

# The strategic case for equitable recognition of rural economies in Levelling Up policies

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# Contents

We are the **National Innovation Centre for Rural Enterprise**, a unique hub of innovation and research excellence working with a network of national and local partners.

We **collaborate, research** and **co-design** ideas and solutions to foster rural enterprise and unlock the potential in the UK's rural economies.

<b>Summary</b>	<b>3</b>
<b>Introduction</b>	<b>4</b>
<b>Rural economies – missing piece in Government's Levelling Up ambition</b>	<b>5</b>
<b>1. Rural economies – strengths and spatial reach</b>	<b>6</b>
1.1 Introducing England's rural economies	6
1.2 Sectoral contributions of rural enterprise	6
1.3 Land and marine resources	6
1.4 Rural contributions to natural capital and net zero growth	7
1.5 Economic growth – changing perceptions of rural contributions and their drivers	8
<b>2. Rural weaknesses... or potential to grow</b>	<b>10</b>
2.1 Addressing operational challenges of rural businesses	10
2.2 Transition in agricultural support – a challenge in the making	11
2.3 Overview of rural economies' contributions and challenges	11
<b>3. What should Government do better or differently?</b>	<b>12</b>
<b>Conclusions</b>	<b>18</b>
<b>Acknowledgements</b>	<b>18</b>

# Summary

The Government's Levelling Up aspiration is to rebalance growth, reduce inequalities and share prosperity across UK nations, regions and localities. However, most policy speeches and commentaries focus on cities and towns as engines of growth, and inequality of left-behind industrial centres. This perspective fails to recognise or harness rural economies' extensive and diverse contributions, tackle rural challenges or release rural potential.

This paper sets out a strategic case about why and how the Government should develop 'rural-inclusive' Levelling Up policies, delivery programmes and resources. It extends an earlier NICRE Briefing Paper on Levelling Up with evidence of the breadth and spatial reach of rural areas' economic contributions and the challenges faced by rural firms. Moreover, the paper suggests adjustments to policy design and delivery to make them accessible and relevant to rural areas and to support spatial and functional inter-dependencies.

Our evidence shows that rural economies support important parts of England's output, enterprise or employment base. Their supply chains, workforces and activities reach well beyond rural areas or traditional rural industries. They match urban performance in economic regions such as the Northern Powerhouse and Midlands Engine, and almost a third of rural local authorities are hotbeds of business starts, survival and growth.

Rural places and firms are stewards of much of the nation's food, water and renewable energy supplies, biodiversity and special landscapes. They help to capture and store carbon, and have embraced measures to achieve net zero growth more than urban SMEs. Rural areas host some of the country's leading science and business parks, whilst manufacturers and technical firms benefit from rural space, beauty, less pollution and noise.

Rural firms can raise productivity and growth. Some have goods or services suitable for exporting but don't. Others wish to harness digital tools and connections but are held back by poor broadband. Many introduce new products or services to their firms but are less likely sources of 'new to market' innovations. Support to tackle these challenges will also enable more rural contributions to 'trickle up' to wider economies and communities.

Rural economies are rarely the target of mainstream economic or business policies and public investments. A perception has grown that rural areas benefit from investments made in regions or cities, and then 'trickle down' to rural and local areas. Thus rural economies have received less than equitable share of some key public funds and programmes. This may not have been intentional, but results from policy design and delivery that limits their accessibility or relevance to rural authorities, dispersed enterprises, local or peripheral rural communities.

The report's final section records some spatial signals, choices of metrics, outcome and delivery targets, and application processes of recent policies and programmes that have limited their availability to rural economies and places, and ability to support cross-boundary working, shared flows and inter-dependencies. It puts forward a model for rural-inclusive Levelling Up, arising from improved 'trickle down' flows from national or urban investments, releasing more 'trickle up' rural flows to cities and wider economies and communities, helped by greater capacity for rural places and businesses to 'reach in' to national and local policies, funds and structures.

The report encourages those designing or delivering this ambition to:

- Modify targeting and **design of new policies and investment programmes**, by strengthening and using Government's rural proofing processes
- **Eliminate signals of urban preference** towards cities and agglomerated industries
- **Support inter-dependencies between places and economies** with a dedicated investment fund
- **Adopt inclusive metrics or indicators** of economic benefits and/or operational outcomes
- **Build capacity and conduits for rural enterprises and peripheral communities** to raise their awareness and ability to secure and manage public investments.

# Introduction



Over the past two years, the UK Government has promoted its intentions to Level Up places and economies across the United Kingdom, reduce inequalities and spread investment and employment opportunities, especially to left-behind areas.

**All areas and communities need to share in Levelling Up initiatives, both as contributors and beneficiaries. This includes Britain's diverse and extensive rural areas, which have often felt neglected or overlooked by policies, programmes and interventions.**

This paper, prepared by a team of researchers with substantial experience of rural economies, sets out the case for clear, strategic recognition of the contributions, challenges and potential of rural enterprises and places to Level Up the national economy and deliver Shared Prosperity, with appropriate engagement, resources and support.

The paper introduces some rural economic qualities, contributions and opportunities at a strategic level, the evidence on which they are based, challenges faced by rural businesses and key steps that Government and public sector levels should take to invest equitably, release rural potential, and spread economic outputs and benefits across the country.

# Rural economies – missing piece in Government’s Levelling Up ambition

If viewed primarily with a national lens focused on productivity or growth, Britain’s rural economies appear to be weaker performers than our cities and larger towns. This may explain why governments focus economic interventions and investments upon cities or industries that benefit from agglomeration economies to release rapid growth and wider regional benefits, and upon definable disadvantaged urban neighbourhoods to improve economic opportunities. Some economic and social rationales support this emphasis, yet it limits Britain’s future prosperity, climate change response and community wellbeing, by marginalising investment in rural places.

The UK Government’s Plan for Growth perpetuates this bias: “Our cities will be the engines for this growth, and our long-term vision is for every region and nation to have at least one internationally competitive city, driving the prosperity of the surrounding region and propelling forward the national economy. Our towns are crucial too.” In this overarching policy statement, rural is only mentioned in relation to planned investment for rural broadband.

