To: House of Commons' Welsh Affairs Committee

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Dear Welsh Affairs Committee

A call for evidence – The Impact of the 2024 Autumn Budget on Wales

NFU Cymru champions Welsh agriculture and represents farmers throughout Wales and across all sectors. NFU Cymru's vision is for a productive, profitable, and progressive farming sector producing world renowned climate-friendly food in an environment and landscape that provides habitats for our nature to thrive with Welsh food and farming delivering economic, environmental, cultural, and social benefits for all the people of Wales whilst meeting our ambition for net zero agriculture by 2040.

We are pleased to be able to provide the House of Commons' Welsh Affairs Committee with this submission setting out NFU Cymru's views and observations on the impact of the UK Government's Autumn budget proposals on Welsh agriculture.

Background

1. The importance of the farming industry in rural Wales cannot be over-stated. Welsh farming businesses are the backbone of the Welsh rural economy, the axis around which rural communities turn. The raw ingredients that we produce are the cornerstone of the £9.3 billion Welsh food foundation sector, a sector which has now grown to reach a turnover of £9.3 billion whilst employing 228,500 people, the equivalent to 17% of Wales' total workforce.[1]

2. Welsh farmers also play a key role in maintaining and enhancing our natural environment – Wales' key asset. Farming activity supports a diverse range of species, habitats, and ecosystems, provides a range of ecosystem services including flood alleviation, carbon sequestration, climate change mitigation; and delivers the significant backdrop for Wales' tourism and recreation sector worth an estimated £2.5 billion annually.

3. Our rural and agricultural communities are also strongholds for the Welsh language and culture, with census figures showing that 43% of those involved in agriculture (farmers and farm workers)[2] speak Welsh as opposed to around 19% of Wales' wider

[1] https://www.gov.wales/welsh-food-and-drink-industry-grows-10
[2] https://businesswales.gov.wales/farmingconnect/sites/farmingconnect/files/documents/Iaith%20y%20Pridd%20report.pdf

population. By safeguarding the future of Welsh agriculture and our rural communities we therefore help safeguard the future of our language and culture.

NFU Cymru's view of the 2024 Autumn Budget – The reform of APR and BPR

4. NFU Cymru is well-aware of the significant challenges faced by all sectors of the economy, by governments both national and local and by the public sector as we continue to juggle the effects of both recent high inflation and higher interest rates, an economy which is struggling to grow alongside increasing demand on public services. Welsh farming has not been immune from many of these stresses, with high input costs on farm putting margins under pressure.

5. Over the last 12 months, as it looked increasingly likely that there would be a change of government, NFU and NFU Cymru have sought and obtained assurances from leading figures within the Labour Party, including the current Secretary of State at Defra, Steve Reed, that there would not be any changes to the inheritance tax treatment of agricultural property. A number of discussions took place at hustings meetings leading up to the July 4th General Election at which similar assurances were given by Labour Party candidates that an incoming Labour Government had no intention of changing Agricultural Property Relief.[3]

6. Ahead of the Autumn statement, NFU Cymru wrote to the Chancellor Rachel Reeves setting out the case for an inflation adjusted, multi-annual agricultural support budget for the duration of this Parliament, as well as our opposition to any unfavourable changes to Agricultural Property Relief.

7. NFU Cymru was deeply disappointed when the Chancellor announced on 30th October that there would indeed be changes Agricultural Property Relief and Business Property Relief. We believe this policy proposal to be ill-judged and misguided, and if it goes ahead, it will leave farmers without the means, confidence, or incentive to invest in their business.

8. Business property relief and agricultural property relief were introduced in the 1970s and 1980s, in order to ensure that upon the death of the owner the farm or family business could continue as a trading entity, and so for decades APR and BPR have underpinned viable working farming businesses and family businesses of all shapes and sizes.

9. APR is not a 'loophole'. It is a specifically designed policy, introduced in the Inheritance Tax Act 1984, to protect family farms from being sold and broken up. For this reason, governments of all parties have retained APR. If the Treasury's concern is with the use by some (from outside of the agricultural sector) of APR reliefs in order to avoid inheritance tax, then one potential approach to tackle this might be to mandate that you must be working the agricultural business in order to derive the relief.

