

LOCAL OVERSEAS ALLOWANCE (LOA) (JSP 752 Chapter 9 Section 7)

This short allowance explainer document has been designed and produced by Armed Forces Remuneration to help SP better understand how the allowance is constructed, what it is for and provide answers to frequently asked questions on LOA.

LOA – What is it for?

The aim of LOA is to contribute towards the necessary additional cost of day-to-day living when Service personnel (SP) are assigned or deployed overseas at public expense. It recognises the amount by which average essential day-to-day expenditure in an overseas location differs from that in the UK. The allowance is tax-free due to its contributory nature. The breakdown below provides an explanation of the make-up of the allowance and the cost-of-living elements covered in the allowance.

The daily rate of LOA is published annually and is made up of 3 separate elements:

1. Cost of Living (CoL) element;
2. Location Factor (LF); and
3. Environmental Factor (EF).

Cost of Living (CoL)

The CoL element of LOA is a contribution towards the difference in the CoL in the UK and the CoL where you will be living. The UK data is provided by the Office of National Statistics (ONS) UK Living Cost and Food Survey. This is published annually and includes a child element.

Child element

ONS data can show a significant variation in the 'value' of a child between salary ranges, different Financial Years (FYs) and the number of children in a family. The inconsistency means that there is no straightforward value to represent a child. It was agreed that there should be a single value applied for all children to ensure consistency and fairness. The agreed solution (based on the **Median Band** of the data) is that the child element is derived by creating an average for each family size from a rolling five-year period. An average is then calculated for the variation from Acc+0 for each family size.

Employment Conditions Abroad (ECA)

Location rating data, which is provided by a commercial company, ECA, is data that is collected from specific locations in each country and is used to calculate an index which is applied to the ONS data. This provides the CoL element of LOA.

It is important to understand that if the difference in the CoL in the assignment location is small or it is potentially cheaper to live in the assignment location compared to the UK, the daily rate of LOA will be negligible (pending the LF and EF). It then follows that if the CoL in the assignment location is greater than the CoL in the UK, this element will be greater in order to contribute towards that difference.

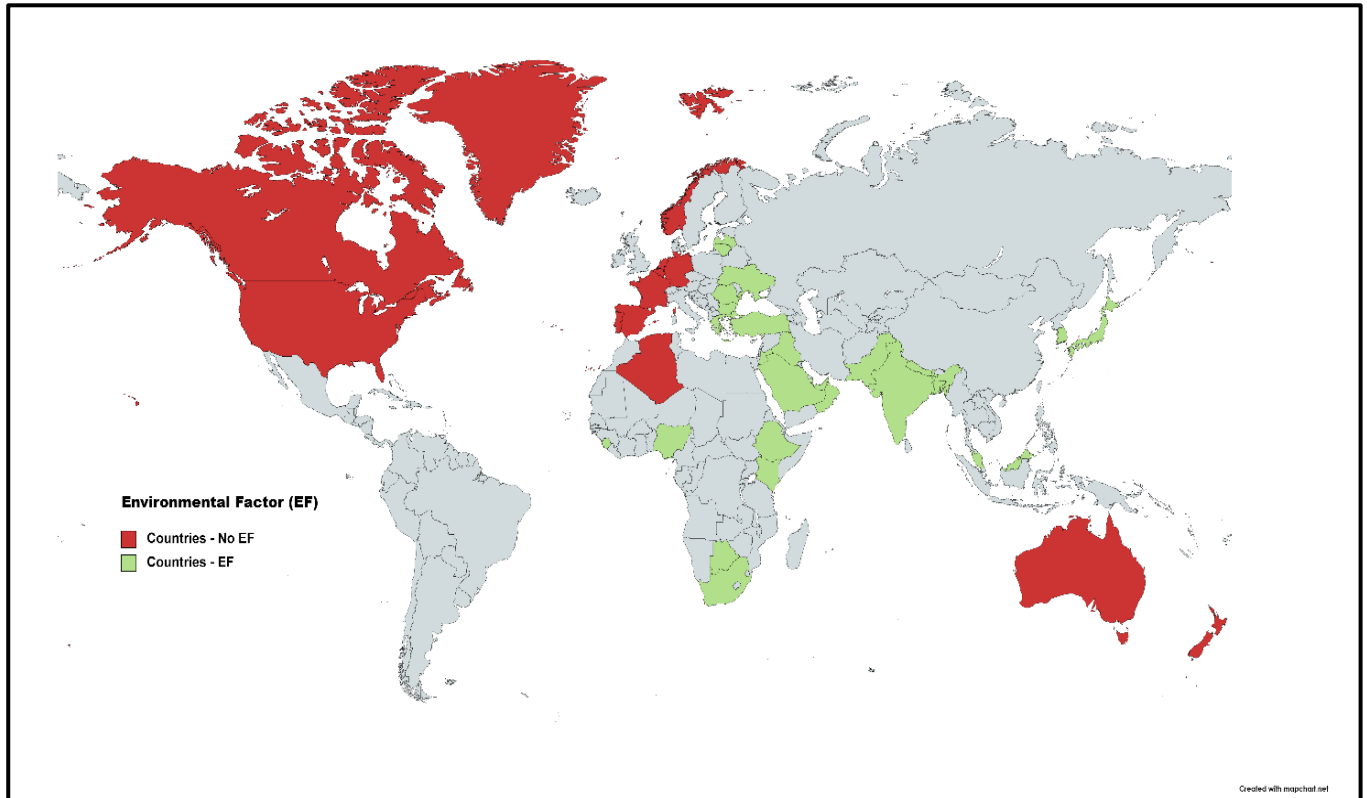
Location Factor (LF)

