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From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

- cc ~~Private Offices~~
- ~~PROCESSES~~ Bell
- Mr. HICKS
- Mr. MASON
- Mr. TAYLOR
- Mr. A. JONES
- Mr. G. HARRIS
- Mr. MURPHY
- Mr. JONES
- Mr. PACE
- Dr. SUTTON
- Mr. HIGGS
- Mr. MILNER
- Miss Smith.

27th October 1988

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

Dear J.,

cc Dr. J. Hill  
D. J. Humph

PES 1988: AGRICULTURE

Thank you for your letter of 13 October. I am generally content with the points you make save for a few small points which do not materially affect our conclusions.

A |

On capital grants, I am happy to move towards cash limiting provided (as Peter Walker has pointed out) we have a sound legal basis for controlling expenditure. In the meantime I agree with the general thrust of your condition (ii), provided that it is not operated in a totally inflexible way which would undermine the incentive value of the arrangements.

The changes to the structure of the horticultural industry which we aim to bring about have been based on the assumption of a five year duration of the new rates of grant. I see little prospect of their being achieved within the much shorter timescale which your condition (v) suggests. It is, of course, our intention to monitor expenditure continuously, and to undertake a general evaluation of the scheme after it has run for a reasonable period, in order to assess its effectiveness. A strong presumption against any continuance of the grants is in effect prejudging the evaluation and I would not have thought that we should do this. I do however accept that a good case would have to be made for any extension and for these particular grants I am willing to write into the statutory instrument an end-date of five years after the new scheme comes into operation.

On ADAS advice the important points seem to me to be that we are agreed on the medium term objective of 50% FEC recovery and on the PES savings to be found. I agree that we should have in mind a reasonable progression in FEC terms, but I would not want this to be a straightjacket - and Peter Walker agrees. The point is that

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- 1) Mr Nightingale - pls copy to policy file on cash limiting re A, personal copy
- 2) Mr Hawkes - pls copy to 89-90 Estimates file re Bard C
- 3) Mr Brown - personal copy for me pls, then per

it is difficult to identify precisely what would be most appropriate. In part this is because, as the Report on the Review of Charging made clear, we are not absolutely certain where we stand at present. Until we see how the market responds over time we will not know how much of the PES saving can be found from increased revenue and how much will be needed from cost savings. Decisions on this aspect will affect the level of fEC in the intermediate years.

3 | On R&D, I was sorry you could not settle on an additional amount for redundancy costs in the baseline but can accept that we will consider this in detail in next year's PES, with the effects in 1989-90 being looked at by officials in Main Estimates.

We agreed during the summer new financing arrangements for Food from Britain. I agree that we should review our policy in this area, but it would not be sensible to do this until we see how these arrangements are settling down.

c | On running costs, I am grateful for your undertaking to take account of any new administrative costs flowing from the current review of the beef regime.

Apart from these points I can agree to the terms set out in your letter and the overall settlement. I understand that territorial colleagues also agree although they may, like Peter Walker, wish to add some comments.

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

Yours ever,  
JH

JOHN MACGREGOR

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