Such a perspective fails to recognise the myriad contributions from rural enterprises and communities to wider economies and society, the opportunities and comparative advantages they bring to Levelling Up Britain’s economy, and their potential to release further economic and green outcomes. The Government’s ambition to Share Prosperity or Build Back Better is the opportunity to visibly embrace the 20–25% of population, output and business stock hosted in England’s rural areas.

Rural stakeholders across spatial levels have made substantial strides in recent years to understand, profile, support and improve rural economies. They have greater capability to harness rural assets, economic drivers and inter-dependencies, to describe and tackle rural challenges, to inform policies or adopt practical opportunities for investment. They also support the need for nationwide Shared Prosperity and reducing inequalities, focused through place-based policies and programmes, and are keen to help governments to define and achieve these aspirations. Strategic frameworks and investment programmes for recovery, prosperity and wellbeing, all need to acknowledge and equitably embed rural contributions, needs and opportunities, so that all decision-makers or resource managers embrace their rural economies and communities.

Rural areas are very diverse, with mixtures of open and sparsely-settled countryside, villages, market and rural hub towns present within all regions. This richness is hidden by binary labels of rural and urban, but availability of data for example from national surveys and statistics often only supports such binary comparisons. Wherever possible, decision-makers should adopt official classifications as a minimum that in England and Wales include six rural categories of Census Output Areas, or the six-level Local Authority Rural-Urban classification, to describe their rural areas, inter-dependencies or focus and evaluate their measures. National quantitative profiles of rural demography, living and economic characteristics and trends are presented in the Government’s Statistical Digests of Rural England<sup>1</sup>. Scotland and Northern Ireland operate different definitions of rurality and spatial classifications.

“Strategic frameworks and investment programmes for recovery, prosperity and wellbeing, all need to acknowledge and equitably embed rural contributions, needs and opportunities, so that all decision-makers or resource managers embrace their rural economies and communities.”

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<sup>1</sup> Defra (2021). **Statistical Digest of Rural England** (pg 6-11). Department of Environment, Food and Rural Affairs, June 2021.

# 1. Rural economies: strengths and spatial reach

## 1.1 Introducing England's rural economies

If Levelling Up aims to achieve a strategic rebalancing of England's spatial economies, raising growth and productivity in lower performing areas and industries, then the diversity, spatial spread, sectoral strengths and distinctive contributions of rural economies to regions and cities is a substantial foundation on which to build. In 2018, a fifth of England's output (GVA) outside of London came from its rural areas, a 21% share provisionally valued at £260 billion. In 2019/20 predominantly rural districts hosted 551,000 enterprises (23% of England's registered businesses) and 600,000+ business units that collectively employed 3.7 million people<sup>2</sup>. Their supply chains, innovations and workforces reach well beyond rural areas. This includes 25% of rural employees who commute to predominantly urban areas for work, including cities such as Hull, Newcastle and Cambridge (where 43% of this city's workers lived in the rural hinterland in 2015<sup>3</sup>). Rural areas support more registered firms per population than urban England, hinting at strong entrepreneurial culture - or necessity.

The scale, performance, diversity of activities, and linkages in economies and places can be profiled, mapped and explained in greater detail than at any time since rural: urban definitions were introduced in the '70s. Rural economies reveal signs of dynamism, connectivity, substance and potential, yet as evidenced also in cities and towns, they also experience marginalisation and challenges. Drawing on recent, detailed research, the following sections present both of these faces. Taken together they justify equitable recognition and support for rural areas in the Government's Levelling Up or Shared Prosperity policies, programmes and funds.

## 1.2 Sectoral contributions of rural enterprise

Although farming, forestry, food and tourism are often the most visible business activities in Britain's rural areas, especially in sparsely populated or remote locations, a wider lens reveals considerable diversity in scale, reach and performance of rural enterprises. Economic growth policies often look to industries that generate 'tradeable goods and services'<sup>4</sup>. England's rural areas also host these industries. Indeed the character and reach of rural firms within tradeable business sectors will surprise many policy and business leaders.

Manufacturing, professional, scientific and technical services, and information and communications industries occupy at least<sup>5</sup> 152,000 rural workshops, factories, offices, laboratories, business and science parks. Together with 65,400 tourism-related businesses, a valuable exporting industry, such industries employ at least 1.5 million people<sup>6</sup>. Disaggregating these industries confirms that makers of traditional-rural products are mostly located in rural areas (eg 60% of businesses in sawmilling and planed timber; 50% in dairy products). Nevertheless, rural areas also host more than their fair share of firms in other sectors creating high-value, advanced or internationally-traded products or services, including:

### - Manufacture of:

- instruments and appliances for measuring, testing and navigation
- irradiation, electro-medical and electrotherapeutic equipment
- air and spacecraft and related machinery
- bodies, parts and accessories for motor vehicles
- ships and boats
- military fighting vehicles, weapons and ammunition

### - Architectural, engineering, and other scientific and technical activities

### - Research and experimental development on natural sciences and engineering

### - Publishing of books, periodicals and other publishing activities and software publishing

## 1.3 Land and marine resources

Agriculture, forestry and fishing employ nearly a third of a million workers, and deliver 3% of national output. These land and sea-dependant industries deliver the fundamentals of daily lives for most of Britain's population, underpin extensive supply chains and jobs across cities, towns and rural communities in manufacturing, haulage, property, retail and professional, scientific or technical services. The National Farmers Union (NFU) highlights that the "UK's food and drink supply chain is highly diverse, supporting more than one in ten jobs and contributing £112 bill to the UK economy"<sup>7</sup>. UK's forestry timber and allied industries employ around 80,000 people often in some of Britain's most remote locations, and supply paper, packaging, construction, trades and retail firms across the country.

<sup>2</sup> 13.5% per cent of people employed by England's registered businesses.

<sup>3</sup> Centre for Cities (2015). **The missing link in rural productivity** The Government's rural productivity plan fails to recognise the interrelationship between urban and rural areas. Blog post by Thomas, E & Serwicka, I Aug 2015.

<sup>4</sup> Frontier Economics (2021). **Drivers of Rural Tradeable Business Productivity**. Appendix Definition of Tradeable goods.

