

What is the contribution of rural enterprise to Levelling Up, and how can this be further enabled?

Briefing Paper No 1, March 2021



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

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

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Summary



If Levelling Up is to be effective and avoid exacerbating disparities within regions, it will require a new strategic focus on realising growth and innovation from all places rather than only cities or specific sectors. Levelling Up should include the nation's rural economies and their contribution to the prosperity of firms, workers and residents across the nation.

Rural areas constitute a substantial part of the nation's population, businesses and GVA and embrace all sectors of the economy. Yet many rural areas lag national averages on productivity and wages, and often adjoin and are interconnected with left-behind urban areas. Due to their geographical context, rural businesses often face particular firm-level or place-based obstacles to success. Rural economies are thus an element of the Levelling Up challenge. However, given their scale, significance and potential, and their role as incubators and catalysts for wider regional and national growth, rural economies can also be part of the solution for revitalising rural and non-rural areas.

Enhancing enterprise performance in rural areas will not only contribute to improving prosperity and livelihoods in rural communities but can also help achieve national economic objectives while addressing long-standing structural barriers that hinder economic performance and productivity.

Summary

In this Briefing Paper we identify six priorities for enabling the contribution of rural enterprise to Levelling Up:

Priority 1: Address systemic barriers to growth in rural areas.

Rural enterprises face challenges linked to their distance from support services, digital connectivity, extent of business networks, provision of premises, and skills. Availability of affordable housing, public transport, utilities and service provision also hold back rural businesses' ability to recruit and retain employees, innovate and expand markets. It is essential that these rural needs and potentials are addressed and clearly embedded throughout mainstream investments, support services and networks for economic development.

Priority 2: 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.

Priority 3: Strengthen local business networks and clusters.

Brokering networks and local collaborative partnerships can bring strong benefits for innovation in rural areas. These networks may also capitalise on firms' new shared approaches to business operations, marketing and delivery that have emerged in their responses to COVID-19. Future development of local rural business hub premises and clusters should be driven by both bottom-up development needs and international market opportunities, with greater attention to extending their reach and benefits to neighbouring communities and high potential rural businesses.

Priority 4: Target skills and employment support to aid economic recovery and drive productivity.

There is an overarching need to generate greater variety in rural businesses and choice in rural labour pools, especially for young people and skilled employees. Attention is needed by Skills Advisory Panels, within area proposals supported through the Community Renewal Fund and Shared Prosperity Fund, and allied skills strategies and initiatives, to support rural firms' staff development. There should be a specific focus on encouraging collaborative and shared approaches amongst small rural firms to meet their recruitment gaps, training needs and support for apprentices.

Priority 5: Strengthen support for rural economies from economic development institutions.

Greater emphasis is needed on the spatial (rural) impacts and reach of those services, support, investments and programmes that seek to raise productivity and growth or encourage Levelling Up. Support and encouragement is specifically needed for Local Enterprise Partnerships, local authorities and other local economic development organisations to better align their evidence base and activities to include their rural economies and natural capital and to bring consistency of prioritisation of rural contributions and opportunities across local strategies.

Priority 6: Enable the adaptation and contribution of rural areas to net zero goals.

Rural economies have the potential to be a national leader in innovation around net zero and the wider bio and green economy. For this potential to be realised a comprehensive and integrated Net Zero Strategy for rural areas is needed that can help drive the products, skills, technologies and supply chain developments to create and serve markets driven by climate and environmental challenges.

1. Introduction

This Briefing Paper is intended for policy makers, business and public leaders, strategy and project managers, and those who locally or nationally represent or support enterprise.



1.1 In 2021 the UK Government is introducing major national programmes, frameworks and funds to replace EU-funded development programmes, strategies and subsidy regimes, and to invest in local economies with poor economic or social outcomes. The UK Shared Prosperity Fund (UKSPF) is one of these post-Brexit UK-wide frameworks and funds. A transitional UK Community Renewal Fund was introduced in the Government's 2021 Budget, providing revenue funding to enable 100 'most in need' areas to initiate ideas and new approaches to achieve higher levels of economic growth, productivity and tackle disadvantage. This Fund will also enable local areas to prepare for the introduction of the UKSPF in 2023.

1.2 In the same Budget a Levelling Up Fund was launched to enable local areas across the UK to invest capital in local transport, regeneration and cultural projects. Together these new policies and programmes, as well as measures introduced to support recovery from COVID-19, aim to rebalance growth and share prosperity across the UK nations, regions and localities. They also seek to improve opportunities, investment and outcomes for people and places across many communities.

1.3 This NICRE Briefing Paper is intended for policy makers, business and public leaders, strategy and project managers, and those who locally or nationally represent or support enterprise. It sets out the case for, and benefits of, Levelling Up initiatives and resources which equitably encompass England's rural areas and communities. The paper draws on research evidence and insight from NICRE, and allied rural institutions and bodies, to describe rural barriers and strengths, interdependencies and opportunities for investment and growth. It also offers proposals and examples of frameworks, approaches and tools to invest, raise skills, create jobs and strengthen networks within rural economies and other enterprises and communities.

2. Why is it important to consider the rural contributions to Levelling Up?

“If suitably enabled, rural areas are also set to be at the forefront of society’s accelerated preferences for remote working and living.”

