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The All-Party Parliamentary Group for
Rural Business and the Rural Powerhouse

LEVELLING UP THE RURAL ECONOMY:

an inquiry into
rural productivity



Levelling up the rural economy: an inquiry into rural productivity

The views expressed in this report are those of the All-Party Parliamentary Group (APPG) for Rural Business and the Rural Powerhouse. All-Party Parliamentary Groups are informal groups of Members of both Houses with a common interest in particular issues.

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Levelling up the rural economy: an inquiry into rural productivity

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The All-Party Parliamentary Group (APPG) for the Rural Powerhouse was formed by parliamentarians with a keen interest in the rural economy. Our report – *Levelling up the rural economy: an inquiry into rural productivity* – completes one of the most comprehensive inquiries into the productivity of the rural economy to be published by a parliamentary group in many years.

We took evidence from more than 50 industry bodies, charities, campaign groups, companies, academics and business leaders. The overwhelming consensus was that no government in recent memory has had a programme to unlock the economic and social potential of the countryside.

This view was further compounded by the launch of the present UK Government's Levelling Up White Paper, which made no mention of creating prosperity and economic growth in rural communities – let alone setting out specific policies to deliver it.

The need to 'level up' the countryside is as urgent as it is obvious. Rural jobs pay less than urban jobs. Rural homes are less affordable than urban homes. Poverty is more dispersed in rural areas making it harder to combat¹, while the depth of rural fuel poverty is more extreme than those facing similar circumstances in towns and cities². Only 46% of rural areas have good 4G coverage³, and skills training and public services are harder to access.

It is easy to see why the rural economy is 18% less productive than the national average. Closing this gap would be worth up to £43bn in England alone, implying the creation of hundreds of thousands of good jobs in areas so often blighted by underemployment.

This report, though, is not intended to be critical of government. We recognise the enormity of the challenges created by Covid-19 and the UK's departure from the European Union (EU). But these challenges make the need to grow the rural economy more, not less, important. As a result, in this report we set out a comprehensive plan for growth, one that will create jobs, spread opportunity and strengthen small towns and villages across the country.

Due to the nature of devolution a great deal of these recommendations focus on England, but many will be equally relevant to Wales, Scotland and Northern Ireland.

Recognising the impact of the pandemic on the nation's finances, the majority of the recommendations are low-cost, requiring only a change in policy – and, in many cases, a change in how government thinks about the countryside.

Rural Britain is not a museum. It is an important part of the national economy that deserves the chance to succeed.

The urgency of improving infrastructure – particularly the delivery of full fibre broadband, 4G and 5G, and electrical connectivity – cannot be understated and is reflected in this report, but so often the rural economy is held back by poor planning policy, a minimalist skills agenda and an overly complex tax regime. These are much easier problems to fix.

1. <https://www.gov.uk/government/statistics/quarterly-rural-economic-bulletin/rural-economic-bulletin-for-england-september-2021>

2. <https://www.gov.uk/government/statistics/fuel-energy-and-fuel-poverty-in-rural-areas/fuel-poverty-in-rural-areas>

3. https://www.ofcom.org.uk/data/assets/pdf_file/0023/209444/connected-nations-2020-england.pdf

One consistent theme throughout the evidence we received was that matters affecting the rural economy often fell between the cracks of Whitehall departments. Many ministers and officials simply assume that Defra is responsible for the countryside, and ignore it as a result. But Defra simply does not have the policy levers at its disposal to implement many of the ideas necessary to grow the economy in rural areas. Efforts to rural proof government policy have so far had little effect and need boosting.

For this reason, it is vital that a cross-departmental, ministerial-led committee is formed to identify 'quick win' policy changes that will get the rural economy moving.

The organisations and individuals who gave evidence to our inquiry were ambitious for the countryside. They are motivated by a genuine desire to create prosperity for the betterment of their community, and the country as a whole. This report is the first step in our attempts to help the Government match those ambitions, and finally unlock the potential of the countryside.



Julian Sturdy MP



Lord Cameron of Dillington

Co-Chairs of the APPG Inquiry into Rural Productivity

Following our inquiry into the productivity of the rural economy, the All-Party Parliamentary Group (APPG) for Rural Business and the Rural Powerhouse recommends the following policies across six key areas.

Chapter 3: Planning

In order to improve productivity across the rural economy through planning policy, the APPG urges the Government to:

1. ensure the National Planning Policy Framework (NPPF), and all planning-related policies explicitly refer to the need for economic growth in rural areas;
2. amend the National Planning Policy Framework (NPPF) to favour small housing developments in rural areas with emphasis placed on affordable housing;
3. transform the planning application process by broadening the use of permission in principle, which shifts development costs back to a later stage of the planning application process, unlocking economic investment in rural areas;
4. improve training provision to ensure planning officers understand the needs of the rural economy;
5. provide an additional £25m for an extra planning officer in every local authority in England and Wales.

Chapter 4: Tax

In order to improve productivity across the rural economy through taxation policy, the APPG urges the Government to:

6. extend the scope of research and development (R&D) credits (as contained in the 2021 Budget) to apply to sole traders or family partnerships (currently only corporations);
7. simplify the tax system for diversified businesses through the Rural Business Unit;
8. align the VAT rate for repairs and conversions with that for new-builds to encourage regenerative development;
9. extend conditional exemption to encourage the delivery of affordable housing in local communities.

Chapter 5: Connectivity

Excellent connectivity is essential in order to improve productivity across the rural economy, the APPG urges the Government to:

10. accelerate Project Gigabit with government funding to be made available more quickly based on requirements of the industry;
11. bring interested parties within the connectivity sector together as a collective voice and to work with them to remove the barriers to full connectivity;
12. introduce signposting from government to a central online hub for existing digital skills training;
13. place transparency requirements and firm targets on providers to accelerate coverage.

Chapter 6: Farming

In order to improve productivity across the rural economy through agriculture, the APPG urges the Government to:

14. ensure that, through the Future Farming Resilience Fund, farm businesses can access high-quality advice throughout the agricultural transition period (ATP), and communicate clearly and directly with those involved;
15. publish a long-term plan of the application windows and themes to allow businesses to plan ahead and apply for grants and schemes at the right time;
16. address low prices in supply chains by implementing the requirements of the Agriculture Act 2020 to limit the influence of the major supermarkets, and address labour issues by extending the Seasonal Workers Pilot (SWP);
17. appoint a team of specialist agricultural attachés to every UK delegation negotiating a Free Trade Agreement (FTA).

Chapter 7: Skills

Improving skills is critical to addressing the productivity gap, the APPG urges the Government to:

18. ensure the ring-fenced funding for rural communities continues under the UK Shared Prosperity Fund (UKSPF), as was previously provided under the Rural Development Programme;
19. stimulate the demand for business, technical and environmental training by providing vouchers for rural businesses during the agricultural transition period (ATP);
20. establish a natural capital skills strategy to identify skills gaps and how to remedy them, including working with land-based colleges;
21. tailor business support for rural businesses – such as through shared apprenticeships, and support for farmers who work collaboratively in cluster groups;
22. deliver Wheels to Work funding and shared community transport initiatives through the UK Shared Prosperity Fund (UKSPF).

Chapter 8: Processes

Productivity can be improved through enhanced delivery of rural objectives, the APPG urges the Government to:

23. establish a ministerial-led, cross-departmental working group with a specific remit to create and deliver policies designed to improve productivity across the rural economy;
24. create a Rural Productivity Unit to sit in each relevant government department, focusing on delivering objectives identified by the ministerial-led, cross-departmental working group;
25. develop a strategic objective (within Defra) to improve productivity in rural environments with the specific intention of growing the economy;
26. require Local Enterprise Partnerships (LEPs) containing at least one rural constituency to have a minimum of one representative of a rural business on their leadership board;
27. strengthen the concept of rural proofing through monitoring, reporting and necessary training, organised by the Cabinet Office.

A planning system that is not fit for rural areas has significant ramifications for productivity.



The inquiry found that the planning system is failing those living and working in the countryside. Applications for small-scale housing developments designed to sustain local communities and economies are routinely rejected. Those seeking to support local economic activity by converting disused old buildings into modern workspaces often face excessive bureaucracy and delay.

A planning system that is not fit for rural areas has significant ramifications for productivity. Businesses are unable to move to a better location or expand, and farmers are unable to diversify their businesses – despite this being a government objective. Sally Shortall, Duke of Northumberland Professor of Rural Economy at Newcastle University, described the planning system as “*contribut[ing] to the decline of remote and rural areas*”.

3.1 What are the barriers to rural productivity?

The inquiry looked at whether the current planning system acts as a barrier to productivity in rural areas. Former Government Chief Planner Steve Quartermain believed that, rather than the problem being with the existing regulations per se, it is the application of these policies and regulations that is the barrier. This view was supported by the National Farmers Union (NFU) which said planning policy was “*not a direct barrier to rural productivity*” but that “*the process by which an application gains assent is often torturous, unduly lengthy and beset by challenges*”.

If the planning system is clear from a regulatory point of view, why does the application of the system fail? Steve Quartermain identified resources as the problem: “*you can’t expect the planning system to deliver outcomes if you don’t have it well resourced*”. Planning departments have lost 60% of staff since the financial crisis, making it harder to deliver planning objectives to the same level. **The APPG would like to see the Government provide additional funding to local authorities in England and Wales for an extra planning officer, which we anticipate would require around £25m.**

Resourcing is not just about personnel but also skills. Louise Wood, Service Director for Planning and Sustainable Development at Cornwall Council, said there are many tools within the planning system that can be used for development in small villages, but that knowing what tools to use and where is vital. **Understanding the different tools to use within the planning system can be achieved through improving training provision which will ensure planning officers understand the needs of the rural economy.**

Rural exception sites are an important mechanism for delivering affordable housing on land which would otherwise not gain planning permission. In Cornwall, this has successfully been used to deliver more than 800 affordable homes, though the situation there is particularly acute with both high levels of deprivation and huge demand for second homes in honeypot areas.

Given the complexities of planning policy, and the requirements for specialist expertise, we recommend investing in well-resourced planning departments –

both improving training provision and providing funding for an extra planning officer – in order to deliver the desired outcomes which will improve rural productivity.

3.2 Local plans

Country Land and Business Association (CLA) Head of Planning Fenella Collins identified the main barrier of the planning system as local plans. Submitting planning applications through local authorities with out-of-date local plans was “*expensive and difficult*”. There is no guarantee that an application will be accepted and, if the local plan is out of date, a considerable amount of money might be spent only to get a refusal based on outdated criteria, requiring more money to be spent at an appeal. The CLA has called for a two-stage process to be introduced into the application process. This would allow for permission in principle to be granted at the first stage of development. The final planning permission decision for the development proposal would then come after the technical details consent stage. Granting permission in principle would incentivise an applicant to pull together the necessary reports and surveys required and mean that time and money is not wasted, de-risking the planning process and encouraging investment and innovation in rural areas thereby improving productivity. It is a small tweak that would make a fundamental difference to rural productivity.

Paul Miner, Head of Land Use and Planning at CPRE, the countryside charity, said that it is “*difficult to get a local plan in place*”. Louise Wood highlighted the difficulties in using the local plan process to allocate small sites in rural areas for housing development, as the system “*pushes towards bigger sites*” and the “*capacity, time and effort to do things at a small scale is impossible*”. In its evidence, Cornwall Council cited the most difficult aspect of the planning policy process as “*the allocation of small sites, which are usually more appropriate in rural areas but extremely difficult to do through the current system, particularly at scale for large rural authorities*”. This is a structural problem that, compounded by a lack of resources, ends up contributing to the rhetoric that rural communities should be left untouched because the choice is assumed to be binary – large-scale development which threatens the identity of communities or no new development at all which can destroy communities from within. Both are a barrier to productivity. **The National Planning Policy Framework (NPPF) must be amended to favour small housing developments in rural areas.**

A planning system is only as good as its resources, and local plans carry significant weight in considerations. Ensuring that local plans are up to date and that all parts of the country have them is vital. Fewer than half of local planning authorities have up-to-date local plans⁴, making it harder to encourage growth and appropriate development. The APPG welcomes comments made by Levelling Up Secretary of State Michael Gove about the requirement for all local authorities to have up-to-date local plans by 2023⁵.

