer for Service personnel. Secondly, the Flexible Engagements System, that MOD says will enable the Armed Forces to offer flexible working. Thirdly, the New Joiners Offer, that MOD believes will better match the expectations of future recruits. Finally, the Enterprise Approach, that is intended to deliver the financial, policy, commercial and legal framework necessary for closer cooperation with private industry.

Our evidence base

- 1.9 As usual, we received written and oral evidence from the Secretary of State for Defence and officials from MOD, the single Services, the acting Surgeon General and his team, the Defence Infrastructure Organisation (DIO), the Service Families' Federations (SFFs), the British Medical Association and the British Dental Association. We also undertook research that considered broad comparability of Service pay with civilian pay levels, as well as more detailed research on how pay levels for Armed Forces engineers compare with civilian engineers. For our consideration of X-Factor (see Chapter 6), we also commissioned independent research on civilian trends from Incomes Data Research.
- 1.10 Our visits remain a vital part of our evidence gathering, enabling us to understand better the context for our work and the particular pressures on Service personnel and their families. We undertook 19 visits both in the UK and overseas, including to Cyprus, the Middle East, Kenya and Somalia. We met with almost 2,400 Service personnel in 169 discussion groups and also with 154 spouses and partners in an additional 17 families' discussion groups. We would like to thank all of those who took part in these meetings, MOD and the three Services for organising such a varied and comprehensive programme for us again this year. We record some of the detailed feedback from these visits in subsequent chapters of this report, but note below some of the main themes that emerged during this round.
- 1.11 **Tempo and workload** exacerbated by gapping have been major themes in recent years, and were a consistent message from all of our visits this year. The perceived increase in workload at higher ranks was also regularly given as a factor that was putting people off seeking promotion. There was an increase amongst the number of personnel on short notice to move, and the impact on both them and their families should not be underestimated. Deployed Service personnel felt that the same people were repeatedly being called upon for operational tours of duty, often with little notice and working very

long hours. This caused problems in taking leave and was particularly pronounced for naval engineers. Working hours on small ships could be very long: 12-hour days and weekend working was common, again particularly for engineers. Medics noted that they were in heavy demand, often called upon for deployments at very short notice. Others we met with pointed to the fact that juniors could see the pressure that seniors were under, affecting their desire to stay in Service and seek promotion. Some said that because of workload, they were unable to offer junior personnel the support and training they needed to promote to the next rank. We regularly heard about those covering the work of two or three people, or filling in for senior ranks. We were told that because of gapping, some were covering roles for which they were not fully trained; and that those “acting up” were more likely to burn out. Others commented that they were under pressure to do what they were told and speaking out could have a detrimental impact on their career. Several discussion groups focused on the inability of the Services to say “no” to taking on additional tasks, exacerbating overstretch. Others said that they would not have an issue with pay if the workload issue was sorted out. We have previously noted that, given the limited population sample we meet during our visits, it is not possible to determine the full extent of these concerns. However, we note that many of these views have been sustained over several years and have been consistent among a variety of groups across ranks and services.

- 1.12 **Pay 16** issues continued to be raised by Service personnel. There is a perceived disincentive to promote which is partly about pay protection arrangements, and the standstill in pay in the year following promotion. Concern was also expressed about what would happen after the initial three years of pay protection. In addition, several groups complained about the job evaluation process, with the perceived undervaluing of their trade by the supplement placement decisions. We were also told of the impact of standstill pay on a career average pension.
- 1.13 In relation to the **main 2017 pay recommendation**, we received mixed views, but there was general agreement across discussion groups that pay was not commensurate with workload and did not compensate for the increase in cost of living, particularly given inflation trends since our pay award decision was determined. It was widely perceived by the remit group as a pay cut in real terms. Service personnel found it difficult to reconcile the message that people were the Armed Forces’ single most important asset with the level of reward and the general erosion of the offer.
- 1.14 As in previous years, personnel reiterated their lack of trust in the employer and their expectation that any further change in terms and conditions would be a change for the worse. Many noted that the focus in recent years had been on investing in equipment rather than people. However, some Service personnel commented positively on aspects of the offer such as medical and dental cover.
- 1.15 **Pensions** were again a key issue. Some felt that the so called ‘pension trap’ no longer existed to help retain personnel, and viewed the Early Departure Payment (EDP) as inadequate, with the lump sum now too small to provide a sufficient mortgage deposit and the monthly EDP insufficient for a regular mortgage payment. Some recognised that they will not be able to draw the key benefit of their pension scheme until State Pension Age. Senior Officers voiced concerns about breaching the annual and lifetime pension tax allowances. However, lack of knowledge of pensions was also very common: many were unaware that they retained accrued rights for that proportion of their pension that had been built up under the previous pension scheme (including the fact that their final salary pension was based on their rank at retirement); and many were unaware that EDPs even existed. There was widespread support for more and better information on pensions, a view which we whole-heartedly endorse. We note from the results of the 2017 Armed Forces Continuous Attitude Survey that just 27 per cent of personnel are satisfied with their pension benefits, the lowest level of satisfaction yet recorded.

- 1.16 Service personnel emphasised the need for urgent action regarding the value of **engineers** to reduce attrition; to acknowledge the length of training and skill levels; and to improve comparability with the external market. Engineers were aware of higher salaries available within the civilian sector, with many civilian posts offering a better work-life balance. In addition to engineers feeling overworked, they felt some professional frustration and boredom, for example with colleagues at sea being told just to conduct basic repairs and maintenance until they could be properly sorted out by the contractors on return to base port. The close proximity of Service personnel to contractors providing engineering services was cited as a key factor which highlighted pay and benefit differentials between the civilian and service sectors. We comment in detail on engineering pay in Chapter 3.
- 1.17 **Accommodation**, in particular Service Family Accommodation, continued to be a very important issue for Service personnel and their families. In addition to ongoing concerns with the performance of CarillionAmey and the appropriateness of the Key Performance Indicators in the contract for delivering an acceptable level of service, personnel were very anxious about what the Future Accommodation Model might deliver. Their major reservation was that increasing the level of reliance on the private rental market could leave them exposed to additional costs. Another common theme across this year's visits was the lack of investment in infrastructure of bases, and in Single Living Accommodation (SLA). It was apparent on many visits that the long-term decay in much of the infrastructure within the Defence Estate, caused by many years of under-investment and the bare minimum level of maintenance, was having an impact on the motivation and morale of our remit groups. We also witnessed some significant pockets of thoroughly inadequate and unacceptable quality SLA. We discuss accommodation in detail in Chapter 5. Views on **food** included comments that any improvement in the quality of the core meal had been short-lived along with the variable quality of the Pay As You Dine option. Our consideration of the Daily Food Charge is also in Chapter 5.

Our 2018 Report

- 1.18 As usual, we adopted the approach of considering all the relevant evidence available to us. We have taken full account of MOD's affordability constraints and the Government's wider economic evidence and its more flexible approach to public sector pay. 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 evidence, including that we obtained from our visits and external research.
- 1.19 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 inclusivity; and Reserve Forces.
- 1.20 In Chapter 3 we review the evidence and make recommendations on the overall pay award and on specific groups.
- 1.21 Chapter 4 contains our consideration of Service Medical and Dental Officers (MODOs), which we are including as part of our main report for the first time in recent years. It includes the views of MODOs gathered during our visit programme.
- 1.22 In Chapter 5 we set out our recommendations on accommodation and food charges.
- 1.23 Chapter 6 summarises our review of X-Factor, setting out the evidence we used to reach our recommendations. It also draws on the views of Service personnel on this issue gathered during our visit programme.

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

1.24 Finally, in Chapter 7 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 in a continuing atmosphere of uncertainty and doubt about the future role of our Armed Forces.

Chapter 2

CONTEXT AND EVIDENCE

Introduction

- 2.1 This chapter covers the Government's economic evidence and MOD's evidence on the strategic context. It also reports on staffing, motivation and morale, workload, pay comparability and non-pay benefits. We reflect on progress made in promoting diversity and inclusivity in the Armed Forces, and comment on Reserve Forces.

Government evidence

General economic context

- 2.2 The Government's evidence on the general economic environment (submitted in January 2018) stated that the UK economy had demonstrated its resilience. Gross Domestic Product (GDP) had grown continuously for 19 quarters and employment had risen by three million since 2010 to a near record high. However, it said that over the last year business investment had been affected by uncertainty, and productivity, the ultimate driver of wage growth, had been subdued. The evidence said that the Government had made significant progress since 2010 in restoring the public finances to health: the deficit had been reduced from a post-war high of 9.9 per cent of GDP in 2009-10 to 2.3 per cent in 2016-17, its lowest level since before the financial crisis, but that borrowing and debt remained too high. In order to ensure the UK's economic resilience, improve fiscal sustainability, and lessen the burden on future generations, it said borrowing needed to fall further. On the UK labour market, the evidence said that the Office for Budget Responsibility (OBR) had forecast that the number of people in employment would continue to increase to 32.7 million by 2022. However, a forecast for low productivity growth led the OBR to expect modest average earnings growth of 2.3 per cent per annum in 2017, 2018 and 2019. It also recognised that higher inflation was putting pressure on all households but said that historically the relationship between pay and inflation was weak. The Government said most forecasters expected the current period of above target inflation (3 per cent at November 2017) to be temporary and that while price inflation was important, it was not the only consideration in setting pay. Following the last recession, public sector pay did not undergo the immediate sharp fall seen in the private sector, but had since grown at a slower pace than in the private sector: this trend continues and for the three months to October 2017, private sector total pay grew by 2.7 per cent on the same period in the previous year, compared to 1.8 per cent in the public sector (excluding financial services). However, it said that the overall remuneration of public sector employees as a group when taking pension contributions into account remained at a significant premium.
- 2.3 Our own analysis of the economy noted that the economy grew by an estimated 1.7 per cent in 2017, with forecasts suggesting a similar rate of GDP growth in 2018 and 2019. Inflation increased as expected, with the Consumer Prices Index (CPI) rate moving from 1.8 per cent in January 2017 to 3.0 per cent in January 2018. However, it was forecast to fall gradually in 2018, as the food and fuel price rises of a year earlier fell out of the 12-month index and the effect of sterling's depreciation on import prices waned. The labour market showed continuing strength, with the level of employment increasing by 320,000 to December 2017, having reached a near record high in the year of 75.2 per cent. Growth was mainly among full-time employment and part-time self-employment. Some of this has been of poor quality, including zero hours contracts. Average earnings growth remained modest, averaging 2.3 per cent in 2017 (2.4 per cent in the private sector and 1.5 per cent in the public sector, excluding financial services). Pay settlement medians were at 2.0 per cent in 2017. Earnings growth was expected to show a pick-up in 2018.

- 2.4 The Government said that currently public sector pay accounted for around £1 in every £4 spent by the government, and that its pay policy necessarily played an important role in controlling public sector spending, which remained central to achieving fiscal targets. It said that the last Spending Review had budgeted for one per cent average basic pay awards, in addition to progression pay, but said that it would consider where cases for pay awards could be agreed in return for improvements to public sector productivity.
- 2.5 The Chief Secretary to the Treasury's letter (see Appendix 5) dated 27 September 2017 said that with a more flexible public sector pay policy it was of even greater importance that recommendations on annual pay awards are based on independent advice and underpinned by robust evidence. They should take into account the context of wider economic circumstances, private sector comparators, and overall remuneration of public sector workers (including progression pay and pension entitlements).

MOD evidence on strategic management

- 2.6 In its strategic management evidence, MOD stated that it wanted a pay award for all ranks which satisfied: the need to retain, recruit and motivate suitably skilled personnel and maintain morale in the Armed Forces with a competitive remuneration package; along with the Government's objective to achieve affordability. It also proposed that compensatory allowances (other than Recruitment and Retention Allowance (London)) should increase in line with the main pay award. MOD pointed to targeted measures, such as Recruitment and Retention Payments (RRPs), Financial Incentives and the proposals it was making this year for engineers. The evidence highlighted recruitment challenges and said that Voluntary Outflow (VO) rates remained towards the high end of historic levels. Their evidence also identified key skill and capability shortages that were directly impacting the delivery of operational requirements in each of the three Services.
- 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 a number of theatres including the UK, Eastern Mediterranean, the Baltic, Arabian Gulf and Falkland Islands. Long deployments of around nine months continue to be the norm, with Offshore Patrol Vessels regularly spending over 300 days at sea. Work continues to establish HMS JUFair as the permanent UK operating base in Bahrain. 3 Commando Brigade has maintained 50 per cent of the UK's very high readiness Land forces able to deploy anywhere at five days' notice. The evidence from the Army notes an increased tempo, counter-Daesh activity, capacity building in Afghanistan, North Atlantic Treaty Organisation (NATO) operations in the Baltic and Poland, and support to the Ukrainian Armed Forces. Service personnel are often deployed at short notice. It also notes its contribution to the UK's Joint Expeditionary Force and to several enduring international operations; in 2016, around 45,000 personnel deployed overseas on a variety of commitments in more than 60 countries. In addition, they provide support for domestic counter-terrorism and make a significant contribution to State Ceremonial and Public Duties both home and abroad. The Royal Air Force (RAF) said that 2016 was its busiest for 25 years. Around 3,000 Service personnel are deployed across 25 countries. It noted the Counter-Daesh campaign, commitments in Afghanistan, the Baltic States, Falkland Islands and South Sudan, and stressed its obligation to regional security in Asia.
- 2.8 In relation to the strategic context, MOD said that the trained strength of the Armed Forces was at 95.6 per cent at April 2017. The number of Reserves mobilised in 2016-17 reduced from 734 the previous year to 599, involving a wide range of operations and tasks.
- 2.9 In our last report, we noted that whilst much has been made of the plans for new equipment resulting from the Strategic Defence and Security Review 2015 (SDSR15), we had seen less about plans to ensure the Services would have the qualified personnel to operate and maintain it. The evidence submitted to us this year again contained little detail of the implications for staffing of the delivery into service and operation of new planned

capabilities, other than a reference to the RAF managing a changing staffing requirement model to meet emerging equipment programmes. We would expect further details on the implications for current staffing levels and targets from all three Services for our next review, particularly given our concerns over shortages in key skill groups which are likely to be exacerbated rather than diminished by new equipment and platform programmes.

Staffing¹

- 2.10 As at January 2018, the deficit of military full-time trained strength had increased to 5.7 per cent from 4.2 per cent a year earlier. In its evidence MOD stated that overall the three Services remain outside manning balance, and anticipate remaining so for at least the next five years, continuously below their SDSR15 targets. It said that despite their efforts to improve the recruitment pipelines, most groups forecast a shortfall against their overall targets, the only exception being Royal Marine Officers. Recruitment against the Black, Asian and Minority Ethnic (BAME) diversity intake targets continued to be particularly challenging and they were unlikely to be met. MOD also anticipated Reserve recruiting shortfalls and said that attainment of the Army and Naval Service Future Reserves 2020 (FR20) targets were at risk.
- 2.11 The overall number of Service personnel leaving the Regular Services during the 12 months to 1 January 2018 was 15,300, an increase of 200 on the previous year. This equated to an overall rate of 5.6 per cent; Other Ranks (5.8 per cent); Officers (4.3 per cent). MOD also noted that the rates masked key areas of concern within Services, particularly in important cadres such as engineering and other technical groups where rates are 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 2017 Armed Forces Continuous Attitude Survey (AFCAS).
- 2.13 The response rate to this year's AFCAS remained at 45 per cent, recording the views of some 12,500 personnel. Survey results showed that satisfaction with Service life in general has steadily decreased since 2009, especially for Other Ranks. Overall, 38 per cent of respondents reported high self-morale (two percentage points lower than 2016) while 31 per cent reported low self-morale (three percentage points higher than 2016). Only 9 per cent of respondents agreed that the morale of the Armed Forces as a whole was high. Satisfaction with basic pay, recruitment and retention pay and pensions continues to decrease and was at the lowest level recorded (33 per cent, 23 per cent and 27 per cent respectively). Dissatisfaction with pay is increasingly being put forward as one of the reasons for Service personnel opting to leave the Services. Just over a quarter of respondents agree that the level of X-factor is sufficient; over half disagree.
- 2.14 Satisfaction with the overall standard of and response to the quality of repair and maintenance of Service accommodation both continued to fall. 40 per cent of respondents stated they were dissatisfied with the standard of catering, worse than in 2016 (37 per cent).
- 2.15 We continue to encourage MOD to maximise the potential utility of AFCAS, and other related surveys, by improving the use of technology, increasing sample sizes, faster response rates and a systematic analysis of the results with feedback to Service personnel ensuring a better understanding of their concerns and, most importantly, taking timely and informed action to address these where appropriate.

¹ This section uses figures from the MOD UK armed forces monthly service personnel statistics publication.

- 2.16 We also use our visits to judge levels of morale. As ever, these varied between establishments and between cadres. Overall, we saw nothing to suggest an improvement in morale above the low levels we experienced in previous years. MOD's written evidence acknowledges the impact of several factors: Pay16, pay restraint policies, uncertainty over pay protection, trade supplement placements; the changed pension scheme; accommodation charge increases; the recent National Insurance contribution increase; tax credit changes; new pension tax liability thresholds; and, since April 2017, the introduction of a Scottish rate of Income Tax; all adversely impacting morale and further decreasing satisfaction with basic pay. All these factors were played back to us during the course of our 2017 visit programme. Another common theme affecting morale was the impact of workload, tempo, gapping and being held at high readiness. Gapped posts often resulted in extra pressure on those remaining since the required output was not reduced, and, in some cases, had increased. Pressures due to gapping were exacerbated in some cases when Reserves were unable to be deployed contrary to expectations. A common complaint was the inability to take leave or having it cancelled at short notice and was felt to have a negative effect on work-life balance. As last year, we heard from some Service personnel that thought that they were increasingly being called on for deployment while, at the same time, they thought there was a group of Service personnel who were in practice 'non-deployable' and needed to be more tightly managed.
- 2.17 The SFFs highlighted several issues which they believed affected morale: the change of operational focus; insufficient resourcing; problems with spousal employment; Pay16 and trade supplement placements; pay restraint; changes to the pension scheme; increased accommodation charges; the performance of CarillionAmey; the variable standard of Single Living Accommodation; uncertainty with the Future Accommodation Model; and instability of family life. 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 also warned that the Flexible Engagements System would need careful handling, noting that some Service personnel were concerned that they would have to do more to compensate for those working part-time.
- 2.18 We know that there is a strong link between retention and the disruption of a predictable family life: MOD's evidence noted that the desire for stability was one of the top five reasons given by Service personnel for opting to leave before the end of an engagement. We are therefore concerned that the continuing low levels of morale and the other factors impacting negatively on family life will further fuel the historically high voluntary outflow rates. This is a particular issue 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. We welcome the fact that the Future Accommodation Model aims to support those who want greater stability for themselves and their families, but MOD now needs to deliver on the expectations it has raised in this regard.

Workload

Operational and other commitments

- 2.19 The strength of UK Regular Forces stationed overseas decreased from 9,460 to 9,330 (1.3 per cent) between 1 October 2016 and 1 October 2017. As already indicated, sizeable numbers of Service personnel are held at a state of high readiness. In its evidence MOD reported that across the Army as a whole, 7.7 per cent of the trained strength is held at 10 days or less notice to move and 16.8 per cent at 30 days or less. Similarly, 8.8 per cent of the Navy trained strength is held at 20 days notice or less, while 14.6 per cent of the RAF's strength is held at 5 days notice.

- 2.20 Individual Harmony Guidelines (IHGs) aim to ensure appropriate balance between competing aspects of the lives of Service personnel, covering: 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 requirements and practices. 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. Harmony rates remained broadly steady for the Royal Navy; but have reduced in recent years for both the Army and RAF. However, the overall average rates mask areas of concern: the inability to control breaches in the Navy is due partly to a tight operational programme and shortfalls in key areas of essential personnel; similarly, the Army has high breach rates in niche cadres.
- 2.21 Tempo and workload, exacerbated by gapping, continue to be major themes. The perceived increase in workload at higher ranks was also widely stated as a disincentive to promote. As noted earlier, deployed Service personnel felt that the same people were repeatedly being called upon for tours of duty, often with little notice and working very long hours. This creates problems in taking leave and was particularly pronounced for engineers: in the Middle East, we heard how naval engineers would be very likely to be called upon when the ship was between tours. Working hours particularly on small ships could be very long: 12 hour days and weekend working were common. Some Service personnel thought the workload issue was just 'glossed over'. Others noted that even when on leave, they were unable to relax and socialise or leave base because of possible short notice work commitments. Service personnel noted the particular impact of readiness for counter terrorism measures. Others pointed to the fact that Juniors could see the pressure that Seniors were under, affecting their desire to serve longer. For their part, Seniors said that because of workload, they were unable to offer junior Service personnel the support and training they needed to promote to the next rank. They also mentioned that some Service personnel were covering roles they were not trained for; and that those "acting up" would be more likely to burn out. Others commented that they were under pressure to do what they were told and speaking out could have a detrimental impact on career prospects. Several discussion groups focused on the inability of the Services to say 'no' to taking on additional tasks, or to match Service outputs to its workforce. Others made it clear they would not have an issue with pay if the workload issue was sorted out. We were told that all these factors were encouraging more personnel to consider leaving the Services.

Working hours

- 2.22 The Armed Forces are exempt from the Working Time Directive and do not receive overtime payments. Evidence received from MOD relating to working patterns showed that overall there had been slight decreases in working hours in all three Services. The average number of working hours for Armed Forces personnel was 44.7 hours per week in 2016-17, broadly similar to 2015-16. Unsociable hours² also remained similar at 6.6 hours, and average weekly duty hours³ decreased to 63.4 hours (from 64.4 hours). In 2016-17, 7 per cent of UK Armed Forces personnel worked excessive⁴ hours (16 per cent of Naval Service personnel, compared to 5 per cent of Army personnel and 2 per cent of RAF personnel). However, on visits again this year, many Service personnel told us that they were working longer hours. Civilian data for full-time employees (average working hours taken from the Annual Survey of Hours and Earnings (ASHE) at April 2016) were

² 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.

³ 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.

⁴ Excessive hours defined as working 70 hours or more per week.

38.1 basic hours plus 1.0 hours paid overtime. It is not clear to us when examining civilian data that we are making like-for-like comparisons and it should be noted that there is great variation in the number of hours worked in civilian life with regular unpaid overtime in some sectors.

- 2.23 However, Service personnel at sea or on overseas operations typically work longer hours than their UK-based colleagues. MOD data for 2016-17 showed the Royal Navy averaged 60.9 hours per week when at sea, 1.3 hours less than the previous year. The Army averaged 60.1 hours per week on overseas operations (up by 6.2 hours) and the RAF 56.2 hours per week on overseas operations (down by 2.6 hours).
- 2.24 Alongside visits, surveys provide us with evidence to aid our deliberations and contribute to the gathering of management data for MOD. The 2016-17 Working Patterns Survey was based on only 3,800 responses, or some 3 per cent of trained personnel. We continue to encourage MOD to examine methods to both increase the survey sample size and achieve a higher response rate to improve the quality and quantity of data. The evidence in the previous paragraphs on working hours does not appear to tell a consistent story. We frequently find it difficult to reconcile survey results with information received from Service personnel on visits and from our formal evidence, and improved survey responses will help in this regard. In this context, we note the planned testing of an online survey to improve the situation and we look forward to seeing the results of this exercise.

National Minimum Wage and National Living Wage

- 2.25 While Armed Forces' personnel remain exempt from National Minimum Wage (NMW) legislation, MOD aims to act within the spirit of the law. 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 42.4 hours per week during 2016-17. When applied to the basic pay of Junior Ranks on the lowest level of pay range 1 from April 2017 (£18,489) we calculate that this equates to an hourly rate of £8.35. This compares with the relevant NMW/ National Living Wage (NLW) figures⁵ of £7.50 for those aged 25+, £7.05 for those aged 21-24 and £5.60 for those aged 18-20.
- 2.26 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. Such service attracts Longer Separation Allowance (LSA) in addition to base pay and in previous reports we have commented that LSA mitigates, or removes altogether, any potential risk of an hourly rate falling below the NMW. As we noted in last year's report, we no longer consider this adjustment appropriate; the payment of LSA is to compensate for a specific circumstance and should not be used in the calculation of a basic rate of pay for comparison with NMW rates.
- 2.27 MOD said that based upon an assessment around the average working week, it remains the case that the pay of the Armed Forces (excluding LSA) compares favourably with all NMW comparators and most of its personnel are paid above NMW levels for the vast majority of time. During operational extremes or at sea, where regularly longer hours are worked, the comparison is less favourable. MOD said that providing a fair and affordable remuneration package which recognises the wide range of circumstances within which Service personnel may be required to operate, and which include military operations, creates pressures which test some of the NMW requirements. It was for this very reason that the Armed Forces were given an exemption to the NMW. Nevertheless, MOD said

⁵ <https://www.gov.uk/national-minimum-wage-rates>.

it is committed to acting within the spirit of NMW and it remains committed to ensuring that the overall offer provides a fair package of reward and compensation in return for military service. MOD will continue to monitor the average week comparator and its starting remuneration values against NMW levels, and was specifically looking at NMW as a key element of the New Joiner Offer currently being developed.

- 2.28 We will continue to monitor this issue closely and have asked MOD to keep us updated. We also wish to consider whether the pay arrangements for Reserves are compliant with the NMW and NLW, and we have requested MOD to address this additional requirement in evidence for our next round.**

Leave arrangements

- 2.29 In 2016-17, Service personnel had an average Individual Leave Allowance⁶ (ILA) entitlement of 50.3 days, similar to 51.2 days in 2015-16. Of this entitlement (2015-16 figures in brackets):
- 40.1 days were used (42.5 days)
 - 8.9 days were carried forward (7.7 days);
 - 1.2 days were lost (1.1 days); and
 - Some element of ILA was lost by 15 per cent of Service personnel (13 per cent).
- 2.30 AFCAS found that 70 per cent of respondents were satisfied with their overall leave entitlement, unchanged from the previous three years. Some 61 per cent of respondents were satisfied with the amount of leave they were able to take in the previous 12 months (62 per cent in 2015-16); and 45 per cent of respondents were satisfied with the opportunity to take leave when they wished, a slight increase from 44 per cent in 2016. Data collected via the Continuous Working Patterns Survey suggested that 41 per cent of respondents had to change approved periods of leave for Service reasons compared to 43 per cent in 2015-16. It also noted that 32 per cent had to change leave once or twice (34 per cent in 2015-16), and eight per cent had to change leave three or more times (ten per cent in 2015-16). While we understand there are generally good reasons for these changes, we continue to encourage the single Services to monitor the need for such disruption to Service personnel and their families' lives, so that it is minimised in future.

Pay comparability

- 2.31 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 and quantity of personnel required. It is one aspect of our overall evidence base on which to base recommendations on remuneration for the Armed Forces.

Review of our approach to pay comparability

- 2.32 Last year, we reviewed our approach to pay comparability⁷ and agreed that we would look to adopt the following multiple approaches:
- a "light touch" annual update on broad comparators with the civilian market such as pay settlements and annual earnings,

⁶ Comprises Annual Leave Allowance, Seagoers Leave, Post Operational Leave and Authorised Absence. Does not include rest and recuperation, re-engagement leave and relocation leave.

⁷ IES (2017) *A Review of Pay Comparability Methodologies*

- 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 counterpart, such as jobs to which Service personnel commonly apply when leaving the Armed Forces.

2.33 This year, we have continued to monitor broad pay comparators such as the Average Weekly Earnings (AWE) index and pay settlements and extended our analysis of data from ONS's Annual Survey of Hours and Earnings (ASHE) and the graduate labour market. We have also commenced exploring in detail market-facing data for engineering groups and plan to develop this work further to include other specialisms to inform future years' recommendations.

Average Weekly Earnings and pay settlements

2.34 Whole economy average earnings growth (including bonuses) was an annual rate of 2.5 per cent in the three months to December 2017, slightly higher than the average growth rate of 2.3 per cent seen during the year. Within this, private sector earnings growth was at 2.7 per cent in December 2017, while public sector earnings growth (excluding financial services) was at 2.0 per cent, its highest rate for nearly five years. In November 2017, the OBR predicted average earnings growth of 2.3 per cent in 2018 and 2019. In its February Inflation report, the Bank of England was assuming higher average earnings growth, of 3 per cent in 2018 and 3.25 per cent in 2019. It seems likely that real average earnings growth (adjusted for inflation) will again be close to zero in 2018.

2.35 Private sector pay settlement medians were at 2 to 2.2 per cent in 2017, according to the main pay research organisations, XpertHR and Incomes Data Research. Forward looking surveys suggest a similar level of private sector pay reviews in 2018, with the Chartered Institute of Personnel and Development and XpertHR both indicating a median of 2.0 per cent.⁸

Comparisons with data from the Annual Survey of Hours and Earnings⁹

2.36 For this year, using ASHE, we continued our practice of considering comparisons between earnings¹⁰ for Armed Forces' personnel with their full time civilian counterparts. We compared the pay of military personnel with their full-time civilian employee counterparts in the same age group across the wider economy, as recorded in the 2017 ASHE survey data. Comparisons showed broadly that, as military rank increases, so does base pay (adjusted to exclude X-Factor) relative to civilian salaries. Key points from our analysis were:

- The relative position of Armed Forces pay varies by rank and supplement group. In broad terms, compared to full-time civilian counterparts, Armed Forces pay tends to be competitive, and increasingly so with higher rank and pay supplement.
- New Entrant pay was just below the median pay for 16-18 year olds in the wider economy.

⁸ Chartered Institute of Personnel and Development (February 2018), Labour Market Outlook: Winter 2017/2018. Available at https://www.cipd.co.uk/Images/labour-market-outlook_2018-winter-2017-1_tcm18-38214.pdf. XpertHR (October 2017), Forecasts for pay awards in 2017-2018. Available at <https://www.xperthr.co.uk/survey-analysis/forecasts-for-pay-awards-in-2017-2018/162554/>

⁹ OME analysis of ONS Annual Survey of Hours and Earnings (ASHE) microdata and Armed Forces' pay data. The ASHE results are survey estimates.

¹⁰ 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.

- Within Pay Supplement 1, the minimum points of Armed Forces pay bands were lower than the median pay for comparators in the wider economy, although the maximum points were higher. The exception to this was the WO (Warrant Officer) pay band where all pay points were higher than the comparator.
- Within Pay Supplement 3, the minimum pay points for Privates and Lance Corporals were lower than the median pay for comparators in the wider economy, while the maximum points were higher. All pay points for the remaining Other Ranks in Pay Supplement 3 were higher than the ASHE comparator.
- Officers' pay compares well to the ASHE comparators across the board with the relative advantage increasing markedly with seniority.

2.37 To complement our usual analyses using age as a proxy for rank, we also undertook a wider analysis of Armed Forces pay since 2007-08 to examine its relative position in the wider economy. We analysed the position of selected points in the Armed Forces pay framework in the percentile distribution of pay across the wider economy. We found that:

- Overall, since 2007-08, most ranks saw modest relative falls in the context of wider economy earnings growth. The falls were slightly steeper for some ranks when the analysis was restricted to a comparison with the private sector only.
- In broad terms, Armed Forces pay improved relatively in the years up to 2010-11 when public sector pay increased at a faster rate than pay in the private sector.
- From 2010-11, public sector pay was frozen for two years and subsequently constrained to 1 per cent increases. As a result, the period from 2010-11 saw most of the Armed Forces pay points fall relatively.
- Our analysis covered the period to 2016-17 and did not include the 1 per cent up-rating in Armed Forces pay scales in 2017-18. Consequently the relative pay position of the Armed Forces has therefore further weakened modestly.

Graduate pay

2.38 Our analysis of the graduate labour market drew on three broad sources of data: studies of graduate starting pay by graduate recruitment/specialist organisations, data from the Higher Education Statistics Agency (HESA) on recent graduates and comparisons of Armed Forces' graduate salaries for the first three years of employment with graduates' salaries in other public sector occupations.

2.39 Examination of the data showed that there is a great variation in graduate starting pay with some organisations offering generous salaries, for example in excess of £40,000. We found that graduate starting pay as reported by 'top graduate recruiters' (those typically running dedicated 'graduate recruitment' schemes) was significantly higher than OF1 starting pay. However, our analysis also showed that OF1 pay compared favourably against a range of occupations in a broader graduate comparator group.

2.40 Table 2.1 shows the starting salary and early pay progression for graduates entering the Armed Forces (OF1 Officer Rank) in 2017 compared with other public sector occupations¹¹. The table shows that while OF1 starting pay is within the range of other starting salaries in this analysis, it has the potential to offer relatively rapid progression after this entry point with an initial increment of 20 per cent after 1 year followed by the prospect of further promotion, and associated progression, during the initial three years of service.