- 2.1** ‘Levelling Up’ has traditionally been seen through the lens of cities and towns as the focus of growth, innovation and regional development or neglect, with the contribution of rural areas presumed to be tied narrowly to agri-food and tourism-based activities¹. However, if Levelling Up is to be effective and avoid exacerbating disparities within regions, it will require a new strategic focus on realising growth and innovation from all places rather than only cities or specific sectors. Levelling Up should include the nation’s rural economies and their contribution to the prosperity of firms, workers and residents across the nation.
- 2.2** Bringing rural places into this agenda more centrally and comprehensively is important for several reasons. Some of these reasons recognise that many rural areas are examples of “left-behind places”. According to latest Government data, rural productivity is currently 82% that of urban areas (excluding London)², and 3 million people live in rural local authority districts with high levels of economic and social deprivation, with many others living in more affluent districts where disadvantage is more hidden or localised. Such data and evidence of economic need or social disadvantages should form part of any targeting of policies and funds at national to local level to people, businesses or places, and the selection of applications for these programmes or investments.
- 2.3** Other reasons highlight the potential of rural economies to be national leaders in rebalancing or greener futures:
- Their **scale, diversity and national significance**^{3,4},
 - In England alone, rural areas account for a GVA of over £260 billion, and encompass a fifth of the population, over half a million enterprises and 3.5 million employees represented in all industries and sectors. They compare favourably with urban areas on several economic indicators, such as businesses per head, levels of self-employment, exporting and employment rates and, in ‘Urban with Significant Rural Areas’, GVA per workforce job.
 - Their contribution to **the nation’s natural capital**, including natural resources, biodiversity and ecosystem services, and the health and wellbeing benefits of green space. Both rural and urban areas receive benefits from natural capital. Investments and innovations in the green and bio economy have the potential to drive future growth and hold special significance to areas facing regional disparities. Early indications within the UK Levelling Up and UK Community Renewal Funds’ Prospectuses are encouraging in this regard, with Lead authorities being expected to show their impacts and contributions to natural capital and net zero aspirations.
 - The **untapped potential of rural economies** - For example, in 2019 only 16% of England’s rural firms engaged in exporting, but a further 22% of rural firms reported having goods or services suitable for export but were not yet exporting. A third of rural firms had introduced new or significantly improved goods/services/processes, but only 8% had been involved in new-to-market innovation, despite many more expressing strong business capability for innovation.
 - **The potential role of rural economies as test beds for innovation** - Rural areas could play a key role in pioneering more creative responses to ageing populations, harnessing mobility and digitalisation for goods, services and people, and realising the value of natural capital and ecosystem management for clean growth.
 - **The impact of COVID-19 on rural economies and innovations arising from the pandemic**⁵ - Many rural areas have reported lower rates of infection in aggregate terms, though there have been rural hotspots of the virus. Nevertheless, rural businesses have suffered especially in those areas and activities with high dependency on visitors. On the other hand, if suitably enabled, rural areas are also set to be at the forefront of society’s accelerated preferences for remote working and living, as businesses and employees realise that, in many instances, they can work remotely away from urban office centres.

¹ Ward N (2021) **Levelling Up and Rural Areas – A Review of Lessons from Rural and Regional Development**. NICRE State of the Art Review No 1.

² Defra (Dec 2020) **Statistical Digest of Rural England**. Government Statistical Service.

³ Defra (Dec 2020) **Statistical Digest of Rural England**. Government Statistical Service.

⁴ Phillipson J, Gorton M, Maioli S, Newbery R, Tiwasing P and Turner R (2017) **Small Rural Firms in English Regions: Analysis and Key Findings from UK Longitudinal Small Business Survey 2015**, Centre for Rural Economy.

⁵ Phillipson J, Gorton M, Turner R, Shucksmith M, Aitken-McDermott K, Areal F, Cowie P, Hubbard C, Maioli S, McAreavey R, Souza-Monteiro D, Newbery R, Panzone L, Rowe F and Shortall S (2020) **The COVID-19 Pandemic and Its Implications for Rural Economies**, Sustainability, 12(10), 3973.

3. How can urban-rural interdependencies be recognised and strengthened for mutual benefits?

3.1 It is important that rural areas are viewed as part of a wider spectrum of communities to be embraced by the suite of Levelling Up policies and programmes. Levelling Up has to date largely been an agenda for improving opportunities and investment in left-behind or marginalised city and town economies in England. However, the Government's Spending Review 2020 acknowledges that rural and coastal communities along with ex-industrial urban settlements have also experienced under-investment and opportunities. It is also important to recognise that geography matters and differences in relative deprivation manifest within regions and counties as well as between them.

3.2 Rural economies merit such attention in their own right, but as importantly have a great deal to offer wider urban and regional development and the national economy. Acting as both incubators and catalysts for national growth, they should be integral to the Levelling Up agenda. There are many interdependencies between rural and wider economies. Thus future development should aim to enlarge the capacity of communities and firms to manage the flows between town and countryside, in ways that strengthen wellbeing, deliver public social value and add value locally.

