



**DEFENCE  
BUSINESS  
SERVICES**  
Civilian HR



## **MINISTRY OF DEFENCE STATEMENT OF CIVILIAN PERSONNEL POLICY**

### **RELATED DOCUMENT - PAY AND ALLOWANCES OVERSEAS**

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**Contact:** People Service Centre (PSC)

- 93345 7772 (Mil)

- 0800 345 7772 (STD)

- +44 1225 829572 (Overseas)

## **PAY AND ALLOWANCES OVERSEAS**

### **Pay and National Insurance**

#### **Method of payment and allotments**

Once in the overseas area it is recommended that you open a local bank account to enable your monthly salary to be paid locally in the currency appropriate to the overseas location. You should complete the appropriate form notifying DBS Civilian HR your overseas bank details as soon as possible. If you have ongoing financial commitments in the UK, such as a mortgage and other loan repayments, then you will probably want to allot part of your salary to your UK bank account to cover any financial outgoings in the UK. To do this you should complete the appropriate form detailing the amount of salary that you want paid to your UK account and send it off to the DBS. Your allotment to the UK can be changed or stopped, but when doing this take account of DBS cut-off dates for monthly changes in pay. Only one allotment can be allowed (i.e. a local overseas bank account and one UK account only).

The pay you receive in local currency is converted using the appropriate Fixed Forces Rate (FFR) of exchange or Government Accounting Rate which is subject to change depending on movement of commercial exchange rates. The overseas part of your pay will be paid to your overseas bank account via an arrangement with a local overseas bank under a system similar to BACs, or via local Command Pay Offices, or Imprest Accounts.

Whilst overseas you will receive the pay appropriate to your posting. Some staff will have pay analogous with a posting to London, and others who have had this withdrawn, will only have pay analogous to a posting to London, if the posting attracted those terms until its expected expiry as notified or promulgated separately. If entitled you will only receive this addition whilst in receipt of COLA.

#### **National Insurance**

The National Insurance (NI) Acts apply to all MOD staff in UK or overseas, with slight modifications under the reciprocal insurance agreements, for those serving in certain countries abroad.

If you are usually resident in UK and resident immediately before your duty abroad begins you are liable to pay Class 1 Earnings-Related National Insurance Contributions on earnings during your first 52 weeks of employment abroad. This is regardless of the class of contribution previously paid, but if you contribute to an approved occupational pension scheme such as the PCSPS, Class 1, contributions remain payable at the contracted-out rate.

(These compulsory contributions are not payable if you are on a secondment abroad when the borrowing employer pays your salary). However, the EU countries and other territories with reciprocal NI agreements provide for continuity of contributions (under most agreements contributions remain compulsorily payable), and benefits to varying degrees.

The Inland Revenue National Insurance Contributions Leaflet NI38 details with your NI position if you usually reside in UK and work abroad. Further details can be obtained from the HNRC National Insurance Contributions Office, International Services, Longbenton, Newcastle-Upon-Tyne, NE98 1YX. Tel: 0191-213-5000. Alternatively, you can find out more by going to the website at [HM Revenue & Customs \(www\)](http://www.hmrc.gov.uk).

## **COLA**

### **Background and Purpose**

MOD civil servants will inevitably view their pay in the context of UK living costs. Public sector pay will, however, be influenced by other factors such as government pay policy, economic factors including the employment market, recruitment, retention and motivation factors, comparators elsewhere and affordability. Whatever the level of salary you earn, net income, after deductions for tax and National Insurance Contributions, will enable you to maintain a certain standard of living. When employees serve overseas it becomes necessary to protect the overall 'purchasing power' of the UK salary in that overseas location. The means of protection is COLA. COLA is necessarily assessed on the basis of average patterns and amounts of expenditure. It will not match every individual's circumstances but it provides a buffer between UK costs and costs overseas and absorbs the differences. It is also important to bear in mind that, as currency exchange rates and prices in the UK and overseas change, so the level of COLA will vary – upwards and downwards.

