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Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

MS

CONFIDENTIAL

A C Pirie Esq
Private Secretary to
the Chief Secretary
The Treasury
Parliament Street
London SW1

30 January 1980

Dear Alastair,

CAPITAL GRANT RATES ANNOUNCEMENT

--- Further to my letter of yesterday, I attach a copy of the final version of the announcement my Minister will be making in reply to Peter Mills' question tomorrow.

As before, copies of this letter go to the Private Secretaries to the Prime Minister, the other Agriculture Ministers, the Minister of State at the Civil Service Department, the Secretary of State for the Environment, the Chief Whip, the Paymaster General, Sir Derek Rayner and Sir Robert Armstrong.

Yours sincerely
Frances Thompson.

MISS F H THOMPSON
Assistant Private
Secretary

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QUESTION: To ask the Minister of Agriculture, Fisheries and Food, what plans he has for changes in the administration of the capital grants schemes in the light of Sir Derek Rayner's review.

ANSWER: A study of the administration of the capital grant schemes has been undertaken in consultation with Sir Derek Rayner with the aim of identifying ways in which staffing and costs of administration could be reduced.

I am grateful to Sir Derek Rayner for his advice and my Rt Hon Friends and I have accepted in principle the recommendation that the existing grant schemes should be radically simplified and rationalised.

We are immediately initiating consultations on the details of the procedural changes we propose, which will include the abolition of prior approval, simpler tests of eligibility and new arrangements for claiming grant. When consultations have been completed a revised Statutory Instrument will be presented to Parliament before the House rises for the summer Recess.

I anticipate that these changes in administrative procedures will make savings in my Department of some 400 staff. There will also be savings arising in the other agriculture departments.

The Report has suggested a rationalisation of the various rates of grant to be paid under both the Community and national grant schemes. In order to avoid speculation about the new rates and possible pre-emptive applications, we have reviewed the rates of grant and have today laid Statutory Instruments providing for the following changes to take place from midnight tonight:

Type of Investment	Percentage of eligible cost under: EEC Scheme – Normal Rate	EEC Scheme – LFA rate where different	National Schemes – Normal Rate
Dairy and Cattle Buildings	$32\frac{1}{2}$(40)	$37\frac{1}{2}$(40)	$22\frac{1}{2}$(30)
Horticultural Buildings and works	$32\frac{1}{2}$(30)	$37\frac{1}{2}$(30)	$22\frac{1}{2}$(25)
Sheep Housing and other Buildings and works except as below	$32\frac{1}{2}$(25)	$37\frac{1}{2}$(30)	$22\frac{1}{2}$(20)
Certain land improvements (eg fencing, water supply, grassland regeneration etc)	$32\frac{1}{2}$(25)	50(50)	$22\frac{1}{2}$*(20)*
Field drainage	50(60)	70(70)	$37\frac{1}{2}$*(50)*
Horticultural Equipment	20(20)		15(15)
Dairy Equipment	5(20)	10(25)	nil(20)
Other equipment and miscellaneous items	5(10)	10(15)	nil(nil)

* In the Less Favoured Areas (LFAs) agricultural businesses with an income per labour unit less than the comparable (non-agricultural) income receive the rates of grant appropriate to the EEC Scheme for these items.

In revising these rateswe have taken into consideration current trends in farming and horticulture and the likely pattern of demand over the next few years.

It will be seen that we have eliminated the previous discrimination against sheep housing. This results in a $7\frac{1}{2}\%$ increase in the grant for sheep housing under the European scheme and a $2\frac{1}{2}\%$ increase under national schemes.

In recognition of the fact that horticulture receives much less benefit from price support arrangements than agriculture generally, we have retained at their present levels the grants on horticultural equipment whilst ending or reducing the grant rates for other forms of equipment, but such equipment does in fact benefit from the 100% write-off provisions in the year of purchase for income tax purposes.

For farmers outside the Less Favoured Areas the basic rate of grant under the Farm and Horticulture Development Scheme (FHDS) for all buildings and works will be $32\frac{1}{2}\%$ of approved cost - halfway between the present rate of 40% for dairy and cattle buildings and 25% for other buildings and works. For growers the rate will also be $32\frac{1}{2}\%$ (instead of 30% at present). The basic rate under the two national schemes - the Farm Capital Grant Scheme and the Horticulture Capital Grant Scheme - will, as is required by EEC rules, be 10 percentage points less than for the EEC scheme.

For field drainage, where reduction to the basic rate of grants would probably unacceptably reduce the amount of work undertaken, the lowland rates will be set at 50% for the FHDS and $37\frac{1}{2}\%$ under the national scheme (instead of

60% and 50% respectively at present).

We are retaining the 70% grant for hill drainage and for farmers in the Less Favoured Areas there will be a premium of 5 percentage points on buildings and works under the FHDS, giving a rate of 37½%, and in recognition of the special natural handicaps of land in these areas the present arrangements for paying most farmers higher rates of grant for certain land improvements will continue.

The new rates of grant which are set out in the table above will apply to applications received in local offices after midnight tonight. Fresh applications can be made for grant at enhanced rates for investments if work has not yet started under previous applications.

The changes above will give to British agriculture the continued advantage of capital grant schemes which have been in operation since 1957 and have already contributed substantially to the re-equipment of the industry. The capital grants combined with the advisory services will therefore continue to make a major contribution to the competitiveness of British agriculture.

There is a substantial proportion of public expenditure being paid on grants to a small number of applicants operating large enterprises. In the main these are enterprises that have obtained substantial benefit from the changes made in income and corporation tax by my Rt Hon Friend the Chancellor of the Exchequer in his Budget and are thus enterprises that will have increased substantially the proportion of net income available for such investment. We have therefore decided to impose top limits as to the grants that shall in future be paid to these enterprises. There will therefore, as from midnight tonight, be some limit to the total amount of public money that any single business can receive.

New applications for admission to the FHDS or major variations requiring a new plan will be subject, in addition to the existing financial limit per labour unit, to an overall limit of 220,000 European Currency Units (about £136,000) on the total investment that can be approved for grant under a development plan. This is equivalent to the amount proposed by the EEC Commission in their review of agricultural structures last year. Under the national schemes applications will not be approved whilst there is an uncompleted FHDS development plan. The existing labour unit limit under these schemes will be supplemented by an overall limit of 160,000 ECU (about £100,000) on the total investment on which grant is claimed during any 6-year period (the maximum period for EEC development plans)."