Submission to HM Treasury

2021 Budget

Introduction

The COVID-19 pandemic has placed a growing strain on the UK economy, and rural businesses have not been spared. All areas of rural economic activity have been impacted, either directly or indirectly, through the spread and longevity of the virus. The Government's support measures, from the first lockdown in March 2020, have been welcomed; however, a number of vulnerable sectors still require more direct support.

The Country Land and Business Association (CLA) represents some 28,000 owners of land, property and businesses in rural England and Wales, operating across multiple economic sectors. We welcome this opportunity to set out the measures we believe need to be put in place to stimulate economic activity and lead the recovery from the effects of COVID-19.

1. The Rural Economic Context

The rural economy offers in-built opportunities

According to the latest official figures, the rural economy in England alone contributes nearly £261 billion GVA to the national economy. Based on VisitBritain figures, we estimate that domestic tourism spending in UK rural areas accounted for £76bn in 2019.

Like the rest of the country, rural areas have been hard-hit by coronavirus, with the tourism sector particularly blighted. Rural tourism accounts for a large element of domestic tourism, and recent VisitBritain estimates[1] suggest it will see its revenues fall by over £20bn in 2020 year as a result of COVID-19 control measures, down by nearly 60% on 2019.

And yet, rural areas have an in-built advantage: space. As we observed at the end of the first lockdown, if rural business can be re-opened – subject to the appropriate social distancing and hygiene measures, and with the right support framework, they could provide an early boost to the national economy.

The food supply chain - agriculture, horticulture, food processing and retail – has continued to function. Some local food networks continue to flourish, but there remains real hardship among those businesses that served the food service market. Although some have been able to redeploy resources to other markets, a considerable number have been adversely affected by the ongoing nature of COVID-19 restrictions, particularly those who are reliant on schools being their major customers.

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[1] Visit Britain 2021 forecast: https://www.visitbritain.org/2021-tourism-forecast#:~:text=2020%20forecast%3A%20VisitBritain's%20latest%20central,spending%20to%20%C2%A35.7%20billion.&text=VisitBritain%20has%20issued%20a%20number,its%20inbound%20forecast%20during%202020.

Business agility, based on a mixture of technology and skills and supported by access to finance, has made a big difference. The Government's climate change and nature restoration agendas, set out by the Prime Minister in November could inject further dynamism by creating new markets, and new jobs in some sectors.

This opportunity must be grasped. It requires productive capacity in rural businesses to be protected, and a roadmap to re-opening that will allow rural businesses to mitigate the damage incurred and instil consumer and investor confidence. The rest of this paper sets out the policy measures needed to achieve this.

2. A COVID-19 Recovery Package

Government support schemes

Many rural businesses, particularly in tourism, hospitality and retail, had to shut down overnight in the first lockdown and again at some point since the autumn, with restricted opportunities for income on re-opening due to capacity constraints. Wedding venues up and down the country have felt this most acutely, with cancellations and postponements because most couples would rather wait than be restricted to 15 guests.

Businesses need clarity over what support will be available whilst they are still trying to rebuild. This will give them, the banks and other investors the confidence to persevere. It would encourage commercial tenants to keep premises, and commercial landlords to go ahead with investment and maintenance, which may in turn help take staff off furlough.

When businesses are allowed to re-open, they may not be able to secure new bookings at short notice, or at full capacity. Therefore, they will still require assistance, particularly in managing cash flow, and should not be denied access to business interruption support.

- *The CLA is calling for the extension of the Business Rates holiday beyond the end of March 2021*. In addition, we are calling for the establishment of a "Time to Pay" option and the option of a discount based on turnover to avoid a cashflow cliff-edge at the end of the holiday. Business Rates reflect the property market at a given date in the past (currently April 2015), rather than current business performance. They must take account of the economic reality and the ability of businesses to sustain the level of rates given the trading conditions, over which they have no control. COVID-19 has led to huge changes in the performance of many rural businesses especially in the leisure, hospitality and tourism sectors, with reduced turnover combined with extra costs of sanitisation.

- *Given the uncertain outlook for disease control, the CLA is calling for the reduction in the VAT rate to 5% for tourism and hospitality businesses to continue beyond 31 March 2021.* Indeed, to enable growth in rural tourism when international holiday markets re-open, we argue that this rate should be made permanent (see Section 3 below).