Thus, the primary aim of COLA is to ensure that UK Based Civilians (UKBCs) serving overseas maintain a standard of living broadly equivalent to that which they would enjoy in the UK. Put simply, it is a topping up a salary to meet the essential additional costs of living overseas and is, by virtue of its compensatory nature, granted tax-free status in accordance with section 299 of the Income Tax (Earnings and Pensions) Act 2003.

### **Principles of Assessment, Review and Promulgation**

MOD employs the services of a private sector company called ECA (Employment Conditions Abroad) who specialise in Human Resource and Remuneration issues arising from expatriate employment. ECA provides data on international assignment packages and has over 1500 client and member organisations including some of the biggest names in the private sector as well as UK and foreign Government Departments. The COLA model used by MOD is derived from the standard ECA approach but has been tailored through collaboration between MOD and ECA specialists.

COLA is based on the use of what are called 'Purchasing Power Parities'. The UK Family Expenditure Survey (FES) reveals how people spend their money. It gives the proportions of income spent on various types of day-to-day living expenses. UK prices are then compared with prices in the overseas location producing a simple cost of living index showing the percentage difference in the cost of living at each post. Indices are then calculated separately for each category of living costs and then weighted in accordance with FES-derived spending patterns to give a single overall index. The cost of living index is then applied to the officer's spendable income to arrive at a rate of COLA. Spendable income is the amount of net salary remaining after deducting the cost of housing, savings and other ongoing financial commitments in the UK from the net income. The FES is used to give the proportions of income spent on different things, such as food, drink, transport, clothing, housing, entertainment and so on. The next step is to compare prices in the UK against prices in the overseas location. This gives what is called a cost of living index. For example an index of 100 would indicate cost parity. An index of 110 would indicate prices 10% higher than in UK and so on. Indices are calculated for all categories of day-to-day living costs. The indices are then weighted in accordance with the spending patterns revealed in the FES to give a single index representing overall relative costs of living. COLA is re-assessed twice a year with new rates published and effective from 1 February and 1 August

### **Payment Regulations**

This chapter describes payment regulations that have been introduced following a review of COLA and is effective from 1 February 2004. A major change, compared to the previous payment rules, means that accompanying family members (e.g. spouse and dependent children) will only be recognised for COLA when they are permanently resident at the overseas post with the officer. Previous payment rules allowed payment for family even where they were not so resident. Staff in receipt of COLA prior to 1 February 2004 will continue to receive the rate of COLA applicable to their pre-existing and recognised COLA status but any changes to their accompanying family after this date will result in a move to the new COLA arrangements. All staff newly posted or newly in receipt of COLA on or after 1 February 2004 will be paid in accordance with these regulations.

### **Payment of COLA**

Normally, you will receive COLA once you take up your permanent accommodation overseas. You cannot receive COLA concurrently with subsistence allowance if you necessarily take up hotel accommodation upon your arrival at, or departure from, the overseas location.

COLA is broken down into 3 Salary Bands which change annually in-line with pay awards. The rate of COLA you receive will depend on your salary (including Teacher's Incentive Allowance and Burnham Lecturer's Longer Working Year Allowance), what Salary Band you fall into, whether you are going accompanied or unaccompanied by your spouse/partner and/or being accompanied by dependent children (see definitions to establish eligibility

below).

In addition to the normal rates of COLA there is a Mess rate which is used if you are single or married unaccompanied and are accommodated in Mess accommodation in the overseas area.

### **Definitions used to establish eligibility**

The following definitions are used for establishing eligibility:

- **Spouse** – A marital partner who is recognised under UK law and is accompanying the officer permanently at the post.
- **Partner** – A partner who is recognised under the Civil Partnership Act 2004 and is accompanying the officer permanently at the post.
- **Unmarried Partner** – An unmarried partner who has been formally recognised by the MOD. However, a partner will be considered equivalent to a spouse for the purpose of these regulations where:
  - you have a committed relationship (exclusive and cohabiting) which has been established for at least 12 months, and;
  - your partner is either financially dependent on you, or there is evidence of financial interdependence (e.g. joint ownership of home, joint bank account etc).
  - the unmarried partner must be accompanying the officer permanently at the post.
- **Dependent children** – For the purpose of this Section dependent children are defined as being legitimate, legitimised, stepchildren or adopted children (within the meaning of the Children Act 1975), or children regarded as family members (under the terms of the Child Benefit Act 1975). Furthermore, for children to be regarded as dependent they should have ordinarily resided with you (the claiming officer) on a permanent basis in the UK and you should be in receipt of Child Benefit/Tax Credit in their names.

