



Department  
for Environment  
Food & Rural Affairs

# The key challenges for change in the rural sector

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Futures

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Environment  
Agency



# Rural Businesses.

Rural areas support about half a million businesses  
85% are unrelated to farming, forestry and fisheries  
Mainly small and micro enterprises

## Rural economies have strengths.

- Rural businesses are more likely to make a profit
- Rural firms are more likely to make investment in premises, machinery etc.
- No apparent disadvantaged in terms of opportunities to export.
- Employment in rural areas is higher



**£246<sub>bn</sub>**

Contribution that rural areas make each year to the English economy.



**24%**

Percentage of registered businesses in rural areas.



**3.5<sub>m</sub>**

Number employed by registered businesses in rural areas.

## There are opportunities but challenges, too.

- Rural businesses are more dispersed
- Productivity below the average
- Digital connectivity and transport links are barriers.
- Rural firms perceive more obstacles.



# Rural Communities.

Many choose to live in rural areas because of the quality of life.

- Over 9 million people live in rural areas in England, 17% of the population.
- Wellbeing is higher.
- People living in rural areas are likely to feel more positive.
- Increase in net migration to predominantly rural areas.
- Life expectancy is higher and infant mortality is lower
- Average crime rates are lower

But distance, sparsity and demography can affect delivery of important services,

- Higher proportion of older people
- 1 million inadequate access to broadband speeds
- Greater travel time to reach key services

And there are hidden pockets of deprivation.

- Workplace based earnings are lower
- 22% of households in England fuel poor.
- Higher proportion of disposable income on transport costs.

# Key challenges for the agricultural sector

- Environmental challenge
- Productivity challenge
- Social challenge
- National strategic challenge



Policies

# Strategic context

- Environmental challenge
- Productivity challenge
- Social challenge
- National strategic challenge

- 25 Year Environment Plan
- Future of Farming Green Paper
- Industrial Strategy
- Clean Growth Strategy
- Resource Efficiency and Waste

# The environmental challenge

## The 25 YEP framework

### Achieve:

- Clean air & water
- Thriving wildlife
- Reduced drought and flooding
- Efficient use of natural resources
- Enhance cultural heritage

### Reduce pressures by:

- Mitigating and adapting to climate change
- Minimising waste
- Managing chemicals
- Enhancing biosecurity

- Use land sustainably
- Recover lost landscapes
- Improving health and wellbeing

- Increase resource efficiency
- Clean, productive and biologically diverse seas
- Protecting the global environment

