



MO 5/4

PRIME MINISTER

MILITARY ASSISTANCE AND TRAINING CHARGES

I am absolutely delighted with this paper.

Send - at least on

this subject! I think the

Treasury should provide half the

cost as it is their rules which have

caused the difficulty. - i.e. £5 million. And

Please tell the Treasury not

I have been reviewing our approach to Military Assistance and Training.

to agree! A

goodwill gesture for them is very important.

2. This activity principally takes the form of:

- Consultancy and advisory visits by MOD experts (visits to 29 countries in 1981);
- Training of Foreign and Commonwealth students on Service courses in the UK (about 1,300 students from NATO countries and 3,500 students from non-NATO countries in 1981); and
- Personnel on loan or secondment to the Armed Forces of Foreign and Commonwealth countries (currently some 750, including over 100 in each of Brunei, Kuwait, Oman and Zimbabwe and about 50 in both Nigeria and Saudi Arabia).

discuss.

ADL 5/5.

The MOD charges for this activity in accordance with the Treasury guidance. This results in charging extra costs for most short consultancy visits, slightly more than extra costs for most courses, and full costs for personnel on loan or secondment.

This activity therefore produces valuable receipts to the Defence Budget. We estimate receipts in 1981/82 of £25 million from LSP and £23 million from training in this country but the current level of charges is in danger of creating diminishing returns.

3. Successive Governments have recognised that providing help of this kind is valuable in the context of our bilateral relations with many countries, and can promote British interests and influence generally. The FCO administers the UK Military Training Assistance



Scheme (UKMTAS) which in FY 80/81 disbursed £9.3M to finance this help to 45 countries. In January last year, OD reviewed the purposes, administration and financing of UKMTAS and agreed that it should continue at a level sufficient to sustain the same volume of training as in 1980/81. This decision was intended to sustain a constant level of activity and took account of the basis of MOD charges. The UKMTAS allocation for 1982/83 will be £11.76M.

4. It is clear to me that this activity can also serve purely defence interests by helping:

- a. To project an appropriate and acceptable British defence presence in regions of strategic importance outside the NATO area;
- b. To enhance or sustain the defence capability of friendly states in those regions;
- c. To create a favourable climate for British defence sales and to support specific sales.

These aims represent one of the most effective and appropriate contributions we can make to the West's defence posture outside the NATO area, and as such could be described as the "Fifth Pillar" of our Defence Policy. I think our approach should recognise this, and I propose, therefore, to find money from the defence budget to finance some military assistance and training. A Defence Sales Fund of £5M a year will finance reductions in our charges on defence sales grounds; and a Defence Policy Fund of £5M will finance reductions in our charges on defence policy grounds.

5. We shall need to employ strict criteria in disbursing these sums. From the Sales Fund, we will finance concessions on our charges for assistance and training related to a specific project, where the Head of Defence Sales considers that such concessions can help to secure an important sale. From the Defence Policy Fund,



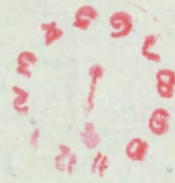
we will finance concessions on our charges to non-NATO countries where our strategic interests and our defence involvement might cause us to respond positively in certain circumstances to a request for operational assistance (e.g. Oman); where we enjoy valuable defence facilities (e.g. Kenya); or where we retain formal defence commitments and links (e.g. the remaining Associated States and Dependencies in the Caribbean, and certain other Commonwealth countries). We will have it in mind that properly directed military assistance can help strengthen the forces of particular states to the point that they would be less likely to require operational assistance from us in a crisis. I would propose that the Policy Fund should be administered in consultation with the FCO, not least to ensure that its operation does not duplicate or conflict with UKMTAS.

6. As to the standard charges we raise for this activity, I am taking a number of steps which will help to reduce or keep down charges to all our customers, such as cutting the costs of our courses and making maximum use of the flexibility on charges allowed under the present Treasury rules for repayment activities, where to do so makes good economic sense.