3.3 In some of these flows rural areas act as incubators for development and growth. Through other changes, in population, management of assets, flows of people and markets, rural areas catalyse and contribute to growth elsewhere:

- Outflows from rural firms of products, services and ideas to regional, national and international markets.
- Outflows of food, water, energy and other key environmental services (carbon offsetting, flood protection etc) for businesses, consumers and communities.
- Outflows of young people seeking better educational and job choices and social lives which helps drive urban economies.
- Outflows of commuters choosing or needing to travel to provide skills, knowledge and labour to urban-based businesses.
- Inflows of visitors and tourists seeking to enjoy the semi-natural and cultural assets of rural areas and the health benefits these bring.
- Inflows of younger families, attracted by the quality of life in rural communities, supporting local services, and contributing to business creation.
- Inflows of older active migrants who bring expertise and financial equity, create new rural firms, or who also hold directorships and management roles in urban firms.
- Inflows of products and services from urban firms supplying rural consumers and firms.
- Net inflow of older residents, making the ageing of the population most advanced in rural areas, boosting demand for health, care, leisure and other services.

3.4 Authorities preparing frameworks, strategies and projects under the UK Levelling Up, UK Community Renewal, and UK Shared Prosperity policies, frameworks and funds, should demonstrate awareness of these rural and urban flows and interdependencies for their area. NICRE and many rural-focused research and representative institutions and organisations can help meet this requirement.

⁸ Berry R, Kubinakova K, Bennett R, Khafagy A and Reed M (2019) **Market towns project**. Report for Gloucestershire Market Towns Forum. Countryside and Community Research Institute.

4. What are the key barriers to growth and private sector investment in rural areas?



- 4.1** Rural economies are part of the Levelling Up challenge, but they are also part of the solution for both rural and non-rural areas. This means capitalising on the performance, innovation and untapped potential of rural enterprise, whilst also addressing long-standing barriers that hinder rural performance and productivity^{9,10}. It is essential that rural needs and potentials are addressed and clearly embedded throughout mainstream investments, support services and networks for economic development.
- 4.2** Rural enterprises experience particular difficulties in terms of regulations/red tape, business collaboration and networking, access to services, recruitment and retention of higher-skilled employees and, in more remote areas, their ability to undertake 'new to the market' innovation. Although rural firms are relatively successful in securing capital for investments in physical assets, they appear less likely to seek funding for regular operational business improvements (cash flow, marketing, research and development, training etc.) or to be planning training for their workforce or leadership teams.
- 4.3** In many rural places there are also barriers at the community or area level in terms of affordable housing, public transport (e.g. for commuting by lower-wage employees, and residents accessing better and more affordable services), connectivity, poorer utilities, education and service provision. These barriers hold back businesses' ability to recruit and retain employees, innovate and expand their markets, and communities' ability to attract new or younger residents and workforce. They are regionally and locally specific, requiring a place-based approach.
- 4.4** There are ongoing barriers to rural digital connectivity as a critical enabling technology. COVID-19 has demonstrated how digital competencies matter more than ever. Many SMEs have goods and services suitable for sale via internet and social platforms, yet many recognise that they lack a compatible set-up or know-how to fully exploit this potential. Meanwhile, many rural hospitality, catering and food providers and mobile traders cannot rely on digital communication with customers because of weak or intermittent fixed or mobile signals. Digital adoption will also be increasingly significant for rural firms looking to access external finance, especially in the context of rural bank branch closures.
- 4.5** COVID-19 has led to a marked acceleration of digital adoption among SMEs (online marketing, e-commerce, social media, use of CRMs, etc) and uptake of advanced technologies (internet of things, cloud computing, augmented and virtual reality, artificial intelligence and machine learning etc.)¹¹ However, NICRE analysis at the Enterprise Research Centre shows rural firms to be less likely than urban counterparts to use digital technologies, and much more likely to cite broadband capacity and internal staff resistance as obstacles to use. They are also less likely to be planning to introduce new digital technologies following the pandemic.
- 4.6** To take full advantage of the desirable future growth in digital and technological tools, many rural areas and businesses will also need to be supported by enhanced physical infrastructure of workplaces and connectivity that accompany digital adoption. These include haulage and courier hubs and services, mobile network masts, electricity and gas networks, modern and shared business premises, and locally-accessible business support.

⁹ Phillipson J, Turner R, Tiwasing P, Gorton M, Maioli S and Newbery R (2017) **What's holding rural businesses back?** Rural Economy and Land Use Policy and Practice Note No 2, Centre for Rural Economy.

¹⁰ Phillipson J, Tiwasing P, Gorton M, Maioli S, Newbery R and Turner R (2019) **Shining a spotlight on small rural businesses: How does their performance compare with urban?** Journal of Rural Studies, 68, 230-239.

¹¹ ERC (2021) **State of Small Business Britain**. Enterprise Research Centre.

“An integrated approach is needed that addresses the cross-cutting and systemic nature of barriers to Levelling Up and improved economic performance.”

4.7 An integrated approach is needed that addresses the cross-cutting and systemic nature of barriers to Levelling Up and improved economic performance. Rural enterprises may require targeted/tailored support to address specific challenges arising from their distance from support services, markets and business networks, staff recruitment and skills, etc. Levelling Up programmes, strategies and funds that are designed and delivered to allow equitable access to rural as for urban places and economies, offer imminent and substantial opportunities to meet these rural needs, and release rural opportunities and potentials. Evidence from previous large-scale area-wide rural development programmes demonstrates that success requires adequate funding, political will and stakeholder participation¹². This evidence points towards the need for approaches that are strategic and tailored.