10. On 30th October the Chancellor announced that the Government will change APR and BPR from April 2026. In addition to the existing nil-rate bands, the 100% rate of relief

[3] https://www.ft.com/content/ebd4c62b-6800-4688-ba59-18143d38dfd3

will continue for the first £1 million of combined agricultural and business assets and will be 50% thereafter.

11. The Treasury figures which claim this £1m threshold will only affect one in four British farms are misleading. Most working farms, even those considered to be comparatively small, will be worth over £1m. The large number of smallholdings and houses with a few acres let for grazing can give a distorted view of how many working farms fall under the threshold.

12. The asset value of genuine food-producing farms will be high, given the size they need to be to remain viable businesses; but that is the value of the asset; it does not reflect its profitability which is often, and increasingly so, very low. A small family farm can therefore have a notional high asset value but very low income and liquidity.

13. Inheritance Tax reliefs such as Agriculture Property Relief (APR) and Business Property Relief (BPR) give certainty to farmers that they will be able to keep the farm in the family. Without reliefs such as APR, a farmer's family will often have no alternative but to sell the farm/part of the farm or take out borrowing to pay the Inheritance Tax. Removing these reliefs will also have a corrosive effect on our family farms' structure.,

14. Whilst there is an across the board £325,000 nil rate band per spouse under current inheritance tax arrangements, which is transferrable to the surviving spouse, there is no such provision for the transfer of the £1m nil rate band for agricultural property under the proposals unveiled by the Treasury last week. It is unclear why the Treasury decided against making the £1m allowance transferrable between spouses in the same way as the £325,000 nil rate band.

15. With no scope to transfer spousal allowances, agricultural assets over £1m will attract inheritance tax at a rate of 20% from April 2026. NFU Cymru is clear that the majority of Wales' working family farms will be brought into the scope of this tax (despite Treasury claims to the contrary), rather than it being a tax which captures those individuals who have purchased agricultural land as a speculative investment, as may perhaps have been the intention behind this reform.

16. Returns from farming are typically extremely modest, with the return on capital employed for farming, after taking into account a wage for the farmer, averaging less than 1%. This means that the vast majority of farm owners would be unable to meet an inheritance tax charge even if they were to utilise their entire return on capital employed during their career/period of ownership, leaving them with little choice but to take on additional borrowings or to sell of part of the farm in order to meet the charge. Although a family farm may look like a valuable asset on paper, that does not mean those who work it are wealthy or are able to meet a large tax bill.

17. We would further add to this that owing the way in which family farms are typically structured as one business unit (and not a limited company with for example 100 shares which you could easily break up), there are particular challenges created for partners in a family farm, if an inheritance tax bill should fall due.

18. Farmers do not hold the farm as an investment, rather it is held as effectively a trading asset, by taxing the asset which creates the income and employment, there will be significant damage done to the sector. There will be little in the way of incentive for business growth when the growth in asset value is simply lost at each generational transfer.

19. The proposals in last month's budget to severely curtail the scope of two essential reliefs from inheritance tax came as a devastating blow for Wales' farmers. We believe that this will have a highly detrimental impact on the viability of Wales' family farm structure and all of the businesses who in turn rely on them, such as those selling goods and services onto farm as well as those businesses which purchase the outputs which our farms produce. As has been mentioned our farms and rural communities are also strongholds of Welsh language and culture, with 43% of those involved in the sector speaking Welsh as opposed to 19% of Wales wider population.

20. These proposals are likely to drive significant restructuring within the sector, one likely impact of this is a significant contraction in the amount of farmland available to rent. With round two thirds of working farmers renting some or all of their land, it is not difficult to see that rented land is critical to the UK agricultural industry.

21. The changes announced in the Budget mean that landowners will lose the tax advantage of owning farmland, which in many cases will be made available to tenants. Instead, they may seek to use their capital for investments with higher returns, contracting the availability of land for tenancies.

22. Any significant constriction of land available to rent would have widespread adverse economic implications across the industry compared to any exchequer revenue raised. For those currently renting all or most of their land, losing even part of their rented land could make their farm business unviable and, where they also rent the farmhouse, it could make them homeless. Clearly this would also have national implications for UK food production, and food security.

23. With around 30% of agricultural land in Wales rented and farm business tenancies being a key route of entry for so many young people taking their first steps into the agricultural industry, any unfavourable changes to APR would not only seriously impact those farms that rent all or part of their land but would also stand to disproportionately impact young and new entrants to the industry.