7. I also intend to revert wherever possible to secondment terms for our people serving with the Armed Forces of other countries, since under these terms our people are relieved of their UK income tax obligation and the receiving government pays from 15 to 20 percent less. Oman will be the main beneficiary from this change.

8. In summary, I intend to adopt a more purposive approach to military assistance, devoting some defence money to finance it, and ensuring that our effort is concentrated on the countries where it can do us and them most good, and takes the form most likely to be effective.

9. I am copying this minute to the other members of OD.



3 MAR 1902

COMMUNICATIONS



MO 5/4

PRIME MINISTERMILITARY ASSISTANCE AND TRAINING CHARGES - OMAN

1. I have minuted you today about the general subject of military assistance and training, but given the imminence of the State Visit by Sultan Qaboos, I thought I should let you know separately how Oman stands to benefit from the new approach.

2. The gradual changeover from Loan Service to Secondment terms for our personnel serving in the Armed Forces of other countries will be of considerable benefit to Oman. There are at present 166 Loan Service Personnel (LSP) in Oman for whom the Sultan would pay around £7M during Financial Year 1982/83 under present arrangements. The cost to him of the same number of Seconded Personnel would be between £5.5M and £6M, which would represent a saving of £1M - £1.5M. There are proposals to increase the number of our personnel serving in the Omani forces to 216, and if these proposals are implemented, the eventual saving to the Sultan of the reversion from Loan Service to Secondment terms will be between £1.5M and £2M. This change will have to be implemented gradually, but the end result will be a significant saving to Oman.

3. Oman also stands to benefit from concessions financed by the Defence Sales and Defence Policy Funds. Concessions on sales grounds will be related to specific purchases, and the training and assistance we provide in support of them. For example, we have already agreed to reduce the charges for training in the UK of Chieftain maintenance crews, drivers/loaders, and commanders/gunners from a total of £600,000 to £380,000. Similarly, we are offering training in the UK at no cost of drivers, maintenance crews, and gunnery instructors in connection with the prospective sale of Scorpion which will be a saving to Oman of £160,000. There will doubtless be other similar concessions as and when Oman turns to us for significant purchases of defence equipment.

Thank you very much - welcome news for the State visit and for a friend of Britain etc.



4. We shall shortly be considering proposals for allocations from the Defence Policy Fund in 1982/83. For the most part, we shall favour a discretionary approach, making significant reductions in the charges for assistance and training related to particular capabilities which need enhancing, e.g mine-counter-measures in the case of Oman, rather than a general reduction in charges across the board. My staff are consulting General Creasey to establish where this assistance could make most impact. Detailed consideration of allocations from the Fund is proceeding as fast as possible but as I said in my minute on the general policy issues, a number of factors have to be taken into account before allocations are made. It will be some weeks before we can say exactly how much this will be worth to Oman. However, her strategic importance and the nature of our defence relationship with her will make her an obvious candidate for such concessions and I expect she would benefit by a further £150,000 to £200,000, in addition to the £100,000 she will receive from UKMTAS for the coming year.

5. Oman will also benefit in time from the more business-like approach which we intend to adopt to deriving standard charges for our training courses in the UK, and which will result in charges more sensitive than in the past to the demand for particular training, and the extent to which it suits us administratively to provide it. Meanwhile, we intend to restrict increases in charges for 1982/83 to a maximum of 10%, and the charges for a number of courses will actually reduce. Last year, 238 Omanis trained in the UK, which was an increase of nearly 100 over the previous year. The number looks likely to increase again this year, which is further evidence of the Omanis' desire to train with us, and the priority which we accord to finding places for their students.