<sup>5</sup> These figures are minimum quantities, drawn from Defra's data sources, as they only relate to Local Business Units of Registered Businesses in Predominantly Rural Areas in 2019/20.

<sup>6</sup> Defra (2021). Bespoke analysis of 2019/20 data of Registered Enterprises' LBUs at 3-digit SIC codes, as per **Statistical Digest of Rural England - Supplementary Data Tables, Rural Economy**, Defra. May 2021.

<sup>7</sup> NFU (2018). **Food Supply Chain Manifesto for a successful Brexit**.

In some regions their agri-food-tourism economies are: "a key strength upon which we can build globally recognised propositions as THE place to start and build and grow a food business<sup>8</sup>." Substantial changes in the scale or accessibility of pre-Brexit financial support for our farming communities will have significant rural and downstream impacts which needs to be replaced. If some rural areas are not to become the 'left-behind communities' of the future. Many recognise that some current farm business models may become unviable, due to these changes to agricultural policies and support, and accept the need to improve the sector's productivity, skills and markets. But as in Norfolk, many recognise that: "global demand for food is rising strongly and the UK's expertise in adding value beyond the farmgate is in growing demand around the world<sup>9</sup>." Improvements in land-dependent sectors will directly benefit rural areas, but will also contribute to wider community resilience, health and wellbeing.

If Levelling Up policies and resources aim to improve lives in left-behind urban centres of deprivation, then adopting strategic guidance and practices developed by the multi-national EU-funded Strength2Food programme<sup>10</sup>, could result in better local access to sustainable, quality, food sources through short agri-food supply chains, improved public procurement and community engagement. Area health and education authorities for example could facilitate these links for hospitals, care centres and schools.



## 1.4 Rural contributions to natural capital and net zero growth

Beyond these quantifiable economic characteristics, farmers, foresters, fishers, utilities, countryside and environmental organisations and companies are stewards of land and marine resources that contribute substantially to environmental and social health, and the country's drive for net zero growth. Reduced carbon emissions arise from energy generated by onshore wind and solar farms and hydro schemes, whilst soils, natural grasslands, heathlands, peatlands, lakes, woods and forests capture and store carbon. Other studies confirm<sup>11</sup> what many service or manufacturing firms in rural areas experience in practice, that proximity to areas of natural beauty can make positive contributions to raising productivity. These facilities, resources and natural capital are substantial, largely rural or coastal assets, yet frequently are not valued or accounted for in economic balance sheets. More work is needed to generate effective and usable transfer mechanisms and payments to their stewards.

Rural firms are making environmental commitments and contributions to net zero growth. If Levelling Up aims to deliver more environmentally-supportive and resilient communities, then rural enterprises, as stewards of natural assets and through their business management, are demonstrating ways to reduce carbon, pollution, climate-related impacts, and deliver life's necessities to many local communities.

**NICRE analysis by the Enterprise Research Centre (ERC) of its UK Business Futures Survey of 1,000+ SMEs, revealed that more rural than urban firms are environmentally aware and acting to reduce their environmental impact<sup>12</sup>. Rural SMEs were more likely to have adopted an in-house Environmental Management System than their urban counterparts, or taken steps to reduce environmental impacts, such as monitoring air pollution, exploring low-carbon products and services, or investing in environment-related R&D. Such actions are yielding positive outcomes. A larger share of rural (78%) than urban (65%) firms reported that their actions in the preceding year led to significant or slightly reduced emissions. So rural firms in many sectors are engaged with environmental challenges and already appear to be driving change.**

<sup>8</sup> The South West Rural Productivity Commission (2017). **The SW Rural Productivity Commission: Key Findings and Recommendations**. 2017.

<sup>9</sup> Norfolk Rural Strategy Steering Group (2017). **Strong roots New growth**. Norfolk Rural Strategy 2017–20.

<sup>10</sup> **Strength2Food** Brečić R, Sinčić Čorić D, Lučić A, Gorton M and Filipović J (2021). **Local food sales and point of sale priming: evidence from a supermarket field experiment**. *European Journal of Marketing*, 55(13), pp. 41–62. <https://www.strength2food.eu/>

<sup>11</sup> Frontier Economics (2021). **Drivers of Rural Tradeable Business Productivity**.

<sup>12</sup> Wishart M, Roper S and Kesidou E (2021). **Rural SMEs and the net zero agenda**. NICRE. April 2021.

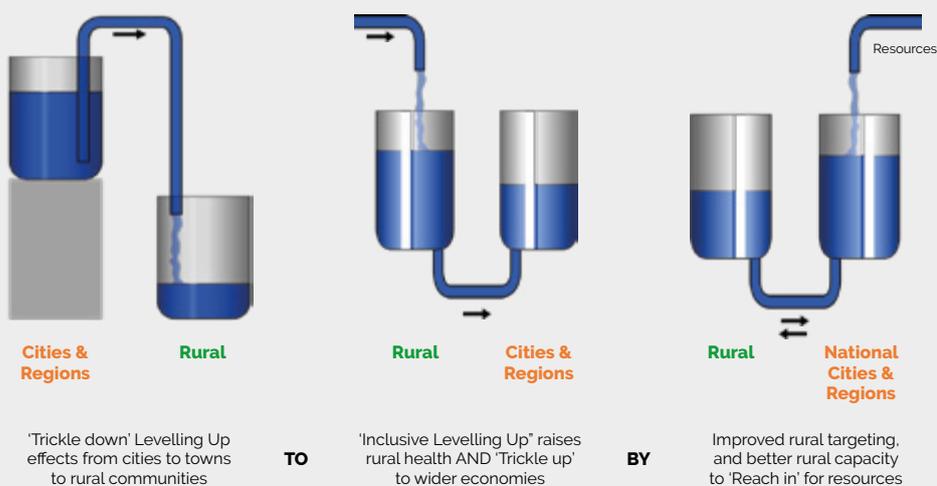
### 1.5 Economic growth – changing perceptions of rural contributions and their drivers

As in our cities and towns, industrial and employment composition varies across rural districts. Sources of economic Levelling Up, or community resilience, will depend on understanding diversity within rural economies and accepting that their characteristics may require different priorities and interventions to those adopted by urban centres. Sector clusters or innovation networks may be rarer or smaller in rural areas, agglomeration benefits are harder to identify, sources of support are more varied or distant. Yet, high growth international firms operate from isolated rural premises; creative and professional industries are found in small business enterprise hubs on rural estates, and in many rural areas strong social capital is mobilised to address 'market failures' for example in affordable housing, energy, transport and retail through community-owned services.

