

my attention - urgent advice pl.

2. Minister

RAG 14/1

- cc as before.
- ps/perin sec
- prof sell
- Mr Hadley
- Mr Wilson
- Mr Smith
- Mr Bullen
- Mr Crossick
- Mr Parker
- Dr Shannin
- Mr Brown
- Mr Linton
- Mr McVie



G. J. King
C. J. Hanson & D. R. Harrison
cc me

Treasury Chambers, Parliament Street, SW1P 3AG

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

13 October 1988

Dear Minister,

PES 1988: AGRICULTURE

Thank you for your letter of 10 October. I am grateful for the further movement in your position since we met on 6 October and can confirm that I am prepared to settle the agriculture programme on the lines you suggest subject to the points registered below.

On capital grants I was disappointed that you were not able to move nearer to my proposal of a new scheme costing £50 million in a full year and I remain concerned about the expenditure implications of the proposed increase in waste disposal grants from 30% to 50% outside the Less Favoured Areas (LFAs). However, if you and territorial colleagues are now agreed on the new schedule with PES effects of +1.9/-3.9/-9.3, I can also accept it on the following conditions:

- (i) although we have already agreed to introduce primary legislation to permit this expenditure to be cash limited, we should also explore the possibility of desirable changes to the secondary legislation (eg a specific power to defer payments) if the EC Commission confirm that this is not inconsistent with the EC legislation;
- (ii) you accept that offsetting action should be taken (including the possibility of reducing grant rates) if expenditure on grants seems likely to exceed the planned provision in any of the PES years;
- (iii) officials should draw up a detailed evaluation plan for the new scheme and propose scheme conditions which are consistent with effective expenditure control; and

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- (iv) we confirm that officials should draw up agreed terms of reference for a detailed evaluation of current LFA support policies and possible alternatives so that we can consider their report in next year's PES round.
- (v) you accept that the new grants for horticulture should be part of a time limited scheme ending no later than 31 December 1992 with a strong presumption against renewal thereafter.

I should also note that I believe that there may be good prospects of reducing the MAFF provision for capital grants for 1989-90 on estimating grounds but I suggest that officials should consider this further during the Main Estimates scrutiny.

On ADAS I can now agree on the target of 50% full economic cost (FEC) recovery for the chargeable advice services in 1993-94 with the PES reductions of -1/-4.5/-8 you suggest for the Survey years. We have already agreed that the ultimate objective for these services should be 100% cost recovery and we will need to keep progress towards these targets closely under review. As regards the position in the years up to 1993-94 I understand your desire to retain some degree of flexibility but we will of course need to set a target in FEC terms for each year in order to be able to report to the Public Accounts Committee on performance. I suggest therefore that the target for each year should be set in the light of the latest information on ADAS's costs and revenues when the Main Estimates for that year are drawn up (ie in December/January for the following financial year) and that the starting assumption should be the FEC equivalents of the PES reductions you have offered (ie 29% in 1989-90, 34% in 1990-91, 40% in 1991-92 and 45% in 1992-93). I would, of course, see no difficulty in accepting higher targets in these years if this proves to be possible.

On R&D I was disappointed that you felt unable to offer a reduction from your baseline of some £150 million of more than +0.2/-4.6/-13.2 which, after taking account of the reductions agreed last year, equates to a £30 million reduction in FEC terms in 1991-92. I note, however, that you accept that E(ST) may decide to go further next year and I will certainly wish to seek colleagues endorsement that this should indeed be our objective. I note that you have included a new bid (of 2.3/3.0/0.8) for MAFF redundancy costs related to the R&D reductions but I understand that these have been calculated on the very pessimistic assumption that you will only succeed in attracting some £7.4 million additional industry funding. In my view, it would be premature to accept these bids for redundancy costs, not least because it will not be possible to make an accurate calculation of the need for redundancies until your consultations with industry are complete. I propose, therefore, that the additions for 1990-91 and 1991-92 should be considered in next year's PES and that officials should look again at the calculations for 1989-90 in the context of the Main Estimates for that year.

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On the other Treasury options, I can confirm that I am prepared to withdraw C4 (fisheries support) and C5B (TB and brucellosis charging) on the understanding that my officials will participate in the reviews of these policies with a view to expenditure decisions in PES 1989. I am also content to reopen the question of savings from reduced brucellosis testing (C5A part) next year. I was surprised at your reluctance to surrender the £2.6 million provision in 1991-92 for Food From Britain. I accept this only on condition that my officials are fully involved in a review of our policy in this area and that no statements are made which imply that Government funding for FFB's marketing operations will continue after 1990-91, when we have already agreed it should end.

We have settled your bid for MAFF's running costs at +14.3/+25.3/+32.5. The MAFF management plan will need to be revised in the light of this settlement and your officials should inform mine of the adjustments made to ensure delivery of the planned efficiency gains and how they propose to demonstrate next year that the gains have in fact been achieved. I accept that, if the current review of the CAP beef regime involved the introduction of a special beef premium in the UK, we will need to look at the administrative consequences, although I would expect there to be some savings on IBAP's payments to the Meat and Livestock Commission if the UK's variable premium scheme is ended. [I understand that Peter Lilley will be replying shortly to Donald Thompson's recent letter on VAT on milk outgoers payments].

Taking account of the adjustment which I have suggested on redundancy costs, I am prepared to accept an overall settlement on the domestic agriculture programme of +14.5/+8.5/+4.9. I should be grateful for confirmation that you and territorial colleagues are content to proceed on the basis outlined above.

On IBAP I understand that there have been some last minute problems in reconciling the figures in your letter with IBAP's previous forecasts. I will write to you separately on this programme when these difficulties have been resolved.

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

Yours sincerely,

P. Walker

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[Approved by the Chief Secretary and signed in his absence]

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