Ministry of Defence
2nd March 1982



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25 MAR 1982

COMMISSIONER

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File

BK



cc: LPS
LPO
CDL
HMT
FCO
LCO
HO
TRADE

10 DOWNING STREET

From the Private Secretary

5 March 1982

Military Assistance and Training Charges

The Prime Minister has asked me to say that she was most grateful for your Secretary of State's minute of 1 March on the above subject and is much relieved that it has proved possible to devise such positive proposals on this subject which has presented difficulties for so long. She strongly welcomes the proposals, subject to the views of other members of OD.

Insofar as they affect Oman, she thinks it most important that Sultan Qaboos is given the good news at the time of his State Visit on 16 - 19 March. If there is any difficulty, and the Prime Minister very much hopes there will not be, she will wish to discuss the matter with the Ministers immediately concerned in good time before the visit.

I am copying this letter to the Private Secretaries to the other members of OD.

A. J. COLES

David Omand, Esq.,
Ministry of Defence

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BK

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file

BK

Omand

BK for visit

5 March 1982

Military Assistance and
Training Charges - Oman

The Prime Minister has seen the minute of 2 March by your Secretary of State on the above subject. She is most grateful to Mr. Nott.

She has commented that the contents of the minute constitute welcome news for the State Visit by Sultan Qaboos, a prominent friend of Britain.

I have written to you separately about Mr. Nott's minute of 1 March on the general subject of Military Assistance and Training Charges.

A J COLES

David Omand, Esq.,
Ministry of Defence

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10 DOWNING STREET

Prime Minister

Military Assistance and Training Charges

2 minutes from Mr. Nott

(a) on the general problem

(b) on Oman.

2. Other members of OD, especially the Chancellor, may have comments.

3. Would you like me to say that you welcome these proposals, subject to the views of other members of OD, that you think it important that Qabus is given this good news at the time of his visit and that, if there is any difficulty, you will wish to discuss with Ministers immediately concerned in good time before that visit? Yes A.F.C. $\frac{3}{8}$



cc FCO

Oman HU

Caroline

10 DOWNING STREET

From the Private Secretary

15 February 1982

Loan Service Personnel and other military training costs in Oman

Thank you for your letter of 12 February.

The Prime Minister considered this matter over the weekend. She is most anxious that decisions should be taken before the Sultan of Oman arrives here on 16 March. She would therefore be grateful if your Secretary of State could consider the final proposals to which you referred and report to her on the outcome by the end of February. The Prime Minister will then wish to consider whether it is necessary to hold an early Ministerial meeting.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office).

A. J. COLES

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David Omand, Esq.,
Ministry of Defence



10 DOWNING STREET

Prime Minister

Oman: Costs of Loan Service
Personnel and other military training.

Please see the attached RO's
letter.

Would you like:-

(a) either to hold a meeting with
Defence, Foreign and Treasury
Ministers on Tuesday at 12.00

(b) or me to ask that Mr. Nott
complete his work on the new proposals
and report to you by the end of this
month (Qabus arrives on 16 March).
No Amend - as we are very busy
this week. A.S.C. $\frac{12}{2}$.

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

MO 5/4

12th February 1982

Dear John,

Thank you for your letter of 8th February which called for a report on the present position concerning the charges we raise for Loan Service Personnel and other military training which we provide to Oman.

Jonathan Dawson's letter to Michael Alexander of 15th June 1981 explained that the Defence Secretary had put in hand a wide ranging review of our military assistance activity and the charges we raise for it, and identified the main elements of what we intended to be a new approach. These included the reversion where possible from Loan Service to Secondment terms for our personnel serving with the Armed Forces of other countries; the abatement of our charges for both personnel and training where to do so would clearly help to secure important defence sales, or serve defence policy objectives; and a rigorous scrutiny of the cost of our military training in the United Kingdom with a view to achieving reductions in those costs which would subsequently be reflected in the charges we raise for overseas students.