For the Child Element of COLA and Child Care Addition, the child/children must be:

- your child/children is/are resident at post,
- and
- be unmarried, under the age of 19 and not gainfully employed.

## Special Rates of COLA

There are occasions when special rates of COLA would apply. These would be in the following circumstances:

- **If you and your spouse/civil partner/partner are both eligible for COLA and able to maintain a joint household in the overseas area:** - You will receive the married rate of COLA appropriate to the Salary Band that your aggregated salaries falls into. The COLA will be paid to whoever elects to be head of household.
- **If you and your spouse/civil partner/partner are both eligible for COLA but are unable, for official reasons, to maintain a joint household in the overseas area:** - You will each be able to claim the appropriate single/unaccompanied rate of COLA.
- **If you are married to a member of the armed forces who is in receipt of LOA and you maintain a joint household at the overseas location:-** You will receive a special rate of COLA based on the Salary Band that your aggregated salaries fall into less the rate Local Overseas Allowance (LOA) that your spouse/civil partner/partner is receiving. If this results in a negative rate of COLA your basic salary will not be affected by this. You must report any change in the rate of LOA that your spouse receives to DBS.
- **If you are married to someone who is neither a MOD civil servant nor a member of HM Forces, but who is in receipt of an allowance similar to COLA:** - If you fall into this category you must advise DBS of the level of allowance your spouse/civil partner/partner is in receipt of and indicate whether the allowance is paid directly or indirectly from UK Government or a commercial employer.

If you fall into one of the above categories you will need to complete DBS Form(s) to claim one of the special rates of COLA detailed above.

## Changes to your personal circumstances and absence from the overseas area

The rate of COLA that you receive can be affected by a number of circumstances. In the main your COLA can be affected by either your or, if accompanied by members of your family, their temporary or permanent absence from the overseas post.

You must inform DBS Civilian HR of any change in circumstances that may affect payment of your COLA. The following are the more typical instances that would affect payment of your COLA:

- Annual Leave
- Medical Referral to the UK

- Medical Evacuation
- Compassionate Travel
- Detached Duty
- Short Term Sick Leave in the UK
- Operational Deployment
- Return from Boarding School

Your COLA continues in payment for 30 days at the rate in issue before the absence began, regardless of whether your absence is at public or your own expense. However, if from the outset you know that the period of absence will exceed 30 days then COLA will cease from the day of departure from the overseas location and recommence on the date of arrival back in the overseas area. You are required to inform DBS Civilian HR where the absence will exceed 30 days. COLA will continue in payment if your absence is as a result of detached duty and the period of detached duty extends beyond 30 days but dependent members of your family remain in the overseas area throughout this time.

If your spouse and/or dependents leave the overseas post on a regular basis, the accompanied rates may still cease if the absences are considered to be that they are no longer residing in that overseas location for the majority of the time.

**IMPORTANT:** To avoid any overpayments in your COLA it is most important that you inform DBS Civilian HR of any change in circumstances immediately. Failure to notify DBS of any changes that result in an overpayment will result in the amount of overpayment being recovered. You should also note that any suspicion that a failure to notify DBS Civilian HR of a change in circumstances results from an intention to defraud will be investigated and could result in disciplinary action and criminal prosecution.

#### **Claiming and adjusting COLA**

Claims and adjustments should be made using the appropriate form.

