



Prime Minister

(2)

MO 24/4

FOREIGN AND COMMONWEALTH SECRETARY

*Have we looked at their methods of calculating?*

*You will want to see this minute but also Sir J. Craig's letter attached. We must keep pressing the P.M. on this issue. I think 27/5*

TRAINING CHARGES

Thank you for your minute of 15th April.

2. As you say, our policy is to charge for foreign training as near full costs as the market will bear. My department has been criticised by the PAC in the past for failing adequately to recover costs. Despite increases in charges, we are still charging non-NATO students only about 50% of our full costs, and NATO students a rather less proportion. Our revenue overall covers little more than the extra costs of providing the training. If we find that our charges are, nonetheless, uncompetitive, it must be because the real costs of our training are relatively high (because of the strength of sterling, for example) or because competitors subsidise more than we do. If we want to make MOD training more competitive, thus attracting more custom and fostering bilateral relationships which might otherwise be at risk, our charges must either be subsidised further or we must cut costs. No additional funds are currently available for subsidies: as you say, your UKMTAS provision has not been increased in real terms. And to cut costs takes time, although we are now embarked on a thorough search for economies in the training organisation, which should in due course have an impact on charges.
3. That said, I accept that the present level of charges has caused the complaints that you describe. Canada, Norway



and the Netherlands are of course NATO countries and for most types of training there is a favourable NATO basis of charge applying to all NATO countries. In the light of representation and of evidence that defence relations may be placed at risk, I am considering how a more flexible approach to charging might be implemented, both for training courses and Loan Service Personnel, where there is a clear defence policy interest, including defence sales; and on which the Prime Minister has commented most recently in her Private Secretary's letter of 6th May. One possibility is that we should offer discounts in return for increases in the numbers of overseas trainees placed on courses with spare capacity; another is to offer "package deals" covering both equipment sales and training. Certainly, we need to be more commercial and less rigid in our outlook; but, equally, more hard-headed about the customers we can influence to buy British defence equipment. And coupled with this, we must make a more determined effort to "sell" MOD training overall - emphasising the unique quality (and therefore value for money) of British training - and to direct it within the allocation of places available to the customers from whom we can derive most benefit. I cannot promise comfort for the countries who complain about our charges, but we shall certainly consider each case very carefully.

4. Finally, you mentioned the increases in charges in the current financial year. I am afraid we must make these to keep pace with inflation and to take account of other changes in our costs. You recognise we need to generate our revenue - our financial position demands this - but I agree we must be sensitive to what the market will bear, and also to the way in which our charges are explained to our customers. This applies naturally



both to training and also to LSP charges. In respect of the UKMTAS programme of aided training, I believe your officials are in touch with mine about the possibility of arranging that the increases in charges will not affect the amount of training that can be paid for from your UKMTAS budget. There is a practical difficulty in that the cost of consumables such as ammunition, which account for a high proportion of some charges, has risen a great deal more than either you or we have been allowed in our cash limits. But I hope that our officials, in consultation with the Treasury if necessary, may be able to devise a constructive solution.

5. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

50

Ministry of Defence

22nd May 1981