

PRIME MINISTER

20 OCTOBER 1988

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

ATTACHED

John MacGregor's letter of 17 October invites you to approve the deal he has struck with John Major on the level of charges for ADAS' advisory services over the next five years.

The essential issue is the future of ADAS. The case for privatisation, probably with agency status as a first step, needs to be examined positively and presented to E(ST) as soon as possible. The level of charging is important, but secondary, and does not depend on the status of ADAS.

Background

ADAS - which with 4,300 staff accounts for nearly half of MAFF's civil servants - has four functions:

- i. to provide technical advice to MAFF ministers and officials;
- ii. to conduct agricultural R&D;
- iii. to carry out statutory functions eg for public and animal health;
- iv. to provide advice to farmers.

There is a wrangle between MAFF and the Treasury over the extent to which charging can be applied in areas other than (iv), and the speed with which charges can be brought to the point where they cover full economic costs.

John MacGregor's proposal

John MacGregor proposes that he should move over a five year period to a position where charges will recoup 50% of the full economic cost of those services to which charging currently applies. He will continue to discuss the scope for extending the boundary of charging eg. to more of the statutory functions. Testing for brucellosis and TB in cattle is mentioned.

Comment

Charging farmers will help to reduce the public expenditure cost of ADAS. The target of 50% recovery of full economic cost in five years is useful, if not particularly ambitious.

But charging will not by itself go very far to inject market discipline into the whole of ADAS. This is because MAFF will argue that many of ADAS's functions must remain outside the charging regime.

Farmers obviously cannot be asked to pay for the technical advice which ADAS gives to agriculture ministers. But it would be perfectly reasonable for MAFF to pay for such technical advice - something which the Government does frequently in the computer field. And it would be equally reasonable for MAFF to pay for other services to be provided to farmers where it judges that the Government should continue to provide a subsidy on public health grounds.

The case for privatisation

There are persistent doubts about the effectiveness of ADAS, and about the need for its wide remit. These doubts can be summarised thus:

- Many farmers already buy specific expert advice from private consultants - they would rather do this than ask an ADAS generalist who then has to refer to other experts in agronomy, diaring etc.
- ADAS charges will encourage this trend - farmers will shop around and will only use ADAS if they find that the service gives good value for money. Poor or amateur performance will be penalised.
- This in turn will encourage the private provision of agricultural advice - consultants in this field currently grumble that the dominance of ADAS, with its free or heavily subsidised services, makes it hard for them to compete.
- It is not clear that ADAS R&D and the MAFF-funded work of the research councils is planned to avoid duplication. When scientists are on the payroll, the priority is to give them something to do.
- The case for a panoply of "in-house" technical experts to advise ministers and policy makers is very weak - other government departments manage to advise on other sectors of the economy without such a set-up.

If ADAS supplied services on a contractual basis - whether to farmers or MAFF - it could only continue to do things for which people were prepared to pay on a full cost basis.

Agency status as a first step

However, ADAS would not be an attractive proposition for immediate privatisation. This is partly because it does a number of different things in which the private sector would not be equally interested; and partly because some of its

advisory work would not survive in a real market. But ADAS could be turned into an agency, or several agencies, with privatisation as the goal for as many of its functions as possible.

Making ADAS an agency would involve setting objectives and measuring performance for the whole of the organisation's activities. Such disciplines should help to eliminate unnecessary work.

But it is important that the ultimate objective of privatisation should be pursued for as much of ADAS as possible. There is always a danger that agency status will be used simply to move a block of civil servants beyond the reach of Treasury controls on pay and manpower. If other market disciplines are not brought in as well, the result is a poor deal for the tax-payer.

Likely reactions

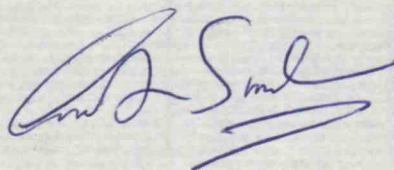
MAFF officials are nervous about privatisation: it could remove nearly half of the Ministry. They originally favoured turning ADAS into an agency, but now seem bogged down in the difficulties.

John MacGregor favours turning ADAS into a number of agencies, with privatisation as an option for some of its work. His quandary is how to bring along officials in a department which feels heavily under seige. This is reflected in the cautious wording in this letter.

The Treasury will be broadly sympathetic to privatisation preceded by agency status.

Recommendation

- accept proposal that ADAS should achieve 50% recovery of the full economic costs of chargeable advice by 1993/94;
- note that John MacGregor is examining the possibilities for agency status and privatisation
- invite him to bring an early paper to E(ST) on the scope for privatising as much as possible of ADAS, with agency status as a step en route. The paper should be prepared jointly with the part of the Cabinet Office which is responsible for implementing Robin Ibbs' Next Steps initiative.



CAROLYN SINCLAIR

500


CABINET OFFICE
OFFICE of the MINISTER
for the CIVIL SERVICE

The Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Horse Guards Road
London SW1P 3AL
Telephone: 01-270 5929

C88/5072

Ms C Evans
Private Secretary to the Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

NBM

REC
20/10

19 October 1988

Dear Carys,

1988 PUBLIC EXPENDITURE SURVEY: OMCS

My Minister was grateful for the Chief Secretary's letter of 14 October, which recorded their agreement on the Arts and Libraries and OMCS programmes. He has written separately on a libraries point.

As to the settlement on challenge funding for Next Steps training, I should point out that the central payment to the Civil Service College is in respect of the College's role as part of the OMCS and the cost and contribution of particular College courses in support of central initiatives. It is, therefore, properly described as a "central payment" and not as a "central subsidy". As our Ministers have agreed, the future of the central payment will be considered in the context of the College's possible move to agency status.

I am copying this letter to Dominic Morris at No 10.

Yours,

Eleanor

MISS E M GOODISON
Private Secretary

at floor