

Rural Business 2030 Conference

December 2016



Introduction

Unlocking the potential of rural businesses and estates is at the heart of what Strutt & Parker's consultancy team does, so we were delighted to be one of the main supporters of the inaugural CLA Rural Business Conference on 6 December 2016 and a contributor to its associated research programme.

The conference, *Unlocking Investment, Unlocking Potential*, identified key challenges and opportunities for rural businesses, which have a great role in not only making rural places thrive but in delivering the government's economic, social and environmental ambitions.

It also provided an insight into the workings of the rural economy in England and Wales, as seen from the perspective of landowners, and generated ideas as to how they could fulfil their potential and grow their contribution to the national economy.

It is a debate that could not come at a more important time, as farmers and landowners prepare for a future outside of the EU. With innovative policies and regulation that works with the grain of business, Brexit will create great opportunities for the sector.

The report, *Rural Business 2030*, draws together some of the key conclusions and is based, in part, on a series of seminars held over the summer of 2016 supported by Strutt & Parker.



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At a glance

- Landowning rural businesses make a substantial contribution to the national economy, but they have the potential to offer much more than they currently do.
- There is massive potential to invest and grow, but to harness this, the government and others must understand rural businesses better and give them the confidence to invest.
- Rural businesses take a long-term view of investment opportunities and their decision-making reflects the importance they place on the land, culture, local communities and succession planning, not just the return on capital.
- Rural businesses want certainty that policies that promote or encourage private investment will be maintained, rather than changed year-to-year.

Levels of investment – present and future

The level of investment by rural businesses is significant. On average, £13bn is invested by them each year, compared with £87bn a year for the urban economy, including London. This is twice as much as is invested in the car industry annually.

Levels of investment have increased by 38% since 2012.

Projections suggest investment levels could rise to over £16bn a year by 2020, if rural businesses are given high levels of confidence in the rural economy (and with interest rates rising to 1.25%).

A much lower level of confidence could result in a sharp fall – levels shrinking to £3.2bn a year.

Attitudes to investment

The nature of rural businesses is a factor in their attitude towards investment – 96% are family-owned and 60% have been in the family for over 50 years. Owners often view themselves as the custodians of the family enterprise.

Most rural businesses are not incorporated, so making personal taxation as attractive for investment as corporation tax is important to them.

More than four out of five rural businesses say they are planning to invest, with investment in properties for the businesses' own use or residential property for letting the two most popular options.

Larger rural businesses are more likely than smaller ones to have a formal investment plan.

Almost half of rural businesses cite the planning system as a barrier to future investments.

Areas of opportunity

The report focuses on the investment opportunities for landowners in the area of energy production, connectivity and natural capital. It concludes:

Energy: Renewable energy has seen significant investment from rural businesses, but changes in policy have left questions about how to sustain the sector.

In future, businesses could find that investing in technology and equipment that cuts energy consumption, within the business itself and in any properties rented out, is the best investment.

However, there are new markets that also need to be explored, such as the use of district heating schemes to provide heating services for a local community.

Rural businesses could also be well-placed to be early adopters of battery storage for electricity.

Connectivity: Mobile and broadband coverage is a challenge in rural areas after years of underinvestment.

The introduction of the Universal Service Obligation (USO) is a breakthrough, but businesses and consumers in rural areas will need broadband speeds greater than 10Mbps to bring an end to the urban-rural digital divide. This means that other solutions will need to be sought to provide superfast connections.

The right policy framework could encourage more rural businesses to invest in their own broadband connection and then become local suppliers through technologies such as fibre-to-premises or local wifi networks.

Natural capital: At present it can be hard to make a business case for individuals to invest in the natural world even though it delivers public goods.

Even agri-environment schemes are flawed as they are inflexible, subject to change, and payments are based on income foregone, rather than offering genuine incentives.

However, governments will struggle to meet their stated objectives for the environment – for example, on water quality, soil management, habitat and wildlife protection – unless there is investment in natural capital.

Government, on behalf of society, is likely to remain the primary customer for natural capital or ecosystem services.

However, a number of new potential customers are emerging, including water companies needing ways to clean and store water, manufacturers having to meet carbon targets or organisations committed to improving health by connecting people and nature.

The market would grow if biodiversity offsetting was made mandatory for all planning applications.

Policy recommendations

The report sets out a number of recommendations to make sure that the needs of the rural economy are reflected in the government's new industrial strategy for the UK. These include:

- Develop a new Food, Farming and Environment Policy to succeed the CAP which ensures business resilience and increases environmental ambitions.
- Establish trade relationships that give access to the single market and the rest of the world to enable markets for food products to grow.
- Complete the process of planning reform to ensure the system facilitates necessary development. All Local Planning Authorities must establish local plans that encourage investment in rural areas and increase use of permitted development rights where appropriate.
- Encourage and enable rural landowners to become local suppliers of renewable heat through district heating systems, electricity through direct-to-customer sales platforms and broadband internet services.
- Ensure the connectivity infrastructure constantly adapts to meet local needs. Once delivered, the Universal Service Obligation for broadband must be reviewed every five years.
- Set renewable energy targets that encourage investment and establish a new long-term policy framework to ensure that low carbon transition is an accessible and profitable investment opportunity.
- Establish an investment tax roadmap which means businesses can take decisions with certainty about future tax implications, especially when passing on the business to the next generation.

This report is the start of a process of working with government and others to ensure that the potential of rural businesses is maximized by having long-term policies that support investment and remove barriers to it.

“We are the investors for the future and, by being entrepreneurial, we can help government meet its targets for 2030.”

- Ross Murray, CLA President

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