



Armed Forces' Pay Review Body

THIRTY-FOURTH REPORT 2005

Chairman: Professor David Greenaway

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

February 2005

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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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Professor the Lord Patel of Dunkeld KB
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The secretariat is provided by the Office of Manpower Economics.

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

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ARMED FORCES' PAY REVIEW BODY

2005 REPORT – SUMMARY

Key recommendations

- A 3 per cent increase in military salaries;
- A 5 per cent increase in daily rates of Separation Allowances, plus a £50 increase to associated bonuses;
- A 3 per cent increase in all rates of Specialist Pay and Compensatory Allowances;
- Graduated increases in accommodation charges and an increase in food charges.

Introduction (*Chapter 1*)

Our terms of reference require us to recommend pay and charges that maintain broad comparability with civilian life and enable the Services to recruit, retain and motivate people with the ability and qualifications to meet their commitments. Our recommendations must be backed by sound evidence, which we gather from a number of sources: the Ministry of Defence and the Services; our visits; our independent Secretariat and external consultants; and economic evidence from the Government. For this report, therefore, we have had five in depth briefings and oral evidence sessions, visited 29 military locations, held discussions with over 3,000 personnel and family members and considered over one hundred papers of evidence.

Military Pay (*Chapter 2*)

We recommend an increase of 3 per cent to military salaries from 1 April 2005. We were particularly influenced by the requirements of retention and motivation. We examined evidence relating to the imbalance between available Service manpower, particularly in Operational Pinch Point trades, and the level of commitments; the risks to retention posed by separation and by the uncertainties generated by impending force restructuring; the movement in pay of civilian comparators; and the economic context including the overall budgetary position of the Ministry of Defence.

We received progress reports on initiatives to improve manning in critical areas. These included around 50 Pinch Point trades across all three Services (that is, trades where it is not possible to deliver operational capability without breaching harmony guidelines), Aircrew, Submariners, Royal Signals and RN Artificers. We were told that, in the light of improved manning, the Royal Signals' Financial Retention Incentives (FRIs), introduced in 1999, were withdrawn in June 2004 and that the groups eligible for Aircrew FRIs will change from 1 April 2005. We note that there is still progress to be made on non-remuneration measures to improve manning in these areas. We reviewed the Bounties payable to Reserves, on whom the Services increasingly rely. **We recommend that the Bounties be increased in line with increases in military salaries for 2004-05 and 2005-06.** We intend in future to look at the level of the Bounties annually with a more comprehensive review every third year.

Specialist Pay and Compensatory Allowances (*Chapter 3*)

There was clear evidence that frequent and prolonged separation poses a serious risk to retention and that our recommendations should target those most affected. **We recommend an increase of 5 per cent to daily rates of Longer Separated Service Allowance (LSSA) and Longer Service at Sea Bonus (LSSB) and a £50 increase to the associated bonuses.** LSSA

and LSSB will be phased out as the Joint Personnel Administration system comes on stream – beginning in 2005 for the RAF – and replaced by a new, tri-Service, Longer Separation Allowance (LSA) which will provide access to higher compensation, depending on the amount of separation.

We carried out periodic reviews of Flying Pay, Aircrew Pay, Diving Pay, Parachute Pay, and Parachute Jump Instructors' Pay. The Aircrew Pay review provided an opportunity to rationalise the payment basis under JPA for RLC Helicopter Pay, Flying Extra Pay (RN) and Army Aviation Crewman Pay (formerly Aircrewman Pay). In the interests of retention we recommend:

- **The introduction of High Altitude Parachute Pay for members of the Pathfinder Platoon;**
- **That the daily rate of Subunk Parachute Assistance Pay be increased to level 5 of the standard rates of Specialist Pay; and**
- **An increase of 3 per cent to all other rates of Specialist Pay and Compensatory Allowances.**

Accommodation and Other Charges (*Chapter 4*)

Wherever possible, we include in our visits a tour of Service-provided accommodation. Standards vary greatly as does progress with improvements. We are encouraged that, despite the Department's funding constraints, the Defence Housing Executive's upgrade of Service Family Accommodation (SFA) is progressing steadily. In view of this progress, we intend to continue our strategy to achieve a standard discount from market rates by 2009. We are more concerned that there have been cuts to the investment programme for improving Single Living Accommodation (SLA). Almost half of all occupied SLA is of the lowest grade with all the inconvenience and discomfort that implies. There is a danger that these setbacks in the upgrade programme will undermine personnel's confidence that their employer values them. **We recommend tapered increases to accommodation charges, with no increase to the charges for the poorest quality accommodation. We recommend a 2.7 per cent increase to food charges** in line with the Catering grouping of the RPI, which reflects the costs involved in producing meals.

Conclusion (*Chapter 5*)

We estimate that our recommendations, if accepted, will add a net 3.1 per cent to the pay bill.

GLOSSARY OF TERMS

AFPRB	Armed Forces' Pay Review Body
ASHE	Annual Survey of Hours and Earnings
CPI	Consumer Prices Index
DE	Defence Estates
DHE	Defence Housing Executive
DRFC	Director of Reserve Forces and Cadets
ERNIC	Employers' National Insurance Contributions
FRI	Financial Retention Incentive
GTS	Gains to Trained Strength
HARP	Hired Accommodation Revitalisation Programme
IPP	Immediate Pension Point
JPA	Joint Personnel Administration
LSA	Longer Separation Allowance
LSAP	Long Service Advance of Pay
LSSA	Longer Separated Service Allowance
LSSB	Longer Service at Sea Bonus
MOD	Ministry of Defence
NCA	Non-Commissioned Aircrew
NCO	Non-Commissioned Officer
NIRS	Northern Ireland Resident Supplement
PAYD	Pay As You Dine
PFI	Private Finance Initiative
PJI	Parachute Jump Instructor
PPO	Principal Personnel Officer
PSA	Public Service Agreement
PUMA	Programme to Upgrade and Modernise Accommodation (Germany)
PVR	Premature Voluntary Retirement/Release (Officers/Other Ranks)
PWUC	Payment for Work in Unpleasant Conditions
PWON	Payment for Work of an Objectionable Nature
RAF	Royal Air Force
REME	Royal Electrical and Mechanical Engineers
RFCA	Reserve Forces' and Cadets' Association
RLC	Royal Logistic Corps
RM	Royal Marines
RN	Royal Navy
RPI	Retail Prices Index
RPIX	Retail Prices Index (excluding Mortgage Interest Payments)
SETT	Submarine Escape Tank Training
SFA	Service Family Accommodation
SLA	Single Living Accommodation
SLAM	Single Living Accommodation Modernisation
SNCO	Senior Non-Commissioned Officer
SPAG	Subsunk Parachute Assistance Group
TA	Territorial Army

Chapter 1

Introduction

Introduction

1.1 This report sets out our recommendations on pay and charges from 1 April 2005 and the evidence from which they are derived. In line with our terms of reference, the recommendations are our assessment of what is required to maintain broad pay comparability with civilian life and to enable the Services to recruit, retain and motivate people with the ability and qualifications to meet their commitments. In this chapter, we explain how we gather and assess evidence, and introduce the key considerations from the evidence that have influenced this year's recommendations.

2004 recommendations

1.2 The Government accepted, and implemented in full, all our recommendations for 2004. These comprised:

- A 2.8 per cent increase to base pay for Officers and Other Ranks and a 3.2 per cent increase for Privates/Lance Corporals in pay range 1 (lower);
- An increase to the first pay point on pay range 1 (higher) to £13,461;
- The introduction of standard rates of Specialist Pay and a 2.8 per cent increase to Specialist Pay, Non-Specialist Pay and Compensatory Allowances;
- Targeted increases to Hydrographic Pay;
- A 3.2 per cent increase to the daily rates of Longer Separated Service Allowance and Longer Service at Sea Bonus and an increase in the associated bonuses to £1,300; and
- Graduated increases to charges for Single Living and Service Family Accommodation, and an increase to food charges.

Our evidence base

1.3 We base our recommendations on evidence from three main sources: oral and written evidence from the Ministry of Defence and the Services; independent research carried out by our Secretariat or commissioned by them from external consultants; and evidence gathered in the course of our visits to Service locations. In addition, the Government provides an assessment of the economic context for the award and of affordability. In preparation for this report, therefore, we have had five substantial oral briefings and evidence sessions, visited 29 military locations (listed in Appendix 4), held discussions with over 3,000 personnel and family members and considered over one hundred papers of evidence.

1.4 Our working year begins in early March with a briefing by the Principal Personnel Officers (PPOs) of the three Services on their operational commitments and their personnel and pay priorities for the coming year. Between March and the end of July we undertake visits to all three Services in the UK and overseas to meet personnel and their families and to hear their views. These visits are essential to our work: they help us to understand the unique nature of the job and the military lifestyle, and to assess the impact of the job on personnel and their families, particularly in relation to retention and motivation. Hence, successive recommendations on Separation Allowances, and our

2004 recommendation on leave, were influenced by what we have seen and heard on visits. We are responsible for recommending charges; the visits enable us to judge for ourselves the standard of accommodation and food to which the charges apply. Equally importantly, the visits provide us with an opportunity to explain to personnel how the Review Body works and the importance of a sound evidence base for our recommendations. We are grateful to everyone involved in organising or taking part in the visits.

- 1.5 Through the autumn, we meet regularly to consider detailed oral and written evidence, which we are able to test against our understanding of the issues from the visits. The evidence covers all aspects of manning; working hours and leave; comparisons with civilian remuneration; and the prevailing conditions in the economy and the labour market. The Ministry of Defence also provides evidence on particular aspects of remuneration subject to periodic or special review. This year, for example, we reviewed remuneration arrangements for aviators encompassing all forms of Flying Pay, the Professional Aviator pay spine and Financial Retention Incentives; Diving Pay; and Parachute Pay.
- 1.6 Because we recognise the families' influence on retention, we include in our autumn programme an informal meeting with the Chairs of the Service Families' Federations to get their broader perspective on the issues important to families. Not surprisingly there is considerable overlap between the concerns that families bring to them and those aired on our visits.

Key considerations for this report

- 1.7 The key issues that emerged from the evidence for this report are: the imbalance between the manpower available to the Services, particularly in Operational Pinch Point trades, and the high level of Armed Forces' commitments in Iraq and elsewhere; separation and the impact this has on personnel and their families; impending force restructuring; the economic context including the Government's view of the economy as a whole and the specific budgetary position of the Ministry of Defence; and accommodation.

Manning

- 1.8 The manning position is described in detail in Chapter 2. Overall, manning is broadly stable. The deficit between full-time trained strength (including Full Time Reserve Service and Gurkhas) and requirement was 2.7 per cent at 1 April 2004 rising slightly to 2.8 per cent, or 5,390 personnel, at September 2004. We are aware that the Armed Forces are less able to tolerate a shortfall of qualified personnel than other employers in the public or private sectors. They cannot, for example, readily draw on other sources of qualified labour such as agency workers or sub-contractors and the Reserve Forces, on whom they can call, are themselves significantly undermanned and experiencing skill shortages that mirror those in the Regular Forces. The imbalance between commitments and resources is particularly acute in around 50 critical Pinch Point trades where there is insufficient trained strength to deliver operational tasks without breaking harmony guidelines.

Commitments

- 1.9 By its nature, Service life is demanding and unpredictable. The personnel we meet on our visits accept this. Nonetheless, the sustained level of commitments they have experienced since 2001 has led personnel to conclude that the imbalance between resources and commitments is likely to persist for the foreseeable future. In successive reports we have used information on the proportion of personnel committed to operations and on intervals between tours as indicators of the fluctuating pressures on the Services. In November 2001, 31 per cent of the Armed Forces were committed to operations. The figure rose to 40 per cent in April 2003, at the height of the Iraq

conflict, but fell back to 14 per cent by November 2003 and has remained at around that level since. On 1 December 2004, 14 per cent represented around 26,000 personnel committed to operations with a further 6,200 deployed to overseas bases. This level of commitment feeds through to shortened intervals between tours for the Army and for the Royal Marines, increasing demands on RN personnel at sea and increased deployments for specific RAF trades. As we have said above, the impact is particularly severe for the Pinch Point trades.

Separation

- 1.10 It is clear from our visits, and from the Services' Continuous Attitude Surveys, that separation is a major concern for personnel, their families and their Commanding Officers. The Government, in its economic and management evidence, and the Ministry of Defence in written and oral evidence, explicitly recognised the risk that separation poses to retention and encouraged us to target resources on those affected. We were told in evidence that the force restructuring envisaged in the Defence White Papers¹ will ultimately go some way towards easing the pressure of operational commitments. In the meantime, under Joint Personnel Administration (JPA) a new, tri-Service, Longer Separation Allowance (LSA) will replace Longer Separated Service Allowance and Longer Service at Sea Bonus (LSSA/LSSB) and will offer higher compensation to those suffering the most separation. For the immediate future, in view of the risk to retention, we recommend in Chapter 3 targeted increases to LSSA and LSSB, and the associated bonuses.

Force restructuring

- 1.11 An undercurrent to our deliberations this year has been the changes to force structures flowing from the Defence White Papers, which implied significant changes in the way that operations are planned and executed and consequential changes to the pressures and demands on personnel and equipment. The Services will face the challenge of managing the transition through to 2008, which will involve downsizing, re-organising and re-skilling while at the same time maintaining the necessary age and experience profile of the Armed Forces. In reaching our recommendations we were conscious of the dangers, against this background, of eroding the value of the remuneration package.

Economic considerations

- 1.12 Our terms of reference require us to have regard to the affordability of our recommendations in the light of the resources available to the Ministry of Defence to meet its output targets. We take into account economic and management evidence provided by the Government, which sets out their overall policy and objectives for public sector pay and the economic background to our deliberations. We also make our own assessment of economic conditions and developments in the labour market.
- 1.13 The Government attached priority to a balanced remuneration package that supports high quality service delivery and increased flexibility and responsiveness in the public sector. The evidence recognised that service delivery required the recruitment and retention of capable and motivated Service personnel and that broad comparability "informed by the requirements of retention" provided a sound basis for assessing the pay necessary to meet this requirement. On the wider economic context, the evidence emphasised economic stability, in particular low and stable inflation and subdued average earnings. The Government urged us to be guided by the Consumer Prices Index

¹ "Delivering Security in a Changing World" (Cm 6041-I, December 2003) and "Future Capabilities" (Cm 6269, July 2004).

(CPI) target rate of 2 per cent alongside RPIX and other relevant factors including recruitment and retention and the need to be generally in step with other public sector pay awards.

Accommodation

1.14 Wherever possible, we include in our visits a tour of Service-provided accommodation. We have seen accommodation that varies from excellent to appalling. It is clear from the evidence, which is set out in detail in Chapter 4, that the Services and MOD recognise the retention benefits of good quality accommodation. The overall picture for Service Family Accommodation (SFA) is encouraging; despite the Department's funding constraints, the Defence Housing Executive's upgrade programme is progressing steadily. We are more concerned about failure to meet targets for the Single Living Accommodation (SLA) upgrade, particularly the removal of 12,400 bed spaces from the Project SLAM upgrade target for 2013. Almost half of all occupied SLA is of the lowest grade with all the inconvenience and discomfort that implies for personnel in what is essentially their home. From our visits we are aware of a degree of cynicism about the delivery of better accommodation; there is a real danger that these reductions in the SLAM upgrade programme will undermine personnel's confidence that they are valued by their employer.

International comparisons

1.15 In our 2002 Report we published the findings of a survey we had commissioned into the military remuneration package of 10 countries that contribute to international operations alongside UK Forces. International comparisons do not feature in our remit; we commissioned the survey in response to suggestions from personnel on our visits that they were not as well paid as some other Armed Forces, particularly on operations. The survey indicated that the UK package compared favourably with that of other nations².

1.16 We commissioned Mercer Human Resource Consulting in May 2004 to repeat the comparative exercise. Data on military pay and conditions were provided by military attachés in twelve countries – Australia, Austria, Canada, Denmark, France, Germany, Ireland, Netherlands, New Zealand, Norway, Spain and the USA. Mercer adjusted the pay data provided to account for taxation (including where applicable, exemption from tax), currency exchange rates and differences in the cost of living in each of the countries. Mercer's report is published on the website of the Office of Manpower Economics www.ome.uk.com.

1.17 Briefly, Mercer concluded that:

- Of the countries surveyed, the UK appeared to offer the highest, or second highest, base salaries across the ranks, with only Canada providing higher base pay at certain ranks;
- When base pay, X-factor and allowances on operations (in the UK, Longer Separated Service Allowance and Longer Service at Sea Bonus) are taken into account, the UK package remains ahead of seven of the countries surveyed and broadly in line at most ranks with Ireland, the USA and Canada, but the package is less favourable than that provided across most ranks by Australia and France;

² The findings were summarised in Armed Forces' Pay Review Body: Thirty-First Report 2002, Cm 5361, The Stationery Office.

- The survey indicated that the UK attached a higher value to payments targeted on the disadvantages of military life (X-factor in the UK) than other countries surveyed, with the exception of Canada for certain military ranks;
- The survey also indicated that UK pension arrangements appeared more attractive than those offered in the countries surveyed; and
- The relative advantage experienced by the UK on base pay in 2001 had slightly narrowed, which is consistent with contextual trends in pay movements, currency movements and changes in cost of living in the countries surveyed.

1.18 As we pointed out in 2002, there are difficulties associated with any international comparisons. They require a detailed appreciation of the circumstances in each country surveyed and, because exchange rates fluctuate, timing can materially affect the results. With this caveat, we conclude from the survey that, overall, the UK package remains broadly comparable with that offered by other nations.

Chapter 2

Military Pay

Introduction

2.1 We set out below the evidence on which we have based our recommendations on military salaries from 1 April 2005. This comprises: the Government's economic and management evidence; independent consultants' advice on pay comparability; Service data on manning, recruitment and retention, and the operational environment; and survey data on working hours and leave. In framing our recommendations, we have also benefited from evidence gathered at first hand during our visits to the Services.