4.8 Particular attention, for example, is needed to the dynamics of rural enterprise within future export strategies in order to maintain rural economies' export orientation and release their untapped export potential. This suggests a policy to extend internationalisation of SMEs in rural areas to provide assistance to release 'goods or services suitable for exporting' from non-, lapsed or occasional rural exporters, and for other rural SMEs to navigate their way through new import regimes and new opportunities. Evidence shows such assistance can boost the internationalisation capabilities of SMEs, which in turn can boost their capabilities and performance, particularly if they engage in consistent exporting. Consequently, major spill-over effects may accrue from targeted internationalisation support for groups of rural firms^{13,14,15}.



¹² Powell J, Keech D and Reed M (2018) **What Works in Tackling Rural Poverty: An Evidence Review of Economic Interventions**. Wales Centre for Public Policy.

¹³ Cumming D, Fischer E and Peridis T (2015) **Publicly funded business advisory services and entrepreneurial internationalization**. *International Small Business Journal*, 33(8):824-39.

¹⁴ Love JH and Roper S (2015) **SME innovation, exporting and growth: A review of existing evidence**. *International Small Business Journal*, 33(1):28-48.

¹⁵ Bernini M, Du J, Love JH (2016) **Explaining intermittent exporting: Exit and conditional re-entry in export markets**. *Journal of International Business Studies*. t47(9):1058-76.

5. How can government, communities and businesses work together to identify meaningful opportunities to invest inclusively and equitably across cities, towns and rural areas?

5.1 There needs to be greater visibility, attention and support to the contribution and opportunities of rural economies within our national and local economic strategies, regional powerhouse initiatives and area growth deals – so that all places can benefit and contribute. Rural places are often out of the spotlight and thinly represented or engaged in these initiatives; addressing this gap will bring new, more integrated and inclusive opportunities^{16,17}. The Levelling Up Prospectus encourages local authorities to consider collaborative applications with neighbouring authorities, on cross boundary schemes and to submit joint proposals across their local areas where appropriate. Regrettably, it also implies that engaging “stakeholders from harder to reach rural communities in formulating proposals” is **not always relevant**, thus perpetuating their disadvantage.

5.2 Multi-regional deals and cross-border partnerships, such as the Northern Powerhouse, Borderlands Inclusive Growth Deal, and the Western Gateway initiative, present many opportunities for Levelling Up. However, prior to allocation of government support or funding, any such partnerships, area agreements or programmes should be tasked to consult on, and demonstrate, two key features: (i) that funds will be distributed within their areas equitably, according to the needs of their economies, for each theme, programme or driver; and (ii) how larger funds for the more populated and business-dense urban areas will impact peripheral towns and rural areas.

An assessment of rural reach and impact would be in keeping with HM Treasury's new edition of its 'Green Book'¹⁸ that guides public investment for policy and programme development through to publicly-funded procurement or projects. Place-based analysis or assessment of impacts are given a key feature in this guidance: “Where proposals have a focus on a specific part of the UK, place-based analysis should be performed and be central to appraisal advice. Where proposals are not principally focused on a specific part of the UK, the potential for significant differential place-based impacts should be considered...”. And in those instances where no such analysis is undertaken: “...then the decision not to do so should be explained and justified.”¹⁹ However further revisions to the 'Green Book' guidance would also be warranted to ensure rural areas receive an equitable and proportionate share of future Levelling Up and allied funds²⁰.

“There needs to be greater visibility, attention and support to the contribution and opportunities of rural economies within our national and local economic strategies, regional powerhouse initiatives and area growth deals...”

¹⁶ House of Lords Select Committee on the Rural Economy, **Time for a Strategy for the Rural Economy**, Report of Session 2-17-19.

¹⁷ Davoudi S, Turner R and Garrod G (2017) **A New Deal for the North: A briefing paper for the British Academy**, Newcastle University.

¹⁸ HM Treasury, 2020. **The Green Book (2020)** Guidance updated 3 December 2020.

¹⁹ HM Treasury, 2020. **The Green Book (2020)** Guidance updated 3 December (Section 10. A2.Place Based Analysis).

²⁰ **Towards a greener Green Book process**, produced by Pragmatix Advisory and commissioned by Rural Services Network, Britain's Leading Edge, CPRE and English Rural, Feb 2021.

“Rural areas are often overlooked because their place-based potentials and interdependencies simply aren't evidenced, or visible to policy makers.”

5.3 Strategically, the emphasis on city-focused growth policies in the Northern Powerhouse and Midlands Engine initiatives should be revisited to ensure an inclusive approach to Levelling Up. Our evidence shows that rural firms in these regions register similar levels of productivity, turnover, profit, sales growth, employment growth, exporting, potential to export and goods and service innovation to urban firms²¹. Consequently, policies and programmes for enhancing regional performance, Levelling Up and sharing prosperity should recognise and support the contribution of rural enterprise. Research by the Centre for Urban and Regional Development Studies suggests this requires more integrated and inclusive regional strategies that account for the potentials and interdependencies between cities, towns and rural areas and which extend beyond identified high growth sectors to embrace the 'everyday economy', basic services and infrastructures that people rely on beyond big cities²². Such an approach would align well with the HM Treasury's updated 'Green Book' guidance.