¹¹ Note that there is currently 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.

Figure 2.1 Graduate pay in public sector professions, 2017

	Graduate starting pay	Graduate pay after:	
		1 year	3 years
Armed Forces' officer ¹	£22,693	£27,277	£34,956
Fast-Stream Civil Servant ²	£28,000	-	-
Doctor ³	£26,614	£30,805	£36,461
Teacher ⁴	£22,917	£24,728	£28,772
NHS Nurse ⁵	£22,128	£22,683	£24,547
Police officer ⁶	£19,971	£23,124	£25,224

Notes:

¹ Assumes starting at OF1 (on Pay16 step 1), progressing after a year and then reaching OF2 after 3 years. Armed Forces' pay adjusted for X-Factor (/1.145).

² There is no longer a system of incremental progression although annual pay increases can be enhanced by performance awards.

³ 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 2017. The doctors' pay is based on the basic pay in the 2016 contract, the previous contract (pre-2016) had a lower basic pay.

⁴ 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 2017.

⁵ Agenda for Change England pay rates at 1 April 2017 assuming starting point as band 5 pay point 16.

⁶ This is the new entry pay for constables, England and Wales following the Winsor review. The entry pay can be flexed up to £23,124 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 £23,124 the pay after one and three years would be £24,171 and £26,277 respectively. Excludes overtime payments. Rates at 1 September 2017.

Non-pay benefits

2.41 In evidence to us for this round, MOD provided us with an overview of the wider benefits package received by Service personnel. This includes an annual leave allowance of 38 days per year (as they do not have a separate allowance for Bank Holiday); sea-goer's leave; post operational leave allowance; relocation leave; rest and recuperation; a resettlement package; childcare vouchers; medical and dental care; sporting facilities and adventure training; indulgence travel (for Service personnel and their immediate families); subsidised accommodation; a fuel subsidy scheme; and discounted travel.

2.42 Our last review of non-pay benefits was carried out for our 2007 Report. At that time, the analysis identified a wide range of civilian benefits 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. Our current analysis shows that civilian employers offer an even larger variety of benefits, often with a flexible or menu approach enabling employees to individualise their total reward package. Some MOD benefits appear better than the civilian counterparts – a larger annual leave allowance (although there is no separate allowance for Bank Holidays, and taking leave may be an issue); the provision of medical and dental care, subsidised accommodation and travel. The changes in both military and civilian packages and their wide range of available benefits means an accurate assessment of the balance of advantage between the two is difficult. However, the information provides useful background to our comparability assessment and is something we will continue to monitor on a regular basis.

Diversity and Inclusivity in the Armed Forces

- 2.43 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 they attract the highest quality individuals. 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. Despite this, we recognise the fact that not everybody in society might wish to make the sacrifices or decisions required of those in the military. The MOD also 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 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 as a whole.
- 2.44 While women comprise some 50 per cent of the population, MOD data for 1 April 2017 show they were just 10.2 per cent of UK Regular Forces, 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; within the Reserves, women accounted for 14 per cent; all below the target of 15 per cent women in the Armed Forces as a whole. Women leaving from the UK Regular Forces remains higher than inflow with 1,360 personnel leaving versus 1,260 personnel joining in the 12 months to 31 March 2017, a continuation of previous patterns.
- 2.45 BAME Service personnel constitute 7.5 per cent of the UK Regular Armed Forces in October 2017, with just under half of these being UK BAME citizens (3.6 per cent of the total). In the Reserves, representation has risen to 5.5 per cent at October 2017 from 5.2 per cent at 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. 14 per cent of the UK population were recorded as BAME in the 2011 Census, the latest comprehensive data available.
- 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, but we await with interest the impact of the current Defence Modernisation Programme. Data provided by MOD show that in the 12 months to 30 September 2017, 12.2 per cent of total intake were female and that the RAF as a single Service has already exceeded the 15 per cent female recruitment target with 18.4 per cent in its intake. Data for the same period also shows that of total UK Regular intake, 9.2 per cent were from BAME backgrounds, with the Army exceeding its BAME intake target for the last two quarters at 11.8 per cent. 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. The Armed Forces will need to make a sustained effort to meet all the Defence Diversity and Inclusion Programme (DDIP) objectives but particularly the target 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.
- 2.47 MOD is committed to continuing to build its existing relationships with BAME communities, and for those aged 16-24, to better understand their motivations and how to communicate with them to improve the representation of both BAME and females within our Armed Forces. MOD told us that: BAME officers and other ranks progress at a similar rate to their colleagues but more leave before Lieutenant Colonel, or equivalent; recognised that the BAME cohort is not “a homogenous community”; and requires a

more nuanced approach in future. In relation to women, it found that: both female cohorts – Officers and Other Ranks – promote faster than males, but on average serve three years less. It recognises that further interventions will be required over the next five years to maximise the use of role models, emphasise targeted and sustained mentoring of talent, and, implement a progressive return to work strategy for women.

- 2.48 Meeting the recruitment targets should lead to increased representation of both BAME and female Service personnel, provided the culture and ethos facilitates the retention and progression of these groups. MOD's evidence included details of an impressive range of initiatives aimed at improving recruitment in general and, specifically, improving the recruitment and retention of both female and BAME Service personnel. Examples include: increasing the resources in area recruitment offices for outreach work; the RAF's ten Science, Technology, Engineering and Mathematics (STEM) Residential Programmes 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 impending recruitment of women into the Royal Marines as Commandos, and into the Army in close combat roles, building upon earlier work to include women in the Submarine Service. Those initiatives aimed at increasing retention include: the Army's launching of both a Female and BAME Retention and Progression Study; the establishment of an Army Servicewoman's Network; the introduction of the Royal Navy's Maternity Divisional Officers; its Graduated Return to Work Scheme; and the Horizon 50 Leadership initiative for all 1*s and above, with three 2*s being senior champions for the tri-Service Hindu, Buddhist and Jewish networks. 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 the appropriate training to promote positive and inclusive working cultures throughout the Service.
- 2.49 MOD told us that flexible working will continue to evolve and be incorporated into policy through the Flexible Engagements System (FES) strand of the People Programme – a measure now enshrined in law.¹² Flexible working allows 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 previously stated in our Reports that the introduction of such arrangements will prove invaluable in improving the recruitment, retention and progression of, not only women, but of all Service personnel with caring responsibilities. We also recognise the benefit to Service personnel of being able to temporarily adjust their liability for deployment through FES, subject to operational requirements. We expect MOD to ensure that there is no adverse impact on those taking up flexible working in terms of access to training, promotion and career development opportunities. **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.**
- 2.50 The fact that Ministers and Senior Leaders within 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 is required to ensure all employees throughout the organisation are treated with equality, dignity and respect. The crucial role of leaders in promoting real cultural change is something we have highlighted in previous reports, and that role should extend to everyone within the chain of command.
- 2.51 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

¹² Armed Forces (Flexible Working) Act 2018, 8 February 2018.

representation within the individual Services. In addition, the Services maintain a variety of internal diversity networks. In terms of external recognition we were told that the Army and Royal Navy have been ranked amongst the top 100 employers by Stonewall.

- 2.52 As we have stated 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. Meeting recruitment targets should lead gradually to increased representation of BAME and female Service personnel. Senior military personnel, supported by the entire chain of command, will need to ensure the culture, ethos and initiatives are in place and maintained to encourage these individuals to remain in Service and enable them to progress through the ranks on merit.
- 2.53 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. 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 MOD on their progress.

Reserve Forces

- 2.54 There is a continued focus on the Reserve Forces due to the commitment to the Future Reserves 2020 (FR20) programme and the 'Whole Force' approach. We make some observations on Reserve Forces in this section.
- 2.55 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 April 2019 would remain. However, a Written Ministerial Statement (WMS) published in 2016 announced slightly revised FR20 targets for 2018-19 of 3,100 for the Maritime Reserves, 30,000 for the Army Reserves and 1,800 for the Royal Auxiliary Air Force. The WMS also confirmed changes to the definition of the Army Trained Strength (Regulars and Reserves) to include all Army Service personnel who have completed Phase 1 training: previously the definition only covered Service personnel who had completed Phase 2 training. It also stated that the reporting of the growth of Army Reserves will be based upon the Trained Strength profiles only.
- 2.56 MOD told us that in 2016-17, the overall trained strength of the Reserves at April 2017 was 31,364: comprising 2,555 Maritime Reserves (Royal Naval Reserve and Royal Marines Reserve); 26,657 Army Reserves, and, 2,152 RAF Reserves. MOD said that recruitment remains challenging for the Army, which has not met its recruitment target for April 2017 and still needs to recruit, train and retain large number of Reserve personnel. In contrast, the RAF Reserves have achieved and exceeded their FR20 target of 1,800 and the Maritime Reserve remains on track to achieve its target of 3,100 personnel. We question MOD's ability to meet some of its targets given recent issues with its recruitment contractors and will follow developments with interest.
- 2.57 MOD told us that in 2016-17 the number of Reservists deployed had reduced to 599 from 734 the previous year. This reduction was, in part, due to the continuing reduction in large scale combat operations involving the UK, but Reservists continue to contribute to a wide range of military tasks and smaller operations supporting counter-Daesh operations, NATO and national interests worldwide. 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.

- 2.58 In its evidence to us this year, MOD re-emphasised the recent improvements that had been made to the Reserves offer. These include: entitlement to paid annual leave from April 2013; membership of the Armed Forces Pension Scheme 2015 from 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. The thirteen Reserve Forces' and Cadets' Associations are reporting annually on the overall health of Reserves. MOD also seeks to use the Defence Relationship Management Organisation, at Full Operating Capability since April 2015, to support relations with Reservists' employers in line with the requirements and spirit of the Armed Forces Covenant.
- 2.59 Reservists that we met with on visits were on the whole appreciative of the improvements in 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 annual leave to travel to civilian medical and dental facilities was an inefficient use of time, particularly if there was spare capacity within local units. Some on FTRS contracts also thought it was unfair that their pension earned as a Regular was abated when they rejoined as a Reserve. Others pointed out that Reservists were expected to leave the Service at age 55 but that the Armed Forces Pension Scheme 15 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. Additionally, there was an indication of friction between Reservists and Regulars, with some Regulars complaining that Reservists occupied some of the more attractive roles, with better terms and conditions, whilst being unable to provide the same level of capability as Regulars.
- 2.60 Other issues raised by Reservists on visits this year included: the daily rate of pay being calculated upon 365 working days; the need for clarity on pay for a 12-hour day; calls for full X-Factor; and the lack of access to the Professional Aviators' pay spine. We also heard about: the need for better recognition for those on Additional Duties Commitment contracts and for consideration of whether posts should be classified as Home, Limited or Full FTRS commitments; calls for access to flexible working; better access to the Longer Separation, Home to Duty and Get You Home allowances; and a better Motor Mileage Rate. Reservists also highlighted the travel time to units, requests for better SLA, access to the pupil premium, and calls to keep the Forces Discount Card upon leaving. Reservists also continue to complain about the lack of access to Joint Personnel Administration to address any errors in payment and called for a limit on the amount of money that could be recovered by MOD in any one month.
- 2.61 We received results from the tri-Service Reserves Continuous Attitude Survey (ResCAS), which was carried out between September 2016 and February 2017. The ResCAS was open to all Reserves and there was a response rate of 33 per cent (5,422 returns). The response rates and results were very similar to last year (figures in brackets) and the main points included:
- 77 (77) per cent of respondents were satisfied with Reserve life in general;
 - 33 (32) per cent of respondents felt valued by Regulars;
 - 73 (70) per cent of those respondents in employment said their employers supported their service;
 - 51 (51) per cent of respondents were satisfied with pay, 67 (70) per cent were satisfied with the annual bounty but only 47 (46) per cent were satisfied with the expense allowances.

- 2.62 It is notable that the results were better than the AFCAS outcomes, but it is concerning that the results of ResCAS show only 33 per cent of respondents felt valued by Regulars. Scepticism about how the “Whole Force” approach is embedded in the Armed Forces was raised again by Reserves on visits this year. MOD envisages that the introduction of the Flexible Engagements System will result in a fundamental change in the terms under which all Service personnel serve. The ability to move across a spectrum of different commitment types and to move between Regular and Reserve Service may help to break down any existing perceived barriers between the two.
- 2.63 One such barrier is the abatement of pension. This applies where Service personnel who receive a pension are then re-employed on a new contract anywhere in the Armed Forces, including Reserves. The pension in these circumstances is reduced to ensure that total income from pension and earnings does not exceed pre-retirement earnings. **We would welcome evidence from MOD on this issue for our next round.**
- 2.64 We will continue to monitor progress in relation to Reserves’ terms and conditions and the issues that impact their recruitment, retention and morale. We ask that MOD keep us informed of developments, including the recruitment process for Reserves.

Chapter 3

PAY AND ALLOWANCES

We recommend that from 1 April 2018 (unless otherwise stated):

- Rates of base pay for the main remit group be increased by 2.9 per cent.
- The following targeted measures as part of the Defence Engineering Remuneration Review (DERR) pay proposals:
 - Category 1: core pay, supplements and bespoke pay spine
 - Royal Air Force (RAF)-led tri-Service work on the case for a bespoke pay spine for professional engineers, to report to us in Pay Round 19 (PR19); and
 - Consideration of using the Pay16 pay model to better target engineers in core pay, again to report to us in PR19.
 - Category 2: qualifications and professional registration:
 - an Engineer Professional Recognition Award (EPRA) for Army Officers (OFs) and Other Ranks (ORs) for implementation in the current pay round (PR18);
 - an EPRA for Royal Navy OFs that includes retrospective recognition of qualifications, for implementation in PR19; and
 - an EPRA targeted at all RAF OFs and ORs tied to professional attainment from Eng Tech through to IEng and CEng, and that again includes retrospective recognition, for implementation in PR18.
 - Category 3: targeted remuneration measures:
 - Possible RAF-led Financial Retention Incentives (FRIs) targeted at specific cohorts (including both OFs and ORs) for implementation in PR18. These FRIs have not yet been submitted for our consideration but we are content to consider them out of round;
 - A Royal Navy-led targeted Recruitment and Retention Payment (RRP) (Naval Service Engineer) for Royal Navy ORs for implementation in PR19, synchronised with the rundown of FRIs for Marine and Weapon Engineer, General Service and for Submariners; and
 - Two Army-led FRIs, one targeted at Royal Electrical and Mechanical Engineer (REME) Aircraft and Avionics Technicians and the other targeted at REME Artificer Aircraft and Avionics Technicians, both for implementation in PR18.
- Other targeted measures (full details in Chapter 3):
 - RRP (Mountain Leaders) and RRP (Parachute Jumping Instructors) to remain at current rates.
 - RRP (Flying Crew) (FC)
 - RRP(FC) to remain at current rates.
 - Royal Navy Flying Maintainers to continue to be eligible for RRP(FC) on a Non-Continuous Basis (NCB).
 - An enduring requirement to pay RRP(FC) to Royal Navy Flight Winchmen on a NCB under existing arrangements.

- RRP(FC) should be re-profiled for Royal Logistic Corps (RLC) Air Despatchers under existing NCB arrangements, focusing the payment on the retention of more experienced personnel.
- Army Air Corps Aviation Crew transfer to RRP (Flying) Non-Commissioned Aircrew with effect from 1 April 2018.
- No ongoing requirement to pay RRP(FC) to REME Aircraft Technicians.
- An ongoing requirement to pay RRP(FC) to RAF Aircraft Ground Engineers; however, the recruitment and retention issues affecting the cohort should be considered as part of the DERR and single Service work to improve retention within engineering cadres.
- An ongoing requirement to pay RRP(FC) on a NCB for Suitably Qualified and Experienced Personnel working as RAF Air Mobility Movers within No 1 Mobility Wing; however, it is not necessary to pay new entrants at the base level.
- RRP(FC) should be maintained for RAF Cabin Crew under existing arrangements.
- RRP(FC) should be maintained for RAF Intelligence Analyst Linguists (TG11) assigned to essential operational flying duties on the Rivet Joint aircraft on a NCB.
- Joint Helicopter Support Squadron personnel employed in Helicopter Handling posts continue to receive RRP(FC) on a Completion of Task Basis (CTB).
- RRP (Hydrographic) to be retained and re-profiled, with changes to be implemented on 1 April 2019, and OF changes to be applied to newly qualified OFs only, with legacy protection for all currently qualified OFs.
- RRP (Parachute) and RRP (High Altitude Parachute) to remain at current rates, with the impact on manning and Voluntary Outflow of holding the rates to be reviewed during PR20 to decide the appropriate way forward.
- RRP (Special Forces) to remain at current rates.
- Other RRP rates to be increased by 2.9 per cent.
- The system of RRP's should stay in place for now following the introduction of Pay16; and the quinquennial review RRP papers should be considered in the normal way.
- Full reviews of RRP (Diving), RRP (Explosive Ordnance Disposal) and RRP (Special Forces Communication) to be conducted next year.
- The continued payment of the Mine Counter Measure Vessels (MCMV) Environmental Allowance (MEA) for personnel assigned to a qualifying MCMV, uplifted in line with our main pay award; and that given the particularly poor living conditions on board for the most junior members of the crews, an additional (higher) value tier should be introduced for Junior Ratings at £5.00 per day.
- The continuation of: the bespoke pay spines for the main Officers Commissioned From the Ranks (OCFR) cohorts; the equivalent bespoke pay spines for analogous groups in the Special Forces and the Royal Gibraltar Regiment; and the established practice of applying our annual pay awards equally to the OCFR pay spines to ensure that there continues to be an effective bridge between ORs' and OFs' pay spines.

- **Recruitment and Retention Allowance (London) to be increased by 2.9 per cent.**
- **The retention of the Unpleasant Working Allowance, with the three Daily Rates to be increased by 2.9 per cent.**
- **Rates of compensatory allowances not reviewed separately, and the Reserves' Bounties, to be increased by 2.9 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.
- 3.2 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 its revised approach to public sector pay. 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.
- 3.3 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, overall 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.
- 3.4 In this report, we review RRP (Flying Crew), RRP (Hydrographic) and RRP (Parachute). We also consider MOD's work on the future of RRP in the context of Pay16 and its proposals for a new framework for reviewing them. MOD said that next year we would receive information to support reviews of the following categories of RRP: Diving; Explosive Ordnance Disposal; and Special Forces Communications. We ask that MOD keeps us closely engaged on the timing of RRP reviews to avoid any delays that could compromise our ability to make effective recommendations. RRP should be reviewed on the basis of operational requirement rather than financial constraints. MOD should also consider the timing of reviews of related RRP, as there are clear benefits in taking a holistic approach.
- 3.5 In addition, this chapter includes our consideration of MOD's review of engineering remuneration, Mine Countermeasures Vessels Environmental Allowance, Officers Commissioned from the Ranks, Recruitment and Retention Allowance (London) and the Unpleasant Work Allowance. We also report on measures we endorsed outside our usual round. Our quinquennial review of X-factor is contained in Chapter 6.
- 3.6 A new pay structure for Armed Forces' personnel, Pay16, was introduced on 1 April 2016. Service personnel gave us feedback on its initial impact during our visit programme and we offer our views at the end of this chapter.
- 3.7 In our last report we noted that the Joint Personnel Administration (JPA) system that administers pay and allowances was due for a Technical Refresh to provide an upgrade to the hardware and software that supports the HR system and payroll. We have previously

expressed our frustration with JPA and its inability to implement our recommendations from the April following our reports and therefore asked MOD to ensure that recommendations are implemented on the date that we intend them to take effect and that the Refresh take this into account. **Due to the late submission of evidence for this round, we recognise the difficulties that MOD will have in implementing our recommendations for 1 April 2018, but expect our recommendations (if accepted) to be backdated.**

- 3.8 We have also noted that the timing of some of the proposals put to us this year appear to have been driven by the costs and limitations of JPA, rather than by operational need. **We regard this as an unhelpful development which further highlights the need for proper investment in this area.**

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 21 September 2017 (Appendix 5) stating that the Government would continue to ensure that the overall package for public sector workers was fair and ensure that it could deliver world class public services while also being affordable within the public finances and fair to taxpayers as a whole. CST said that the last Spending Review budgeted for a one per cent average increase in basic pay plus progression pay awards for specific workforces, but there would still be a need for pay discipline over the coming years, to ensure the affordability of public services and the sustainability of public sector employment. However, the Government recognised that in some parts of the public sector, particularly in areas of skill shortage, more flexibility might be required to deliver world class public services in return for productivity improvements. CST added that with a more flexible policy it is of even greater importance that recommendations on annual pay awards are based on independent advice underpinned by robust evidence that takes into account the wider economic circumstances, private sector comparators, and overall remuneration of public sector workers, including progression pay and pension entitlements.
- 3.11 Our remit letter of 7 December 2017 from the Secretary of State for Defence (Appendix 5) followed up on the letter from the CST, restating the Government's position. Due to the later submission of evidence for this round, the letter noted the inconvenience of the changed timeline and implications of any delay of the award for 2018-19: MOD has communicated the potential delay to Service personnel, explaining that it would be kept to an absolute minimum and that any pay award would be backdated to 1 April.
- 3.12 Commenting on targeting, MOD said that a significant amount of work has been conducted to produce detailed reviews of RRP's and said that the proposed targeted measures represent the best value for money in addressing significant workforce risks. We also note that Pay16 has increased pay differentiation by design. During oral evidence, the Secretary of State emphasised that rank defined the structure of the Armed Forces, and he did not believe that any differential pay award would be justified at this time.
- 3.13 MOD said that as the UK Armed Forces continue to restructure, they successfully deliver multiple operations around the world whilst maintaining defence of the UK and Sovereign Territories. The Armed Forces remain below manning balance and the Secretary of State recognised that serious and sustained shortages in critical skill groups existed. For all Services, MOD said a less permissive recruiting environment continued,

and that almost no recruiting targets were met for Regulars and Reserves. Voluntary outflow (VO) remained towards the high end of historic levels. We also note that demographic changes in the UK with fewer 18 – 25 year olds in the population add to the recruitment challenge for the Armed Forces.

- 3.14 Results from the 2017 Armed Forces Continuous Attitude Survey (AFCAS) showed a continuing deterioration across the board with only 38 per cent of respondents reporting high self-morale, and an increase to 50 per cent of personnel perceiving Unit morale as low with 61 per cent of respondents perceiving morale in their own Service as low. Only 42 per cent of Service respondents were satisfied with Service life in general. Pay satisfaction measures were the lowest ever recorded: satisfaction with the rate of basic pay at 32 per cent; satisfaction with pension benefits at 27 per cent and just 33 per cent agreed that the pay and benefits they received were fair for the work and tasks required. Some 38 per cent reported being unable to maintain a balance between personal and working life and 48 per cent reported workload as being too high.
- 3.15 MOD also highlighted other factors that had affected Service personnel's view of their pay. It noted the impact of pay restraint, inflation regularly above one per cent, changes to pensions, trade supplement placements as part of Pay16 with many Service personnel on pay protection, and some significant increases in accommodation charges as Service personnel were transitioning to new rental rates as a result of the introduction of the Combined Accommodation Assessment System for Service Family Accommodation (SFA). In addition, it noted increases in National Insurance contributions, changes to tax credits, lowering of pension tax liability thresholds and the new Scottish Rate of Income Tax. It did, however, acknowledge the positive impact of the increase in the Personal Allowance and the higher rate Income Tax threshold.
- 3.16 The comments made by MOD summarised in the preceding paragraph are an accurate reflection of the feedback we gathered during our 2017 visit programme. A common theme was that the one per cent pay award for 2017-18 was seen as a pay cut when compared to inflation, wider pay settlements, and to the rising costs of accommodation. Another key message from Service personnel was that pay levels did not reflect workload. Pensions were again a major issue for Service personnel. Some felt that the 'pension trap', which in the past helped to retain people, no longer existed: it appears to us that this view is related to the fact that the Early Departure Payment (EDP) lump sum is no longer viewed as large enough to effectively cover a mortgage deposit; and the monthly EDP is not sufficient to cover regular mortgage payments. Service personnel also recognise that they will not be able to draw the key benefit of the Armed Forces Pension Scheme 15 (AFPS15) until State Pension Age – which is increasingly distant from the point at which they leave the Services and given current trends, may move even further away. Many therefore increasingly believed that they would need to have a worthwhile second career, and be better off in securing a civilian career by leaving the Armed Forces at an earlier stage. Some Service personnel also noted the impact of the switch to a career average pension on the pension prospects of those in trades with slower promotion.

Comment and Recommendation

- 3.17 MOD introduced its new pay system in April 2016. Pay16's trade supplement structure is based around increased pay differentiation in a targeted manner, while retaining incremental progression. Increments are an important part of the overall offer: however, because of pay protection resulting from pay restructuring and Service personnel 'topping out' (i.e. at the top of their pay ranges), not everyone benefits from incremental progression – the latest data suggest that approximately 30 per cent of our remit group are either on Standstill Rates of Pay or are topped out. This number is forecast to reduce to 11 per cent in 2019 and 6 per cent in 2021. We note that under Pay16 arrangements,

those Service personnel in the year after promotion will also not see any incremental increase in their base pay. Additional targeted pay interventions continue to be provided where appropriate through RRP and FRIs.

- 3.18 Our terms of reference require us to 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. When considering our recommendation on basic pay, we have looked at the latest data on the cost of living, on pay settlements more generally and developments in the wider economy. We have also taken account of the value of the Armed Forces' non-contributory pension scheme, which despite recent changes, continues to offer significantly better benefits than are generally available elsewhere, both in the public and private sectors. This needs to be better explained and communicated to the remit group as a whole.
- 3.19 At the time we debated our pay recommendation, inflation as measured by the Consumer Prices Index (CPI) was at 3.0 per cent (the January 2018 annual rate), and average earnings growth was 2.5 per cent. It was also made clear to us during oral evidence that MOD had only been funded for a 1 per cent increase in pay.
- 3.20 We are concerned about the picture that has emerged from our visits and evidence this year. While there has been no sudden deterioration in any particular indicator, trends that have worried us in recent years, and on which we have commented in previous Reports, have continued. The cumulative impact is now serious. Recruitment, across all Services, is challenging, and targets are regularly being missed. Outflow figures, including voluntary outflow, remain at historically high levels. Overall, the deficit in military full-time trained strength has become larger. All three Services remain below their staffing targets set in SDSR 15, and none are confident of meeting these targets by 2021. That is a worrying position, given that MOD still has an ambitious workforce reform programme in prospect, and it will need active engagement from Service personnel if it is to produce the desired benefits.
- 3.21 The evidence on Service morale is, if anything, of even more concern, and helps to explain some of the recruitment and retention difficulties. According to AFCAS, satisfaction with Service life in general has steadily decreased since 2009. Satisfaction with pay and benefits is at an historic low. That accords with the messages that we have heard on visits. Service personnel perceive that the value of the overall "offer" has significantly decreased in recent years, citing changes to pensions, increases to accommodation and food charges, as well as pay restraint. They also comment on the impact of workload, and of units being held at high readiness for long periods, which are exacerbated by general shortages of personnel. In the round, they draw the conclusion that the Armed Forces are becoming less valued.
- 3.22 We have considered our overall pay recommendations against this background. We believe that this year's award needs to signal a change, firstly to start to address the issues we highlight above, and secondly so that serving personnel can start to speak more positively to recruits and potential recruits about a career in the military. We note that forecasts for the wider economy suggest there are reasonable prospects for growth, with unemployment at very low levels, so the Armed Forces will face increasing competition to recruit and retain the right people. Looking at pay comparability data, most ranks have seen relative falls in the value of their pay, compared to wider earnings growth in the whole economy since 2006-07 (screening out the impact of the recession); the falls in comparison with the private sector are rather steeper. We note also that the most recent CPI inflation figure is at 3 per cent, with the Retail Prices Inflation (RPI) figure at 4 per cent; while no longer an official measure, RPI remains a figure that service personnel recognise, and regularly mention to us.

- 3.23 We considered whether a pay award that was consciously above inflation was necessary to achieve the results we are seeking. However, against that, we need to take into account the evidence on affordability, and the continuing pressures on public finances. On balance, we **recommend an across-the-board increase of 2.9 per cent in base pay for 2018-19**. While it is below CPI inflation, it represents a significant change from the 1 per cent that we have recommended for the last five years. We believe that Service personnel will recognise that affordability constraints remain.
- 3.24 We are proposing that this increase should be across-the-board, as was supported by MOD during oral evidence, since we wish to send a general message this year. However, the future needs of the Armed Forces will include some different and very specialist skills, some of which are in great demand in the labour market. MOD needs to consider carefully whether, in future remits to us, it should be proposing pay awards that start to differentiate, in response to labour market pressures and strategic Service needs.

Recommendation 1: We recommend that rates of base pay for the main remit group be increased by 2.9 per cent from 1 April 2018.

- 3.25 One of the key results from AFCAS 2017 was the low levels of satisfaction with pensions. This is concerning: whilst we acknowledge that the current scheme is not as good as the previous schemes that many Service personnel remember and are still part of their terms and conditions, relative to other public sector schemes and most in the private sector, it remains the case that AFPS15 is one of the very best pension schemes. A common issue raised during our visits was that the changes to pensions were non-negotiable, and did not allow the continuation of the terms Service personnel signed up to – a similar situation to all other public sector pension schemes. Despite the changes to the Armed Forces pension scheme, it remains unique amongst public sector pension schemes as being non-contributory: other public sector schemes saw increases in employee contribution rates for the majority of employees. It will therefore be critical for MOD to continue with its communication efforts to increase awareness and understanding of the relative advantage and absolute value of the pension, which in turn should help retention.
- 3.26 Another issue we identified during our visits relating to pensions was the impact of the changes to tax arrangements for the annual and lifetime allowances. Of course, this is not a problem unique to the Armed Forces as it is a national issue, but for the senior and long-serving members of our remit group it can have a very real influence on promotion, retention and retirement decisions. MOD needs to track the growing impact on Service personnel, particularly those seen to have potential for advancement.

Defence Engineering Remuneration Review

- 3.27 The Armed Forces continue to experience significant problems in both recruiting and retaining sufficient numbers of engineers for both OFs and ORs. At April 2017, the deficit for engineers within the Armed Forces was 2,756 (5.9 per cent), up 1,697 since July 2015, with specific cadres running at deficits as high as 34 per cent and VO rates as high as 14 per cent which are unsustainable. Recruitment success is variable with some cadres achieving only 53 per cent of their annual target. The recruiting picture across the Armed Forces represents a particular challenge for certain Engineer Officer cadres, and as a result specific recruiting initiatives are underway in an attempt to address shortfalls. In respect of ORs, the Army faces a major challenge across all engineering soldiers where deficits vary greatly, with impact dependent upon size of the trade and existing capability. The Army's most severe manning deficits are with the Royal Signals and REME, with forecasts showing increasing deficits within the majority of ranks. The RAF has acute

shortages in engineer Officer cohorts as well as specific ORs in Trade Groups 4 and 5. The Royal Navy has considerable manning shortfalls in the Submarine Service for OFs and for ORs within the Weapons Engineering and Marine Engineering sub-branches.

- 3.28 The DERR was established to look at the current offer to engineers and propose measures, both remunerative and non-remunerative, that would help to address the issues associated with their recruitment and retention. In evidence this year, MOD said that there is an underlying feeling of not being valued within engineering cohorts, partly based on remuneration. However, it is also clear that remuneration is neither the prime driver of retention nor the major long-term solution. Over time, Service personnel are susceptible to a range of irritants linked either to life in their parent Service or to particular issues linked to specific career points. DERR noted that once non-remuneration factors become problematic, remuneration becomes increasingly important. Therefore, while long-term solutions cannot be purely monetary, remuneration-based solutions are required in both the short and longer-term to help reduce VO rates and give time for other measures to take effect.
- 3.29 The analysis undertaken for the DERR suggests that solutions for particular cohorts must be considered against the background and context of the single Service concerned, and, while the cohorts must feel that they are being dealt with in an equitable manner, complete equality between Services or between cohorts is not possible or indeed justified. DERR concluded that a single approach across all three Services was not recommended. Although the adoption of different approaches between Services might occasionally drive some internal market behaviour, it was manageable as experience showed this is driven primarily by non-remunerative aspects with pay differentials being a secondary issue.
- 3.30 The DERR pay proposals are based on the approach it discussed with us last year, using three main categories: firstly, recognition of engineering skills through core pay, including supplements, but also potentially including for some specific cadres the use of bespoke pay spines; secondly, recognition of the value of qualifications attained or professional registration with a lump-sum monetary award; and thirdly, the use of targeted remuneration measures, such as FRIs, RRP's and Golden Hellos, to address specific short/long-term skill shortages.
- 3.31 The DERR set out the following specific proposals under the three categories for our consideration, which it said represents the most appropriate, cost effective and coherent way to address the challenges faced within the engineering community; for delivery over the next two pay rounds, targeted and proportional to the scale of the problem both within the Services and nationally:
- Category 1: core pay, supplements and bespoke pay spines
 - RAF-led tri-Service work on the case for a bespoke pay spine for professional engineers, to report to us in the next pay round, PR19; and
 - consideration of using the Pay16 pay model to better target engineers in core pay, again to report to us in PR19.
 - Category 2: qualifications and professional registration:
 - an EPRA for Army OFs and ORs at a total estimated cost of £15 million over five years for implementation in PR18;
 - an EPRA to Royal Navy OFs at a total estimated cost of £3.02 million, including retrospective payments, over five years for implementation in PR19; and
 - an EPRA targeted at all RAF OFs and ORs tied to professional attainment from Eng Tech through to IEng and CEng, including retrospective payments, with a total estimated cost of £20.25 million over five years for implementation in PR18.