Responses from the rural industries and especially farming

# The environmental challenge

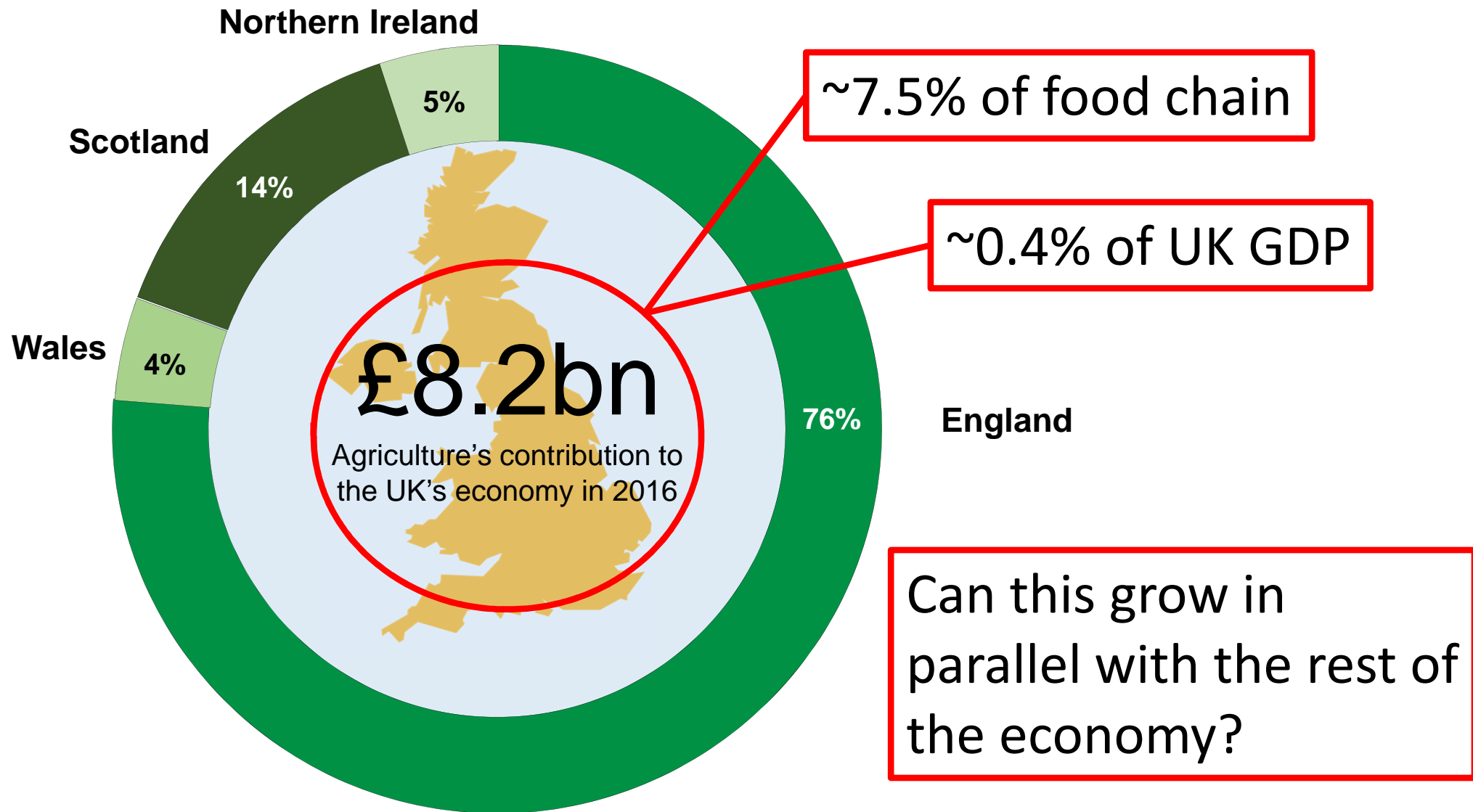
## The magnitude of the challenge

- Releasing land (or production intensity) for other functions
  - Carbon sequestration
  - Biodiversity recovery
- Making a step change in food production efficiency
  - Farming is currently <10% efficient in ~~storing~~ <sup>storing</sup> many of these
  - 25% of produce wasted
  - Nitrate pollution is damaging
  - Chemical food production (pesticides, AMR)

also solves many productivity challenges
- Need to re-imagine how we produce food
  - Should not think the future will be like the past
  - Embrace new technologies
  - Zero-waste, zero-emissions farming