4. <https://committees.parliament.uk/committee/518/built-environment-committee/news/160142/housing-crisis-needs-action-on-planning-smes-and-housing-for-elderly-says-lords-report/>

5. <https://committees.parliament.uk/oralevidence/2980/pdf/>

The Rural Services Network (RSN) calls for a requirement in local plans to “support sustainable development in all rural communities, with no blanket policies that debar rural communities in protected areas from growth”. Steve Quartermain also called for “positive policies” in local plans “that acknowledge you can develop”.

3.3 Brownfield sites

In line with the Government’s drive to develop brownfield land and regenerate communities, the inquiry looked at brownfield sites and what could be changed to expedite development. It specifically looked at redundant farm buildings, which could have potential as business hubs or other opportunities.

In its evidence, the CLA cited the definition of brownfield within the NPPF which “specifically excludes agriculture from the brownfield definition”. This removes the chance to redevelop huge swathes of land. Though changing the definition might have an impact on landscape, the CLA advocated for greater flexibility with permitted development rights (PDR). PDR are currently only used for the change of use of farm buildings to commercial or residential uses. Greater flexibility would give landowners and farmers the power to demolish farm buildings and/or rebuild new dwellings, and would further enable the development of disused farm buildings. Provided there was working digital connectivity, this would encourage economic growth and improve productivity in rural areas.

3.4 Mindset to development

Fenella Collins described the “mindset about what takes place in rural areas” as a barrier to productivity. The inquiry heard that this is particularly prevalent when it comes to planning, with the Local Enterprise Partnership (LEP) Network citing the “local interpretation of what types of business activity is deemed appropriate in rural areas by local authorities” as a considerable barrier. The CLA pointed out the rural economy today is “much broader”, and “not just about primary industries”. Only 4% of businesses in rural areas are agricultural, manufacturing is much more prevalent⁶. NICRE, in its evidence, agreed with the ingrained misconception, “presumed to be tied narrowly to agri-food and tourism-based activities”. This was a common strand of evidence, supported by the RSN.

Interpretation is likely to differ across the country, but the inquiry identified a prevailing mindset found among politicians, communities, local authorities and the media that rural areas should be preserved in aspic. This was a feature of the Planning White Paper released in 2020, which categorised planning areas into three zones: growth, renewal and protected. Multiple submissions to the inquiry expressed concern at these proposals. Fenella Collins thought this could lead to classifying open countryside as a protected zone, which could have a “negative impact on closing the productivity gap”, while NICRE described the process as “crude”, with rural areas facing a “presumption against development” as a result of being in the protected category. This mindset is dangerous as it does not recognise the economic growth needed to sustain rural communities.

This attitude, which has become entrenched, stifles productivity through not recognising and supporting other industries and business solutions operating in rural areas. “Suitable premises are hard to find in many rural areas” said NICRE,

6. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/984879/Businesses_March_2021_final_with_cover_page.pdf

The inquiry identified a prevailing mindset found among politicians, communities, local authorities and the media that rural areas should be preserved in aspic.

which “often leads to sub-optimal performance and productivity, with businesses stuck in cramped or unsuitable premises or else split across a number of small sites”.

Steve Quartermain called for a flexible approach and the wider mindset of “councils’ attitude to saying yes to development”. The National Innovation Centre for Rural Enterprise (NICRE) argued that land use planning “is about more than development control and should also be used as a vehicle to promote economic growth and social well-being in rural areas”. **The NPPF and all planning-related policies must explicitly refer to the need for economic growth in rural areas.**

NICRE added that the planning system “adopts a settlement hierarchy approach when it comes to commercial development, steering development to the main service centres or else to nearby urban centres”. The consequence of this is that the development of rural hubs and jobs growth is displaced to urban areas.

The RSN defined a successful land use planning system as having “both the ability and local flexibility to plan for rural communities which are sustainable in economic, social and environmental terms, meeting the varied needs of small as well as large settlements”. This view was supported by Louise Wood, who called for “clear policy statements about how rural places work [in a] positive context”. Steve Quartermain argued that changing this mindset is “as much a political issue as it is a professional one”. There is an opportunity for the Government to ensure the planning system supports the economic potential of rural areas through the upcoming Planning Bill. The APPG would like to see the Government use this political will which, until now, it has failed to show.

3.5 Housing

Housing is critical in terms of productivity. The more affordable houses in rural areas, the more likely that people can afford to live where they work, which keeps money in the community. Recruiting a workforce has many complex parts, but housing is undoubtedly one of the most important considerations.

Sally Shortall said “England is the only Organisation for Economic Co-operation and Development (OECD) country where it is more expensive to live in a rural setting than an urban one”, and the LEP Network cited housing as a “key additional constraint on the growth of the economy in rural areas, and one which has an impact on productivity, is access to housing”. Average house prices (excluding London) are seven times the average wage in England, rising to nine times the average in Cornwall.

The low number of houses currently being built in the UK was acknowledged by witnesses as a barrier to improving productivity. The inquiry looked at whether this was a failure of the planning system and, if so, what the solutions are to build more houses.

Again, out-of-date local plans, as well as the definition of designated rural areas from old maps, were identified as issues. The pandemic has also changed the way people consider their living arrangements, with the LEP Network citing that market towns and other small settlements have reported “an unprecedented increase in people looking to relocate, which has further exacerbated the problems with housing affordability”.

Louise Wood highlighted problems with the definition of affordability, which can be dependent on surrounding communities, reporting that *“too many people can’t afford the houses that are built”*. Changing the definition of affordability might ameliorate the situation, but it would not be enough on its own.

Sally Shortall remarked that *“at present, affordable housing is determined by the market value of the house, rather than average earnings in the area”*. Shortall drew a link between the absence of a younger generation which has to move to towns and cities in search of more affordable housing and the *“tendency to cling to tradition rather than focusing on a new economy for the future”*.

The LEP Network made a similar connection, arguing that productivity growth *“relies on innovation and new skills being introduced in the workplace”* but that *“younger workers, graduates and entrepreneurs who could bring these new ideas and dynamism are often unable to take up jobs or start businesses in rural areas due to problems with housing affordability”*. This affects skills provision in rural areas and highlights the interconnectedness of barriers of productivity.

As well as the market conditions surrounding affordable housing, the inquiry also heard about local authorities’ role in effectively allocating housing. It is more expensive to build 10 dwellings on a rural exception site than it is to build 10 dwellings on the edge of a town or local service centre on a strategic site. Planning policy encourages strategic sites because they are easier and cheaper to build out. Successive governments have attempted to change the strategic site approach, and the NPPF now requires a percentage of sites to be small sites, but this is still not aimed at small villages. That the planning system favours economies of scale is an inbuilt disadvantage for rural areas and a barrier to improving rural productivity. **The NPPF must promote small housing developments in rural areas, with an emphasis placed on affordable housing.**

The APPG recognises the Government’s home ownership policies but, because of the extreme salaries to house prices ratio, many rural people do not have an opportunity to get on the housing ladder. There is a need to replenish the supply of affordable homes at discounted rents, which was never truly replaced after Right to Buy. We hope to see this in the Planning Bill.

Tackling the problem of affordable housing in rural areas is currently far more difficult than in urban areas because of landscape considerations. The inquiry looked at the UK’s green belt policy, and the need for more positive planning of green belts, rather than just having no-go areas for development. The CLA called for the green belt policy to be retained, but for there to be a review of its purpose. This was supported by Louise Wood, and also by Steve Quartermain who called for the review to consider *“what is appropriate development”* as well as reaffirming where it takes place.

Paul Miner acknowledged CPRE’s differences over the green belt, and called for a commitment to permanence to encourage investment and long-term management for nature recovery.

The mindset towards housing is also an important part of the solution. Council attitudes about saying yes to development must become the prevailing view.

The Government has an important role in shaping this which, in part, can be influenced by a wider holistic view of what planning is for – it is not just about housing but about place-making, planning departments “*should make things happen and make things better*” – as well as a focus on the broader economic contribution of rural areas.

Yorkshire Food and Farming Network said that “*small numbers of appropriate village houses should be encouraged*”, and this is echoed by Louise Wood. The RSN added that “*the principle of rural exception sites, solely for building affordable homes, should be protected at all costs*”, citing the policy as “*vital*” to rural areas. To ensure sustainable housing development in small villages, **the NPPF must promote organic incremental growth in settlements of fewer than 3,000 inhabitants**. All of these dwellings have been categorised as unsustainable in local plans, which prevents any future development. Changing policy in the NPPF would allow for sustainable growth in the smaller areas, with emphasis on affordable.

Amending the definition of affordability is one solution that would enable more people to afford housing. As it stands, ‘affordable’ rent comprising 80% of market rent is not affordable to most people. Social rent is not linked to market rent but is set using a government formula. This creates a ‘formula rent’ for each property, which is calculated based on the relative value of the property, the size of the property and relative local income levels, broadly around 60% of market rent. Homes England grant funding is prioritised for affordable rent tenure, with grants only available for the provision of social rent properties in areas of ‘high affordability pressure’. This means housing associations are being encouraged to develop affordable rent rather than the more affordable social rent tenure – all the while affordable homes remain out of reach for many. Paul Miner called on the Government to “*come forward with meaningful measures to help local authorities*” to end the affordable homes crisis, and called for a broader definition of rural areas for affordable housing right to buy.

The inquiry considered second homes and their impact on rural productivity. Second homes are a persistent problem in honeypot parts of the UK, and they drive up house prices, which then prices local people out. Despite some economic benefits during peak-time, because of seasonality, rural areas risk becoming ghost towns during off-peak seasons.

Steve Quartermain questioned whether this could be remedied through a planning solution or other means, acknowledging that “*from a planning point of view, it is difficult to determine who buys what and where*”. Instead, Quartermain called for a “*holistic approach*” in order to achieve housing objectives, such as through other Government policies, including taxation. One way of addressing the problem of homes standing empty for many months of the year would be to enable councils – where this issue is a particular problem – to require planning permission for those seeking to change use of the property from a home to a holiday let. The Welsh Government is currently consulting on this. Though it would not completely solve the problem, it may act as a deterrent, keeping more homes in the private rented sector for local people.

3.6 Flexibility

Flexibility in the planning system is important. It allows innovation and drives up productivity. Covid-19 rewired how people are living, and this has an impact on the planning system. Louise Wood pointed to *“digital connectivity, microbusinesses, pop-up uses”* as examples of how communities can develop.

Flexibility is also important for how businesses operate, particularly those that are looking to diversify. Rural business hubs, where multiple businesses cluster in one physical location⁷, can be seen as one solution. They *“provide a flexible approach for overcoming local constraints, lack of critical mass, and the dispersed nature of rural firms”* according to NICRE, and the APPG endorses this view.

One way that rural business hubs might be easily established is through the development of disused or derelict farm buildings. Sally Shortall said that *“many successful business hubs have been established by diversifying farmers and landowners in redundant estate buildings”*. Changing the definition of PDR to enable the development of redundant brownfield sites would make it easier to create rural business hubs, improving business opportunities and rural productivity, with the CLA’s Fenella Collins saying the change would result in delivering *“broader and better-quality jobs and wages”*.

Enterprise zones have been used as a way to promote growth in rural areas in the past, with zones granted flexibility with planning restrictions. However, without the right government incentives, there is a danger that rural businesses would not see the benefit.

3.7 Recognition of rural areas

As well as providing solutions to the barriers that have been identified, it is also important to understand why these barriers have emerged. NICRE found the UK Government’s *Build Back Better: Our Plan for Growth* report lacked recognition of the specific needs of rural areas. Rural areas are not specifically mentioned until 20 pages in. The lack of attention paid to rural areas was also noticed by Paul Miner regarding the Planning White Paper: *“nothing was relevant to affordable homes, especially in rural areas”*.

The failure to recognise rural areas results in one-size-fits-all policies implemented which are inappropriate for rural communities. Northumberland LEP cited the minimum threshold of £500,000 for the Community Renewal Fund as a *“practical example of where government policy has led to a direct inequality to access of funding for urban and rural, as this is far beyond many small rural communities and organisations”*. It is clear that there must be a tailored rural approach, and that rural proofing has not adequately redressed these imbalances. If recognition is not adequately given to the needs of rural areas, then these barriers will always remain.