- Category 3: targeted remuneration measures:
 - RAF-led FRIs targeted at specific cohorts (including OFs and ORs) at a total estimated cost of £25 million over five years for implementation in PR18;
 - a Royal Navy-led targeted RRP (Naval Service Engineer) for Royal Navy ORs at a total estimated cost of £37.5 million over five years for implementation in PR19, synchronized with the rundown of FRIs for Marine and Weapon Engineers, General Service Engineers and for Submariners; and
 - two Army-led FRIs, one targeted at REME Aircraft and Avionics Technicians at a total estimated cost of £4.41 million over two years, and the other targeted at REME Artificer Aircraft and Avionics Technicians at a total estimated cost of £2.625 million over five years, both for implementation in PR18.

3.32 We met with members of the Defence Engineering Team who described the work undertaken over the last year on the DERR and discussed their proposals with us. We understand their conclusion that a single solution across all three Services is not appropriate, and that the DERR pay proposals provides a framework for all three Services to tackle their respective engineering problems. We have been keen for some time to see the engineering problems in the Armed Forces addressed and we are very supportive of the work that has been carried out and the direction agreed. We recognise the scale of the challenge, and that there will be difficulties in the short-term. It is however critically important that a signal is sent to engineers to show they are valued by the Services, and we see the proposals as a step in the right direction. **It will be vital for the Services to deliver on the timescales they have set out in their programme of work and communicate the details to the engineering teams in a timely and coherent way.**

3.33 Turning to the specific pay proposals, we endorse the activity proposed under Category 1. Our last report set out our support in principle for a bespoke pay spine for engineers, and we do not underestimate the complexity in delivering this strand of the work. MOD has undertaken to submit further proposals on alternative pay arrangements in the next pay round, and we look forward to receiving them. We are also supportive of using Pay16 to better target engineers in core pay: we envisage that this could possibly involve the creation of additional pay mechanisms to those currently in use within Pay16. We would expect any additional costs arising from such proposals to be funded outside the existing pay model.

3.34 Category 2 activity related to the EPRA, is based on arrangements designed for the needs of each individual Service. MOD said that the EPRA is judged to have a positive retentive effect for the Army and RAF, but the Royal Navy position was significantly different: it said that the payment of a small lump sum on achieving professional registration as IEng or CEng was sufficient to recognise their value in comparison with other Branches. MOD said this measure for the Royal Navy (together with the Category 3 activity below) would take effect in PR19, but needs to be announced as part of the overall DERR package in 2018 to help manage expected additional VO pressure arising from FRI cessation. Again, we support these proposals, but it will be important for MOD and the individual Services to communicate clearly to their engineers the rationale for why they have taken different approaches and timelines to the EPRA for each of the Services.

3.35 The Category 3 activity relates to FRIs, RRP and Golden Hellos. Again, the proposals are designed to meet the particular circumstances of each Service.

- At the time of writing, the RAF had yet to submit its proposals: but we will be happy to consider them out of round.

- The Royal Navy proposed a new RRP for ORs for implementation in PR19: RRP (Naval Service Engineer) (NSE). It would include Daily Rates of: £3 (OR4); £5 (OR6); £6.50 (OR7); and £6.50 (OR9). The Service said it was clear that a daily rate was preferred to a lump sum. We support this proposal, and look forward to receiving regular updates on the effectiveness of this RRP.
- The Army submitted two FRIs both of which we considered and approved out of round, but report back on here. The first involves a Financial Incentive (FI) of £25,000, paid in return for a 48 month Return of Service (RoS), to REME Artificer Avionic/Aircraft on successful completion of the Artificer course. The FI will run from 1 January 2018 to 31 December 2022 or until Artificer manning achieves 95 per cent of A2020 liability, whichever is sooner. The second FRI is for REME Aviation Technicians of £15,000 payable to all LCpls, Cpls and Sgts who are Class One qualified in return for a 36 month RoS. The FRI will run from 1 April 2018 to 31 March 2020 or until Aviation Technician manning achieves 95 per cent of A2020 liability, whichever is the sooner. We have asked for an update on the success of these two proposals at the two-year point.

- 3.36 We note that Category 3 activity could be overtaken by any proposals that may emerge under Category 1. Given the possible interaction between Category 1 and Category 3, it will be important for MOD to consider carefully the scope and longevity of any Category 3 proposals.
- 3.37 During oral evidence, MOD said that in the future, it might be necessary for retention payments to be related to the skills and technical expertise of individuals, as opposed to the current model that typically used rank as a criterion for payments. In principle, we are open-minded about this suggestion, but will of course consider the merits of any future RRP and FI proposals on the basis of the evidence provided.
- 3.38 In conclusion, we are strongly supportive of the work that MOD has carried out to recognise these critical groups of Service personnel. The DERR pay proposals appear appropriate to address the challenges faced within the engineering community but they are only a step in the right direction towards a comprehensive solution. It will be important for MOD to retain the focus on engineering, and we expect it to submit Category 1 proposals for our consideration in our next round. **Having an Engineering Champion in place to drive through the DERR has clearly been of a significant benefit, and we support the continuation of this role to see the changes through successfully.**
- 3.39 Over the course of the last year, we also sought updates from MOD on how it was intending to address the issue of having sufficient cyber specialists in place, particularly given the rising importance of such skills in modern warfare. MOD said it was considering bespoke arrangements, that the skills and competencies of cyber specialists might not match traditional ranks, and that different promotion criteria might be needed for this cohort. **We would encourage MOD to be proactive in tackling this particular recruitment challenge and expect the relevant proposals to be provided for our consideration during the next round.**

Recommendation 2: We recommend the following targeted measures as part of the DERR pay proposals:

- **Category 1: core pay, supplements and bespoke pay spine:**
 - RAF-led tri-Service work on the case for a bespoke pay spine for professional engineers, to report to us in the next pay round (PR19); and
 - Consideration of using the Pay16 pay model to better target engineers in core pay, again to report to us in PR19.
- **Category 2: qualifications and professional registration:**
 - an Engineer Professional Recognition Award (EPRA) for Army OFs and ORs for implementation in the current pay round (PR18);
 - an EPRA to Royal Navy OFs that includes retrospective recognition of qualifications, for implementation in PR19; and
 - an EPRA targeted at all RAF OFs and ORs tied to professional attainment from Eng Tech through to IEng and CEng, and that again includes retrospective recognition, for implementation in PR18.
- **Category 3: targeted remuneration measures:**
 - Possible RAF-led FRIs targeted at specific cohorts (including both OFs and ORs) for implementation in PR18. These FRIs have not yet been submitted for our consideration but we are content to consider these FRIs out of round;
 - A Royal Navy-led targeted RRP (Naval Service Engineer) for Royal Navy ORs for implementation in PR19, synchronized with the rundown of FRIs for Marine and Weapon Engineer, General Service and for Submariners; and
 - Two Army-led FRIs, one targeted at REME Aircraft and Avionics Technicians and the other targeted at REME Artificer Aircraft and Avionics Technicians, both for implementation in PR18.

Recruitment and Retention Payments

3.40 RRP is paid to specific groups where there are long-standing recruitment and/or retention issues involving difficulties specific to some cadres or external market competitive pressures exist. These payments are made where MOD does not consider a bespoke pay spine¹ 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).² In 2016-17, there were 18 different categories of RRP, costing around £108m per year. There were 14,882 RRP payments made in April 2017, although the number of Service personnel who receive RRP will be lower, as some receive more than one category.

¹ 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).

² 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.

- 3.41 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 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. **As we have said before, we believe that MOD should be more proactive in addressing such issues before they require emergency action.** We are however concerned that despite the use of RRPs and other measures, in some cohorts the shortages of skilled Service personnel are likely to last beyond 2025.
- 3.42 We continued with our revised approach for reviewing RRP this year, whereby each RRP category is subject to a light touch annual review where the analysis is focused on key staffing data. The annual review informs recommendations on the appropriate levels of RRP and when each category should next require a full review. In our last report, we recommended that MOD adopt a consistent approach to the full review of RRPs in future with a greater focus on measures of success.
- 3.43 In this year's evidence, MOD said that RRPs remain an integral part of the wider pay model which includes core pay, supplements, X-Factor, bespoke pay spines, Financial Incentives and Golden Hellos. MOD said that the nature of recruitment and retention issues is such that arguments to articulate the need for an RRP are a combination of both quantitative and qualitative information. However, the lack of a clear framework within which to assess this information lead to overly complex arguments, a lack of transparency and a danger of creating one-way traffic in which, once an RRP is introduced, it is difficult to reduce or remove. MOD said that it intended using a new framework to enable quantitative and qualitative arguments to be made, in a manner which encourages simplicity, clarifies measures of success and assists those who propose, write and review future RRP papers of evidence.
- 3.44 We welcome and endorse MOD's evidence that RRPs should in future be assessed and justified against a clear framework. We hope that this will ensure transparency and provide a coherent and consistent methodology with which to assess the requirements when introducing new RRPs or conducting reviews of those currently in force. We look forward to receiving the first assessments against the new framework for Pay Round 19.
- 3.45 We also understand that this will facilitate a review of the policy of RRPs being completely removed upon a Service person submitting their notice to terminate. This issue continues to have a negative impact on motivation and morale, particularly among those who have served a full career, and are required to serve under the same conditions of service during the notice period without receiving any RRP. **We have long held the view that this policy was unfair to Service personnel and would welcome a fresh look at this issue.**
- 3.46 For most rates of RRP, MOD proposes an increase up to the level of the pay award, which it said was intended to emphasise that any increase to the level of RRP would not automatically be linked to the same level of increase as the main pay award, allowing us to recommend a level we consider justified and appropriate. In accordance with the revised approach to reviewing RRP, MOD proposes no increase in the rate for five cadres: Flying Crew (FC); Parachute; Parachute Jumping Instructor (PJI); Mountain Leader (ML); and Special Forces (SF).
- 3.47 Both RRP(FC) and RRP (Parachute) had a full review this year and we consider them later in this chapter.

- 3.48 Turning to RRP(PJI), MOD said that whilst there are liability deficits against certain Ranks, there is no evidence of a long-term retention issue for this cohort. Current under-manning is linked to medical issues affecting small numbers, and is neither linked to difficulties recruiting nor substantially to VO. On that basis, we agree to support the freezing of RRP(PJI).
- 3.49 In relation to RRP(ML), MOD said this cadre is now in full manning balance. However, in the last year the cadre had only attracted two personnel against a target of ten. MOD said it would monitor the issue, and give consideration to what action might be required in our next pay round. On this basis, we agree it is appropriate to recommend that RRP(ML) be frozen this year.
- 3.50 Finally, on the basis of the evidence submitted by MOD for RRP(SF), we agree to support its freezing for 2018-19.
- 3.51 As noted earlier, MOD said that next year we would carry out full reviews of the following categories of RRP: Diving; Explosive Ordnance Disposal; and Special Forces Communications.
- 3.52 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. 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 estimated at £1.568 million.
- 3.53 Given the evidence presented by MOD and that gathered during our visits on RRP overall, and each of the individual cadres, we recommend that the remaining RRP's not discussed specifically in this chapter are increased by the level of the pay award.

RRP (Flying Crew)

- 3.54 RRP(FC) is paid to personnel from a broad and diverse range of specialisations and roles across all three Services. Generally, Service personnel in receipt of RRP(FC) form smaller and higher specialist cadres within much larger Trade Groups. Currently, there are two rates of RRP(FC): a Lower rate of £5.10 per day; and a Higher rate of £8.27 per day.
- 3.55 MOD told us that RRP(FC) continued to act as an effective recruitment and retention measure for certain key roles, units and areas of expertise that are critical to the delivery of vital Defence outputs and strategic programmes. It said there remained an ongoing requirement for RRP(FC) on both a NCB and CTB, but the continued utility of RRP on a CTB is being considered as part of the wider review of RRP payments.
- 3.56 MOD considered the case for each cadre in receipt of RRP(FC) and asked us to agree that:
- RRP(FC) rates of pay are frozen;
 - Royal Navy (RN) Flying Maintainers continue to be eligible for RRP(FC) on a NCB, noting that the number of eligible roles has decreased producing a net reduction in RRP(FC) costs;
 - there is an enduring requirement to pay RRP(FC) to RN Flight winch-men on a NCB under existing arrangements;
 - RRP(FC) should be re-profiled for RLC Air Despatchers under existing NCB arrangements, focusing the payment on more experienced personnel and noting the buoyant recruitment into the Trade at base rank levels. This will generate a net saving from 1 April 2018 onwards;

- Army Air Corps (AAC) Aviation Aircrew transfer to RRP (Flying) Non-Commissioned Aircrew (NCA) with effect from 1 April 2018;
- there is no ongoing requirement to pay RRP(FC) to REME Aircraft Technicians;
- there is an ongoing requirement to pay RRP(FC) to RAF Aircraft Ground Engineers; however, the recruitment and retention issues affecting the cohort should be considered as part of the DERR and single Service work to incentivise retention within engineering cadres;
- RRP(FC) remains a key retention factor for RAF Air Mobility Movers within No.1 Air Mobility Wing (1AMW) and therefore Suitably Qualified and Experienced Personnel (SQEP) should remain eligible for payment on a NCB; however, due to healthy recruitment into the specialisation it is not necessary to pay new entrants at the Basic Movement Trained level;
- RRP(FC) remains an essential incentive for RAF Cabin Crew and that they should remain eligible for it under existing arrangements;
- RRP(FC) should be maintained for RAF Intelligence Analyst Linguists (TG11) assigned to essential operational flying duties on the Rivet Joint aircraft on a NCB;
- Joint Helicopter Support Squadron personnel employed in Helicopter Handling posts continue to receive RRP(FC) on a CTB; and
- Payments of RRP(FC) to personnel not specifically detailed within JSP 754 must be justified by a full Paper of Evidence and subsequently authorised by single Service Pay Colonels; and the current dispensation for unit level authorisation is removed from the JSP with effect from 1 April 2019.

- 3.57 The evidence on Royal Navy Flying Maintainers said that manning was at 100 per cent, and that RRP(FC) was seen as retention positive. MOD said Service personnel volunteered for such higher risk positions with enhanced responsibilities because of the pay recognition. It said that until a period of stability has been achieved, RRP(FC) should remain in place. We are content to support the proposal for Royal Navy Flying Maintainers to continue to be eligible for RRP(FC) on a NCB.
- 3.58 Flight Winchmen are also at 100 per cent manning. MOD said the cadre relies on volunteers from junior rate flight engineers and it is clear that RRP(FC) is an important tool. The role requires volunteers to undertake additional training, yet still conduct the same amount of maintenance work and duties as the other engineers on board. MOD said that the cadre is given no special privileges for undertaking the role beyond RRP(FC) and argued that the RRP also gave recognition of the hardship and danger of the winchmen role beyond that provided by X-Factor. We agree that there is an enduring requirement to pay RRP(FC) to Royal Navy Flight Winch-men on a NCB under existing arrangements.
- 3.59 MOD said that RLC Air Despatchers are recruited from Private rank and remain within their Squadron for the majority of their Army career. Manning is at 114.6 per cent of requirement, although there are deficits at Sgt and WO2. MOD said that RRP(FC) is a key retention incentive for qualified personnel and provides value for money. MOD proposed:
- From 1 April 2018, RRP(FC) should no longer be paid to new joiner OR2s in their first four years of service, but with transitional protection to prevent current OR2s losing pay;
 - From 1 April 2018, the payment of RRP(FC) for new joiner OR2s should commence at the Lower Rate at the start of the fifth year of service to target the first optional exit point;

- A Higher Rate of RRP(FC) should commence after four years' service on the Initial Rate to reflect experience in the role and increased responsibility as individuals promote; and
 - From 1 April 2019, RRP(FC) should cease to be paid to Air Despatcher OFs.
- 3.60 We sought additional information on the proposal to remove RRP(FC) from Air Despatcher OFs. MOD said that OFs are 100 per cent manned and are not subjected to the same frictions of employment as ORs. It did not consider it necessary to retain additional incentives for OFs to become air despatch trained. On the basis of the evidence, we agree with MOD's proposals on RRP(FC) for RLC Air Despatchers.
- 3.61 AAC Aircrew manning levels are just 72 per cent. MOD said that Royal Navy and RAF equivalents are paid RRP (Flying) rather than RRP(FC), leading to a considerable disparity in pay. This has created an internal transfer market for Aircrew to the other Services: this issue was evident during our visit programme. MOD proposed that AAC Aircrew are awarded RRP (Flying), consistent with their counterparts in the Royal Navy and RAF. It said eligibility will be on completion of their relevant Conversion to Type, with transitional arrangements for those who have more than nine years' reckonable service and three years' productive aircrew service since gaining the legacy Aircrew Instructor qualification. We support MOD's proposals for AAC Aircrew. In our view, MOD should also give consideration to other factors that are impacting the recruitment and retention of AAC Aircrew: the pay supplement that they are placed in; better promotion opportunities in the other Services; and the typical length of service.
- 3.62 MOD said that REME Aircraft Technicians are eligible to claim RRP(FC) on a CTB on days they are required to air-test aircraft equipment, but noted that in 2016-17, less than £100 had been spent on RRP(FC) for this cadre. This made any determination of the effect on recruitment or retention impossible, and the Army said it proposed to cease eligibility for payment from 1 April 2019. We support this proposal.
- 3.63 Aircraft Ground Engineers (AGEs) travel with the platform and provide highly technical engineering support to optimise operational availability at deployed locations with a very small engineering footprint. They have significantly higher skills compared to their aircraft technician peers and are specially trained and authorised to undertake maintenance tasks outside their core trade. AGEs are manned on a volunteer basis: manning is currently at 88 per cent, but is expected to worsen over the next four years, partly due to a spike in VO rates of 9 per cent at chief tech and sergeant ranks. MOD said there was an ongoing requirement to pay RRP(FC) for AGEs, and that the recruitment and retention issues affecting the cohort should be considered as part of DERR: we concur and look forward to firm proposals in the near future.
- 3.64 MOD said that RRP(FC) supports the recruitment of the required calibre of 1AMW and MOD A Block personnel from within the Logs (Mov) trade. In the light of healthy manning figures, MOD proposed removing RRP(FC) from the Basic Movement Trained SAC (an entrant direct from Phase 2 training) but retaining RRP(FC) for the Further Movements Trained SAC to pull Service personnel through training. It said that transitional arrangements would be put in place arising from the removal of RRP(FC) for Basic Movement Trained SAC. On the basis of the evidence, we agree with MOD's proposals.
- 3.65 RAF Cabin Crew's primary role is passenger safety, and they are directly responsible for first aid, emergency evacuation, passenger welfare and all emergency equipment checks. Among other tasks, they are also responsible for the distribution of food and beverages to aircraft crew and passengers. MOD said that RRP(FC) is an important element to ameliorate the high tempo, lack of domestic stability, sporadic and long working hours and regular short notice call outs. It proposed that existing arrangements for the payment of RRP(FC) for Cabin Crew should remain in place and we recommend accordingly.

- 3.66 Manning is an issue for Intelligence Analyst Linguists with strength at just 65.7 per cent of liability, reflecting an acknowledged Defence-wide shortage of linguists. MOD said that this cadre should continue to receive RRP(FC) to aid recruitment and retention: we agree.
- 3.67 Manning within the Joint Helicopter Support Squadron (JHSS) is strong, and VO rates are low. MOD said that given the requirement to attract and retain quality individuals in a demanding role, RRP(FC) should be retained in its current form, paid on a CTB. The current annual spend on RRP(FC) was just £5,000; MOD said this was a small sum, given the risks to morale and retention. We support this view.
- 3.68 MOD proposed a freeze for RRP(FC). The majority of the groups in receipt of RRP(FC) are manned in excess of 95 per cent. Of those groups that are not: AAC Aviation Aircrew are transferring to RRP (Flying); AGEs will benefit hopefully from the outcomes of the DERR; and Intelligence Analyst Linguists only receive RRP(FC) on a NCB. We therefore agree with the proposal to freeze RRP(FC) this year, but MOD needs to consider what action is appropriate to address the shortage of linguists; in our view, part of the problem relates to the training pipeline – MOD said that at best, the training pipeline only allowed a maximum take-up of five linguists, and current manning is only at 65.7 per cent. We comment further on training pipelines in Chapter 7.
- 3.69 Finally, MOD proposed that payments of RRP(FC) to personnel not specifically detailed within JSP 754 should be justified by a full Paper of Evidence, and subsequently authorised by single Service Pay Colonels; with the current dispensation for unit level authorisation removed from 1 April 2019. This would appear to us to be an internal decision for MOD.

RRP (Hydrographic)

- 3.70 RRP(H) is paid to OFs in the RN Warfare Branch's Hydrographic and Meteorology specialisation, and to ORs in the Survey Recorder specialisation. Currently there are six levels of RRP(H):
- on completion of Initial Hydrographic Training, £1.92 per day;
 - on promotion to Leading Hand, £3.84 per day;
 - Surveyor 2nd Class, on promotion to Petty Officer or attainment of NVQ3 (whichever is sooner), £5.75 per day;
 - on promotion to Chief Petty Officer or attainment of NVQ4 (whichever is sooner), £10.51 per day;
 - Surveyor 1st Class, £12.73 per day; and
 - on attaining Charge qualification, £14.02 per day.
- 3.71 MOD said that OR4 Hydrography and Meteorology (Hydrography) (HM(H)) is an Operational Pinch Point, and that OF4 Hydrography and Meteorology (HM) is a Critical Manning Group due to the failure to achieve the promotion target in 2016, and will have a 30 per cent shortfall in 2018. It said that non-HM Commanding OFs are being utilised to command Survey Vessel Hydrographic Operations due to a shortfall of OF4 HM which is creating a lack of experienced officers at the highest levels of the Branch. OR2 and OR4 HM(H) currently have high VO application rates of 12 and 19.2 per cent respectively.
- 3.72 MOD asked us to agree that:
- RRP(H) be retained;

- RRP(H) be re-profiled as follows:
 - an increase to daily rates for pay bands 1, 2, 3, 5 and 6;
 - OF Surveyor 2nd Class to be reduced from Level 3 to Level 2;
 - OF Surveyor 1st Class to be reduced from Level 5 to Level 4;
 - OF Hydrographic Charge to be reduced from Level 6 to Level 5;
 - Hydrographic Charge to be combined with Command Qualification Two (CQ2) for Level 6.
- Changes would be implemented on 1 April 2019, and OF changes would be applied to newly qualified OF only, with legacy protection for all currently qualified OF.

3.73 As already outlined, RRP(H) is currently paid to 169 Service personnel, with annual costs of £0.519m. It is paid to all qualified SP up to OF4 on a CCB, and to OF5 on a NCB. There are six different daily rates, ranging from £1.92 on completion of Initial Hydrographic Training, to £14.02 on attaining Charge qualification (HCh). In summary, **ORs** are in manning balance, but there are deficits at OR4 and OR6 level. Recovery via the surplus at OR2 is being undermined by VO rates. MOD's proposals included increasing RRP(H) levels 1 – 3 to increase retention at OR2 and OR4, and incentivise pull through to OR4 and OR6. It said that retention is not a problem at OR7 and above. Similarly, **OF** manning is in balance, but there are deficits at OF4 and OF5. MOD proposed restructuring RRP(H) by making level 6 contingent on attaining both HCh and Major Warship Command Qualified (CQ2) status. To create headroom for this new level 6, it proposed reductions for H2, H1 and HCh. Given the risk to retention, MOD also proposed legacy protection for all currently qualified OFs – any OF changes would only apply to newly qualified OFs.

3.74 We met with this cadre during our visit programme. We found that whilst staffing levels were not thought to be critical, there were issues with retention generally (the pull of the oil and gas sector was highlighted) and retaining more experienced Service personnel. Hydrographic Service personnel said that consideration of their RRP should be determined by looking at just hydrographic staff, rather than combined with SP working in Meteorology: it was the job evaluation of both groups together that had resulted in the Pay16 outcome (supplement 1), and was felt unfair by both hydrographers and meteorologists. Hydrographic Service personnel had only limited opportunities to develop their surveying skills: this affected promotion opportunities; and in turn, the level of RRP they received.

3.75 During oral evidence, we raised the issue of hydrographers and meteorologists being considered together as part of the Pay16 job evaluation process. The Royal Navy's view was that job evaluation scores were only part of the process for determining pay supplements: the Royal Navy supported a Branch-wide review of its hydrographic and meteorologist Service personnel. On balance, we are content to support the proposals for restructuring RRP(H), and welcome the fact that it is targeting particular recruitment and retention points.

RRP (Parachute)

3.76 RRP (Parachute) (P) is paid to qualified military parachutists occupying a tagged post at a rate of £5.75 per day. An enhanced rate is paid to those in Pathfinder Platoon: RRP (High Altitude Parachute) of £10.84 per day.

3.77 Military parachutists are required to deliver Defence mandated capabilities, including support to United Kingdom Special Forces, the Air Assault Task Force and discrete, specialist capabilities in the Royal Navy and RAF. Across Defence, parachute unit manning is currently healthy, but there have been early warning indicators of increased fragility within elements of the parachuting cohort: in the last twelve months, the VO

rate has doubled and trebled within the two Parachute Regiment battalions in 16 Air Assault Brigade. MOD said that RRP(P) remains a significant factor in sustaining high Manning levels in these demanding, arduous and specialist capabilities. At current rates, RRP(P) accounts for 11 per cent of junior soldiers' pay whilst they remain a qualified and current parachutist in a parachute post. MOD said that evidence from a recent Army Management Consultancy Service study emphasises that further erosion of the terms and conditions of service and/or the remuneration package risks significantly damaging recruitment and retention. It said that a current lack of resources to enable parachute training has created a backlog of ab-initio parachutists awaiting initial training. MOD said that Defence has also been forced to take risk on achieving collective training competence for those at the highest levels of readiness and that the retention of the current trained cohort is therefore essential to sustain Defence mandated outputs.

3.78 MOD asked us to agree that:

- given current Manning, RRP(P) and RRP(High Altitude Para) is frozen at current rates as of 1 April 2018, generating in year savings of c.£58k; and
- the impact of the RRP freeze on Manning and VO should be reviewed during Pay Round 20 to decide the appropriate approach for this unique group, to be actioned from 1 April 2020.

3.79 We met with Service personnel in receipt of RRP(P) during our visit programme. Issues raised included: concern that the payment could be removed; the lack of opportunities for Service personnel to undertake jumps, thereby losing their 'currency' and eligibility for the RRP; that without the RRP, many said they would be unwilling to risk their safety and future career by jumping; and that the Parachute Regiment were an important feeder group for Special Forces.

3.80 We were informed that MOD had changed the policy related to the payment of RRP(P) so that it was dependent on qualification and Service personnel being in a 'tagged' post for parachuting, rather than the current arrangement for maintaining currency. This proposal received support during our visits, and we agree that the previous arrangement was unfair in that it would mean the removal of RRP(P) through no fault of the individual, as a result of MOD being unable to provide access to sufficient jumps to maintain eligibility. It does however raise a concern about MOD ensuring that Service personnel are provided with sufficient access to training and regular jumps to keep their skills current where parachuting is a requirement.

3.81 Defence parachuting posts are currently manned at 96 per cent, but the number of qualified parachutists remains well below the operational requirement due to insufficient aircraft availability. Given the staffing evidence, we agree to support MOD's proposal to freeze both RRP (Parachute) and RRP (High Altitude Parachute) at current rates; and its proposals to consider in the future whether a phased exit strategy (or indeed a continuing freeze or an increase) is warranted, based on Manning and VO rates. The situation needs careful monitoring.

RRPs and Pay16

3.82 In our last report, we noted that the introduction of Pay16 will have changed the through career pay expectations for Service personnel in a number of groups in receipt of RRP. We said that it would be important to ensure that the way in which RRP are paid remains appropriate given these revised expectations of base pay, and therefore asked MOD to provide its detailed consideration of how they will review RRP to ensure they remain appropriate in relation to Pay16.

3.83 In evidence this year, MOD told us that Pay16 had rebalanced pay resources to provide a simpler and more efficient core pay model which targets specific trades better in terms of appropriate remuneration to aid recruitment and retention. It said that Pay16 was also, by design, cost neutral overall for core pay, but had increased the earning potential for the majority of Service personnel currently in receipt of RRP. MOD judged that it does not make sense to change RRP levels as a result of Pay16's introduction; it also judged that RRP continues to be a useful remuneration lever and method of payment to recruit and retain sufficient numbers into the roles required to deliver these important defence outputs. MOD therefore proposed that RRP should stay the same for now in relation to Service personnel's new earnings under Pay16, and that the reviews of RRP should continue in the normal way. We agree with these proposals: it seems sensible and pragmatic to retain the existing RRP structure in the context of Pay16 and to consider the case for adjusting specific RRP using our normal review cycle.

Recommendation 3: We recommend that (from 1 April 2018 unless otherwise stated):

- RRP (Mountain Leaders) remain at current rates;
- RRP (Parachute Jumping Instructors) remain at current rates;
- RRP (Flying Crew) (RRP(FC))
 - RRP(FC) remain at current rates;
 - Royal Navy Flying Maintainers continue to be eligible for RRP(FC) on a Non-Continuous Basis (NCB);
 - There is an enduring requirement to pay RRP(FC) to RN Flight Winch-men on a NCB under existing arrangements;
 - RRP(FC) should be re-profiled for RLC Air Despatchers under existing NCB arrangements, focusing the payment on the retention of more experienced personnel;
 - AAC Aviation Crew transfer to RRP (Flying) Non-Commissioned Aircrew with effect from 1 April 2018;
 - There is no ongoing requirement to pay RRP(FC) to REME Aircraft Technicians;
 - There is an ongoing requirement to pay RRP(FC) to RAF Aircraft Ground Engineers; however, the recruitment and retention issues affecting the cohort should be considered as part of the Defence Engineering Remuneration Review and single Service work to improve retention within engineering cadres;
 - There is an ongoing requirement to pay RRP(FC) on a NCB for Suitably Qualified and Experienced Personnel working as RAF Air Mobility Movers within No 1 Mobility Wing; however, it is not necessary to pay new entrants at the base level;
 - RRP(FC) remains an essential incentive for RAF Cabin Crew and they should remain eligible for it under existing arrangements;
 - RRP(FC) should be maintained for RAF Intelligence Analyst Linguists (TG11) assigned to essential operational flying duties on the Rivet Joint aircraft on a NCB;
 - Joint Helicopter Support Squadron personnel employed in Helicopter Handling posts continue to receive RRP(FC) on a Completion of Task Basis;

- **RRP (Hydrographic) (RRP(H))**
 - RRP(H) be retained and re-profiled as follows:
 - An increase to daily rates for pay bands 1, 2, 3, 5 and 6;
 - OF Surveyor 2nd Class (H2) to be reduced from Level 3 to Level 2;
 - OF Surveyor 1st Class (H1) to be reduced from Level 5 to Level 4;
 - OF Hydrographic (HCh) to be reduced from Level 6 to Level 5;
 - HCh to be combined with Command Qualification Two (CQ2) for Level 6;
 - Changes to RRP(H) to be implemented on 1 April 2019, and OF changes will be applied to newly qualified OF only, with legacy protection for all currently qualified OF;
- RRP (Parachute) and RRP (High Altitude Parachute) to remain at current rates, with the impact on manning and Voluntary Outflow of holding the rates to be reviewed during PR20 to decide the appropriate way forward.
- RRP (Special Forces) remain at current rates.
- Other RRP rates to be increased by 2.9 per cent.
- The system of RRP should stay in place for now following the introduction of Pay16; and quinquennial review RRP papers should be considered in the normal way.
- Full reviews of RRP (Diving); RRP (Explosive Ordnance Disposal); and RRP (Special Forces Communication) to be conducted next year.

