

FROM: CHIEF SECRETARY
DATE: 20 January 1984



PRIME MINISTER

cc Secretary of State for
Defence
Sir Robert Armstrong

Prime Minister.

The MOD and Treasury agree (para. 4) that
the reductions should be in 2 stages:

1 March / 1 May. Agree?
Yes no

A.S.C. 20/1

LOA GERMANY

I do not think you should endorse Michael Heseltine's proposal for giving effect to reductions in LOA for Germany in two successive equal stages on 1 March and 1 June.

2. It has not hitherto been the practice to stage reductions arising from re-pricing reviews (as distinct from full-scale reviews of LOA standards). I would therefore have much preferred to see the results promulgated in full from the date of 1 January. That option was however closed to us because of procedural delays in MOD following completion of the review in November. It should nevertheless have been possible to start instead from 1 February. Indeed Treasury approval to do so was requested by MOD on Michael Heseltine's authority as recently as 6 January.

3. The proposal then was a 1 February/1 May equal staging. The Treasury gave agreement, but only very reluctantly; we preferred full implementation from 1 February (in itself a concession). Michael Heseltine has since changed his position without any further formal consultation with my department. I have to say that I do not regard this as a satisfactory way of conducting business.

4. The further delay in reaching a decision evidently means that 1 March is now the earliest practicable date for promulgation if those affected are to be given a month's warning. However, that already amounts to a 2 months' concession at the existing higher rates; and an increase in military salary can be expected to take effect from 1 April. In my view the correct course would therefore be to introduce the full amount of the reductions from 1 March. However, I understand that MOD Ministers are now prepared to accept a 1 March/1 May compromise arrangement. In the light of the earlier Treasury approval I am, reluctantly, prepared to go along with that and trust that the matter can now be regarded as settled on that basis.

5. The MOD proposal means that the LOA bill for 1984 will be some £7 million higher than it need otherwise have been (£6 million on the compromise arrangement). I note that Michael is apparently prepared to forego savings of this order with equanimity. I hope he can assure us that all the procedures for the next LOA review will be carried out in time for any agreed changes to be introduced in January 1985.

6. I am sending a copy of this minute to Michael Heseltine and to Sir Robert Armstrong.



PETER REES

Defence Armed
Forces Pay

20 JAN 1984



COMPTON

Jo VR



10 DOWNING STREET

From the Private Secretary

23 January 1984

Dear Nick,

Local Overseas Allowance - Germany

The Prime Minister has seen your letter of 17 January and the Chief Secretary's minute of 20 January on the above subject. Mrs Thatcher has noted that Treasury and MOD Ministers are now prepared to accept a compromise arrangement whereby the reductions in LOA for Germany would take place in two successive equal stages on 1 March and 1 June. She has further noted that your Secretary of State intends to announce the change in a Parliamentary answer this week.

I am copying this letter to John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

Yours ever

Joh Cole

Nick Evans, Esq.,
Ministry of Defence.

VR