Government's economic and management evidence

- 2.2 Each year we are provided with an assessment of the overall economic and specific defence contexts for our deliberations. The evidence addresses the role of public sector pay in the Government's drive to improve public service delivery. For this report, we were reminded that the 2004 Spending Review provided the framework for service delivery and the resources within which Departments were tasked to deliver the targets set out in their Public Service Agreements. The evidence acknowledged the importance of the recruitment and retention of sufficient, capable and motivated staff with expertise and experience to deliver first-rate services, and the role of pay in ensuring this outcome. The Government emphasised that pay systems should reward high quality delivery and increase flexibility and responsiveness, but that pay is but one part of a comprehensive remuneration package which, for Service personnel, includes Specialist Pay, allowances, accommodation and welfare support. The Department had to ensure also that personnel had the training, equipment and logistic support they required to do their job properly.
- 2.3 The Government viewed an "acceptable outcome to this pay round" as one informed by low and stable inflation, as measured by the CPI target rate of 2 per cent, and generally in step with other public sector pay awards. The Government evidence noted advice from the Governor of the Bank of England that the CPI target provided a better indication than other price indices of real increases in the standard of living. We were asked to consider, therefore, the CPI target, along with the RPIX target rate¹ (2.5 per cent) and our remit on recruitment and retention. The Government added that CPI was running a little below target, but that the Bank of England's projection in the August 2004 Inflation Report showed CPI rising during 2004 and then remaining on target until 2008-09. Within this stable environment, and thanks to improved labour market performance, the evidence pointed to subdued average earnings.
- 2.4 The Defence context for our deliberations emphasised the challenges facing the Services and the Ministry of Defence: high levels of operational commitments; the risk to operational effectiveness posed by fragile manning in Pinch Point trades and prolonged and excessive separation; impending force restructuring; and budgetary pressures including the need for the Department to achieve efficiencies of £2.8 billion by 2007-08. Against this background, MOD told us that an award in excess of inflation would impact on the Department's ability to fund other areas of the Defence budget. The evidence argued that a balanced remuneration package was required to recruit, retain and motivate personnel with increases in the package targeted at areas of greatest need. The

¹ RPIX as the Government's target rate for inflation was replaced by the CPI measure in January 2004.

evidence acknowledged the importance of broad comparability as a means of ensuring that military pay was linked to the market and supported recruitment, retention and motivation, particularly the retention of trained personnel capable of delivering Defence policy.

Pay comparability

- 2.5 We welcome the Government's express recognition that broad comparability, which is integral to our terms of reference, represents a fair basis for considering military pay. It provides a link to the market place and enables us to recommend salary levels that are fair both to Service personnel and to the taxpayer who ultimately funds them. We welcome also the Government's recognition that pay awards for other public sector groups are relevant to our deliberations.
- 2.6 We set out the conclusions from our pay comparability analysis below. We must stress that the process of broad pay comparability is not mechanistic but requires a significant element of judgement. We are frequently asked by Service personnel to explain our approach to pay comparability. This is summarised below. Similarly, we are challenged on pay comparability by personnel who tell us that they could earn more pursuing their trade in civilian life. We emphasise to them that our terms of reference refer to *broad* pay comparability and the requirements of recruitment, retention and motivation. There are trades to which the internal or external markets attach a premium and, where there is a sound business case, Specialist Pay and other management tools are available to counter market forces.
- 2.7 Comparisons with civilian jobs cannot be made on a job for job basis. There are over 400 military trades and while some of these cover work similar to civilian occupations (e.g. engineers) others, such as the infantry, do not. Comparisons are made, therefore, on the basis of job weight derived through job evaluation.
- 2.8 Each year remuneration consultants collect, specifically for our use, data on the earnings of civilians by job size. The resulting database, drawn from information held by Croner-Reward and the Reward Partnership, holds anonymised information on over 200,000 employees in a wide range of civilian jobs in the private and public sectors. It is weighted to reflect the profile of employment in Great Britain by industrial sector and location.
- 2.9 MOD follows a rolling programme of job evaluation from which it provides our Secretariat with whole trade scores for Other Ranks and individual job scores for Officers (the indicators of relative job weight). New scores are added to the job evaluation scores collected annually since the introduction of the new job evaluation system or, where a trade has been re-evaluated, are substituted for old scores. As a result, we have a growing databank of scores for all ranks across the three Services. As both Service and civilian jobs in the database are scored under a similar job evaluation scheme, it is possible to make broad comparisons between the remuneration of Service and civilian jobs of a similar size. Given the importance of keeping the scores up to date, we are pleased that over the last year, despite operational pressures, MOD's rolling job evaluation programme of Other Ranks and Officers has continued to provide new scores to add to the comparison.
- 2.10 The database enables us to assess pay movements for civilian comparators and broad pay levels. When looking at pay levels, we consider the total civilian package which, for this purpose, comprises base salary plus bonuses, overtime payments and the value of a company car where appropriate. To ensure an equitable basis for comparison, we remove X-factor (currently 13 per cent) from the equation but include the relative value of the military pension (currently 7 per cent). This process does not provide a formula

for pay comparability, rather it indicates the range within which we should consider our recommendations taking account of all the evidence, particularly that relating to recruitment, retention and motivation.

- 2.11 To ensure the broadest evidence base, we take into consideration the working hours of both Service personnel and the civilian population (using data from the Labour Force Survey). We also examine pay levels for young people in the military and in civilian employment by comparing military salaries, again adjusted for X-factor and the value of the military pension, with the results of the Annual Survey of Hours and Earnings (ASHE)². Finally, we look at pay arrangements for civilian uniformed services.

Pay comparability findings

- 2.12 Our analysis of pay comparability, using pay movements in the year to April 2004, indicated that our overall pay recommendation for 2004 (submitted to the Government on 13 January 2004) was slightly behind the average pay increases enjoyed by civilian comparators in a matched sample of civilian companies and posts. The level of movements indicated by our pay comparability assessment is consistent with the level of median pay settlements as measured across the economy.
- 2.13 Our comparisons for young people using ASHE suggest that the military salary broadly compares to those received by civilians. Looking at ages 18 to 21 years, the new entrant military salary is below the median gross earnings of civilians but the military salary on completion of basic military training exceeds median civilian earnings for the age group. Comparisons for ages 22 to 29 years, suggest average salaries for Privates/Lance Corporals in pay range 1 (weighted by the population in this pay range) are below civilian median earnings but Corporals' military salaries are significantly ahead. In view of the Services' recruitment challenges in the near future, we will keep this position under review. We are conscious that the age groupings used by ASHE do not relate well to the ages at which young people enter and progress in the military. We have therefore asked the Office of Manpower Economics to commission research for our 2006 Report to improve our understanding of the labour market covering young people from ages 16-24.
- 2.14 Comparisons with uniformed civilian public services are complicated by the range of packages on offer. We note that, typically, civilian services have later entry ages and different career structures than the military. Many Service personnel view these services as second careers and frequently comment on the opportunities available on our visits. Our comparisons indicate that, even with X-factor and pension benefits, military salaries are lower, particularly in the early years. We will review the position again for our next report.

Manning

- 2.15 The evidence outlined the manning implications of the Defence White Papers "Delivering Security in a Changing World" (December 2003) and "Future Capabilities" (July 2004). The White Papers aim to improve the effectiveness, capability and flexibility of the Armed Forces. The latter announced an overall reduced requirement for Service personnel with the reductions taking place over a number of years through natural turnover or redundancy. MOD recognised the need to manage this drawdown and at the same time achieve and maintain manning balance, preserve the age and experience profiles of the Services, and address deficits in Pinch Point trades.

² ASHE replaced the New Earnings Survey in 2004.

- 2.16 Turning to the detailed manning evidence, we considered the position for the year to April 2004, to allow year-on-year comparisons, and any changes to the position between April and September 2004³. On 1 April 2004, the **full time trained strength** of the Armed Forces was 190,151 (including Full Time Reserve Service and Gurkhas) against a requirement of 195,342. The deficit against requirement reduced for the second year running from 6,624 in April 2003 to 5,191 in April 2004 representing a 2.7 per cent shortfall. An increase in overall trained manpower of 1,645 drove the deficit reduction although there was a small overall increase in the trained requirement. By 1 September 2004, full time trained strength had decreased slightly to 189,976 increasing the deficit against requirement to 5,390 (2.8 per cent).
- 2.17 The evidence overall indicated that the manning position is broadly stable. However, managing the deficit remains a challenge for the Services given the need to deliver sustained levels of operational capability while carrying underlying skill shortages in around 50 critical trades. Unlike other employers in the private and public sector, the Armed Forces cannot rapidly access alternative sources of labour, such as agencies or contract workers. The use of Reserves in operations has increased but the Reserves are significantly undermanned and experience similar skill shortages to Regular Forces. It is not our role to determine manning requirements for the Armed Forces, but it is clear to us that an imbalance exists between resources and commitments which may well be exacerbated during the period of force restructuring.
- 2.18 The April 2004 manning position for Officers and Other Ranks in each Service can be seen in Charts 2.1 and 2.2 below. By Service, the RN manning deficit was 3.2 per cent in April 2004 but a “temporary” increase in requirement increased the deficit to 4.8 per cent by November 2004. Planned reductions in RN trained strength had also been implemented by September 2004. Army manning had increased to 103,813 by September 2004. However, the Army were required to achieve MOD’s “funded” line of 103,269 by April 2005. In order to meet this, the Army had to regulate recruitment in-year. The September 2004 update informed us that RAF manning requirements for 2004-05 and 2005-06 had been reduced significantly to begin the drawdown arising from the White Papers.
- 2.19 An assessment against the manning targets in MOD’s Public Service Agreement (PSA)⁴ at April 2004 showed that: the RAF had already met the target, within tolerance, with a deficit of 1.4 per cent; the RN was 3.2 per cent short of requirement (the “temporary” increase in requirement in November 2004 would, however, delay the achievement of the target until “late 2005”); and the Army expected to meet the “lower end of tolerance” by April 2006.

³ We note from the latest update that MOD has revised manning data for the years 1 April 2000 to 1 April 2004. As a result, the data we have presented in our 2001, 2002, 2003 and 2004 Reports are no longer directly comparable.

⁴ PSA targets set in the 2002 Spending Review – Royal Navy and RAF to reach full manning by 31 December 2004, Army to achieve full manning by 31 March 2006. Tolerance is defined as achieving between minus 2 per cent and plus 1 per cent of full manning against the requirement.

Chart 2.1: Trained strength surplus/deficit, Officers

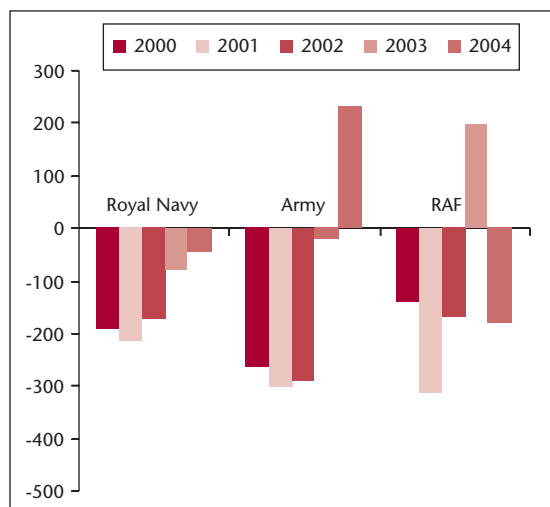
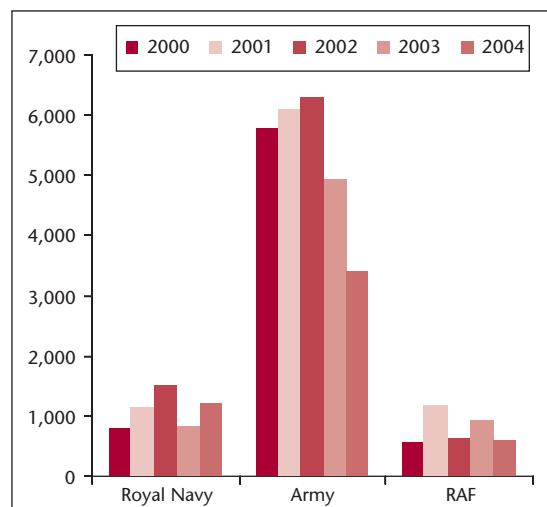


Chart 2.2: Trained strength shortfall, Other Ranks



NB Charts based on revised figures provided by MOD in the September 2004 manning update.

2.20 In the year to 1 April 2004, the Services had mixed fortunes in relation to full time trained strength for **Officers**. The Royal Navy deficit decreased from 80 to 46, the Army moved from a deficit of 22 to a surplus of 232, and the RAF moved from a surplus of 198 to a deficit of 182. For **Other Ranks**, the overall deficit in full time trained strength fell from 6,720 to 5,195 in the year to April 2004 – the Royal Navy deficit increased from 830 to 1,203 (the combined outcome of a decrease in trained strength and an increase in requirement); the Army deficit reduced significantly from 4,943 to 3,405 (representing a real increase in full time trained strength); the RAF deficit decreased from 947 to 587 (a combination of an increase in trained strength and a reduction in requirement).

2.21 In recent years we have adopted **Gains to Trained Strength (GTS)** as a key measure of manning “health”. GTS comprise new recruits who have successfully completed training, re-entrants and personnel transferring between Services or from other countries. In the year to 1 April 2004, Officer GTS reduced very slightly from 2,157 to 2,152 – Army GTS reduced whereas RN and RAF GTS increased. Other Ranks’ GTS increased from 16,665 to 16,918 over the year to April 2004 – increasing for the Army and RAF but reducing for the RN. All three Services reported progress in reducing initial training wastage.

Recruitment

2.22 Reductions in in-year targets meant the Services met their recruitment targets despite all three Services experiencing a decline in actual numbers recruited. The combined intake from civilian life for Officers decreased from 1,777 to 1,735 in the year to April 2004 – only the RAF experienced increased intake from 459 to 517. Officer applications fell for the RN but increased for the Army and RAF. Similarly, overall intake for Other Ranks decreased from 24,504 to 21,732 by April 2004 with all three Services experiencing a reduction in intake and applications. MOD pointed to the general downward trend in Armed Forces’ recruitment and the challenge of converting enquirers into sufficient applicants. In the September 2004 update, the RN reported that recruiting was forecast to meet 95 per cent of target but only 80 per cent for the Royal Marines. The Army estimated it would be 13.4 per cent short of the applications needed to meet intake and that in-year enlistments had been constrained for financial reasons. RAF recruitment targets for 2004-05 had been significantly reduced and, therefore, were likely to be met.

2.23 We were told in evidence that a combination of factors will be at play in the coming years to increase the competition for young people – demographic changes that will reduce the recruitment pool of 16 to 24 year olds; increasing uptake for further and higher education; and the changing skills mix implied by force restructuring which will put the Services in direct competition for skills in short supply. Moreover, the Services’ dependency on a predominantly young workforce means that they will not be able to take full advantage of other sources of labour. MOD also warned that young people in today’s labour market moved from employer to employer increasingly quickly which reduced the Services’ return on the training investment. A recent MOD study concluded that the Services would benefit from a more coherent recruitment strategy and harmonised procedures. Several initiatives were underway to take this forward, including tri-Service management of Careers Offices, common selection tests and a tri-Service market research plan.

Retention

2.24 For the second year, overall outflow of trained regular personnel reduced, falling from 16,854 in 2002-03 to 16,463 in 2003-04 (a fall of 2.3 per cent). All three Services experienced a decrease in outflow, largely as a result of fewer Other Ranks leaving through Premature Voluntary Release (the PVR exit rate remained at 5.0 per cent – the lowest rate for at least five years). The Officer Premature Voluntary Retirement exit rate also remained relatively stable showing a small increase from 2.8 to 2.9 per cent. Charts 2.3 and 2.4 below show the PVR application and exit rates for the past five years by Service. RN Other Ranks PVR rates in 2003-04 showed a significant increase on 2002-03. Army voluntary outflow reduced to a five-year low during 2003-04 (4.9 per cent) despite an expectation that there would be an impact from the change from a three-year to four-year engagement for Soldiers. RAF outflow decreased by 4.5 per cent. MOD reported that an anticipated rise in PVR applications following Operation Telic had not materialised.

Chart 2.3: PVR rates, Officers – 1 April 1999 to 31 March 2004

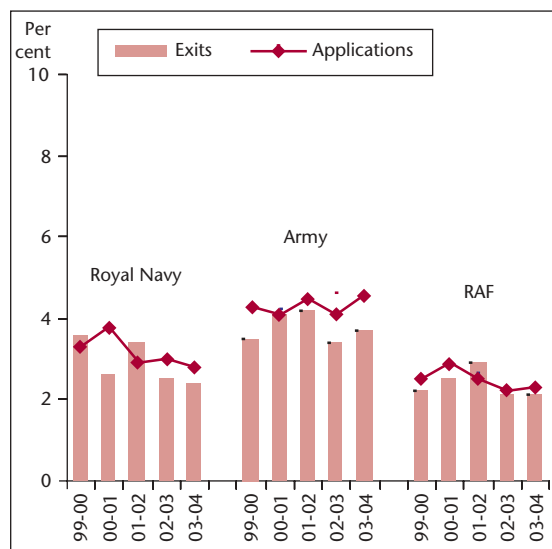
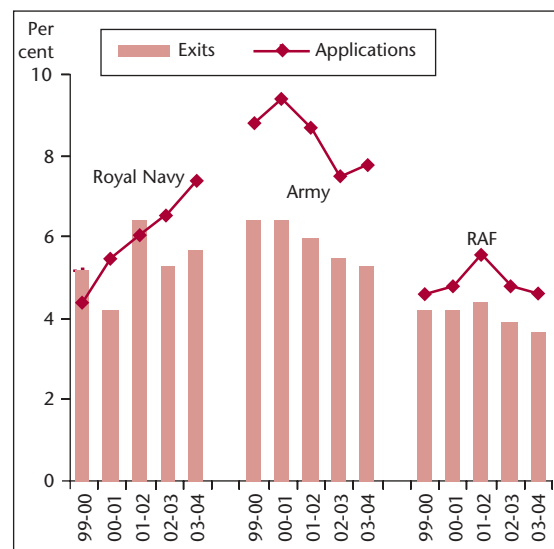


Chart 2.4: PVR rates, Other Ranks – 1 April 1999 to 31 March 2004



2.25 PVR rates to 30 June 2004 indicated little change over the previous 12 months. However, we note that: RN Other Ranks PVR exits rose slightly and were expected to continue to rise into 2005; there was a significant rise in Royal Marines’ application and exit rates; and a slight rise in Army voluntary outflow for Officers and Other Ranks.