LF is formed from a contribution to items such as legal/compulsory items and banking charges e.g. winter tyres, car registration and ID cards in certain countries. SP can submit LF applications, but the issue must impact most of the SP in that LOA region for the issue to be considered.

Environmental Factor (EF)

The EF reflects the 'lived' experience overseas **in comparison with that of the UK** and is calculated using ECA's Location Rating Index. It takes into account the following factors: Natural Phenomena, Air Pollution, Health, Language, Culture, Goods and Services, Isolation (Internal & External), News/Media, Expatriate Community, Recreation, Housing, Utilities, Education, Personal Security & Socio-Political Tensions.

Countries/LOA areas where EF is currently paid are highlighted in green on the following map:



Changes in Exchange Rates

Under the previous LOA methodology there was a mechanism to address significant exchange rate fluctuation, and this has been applied to the current LOA model. In the event of significant exchange rate fluctuation (which impacts on the index), a decision will be made as to whether the rates should be re-issued out of programme. ECA monitors the exchange rates daily (www.oanda.com) and when rates deviate from their current value by +/-10% for 8 consecutive weeks the MOD is notified. The MOD then decides whether to apply a change. The MOD has two choices:

- a. Make an immediate change (start of the following month) to the daily rate of LOA to reflect the change in exchange rate;
- b. Delay the change to the next 6-month point (Mar/Apr or Sep/Oct).

It is very important to understand that exchange rates can go up as well as down meaning that if an exchange rate reaches the threshold of a +/-10% change over 8 weeks, the rate of LOA can go down as well as up.

Strong £ v weak local currency = more for your money = potential reduction in LOA
Weak £ v strong local currency = less for your money = potential increase in LOA

Issue of LOA rates

In 2025 we will move from an annual to a biannual (twice yearly) release schedule of LOA rate releases.

Types of LOA

The type of LOA you receive depends on your personal circumstances:

LOA Type	Reason
Accompanied	
Full Accompanied	Paid to SP who are either married or in a civil partnership and serving accompanied by their immediate family and who are occupying SFA, SSFA or private accommodation.
Residual (Acc)	Paid to accompanied SP when they, or their spouse/civil partner are temporarily absent from their permanent duty station in recognition of continuing financial commitments. The accompanied Residual rate is set at 100% of the appropriate full accompanied rate.
Personal Status Category 2	
Living-Out	Although SP in P Stat Cat 2 do not receive a specific type of LOA, the rate they receive depends on the accommodation they are in with or without the child. If they live in SFA, then they should receive the Living-Out only rate when their child is not with them. When the child is accompanying the SP, then the child element is added according to the number of children accompanying. If they live in SLA when the child is not with them, they should receive the Living-In rate.
Unaccompanied	
Living-Out	Paid to unaccompanied SP permanently assigned to an overseas location and living in self-catering accommodation. For example, those living in SSSA.
Living-In	Paid to unaccompanied SP accommodated and messed in service facilities. The Living-In rate is set at 64% of the Living-Out rate.
Residual (Unacc Living-Out)	Paid to unaccompanied SP when they are temporarily absent from their permanent duty station in recognition of continuing financial commitments. The unaccompanied Residual rate is set at 49% of the appropriate Living-Out rate.
Residual (Unacc Living-In)	Paid to unaccompanied SP when they are temporarily absent from their permanent duty station in recognition of continuing financial commitments. The unaccompanied Residual rate is set at 32% of the appropriate Living-Out rate.
Temporary Duty	Paid to unaccompanied SP when they are temporarily assigned to a LOA area. The Temporary Duty rate is set at 54% of the Living-Out rate.

Exercise/Field Conditions	Paid when SP are assigned to a LOA area on Exercise or where Field Conditions of any type are declared. The Exercise/Field Condition rate is set at 28% of the Living-Out rate.
Seagoing	Paid to unaccompanied SP on board HM ships or those of the Royal Fleet Auxiliary deployed outside of UK waters when granted shore leave. The Seagoing rate is set at 32% of the Living-Out rate.
Operational	Paid to SP deployed on an Operational Tour where full DWP is not in effect or where full DWP is in effect but local Chain of Command has presented a case for elements of LOA to be paid, usually in the context of the requirement to interact with the local community/economy ¹ .

Service Couples

If you are married to or in a civil partnership with another SP who is also assigned to the same LOA area, both of you will receive the Unaccompanied rate of LOA. If you have children with you, the child element will be paid to the SP in PStat Cat 1s.

If you are assigned to an overseas location and your spouse / civil partner takes a career intermission, then you will receive the Accompanied rate of LOA.

Additional Provisions. The following additional provisions are available to qualifying SP:

- a. **Overseas Private Vehicle Provision (OPVP).** SP who are permanently assigned to an overseas location and in receipt of LOA may be eligible to claim OPVP to assist them with access to a private motor vehicle in the assignment location. OPVP provides a contribution (up to a capped maximum) towards either: the cost of privately shipping one car to/from the permanent assignment location; the administrative and vehicle depreciation costs when selling and buying/leasing a vehicle; or the charges incurred when SP are required to cancel a vehicle lease agreement. Alternatively, SP may choose to drive their current vehicle to/from the assignment location and claim Motor Mileage Allowance and Subsistence under the self-drive scheme.
- b. **Second Vehicle Provision (Accompanied PStat Cat 1 SP only)².** Accompanied PStat Cat 1 SP in receipt of LOA may be eligible for an additional daily contribution towards the cost of running and maintaining a second motor vehicle in the overseas assignment. Accompanied SP must demonstrate a requirement for access to a second private motor vehicle and that the accompanying non-serving partner is able to drive the second motor vehicle. The supporting documentation required, method of claim and payment is all in JSP 752.
- c. **Respite Provision (RP).** RP contributes towards the travel and accommodation costs for you and your family to take time away from your duty station. It is delivered through an annual contribution which is per person per annum and can only be used to contribute towards travel and/or accommodation costs (not food). The level of contribution is based upon 2 factors: (i) the ECA Location Rating for the location to which you are assigned and (ii) the level of isolation experienced (both internal and external) that may increase travelling time to reach potential respite locations. Recent improvements in the offer, has meant that SP can, if they wish, combine GYH(O) with Respite Provision (accommodation element only in this instance).

¹ Where Operational rates of LOA are authorised, they will be bespoke rates based on the level of DWP available.

² PStat Cat 1s are ineligible for this provision.