Mine Counter Measures Vessels Environmental Allowance

- 3.84 In our 2015 Report, we recommended the introduction of a Mine Counter Measures Vessels (MCMV) Environmental Allowance (MEA). This was intended to compensate for the particularly arduous conditions and poor quality of life in MCMVs, and was designed to mitigate retention challenges within the MCMV community. The MEA rate was based on the Unpleasant Living Allowance, currently £3.49 per day.
- 3.85 MOD said that Mine Warfare ships continue to provide a vital and unique capability that is essential to UK security and reinforces our alliance with the USA and NATO as well as regional security and stability to strategically important areas such as the Middle East. It said that it required the constant maintenance of the capability as well as geographical currency. MOD said that MEA has provided important recognition of the arduous environment experienced by all ranks in MCMVs, but that the existing generic approach of a common rate for all ranks fails to fully recognise and compensate Junior Ratings for the particularly challenging and environmental issues they face on board MCMVs, vessels designed originally to operate in more temperate waters.
- 3.86 MOD asked us to agree to the continued payment of MEA for personnel assigned to a qualifying MCMV, and given the particularly poor quality of life on board for the most junior members of the crews, an additional (higher) value tier should be introduced for Junior Ratings of £5 per day.
- 3.87 We welcome this proposal from MOD. It was clear from our visit programme that Junior Ratings thought it unfair that their rate of the MEA was the same as that for more senior personnel, even though their own living conditions on board were worse. We are therefore content to endorse the continued payment of the MEA (uplifted in line with our main pay award), along with the introduction of a new higher rate for

Junior Ratings of £5. In evidence, MOD told us that it would not be possible for reasons relating to JPA to introduce the new higher tier until December 2018, and even then that would require work beginning in December 2017. We consider this unacceptable: our recommendations are intended to be implemented with effect from 1 April 2018. **If necessary, MOD should ensure our recommendations are backdated.** We wish to monitor the effectiveness of the changes to MEA and ask that it be reviewed again in our 2020 Report.

Recommendation 4: We recommend with effect from 1 April 2018 the continued payment of the Mine Counter Measure Vessels (MCMV) Environmental Allowance (MEA) for personnel assigned to a qualifying MCMV, uplifted in line with our main pay award; and that given the particularly poor living conditions on board for the most junior members of the crews, an additional (higher) value tier should be introduced for Junior Ratings at £5.00 per day.

Officers Commissioned From the Ranks

- 3.88 Officers are recruited via two distinct routes, either as Direct Entrants from civilian life or indirectly via the Other Ranks. Officers Commissioned from the Ranks (OCFR) will have been invited to apply for a commission within their Service based on the experience they have gained, high levels of performance and proven leadership potential. OCFRs are largely recruited from those Service personnel above the age of 26 having usually attained the rank of at least Sergeant or equivalent. OCFRs bring unique experience and knowledge to the Officer corps, and are considered to be a valuable group who represent a major saving of training resources. Many, having undergone a strenuous selection process, achieve commissioned rank towards the end of their OR career engagement, particularly in the Army. For all in this group, the award of a commission is not continuance of OR service, but a second career under new terms and conditions of service. The current pay spine for OCFRs consists of 15 levels and can be seen in Appendix 1.
- 3.89 MOD said there remains a clear requirement for continued recruitment and retention of experienced personnel from ORs into the Officer corps to meet the specific manning needs of each Service. It said that the Pay16 changes to the OCFR feeder pay spines, and in particular resulting changes to OR9s' remuneration levels, serve to increase the likelihood that the most experienced ORs accepting eligible commissions will top out on the OCFRs' pay spine prior to promoting to OF3 or retiring. However, MOD said the effect on recruitment and retention is believed to be manageable.
- 3.90 MOD proposed the continuation of the bespoke pay spine in its current form and value for the main OCFR cohorts, and similarly for the equivalent bespoke pay spines for analogous groups in the Special Forces and the Royal Gibraltar Regiment. It proposed continuation of the established practice of applying our annual pay awards equally to the OCFR pay spines to ensure that they continue to act as an effective bridge between ORs' and Officers' pay spines.
- 3.91 During our visit programme, we received suggestions that the bottom increments of the OCFR scale be removed, but MOD told us that all scale points were used, by some Services more than others. Suggestions to increase the number of scale points would also be counter to the general policy of shorter pay scales, as per Pay16. Whilst the original evidence suggested a deficit in the number of Army Late Entry commissions, the latest data showed that in 2017-18, 290 individuals were awarded a Late Entry commission against a target of 296. In addition, the rate of VO is the lowest of all cohorts, currently 3.6 per cent, compared to 4.9 per cent for Direct Entry officers and 6.4 per cent for Other Ranks. We are therefore content to endorse the proposals for the continuation of

the bespoke pay spine in its current form for the main OCFR cohorts, the equivalent pay spines for analogous groups in the Special Forces and the Royal Gibraltar Regiment, and the application of our main pay award to the OCFR pay spines to ensure there continues to be an effective bridge between ORs' and Officers' pay spines.

- 3.92 MOD said that the longer-term maintenance of sufficient OCFR numbers will be influenced by any new remuneration package offered as part of the New Joiner Offer (NJO), particularly if eventually it was decided that those ending an OR career and beginning a new one are required to transition onto NJO terms and conditions of service. Whilst this is a policy matter for MOD to consider, we are very concerned about the potential impact to recruitment, retention and motivation that could arise from such a move. We expect to be kept informed of future developments.

Recommendation 5: We recommend the continuation of: the bespoke pay spine for the main Officers Commissioned From the Ranks (OCFR) cohorts; the equivalent bespoke pay spines for analogous groups in the Special Forces and the Royal Gibraltar Regiment; and the established practice of applying our annual pay awards equally to the OCFR pay spines to ensure that there continues to be an effective bridge between ORs' and Officers' pay spines.

Recruitment and Retention Allowance (London)

- 3.93 The intent of Recruitment and Retention Allowance (London) (RRA(L)) is to counter reluctance to serve in designated London locations by contributing to the higher costs encountered during an assignment to the capital and by compensating for the reduced quality of the infrastructure supporting both the living and working environment. RRA(L) also recognises the stress of commuting, the higher cost of food and beverages in Inner London, the lack of Service sporting, recreation facilities or a Service Mess, and extra travelling time to and from medical and dental appointments. It is paid to those serving at least six months in a location within five miles of Charing Cross, or at either Cavalry Barracks (Hounslow) or Woolwich Garrison and is currently valued at £4.04 per day. It was originally paid to those at OF6 (Brigadier) and below, but removed for those personnel above OR4 (Corporal) from April 2012.
- 3.94 In its evidence to us, MOD acknowledged the higher cost of goods and services in London. However, it argued that the additional costs of accommodation should not be a factor, since Single Living Accommodation (SLA) charges are calculated across the Defence estate and are not subject to regional variations. It also argued that transport costs should not be part of RRA(L) since additional transport costs for those living in Service Family Accommodation and Substitute Service Single Accommodation who need to commute to work are contributed to by the Home to Duty Allowance.
- 3.95 MOD referred to the Minimum Income Standard (MIS) for London (published by Trust For London) and for the UK (published by the Joseph Rowntree Foundation). It said that once accommodation and transport costs were removed, the annual MIS for London was £18,192.60 (gross income): it said that the basic (gross) pay of the most junior Service personnel working in London is £18,489, so higher than the MIS for London.
- 3.96 With regard to countering reluctance to serve in London, MOD said this could be a factor for Foot Guards employed primarily on State Ceremonial and Public Duties (SCPD). It said that further detailed work needs to be undertaken by the Army to fully understand the perceived greater levels of dissatisfaction amongst those employed on SCPD and the impact this is believed to have on manning levels. This would enable MOD to come to a view as the validity (or not) of an allowance for the specific circumstances experienced by those undertaking SCPD in London.

- 3.97 In relation to the reduced quality of the supporting infrastructure, MOD said that accommodation in London was broadly commensurate with other SLA/SFA across the Defence estate. Whilst it thought that the evidence on Service sporting and recreational facilities supports the continuation of this factor for those in Inner London (due to the limited facilities), it said that some other MOD locations in the UK had similarly restricted facilities. It also noted that the majority of Service personnel in Inner London do not have access to their own Mess/Junior Ranks facilities, but again this situation was similar to some other UK locations. In relation to the stress of commuting, MOD said that specific consideration should be given for those undertaking SCPD. However, it no longer considered it appropriate to take account of the longer travelling time to medical and dental appointments, noting access to facilities in Westminster and Wellington Barracks.
- 3.98 MOD concluded that many of the original factors that supported the payment of RRA(L) were no longer supported by evidence and invited us to endorse the removal of RRA(L). It proposed transitional arrangements for those currently in receipt of RRA(L): a freeze in the rate for 2018-19; a reduction in the rate to 50 per cent for 2019-20; and cessation of the payment on 31 March 2020. During this transition period, the Army would be invited to come forward with its considered proposals for an alternative allowance to compensate for the specific circumstances experienced by those undertaking SCPD in London.
- 3.99 We had several issues with the proposals from MOD on this allowance. MOD's arguments relied heavily on its analysis of MIS, which is not recognised by the Office of National Statistics. The proposals would clearly have most effect on the more junior and lower paid members of our remit group serving in London, and in our view would have a negative effect on their finances and their morale. We are not aware of any general trend amongst other employers for the removal of London weighting payments for their equivalent staff. Crucially, MOD asked for our approval for the removal of RRA(L) without any accompanying proposals for the introduction of the alternative allowance for those undertaking SCPD in London. We are therefore not prepared to endorse the proposals to end the payment of RRA(L), or its freezing for 2018-19, or its phasing out over the period to 31 March 2020. MOD may wish to come forward with proposals for our further consideration in the next round, including costed proposals for the introduction of an alternative SCPD allowance.

Recommendation 6: We recommend that Recruitment and Retention Allowance (London) be increased by 2.9 per cent with effect from 1 April 2018.

Unpleasant Work Allowance

- 3.100 We carried out our five-yearly review of Unpleasant Work Allowance (UWA). UWA is designed to compensate Service personnel for operating in conditions involving an exceptional degree of discomfort or fatigue, or exposure to noxious substances beyond that compensated for by X-Factor. Similarly, it is paid for a range of activities that Service personnel may be expected to undertake which fall outside their normal range of military duties and are considered to be of an objectionable, or harrowing, nature. Currently there are three levels of UWA: Level 1 is £2.65 per day; Level 2 is £6.45 per day; and Level 3 is £19.09 per day.
- 3.101 In its written evidence, MOD said that UWA continued to provide a fully harmonised tri-Service compensatory allowance for personnel operating in conditions described in the previous paragraph and asked us to agree to the retention of UWA, to the maintenance of the three previously defined daily rates, and uplift the rates of UWA in line with the annual pay award.

3.102 Our impression from visits was that Service personnel were generally content with the current arrangements of UWA. It appears to us to meet its intended purpose. We are content to endorse MOD's proposals on UWA.

Recommendation 7: We recommend the retention of Unpleasant Working Allowance, with the three Daily Rates to be increased by 2.9 per cent with effect from 1 April 2018. The recommended rates are in Appendix 2.

Rates of Compensatory Allowances

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

Recommendation 8: We recommend that all rates of compensatory allowance not reviewed separately, and the Reserves' Bounties, be increased by 2.9 per cent with effect from 1 April 2018. The recommended rates are in Appendix 2.

Financial Incentives considered outside our usual timetable

3.104 In March 2017, we endorsed the following proposals for Financial Incentives for Army Reserves:

- an extension to the current Reservist Enlistment Payment until March 2020, to be paid at the current rate of £300 to Gp A soldiers to incentivise completion of the recruitment process;
- an extension of the Reservist Training Completion Bonus paid to Army Reserve recruits who complete training before 31 March 2020: £1,000 when they complete Phase 1 training; and £1,000 when they complete Phase 2 training; and
- a refined Reserve Commitment Bonus Scheme from 1 April 2017 until 31 March 2020 with a payment profile of staggered payments out to 31 March 2024 for: Direct Entry Army Reserve Group A Junior Officers; Ex-Regular Direct Entry Junior Officers; and Ex-Regular Soldiers (ORs).

3.105 We also considered a Financial Incentive for Royal Signals Communications System Engineers and Communication System Operators, consisting of a Golden Hello to improve recruiting for Royal Signals Communication System trades with a one off payment of £5,000 which incurred a standing Return of Service of four years from the completion of Phase 2 training. We were content to support this proposal but have noted that the Financial Incentive is only scheduled to run until 31 March 2019 or until annual Phase 2 output reaches 95 per cent, whichever is sooner. In our view, the Golden Hello should remain in place until the 95 per cent target is achieved regardless of the date: we recognise that this may result in MOD coming back to us to renew the Financial Incentive in due course.

3.106 We also considered in February 2018 two Financial Incentives put forward by the Army as part of the DERR. Our approval of those proposals is recorded earlier in this chapter.

Pay16

3.107 As noted in our earlier reports, MOD has introduced a New Employment Model pay structure known as Pay16 on 1 April 2016. 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.

- 3.108 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. Management discretion was also used on a limited basis in the allocation to supplements.
- 3.109 In evidence to us this year, MOD said Pay16 provided a more efficient and transparent core pay model. 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 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. We commented in our last report that we support ongoing pay protection for those Service personnel that have transitioned to Pay16 and we note that the number in receipt of pay protection continues to decline. We subsequently learned that agreement had been reached that Pay16 pay protection would continue until 31 March 2024. MOD has asked us to give further consideration to the specific issue of those Service personnel in receipt of Specially Determined Rates of Pay (when certain individuals transitioned from Pay 2000 at a pay value higher than the highest increment in Pay16 for their rank and supplement). As such, the MOD will submit evidence for the next pay round to allow us to ensure that we deal fairly with this group.
- 3.110 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, if required, there is a process to review individual trades and make any necessary adjustments outside the prescribed timescale. However, any resultant pay bill costs would need to be considered and prioritised alongside other competing financial pressures. Our last review of the JSJET process confirmed that it was a robust and equitable system of job evaluation. In our view, it serves the Armed Forces well as part of its programme of pay modernisation.
- 3.111 As last year, our 2017 visit programme once again found Pay16 as one of the main issues raised by Service personnel. We heard about the perceived disincentive to promote (a combination of pay protection arrangements, standstill rates of pay in year two following promotion, and not seeing an increase in pay commensurate with the additional responsibility), and concern about what would happen after the initial three years of pay protection. We continued to hear from a minority of Service personnel that the allocation of trades to supplements led to a strong sense of feeling undervalued, either compared to other trades within their Service, or in relation to equivalent trades

in other parts of the Armed Forces. A common view from Service personnel was that not everyone had been adequately briefed on the job evaluation process or the rationale for decisions on their trade placements.

3.112 In our last report, we commented on the importance of continuing communication. It is vital to the acceptance of Pay16 that all Service personnel understand the new pay structure and its implications for both the short and long term. Senior management must take ownership of Pay16 decisions and provide an effective communication mechanism that engages and utilises the full chain of command to comprehensively brief Service personnel. Such communications should be proactive rather than simply reactive. As we noted last year, there could be nuanced reasons along with management discretion as to why trades had been placed within particular supplements, and we can appreciate some 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. As the programme of ongoing reviews of all trade supplements continues, it 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 will continue to monitor the effectiveness of such communication on our future visit programmes.

Payment of professional body fees

3.113 In our last report, we voiced our support for the reimbursement of professional body fees (PBFs) where those PBFs are an essential requirement for carrying out Service duties and said that MOD should implement a mechanism to enable the reimbursement of PBFs for all cohorts where membership of a professional body is considered appropriate given the nature of their role. In evidence this year, MOD confirmed that a governance process for PBFs had now been implemented for those groups not on bespoke pay spines. Reimbursement of PBFs is not therefore automatic. The first business case, for farriers, was under consideration. We subsequently learned that approval for the reimbursement of farriers' PBFs had been agreed.

Chapter 4

SERVICE MEDICAL AND DENTAL OFFICERS

We recommend from 1 April 2018:

- A 2.9 per cent increase in base pay for all ranks within the Medical and Dental Officer cadre.
- A 2.9 per cent increase in General Medical Practitioner (GMP) and General Dental Practitioner (GDP) Trainer Pay and Associate Trainer Pay.
- A 2.9 per cent increase in the value of military Clinical Excellence Awards (CEAs) and legacy Distinction Awards.

We recommend that Defence Medical Services, the British Medical Association and the British Dental Association:

- Identify the specific staff groups within the NHS with which they propose Medical Officers and Dental Officers (MODOs) should be compared; and
- Come forward with proposals for a new methodology to adjust for the difference between the NHS and MODO pension schemes.

Introduction

- 4.1 This chapter sets out the evidence we received and our recommendations for MODOs' pay from 1 April 2018. As indicated in the Supplement to our 46th Report 2017, we are including our consideration of Service MODOs within our main report as we consider it important that they are considered as part of the overall remit group. Our recommendations aim to maintain broad pay comparability with National Health Service (NHS) doctors and dentists to allow Defence Medical Services (DMS) to recruit, retain and motivate suitably qualified personnel.
- 4.2 In its evidence, MOD proposed that MODO pay spines be uplifted in line with the recommendations of the main Armed Forces' remit group. In addition to considering evidence from MOD, the British Medical Association (BMA) and the British Dental Association (BDA), and gathering our own evidence directly from the remit group on visits, we also take into account the deliberations of NHS doctors' and dentists' pay by the Review Body on Doctors' and Dentists' Remuneration (DDRB). However, because of delays in the submission of evidence to DDRB for the current pay round, it is operating to a later timetable: consequently, we will have to take due account of their pay recommendations (and the government's response) at a later date. We have noted from the written evidence submitted to DDRB by the Department of Health and Social Care that no specific pay proposal was made for hospital doctors. Similarly, the written evidence from NHS England made no specific pay proposals for GMPs or GDPs.

Background

DMS developments

- 4.3 As a result of bringing our consideration of MODOs forward into our main report, MOD told us that it had limited additional evidence to report to us since their submission for our 2017 Supplementary Report. It did, however, note that it was closely engaged with the BMA and BDA in establishing the initial stages of a pay comparability exercise to inform our next pay round. We return to this topic later in this chapter.

NHS developments

- 4.4 We keep up-to-date with developments in the NHS relevant to DMS to assist in our assessment of broad pay comparability. We note that:
- Last year all countries in the UK accepted DDRB's recommendations for a base increase of one per cent to the national pay scales for salaried doctors and dentists and a one per cent increase in pay, net of expenses, for independent contractor GMPs and GDPs for 2017-18.
 - In England, the phased introduction of the new junior doctors' contract that began in October 2016 is now complete.
 - Negotiations (that began in 2013) on changes to consultants' contracts in England and Northern Ireland were still continuing at the time of finalising this report.
 - Pilot schemes are underway in England and Wales for new contractual arrangements for dentists to be paid on a part capitation, part activity basis.
 - In Scotland, agreement was reached on new contractual arrangements for GMPs, with implementation due to begin in April 2018.
 - The BMA and the BDA both reported low levels of morale affecting their members mainly due to workload pressures.

Our 2018 recommendations

- 4.5 At the start of this round, we confirmed that we would take account of all the evidence we received, including that on recruitment and retention, motivation and morale, pay comparability, affordability, and the wider economy, adhering to our terms of reference when considering our recommendations. We have continued to keep in mind the particular risks to retention as changes under Defence Medical Services 2020 (DMS20) are implemented and wider changes to Defence take effect. We have also kept abreast of developments in the NHS, as these could have a significant knock-on effect on the recruitment and retention of MODOs.

Our evidence base

- 4.6 We considered evidence from a range of sources including:
- the Government's evidence on its public sector pay policy and the overall economic context, as submitted to all Pay Review Bodies;
 - the Government's response to DDRB recommendations on NHS doctors' and dentists' pay in its 2017 Report;
 - MOD's written evidence on MODOs, covering staffing, recruitment, retention and the Defence Medical Services Continuous Attitude Survey (DMSCAS);
 - written evidence from the BMA and the BDA;
 - oral evidence from the acting Surgeon General (SG) and his team, and from the BMA and BDA Armed Forces' Committees;
 - research into MODO and NHS pay comparisons undertaken by the Office of Manpower Economics; and
 - our discussions with Regular and Reserve MODOs on our visits during 2017, in the UK and abroad.
- 4.7 Our visits enable us to meet MODOs and hear their views on issues specific to the DMS and on those applying more widely across the Armed Forces. As ever, we are grateful to those who participated in our visits and appreciate the work of MOD and the Services

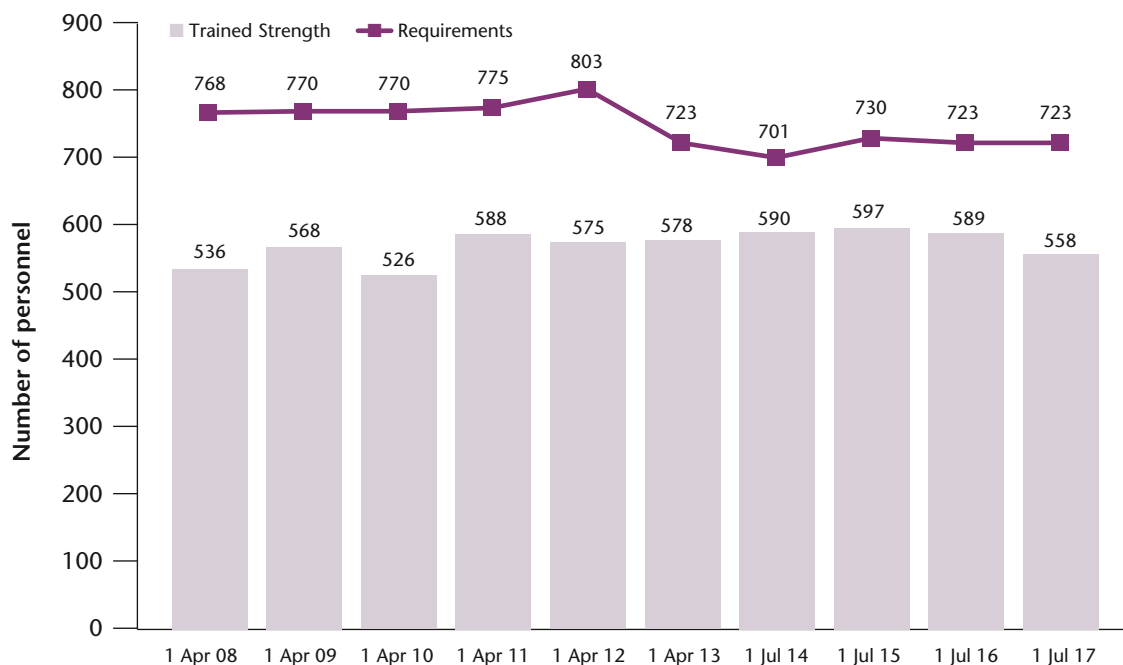
in arranging them. In 2017 we visited the Institute of Naval Medicine, Gosport and 256 Field Hospital, London. We also met DMS Regular and Reserve personnel as part of our visits to other establishments in the UK and abroad. Several issues were raised by MODOs including: workload and tempo, short notice of deployments, the pay of Reserves compared to Regulars, and the low morale of dentists.

Staffing

4.8 The DMS20 requirement was for 880 trained MODOs at July 2017. The charts below show the changes in the requirements and staffing levels of MOs and DOs over the last decade. At 1 July 2017 there were:

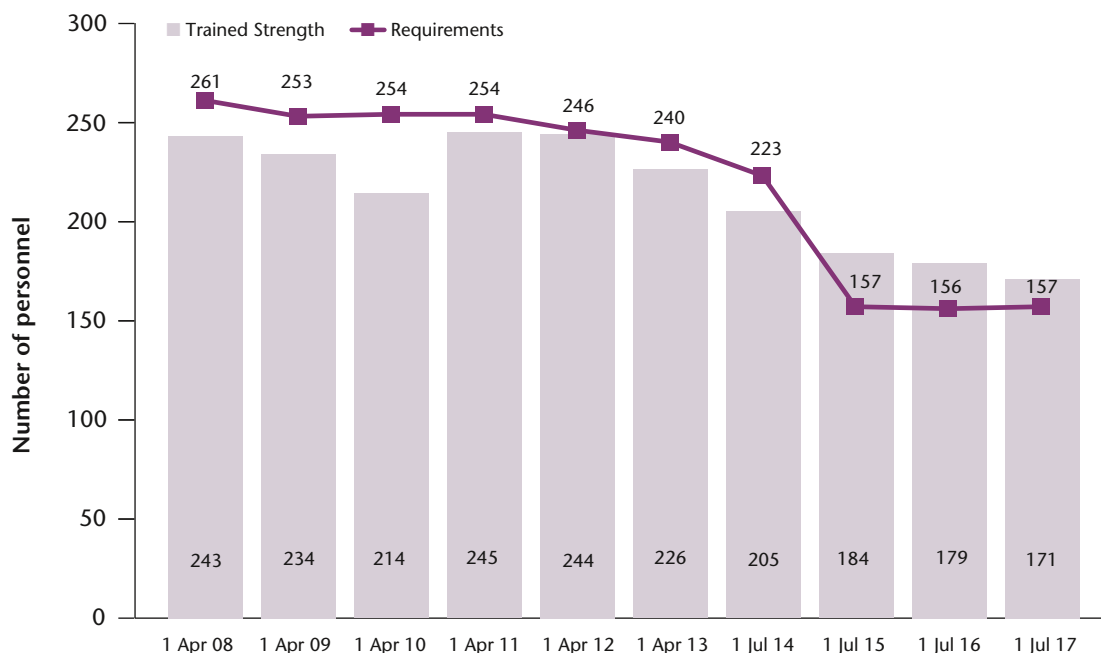
- 558 trained MOs, a deficit of 23 per cent against the DMS20 requirement of 723.
- Of this 723, there was a DMS20 requirement of 328 GMPs but the current trained strength was 271, a shortfall of 17 per cent. Consultants made up the remaining requirement of 395 MOs, but the current trained strength was 287, a shortfall of 27 per cent.
- 694 MOs in training, including:
 - 140 General Duties Medical Officers;
 - 341 MOs undertaking Core or Higher Specialist Training;
 - 112 Foundation Year MOs; and
 - 101 Medical Bursars enrolled as undergraduate medical students.
- 171 trained DOs, 109 per cent of the DMS20 requirement of 157.

Chart 4.1: Strength and deficit/surplus of Medical Officers 2008 – 2017^a



^a The requirement for 2015 onwards relates to DMS20, for previous years it is the requirement for that particular year.

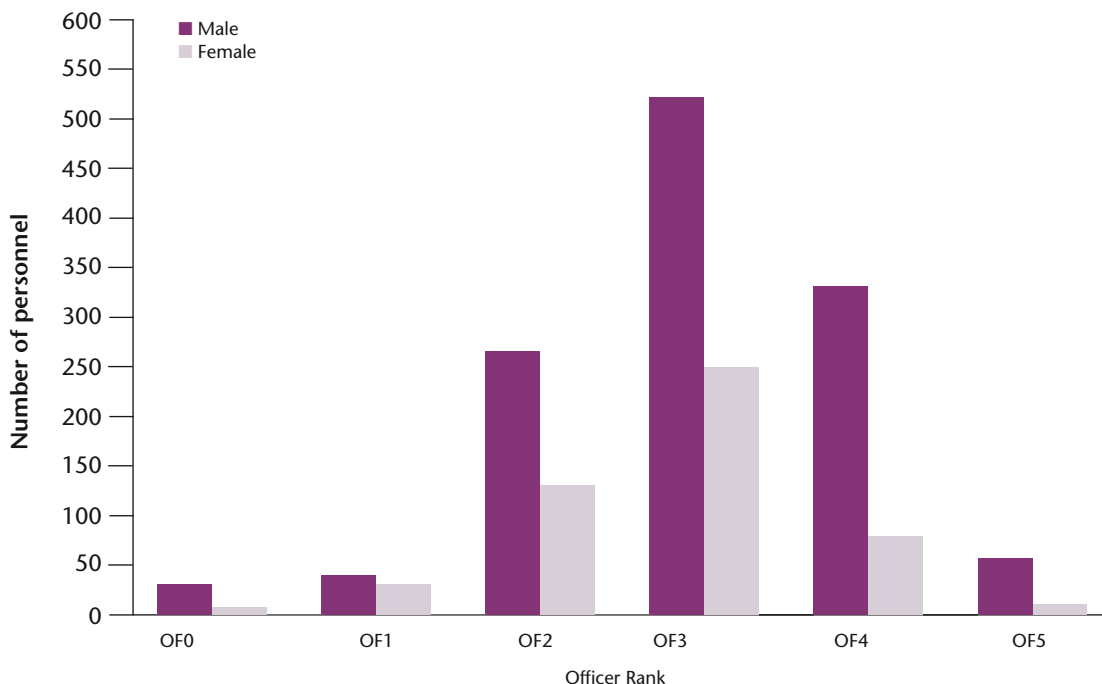
Chart 4.2: Strength and deficit/surplus of Dental Officers 2008 – 2017^a



^a The requirement for 2015 onwards relates to DMS20, for previous years it is the requirement for that particular year.

- 4.9 MOD provided evidence on the age, gender and rank profiles of MODOs at 1 April 2017. The proportion of women was 28 per cent, a significant reduction from 35 per cent in 2016. Gender balance varies considerably with rank (and therefore, to some extent, with age) as shown in Chart 4.3. Currently around half of students entering UK medical schools are female.
- 4.10 MOD also provided us with information on the ethnic breakdown of MODOs and said that 90 per cent of MODOs were of 'White' background. While the proportion of MODOs from Black, Asian and Minority Ethnic (BAME) groups may compare favourably with the Armed Forces overall, it does not reflect the patterns of those studying medicine and dentistry, nor society at large. The ability to attract and retain female recruits and personnel from BAME backgrounds is particularly important for DMS. Noting our comment last year on the relatively low level of BAME compared to the output from UK medical and dental schools, MOD said that Cadetships and Bursaries are used to incentivise recruitment, and efforts continue to be made to appeal to all sections of the student population. We encourage MOD to continue to develop new initiatives to further improve diversity in the MODO workforce. As noted earlier in this report, the current BAME targets do not distinguish between UK and non-UK BAME groups. We continue to believe that this distinction is not sufficiently recognised by MOD in achieving a balanced and representative workforce.

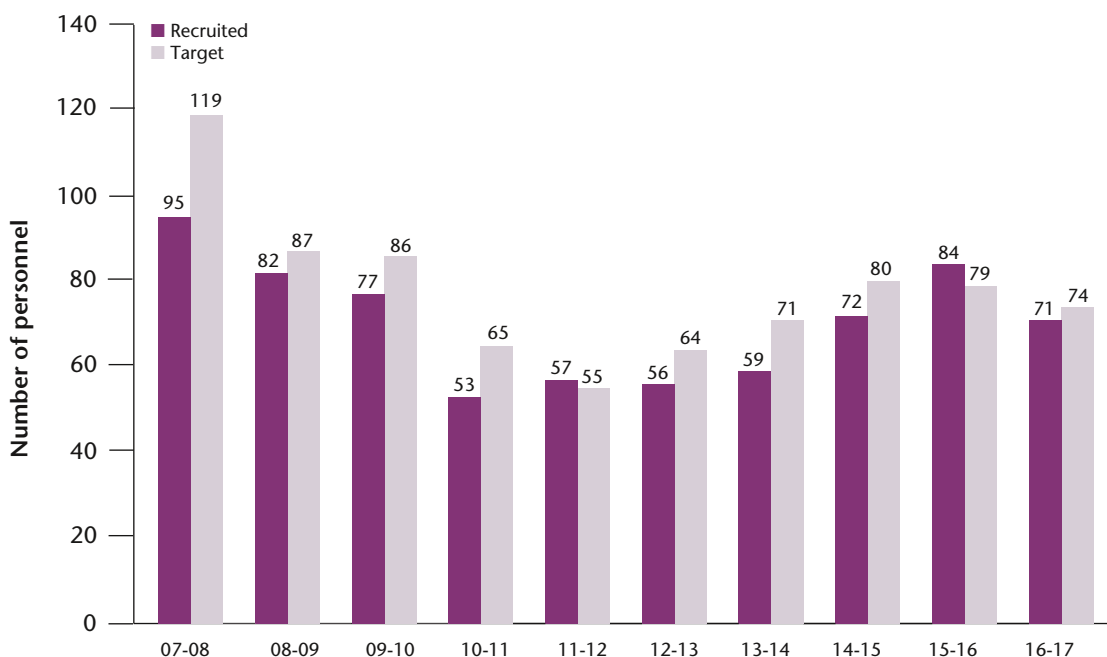
Chart 4.3: MODO gender distribution by rank – 1 April 2017



Recruitment

4.11 Recruitment of MO Bursars/Cadets against target deteriorated in the twelve months to 31 March 2017 (53 recruits against a target of 60), whilst that for direct entrants was exceeded (recruiting 18 against a target of 14). Trends in overall MO recruitment are shown in Chart 4.4. Over the last ten years, the overall target has only been reached twice. This shortfall in recruiting will have a detrimental, cumulative impact on DMS. As noted earlier, DO staffing is currently above requirement.