7. Cowie P, Thompson N and Rowe F (2013) Honey Pots and Hives: Maximising the Potential of Rural Enterprise Hubs. Centre for Rural Economy Research Report

RECOMMENDATIONS

In order to improve productivity across the rural economy through planning policy, the APPG urges the Government to:

1. ensure the National Planning Policy Framework (NPPF), and all planning-related policies explicitly refer to the need for economic growth in rural areas;
2. amend the National Planning Policy Framework (NPPF) to favour small housing developments in rural areas with emphasis placed on affordable housing;
3. transform the planning application process by broadening the use of permission in principle, which shifts development costs back to a later stage of the planning application process, unlocking economic investment in rural areas;
4. improve training provision to ensure planning officers understand the needs of the rural economy;
5. provide an additional £25m for an extra planning officer in every local authority in England and Wales.

Simplifying the tax system and making small, but targeted, changes would help not only rural businesses but small and medium-sized enterprises across the country.



Like with planning policy, the inquiry heard that the Government's one-size-fits-all approach to tax policy means rural communities are missing out on new economic opportunities. The inquiry heard repeated calls for simplification of tax policy specifically for those running multiple businesses, as well as targeted support for businesses that could benefit from additional research and development (R&D).

The tax system in the UK is overly complicated. Simplifying the system and making small, but targeted, changes would help not only rural businesses but small and medium-sized enterprises (SMEs) across the country. Tax should be considered as an instrument to achieve other objectives, such as boosting rural businesses, incentivising development and increasing prosperity.

As is evidenced throughout the inquiry, the rural economy shares many similarities with the national economy. Jeremy Moody, Secretary and Adviser to the Central Association of Agricultural Valuers (CAAV), pointed to the prevalence of manufacturing and agriculture in the rural economy, as well as the *"fractured, small, scattered nature of the labour market with small businesses, typically family businesses"*.

4.1 Tax allowances for business investment

There are lots of levers available that could be used to drive innovation and improve productivity, including allowances. Louise Speke, Chief Taxation Adviser at the CLA, welcomed the extension of the £1m Annual Investment Allowance (AIA) until March 2023, but called for *"more stability over a longer period [...] because investment decisions take time and investment can be expensive"*. Jeremy Moody echoed this, with the AIA *"giving no more than an annual foresight"*, which can prevent businesses from making key decisions, particularly with the rollout of new technology. A longer period, such as three years, would benefit businesses and lead to improvements in productivity. He also called for the default to be £1m. Currently, the AIA is due to revert to £200,000.

The Structures and Buildings Allowance (SBA) is currently not suitable for rural businesses, particularly farming businesses. Louise Speke highlighted the 3% rate which *"doesn't adequately cover the full cost of those agricultural buildings"* with a lifespan less than the 33.5 years it takes to recover the cost with SBA. This removes the incentive for farming businesses to put in modern agricultural buildings to improve productivity. Jeremy Moody made a comparison with the rate in the Republic of Ireland, at 10%, *"which actually encourages investment in farming"*.

Further, the super deduction capital allowances – which allows companies to cut their tax bills by up to 25p for every £1 they invest – announced at the March 2021 Budget, is only available for big businesses and not family partnerships or sole traders, and demonstrates the unequal treatment received by incorporated and unincorporated businesses in the tax system which was illustrated by Louise Speke.

Despite the Government announcing a range of measures to help businesses, such as extending the scope of R&D tax credits, again only incorporated structures can qualify for these, which undermines its efforts in helping all businesses. Louise Speke highlighted this as a major barrier because *“the majority of rural businesses are sole traders or family partnerships and so cannot qualify”*. This was echoed by the Chartered Institute of Taxation (CIOT), which said that the current status *“does not encourage farmers to develop more efficient production processes”*.

Part of the problem is the Government’s interchangeable use of ‘business’ and ‘company’ when it is talking about measures that would only benefit companies. **The Government must extend the R&D tax credits to unincorporated businesses.** Extending these measures to unincorporated businesses would support the Treasury’s aim of encouraging investment across the whole economy and would have the added benefit of increasing fiscal returns to the Exchequer. An evaluation by HM Revenue and Customs (HMRC) estimates that for every £1 spent by the Government on R&D tax credits, an additional £2.4 to £2.7 is invested in R&D⁸.

Daryn Park, Senior Policy Adviser at the Federation of Small Businesses (FSB), pointed to the *“systemic under-awareness of available tax reliefs and credits”* as one of the main barriers to rural and small businesses. The FSB cited data that shows *“only about 55% of small businesses were aware of capital allowances, 41% aware of R&D tax credits, and only 30% aware of the AIA”*. That there is an under-awareness of *“key pieces of the tax infrastructure that should allow small and rural businesses to increase their productivity and outputs”* is a considerable barrier to productivity improvements. The survey also asked businesses what would incentivise investment. The top three answers were cuts to corporation tax, National Insurance Contributions (NIC) and dividend tax, with one third of businesses identifying a cut in NIC as the main incentive for them to expand and invest. The Chancellor’s decision to increase NIC contradicts what small businesses would need to improve productivity.

4.2 Tax and business administration

Despite Government policy encouraging farmers and land managers to diversify – including delivering on the Government’s net zero ambitions – different elements of a diversified business must be reported separately in a business’s tax returns, despite being part of a single business. The CLA has highlighted the additional burdens this creates for businesses as well as a lack of clarity around how to apportion business costs between different aspects of the business that leads to many incurring the cost of an accountant to do this for them. This has a detrimental impact on productivity, draining time and resources of rural businesses. Government adjusting tax rules to allow the creation of a Rural Business Unit could allow rural businesses to opt to be treated as a single business for tax purposes.

Jeremy Moody added *“we’re moving into what looks to be one of the most radical changes in decades we’ve had for a very long time”* and that *“having the*

8. <https://www.gov.uk/government/publications/evaluation-of-the-research-and-development-expenditure-credit>

tools to manage change well from the beginning, rather than trying to pick up pieces afterwards seems to be a wiser course of action". These complications are not only faced by rural businesses but small, diversified businesses across the country. In order to improve productivity for businesses, government policy must take a holistic approach to ensure that the delivery of environmental objectives, in addition to diversified business activities that would boost the rural economy, is not undermined by complex tax rules. Louise Speke highlighted conversations with CLA members who were keen to put more land into environmental management but concerned about the tax consequences. **Simplifying the tax system through the Rural Business Unit would remove the fiscal impediments to the development of new business opportunities by empowering rural entrepreneurs to make their own decisions, reduce bureaucracy and increase tax revenue for the Exchequer**⁹.

Tax administration is also undergoing change through Making Tax Digital (MTD) for income tax obligations. A quarterly analysis of overhead costs will become necessary for businesses, as will multiple updates for any diversified business activity. The additional accountancy charge will cost businesses an average of £2,570 per year¹⁰, in addition to any new software and time spent on its administration. Furthermore, MTD is reliant upon a solid broadband connection, something that is not a certainty in many rural areas. The FSB pointed to its data, which shows that *"about 40% of rural businesses have a data speed of less than 10mbps and over 50% say their current broadband is unreliable and unsuitable going forward"*. This policy shift to online-only shows the limitations of rural-proofing in disadvantaging those who do not have adequate connectivity.

Additionally, the FSB revealed that a lot of small businesses owners who had already switched to MTD *"haven't seen the efficiency increases, the ease of cashflow management but they have seen that the cost of doing tax has gone up significantly"*. Daryn Park described this as a *"discontinuity"* in the short term, but hoped that, in the long term, MDT *"will be able to roll out an increased productivity for businesses"*. It is important that HMRC is live to these issues and that it offers businesses support as they make the shift, as well as making sure that the infrastructure is in place for businesses to use MTD adequately.

The FSB described the current tax system as *"quite burdensome to small businesses"*. In a survey completed by its members, *"the average cost to complete tax compliance per year is £4,100, and it takes about 52 hours, on average, per year for small businesses to complete the tax allowances"*. The structure of the system, the compliance, and the complexity mean that businesses *"have less resources to use for productivity, including business development"*.

4.3 Delivering housing through the tax system

The delivery of housing, a key issue facing the UK, is impacted by the tax system. Louise Speke raised the issue of land pooling – where owners of adjoining land agree to promote or supply the combined site for development purposes – and

9. https://www.cla.org.uk/documents/474/Rural_Business_Unit_Report_2022.pdf

10. https://www.cla.org.uk/documents/474/Rural_Business_Unit_Report_2022.pdf

Currently, the tax system acts as a barrier to landowners who want to develop their own housing and let it out to local communities, at affordable rent.

the tax complexities that arise. It is disadvantageous for private landowners to enter into or leave land pooling agreements, therefore reducing the availability of land and supply of housing. The CLA is calling for the Government to make changes so that the landowner who is putting land forward for development has a tax-neutral position i.e., no worse or better position than if selling the land independently, and has the flexibility *“to put the land into arrangements and be taxed as if they were selling the land”*.

The FSB identified the general application process, such as applying for planning permission and accompanying taxation as a considerable barrier to housing and housing development. Small businesses *“don’t have the resources needed to be able to comply with the long application processes or the land taxations”*, which ends up stifling the market, with only larger businesses able to enter into housing developments. Reducing the bureaucracy and simplifying the planning application process would *“expand the market so that small businesses could enter more easily”* and have a pronounced effect on improving productivity.

Currently, the tax system acts as a barrier to landowners who want to develop their own housing and let it out to local communities, often at affordable rent. Louise Speke highlighted that on the death of a landowner, there is a risk of the executors of the estate being *“hit with a massive tax bill, because any property that is let out is an investment property”*, which could negatively impact on *“business property relief equations”* and which may result in the housing being sold on the open market and no longer being available to local communities at affordable rents. The CLA has called for the conditional exemption regime to be extended *“for as long as a landowner owns and lets his or her housing at an affordable rent, they should be exempt from capital tax”*. **Extending conditional exemption is one way in which tax could be used as a lever to encourage not just housing, but affordable housing, reducing the pressures on over-developed areas and providing rural communities with housing.**

There is currently a lack of suitable houses for employees in rural areas. One aspect of this stems from the under-supply of houses nationally, but another reason, as pointed out by Louise Speke, comes from *“uncertainty in the tax treatment of those employees on the benefits provided by their employers”*. Guidance from HMRC on the statutory tests that allow accommodation to be a non-taxable benefit-in-kind is unclear. HMRC’s guidance needs to be revised to give more certainty to employees who need housing, without the employee being hit with a high tax charge.

The supply of housing in rural areas is further constrained by energy efficiency requirements. By 2025, all houses in the private rented sector will be required to have an Energy Performance Certificate (EPC) of Band C or higher. Yet many houses in rural areas will never reach an EPC higher than Band E. This is due to a higher proportion of rural housing being made of traditional materials, which makes them harder to insulate, but also due to many houses being off-grid, which makes the cost of energy considerably more expensive. By mandating all houses to be Band C or higher means that many of these houses may be taken

out of the rental sector and be converted into holiday lets or left empty, which would further diminish the housing supply and, crucially, remain at the same poor energy efficiency levels.

Undertaking work on property is deductible for income tax purposes if it is of a revenue nature. The installation of double glazing is currently accepted as a revenue rather than a capital expense. However, Louise Speke highlighted the grey area that exists in determining whether work undertaken to a property to improve the energy efficiency is of a capital nature which means it cannot be deducted when calculating the taxable profits. For example, switching from a boiler to a heat pump could be considered either revenue or capital expenditure. With landlords required to make these sorts of decisions by 2025, it is important that the Government accepts that this expenditure is revenue in nature to make sure that landlords are incentivised to make the changes.

4.4 Value added tax

Value added tax (VAT) is one lever that could be used to encourage changes, such as using the VAT regime to stimulate regenerative development. In its evidence, the CLA pointed out that there is more carbon used in new-builds than in repairing older buildings or converting agricultural buildings. Despite this, repairs on existing buildings are subject to VAT at 20% with conversions at 5%, whereas new-builds are zero rated. This incentivises the demolition of existing buildings, which has damaging environmental repercussions, instead of regenerative development. **Following the UK's departure from the EU, there is the opportunity to take full control over the VAT system and align the differing VAT rates for development.**

VAT for hospitality businesses is another lever that can use be used. The reduction to 5% for hospitality businesses during the pandemic was *"a helpful palliative"* according to Jeremy Moody as it *"enabled a lot of businesses to either cut their charges to win trade or, quite often, to maintain charges and therefore have higher earnings"*. However, decisions should be made *"on a long-term stable basis if you are looking to assist productivity"*. This was supported by the CLA which agreed with the need for a long-term strategy at a lower rate which would bring the UK in line with European competitors.