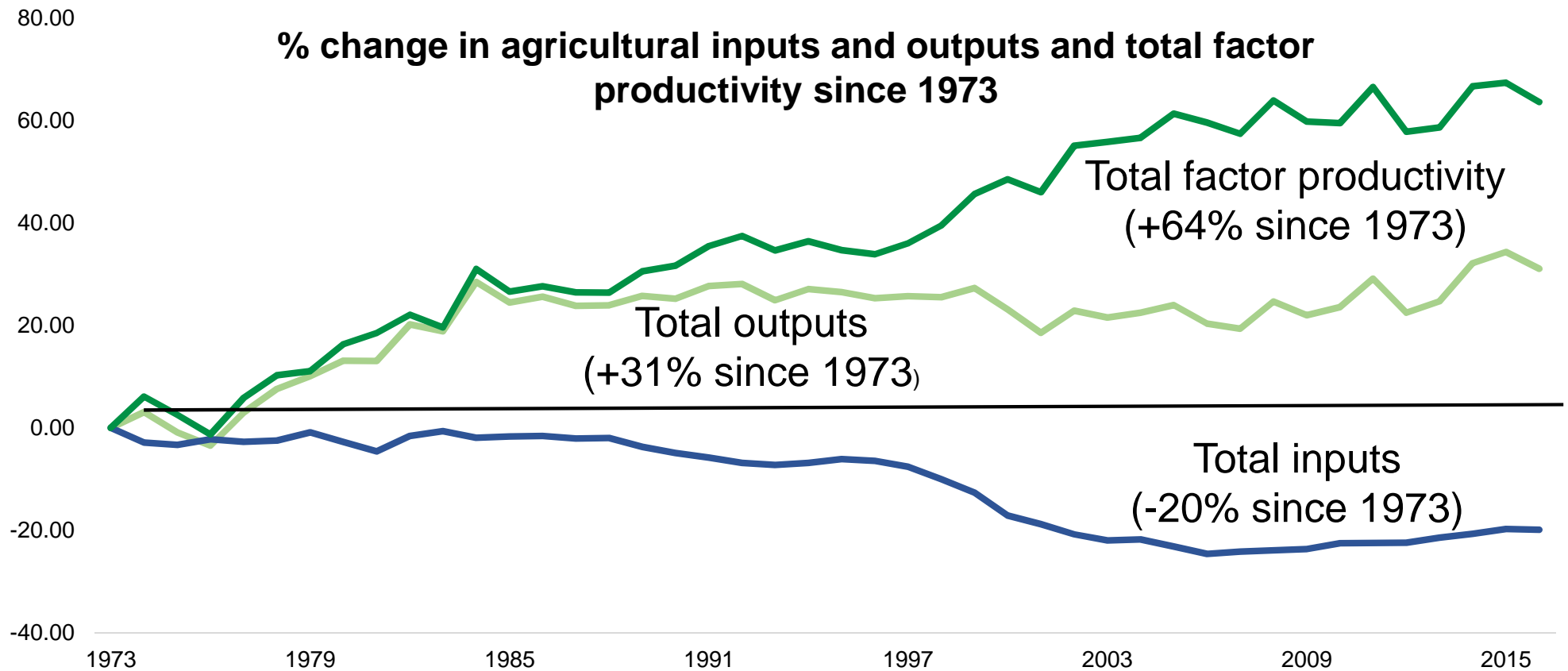
# The productivity challenge

## Net contribution of agriculture to the UK economy by country







# The productivity challenge



**Outputs**




**Crops**




**Livestock**


**Inputs**




**Labour**



**Fixed Capital  
e.g. machinery**



