cc Miss Phillips
Professor Bell
Mr Hadley
Mr Mason
Mr Smith
Mr Anderson
Dr Crossett

Mr Packer
Dr Shannon
Miss Brown
Mr Hollis
Mr McIvor

MAFF

Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1

10 October 1988

Dear John,

PES 1988: AGRICULTURE

At our meeting on 6 October we left open various points on which I agreed to reflect further. Following some further discussion with the other agricultural departments I propose the following which I hope can now be agreed as the final settlement.

On capital grants we are prepared to make a substantial further effort to meet you on the full-year cost of the new arrangements. The simplest way of doing so, while taking account of other concerns expressed at the meeting, is to reduce the grant rate on vernacular buildings to 35% in both LFAs and non-LFAs. This would bring the full-year cost down to £54 million. I would remind you that this compares with a PES baseline in 1988-89 of £104 million for the Agricultural Improvement Scheme and its predecessors.

We would define the item as covering repairs or reinstatement (but not extension) of farm buildings other than the farmhouse, made of materials traditional in the locality. Grant would be conditional on the use of similar materials, on the work being carried out in a manner compatible with the local environment, on the building being and remaining in agricultural use and on the farmer having farming as his main occupation. In order to meet your concern on expenditure control pending cash limiting, which we have agreed should be the objective as soon as we can obtain additional powers, we would make both vernacular buildings and waste disposal (where we would leave the grant rate at a flat 50%) subject to prior notification. It will be our firm intention to seek to contain expenditure in-year within the planning limits (ie Vote totals).

My officials have looked at the implications of your proposals on chargeable advice and have sent illustrative tables to your officials.

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/The percentages you ...

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The percentages you have proposed for the intermediate years create a serious difficulty. If there is any shortfall a percentage target implies a disproportionate reduction in costs (at 50% of FEC, a shortfall of £1 in receipts has to be offset by a £2 cut in costs and at 25% by a £4 cut). Given the uncertainties year by year it would be right to retain a certain amount of flexibility while striving to achieve financial targets, which are very demanding, given the base from which we start. Nevertheless I completely agree that we should aim for a steadily increasing rate of recovery of full economic cost and that the situation should be reviewed each year to make sure that we are on track. Given this, I think that it is sufficient for the moment to rest on the targets of equal steps towards 50% recovery of FEC. When we incorporate the effects of an increased running costs provision the prospective savings are larger than previously proposed and I suggest that we settle on the basis of the figures in the attached table.

We have made no allowance for redundancies related to chargeable advice. There is a clear risk here and I must ask you to accept that I will have to return to this at or before next year's PES.

We have reflected further on R&D. To help with our report to E(ST) I propose that the savings of £30 million (full economic cost) which I proposed to E(ST) should be achieved in three years (ie by 1991-92) rather than the five years which I then suggested. E(ST) agreed that final decisions about the level of Government support could only be taken after my report next July following consultations with the industry. This leaves E(ST) free to decide next year how far beyond the £30 million we should go; and we can take the consequences into next year's PES.

An acceleration of this kind will have implications for redundancy costs which we will have to report to E(ST). On the basis of AFRC's experience of restructuring, coupled with the fact that a major reorganisation of our experimental centres will be necessary, the costs are likely to be considerable: some £5-7 million in both 1989-90 and 1990-91 and continuing costs of nearly £2 million thereafter. AFF will carry only part of these costs, but in view of the severity of the cuts we must make sure that the funds are there. The attached table therefore identifies the implications in a separate line.

I hope that on this basis we can agree the text of a joint report to E(ST).

My officials are writing to yours about biennial brucellosis testing.

On Food from Britain I am concerned at a complete cut-off in 1991-92, which I fear could mean the dissolution of FFB. This would be politically most unfortunate in the year in which the Single Market is coming into being, and would contrast most unfavourably with funding for similar organisations in France, Germany and the Netherlands. I therefore think that we should retain the existing provision and adjust it when we determine our policy for 1991-92.