In an FSB survey, 24% of respondents described VAT as *"one of the largest barriers to growth"* they face, with some hospitality businesses opting to *"stop operating rather than cross the £85,000 VAT registration threshold and having a £17,000 tax burden"*. This was echoed in evidence from the Heart of the South West LEP, which cited the threshold as *"a barrier to growth"*. The FSB has called for a reform of VAT, with the threshold raised before the first VAT payment and a *"phased-in payment system"*. However, whether introducing additional rates of VAT would help businesses and not end up further complicating an already complex system is yet to be determined. What is clear, though, is that a system that sees businesses cut down their activities to avoid going over the VAT registration threshold needs to be re-examined.

4.5 Inheritance tax

Land that is used for agricultural or businesses purposes is eligible for either agricultural property relief (APR) or business property relief (BPR) from inheritance tax (IHT). The Government has confirmed with the publication of the policy objectives for tax reliefs in 2021, that the purpose of these reliefs is to ensure that businesses or farms “do not have to be sold or broken up following the death of the owner”.

At present, it is unclear whether the use of land for delivery of environmental schemes, including carbon sequestration, will qualify for either APR or BPR. If not, the land risks being taxed at 40% IHT, a clear disincentive to those who were considering using their land in this way, and an obstacle to the Government’s environmental ambitions.

The LEP Network explained that “IHT should also facilitate the diversification of the economy in rural areas, but at present many farmers report being discouraged from diversifying because this can change their tax status”. In addition, CIOT pointed out that “the tax system positively discourages farmers from significant non-trading diversification (e.g. letting redundant farm buildings for offices/storage or letting land for solar or battery storage schemes) because they risk the loss of IHT APR on the part of the farm affected”. This contradiction of policies emphasises the need for a joined-up approach.

Farmers and land managers need the confidence to be able to make significant investment decisions and the right tax conditions. The CLA and the NFU support extending inheritance rules to include all environmental schemes, not just government schemes but those which seek to deliver carbon sequestration or biodiversity net gain, which is critical to encourage the take-up of these schemes. **Clarity on whether delivering environmental outcomes counts as a trading business is also necessary to instill confidence in the sector and to encourage diversified businesses to invest, and improve productivity.**

RECOMMENDATIONS

In order to improve productivity across the rural economy through taxation policy, the APPG urges the Government to:

6. extend the scope of research and development (R&D) credits (as contained in the 2021 Budget) to apply to sole traders or family partnerships (currently only corporations);
7. simplify the tax system for diversified businesses through the Rural Business Unit;
8. align the VAT rate for repairs and conversions with that for new-builds to encourage regenerative development;
9. extend conditional exemption to encourage the delivery of affordable housing in local communities.

Rural connectivity has improved dramatically in recent years, yet still lags behind urban areas.



The inquiry recognised that significant progress has been made in recent years in digital connectivity in rural communities. But its findings suggest there is cause for concern that the Government is now rowing back on promises to deliver full fibre broadband and 4G for all. For rural communities to attract workers, support entrepreneurs and encourage economic growth, urgent action is needed.

Connectivity has never been more essential than in the past 18 months. It has become a lifeline for working, education and socialising. UK usage of broadband doubled in 2020¹¹, and many businesses adapted to utilise online platforms. 16% of small businesses developed an entirely new online offering, and 24% of businesses had to radically update their provision in order to enable staff to work remotely¹².

Rural connectivity has improved dramatically in recent years, yet still lags behind urban areas. Ofcom's 2021 *Connected Nations* report¹³ outlined only 83% of rural areas in the UK have access to superfast broadband compared to 98% of urban areas, and 403,000 properties do not have access to decent broadband. This is defined as having speeds of at least 10Mbps (Megabits per second)¹⁴, which would allow for normal internet usage, and basic quality when using streaming services. In terms of 4G mobile coverage, individual operators reach between 79%-86% of the geographic area of the UK.

To improve broadband coverage across the UK, the Conservative party manifesto set out the Government's intention to provide gigabit-capable broadband to the whole of the UK by 2025. The Government allocated £5bn of spending to cover the final 20% hardest to reach areas. In 2020, the National Audit Office (NAO)¹⁵ warned that this was too ambitious a timeline and was unlikely to be met. At the autumn spending review of the same year, the Chancellor announced the target would be revised down to 85% and that only £1.2bn (of the available £5bn) would be allocated before 2025. The remaining 15% are most likely to be rural areas and the most challenging for commercial rollout.

Estimates place the value of UK-wide fibre connectivity at a value of £59bn¹⁶ to the UK economy, so if we are to close the productivity gap between rural and urban areas, reducing the digital divide is an essential place to start.

5.1 Digital connectivity and rural productivity

When asked to pinpoint the impact that high-quality connectivity would have on rural productivity, many respondents highlighted that it would give businesses and individuals the freedom to choose where to locate.

11. UK broadband usage more than doubled in 2020 - driven by live sport, online gaming and home working (openreach.com)

12. Broadband Stakeholder Group

13. Ofcom Connected Nations 2021

14. <https://www.ofcom.org.uk/phones-telecoms-and-internet/advice-for-consumers/broadband-usage-need-to-know>

15. Improving Broadband - National Audit Office (NAO) Report

16. BT evidence to the inquiry Pg1

The pandemic has shifted working patterns, and if the ability to work from home is viable in a rural setting, this would subsequently become a more attractive option for working people. In a survey by the CLA, 56%¹⁷ of urban dwellers cited good connectivity as a major consideration in their decision to move to a rural area. Till Sommer, Head of Policy at the Internet Services Providers' Association (ISPA), told the inquiry that it could play a part in reversing the so-called "*brain drain*" from the countryside. "*If you put the digital infrastructure into rural areas, you can attract those people back, based on (forming) businesses. You can get a whole cycle of innovation in the rural areas that usually happens in urban areas or large cities*".

Improved connectivity does not just benefit newcomers to rural areas. Those who already live and work in the countryside deserve the same level of coverage as those in urban environments. A study by the Countryside Alliance found that 85% of rural businesses cited their connectivity as poor but manageable, with 80% saying better quality connectivity would be the single largest improvement to their business¹⁸.

Away from the economic benefits, improved connectivity also has the opportunity to increase the quality of life in rural communities through online access to healthcare, entertainment and educational services.

5.2 Improving coverage

If it can be agreed that it would be of great benefit to increase coverage across rural areas, how can improvements be made in a useful and timely manner?

A number of respondents in written and oral evidence described the 2019 commitment as ambitious and overly optimistic with BT Group outlining that the 85% target for 2025 can largely be achieved via commercial operators¹⁹ but that the rest will largely come after. The Government's original target on achieving full fibre was 2033. Building Digital UK (BDUK), the body responsible for delivering public intervention objectives, placed the commercial figure at 80%. It said that the remaining 5%, which public funds would be spent on, would use the 'outside-in' approach, starting with the most difficult to reach areas first and then working out. Although the original budgetary allocation of £5bn for reaching 100% was still available, only £1.2bn will now be allocated up to 2025.

Therefore, it does appear that the Government has given up on the premise of the 'outside-in' methodology, if only 5% of these difficult locations will be helped to gain high-quality connectivity before 2025.

Till Sommer said the focus should be taken away from the target: "*I think it's way more important to actually put the right policies in place to enable the sector to roll out as quickly as they can, so it's more about enabling the sector to go as quickly as they can, remove the barriers and then that way they get to the more difficult areas sooner rather than later*²⁰". However, Dr Charles Trotman, Senior Economics and Rural Business Adviser at the CLA, expressed the view that the Government was

17. https://www.farminguk.com/news/1-in-2-young-people-want-to-swap-city-for-countryside_56817.html

18. Gigaclear/Countryside Alliance evidence to the inquiry

19. BT Group written evidence

20. Evidence transcript

failing to do this by only releasing £1.2bn. The industry could move quicker than the 2033 target²¹ for full gigabit coverage that was set by the May Government in the Future Telecoms Infrastructure Review if the financing were available: *“My question would be, where is the remaining £3.8bn going to be spent, how is it going to be spent and I can’t really see how, after 2025, after we’ve completed the commercial rollout, the ‘outside-in’ approach is actually effective or can work because the premise of that approach is built on the commercial rollout”*. When asked about the remaining 15%, Richard Wainer, Policy and Public Affairs Director at BT Group, said *“what’s the plan for the final 15%? We don’t really have that”*. This was a fundamental issue: the Department for Digital, Culture, Media and Sport (DDCMS) and the industry appear to be focused on the 85% target for 2025, but have not yet considered what comes after. **It is important for DDCMS and the industry to produce an accessible roadmap for the 15%, with tangible targets for those left behind.**

The other aspect of the connectivity divide is mobile coverage. The inquiry was pleased to hear of the progress that is being made through the Shared Rural Network (SRN). The SRN is an agreement made by all of the major phone operators in 2020 to work together to cover 95% of the geographic area of the UK by the end of 2025 through, for example, sharing mast equipment in less financially viable places. This is a legally-binding target, overseen by Ofcom due to the £500m of public money placed into the scheme. When pushed by the inquiry on how the project was going, Hamish MacLeod, Director of Mobile UK, said that while there had been delays due to Covid-19 and infrastructure accessibility, operators were still optimistic of reaching the target.

Several individual respondents to the inquiry cited frustration with the large operators, both mobile and fixed line, over the lack of transparency provided to consumers about when improvements will be made in their area. In response, operators have blamed competition rules. **With mobile operators working together on the SRN, and large public investment in Project Gigabit, transparency requirements and firm targets must be placed on providers in order to accelerate coverage.**

While this section has focussed on the Government’s ambitions for coverage, other barriers remain which prevent the industry progressing with further improvements.

5.3 Accessibility

It is not only financial obstacles that have prevented the rollout of coverage in rural areas. Significant issues persist with access to engineers as well as land and planning permissions in some circumstances.

The Electronics Communications Code (ECC) was reformed in 2017 to improve access to land and remove the practice of ‘ransom rents’ in which some landowners had been receiving over-inflated settlements for having electronic communications apparatus on their land. However, the revised Code appeared to

21. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732496/Future_Telecoms_Infrastructure_Review.pdf

shift the balance in favour of the operators, with examples of landowners being offered up to 90% less than before, causing a significant fall in negotiated Code agreements, and coverage improvements to stall. Nevertheless, there are examples where proper and effective co-operation between landowners and telecoms providers can improve connectivity. The national rural wayleave framework agreed between the CLA, NFU, Openreach and Gigaclear appears to remove one of the major obstacles between landowners and providers by setting out a clear process which allows agreed access to the land. Richard Wainer, while supportive of the 2017 amendments to the Code and the aim to make Code agreements much more like the current rules regarding access to land for utility providers, stated the need for both sides to work collaboratively. *"We've got 19,500 mobile sites across the UK; thousands are provided by small landowners."* Hamish MacLeod also agreed that the changes had been a *"crucial move"*. Following its recent review of the Code and the publication of the Product Security and Telecommunications Infrastructure Bill²², DDCMS must bring representatives of both parties together to find a consensus on valuation for land access.

The planning system was also criticised as a barrier for connectivity, with many applications taking a long time to be processed or rejected due to local opposition. The Government has made planning permission easier in recent years through changes to PDR, but many respondents called for further action. Vodafone suggested the *"reforms should include the ability to build taller masts where required, removal of all prior approval conditions from the exercise of permitted development rights in relation to mobile infrastructure, removal of limits on the width and thickness of mast equipment for the upgrades of sites"*. Examples of taller masts are seen in Europe which extend coverage across rural areas. Hamish MacLeod referenced this while emphasising that they would want to take all the decisions away from local authorities. *"We can build up to 30m, albeit with the local authority retaining the right to approve the siting and the design"* he said. With DDCMS currently consulting on changes to planning rules regarding connectivity, the APPG asks that the Department considers relaxing PDR rules further to increase the height of masts for the benefit of extended coverage.