**Intermediate consumption  
e.g. animal feed**



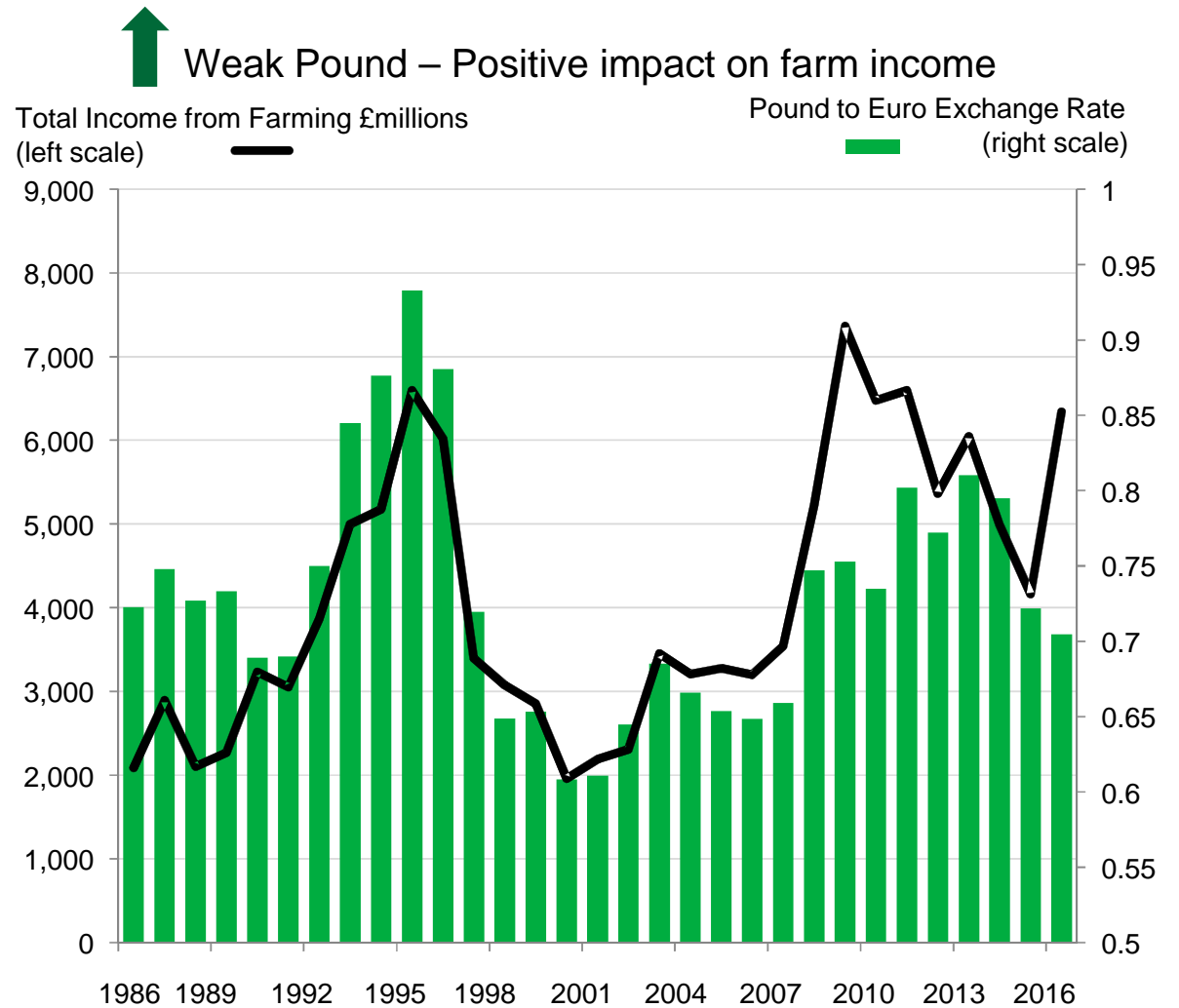
**Land**

# The productivity challenge

## Volatility

### Volatility

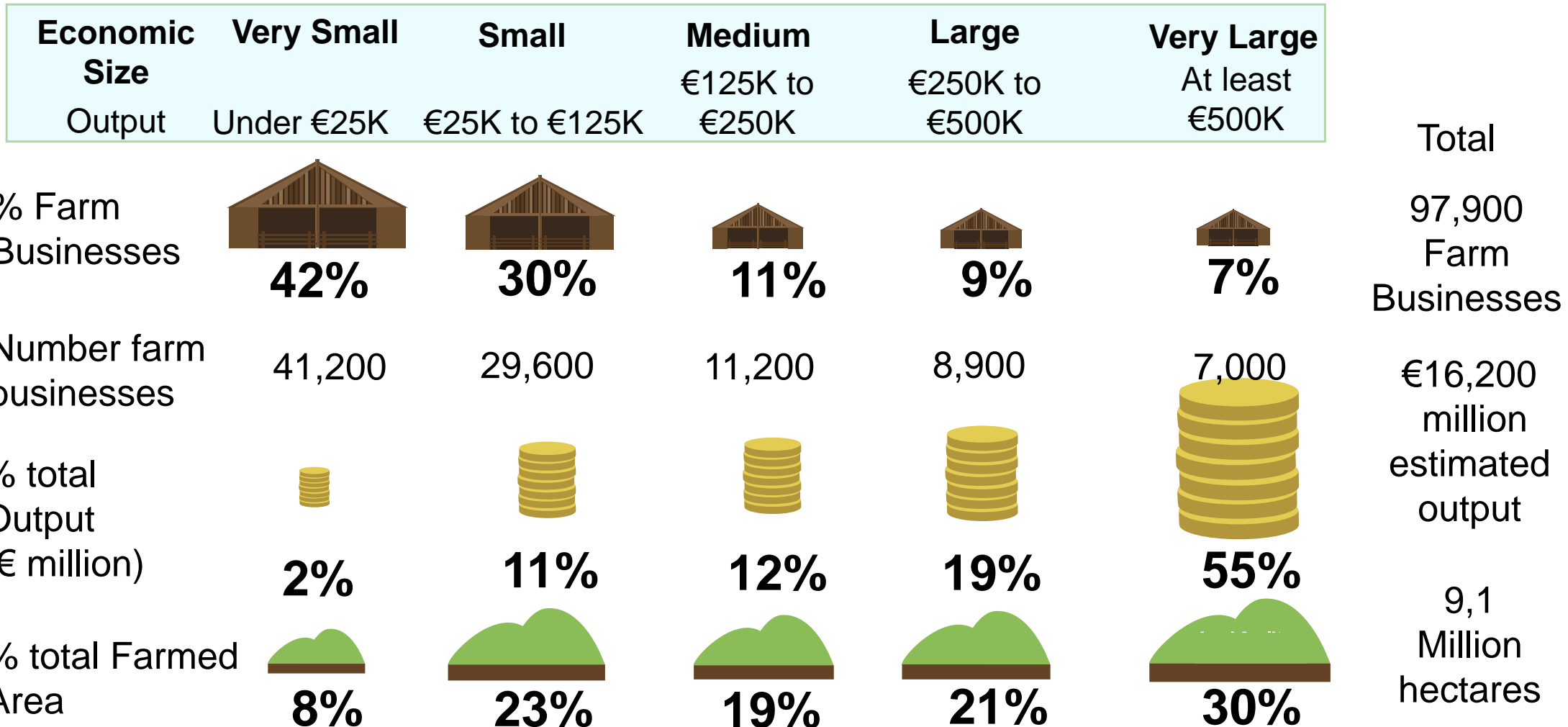
- Exchange Rates
- Direct Payments
- Production
- External shocks
- Weak Sterling