Much of this work will only show results in the medium and long term. In the course of the review, which is almost completed, our proposals for change have developed. The direction in which my Secretary of State is working is to establish two Funds which would finance reductions in our charges for military assistance and training respectively on defence policy and defence sales grounds. (An example of the latter would be the commitment reported in my letter to Clive Whitmore of 2nd February to provide instructor training courses for four crews in the UK free of charge in connection with the possible sale of Scorpion to Oman.) This approach to flexing our charges will ensure that decisions on which countries to help are taken in a considered and rational way, and on the basis of sensible and understood criteria.

On charges for training in this country, we shall adhere to our current practice of calculating charges in accordance with Treasury guidelines, but we shall be adopting a more business-like approach, which should result in charges more sensitive than in the

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A J Coles Esq

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past to the demand for particular training, and the extent to which it suits us to provide it. As part of this approach, we will move away from the concept of a blanket surcharge for non-NATO students.

As to Loan Service Personnel, we shall approach the possibility of reversion to secondment terms on a case by case basis. This should ensure that our personnel do not suffer either financially, or from poor administration by the receiving government. Under secondment terms, which already apply to our training team in Kuwait, our personnel have no UK income tax obligation, and their incentive pay can therefore be adjusted without financial loss to the individual. Also, elements of our current LSP charge do not apply, and the total effect is to reduce the cost to the receiving government by between 15 and 20 per cent in comparison with the cost of LSP. We intend to negotiate this change with the government of Oman, where it will be particularly appropriate, and to suggest that it should be introduced progressively from 1st April this year. General Creasey is generally aware of our intentions.

It remains to be seen whether the charges we raise from Oman for either training in this country or Loan Service and Secondment Personnel can be reduced still further by the application of money from one or other of the two Funds mentioned above. However, Oman will be a candidate to benefit under the criteria which are likely to be agreed for the Defence Policy Fund and the precedent of free training for Scorpion crews suggests that the Omanis could also benefit from the Sales Fund.

The Defence Secretary is due to consider final proposals for our new approach to all of this within the next couple of weeks. The submission of these proposals has been delayed until the position of estimates for 1982/3 was resolved and it was clear how much money could be made available to the two Funds. This letter represents, therefore, only a partial response to the Prime Minister's question; but I hope that it makes clear the general direction in which our proposals for change will work and the extent to which Oman is likely to benefit.

Yours ever,
Dain Omand

(D B OMAND)



18 FEB 1982

COMMUNICATIONS

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10 DOWNING STREET

From the Private Secretary

8 February, 1982.

Loan Service Personnel Costs: Oman

During a meeting here on another matter, at the end of last week, the Prime Minister asked whether the issue of Loan Service Personnel Costs for Oman had been settled. Mr. Douglas Hurd, who was present, explained that this had not yet proved possible.

The Prime Minister made it plain that she wished to see a very early decision. (You will recall from my predecessor's letter of 6 May to Francis Richards in the FCO that the Prime Minister then directed that our policy on the matter should be reconsidered.) It may be necessary to hold an early Ministerial meeting, but as a first step I should be grateful if you could let me have a report on the present position by the end of this week so that the Prime Minister can consider the question next weekend. It clearly needs to be pursued with some urgency in view of the State Visit by Sultan Qaboos next month.

I am sending a copy of this letter to Francis Richards (Foreign and Commonwealth Office).

The Prop has been considered and indications. It will only be settled with a meeting. JHP

Prime Minister

before you consider whether a meeting will be useful & suggest you see the report from the ROA which the letter commissions. Content?

David Omand, Esq.,
Ministry of Defence.

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Training cost not

A.J.C. 5/2

Original filed on
Defence Budget 1986.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~2207022x~~ 218 2111/3

MO 24/4

15th June 1981

(1)

Prime Minister

Dear Michael,

As you will see Mr Nott is trying to do something to reduce these charges. Shall I ask for a progress report in, say, September? If the results seem unsatisfactory, you would hold

MOD CHARGES FOR TRAINING AND ASSISTANCE TO OVERSEAS GOVERNMENTS a ministerial discussion?