5.4 Skills

Improving connectivity in rural areas is just one part of the puzzle in reducing the productivity gap between cities and the countryside. This connectivity has to be utilised to its full potential and, to do so, rural businesses must have a skills base. A report commissioned by Amazon²³ found 52% of rural businesses surveyed faced constraints on their business due to digital skills accessibility and provision. The LEP Network identified that this is *"a-once-in-a-generation time to improve digital skills"* at the same time as providing digital rollout. This was also highlighted to the inquiry by the panellists at the evidence session, with Richard Wainer stating *"there needs to be a similar level of focus on skills and the*

22. Product Security and Telecommunications Infrastructure Bill - Parliamentary Bills - UK Parliament

23. <https://ruralengland.org/wp-content/uploads/2018/03/Unlocking-digital-potential-website-version-final.pdf>

ability to exploit, as there is on the infrastructure rollout” while Charles Trotman added that if you can’t use the connectivity, then “what is the point in having connectivity there?”

Skills in rural areas is further developed in a later chapter of this report.

The APPG recommends that DDCMS develops a centralised signposted guide of the existing digital skills training opportunities, as the information is currently available across multiple local authorities, government departments and charities.

RECOMMENDATIONS

Excellent connectivity is essential in order to improve productivity across the rural economy, the APPG urges the Government to:

10. accelerate Project Gigabit with government funding to be made available more quickly based on requirements of the industry;
11. bring interested parties within the connectivity sector together as a collective voice and to work with them to remove the barriers to full connectivity;
12. introduce signposting from government to a central online hub for existing digital skills training;
13. place transparency requirements and firm targets on providers to accelerate coverage.

If farming is to continue,
it must be profitable
and deliver environmental
outcomes.



The inquiry heard evidence acknowledging the significant efforts made by the UK Government to design and implement a new agricultural policy. The move towards ‘payments for public goods’ model was widely accepted as the correct course of action following the UK’s departure from the EU and subsequent withdrawal from the Common Agricultural Policy (CAP). However, the need for improved communications with farmers as to the nature of the new schemes and how to access them was universally felt. Action is necessary to tackle poor labour supply and the influence of supermarkets in setting prices. The inquiry also found that trade delegations undertaking free trade deals on behalf of the Government do not at present have access to sufficient agricultural expertise, leading to poor outcomes for farmers.

Farming in the UK is going through a significant period of change as it moves from a system of land-based payments under the EU CAP to new Environmental Land Management (ELM) schemes that intend to pay for environmental delivery. This is the biggest change in agricultural policy in over sixty years and will change the landscape of British farming. If farming is to continue, it must be profitable and deliver environmental outcomes. The inquiry wanted to understand how these changes would impact the productivity of agriculture in the UK.

6.1 The future of support

The removal of the Basic Payment Scheme (BPS) was always going to be a seismic shock to the sector, with Department for Environment, Food and Rural Affairs (Defra) statistics placing only 25%²⁴ of farming enterprises as profitable without direct payments. In December 2021, the Agricultural Transition Period (ATP) began – a process which gradually phases out direct payments in England up to 2028. Wales and Scotland are developing their own support systems. The Government’s intention is that the money will go into developing ELM schemes and projects such as the Farming Investment Fund, which aims to boost productivity by providing grants to buy new machinery. The transition will follow a phased approach, with the first of the ELM schemes – the Sustainable Farming Incentive (SFI) – introduced in 2022 in partial form. Additional elements of the SFI and further ELM schemes will follow, and all schemes will be fully operational by 2025.

While we are still only at the beginning of the ATP, there is still little detail about the future of ELMs and what they will look like for the average business. George Dunn, Chief Executive at the Tenant Farmers Association (TFA), told the inquiry: *“We’re developing a patchwork quilt of interventions, which when you look at the sum of those parts actually don’t add up to very much, in our view”*.

ELMs will comprise three overall schemes: SFI, Local Nature Recovery (LNR) and Landscape Recovery (LR). SFI will be available from 2022, and it will pay for soil health. Additional elements will be added in future years to pay for more outcomes (e.g., water quality or farm biodiversity). A full list of SFI standards will

24. Defra evidence compendium 2019

be available to farmers in 2024/25. LNR is being presented as an evolution of the existing Countryside Stewardship Scheme, which pays for projects such as creating space for wildlife, while LR aims to fund large-scale projects such as planting woodland or creating wetlands. LNR and LR will not be accessible to farmers and landowners until 2024. It is likely that many farm businesses will have to go onto at least one type of environmental scheme, with NICRE telling the inquiry that *“increasing productivity may increase average farm income, but it’s not sufficient to offset the impact of losing BPS”*.

In terms of the new schemes, the inquiry heard that there is a real desire for the Government to publish a long-term plan to help farm businesses plan for the future, because of the transition from a fairly simple scheme based on hectares farmed to one that is more complicated based on environmental outcomes. Mark Bridgeman, former President of the CLA, said *“one of the real challenges for Defra through this transition is [that] it’s complicated – I mean, we counted 18 different schemes, whether it’s the environmental schemes, the productivity schemes, the exit schemes, the entry schemes, the old schemes, the new schemes (I could go on and on) and we’re doing this day in, day out, and we struggle to keep up”*. It was evident throughout the inquiry that farmers and landowners will need tailored advice to access these schemes, and that what would suit a farm in Cambridgeshire would not be appropriate for a farmer in Cumbria. **The APPG recommends that Defra ensures that, through the Future Farming Resilience Fund, farm businesses can access high-quality advice throughout the ATP. Defra must communicate clearly and directly with those involved to maximise take-up and the environmental benefits delivered.**

6.2 Productivity within agriculture

Focusing on how productive agriculture is as an industry provides mixed results. Since 2005, the UK has experienced a 7% growth in total factor productivity compared with the Netherlands (33%) and the USA (18%)²⁵. Defra found four key drivers of increasing productivity²⁶: growth in agriculture, ideas and innovation, people and information, investment and competition.

People and information involves how the sector interacts both with itself and others and the benefit of upskilling to the industry. Respondents to the call for written evidence highlighted that there needs to be greater communication of best practice throughout the agriculture sector, but emphasised the variety of farming businesses. Mark Bridgeman said: *“We’re not as good as other industries sometimes ... there’s very high achievers but if you look at the middle of the pack, a lack of knowledge exchange”*. Within the skills session of the inquiry, Lord Curry of Kirkharle set out the new National Library of Agri Food, which aims to deal with the issue through accessible information for food producers on best practice. It is not just a matter of getting people to share practices, but also provide data and baselines. Dr Andrew Francis, Senior Adviser – Business Competitiveness at the NFU, told the inquiry: *“There is an issue around data and the lack of data that farmers need to be able to measure productivity”*. One of the main reasons for data not being available is not only a lack of digital connectivity in rural areas, but the skills to know what needs to be measured and when.

25. Andrew Francis Oral evidence.

26. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/955919/fbs-evidencepack-28jan21.pdf

Throughout the inquiry, it was evident that many of the themes interact with each other. When considering how to improve agricultural productivity measures, you also need to consider how to improve skills and digital connectivity.

In terms of ideas and innovation, the UK has been world leading with R&D into farming techniques. There is the opportunity for great leaps in innovation, and the recent review of gene editing regulation gives a preview into how science can help increase production while using fewer resources. The Government should incentivise farmers and land managers to work directly with scientists and businesses on R&D. This, however, comes at a cost and underscores the importance of the Government extending tax reliefs for research, development and innovation to unincorporated businesses.

In terms of the investment element of increasing productivity, the witnesses highlighted the role the new Defra productivity schemes will have. Andrew Francis said that *"the Government is saying that it's going to be spending 9% of that budget on productivity and we need to be seeing those funds out now, under the farming investment funds: so, there's the farming equipment and technology fund and the farming transformation fund"*. These new funds are set up to pay for the extra costs of new machinery and technology to improve productivity of farm business. While both schemes have been welcomed by the industry, concerns have been raised over timescales, with applicants only having six weeks to register interest before the closure of the first round of schemes, which is not conducive for long-term decision-making. George Dunn had some criticism for the schemes, stating that it would lead to funding bits of kit that people do not need, and would raise the overall prices of the equipment without looking at the structural issues. In order to get the most out of these productivity schemes they must be user-friendly to the participants and designed with them in mind.

6.3 Supply chain issues

Brexit and the Covid-19 pandemic have had huge impacts on supply chains across the UK, and agriculture has not been immune to these challenges. Labour shortages at the end of 2021 created huge difficulties across the pork sector, with pigs having to be culled due to a lack of staff in abattoirs, and instances of fruit and vegetables left unpicked due to a shortage of seasonal workers.

The Seasonal Workers Pilot (SWP) currently allows 30,000 visas for people to work in agriculture and horticulture, but estimates place the required figure much higher at 80,000²⁷ and that this shortfall will have a massive effect on businesses. All witnesses in this session believed that the 30,000 figure was insufficient, and requires reexamination at a time of already increased pressure on the industry. Andrew Francis told the inquiry *"the 30,000 seasonal labour pilot, I think is insufficient at the minute, that needs to increase. Because we know that a lot of British people won't do that labour"*. The domestic market did attempt to fill the shortage in international labour with the Pick for Britain campaign during the height of travel restrictions in 2020, but the increased numbers are insufficient to fill the gap long term, with government figures placing domestic labour at 11%²⁸ in these roles. **In order to prevent a labour crisis in 2022 the**

27. <https://www.fwi.co.uk/business/business-management/staff/government-must-double-seasonal-workers-scheme-for-2022-nfu>

28. <https://committees.parliament.uk/oralevidence/1232/default/>

APPG recommends that the SWP is reviewed and numbers increased for the coming year. This is not to say that this domestic labour could not be found in future, but there are several structural issues that dissuade British workers from participating within the sector that need to be addressed.

Farm businesses are also facing increased costs, due to labour shortages, increased utility prices and production expenses. This, however, has not been reflected in farmgate prices, as Andrew Francis told the inquiry “*farmers are price takers and not price makers*”. Farmers receive low prices from the supermarkets and other big food corporations which have more power to set the prices than the producers. The Grocery Code Adjudicator (GCA) was established in 2013 to enforce a code of practice, and regulate the role between the supermarkets and direct suppliers. While the GCA has made some improvements to the supply chain, it has remained toothless on several issues such as price transparency and secondary purchasers (as it only deals with direct suppliers). The Agriculture Act 2020 included provisions to bulk up the powers of the GCA, giving the Secretary of State the power to extend the regulatory body to cover the primary producer, who then subsequently sells up the chain to another body who then sells to the supermarkets. The model, which gave supermarkets dominance, was based on the primary producer receiving subsidies to produce either under BPS or other schemes – this is no longer the case. Therefore, this requires assessment to restore a fair balance across the supply chain. **To address low prices within supply chains, the Government must implement the requirements of the Agriculture Act 2020 on limiting the influence of the major supermarkets.**

6.4 Trade

One of the biggest challenges and – equally – opportunities for British agriculture post-Brexit is international trade. While the EU/UK Trade and Cooperation Agreement²⁹ signed in December 2020 allows for trading with Europe with zero tariffs and zero quotas, further Free Trade Agreements (FTAs) are now being struck across the rest of the world. These FTAs will allow the UK to showcase its world-leading environmental, ethical and animal welfare standards to new international markets, but also have the potential to give tariff-free access to the UK market for cheaper products, not produced to the same stringent standards.

