



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP  
 Minister of State  
 Ministry of Agriculture  
 Fisheries and Food  
 Whitehall Place  
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9 January 1980

*Dear Peter,*

AGRICULTURAL EXPENDITURE 1981-82 to 1983-84

Thank you for your letter of 20 December which you amplified in your letter of 3 January about capital grants. I am also replying to your letter of 20 December to Nigel Lawson which seeks to link the announcement of changes in capital grants to a survey of marginal land.

As I think you already know, I was very disappointed by your general response to my letter of 17 December which made a number of substantial concessions to you and, I had hoped, outlined a reasonable compromise on the basis of which officials could reach agreement on details. I will not now go back on my offer to withdraw the proposed savings on less favoured areas and sheep and potato guarantees and to move a long way towards your position on Agricultural Research without seeking additional alternative savings elsewhere in your programme. But I am not prepared to consider further concessions at a time when Departments generally are being asked to make new savings in addition to what has been agreed in the earlier stages of the survey.

Against this background I have the following views on the detailed matters you have raised.

Aid for Marketing. I note that you will be making policy proposals shortly. These will require careful consideration and I cannot promise that decisions can be reached in time for the expenditure consequences to be considered in this year's survey which is now about to be completed.

Agricultural Research. I have moved a long way to try to reach a compromise on this issue. If you consider that the £2.5m which separates us is of major importance from the point of view of research policy I will not insist that you make this saving here. But I must insist that you make up this loss elsewhere in your programme, possibly by making a marginally different change in capital grants.

Marginal Land. I note that the survey you are proposing would not be completed until 1981 and that you are not seeking authority to introduce a scheme but only to relax the rules applying to capital grants, to release staff to carry out the work. I understand that in discussion between officials it has been suggested that the immediate staff saving could be achieved by a wider use of urgent work authority which would allow the final removal of the prior approval rule to take place in the context of the other changes proposed by Sir Derek Rayner and after farmers have had a chance to familiarise themselves with the other changes in the capital grants schemes. At first sight this seems to me a more satisfactory way of proceeding but I should be interested in your views and those of the Civil Service Department.

A prior question, however, is whether a survey is needed at all. I can, of course, understand that there is a sense of grievance among farmers who are on the wrong side of the hill line. This grievance may well have been intensified by the special increase in hill allowances which we made this year and may, therefore, decline if, as we envisage, the allowances revert to this previous level. But I am not aware of any commitment to introduce a scheme to meet this grievance, and would need to be convinced that the expenditure involved would be worthwhile. Also, of course, it goes without saying that if a scheme was to be introduced the cost would have to be met from within the agricultural programme.

Capital Grants. This is, of course, the major issue to be resolved. I made clear in my letter of 17 December that I should expect the measures to be introduced to achieve the target saving of £35-£40m in 1983-84 to cover the whole of that saving. I am strongly opposed to regarding predictions that, even without any action on our part, expenditure in that year will be below the baseline on which we have been working as a partial substitute for policy changes. There are three main reasons why I hold this view. Firstly, I am sure that when we discussed the issue in Cabinet we were thinking of the policy changes which would be needed to achieve the savings I originally proposed. No account was taken of savings which might arise spontaneously. Secondly, it seems to me entirely reasonable that if spontaneous savings can be firmly predicted they should count towards the further package of savings which we have now agreed to be necessary rather than used as partial substitutes for policy changes and to finance new expenditure. Thirdly, on a purely practical level, I see great difficulty in relying on a forecast made now about farmers' investment intentions in 1983-84. If, therefore, you cannot agree to surrendering the estimating savings now in addition to making policy changes of the order envisaged in Cabinet, I should prefer to reduce the baseline only by the amount which can be confidently predicted to result from the policy changes. Estimating savings can then be taken account of in successive surveys when we are surer of them.

