



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
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From the Minister

C O N F I D E N T I A L

Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
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DL 10/11
3 January 1980

John Biffen
CAPITAL GRANTS

I have been considering with our agricultural colleagues how we can best make the savings in expenditure on capital grants agreed by Cabinet on 6 December.

You will recall that we agreed in Cabinet that in achieving the savings greater stress should be placed on increased selectivity rather than on reducing rates of grant. We have concluded that the best way of making reductions selectively is to restrict the total amount of assistance going to individual enterprises. This will concentrate assistance where it is most needed, on the small and medium-sized farm, while effecting considerable savings because of the very large amounts of assistance hitherto available to big enterprises, particularly under the Farm and Horticulture Development Scheme.

We therefore propose that the limit for assistance to development plans under the EEC Farm Modernisation Directive should be 180,000 units of account for any one farm business; and that a comparable limit of 15,000 ua of grant in any 2-year period to any one business should be applied under the Farm Capital Grant Scheme and Horticulture Capital Grant Scheme, taken together. (We would of course have to review these cut-offs from time to time to reflect the decline in the value of money; but unless we automatically indexed them we would always be a bit behind the game, and this would provide an additional, if unquantifiable, saving.)

In order to pave the way for the streamlined scheme recommended by Sir Derek Rayner we propose to iron out the differentials introduced in 1976 in favour of dairy buildings and equipment. But with selectivity in mind we propose to retain the present rates of grant for land improvements and drainage in Less Favoured Areas, to continue to give preferential rates (though less than at present) for lowland drainage and to continue to assist horticultural plant and machinery under the national aids. The present and proposed future rates of grant are set out in the enclosure to this letter.

We have already experienced a sharp reduction in applications under the Farm and Horticulture Development Scheme during the current year, which will have their effect throughout the PES period. As I said in my letter of 20 December, the savings we can confidently foresee as a result should be counted towards the total decided by Cabinet, just as any forecast increases in demand would have implied the need for additional savings to offset them. If we do not do this, we shall be making an actual saving substantially greater than Cabinet decided, and one which I do not think could be defended in the context of our general agricultural policies.

Account also has to be taken of the transition to a Rayner-type streamlined scheme. We do not intend to adopt the Rayner suggestions which would have extended the range of investments eligible for grant, so there will not be an increase in liability on this account; but we might expect a more streamlined scheme to attract a few cases where at present the farmer does not want to go through our cumbersome procedures, and more streamlined treatment of claims may produce a once-only increase in 1980/81. We have made allowances for both these factors.

On these assumptions we would expect departures from the 1979 PES forecasts to be of the following order for the United Kingdom:

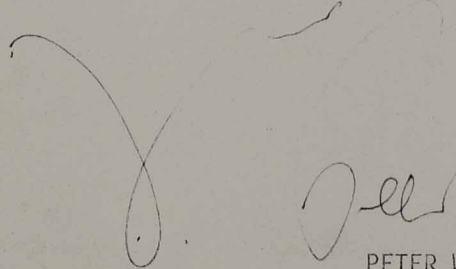
Estimated Savings in £m at 1979 Survey Prices

	1980/81	1981/82	1982/83	1983/84
Revised Grant Rates	(+2.3)	(+0.1)	1.4	2.4
Financial Cut off	9.2	16.1	21.5	25.9
Reduction in applications	11.0	11.0	11.0	11.0
Transitional - not more than	(+5)			
Extra volume, (1%)	(+1.6)	(+1.6)	(+1.6)	(+1.6)
Aid to marketing	(+0.5)	(+1.0)	(+1.5)	(+2.0)
Net	10.8	24.4	30.8	35.7

You will note that I have included in these figures provision for new assistance for marketing. As you know, I look upon our marketing performance as a major weakness of British agriculture. I am convinced that a modest scheme of assistance in this field will pay good dividends to the national interest in improving our performance in both the home and export markets. I shall be seeking policy approval of the scheme and legislative cover for the expenditure as soon as practicable.

Finally, I have just heard that the latest FHDS figures indicate a sharp drop in investment. This is likely to produce substantial savings in 1980/81 in addition to the £11m shown in the above table, and we are calculating just what these are likely to be. For the moment, I would only put it to you that this falling-off in investment intentions shows both that the cuts we make should neither be nor appear to be unnecessarily drastic, so as not to damage confidence yet further; and that the likelihood is that we shall in any case make savings greater than the figures in the table suggest, simply as a result of a decline in farmers' own investment plans.

I am sending copies of this letter to George Younger, Nick Edwards and Humphrey Atkins.



PETER WALKER

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

<u>Item of Investment</u>	<u>Current Rate</u>	<u>Proposed Rate</u>
<u>1. Buildings</u>		
a. Basic Rates		
i Dairy and Cattle	30	25
ii Horticulture	25	25
iii Other	20	25
In Less Favoured Areas (LFAs)		
iv Dairy etc	30	30
v Other	20	30
b. EEC Rates		
i Dairy and Cattle	40	35
ii Horticulture	30	35
iii Other	25	35
In LFAs		
iv Dairy etc	40	40
Other	30	40
<u>2. Land Improvements, fencing etc</u>		
a. Basic Rates		
i Lowland farms	20	25
ii Horticulture	25	25
iii LFAs	50	50
b. EEC Rates		
i Lowland farms	25	35
ii Horticulture	30	35
iii LFAs	50	50
<u>3. Field drainage</u>		
a. Basic Rates		
i Lowland	50	40
ii LFAs	70	70
b. EEC Rates		
i Lowland	60	45
ii LFAs	70	70
<u>4. Other items</u>		
a. Basic Rates		
i Dairy and grassland	20	nil
ii Horticultural equipment	15	15
b. EEC Rates		
i Dairy etc equipment lowland	20	10
LFAs	25	15
ii Horticultural equipment	20	20
iii All other items		
Lowland	10	10
LFAs	15	15

CURRENT AND PROPOSED RATES OF CAPITAL GRANT (OR APPROVED COST)

Proposed
Rate

Present
Rate

Item or Investment

08/11/1981

12
11
10
9
8
7
6
5
4

25	30
25	30
25	30
30	30
30	30
35	40
35	30
35	35
40	40
40	30

1. Buildings
a. Basic Rates
i. Lowland farms
ii. Horticulture
iii. LFA's
b. EDC Rates
i. Lowland farms
ii. Horticulture
iii. LFA's
c. Other
i. Dairy and other
ii. Horticulture
iii. LFA's
Other

2. Land improvements, fencing etc.

25	30
25	30
30	30
35	35
35	30
30	30

a. Basic Rates
i. Lowland farms
ii. Horticulture
iii. LFA's
b. EDC Rates
i. Lowland farms
ii. Horticulture
iii. LFA's

3. Field drainage

40	50
40	50
45	60
40	50

a. Basic Rates
i. Lowland farms
ii. LFA's
b. EDC Rates
i. Lowland farms
ii. LFA's

4. Other items

15	20
15	15
10	20
15	25
20	20
10	10
15	15

a. Basic Rates
i. Dairy and other
ii. Horticulture, equipment
b. EDC Rates
i. Dairy and other
ii. Horticulture, equipment
iii. Other items
iv. Land
v. LFA's