The Australia/New Zealand trade deal, agreed in summer 2021, did place some initial restrictions on the number of beef/lamb products entering the UK for the first 15 years. What the agreement did not place requirements on was import standards, which puts the UK market at a distinct disadvantage as it costs more to produce to the UK standard, and could lead to offshoring environmentally bad practices. The risk of lower standards to the UK market was highlighted to the inquiry. Andrew Francis said “*when we are talking about trade deals that standards could potentially be undermined and that is going to have a huge impact on farmers. Price is king, and we just have to try and recognise that standards are not undermined*”. During the passage of the Agriculture Act 2020, there was significant pressure that in all future trade deals imports must be required to have equivocal standards of production. In response the Government agreed to

29. https://ec.europa.eu/info/strategy/relations-non-eu-countries/relations-united-kingdom/eu-uk-trade-and-cooperation-agreement_en

set up the Trade and Agriculture Commission (TAC), an independent body to advise on how standards could be maintained, and ensure that the sector remained competitive. The first TAC ran from July 2020 to March 2021, publishing a report³⁰ with 22 recommendations on how agriculture should be supported in future trade deals, and pushed for recognition of standards. The Government accepted some of the recommendations such as labelling advice, and agreed to develop an agri-food strategy. Among respondents to the inquiry, it was highlighted that it took the Government six months to reply to the initial report, and that two trade deals were completed within this period, with George Dunn telling the session that not even the TAC chair knew when the Government was going to respond. The second TAC was established in November 2021, with the intention the Commission would review any further FTAs. **The APPG would strongly recommend that the Government engages more closely with the TAC both to secure new markets, and to maintain the world-leading standards of British agriculture.**

While the inquiry did hear concerns regarding trade, there are also fantastic opportunities to be had in championing these standards across the globe. One way this could happen would be through championing trade attachés, with delegations posted to embassies to promote the work of UK farmers to high-value markets. Within the farming evidence session, the Netherlands and New Zealand were discussed as examples of smaller economies that are punching above their weight in regards to trade. This has been attributed to the emphasis they place on the direct action of attachés on the ground. **The APPG recommends that the Department for International Trade and Defra work collectively to appoint a team of specialist agricultural attachés to every UK delegation negotiating an FTA.**

RECOMMENDATIONS

In order to improve productivity across the rural economy through agriculture, the APPG urges the Government to:

14. ensure that, through the Future Farming Resilience Fund, farm businesses can access high-quality advice throughout the agricultural transition period (ATP), and communicate clearly and directly with those involved;
15. publish a long-term plan of the application windows and themes to allow businesses to plan ahead and apply for grants and schemes at the right time;
16. address low prices in supply chains by implementing the requirements of the Agriculture Act 2020 to limit the influence of the major supermarkets, and address labour issues by extending the Seasonal Workers Pilot (SWP);
17. appoint a team of specialist agricultural attachés to every UK delegation negotiating a Free Trade Agreement (FTA).

30. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/969045/Trade-and-Agriculture-Commission-final-report.pdf

For decision-makers, recognising the diversity of the rural economy and the wide range of business activities is vital.



The inquiry heard that the inherent isolation of rural communities can make it difficult to access new skills and training opportunities. This is all the more concerning given the potential which emerging environmental markets have in transforming the rural economy – a lack of skills provision could mean the country is not able to capitalise on such opportunities.

For decision-makers, recognising the diversity of the rural economy and the wide range of business activities is vital. The LEP Network highlights that, in Cumbria, “23% of Gross Value Added (GVA) is in advanced manufacturing (much of it in rural areas), compared to 11% in tourism, which would not be expected given the perception of the LEP area and Lake District National Park as being primarily dependent on agriculture and the visitor economy”. This is a common myth the inquiry has identified, and changing this perception is critical in order to increase rural productivity. The Statistical Digest of Rural England identifies 550,000 businesses registered in predominantly rural areas, 23% of all businesses registered in England with a combined annual turnover of £508bn³¹. The perception of rural areas as teashop economies undermines their economic contribution, which has an impact on productivity.

Skills provision and demand is critical to raising productivity in rural areas. Rural businesses require the same tools as urban enterprises, but there are structural issues in rural areas that have historically made these harder to deliver. The cost and time commitment for training is a barrier to rural businesses, so demand is important in persuading providers that skills training is worthwhile. These issues are further compounded by specific skills shortages among workers and a lack of workers in rural areas, which contributes to an overall deficit of skilled workers.

NICRE highlights these structural issues and how they affect workers. “In many rural areas, people often have a more limited choice of jobs, need to hold down more than one job, get paid less for jobs requiring fewer workplace skills and experience less on-the-job training. Moreover, rural firms that create skilled employment opportunities can have difficulty recruiting or retaining skilled staff, often arising from limitations in other features of their rural areas – lack of affordable housing for incoming employees, poor public transport or alternatives for young commuters or shift workers, inadequate broadband/mobile connectivity for social activities and schoolwork” as well as business performance and productivity. In analysis undertaken by NICRE, recruitment and retention are issues for one-third of England’s rural small firms, a serious constraint on productivity.

Some of these shortcomings can be fixed through relatively simple policies that seek to counter the anti-rural bias, such as provision of training which is tailored to the needs of rural businesses. Others, such as transport opportunities, are systemic problems across the rural economy and will take longer and require considerable investment, time and perhaps legislation to address.

31. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/984879/Businesses_March_2021_final_with_cover_page.pdf

This demonstrates the interconnectedness of these issues – digital skills are a core part of skills provision and require decent connectivity. Young people are more likely to stay in (or move to) an area if there is affordable housing provision near to where they work or they can access it through a transport infrastructure. None of these can be addressed in isolation and require a joined-up approach.

7.1 Opportunities

The lack of a suitable workforce in rural areas often stems from the outmigration of people, specifically young people, which is a significant problem. Put simply, rural areas can sometimes be seen as less attractive places to live in than more urbanised areas. The reasons for this are complex, but, Charles Cowap, Visiting Professor in Land Management at Harper Adams University, highlighted a “*lack of opportunity at home*” or “*training opportunities which may not be suitable*”. There is a problem with the aspirations of young people in rural areas, and this has an impact on the opportunities people seek out, and employment and educational achievements³².

Cornwall Council cited “*pay, housing, transport links and progression opportunities*” as additional drivers as well as the “*complex interplay between the wages offered in rural areas (which tend to be lower), causing higher skilled workers to commute to or move to urban areas, resulting in high-skilled businesses moving out of rural areas in a vicious circle*”. This is clearly detrimental to productivity.

Better digital connectivity across all rural areas would have a transformational effect on skills productivity. Susan Twining, Chief Land Use Adviser at the CLA, identified digital connectivity as “*the main driver*”. Before Covid-19, there had been an increasing online presence of training and education opportunities, but the pandemic solidified the need, and it became a fundamental tool for growth. Recommendations for improving connectivity have been addressed in a previous chapter, but this requirement goes hand-in-hand with the opportunity, as Northumberland County Council set out “*in the move to increased agile and home working*”. The Local Government Association (LGA) also mentioned “*the switch to online and hybrid teaching during the pandemic*” in providing “*an alternative method of training and educating those in remote communities*”, while Cornwall Council argued that “*the need for flexible working is exacerbated by rurality and transport links*”. This switch presents one solution to the transport barriers in rural areas and should be encouraged, recognising however that not all businesses can move to online working. Mentoring, another critical part of the support that young people should receive at different stages of their development, can also be done through online channels.

7.2 Transport

Sufficient transport links are particularly important for young people because poor accessibility is more likely to drive them away. Sally Shortall argues that “*the main barrier to upskilling in rural areas is the distance young people must travel for secondary schooling, which becomes even more pronounced for post-16 provision*”. This is supported by the RSN which note that “*students from rural*

32. Spielhofer, T; Golden, S; and Evans K; (2011) Young People's Aspirations in Rural Areas

areas often face a limited choice (or even no realistic choice) of further education (FE) provider". In evidence to the inquiry, the RSN compared the opportunities available to urban areas (four FE institutions within 30 minutes and nine FE institutions within 60 minutes using public transport or walking) to rural areas (one FE institution within 30 minutes and five within 60 minutes). These statistics downplay the issue as the frequency of rural bus services is not considered.

Addressing transport barriers is vital because it emphasises some of the disadvantages faced in rural areas to young people, which can be hard to overcome. It also affects the opportunities that are available to young people such as work placements or apprenticeships. A balance must remain between online provision and physical access to educational or business establishments, which is why it is important to look at transport solutions tailored to rural areas.

Paddy Bradley, Chief Executive of the Swindon and Wiltshire LEP, called for *"equality of access"* and pointed out the disparity between urban and rural areas in terms of subsidised transport opportunities. He called for a *"rural pass"*. Though this would certainly help students, the pass would be limited to the existing routes out there and so might not offer the freedom that those in urban areas can more readily take advantage of. It might also lead to further pressure on local authority budgets.

One scheme that does offer route flexibility is Wheels to Work. This scheme offers flexibility, not just in terms of travelling to work but also in giving young people a decent social life, which is another reason that there can be outmigration from rural areas. Wheels to Work, a moped loan system, helps those with no access to suitable transport get to work, apprenticeships, training, further education or job interviews. Northumberland County Council identified funding as supporting *"the Wheels to Work projects, driving lessons for the unemployed, travel buddies, which were successful and allowed accessibility to work and training opportunities"*.

Projects like Wheels to Work, which recognise the nuances of rural life and provide tailored solutions, are invaluable to people living in rural areas and can really make a difference. The same is also true for community transport. Sally Shortall identifies that *"often more buses are not the solution, as in many remote areas buses are unsuitable for the roads. Community transport partnerships offer solutions that are flexible and meet the needs to the local community"*. The Plunkett Foundation, in its evidence, also championed *"the work being completed by community transport, and other informal community-led initiatives, that exist in rural areas to fill these gaps in service in order to meet local demand"*. Additionally, an inherent benefit of Wheels to Work schemes is that, in providing a mode of transport for young people to travel and attend job interviews or college, they act as an enabler to economic growth through providing more opportunities for gainful employment, and can thereby reduce the number of Jobseeker's Allowance claims. Overall Wheels to Work schemes therefore provide better value for money than other government support payments.

Wheels to Work, along with Wheels to Learn, was initially funded centrally by the Government. Following the cessation of this funding, it was then continued at a

local level and administered through LEPs. It is a decision for local authorities or local charities to decide whether to fund these schemes. Aware of the pressures on local authorities' purse strings, **we would like to see this national funding reinstated, and delivered through the UK Shared Prosperity Fund (UKSPF).**

7.3 Apprenticeships

Transport is not the only factor of outmigration, and the opportunities that exist for young people, in terms of education, training and employment, are also critical. The RSN believes that *“access to apprenticeship opportunities is important for those wishing to follow a practical vocation, whether straight out of school or later in life. Equally, this provides rural businesses with a route to bring in and train up promising new employees”*. To ensure apprenticeships work, we recommend that the Government speaks directly with rural employers. Low levels of pay for apprenticeships can remove the incentive for a person to undertake one; a failure of the Government supporting rural businesses financially.

Opportunities for work placements or apprenticeships are not always available as many rural businesses – particularly SMEs – do not have the same economies of scale that businesses in urban areas have. NICRE points out that requirements for apprenticeships *“often appear to have been designed with little recognition of the higher financial and time costs of many non-land-based rural business sectors to fulfil formal training requirements”*. This view is reinforced by Cornwall Council, which highlights the size and profitability of businesses as barriers that limit the capacity to explore training opportunities. Clearly, this is detrimental to productivity in rural areas for employees and employers alike and must be addressed.

The Apprenticeship Levy only applying to larger businesses, while recognising the limitations of smaller businesses in capacity, does mean that there is an incentive for larger businesses to upskill through apprenticeships. Shared or community apprenticeships, as advocated for by Cumbria LEP and the Heart of the South West LEP, present an opportunity to address this capacity issue. This initiative is rural-focused but is a model that can help both employers and employees alike.

Shared apprenticeships, in which *“trainees work across several local firms to gain a fuller breadth of skills and work activities”* present a meaningful alternative as identified by NICRE. The collaboration enables businesses to minimise costs and red tape, and enables employees to access industrial opportunities previously unavailable. Cumbria LEP cites a community apprenticeship programme that supports the county's nuclear industry. **The APPG urges the Government to tailor support for rural businesses, such as through shared apprenticeships, which would enable businesses in rural areas to receive equivalent support thereby driving up productivity.**

The LGA calls for a *“strategic alignment”* between college courses and apprenticeships, and with local skills needs. As well as providing apprenticeships for young people, this would help plug labour shortage gaps in rural areas by identifying needs early on. Paddy Bradley highlighted the

importance of nationally recognised qualifications, commenting that “*young people in rural environments are disadvantaged because of the way the education system is established in relation to T levels. T levels require more industrial work placements which are harder to achieve in rural environments*”. Apprenticeships have a metric between levels one and seven, and this is vital in creating recognised transferrable skills, equipping young people for the future. **Collaboration between Defra and the Department for Education is important and without link-ups between these departments, meaningful change will be hamstrung.**

7.4 Labour supply

It is not just young people for whom rural areas need to be considered attractive places to live. Rural areas have a disproportionately ageing population, so it is crucial that any policies put in place support retired workers as well as the young.

