

Mr. Williams - ack

FDX 561 F



a a 12/88

- Mr Harris
- Miss Bowles
- Mr Hill
- Miss Phillips
- Prof Ball
- Mr Capstick
- Mr Pa
- Mr Jar
- Mr An
- Mr Pitt
- Dr Bin
- Mr Can
- Dr Co
- Mr Cair
- Mr Hep
- Mr J
- Mr Ma
- Mr Me
- Mr Mo
- Miss Ti
- Mr G
- Dr Sha
- Mr West
- Mr Had
- Mr H

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Brown - pls copy to Mr Lawson & let me have a personal copy.

RG 19.7
Mr Melton
Mr Jeffery
Mr Steptson IBAP
Mr Coates IBAP
Mr Hodgkin DANI
Mr Hinchley DUES
Mr J. Davies LIND

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

17th July 1989

Dear Sir,

PUBLIC EXPENDITURE SURVEY 1989: AGRICULTURE

Thank you for your bidding letter. I have also seen Malcolm Rifkind's letter of 25 May. Following the Cabinet discussion on 12 July, I am writing to propose an agenda for our bilateral meeting in September. My office will be in touch in due course to fix a time.

- ... 2. The attached tables set out the key figures for our discussion. These have been discussed between our officials and are, I hope, a helpful agreed starting point. If any changes are needed to reflect later information, I hope these can be agreed between our officials and revised tables circulated before we meet.
- 3. The tables set out the various increases and reductions you have proposed, together with some other possibilities for reductions I would like to discuss with you.
- 4. Cabinet agreed that the defeat of inflation must be our first priority, and that it was therefore imperative to stick to our existing policy of controlling expenditure. We agreed that bids for programme expenditure and running costs must be scaled down, and baselines must be scrutinised rigorously for savings to offset those increases that are unavoidable. Cabinet also agreed the objectives of maintaining the downward trend in the ratio of public spending (excluding privatisation proceeds) to GDP, and of holding as close as possible to existing plans.

5. I welcome the modest net savings which you hope to achieve in CAP market support in 1990-91 and 1991-92, but, as you acknowledge in your letter, the forecasts on which they are based are subject to uncertainty and could change considerably in the autumn when account is taken of the likely UK and EC harvests. In any event, estimating savings on CAP market support cannot be used to offset the large bids which you have put forward for the domestic agriculture programme, where I must ask you to constrain expenditure within your existing baseline provision.

6. We will need therefore to focus our discussion on a rigorous examination of priorities, particularly within your domestic programme. I am concerned that you have not so far identified ways in which your proposals for additional spending could be offset by economies or improved efficiency elsewhere in your baseline. I shall therefore want to discuss with you the priority you attach to the additional bids you have put forward, the evidence you have offered of additional outputs and efficiency gains they would produce, and your targets for achieving these gains.

7. On the IBAP programme the key issue is likely to be the realism of the forecasts for CAP market support expenditure. As noted above, these forecasts will need to be revised before our bilateral to take account of information on the UK and EC harvests, and any other significant developments. It would therefore be helpful if officials could agree by then an up-to-date assessment, including the impact of stabilisers and of the various schemes for encouraging reduced production including set-aside. Officials should also consider whether the allowances you propose for optimism and for the effect of possible green pound devaluations are reasonable. I would also like officials to consider, in the light of the progress of Community discussions, whether it would be sensible to take account in the forecast of possible savings from the reform of the sheep meat regime and the GATT negotiations on reductions in agricultural support on which the Community is due to table its proposals by the end of this year.

8. On IBAP administration, I was disappointed to see, despite the firm 3-year settlement we reached last year, that you have submitted running costs bids for 1990-91 and 1991-92. We will need to examine your whole running cost bid very closely, of course, but I must certainly look to you to absorb the effects of past pay settlements within the figures we agreed last year. We shall also need to look carefully at IBAP's management plan to judge the scope for increasing the level of efficiency gains, particularly in the context of your wish to give IBAP agency status, and I suggest that officials could consider this with a view to achieving additional cash savings of at least the order shown in the table.

9. I note your marker about a possible running costs bid in respect of initial relocation costs. We must of course take into account the savings in later years which relocation will bring. A similar point applies to your capital IT bid for 1990-91.

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10. While I welcome the reduced requirements you have identified on agents' costs, I understand that these are primarily estimating changes, arising principally from the ending of the beef variable premium scheme (and are indeed partly offset by bids from the Agriculture Departments for the administration of the beef special premium scheme which has replaced it.) As agents' costs are about half of IBAP's total administration budget, again I would be grateful if officials could look at the scope for improved efficiency to achieve savings of at least the same order as those I have suggested for running costs.