Small and medium-sized firms (SMEs) make a more substantial contribution to rural employment than those in urban areas, employing 71% of the rural workforce (41% in urban SMEs). Rural enterprises' contributions and inter-dependencies with other places or industries are extensive, yet often unseen or overlooked by public authorities or enterprise agencies. To unlock their full potential more policy recognition and support should be provided to small firms, rural enterprise hubs, linkages, community services and alternative business models.

Spatial or industrial targeting to rebalance the UK's economy and boost growth has primarily been centred on city regions or powerhouses, strategic infrastructure, and on technology-led, innovative and export-ready industries. It is often assumed that investment in urban areas will yield good returns, based on their scale and agglomeration effects, well-established hard and soft infrastructures and labour markets. In contrast rural economies are presumed to benefit from trickle-out effects from these urban or regional initiatives, are perceived to yield poorer returns to investment with multiple 'market failures' in transport, housing, services and digital capacities widely distributed across small and dispersed communities that will need to be addressed before marked uplift in outputs or economic returns. They may also be viewed primarily as sources of food, environmental or leisure products and services. Consequently, rural shares of public investments in regional economies are often low.

Such a perception largely ignores trickle-up contributions from rural areas to key manufacturing, professional, technical and scientific sectors and supply chains and consumers, as well as strong social capital that with investment can be mobilised to tackle local inequalities. Moreover, recent evidence and insight into the nature and drivers of rural productivity and growth, paints a positive picture of rural performance and routes to improvement.



Rural Levelling Up: from 'trickle down' to 'trickle up' and 'reach in'

Analysis of responses to the UK Longitudinal Small Business Survey (LSBS 2015–18), involving NICRE researchers at Newcastle University's Business School and Centre for Rural Economy, assessed rural and urban firms' performance within the Northern Powerhouse and Midlands Engine regions. It identified no systematic, significant differences between rural and urban SMEs' innovation of goods, service or processes, nor in the proportions of exporting firms<sup>13</sup>. However, it also revealed that more rural than urban firms believed they had goods or services suitable for exporting but were not doing so. Analysis of the 2019 LSBS identified the scale of such 'export capable' non-exporting rural firms was highest in the East and West Midlands. Surveys of non-agricultural rural businesses in Scotland (in 2019–20) also found that 15% of businesses had goods or services that could be exported - a similar proportion to those that were exporting<sup>14</sup>. NICRE is working with the Department for International Trade to unlock potential exports.

An econometric analysis of rural tradeable firms' productivity, and drivers of improved performance in rural manufacturing, service and tourism enterprises, differentiated and measured their dependencies on a variety of spatial and business support features<sup>15</sup>. This analysis highlighted the importance of accessibility to local towns, cities or strategic road networks; proximity to areas of natural beauty; local sector concentrations; skills; and business support, including grants and accelerators. Rural areas potentially offer a comparative advantage to some large-scale manufacturing and scientific activities from access to lower-cost land.

Levelling Up policies and programmes should strengthen support for these linkages, bringing potential improvements to rural firms, employees and places, as well as to towns, infrastructures and natural resources with which they engage.

Researchers at Northumbria and Newcastle Universities have explored levels of business start-ups, survival and growth in England's 154 rural local authorities<sup>16</sup>. Their econometric study analysed relationships with six sets of influences - skilled labour, access to services, market power, business networks, organisational base and tourism appeal. Allocating authorities to three entrepreneurial spectrums (high-low starts, high-low survival, high-low growth), they identified 50 rural districts with high starts, survival and growth levels, and more with high growth status. 35 rural authorities occupy the low end of these business starts, survival or growth spectrums. For these authorities, the research describes routes to boost levels of firm creation, survival or growth, by comparing their key influences with similar high-performing authorities. This evidence emphasises the value of locally-designed approaches to areas' opportunities, adjusting nationally-determined priorities and processes.

In summary, rural firms make notable contributions to economic growth, blue-green infrastructure, wellbeing and decarbonisation. With equitable access to public investment and support they can be at the fore of many new opportunities and responses to environmental, community or place-based challenges. Unlocking the economic potential of rural firms and workforces and acknowledging and supporting spatial and sectoral inter-dependencies will extend rural contributions to Levelling Up and Shared Prosperity. This requires clear strategic recognition and commitment to rural economies in policies, programmes and resources, as well as improved capacity of rural businesses and communities to access infrastructure, funds and support.

<sup>13</sup> Tiwasing P, Gorton M, Phillipson J and Maioli S (2021). **SME Performance and Regional Rebalancing: A rural-urban analysis of England's Northern Powerhouse and Midlands Engine regions.**

<sup>14</sup> SRUC (2021). **Rural Report.** SRUC.

<sup>15</sup> Frontier Economics (2021). **Drivers of Rural Tradeable Business Productivity.**

<sup>16</sup> Bosworth G and Newbery R (2021). **Rural Affordances and the Environment for Opportunities.** Report to Defra from Counterurbanisation and Emerging Entrepreneurship in Rural Areas Project (CEERA) December 2020.

## 2. Rural weaknesses... or potential to grow

If Levelling Up policies aim to reduce inequality of opportunities, jobs, trade, connectivity and innovation across England, then rural enterprises and communities will need targeted support to release their potential and address some operational weaknesses.

### 2.1 Addressing operational challenges of rural businesses

Spatial interrogation of the UK LSBS<sup>17</sup>, Business Futures Survey<sup>18</sup> and Micro-Business Survey<sup>19</sup> reveals challenges in some rural firms' commitment to exporting, recruitment or training staff and business planning. Comparative evidence about rural and urban firms' innovation yields mixed results, depending on the forms of innovation or levels of rurality. Though aggregate levels of innovation are broadly comparable between urban and rural firms, innovative activity amongst rural micro-businesses appears weaker than those in towns or cities, and in more remote rural locations there is less 'new to the market' innovation. Firms' innovative activity is generally viewed as an important indicator of economies' future growth or productivity.