Frequently Asked Questions

Question	Answer
<p>The cost of living in my location is high so why is my LOA rate decreasing?</p>	<p>LOA is a contribution to increased cost of living in the overseas location compared to the UK. When the cost of living in the UK increases faster than the overseas location the ‘gap’ that LOA is designed to contribute to decreases, and therefore LOA rates can, when this happens, decrease.</p> <p>Equally, if the cost of living in the overseas location compared to the UK goes up, the LOA rate will increase.</p> <p>LOA is designed to be an ‘equaliser’ and ensures SP are not paying more in cost of living than they would do living in the UK.</p>
<p>Why did we move from Forces Fixed Rate (FFR) to the General Accounting Rate (GAR)?</p>	<p>The idea was to apply parity to all. The GAR is the Ministry of Defence’s internal exchange rate which is used for all of Defence’s foreign transactions.</p> <p>The GAR is managed by D Fin Strat and is updated monthly.</p>
<p>Why doesn’t LOA cover any loss in spousal/partner employment?</p>	<p>The allowance isn’t related to any potential impacts on spousal employment because of an overseas assignment. It is to contribute to the difference in cost of living compared with the UK.</p> <p>The idea is to match the spending power you (the SP) would have in the UK, and in theory, all LOA should be spent during an assignment.</p>
<p>My location is on the transition pathway. What happens after 1 October 2024?</p>	<p>The LOA transitions pathway was designed to transition locations to the new LOA methodology in gradual way, protecting SP during the change.</p> <p>On 1 October 24 all locations will complete transition. After this time, rates will stabilise, and we hope to introduce a biannual rate review (TBC but likely Mar/Apr and Sep/Oct).</p>
<p>What happens when a sustained currency fluctuation takes place over a prolonged period of time?</p>	<p>Currency exchange rates are monitored on a regular basis and a mechanism has been developed to ensure MOD can respond, if necessary, when currency exchange fluctuations over a sustained period takes place. See Changes in Exchange Rates for further details.</p> <p>During transition, this was enacted for over 55 locations worldwide.</p>
<p>What elements of ‘cost of living’ make up the daily rate?</p>	<p>See table below titled Cost of Living Elements.</p>
<p>If I have an issue with LOA, what is the best way to staff my issue into the policy owner?</p>	<p>We want to ensure LOA continues to work for SP as it has been designed to.</p> <p>Please use your CoC to highlight and staff issues to AF REM on LOA.</p>
<p>If I wish for an additional location factor to be considered for my LOA area, how do I staff this in?</p>	<p>Please use your CoC if you think your location warrants a specific location factor to be considered for your LOA area.</p>

COST OF LIVING ELEMENTS – LOCAL OVERSEAS ALLOWANCE

The Daily Rate of LOA reflects the relative cost of living of various elements within the underpinning ONS data based on UK spend. These elements are:

Element	Comment
Food	Food Purchased from commercial sources for preparation and consumption at home
Non-alcoholic Drinks	Beverages (Tea, coffee, water, soft drinks) purchased from commercial sources for consumption at home
Alcoholic Drinks	Purchased for consumption at home
Tobacco	
Clothing & Footwear	
Housing, Fuel & Power	Maintenance & repair, services to dwelling
Household Goods & Services	Furniture & Furnishings, Tools & Equipment, Tableware, Goods & Services for routine maintenance
Health	Healthcare products, spectacles & lenses
Transport - Enduring	Purchase of Vehicles, operation of personal transport
Transport	Rail, tube, bus, other fares
Communication	Postal services, internet, telephone
Recreation & Culture - Enduring	TV & Audio Equipment, Photographic equipment, Sports subscriptions, TV subscriptions
Recreation & Culture	Sports admissions, cinema, photos, newspapers, books, Stationery
Education	School Trips
Restaurants	Meals out, alcoholic drinks, take away meals
Hotels	
Miscellaneous Goods & Services - Enduring	Insurances, Other Services & Professional Fees
Miscellaneous Goods & Services	Hairdressing, toiletries, personal effects
Other Expenditure Items - Enduring	Licences, payments associated with accommodation
Other Expenditure Items	Money transfers, general spending