

Prime Minister

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Treasury Chambers, Parliament Street, SW1P 3AG (you were concerned about the shortness of notice), and that -although they will object- it will come as no surprise to them.

Perhaps you would like me to see how we shall ~~bring~~ ^{open} ~~work~~ ^{work}.

SECRETARY OF STATE FOR DEFENCE

As you requested, we have tentatively arranged a discussion at OD on 1 April, subject to your agreement. But defence say ^{any} ~~this~~ postponement ^{after Mon 22 March} will cost them £1m.

GERMANY : LOCAL OVERSEAS ALLOWANCES

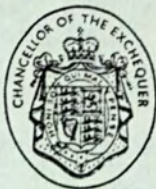
Thank you for your minute of 15 March.

2. I am concerned about this matter. I recognise the political and managerial implications of implementing reductions in local overseas allowances in Germany. But these are problems which need to be looked at against a number of other factors: the over-reimbursement of service-men in Germany for some time now; the fact that most of the MOD people who took part in the review share the Treasury view that reductions in LOA in Germany can be justified which would produce savings of £48 million a year, rather than the £24 million you propose; the problem of containing the 1982-83 defence programme within agreed provision (your memorandum OD(82)2 refers); the assumption in defence estimates provision of £24 million savings on LOA in 1982-83; the equity and credibility of the LOA system worldwide; the imminence of the 1982 armed forces pay award; and the need for the Treasury to be satisfied that any new LOA rates should be certified as tax-free.

Agree to postpone decision? ~~Yes~~
Or do you agree, in the light of this, to go along with Mr Nott and the Chancellor?

MS19/3

3. These are complex issues that require further consideration, and I look forward to the opportunity of an early Ministerial discussion. However I should be sorry if this leads to further delay in the first stage of implementation of the LOA review; for my own part I should have welcomed an effective date, as you suggested, of 1 April, especially if



this is what is now expected by the troops concerned.

4. I have noted the Prime Minister's question about the relevant exchange rates. My understanding is that the LOA standards are priced in local currency, so that full account is taken of the exchange rate in calculating the rates of LOA. And I am told that adjustments are made to LOA rates when the Fixed Forces Rate of Exchange changes.

5. Copies of this minute go to the Prime Minister, to other Members of OD, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G.H." with a stylized flourish.

G.H.

19 March 1982