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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01 ~~XXXXXX~~ 218 2111/3

25th February 1983

Dear Michael,

LOCAL OVERSEAS ALLOWANCE

You will wish to be aware, in view of the Prime Minister's involvement last year, that new rates of Local Overseas Allowance (LOA) are to be introduced in Germany and elsewhere from 1st April. We intend that these changes should be announced in answer to a Parliamentary Question on Monday and a copy of the proposed answer is attached for information.

LOA is paid to members of the Forces to meet the extra cost of living on overseas stations. It is normally reviewed annually. As the Prime Minister will recall the 1981 Review showed that the gap between the cost of living in Germany and in the United Kingdom had narrowed and that the rates of allowance in issue were no longer justified. The Review carried out at the end of 1982 (in effect a completion of the 1981 Review) determined that existing rates, even after the reductions which had been made last year, are still in excess of the amounts required to meet the extra costs currently being experienced in Germany by amounts ranging from 23-26% of present rates for single personnel and from 6-11% for married personnel.

A table showing new rates of allowance effective from 1st April is attached. In recognition of the cuts already imposed and in order to give Servicemen time to adjust to the new rates it has been agreed that, as before, the reductions will be staged, as follows:

- Single officers and other ranks - 50% from 1st April, the remainder from 1st August
- Married officers - reductions in full from 1st April
- Married other ranks - reductions in full from 1st August

These rates have been agreed with the Treasury and have been accepted by the Service Commanders-in-Chief.

Yours ever
Michael Evans

(N H R EVANS)

M C Scholar Esq

Please DELAY

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of course the D.M.
and many
John further
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M.C.

Prime Minister

To be aware.

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To ask the Secretary of State for Defence whether local overseas allowance paid to servicemen has been reviewed, and with what results.

Mr Blaker

Local Overseas Allowance (LOA) is a tax-free compensatory allowance paid to Service men and women overseas, in addition to their pay, to meet the essential extra cost to them of serving abroad rather than in the UK. This extra cost varies from place to place, and is bound to change over time, for example in response to different price movements at home and abroad. LOA also compensates for variations in exchange rates. The rates of LOA are therefore kept under review, using the same principles and criteria worldwide. Recent reviews have reflected changes in local conditions, and have for example led to increases in LOA in Cyprus, Italy and Portugal and (for most ranks) in France, and to decreases in Belize, Brunei and the USA. In certain other posts, such as Hong Kong, there has been no need for significant change. The further review in Germany referred to in my reply to the hon Member for Preston, North (Mr Robert Atkins) on 26 March 1982 has now been completed and new rates will be introduced there from 1 April 1983. In German currency, the new rates will provide less LOA than those in issue on 1 January 1983 but because of changes in the exchange rate LOA rates in pounds sterling have been increased.

RATES OF LOA FOR BRITISH FORCES AREA OF GERMANY

Appendix 2

	Single Corporal		Single Captain		Married Corporal		Married Captain	
	Daily LOA	Reduction £	Daily LOA	Reduction £	Daily LOA	Reduction £	Daily LOA	Reduction £
<u>Previous Rates</u>								
1 January 1983 (£1 = DM 4.20)	2.09		3.37		4.91		5.58	
1 February 1983 (Recalculated to reflect new exchange rate : £1 = DM 3.75)	3.44		5.39		6.85		8.20	
<u>New Rates</u>								
First staging reduction (from 1 April 1983)		.44		.68		-		.49
Second stage reduction (from 1 August 1983)		.44		.68		.73		-
Final rate (from 1 August 1983)	2.56		4.03		6.12		7.71	

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10 DOWNING STREET

From the Private Secretary

28 February 1983

Dear Nick,

Local Overseas Allowance

Thank you for your letter of 25 February about the new rates of Local Overseas Allowance for Germany and elsewhere.

As I told you this morning, the Prime Minister's initial reaction was that sterling's recent fall against the deutschmark made these changes unnecessary. On further explanation of the system the Prime Minister accepted that these exchange rate changes had no bearing on the staged reduction of the rates which you are proposing, but enquired about the necessity for reductions of this scale at this time.

Upon further consideration the Prime Minister agreed to the proposals set out in your letter; but suggested that the draft Answer should also cover the Local Overseas Allowance payable in respect of those serving in the Falklands.

Yours sincerely,

Michael Scholar

Nick Evans, Esq.,
Ministry of Defence.

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MOJ
25.2.83

Dear Michael,

We spoke. Grateful
if the duty clerk could let us know
via the MOD resident clerk, on
Sunday if the PM is not content.

Yours aye
Nick.

Local Overseas Allowance

M. J. tell MOD.