#### **COLA – Accommodation Aspects – Occupation of hotel accommodation pending allocation of permanent official Accommodation**

When you first arrive in a post overseas, it is possible that you may be unable to occupy your official accommodation straight away. This can happen if you are transferring overseas direct from the UK or when you are moving jobs overseas. On arrival at a new post overseas you may have to take up hotel accommodation while awaiting allocation of official accommodation. When booking hotel accommodation you may either arrange this via the Central Hotel Booking Service or make your own arrangements directly with a hotel. If this happens you may claim subsistence allowance up to a period of 30 nights for yourself and any recognised dependants who accompany you. (This period may be extended exceptionally by DBS Relocations should there be a further delay in the allocation of permanent accommodation – your request for an extended period must be supported by clear evidence of the delay in allocating you official accommodation and should give an expected

occupation date.) However, subsistence payments will stop if you refuse to accept suitable permanent official accommodation for no good reason (e.g. not in a location of your choice, décor not your taste etc.).

You should be aware that apart from the situation outlined below (also see **TIPS, HINTS AND FAQs**) COLA cannot be paid concurrently when you are in receipt of subsistence allowances. COLA is only paid when you take up permanent official accommodation.

You should note that if you are transferring from one overseas post to another and your family remain in the official accommodation at the old place of work on a temporary basis, COLA can be paid concurrently with subsistence allowances at the old or new location (as appropriate).

### **COLA – Accommodation owned and occupied by an officer abroad**

If you are an owner occupier at your overseas duty station you will receive the same rate of COLA that you would have received had you occupied official accommodation. Note, however, that the MOD will make no payments towards the upkeep and maintenance of your property.

### **COLA – Essential continuing commitments relating to accommodation at the overseas post**

If you occupy privately rented accommodation while overseas under the Overseas Rent Allowance scheme and are temporarily absent from the overseas area (on detached duty, medical referral to the UK, sick leave in the UK, evacuation etc) the cost of essential continuing commitments relating to your accommodation may continue to be paid/reimbursed, e.g.:

- Overseas Rent Allowance
- Standing utility charges
- Retention fees for domestic help as appropriate

### **Difficult Post Allowance (DPA)**

DPA is paid if you serve on COLA terms in an area abroad where it is recognised that conditions are so rudimentary and/or adverse as to constitute hardship. Difficult conditions could include bad sanitation, civil unrest or poor medical facilities. DPA is a tax-free supplement to COLA that is designed to defray the costs associated with alleviating, overcoming or adjusting to such hardship. Posts are awarded points according to perceived difficulty and in turn points are translated into an annual cash sum, payable on a monthly basis.

DPA is reassessed annually with revised rates being effective from 1 April each year. The assessment system relies on information provided by Employment Conditions Abroad (ECA) which is the company that MOD use to set COLA rates. Like COLA, the rates can go up or down subject to the conditions prevailing at the overseas post. The assessment is made, based on the evaluation of 7 primary factors, namely:

- Climate
- Health (including local medical facilities and care)
- Language and culture
- Goods and services
- Isolation
- Housing and education

### **Rates of DPA**

There are two rates of DPA, namely Married (accompanied at post) and Single/Unaccompanied.

### **Eligibility and payment**

You will receive the allowance if you are posted to one of the overseas locations that attract DPA, as long as you are in receipt of COLA. There are just two categories of DPA, married accompanied and single/unaccompanied and is paid as a tax-free supplement to COLA and therefore, is paid automatically once payment of COLA has been authorised.

To find rates of COLA and DPA for all overseas locations see [Cost of Living Addition \(COLA\)](#) and [Difficult Post Allowance \(DPA\) Rates](#).

### **TIPS, HINTS AND FAQs**

**Q1.** What happens to my COLA if my spouse/partner and/or children return to the UK before the end of my tour of duty?

**A.** If your spouse/partner and where appropriate children return to the UK (i.e. to take up a new job, breakdown in your relationship has occurred etc etc) before the end of your tour of duty your COLA will be adjusted to the single/unaccompanied rate of COLA from the date of their departure. If your children remain with you in the overseas area your COLA should be adjust to the appropriate single/unaccompanied rate with children at post.