↓ Strong Pound – Negative impact on farm income

# The productivity challenge

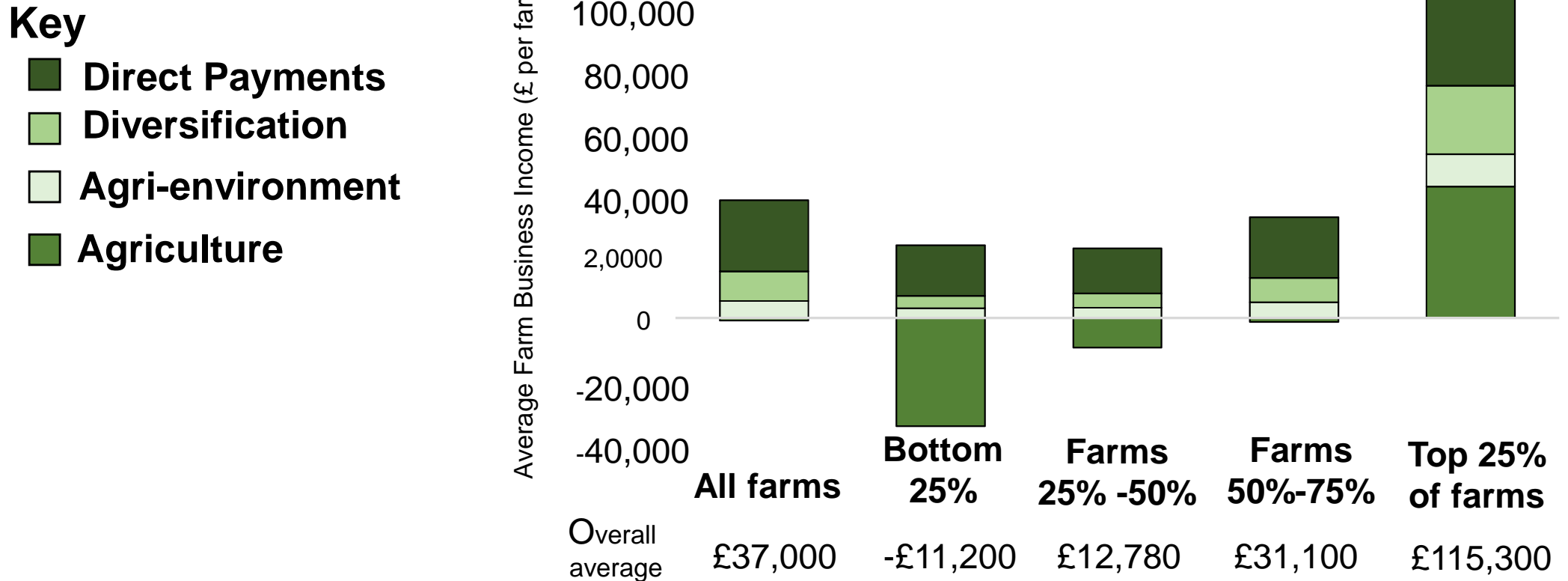
## Industry structure



- 7% of farms produce 55% of output on 30% of land
- 42% of farms produce 2% of output on 8% of land <sup>11</sup>