Apart from the fact that the policy change you are proposing will not yield the full saving agreed in Cabinet, I am somewhat concerned about its effect on the schemes themselves. I recognise that the new limits on the quantity of assistance going to individual farms are a means of securing the extra selectivity which we agreed to be desirable. But they increase the bureaucratic complexity of the schemes and thus run directly counter to the recommendations of Sir Derek Rayner. And

arbitrary differences between the effective rate of grant applicable to large and to small projects increases the distortion to farmers investment planning thus reducing what value to the nation the schemes provide. We may, of course, have to suffer these disadvantages if the Commission proposals on which they are modelled are accepted in Brussels but I am somewhat reluctant to anticipate them.

I understand that without commitment my officials tabled an alternative schedule of grant rates and that yours are carrying out detailed costings of it. This schedule involves a greater degree of selectivity than Sir Derek Rayner's proposals, but avoids the complexity of new investment aid limits. If in the light of the detailed costings or of the need to make additional savings, for example to cover the deficit on research, further cuts were needed this could be achieved by excluding certain items from grants.

Naturally, however, my main concern remains that whatever policy changes are made should achieve the full savings target. I hope that, in the light of this letter, you will be able to accept this in which case the details can perhaps be agreed between officials. If, however, you still have reservations then we should meet quickly in order to discuss them so that the Chancellor can report the outcome to the Prime Minister as envisaged in the conclusions of Cabinet on 6 December, before the final Cabinet discussion on this year's survey on 24 January.

I am sending copies of this letter to the Prime Minister, the other Agriculture Ministers, the Minister of State at the Civil Service Department and Sir Robert Armstrong.

*Jms*

*John Biffen*

JOHN BIFFEN

## CURRENT AND PROPOSED RATES OF CAPITAL GRANT (% OF APPROVED COST)

<u>Item of Investment</u>	Current Rate	MAFF Proposed Rate	30% Cut	Treasury Compromise to be Costed	Rayner
<b>1. <u>Buildings</u></b>					
a) Basic Rates					
i) Dairy & Cattle	30	25	21	20	20
ii) Horticulture	25	25	17.5	20	20
iii) Other	20	25	14	20	20
In Less Favoured Areas (LFAs)					
iv) Dairy etc	30	30	21	25	25
v) Other	20	30	14	25	25
b) EEC Rates					
i) Dairy & Cattle	40	35	28	30	30
ii) Horticulture	30	35	21	30	30
iii) Other	25	35	17.5	30	30
In LFAs					
iv) Dairy etc	40	40	28	35	35
v) Other	30	40	21	35	35
<b>2. <u>Land Improvements, fencing etc</u></b>					
a) Basic Rates					
i) Lowland Farms	20	25	14	20	20
ii) Horticulture	25	25	17.5	20	20
iii) LFAs	50	50	35	35	30
b) EEC Rates					
i) Lowland farms	25	35	17.5	30	30
ii) Horticulture	30	35	21	30	30
iii) LFAs	50	50	35	40	35

CURRENT AND PROPOSED RATES OF CAPITAL GRANT (% OF APPROVED COST) cont'd

Item of Investment	Current Rate	MAFF Proposed Rate	30% Cut	Compromise to be Costed	Rayner
<b>3. Field Drainage</b>					
a) Basic Rates					
i) Lowland	50	40	35	40	20
ii) LFAS	70	70	49	60	25
b) EEC Rates					
i) Lowland	60	45	42	45	30
ii) LFAS	70	70	49	60	35
<b>4. Other Items</b>					
a) Basic Rates					
i) Dairy & Grassland equipment	20	nil	14	nil	20
ii) Horticultural equipment	15	15	10.5	10	20
b) EEC Rates					
i) Dairy etc equipment lowland LFAS	20	10	14	5	25
ii) Horticultural equipment	25	15	17.5	10	35
iii) All Other Items	20	20	14	15	20
Lowland LFAS	10	10	7	5	30
	15	15	10.5	10	35

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