Chart 4.4: Medical Officer recruitment 2007-08 to 2016-17



Retention

4.12 MOD's evidence stated that its most recent analysis for 2016-17 shows a Voluntary Outflow (VO) rate of 2.9 per cent for MOs and 2.2 per cent for DOs. Whilst the BDA said that the current outflow of DOs led to the risk of undershooting future staffing targets, MOD said that VO rates were considered sustainable. It did, however, caution that there would need to be careful monitoring of specific cadres, especially small ones, where unforeseen outflow could have a disproportionate effect.

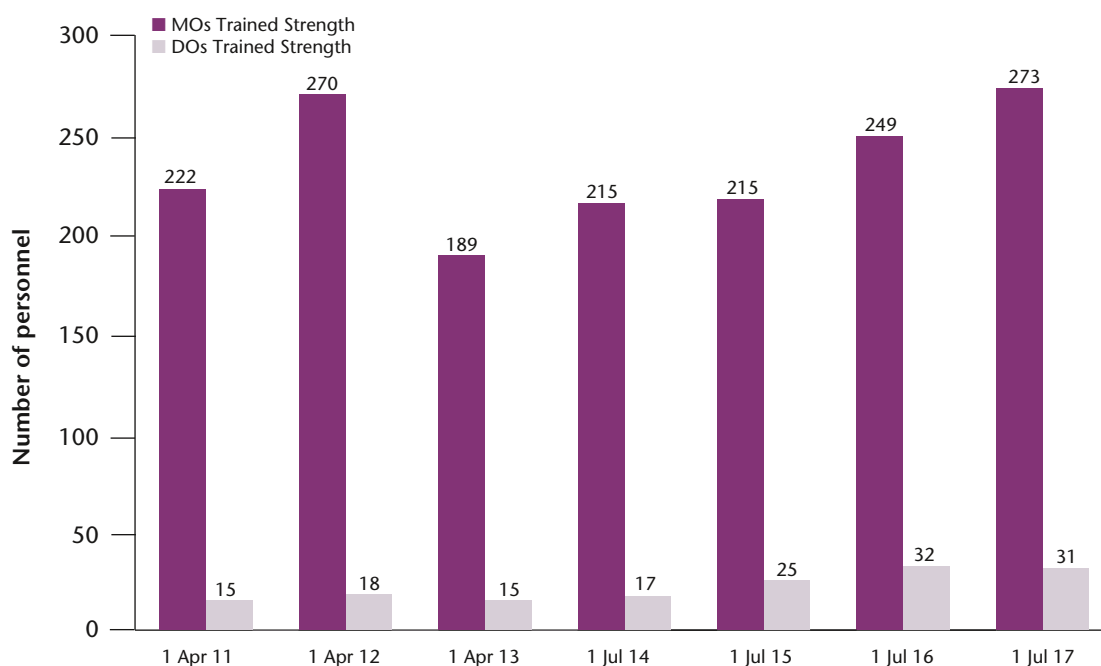
Motivation and morale

- 4.13 DMSCAS helps our understanding of MODOs and the issues concerning them. The results for 2017 indicated that 61 per cent of both MOs and DOs reported morale to be good where they worked, compared to the 2016 results of 60 per cent and 59 per cent respectively. Some 30 per cent of MOs and 25 per cent of DOs were dissatisfied with work-life balance. While there was an improvement in the number of MOs feeling confident their senior leadership will secure a positive future for the DMS (40 per cent, up 4 percentage points), the equivalent result for DOs was just 18 per cent, down 8 percentage points.
- 4.14 In last year's report, we reiterated our view of the importance of a more constructive and productive dialogue between the SG's office and the BMA/BDA. MOD confirmed to us that it recognised that a closer working relationship was key to progress and said the SG is committed to regular meetings. **We welcome this but so far have seen little evidence of closer working between the parties. We look forward to hearing of progress in our next round.**

DMS Reserves

- 4.15 Future Reserves 2020 (FR20) set out a requirement for 550 trained MODOs. Chart 4.5 shows the trained strength of Reserves over the last six years. At July 2017 there were:
- 273 trained Reserve MOs, a deficit of 46 per cent against the FR20 requirement of 501.
 - Within the 501, there was an FR20 requirement of 156 GMPs, but the current trained strength was only 77, a significant shortfall of 51 per cent. Consultants made up the remaining requirement of 345 MOs, but the current trained strength was 199, another significant shortfall of 42 per cent.
 - 31 trained Reserve DOs, a deficit of 37 per cent against the FR20 requirement of 49.

Chart 4.5: Trained strength of Reserve Medical and Dental Officers 2011 to 2017



- 4.16 MOD said that its staffing figures did not include 265 medical trainees who are not yet fully accredited GMPs or consultants, but it did confirm there were currently no trainee dentists within the Reserves.

Pay comparability

- 4.17 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”. DMS staff, unlike many other Service personnel, have close comparators in the form of doctors and dentists in the NHS. In its evidence to us, the BDA said it continued to see the best and most appropriate comparator as being the providing-performer dentist. In its written evidence, the BMA did not offer any proposals on appropriate comparators. As for recent years, the main pay analyses by cadre that follow have been produced by our secretariat.

Summary of pay comparisons by DMS group

- 4.18 Our comparisons examine levels of DMS and NHS pay (at 1 April 2017 where data were available). The following adjustments have been made to provide a consistent basis for the comparisons: (i) removal of the appropriate level of X-Factor from DMS salaries; (ii) an upward adjustment to DMS salaries to recognise that the DMS has a relative pension advantage over the NHS; and (iii) where applicable, downward adjustments to elements of the NHS comparator, recognising that all DMS base pay is pensionable, but there are elements of NHS comparator pay which are not.

Consultants¹

- 4.19 Average DMS pay in 2017-18 was £116,196.² Pay within the NHS includes the following elements:

¹ Unless stated otherwise the data have been adjusted as set out in paragraph 4.18.

² Assuming Consultants start at increment level 5 at age 35 and progress to increment level 30 at age 60.

- Programmed Activities (PAs) – these form the basis of NHS consultant comparator pay with base pay linked to consultants undertaking 10 programmed activities per week.³
- Additional PAs – any programmed activities worked over the base 10 PAs are paid pro rata and are non-pensionable. The National Audit Office carried out a census of NHS trusts which showed they paid for, on average, 11.2 PAs per consultant a week, which is consistent with earlier measurements for PAs worked.⁴ In 2009, AFPRB and the parties agreed to use one additional PA in NHS comparator pay to make a total of 11 PAs for comparison purposes.
- On-Call Availability Supplement – average DMS commitments according to last available data⁵ were 1 in 7, considered a medium frequency rota in the NHS and attracting a five per cent pensionable supplement to base pay. Inclusion of this payment was also agreed by AFPRB and the parties in 2009 as the appropriate NHS comparator.
- Employer-based (local) CEAs⁶ – these pensionable awards were introduced in the NHS in 2003 as a replacement for the Discretionary Points scheme. The local awards (levels 1 to 8 plus some level 9) are funded by local NHS employers, who are obliged to award 0.2 (previously 0.35 until 2011) of an award per eligible NHS consultant. The CEA comparator therefore assumes that consultants receive on average one CEA every five years. The award is not an automatic element of a consultant's earnings, but must be applied for, so is different from other elements of remuneration.

4.20 Table 4.1 shows that, based on current parameters, adjusted average DMS pay is ahead of NHS comparator pay when additional PAs, on-call availability supplements and local CEAs (5 yearly) are taken into account. Pay scales for NHS consultants increased by 1 per cent from 1 April 2017.

4.21 The BMA said that the salaries of consultants had declined by 5.3 per cent since 2006-07 compared to the Consumer Prices Index (CPI) over the same period.

Table 4.1: Consultant 2017-18 pay comparisons

Comparator	Average Income £	Adjusted Average Income ^a £	Lead/Deficit of DMS ^b %
DMS	120,694	116,196	-
NHS			
11 PAs	102,684	101,937	14.0
11 PAs + 5% On Call	107,351	106,604	9.0
11 PAs + 5% On Call + CEA (5 yrly)	113,615	112,868	2.9

^a NHS Additional PAs are adjusted for non-pensionability.

^b Comparisons made with X-Factor and pension adjusted DMS average salary and adjusted NHS salaries. Percentage calculations are DMS adjusted average income minus NHS income divided by NHS income.

³ 10 PAs is 40 hours of work per week and deemed a full-time post.

⁴ This figure is published in a NAO report: National Audit Office. *Managing NHS hospital consultants* HC 885. TSO, 6 February 2013. Available at: <http://www.nao.org.uk/wp-content/uploads/2013/03/Hospital-consultants-full-report.pdf>

⁵ MOD 2008 MODO Paper of Evidence.

⁶ National Awards (level 9/Bronze to level 12/Platinum) in the NHS and DMS are funded centrally and considered separately from the pay comparability exercise. MOD previously stated in its evidence that a similar proportion of its staff are in receipt of a (national) CEA to staff in NHS England. However, award amounts are different. There are no employer-based CEAs for MOs and they are excluded from applying for them in any NHS Hospitals in which they might work. This was taken account of when the MO Consultant Pay Spine was created – an element of the pay scale compensates for lack of access to employer-based CEAs.

General Medical Practitioners⁷

- 4.22 Based on 2017-18 salary scales, the annual average DMS salary across a career is £112,703. However, the latest available NHS GMP pay information is for 2015-16. Therefore, DMS pay data from the same year were used when making the comparisons. Average DMS salaries for 2015-16 were £110,483 when adjusted.
- 4.23 The total population of independent contractor NHS GMPs is all General and Personal Medical Services (GPMS) GMPs.⁸ Average income in 2015-16 for this group was £101,300.⁹ This equates to a lead of around 9.1 per cent for average pay for DMS GMPs compared with NHS GMPs. Table 4.2 shows average DMS pay (adjusted for X-Factor and pensions)¹⁰ against the range of NHS GMP comparators.
- 4.24 The BMA said that since 2006-07, GMP salaries had declined by 6.0 per cent against the CPI over the same period.

Table 4.2: GMP 2015-16 earnings (United Kingdom)

Comparator	Practice	Population	Average Income ¹¹ £	Lead/Deficit of DMS ^a % Average Income
DMS	–		110,483	–
GPMS ^b	Dispensing ^c	3,650	114,800	-3.8
	Non-dispensing	21,050	98,900	11.7
	All	24,700	101,300	9.1
GPMS	Salaried GPs	8,100	55,800	98.0

^a Comparisons made with X-Factor and pension-adjusted DMS average GMP salary. Percentage calculations are DMS average income minus NHS income divided by NHS income.

^b GMPs working under either a General Medical Services or Personal Medical Services contract.

^c Non-dispensing partners of dispensing doctors are classified as dispensing doctors.

General Dental Practitioners¹²

- 4.25 DMS GDP average adjusted salary across a career based on 2017-18 pay scales is £112,703. However again the latest available NHS pay data are from 2015-16. Therefore DMS comparisons use 2015-16 data. Average adjusted DMS salary for 2015-16 was £110,483 (as for GMPs).

⁷ Unless stated otherwise the data have been adjusted as set out in paragraph 4.18.

⁸ In previous evidence, the BMA, the BDA and MOD agreed that independent contractor NHS GMPs were the appropriate comparator, specifically all General and Personal Medical Services (GPMS) GMPs.

⁹ These are HM Revenue and Customs income data (earnings minus expenses and before tax) which include NHS and mixed NHS/private practice GMPs, but exclude GMPs who derived their income wholly from private practice. *GP Earnings and Expenses 2014/15* published by NHS Digital, September 2016.

¹⁰ DMS salaries are calculated as an average over a career, whereas GPMS are averaged salaries for all doctors within a single year.

¹¹ DMS salaries are calculated as an average over a career, whereas GPMS are averaged salaries for all doctors within a single year.

¹² Unless stated otherwise the data have been adjusted as set out in paragraph 4.18.

4.26 The latest 2015-16 HM Revenue and Customs earnings data¹³ include NHS and mixed NHS/private practice dentists, but exclude dentists who derived their income wholly from private practice. Income is split by classification¹⁴ and contract type and illustrates the range of average earnings available in the civilian sector. Table 4.3 shows DMS GDP pay against a range of NHS dental comparators and highlights how DMS pay is ahead when compared against NHS performer only dentists, but behind when providing-performers are chosen as the comparator group.

Table 4.3: GDP 2015-16 average earnings (England & Wales)

Dental type	Population	Average Salary/ Net profit £	Change 14-15 to 15-16 %	Lead/Deficit of DMS ^a %
DMS		110,483	-	
Providing-performer	3,450	115,700	-1.4	-4.5
Performer only	17,750	60,200	0.5	83.5

^a Comparisons made with X-Factor and pension adjusted DMS average GDP salary.

4.27 The BDA again emphasised the decline in DOs' pay in real terms in recent years. Whilst it had concerns about new pension arrangements, it still saw the pension as a reasonable package.

Junior Doctors in Training

4.28 A new contract was introduced in the NHS with the first Junior Doctors transitioned across in October 2016. Instead of the old contract with annual increments, the new contract has four incremental points to cover the entire period of up to 10 years as a junior doctor, ranging from £26,614 to £46,208. We expect the effects of the new contract on earnings to start to emerge in datasets across the coming year. Until then we have based our pay comparability for junior doctors on the previous contract, which we note is still in use in the rest of the UK. Junior Doctors' base pay is supplemented in most cases by a banding multiplier¹⁵ which varies depending on hours worked and work intensity. Latest available data¹⁶ from 2010 showed that over 80 per cent of posts received either a Band 1A (1.5 multiplier) or 1B (1.4 multiplier) supplement, with an average of 1.43.

4.29 Pay levels for DMS trainees remain ahead of junior doctors in the NHS (those on the consultant pathway and in receipt of an average banding supplement) at all points as shown in Table 4.4.

¹³ *Dental Earnings and Expenses 2015/16 (for England and Wales)* published by NHS Digital in September 2017.

¹⁴ The main types are: Providing-performer dentists (previously practice owner, non-associate or first-party associate). They are under contract with the Primary Care Trust/Local Health Board, also performing dentistry; and Performer only dentists (previously second-party associate, assistant or locum). They work for a practice owner, principal or body corporate.

¹⁵ An additional payment (introduced in December 2000) made on top of basic pay as remuneration for out of hours duties undertaken by hospital doctors in training. Total salary is calculated by applying a multiplier (ranging from 1.05 to 2.0) to basic salary.

¹⁶ NHS Employers monitoring summary – March 2010. This was the last collection following notification from the Department of Health that it was no longer required.

Table 4.4: Junior Doctors in Training 2017-18 pay comparisons

Age	DMS Scale	DMS Salary ^a £	NHS Scale	NHS Salary ^b £
24	OF 1 (1)	41,982	F1	31,928
25	OF 2 (1) Non-Acc	55,460	F2	39,601
26	OF 2 (2) Non-Acc	57,026	ST min	42,318
27	OF 2 (3) Non-Acc	58,601	ST 1	44,907
28	OF 2 (4) Non-Acc	60,188	ST 2	48,523
29	OF 2 (5) Non-Acc	61,766	ST 3	50,711
30	Non-Acc MO Level 1	66,710	ST 4	53,347
31	Non-Acc MO Level 2	70,606	ST 5	55,987
32	Non-Acc MO Level 3	74,526	ST 6	58,625
33	Non-Acc MO Level 4	75,696	ST 7	61,263
34	Non-Acc MO Level 5	76,867	ST 8	63,901
35	Consultant Level 5 (Entry) ^{c,d}	86,157	Consultant	76,761

^a DMS salaries adjusted for X-Factor and pension.

^b NHS salaries include an average Out of Hours band multiplier of 1.43 (which is then adjusted for non-pensionability, so effectively 1.3827 (1 + (0.43 * 0.89))).

^c A different pension adjustment is used for Consultants to Doctors in training.

^d The base pay assumption in the NHS is that full-time Consultants undertake 10 PAs per week (40 hours of work).

Future pay comparability

4.30 In our last report, we set out the five stages we considered necessary to allow us to undertake a more rigorous and sustained approach to future pay comparability.

- Stage 1 – identify the specific staff groups within the NHS to be compared with MODOs. Initially this needs to be considered by BMA/BDA/MOD, prior to seeking our approval.
- Stage 2 – for the identified NHS comparators, consider their typical career structures (age profile and journey through pay points and pay additions). For consultants, this stage needs to await the outcome of the current NHS contract negotiations.
- Stage 3 – identify earnings data for each of the NHS comparators, noting that total earnings are likely to vary initially as the rollout of contracts takes place. Our secretariat would be able to identify these data.
- Stage 4 – under the current pay structure, compare the career profile and earnings of MODOs against the comparators identified in Stage 2. Again, our secretariat would be able to undertake this stage, with input from DMS/BMA/BDA on a typical MODO career path.
- Stage 5 – MOD to propose a revised pay structure for MODOs accordingly. This should take account of the comparison in Stage 4, as well as considering how the MODO pay structure should be amended to address its particular recruitment, retention and motivation requirements, and how it should align with Pay16.

4.31 MOD told us that it was closely engaged with the BMA and BDA in establishing the initial pay comparison work, but emphasised that this is dependent on the outcome of the NHS consultant contract negotiations. Given that those negotiations have been underway since 2013, we would not want our future consideration of pay comparability to be contingent on a final outcome to the consultant negotiations. In our view, the parties should be able to reach agreement on Stage 1 of our new methodology

outlined above. As recorded earlier in this chapter, the BDA said that it continued to see the best and most appropriate comparator as the providing-performer dentist (or practice owner). We noted in our last report that we believed the key consideration of an appropriate comparator should be the alternative career path for a doctor or dentist who chooses to work within the NHS rather than work as a MO or DO. This may well involve someone beginning their career as a salaried doctor/associate dentist/performer-only GDP, before perhaps moving on at a later stage to become a practice partner/ providing-performer GDP. In oral evidence, the BMA indicated that the comparators for GMPs should be – after the first five years – a junior partner in a practice, later becoming a senior partner. We note that the HM Revenue and Customs data on GMP earnings do not distinguish between junior and senior partner earnings: just between partners and salaried GMPs. We reserve judgement on whether a five-year period before becoming a partner is a reasonable assumption: we wish to see evidence on NHS career paths before reaching any such conclusions. Nevertheless, we note the substantial pay premium currently enjoyed by DMS GMPs compared to NHS GMPs.

- 4.32 As reported last year, the parties should give consideration to what the appropriate contractual comparator is for consultants and junior doctors – we note that such arrangements differ between each country of the UK. There is, however, a strong argument for using England as the comparator, given the numbers of doctors working in that country compared to the rest of the UK and the fact that the majority of MODOs are based there. We recommend that DMS, the BMA and the BDA report back to us on their conclusions for Stage 1 of our proposed methodology in advance of the next formal submission of evidence, so that we can progress our consideration of pay comparability over the summer. If this does not materialise, we intend to move forward on our own comparator basis and make future recommendations accordingly.
- 4.33 We were disappointed to note that the parties again failed to address our requirement for them to consider the most appropriate methodologies for pension valuation and pay comparability for DMS personnel, as we have long had concerns about the accuracy of the current pension adjustment figures used in our analysis. Given recent changes to the NHS Pension scheme, we believe that the current methodology understates the advantage enjoyed by DMS personnel: and their pay advantage over their NHS comparators as set out in Tables 4.1 to 4.4 are therefore potentially understated. Table 4.5 below sets out how contribution rates within the NHS pension scheme have changed between 2010-11 and 2015-16: this compares with the pension scheme for DMS personnel which remains non-contributory. We recommend DMS, the BMA and the BDA come forward with proposals in the next round based on an agreed new methodology which recognises the difference between the NHS and MODO pension schemes.

Table 4.5: NHS pension scheme contribution rates, 2010-11 and 2015-16

Full-time pay 2010-11	2010-11 contribution	Full-time pay 2015-16	2015-16 contribution
£21,176 to £26,557	6.5%	£21,478 to £26,823	7.1%
£26,558 to £48,982	6.5%	£26,824 to £47,845	9.3%
£48,983 to £69,931	6.5%	£47,846 to £70,630	12.5%
£68,932 to £110,273	7.5%	£70,631 to £111,376	13.5%
Over £110,273	8.5%	Over £111,377	14.5%

Recommendation 9: We recommend that DMS, the BMA and the BDA:

- **Identify the specific staff groups within the NHS with which they propose Medical and Dental Officers (MODOs) should be compared; and**
- **Come forward with proposals for a new methodology to adjust for the difference between the NHS and MODO pension schemes.**

Pay recommendations for 2018-19

Overall pay recommendations

- 4.34 Our pay recommendations aim to help MOD to recruit, retain and motivate sufficient capable personnel, and to ensure the maintenance of broad comparability with NHS counterparts. We take account of the economic conditions, the Government's evidence on public sector pay and evidence on the particular circumstances of Service MODOs.
- 4.35 When reviewing pay for MODOs, we consider information on pay levels relative to the NHS, and one of our aims is to maintain comparability. We also take into account our recommendations for the main remit group, and those on NHS doctors' and dentists' pay made by DDRB, although as noted earlier, DDRB is operating to a later timetable this year so the outcome of their pay recommendations for 2018-19 is not known at the time of submitting this report.
- 4.36 At July 2017, measured against the DMS20 requirement, there was a deficit in trained MOs of 23 per cent, and a 9 per cent surplus of trained DOs. Recruitment and retention initiatives will continue to be important as some specialties remain significantly understaffed with long training pipelines.
- 4.37 MOD proposed an increase in basic pay for MODOs in line with our recommendation for the main Armed Forces' remit group. The BMA's written evidence proposed an uplift in line with the Retail Prices Index (RPI) to enable staff to cope with the rising cost of living, plus 2 per cent, which it said was required to compensate for the real terms pay cuts of recent years. It said that RPI represents most accurately the inflationary pressures that employees face compared to CPI, which it said fails to take into account mortgage payments. The BDA's written evidence requested a pay award of no less than 1 per cent, but in oral evidence its arguments were more in line with that proposed by the BMA: both the BMA and BDA said that a pay award of less than the rate of inflation would be viewed as a pay cut in real terms by the remit group.
- 4.38 We have taken account of all of the evidence when considering our pay recommendations for MODOs. The staffing data shows a deficit for MOs but a surplus of DOs, pointing us in two opposite directions in relation to our pay recommendations, but we are hampered by the fact that MOs and DOs share a pay scale. Our analysis of pay comparability strongly suggests that MODOs are earning significantly more than their NHS counterparts, but without strong and agreed comparability data, it is difficult to justify a differentiated award from the main remit group. The parties have also failed to address the pension adjustment needed to make NHS comparisons, although given changes to the NHS pension scheme, it can only mean that our current methodology is under-playing the advantage that MODOs have over their NHS counterparts. We do recognise that the contractual arrangements for some NHS staffing groups are currently in flux: junior doctors in England are on a new contract, and the impact on earnings has yet to be shown in data; changes to the NHS consultant contract are in train, although we note that progress has stalled. These contractual changes will affect NHS comparator earnings. Finally, we are unable to take into account any recommendations made by DDRB, as their work programme is running to a later timetable: but we will consider

any such recommendations in our next report. We have also considered the need to treat MODOs in line with our main remit group, although we do not believe this aspect should restrict us from considering a differential award in future years. In the absence of better evidence, we **recommend a 2.9 per cent across the board increase this year.**

GMP and GDP Trainer Pay and Associate Trainer Pay

4.39 In its evidence to DDRB, the Department of Health & Social Care (DHSC) said that it was continuing to work with stakeholders to develop a tariff-based approach for funding clinical placements in GP practices for medical students and trainees, and that it was collecting information to better understand the costs incurred from having medical students and trainees on placements. We will continue to monitor any developments that may impact trainer pay. For this year, in order to maintain the relativities between MODO base pay and its various additions to pay, we **recommend that GMP and GDP Trainer Pay and Associate Trainer Pay all be increased by 2.9 per cent**, in line with our main recommendation for MODO base pay.

MOD Clinical Excellence Awards

4.40 In our last report, we asked MOD to provide us with information on the current distribution of awards under the CEA scheme. Whilst the operation of the MOD CEA scheme is for MOD to determine, as we make recommendations on the value of CEAs, we want to be assured that it is operating without discrimination. MOD told us of the current 34 holders of CEAs: 33 were held by men; and 32 were held by those of 'white background'. It said that the number of BAME award holders was equal in proportion to the number of BAME consultants, but that the number of female award holders was lower in proportion than the eligible consultant population. We would urge MOD to do more to encourage applications from potentially under-represented groups. This could include considering changes to the make-up of committees that determine awards. We also note that the proportion of CEAs relative to the DMS consultant population is 11 per cent: far higher than the 6.6 per cent that is available within the NHS scheme. If the intention is for the scheme to mirror the NHS scheme, DMS should take steps to reduce the number of available awards at the earliest opportunity. It is further evidence of a relative advantage that DMS consultants have over their NHS counterparts.

4.41 However, for this year we consider it appropriate to maintain the relative value of MOD CEAs to MODO basic pay. We therefore **recommend that MOD CEAs (and legacy Distinction Awards) be increased by 2.9 per cent**, in line with our main recommendation for MODO base pay.

Length of pay scales

4.42 In our last report, we commented on the considerable length of the MODO pay scales. We also noted that the trend within the NHS is for reducing longer pay scales. In written evidence, MOD said that work on pay comparability might provide opportunities to review the length of some of these pay scales, whilst ensuring that there is no direct or indirect discrimination against particular groups as a result. For this year, our main pay recommendation will apply to the current MODO pay scales, but we believe the responsibility for ensuring that its pay structures meet the requirement of any equality legislation rests with MOD as the employer.

Working hours

4.43 The BMA said that civilian junior doctors working under the 2016 contract (in England) had their maximum working hours capped and were better safeguarded than their military counterparts. It said that with stronger hours controls, limits on consecutive

shifts and requirements for taking rest, hospitals were looking to those with less restrictive terms and conditions to step into the breach. The BMA therefore asked for our support for protection for military junior doctors. Such support falls outside of our terms of reference, but we nevertheless asked MOD for its comments. MOD said that DMS was confident that military junior doctors had the same level of protection in relation to working hours as their NHS counterparts working under the new junior doctor contract, and that there was no evidence to support the BMA's assertions. We encourage the parties to work together to improve their mutual understanding of this issue.

Recommendation 10: We recommend the following from 1 April 2018:

- A 2.9 per cent increase in base pay for all ranks within the MODO cadre.
- A 2.9 per cent increase in GMP and GDP Trainer Pay and Associate Trainer Pay.
- A 2.9 per cent increase in the value of military CEAs and legacy Distinction Awards.

The recommended pay scales are at Appendix 1.

Chapter 5

ACCOMMODATION AND FOOD CHARGES

We recommend that from 1 April 2018:

- For Service Family Accommodation (SFA), Combined Accommodation Assessment System (CAAS) Band A charges be increased by 0.6 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 0.6 per cent.
- For Single Living Accommodation (SLA), charges for grade 1 be increased by 0.6 per cent, with increases of 0.4 per cent to grade 2, 0.2 per cent to grade 3 and no increase to grade 4, against the expectation that MOD will remove from use the worst pockets of SLA by 2020 at the latest.
- Annual charges for standard garages and standard carports be increased by 0.6 per cent, with no increase to charges for substandard garages and substandard carports.
- The Daily Food Charge (DFC) should be increased by 18 pence to £4.97.

Introduction

- 5.1 Under our terms of reference, we are required to recommend charges for Service personnel. Historically, this has included charges for accommodation and garage rent, and for the DFC.
- 5.2 The provision of subsidised accommodation remains a vital 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.
- 5.3 Our recommendations for 1 April 2018 follow a summary of the evidence we considered this year. Our visit programme enabled 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, along with hearing the views directly of those personnel and families living in either SFA or SLA. We received written and oral evidence from the Service Families' Federations (SFFs), MOD/single Services and the Defence Infrastructure Organisation (DIO). We also explored accommodation issues during our oral evidence sessions with the Principal Personnel Officers (PPOs), the SFFs and the Secretary of State for Defence.

Service Family Accommodation

- 5.4 MOD controls around 65,000 SFA properties worldwide, 49,503 of which are in the UK. The majority of UK homes (38,626, all in England and Wales) are leased from Annington Homes Ltd (AHL) with the remainder MOD owned, Private Finance Initiative (PFI) or sourced from the open market (including an additional 713 Substitute SFA (SSFA)). In 2016-17, £80.6 million was spent on the SFA upgrade programme, replacing kitchens, bathrooms, boilers, roofs, doors and windows, as well as fitting external wall insulation. The MOD continues to allocate only SFA in the UK that meets the 'Decent Homes Standard', which is now used as the relevant benchmark level (see below). As at May

2017, over 95 per cent of SFA in the UK was at Decent Homes Standard or above. MOD said that the funding available for the upgrade programme would be broadly maintained at £80.1 million in 2017-18.

- 5.5 Since April 2016, SFA has been graded by the CAAS. This 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 erred and were not happening consistently across the estate, often resulting in 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). As set out in our recent reports, we support the introduction of CAAS. We remain supportive of the intent and 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, maintaining a significant discount, recognising the disadvantages faced by Service personnel compared with their civilian equivalents. These include relative lack of choice, restrictions on decoration and their reliance on the maintenance service provided under a single, DIO-managed contract.
- 5.6 Due to the ongoing investment to improve the standard of SFA, the outcomes of challenges/appeals and an update to the location data, MOD forecast an increase in the numbers of SFA that would be in higher CAAS bands by 2022. However, it also said that it was considering updating the criteria on broadband speed to reflect the current UK national average: this would be likely to apply a downward pressure on SFA banding outcomes. We welcome this development; it is clearly appropriate for MOD to consider wider UK comparisons such as broadband speed as part of CAAS band charging.
- 5.7 MOD said that some problems with the challenge and appeals process had impacted the perceived fairness of the new CAAS negatively. Apparently, information to support a challenge was not initially provided to occupants, but this had now been rectified with a CAAS Assessment Summary Sheet provided with every occupant letter and more comprehensive data available upon request. The Accommodation Regulation policy had been rewritten to make it easier to understand and more information was available on the CAAS internet and intranet pages. As of May 2017, MOD said that there had been 2,047 challenges and 368 appeals raised, of which 322 had been upheld: this represented just 0.8 per cent of the initial letter distribution. MOD said that this, along with DIO's assurance process as part of the survey programme, had provided it with confidence in the data they now received. MOD acknowledged that Service personnel were still able to exercise their right to use the Service Complaints process.
- 5.8 During our visit programme, we continued to hear accounts from Service personnel and their families questioning the CAAS survey process, including its robustness, lack of transparency and consistency. We note the comments in the previous paragraph from MOD about improvements to the survey process and the data available from it, which we welcome. We will continue to monitor the situation via our visits as well as the data on appeals.
- 5.9 We described the transitional arrangements from 4TG to CAAS in detail in previous reports. 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 saw

increases in the charges associated with their property. We note that in their oral evidence to us, the Army Families Federation in particular expressed surprise at the extent of under-grading that had been uncovered, leading to a higher than expected number of families who were due to see increases in their rental charges for SFA. Under the CAAS transition arrangements, those paying a higher charge under the previous 4TG system than their confirmed CAAS charge saw an immediate reduction to the new level in April 2016. Those whose CAAS charge was higher than their 4TG charge started the move towards the correct CAAS level in April 2016, moving to the first CAAS band above their existing 4TG rate. These transitional arrangements will continue with affected properties moving up another CAAS banding level each year in April, until the correct level for charge is reached. During oral evidence, the SFFs told us that there had been cases of some families receiving letters suggesting that charges should increase by more than one band in a year, but that following their intervention, DIO had confirmed that only one banding increase per year could occur (for those remaining in the same property). On present estimates, MOD said that transition to the final CAAS bands would continue until 2022: it said that in April 2018, over 62 per cent of SFA were in process of transitioning to the 'correct' charging level, but noted that the broadband review would change the numbers affected. We ask MOD to keep us informed of developments.

