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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3 (Direct Dialling)

01-218 9000 (Switchboard)

MO 21/8/16

6th July 1983

WR 2/7

Mr. Nicholl

All right, I believe.

Dear John,

A.J.C. 3/7.

The House of Commons Defence Committee's Second Report 1982-83 on British Forces Hong Kong was published on 14th April 1983. My Secretary of State proposes to publish the Government Observations as a Command Paper on 20th July. The text of the Observations, which are not controversial, is enclosed.

I am copying this letter to David Heyhoe and to Bernard Ingham.

Yours ever,

Jane Ridley

(J E RIDLEY) (MISS)

A J Coles Esq

SECOND REPORT FROM THE DEFENCE COMMITTEE 1982-83

HC 176

BRITISH FORCES HONG KONG

Observations Presented by the Secretary of State for Defence

1. The Second Report from the Defence Committee Session 1982-83 was published on 14 April 1983. The Committee has highlighted a number of issues concerning the British Forces stationed in Hong Kong and these have been carefully considered by the Ministry of Defence.

General Situation

2. The Government re-affirms its commitment to maintaining the stability and prosperity of Hong Kong. It welcomes the Committee's observation that changes in force deployments should not be made which would cast doubt on that commitment. The current strength of the garrison was agreed with the Hong Kong Government during negotiation of the 1981 Defence Costs Agreement. This Agreement is working to the satisfaction of both parties and the Government welcomes the Committee's judgement that the arrangement whereby the Hong Kong Government meets 75% of the costs of the garrison remains fair. It confirms that there is no financial or other imperative for a reduction of British defence commitments in Hong Kong in the medium term.

Conditions of Service

3. Local Overseas Allowance (LOA) is a compensatory allowance which covers the additional costs overseas of 31 items of day to day living. These include running a car and the use of public transport. The items in the budget (which are set out in Annex B to the Ministry of Defence Memorandum printed with the Committee's Report) are not individually notified and LOA is a composite figure. It would not be possible for any serviceman to isolate that element in the LOA budget intended to cover car running costs.

4. As observed by the Committee, the costs of running a car in Hong Kong are high and the Hong Kong Government budget measures announced in February 1983, just after the annual LOA repricing exercise, have increased car running costs (petrol, licence and taxation) as well as the cost of drinks and cigarettes. Because of the size of the increase a further repricing exercise was carried out on 19 April 1983. The new, increased rates of LOA, which are effective from 1 April, take into account fully the increases generated by the Hong Kong Government budgets both in 1982 and 1983 and are based on the level of car ownership found in 1982 ie no assumption has been made that lower ownership flows from further increases in car costs. As an annual Hong Kong Government budget seems to be becoming an established practice, repricing in Hong Kong will in future be carried out after the Hong Kong and UK Government's budgets.

5. By comparison with car running costs travel by public transport in Hong Kong is cheap. It is the intention of the Hong Kong Government to discourage car ownership by putting up costs, but public transport costs are kept low. This is one of the main reasons (alongside geography, the frustrations of driving and parking and the savings made by not owning a car) that cause more servicemen to decide not to run a car in Hong Kong. The provision in the LOA budget for public transport is enhanced in terms of the number of journeys made, compared to UK, because of the greater use made by Service personnel of public transport.

6. The question of a differentiated rate of LOA for those living in more remote locations in Hong Kong was considered in 1982 but the conclusion reached was that higher car ownership and mileage amongst those at Sek Kong tended to be balanced by the lower mileage per gallon expected by Hong Kong city and Kowloon dwellers, by the latter's greater dependence on public transport and by the other higher expenses associated with living in a major city environment.

7. CBF Hong Kong will be examining the provision of welfare transport but the Committee will have noted the answer to question 32 given in the evidence on 1 February 1983.

8. Domestic fuel costs are not covered by LOA and would need to be covered by a separate allowance. Further statistical evidence in support of the case for such an allowance has recently been provided by British Forces Hong Kong. This is being jointly considered by the Treasury and the Ministry of Defence. If, in principle, the results seem to provide sufficient grounds for an allowance, it will then be necessary to assess what constitutes "reasonable standards of comfort" in the conditions and calculate specific allowances for them. In so doing the points made by the Committee will be taken into account.

9. A revised version of the booklet issued to servicemen posted to Hong Kong, which takes account of the Committee's views, is now almost ready for printing.

British Military Hospital (BMH)

10. The Government notes the views of the Committee concerning BMH Hong Kong. The detailed medical requirement for military hospital cover in Hong Kong is currently being formulated. This exercise will be completed shortly and all the practical options will then be costed and considered. It would be premature therefore to decide on or to exclude any particular option at present.

PEACOCK Class Patrol Vessels

11. The Government notes the observations of the Committee on the delivery to the Royal Navy of 5 new PEACOCK Class patrol vessels for service in Hong Kong which is expected to be complete by the end of 1984. Sales possibilities are being pursued with vigour and the completion of the first of Class in the middle of this year will be used to maximum effect to assist these efforts. Marketing prospects and promotional activity will be reviewed later in the year.

Brigade of Gurkhas

12. Emoluments and other conditions of service for Gurkha soldiers are reviewed annually by a joint Ministry of Defence and Treasury team working in close consultation with Headquarters, the Brigade of Gurkhas, and individual Gurkha battalions. This system has resulted in steady improvements over a number of

years, notably in the allowances paid for service in particular theatres. Separate reviews of particular aspects of conditions of service are also undertaken as required. In 1981, a special study of Gurkha pensions led to significant percentage increases in all pensions in issue. The Ministry of Defence will continue to examine ways of improving conditions of service, within the framework of the agreement between HMG, the Nepalese Government and the Government of India, using advice provided by the Brigade of Gurkhas to indicate the areas to be studied.

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