2.26 We receive the results of each Service’s rolling Continuous Attitude Survey which test attitudes to various features of Service life and intentions to stay in, or leave, the Service. Overall the surveys conducted at various points during 2003-04, continued to indicate

that Service personnel are, on balance, satisfied with life in the Armed Forces and that job satisfaction, job security and responsibility motivate personnel to stay in the Services. The principal areas of dissatisfaction which pushed personnel to consider leaving were, as in previous surveys, the effects of overstretch and separation on themselves and their families – the priority attached to these factors also came across strongly on our visits. The surveys also indicated that pay was generally considered satisfactory but dissatisfaction was expressed with pay levels in relation to hours worked. The Army reported that initial findings from its June 2004 survey indicated a significant drop in satisfaction ratings (compared with the December 2003 survey), particularly relating to quality of life, job satisfaction, recognition of effort and feeling valued.

Commitment Bonuses

2.27 We have supported MOD's plans under JPA to target Commitment Bonuses at key manning points to support retention. With effect from April 2004, new Army entrants are entitled to a combined bonus payable between 5 and 7 years as determined by each Corps. The RAF also combined the bonus at the 7-year point for Ground Airmen and at the 10-year point for all Non-Commissioned Aircrew. Under JPA, the RN will combine the bonus for Artificers at the 9-year point, attracting a 2-year return of service, and work was underway to identify the most effective points for either one or two bonuses for other trade groups. We wholeheartedly endorse the targeted use of these financial tools to optimise their retention effect.

Commitments

2.28 The level of commitments was regularly cited as a source of dissatisfaction among Service personnel we met on our visits. They considered that the Armed Forces were "over-committed", with some specialists and a number of undermanned areas being particularly hard hit. The PPOs confirmed in oral evidence that the Services had operated beyond planning assumptions for three consecutive years. We note that operational commitments peaked at April 2003 with 40 per cent of the Armed Forces committed to operations but have since fallen back. From November 2003 to December 2004, 14 per cent of the Armed Forces were committed – on 1 December 2004 representing some 26,000 personnel. The impact of consistently high commitment levels was also felt by those in support functions in the UK and elsewhere. We comment in detail in Chapter 3 on separation and make recommendations on the level of Separation Allowances. However, in the context of the building pressures on the Services we note that harmony guidelines are being broken both for individuals and units across the three Services.

Skill shortages

Operational Pinch Points

2.29 Operational Pinch Points are defined as those trades where there is insufficient trained strength to perform operational tasks without breaking harmony guidelines. The overall manning position masks significant skill shortages in around 50 Operational Pinch Point trades across the three Services. The Pinch Points are being managed through a tri-Service working group to pool resources and harmonise efforts in the operational arena. For each Pinch Point the Services have identified a range of actions required to address manning, including financial measures, reducing operational tempo, increasing inflow or reducing outflow.

Inflow initiatives

2.30 The Army's 24 Pinch Points cover a range of trades in the REME, Royal Logistic Corps, Royal Engineers, Royal Signals, Intelligence Corps and Army Medical Services. The timescales to achieve sufficient manning in these trades have been extended as part of force restructuring. The following paragraphs describe the Army's initiatives in place to address these.

- 2.31 In 2003, the Army introduced four internally funded, targeted incentives to improve inflow to undermanned and operationally critical trades: an extension to the Bursary Scheme; Golden Hellos; a Transfer Bonus; and Re-Joining Bounties. We welcomed this targeted approach in our 2004 Report and asked for an assessment of their effectiveness. Evidence for this report indicated that take-up rates for these measures were increasing but that they were still in their infancy. Progress had been constrained by several factors: first, limitations on Army recruitment resulting from MOD's in-year funding mechanism might have sent mixed messages to potential recruits; second, Bursaries were introduced too late to catch the 2003-04 academic year and were to be relaunched; third, low outflow had historically been accompanied by a low level of internal transfers; and finally, the launch of Re-Joining Bounties coincided with major mobilisation of the target population.
- 2.32 The Army was keen to retain these financial measures, alongside non-remuneration measures, to better manage Operational Pinch Points and to assist in the rebalancing of manpower required under force restructuring. The Royal Navy and RAF used a narrower range of measures which would also be influenced by restructuring. We are grateful to the Services, in particular the Army, for the update which is helpful to our overall assessment of manning, recruitment and retention. We welcome their recognition that these Pinch Points need to be carefully managed. For our annual updates it would be helpful to have the targets and actual levels of take-up for each of the inflow measures.

RN Artificers

- 2.33 The RN outlined continuing concerns about the structure of the Artificer Corps and its sustainability which have been under review since October 2003. We were told in evidence that development work was underway on a revised trade structure and dedicated technical support.

Aircrew

- 2.34 MOD has conducted two major reviews in recent years; the Aircrew Retention Review (2001) and the Airmen Aircrew Sustainability Study (2002). In response to continuing manning concerns, the reviews recommended – and we endorsed – a package of targeted Financial Retention Incentives, a Professional Aviator pay spine and non-remuneration measures all designed to pull selected Aircrew through to the Immediate Pension Point (IPP) and beyond. In our 2003 Report, we called for a progress report on these measures (including Flying Pay, the detail of which we review in Chapter 3).
- 2.35 MOD informed us that Aircrew manning had stabilised but shortages persisted and retention could be vulnerable to an upturn in civilian airlines' recruitment after the effects of 11 September 2001 had worked through. The Aircrew sustainable experience profiles showed the positive effect of financial measures in retaining Aircrew at or around the IPP although, generally, the manning levels were still out-of-line with the required profiles. FRIs had attracted high take-up rates across the three Services and the controlled entry into the Professional Aviator pay spine had enabled the Services to stabilise manning. Against this background and the "significantly" reduced Aircrew requirement under force restructuring, MOD proposed to redefine eligibility for Aircrew FRIs from April 2005. As a result, the first FRI, paid at five years before the IPP, will be withdrawn for all RAF Aircrew but retained for RN Aircrew and Army Pilots. The second FRI, paid at the IPP, will be withdrawn for RAF cadres in manning surplus but retained for RN Harrier Pilots, RAF Fast Jet Pilots, RAF Multi-Engine Senior Officer Pilots, RAF Fast Jet Weapon Systems Officers and RN, Army and RAF Rotary Wing Aircrew. The new arrangements will apply until April 2007. The RAF Non-Commissioned Aircrew FRI will be retained until April 2006 as originally approved.

- 2.36 We are encouraged by evidence that the package of measures has stabilised manning and reduced outflow – in some cadres to the lowest level in five years. We consider it appropriate, in the light of the current and future manning requirements, to retarget FRIs. We were concerned when the FRIs were introduced that such measures could become institutionalised if not regularly reviewed and retargeted as necessary, a view reinforced by discussions with Aircrew on our visits.
- 2.37 FRIs were a temporary measure pending concerted action to address long-standing manning difficulties. It is disappointing to learn, therefore, that the training pipeline is not meeting the Into Productive Service target for Fast Jet Pilots; that NCA recruitment is below target; and that other non-remuneration measures appear to have made little progress. We note, for example, that the Aircrew we meet on our visits continue to criticise poor career management. Given the uncertainty generated by restructuring and the potential pull from the civilian market, the withdrawal of FRIs will need to be carefully managed by the Services. We look forward to an update on progress for our 2006 Report.

Submariners

- 2.38 Following the 2002 Submariner Manning and Retention Review we endorsed three targeted Financial Retention Incentives, an additional uplift in Submarine Pay and a Golden Hello as part of a package to address fragile manning levels. We were informed that high take-up of the FRIs had resulted in a reduction in outflow for targeted groups (Junior Warfare Officers, Nuclear Watchkeepers and Chief Petty Officer Weapons Engineering Artificers). A significant shortage of Nuclear Watchkeepers has led to an extension of the FRI for this group to 2008. 372 personnel received Golden Hellos helping to meet the gains to trained strength target. We note that progress has been made on a wide range of non-remuneration measures, but that these will take time to directly influence submariner manning.
- 2.39 Comparing manning levels before and after the Review, it appears that the position has stabilised but remains fragile. MOD does not anticipate achieving sustainable experience profiles for submariners until 2010. With the FRIs only approved to 2006, the potential impact of the transition to the new Longer Separation Allowance (see Chapter 3) and the long lead-in times for non-remuneration measures, MOD and the Royal Navy acknowledged that active management of this group was required to maintain operational capability. Again, we expect an update for our 2006 Report.

Royal Signals

- 2.40 In our 2003 Report, we endorsed a retargeted package of Royal Signals' FRIs to take effect from April 2003 aimed at countering the pull of the telecommunications market. In June 2004, MOD withdrew the FRIs as the Royal Signals approached overall manning balance. The PPOs told us in oral evidence that the emphasis had shifted from FRIs to offering additional qualifications, promotion based on technical capability and reducing deployments. Action on non-remuneration measures also focused on improving recruitment, and developing training and career management. We note from MOD's evidence that, since 2002, overall manning has moved from severe deficits to an expectation of meeting sustainable experience profiles by 2007. Despite these improvements, Foreman of Signals and Information Systems Engineers, crucial to operations, remained significant manning concerns.
- 2.41 An assessment of the FRIs against the Royal Signals' criteria for success points to PVR rates falling to below the Army-wide rates for the first time in six years and training course attendance on an upward trend. However, progress towards achieving a sustainable experience profile, with 54 per cent of personnel aged over 25 years, had

been slow and only 80 per cent of the 2003-04 recruiting target was met. On current projections 100 per cent of target would not be met until 2010. In addition, Phase 1 training places had been reduced and pull through on Class 1 courses was patchy.

- 2.42 MOD informed us that, in the light of the manning position, the withdrawal of FRIs and a downturn in the civilian telecommunications market, any case for Royal Signals' Specialist Pay was being kept under review. For our part, we would welcome annual updates on the manning position. In the meantime, we are concerned whether non-remuneration measures alone will be sufficient to retain these essential specialists.

Working hours

- 2.43 We received the results of the 2003-04 survey of working patterns in evidence. Table 2.1 below shows Service personnel's working patterns for the last four years. We commented in our 2004 Report on the introduction of a new methodology to determine working hours in 2002-03 which led to a discontinuity in the data. With the 2003-04 survey results, we now have available three years consistent data to allow better comparisons over time.

Table 2.1: Average working, duty and unsocial hours per week for Service personnel 2000-01 to 2003-04

	2000-01	2001-02 (revised)	2002-03	2003-04
Average working hours	48.1	47.3	47.1	47.7
Average duty hours	75.1	73.3	73.0	70.8
Average number of unsocial hours	8.5	11.0	9.6	9.9

- 2.44 The main findings from the 2003-04 survey were:

- Average hours of work increased by 0.6 hours to 47.7 per week – the main increase being in the Army (0.9 hours per week) with smaller increases in the other two Services;
- Average hours on duty (comprising all time spent at work, on breaks or on-call) fell over the same period, with Junior and Senior Other Ranks on duty for similar periods but for fewer hours than Officers;
- The proportion of personnel regularly working over 40 hours per week fell from 75 per cent in 2002-03 to 69 per cent in 2003-04, but the number of unsocial hours worked each week rose, on average, from 9.6 to 9.9 hours; and
- As with previous surveys, the results showed those with the highest average duty hours were RN personnel at sea and Army personnel in Northern Ireland.

- 2.45 For the first time the 2003-04 survey included information on working hours of personnel on operations. Unfortunately, the survey did not capture the circumstances of seagoing RN personnel so the analysis is limited to the RAF and Army. Responses to the 2003-04 survey indicated that:

- 22 per cent of Army and 5 per cent of RAF respondents were on operations or exercise at the time of the survey, working an average of 63.5 hours per week in the Army and 53.1 hours in the RAF; and

- Of these, 54 per cent of Army and 22 per cent of RAF respondents were on operations or exercise outside GB and Northern Ireland (and additionally for the Army outside Germany). These respondents worked on average 75.9 hours per week in the Army and 59.4 hours in the RAF.
- 2.46 MOD concluded that increased average working hours reflected the high operational tempo during the survey period with the Army most affected. It added that, with no sign of abatement in the operational pressures and with other commitments on the horizon, the level of over-commitment had been sustained. Personnel on our visits considered longer working hours were being driven by operational tempo and undermanning. Such working hours, they believed, undermined both their goodwill and their sense of being valued by the Services.
- 2.47 Despite certain exemptions from the *Working Time Regulations*⁵, MOD is committed to ensuring that, wherever possible, working practices in the Services are brought into line with the requirements of the regulations. The 2003-04 survey results, showing increases in average working hours, clearly indicate the size of the challenge to the Services to keep to the spirit of the regulations. MOD acknowledged in evidence that, despite efforts to manage the situation, operational commitments had led to around 36 per cent of personnel working in excess of the 48 hours per week set as the benchmark for the regulations. We also note that average working hours in the Services are significantly in excess of those in civilian life. The 2004 Labour Force Survey indicates that the average actual working week for full time workers was 37.3 hours; split 39.1 hours for men and 33.7 for women.
- 2.48 We also use the results of the hours of work survey to assess the position of Junior Ranks in the Armed Forces against the *National Minimum Wage* as an important part of our terms of reference to deliver broad pay comparability. In 2003-04, the survey showed that, on average, Junior Ranks' weekly working hours increased to 46.5 hours. National Minimum Wage rates for these working hours produce weekly pay of £209.25 for those aged 22 and over and £176.70 for those aged 18 to 21. The minimum weekly pay for Privates and equivalents in the Armed Forces is £258.16 – at an equivalent of £5.55 per hour this stands significantly above the National Minimum Wage rate, irrespective of age, for average hours worked. However, Junior Ranks' pay could fall below the National Minimum Wage rate if they were consistently working 57 hours or more per week (if aged 22 or over) or 67 hours or more per week if aged 18 to 21, over the period specified in the legislation. We note that the position in relation to the National Minimum Wage has remained stable for the last few years.

Leave

- 2.49 During our 2003 visits, Service personnel raised many difficulties relating to annual leave. In the light of evidence from MOD for our 2004 Report, we recommended that the Services develop clear performance indicators for the management of leave so that corrective action could be taken as appropriate. MOD told us that the three Services were developing harmonised performance indicators to monitor individuals' annual and operational leave. The indicators would be incorporated into the Service Personnel Plan from April 2005 and progress reported under the Defence Balanced Scorecard.

⁵ The regulations specify an average of 48 working hours per week over a 17-week period (which may be extended to 26 weeks in certain circumstances).

- 2.50 The three Services have a common annual leave allowance of 30 days which we consider appropriate given their unique working patterns and pressures. This compares favourably with a median basic holiday entitlement of 25 days for adult full-time employees in civilian life in the UK⁶. The results of the 2003-04 survey of leave indicate that the average number of annual leave days taken in the Services increased from 26.5 days in 2002-03 to 27.6 days in 2003-04. However, we are conscious that the “averaging” of survey results might mask varying fortunes for individuals. By Service, RN personnel took 94 per cent of their annual leave in 2003-04, Army personnel took 83 per cent and RAF personnel took 72 per cent – all showing an improvement over 2002-03. During oral evidence, the PPOs confirmed that further improvements had been seen in the first half of 2004 but contingency planning in support of civil authorities had led to some summer leave being cancelled.
- 2.51 The 2003-04 leave survey revealed, for the first time, the average number of days annual leave carried forward – 4.2 days. The figures for each Service vary significantly: the RN carried forward 1.6 days; the Army 2.4 days; and the RAF 9.6 days. These figures are encouraging, given trends in leave taking in recent years. Nevertheless, 43 per cent of personnel carried forward leave.
- 2.52 More importantly, the survey results provide an analysis of lost annual leave. Service personnel are able to carry forward, from one leave year to the next, up to 15 days of untaken leave. Lost leave, therefore, represents untaken leave in excess of 15 days. In 2003-04 the average amount of lost annual leave was 2.3 days (down from 2.8 days in 2002-03). The cumulative effect of this is 17.3 days of leave that is not taken by the personnel affected. The proportion of personnel losing at least one day’s annual leave fell from 32 to 26 per cent but the proportion of personnel having to change leave for Service reasons remained broadly constant at 51 per cent.
- 2.53 Overall, we are encouraged by the survey evidence. Management action is beginning to yield improvements in leave-taking in response to our recommendation for better management and monitoring of leave arrangements. We have seen for ourselves units where leave is being managed to ensure personnel can take advantage of their full allocation. The personnel we met in 2004 were, in the main, less concerned about leave taking than in previous years. However, it is clear that there is still work to be done to reduce the amount of leave carried forward or lost. We intend to gather views on the impact of the performance indicators during our 2005 visits and expect to receive the Services’ first assessment of performance against the indicators in evidence for our 2006 Report.

New entrants’ rates of pay – Officers

- 2.54 As part of our review of new entrants’ rates of pay in our 2004 Report, we welcomed MOD’s intention to harmonise Officer entry points, commissioning arrangements and associated pay rates under JPA. MOD’s evidence for this report proposed that all Direct Entrant graduates will continue to enter at increment level 5 of the Lieutenant (and equivalents) pay scale – with higher entry available dependent on length of degree and qualifications. All Direct Entrant non-graduates will enter at increment level 1 of the Lieutenant pay scale, with annual incremental progression thereafter, and will move to increment level 5 on commissioning. On transition to JPA, any recently commissioned Direct Entrant non-graduates not already at level 5 will move to level 5. We welcome MOD’s swift action to rationalise Officers’ entry points and pay rates which will clarify

⁶ Labour Force Survey, Autumn 2003.

progression for potential Officer recruits. We look forward to further evidence after the introduction of JPA for all Services on the treatment of Army and RAF non-graduates “marking time” at increment level 5 while awaiting promotion.