Many rural areas face an acute labour shortage. Creating the right conditions will not just help retain young people but may also attract new workers. Solutions such as funding apprenticeships or building more houses are long-term, but there needs to be short-term ones in place to meet demand. The labour shortage is not limited to rural areas, but structural issues amplify the problem. The main short-term lever is immigration, and a flexible immigration policy is vital to keeping supply chains going and businesses afloat, as demonstrated with the poultry and pig sectors in autumn 2021.

Technology has an increasing role to play, particularly in agriculture. Susan Twining cites how this presents an opportunity for the rebranding of farming – often considered “*low-paid, low-prospect, low-quality*” – to something data-driven, and high-tech, which could “*change how the industry can be perceived*” and encourage new entrants.

Upskilling a workforce is important in retaining labour. The NFU describes the skills landscape in agriculture and horticulture as “*complex and fragmented*”. In response to this, the National Library for Agri Skills is under development to provide access to science and knowledge that can be shared among farmers and land managers. It will focus on digital knowledge and management skills. This will have a formative effect on productivity by providing a portal for businesses and further education and to share best practice. In terms of raising productivity in agriculture, though skills are critical, the application of science is just as important. The library will help circulate knowledge, providing access to those who need it, such as managing land and mitigating the impacts of climate change. Similarly, The Institute for Agriculture and Horticulture (TIAH) has recently been established to become a hub for skills and career support. These are welcome initiatives.

There is a role for businesses to take the lead in this too. The CLA pointed to the cluster group approach, which, through “*facilitating collaboration and collective working, particularly about training provision*”, would lead to “*time and cost-efficiency*”. Cluster groups enable farmers and land managers to work together. While this would require initial funding from the Government to create those groups, Susan Twining pointed to a precedent with the Countryside Stewardship

Facilitation Fund, which seeks to create groups of farmers, foresters and land managers to help improve the environment. This could easily be replicated and applied to other sectors and may prove to be a key financial indicator of the benefits of investing in skills. Support for farmers who work collaboratively in cluster groups will help address the skills deficit and improve productivity.

7.5 Natural capital

The emergence of natural capital and the metrics by which it will be measured has huge potential for improving rural productivity, not least by opening up new markets and measuring elements of the natural environment. Paddy Bradley said that being able to incorporate the natural environment would “*change the business model for investment*”. Provided this was factored into future assessments this could be a “*game changer*” for the productivity of the rural economy.

As well as the effect that this will have on farming and land businesses, there is also the opportunity for the take-up of natural capital to positively affect non-agricultural businesses. What is critical, though, is that rural businesses are able to enter these markets. Susan Twining described a lack of knowledge, which needs to be overcome to close the skills gap, and said that there is “*increasing demand for people either building skills within rural areas or being able to buy in services to look at natural capital – the measurement, mapping, delivering forestry and woodland projects, facilitation of these projects*”. Government schemes have a role to play in driving this growth as will new emerging carbon and environmental markets, but it will be crucial to provide the right level of support for businesses early on as currently “*there is a real gap and capacity issue as well as a skills issue*”. **The APPG calls on the Government to establish a natural capital skills strategy to identify skills gaps and how to remedy them, including working with land-based colleges.**

Additionally, while emerging natural capital markets have the potential to even out the playing field between urban and rural areas, business case development is still angled towards urban environments, and there is a risk with the unknown that may be to the detriment of rural areas, but does not have to be with the right government and market support.

7.6 Addressing rural barriers

Addressing inbuilt structural problems, such as fewer transport opportunities or economies of scale, is critical, but equally as important is addressing the urban-centric approach of policies that are applied to rural areas – a structural failure in itself. NICRE highlights the Market Towns Initiative as one that “*holistically-focused policies and interventions in rural towns*”, and we would like to see more of these rural-centered approaches.

Paddy Bradley cites the UKSPF as the “*sizeable fund for influence and impact*”. Previously, as part of EU structural funding under the Rural Development Programme, there was ring-fenced funding for rural communities. **It is imperative that the UKSPF retains this ring-fencing element and that it is properly targeted.**

There are clear opportunities to address certain barriers that will have a demonstrable impact. It has been identified already in this report how critical access to decent broadband is. Susan Twining called for the Essential Digital Skills programme – currently in development – to be appropriate for rural areas, not merely in terms of connectivity but to enable businesses to use the technology that is available, such as the Global Positioning System (GPS) in tractors. To encourage the take-up of digital skills, Vodafone has called on the Government to allow Apprenticeship Levy funds to be used to re-train existing staff with 20% of the underspend opened up and “*additional incentives for rural businesses*”.

Training people is one of the most important elements in raising productivity across sectors. A dual approach of incentivising businesses to offer training while making it easier for rural businesses to deliver training would also significantly address the skills deficit. Susan Twining called for the provision of vouchers for rural businesses to incentivise the uptake of training and development of staff. Charles Cowap suggested “*access to funding or special tax treatment of business provisions*” while also addressing challenges of scale, such as “*setting up good rural centres ... village halls that could be adapted for rural hubs for training and social benefits*”. Tax reliefs and allowances for rural businesses are critical because persuading businesses of the financial benefit of investing in skills is vital in demonstrating its utility. **Government should stimulate the demand for business, technical and environmental training by providing vouchers for rural businesses during the ATP.**

RECOMMENDATIONS

Improving skills is critical to addressing the productivity gap, the APPG urges the Government to:

18. ensure the ring-fenced funding for rural communities continues under the UK Shared Prosperity Fund (UKSPF), as was previously provided under the Rural Development Programme;
19. stimulate the demand for business, technical and environmental training by providing vouchers for rural businesses during the agricultural transition period (ATP);
20. establish a natural capital skills strategy to identify skills gaps and how to remedy them, including working with land-based colleges;
21. tailor business support for rural businesses – such as through shared apprenticeships, and support for farmers who work collaboratively in cluster groups;
22. deliver Wheels to Work funding and shared community transport initiatives through the UK Shared Prosperity Fund (UKSPF).

One of the core flaws of rural proofing is that it is applied reactively and not a proactive measure when creating policy.



The evidence received by the inquiry pointed towards systemic failings in the Government's rural policy development. There is no doubt of Defra's ministerial team's commitment to the countryside, but also that it did not have the policy levers at its disposal to make a meaningful difference on economic and social policies beyond farming and forestry. We heard evidence that many of those other government departments that did have the powers necessary to generate economic growth in the countryside had a laissez-faire attitude towards rural policy-making. Efforts to rural proof policy-making is widely believed to have failed. As a result, a more targeted, cross-departmental, ministerial-led approach is necessary.

While the earlier chapters of this report feature specific themes relating to rural economic policy, this final chapter examines policy-making and whether rural areas are being properly represented in the process. The inquiry heard from individuals with unique perspectives on how government process impacts upon rural productivity.

8.1 Rural proofing

Rural proofing is held up as the mechanism by which the Government ensures that policy is suitable for rural areas as well as urban conurbations. Defra defines it as "*examining government policies closely from a rural perspective throughout their development and adjusting them as needed to ensure that their intended outcomes can be realised in rural areas*³³". Rural proofing has been reviewed and critiqued frequently over the years, including through an independent review chaired by Lord Cameron of Dillington in 2015³⁴, and the House of Lords Rural Economy Committee most recently in 2019³⁵. Both reports highlighted a lack of consistency across government departments to enact rural proofing, and an absence of interdepartmental communication on rural issues that affect more than one policy area. The Rural Economy Committee went further and called for a coherent government rural strategy, with more emphasis placed on rural proofing and that impact assessments should take place to monitor how effectively rural proofing has been in a particular policy context. The Government response to the House of Lords report accepted that more needed to be done, that it "*wants departments to see rural proofing as an essential and indeed positive tool for making sure the intended policy outcomes can be understood and delivered successfully in a rural context*". The Government promised an annual report into the implementation of rural proofing, and the first of these was published in March 2021³⁶. It outlined several areas the Government would seek to boost the rural economy in terms of connectivity and skills. While the report is welcome, it failed to give teeth to rural proofing across government departments, just identifying that there would be a nominated rural proofing lead in each department with no reference to their seniority or core objectives.

33. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/982484/Rural_Proofing_Report_2020.pdf

34. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/400695/rural-proofing-imp-review-2015.pdf

35. <https://publications.parliament.uk/pa/ld201719/ldselect/ldrurecon/330/330.pdf>

36. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/982484/Rural_Proofing_Report_2020.pdf

The inquiry heard a mixture of views on rural proofing. Lord Benyon, Rural Affairs Minister at Defra, defended its purpose stating that, in his ministerial position, he spoke to colleagues across all departments on issues affecting rural areas. He provided examples of advising the Department for Education to make its policies work for rural pupils who have to travel longer distances than their urban counterparts. Although this was a good example of cross-departmental working, it highlighted **one of the core flaws of rural proofing is that it is applied reactively and not a proactive measure when creating policy**. Shadow Farming Minister Daniel Zeichner reflected that it *“was too often a tick-box after the event exercise”* and promoted the Labour policy that in any forthcoming government it would have a minister in every department with a rural responsibility. Sally Shortall, who has extensively researched rural proofing, had worked with the assembly in Northern Ireland that has legislated for rural proofing within the Rural Needs Act. She told the inquiry *“I worry that presenting that binary of urban and rural misses out the nuance that you have privileged rural, you have disadvantaged rural, you have privileged urban and you have disadvantaged urban and it’s much more complex”*. **The APPG recommends that rural proofing is reformed and strengthened, with monitoring and reporting by the Cabinet Office to ensure that it is being acted upon in Government. There also needs to be more training for civil servants across Whitehall on the meaning and importance of rural proofing.**

8.2 Rural affairs

The rural affairs element of Defra was included at its creation in 2001, when the Ministry for Agriculture, Fisheries and Food was merged with parts of the Department for Environment, Transport and the Regions to become the Department for Environment, Food and Rural Affairs. This was largely perceived to be a refresh after public criticism following the foot and mouth crisis of 2001. The rural affairs part of the brief appears difficult to define, especially in what it means to the Department, with the official website only defining it as *“to sustain rural communities³⁷”*. The use of the use of word sustain does not strike an ambitious note for growth or productivity.

The Defra Outcome Delivery Plan 2021–2022³⁸ which lists the four core areas for the Department fails to list rural productivity or growth in the rural economy as part of its main objectives. The core objectives focus on the environment, carbon emissions, agriculture and the prevention of flooding – all essential areas for Defra. The only acknowledgment of rural productivity is provided in helping to support the objectives of the Department for Levelling Up, Housing and Communities (DLUHC). This a missed opportunity, and fails to address the core need of Defra to be a champion of the rural economy. **Therefore, the APPG would ask Defra to re-examine these objectives and place improving productivity in rural environments with the specific intention of growing the economy as a strategic objective.**

The role of the Rural Affairs Minister given to a Parliamentary Under Secretary of State (the lowest tier of ministerial office) does include rural productivity as one of the core responsibilities but is to be dealt with alongside other areas such as animal and plant health, landscape recovery and green finance. This appears

37. <https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs>

38. <https://www.gov.uk/government/publications/department-for-environment-food-and-rural-affairs-outcome-delivery-plan/department-for-environment-food-and-rural-affairs-outcome-delivery-plan-2021-to-2022>

as a low priority, when the value of the rural economy is worth £261bn³⁹ to England's economy and could be developed further. Daniel Zeichner remarked that the seniority of the minister made a difference to the policy agenda, and also suggested the number of priorities placed on Defra had the chance to squeeze rural areas out. Defra noted that a large part of the ministerial position is that of a coordination role: "*in his role as Minister for Rural Affairs, Lord Benyon holds bilateral meetings with ministerial colleagues across Whitehall to ensure ongoing collaboration*⁴⁰". This is, of course, to be expected as rural issues transcend departments with areas such as connectivity, housing and education, but there appears to be little direct coordination.