5.4 Rural areas are often overlooked because their place-based potentials and interdependencies simply aren't evidenced, or visible to policy makers. A more sophisticated and fine-grained place-based approach at the sub-national level will require enhanced evidence and evaluation capabilities. Improvements to the evidence base will in turn lead to better informed strategies, development plans and investment decisions.

5.5 Marginalised and under-developed areas will have different overarching priorities, and different priorities within each driver (e.g. skills, transport etc). These are best recognised in each region or locality via devolved responsibilities and resources for local government and enterprise partnerships, with national government supporting and enabling this locally-driven place-based analysis and approach. For example, government-backed mechanisms can be used to underpin both small-scale local investments (such as peer-to-peer business lending) and higher-risk 'angel' investments.²³

5.6 In designing future policies and investment programmes, such as the UK Shared Prosperity and Levelling Up Funds, it will be necessary to overcome prevailing perceptions and assumptions that have traditionally held back the equitable reach of investment and enterprise support in rural areas. These include, for example:

- That larger investments should be made in more populated/ concentrated business locations and that these will inevitably trickle benefits down to other areas; that capital investment is necessarily more useful and valuable than revenue investment
- That the majority of rural investment should continue to be channelled through farming, food or tourism sectors; that innovation is an urban phenomenon only later rolled out to rural areas
- Or that social, community or environmental enterprise is a lesser concern in the Levelling Up agenda than job creation or high value business sectors. Without changes in these perceptions there is a risk structural problems and inequalities will persist.

It follows that major public sector investment funds, should be promoted in rural as well as urban areas, to overcome weakness of previous EU funds which achieved their primary take-up in urban areas. It is essential that future programme priorities, expected outcomes and evaluation criteria are specifically designed to ensure transparent and equitable reach of investment and enterprise support.

²¹ Tiwasing P, Gorton M, Phillipson J, Maioli S, Newbery R (2019) **Spatial Variations in SME Productivity**. ESRC Productivity Insights Network.

²² MacKinnon D (2020) **Reinvigorating the Northern Powerhouse? Recommendations for Policy Makers**. Centre for Urban & Regional Development Studies.

²³ Powell J, Keech D and Reed M (2018) **What Works in Tackling Rural Poverty: An Evidence Review of Economic Interventions**. Wales Centre for Public Policy.

6. How can public sector decision makers work with rural businesses to strengthen local business networks and clusters?

- 6.1** Programmes connecting groups of businesses can increase business performance substantially²⁴. However, SMEs in disadvantaged or rural areas often lack good business networks and peer-to-peer support. Here it is necessary to find ways for them to be plugged into wider networks to take full advantage of opportunities. Future support for local business networks and groups is especially warranted²⁵, given that for many small and rural firms these, together with their specific trade or professional business organisations, are prime sources of information, advice and support. Rural firms often turn to local sources of support more often than they use other public sources of support (whether it be from LEPs, enterprise agencies, Innovate UK etc).
- 6.2** There is an opportunity to capitalise on firms' new shared approaches to business operations, marketing and delivery that have emerged in their responses to the COVID-19 pandemic. Local knowledge is a critical support for innovation, but evidence shows firms collaborate with too few partners which is sub-optimal. Brokering local collaborative partnerships may have strong benefits for innovation in rural areas to build on the existing innovation capability of rural firms²⁶.
- 6.3** A focus on high-potential sectoral clusters will present opportunities for some rural economies. There are many good examples of cutting-edge clusters in rural settings across the country that are globally respected (see for example Harwell Science and Innovation Campus, south Oxfordshire; Sci Tech Daresbury in north Cheshire; Wales Food Tech Centre, Llangefni, Anglesey; Edinburgh Technopole, Bush Estate, Midlothian [Life Sciences]; high performance vehicle engineering business cluster around Silverstone and Brackley, Northamptonshire; and NETPark, Sedgefield [nano-tech, photonic, x-ray imagery and similar science firms]). Future development of clusters should be driven by both bottom-up development needs and international market opportunities, with greater attention to delivering benefits to neighbouring, often rural, communities.
- 6.4** Rural economies generate and host many businesses in these sectors that achieve national or global competitiveness. However, the dispersed business base, lower R&D investment and limited critical mass of high-skilled employees in other sectors, can make a cluster-based approach difficult in many rural areas. This raises a need for alternative approaches to business networking, or ways to extend the reach and benefits of clusters. This will be important in helping rural firms to develop the right kind of networks to internationalise and learn about market opportunities and realise their full potential.
- 6.5** Evidence points to the success of supporting the creation of local rural business hubs²⁷. The lessons from the Pilot Rural Growth Networks (RGN) in England can inform those managing local economic strategies, Levelling Up programmes or plans for the allocation of the UK Shared Prosperity Fund. Such hubs provide a flexible approach for overcoming local constraints, lack of critical mass, and the dispersed nature of rural firms – and in enabling growth and grow-on premises for home-based firms that face particular limitations²⁸. They have generated a good return of investment, especially where they have been accompanied by proactive management and animation, and coupled with improved knowledge exchange, digital connectivity, business-to-business networking and business support.