Our military pay recommendations for 2005-06

- 2.55 We have set out above the evidence available to us to inform our military pay recommendations for 2005-06. Those recommendations must maintain broad comparability with civilian life and, as part of the overall remuneration package, enable the Services to recruit, retain and motivate personnel of the right quality to deliver operational capability.
- 2.56 Our starting point is that recommendations must support recruitment and, critically, the retention of trained personnel. The overall manning position is broadly stable. The deficit between trained strength and requirement was 2.7 per cent at April 2004, though it had risen marginally to 2.8 per cent by September 2004. However, this still represents a deficit of 5,390 personnel at a time when the Services are heavily committed and the overall position masks significantly higher deficits in key areas crucial to operational capability. This imbalance between resources and commitments represents a greater challenge for the Services than it would for other private and public sector employers because of their inability to draw on other sources of labour.
- 2.57 The evidence points also to a number of potential threats to recruitment and retention, and to the motivation of personnel, that we must take into account. First, we note that Other Ranks’ applications and intake for all three Services fell in the year to April 2004 and that the task of converting enquirers to applicants remains challenging. Added to this, demographic trends, the increasing proportion of young people entering higher and further education and a growing disinclination to join the Services are narrowing the recruiting pool. The mixed messages sent out to potential recruits and the labour market in general, by in-year changes to Army recruiting and the announcement of redundancies as part of force restructuring, pose additional risks to recruitment. Second, pay in relation to the hours worked is a key concern for personnel. The pressures on the Services continued to impact on working time in 2003-04, with average working hours rising to 47.7 hours per week, well in excess of civilian comparators. Operational commitments led to over one-third of the Armed Forces working in excess of the 48 hours per week set as the benchmark for the Working Time Regulations. Concerted management action has reduced the impact on leave; nonetheless, 26 per cent of personnel lost annual leave in 2003-04 and over half (51 per cent) of all personnel had to change leave arrangements for Service reasons. Third, the Services have entered a period of significant change and restructuring along the lines set out in the Defence White Papers. We do not underestimate the difficulty of maintaining sustainable experience profiles – that is the appropriate distribution of people and skills through the rank structure – across the Services, particularly in Pinch Point trades, through the transitional phase to 2008. Maintaining the attractiveness of the remuneration package will be important in managing recruitment and retention in this period.
- 2.58 The Government has reaffirmed the importance attached to broad comparability which, in its view, when taken together with other elements of the package, provides a sound basis for remuneration. Our assessment of pay comparability for this report indicated that our recommended award for 2004 was slightly behind the average pay increases enjoyed by civilian comparators. As we note below our findings are consistent with median pay settlements across the economy.
- 2.59 The stable economic environment, described in the Government’s economic and management evidence, provides the backdrop to pay determination in the public and private sectors. The Government’s evidence placed emphasis on low and stable inflation and subdued earnings growth. In this context, it viewed an acceptable outcome to be

one informed by inflation as measured by the CPI target rate of 2 per cent, consideration of the RPIX target⁷ and other relevant factors, such as recruitment and retention, and keeping in step with other public sector pay awards. We note that at November 2004 CPI stood at 1.5 per cent and RPIX at 2.2 per cent. RPI was somewhat higher at 3.4 per cent but independent forecasters⁸ projected that it would decline to 2.4 per cent by the end of 2005. We note also that, in October 2004, all major commentators agreed that median settlements for the whole economy were around 3 per cent, as they had been for some 18 months. In the three months to October 2004 core average earnings, excluding bonuses, increased by 4.3 per cent in the private sector and 4.5 per cent in the public sector, both within the maximum which the Monetary Policy Committee considers compatible with the inflation target.

- 2.60 We are required by our terms of reference to have regard to the affordability of our recommendations. The Government's evidence stressed the pressures on the Defence budget, including the need to make significant efficiency savings. The Secretary of State reinforced this in oral evidence. He reminded us that MOD had a "finite" budget and that any award in excess of inflation would have to be funded from savings elsewhere in the overall package for personnel. He was aware, however, as we are from our visits, that the level of the award sent a message to personnel about how they were valued by their employers.
- 2.61 We are mindful of the budgetary pressures which are an inevitable consequence of modernisation and restructuring and of the relatively stable economic environment set out in the Government's economic evidence. However, we consider that there is a need to maintain retention at a time of change and high operational tempo and to remain competitive in the labour market. In our view, recruitment and retention, coupled with our analysis of pay comparability, require that our pay recommendation for 2005-06 should provide a lead over the CPI target rate of inflation. We are also aware of the Secretary of State's view on the relationship between our recommendation and awards for other public sector groups. We recommend accordingly.
- 2.62 For the past three years, on the basis of comparability evidence and information from the New Earnings Survey, we have recommended a differential increase for Privates and Lance Corporals in pay range 1 (lower). There is no compelling evidence to support a differential award this year. However, given the recruitment challenges facing the Services, we are keen to gain a better understanding of the youth employment market. We have therefore asked the Office of Manpower Economics to commission research on the labour market covering young people from ages 16 to 24 to inform our work, and that of the other Public Sector Pay Review Bodies, for our 2006 Report.

Recommendation 1: We recommend that the military pay ranges under Pay 2000 for all Other Ranks and Officers be uprated by 3 per cent from 1 April 2005. The annual salary scales arising from our recommendations are at Appendix 1.

Reserves' Bounties

- 2.63 We conducted our biennial review of the Reserve Forces' Bounties and Call-Out Gratuity supported by written evidence from MOD and the Reserve Forces' and Cadets' Association (RFCA). We visited two Reserve units and met with a wide range of Reserves on our other visits. We are also grateful to the Assistant Chief of Defence Staff (Reserves and Cadets) and the Director of Reserve Forces and Cadets who attended our meeting in November 2004 to discuss wider Reserves' issues.

⁷ RPIX as the Government's target rate for inflation was replaced by the CPI measure in January 2004.

⁸ Forecasts for the UK Economy, a comparison of independent forecasts – HM Treasury, November 2004.

- 2.64 In evidence reviewing the Training Bounties, MOD told us that force restructuring would place greater reliance on the Reserves as a key component of the UK's military capability to support more frequent expeditionary operations. Recent mobilisation levels highlight the significant role Reserve Forces already play in supporting the Regular Forces with over 10,000 deployed on Operation Telic since 2002, as well as supporting operations in Afghanistan and the former Yugoslavia and providing civil contingency support. Against this background, MOD reported serious manning shortfalls and manning fragility in each of the Services. The evidence set out manning levels at 1 June 2004 which showed shortfalls against requirement of: 10.8 per cent in the Royal Naval Reserve; 15.4 per cent in the Royal Marine Reserve; 9 per cent in the Territorial Army (TA); and 30 per cent in the Royal Auxiliary Air Force. MOD added that the TA 80 per cent minimum manning sustainability level is under threat.
- 2.65 MOD's evidence highlighted increased outflow of Reservists in both the RN and Army since our last review of the Bounties. RAF outflow remained constant. MOD believed that increased mobilisation during Operation Telic had directly contributed to an increase in outflow. Although the pattern of outflow is mixed for each Service, there were particular concerns between one and three years' service. The TA Continuous Attitude Survey indicates that for 70 per cent of soldiers the Bounties are influential in their decision to remain in the TA. MOD and the RFCA recognised the value of the Bounties as a retention tool and, in the longer term, work was underway to determine whether they could be used more flexibly by targeting fitness for mobilisation and improving military capability. In the meantime, MOD and the RFCA proposed uplifting the Training Bounties in line with increases in military salary since 2003-04.
- 2.66 During our visits, Reservists continued to emphasise the role of the Bounties in their decisions to stay in the Services. The effects of increased mobilisation and the changing nature of the Reservist role were also common themes. They told us that the increased expectation of mobilisation, coupled with higher workload supporting civil contingency planning, had a negative impact on family life and civilian work commitments. They added that elements of their 5 per cent X-factor had been subject to "material" change and we have therefore called for specific evidence on the Reserves for our next full X-factor review. Relations with civilian employers were also extensively raised throughout our visits. MOD updated us on progress which included funding to improve employer relations and support, particularly during mobilisation. Communications with large companies had been effective at HR Director level but more needed to be done with line managers and employers in smaller companies, and to improve support for the self-employed. Compensation for both employer and employee on mobilisation was under review and new arrangements were expected in 2005.
- 2.67 Based on the manning fragility, recruitment and retention concerns, and the greater reliance and pressures placed on Reserves, we are content to recommend an uplift to Training Bounties and the Call-Out Gratuity in line with the increases in military salaries for 2004-05 and 2005-06. Our recommendations below would preserve the current structure of Bounties, including the Royal Irish Home Service (Part Time) Bounty which we reviewed alongside Reserves for the first time. We can see no reason why the level of Bounties should not be examined on an annual basis, supported by a triennial review, and we intend to do so from 2006-07. We also support the Services development of more effective and flexible Bounties and look forward to the outcome of their review.

Recommendation 2: We recommend the following rates of Reserves' Bounty from 1 April 2005:

- **Volunteer Reserve Forces Training Bounty – Year 1 £371, Year 2 £816, Year 3 £1,260 and Year 5 £1,462;**
- **Ex-Regular Officers and Other Ranks Training Bounty – £329;**
- **University Units Bounty – Year 1 £127, Year 2 £148 and Year 3 £180;**
- **High Readiness Reserve Bounty – £371;**
- **Sponsored Reserve Bounty – based on the Training Bounty with rates varying between 50 per cent and 100 per cent depending on training commitment;**
- **Call-Out Gratuity – £445;**
- **The Royal Irish Regiment Home Service (Part Time) Bounty – Year 1 £519, Year 2 £974, Year 3 £1,424 and Year 5 £1,641.**

Chapter 3

Specialist Pay and Compensatory Allowances

Introduction

3.1 The 1998 review of Additional Pay rationalised payments into three categories: Specialist Pay; Non-Specialist Pay; and Compensatory Allowances. Subsequent rationalisation, in preparation for the introduction of Joint Personnel Administration (JPA), has removed the requirement for a Non-Specialist Pay category. Each item of Additional Pay is subject to periodic review at three or five yearly intervals. For each periodic review of Specialist Pay we are provided with a detailed assessment of the manning position for the group and the role of pay in supporting recruitment and retention.

Separation Allowances

- 3.2 Given the pressures on the Services that we described in Chapter 2, we have given priority to our consideration of Separation Allowances. Frequent and prolonged separation has been a feature of Service life for many years. Our main vehicles for compensating excessive separation have been Longer Separated Service Allowance (LSSA) and Longer Service at Sea Bonus (LSSB). Since 2000, we have made a series of differential increases to LSSA/B daily rates and bonuses, accompanied by structural changes such as reductions in the initial qualifying periods. During our visits personnel have welcomed this targeting of compensation which had sent a positive message to those most affected by separation.
- 3.3 The continuing pressure from separation was a common strand running through much of the evidence for this report confirming that it remains the highest priority for personnel and Commanding Officers. The Government's economic and management evidence clearly highlighted the risk to retention of continued separation. In oral evidence, the Secretary of State and the PPOs emphasised the need for a balanced remuneration package which focused compensation on those experiencing the greatest separation. MOD's evidence commented that tour intervals for key Service personnel were already "well below" unit harmony guidelines and individual harmony guidelines were "under strain". Service personnel were operating under sustained pressure, and had been for some time, with little sign that the pressure will ease in the near future. The PPOs told us in oral evidence that the Services had operated in excess of Defence Planning Assumptions for the last three years. MOD expressed concern that the continuing burden of commitments was likely to manifest itself in worsening retention adding that financial action was needed now to prevent the situation "developing into a crisis". It proposed "heading off" potential PVRs and outflow by effectively targeting LSSA/B daily rates and Accumulated Turbulence bonuses with a "reasonable" increase above our main pay recommendation. The manning evidence commented on the Services' Operational Pinch Points which were frequently characterised by high operational pressure impacting on separation levels. Evidence for our periodic reviews of Specialist Pay confirmed the degree of separation experienced by those specialists.
- 3.4 MOD's specific evidence on Separation Allowances was borne out by other evidence. The Continuous Attitude Surveys confirmed that operational tempo and separation are the main factors "pushing" personnel out of the Armed Forces – these issues have consistently been in the "top ten" retention-negative factors in recent years. Service personnel on our visits tell us that the impact of separation on themselves and their families is the most important single issue influencing retention.

- 3.5 In our view separation is symptomatic of the imbalance between the numbers of Armed Forces' personnel and the level of commitments. MOD considered that force restructuring "may ultimately go some way to relieving" the pressure of operational commitments and therefore separation. The Secretary of State added, in oral evidence, that the phasing out of the Arms Plot by 2007-08 would, for the Infantry, generate greater stability through more predictable tour intervals. We are not persuaded, on the evidence so far available, that the problem of excessive separation will be resolved while commitment levels remain high.

LSSA and LSSB recommendations

- 3.6 Our analysis of the statistics on separation confirms the pressure on the Armed Forces. Since the peak of operational commitments at April 2003, the proportion of personnel on operations has remained at around 14 per cent. Each Service operates harmony guidelines to monitor separation levels for both units and individuals. The Army aims for 24 months interval between 6-month unit tours. Between 2002 and 2004, a growing percentage of overall Army strength was experiencing tour intervals which fell short of 24 months. By May 2004, the overall average unit tour interval was 18.8 months, with the Infantry at 15.6 months. By September 2004, the overall average had reached 24.4 months with the Infantry at 15.5 months. Despite the improved average interval, tour intervals of less than 12 months were experienced by 37.5 per cent of Infantry units, 30 per cent of Royal Armoured Corps units and 36 per cent of Royal Artillery and Royal Engineers units. The Naval Service measures harmony against a target of a minimum of 40 per cent of time spent in base port – since 2000, personnel typically spent between 31 and 38 per cent in base port. Royal Marines' tour intervals averaged 7 months between 2001-02 and 2003-04. The RAF's target reflects the fact that fewer personnel deploy but separated service slightly exceeded the target at September 2004 – also RAF Regiment tour intervals averaged 12 months in 2003-04. All three Services were breaking individual harmony guidelines for the groups key to delivering operational capability.
- 3.7 We also analysed the numbers receiving LSSA/B daily rates and bonuses at April in each year since 1999. These figures only provide a "snapshot" of separation levels and are influenced by peaks of operational commitments, manning levels, the build up of qualification for higher rates and structural changes. Nevertheless, the LSSA figures confirm the rising numbers on separated service (mainly in the Army and RAF) reaching a peak in April 2003 during the initial phases of Operation Telic. Although numbers reduced by April 2004, they remained above the level leading to the peak in 2003. Numbers receiving LSSB also rose steadily over the same period, although less so for more experienced personnel on the higher rates. Significantly, those experiencing the highest levels of separation, as measured by the numbers receiving Accumulated Turbulence bonuses, rose in each year since 2001-02.
- 3.8 We are persuaded by the evidence that current levels of separation present a growing risk to retention and that a targeted response is required. We agree with MOD's conclusion that an increase to LSSA/B above the level of our overall pay recommendation is justified. Separation is the single, most consistently cited factor influencing retention for those on operations and in support roles in the UK and elsewhere. The evidence suggests rising pressure over the last five years flowing from the imbalance between manning levels and commitments. We consider that, at a time of uncertainty under force restructuring, outflow levels might not yet truly reflect the impact of growing separation. It will also be difficult for the Services to effectively balance manning levels against commitments during the period to 2008 as restructuring works through. Therefore the level of our recommendation on daily rates, coupled with a further increase in the levels of bonuses and the introduction of better targeted arrangements under the Longer Separation Allowance, aims to better compensate those experiencing the most separation.

Recommendation 3: We recommend an increase of 5 per cent in daily rates of LSSA and LSSB from 1 April 2005. The recommended rates are set out at Appendix 2. We also recommend that the Accumulated Turbulence and Accumulated Turbulence Plus bonuses be increased from £1,300 to £1,350 from 1 April 2005.

The introduction of Longer Separation Allowance

- 3.9 We trailed in our 2004 Report MOD's intention to develop a single Longer Separation Allowance (LSA) under JPA which would better target those experiencing more frequent separation. Detailed proposals were set out in evidence for this report, comprising:
- A common Initial Qualifying Period of 100 days qualifying separation;
 - 14 escalating daily rates with increments for each 300 days qualifying separation – the first three levels will equate to exiting LSSA rates;
 - Retention of the 10-day rule and "On-The-Road" status in the same form as for LSSA;
 - Accumulated Turbulence bonuses will cease and their value will be subsumed into daily rates;
 - Married Unaccompanied Separation Allowance and Northern Ireland Detached Duty Allowance will be replaced by LSA;
 - A revised "Get You Home" package to complement LSA; and
 - A new tri-Service Unpleasant Living Allowance will be introduced under JPA to compensate personnel enduring poor living conditions aboard certain ships and submarines when alongside in base ports.
- 3.10 Each Service will move to the new LSA when they transfer to JPA. On the current timetable, the RAF will be the only Service affected in 2005-06. For serving personnel, their rate of LSA on transfer will be determined by their individual accumulated separated days under LSSA, or, in the case of LSSB, qualifying days will be pro-rated to recognise the different entitlement under LSSB. Payment of Accumulated Turbulence bonuses will cease on transition with no protected rights.
- 3.11 Overall, we consider that LSA represents a clearer, better targeted response to separation with the prospect of higher levels of compensation for those enduring the greatest amount of separation. We are, therefore, content to recommend its introduction at the rates set out in Appendix 2. We are concerned, however, at the potential impact on the Royal Navy. LSA, unlike LSSB, will only be paid when seagoing personnel are away from base port. While the introduction of higher tiers of payment ultimately offers higher compensation for separation than is currently available, the transition from LSSB could result in in-year fluctuations in remuneration depending on the pattern of deployment. Submariners' patterns of service may make them particularly vulnerable in this respect. It is difficult to accurately predict the effect of transition as much will depend on individuals' patterns of separation, but the PPOs told us in oral evidence that management action was underway to address concerns, particularly for the Submarine Service. These concerns reinforce the need for good communication and management of the transition to LSA. We look forward to MOD's evidence on the Unpleasant Living Allowance for our 2006 Report and information on any early lessons learned from the

RAF experience of transition to LSA. By the time of our next periodic review, scheduled for our 2008 Report, each Service will have made the transition to LSA. In the meantime, we emphasise that providing better compensation arrangements should not deflect from the essential task of managing individual harmony.