This is not a criticism of the incumbent Rural Affairs Minister (who has been a fierce defender of rural issues), or any of his predecessors. Instead, it is a comment on the lack of emphasis that has been placed on the rural productivity gap by successive governments. In strengthening the role it would seem logical for the position to lead a cross-departmental working group to create and develop policies to boost rural productivity and grow the rural economy. Collaboration does happen already across government. The successes accomplished with getting the large mobile operators to agree to a shared rural network is testament to the hard work of both DDCMS and Defra, and it extends to working with stakeholders. As Lord Benyon noted "*we have an extraordinary network of stakeholders and groups and individuals that we can use, not least in Houses of Parliament, but also out there, who can inform us about whether policies are working*". **The APPG recommends that the role of Rural Affairs Minister is retained but strengthened and placed at the head of a cross-departmental working group with a specific remit to create and deliver policies designed to improve productivity across the rural economy.**

What is also required is a strong remit for the working group to directly address the 18% gap, and to see this as an opportunity to deliver real growth across all government departments. By creating a new group, it would potentially remove the difficulties surrounding departmental ownership, Daniel Zeichner said "*Defra doesn't always have the clout or the heft that it would need to trample all over education policy, transport policy, skills policy, whatever you want to call it, trying to join that up across government is clearly a major challenge*". This is a cross-departmental challenge, and will require several departments to put aside ownership and work towards the overall goal of improving opportunities and the prosperity of rural areas. This must be a statutory group, that is required to report on its objectives to Parliament and provide measurable metrics on how productivity is being improved in rural areas.

To aid in both the work and delivery of the cross-departmental working group, **each relevant department needs to set up a Rural Productivity Unit, focusing on delivering objectives identified by the ministerial-led, cross-departmental working group.** This is required to avoid the erasure of rural areas in policy-making. An unfortunate recent example is the Levelling Up White Paper in February 2022, which set a bold agenda for the future for regional development, but failed to acknowledge the specific challenges and opportunities of rural areas and gave levelling up an almost exclusively urban focus.

39. [https://www.gov.uk/government/statistics/quarterly-rural-economic-bulletin/rural-economic-bulletin-for-england-april-2021#:~:text=Predominantly%20rural%20areas%20contribute%20%C2%A3,15.9%25\)%20to%20England's%20economy](https://www.gov.uk/government/statistics/quarterly-rural-economic-bulletin/rural-economic-bulletin-for-england-april-2021#:~:text=Predominantly%20rural%20areas%20contribute%20%C2%A3,15.9%25)%20to%20England's%20economy)

40. Defra additional evidence

8.3 Devolution and Local Enterprise Partnerships

The central principle of the Government's agenda since the 2010 Coalition Government has been in increasing devolution to the UK's regions, the result of which has been the expansion of LEPs. LEPs were first established in 2010 as a replacement for Regional Development Agencies (RDAs), these groups are business-led partnerships which bring together the support of local authorities, businesses and academic institutions.

The LEPs focus on how to improve the economic development of an area, and have in the past put forward industrial plans and aided in the bidding for projects such as city deals or local growth deals for the benefit of their areas. There are now 38 LEPs covering the entirety of England, and they appear set to be a delivery mechanism of the upcoming UKSPF, the replacement for European funding.

While it is to be welcomed that decisions for a local economy are being made within the community and by a range of stakeholders, there is some concern that, in areas where the LEPs are both urban- and rural-facing, rural businesses will lose out during this process. The management of LEPs are through management boards, in which the chair must be from the private sector, and the majority of its representatives from the local business community. **The APPG would recommend that as a requirement of the LEPs being the delivery agent of the UKSPF, it must be a condition that any LEP with a rural constituency must have at least one board member from a rural business.**

The LEP Network has been extremely helpful throughout this inquiry process and is a strong advocate for the development of the economy in rural areas.

RECOMMENDATIONS

Productivity can be improved through enhanced delivery of rural objectives, the APPG urges the Government to:

23. establish a ministerial-led, cross-departmental working group with a specific remit to create and deliver policies designed to improve productivity across the rural economy;
24. create a Rural Productivity Unit to sit in each relevant government department, focusing on delivering objectives identified by the ministerial-led, cross-departmental working group;
25. develop a strategic objective (within Defra) to improve productivity in rural environments with the specific intention of growing the economy;
26. require Local Enterprise Partnerships (LEPs) containing at least one rural constituency to have a minimum of one representative of a rural business on their leadership board;
27. strengthen the concept of rural proofing through monitoring, reporting and necessary training, organised by the Cabinet Office.

In undertaking an inquiry looking into rural productivity, it is important to consider the term productivity itself. The inquiry considered whether the way in which productivity is measured discriminates against rural areas. The 18% productivity disparity between urban and rural areas refers to economic productivity, as measured through GVA. This metric is useful in highlighting the difference in economic output between rural and urban areas but it is a crude measure that does not take into account other factors, such as the social or health benefits of living in rural areas. These benefits are hugely important but are missed in the calculations.

Paddy Bradley pointed to the gap in data on productivity and performance in the rural economy, something which exists for cities and is a helpful source of information by which comparisons can be made. If this data existed for rural areas, the economic contribution of the countryside could be seriously considered. Charles Cowap also cautioned that there was *"inbuilt prejudice to rural productivity"*, noting that *"a lot of value added to production takes place elsewhere and not in rural [areas]"* and that farmers *"tend to be price-takers"*. Jeremy Moody asked where the value was added with, for example, a solar farm: *"is it with the registered office, is it with the management office of the solar farm company or is it the location where the energy is being generated?"*. He believed there to be *"significant issues in how economic activity is allocated"* and also echoed the opportunities that the move to *"a more transactional environment for environmental goods"* would bring in terms of measuring productivity. The opportunities ahead with natural capital are an example of the ability to measure environmental benefits for economic gain, and place rural areas in an increasingly important position.

Additionally, there are some things that cannot be measured through productivity such as environmental benefits. It may be that a different picture of rural productivity emerges as we see an emphasis on natural capital. The RSN added that *"definitions of productivity may need re-assessing to reflect environmental and social outputs as well as economic. Particularly in the light of climate change and the high priority of the decarbonisation agenda, any approach which relies on income and other financial indicators of productivity alone is clearly out of date and would fail rural areas"*.

However, natural capital markets are nascent, uncertain, and illiquid, and are likely to remain so for the rest of this decade. The other factors described in the report (e.g. skills gaps, infrastructure, lack of housing) are serious impediments to this value being realised and converted into cash flows in the local economy. Action should therefore not be delayed. Investing in rural areas can often be more beneficial than the same investment in urban areas, with the knock-on effect on retaining population and investment in services critical to the prosperity of rural areas.

This report is submitted in a positive and patriotic spirit. The All-Party Parliamentary Group for Rural Business and the Rural Powerhouse, as well as those organisations and individuals who submitted evidence to this inquiry, are ambitious for the rural economy.

Whilst we have no doubt that ministers and officials who work on rural, economic and social policies share our ambitions, we see little evidence of it in current policy-making. Indeed, this report highlights a chronic under-appreciation for the economic and social potential of the countryside.

The rural economy is 18% less productive than the national average. Government ministers should look with excitement at the ease with which this productivity gap can be closed. The policy solutions proposed within this report are, for the most part, easy and cost-effective to deliver.

An urgent change in attitude from the Government, however, is necessary. Whilst we welcome the current focus on farming's relationship with the environment, we reiterate that the countryside is not a museum, but an economic powerhouse in its own right that is deserving of broader economic development.

85% of businesses in rural areas are not connected to agriculture, forestry or fisheries. This demonstrates the entrepreneurial zeal of those living in these communities, and their potential to quickly deliver meaningful improvements in the creation of prosperity and opportunity for all people – regardless of their background.

Covid-19 has shown that there is scope to change the collective mindset in how people view the countryside as a place to live and work, creating additional need for rural areas to remove traditional geographical barriers to economic growth.

This dovetails with the Government's Levelling Up agenda. The inquiry considered the motivations behind this agenda to be noble, but the White Paper published in February 2022 showed little interest in treating the countryside as a place where opportunity can flourish. This must be rectified immediately, and a strategic objective should be placed in all appropriate government departments, particularly Defra, to develop policies that will create growth and prosperity in the countryside.

The report has demonstrated the need for a joined-up government approach across all parts of the rural economy to improve productivity.

The forthcoming Planning Bill provides an opportunity to create a planning regime that enables growth and innovation in rural areas. Developing a 'small number of homes in a large number of villages' approach to housebuilding will provide affordable homes and strengthen communities struggling with outmigration. Simple tweaks to the tax system – notably through the creation of a single business unit – have the ability to drive greater entrepreneurialism among those able to diversify their businesses without reducing tax take. Meanwhile, greater digital connectivity, a renewed focus on skills provision, and support to create new export markets for farmers and food and drink producers will all provide a shot in the arm for the rural economy.

An ambitious growth strategy for the countryside can be delivered, but not by one department. A ministerial-led, cross-departmental working group should be established to identify quick wins, with those policies furthered and implemented by Rural Productivity Units in all appropriate government departments.

We recognise the role of business groups and trade bodies in providing ideas and expertise to policy makers, and we encourage such organisations to work together on areas of joint strategic interest to present a unified message to the Government.

By reducing the productivity gap, £43bn of additional GVA can be added to the UK economy. It is clear that those living in the countryside are ready and raring to go. We call on the Government to implement the recommendations of this report, and in doing so make a clear statement that it is committed to economic growth in the countryside.

List of abbreviations

AIA	Annual Investment Allowance
APPG	All-Party Parliamentary Group
APR	Agricultural property relief
ATP	Agricultural Transition Period
BDUK	Building Digital UK
BPR	Business property relief
BPS	Basic Payment Scheme
CAAV	Central Association of Agricultural Valuers
CAP	Common Agricultural Policy
CIOT	Chartered Institute of Taxation
CLA	Country Land and Business Association
DDCMS	Department for Digital, Culture, Media and Sport
Defra	Department for Environment, Food and Rural Affairs
DLUHC	Department for Levelling Up, Housing and Communities
ECC	Electronics Communications Code
ELM	Environmental Land Management
EPC	Energy Performance Certificate
EU	European Union
FE	Further education
FSB	Federation of Small Businesses
FTA	Free Trade Agreement
GCA	Grocery Code Adjudicator
GPS	Global Positioning System
GVA	Gross Value Added
HMRC	HM Revenue and Customs
IHT	Inheritance tax
ISPA	Internet Services Providers' Association
LEP	Local Enterprise Partnership
LGA	Local Government Association
LNR	Local Nature Recovery
LR	Landscape Recovery

Mbps	Megabits per second
MTD	Making Tax Digital
NAO	National Audit Office
NFU	National Farmers Union
NIC	National Insurance Contributions
NICRE	National Innovation Centre for Rural Enterprise
NPPF	National Planning Policy Framework
OECD	Organisation for Economic Co-operation and Development
PDR	Permitted development rights
R&D	Research and development
RDAs	Regional Development Agencies
RSN	Rural Services Network
SBA	Structures and Buildings Allowance
SFI	Sustainable Farming Incentive
SMEs	Small and medium-sized enterprises
SRN	Shared Rural Network
SWP	Seasonal Workers Pilot
TAC	Trade and Agriculture Commission
TFA	Tenant Farmers Association
TIAH	The Institute for Agriculture and Horticulture
UKSPF	UK Shared Prosperity Fund
VAT	Value added tax

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Gigaclear

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Hopton Court Estate

Internet Services Providers' Association

Lancashire Local Enterprise Partnership

Land Research & Planning Associates

Local Enterprise Partnership Network

Local Government Association

Mobile UK

National Farmers Union

National Innovation Centre for Rural Enterprise

Northumberland County Council

Openreach

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Levelling up the rural economy: an inquiry into rural productivity

The views expressed in this report are those of the All-Party Parliamentary Group (APPG) for Rural Business and the Rural Powerhouse. All-Party Parliamentary Groups are informal groups of Members of both Houses with a common interest in particular issues.

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For further information on the APPG report *Levelling up the rural economy: an inquiry into rural productivity*, published in April 2022, contact:

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Levelling up the rural economy:

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