**NICRE analysis at ERC of the UK Micro-Business Survey established that rural micro-businesses are less likely than such firms in urban locations to be innovating (i.e. new to firm product innovation, new to market product innovation, or process innovation). Similarly, rural micro-firms were significantly less likely than similar urban businesses to have adopted digital tools, such as customer relationship management software, video conferencing, or CAD design tools. This matters as this study established strong positive association (average 5.8–10.6%) between digital adoption and other indicators of innovation.**

Poor connectivity partly explains poor development of digital skills in rural firms, which eventually can also restrict growth and internationalisation<sup>20</sup>. Such results offer a timely reminder to government and communication companies of the economic harm of inadequate rural broadband coverage, as 42% of rural firms compared to 31% of urban firms cited broadband capacity as a major obstacle to digital adoption<sup>18</sup>.



**Enhancing rural broadband can yield substantial economic benefits to national and regional economies, as illustrated by research conducted by Rural England and Scotland's Rural College (SRUC), supported by Amazon<sup>21</sup>. This research estimated that improving rural firms' digital adoption could raise turnover by £15 billion+, adding £12–£26 billion (GVA) annually to the UK's economy. Improvements were visible in every country and region. 75% of this £12 billion productivity growth would arise from micro-firms' higher turnover. This work confirmed rural firms' interest or use of digital tools to export, network and raise productivity, but reaffirmed rural barriers to greater digital adoption.**

Each of these challenges justify rurally-appropriate policy or support solutions to lift performance of rural enterprises and places, and extend economic, social and environmental benefits within rural areas and to non-urban places and firms. Raising productivity or growth depends on a mixture of place-differentiated influences such as access to suitable business premises, and firms' internal qualities including owners' aspirations and leadership. Many rural enterprises face poor broadband or mobile services, thin business networks or support structures, limited public transport, FE or training facilities, and unaffordable rural housing, for their workforces.

Some of these place-dependant challenges were exposed by the House of Lords' Rural Economy Committee<sup>22</sup>, whilst others are currently the subject of an enquiry by the All Party Parliamentary Group on Rural Productivity<sup>23</sup>.

<sup>17</sup> Phillipson J, Tiwasing P, Gorton M, Maioli S, Newbery R, Turner R (2019). **Shining a spotlight on small rural businesses: How does their performance compare with urban?** Journal of Rural Studies 2019, 68, 230–239.

<sup>18</sup> Wishart M and Roper S (2021). **Digital adoption in rural SMEs.** NICRE. June 2021.

<sup>19</sup> Ozusaglam S and Roper S (2021). **It's not just where you are, it's where you want to go. Ambition, innovation and digital innovation in urban and rural micro-businesses.** NICRE. May 2021.

<sup>20</sup> Bowen R and Morris W (2019). **The digital divide: Implications for agribusiness and entrepreneurship. Lessons from Wales.** Journal of Rural Studies, (2019).

<sup>21</sup> Rural England and SRUC (2018). **Unlocking the Digital Potential of Rural Areas – research.**

<sup>22</sup> HoL Rural Economy Committee (2019).

<sup>23</sup> APPG (2021). **Rural Business and the Rural Powerhouse, UK All Party Parliamentary Group inquiry ongoing.**

## 2.2 Transition in agricultural support – a challenge in the making

The scale and nature of one important challenge for rural – Agricultural transition from support through the EU's Common Agricultural Policy towards new UK support systems - is only just emerging. The ending of Basic Payment Schemes to farmers commencing in 2021 to closure in 2027, will be uneven but may withdraw significant income from some rural districts and counties. This in turn could have significant negative impacts on some rural communities, businesses connected to farming, as well as on the rural landscape and environment. In Gloucestershire, for example, research has assessed the loss of BPS income at £40 million per year, or the equivalent of 4% of the Gloucestershire County Council's annual expenditure<sup>24</sup>. Research at Newcastle University's Centre for Rural Economy<sup>25</sup> estimates that by 2026, the removal of direct farm payments would result in sharp declines in farm incomes varying between 58% in England and 135% in Scotland, with an average reduction of 69% for the UK as a whole.

## 2.3 Overview of rural economies' contributions and challenges

Viewed in the round, recent data and research show that rural economies make important contributions to wider healthier economies. Strategic recognition, support and investments at all levels are needed to retain and extend such contributions, but there are challenges. Lower levels of productivity or growth in some rural areas, visible in national statistics, are not consistent across England, have no singular or simple cause, and so have no singular or simple solution. Some rural districts generate fewer new enterprises than others, some sectors have low productivity, some firms' performance are held back by their area's poor physical or digital connectivity, others are limited by owners' aspirations, leadership or other internal characteristics. Given the relative importance of micro or small firms to rural areas, especially for jobs and services, attention to their rural context is vital in developing or delivering programmes to raise productivity, innovation or resilience.

So approaches to Levelling Up, in which nationally-determined targetting of growth, places or future industries, or left-behind areas, sectors or firms with weaker outputs, must be developed in partnership with local agencies and leaders. This would ensure access to relevant evidence and local engagement, and ensure appropriate design and targeting of policies, projects, funds and outcomes. This is critical for rural and remote areas. The next section offers suggestions to achieve this aim.

“Research at Newcastle University's Centre for Rural Economy estimates that by 2026, the removal of direct farm payments would result in sharp declines in farm incomes varying between 58% in England and 135% in Scotland, with an average reduction of 69% for the UK as a whole.”

<sup>24</sup> Short C. (2021). **Assessing the Financial Impact of Agricultural Transition in Gloucestershire 2020-2028** Countryside and Community Research Institute, University of Gloucestershire, September, 2021.

<sup>25</sup> Hubbard C. (2019). (Ed). **Brexit: How might UK Agriculture Thrive or Survive?** ESRC Brexit Report (c.200 pages).