- 5.10 MOD said that CAAS is forecast to generate an additional £11.4 million of receipts in 2017-18, rising to £49.8 million by 2022 (although again, this increase is subject to the broadband review). The previous Secretary of State committed that all additional receipts resulting from CAAS would be reinvested in military accommodation (which could be either SFA or SLA). In written evidence, MOD said that there had been a reduction in DIO's Resource Departmental Expenditure Limit budget and therefore the funding allocation for SFA. It said that the increased CAAS receipts would ensure that the funding available for improvement works in 2017-18 is as close as possible to the previous year. It added that without any increases due to CAAS addressing the historic undercharging, there would have been a significant reduction in the funding available for improvements. We ask MOD to keep us updated with its forecasts for CAAS receipts.
- 5.11 When we endorsed the principles on which the CAAS system is based, we did so with the belief that the additional receipts would be reinvested, leading to an overall increase in spending on accommodation. The fact is that instead, the increased receipts have only mitigated a reduction in such spending which has undermined our confidence in the MOD's management of these issues. Moreover, the linkage drawn by senior MOD witnesses between the CAAS changes and improvement in the performance of the maintenance contract, which has not occurred, has done nothing to improve our confidence or, we judge, that of Service personnel. **We are now very much expecting progress from MOD in maintaining and improving the quality of service accommodation commensurate with the scale of the issues which have emerged from our visits and highlighted in our reports over the last few years.**
- 5.12 Key to people accepting as reasonable 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, CarillionAmey (CA) was given the contract for housing allocations, removals, and furniture provision as well as maintenance and improvements. Response maintenance performance was a key focus of the Secretary of State's Improvement Plan. Since April 2016, overall reported performance has been maintained above the 95 per cent Performance Indicator (PI) other than in November 2016 and for Routine responses. However, the 100 per cent Emergency response PI is not being met and since September 2016, Urgent responses have also fallen below the PI. MOD said that there has been gradual improvement, but there is still work to do and there needs to be greater consistency of performance. Data on regional performance show that the South East and South West regions have experienced the most

significant problems in achieving PIs, and these regions were now the focus for further improvement for both CA and DIO. MOD said that the re-organising of the South West into four sub-regions each with a lead sub-contractor is already leading to improvements and a similar model is under development for the South East. We welcome these developments and will continue to monitor progress through our visit programme and from future data.

- 5.13 We explored the subject of the PIs with the parties during oral evidence. The SFFs acknowledged that their caseload relating to accommodation issues had reduced, although some thought that this could be due to Service personnel giving up complaining through frustration with the process. DIO noted improvement against PIs but said that greater consistency across the UK was required. PIs were also being looked at as part of the procurement contract, and thought was being given as to whether a national or regional contract would work better. In evidence last year, MOD said that realism was needed: more demanding PIs came at a cost. It said that the CA PIs were based on those in the old contract and comparable with other public sector PIs. We would simply note the importance of accommodation as part of the overall offer to Service personnel and their families, and the need for the PIs to deliver an appropriate and consistent level of service to personnel. This will require a sustained improvement in the delivery of maintenance services.
- 5.14 MOD referred to the metrics used for measuring satisfaction with SFA. It noted that CA had not met its own target of a Net Promoter Score of 55 in any month in the year to May 2017. DIO's 2016-17 Satisfaction Survey showed an overall decline compared to the previous year: from 63 per cent to 58 per cent satisfied; and an increase from 23 per cent to 28 per cent dissatisfied. Over the previous year, the 2017 Armed Forces Continuous Attitude Survey (AFCAS) showed a decline in the satisfaction with the overall standard of SFA (46 per cent from 50 per cent), the response to requests for maintenance/repair (28 per cent from 32 per cent) and the quality of maintenance/repair (26 per cent from 29 per cent). Satisfaction with value for money remained static at 63 per cent. However, the Tri-Service Families Continuous Attitude Survey (FAMCAS) for 2017 recorded some improved satisfaction scores over 2016: overall standard of SFA at 57 per cent from 53 per cent; value for money at 70 per cent from 64 per cent; and response to requests for maintenance/repair at 34 per cent from 32 per cent. Satisfaction with quality of maintenance/repair remained static at 29 per cent.
- 5.15 MOD said that the volume of Stage 1 complaints to CA remained above the PI, but that since November 2016, the PI of resolving 95 per cent of complaints within 10 days has been achieved consistently. However, in a subsequent update, all categories of performance other than critical repairs fell below target after July 2017. Stage 2 complaints in the year to March 2017 continued to increase, with 270 compared to 197 in the previous year. Complaints to Stage 3 also increased. MOD said work was underway to review the entire Housing Complaints process and its relationship to Service Complaints and MOD Claims. MOD said that poor performance was in the main limited to the South-East region and that senior personnel had been seconded to the local suppliers to help improve the situation. It added that the fall in performance was in no way related to the liquidation of Carillion, and that under the terms of the Joint Venture, Amey was contractually required to continue to deliver the full range of services. It was also committed to ensuring that there would be no impact on the continuity of services. **We will be monitoring the performance of the contract closely over coming months.**

- 5.16 We have been assured on many occasions that while there were problems with the contract, matters were now improving and targets being met. On each occasion, improvements reported by MOD were not sustained. **There are clearly major lessons for the Department in the shortcomings of this contract and, as we move towards the end of the contract period, we will be looking for those lessons to be learned.**
- 5.17 To improve the 'lived experience' of Service personnel, MOD introduced a compensation scheme from 1 April 2017 run by DIO. The scheme requires the submission of a simple claim form. Our last report suggested that the compensation scheme should be automatic, but MOD rejected such an approach due to the cost of setting up such a process. It said that two levels of compensation were available: £30 for a missed appointment; and £50 - £100 for a significant defect at move in. MOD said that compensation levels were seen as reasonable by the single Services and the SFFs. During oral evidence we asked DIO if compensation could be claimed when the wrong trade was sent out, as this was a common complaint raised during our visits. DIO responded that there could be genuine reasons for this happening: for example, a complaint about an electric shower could legitimately require attendance from an electrician rather than a plumber; but it was prepared to consider all such claims. We were also told about problems with the initial roll-out of vouchers for the compensation scheme: however, we were assured that such problems had since been addressed. We encourage all affected Service personnel and their families to make full use of the compensation scheme and we will continue to monitor developments. In our last report we felt that it would improve objectivity and confidence in the system if there was an independent arbitration process. During oral evidence, DIO told us that they viewed themselves as independent. We do not consider it to be independent and it was clear from our visit programme that Service personnel shared our view. **We continue to believe that a proper independent arbitration process is needed to ensure impartiality, confidence and improvements in the handling of complaints. This will be particularly important in the context of the next contract.**
- 5.18 Alongside the new compensation scheme, MOD described the measures that were already in place to deliver compensation to Service personnel for accommodation-related failings. They include: providing a temporary reduction to charges following a significant deficiency or reduction in amenities that last for seven days or more; Service personnel being able to apply to MOD Claims for compensation; and CA's own voluntary compensation scheme. During 2016-17, CA paid over £130,000 to 555 individuals.

Our approach to recommendations

- 5.19 After considering all of the evidence set out above, we need to make recommendations for charging levels from 1 April 2018. 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.
- 5.20 Issues relating to SFA were prevalent during our visit programme. Whilst we did hear about some cases of improvement in the quality of the service provided by CA, the vast majority of comments were negative:
- poor communication from CA and the lack of follow-up;
 - CA contractors being allocated a fixed time to resolve issues compromising the quality of work;
 - calls for CA to be held to account;

- a belief that CA was targeting any outputs at meeting KPIs rather than the needs of Service personnel;
- the failure of maintenance work to address underlying issues
- the new compensation scheme had to be applied for rather than being automatic;
- the mismatch between 'march out' and 'march in' standards;
- concerns about the quality of additional rented accommodation (where there was an insufficient supply of SFA);
- as last year, 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 of service accommodation;
- widespread concern about what the Future Accommodation Model might mean for the provision of SFA;
- increased rental charges under CAAS without a commensurate improvement in the quality of maintenance;
- concern about the robustness of the surveying process used to determine CAAS banding decisions and difficulties in challenging them;
- upgrades to kitchens and bathrooms only took place on 'move out';
- some frustrations with the 'inflexible' approach to allocation and the lack of advance information; and
- concern that in the future, SFA allocation would be needs-based rather than rank-based.

5.21 SFA issues were also raised during our overseas visits. In Cyprus there were comments on the paucity of improvements (other than double glazing), lack of air conditioning, recent budget cuts, and the over-rigorous way that charges were made for any small marks to furniture on 'move out'. In both Cyprus and Kenya, Service personnel questioned the CAAS banding process. Security was a particular issue for those in Kenya, along with electrical safety and maintenance within SFA.

5.22 The Secretary of State confirmed that subsidised accommodation is provided to Service personnel in recognition of their inherently mobile lifestyles and frequently remote bases, and that there is no intention to change this provision. MOD noted the typical levels of subsidy compared to market rates: for CAAS Band A properties, the subsidy for Other Ranks was between 57 per cent and 66 per cent; and for Officers, between 43 per cent and 60 per cent.

5.23 Under CAAS, the rental charge¹ for furniture is separated out from the accommodation charge (meaning all SFA is 'let' as unfurnished) and there is one level of furnished or part-furnished charge for each type of SFA. MOD again said it was still in the process of conducting a review of furniture policy as part of the Future Accommodation Model. Until then, it proposed to continue making furniture available to Service personnel with charges standardised at the equivalent of the Grade 4 charge under 4TG.

5.24 Our previous reports have set out our belief that it is important to maintain the level of subsidy between rents for military personnel and those in the civilian sector. In order to deliver that outcome, we set out our arguments in last year's report for basing our accommodation rental charge recommendations on the actual rents for housing component of the Consumer Prices Index (CPI), a component which is also used in

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

constructing the separately reported Consumer Prices Index including Owner Occupiers' Housing Costs (CPIH). The government accepted those arguments and endorsed our accommodation rental charge recommendations.

- 5.25 In this year's evidence, MOD said it recognised there are still areas to address following the introduction of CAAS and that work is ongoing to ensure continuous improvement. It said that across all areas of response maintenance, there were improvements compared to the situation twelve months ago and complaint resolution had significantly improved. It also noted the successful introduction of the new compensation scheme. It concluded that based on these improvements, and to maintain the level of subsidy, it was recommended there should be an uplift in Band A charges for SFA from 1 April 2018 in line with the actual rents for housing component of CPI.
- 5.26 On our normal reporting timetable, we have used the annual November inflation figure. We may change this in future, but for this year we consider it appropriate to retain this same annual cycle. The CPI actual rents for housing component annual percentage increase for November 2017 was 0.6 per cent.

Service Family Accommodation rental charges

- 5.27 We recommend an increase to CAAS Band A rental charges of 0.6 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.²

Recommendation 11: We recommend that from 1 April 2018 Service Family Accommodation Combined Accommodation Assessment System Band A charges be increased by 0.6 per cent.

- 5.28 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 actual rents for housing component of the CPI.
- 5.29 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). All serving abroad also have their Contribution in Lieu of Council Tax (CILCOT) waived (worth over £1,200 per annum on average).
- 5.30 As noted earlier, the actual rents for housing component of CPI annual percentage increase for November 2017 was 0.6 per cent. Consequently, we recommend an increase to 4TG accommodation (rental and furniture) charges in Germany of 0.6 per cent.

Recommendation 12: We recommend that from 1 April 2018 legacy Four Tier Grading SFA charges in Germany increase by 0.6 per cent.

Other components of SFA charges

- 5.31 Changes to elements of the charges other than rent and furniture are based on evidence provided by MOD as follows:

² 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 0.6 per cent this year.

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

When these additional charges are factored in, the changes in the total SFA charges paid by Service personnel on 1 April 2018 (set out in Tables 5.1 and 5.2 for CAAS and legacy 4TG respectively) can differ from our headline rental charge recommendation.

Single Living Accommodation

- 5.32 Our information on Single Living Accommodation (SLA) is drawn from MOD's 2012 audit and work MOD has carried out to refine its SLA data. It suggests that there are around 136,000 MOD owned SLA bed-spaces, 126,000 of which are in the UK. In May 2017, 78,198 personnel occupied SLA. MOD said that the current 'oversupply', often in the 'wrong' locations, places significant additional burden on the funds available to support SLA. Only about 41 per cent of SLA is considered to be in good condition (Grade 1 or 2 for charge).
- 5.33 Since 2015, 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. The database was intended to 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 rollout of SLA MIS had been 'paused': the project had been restructured and a new plan for delivery was currently under development. It added that CAAS SLA trial surveys had identified approximately 20 per cent under-grading. It also said that direction had been provided to Top Level Budgets (TLBs) to review their 4TG and this will be considered in the development of CAAS SLA. MOD said that the delegation of funding to TLBs will provide a renewed incentive for correct grading. We await with interest to see how CAAS for SLA will be introduced.
- 5.34 On visits, whilst we saw examples of modern and comfortable SLA, we also witnessed some pockets of extremely poor quality, indeed unacceptable SLA, such as Odiham, Waddington, Brize Norton and Stonehouse Barracks. The Service Families' Federations also commented on the "appalling" quality of some SLA. Our 2017 Report set out our view that a modern 21st century employer such as MOD should not be utilising such accommodation. Our view has not changed and the lack of progress in eliminating the worst SLA amounts, in our view, to a potential breach in the MOD's duty of care to Service personnel. We recognise and welcome the investment MOD had carried out and is planning for SLA: £75 million in 2016-17 (1,159 bed spaces); £204 million in 2017-18 (2,270 bed spaces); £79 million in 2018-19 (1,223 bed spaces); and £87 million in 2019-20 (1,349 bed spaces). However the fact remains that we have seen very little progress in dealing with the worst accommodation. This needs to change.
- 5.35 We also note that, unlike SFA, there is no single person with lead responsibility for SLA within MOD. In our view, this has allowed the status accorded SLA to be under-played relative to competing priorities. This situation, in our view, could be exacerbated by the delegation of budgets to the TLBs. **We look to the MOD to establish clear ownership of a programme to deal with the worst pockets of SLA.**
- 5.36 A common theme we encountered during our visits was the disparity of treatment of married and single Service personnel in relation to the provision of free accommodation. Those married with homes elsewhere are entitled to free SLA on base, but singles in a similar situation have to pay for SLA on base: there was therefore support for FAM to recognise 21st century families. Other SLA-related issues included: problems with toilets,

heating and hot water, flooding, not enough showers, paucity of both cooking facilities and washing machines, the lack of preventive maintenance, poor ventilation, little faith in 4TG, and the negative feeling of self-worth engendered by the poor standard of accommodation. The Chaplains we met with commented that, as they were typically much older than the typical SLA occupant when entering Service, the size of SLA was often inadequate to house their personal possessions.

- 5.37 AFCAS 2017 reported decreases in satisfaction with SLA compared to the 2016 results: for the overall standard, from 55 per cent to 50 per cent; for value for money, from 59 per cent to 57 per cent; for the response to requests for maintenance/repair, from 33 per cent to 28 per cent; and for the quality of maintenance/repair, from 35 per cent to 30 per cent.
- 5.38 In last year's report, we said that we would welcome evidence on any increased use of the Virtual Bank Account (VBA) to improve accommodation. MOD said that the VBA was a budget delegated to a Head of Establishment (HoE) by their TLB and supplemented by funds from DIO. The HoE can draw down funds as they like to cover works up to a maximum of £25,000 per job. As with all areas of infrastructure, SLA has to compete with other priorities. MOD estimated that in 2016-17, spending on SLA or Messes from the VBA accounted for approximately £1.57 million. Examples given to us of the use of VBA included the improvement of on-site nursery facilities, refurbishment of sports facilities, provision of clubs and hobbies, and electrical work. Hopefully this type of spend from VBAs will continue and be directed at critical aspects of the estate requiring urgent attention.
- 5.39 MOD argued that to ensure parity of treatment with those in SFA, charges should reflect similar increases incurred by those in the civilian sector, and to prevent further divergence, there should be a uniform uplift to SFA charges from 1 April 2018 in line with the actual rents for housing component of CPI.
- 5.40 In considering our recommendation for SLA, we took account of our repeated references to the problems of the poorest accommodation and the apparent lack of progress in dealing with them. We gave serious consideration to recommending that the rent for grade 4 SLA should have a zero charge. However, we acknowledge that MOD is investing in SLA, and that a zero charge could reinforce a perverse incentive for Service personnel to want to be housed in unsuitable SLA. In addition, a zero charge for grade 4 would leave MOD with a significant funding hole from a lack of receipts. We therefore concluded that as in previous years, given the lack of progress in the SLA MIS and thus the limited evidence on the overall extent of improvement secured to date, we should retain our existing tiered approach to rental charges for SLA. As we said last year, we are willing to consider moving to an inflation-based increase for all tiers, but we wish to see genuine progress in the provision of management information and the quality of accommodation available. Our recommendation for a tiered approach to SLA is tied to our expectation that MOD will remove from use the worst pockets of SLA by 2020 at the latest. It is within MOD's power to take control of the SLA estate, correct any undercharging, avoid placing personnel into such poor quality accommodation and improve the overall quality of SLA and the maintenance service provided.

Single Living Accommodation rental charges

- 5.41 As set out above, the actual rents for housing component of CPI annual percentage increase for November 2017 was 0.6 per cent. We therefore recommend that SLA grade 1 rental charges (which include a furniture element) increase by 0.6 per cent, with

smaller graduated increases for grade 2 and grade 3 SLA³ and no increase to the rental charge for grade 4, against the expectation that MOD will remove from use the worst pockets of SLA by 2020 at the latest.

Recommendation 13: We recommend that from 1 April 2018 Single Living Accommodation rental charges for grade 1 be increased by 0.6 per cent, with increases of 0.4 per cent to grade 2, 0.2 per cent to grade 3 and no increase to grade 4, against the expectation that MOD will remove from use the worst pockets of SLA by 2020 at the latest.

Other components of SLA charges⁴

5.42 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.

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 2018 (set out in Table 5.3) can differ from our headline increases.

Other charges

5.43 We are also responsible for recommending garage rent. To maintain consistency with other accommodation charges, we recommend that charges for standard garages and carports should be increased in line with the increase in the actual rents for housing component of CPI/CPIH in the year to November 2017, with no increase for substandard garages and substandard carports.

Recommendation 14: We recommend that from 1 April 2018, the annual charges for standard garages and standard carports be increased by 0.6 per cent, with no increase to charges for substandard garages and substandard carports.

Future Accommodation Model

5.44 MOD told us that fundamental reform is required to make the accommodation model affordable and flexible for the needs of Defence and to improve the accommodation offer for Service personnel. It said that a new accommodation offer would be created to assist more Service personnel to live in private accommodation and meet their aspirations for home ownership and that the Future Accommodation Model (FAM) has been set up to look at innovative ways to deliver such aims. It said that the provision of accommodation would move from a system based on rank and marital status to one based on need. The overall subsidy for accommodation will not be cut, but changes to entitlement will mean that individuals may receive more or less, depending on their needs. FAM will continue to support the mobility of Service personnel, but also aim to support those who want greater stability for themselves or their families. MOD said that as well as providing an accommodation subsidy, it will provide Service personnel with other support, such as time to find properties, and in certain situations, the sourcing of properties themselves. Whether Service personnel are in SFA or renting near to work, MOD said they will not be expected to pay more for the home they need if assigned to a more expensive location – MOD will pick up the extra cost.

³ These are two-thirds of 0.6 per cent and one-third of 0.6 per cent.

⁴ Includes charges for water and heating and lighting.

- 5.45 MOD said that FAM aims to deliver a fairer, more flexible and affordable model, while also offering greater choice. SLA will be retained as it remains cost effective to accommodate unaccompanied Service personnel. It said that while maintaining the total subsidy amount that Service personnel receive, FAM will aim to deliver around £500 million savings by 2025-26, primarily through reduced running costs, realising capital receipts and avoiding capital expenditure. MOD said it was conscious of the importance of subsidised accommodation to Service personnel and that, for many, FAM will signal a cultural change in how they live. MOD said it will be consulting actively with Service personnel and their families to refine FAM further, and that a pilot would start in late 2018. The transition of most Service personnel to the new model would be complete within ten years.
- 5.46 We support a move to a more flexible accommodation model that meets the needs of 21st century families. As noted earlier, anxiety about what FAM might include was a major issue raised during this year's visit programme. One of the main concerns we heard was that increasing the reliance on the private sector to provide accommodation would leave Service personnel exposed to additional costs. As with so many aspects of the overall MOD offer, clear, regular and accurate communication of any change will be critical to the success or otherwise of FAM. We have noted that one key aspect of FAM is the move to allocation based on need rather than rank. MOD has not provided us with any evidence to allow us to assess the possible implications for retention of this aspect of FAM: but in our view, transitional arrangements are likely to be necessary. **Given the significance of this issue for Service personnel, MOD will need to convince a sceptical audience that FAM genuinely is a programme to modernise the accommodation offer and not just another cost-saving exercise.**

Forces Help to Buy

- 5.47 MOD said that the Forces Help to Buy scheme had been extended to 2018, at which time the FAM pilot was due to commence. It said that up to September 2017 and since the introduction of the scheme in 2014, payment had been made to around 11,500 applicants. This popular scheme was expected to continue and was under consideration for inclusion within FAM. We noted widespread support for the scheme during our visit programme and would support its continuation as part of FAM.

Table 5.1: SFA (CAAS): charges for furnished accommodation^a (with change from 2017-18 in brackets)

Type	Annual charge ^b										
	Band A £ per year	Band B £ per year	Band C £ per year	Band D £ per year	Band E £ per year	Band F £ per year	Band G £ per year	Band H £ per year	Band I £ per year	Band J Overseas £ per year	Band K Overseas £ per year
I	9,866 (62)	8,913 (55)	7,961 (51)	7,008 (44)	6,055 (40)	5,103 (33)	4,146 (22)	3,194 (18)	2,241 (11)	1,288 (7)	336 (0)
II	8,888 (55)	8,030 (51)	7,169 (44)	6,311 (40)	5,453 (36)	4,595 (29)	3,734 (22)	2,876 (18)	2,018 (15)	1,157 (7)	299 (4)
III	7,833 (51)	7,074 (44)	6,318 (44)	5,559 (37)	4,803 (33)	4,044 (26)	3,285 (22)	2,529 (18)	1,770 (11)	1,015 (11)	256 (4)
IV	5,964 (37)	5,391 (33)	4,822 (29)	4,249 (26)	3,676 (22)	3,106 (18)	2,533 (15)	1,960 (11)	1,387 (7)	818 (4)	245 (0)
V	4,716 (29)	4,267 (26)	3,818 (26)	3,365 (18)	2,916 (18)	2,467 (15)	2,018 (11)	1,570 (11)	1,117 (4)	668 (4)	219 (0)
Extra Bedroom	339 (4)	307 (4)	270 (0)	237 (4)	204 (4)	172 (4)	135 (0)	102 (0)	69 (4)	33 (0)	- (0)
D	4,449 (26)	4,019 (22)	3,588 (22)	3,157 (18)	2,727 (18)	2,296 (15)	1,862 (7)	1,431 (7)	1,000 (4)	569 (4)	139 (0)
C	3,770 (22)	3,405 (18)	3,040 (18)	2,675 (15)	2,310 (15)	1,945 (11)	1,580 (7)	1,215 (7)	850 (4)	485 (4)	120 (0)
B	3,234 (18)	2,920 (15)	2,606 (15)	2,296 (15)	1,982 (11)	1,668 (7)	1,354 (7)	1,040 (4)	730 (4)	416 (4)	102 (0)
A	2,446 (15)	2,212 (15)	1,975 (11)	1,741 (11)	1,504 (7)	1,270 (7)	1,037 (7)	799 (4)	566 (4)	329 (0)	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 5.2: SFA (4TG): charges for furnished accommodation^a (with change from 2017-18 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	9,866	(62)	7,063	(44)	3,927	(26)	2,194	(15)
II	8,888	(55)	6,362	(40)	3,566	(22)	2,008	(15)
III	7,833	(51)	5,617	(37)	3,157	(22)	1,810	(15)
IV	5,964	(37)	4,387	(26)	2,639	(15)	1,562	(7)
V	4,716	(29)	3,635	(22)	2,259	(15)	1,424	(7)
Other Ranks								
D	4,449	(26)	3,227	(18)	1,931	(11)	1,164	(7)
C	3,770	(22)	2,832	(18)	1,767	(11)	1,102	(7)
B	3,234	(18)	2,500	(15)	1,610	(11)	1,037	(7)
A	2,446	(15)	1,927	(11)	1,281	(7)	891	(7)

^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 5.3: SLA: charges^a (with change from 2017-18 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	2,650	(22)	2,066	(15)	1,318	(7)	785	(7)
Captain and below	2,154	(15)	1,672	(7)	1,062	(4)	635	(4)
Warrant Officer and SNCO	1,628	(15)	1,278	(11)	810	(7)	489	(7)
Corporal and below	938	(11)	752	(11)	493	(7)	321	(7)
New Entrant ^c	752	(7)	591	(4)	383	(4)	270	(4)

^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

5.48 Our remit includes the responsibility to make recommendations on the DFC. The price of the core meal under Pay As You Dine is also linked to the DFC so it remains important. Our recommendations each year since April 2009 have used the average cost of MOD's food supply contract data for the previous year to inform the adjustment to the charge.⁵ This resulted in no increase to the DFC last year and it remained at £4.79 for 2017-18.

5.49 In its evidence to us this year, MOD argued that the current methodology used for adjusting the DFC was not sufficiently responsive to food cost inflation (or deflation) in-year, and therefore proposed introducing a mechanism to allow the DFC to be adjusted in-year, reflecting movements in food prices. The proposal was not to adjust the methodology for collecting the food cost data which already reflects actual costs

⁵ So for our 2017 Report we used the data for the cost of provisioning the core menu using MOD's food supply contractor price lists for the period November 2015 to October 2016.

on a month by month basis, but to review the data every three months rather than every 12 as at present. If there is a significant increase or decrease in food costs in a given quarter, the DFC would be either increased or decreased based upon the previous quarter's average cost of the food basket. MOD would report any in-year changes as they occurred and still report to us on an annual basis the result of any amendments to the DFC for governance and assurance oversight. We would retain the responsibility for recommending the value of the DFC from 1 April each year.

- 5.50 The vast majority of Service personnel are fed through commercial Industry Partners (IPs) in accordance with the policy provisions of the Menu Policy and Food Input Standards which underpin operational capability. The DFC fixes the price for the provision of three meals a day for Phase 1 recruits without recognising that if the funding does not properly track the actual market price of food affected by food cost inflation in-year, the IP may not be able to continue to provide a nutritionally balanced meal. In these circumstances, the only recourse that IPs have to subsume food cost inflation whilst providing the core meal is by providing a lesser quality product, reducing portion sizes, or limiting the number of menu choices to stay within an imposed financial constraint. MOD said that IPs were not permitted to make any profit in the delivery of the core meal, and argued that it should be flexible in responding to external pressures such as food cost inflation to ensure that IPs are provided with sufficient funding to maintain minimum nutritional standards.
- 5.51 Data supplied by MOD showed the impact of food cost inflation over the last two years. For this year's recommendation on the DFC from 1 April 2018, we have used the previous approach. Our 2017-18 recommendation was based on the daily food supply contract data covering the period from November 2015 to October 2016. Our recommendation for this year is based on the daily food supply contract data over the 17-month period from November 2016 to March 2018. The average cost over that period supports an increase to the DFC to £4.97, an increase of 18 pence, which we recommend.
- 5.52 In future, as proposed by MOD, we are content that food cost data will be reviewed by MOD on a quarterly basis, and the DFC will be adjusted in-year provided that the cost has increased or decreased by at least 2 per cent. We expect MOD to keep us informed in-year of any such changes. We will continue to be responsible for setting the level of the DFC from 1 April each year in our annual reports. We will also review the impact of the new arrangements in the coming year.
- 5.53 We expect this new arrangement to ensure the quality of the ingredients can be maintained by caterers and will lead to an increase in both the quality and take-up of the core meal. We will be looking for such evidence both during our visits and in MOD's written evidence. We will, of course, use the opportunity of our visit programme to sample the core meal first hand.

Recommendation 15: We recommend that from 1 April 2018 the Daily Food Charge should be increased by 18 pence to £4.97.

Chapter 6

X-FACTOR

Introduction

- 6.1 This chapter sets out the evidence for and our recommendations on X-Factor following our latest five-yearly review. X-Factor is a pensionable addition to pay that recognises the special conditions of service experienced by members of the Armed Forces compared with civilian employment. It accounts for a range of potential advantages and disadvantages which cannot be evaluated when assessing pay comparability. X-Factor is not intended to compensate for the particular circumstances that Service personnel face at any one time but instead is aimed at reflecting the balance of advantage and disadvantage averaged out across a whole career.
- 6.2 Our last review, for the 2013 Report, concluded there had been sufficient change in the degree of disadvantage for the military relative to civilian life for the rate of X-Factor to be increased by 0.5 percentage points to 14.5 per cent. For this review we have examined the trends in the period since then. We have also assessed the evidence relating to those groups receiving differential levels of X-Factor.
- 6.3 In conducting our review we have considered a range of evidence, including:
- MOD's analysis of changes for the military since 2012
 - Independent research on civilian trends since 2012 commissioned from Incomes Data Research (IDR)
 - Views expressed to us by all ranks of Service personnel and their families on our visits
 - Information from the Armed Forces Continuous Attitude Survey (AFCAS)
 - Views presented to us in oral evidence including the Service Families' Federations, the Principal Personnel Officers and the Secretary of State and
 - Our secretariat's analysis of other military and civilian information.

As far as possible, we have based our assessment on data across the whole review period.

The rationale for X-Factor

- 6.4 X-Factor has been a component of Armed Forces' pay since the introduction of the military salary in 1970. At the time X-Factor was introduced, the special conditions of military life (as compared to normal civilian employment) were deemed to include disadvantages such as the liability to danger, being subject to discipline, turbulence and the other adverse conditions of Service employment. The advantages included breadth of training and early responsibility. These elements were viewed as requiring special, but not specific, compensation. The National Board of Prices and Incomes acknowledged at the time that an 'element of judgement must inevitably enter into the measurement of them in financial terms' and that the amount 'may need to be varied from time to time'.
- 6.5 This element of judgment remains relevant when reviewing X-Factor. There is no mathematical formula used to determine the outcome and no fixed weighting is applied. While we assess the components individually to identify any changes since the previous review, we view them collectively when reaching our overall recommendation.

- 6.6 This and previous reviews of X-Factor have thoroughly assessed all components, applied an appropriate judgement to the level of X-Factor and recommended changes as and when justified by the evidence. We note that the absolute level of X-Factor has changed by only 4.5 percentage points in total since 1974 and individual increases have typically been modest at either 0.5 per cent or one per cent.

Context

- 6.7 The resizing and reorganisation of the Armed Forces arising from the 2010 Strategic Defence and Security Review (SDSR) was largely completed during this period, which has also seen the commencement of changes arising from SDSR 2015. For some parts of the Armed Forces this has resulted in additional unit moves. Recent years have seen manning deficits and acute gaps persisting in a range of specialist cohorts. The recruitment and retention environment is expected to remain challenging in the medium term and attainment of manning balance across the whole workforce is not forecast again until the 2020s.
- 6.8 Whilst overseas campaign operations during this period have reduced, the Armed Forces have remained heavily committed across a range of other intense overseas deployments and in support of wider security within the UK. As is evident from the recent short-term deployment of Service personnel in support of civil and emergency services, the Armed Forces have seen a continuing requirement to support UK resilience through the holding of personnel at increased readiness/short Notice To Move (NTM). The increasing frequency of these short commitments alongside the continued, additional smaller scale overseas operations does impact family life and work tempo.
- 6.9 The period has also seen a review of Service personnel terms and conditions of service through the New Employment Model (NEM). The two main changes to the remuneration of Service personnel during the review period have been the introduction of a new Armed Forces Pensions Scheme (AFPS 15) with effect from April 2015 and a new pay structure (Pay16) with effect from April 2016.