Yes not

Amk

In the light of your letter of 29th May, and subsequent discussion, Mr Nott has asked me to write to you forwarding a note on MOD's current charging policy for training and other military assistance. The note describes the basis and composition of our charges and mentions the existing arrangements for waiving or reducing charges in particular cases. This is a revised and slightly expanded version of a MOD Note provided for MISC 42, whose report was considered by Ministers early this year. Mr Nott has asked me to draw your attention to para 4 below and the various propositions affecting charges for military training assistance which he is considering.

There have been complaints from overseas Governments (both NATO and non-NATO) in recent years that our training and other assistance have become too expensive. There has also been a decline in the number of overseas students attending courses in this country (a reversal of the upward trend a few years ago). It is difficult to be sure of the reasons for this, since there have been special factors at work, such as the strength of the pound, a world-wide recession, tighter Defence Budgets in customer countries, and the cut-off, for different reasons, of training for Iran and Nigeria (formerly two of our largest customers).

Nevertheless, many traditional and potential customers perceive our charges to be high, and further sharp increases could encourage a fall-off in demand. We therefore need to consider our own interests carefully. The provision of military training and assistance, particularly to countries outside the NATO area, can be an effective way:

- of contributing to stability in parts of the world where we have a strategic or economic interest;

M O'D B Alexander Esq

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- of demonstrating a degree of military involvement which is neither expensive nor implies major defence commitments, but which nevertheless is visible both locally and to the Eastern bloc;
- of gaining influence with the armed forces of Third World countries, and promoting the sale of British defence equipment.

Against this background, Mr Nott is considering a number of changes which should have the effect of making British military training assistance more attractive to those countries whom we wish to help in this way:

a. Loan Service Personnel. Officials are considering a new scheme for the provision of advice and training in-country, which would reduce the charge to the receiving Government quite considerably, but preserve HMG's ultimate control over the personnel. Some of the reduction in charge might be found by arranging for payment to be direct and in local currency by the receiving Government to the Servicemen on loan, which would relieve the latter of their income tax obligations to HMG.

b. Flexing of Charges. Mr Nott has decided that we should be prepared to abate our charges in certain cases where to do so would help secure important defence sales or serve defence policy objectives. This might be done by setting up a fund, perhaps financed partly from industry and partly from the Defence Budget, which would establish a defined capability to quote concessionary prices, whilst maintaining a discipline to keep costs down where assistance and training are not subsidised. A fund established thus might deny resources to other defence activities. Furthermore, we should have to be careful to co-ordinate this with the help given from the FCO's UKMTAS budget for wider political and foreign policy reasons.

c. Training Costs. It is clear from the attached note that our present charges for courses in this country recover well below our full costs and little more than the direct costs incurred in the majority of cases. There is considerable evidence that, where valid comparisons can be made, the cost of our training (to Defence Votes

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and the UK taxpayer) is significantly higher than that of our allies or that provided by the civilian sector in the UK. Mr Nott has, therefore, called for urgent action to reduce the cost of our training, and reductions would be reflected in the charges we levy on overseas students. Meanwhile, officials are scrutinizing the costs of individual courses to see whether some planned or possible reduction in the consumption of expensive items such as ammunition would justify a lower charge than that published for this year.

I am copying this letter to Francis Richards (FCO), Peter Jenkins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely
J D S Dawson

(J D S DAWSON)

DEFINITION OF COSTS AND DETAILS OF
COST ELEMENTS INCLUDED IN MOD CHARGES - NOTE BY THE
MINISTRY OF DEFENCE

Definitions

1. The definitions of full and marginal costs promulgated by the Treasury are as follows :-

a. Full Costs

"The assessment of full cost is intended to ascertain the level of charges to be made which, if they were to be recovered in full, would result in no profit and no loss on the total costs which have been borne on the Vote of the Department making the assessment, on any other Vote, or are appropriate as notional charges in respect of, eg interest on capital, superannuation, insurance, etc."