11. Turning to the domestic agriculture programme, your net bids amount to some 10-20 per cent of the baseline. These are very large increases, and, while I am grateful for the reduced requirements identified in section B of the table, these do not go anything like far enough, and we will need to look very carefully at all the categories of bids set out in section A.

12. On capital grants, I understand that the forecast of expenditure will be revised in August, and I would like officials to prepare an up-to-date position report on this before we meet. Under our agreement on capital grants expenditure control, any increases in this expenditure should trigger consideration of offsetting action to bring expenditure back within provision, and I will be looking for proposals for savings if the revised forecast confirms that there are net additional requirements.

13. Similarly, on EC funded and other demand led schemes, my officials will need to examine the realism of the forecasts with yours, taking account of any new information. In this category, you have assumed that the Farm Woodlands Scheme will be extended beyond the agreed review date; it would be helpful to know what your bid would be if this assumption was not made.

14. On flood defence, we will need to discuss the realism of the proposed acceleration of work, and the justification for the increase in the grant rates which you suggest.

15. On research, I understand that you are sending a further letter on your proposals for both internal and external research, and we have an outstanding remit from E(ST) to look for further savings in this field.

16. On set-aside you have assumed a significant increase in uptake of the scheme. I understand that we will have firm figures on next year's take-up before we meet, and you will want to review your bid in the light of this. At that stage, it would be helpful to split the bid into two components, identifying the amounts necessary to provide for next year's take-up, and the amounts attributable to any new take-up you have assumed beyond next year. It is of course important that the figures on set aside should be reflected in savings on CAP market support. On the nitrate sensitive areas pilot scheme, your bid is inevitably speculative, as I believe you have not yet selected the areas to be covered, the rates of grant have yet to be determined, and no payments will be made until 1991-92 at the earliest. Given the uncertainty you may wish to withdraw your bid for this year's survey, so that we can consider it on the basis of better information next year.

17. On publicity, I understand your bid, if agreed, would double your provision. It is not clear to me what precisely you would do with such a large increase, or indeed how it could be justified. On food stockpile, I will be interested to know what priority you attach to this expenditure relative to your other bids.

18. On the main separable bids for Scotland, I look to Malcolm Rifkind to do more to absorb his bids within his existing provision, as, for example, I understand his officials promised in respect of the Rural Enterprise Programme.

19. You have submitted a substantial bid for administrative capital expenditure, mainly Part 1 building works. We will need to discuss this, and also the likely receipts from the programme of land sales mentioned, but not quantified, in your letter.

20. I note that you have put up markers for one or two contingent bids, for example in respect of Local Veterinary Inspectors' fees, and for the impact on local authorities of the measures in the food bill. You have now also written about new proposals on slaughter and compensation for breeding flocks affected by Salmonella. I would of course expect you to meet any new measures of this sort from within your existing provision. However, if you do have any contingent bids, I would be grateful if you could let me know the position on them well before the bilateral, and in any case by the end of August.

21. As well as examining your bids, I would like in addition to explore the scope for savings in your baseline in a number of areas, as indicated in section C of the table:

- (i) measures to increase charges - including industry funding of compensation for slaughter, charges for TB and brucellosis testing in cattle (both mentioned in your letter, and to be covered by the forthcoming review), further cost recovery for advisory services; and savings from reduced frequency of TB and brucellosis testing;
- (ii) further reductions in near-market R&D (you are due to report to E(ST) on this in the very near future);
- (iii) sea fisheries review (also mentioned in your letter) - which I understand includes options for charging for licenses and reducing grants. I hope fisheries Ministers will reach an early view on the way forward so that we can take account of the savings in our discussions;
- (iv) savings in the Less Favoured Areas (also currently being reviewed) ;

- (v) miscellaneous measures, such as ending funding of Food from Britain earlier than currently envisaged, reduced funding of Agricultural Training Board, and withdrawal of administrative support for the Potato Marketing Board.

The figures for these options in the table are only indicative, and I would be grateful if officials could cost a range of options before our bilateral.

22. Turning to MAFF running costs, my remarks on IBAP in paragraph 7 above apply equally here. Despite the 3 year settlement we reached last year, you have put forward substantial bids for 1990-91 and 1991-92 which effectively double the increases we previously agreed. The aim must be to agree figures substantially lower than the bids you have submitted for all three years. Again, I must ask you to absorb the effects of past pay settlements within the figures we agreed last year. We will need to look at your running cost bids, management plan and efficiency targets very closely, and I would like to explore with you options for achieving the sorts of further savings indicated in section C of the table.

