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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 October 1988

Dear Shirley,

REPORT ON A REVIEW OF CHARGING BY THE
AGRICULTURAL DEVELOPMENT AND
ADVISORY SERVICE (ADAS)

The Prime Minister was grateful for your Minister's minute of 17 October. Subject to the views of colleagues and to the comment in my letter of 18 October to Carys Evans, she is content for him to proceed on the basis proposed.

I am copying this letter to the Private Secretaries to members of E(ST), Stephen Williams (Welsh Office), Mike Maxwell (Northern Ireland Office), David Crawley (Scottish Office) and Trevor Woolley (Cabinet Office).

Yours,
Paul

Paul Gray

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and Food

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

PRIME MINISTER

REPORT ON A REVIEW OF CHARGING BY THE AGRICULTURAL DEVELOPMENT AND
ADVISORY SERVICE (ADAS)

WITH PG?

1. I have seen a copy of John Major's minute of 14 October to you suggesting that E(ST) does not need to meet on 19 October. I am content with this suggestion, but considered that I needed to minute you also since at our meeting on 9 May I was asked to report to the Sub-Committee following the Review of Charging for ADAS services by officials. I concentrate below on the principal issues raised by the report of the Review. It also identified some other useful potential savings which I have already taken up with other Ministers concerned, notably the Chief Secretary.

Background

2. ADAS's activities can broadly be divided into four categories, (i) advice to Ministers and MAFF policy divisions, (ii) statutory and regulatory work, (iii) research and development, and (iv) advice to producers. The cost of these different activities as prepared for the 1987/88 Memorandum Trading Account, that is on an FEC basis, are given in Annex A. There is no question of charging for advice which is internal to Government, but for each of the other three areas the Review considered first whether there was scope for new charges.

Privatisation, "Next Steps" and Contracting Out

3. The main part of ADAS which might be considered for privatisation is the advisory services. This would pose major problems since statutory activities are often carried out by officials who also provide advice. But more important the financial position as shown below would seem to rule this out as a genuine option at least for the time being. Nevertheless, I am giving thought to this and to agency status for parts of the organisation in the follow-up to the Ibbs report. ADAS already makes extensive use of contracting out and as the report indicates has plans to extend this practice.

Possible New Charges

4. The main possibility for new charges identified was that of charging for brucellosis and tuberculosis testing in cattle which currently costs nearly £20m pa on an FEC basis. This is a complicated area with important implications for human health as well as animal health and public finances. Health Ministers were

/not represented on ...

not represented on the Review Working Party. There are serious drawbacks to introducing charges, not least the incentive it would provide to farmers to avoid testing which could result in increased incidences of disease in animals and hence increased risks for human health. Further, it was stated in the House in November 1985 that we had no intention of introducing charging in this area. However, the potential financial gains from charging cannot be ignored. I will be reviewing the possibilities in detail with those colleagues with relevant responsibilities.

5. Since E(ST) is considering the funding on near-market R & D separately this area was not covered by the review. I agree with the Working Party's recommendation that general advice to producers on conservation, pollution, animal welfare and diversification should remain free for the present. (This amounted to some 5% of advice to producers in 1987/88 at a cost of about £2m). All other advice to producers is chargeable.

Level of Charges

6. Privately funded ADAS R & D is presently conducted on a contract basis with the aim of securing at least FEC recovery. Charges for those statutory schemes where they are made are also currently calculated on an FEC basis. The report suggests, and I agree, that these arrangements should continue.

Chargeable Advice To Producers

7. Advisory services to agriculture and horticulture continue to make an important contribution to increasing efficiency and hence (given adequate restraints on output via prices and other measures such as stabilisers and milk quotas etc) to the industry's competitive position. But we should look to industry to pay an increasing charge for advice. There should be a clear but realistic policy of increasing targets and cost recovery, which is consistent with our declared policy.

