Written evidence submitted by the Country Land & Business Association

The Country Land and Business Association (CLA) is the membership organisation for owners of land, property and business in rural England and Wales. Our 28,000 members own and manage around half the rural land and between a quarter and a third of all heritage in England and Wales. This land supports a wide variety of businesses including agriculture, forestry, tourism, hospitality, retail and residential lettings. Our members generate jobs; they provide land and buildings for commercial activity and housing for local people; they produce food, fibre and a whole range of land-based environmental services. They have a long-term interest in the rural communities and environment in which they live.

Introduction

The Government's levelling up agenda is welcome. It is right that Ministers are considering how best to ensure prosperity is created in all corners of the country, but at present there is little evidence that this agenda applies to rural areas.

Some have said that the rural economy's poor productivity, relative to the performance of the economy as a whole, is somehow inbuilt in the nature of the countryside. This is a false narrative. Successive governments have failed to provide a coherent strategy for rural economic growth. As a result, we believe the country has missed out on hundreds of thousands of good jobs, billions of pounds of economic activity – and the strengthening of local communities that is so often underpinned or undermined by economy performance. This explains why the rural economy is 18% less productive than the national average.

It is also important to understand why no such strategy exists. Rural Affairs as a brief sits in DEFRA, but productivity in the rural economy is equally if not more affected by decisions made in HMT, BEIS, MHCLG, DCMS and other government departments – none of which have a significant focus on rural business. DEFRA may hold the brief, but it does not have the policy levers at its disposal to make a meaningful difference on rural economic productivity. As a result, it is lost in the cracks.

In our view, it is difficult to see how productivity in the rural economy can be improved without a Ministerial-led, cross departmental effort, with a clear and ambitious remit to help grow the economy in rural areas and create good jobs in the countryside.

How much difference can government policy make to economic growth?

The Covid-19 crisis has seen the role of government intervention increase dramatically – from the introduction of the Coronavirus Job Retention Scheme to the myriad of direct grant aid on offer to business – in an effort to retain an element of economic activity. As the health emergency recedes, the Government will be faced with the massive challenge of re-building public finances. Many have commented on the devastating effects another period of austerity would have, suggesting the main aim should instead be to increase revenue. Tax rises have serious downsides in an anaemic economy; getting the economy growing again must surely be the priority.

Before the pandemic, the direction of travel was firmly ‘green growth’ and in the context of Net Zero targets, the CLA believes it remains the right way forward. We have seen over the last two decades that while markets may eventually provide, innovation and economic activity gets boosted with government intervention, be it in the form of targets (creating market, as we are starting to see with Biodiversity Net Gain), tax reliefs (e.g. HMRC found that for every £1 of tax foregone, between £1.53 and £2.35 of additional R&D is stimulated) or investment. For example, Defra’s assessment of the Benefit-Cost Ratio of spending on rural economic growth was 2.51.

It is essential that government provide the right direction and the necessary stimulus. Government policies, such as improving infrastructure, freeing up the planning regime, simplifying the tax system, must be oriented towards promoting sustainable growth, and accelerating the low-carbon transition in the economy across the country.

What are the causes of the gap in the UK’s level of productivity compared to other advanced economies, and why has productivity growth been persistently weak in the aftermath of the 2007-09 financial crisis?

Economists acknowledge that productivity in the UK has lagged well behind other economies, particularly those in the G7. It is also well known that the factors for low productivity include a lack of an infrastructure base, a rise in low skilled jobs and a dearth in investment and innovation. It is also the case that rural economies continue to lag behind urban economies. According to the Statistical Digest for Rural England, rural productivity is some 8% less than urban productivity[1] (excluding London) 18% if London is included, meaning a potential loss of at least £20bn per year to the UK economy.

There are a number of barriers to increasing rural productivity. These include sparsity and longer supply chains, a lack of an effective digital infrastructure, a planning system that is not fit for purpose and a workforce that is shrinking. In addition, the Covid-19 pandemic has had a devastating impact on sectors such as rural tourism and hospitality which will take years to recover.

Indeed, the Covid-19 pandemic has changed the dynamics of rural economies. It has highlighted the lack of investment and innovation in rural areas as well as underscored the failure of government policies to tackle the barriers to rural economic growth.