- The Government has extended the Coronavirus Job Retention Scheme (CJRS) to the end of April 2021, which was most welcome. An abrupt end to the scheme, before businesses can trade again at a level close to normal, would likely result in immediate lay-offs at scale, putting further pressure on the benefits system and resulting in further falls in consumer spending.[2] Therefore, *the CLA is calling for any*

[2] Covid-19 has seen a fall in consumer spending of over 20%, including for those who have not seen a reduction in wage levels: https://www.coronavirusandtheeconomy.com/question/what-has-happened-consumer-spending-during-covid-19-crisis

scale back in the furlough scheme to be gradual, and for it to match the pace of economic recovery. The option of part-time furlough cover also needs to continue, so that businesses can prepare for re-opening, scale up activity as demand rebuilds, and contribute to employee mental health.

- The Self-Employed Income Support (SEIS) Scheme does not apply to the income lost by furnished holiday let businesses as a result of the pandemic. Whilst such businesses are treated as a trade for income tax purposes, this income is declared on the property income pages and so is not taken into account in calculating the amount of SEIS grant available to these business owners. The SEIS should be extended to include within its scope furnish holiday let businesses.
- Many of our members have been making use of the loan schemes put in place by Government, such as the Coronavirus Business Interruption Loan Scheme (CBILS), and the Bounce Back loan scheme. *The CLA supports their extension beyond the end of March 2021*.

To avoid cash flow pressures on businesses at the time banks start to charge interest and/or expect capital repayments on Covid-19 loans (which could lead to insolvencies and unemployment, thus negating current efforts to protect viable businesses), *the CLA is calling for:*

- the CBILS scheme to be more flexible by extending repayment terms from 1+5 years to 1+9 years, making repayment serviceability more sustainable;
- a requirement on CBILS lenders to pass on the benefit of the Government guarantee to industry by reducing EBITDA cover requirements on serviceability to a maximum of 1.25x;
- Government to encourage banks to show flexibility by extending mortgage payment/loan repayment holidays for up to 12 months;
- the tax system to support business recovery. This means:
    - No increase in the tax burden on small businesses before the economy returns to pre-coronavirus levels. Thereafter, any tax rate changes must be incremental;
    - Avoiding preferential treatment of loopholes for online businesses, which have been relatively insulated (and in some cases have seen a record increase in turnover) during the outbreak;
    - Taking account of the liquidity available to businesses, to avoid putting long-term, low-return businesses in jeopardy. This will be the case for most farms and other land-based businesses, on which the country depends for food, landscape maintenance, and in the future for climate mitigation. A simpler tax treatment for diversified rural businesses could help them marshal resources effectively and speed up recovery.

Other immediate actions which can help alleviate negative economic impacts

- Availability of insurance has acted as a constraint on economic recovery. The confidence of both consumers and businesses has been weakened with particular sectors, such as the wedding sector, being severely undermined. There is clear evidence from the first lockdown that enterprises that have relied on business interruption insurance have had claims rejected on a wholesale basis. In addition, frustration is growing with the conflicting views between the Financial Conduct Authority and the Competition Markets Authority, which have created confusion and failed to provide much needed support. *It is therefore critical that the UK Government put pressure on the insurance industry to come up with appropriate terms, and flexible contracts which recognise that businesses continue to pay their insurance premiums in good faith and examine options for a re-insurance framework to deal with any such crisis in the future*.

- During the first lockdown, the Government introduced a roadmap that set out a number of stages as to which and when sectors were likely to be able to reopen post lockdown. We believe that it is important that this process should be repeated on a sectoral basis, informed by risk assessment and co-designed with stakeholders including the CLA, based on and learning from the experience of the last main lockdown. To enable businesses to plan and adapt their operations, the thinking on this needs to start now.

- Permitted Development Rights should be introduced rapidly to enable temporary change of use for any dwelling that can currently only be used as a holiday let. Such dwellings could then be turned to residential lettings in the short term, which could help rural tourism businesses limit their losses, and provide accommodation for people unable to buy a house. It could be time-limited (eg to December 2021), with an option to extend if necessary.

- We request that HMT provides Local Authorities with the financial means to enable them to revise their schedules of council tax exemptions to allow longer void periods between residential lettings where either it has been difficult to re-let the property as a result of COVID restrictions, or where there are extensive works required before the property can be marketed again.