**Q2.** What happens to my COLA if I have to leave the overseas post before my family?

**A.** If you are required to leave the overseas post in advance of your family for reasons beyond your control (i.e. taking up a new post in the UK, spouse remaining at the overseas post with a child for educational reasons such as taking GCSE/A level examinations) then you will continue to receive COLA at the rate in issue prior to your departure until such time as your family return to the UK. If your family remain at the overseas post solely for private reasons then your COLA will stop on the day before your departure from the overseas area.

**Q3.** What happens to my COLA if I move to a different overseas post and

have to temporarily leave my family at the old overseas post ?

**A.** When you cease to become eligible for subsistence and qualify for COLA at the new post, you will receive the appropriate rate of COLA for the new station and your old COLA will continue but be adjusted for the family position at the old station (e.g. adjusted for spouse and children) until they move into hotel accommodation locally, or join you at the new overseas post (when your new COLA will be adjusted for your domestic position).

**Q4.** What happens to my COLA if I return to the UK for medical reasons which involve a substantial period of sick leave?

**A.** If you are in receipt of the married rate of COLA and return to the UK on long term sick leave (i.e. medical referral to the UK and recovery from surgical operation) and your family remain in the overseas area you will continue to receive the rate of COLA in issue prior to your departure for a period of 3 months, after such time the situation should be reviewed as regards the likelihood of you returning to the overseas area to resume your tour of duty. If your family leaves the overseas area while you are on sick leave COLA may continue in payment for 30 days from the date of their departure. Once the 30 days has expired the MOD will only meet essential ongoing commitments in the overseas area (i.e. rent if privately renting under the Overseas Rent Allowance scheme, retention of domestic staff etc). This would be subject to review on the basis that you would be returning to the overseas area at some future date.

**Q5.** What happens to my COLA if I move to a different overseas post and my family have to remain at the previous overseas location?

**A.** You are then regarded as unaccompanied and all allowances (including housing or ORA) at the previous duty station will normally cease.

**Q6.** What happens to my COLA if, as a single/married unaccompanied officer, I return to the UK for medical reasons which involve a substantial period of sick leave?

**A.** If you are in receipt of the single/unaccompanied rate of COLA and you return to the UK on long term sick leave the cost of essential ongoing commitments in the overseas area will continue to be reimbursed (i.e. Overseas Rent Accommodation, retention of domestic staff etc). This would be subject to review on the basis that you would be returning to the overseas area at some future date.

**Q7.** How would my COLA be affected if I was admitted to hospital for treatment in the overseas area?

**A.** If you are single/unaccompanied your COLA would continue in payment at the rate prior to your hospitalisation for a period of two months, after which your COLA would cease, unless there was an expectation that you would return to duty within a reasonable time (within the 3<sup>rd</sup> month of

hospitalisation). If COLA ceases expenses on essential continuing commitments may be reimbursed. If you are married/accompanied and your family stay in the overseas area during your hospitalisation your COLA will be adjusted at the two months period to single or single plus dependants.

**Q8.** What happens to my COLA if my spouse/partner is evacuated to the UK for medical reasons?

**A.** The married rate of COLA will continue in payment as long as there is an expectation that your spouse/partner will return to the overseas area after the period of sick leave.

**Q.9.** What happens to my COLA if my spouse/partner and/or children return to the UK for private reasons?

**A.** If your spouse/partner and or children are absent from the overseas area for more than 30 days your COLA should be adjusted accordingly to reflect your temporary change in domestic circumstances.

**Q10.** My spouse/partner and I maintain a joint household and receive a special rate of COLA. What happens to my COLA if either I or my spouse/partner returns to the UK in advance of the other?

**A.** Whoever remains in the overseas area will receive the single/unaccompanied rate of COLA appropriate to their Salary Band. If you move into mess accommodation then you will receive the mess rate of COLA.

**Q11.** My spouse/partner and I maintain a joint household and receive a special rate of COLA. What happens to my COLA if either I or my spouse/partner returns to the UK on long term sick leave?

**A.** Under these circumstances the special rate of COLA will continue to be paid for a period of 3 months. After this period COLA should be adjusted to the single/unaccompanied rate appropriate to the Salary Band of the individual remaining in the overseas area.