(Source: Government Accounting Pl6)

b. Marginal Costs

"Marginal costs are the amounts at any given level of activity by which the total costs are changed if the level is increased or decreased by one unit of output."

(Source: Treasury Guide to Fees and Charges
Annex A para 4)

Cost Elements included in MOD charges

2. At present the MOD charges full costs for loan service personnel, whether funded by the host country or the FCO, on the grounds that UK Servicemen seconded overseas represent a long term loss of trained manpower and that an increase in the size of the Services is required to meet the commitment. The standard elements of charge are as follows:

Pay

Pension and Gratuity Liability

ERNIC

Loan Service Pay

Separation Allowance (unaccompanied stations only)

Outfit Allowance

Clothing

LOA

Education Allowance

Disturbance, Subsistence, Removals and Storage charges

Movement costs

Unaccompanied Baggage

Postal Concession Charges)

Medical, Dental and Optical Facilities)

(where MOD provides)

Higher Formation Charges

- * Loss of Interest on Working Capital (now 6%) (representing average delays in payment).

- The majority of these elements constitute payments to the individuals on loan.

3. From 1 April 1980 the following further elements have been included as part of the standard charge -

Entertainment Allowance

- * Amortised Ground Training charges

- * Amortised Flying Training charges

5% Treasury Contingency

In addition, the following elements are also charged separately where applicable -

Language Training and Awards

General Duty Flying Clothing

Flying Risk Insurance Premium Refund

4. For training carried out in the UK the MOD charges are pitched between marginal cost and full cost. The basic rate applicable to NATO students represents the direct running costs of a course per student head. This is a figure which broadly represents marginal costs, though it may exceed or fall below true marginal costs in particular instances. For non-NATO students a 30% enhancement is added to the basic rate in accordance with Government policy of moving towards a full cost charge. These rates are estimated to be approximately 40% of full costs for NATO, and 50% of full costs for non-NATO students. This enhancement makes a partial contribution to overheads.

5. For ground training the elements of cost making up the basic rate are as follows -

Pay, Pensions and Allowances of Instructional Staff

Consumable Stores (including ammunition)

Public Utilities

* Starred items introduced under pressure from the Exchequer and Audit Department and the Public Accounts Committee

Maintenance of Instructional Equipment

* Loss of Interest on Working Capital (representing average delays in payment)

5% Contingency

6. For flying training the following additional elements are included in the charge -

Aircraft write off wastage

1st and 2nd line spares

3rd and 4th line spares

Labour costs of maintenance

Petrol, Oil and Lubricants (POL) - excluding duty

Third-party compensation (nominal)

Ground personnel (excl training costs)

Maintenance and operation of associated ground equipment

Aircrew

Aircraft Depreciation

Starter cartridges and braking parachutes

7. In both cases the following elements would need to be included to bring the present charges up to full costs:

Administrative Staff

High Formation Costs

Equipment Support

Depreciation of Buildings

Amortised Training Costs of Instructors

Interest on Capital

GENERAL

8. All costs are calculated by professionally qualified accountants on a standard accountancy basis.

REVENUE

9. Receipts by MOD in respect of training and LSP in 1981/2 are estimated at £60M. This is not 'profit'. It broadly covers costs, plus a small contribution towards MOD overheads. A reduction in these receipts without any compensating increase in the Defence Budget would require offsetting savings to be made.

EXISTING ARRANGEMENTS FOR WAIVER OR REDUCTION OF MOD CHARGES

10. The bulk of the training provided by the MOD is charged to recipient countries. However, the FCO funds some or all of the training provided for certain poorer countries under the UK Military Training Assistance Scheme (UKMTAS), for which provision is made annually on FCO Votes. In addition, the MOD has delegated authority from the Treasury to waive or reduce charges for training related to a specific defence sales contract (where the revenue to MOD Votes equals or exceeds the amount waived).

MINISTRY OF DEFENCE

June 1981