Recommendation 4: We recommend the introduction of the Longer Separation Allowance under JPA. The recommended rates are set out at Appendix 2.

Specialist Pay

- 3.12 In our 2004 Report, we welcomed the development of new, common arrangements for Specialist Pay. Common principles were adopted, namely: payment based on recruitment and retention requirements; specified entitled posts; responsive to the internal or external market; and common Reserve Bands including reduced rates for those who apply to PVR or are medically downgraded. Depending on the nature of specialist employment, payments would be made on a continuous career basis, a non-continuous basis or on completion of a task. Some items of Specialist Pay had already moved to common principles as part of our recent periodic reviews, others would move on the introduction of JPA. We recommended, from 1 April 2004, standard daily rates of Specialist Pay to make the system more transparent and to make it easier to manage future modifications or to target specific groups. Our periodic reviews of individual items of Specialist Pay would continue.

Flying Pay

- 3.13 In our 2003 Report, we called for a full review of all Aircrew retention measures including a periodic review of Flying Pay. We reported in Chapter 2 on the progress of the measures put in place following the Aircrew Retention Review and the Airmen Aircrew Sustainability Study.
- 3.14 MOD's evidence on Flying Pay set out the current Aircrew manning position. The overall position is encouraging. Manning against requirement was: stable in the Royal Navy, but with shortages (particularly Sea Harrier Pilots); healthy in the Army; and stable in the RAF but with shortages of Fast Jet Pilots, Weapon Systems Officers and Non-Commissioned Aircrew (NCA). Recruitment of Aircrew was patchy – Army recruitment was “buoyant” but the RN was 9 per cent short of the target for Pilots, and while RAF recruitment was “good” for Officers, it was a “challenge” for NCA. Retention of Service Aircrew will continue to be influenced by the “pull” from commercial airlines which are expected to expand by up to 700 jobs in 2004-05. Other factors influencing retention included uncertainty over future RN requirements and the lack of flying time in the Army. However, the RAF reported a steady decline in Aircrew PVR rates since 1999. For the longer term, MOD took the view that force restructuring and replacement airframes would “substantially” reduce manning requirements.
- 3.15 MOD argued that Flying Pay remained justified on recruitment and retention grounds for all Commissioned and Non-Commissioned Pilots and Aircrew, and sought an increase in line with our overall pay recommendation. It wished to preserve the current structure of Flying Pay to retain experience and skills in the face of civilian market pressures and to counter the “push” factor of growing uncertainty in the Aircrew cadres resulting from force restructuring. We have heard concerns about these uncertainties and how they might impact on recruitment and retention on our visits.
- 3.16 The timing of this periodic review of Flying Pay is not ideal. We are aware that the Services will need to examine in detail the nature and number of flying and flying-related posts required under force restructuring and as new airframes come on stream.

We expect further evidence on Aircrew when the changes have worked through and we anticipate a progress update for our 2006 Report. In the meantime, while overall manning has stabilised and outflow reduced, significant Aircrew shortages remain which could be compounded by growing recruitment in civilian airlines and by internal uncertainty about the future. Retention of expensively trained Aircrew is essential to operational capability. On the basis of this evidence, we recommend that all rates of Flying Pay be increased in line with our increase in military salaries.

Recommendation 5: We recommend that all rates of Flying Pay be increased by 3 per cent from 1 April 2005. The recommended rates are set out at Appendix 2.

- 3.17 During our visits Aircrew raised a number of perceived inequities in Flying Pay arrangements which MOD addressed in evidence. It confirmed that Flying Pay for Ground Branches was justified on a non-continuous basis as they played a central role in an aircraft's mission and current manning was significantly below requirement. MOD argued that differences in Flying Pay rates between Officers and NCA reflected real differences in responsibilities. However, MOD found it more difficult to explain the differences between Officer and NCA qualification periods, particularly for the top rate of Flying Pay, and proposed that they should be brought in line. Given continued NCA manning shortages and the end of the NCA FRI in 2006, we agree that the NCA qualification period for the top rate of Flying Pay should be reduced from 22 to 18 years to bring NCA into line with Officers. The revised eligibility also applies to Royal Marine/Army Pilots and RAF Non-Commissioned ground personnel.

Recommendation 6: We recommend that the qualification period for the top rate of Flying Pay for Non-Commissioned Aircrew, RM and Army Pilots, and RAF Non-Commissioned ground personnel be reduced from 22 to 18 years' reckonable service from 1 April 2005. The recommended rate is set out at Appendix 2.

Aircrew Pay

- 3.18 Evidence was presented on six different categories of Aircrew Pay – Crew Pay (RAF), Aeromedical and Escort Duties Pay, Air Despatch Pay (Army), RLC Helicopter Crew Pay (to be retitled Joint Helicopter Support Unit Helicopter Crew Pay), Aircrewman Pay and Flying Extra Pay (RN). Overall, the manning position for most of these specialisms was sufficient to meet commitments, although some remained designated as Pinch Point trades and others were being rebalanced as a result of the Services' review of posts. A range of recruitment and retention factors influenced these specialisms, including the impact of operational commitments, high readiness states and separation. Intensive training, on-call duties and potential skill-fade on operations were also factors. MOD added that these personnel had made a valuable contribution in recent operations and that Specialist Pay made an essential contribution to recruitment and retention. Notwithstanding the changes arising from the review of posts, explored in more detail below, we consider an uplift in Specialist Pay rates for these groups is justified on recruitment and retention grounds.

Recommendation 7: We recommend that all rates of Aircrew Pay be increased by 3 per cent from 1 April 2005. The recommended rates are set out at Appendix 2.

- 3.19 As part of the periodic review of Aircrew Pay, the Services examined whether non-continuous payments (paid for the duration of a specific tour when occupying Specialist

Pay or related posts) or task-based payments (paid for undertaking a particular task) were appropriate to particular posts. This review concluded that under JPA:

- RLC Helicopter Crew Pay should move from non-continuous to task-based payments as these personnel did not form an integral part of helicopter crews and only spent, on average, 40 days in the aircraft each year;
- Flying Extra Pay (RN) should move from non-continuous to task-based payments as the majority of these RN personnel conducted secondary duties and were not an integral part of the crew; and
- Aircrewman Pay should move from task-based to non-continuous payments following a trade review which expanded the rearcrew role (retitled as Army Aviation Crewman) as part of the “core crew” and brought them in line with similar roles in the RN and RAF.

3.20 We welcome the Services’ efforts to rationalise the basis of payment for Aircrew Pay and we note that the Services plan further work on the designation of posts prior to the introduction of JPA and in the light of force restructuring. Although we understand this will not affect our recommendations for 2005-06, we wish to be kept informed of developments. While it is for the Services to determine which posts should attract payment, the approach appears consistent with the common principles for Specialist Pay. As part of this work and in the interests of clarity, MOD might consider streamlining the categories given that six categories of Specialist Pay only cover two rates of pay. As in all cases where aspects of remuneration are changed, good communication and an assessment of the recruitment and retention impact will be essential.

Diving Pay

3.21 Diving Pay is paid on a continuous basis at five levels depending on skills/qualifications held and maintained. Military divers fall into three categories:

- RN Career Divers – undertaking mine warfare and clearance duties;
- Army Career Divers in the Royal Engineers and Royal Logistic Corps; and
- RN Ship’s Divers and Supervisors who dive when ships require as an additional duty.

3.22 In addition, there are three “unfit to dive” payments for those contributing to operational capability or instructing, and Deep and Experimental Diving Pay which is payable per dive at escalating rates. Common principles of Specialist Pay will apply to Diving Pay on transition to JPA, including the introduction of Reserve Band rates and this has necessitated a critical look at all diving posts.

3.23 We were told in evidence that RN Minewarfare and Clearance Divers were close to full manning overall but had significant imbalances in the Officer cadre. PVR exit rates were low but there were indications of increasing PVR applications among Able Rates. Army Diving Teams were run at a surplus (currently 13 per cent) to maintain necessary currency and motivation between postings. Current imbalances across the four categories of Army Diver will disappear as Health and Safety requirements reduce the categories to two on 1 April 2005: a retraining programme is underway which will improve Army Divers’ qualifications potentially leading to a higher category of Diving Pay. The recruitment and employment structure for RN Ship’s Divers was under review which, we were told, would probably lead to a significantly reduced requirement – further evidence will be submitted for our 2006 Report. MOD justified continuous

payment of Diving Pay on the basis of career paths for Service Divers and “unfit to dive” rates on the basis that qualifying personnel added operational value in the Service diving community. It is highly improbable that Ship’s Divers would be required for diving operations after promotion to Warrant Officer 1 and Commander. MOD proposed, and we agree that it is appropriate, to withdraw Diving Pay on promotion to these ranks. Finally, MOD provided evidence of pay comparisons with the Offshore Diving Industry showing considerably higher civilian rates than paid to Corporal Divers.

- 3.24 During our visit to the Defence Diving School, the imbalance in Officer manning was a source of discontent for Senior NCOs who were picking up additional workload. RN Able Rates and Junior Ranks in Army Diving Teams also felt under pressure as they believed the manning requirements were set too low to deliver the task. They added that recruitment pipelines had been stalled by changes to Health and Safety procedures compounding manning shortages. Overall, these young divers did not view military diving as an attractive long term career under these conditions. Service Divers also told us on visits that civilian diving was attractive but often undertaken on a self-employed basis with the disadvantages of short, intensive contracts.
- 3.25 Taking the manning and market evidence together, we continue to support the case for Diving Pay, and Deep and Experimental Diving Pay, and recommend increases in line with military salaries. We refer MOD to the concerns that emerged from our visits both from Able Rate and young Army Divers who are the next generation of Senior NCOs, and from Senior NCO Divers who were disillusioned by a range of issues affecting their sense of value and career and pay progression. We urge MOD and the Services to continue to monitor developments in the Service diving community and update us for our next periodic review.
- 3.26 We also received MOD’s evidence on instructors in Submarine Escape Tank Training (SETT). The evidence raised recruitment and retention concerns including that the location of SETT, near Portsmouth, did not attract volunteers from the Submarine Service based at Faslane or Devonport and contributed to retention problems. Manning levels were supported by Full Time Reserve Service instructors and there were concerns that a high proportion of senior instructors will leave in the near future diluting the experience required in this highly specialised area.
- 3.27 Our visit to SETT confirmed many of the recruitment and retention issues in MOD’s evidence. On this basis, we are content to increase SETT Pay in line with our increase in military salaries and suggest MOD continues to monitor recruitment and retention levels to maintain an appropriate experience profile. Specialist Pay arrangements for this group are complex involving payment of full rates of Submarine Pay (according to length of service) and SETT Pay, plus an abated level of Diving Pay (up to Level 1 depending on category of qualification). Members of the Subsunk Parachute Assistance Group, drawn from SETT personnel, also receive an abated rate of Parachute Pay – we received separate evidence under the review of Parachute Pay with proposals for this pay element.

Recommendation 8: We recommend that all rates of Diving Pay, Deep and Experimental Diving Pay, and SETT Pay be increased by 3 per cent from 1 April 2005. The recommended rates are set out at Appendix 2.

Parachute Pay

- 3.28 The periodic review covered military parachutists of all three Services. MOD stressed the importance of UK Airborne Forces in providing rapidly deployable early entry capability, primarily through 16 Air Assault Brigade. MOD pointed out that all parachutists undergo

a rigorous selection and training process, require mental robustness and physical capability, and often face increased risk of serious injury or death. Parachute Battalions were also maintained at “very high readiness” (5 days notice to deploy). Casualties averaged 4 per cent per drop (doubled for night time drops) of which a small proportion would be career threatening (for a parachuting or an Army Career). It is not surprising therefore that, during our visit to 16 Air Assault Brigade, military parachuting was described as a “deeply unpleasant and dangerous activity requiring high skill and motivational levels”.

- 3.29 MOD’s evidence covered the manning position for each Service. The Parachute Regiment was manned to 95 per cent against requirement, with 73 per cent manning in Combat Support and Combat Service Support which covered a range of Operational Pinch Point trades. Recruitment had improved, aided in recent years by a number of high profile Army operations. However, demanding operational tempo, resulting separation and the pull of external market forces, mainly private security firms, had a negative effect on retention. Royal Navy and Royal Marines parachutists deployed to operational areas to provide bomb disposal, submarine rescue and support to the Special Boat Service. RN posts were 74 per cent manned whereas only 63 per cent of RM reconnaissance posts were manned. RAF Regiment parachutists provided personnel to capture enemy airfields or reinforce friendly airfields – manning was at 96 per cent but only 44 per cent of posted manpower had completed parachute training.
- 3.30 The welcome improvement in recruitment to the Parachute Regiment has improved their operational capability and the ability to maintain high readiness. By contrast, the other two Services’ manning difficulties contributed to the overall 20 per cent shortfall of parachutists across the Services. Retention concerns were also to the fore, as we heard on visits, with average length of service diminishing to around 6 years and security industries targeting recruitment at NCOs (offering very high salaries and encouraging NCOs to recruit teams of military parachutists). The impact of losing future middle management personnel threatened the Regiment’s sustainable experience profile. It is clear to us that Parachute Pay continues to play an important role in recruiting and retaining personnel in this demanding specialism. We therefore recommend an increase to Parachute Pay in line with military salaries.

Recommendation 9: We recommend that the daily rate of Parachute Pay be increased by 3 per cent from 1 April 2005. The recommended rate is set out at Appendix 2.

- 3.31 As part of the periodic review, MOD proposed the introduction of a new rate for High Altitude Parachuting. The new rate will apply to members of the Pathfinder Platoon who MOD regards as a fundamental component of the UK’s airborne capability. We were told that Pathfinders act as the “eyes and ears” of the Brigade, deploying up to seven days ahead of the main force. Their recent operational tempo included five operations in the last five years, plus an average of 28 weeks per year spent on related courses, six weeks on Brigade exercises and six weeks on career courses. This tempo involved high levels of separation and threatened retention. Many personnel also transferred to Special Forces who had a better remuneration package and saw Pathfinders as highly desirable recruits based on their qualifications and training. These retention issues were confirmed on our visit by members of the Pathfinder Platoon who also acknowledged the attraction of the civilian market. We are content, therefore, to recommend the new rate, linked to completion of the High Altitude Parachute qualification, which will recognise the particular contribution of Pathfinders.

Recommendation 10: We recommend the introduction of High Altitude Parachute Pay for members of the Pathfinder Platoon at £9.00 per day from 1 April 2005.

- 3.32 MOD also proposed increasing Subsunk Parachute Assistance Group (SPAG) Pay from 20 to 50 per cent of Parachute Pay. Members of SPAG are drawn from Submarine Escape Training Tank personnel (see paragraphs 3.26 to 3.27 above). During our visit, SETT personnel were concerned that their low rate of Parachute Pay did not reflect their responsibilities and commitments. Given the parachute liability, required training and fragile manning position, we consider MOD's proposal for an increase to the abated rate would send a positive message to this small but important cadre. We recommend SPAG Pay be increased as MOD proposes and be set at the next highest level (level 5) of the standard rates of Specialist Pay – in effect an increase of 55 per cent.

Recommendation 11: We recommend that the daily rate of Subsunk Parachute Assistance Group Pay be increased to level 5 of the standard rates of Specialist Pay from 1 April 2005. The recommended rate is set out at Appendix 2.

Parachute Jump Instructors' Pay

- 3.33 Parachute Jump Instructors (PJIs) are RAF Physical Education Officers and RAF Physical Training Instructor Senior NCOs who train all elements of Airborne Forces and conduct trials and experimental work. They participate in all airborne operations that involve military parachuting. PJI Pay is paid on a continuous career basis, at a higher rate than Parachute Pay, to recruit and retain instructors. Common principles of Specialist Pay will apply on transition to JPA.
- 3.34 MOD informed us that current manning levels almost met requirement and were sufficient to meet commitments but were supported by the short term expedient of promoting 25 Corporals to acting Sergeant. PJI posts remained unpopular and recruitment and retention was affected by risk of injury, increased threat of litigation, increased separation, a preference for other instructor posts, and a distinct lack of career diversity and advancement. As a result of manning considerations, a small number of PJIs had been prevented from relinquishing their PJI duties and, of those who do move away, few return to the specialism. A new trade structure introduced in 2003 was designed to help pull through to Senior Ranks by allowing promotion to Sergeant conditional on achieving Trade Qualification Annotation rather than achievement being a pre-requisite of promotion.
- 3.35 The PJIs we met on our visits in recent years raised many of the recruitment and retention issues outlined by MOD. We are persuaded by the evidence that PJI Pay continues to play an important role in sustaining manning levels and we therefore recommend an increase in line with the increase in military salaries. In doing so, we welcome the redesign of the trade structure and look forward to an assessment against the sustainable experience profile for PJIs for our next periodic review.

Recommendation 12: We recommend that the rates of Parachute Jump Instructors' Pay be increased by 3 per cent from 1 April 2005. The recommended rates are set out at Appendix 2.

Other Specialist Pay rates

- 3.36 Aside from specific evidence for our periodic reviews discussed earlier, MOD provided overall evidence on Specialist Pay which simply proposed an uplift in line with our recommendation for military salaries. For all other elements of Specialist Pay, not covered by periodic reviews for this report, we recommend increases in line with the increase in military salaries.