The lack of infrastructure and a weakening skills base has had the effect of undermining the potential of rural economies to play their role in supporting the UK economy. A case in point is the ongoing rural-urban digital divide. The pandemic has thrown into sharp relief the importance of digitisation in the economy to resilience and sustainable growth. However, rural areas have been left behind in terms of digital deployment: a large number of rural locations will not see the benefits of gigabit capable connectivity until 2025 at the earliest: for some, the wait maybe until 2030.

We believe that it is essential for government to invest urgently in a national skills programme that is targeted at SMEs, tailored to their needs and widely available (in the way the SME leadership programme has been) and widescale. Skills in energy efficiency technologies,

[1] Statistical Digest for Rural England

forestry and digital technologies for small businesses, to name but three examples, should be included in any growth plan.

Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?

The ability to unlock untapped economic potential through innovation, skills and targeted investment in rural areas will be crucial. For businesses to thrive, they need a well-trained and properly skilled workforce. For the success of rural business, people are the key. We need a clear and long-term skills programme to help meet the goals of food security, greater environmental benefits and fast business adaptation. A clear and consistent rural strategy with targeted policy interventions is therefore necessary.

An area of concern that, at present, is bubbling just under the surface, but has the potential to cause real concern is the government policy on reducing immigration. Restricting labour supply from other countries, such as the EU, will inevitably mean the need of relying on a domestic workforce that is often unaccustomed to working in rural areas. This will require domestic upskilling, automation, or a mixture of both, alongside a change in cultural perceptions of agriculture and its supply chain. All of this will take time and require multi-agency efforts, which Government has to mastermind and fund, with the relevant sectors' involvement. Without a more flexible and balanced approach from government, including greater access to migrant labour while upskilling or automation take place, rural businesses will suffer economically in the short and medium term.

The pandemic has also underscored the importance of businesses using the latest digital technology and having the ability to exploit its potential. There is now compelling evidence that SME decision makers are often non-specialists in ICT and can have very limited technical understanding of the communications products and services available[2]. But SMEs remain unable to tap into a range of relevant digital skills, become more aware and use technology to improve the productivity of the business. There is still no national audit of digital skills provision and businesses often find it impossible to identify the digital skills packages that they need. If the UK is not to experience a digital skills dilemma, the government needs to direct resource to a coherent digital skills programme that has the support of the telecommunications industry.

Innovation and investment are essential factors in incentivising productivity. We believe there needs to be a partnership between public intervention and private investment, leading to greater innovation. This is where the proposed UK Shared Prosperity Fund (UKSPF) must play an integral role. For example, the last Rural Development Programme for England between 2014 and 2018 highlighted private sector investment by rural business of £1bn through match funding public funding. The UKSPF must be able to build on this by being rural proofed. If through government policy, both the levelling up fund and the UKSPF are rural proofed, businesses should have a greater ability to digitally connect, create the right conditions to invest and provide a platform for targeted investment. This will reduce the rural-urban productivity gap.

Is the Government doing enough to encourage corporate investment?

It is disappointing that this question is focused on corporate investment rather than business investment. Policy decisions by government regularly over-look that businesses, especially

[2] [2]Ofcom SME research, 2018: https://www.ofcom.org.uk/research-and-data/multi-sector-research/general-communications/sme-research

rural SME businesses, operate in many forms including as sole traders and as partnerships. For example, the Help to Grow Management and Help to Grow Digital schemes announced in the Budget require a company registration number even to register interest.

The real challenge is that the government should encourage **all** businesses to invest to improve jobs, growth, and productivity.

R & D Tax relief

Based on analysis of the Defra Farm Business Survey, if all farms performed as well as the top 25%, they would generate an additional £1.2 billion of income across all sectors. If it is to be transformed into the world-leading, self-reliant and competitive sector, it is essential that there is a well-funded research and innovation programme that reaches through to farm production, and is more farmer-centric than current programmes. Investment in near market R&D and innovation can also support low carbon farming, increased carbon storage and carbon sequestration.

At the moment, tax relief for expenditure in research, development and innovation is only available to incorporated businesses. Extending this tax relief to unincorporated businesses (which most farms are) would give all farm businesses an incentive to invest their business profits in research and development to support the drive for improved productivity and a more innovative mindset.