23. I am copying this letter to Malcolm Rifkind, Peter Walker and Tom King.

Yours Ever,
John Major
JOHN MAJOR

KDA TABLE 1

IBAP AND OTHER CAP

£ million

	1989-90	1990-91	1991-92	1992-93
I: TOTAL EXPENDITURE				
Expenditure baseline	1,232.0	1,449.0	1,625.0	1,665.0
A Proposed additions				
A1 IBAP administration		2.2	1.0	2.5
B Reductions proposed by Department				
B1 CAP market support		4.3	-52.9	-34.3
B2 Agency payments		-3.6	-3.4	-3.1
Total B		0.7	-56.3	-37.4
C Reductions proposed by CST				
C1 Efficiency savings - agency payments and running costs		-0.8	-1.6	-2.4
II: GROSS RUNNING COSTS (percentage change on previous year in brackets)				
Baseline	19.9	19.7 (-1.0)	20.3 (3.0)	20.8 (2.5)
Change proposed by Department (A1)		1.3 (5.6)	1.0 (1.4)	2.5 (9.4)
Change proposed by HMT (efficiency savings C1)		-0.4	-0.8	-1.2
III: CIVIL SERVICE MANPOWER IN GROSS RUNNING COSTS				
Present plans	874	899	910	910
Department's proposal		76	47	10
Treasury proposal		-15	-30	-45

AGENDA TABLE 2
DOMESTIC AGRICULTURE, FISHERIES & FOOD

£Million

	1989-90	1990-91	1991-92	1992-93
I TOTAL EXPENDITURE				
Expenditure Baseline	781.9	818.9	836.3	857.2
A Proposed additions:				
A1 Capital Grants (net)		- 2.4	7.6	3.8
A2 EC Funded and other demand determined estimating changes (net)		7.2	5.3	7.2
A3 Flood Defence and LA harbours (GB)		9.5	11.2	16.2
A4 External R&D		5.5	7.3	7.9
A5 Set aside		11.6	15.6	21.1
A6 Nitrates		-	4.5	6.0
A7 Publicity		1.4	1.5	1.5
A8* Gross Running Costs		22.2	33.2	53.4
A9 Administration capital		12.4	18.1	18.3
A10 Food stockpile (programme 9)		4.2	4.2	4.2
A11 Scotland		6.4	12.2	14.8
A12 Other		1.0	1.3	1.4
A13 VAT on grant schemes		7.4	8.5	11.1
A14 R&D mainly reduced receipts (offset by B2)		4.7	5.3	5.6
TOTAL A		91.2	136.4	172.5
B Reductions proposed by Department				
B1 Miscellaneous		- 3.9	- 3.9	- 3.5
B2* Gross Running Costs (offset to A14)		- 4.7	- 5.3	- 5.6
TOTAL B		- 8.6	- 9.2	- 9.2
C Reductions proposed by CST				
C1(a) Advisory services receipts		- 5.0	- 8.0	- 10.0
C1(b) TB & brucellosis testing		- 3.0	- 10.0	- 15.0
C2* R&D		- 5.0	- 10.0	- 10.0
C3 Fisheries		- 5.0	- 10.0	- 15.0
C4 Less favoured areas		- 10.0	- 10.0	- 10.0
C5 Other: PMB, FFB, ATB		- 2.0	- 10.0	- 13.0
C6* Efficiency savings		- 4.0	- 8.0	- 11.0
TOTAL C		- 34.0	- 66.0	- 84.0
II GROSS RUNNING COSTS (percentage change on previous year in brackets)				
Baseline	262.4	278.5(6.2)	292.1(4.9)	299.4(2.5)
Change proposed by dept of which		17.5(12.8)	27.9(8.1)	47.7(8.5)
A8 Pay		13.1	21.4	33.6
A8 Non-pay		7.5	11.3	19.7
A8 Redundancy (pay)		1.6	0.5	-
B2 Reductions in ADAS costs		- 4.7	- 5.3	- 5.6
Change proposed by HMT of which		- 7.0(3.5)	- 15.0(2.0)	- 18.0(1.6)
C2part R&D		- 3.0	- 7.0	- 7.0
C6 Efficiency Savings		- 4.0	- 8.0	- 11.0
III CIVIL SERVICE MANPOWER IN GROSS RUNNING COSTS				
Present plans (as in PEVP)	10421c	10737	10737	10737
Department's proposal:				
reduction to match cash baseline		-303	-303	-303
new bid		+171	+254	+294
Treasury proposal: further reductions		- 400	- 800	- 900

c Excludes 103 casual staff in complemented posts

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