Recommendation 13: We recommend that all other rates of Specialist Pay be increased by 3 per cent from 1 April 2005. The recommended rates are set out at Appendix 2.

Compensatory Allowances

Payment for Work in Unpleasant Conditions and of an Objectionable Nature (PWUC/PWON)

- 3.37 Our periodic review of PWUC/PWON was supported by evidence from MOD. The criteria for these payments were rationalised in autumn 2004 informed by lessons learned during the foot and mouth outbreak (in 2001), the firefighters' strike (in 2002-03) and Operation Telic (from 2003). MOD concluded that PWUC should be extended to Officers and to personnel providing assistance to civil authorities during industrial action, disaster relief and humanitarian operations. In reviewing the payments, MOD commented that objective evidence on their effectiveness was not easily available but that the payments were important to retention – a point that comes across strongly on our visits. MOD added that rates were comparable to those payable to Civil Emergency Services. A comparison with hourly rates paid to MOD Industrial Staff in similar circumstances supports this assessment and we therefore recommend an increase in line with the increase in military salaries.
- 3.38 Under JPA, a tri-Service Unpleasant Work Allowance will be introduced with three levels of payment equating to PWUC/PWON rates and using the criteria revised in autumn 2004. We were asked to recommend rates of Unpleasant Work Allowance to facilitate the transition to JPA from 2005-06 and do so below.

Recommendation 14: We recommend that all rates of Payment for Work in Unpleasant Conditions and of an Objectionable Nature be increased by 3 per cent from 1 April 2005. The rates should also apply to the introduction of Unpleasant Working Allowance under JPA. The recommended rates are set out at Appendix 2.

Northern Ireland Resident Supplement

- 3.39 We reviewed the Northern Ireland Resident Supplement (NIRS) paid to resident Service personnel to compensate for the diminished quality of life for them and their families in Northern Ireland. The factors underpinning NIRS arise from the terrorist threat and include: the additional stress and strain; restrictions on leave, freedom of movement and association; spouse employment restrictions; and long and unsociable working hours over and above those required of personnel resident in GB. During our visits to Northern Ireland, personnel and their spouses often raise NIRS in the context of increased cost of living.
- 3.40 MOD presented evidence on the NIRS factors reaffirming that they applied to all groups (single, married, married unaccompanied and Royal Irish Home Service) supporting continuation of a single rate of NIRS. Although terrorist incidents have reduced, the

threat continues to place stress and restrictions on personnel and families. We heard on our visit that the “normalisation” process had not reduced the pressures on the Armed Forces and that the threat was now more uncertain, leading to shorter notice on restrictions and making it harder to take precautions. Only 23 per cent of accompanying spouses were in full-time employment compared to 33 per cent across the Army though part-time employment rates were similar to the Army average. From the 2003-04 working hours survey, we note that Service personnel’s working hours in Northern Ireland are similar to the Army average but hours on-call are significantly higher (at 40.5 hours per week compared to 17.1 hours per week across the Army) placing further restrictions on personnel. We were also told that the ability to take annual leave varies with commitments and that peak military operations often clash with opportunities for family holidays.

- 3.41 From MOD’s evidence and views expressed on visits we conclude that the factors supporting NIRS have not materially changed since our 2001 periodic review and therefore recommend an increase in the daily rate in line with the increase in military salaries. Under JPA, NIRS will be redesignated as an allowance and MOD proposes that payment will cease for periods of absence from Northern Ireland in excess of 24 hours for single and married unaccompanied personnel. We are concerned that this change to entitlement could have disproportionate impact on retention and therefore urge MOD to reconsider. We note that in future periodic reviews we will need to assess the effect of “normalisation” in Northern Ireland.

Recommendation 15: We recommend that the rate of Northern Ireland Resident Supplement be increased by 3 per cent from 1 April 2005. The recommended rate is set out at Appendix 2.

Experimental Pay

- 3.42 Experimental Pay is paid at a single rate per test to volunteer Service personnel participating in officially approved experimental tests. MOD informed us that, under JPA, Experimental Pay will be reclassified as a Compensatory Allowance and renamed Experimental Test Allowance. Tests involved examining front-line capabilities, including physiological trials, testing parachutes and medical investigations. During 2003-04, just under 5,000 tests were conducted and 99 Service personnel received payment. As part of the periodic review of Parachute Jump Instructors’ Pay, we were also told that 11 PJs participated in 150 experimental descents per year. MOD commented that no data existed to illustrate the role of Experimental Pay in attracting volunteers but that, in its judgement, removal or reduction of the payment would have an impact on volunteers. We have no evidence to challenge this judgement. We recommend, therefore, an increase in the test payment rate in line with the increase in military salaries.

Recommendation 16: We recommend that the rate of Experimental Pay be increased by 3 per cent from 1 April 2005. The recommended rate is set out at Appendix 2.

Other rates of Compensatory Allowances

- 3.43 We recommend that the rate for the remaining Compensatory Allowance (London Recruitment and Retention Allowance) be increased in line with the increase in military salaries.

Recommendation 17: We recommend that other rates of Compensatory Allowances be increased by 3 per cent from 1 April 2005. The recommended rates are set out at Appendix 2.

Chapter 4

Accommodation and Other Charges

Introduction

- 4.1 Our terms of reference require us to recommend charges for Service accommodation, together with furniture hire, water and sewerage, garage rent, and food charges.

Accommodation

- 4.2 We consider charges in relation to the costs civilians incur in line with our terms of reference on broad comparability. However, the accommodation charges resulting from our recommendations are intentionally set below market rates for comparable civilian accommodation to reflect the inherent disadvantages associated with living in Service accommodation. In successive reports we have recommended higher increases to the best quality Service Family Accommodation (SFA) and Single Living Accommodation (SLA) and proportionately lower increases to accommodation of a lesser standard. Rental charges for the lowest standard accommodation have been frozen, since 1997 for SLA and 1998 for SFA, as a result of our recommendations. Each year, we have reviewed our approach in the light of the evidence we have on civilian housing costs and on the progress made in improving Service accommodation.

Accommodation standards and funding

- 4.3 Our visits to Service units in the UK and overseas are vital in that they provide us with the opportunity to see, at first hand, the standards of accommodation available to families and to single personnel. We have seen some welcome improvements in SLA but these have made more stark the contrast with the poor accommodation occupied by many personnel, particularly single people and those serving married unaccompanied. Personnel of all ranks continue to stress the impact of sub-standard accommodation on their own, and their families', quality of life. Although they are becoming increasingly aware of the investment being made in improving accommodation, both new build and refurbishment, personnel fail to believe that they, personally, will benefit from good-quality accommodation before they leave the Services. In its evidence MOD highlighted the importance of the accommodation upgrade programmes in sustaining morale, retention and commitment of personnel, particularly in the current high tempo climate, and emphasised the size of its investment in the programme at a time when the Defence budget is under severe financial constraint.
- 4.4 We received mixed reports on funding for accommodation improvements. It has become clear since the Secretary of State announced the £1 billion Project SLAM¹ in March 2001, that only 63 per cent of the required funding was initially secured. As a result of MOD funding constraints, the target for Project SLAM, which was originally intended to produce 30,000 bedspaces by 2013, has been significantly reduced to 17,600 bedspaces by 2013. 8,800 bedspaces are to be delivered over the next five years and a further 8,800 in the succeeding five years. The Secretary of State, when challenged on this change in oral evidence, told us that he was disappointed that MOD had not made as much progress as he would have liked in upgrading accommodation but that accommodation remained a high priority. In our view, it will be difficult for personnel to accept these further delays to the improvement programme given that almost half of all occupied SLA is at the lowest grade with all the discomforts that implies.

¹ Single Living Accommodation Modernisation (SLAM).

- 4.5 The prospects appear somewhat better for SFA. The Defence Housing Executive has still not set a firm target for bringing all core stock of SFA in Great Britain to “Standard 1 for condition²”, but it is making steady progress and, as we detail below, has been able to inject additional funds into the upgrade programme in 2004-05. In oral evidence, the Secretary of State emphasised that, under the Defence Housing Strategy, good quality SFA would be provided in the right locations to support mobility but that there should also be accommodation choices for those who required greater stability.

Service Family Accommodation

- 4.6 As stated above, the Defence Housing Executive’s (DHE) commitment to bring the core stock of **SFA in Great Britain** up to “Standard 1 for condition” by November 2005 was abandoned in 2002. Since then, no new target date has been set for the completion for the programme. In evidence for the 2004 Report we were assured that DHE would continue to progress with “demanding” targets each year until the completion of the programme. This year we note that DHE will continue to progress, each year, “subject to funding constraints”.
- 4.7 During 2003-04, DHE brought 1,402 SFA up to the highest standard (202 more than their Key Target for the year). From MOD’s evidence we note that nearly 55 per cent of the long-term housing requirement is now at “Standard 1 for condition” and a further 18,000 properties (around 43 per cent) at “Standard 2 for condition”, that is, needing one or two elements to be refurbished to bring it up to “Standard 1 for condition”.
- 4.8 One of the recommendations of the business process review of the management and delivery of Defence housing carried out by MOD during 2003-04 was that DHE should be merged with the Defence Estates (DE) organisation. One of the benefits of this has been to direct uncommitted funding from elsewhere within DE to the upgrade of SFA. For 2004-05, an additional £6 million has been found to upgrade a further 1,500 properties to “Standard 1 for condition” in addition to the 500 designated in DHE’s Key Target for 2004-05. These further upgrades are being achieved primarily through “quick wins” such as new kitchens and showers. We note the follow-on review of the management and delivery of housing overseas and look forward to an update on its findings.
- 4.9 Individual Top Level Budget holders continue to fund and manage **SFA outside Great Britain**. A survey conducted in 2001 indicated that over 99 per cent of SFA in Germany was below “Standard 1 for condition”. Progress towards correcting this has been disappointing. For our 2004 Report we were told that Project PUMA’s aim to bring 100 per cent of the federal stock to “Standard 1 for condition” by 2012 had been cut back to 70 per cent. This year we were told that, as a result of higher than anticipated costs being encountered when pilot properties were refurbished, the target has been further reduced to approximately 57 per cent of the federal stock by 2012: 1,000 by March 2005 and approximately 4,500 by 2007-08. Alongside PUMA a planned Hired Accommodation Revitalisation Programme (HARP) is planned to bring leased accommodation to a standard equivalent to PUMA. From MOD’s evidence, we note the possibility that additional funds may be allocated in future to complete the remainder. We urge MOD to allocate the additional funds to PUMA to complete the refurbishment of all required federal stock to “Standard 1 for condition”.
- 4.10 Currently only 11 per cent of SFA in Gibraltar and Cyprus is at “Standard 1 for condition”. We were told that, as a result of an estate rationalisation programme, 128 surplus SFA properties have been transferred to the Government of Gibraltar. In contrast

² The “Standard 1 for condition” relates exclusively to the condition of the property and should not be confused with MOD’s grading system which is used to set charges and takes account of other factors such as proximity to certain amenities.

to the position in Germany, the rolling programme continues to refurbish SFA and we are pleased to note that this is now expected to complete by 2007, three years earlier than we were told for our 2004 Report. In Cyprus the Accommodation PFI has been terminated as the competition was no longer viable. The upgrade programme will now be delivered by a contract let by Defence Estates. The programme is scheduled to upgrade 1,140 SFA properties to "Standard 1 for condition" over 12 years at a cost of £127 million. Finally, in Northern Ireland, 200 properties are currently being refurbished over the next two years at a cost of £20 million.

Single Living Accommodation

- 4.11 We were told in evidence that, at April 2004, 89 per cent of occupied SLA worldwide was below Grade 1 with 49 per cent at the lowest grade (Grade 4). By April 2005, around 7,100 bedspaces are due to be upgraded at a cost of £230 million with projects underway to upgrade around a further 24,000 bedspaces at a cost of £962 million. The total expenditure on SLA, covering upgrade and new build, will be around £340 million per annum until 2007-08.
- 4.12 Work under Project SLAM started in April 2003 but only 150 of the expected 800 bedspaces were delivered by April 2004. By September 2004, 1,071 bedspaces had been delivered. This is in addition to the 3,600 bedspaces delivered by existing Service programmes during 2003-04. Just over 7,000 bedspaces are due to be delivered in 2004-05 by Project SLAM and other existing Service programmes. Parallel programmes have started in Germany, Northern Ireland, Gibraltar and Scotland with a programme to upgrade SLA in Cyprus due to start in 2006-07. We note that those properties included in the Project SLAM programme will be maintained by the contractor at "Standard 1 for condition" for the first seven years after completion and, as the money is held centrally, the maintenance funding is fully safeguarded.
- 4.13 We have looked to MOD to benchmark the processes of Project SLAM against best practice from other defence and public sector providers. MOD described their approach to benchmarking. In our view, this falls short of what is required to ensure value for money in terms of numbers of bedspaces, unit cost, quality, and efficiency and speed of delivery. We urge MOD to review their benchmarking approach against best practice in both the private and public sector to include these comparisons. On this basis we look forward to receiving regular progress reports.

Long Service Advance of Pay (LSAP)

- 4.14 LSAP is a subject raised frequently with us on visits, especially the level of the advance and inequalities in the eligibility criteria across the three Services. "Getting a foothold" on the property market is increasingly important to personnel. We were told by the PPOs that money had been found to "align" the eligibility criteria for Service personnel, in so far as is compatible with the different patterns of service. The RAF would be eligible after 4 years' reckonable service (or age 23 if earlier) in line with the Royal Navy and the Army would be eligible after 10 years' reckonable service. The Secretary of State, in oral evidence, stressed that personnel must be provided with greater choice in terms of accommodation. The changes to LSAP were intended to help in this. He recognised that the maximum level, currently £8,500, was very low in relation to house prices but his priority was to ensure earlier access for personnel. This is a welcome move, however the views we have heard on visits suggest that Army personnel will be disappointed that they will have to serve longer than their RN and RAF colleagues before they receive help to get onto the property ladder.

Approach to recommendations

- 4.15 As we have said earlier, we seek to achieve broad comparability in accommodation charges but with an abatement – or discount – to take account of the disadvantages of living in Service accommodation. These include the lack of choice, the lack of security of tenure on postings or on leaving the Armed Forces or the lack of a right to buy and restrictions on decorating or making other changes. On our visits, personnel tell us that another major disadvantage of living in SFA is the variable standard of maintenance. Our annual examination of the civilian housing market shows that accommodation charges for the highest grade SFA and SLA continue to be noticeably below costs in the civilian sector even before the discount is applied. The difference is most evident for SFA rental charges.
- 4.16 In our last four reports we made it clear that we want to avoid a situation in which the delivery of accommodation improvements is accompanied by a sharp increase in charges. We are pleased to note that MOD supports us in this position. In response to DHE's original target to bring all SFA up to "Standard 1 for condition" by November 2005 we adopted a strategy, in our 2002 Report, to achieve a standard discount between SFA charges and civilian housing costs by 2006. We stressed that the strategy would be subject to annual review. For our 2003 Report, we reviewed the progress made by DHE and civilian comparator costs and decided to extend the strategy to 2009. For our 2004 Report we again reviewed the strategy and decided that sufficient progress had been made to justify retaining the 2009 end date.
- 4.17 We note from the evidence that DHE slightly exceeded its target for SFA upgrade in 2003-04. We also note that around 98 per cent of those who live in SFA in Great Britain, live in properties which are either "Standard 1 or 2 for condition". It is our intention, therefore, to continue with our current strategy, subject to annual review, to achieve the target discounted rate of SFA charges by 2009.
- 4.18 SLA charges require a different approach. The information on civilian comparator costs indicates that the difference between those costs and military charges continues to be narrower than that for SFA. Moreover, the rate at which accommodation has been improved (the vast majority of which has been provided by projects funded by the individual Services rather than Project SLAM) is too slow to make a strategy to bring charges closer to the market sustainable. We will continue to keep our approach under review in the light of progress with SLA upgrades.

Service Family Accommodation charges

- 4.19 In recent years we have recommended a graduated approach to SFA rental charges below Grade 1. This has resulted in proportionately lower increases in rental charges for Grades 2 and 3 and a zero increase for Grade 4. We believe this continues to be an appropriate response to the differing standards of accommodation.

Recommendation 18: We recommend graduated increases to Service Family Accommodation rental charges from 1 April 2005. The resulting charges are shown in Tables 4.1 and 4.2.

Single Living Accommodation charges

- 4.20 We welcome the continuing investment in SLA being made by the individual Services but are disappointed with the cuts made to Project SLAM. Until a significant volume of upgraded SLA is available we consider it appropriate to recommend graduated increases to SLA rental charges for 2005-06 with no increase to the rental charge for Grade 4.

Recommendation 19: We recommend graduated increases to Single Living Accommodation charges from 1 April 2005. The resulting charges are shown in Table 4.3.

4.21 MOD provided us with the conclusions of its review of the grading regulations for SFA and SLA undertaken in 2003-04 which resulted in revised regulations for grading boards being issued in April 2004. This included guidance on the allocation of points according to en-suite provision and a review of the provision of white goods.

Water and sewerage charges

4.22 On MOD's advice, we continue to use the forecast weighted national household average water bill for SFA Type C as the comparator for military accommodation water charges. The charge is tapered according to the size of the property. Charges for SLA are based on one-third of the SFA Type C figure. The latest evidence indicates an increase in water and sewerage charges. We recommend accordingly.

Recommendation 20: We recommend water and sewerage charges for all SFA of between £248 and £277 a year and a water charge for SLA of £85 a year.

Furniture hire

4.23 The percentage of SFA with rented furniture continues to decline. In 1997, 15 per cent of SFA was fully furnished reducing to 10 per cent in 2000 at which level it has remained since. Part-furnished SFA also fell from 27 to 14 per cent in the period from 1997 to 2004. Even so, MOD considers that the provision of furniture for hire is an important condition of service and remains essential for the foreseeable future particularly for those serving overseas and on lower incomes. We recommend accordingly.

