



**FROM THE PRESIDENT: MEURIG RAYMOND**

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Date: 17 February 2015

*Dear Chancellor,*

### **Budget statement 2015**

I am writing to you ahead of the final Budget of this Government, to outline a number of ways we believe government can play its part in supporting and building confidence within the farming industry. With the UK farming sector's contribution to the UK economy having grown by over £2.34 billion (34% per cent) in the five years to 2013, a strong foundation has been laid which the industry must now build upon. With the right conditions, British farmers can continue this impressive performance and grasp opportunities that lie ahead in a growing domestic and international market. But challenges do exist.

Price volatility, more extreme weather events, poor regulation, years of underinvestment in applied research & development and a lack of transparency in supply chains all create uncertainty and barriers that can adversely affect farmer confidence. Confidence is critical because it influences investment and production intentions, particularly in a sector like agriculture with extended payback periods and long production cycles.

In our submission we outline 3 key policy areas with a number of recommendations which the NFU believes will help build that necessary confidence;

- Reducing the impact of external volatility
- Investing for productivity and growth
- Securing knowledge and technology for the future

#### **1. Reducing the impact of external volatility**

Our industry faces a number of challenges in relation to external factors, outside of the individual business owner's control. These include the weather, global commodity prices, and the way in which the food chain operates. We would ask the Government to consider how it can work with our industry to minimise the impact of these external factors.

- **Recommendation 1:** An extension of farmers profit averaging to allow averaging over a period of between two and five years. This would allow farm business suffering the effects of volatility to even out the pattern of their profits.

- **Recommendation 2:** A formal evaluation of the farm management deposit scheme which operates in other countries to provide farm businesses with the ability to retain profits to meet future demands arising from volatility.
- **Recommendation 3:** The NFU welcomes steps in the Autumn Statement to incentivise private expenditure on flood defences through tax relief. However we recommend that the true value of agriculture and food production needs to be taken into account when assessing the benefits of flood defence schemes so that its public benefit is fairly valued and that the Environment Agency must be given the flexibility to switch flood defence funds according to need between capital and maintenance activities.

## 2. Investing for productivity and growth

The NFU believes that farm businesses, which are predominantly capital intensive SMEs, need a predictable and consistent tax system which encourages capital investment to give them the confidence to invest.

Over the course of this parliament the Government has pursued its stated aim to create the most competitive corporate tax regime in the G20, while protecting manufacturing industries. This has largely been in the form of gradually reducing the headline rate of Corporation Tax to give an 8% reduction across the parliamentary term. Whilst this has undeniably increased the competitiveness of the headline rate of corporation tax, the reductions in the rates of capital allowances pursued at the same time and the Government's decision not to reverse the previous administration decision to abolish Industrial and Agricultural Buildings Allowances has appeared at odds with the ambition to rebalance the economy. The 8% reduction in the main rate of corporation tax has been achieved, even with the current temporary Annual Investment Allowance of £500,000, at the expense of those SME's and micro businesses operating as unincorporated businesses.

This approach to capital allowances, which are essentially an alternative to allowing the business cost of depreciation, affects the ability of SMEs, such as those in the agricultural industry, to invest in modern efficient infrastructure and equipment, to remain competitive, and to increase efficiency and productivity. The fact that the AIA is planned to reduce twentyfold in less than a years' time will inhibit this investment further will ultimately reduce productivity further.

- **Recommendation 4:** Introduce a long term level of £250,000 for the Annual Investment Allowance (AIA). This level would primarily assist capital intensive SMEs involved in primary production and manufacturing to invest at a similar level to their counterparts in competitor countries.
- **Recommendation 5:** The introduction of a new Farm Infrastructure Investment Allowance to recognise the cost of depreciation. This would rectify the current lack of recognition within the tax system for this real business cost and encourage much needed investment in modern efficient infrastructure which would aid competitiveness and productivity.

## 3. Securing knowledge and technology for the future

The Government recognises the importance of encouraging research and development and has recently made improvements to R&D tax credits. Indeed the Government continues to explore

how more smaller companies could be encouraged to use R&D tax credits. However, UK farmers still feel the effects of the well documented underinvestment in agricultural science over recent decades. Public sector investment fulfils a unique, essential role in taking a long term, pre-competitive view of the needs and challenges of UK agricultural production. We call on Government to plan for long term, forward thinking growth in UK science, not a short term parliamentary cycle.

- **Recommendation 6:** Re-affirm long term support for the Agri-tech Strategy and ensure effective delivery of Centres for Innovation which provides genuine value for UK farmers and growers in all sectors.

We also believe it is essential to consider how the delivery of rural broadband and mobile phone infrastructure is lagging behind demand and affecting both farmers and wider rural communities' ability to do business and compete. Unfortunately government funded schemes are not delivering to those most remote or difficult to connect communities. Without a radical rethink of the rural broadband roll out programme our farmers and the wider rural economy will become increasingly uncompetitive compared to our European neighbours.

- **Recommendation 7:** We ask the Government to keep to their commitment to make the UK the best connected country in the world by ensuring that there is the necessary targeted funding and regulation to allow the accelerated roll out of universal superfast broadband and a reliable mobile phone network.

At a time when 88 per cent of the UK public thinks that farming is important to the economy and with almost three-quarters of the public wanting to halt the nation's declining self-sufficiency, it is clear we have the potential and public support to deliver. However, in order to do so it is imperative that we are able to invest in our future and are confident of government backing. With the recommendations set out in this letter in place, I believe that your Department would be able to deliver a number of tangible signals to the industry which will help build and consolidate that all important confidence. I would welcome an opportunity for my colleagues and staff at the NFU to meet with the government to discuss these points at the earliest opportunity.

*Yours sincerely,  
Meurig Raymond*

**Meurig Raymond MBE, FRAgS**  
**President**