**Q12.** What would happen to my COLA if either I or my spouse/partner were to die during my overseas tour of duty?

**A.** The rate of COLA prior to your death would continue to be paid to your family while they live in the accommodation occupied prior to the death and this would remain in issue up to the day before the first suitable official journey to the UK can be arranged. If your family moves into hotel accommodation prior to their departure COLA would cease and subsistence allowances may be paid for up to 6 nights in accordance with the normal rules. If necessary this period may be extended by DBS. If your spouse/partner dies you will receive the single/unaccompanied rate of COLA, including the child element and Child Care Addition if appropriate.

**Q13.** As a single/unaccompanied officer how would my COLA be affected if I was admitted to hospital for treatment in the overseas area?

**A.** Your COLA would continue in payment at the rate prior to your hospitalisation for a period of two months, after which your COLA would cease, unless there was an expectation that you would return to duty within a reasonable time (within the 3<sup>rd</sup> month of hospitalisation). If COLA ceases expenses on essential continuing commitments may be reimbursed.

**Q14.** What effect do unpaid absences have on my COLA?

**A.** COLA is not payable during periods on unpaid absence (including unpaid maternity leave). See Q20 for maternity leave.

**Q15.** My children do not normally reside with me in the overseas area. Can I receive COLA when they visit me?

**A.** COLA is not paid in respect of visiting children, even those visiting as part of an official School Children's Visit.

**Q16.** What happens to my COLA in the case of evacuation from the overseas area?

**A.** If the decision is made to officially evacuate you and where appropriate, your family from the overseas area to the UK or to another country COLA will continue in payment for 2 months from the date of your evacuation. Should the period of evacuation extend beyond 2 months and you can demonstrate that you still have ongoing financial commitments in the overseas area (such as retention of domestic staff) then you may receive COLA for a third and final month. If you make your own decision to evacuate your family from the overseas area then COLA should be adjusted accordingly from the date of your departure.

**Q17.** I am a part-timer, how will my COLA be assessed?

**A.** As a part-timer, you will receive COLA on a pro-rata basis and the pro-rata rate of COLA will be assessed based on what Salary Band your full-time salary falls into.

**Q18.** The rules say that you can't be in receipt of COLA and claim subsistence at the same time. I serving in Washington DC but have got to attend a meeting in Florida where I will be staying for two nights in a hotel. Surely I can claim normal Travel and Subsistence costs, can't I?

**A.** This is a common misunderstanding. Clearly, if you go on detached duty whilst serving overseas – and such detached duty could be within the country your posted to, back to the UK or to a third country – you will be able to claim T&S in the normal way. The rules simply prevent you claiming subsistence at the same time as COLA when you are at your normal place of work – for example when you are in hotel accommodation upon initial arrival

overseas but you have not yet been able to occupy your official accommodation.

**Q19.** My posting officially ends on Friday 30 June but I plan to take leave from 16 June and return to the UK with my family. Will I receive COLA until my official tour-ex date?

**A.** No. By returning to the UK two weeks early you will no longer be incurring the costs of living overseas for which COLA is paid. COLA will therefore cease – the last day of payment will be the day before your return journey.

**Q20.** I am going on an Operational Deployment from an overseas post. Will my COLA continue?

**A.** COLA offers help with the additional expenditure incurred in living in the host country. If you are not living in that country, it follows that the expenditure is not being incurred, and therefore the COLA payment is neither needed nor justified. So, if a Single Officer is operationally deployed for more than 30 days, it follows that COLA should cease, and, if a Married Officer (or equivalent) is operationally deployed, but their spouse and/or children (justifiably) remain overseas, then the COLA for those remaining behind will be adjusted to reflect the absence of the employee during the deployment. This is effectively reflecting the reduction in outgoings during that time. However, if an employee is not expected to return to the overseas destination, the family would normally be expected to return to the UK, and COLA would cease.

**Q21.** Is COLA payable during maternity leave?

**A.** If you remain in the overseas area, your COLA will continue during the Occupational Maternity Pay period (26 weeks) but cease during the Statutory Maternity Period.