# The social challenge

## Farm incomes/profits (England)

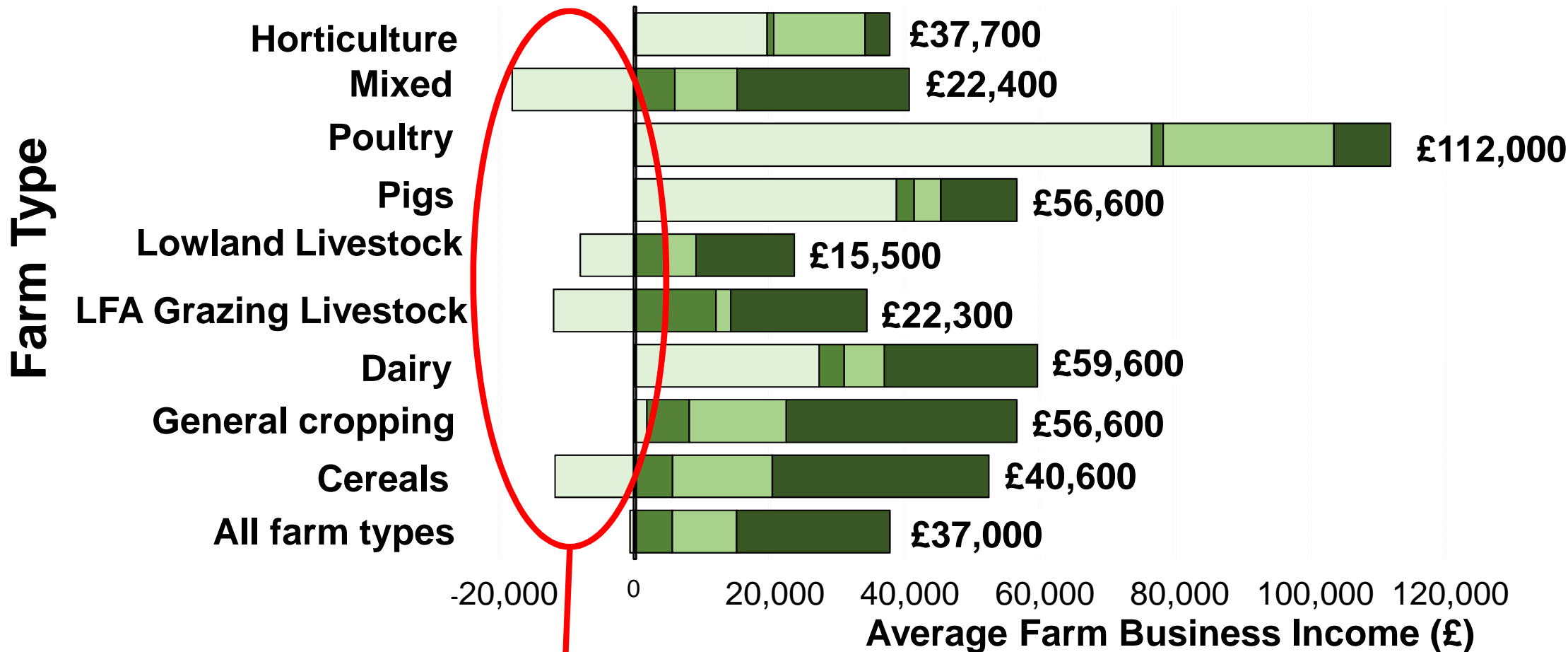


- Larger farms are more financially secure
- Small farms proportionately more reliant on direct payments

# The social challenge

## Profitability varies by sector

Agriculture
  Agri-environment
  Diversification
  Direct Payments

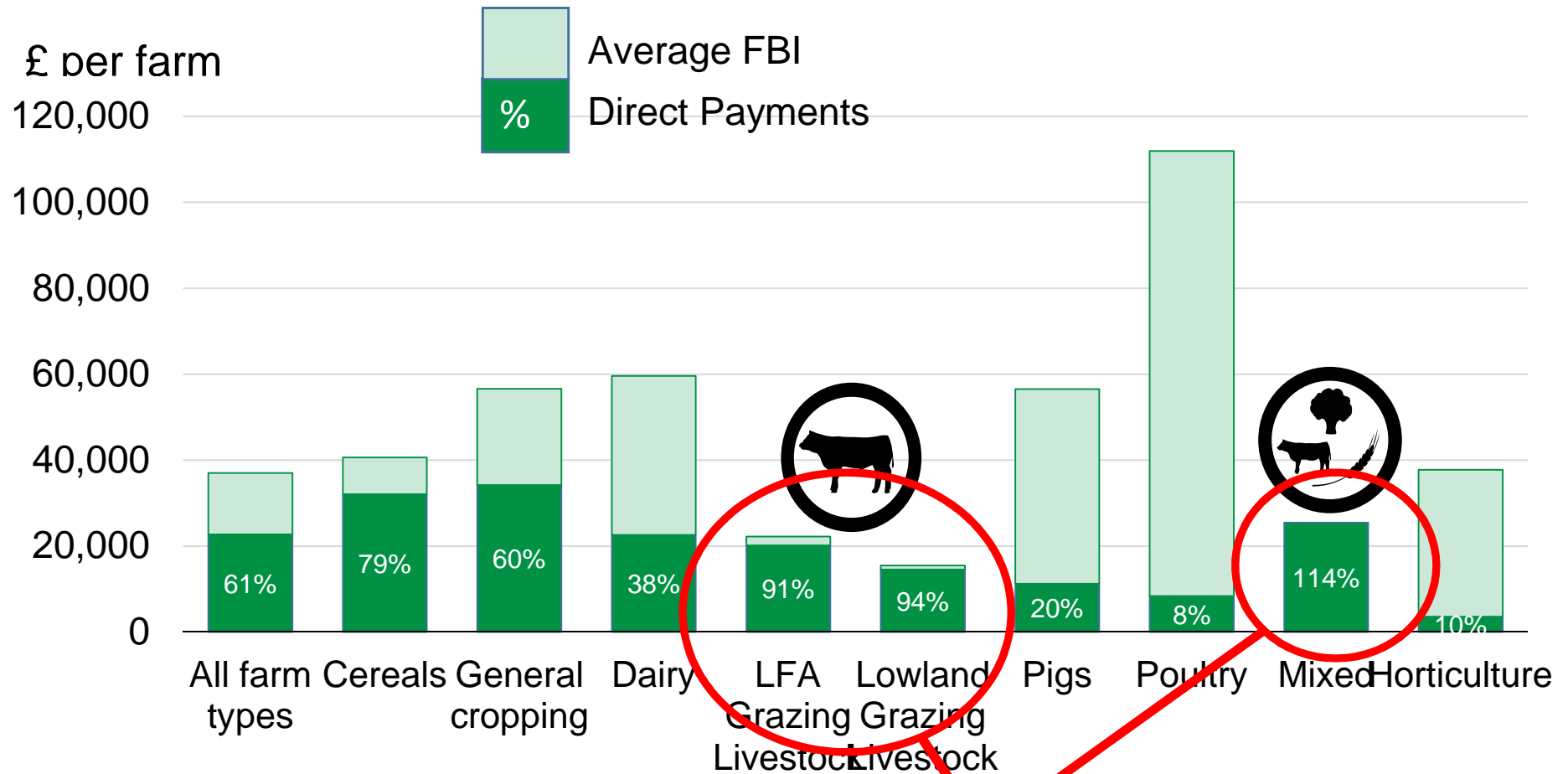


- Mixed, grazing livestock and cereals farms made a loss from the agriculture
- Over **75% of Farm Business Income** came from Direct Payments for cereal, grazing livestock and mixed farms

# The social challenge

## Reliance on subsidy

Average Farm Business  
Income (FBI) 2014/15 to  
2016/17



Almost all grazing Livestock and mixed farm incomes came from Direct Payments.