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/The effect of ...

The effect of these further moves are summarised in the attached table. The net additions sought are extremely modest and I hope that we can now record agreement on the figures shown. There are however two other points on which I should be grateful for an assurance.

First, in our running costs forecasts we have made no allowance for the increasingly likely introduction of the special beef premium as part of the revision of the beef regime. This will unfortunately be manpower intensive and I need your agreement to consider sympathetically at Estimates time the need for extra running costs provisions on this account.

Second, we have made no bid for the possible application of VAT on milk outgoers payments, because Peter Lilley suggested that this could be deferred until PES 1989. I have no wish to anticipate the eventual decision, but should welcome your acceptance in principle that any additional requirement in 1989-90, if it should arise, will be matched by extra PES provision.

On the CAP side we spoke briefly at our meeting about the figures for B1 market support. In the light of the latest information on the cereals harvest both here and in the Community (which suggests that at least a partial repayment of coresponsibility levy will be necessary in 1989-90) I understand that we have at the moment reductions of £421/382/265 million. Although we might perhaps write in larger figures, I think it would be as well to keep some allowance for a less favourable market situation than currently forecast.

On IBAP administration the Board have offered a number of savings covering both running costs and agents and I understand that the figures are now agreed at the totals in the table before us at our last meeting. The withdrawal of the MLC agency bids in 1990-91 and 1991-92 is on the understanding that the position is re-examined in the 1989 PES in the light of decisions which will by then have been taken on the future of the beef and sheep variable premiums schemes. This seems sensible.

I am copying this letter to Peter Walker, Tom King, Russell Sanderson and Charlie Lyell.

Yours ever,

John

JOHN MacGREGOR

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10.10.88
Post 2nd bilateral
Plus further offers

PES 1988

TABLE 2 - DOMESTIC AGRICULTURE

£m

		1988-89	1989-90	1990-91	1991-92
	Total expenditure baseline	772.6	785.6	801.3	821.4
	A. Proposed additions				
*	A1 Demand led		-14.7	-16.4	-11.0
*	A2 NI capital grants		-	-0.9	-3.4
*	A3 Flood defence		+6.5	+10.3	+17.1
*	A4 MAFF running costs		+14.3	+25.3	+32.5
*	A5 MAFF admin capital		+1.7	+1.3	+1.1
*	A6 Diversification		+1.0	+1.0	+1.0
*	A7 Stockpile		-	-	-
*	A8 Scotland		+4.8	+3.2	+1.7
*	A9 Other cash limited		+0.9	+0.9	+0.8
*	A10 VAT on construction - MAFF		+1.1	+1.6	+1.6
*	A11 - DAFS		+0.4	+0.4	+0.4
	A12 Strategic R&D		-	+2.0	+5.0
*	A13 VAT on rents		-	-	-
	TOTAL A		+16.0	+28.7	+46.8
	B. Proposed reductions				
*	B1 Various		-2.0	-3.6	-3.9
*	B2 NIAB (R&D)		-0.2	-0.4	-0.8
*	B3 Land sales		-0.2	-2.6	-
	TOTAL B		-2.4	-6.6	-4.7
	C. Treasury options				
	C1 Capital grants		+1.9	-3.9	-9.~~8~~3
	C2 Chargeable advice - MAFF		-1.0	-4.5	-8.0
	- DAFS		-0.2	-0.4	-0.7
	C3 R&D		+0.2	-4.6	-13.2
	- MAFF redundancy costs		+2.3	+3.0	+0.8
*	C4 Fisheries support		-	-	-
	C5 ADAS statutory work		-	-0.1	-6.0
	C6 Food from Britain		-	-	-
	TOTAL C		+2.2	-10.6	-36.4
	NET CHANGE		+16.8	+11.5	+5.7
	REVISED BASELINE (% change)	772.6	802.4 (+3.9%)	812.8 (+1.3%)	825.1 (+1.5%)

*agreed items

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FOX 131H

88/10.10/5.4