²⁴ Cai J and Szeidl A (2018) **Interfirm Relationships and Business Performance** *The Quarterly Journal of Economics*, 133, 1229-1282.

²⁵ Newbery R, Gorton M, Phillipson J and Atterton J (2016) **Sustaining business networks: Understanding the benefit bundles sought by members of local business associations**. Environment and Planning C: Government and Policy, 34(7), 1267-1283.

²⁶ Roper S, Love JH and Bonner K (2017) **Firms' knowledge search and local knowledge externalities in innovation performance**. Research Policy, 46(1):43-56.

²⁷ Farm491 at the Royal Agricultural University provides an example of a support hub for rural businesses. An agri-tech incubator, it draws together a membership network of rural/agri-tech companies, providing networks, training, networking and 1-2-1 support: <https://farm491.com>

²⁸ Cowie P, Thompson N and Rowe F (2013) **Honey Pots and Hives: Maximising the Potential of Rural Enterprise Hubs**. Centre for Rural Economy Research Report.



6.6 Another approach is to encourage a 'hub and spoke' model within high-potential clusters. The North East Technology Park in Sedgefield is a good example of this. As well as those firms located in the bricks and mortar of the science park itself, this hub networks and supports around 300 businesses in similar sectors across the wider local economy, either single site or in small dispersed local Enterprise Hubs. Such a model allows many more locations and high potential businesses to benefit from a cluster approach.

6.7 More broadly, networks are key to sharing responsibility, best practice and bringing strategic focus to rural issues at a national or local level. They must be developed and supported. Examples include the LEP Network's Rural Group, England's regional Farming and Rural Networks, local rural networks such as the East Riding of Yorkshire and Leicestershire Rural Partnerships, and knowledge exchange networks facilitated by HEIs. There is an urgent need to renew and build on the many EU-funded, LEADER Local Action Groups which have proved successful in supporting and nurturing rural enterprise through the delivery of micro-grants according to community-led needs.

6.8 One potential focus of new network development is the Protected Food Names scheme being developed to replace the European Geographical Indications (GIs) scheme. The evidence suggests that GIs can contribute positively to regional development strategies and GVA, in supporting heritage food products and related tourism and rural development initiatives²⁹. This is consistent with analysis at the EU level that local quality food markets of GIs and short food supply chains provide socio-economic benefits to their producers and in turn contribute to rural resilience and prosperity^{30,31}. Increasing the number of Protected Food Names (PFNs), however, will require co-ordinated action among producers to identify and respond to market opportunities. Government and local agencies can play a key role as facilitators of such networks.

6.9 Similarly, public sector procurement spend can be used to stimulate local markets and supply chains. In the agri-food sector, the planned Crown Commercial Services trial for public sector procurement via the South West Food Hub has the potential to prove a significant exemplar. Strategic policies should advance beyond simply buying local, which is a limited market by definition – opportunities for rural food enterprises can be expanded through overcoming planning barriers in the peri-urban fringe³² and by rethinking locality through measures such as travel time³³.

“There is an urgent need to renew and build on the many EU-funded, LEADER Local Action Groups which have proved successful in supporting and nurturing rural enterprise through the delivery of micro-grants according to community-led needs.”

²⁹ Oldenma A and Roper S (2020) **What's in a name? The impact of Geographical Indications of Origin on producer growth and food heritage**. Enterprise Research Centre, Research Paper No 86.

³⁰ Mattas K, Tsakiridou E, Karelakis C, Chousou C, Lazaridou D, Amilien V, Arfini F, Bellassen V, Brečić R, Dries L, Giraud G, Gorton M, Hartmann M, Majeski E, Malak-Rawlikowska A, Quarrie S, Schaer B, Tregear A, Veneziani M and Vittersø G (2019) **Synthesis of findings of the Strength2Food Project**. <https://www.strength2food.eu/wp-content/uploads/2019/11/D10.1-Synthesis-of-Findings.pdf>

³¹ Malak-Rawlikowska A, Majewski E, Was A, Borgen S O, Csillag P, Donati M, Freeman R, Lecoeur J-L, Mancini M C, Nguyen A, Saidi Tocco B M, Török Á, Veneziani M, Hoàng V, Vittersø G, Wavresky P (2019) **Measuring the Economic, Environmental and Social Sustainability of Short Food Supply Chains**. *Sustainability*, 11(15), 4004.

³² Michaels S, Harrison D, Reed M, Kirwan J and Kambites C (2012) **Food from the urban fringe: Issues and opportunities**. Plunkett Foundation.

³³ Goodwin-Hawkins B (2020) **How local is local? Rethinking local food and the public plate in Monmouthshire, Wales**. Horizon 2020 ROBUST project.

7. How can government target skills and employment support in rural areas to best aid economic recovery and drive progression and productivity?

“It has also been shown that combining skills and training development with a focus on mentoring/advisory support can be mutually reinforcing in helping firms embed and implement management practices.”

7.1 As well as focusing upon place-based development, the Levelling Up Fund, UK Community Renewal Fund and UK Shared Prosperity Fund, also focus on people, skills and employment. This could be a critical driver of recovery from the current pandemic and its restrictions, in rural areas as in our cities and towns. Bidding authorities to these Funds are expected to show that their proposals demonstrate their strategic fit and link to local skills and labour market needs. Consequently, it is critical that Local Skills Advisory Panels run by Mayoral Combined Authorities (MCAs), or Local Enterprise Partnerships (LEPs), are able to demonstrate that skills and training needs of their areas' rural businesses and self-employed entrepreneurs are identified and addressed, as part of their annual grant settlement from the UK Government.