# The social challenge

## Employment



466,000 UK in 2016.

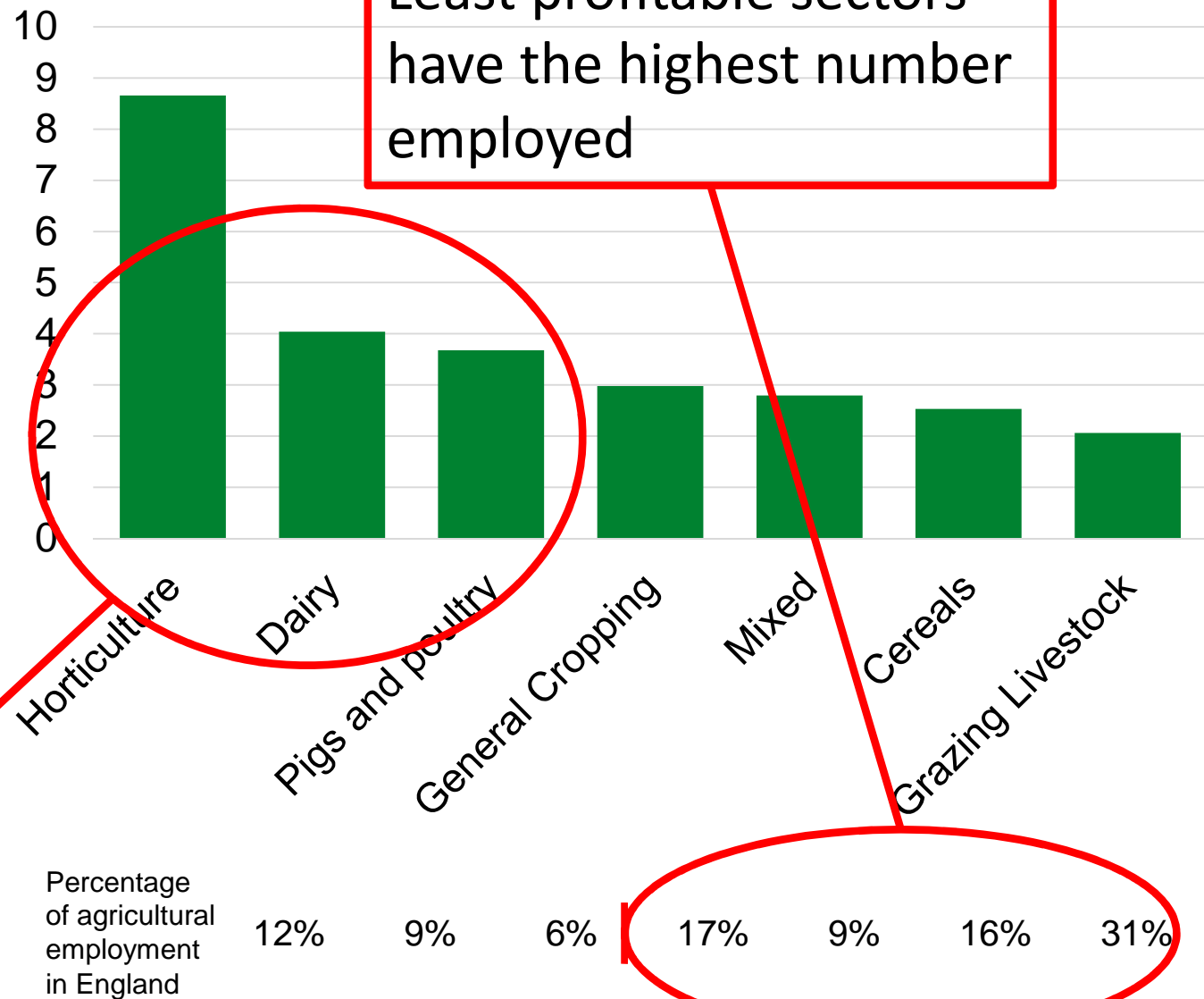
1.5% of the work force

5.7% in Northern Ireland

1.0% in England

Most profitable sectors have the highest employment rate

Average number of workers per farm



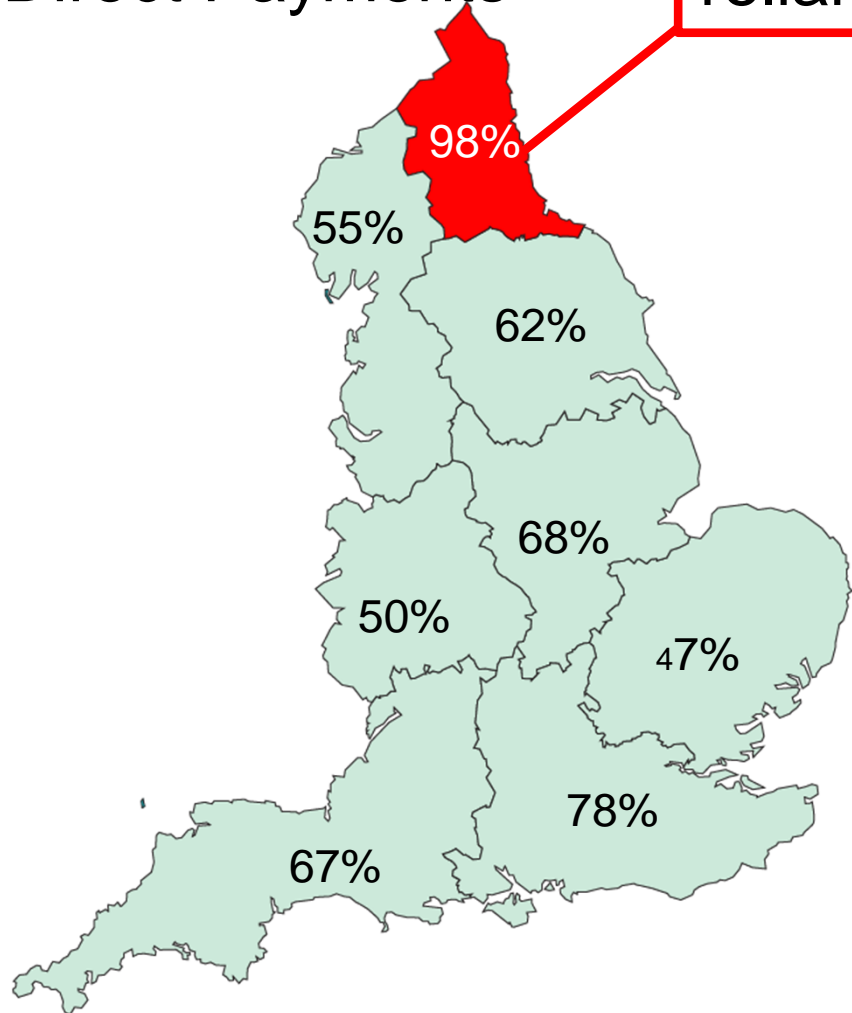
Least profitable sectors have the highest number employed

# The social challenge

Average %  
reliance of Farm  
Business Income  
coming from  
Direct Payments

## Geography / business structure

The North East highest  
reliance on subsidy

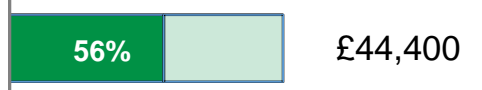


Tenanted  
highest  
reliance  
on  
subsidy

Owner occupied



Mixed - mainly  
owner occupied



Mixed - mainly  
tenanted



Tenanted



All farm types



Average  
Farm  
Business  
Income

% of which  
Direct  
Payments



# The social challenge

The top 25% of farm performers are 2.5 times more likely to engage in innovation and good business practice.

<50% of farm businesses use normal business procedures

Poorest performing sectors have poor business procedures

## Innovation

% of farms that produces budgets, gross margins, cash flows, or in depth profit and loss accounts by farm type



# The strategic challenge

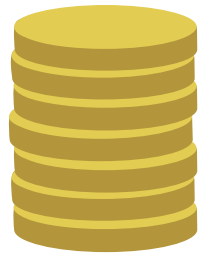
## Reliance on global markets

- About 50% of our food is imported
- Cannot supply to UK customer demand from UK alone
- But the UK could be calorie neutral with the global market
- **Decisions made in the UK are not internalised** (exporting our problems)



## Reliance on subsidy

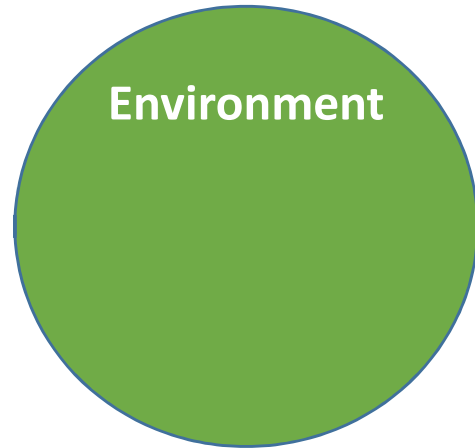
- Significant parts of UK farming are inefficient (economically and environmentally)
- Innovation is low and patchily distributed
- Arguably, this is because policies have not been optimised as a result of an inflexible system of subsidy



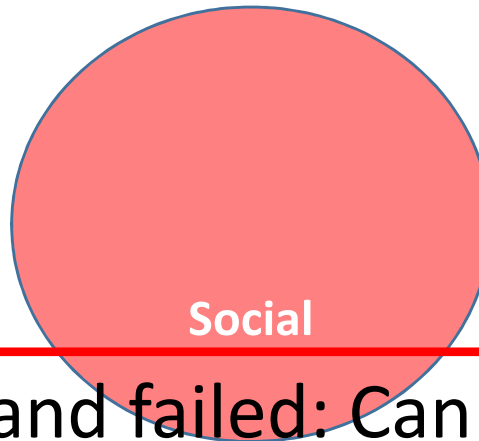
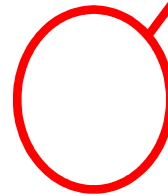
## Incompatible stakeholder expectations

- Not everybody will be able to have what they want
- How to compensate for losses?
- Defining “**Public money for public goods**”

# The policy challenge



Can we land it here?