  Local Authorities should also review their discretionary powers under their Hardship Relief to enable greater flexibility where, as a result of COVID-19, either a business property cannot be relet or a business remains in occupation but the imposition of business rates is threating its viability;

- Tourism businesses that let self-catering accommodation have to meet a statutory requirement to let for at least 105 days to qualify as a furnished holiday let for tax purposes. Cancelled bookings because of COVID-19 restrictions in the current financial year have made this unusually difficult, and given the current situation, the same might apply again in the next financial year. Current tax rules provide a useful period of grace, but tax payers have to ask for it. It would be helpful if this was automatically applied this year given the circumstances. Clearly the well-advised or those who submit their tax returns through agents who are aware of the rules will make the election, but applying this automatically for this tax year will mean that those who complete their own self-assessment returns and are not aware of this rule do not lose out.

  It would also be helpful if furnished holiday let businesses could be allowed to set-off losses against other income. It would be helpful in any event to remove the sideways loss relief limit for this year.

3. Economic recovery in the short- to medium-term

Before the outbreak, rural productivity was on average 16% behind the national average, and the CLA had put out a series of proposals to unleash the economic potential of the Rural Powerhouse. These proposals – on rural planning and housing, climate-proofing and sustainable farming, taxation and infrastructure - still stand. The rural economy offers multiple opportunities for stimulus projects of benefits to climate action – an excellent investment for UK taxpayers. The following measures would help stimulate rural economic growth and begin to close the productivity gap:

- *A clearly defined, rural-proofed, structural funds package* under the UK Shared Prosperity Fund, will be required to support rural areas post-2020. Defra's COVID-19 data monitor makes it quite clear that certain regions, for example, Cornwall and Cumbria with their reliance on the tourism economy, are going to be severely affected.

- *Digital skills need to be prioritised.* An ambitious programme costing £20m per year can be funded through allocations from the £1.2bn set aside by Government for the rollout of gigabit capable connectivity up to 2025.

  The COVID-19 outbreak has shone a light on the importance of access not only to digital and telecoms networks, but also to digital skills. For example, B2B businesses in the food sector have been able to find alternative markets or reach consumers directly through digital platforms and channels.

  To enable them to exploit digital technology to the full, SMEs need sufficient awareness and understanding of what digital connectivity can bring to a business, and opportunities to tap into the relevant digital skills and tools to improve their productivity. According to the SME communications needs report[3], SME decision makers can have very limited technical understanding of the communications products and services available. They often struggle to understand some of the terminology used by providers, and this makes it difficult for them to procure the products and services that are right for their business at the right price.

  This lack of digital skills is particularly relevant to the rural productivity gap for two reasons: (i) although the proportion of SMEs is almost the same in both rural and urban areas, a much higher proportion of people employed by businesses registers in rural areas are employed by SMEs (71%) than in urban areas (41%)[4]; (ii) for some businesses in more remote areas, reaching a geographically distant market via non-physical means is critical to manage costs. Although some help is currently available through local Growth Hubs, this is limited.

- *For tourism attractions and accommodation with a turnover of up to £0.5m, VAT should be permanently reduced to 5%*. The Government's decision to temporarily reduce VAT in the tourism sector from 20% to 5% is of course welcome. But for the sector to bounce back and resume its growth trajectory, not least when competition resumes with countries like Greece (13% VAT), France and Spain (10%), the reduction in VAT needs to be made permanent.

  A recent survey by the Cut Tourism VAT campaign found that a fifth of respondents said removing the temporary VAT reduction after 31 March would force them to cut over 20% of their workforce with a further 44% stating they would have to reduce employee numbers by between 5% and 20%. This suggests that a further 310,000 jobs could be lost in addition to those already made redundant as a result of COVID-19.[5]

[3] Ofcom SME research, 2018: https://www.ofcom.org.uk/research-and-data/multi-sector-research/general-communications/sme-research
[4] Defra (2020): *Statistical Digest of Rural England*
[5] https://www.cuttourismvat.co.uk/

We estimate that over a 10-year period, the tourism sector would be able to generate an additional £4.5bn to the rural economy for the UK Exchequer, in the event of the VAT reduction being made permanent. Such an ongoing economic stimulus would also make the UK tourism sector more competitive vis-à-vis EU countries that impose higher VAT rates, having a positive impact on the tourism sector's balance of payments. This is based on an illustrative scenario of applying the reduction to accommodation and attractions enterprises with a relevant turnover of £500,000 or less, many of which will be in rural areas. In this scenario, the first two years of a permanent VAT reduction show a negative return to HM Treasury of £280m. However, through increases in employment, direct tax take and indirect increases in returns from the supply chain there is a significant medium to long term return of £4.5bn (over 10 years) through increasing demand and competitiveness in the sector.