7.2 Several rural challenges in relation to staff development and skills are long-standing and structural. In many rural areas people often have more limited choice of jobs, need to hold down more than one job, get paid less for jobs requiring fewer workplace skills, and experience less on-the-job training³⁴. There is therefore an overarching need to generate greater variety in rural businesses and choice in rural labour pools, especially for young people and skilled employees. Moreover, rural firms that create skilled employment opportunities can have difficulty recruiting or retaining skilled staff. Our analysis of the Longitudinal Small Business Survey shows this is an issue for a third of England's rural small firms which employ staff. It is also a concern that significantly fewer rural employing firms are planning to improve their leadership capabilities over the coming years, compared with their urban counterparts³⁵. Attention is therefore needed within local and sector skills strategies and bids to the Community Renewal Fund to support rural firms' staff development, including the potential role of collaboration amongst firms to meet their recruitment gaps and training needs. It has also been shown that combining skills and training development with a focus on mentoring/advisory support can be mutually reinforcing in helping firms embed and implement management practices³⁶.

³⁴ Defra (2020) **Statistical Digest of Rural England**. Government Statistical Service.

³⁵ Phillipson J, Gorton M, Maioli S, Newbery R, Tiwasing P and Turner R (2017) **Small Rural Firms in English Regions: Analysis and Key findings from UK Longitudinal Small Business Survey 2015**, Centre for Rural Economy.

³⁶ Peng B, Mole K, and Roper S (2019) **Skills, management practices and productivity in SMEs**. Enterprise Research Paper No 75 2019.



7.3 Apprenticeships requirements often appear to have been designed with little recognition of the higher financial and time costs of many non-land-based rural business sectors to fulfil formal training requirements for apprentices. Local FE college and training infrastructures in rural areas are either few in number, or distant, and may offer limited variety in industry courses for sectors such as construction, manufacturing, transport, and professional and business services, so placing higher burdens on small rural firms and their apprentices. In contrast, larger firms in more urban areas have often been able to reduce these burdens by gaining accreditation for in-house training centres and programmes. Some progress towards meaningful alternatives for rural and small firms has been made in recent years, especially in Wales, through development of shared apprenticeships in which trainees are shared by several local firms to gain a fuller breadth of skills and work activities, benefitting both owners and trainees, or through apprentices 'employed' by formal training bodies such as sector training boards, machinery rings, colleges etc. Such approaches should be more widely promoted and supported, harnessing the UK Government's extended National Skills Fund.

7.4 In contrast to urban firms, rural hard- to-fill vacancies have less to do with skill shortages and gaps *per se*, and more to do with lack of affordable or suitable housing, transport or educational provision. Differences in the density and frequency of public transport often make rural jobs less accessible than those in towns or cities, with take-up contingent on car ownership. For low-paid workers especially, the costs of car ownership, maintenance and fuel can make rural jobs less attractive. Moreover, while rural England has witnessed counter-urbanisation, this has tended to inflate rural house prices and been skewed to older workers and retirees. COVID-19 may have also changed the character of these in-migration flows. Concurrently, the out-migration of young people to urban areas, in search of higher education, affordable housing and more lively social environments is a persistent challenge for rural firms seeking to recruit or retain energetic and enthusiastic younger staff. These broad challenges linked to housing and transport emphasise the need for joined-up rural proofing of the range of policies that impact on rural areas. Lessons could also be drawn from previous approaches that have focussed policies and interventions in rural towns, such as the Market Towns Initiative, as well as Department for Transport-supported Wheels to Work schemes which offer a practical means for non-driving young people to access rural workplaces. Tax reliefs and allowances to rural firms, aligned to key stages in their business cycle, may offer an additional route for employers to help new employees access accommodation or transport to the workplace.

8. How can support provided to areas by publicly funded economic development institutions be strengthened?

“Support and encouragement is specifically needed for Local Enterprise Partnerships, local authorities and other local economic development organisations to better align their evidence base and activities...”

8.1 Greater emphasis is needed on the spatial (rural) impacts and reach of services, support, investments and programmes that aim to influence the drivers of productivity and encourage ‘Levelling Up’³⁷.

8.2 Support and encouragement is specifically needed for Local Enterprise Partnerships, local authorities and other local economic development organisations to better align their evidence base and activities to include their rural economies and natural capital and to bring consistency of prioritisation of rural contributions and opportunities across local strategies. At a local scale, LEPs and other local economic development organisations should develop clear frameworks to mainstream rural issues across their strategies and investment priorities³⁸:

- i.** Strengthening their evidence capabilities and setting out the diversity of rural enterprise and their contribution to city and town economies, international links, natural capital and the choice and quality of work.
- ii.** Identifying cross-boundary linkages with neighbouring strategies given particular significance to rural economies.
- iii.** Elaborating mechanisms for local co-delivery with rural stakeholders and engagement of rural micro and small businesses in informing strategic objectives and the design from the bottom up of more flexible and appropriate programmes and supports to meet their needs.
- iv.** Connecting strategic and society-wide challenges with tangible local opportunities for their rural areas.
- v.** Outlining investment criteria and evaluation metrics for defining rural outcomes and measuring success.