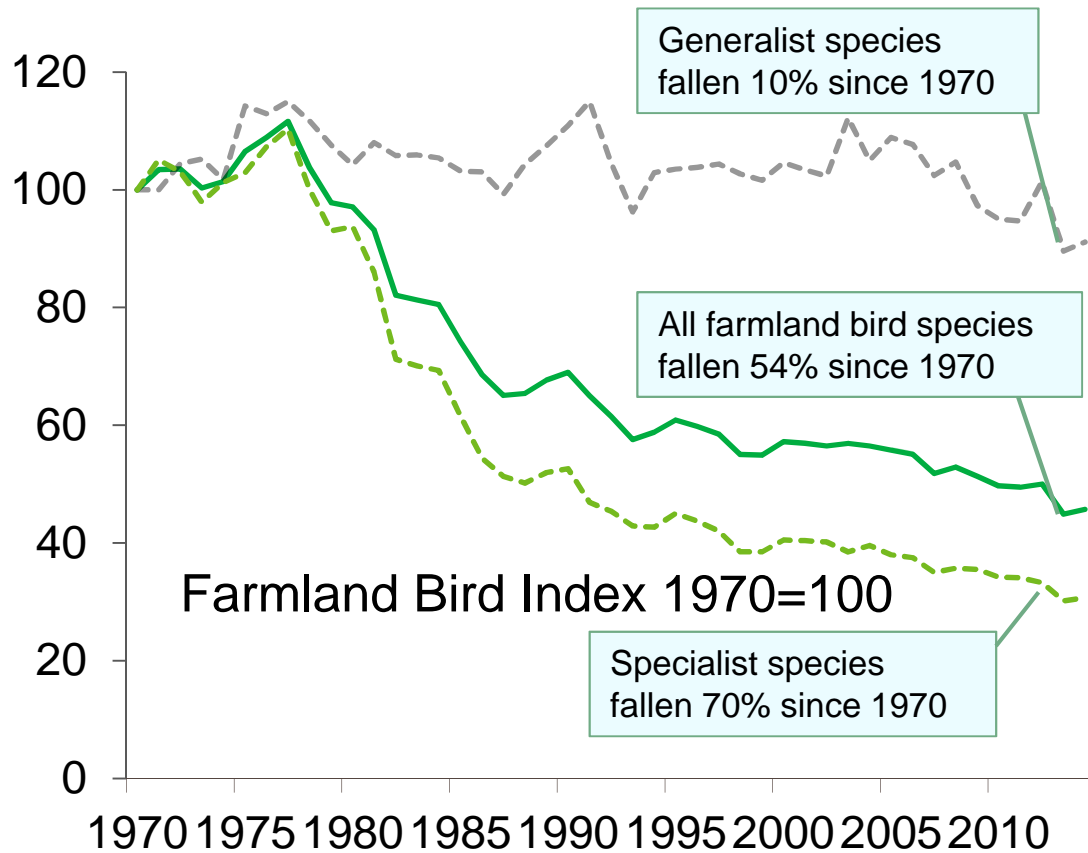


CAP has tried and failed: Can we do better?

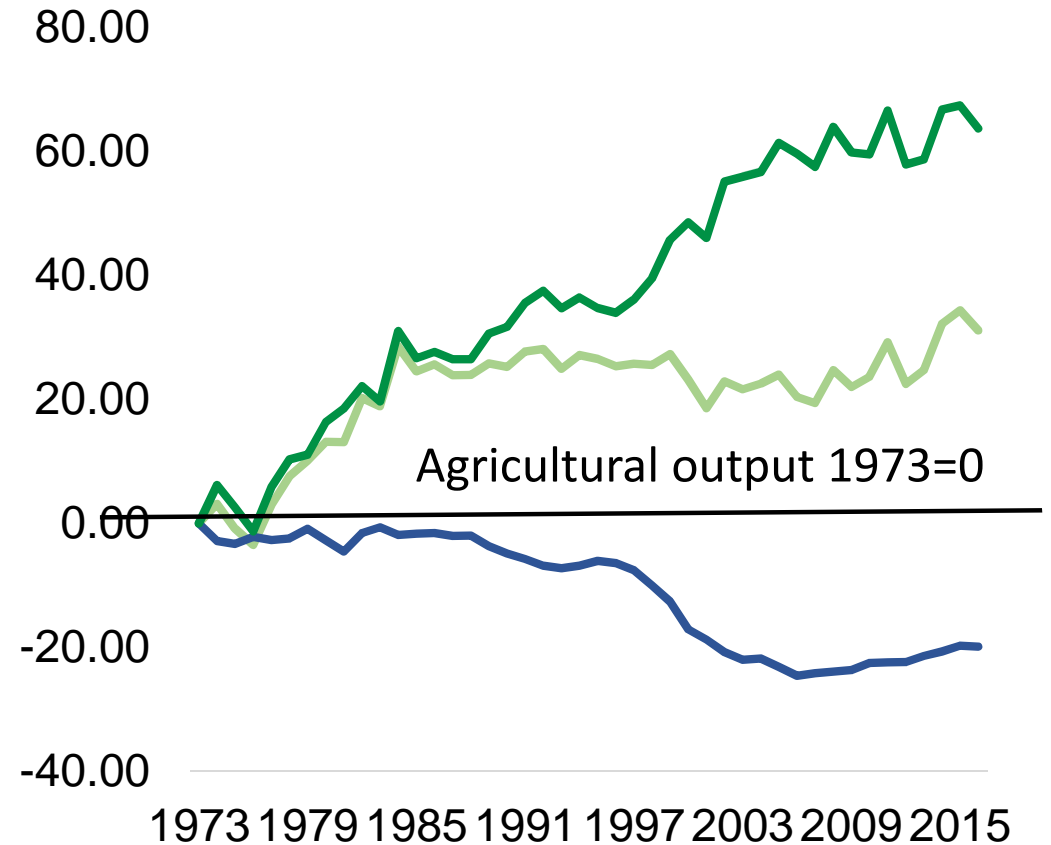
# The policy challenge

CAP may have focussed too heavily on social outcomes

## Environmental



## Productivity



**Farm output flat since 1985**

**Farmland birds declined 44% relative to other places**

# The policy challenge

What is likely to work?

- Clear, and balanced, objectives consistent at all scales
- Transition over time to allow social adaptation
- Preparedness to make hard choices
- Reward for outcomes
- A system of support which is sensitive to:
  - Sector ambition
  - Geography/region
- Measures of success which reflect the policy objectives

A scenic landscape of rolling hills. In the foreground, a lush green grassy slope is dotted with several white sheep grazing. Behind this slope is a dense, dark green forest. The middle ground features a large, golden-brown field, likely a harvested crop, which curves across a hillside. The background shows more rolling hills under a clear, light blue sky, with some distant structures and fields visible.

**Thank you**