8. We only moved away from virtually free advice as recently as 1 April 1987. The service was reorganised to meet this challenge which it has tackled vigorously and with some success. In 1987/88, the first year of charging, cash received amounted to some £8 million (about 20% of FEC) and as customers get used to the charging principle and staff respond to the much more commercial attitude now demanded of them (as both are doing), there will and must be an increase in cost recovery in the current and subsequent financial years. ADAS needs to be able to plan ahead, building on the 1987 reorganisation. The essential question is what recovery rate we should aim for in the medium term, say five years, which both sets ambitious targets, but is also seen to be capable of achievement.

9. There are a couple of political points which we have to take into account:

- (i) First, a further reduction in Government support to the industry on top of the decisions taken recently and in the pipeline would undoubtedly invoke Parliamentary and public criticism on the grounds that it would weaken the

/UK industry relative ...

UK industry relative to its competitors. We are committed to ensuring that our industry is not placed at a competitive disadvantage. This is particularly important against a background of declining farm incomes which also places a practical limit on how much the industry can pay for advice.

- (ii) Second, when the 1986 Agriculture Act was under consideration in Parliament we accepted an amendment which requires HMG to establish an organisation in England and Wales through which services, which may include advice, can be supplied. We never suggested in Parliament or elsewhere that producers would soon have to bear the major part of the cost of the advisory services; indeed the contrary was implied. We would be seen as having acted in bad faith if we greatly curtailed advisory activities so soon after having accepted these commitments:

10. This is the background against which I have discussed with the Chief Secretary in this year's PES a recovery target for 1993/94. We concluded that it would be appropriate to plan for 50% FEC recovery by 1993/94 and full cost recovery in the longer term. This would yield the following savings as a minimum.

	£ million		
	Revenue From Chargeable Advice (1987 PES baseline)	Increase in 1988 PES (New Savings)	Total Savings
1989/90	12.2*	1.0	13.2
1990/91	12.4*	4.5	16.9
1991/92	12.7	8.0	20.7
1992/93	13.1	11.5	24.6
1993/94	13.6	15.1	28.7

* includes increase of £3.0 m agreed in 1987 PES.

11. The above table assumes steady moves towards achieving 50% FEC recovery in 1993/94 by means of increased revenue. In practice it is likely that the necessary savings will be achieved not only by increases in revenue, but also by cost reductions. Since cost reductions will reduce the FEC of chargeable advice, the total savings achieved by reaching 50% FEC will be greater than is implied by the table.

/Scotland ...

Scotland

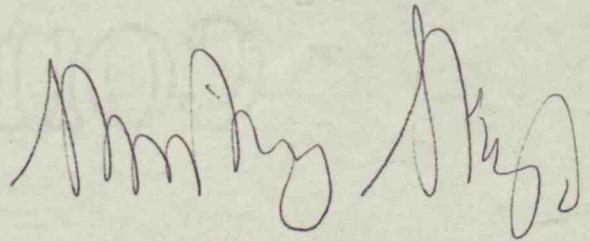
12. A parallel review has been conducted of advisory activities in Scotland where they are provided not by ADAS but by the Scottish Agricultural Colleges which is a company limited by guarantee. There are significant differences between the two organisations, but it is important that the overall financial objectives for advisory services in England and Wales and in Scotland are comparable.

Recommendation

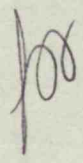
13. I recommend colleagues to agree that ADAS achieve 50% recovery of FEC on chargeable advice by 1993/94 on the lines indicated above.

Circulation

14. I am copying this to E(ST) colleagues, to Peter Walker, Tom King and Malcolm Rifkind and to Sir Robin Butler.



JOHN MacGREGOR
17 October 1988
(approved by the Minister
and signed in his absence)



FIGURES DERIVED FROM 1987/88 ADAS MEMORANDUM TRADING ACCOUNT

	<u>Cost (£m)</u>
<u>Advice</u>	
Charged	39.9
Free	2.2
To Ministers and Policy Divisions	7.6
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	49.7
<u>Statutory</u>	
Charged	3.9
Free	37.9
Intervention Board	1.8
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	43.6
<u>R & D</u>	
Contract	3.7
Levy-Funded	1.6
Commissioned	42.2
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	47.5
<u>GRAND TOTAL</u>	<hr/>
	140.8
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