Analysis of X-Factor components – military and civilian

- 6.10 The components of X-Factor are reviewed from time to time, most recently in 2014, when they were reviewed and reduced from 18 to 13. Accordingly for this round, we sought evidence from MOD and others based on these revised components. Our approach to this review was to undertake a thorough analysis of the military and civilian evidence for each component of X-Factor in turn. We then assessed the relative change in terms of the military since the last review. Our conclusion on each component does not necessarily correspond with that of MOD and IDR as presented in their analyses, but it represents our considered assessment of the totality of the evidence we received and heard. In reaching our overall assessment based on the analysis of individual components, we do not apply a formulaic weighting but do recognise that the 13 components are not all of equal value. A summary of our assessments is presented in Table 6.1 below.
- 6.11 *Turbulence*. This is defined as “dislocation to family and social life caused by regular changes to both the type and geographical location of work whose effect is exacerbated when the employee receives short notice about these changes.” The evidence we received from the MOD argued that this component was unchanged, and drew on initiatives such as the Forces Help to Buy Scheme to improve stability in accommodation. We considered that MOD’s evidence underplayed the significance of the number of personnel at Higher Readiness and Short NTM. Our evidence on the civilian sector also suggested a slight deterioration in this factor, with a decline in home ownership, particularly for younger age groups. Overall, we assessed this component to be **unchanged**.

- 6.12 *Spousal/partner employment.* This new component accounts for the fact that “the turbulent nature of life in the Armed Forces may have a varied and detrimental impact on spouse/partner employment.” MOD’s evidence drew on initiatives such as the Partner Employment Project and Career Assistance programmes, alongside improved childcare infrastructure and provision to support its argument that the position had improved slightly. We concluded that recent initiatives needed more time to bed in fully before it was reasonable to conclude that these had improved the situation sustainably. Views gathered from our visit programme suggested that it was not just about employment opportunities, but about the quality of employment. We also noted that changes in technology allowed people increasingly to be entrepreneurial and run businesses from home. Overall, we agreed with the assessment that the military position had slightly improved in relation to this component over the last five years. Our evidence on the civilian sector showed a clear improvement for this component, with an increase in women’s employment and activity rates, better childcare provision, higher satisfaction with women’s jobs and careers and modest increases in women in professional and managerial roles. We also noted that civilian employers were increasingly willing to be flexible about working patterns. Taken together, we assessed that the military position for this component had **slightly worsened**.
- 6.13 *Danger.* The definition of danger within the X-Factor is “a threat of real or perceived violence; an environment or area which is deemed physically unsafe or uncomfortable for natural, manmade and/or political reasons; danger of death; short or long-term injury to physical or mental health; and injury to oneself or others.” MOD’s evidence argued that this component had improved for the military, particularly given the reduction in major operations and overall tempo since our last X-Factor review which has resulted in a significant reduction in mortality rates. We agreed, but noted that the risk on operations, while acute, was by no means the only heightened risk faced by members of the Services when compared to civilians. Our evidence on the civilian sector showed a slight improvement based on a fall in road accidents and a drop in the number of non-fatal injuries in the workplace. We felt that the civilian data presented could be underplaying the increases in knife crime and threat of terrorism. Overall, we assessed that the relative military position for this component had **slightly improved**.
- 6.14 *Separation.* This is defined as “being separated from home and/or family and friends for a period of time because of working commitments.” MOD presented data suggesting that the position on Individual Harmony breaches had improved but that increased periods of being held at Short NTM meant that the position for the military had slightly deteriorated overall. Our civilian data showed that domestic business travel had slightly decreased, and that international business travel was unchanged, suggesting no significant change overall. We found the evidence on this component less than compelling and concluded that overall the relative military position had **slightly worsened**.
- 6.15 *Job security.* This is defined as “the knowledge, based on past history, that the individual will be able to work within the same organisation, albeit within different divisions, for a significant number of years and enjoy similar or increased levels of remuneration.” MOD suggested that there had been deterioration in this component to some degree. We noted the redundancies in the Services following the 2010 SDSR up until 2015 but considered that job security for those currently in post was good, a point supported by recent Armed Forces Families Continuous Attitude Survey (FAMCAS) results. Our civilian data showed improvements in employment rates and a fall in redundancies, but we considered the evidence on the civilian workforce underplayed the impact of the changing world of work including the increased prevalence of ‘zero hours’ contracts, and considered there to be a small deterioration for civilians overall. On balance, we assessed this component to be **unchanged**.

- 6.16 *Hours of work.* This component is normally defined within the employment contract and needs to accord with European legislation, although UK companies may request employees to sign an agreement which exempts the individual from restrictions imposed by the hours of work legislation. Armed Forces personnel are also exempt from the working hours legislation, and have a requirement to be available for duty 24 hours a day for 365 days a year. MOD's evidence drew on the Continuous Working Pattern Survey to show overall reductions in the number of hours worked (except for senior officers), and reductions in unsociable hours, excessive hours, hours on call and hours on duty. We noted that these trends were however heavily reliant on the step change in hours of work between 2012 and 2013: since then, the position was largely unchanged. We also had some reservations about the value of the survey given the small sample size and low response rate. Taking account of the current requirement for many Service personnel to be on Short NTM, we concluded that this component was unchanged for the military. The civilian data also suggested an unchanged position on the number of basic hours worked, median hours worked and unsocial hours worked, although we noted the growth in unpaid overtime and a decline in overtime premia. While the military continues to work longer hours than civilians, our assessment of the relative change in this component is that it was **unchanged**.
- 6.17 *Stress, personal relationships and impact of the job.* This is defined as "the adverse reaction to excessive pressures or other types of demand placed on individuals at work." MOD's evidence for this factor was limited, but it showed an increase in stress-related illness and we saw no reason to disagree with MOD's assessment that things had deteriorated in the military. We also noted the pressure on certain niche capabilities caused by continued manning gaps and various Operational and Manning Pinch Points; and a greater number of smaller but equally challenging ongoing operations in a wider range of theatres and the consequent impact on Service personnel. Our data on the civilian sector suggested things were unchanged, but we thought this underplayed the impact of stress in some parts of the private sector as well as many parts of the public sector such as the NHS, Police, Prisons and Local Government. Overall we assessed that this component had **slightly worsened**.
- 6.18 *Leave.* This is defined as "the entitlement to a fixed number of working days off from one's job as defined in the employment contract." MOD's evidence said that this component had improved slightly, although we noted the main increase in leave occurred between 2012-13 and 2013-14, after which the data are more stable. We also noted that views gathered from the visit programme did not accord with MOD's evidence, and that there continue to be regular reports of personnel being unable to take their full leave entitlement as well as having to change leave arrangements at short notice. We concluded that overall the position on leave was broadly unchanged for military personnel. On the civilian side, we noted some positive developments such as the ability for individuals to "sell" some part of their leave as part of modern employment packages but again concluded the overall position was unchanged. Overall therefore we assessed this component as **unchanged**.
- 6.19 *Training, education, adventure training and personal development.* This is defined as "the facilitation of learning new skills, or improving existing skills, which enhance the abilities of individuals to do their job or further their career." MOD's evidence noted slight improvements in satisfaction with professional training and personal development, along with improvements in educational provision under the auspices of the Armed Forces Covenant and the New Employment Model, but a deterioration in the timing of training and access to adventure training. Access to sport was unchanged. MOD thought the overall position for the military was unchanged and we concurred. Data for the civilian sector showed a fall in the number of people not in education, employment or training and increases in apprentices. However, we thought that the data did not reflect the fact that in the private sector, training budgets were amongst the first to be cut in a

recession, and that data on participation in training underplayed the fall in total hours spent training. Overall, we concluded that the civilian sector was also unchanged over the period. We therefore assessed that overall this component was **unchanged**.

- 6.20 *Promotion and early responsibility*. This is defined as “the endorsement of an individual’s ability in the form of an elevation in both status and responsibility.” MOD assessed the military picture as having deteriorated somewhat based on drops in satisfaction with opportunities with promotion and with the perceived fairness of the promotion system. We highlighted the concerns of the remit group during visits with the quality of career management, sometimes feeling they were unable to speak out. We accepted MOD’s conclusion for the military. The civilian data drew on data that pointed to an improvement in employees’ perception of career progression and a greater proportion of under-30s in management posts, but we considered that ongoing organisation change including delayering within the civilian sector had reduced and/or removed opportunities for promotion, suggesting an overall small decline in this component for civilians. On balance therefore, we assessed that overall this component was **unchanged**.
- 6.21 *Autonomy, management control and flexibility*. This is defined as “the degree of management control exercised over the individual.” We noted the continued lack of robust data both from the MOD and across civilian positions. In the absence of clear evidence of any significant change, we assessed this component as **unchanged**.
- 6.22 *Individual, trade union and collective rights*. This addresses the fact that individual legal rights are enjoyed by UK citizens and by those with a right to remain and work in the UK. The European Union also affords its residents additional rights. The Armed Forces are not subject to much of this legislation. MOD’s evidence argued for no change to the military position. We noted that the civilian sector had seen a number of regulatory changes, including a doubling of the period before employees were eligible to claim for unfair dismissal (from one to two years), along with an increase in zero hours contracts and the rise of the ‘gig’ economy. The Trade Union Act 2016 changed rules on taking industrial action, reporting and the costs of regulation. Taken together, it pointed to a slight deterioration in this component for civilians. Overall, we assessed that the military position for this component had **slightly improved**.
- 6.23 *Travel to work*. This component is divided into travel time, means of conveyance, and the cost of getting to work. MOD’s evidence suggested that this component had deteriorated to some degree for the military, but we noted that any increases in travel costs were also felt by the civilian sector. We also observed that the military was increasingly unusual in having the benefit of a Home to Duty travel allowance. Overall, we assessed this component as **unchanged**.

Table 6.1: X-Factor Review – Assessment by component

X-Factor Component	Military	Civilian	Net change
<i>Turbulence</i>	Slight deterioration	Slight deterioration	No change
<i>Spousal/partner employment</i>	Slight improvement	Improvement	Slight deterioration
<i>Danger</i>	Improvement	Slight improvement	Slight improvement
<i>Separation</i>	Slight deterioration	No change	Slight deterioration
<i>Job security</i>	Slight deterioration	Slight deterioration	No change
<i>Hours of work</i>	No change	No change	No change
<i>Stress, personal relationships and impact of the job</i>	Deterioration	Slight deterioration	Slight deterioration
<i>Leave</i>	No change	No change	No change
<i>Training, education, adventure training and personal development</i>	No change	No change	No change
<i>Promotion and early responsibility</i>	Slight deterioration	Slight deterioration	No change
<i>Autonomy, management control and flexibility</i>	No change	No change	No change
<i>Individual, trade union and collective rights</i>	No change	Slight deterioration	Slight improvement
<i>Travel to work</i>	Slight deterioration	Slight deterioration	No change

Conclusions

- 6.24 The review of X-Factor has been an important area of work for us this year. Our overall assessment is that there is insufficient evidence of a clear change in the conditions of military life relative to civilian life over the last five years for us to recommend a change to X-Factor this year.
- 6.25 Our detailed analysis suggested a slight relative worsening for the military in three components, a slight improvement in two components, with the remaining eight components relatively unchanged. Components showing a slight deterioration were: Spouse/partner employment; Separation; and Stress, personal relationships and impact of the job. Those showing slight relative improvements were: Danger; and Individual, trade union and collective rights. Whilst, overall, we concluded there was some evidence of a slight net deterioration in military life, this was confined to a small number of areas and we did not believe it to be sufficiently significant to support an increase in the level of X-Factor.
- 6.26 As was the case in our previous review, we again had some concerns about the availability of suitably robust evidence to inform some of the components. **In the review of the X-Factor components that will precede the next review of the level of X-Factor it will therefore be essential to ensure that the revised set of components can be adequately informed by robust underpinning evidence with respect to both the civilian and military sectors. This needs to be done early in the next cycle.**

The X-Factor taper

- 6.27 From the introduction of X-Factor in 1970 until the 2008 review, a taper existed for Officers above Level 5 of the OF4 (Lieutenant Colonel and equivalents) payscale. OF4s above this point and OF5s (Colonel and equivalents) received two-thirds of the cash value received at Level 5 OF4. OF6s (Brigadier and equivalents) received one-third of the same cash value, with no payment to Officers above the rank of OF6. The 2008 review highlighted the frequency and longer duration of operational deployments for more senior Officers and resulted in a change to their tapering arrangements with full X-Factor being paid to all OF4s, 75 per cent (of the cash value at the top of the OF4 payscale) at OF5 and

50 per cent (of that same cash value) at OF6, OF7 and OF8 ranks (covered by the Review Body on Senior Salaries) received X-Factor for the first time, set at 25 per cent of the same cash value. The 2013 review made no changes to these tapering arrangements. MOD's evidence to us this year provided a mixed picture on senior officers: higher workload pressures reported by some, whilst others felt that the compensation offered through current X-Factor arrangements were satisfactory. **While we do not believe that we have seen evidence this year to justify any immediate amendment to the tapering arrangements, we consider that this issue merits ongoing consideration and will seek to explore it further with relevant parties in our forthcoming visits programme. Any work will need to be co-ordinated with the Review Body on Senior Salaries whose remit includes the most senior members of the military.**

Evidence on other groups

6.28 Reserves, Military Provost Guard Service (MPGS), the Royal Gibraltar Regiment (RG) and its Reserves all receive a lower rate of X-Factor. We assess the evidence below for these groups.

Reserves

6.29 Reserve Forces currently receive 0 per cent, 5 per cent or 14.5 per cent X-Factor depending on the level and type of commitment. Mobilised Reserves and Full-Commitment Full Time Reserve Service receive full X-Factor. Part-time Volunteer Reserves receive 5 per cent X-Factor for training and duty days. MOD's evidence suggested that Service life for Reserves has been impacted to a similar degree as that for the main Regular cohort. We therefore confirm that the existing rates of X-Factor remain appropriate.

Military Provost Guard Service

6.30 MPGS personnel provide an armed guarding service at defence establishments and receive 5 per cent X-Factor to reflect the less restrictive and local nature of their employment compared with Regular Forces. MOD's evidence stated there have been no significant changes to their terms and conditions of service to merit altering the current level of X-Factor. We therefore confirm that the existing level remains appropriate.

Royal Gibraltar Regiment and RG Reserves

6.31 Personnel from the Royal Gibraltar Regiment receive 6.5 per cent X-Factor (RG Reserves 3.25 per cent) due to the different balance of X-Factor elements and the unique and local nature of their employment. MOD's evidence this year highlighted a range of additional roles taken on by the Regiment in recent years, although it emphasised that there remained significant differences between the RG and UK Armed Forces more widely which justified a continued significant differential in X-Factor. On balance, we confirm that the existing levels remain appropriate.

Recommendation 16: We recommend that all rates of X-Factor remain unchanged.

Chapter 7

LOOKING AHEAD

Cost of recommendations

- 7.1 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 2.9 per cent was appropriate.

Table 7.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	36
Medical and Dental Officers	4
Other Ranks	113
Total	153
RRP, allowances & other targeted payments (all Regular Services)	17
Total pay (all Regular Services)	170
Reserve Forces (including cadets)	10
Employers' national insurance contribution – all	25
Estimated effect of SCAPE ^b	85
Total paybill cost including Reserves	290
<i>Less: total increased yield from charges</i>	<i>-2</i>
Net cost of recommendations	289

^a Recommendations from 1 April 2018. Components may not sum to the total due to rounding.

^b Superannuation Contributions Adjusted for Past Experience.

Looking ahead

- 7.2 The prolonged period of pay restraint in the public sector in the UK has had a clear impact on our remit groups. The results of the Armed Forces Continuous Attitude Survey (AFCAS) showed satisfaction with pay, pension and benefits at an all-time low. This corresponds with the messages we picked up during our visit programme in 2017. We will therefore be giving close attention to the state of motivation and morale as we undertake our 2018 visits. We will also be monitoring what happens to average earnings in the wider economy: this is particularly important given the requirement within our terms of reference to have regard to the need for the pay of the Armed Forces to be broadly comparable with pay levels in civilian life. We note that the overall economic picture remains uncertain.
- 7.3 Certain skill shortages continue to be a concern. We have welcomed the progress that MOD has made in addressing issues with the engineering cohort through its Defence Engineering Remuneration Review, but it will be vital not to lose focus on this. For our next round, MOD will be submitting further proposals for our consideration that may include bespoke pay spines or other pay mechanisms. We look forward to receiving this evidence.
- 7.4 Other cadres are also subject to external market forces, not necessarily just those tied to specific trade groups. We commented last year that MOD will need to be proactive in addressing the recruitment and retention challenge for those with cyber skills, and we

have been told that bespoke arrangements for this group are under development. We encourage MOD to give this group urgent attention and stand ready to consider any relevant proposals.

- 7.5 We have commented earlier in our Report on the inability of the training pipelines to deliver Suitably Qualified and Experienced Personnel in key skill shortages such as Intelligence Linguists and Pilots to the extent that these projected shortfalls extend beyond 2025. MOD told us that the operational impacts were rated as 'significant'. Those Service personnel serving within these skill shortage groups were often on the operational frontline and therefore subject to extended stress and turbulence in domestic arrangements which poses a higher Voluntary Outflow risk. Our view remains that it is of critical importance that investment in training capacity for key skill shortages is recognised by MOD as an essential element of any long-term solution.
- 7.6 This report includes our quinquennial review of X-Factor. Our discussions on this have led us to conclude we should examine the components which underpin X-Factor, to see if they are still appropriate or require further amendment as occurred following our 2013 consideration of X-Factor, with a view to ensuring MOD and our secretariat can start to formulate a firm evidence base for our next five-yearly X-Factor review. Specifically, as noted in Chapter 6, senior officers in our remit group receive a reduced rate of X-Factor through tapering arrangements. While we do not believe that we have seen evidence this year to justify any immediate amendment to the tapering arrangements, we consider that this issue merits ongoing consideration and will seek to explore it further, co-ordinating with the Review Body on Senior Salaries as appropriate.
- 7.7 On accommodation, the main issue raised during our visit programme continues to be the poor standard of service and maintenance (which of course affects both Service Family Accommodation and Single Living Accommodation (SLA)). We will be monitoring closely the performance of CarillionAmey, particularly given the recent collapse of Carillion. We have been assured that this will not affect the service provided to Service personnel and their families, and will be looking for evidence of this on our forthcoming visit programme and in the performance statistics against the Key Indicators in the maintenance contract. We will also be looking at how the recently introduced compensation scheme develops and has been received by Service personnel and their families.
- 7.8 On SLA specifically, our recommendation on rental increases is tied to our expectation that MOD will remove from use the worst pockets of SLA by 2020 at the latest. We acknowledge that MOD is investing in the provision of new SLA and we welcome this. The move for more local control over SLA budgets should, we trust, incentivise local commanders to make more informed decisions about the use of the SLA estate and we will explore this issue with them during our forthcoming visits. We also expect to be provided with better data on the SLA estate through the long-promised SLA Management Information System.
- 7.9 MOD continues with its significant and wide ranging transformation programme, currently being delivered through the various strands of the People Programme. We are grateful for the briefings provided over the course of the last year. As we have previously noted, the scale and pace of the proposed changes concern us. The perception of Service personnel is that any changes are being driven by the need to make savings, leading to a worsening offer. It is vital to the credibility of the People Programme with Service personnel that MOD is open where savings are one of the drivers behind particular strands: upbeat communications which focus exclusively on buzzwords like 'modernisation' and 'choice' however appropriate while omitting the savings element do more harm than good in our view. This has the potential to further impact on morale. The uncertainty surrounding the Future Accommodation Model (FAM) was one of the

key concerns raised during our visit programme. We note that FAM is due to be piloted later this year: it will be critical for MOD to learn any lessons from the pilot, and be clear and timely in its communications with Service personnel and their families.

- 7.10 Tempo and workload were key themes we heard about during our visit programme. Whilst these issues are not strictly within our remit, they are clearly having an impact on the general motivation and morale as well as recruitment and retention within our remit group. It is also inevitable in our view that they colour the way Service personnel regard the overall military offer including their pay rates. Despite what we are told when meeting with senior MOD officials, Service personnel do not appear to recognise the phrase “good busy”. We hope that the current Modernising Defence Programme will look more critically at matching tasks to the resources available.
- 7.11 We wish to reinforce a message we made in our last report. From our visits, we continue to pick up messages 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 vital 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 excellent leadership and trust in the chain of command.
- 7.12 As indicated in our last report for Medical Officers and Dental Officers (MODOs), this year we include consideration of this group in our main report. In the coming year, we want to develop our pay comparability analyses for MODOs. We do not consider that any ongoing delay in agreement to changes to the NHS consultant contract should prevent us from considering the appropriate comparators for general medical practitioners or general dental practitioners. The methodology for taking account of the relative advantage of pensions for MODOs is also important in this context and we expect the parties to submit the relevant evidence for our consideration in the coming round.

Our next Report

- 7.13 Our next Report will as usual incorporate our recommendations on pay, allowances, 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 have been introduced to counter specific workload and skill issues within the Armed Forces.
- 7.14 Specific scheduled reviews we intend to undertake next year are: Chaplains; Northern Ireland Residents’ Supplement; and Unpleasant Living Allowance. Additionally, we will carry out full reviews of the following categories of Recruitment and Retention Payment: Diving; Explosive Ordnance Disposal; and Special Forces Communications.
- 7.15 We will continue to monitor the comparability of military and civilian pay using average weekly earnings and pay settlements data, the Annual Survey of Hours and Earnings as well as graduate pay surveys. We will also continue our research matching Armed Forces’ roles with relevant external comparators.

Conclusions

- 7.16 As noted in Chapter 1, we are grateful to all those that took part in the discussion groups during our visit programme. We also wish to thank all of those that responded to the various surveys, such as the AFCAS or the Working Patterns Survey. These contributions form a valuable part of our evidence base. Given their importance to our deliberations, we encourage MOD to utilise the technology now available to operate on-line surveys.

This will enable them to increase the sample size, speed up the analysis, facilitate the feedback to both Service personnel and the chain of command and implement appropriate action plans on a timely basis.

- 7.17 As in previous years, we make no apology for emphasising the need for, and importance of, clear communication. Service personnel have and are continuing to deal with significant ongoing change. Naturally, they are apprehensive, particularly about the outcomes from the current People Programme. Communications must be open, transparent, owned throughout the chain of command, and regularly reinforced. As noted in Chapter 3, we want MOD to continue with its communication efforts to increase awareness and understanding of the relative advantage and absolute value of the Armed Forces pension scheme, which in turn should help retention. It is essential that those passing on messages do not undermine them, but are adequately briefed, convey them properly, and deal appropriately with any concerns that Service personnel raise. In our view, this is a critical issue, given the potential to affect motivation, morale and retention both positively and negatively. MOD must listen and respond appropriately to feedback on any proposed changes from Service personnel and their families.
- 7.18 As our Report highlights, it continues to be a challenging time for our Armed Forces against an external background of a tightening and competitive labour market with particular focus on key skills. There is also higher inflation and projected increases in national average earnings. Internally, the military face heightened national security requirements and ongoing international operations. The significant transformation programme of recent years also continues and, following the introduction of the new pension scheme and pay structure, further changes are in progress through the Armed Forces People Programme. These cover important areas such as the new Future Accommodation Model and the Flexible Engagements System, all in addition to restructuring, rebasing and sustained high tempo and workload. Along with recruitment, retention and morale concerns affecting Service personnel and their families, there is perhaps unsurprisingly an atmosphere of uncertainty and doubt. This requires ongoing excellent communications and a high level of leadership throughout the chain of command.
- 7.19 We hope that our recommendations in this year's Report help to create an environment where the dedication, professionalism and resilience of our Armed Forces is recognised and safeguarded in the overall interests of the UK's national defence and security.

John Steele
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March 2018

Appendix 1

Salaries (including X-Factor)¹ for 1 April 2017 and recommendations for 1 April 2018

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

Table 1.1: Other Ranks

Range and Ranks	Level	1 April 2017 (£)				1 April 2018 (£)			
		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	49,354	49,354	49,354	50,685	50,785	50,785	50,785	52,155
Warrant Officer I (Royal Marines)	OR-9-4	48,854	48,854	48,854	50,234	50,271	50,271	50,271	51,691
Warrant Officer I (Army)	OR-9-3	48,308	48,308	48,308	49,756	49,709	49,709	49,709	51,198
Warrant Officer (Royal Air Force)	OR-9-2	47,762	47,762	47,762	49,283	49,147	49,147	49,147	50,712
	OR-9-1	47,488	47,488	47,488	48,865	48,865	48,865	48,865	50,282
	OR-9-1	47,488	47,488	47,488	48,865	48,865	48,865	48,865	50,282
Range 4 (OR-7 – OR-8):									
Warrant Officer II, Chief Petty Officer (RN)	OR-7-10	44,175	45,576	46,556	47,895	46,898	47,906	47,906	49,284
Warrant Officer II, Colour Sergeant (RM)	OR-7-9	43,435	44,991	46,279	47,619	46,295	47,621	47,621	49,000
Warrant Officer II, Staff Sergeant (Army)	OR-7-8	42,711	44,388	45,985	47,325	43,949	45,675	47,319	48,697
Flight Sergeant, Chief Technician (RAF)	OR-7-7	41,880	43,781	45,658	46,974	43,095	45,050	46,982	48,336
	OR-7-6	41,002	42,903	45,014	46,482	42,191	44,147	46,320	47,830
	OR-7-6	41,002	42,903	45,014	46,482	42,191	44,147	46,320	47,830
	OR-7-5	40,122	41,799	43,777	45,216	41,285	43,011	45,046	46,527
	OR-7-4	39,501	41,178	42,915	44,517	40,646	42,373	44,159	45,808
	OR-7-3	38,907	40,585	42,166	43,768	40,035	41,762	43,389	45,038
	OR-7-2	38,292	39,969	41,437	43,040	39,402	41,128	42,638	44,288
	OR-7-1	37,698	39,284	40,708	42,352	38,791	40,423	41,889	43,580
	OR-7-1	37,698	39,284	40,708	42,352	38,791	40,423	41,889	43,580

¹ 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 2017 (£)				1 April 2018 (£)			
			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		36,948	38,504	39,854	41,441	38,020	39,620	41,009	42,642
Sergeant (RM)	OR-6-4		36,064	37,550	38,859	40,378	37,110	38,639	39,986	41,549
Sergeant (Army)	OR-6-3		35,188	36,495	37,912	39,354	36,209	37,554	39,012	40,496
Sergeant (RAF)	OR-6-2		34,324	35,535	37,003	38,343	35,320	36,566	38,076	39,455
	OR-6-1		33,490	34,618	36,081	37,266	34,462	35,622	37,128	38,347
	OR-6-1		33,490	34,618	36,081	37,266	34,462	35,622	37,128	38,347
Range 2 (OR-4):										
Leading Rate (RN)	OR-4-5		31,888	32,960	34,351	35,378	32,813	33,915	35,347	36,404
Corporal (RM)	OR-4-4		31,441	32,513	33,739	34,685	32,352	33,456	34,717	35,691
Corporal (Army)	OR-4-3		31,017	32,074	33,043	33,873	31,917	33,004	34,001	34,855
Corporal (RAF)	OR-4-2		30,565	31,449	32,316	33,096	31,451	32,361	33,253	34,056
	OR-4-1		29,769	30,635	31,478	32,259	30,632	31,523	32,390	33,194
	OR-4-1		29,769	30,635	31,478	32,259	30,632	31,523	32,390	33,194
Range 1 (OR-2 – OR-3):										
Able Rating (RN)	OR-2-9	OR-3-3	27,949	28,721	29,327	29,899	28,759	29,554	30,178	30,766
Lance Corporal, Marine (RM)	OR-2-8	OR-3-2	26,708	27,408	27,944	28,438	27,482	28,203	28,754	29,263
Lance Corporal, Private (Army)	OR-2-7	OR-3-1	25,525	26,118	26,628	27,092	26,265	26,875	27,400	27,877
Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)	OR-2-6		24,414	24,899	25,409	25,733	25,122	25,621	26,146	26,480
	OR-2-5		23,334	23,670	24,090	24,402	24,011	24,356	24,788	25,110
	OR-2-4		22,255	22,503	22,839	23,151	22,900	23,156	23,501	23,823
	OR-2-3		21,148	21,398	21,657	21,657	21,761	22,018	22,285	22,285
	OR-2-2		19,831	19,831	19,831	19,831	20,406	20,406	20,406	20,406
	OR-2-2		19,831	19,831	19,831	19,831	20,406	20,406	20,406	20,406
	OR-2-1		18,489	18,489	18,489	18,489	19,025	19,025	19,025	19,025
	NERP		14,931	14,931	14,931	14,931	15,364	15,364	15,364	15,364

Table 1.2: Officers

Range and Rank	Step	1 April 2017 (£)	1 April 2018 (£)
OF-6			
Commodore (Royal Navy)	5	106,293	109,375
Brigadier (Royal Marines)	4	105,259	108,312
Brigadier (Army)	3	104,226	107,248
Air Commodore (Royal Air Force)	2	103,192	106,185
	1	102,159	105,121
	1	102,159	105,121
OF-5			
Captain (RN)	7	94,237	96,970
Colonel (RM)	6	92,819	95,511
Colonel (Army)	5	91,401	94,051
Group Captain (RAF)	4	89,982	92,592
	3	88,563	91,132
	2	87,145	89,672
	1	85,726	88,212
	1	85,726	88,212
OF-4			
Commander (RN)	7	81,934	84,310
Lieutenant Colonel (RM)	6	80,072	82,394
Lieutenant Colonel (Army)	5	78,209	80,478
Wing Commander (RAF)	4	76,347	78,561
	3	74,485	76,645
	2	72,628	74,734
	1	70,760	72,812
	1	70,760	72,812
OF-3			
Lieutenant Commander (RN)	7	60,381	62,132
Major (RM)	6	58,721	60,423
Major (Army)	5	57,060	58,715
Squadron Leader (RAF)	4	55,399	57,006
	3	53,739	55,297
	2	52,078	53,588
	1	50,417	51,879
	1	50,417	51,879
OF-2			
Lieutenant (RN)	7	47,598	48,979
Captain (RM)	6	46,336	47,680
Captain (Army)	5	45,074	46,381
Flight Lieutenant (RAF)	4	43,812	45,082
	3	42,550	43,784
	2	41,287	42,485
	1	40,025	41,186
	1	40,025	41,186

Range and Rank	Step	1 April 2017 (£)	1 April 2018 (£)
OF-1			
Sub-Lieutenant (RN)	5	34,522	35,523
Lieutenant, 2 nd Lieutenant (RM)	4	33,425	34,394
Lieutenant, 2 nd Lieutenant (Army)	3	32,329	33,266
Flying Officer, Pilot Officer (RAF)	2	31,232	32,138
	1	25,984	26,738
OF-0			
	3	19,423	19,986
	2	17,582	18,092
	1	14,819	15,248

Table 1.3: Clearance Divers

Range and Ranks	Level	Level	1 April 2017 (£)	1 April 2018 (£)
Range 5 (OR-9):				
Warrant Officer I	OR-9-5		66,228	68,148
	OR-9-4		65,616	67,519
	OR-9-3		65,005	66,890
	OR-9-2		64,394	66,261
	OR-9-1		63,782	65,632
	OR-9-1		63,782	65,632
Range 4 (OR-7 – OR-8):				
Chief Petty Officer	OR-7-10	OR-8-5	62,532	64,345
	OR-7-9	OR-8-4	61,986	63,784
	OR-7-8	OR-8-3	61,440	63,222
	OR-7-7	OR-8-2	60,895	62,661
	OR-7-6	OR-8-1	60,349	62,099
	OR-7-6	OR-8-1	60,349	62,099
	OR-7-5		59,166	60,881
	OR-7-4		58,632	60,332
	OR-7-3		58,098	59,782
	OR-7-2		57,564	59,233
	OR-7-1		57,030	58,683
	OR-7-1		57,030	58,683
	Range 3 (OR-6):			
Petty Officer	OR-6-5		55,857	57,477
	OR-6-4		54,348	55,924
	OR-6-3		52,838	54,371
	OR-6-2		51,329	52,818
	OR-6-1		49,820	51,265
	OR-6-1		49,820	51,265

Table 1.4: Military Provost Guard Service (MPGS)