A study by HMRC found that for every £1 of tax foregone, between £1.53 and £2.35 of additional R&D is stimulated[3]. Research and Development Tax Credits Statistics published in September 2020 show that £5.1bn of R&D tax relief was claimed for the tax year 2017-18, corresponding to £36.5bn of R&D expenditure.[4] Government statistics show that of a total of 62,095 claims were made in 2017-18, of which only 605 were made by businesses in the agriculture, forestry and fishing sector which is a reflection of the fact that the majority of business in this sector are unincorporated and currently do not qualify for this relief.[5]

Capital allowances

The Annual Investment Allowance was temporarily increased in the 2018 budget to £1m. The policy objective was to “stimulate business investment in the economy by providing an increased incentive for businesses to invest in plant or machinery”. This is due to be reduced back down to £200,000 from 1 January 2022. However, the need to encourage investment in businesses to secure/create jobs and improve productivity remains and is, if anything, even more important in the post COVID business environment. A single piece of farming machinery can cost more than £200,000.

A substantial part of the economy, in particular SME unincorporated businesses, has been excluded from 130 per cent super-deduction capital allowance announced at the March 2021

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/413629/HMRC_WorkingPaper_17_R_D_Evaluation_Final.pdf
[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/921817/Research_and_Development_Tax_Credits_Statistics_September_2020_accessible.pdf
[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/921791/R_D_Tax_Credits_Combined_Tables_2020.ods

Budget. There is no justifiable reason for this at a time when the economy especially needs business investment by all to achieve the necessary improvement in productivity.

Is the "Plan for Growth" an adequate replacement for the "Industrial Strategy"?

The Government has stressed that the Plan for Growth is not a direct replacement for the Industrial Strategy but will build "on the best of the Industrial Strategy set out in 2017" and refresh "the government's long term strategy for growth in light of a new economic landscape, including the pandemic, our net zero target and our new place on the world stage as an independent nation outside the EU."[6] It is important that this is the case because a key feature of the Industrial Strategy was the level of collaboration between government and industry which was a proven success.

The Plan for Growth needs to be seen as a pathway for recovery. There are two main challenges: the recovery from the Covid-19 pandemic and the economic uncertainty from Brexit. But in rural areas, we are faced with the additional challenges of, inter alia, sparsity, extended supply chains, uneven digitisation and a rigid planning regime.

Government policy needs to be adapted to and be effective in these specific conditions if rural economies are to add to the prosperity of the UK. All too often, deliverability in rural areas is an afterthought, when it has been thought-through at all. The Plan for Growth needs to be ambitious and targeted. But recovery will not happen overnight and quick fixes will not resolve historic concerns such as the lack of infrastructure, a failure to reskill, invest and innovate.

We believe that key policy tools within the Plan for Growth must seek to:

- Deliver the right conditions for the effective rollout of digital connectivity, the £5bn Project Gigabit fund must allocate resources to training and retaining civil engineers, to put the infrastructure in place to achieve universal connectivity. There will also need to be appropriate resource for a national digital skills programme;

- Ensure that Government skills and reskilling programmes take onto account the impacts of a potentially reduced labour pool for rural business and that this is factored into future domestic skills training;

- Put in place effective infrastructure that exploits the opportunities of the green revolution, in particular, regarding electric grid connectivity and the provision of a rural electric vehicle charging network;

- Offer greater co-ordination of innovation and investment to incentivise businesses to act. The targeting of both the levelling up fund and the UKSPF have a key role in ensuring that the Plan for Growth embraces rurality.

- include a tax policy that encourages diversification in farm businesses and the introduction of a single rural business unit. Currently, the different elements of a diversified business must be reported separately in the business tax returns, despite being part of a single business. This creates additional burdens for farmers and a lack of

[6] https://www.gov.uk/government/news/government-writes-open-letter-to-businesses-on-plan-for-growth

clarity around how to apportion business costs between different aspects of the business means many will incur the cost of an accountant to do this for them.

- Tourism is a vital boost to rural areas, The Government should make the current VAT cut from 20% to 5% permanent for tourism enterprises, adding up to £4.5bn to the economy over a 10-year period. This would allow UK tourism businesses to compete with popular European destinations, including Greece (13% VAT), France (10% VAT) and Spain (10% VAT). It would also enable tourism businesses in the UK to lower their prices to the UK public - leading to an increase in demand and more jobs being created.

A coherent rural strategy that builds on the concept of rural proofing where all government policy recognises the importance of rural business and community is therefore fundamental. If the Plan for Growth is to be seen as an adequate replacement for the Industrial Strategy it has to work and this can only be achieved through a coherent set of measures that address the challenges in rural areas as already identified, reduce the disparities between rural and urban economies and provide a platform for future growth.

May 2021