24. NFU Cymru believe APR has helped drive investment in the industry, with people buying farmland which can then be made available to tenants who go on to have thriving businesses. This is a crucial aspect of getting young people and new entrants into farming at a time when there is a skills shortage within the industry.

25. Therefore, changing APR, particularly with such a low threshold, makes this kind of investment a lot less attractive. It is likely we will see many people who may have bought and then let out land for farming (which is necessary to qualify for APR) rethink this and hence we would see the contraction of the tenanted sector.

26. NFU Cymru's fear is that last month's changes, if they go ahead as planned, will cause lasting damage to Welsh farming, leading to the break-up of family farms and

leaving farmers with neither the means, confidence nor incentive to invest in the future of their business. We are therefore calling on the UK Government not to pursue the proposed changes to APR and BPR.

NFU Cymru's view of the 2024 Autumn Budget – The Barnettisation of future uplifts to agricultural support

27. We were pleased to see confirmation on Page 9 Paragraph 3.1 of last month's Treasury Statement of Funding Policy[4] that the funding for agriculture from 2024-25 has been baselined into each devolved government's block grant (essentially locking in the historic funding allocation, which is itself based on historical levels of agricultural production in each of the home nations). We believe that locking in support at this level represents a positive first step by the UK Government.

28. Based on what appears to be a £2.4 billion allocation to Defra for agricultural support[5], it is NFU Cymru's assumption that there should then be approximately £340m baselined into the Welsh Government's block grant for the purposes of agricultural support in Wales.

29. Despite this, it is NFU Cymru's contention that the baseline which has been selected is very much 'in the rear-view mirror'. This is because this £340m figure replicates the figure used by the last Conservative Government for the allocation of agricultural support amongst the UK home nations at the beginning of its term in 2019, a figure which is itself based on the EU budget which was set at the end of 2013 ahead of the 2014-2020 CAP period.

30. The real terms value of this £340m has been steadily eroded by inflation, particularly over the last two years which have seen very high rates of agricultural inflation. Running this historic £340m figure through the Bank of England's inflation calculator indicates that there should be an uplifted allocation to Wales for agricultural support of just over £500m reflecting the effect or recent inflation as well as the scale of the ambition NFU Cymru and Welsh Government have for the sector.

31. At page 9 Paragraph 3.1 in the Statement of Funding Policy is confirmation that '*the Barnett formula will apply in the usual way to funding for agriculture and fisheries, rather than the devolved governments receiving a ringfenced addition to the block grant as they did for Spending Review 2021*'. The fact that the UK Government is proposing the use of the Barnett formula to calculate any block grant adjustments/future uplifts to agricultural funding for the devolved governments is both concerning and inequitable.

32. CAP payments from the EU, when received by the UK Government, were allocated between England, Scotland, Wales and Northern Ireland in a way which reflected historical levels of agricultural production, whereby parts of the UK with historically higher levels of agricultural production received higher levels of support under the Common Agricultural Policy.

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[4] https://assets.publishing.service.gov.uk/media/6721134c3ce5634f5f6ef441/Statement_of_Funding_Policy_addendum.pdf
[5] Inaccurate coverage on DEFRA's budget – Defra in the media

EU CAP Pillar 1 funding was shared out amongst the home nations as follows:[6]

England	65.526%
Scotland	16.345%
Wales	8.956%
Northern Ireland	9.173%

33. Once the UK's participation in the Common Agricultural Policy ended in 2020, the then Conservative Government allocated £3.7 billion per annum in replacement, domestic agricultural support, to be shared amongst the home nations in the exact same proportions as had been done when the UK was an EU Member State. We consider this allocation to be far more equitable as this historic allocation is reflective of the levels of agricultural production in each of the home nations.

34. If the Treasury were to allocate an extra £100 of funding for farm support in England then by analogy to the historic allocation of support amongst the home nations this would imply a total pot for distribution amongst the home nations 100/65.526 = 1.526 = £152.60, which would break down amongst the home nations as follows

England =	£152.60 x 65.526%	=£100.00
Scotland =	£152.60 x 16.345%	=£24.84
Wales =	£152.60 x 8.956%	=£13.61
Northern Ireland =	£152.60 x 9.173%	=£13.94

Using this historic arrangement as the basis for our calculation means an implied increase in Wales farm support funding of £13.61 for every additional £100 made available to England.