Recommendation 21: We recommend furniture hire rates to be applied to SFA as shown in Table 4.1.

Table 4.1: Breakdown of recommended annual charges for Grade 1 SFA^a

Type of SFA	Basic rent	Furniture	Water	Recommended total rental ^b
	£ per year	£ per year	£ per year	£ per year
Officers				
I	6,103	887	277	7,267
II	5,475	788	274	6,537
III	4,800	675	270	5,745
IV	3,508	606	266	4,380
V	2,778	537	263	3,577
Other Ranks				
D	2,610	391	259	3,259
C	2,183	343	256	2,781
B	1,887	288	252	2,427
A	1,347	237	248	1,832

^a The charge for unfurnished SFA includes the basic rent and the water charge plus a charge for carpets, curtains and a cooker.

^b The recommended charge may not be the exact sum of the components because these have been rounded to the nearest £.

Table 4.2: SFA: recommended charges for furnished accommodation^a

Type of SFA	Annual charge ^b			
	Grade 1	Grade 2	Grade 3	Grade 4
	£ per year	£ per year	£ per year	£ per year
Officers				
I	7,267	5,727	3,387	1,851
II	6,537	5,150	3,066	1,679
III	5,745	4,522	2,697	1,497
IV	4,380	3,533	2,234	1,274
V	3,577	2,971	1,913	1,153
Other Ranks				
D	3,259	2,584	1,610	920
C	2,781	2,259	1,467	872
B	2,427	2,015	1,332	810
A	1,832	1,529	1,022	672

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

^b Annual charges are rounded to the nearest £.

Table 4.3: SLA: recommended charges^a

Type of SLA	Annual charge ^b			
	Grade 1	Grade 2	Grade 3	Grade 4
	£ per year	£ per year	£ per year	£ per year
Major and above	1,862	1,562	1,029	588
Captain and below	1,518	1,270	843	485
Warrant Officer and SNCO	1,142	956	628	361
Corporal and below	639	537	350	201
New Entrant ^c	511	423	281	168

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

^b Annual charges are rounded to the nearest £.

^c Those receiving less than the minimum trained rate.

Garage rent

4.24 Personnel are charged garage rent when they have access to a garage provided by the Services. To inform our recommendation on garage charges we compare, periodically, the Service rent with an average civilian rent for a garage based on a sample of charges levied by housing associations and local authorities. In 2003, we carried out a survey of these charges which suggested the Armed Forces' charge was significantly below their civilian comparators and would require an increase in the region of 22 per cent to the Service garage charge to bring it back in line. We decided that the increase should be phased in over three years and, in 2004, we recommended the first phase of that increase. Our recommendation this year includes the second of the phased increases and an element to reflect the increases in civilian charges in 2003-04. It is our intention that this approach will go some way to avoiding a large gap opening up with comparators as happened in 2003.

Recommendation 22: We recommend that the charge for garage rent be increased to £248.20 a year.

Food charges

- 4.25 Personnel are charged for meals that are provided by the Services, except whilst on operations. In previous years we have based our recommendations for food charges on the increase in the food component of the Retail Prices Index and recognised that the small sample size for this data could lead to fluctuations from year to year.
- 4.26 For our deliberations this year, we looked at alternatives to the food component of the Retail Prices Index as it measures only the change in the cost of raw food and takes no account of the costs involved, such as staff and energy costs, when producing a meal from raw ingredients. We believe that a comparator which takes account of such costs is more appropriate and we conclude that the Catering grouping of RPI (a weighted combination of Canteen Meals, Restaurant Meals, and Takeaways and Snacks) is most appropriate as a comparator to the provision of food in the Armed Forces. The Catering grouping of RPI increased by 2.7 per cent in the year to October 2004 and we therefore recommend a corresponding increase in food charges.

Recommendation 23: We recommend the following food charges from 1 April 2005:

Single charge	£24.85 per week
Married unaccompanied charge	£18.20 per week.

Pay As You Dine

- 4.27 During our visits over recent years, we have detected growing support for PAYD among Service personnel in all rank groups. On the other hand, we have also noticed the growing recognition of the “value for money” of the food charge and the potential impacts of PAYD on the “collegiate” aspects of Service life such as Messes and self-help social provision. Many personnel have also raised concerns about the impact of PAYD on the training, employment and retention of Service chefs who would continue to be required for operational environments.
- 4.28 MOD has kept us informed of progress on PAYD and, in recent years, we have visited trial sites during our visits programme. PAYD at the initial three trial sites has now been in operation for nearly two years and has begun at a further three sites over Spring/Summer 2004. A further five trials, to evaluate the whole range of possible scenarios, are due to start in late 2004 and in 2005 with September 2005 remaining the target date for the “progressive roll-out” of PAYD should Investment Appraisal Board approval be given.
- 4.29 In its evidence, MOD highlighted its wider concerns about the financial viability of PAYD at a time when the Defence budget is under severe pressure. MOD notes that subsidising PAYD may require “significant compensating offsets” from other parts of the Defence budget if it is deemed to be “affordable and of sufficient priority”. As in previous years, the commercial difficulties being experienced by the contractors were summarised especially the high take-up rate of a core menu produced “virtually at cost price” and the transient nature of the Armed Forces “customer”.

4.30 PAYD has been “on the horizon” for many years. It is clear from the evidence that there are difficulties to be resolved, not only financial, but in terms of the impact on other areas of Service culture. Having said that, it would be difficult for the Services to reverse the policy at this stage. We look forward to monitoring progress through annual evidence and through our visits and discussions with personnel.

Chapter 5

Conclusion

5.1 Throughout this report we have emphasised the need for recommendations that maintain broad pay comparability with civilians and support the Services' ability to recruit, retain and motivate personnel. We have also had regard to affordability considerations in the light of the Government's overall policy for public sector pay and the particular pressures on the Defence budget. We consider that the package we have recommended strikes the right balance between these considerations.

Costs of recommendations

5.2 The estimated costs of our recommendations are detailed in Table 5.1 below.

Table 5.1: Cost of recommendations^a

	£ million
Military salary (all Regular Services)	
Officers	39
Other Ranks	113
New Entrants	3
	<hr/> 154
Additional Pay, allowances and other emoluments in the nature of pay (all Regular Services)	9
	<hr/>
Total pay (all Regular Services)	163
Reserve Forces	7
Employers' national insurance contribution (ERNIC) – all Services	19
Estimated effect of accruing superannuation liability contributions	34
	<hr/>
Total paybill cost including Reserves	223
Less: total increased yield from charges	(7)
	<hr/>
Net cost of recommendations taking account of increased yield from charges	216

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

5.3 Our estimates are based on the average manpower strength of the Armed Forces in 2005-06, as forecast by MOD. To the extent that actual strengths differ from forecasts, the costs of implementing our recommendations will also differ. We estimate, therefore, that the implementation of our recommendations on all aspects of pay would add 3.1 per cent to the pay bill (including the employers' national insurance and superannuation liabilities).

5.4 When the yield from the recommended increased accommodation charges is taken into account the net cost remains 3.1 per cent. We estimate that the increased yield from charges overall, including recommendations on rent, furniture hire, water and sewerage, and garage rent, to be 3.0 per cent.

The year ahead

5.5 There are a number of issues on which we have requested an update in 2005-06. They comprise:

- Service inflow initiatives to improve manning in Pinch Point trades (Chapter 2, paragraph 2.32);
- On going remuneration and non-remuneration measures for Aircrew and Submariners, and the manning position for Royal Signals (Chapter 2, paragraphs 2.37 to 2.42);
- Achievement against annual leave performance indicators (Chapter 2, paragraph 2.53);
- The initial roll-out of Joint Personnel Administration for the RAF and any lessons learned, particularly from the introduction of Longer Separation Allowance. We also anticipate evidence on the Unpleasant Living Allowance to be introduced in 2006 (Chapter 3, paragraph 3.11).

5.6 We are scheduled to review pay arrangements for Service Nurses, Professions Allied to Medicine and the Military Provost Guard Service for our 2006 Report. We will ensure that we meet members of these groups during our 2005 visit programme so that we may better understand their role and can take their views into account in our deliberations.

5.7 We expect to commission a number of substantial research projects in 2005. These include:

- A review of our **pay comparability** methodology and the necessary independent consultancy advice on civilian earnings. It has been three years since the implementation of Pay 2000 and the clearer picture now emerging of how the pay structure operates provides a platform for us to appraise our pay comparability methodology;
- Our periodic **valuation of the Armed Forces' Pension Scheme** which is important to our pay comparability considerations. The new Armed Forces' Pension Scheme will be introduced for new entrants in 2005 and transfer options set out for existing personnel. In the longer term, we have agreed to a request from the Minister for the Armed Forces to extend our role to provide a periodic independent assessment of the new Armed Forces' Pension Scheme; and
- Research into the **labour market for 16 to 24 year olds** to help us understand the market in which the Armed Forces must recruit and retain their junior personnel.

David Greenaway
Robert Burgin
John Davies
Peter Knight
Naren Patel
Neil Sherlock
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17 January 2005

Appendix 1

1 April 2005 recommended military salaries including X-factor

All annual salaries are derived from daily rates in whole pence and rounded to the nearest £, calculated on a 365-day year.

Table 1.1: Recommended annual scales for Officers up to and including Brigadier^a

Rank		Military salary
		£
Brigadier	Level 5	84,008
	Level 4	83,143
	Level 3	82,289
	Level 2	81,432
	Level 1	80,574
Colonel	Level 9	74,245
	Level 8	73,358
	Level 7	72,471
	Level 6	71,591
	Level 5	70,708
	Level 4	69,825
	Level 3	68,941
	Level 2	68,058
	Level 1	67,175
Lieutenant Colonel	Level 9	64,123
	Level 8	63,353
	Level 7	62,587
	Level 6	61,824
	Level 5	61,061
	Level 4	60,298
	Level 3	59,539
	Level 2	58,776
	Level 1	58,006
Major	Level 9	49,498
	Level 8	48,476
	Level 7	47,457
	Level 6	46,435
	Level 5	45,410
	Level 4	44,391
	Level 3	43,366
	Level 2	42,351
Level 1	41,329	

Rank		Military salary
		£
Captain	Level 9	39,019
	Level 8	38,577
	Level 7	38,128
	Level 6	37,245
	Level 5	36,354
	Level 4	35,471
	Level 3	34,580
	Level 2	33,690
	Level 1	32,810
Lieutenant	Level 10	28,298
	Level 9	27,623
	Level 8	26,952
	Level 7	26,280
	Level 6	25,605
	Level 5	21,301
	Level 4	18,874
	Level 3	16,071
	Level 2	14,728
	Level 1	13,476
University Cadet Entrants	Level 4	15,491
	Level 3	14,188
	Level 2	12,636
	Level 1	11,008

^a Army ranks are shown in these tables; the pay rates apply equally to equivalent ranks in the other Services.

Table 1.2: Recommended annual salaries for Other Ranks^a

Rank		Military salary	
		Lower band ^b	Higher band ^b
		£	£
Range 5: Warrant Officer I	Level 7	38,179	40,457
	Level 6	37,131	39,847
	Level 5	36,117	39,150
	Level 4	35,427	38,464
	Level 3	34,737	37,770
	Level 2	34,051	37,131
	Level 1	33,401	36,416
Range 4: Staff Sergeant & Warrant Officer II	Level 9	34,292	37,427
	Level 8	33,533	36,902
	Level 7	33,106	36,383
	Level 6	32,605	35,865
	Level 5	31,197	35,091
	Level 4	30,777	34,310
	Level 3	30,072	33,533
	Level 2	29,127	32,751
	Level 1	28,751	31,978
Range 3: Sergeant	Level 7	29,518	31,956
	Level 6	29,295	31,368
	Level 5	28,317	30,780
	Level 4	27,598	30,193
	Level 3	27,320	29,817
	Level 2	26,652	29,080
	Level 1	25,973	28,346
Range 2: Corporal	Level 7	25,824	28,715
	Level 6	25,634	28,101
	Level 5	25,433	27,532
	Level 4	25,236	26,882
	Level 3	25,043	26,269
	Level 2	23,878	25,043
	Level 1	22,849	23,878
Range 1: Private & Lance Corporal	Level 9	20,907	25,043
	Level 8	20,177	23,878
	Level 7	19,294	22,849
	Level 6	18,502	21,845
	Level 5	17,757	20,834
	Level 4	16,852	18,841
	Level 3	15,494	17,524
	Level 2	14,680	15,874
	Level 1	13,866	13,866

^a Army ranks are shown in these tables; the pay rates apply equally to equivalent ranks in the other Services.

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

Table 1.3: Recommended annual salary for new entrants

	Military salary
	£
All entrants	11,775

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

	Military salary
	£
Fourth year	20,834
Third year	14,487
Second year	13,677
First year	12,158

Table 1.5: Recommended annual scales for Chaplains

Rank/length of service		Military salary
		£
Chaplain-General	Level 5	84,008
	Level 4	83,143
	Level 3	82,289
	Level 2	81,432
	Level 1	80,574
Deputy Chaplain-General ^a	Level 5	74,245
	Level 4	73,358
	Level 3	72,471
	Level 2	71,591
	Level 1	70,708
Principal Chaplain	Level 4	69,825
	Level 3	68,941
	Level 2	68,058
	Level 1	67,175
Chaplain (Class 1) ^a	Level 2 ^b	63,426
	Level 1 ^c	61,065

Rank/length of service		Military salary
		£
Chaplains Class 2/3/4 (or equivalent)	Level 27	63,426
	Level 26	62,243
	Level 25	61,065
	Level 24	59,893
	Level 23	58,736
	Level 22	57,557
	Level 21	56,374
	Level 20	55,195
	Level 19	54,016
	Level 18	52,841
	Level 17	51,658
	Level 16	50,483
	Level 15	49,304
	Level 14	48,125
	Level 13	46,950
	Level 12	45,767
	Level 11	44,592
	Level 10	43,413
	Level 9	42,238
	Level 8	41,055
	Level 7	39,880
	Level 6	38,694
	Level 5	37,522
	Level 4	36,343
	Level 3	35,168
	Level 2	33,985
	Level 1	32,810

^a Army only.

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

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

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

Rank/length of service		Military salary
		£
Lieutenant Colonel	Level 5	64,123
	Level 4	63,152
	Level 3	62,185
	Level 2	61,211
	Level 1	60,247
Major, Captain	Level 22	58,484
	Level 21	57,276
	Level 20	56,064
	Level 19	54,856
	Level 18	53,651
	Level 17	52,440
	Level 16	51,235
	Level 15	50,020
	Level 14	48,822
	Level 13	47,771
	Level 12	46,738
	Level 11	45,574
	Level 10	44,410
	Level 9	43,249
	Level 8	42,092
	Level 7	40,931
	Level 6	39,767
	Level 5	38,610
	Level 4	37,445
	Level 3	36,288
Level 2	35,124	
Level 1	32,810	

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

Increment level	Military salary
	£
Level 15	43,858
Level 14	43,570
Level 13	43,267
Level 12	42,683
Level 11 ^b	42,103
Level 10	41,515
Level 9	40,931
Level 8	40,343
Level 7 ^c	39,613
Level 6	39,165
Level 5	38,708
Level 4 ^d	37,803
Level 3	37,354
Level 2	36,894
Level 1 ^e	35,993

^a Also applies to Naval Personal and Family Service Officers, Naval Career Service Officers, RAF Directors of Music commissioned prior to 2000 and RAF Medical Technician Officers commissioned prior to 1998 except Squadron Leaders who have been assimilated into the main Officer pay scales.

^b Naval Career Service Officers cannot progress beyond this pay point.

^c Officers Commissioned from the Ranks with more than 15 years' service in the Ranks enter on Level 7.

^d Officers Commissioned from the Ranks with between 12 and 15 years' service in the Ranks enter on Level 4.

^e Officers Commissioned from the Ranks with less than 12 years' service in the Ranks enter on Level 1.

Table 1.8: Recommended Professional Aviator Pay Spine

Increment level	Military salary
	£
Level 35	67,175
Level 34	66,251
Level 33	65,328
Level 32	64,408
Level 31	63,488
Level 30 ^a	62,561
Level 29	61,645
Level 28 ^b	60,721
Level 27	59,794
Level 26	58,878
Level 25	57,951
Level 24	57,031
Level 23	56,177
Level 22 ^c	55,108
Level 21	54,082
Level 20 ^d	53,053
Level 19	52,031
Level 18	51,009
Level 17	49,983
Level 16 ^e	48,961
Level 15	47,935
Level 14	46,910
Level 13	45,881
Level 12 ^f	44,859
Level 11	43,837
Level 10	43,249
Level 9	42,574
Level 8	41,895
Level 7	41,219
Level 6	40,544
Level 5	39,862
Level 4	39,186
Level 3	38,508
Level 2	37,829
Level 1	37,150

^a Weapon Systems Officers cannot progress beyond Increment Level 30.

^b Rear Crew cannot progress beyond Increment Level 28.

^c NCO Pilots cannot progress beyond Increment Level 22.

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

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

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

Appendix 2

1 April 2005 recommended rates of Specialist Pay and Compensatory Allowances

SPECIALIST PAY	Rate <i>£ per day</i>	Reserve Band rate ^f <i>£ per day</i>
FLYING PAY^a		
Officer aircrew (trained)		
All Officer aircrew in the rank of Squadron Leader ^b and below except RAF specialist aircrew Flight Lieutenant		
Initial rate	12.17	–
Middle rate ^c	20.65	–
Top rate ^c	32.83	24.62
Enhanced rate ^d	38.65	28.99
Enhanced rate ^e	36.53	27.40
Wing Commander^b		
On appointment	33.89	25.42
After 6 years	31.77	23.83
After 8 years	29.64	22.23
Group Captain^b		
On appointment	25.95	19.46
After 2 years	24.35	18.26
After 4 years	22.76	17.07
After 6 years	20.12	15.09
After 8 years	17.47	13.10
Air Commodore^b		
	10.59	7.94
RAF specialist aircrew		
(a) Flight Lieutenants (not Branch Officers)		
On designation as specialist aircrew	40.23	–
After 1 year as specialist aircrew	40.77	–
After 2 years as specialist aircrew	41.83	–
After 3 years as specialist aircrew	42.35	–
After 4 years as specialist aircrew	42.88	–
After 5 years as specialist aircrew	43.94	–
After 6 years as specialist aircrew	44.48	–
After 7 years as specialist aircrew	45.00	–
After 8 years as specialist aircrew	46.06	–
After 9 years as specialist aircrew	46.59	–
After 10 years as specialist aircrew	47.12	–
After 11 years as specialist aircrew	48.17	–
After 12 years as specialist aircrew	48.71	–
After 13 years as specialist aircrew	49.77	–
After 14 years as specialist aircrew	50.29	–
After 15 years as specialist aircrew	50.82	–
After 16 years as specialist aircrew	52.42	–

^a Flying Pay is not payable to personnel on the Professional Aviator Pay Spine.