### 3. What should Government do better or differently?

NICRE has set out a case that the Government should:

“Invest inclusively and equitably across cities, towns and rural areas. Greater visibility, and attention to rural economies’ contributions and opportunities within national to local economic strategies, regional powerhouse initiatives and area growth deals, would mean that all places can benefit and bring new, more integrated and inclusive opportunities. The priorities, expected outcomes and evaluation of Levelling Up and Shared Prosperity funding programmes must be designed to ensure transparent and equitable reach of investment and enterprise support to rural areas.”<sup>26</sup>

England’s rural authorities would echo this statement, as well as two strategic demands laid out recently by the North Yorkshire Rural Commission<sup>27</sup> that: “government (needs) to ensure Levelling Up funds recognise the needs of sparsely populated northern regions as much as the needs of northern industrial regions.” And: “...ensure Levelling Up funds protect social (and community) infrastructure in remote and rural regions.”

**To achieve the Government’s headline aim for future growth and prosperity to reach and benefit all places and communities, the design of their economic and rebalancing policies, programmes and resources must be rurally inclusive.**

The chain of departments, agencies and authorities that deliver Building Back Better or Shared Prosperity programmes also must facilitate equitable access for rural firms and places. The UK Government can harness and unlock economic and green growth in rural economies and places, and extend their contributions to reducing inequalities, strengthening community and economic resilience in urban as well as rural areas, by:

- Modifying the targeting and design of new policies and investment programmes, strengthening and making fuller use of the Government’s rural proofing processes to design rurally equitable policies and programmes
- Eliminating signals of preference/bias towards cities or larger settlements and industries, which can deny resources to rural enterprises and places

- Supporting inter-dependencies between places and economies through a dedicated facility within Levelling Up funds
- Choosing inclusive metrics and indicators of required benefits, economic or operational outcomes, building further on rurally-inclusive metrics as illustrated in the UK Community Renewal Fund’s (CRF) Index for Economic Resilience
- Building capacity, conduits and contacts with rural businesses and peripheral communities to improve their awareness and capacities to develop, apply for and manage public investments, including restoration of rural Local Action Groups that operated under the RDPE.

**These challenges, approaches and new forms of support are aimed at securing strong and visible rural recognition and commitment in Government’s strategic and operational Levelling Up and Shared Prosperity policies and programmes, to strengthen rural-urban inter-dependencies, and contribute further to shared growth, prosperity and opportunities.**

These proposals are each developed in more detail below.

<sup>26</sup> NICRE (2021). **What is the contribution of rural enterprise to Levelling Up, and how can this be further enabled.** National Innovation Centre for Rural Enterprise Briefing Paper, March 2021.

<sup>27</sup> North Yorkshire Rural Commission (2021). **Rural North Yorkshire: The way forward, The findings and recommendations of the Rural Commission.** July, 2021.

## Targetting new policies and programmes

Rural and peripheral places, networks and enterprises occasionally need spatially-differentiated policies, funds or programmes. This may be important for, but not confined to land-dependant industries and for remote or sparsely populated areas. However, in general, departments and agencies need to integrate rural economies into most policies and programmes through Government's 'rural proofing' process, to demonstrate equitable treatment of rural areas and to tailor policy design and delivery accordingly. If policies or programmes for places, industries or activities intentionally exclude or minimise access for rural areas, (e.g. Cultural Development Fund or Towns Fund) this should be justified to Defra and rural communities by evidence, avoiding bias or perception.

Those leading the development of Shared Prosperity/ Levelling Up policies and programmes should constantly engage with Defra, and its equivalent departments in Devolved Administrations, as the departmental representatives of rural economies. Poor design or application of mainstream economic and other funds can reinforce perceptions of low interest in improving rural areas, denying resources to sustain or unlock potential growth and contributions by rural firms or places. Such experience emerged in a review of EU Structural and Investment Programmes in England (2007–20).

**The European Regional Development Fund (ERDF) and European Social Fund (ESF) were key investment programmes for regional and local growth, infrastructure, skills and training, businesses and employment. An appraisal of these funds' applications to rural and environmental objectives<sup>28</sup> estimated that between 2007 and 2020 only c.17% of ERDF funds had been spent or committed to rural authorities, and only 3% of ESF funds in the 2014–20 period, with large numbers of rural authorities receiving no funding<sup>29</sup>. Concerns were voiced that most measures benefited urban centres whilst important rural priorities such as community development and general workforce skills were excluded or inadequately addressed. Rural weaknesses, highlighted in this review, should inform the design and delivery of Shared Prosperity or Levelling Up Funds. They include higher rural costs of delivery, lower capacity of rural bodies to apply for such funds and impacts of high minimum investment thresholds.**

One of the challenges exposed by this appraisal was lack of support for projects that cross administrative or operational boundaries, leading the review's authors to propose better support for projects that span administrative boundaries. This is familiar territory to many rural or small authorities, networks and representatives, with residents and firms depending on services in neighbouring authorities. Some of the many inter-dependencies between rural areas, cities and towns drive productivity and growth, e.g. hard or soft infrastructures; training, housing or public transport for employees; access to business networks; and supply chains. Yet policies or programmes targeted at individual towns or authorities under competitive bidding processes encourage applications for activities contained within that place, marginalising critical linkages.

To achieve rurally equitable Levelling Up and Shared Prosperity policies and funds, investment in urban centres and authorities must be coupled with investment in their hinterlands and peripheral places. To encourage this perspective, we also recommend that the Department for Levelling Up, Housing and Communities (DLUHC), Defra and HM Treasury develop a dedicated resource within UK Shared Prosperity Funds to facilitate investment in collaborative and cross-boundary programmes, strengthening linkages and cooperation between rural and urban places and businesses.

As rural areas have widespread experience of collaborative cross-boundary working, for example in National Parks and larger Areas of Outstanding Nature Beauty (AONBs), we suggest that such resources should be available to rural authorities, initially perhaps for those within area Growth Deals, regional powerhouses and other economic partnerships, to address and allocate funds to linkages within these partnerships.

Recent comments by Paul Scully, MP the Minister for Small Business, signalled recognition of the need to address such linkages in Levelling Up programmes. In his oral evidence to the House of Commons' BEIS Committee's inquiry into Levelling Up, he referred to the Government's intentions to develop metrics or measurements, sic, "We asked the Ministers how they were measuring their achievements towards Levelling Up. Minister Scully told us the Government would be: measuring life chances, measuring inequalities, *and measuring connections between areas that have underperformed, have been under connected and are less productive business wise...*"<sup>30</sup>

<sup>28</sup> Frontier Economics (2019). *Assessing the scale and effectiveness of ERDF and ESF funding: A focus on environmental and rural objectives Report to Defra, September 2019.*

<sup>29</sup> Some rural businesses and communities were supported by the European Agricultural Fund for Rural Development Fund (EAFRD) during this period.