Rebasing this uplift according to the Barnett formula would mean that the extra funding for Wales would be determined in the following way.

Extra funding for Wales = Extra Funding for England x Population Proportion compared to England x The Comparability Factor x The Transitional needs-based factor

Therefore

Extra funding for Wales = £100 x 5.48% x 100% x 105% = £5.75

In making this calculation we are assuming that Wales population is 5.48% of that of England, the comparability factor is 100% and that the transitional needs-based factor of 105% applies

35. If future funding uplifts are made according to the Barnett formula rather than by analogy to the historic allocation, Wales would be in receipt of £5.75 instead of £13.61 (for every additional £100 of expenditure in England), and so would lose out on £7.86. Expressed another way Wales would only receive 42% of the expected uplift in

[6] https://assets.publishing.service.gov.uk/media/5f61fb80e90e072bc1a75335/intra-allocation-uk-review.pdf

funding under a Barnettised arrangement than it would under an EU historic allocation.

36. NFU Cymru is deeply concerned about the disadvantage to Wales which is implied by these calculations. We reject the idea that uplifts to agricultural support funding are in any way amenable to simple population based Barnettisation owing to the relative scale and weight of the agricultural sector in each of the UK home nations.

NFU Cymru's view of the 2024 Autumn Budget – Other issues

37. NFU Cymru welcomes the confirmation that Welsh Government will receive an additional £1.7 billion in funding in 2025-26, giving the Welsh Government a total of £25.4 billion to allocate at its budget which is due to be published shortly. This represents an increase of 7.2% on the £23.7 billion Welsh Government budget for 2024-25.

38. It must be remembered that the rural affairs budget in its entirety for the 2024-25 budget year was subject to a £62m cut, seeing it fall to £420m, taking the largest relative reduction of any of the Welsh Government departmental budget when the final budget was published this spring. This followed on from a £37.5million, or 7.8% in year budget cut, to the 2023-24 budget announced in October 2023.

39. The budget cuts made to the Rural Affairs Budget last Autumn must be reinstated in full, and further to this NFU Cymru is calling on Welsh Government to ensure that the Rural Affairs Budget receives its full pro-rata allocation of the additional £1.7 billion in resource which was announced for Wales in the UK Government budget.

40. It also appears from the budget that from April 2025 the treatment of Double Cab Pick UP (DCPU) Vehicles (with a payload capacity of more than one tonne) for corporation tax and income tax will change. From next April they will be treated as cars and not commercial vehicles for the purposes of capital allowances, benefits in kind, and some deductions from business profits. This news is unwelcome and places an additional cost on farm businesses for whom these vehicles are essential pieces of kit.

41. The Government has responded to the March 2024 consultation on the introduction of a UK carbon border adjustment mechanism (CBAM) by confirming that the UK CBAM will be introduced on 1st January 2027, placing a carbon price on goods imported to the UK that are at risk of carbon leakage, significantly for UK farmers this includes fertiliser.

42. Fertiliser is one of the primary costs of production for Wales' farmers, and industry sources believe that the UK CBAM will add as much as £50 to each tonne of fertiliser. The impact on domestic production costs will undermine the competitiveness of domestic agricultural production, in both domestic and international markets, against competitor products from jurisdictions where production utilises fertiliser inputs which are not subject to a carbon pricing regime.

Conclusion

43. The Budget of Autumn 2024 came as a bitter blow to farmers in Wales, with many now left fearing for the future of their farm, particularly in light of the proposed changes to the inheritance tax treatment of agricultural property.

44. This unwelcome news comes on top of a number of challenges that the sector has faced or is currently facing including high costs of production, adverse weather, marketplace volatility, uncertainty around the direction of future support for agriculture in Wales as well as the significant burdens water quality regulations and TB in cattle.

45. NFU Cymru calls for the UK Government to scrap the proposed changes to Agricultural Property Relief and to ensure that uplifts to agricultural funding for Wales are via a more equitable arrangement which accounts for historical levels of agricultural production in the UK home nations.

46. The Union is grateful for the opportunity to provide the Committee with written evidence, and we would be pleased to provide any further information that the committee might like and to come in to provide oral evidence to the Committee.