^b Including equivalent ranks in the other Services. However, pilots in the Army and RM who are not qualified as aircraft commanders do not receive the Officer rate of Flying Pay but receive the Army pilot rate of Flying Pay.

^c After 4 years on the preceding rate.

^d Payable only to pilots in the ranks of Squadron Leader and below who have received the top rate of Flying Pay for 4 years.

^e Payable only to Weapon Systems Officers and observers in the ranks of Squadron Leader and below who have received the top rate of Flying Pay for 4 years.

^f Rates apply to personnel with more than 3 consecutive years in non flying-related appointments.

	Rate £ per day	Reserve Band rate ⁱ £ per day
(b) Branch Officers		
On designation as specialist aircrew	32.83	–
After 5 years as specialist aircrew	36.53	–
Non-commissioned aircrew (trained)		
RM and Army pilots qualified as aircraft commanders		
Initial rate	12.17	–
Middle rate ^g	20.65	–
Top rate ^g	32.83	24.62
Enhanced rate ^h	38.65	28.99
RM and Army pilots ^j		
Initial rate	6.36	–
Middle rate ^k	13.76	–
Top rate ^l	16.41	12.31
RN/RM, Army and RAF aircrewmen		
Initial rate	6.36	–
Middle rate ^k	13.24	–
Top rate ^l	17.47	13.10
Aero-medical and escort duties pay (RAF)	6.88	–
Royal Logistic Corps air despatch pay ^m		
Lower rate	4.23	–
Higher rate ^g	6.88	–
Flying extra pay (RN), crew pay (RAF), Joint Helicopter Support Unit helicopter crew pay		
	4.23	–

DIVING PAY

Category

1 RN Diver (Able rate) prior to Category 3 qualification		
Ship's Diver – all ranks and ratings	3.71	–
2 RN Search and Rescue Diver – all ratings		
	7.42	–
3 RN Diver (Able rate) when qualified to Category 3 standards		
Army Diver – all ranks	10.06	–
4 RN Diver (Leading rate) when qualified to Category 4 standards, Army Diving Supervisor and Instructor – all ranks		
RN Mine Countermeasures and Diving Officer ⁿ	17.47	–
5 RN Diver (Petty Officer and above) when qualified to Category 5 standards on appointment		
after 3 years	24.88	–
after 3 years	27.00	–
after 5 years	28.59	–
(Unfit to dive)		
on appointment	7.94	–
after 3 years	9.53	–
after 5 years	11.11	–

^g After 4 years on the preceding rate.

^h Payable only to pilots who have received the top rate of Flying Pay for 4 years.

ⁱ Rates apply to personnel with more than 3 consecutive years in non flying-related appointments.

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

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

^l After 18 years' reckonable service.

^m Also payable while under training.

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

	Rate <i>£ per day</i>	Reserve Band rate <i>£ per day</i>
Deep and experimental diving		
Lump sum per dive		
Grade 5	262.18	–
Grade 4	131.09	–
Grade 3	98.32	–
Grade 2	65.53	–
Grade 1	13.11	–
Additional hourly rates		
Grade 5	52.44	–
Grade 4	13.11	–
Grade 3	9.83	–
Grade 2	6.55	–
Grade 1	–	–
SUBMARINE PAY		
Level 1 – payable on qualification	10.59	7.94 ^o
Level 2 – payable after 5 years on Level 1	13.76	10.32 ^o
Level 3 – payable after 5 years on Level 2	16.41	12.31 ^o
Level 4 – payable after 5 years on Level 3	18.53	13.90 ^o
Level 5 – payable to Officers qualifying Advanced Warfare Course or in Charge Qualified positions	23.30	17.48 ^o
Nuclear Propulsion Pay		
Category B watchkeeper – Single qualified	4.23	3.17
Category B watchkeeper – Double qualified	7.94	5.96
Category A watchkeeper (Nuclear Chief of Watch)	18.00	13.50
Appropriately qualified Junior Officers	18.00	13.50
SUBMARINE ESCAPE TANK TRAINING PAY		
	10.59	–
Additional Daily Supplement for Cat 1 Divers		
	2.12	–
Additional Daily Supplement for Cat 2 Divers		
	3.71	–
Additional Daily Supplement for Subsunk Parachute Assistance Group personnel		
	2.65	–
HYDROGRAPHIC PAY		
On attaining Charge qualification (H Ch)	11.65	8.74 ^P
Surveyor 1st Class (H1)	9.53	7.15 ^P
On promotion to Chief Petty Officer or attainment of NVQ4 whichever is sooner	7.94	5.96 ^P
Surveyor 2nd Class (H2), On promotion to Petty Officer or attainment of NVQ3 whichever is sooner	4.23	3.17 ^P
On promotion to Leading Hand	3.17	2.38 ^P
On completion of Initial Hydrographic Training	1.59	1.19 ^P
RM MOUNTAIN LEADERS' PAY	9.00	6.75
PARACHUTE JUMP INSTRUCTORS' PAY		
Less than 8 years' experience	6.88	5.16 ^q
8 or more years' experience	10.06	5.16 ^q

^o Rates apply to qualified submariners after 3 years ashore in non submarine-related appointments.

^P Rates apply after 3 years out of designated billet.

^q Rate applies to personnel who have been absent from PJI or PJI-related duties for more than 3 years.

	Rate <i>£ per day</i>	Reserve Band rate <i>£ per day</i>
PARACHUTE PAY	4.77	–
HIGH ALTITUDE PARACHUTE PAY^r	9.00	–
<u>COMPENSATORY ALLOWANCES</u>		
LONGER SEPARATED SERVICE ALLOWANCE		
Basic rate	5.84	
Middle rate	9.14	
Higher rate	12.45	
LONGER SERVICE AT SEA BONUS		
18 months' total service and less than 5 years' total sea service	4.39	
5 and less than 10 years' total sea service	8.39	
10 years' sea service and over	11.18	
LONGER SEPARATION ALLOWANCE^s		
Level 1	5.84	
Level 2	9.14	
Level 3	12.45	
Level 4	13.65	
Level 5	14.70	
Level 6	15.75	
Level 7	16.80	
Level 8	18.38	
Level 9	19.43	
Level 10	20.48	
Level 11	21.52	
Level 12	22.58	
Level 13	23.63	
Level 14	24.68	
PAYMENT FOR WORK OF AN OBJECTIONABLE NATURE (PWON)		
Basic rate	5.38	
Higher rate	15.86	
PAYMENT FOR WORK IN UNPLEASANT CONDITIONS (PWUC)	2.18	
UNPLEASANT WORKING ALLOWANCE^s		
Level 1	2.18	
Level 2	5.38	
Level 3	15.86	
NORTHERN IRELAND RESIDENT SUPPLEMENT	5.60	
LONDON RECRUITMENT AND RETENTION ALLOWANCE	3.47	
EXPERIMENTAL PAY^t (per test)	2.28	

^r Rate applies to members of the Pathfinder Platoon.

^s Rate applies to personnel on transition to JPA during 2005-06.

^t To be retitled "Experimental Test Allowance" on roll-out of JPA.

Appendix 3

Military annual salaries inclusive of X-factor from 1 April 2004

All annual salaries are derived from daily rates in whole pence and rounded to the nearest £, calculated on a 365-day year.

Table 3.1: Annual salaries for Officers up to and including Brigadier^a

Rank		Military salary £
Brigadier	Level 5	81,563
	Level 4	80,723
	Level 3	79,891
	Level 2	79,059
	Level 1	78,227
Colonel	Level 9	72,084
	Level 8	71,222
	Level 7	70,361
	Level 6	69,507
	Level 5	68,649
	Level 4	67,791
	Level 3	66,934
	Level 2	66,076
	Level 1	65,218
Lieutenant Colonel	Level 9	62,254
	Level 8	61,506
	Level 7	60,765
	Level 6	60,024
	Level 5	59,283
	Level 4	58,542
	Level 3	57,805
	Level 2	57,064
	Level 1	56,316
Major	Level 9	48,056
	Level 8	47,063
	Level 7	46,074
	Level 6	45,081
	Level 5	44,088
	Level 4	43,099
	Level 3	42,103
	Level 2	41,117
Level 1	40,124	

Rank		Military salary
		£
Captain	Level 9	37,883
	Level 8	37,453
	Level 7	37,018
	Level 6	36,161
	Level 5	35,296
	Level 4	34,438
	Level 3	33,573
	Level 2	32,708
	Level 1	31,854
Lieutenant	Level 10	27,474
	Level 9	26,820
	Level 8	26,167
	Level 7	25,514
	Level 6	24,860
	Level 5	20,681
	Level 4	18,323
	Level 3	15,604
	Level 2	14,297
	Level 1	13,082
University Cadet Entrants	Level 4	15,038
	Level 3	13,775
	Level 2	12,268
	Level 1	10,687

^a Army ranks are shown in these tables; the pay rates apply equally to equivalent ranks in the other Services.

Table 3.2: Annual salaries for Other Ranks^a

Rank		Military salary	
		Lower band ^b	Higher band ^b
		£	£
Range 5: Warrant Officer I	Level 7	37,066	39,278
	Level 6	36,051	38,686
	Level 5	35,066	38,011
	Level 4	34,394	37,343
	Level 3	33,726	36,672
	Level 2	33,058	36,051
	Level 1	32,427	35,354
Range 4: Staff Sergeant & Warrant Officer II	Level 9	33,292	36,336
	Level 8	32,554	35,828
	Level 7	32,142	35,325
	Level 6	31,656	34,821
	Level 5	30,288	34,069
	Level 4	29,879	33,310
	Level 3	29,196	32,554
	Level 2	28,280	31,799
Range 3: Sergeant	Level 7	28,656	31,025
	Level 6	28,441	30,456
	Level 5	27,492	29,883
	Level 4	26,795	29,313
	Level 3	26,525	28,948
	Level 2	25,875	28,233
	Level 1	25,218	27,521
Range 2: Corporal	Level 7	25,072	27,879
	Level 6	24,886	27,284
	Level 5	24,692	26,729
	Level 4	24,502	26,098
	Level 3	24,313	25,503
	Level 2	23,181	24,313
	Level 1	22,185	23,181
Range 1: Private & Lance Corporal	Level 9	20,298	24,313
	Level 8	19,590	23,181
	Level 7	18,732	22,185
	Level 6	17,962	21,210
	Level 5	17,239	20,228
	Level 4	16,363	18,294
	Level 3	15,042	17,013
	Level 2	14,253	15,410
	Level 1	13,461	13,461

^a Army ranks are shown in these tables; the pay rates apply equally to equivalent ranks in the other Services.

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

Appendix 4

AFPRB 2004 visits

In preparation for AFPRB's 2005 Report members made the following visits:

ESTABLISHMENT/ LOCATION	SERVICE	MEMBERS
RAF Lyneham, Wiltshire	RAF	Professor David Greenaway Dr Peter Knight Lord Patel
MOD Hospital Unit, Derriford, Plymouth	tri-Service	Lord Patel Mike Ward
RAF Odiham, Hampshire	RAF	Robert Burgin Neil Sherlock Sir Peter Woodhead
HMS Raleigh	Royal Navy	Professor David Greenaway Mike Ward
Commando Training Centre, Lympstone	Royal Navy	Professor David Greenaway Mike Ward
HMS Albion	Royal Navy	Professor David Greenaway Mike Ward
RNAS Yeovilton	Royal Navy	Mike Ward
Northern Ireland	tri-Service	Robert Burgin Dr Anne Wright
RAF Marham	RAF	Professor David Greenaway Robert Burgin
HMS Sultan	Royal Navy	John Davies Neil Sherlock
Submarine Escape Training Tank	Royal Navy	John Davies
Royal Marines School of Music	Royal Navy	Neil Sherlock
Defence Diving School	Royal Navy	John Davies Neil Sherlock
HMS Kent	Royal Navy	John Davies Neil Sherlock
RAF Halton	RAF	Mike Ward Sir Peter Woodhead
16 Air Assault Brigade, Colchester and Wattisham	Army	John Davies Mike Ward Dr Anne Wright
JPA, Worthy Down	MOD	Lord Patel Dr Peter Knight Neil Sherlock Mike Ward Sir Peter Woodhead Dr Anne Wright
RAF Mount Pleasant, Falkland Islands	tri-Service	Robert Burgin John Davies
The Armour Centre, Bovington	Army	Professor David Greenaway Sir Peter Woodhead

ESTABLISHMENT/ LOCATION	SERVICE	MEMBERS
HMS Campbeltown	Royal Navy	Lord Patel
Territorial Army, Telford	Army	John Davies Dr Peter Knight
RAF Stafford	RAF	Dr Peter Knight Dr Anne Wright
1 UK Armoured Division & 20 Armoured Brigade, Germany	Army	Dr Peter Knight Lord Patel Neil Sherlock
UKSU Ramstein, Germany	RAF	Neil Sherlock
HMS Caledonia	Royal Navy	Sir Peter Woodhead Dr Anne Wright
HMS Illustrious	Royal Navy	Sir Peter Woodhead Dr Anne Wright
1st Battalion Royal Scots, Edinburgh	Army	Sir Peter Woodhead Dr Anne Wright
HMS President	Royal Navy	John Davies Dr Peter Knight
Royal College of Defence Studies (RCDS)	tri-Service	Robert Burgin Dr Peter Knight Mike Ward Sir Peter Woodhead Dr Anne Wright

Appendix 5

Previous Reports of the Armed Forces' Pay Review Body

First Report	Cm. 4954, April 1972
Second Report	Cm. 5336, June 1973
Supplement to Second Report	Cm. 5450, October 1973
Third Report	Cm. 5631, May 1974
Supplement to Third Report	Cm. 5729, September 1974
Second Supplement to Third Report	Cm. 5853, January 1975
Fourth Report	Cm. 6063, May 1975
Supplement to Fourth Report	Cm. 6146, July 1975
Second Supplement to Fourth Report	Cm. 6420, March 1976
Fifth Report	Cm. 6470, May 1976
Supplement to Fifth Report	Cm. 6515, July 1976
Sixth Report	Cm. 6801, April 1977
Seventh Report	Cm. 7177, April 1978
Supplement to Seventh Report	Cm. 7288, December 1978
Eighth Report	1979
Supplement to Eighth Report	Cm. 7603, June 1979
Second Supplement to Eighth Report	Cm. 7770, November 1979
Ninth Report	Cm. 7899, May 1980
Supplement to Ninth Report	Cm. 7956, July 1980
Tenth Report	Cm. 8241, May 1981
Supplement to Tenth Report	Cm. 8322, July 1981
Eleventh Report	Cm. 8549, May 1982
Supplement to Eleventh Report	Cm. 8573, June 1982
Twelfth Report	Cm. 8880, May 1983
Supplement to Twelfth Report	Cm. 8950, July 1983
Thirteenth Report	Cm. 9255, June 1984
Supplement to Thirteenth Report	Cm. 9301, July 1984
Fourteenth Report	Cm. 9526, June 1985
Supplement to Fourteenth Report	Cm. 9568, July 1985
Fifteenth Report	Cm. 9784, May 1986
Supplement to Fifteenth Report	Cm. 9866, July 1986
Sixteenth Report	Cm. 126, April 1987
Supplement to Sixteenth Report	Cm. 176, July 1987
Seventeenth Report	Cm. 357, April 1988
Supplement to Seventeenth Report	Cm. 396, June 1988
Eighteenth Report	Cm. 579, February 1989
Supplement to Eighteenth Report	Cm. 667, April 1989
Nineteenth Report	Cm. 936, February 1990
Supplement to Nineteenth Report	Cm. 1065, May 1990
Twentieth Report	Cm. 1414, January 1991
Supplement to Twentieth Report	Cm. 1529, May 1991
Twenty-First Report	Cm. 1815, February 1992
Supplement to Twenty-First Report	Cm. 1941, May 1992

Twenty-Second Report	Cm. 2150, February 1993
Twenty-Third Report	Cm. 2461, February 1994
Supplement to Twenty-Third Report	Cm. 2586, July 1994
Twenty-Fourth Report	Cm. 2761, February 1995
Twenty-Fifth Report	Cm. 3091 – I, 1996
Annex to the Twenty-Fifth Report	Cm. 3091 – II, 1996
Supplement to Twenty-Fifth Report	Cm. 3258, May 1996
Twenty-Sixth Report	Cm. 3537, 1997
Supplement to the Twenty-Sixth Report	Cm. 3655, 1997
Twenty-Seventh Report	Cm. 3834, 1998
Supplement to the Twenty-Seventh Report	Cm. 3942, 1998
Twenty-Eighth Report	Cm. 4242, 1999
Supplement to the Twenty-Eighth Report	Cm. 4313, 1999
Twenty-Ninth Report	Cm. 4565, 2000
Supplement to the Twenty-Ninth Report	Cm. 4566, 2000
Thirtieth Report	Cm. 4993, 2001
Supplement to the Thirtieth Report	Cm. 4994, 2001
Thirty-First Report	Cm. 5361, 2002
Supplement to the Thirty-First Report	Cm. 5362, 2002
Thirty-Second Report	Cm. 5717, 2003
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