<sup>30</sup> House of Commons Business, Energy and Industrial Strategy Committee. *Post-pandemic economic growth: Levelling up Third Report of Session 2021–22.*

### **Sending an inclusive message to rural places**

Perception of inequity or low prioritisation of rural places starts with invisibility in central or local government's strategic or key documents. The Build Back Better policy document makes only five references to rural, of which four relate to a broadband investment scheme; yet 49 to cities and 26 to towns. The UK Levelling Up Fund prospectus makes five references to rural or village; yet 22 to city/cities and 39 to town(s). Together with emphasis on priority for high impact or large-scale projects with high financial thresholds, such signals suggest low interest or inclusion of rural areas and constituents. The recent UK Innovation Strategy makes no reference to rural areas, even though several of the 100 innovation districts, referenced – 'networks of organisations in major cities that produce and commercialise knowledge' – include long-established business and science parks in rural areas.

Without meaningful and visible signals about rural contributions, opportunities or needs in future strategic policy and programme documents, rural economies' potential and improvements described in this paper, will be at risk, as attention, resources and activities focus more on urban areas, visible inequalities and outcomes.

**Equitable and meaningful support for rural places and economies should be built into Levelling Up and Shared Prosperity programmes from the earliest stage of design through to evaluation.**



These improvements would in turn enhance prospects of rural activities being included in proposals or applications from regional or local authorities, an opportunity lost for rural transport improvements in recent UK Levelling Up Fund and Towns Funds. The Department of Transport's (DoT) Future of Mobility: Urban Strategy was published in March 2019, and enabled authorities submitting UK Levelling Up Fund transport schemes to align their proposals to Government's strategic (urban) priorities. In contrast DoT's Future of Transport: Rural Strategy had only completed its consultation phase in February 2021. Consequently, local or transport authorities would have been unsure of Government's rural transport strategic priorities for example when preparing bids to the Towns Fund – in which Local Connectivity outcomes were sought – or the UK Levelling Up Fund – in which rural-urban connections could be embedded into planned transport infrastructure projects.

**“The UK Levelling Up Fund prospectus makes five references to rural or village; yet 22 to city/cities and 39 to town(s). Together with emphasis on priority for high impact or large-scale projects with high financial thresholds, such signals suggest low interest or inclusion of rural areas and constituents.”**



### Metrics and measurable targets

At the time of writing, the metrics that Government intends to use as the base for targeting or monitoring Levelling Up and Shared Prosperity policies and programmes is unclear. In part this will depend on the objectives or aims to be set for Levelling Up. Approaches to mitigate or offset metric or outcome weaknesses for rural and small areas are welcome, such as adopted in the UK Community Renewal Fund Fund's (UKCR) Index for Economic Resilience, with its use and justification for population density, and Gross Disposable Household Income (GDHI). Careful selection of metrics, data and targeting in Levelling Up design, application and monitoring processes and funds, can reduce marginalisation of rural places by design or default.

It will be important for all central, regional and local authorities and public bodies to adopt and apply indicators for eligibility or impact that are relevant, fair, measurable, consistent and timely, and are transferrable from policy makers to programme deliverers and vice versa. In making such decisions, certain metrics can disadvantage rural areas, for example by:

- Geography or scale, e.g. productivity per worker is a less accurate measure for sparse rural areas, or sectors with few businesses, or may undervalue rural commuters to urban businesses; business demography data may be less inclusive in lower-tier rural authorities with high share of unregistered businesses, or the need to withhold very low numbers by size/sector to protect confidentiality.
- Capacity or resources, e.g. if applications for competitive funds need to be prepared and submitted within very short time frames; or supported by detailed local data sets; or when applicants are required to achieve schemes' defined outcomes in very short time frames, as with the UKCR Fund;
- Objective or purpose, e.g. when transport support is offered only for capital investment, or with high minimum investment thresholds, which lead local and transport authorities to prioritise new roads or rail links over smaller or revenue-starved improvements as in bus or rail services to dispersed places.

In assessing ERDF and ESF funds for rural areas, referenced earlier, participants described the lack of specific rural targets and data on rural businesses as key constraints to effective delivery of rural priorities. However, LEPs that were conscious of rural issues within their growth strategy were widely regarded by interviewees and workshop participants as essential in enabling effective project delivery across both rural and urban areas.

**“It will be important for all central, regional and local authorities and public bodies to adopt and apply indicators for eligibility or impact that are relevant, fair, measurable, consistent and timely.”**

## Building capacity and conduits in rural, small and dispersed places

Local authorities are key conduits for the Levelling Up/Shared Prosperity programmes. As some investments will aim to support or improve business performance, growth or productivity, Local Enterprise Partnerships will also have roles in these efforts.

The Prime Minister has recently suggested devolving powers and investments to "New 'County Deals' taking devolution beyond the largest cities, offering the rest of England the same powers metro mayors have gained over things like transport, skills and economic support", which could improve rural areas' prospects. On the other hand, in some regions, lower-tier district or borough authorities are being reorganised to become larger unitary authorities, for example in Cumbria, North Yorkshire and Somerset. It will be important that such restructuring does not reduce resources and opportunities for local rural places and businesses, especially those peripheral communities, in favour of new authorities, cities or larger towns.

Economic performance and its drivers vary across local authority areas, whether in rural or urban places. Research for the Local Government Association and Countryside Agency<sup>31</sup> explored the pattern of productivity and connectivity within 30+ rural local authorities, concluding that 'peripherality' of place, was a better indicator of economic and social challenges, than their local authority's overall rural or urban category.