Range and Ranks	Level	Level	1 April 2017 (£)	1 April 2018 (£)
Range 5 (OR-9):				
	OR-9-5		42,709	43,948
	OR-9-4		41,997	43,215
	OR-9-3		41,284	42,481
	OR-9-2		40,571	41,748
	OR-9-1		39,857	41,013
	OR-9-1		39,857	41,013
Range 4 (OR-7 – OR-8):				
	OR-7-10	OR-8-5	39,075	40,208
	OR-7-9	OR-8-4	38,425	39,539
	OR-7-8	OR-8-3	37,784	38,880
	OR-7-7	OR-8-2	37,049	38,124
	OR-7-6	OR-8-1	36,272	37,324
	OR-7-6	OR-8-1	36,272	37,324
	OR-7-5		35,502	36,532
	OR-7-4		34,953	35,967
	OR-7-3		34,428	35,427
	OR-7-2		33,883	34,866
	OR-7-1		33,357	34,324
	OR-7-1		33,357	34,324
Range 3 (OR-6):				
	OR-6-5		32,694	33,642
	OR-6-4		31,911	32,836
	OR-6-3		31,137	32,040
	OR-6-2		30,373	31,254
	OR-6-1		29,627	30,486
	OR-6-1		29,627	30,486
Range 2 (OR-4):				
	OR-4-5		28,214	29,032
	OR-4-4		27,812	28,618
	OR-4-3		27,438	28,233
	OR-4-2		27,043	27,827
	OR-4-1		26,335	27,099
	OR-4-1		26,335	27,099
Range 1 (OR-2 – OR-3):				
	OR-2-9	OR-3-3	25,054	25,780
	OR-2-8	OR-3-2	23,900	24,593
	OR-2-7	OR-3-1	22,655	23,312
	OR-2-6		21,566	22,191
	OR-2-5		20,588	21,185
	OR-2-4		19,692	20,263
	OR-2-3		18,709	19,252
	OR-2-2		17,599	18,109
	OR-2-2		17,599	18,109
	OR-2-1		16,955	17,447
	NERP		13,693	14,090

Table 1.5: Nursing – Other Ranks^a

Range and Ranks	Level	Level	1 April 2017 (£)	1 April 2018 (£)
Range 5 (OR-9):				
Warrant Officer I	OR-9-5		51,328	52,816
	OR-9-4		50,787	52,260
	OR-9-3		50,246	51,703
	OR-9-2		49,705	51,146
	OR-9-1		49,164	50,589
	OR-9-1		49,164	50,589
Range 4 (OR-7 – OR-8):				
Warrant Officer II, Staff Sergeant	OR-7-10	OR-8-5	48,200	49,597
	OR-7-9	OR-8-4	47,504	48,882
	OR-7-8	OR-8-3	46,809	48,166
	OR-7-7	OR-8-2	46,113	47,451
	OR-7-6	OR-8-1	45,418	46,735
	OR-7-6	OR-8-1	45,418	46,735
	OR-7-5		44,527	45,819
	OR-7-4		43,825	45,096
	OR-7-3		43,123	44,374
	OR-7-2		42,421	43,651
	OR-7-1		41,719	42,928
	OR-7-1		41,719	42,928
	Range 3 (OR-6):			
Sergeant	OR-6-5		40,861	42,046
	OR-6-4		40,080	41,242
	OR-6-3		39,300	40,440
	OR-6-2		38,519	39,636
	OR-6-1		37,739	38,833
	OR-6-1		37,739	38,833
Range 2 (OR-4):				
Corporal	OR-4-5		35,907	36,949
	OR-4-4		34,950	35,964
	OR-4-3		33,992	34,978
	OR-4-2		33,034	33,992
	OR-4-1		32,076	33,006
	OR-4-1		32,076	33,006
Range 1 (OR-2 – OR-3):				
Lance Corporal, Private	OR-2-9	OR-3-3	30,549	31,435
	OR-2-8	OR-3-2	29,026	29,867
	OR-2-7	OR-3-1	27,502	28,300
	OR-2-6		25,979	26,732
	OR-2-5		24,456	25,165
	OR-2-4		22,932	23,597
	OR-2-3		21,409	22,030
	OR-2-2		19,886	20,462
	OR-2-2		19,886	20,462
OR-2-1		18,489	19,025	

^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 2017 (£)	1 April 2018 (£)
OF-5 Colonel	7	96,259	99,051
	6	94,800	97,549
	5	93,340	96,047
	4	91,881	94,546
	3	90,422	93,044
	2	88,962	91,542
	1	87,503	90,041
	1	87,503	90,041
OF-4 Lieutenant Colonel	7	84,218	86,660
	6	82,300	84,686
	5	80,382	82,713
	4	78,464	80,739
	3	76,546	78,766
	2	74,634	76,798
	1	72,710	74,819
	1	72,710	74,819
OF-3 Major	7	64,199	66,061
	6	62,300	64,106
	5	60,400	62,152
	4	58,501	60,198
	3	56,602	58,243
	2	54,703	56,289
	1	52,803	54,335
	1	52,803	54,335
OF-2 Captain	7	50,124	51,577
	6	48,635	50,045
	5	47,146	48,513
	4	45,657	46,981
	3	44,168	45,449
	2	42,679	43,917
	1	41,190	42,384
	1	41,190	42,384
OF-1 Lieutenant, 2 nd Lieutenant (Army)	5	35,744	36,780
	4	34,609	35,613
	3	33,474	34,444
	2	32,338	33,276
	1	26,903	27,684

^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 2017 (£)	1 April 2018 (£)
Range 5 (OR-9):				
Warrant Officer I	OR-9-6		61,820	63,613
	OR-9-5		61,214	62,989
	OR-9-4		60,607	62,365
	OR-9-3		60,001	61,741
	OR-9-2		59,394	61,117
	OR-9-1		58,788	60,493
Range 4 (OR-7 – OR-8):				
Warrant Officer II, Staff Sergeant	OR-7-12	OR-8-6	57,635	59,307
	OR-7-11	OR-8-5	56,972	58,624
	OR-7-10	OR-8-4	56,309	57,942
	OR-7-9	OR-8-3	55,646	57,260
	OR-7-8	OR-8-2	54,983	56,577
	OR-7-7	OR-8-1	54,320	55,895
	OR-7-6		53,255	54,799
	OR-7-5		52,592	54,117
	OR-7-4		51,929	53,434
	OR-7-3		51,266	52,752
	OR-7-2		50,602	52,070
	OR-7-1		49,940	51,388
	Range 3 (OR-6):			
Sergeant	OR-6-6		48,960	50,380
	OR-6-5		48,455	49,860
	OR-6-4		47,950	49,340
	OR-6-3		47,444	48,820
	OR-6-2		46,939	48,300
	OR-6-1		46,434	47,780
Range 2 (OR-4):				
Corporal	OR-4-6		44,222	45,505
	OR-4-5		43,559	44,823
	OR-4-4		42,896	44,140
	OR-4-3		42,233	43,458
	OR-4-2		41,570	42,776
	OR-4-1		40,907	42,093
Range 1 (OR-2 – OR-3):				
Lance Corporal, Private	OR-2-10	OR-3-3	39,951	41,110
	OR-2-9	OR-3-2	39,354	40,495
	OR-2-8	OR-3-1	38,757	39,881
	OR-2-7		38,160	39,267
	OR-2-6		37,563	38,652
	OR-2-5		36,966	38,038
	OR-2-4		36,369	37,424
	OR-2-3		35,772	36,810
	OR-2-2		35,175	36,195
	OR-2-1		34,578	35,581

Table 1.8: Professional Aviator

Increment level	1 April 2017 (£)	1 April 2018 (£)
Level 35	81,943	84,319
Level 34	80,819	83,163
Level 33 ^a	79,691	82,002
Level 32	78,567	80,845
Level 31	77,447	79,693
Level 30 ^{b,c}	76,315	78,528
Level 29	75,199	77,380
Level 28	74,071	76,219
Level 27 ^d	72,939	75,054
Level 26	71,824	73,906
Level 25	70,691	72,741
Level 24 ^e	69,571	71,589
Level 23	68,529	70,517
Level 22 ^f	67,224	69,174
Level 21	65,974	67,888
Level 20 ^g	64,717	66,593
Level 19	63,472	65,312
Level 18	62,222	64,027
Level 17	60,973	62,741
Level 16 ^h	59,724	61,456
Level 15	58,475	60,171
Level 14	57,225	58,885
Level 13	55,967	57,591
Level 12 ⁱ	54,723	56,310
Level 11	53,473	55,024
Level 10	52,755	54,285
Level 9	51,934	53,440
Level 8	51,104	52,586
Level 7	50,283	51,741
Level 6	49,457	50,891
Level 5	48,627	50,037
Level 4	47,802	49,188
Level 3	46,976	48,338
Level 2	46,146	47,484
Level 1	45,316	46,630

^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 2017 (£)	1 April 2018 (£)
Chaplain-General	Level 5	102,477	105,448
	Level 4	101,422	104,363
	Level 3	100,380	103,291
	Level 2	99,334	102,214
	Level 1	98,287	101,138
Deputy Chaplain-General ^b	Level 5	90,567	93,193
	Level 4	89,486	92,081
	Level 3	88,406	90,969
	Level 2	87,329	89,862
	Level 1	86,253	88,755
Chaplain (Class 1)	Level 6	85,177	87,647
	Level 5	84,100	86,539
	Level 4	83,019	85,427
	Level 3 ^c	81,943	84,319
	Level 2 ^d	80,430	82,763
	Level 1	78,917	81,206
Chaplains Class 2/3/4 (or equivalent)	Level 27	77,370	79,613
	Level 26	75,930	78,132
	Level 25	74,491	76,651
	Level 24	73,060	75,178
	Level 23	71,650	73,728
	Level 22	70,211	72,247
	Level 21	68,767	70,761
	Level 20	67,332	69,285
	Level 19	65,892	67,803
	Level 18	64,457	66,326
	Level 17	63,018	64,845
	Level 16	61,582	63,368
	Level 15	60,143	61,887
	Level 14	58,708	60,410
	Level 13	57,273	58,934
	Level 12	55,829	57,448
	Level 11	54,398	55,976
	Level 10	52,959	54,495
	Level 9	51,524	53,018
	Level 8	50,080	51,532
	Level 7	48,649	50,060
	Level 6	47,201	48,569
	Level 5	45,770	47,097
	Level 4	44,335	45,620
	Level 3	42,899	44,143
	Level 2	41,456	42,658
	Level 1	40,025	41,186

^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 2017 (£)	1 April 2018 (£)
Lieutenant Colonel	Level 5	78,221	80,490
	Level 4	77,037	79,271
	Level 3	75,856	78,056
	Level 2	74,668	76,833
	Level 1	73,492	75,623
Major, Captain	Level 22	71,344	73,413
	Level 21	69,870	71,896
	Level 20	68,391	70,374
	Level 19	66,917	68,857
	Level 18	65,447	67,345
	Level 17	63,969	65,824
	Level 16	62,499	64,311
	Level 15	61,017	62,786
	Level 14	59,555	61,282
	Level 13	58,276	59,966
	Level 12	57,013	58,667
	Level 11	55,596	57,208
	Level 10	54,173	55,744
	Level 9	52,755	54,285
	Level 8	51,346	52,835
	Level 7	49,928	51,376
	Level 6	48,511	49,918
	Level 5	47,097	48,463
	Level 4	45,679	47,004
	Level 3	44,265	45,549
Level 2	42,848	44,090	
Level 1	40,025	41,186	

Table 1.11: Officers Commissioned From the Ranks^a

Increment level	1 April 2017 (£)	1 April 2018 (£)
Level 15	53,499	55,051
Level 14	53,149	54,690
Level 13	52,781	54,312
Level 12	52,068	53,578
Level 11 ^b	51,359	52,849
Level 10	50,642	52,110
Level 9	49,928	51,376
Level 8	49,215	50,642
Level 7 ^c	48,325	49,726
Level 6	47,776	49,161
Level 5	47,218	48,587
Level 4 ^d	46,116	47,453
Level 3	45,567	46,888
Level 2	45,005	46,310
Level 1 ^e	43,907	45,180

^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 2017 (£)	1 April 2018 (£)
OF-3			
Major	Level 9	70,665	72,714
	Level 8	69,956	71,985
	Level 7	69,247	71,255
	Level 6	68,542	70,530
	Level 5	67,838	69,805
	Level 4	67,323	69,276
	Level 3	66,420	68,346
	Level 2	65,715	67,621
	Level 1	65,010	66,896
OF-1 – OF-2			
Captain, Lieutenant, 2 nd Lieutenant	Level 15	65,668	67,572
	Level 14	65,287	67,180
	Level 13	64,911	66,794
	Level 12	63,960	65,815
	Level 11	63,005	64,832
	Level 10	62,050	63,849
	Level 9	61,103	62,875
	Level 8	60,143	61,887
	Level 7	59,188	60,904
	Level 6	58,440	60,135
	Level 5	57,726	59,400
	Level 4	57,005	58,658
	Level 3	56,279	57,911
	Level 2	55,557	57,168
	Level 1	54,835	56,425

Table 1.13: Recommended annual salaries for accredited consultants (OF3-OF5)

Increment Level	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
Level 32	138,285	142,295
Level 31	138,016	142,019
Level 30	137,752	141,747
Level 29	137,480	141,467
Level 28	137,216	141,195
Level 27	136,684	140,648
Level 26	136,152	140,100
Level 25	135,620	139,553
Level 24	134,328	138,224
Level 23	133,041	136,899
Level 22	130,384	134,165
Level 21	128,905	132,643
Level 20	127,431	131,126
Level 19	125,952	129,604
Level 18	124,482	128,092
Level 17	122,617	126,173
Level 16	120,762	124,264
Level 15	119,119	122,574
Level 14	117,473	120,880
Level 13	115,835	119,194
Level 12	114,193	117,505
Level 11	110,583	113,790
Level 10	106,982	110,085
Level 9	103,381	106,379
Level 8	100,183	103,088
Level 7	96,977	99,789
Level 6	93,767	96,486
Level 5	90,758	93,390
Level 4	89,589	92,187
Level 3	88,396	90,959
Level 2	84,441	86,890
Level 1	80,527	82,862

Table 1.14: Recommended annual salaries for accredited GMPs and GDPs (OF3-OF5)

Increment Level	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
Level 32	129,021	132,763
Level 31	128,617	132,347
Level 30	128,308	132,029
Level 29	127,805	131,512
Level 28	127,402	131,096
Level 27	126,993	130,676
Level 26	126,680	130,354
Level 25	126,181	129,841
Level 24	125,769	129,417
Level 23	125,365	129,001
Level 22	124,953	128,577
Level 21	124,549	128,161
Level 20	124,137	127,737
Level 19	122,239	125,784
Level 18	121,763	125,294
Level 17	121,197	124,711
Level 16	120,606	124,104
Level 15	120,022	123,502
Level 14	119,432	122,895
Level 13	118,846	122,293
Level 12	118,324	121,756
Level 11	115,635	118,989
Level 10	115,117	118,456
Level 9	114,520	117,841
Level 8	113,927	117,231
Level 7	113,330	116,616
Level 6	110,557	113,763
Level 5	109,045	112,208
Level 4	107,525	110,643
Level 3	106,014	109,088
Level 2	104,493	107,524
Level 1	101,616	104,563

Table 1.15: Recommended annual salaries for non-accredited Medical Officers (OF3-OF5)

Increment Level	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
Level 19	92,926	95,621
Level 18	91,987	94,655
Level 17	91,048	93,688
Level 16	90,104	92,717
Level 15	89,264	91,853
Level 14	88,437	91,002
Level 13	87,601	90,141
Level 12	86,766	89,282
Level 11	85,935	88,427
Level 10 ^a	85,103	87,571
Level 9	84,101	86,540
Level 8	82,413	84,803
Level 7	80,721	83,062
Level 6	79,520	81,826
Level 5	78,331	80,603
Level 4	77,138	79,375
Level 3	75,946	78,148
Level 2	71,951	74,037
Level 1	67,981	69,952

^a Progression beyond Level 10 only on promotion to OF4.

Table 1.16: Recommended annual salaries for accredited Medical and Dental Officers (OF2)

Increment Level	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
Level 5	76,901	79,131
Level 4	75,341	77,526
Level 3	73,785	75,925
Level 2	72,221	74,315
Level 1	70,662	72,711

Table 1.17: Recommended annual salaries for non-accredited Medical and Dental Officers (OF2)

Increment Level	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
Level 5	62,943	64,768
Level 4	61,334	63,113
Level 3	59,717	61,449
Level 2	58,113	59,798
Level 1	56,517	58,155

Table 1.18: Recommended annual salaries for Medical and Dental Officers: OF1 (PRMPs)

	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
OF1	42,782	44,023

Table 1.19: Recommended annual salaries for Medical and Dental Cadets

Length of service	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
after 2 years	19,878	20,455
after 1 year	17,937	18,457
on appointment	16,004	16,468

Table 1.20: Recommended annual salaries for Higher Medical Management Pay Spine: OF6

Increment Level	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
Level 7	143,397	147,556
Level 6	142,199	146,323
Level 5	141,005	145,094
Level 4	139,799	143,853
Level 3	138,596	142,615
Level 2	137,406	141,391
Level 1	136,200	140,150

Table 1.21: Recommended annual salaries for Higher Medical Management Pay Spine: OF5

Increment Level	Military salary £	
	1 April 2017 (£)	1 April 2018 (£)
Level 15	134,352	138,248
Level 14	133,599	137,474
Level 13	132,837	136,689
Level 12	132,077	135,908
Level 11	131,322	135,130
Level 10	130,562	134,349
Level 9	129,795	133,559
Level 8	129,039	132,781
Level 7	128,280	132,000
Level 6	127,142	130,829
Level 5	126,009	129,663
Level 4	124,863	128,484
Level 3	123,730	127,319
Level 2	122,597	126,152
Level 1	121,452	124,974

DMS Trainer Pay

GMP and GDP Trainer Pay	£8,295
GMP Associate Trainer Pay	£4,149

DMS Distinction Awards

A+	£63,475
A	£42,318
B	£16,927

DMS National Clinical Excellence Awards

Bronze	£19,796
Silver	£31,145
Gold	£43,003
Platinum	£60,789

Appendix 2

1 April 2018 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	11.28	5.64
Tier 2		
Rate 1	37.35	18.68
Rate 2	40.17	20.09
Rate 3	46.52	23.26
Rate 4	49.34	24.67
Rate 5	50.75	25.38
Rate 6	52.15	26.08
Rate 7	54.13	27.07
Wing Commander ^b		
On appointment	41.96	20.98
After 6 years	39.32	19.66
After 8 years	36.70	18.35
Group Captain ^b		
On appointment	32.13	16.07
After 2 years	30.14	15.07
After 4 years	28.17	14.09
After 6 years	24.89	12.45
After 8 years	21.61	10.81
Air Commodore ^b		
	13.10	6.55

^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	49.80	24.90
After 1 year as specialist aircrew	50.49	25.25
After 2 years as specialist aircrew	51.78	25.89
After 3 years as specialist aircrew	52.41	26.21
After 4 years as specialist aircrew	53.10	26.55
After 5 years as specialist aircrew	54.39	27.20
After 6 years as specialist aircrew	55.05	27.53
After 7 years as specialist aircrew	55.72	27.86
After 8 years as specialist aircrew	57.02	28.51
After 9 years as specialist aircrew	57.67	28.84
After 10 years as specialist aircrew	58.32	29.16
After 11 years as specialist aircrew	59.63	29.82
After 12 years as specialist aircrew	60.30	30.15
After 13 years as specialist aircrew	61.62	30.81
After 14 years as specialist aircrew	62.26	31.13
After 15 years as specialist aircrew	62.91	31.46
After 16 years as specialist aircrew	64.89	32.45
<i>(b) Branch Officers</i>		
On designation as specialist aircrew	40.65	20.33
After 5 years as specialist aircrew	45.23	22.62
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	15.05	7.53
Middle rate ^d	25.56	12.78
Top rate ^d	40.65	20.33
Enhanced rate ^e	47.85	23.93
Enhanced rate ^f	45.23	22.62
Non-commissioned aircrew (trained) RN/RM, Army and RAF aircrewmembers		
Initial rate	7.86	3.93
Middle rate ^g	16.39	8.20
Top rate ^h	21.61	10.81

^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	4.57	2.29
2 RN Search and Rescue Diver – all ratings Ship Divers' Supervisors Army Compressed Air Diver – all ranks	9.21	4.61
3 RN Diver (Able rate) when qualified to Category 3 standards Army Diver Class 1 – all ranks	12.47	6.24
3a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of RRP (Diving) Level 3 and completed EOD course 0804	8.18	4.09
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	21.61	10.81
4a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of RRP (Diving) Level 4 and completed EOD course 0804	8.18	4.09
5 RN Diver (Petty Officer and above) when qualified to Category 5 standards		
on appointment	30.81	15.41
after 3 years	33.44	16.72
after 5 years	35.39	17.70
5a Supplement for Explosive Ordnance Disposal (EOD) Operators. In receipt of RRP (Diving) Level 5 and qualified beyond CMD level	12.00	6.00
5b Qualified only in CMD skills	5.33	2.67
RRP (Submarine)		
Level 1 – payable on qualification	13.10	6.55
Level 2 – payable after 5 years on Level 1	17.03	8.52
Level 3 – payable after 5 years on Level 2	20.31	10.16
Level 4 – payable after 5 years on Level 3	22.95	11.48
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	28.83	14.42
RRP (Submarine Supplement)		
Harbour rate	5.25	–
Sea rate	15.74	–
RRP (Submarine) Engineer Officers' Supplement		
Level 1: pre-charge assignments in submarines ⁱ	10.50	–
Level 2: charge assignments in submarines	20.99	–

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	3.15	1.58
ORs Category B	6.30	3.15
ORs Category B2	12.59	6.30
ORs Category A2	41.98	20.99
Category A1 Watchkeeper – MESM Officer – Pre Charge ^k	12.47	6.24
Category A1 Watchkeeper – MESM Officer – Charge and post Charge	20.79	10.40
RRP (Hydrographic)		
On attaining Charge qualification (H Ch)	14.43	7.22
Surveyor 1st Class (H1)	13.10	6.55
On promotion to Chief Petty Officer or attainment of NVQ4 whichever is sooner	10.81	5.41
Surveyor 2nd Class (H2), on promotion to Petty Officer or attainment of NVQ3 whichever is sooner	5.92	2.96
On promotion to Leading Hand	3.95	1.98
On completion of Initial Hydrographic Training	1.98	0.99
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)	12.47	–
RRP (SR) 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

^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	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 (SFC)		
Level 1	19.01	9.51
Level 2	22.28	11.14
RRP (SC)		
Level 1	12.47	–
RRP (SI)		
Level 1	22.28	–
Level 2	33.44	–
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)¹	10.84	–
RRP (Flying Crew)^m		
Lower rate	5.10	–
Higher rate ^d	8.27	–

¹ 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)	17.72	–
Level 2A (Advanced EOD Operators)	23.59	–
Level 3 (Advanced Manual Techniques Operators)	30.14	–
RRP (WESM)		
Strategic Weapon System (SWS) and Tactical Weapon System (TWS) ^o		
OR7-9	20.58	10.29
OR6	12.35	6.18
OR4	3.09	1.55
RRP (Nursing)		
Specialist nurses who acquire the specified academic qualification of specialist practice (Defence Nursing Operational Competency Framework (DNOCF) Level 3)	11.15	5.58

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)	7.24
Level 2 (281-460 days qualifying separation)	11.32
Level 3 (461-640)	15.40
Level 4 (641-820)	16.91
Level 5 (821-1000)	18.20
Level 6 (1001-1180)	19.50
Level 7 (1181-1360)	20.79
Level 8 (1361-1540)	22.74
Level 9 (1541-1720)	24.05
Level 10 (1721-1900)	25.35
Level 11 (1901-2080)	26.65
Level 12 (2081-2260)	27.96
Level 13 (2261-2440)	29.24
Level 14 (2441-2800)	30.54
Level 15 (2801-3160)	31.83
Level 16 (3161+)	33.11
UNPLEASANT WORK ALLOWANCE	
Level 1	2.73
Level 2	6.64
Level 3	19.64
UNPLEASANT LIVING ALLOWANCE	3.59
NORTHERN IRELAND RESIDENTS' SUPPLEMENT	7.88
RECRUITMENT AND RETENTION ALLOWANCE (LONDON)	4.16
EXPERIMENTAL TEST ALLOWANCE (per test)	2.92
EXPERIMENTAL DIVING ALLOWANCE	
Lump sum per dive	
Grade 5	324.55
Grade 4	162.29
Grade 3	121.73
Grade 2	81.13
Grade 1	16.22
Additional hourly rates	
Grade 5	64.91
Grade 4	16.22
Grade 3	12.15
Grade 2	8.13
Grade 1	-
MINE COUNTERMEASURES VESSELS ENVIRONMENTAL ALLOWANCE	
Level 1	3.59
Level 2	5.00

Appendix 3

AFPRB 2017 recommendations

We submitted our 2017 recommendations on 31 January 2017. These were accepted by the Government on 28 March 2017 as follows:

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:
 - 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 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.
 - 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.

Appendix 4

AFPRB 2017 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
RAF College Cranwell, Lincolnshire	RAF	Brendan Connor Ken Mayhew Janet Whitworth
Bahrain HMS Jufair; UKMCC; HMS MIDDLETON & HMS BANGOR	Royal Navy	Brendan Connor Vilma Patterson
Oman RFA FORT VICTORIA; 814 & 815 NAS, RAFO Musannah		
Oman: 902 Expeditionary Air Wing, RAFO Musannah	RAF	Brendan Connor Vilma Patterson
Institute of Naval Medicine, Gosport	DMS	Tim Flesher Lesley Mercer
HMS Collingwood, Fareham HMS Sultan, Gosport HMS King Alfred, Portsmouth (Royal Naval Reserve)	Royal Navy	Tim Flesher Lesley Mercer
Stirling Lines, Hereford	Army	Brendan Connor Janet Whitworth
Defence Helicopter Flying School, RAF Shawbury, Shropshire	RAF	Brendan Connor Vilma Patterson
HMS ENTERPRISE, HMNB Devonport, Plymouth	Royal Navy	Ken Mayhew Janet Whitworth
British Forces Cyprus 1 st Bn, Duke of Lancaster's Regiment, Episkopi 2 nd Bn, Princess of Wales' Royal Regiment, Dhekelia	Army	Ken Mayhew John Steele
British Forces Cyprus RAF Akrotiri; Joint Services Signal Unit, Episkopi Station	RAF	Ken Mayhew John Steele
RAF Brize Norton, Oxfordshire	RAF	Tim Flesher Jon Westbrook
RAF Waddington, Lincolnshire	RAF	Brendan Connor Vilma Patterson

ESTABLISHMENT/LOCATION	SERVICE	MEMBERS
Somalia Mogadishu	Army	Lesley Mercer Jon Westbrook
Kenya British Peace Support Team, Nanyuki; British Army Training Unit Kenya (BATUK), Kifaru Barracks, Nairobi		
RNAS Yeovilton & 30 Commando IX Group RM, Yeovil	Royal Navy	John Steele Jon Westbrook
RAF Leeming, Northallerton, North Yorkshire	RAF	Lesley Mercer Janet Whitworth
12 th Armoured Infantry Brigade, Salisbury Plain Army Headquarters & Armed Forces Chaplaincy Centre, Ampert House, Andover Royal Military Academy Sandhurst	Army	Tim Flesher Lesley Mercer
The King's Royal Hussars, 5 Force Support Battalion REME & 19 Regiment Royal Artillery, Tidworth		
256 Field Hospital, London (Army Reserve)	DMS	Tim Flesher John Steele
16 Air Assault Brigade, Colchester 3 & 4 Regiments Army Air Corps & 7 th Aviation Support Battalion REME, Wattisham Airfield 299 Signal Squadron, Chicksands	Army	Ken Mayhew Wilma Patterson
MOD Recruiting, London	Tri-Service	Ken Mayhew Janet Whitworth

Appendix 5

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



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

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

21 September 2017

Dear John,

PUBLIC SECTOR PAY 2018 -19

1. Thank you for your work on the 2017/18 pay round. The Pay Review Bodies continue to play an invaluable role in making independent, evidence-based recommendations on public sector pay awards. I am extremely grateful to you and your colleagues for your considered work. This letter sets out the Treasury's overarching approach for the 2018/19 pay round.
2. Our public-sector workers are among the most extraordinarily talented and hardworking people in our society. They, like everyone else, deserve to have fulfilling jobs that are fairly rewarded. The Government takes a balanced approach to public spending, dealing with our debts to keep our economy strong, while also making sure we invest in our public services.
3. The Government will continue to ensure that the overall package for public sector workers is fair to them and ensures that we can deliver world class public services while also being affordable within the public finances and fair to taxpayers as a whole.
4. The last Spending Review budgeted for a 1% average increase in basic pay and progression pay awards for specific work forces, and there will still be a need for pay discipline over the coming years, to ensure the affordability of the public services and the sustainability of public sector employment. However, the Government recognises that in some parts of the public sector, particularly in areas of skill shortage, more flexibility may be required to deliver world class public services including in return for improvements to public sector productivity.
5. As the Office for Budget Responsibility's Fiscal risks report published on 13 July reminds us, at nearly 90 per cent of GDP, our public debt is still too high. So, while continuing



to invest in and improve our public services, we must also maintain our ambition to reduce debt at a pace which is sensitive to the needs of the economy.

6. With a more flexible policy it is of even greater importance that recommendations on annual pay awards are based on independent advice and underpinned by robust evidence, submitted by departments, that takes into account the context of wider economic circumstances, private sector comparators, and overall remuneration of public sector workers (including progression pay and pension entitlements). The role of the Pay Review Bodies is therefore more important than ever.
7. The Government values hugely the role of the Pay Review Bodies and appreciates the length of time it takes to complete a thorough process. As you know, the forthcoming 2018/19 annual pay round also marks the shift to a Single Fiscal Event in the autumn which will delay your receipt of departmental evidence. The process will therefore run to a later timeline this year: a letter will follow this in due course from relevant Secretaries of State and written evidence will likely be received in December rather than September as is usual for most PRB workforces.
8. I realise that the change in timing will impact on when the Government can expect to receive your report and, as a consequence, on when individuals will receive their pay award. I recognise that this is far from ideal as our hard-working public servants are entitled to receive their awards promptly. However, on balance given the importance of the process and the change in timing that has already occurred, I feel it is important we work to a later timeline rather than condensing the process. I hope that by making the timing clear at the beginning of the process workforces can be made aware, with plans put in place to work to a later timeline, and for you and your PRB members to manage your own time. The Office for Manpower Economics will be able to support you in this but, do get in touch if you have concerns in this regard.
9. I appreciate that you may have further questions about this change in approach and I would be pleased to discuss this further when we meet soon. I look forward to working with you over the coming years.

Best wishes,

A handwritten signature in blue ink, which appears to read 'Elizabeth Truss'.

RT HON ELIZABETH TRUSS MP

7 December 2017

Dear John

I am writing firstly to express my thanks for your valuable work on the 2017-18 pay round and secondly, to formally commence the 2018-19 pay round.

You will have seen the Chief Secretary to the Treasury's letter of 21 September setting out the Government's position on Public Sector Pay for 2018-19. That letter confirmed that the Government has adopted a more flexible approach to public sector pay, particularly in areas of skills shortages and including in return for improvements to public sector productivity. The last Spending Review budgeted for one per cent average basic pay awards, in addition to progression pay for specific workforces, and there will still be a need for pay discipline over the coming years to ensure the affordability of the public service and the sustainability of public sector employment; review bodies should continue to consider affordability when making their recommendations.

The Government continues to appreciate the independent expert advice and contribution that the Armed Forces' Pay Review Body makes. The MOD will provide evidence papers in the coming weeks. MOD staff will continue to work closely with the Office of Manpower Economics (OME) to seek to support the work of the AFPRB, noting the inconvenience of the changed timeline and implications for a deferred announcement of the award after 1 April. We have communicated the delay to Service Personnel, explaining that both the Review Body and the Government are seeking to keep any delays to an absolute minimum and that pay awards will be backdated to 1 April.

I very much look forward to meeting you at the oral evidence session in the New Year where we can discuss our strategies further. I am copying this letter to the Chief Secretary of the Treasury.



THE RT HON GAVIN WILLIAMSON CBE MP

John Steele
Chair of AFPRB
[c/o Office of Manpower Economics](#)

Appendix 6

AFPRB's five-year work programme schedule

Bold items for review for the AFPRB Report to be published in 2019.

SUBJECT	2018-19	2019-20	2020-21	2021-22	2022-23
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		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 2019 Report we will review RRP (Diving), RRP (Explosive Ordnance Disposal), and RRP (Special Forces Communications).

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

Flying, Flying Crew, Hydrographic, Mountain Leader, Nuclear Propulsion, Nursing, Parachute, Parachute Jumping Instructor, Special Communications, Special Forces, Special Intelligence, Special Reconnaissance Regiment, Submarine, and Weapons Engineering Submariner.