So, as the UK Levelling Up Fund and UK Community Renewal Fund prioritised named towns in individual local authorities for investment, we suggest that rural areas would benefit from a similar level of more local analysis and targeting of funds. The use of small area data sets and evidence based on geography of lower-tier councils, and local area strategies to identify local 'market failures' by national and local government should be maintained and, where appropriate, adopted for targeting and monitoring Levelling Up-related programmes or funds. Engagement with new and local geographies could be facilitated by Rural Services Network of rural local authorities, or Action for Rural Communities in England (ACRE) which work extensively with local communities.

Any department or authority with key responsibilities for defining or managing Building Back Better policies, programmes and funds, should be able to demonstrate their awareness, evidence, engagement with and attention to the needs and potential of rural and remote communities. Features of design and application processes that hinder rural equity such as those weaknesses of scale, engagement, capacity and timeframes identified in the assessment of the ERDF and ESF programmes, should be addressed.

**"The capacities of small and dispersed businesses or other communities to develop and apply for funds or support from central or local government need to be improved."**

Rural areas tend to have thinner support networks, often staffed by people with multiple roles or operating on a part time or voluntary basis, with irregular or weaker contacts with higher-tier public and economic bodies. Larger and urban public bodies and business organisations often have experienced or dedicated staff or capacity for such processes. Thus local rural groups are less likely to be able to prepare or submit bids, in short timeframes, or support them with complex or extensive evidence of impacts or outcomes. These challenges are heightened when public investment funds are only provided for single years rather than sustained change based on local multi-year strategies.

The UK Levelling Up and Community Renewal Funds partly recognised that some areas would face these challenges when preparing effective and successful applications, by providing capacity building funds, albeit at this stage only to priority local authorities. Smaller councils and rural organisations would be helped by programmes that support applications for both capital funds (e.g. to the UK Levelling Up Fund) and revenue funds (as for the UK Community Renewal Fund).

<sup>31</sup> Rose Regeneration (2010). **Productivity, Peripherality and Place**. Report for Local Government Association and Commission for Rural Communities. April 2010.

## We encourage DLUHC and HM Treasury to explore extending opportunities to access both revenue/ resource and capital funds from the Shared Prosperity Fund and other programmes to deliver Levelling Up.

New training suites won't help future employees, if the education body has no funds to employ the trainers. Better support to new rural firms does not result from new offices in distant towns for business advisory agencies, if the advisors can't fund visits to villages and rural firms.

Many rural authorities and organisations have experience of engagement and benefit from a longstanding vehicle that improved capacity and uptake of public programmes and funds. For more than two decades, LEADER areas' Local Action Groups (LAGs) operated across rural areas of the UK, to administer some facets of the European Agricultural Fund for Rural Development (EAFRD), within strict distribution and reporting requirements of the EU and UK Government. LAGs drew on representatives of local government, communities, central government or public sector agencies, academics, business organisations and residents. They developed local strategies, promoted and administered funds to farmers, landowners, small businesses and communities within their LEADER areas, and a national network regularly brought their successes and challenges to Defra, other government departments' and agencies' attention. They have recently been disbanded.

Such capacity would greatly enhance rural authorities, business organisations and communities' awareness, engagement, planning and distribution of Levelling Up and Shared Prosperity Funds in smaller and rural authorities, and aid cross boundary and collaborative projects.

**We encourage DLUHC and Defra to explore ways of reinstating such rural Local Action Groups, resourced with capacity building funds, in a similar way that the Levelling Up Fund and Community Renewal Fund is providing capacity building funds to local authorities in priority areas to administer those programmes and funds.**



# Conclusions

This summary<sup>32</sup> of recent evidence regarding England's rural economies should encourage design of economic growth policies and programmes that equitably embrace rural economies' and places' contributions and potential. Healthier rural economies can provide wider contributions to prosperity in many regions, urban centres, economies and communities. To turn this potential into reality, the Government will need to invest in and support rural areas, sectors and enterprise, not focus only on competitive cities or towns.

This paper describes some of the sources of existing strategic rural contributions and potentials, as well as some of the improvements that need to be made within some rural economies and places. They include uplifting districts with lower levels of business start-ups; helping more rural firms with exportable goods or services to become exporters; improving business innovation and digital adoption; introducing an investment facility dedicated to strengthening rural-urban, cross-boundary linkages and inter-dependencies; and building capacity in local rural areas to learn of, engage with, and help to administer future programmes and funds aimed at Levelling Up and growing the UK economy.

Rural areas and their constituents are keen to contribute to Levelling Up and to benefit from its programmes. We encourage the Government to adopt more inclusive and equitable recognition and support for rural enterprises, places and organisations throughout their policies and programmes and, with Defra's assistance, to signal their expectation of similar commitment to rural and peripheral places from regional and local authorities and Local Enterprise Partnerships. Such commitments need to be visible, and rurally-appropriate in the channels that provide support and distribute investment. Enhanced capacity is needed for rural and peripheral places and businesses to access and engage with Levelling Up and Shared Prosperity.

The researchers and institutions who have contributed evidence, insight and proposals in this paper, may be able to offer or engage further help for UK Government's Departments to develop and demonstrate rurally-equitable Levelling Up policies, programmes and funds.

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**Contact:** Enquiries about the content of, or issues raised by the report, should be addressed in the first instance to [nicre@newcastle.ac.uk](mailto:nicre@newcastle.ac.uk)

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<sup>32</sup> An earlier briefing on rural areas' contributions to and priorities for Levelling Up policies and programmes prepared by NICRE can be viewed at **What is the contribution of rural enterprise to Levelling Up, and how can this be further enabled.** <https://www.ncl.ac.uk/nicre/research/publications/>

Other publications are available on the NICRE website [www.ncl.ac.uk/nicre/research/publications](http://www.ncl.ac.uk/nicre/research/publications).

The views expressed in this Briefing Paper represent those of the authors and NICRE.

For further information about NICRE:

Email: [nicre@newcastle.ac.uk](mailto:nicre@newcastle.ac.uk)  
Visit: [www.ncl.ac.uk/nicre](http://www.ncl.ac.uk/nicre)  
Twitter: @NICRErural  
Facebook: @NICRErural  
LinkedIn: **National Innovation Centre for Rural Enterprise**

### **National Innovation Centre for Rural Enterprise**

Newcastle University  
The Catalyst  
3 Science Square  
Newcastle Helix  
Newcastle, NE4 5TG

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