³⁷ Phillipson J, Turner R, Tiwasing P, Gorton M, Maioli S and Newbery R (2018) **Rural Economies and the UK Industrial Strategy**. Newcastle: Newcastle University. Rural Economy and Land Use Policy and Practice Note 6.

³⁸ Phillipson J, Gorton M, Tiwasing P, Cowie P, Maioli S and Newbery R (2019) **Progressing Rural Contributions to the UK Industrial Strategy**. Newcastle: Newcastle University. Rural Economy and Land Use Policy and Practice Note 8.

9. How can rural areas be supported to contribute to the government's net zero targets?

- 9.1** Rural economies have the potential to be a national leader in innovation around net zero and the wider bio and green economy. For this potential and growth opportunity to be realised there needs to be a comprehensive and integrated Net Zero Strategy for rural areas that can help drive the products, skills, technologies and supply chain developments to create and serve markets that are driven by climate and environmental challenges.
- 9.2** In the meantime, it is encouraging that the Levelling Up suite of policies, funds and prospectuses referred to in this Briefing paper, require that all applications should be aligned to and support government's net zero goals, as well as exploring how they may contribute to natural capital: "considering at a minimum the project's impact on our country's natural assets and nature, as well as the resilience of the capital and infrastructure project to potential hazards such as flooding."
- 9.3** Small businesses are already engaging with environmental agendas. According to analysis by NICRE partners at the Enterprise Research Centre, about three quarters of rural and urban firms have tried to minimise the environmental impact of their firms over the past 12 months, though COVID-19 has held back further innovation. Building on this progress by creating an enabling framework for businesses to achieve net zero is an important next step.
- 9.4** It will be vital to avoid a piecemeal or single sector approach and to look across the diversity of our rural economies, to consider how businesses, sectors and places will adapt to net zero and low carbon business models and where there are prospects for growth and innovation. There may be specific opportunities and constraints facing businesses located in rural areas that need to be addressed in moving to net zero – surrounding their operational context, business models, supply chains, networks, access to skills, innovation support and finance, and concerning the strength of enabling technologies and low carbon infrastructures.
- 9.5** A Net Zero Strategy for rural areas will need to embrace the full host of our land-based industries as well as responding to the 'once in a generation' opportunity to refashion agricultural policy post EU exit. This means harnessing the major sustainable materials widely produced and long utilised in rural areas and which underpin so many other business sectors, products and services - wood (for packaging, paper, furniture, construction, energy crops etc), water (for drinks, COVID-19 prevention, as ingredients or coolants for energy intensive manufacturing, construction, energy production, farming, hospitality and healthcare, for leisure and conservation etc) and energy (whether from major rurally-located power stations or on- or off-shore winds farms). Our rural areas are not only substantial producers but also some of the most substantial and integrated supply chains or business ecosystems for these products and services. These sectors are a substantial contributor to developing net zero economies, directly and through carbon offset, and will be important to regeneration of rural and wider regional economies. Their greater use, for example in local Combined Heat and Power infrastructures, could reduce dependence of people on fossil fuels who are not on mains gas, reduce fuel poverty in rural areas, provide outlets for local combustible waste products, and generate new skills, businesses and jobs.



9.6 There are also wider agendas at stake that must be embraced by a Net Zero Strategy for rural areas. These include tackling investment in making rural housing stock energy efficient, in rural infrastructure for electric vehicles, and a wider skills development agenda to provide knowledge and training for carbon sensitive land management, rural renewables and development of new environmental markets. The contributions of natural capital to sustainability and wellbeing is increasingly recognised, as is the growth potential of the green economy. Yet we know that markets can fail to reward those responsible for providing ecosystem services, especially when benefits cannot be financially calculated, accrue downstream, or over a long time horizon.

9.7 Harnessing opportunities for investment in natural capital and green innovation is a significant area of future development for rural areas. Demand from the corporate sector is growing for ecosystem markets, including national carbon markets, regional ecosystem markets, and green finance³⁹. With members of the UK Investment Association managing portfolios worth £8.5 trillion in 2020, even comparatively small shifts in corporate investment preferences or divestments/divestiture could redirect substantial amounts. Government can use public funding to leverage private investment in ecosystem markets as a route to rural economic recovery. There is a need to design appropriate policy mechanisms and investment pipelines. Crucially, realising the potential of ecosystem markets to contribute to levelling Up will require ensuring that rural communities themselves can receive the benefits of those investments. The role of anchor institutions and effective polycentric governance will be critical to overcoming this challenge.

“Harnessing opportunities for investment in natural capital and green innovation is a significant area of future development for rural areas.”

³⁹ Reed M, Curtis T, Gosal A, Kendall H, Pyndt Anderson S, Ziv G, Attlee A, Hay M, Hill D, Martin-Ortega J, Martino S, Strange Olesen A, Prior S, Rodgers C, Rudman H, Tanneberger F and Waylen KA. (In review). **Integrating ecosystem markets to co-ordinate landscape-scale public benefits from nature.**

10. Conclusions

10.1 To be meaningful, Levelling Up must be more than a mushrooming of building cranes across Greater Manchester's skyline. Rural areas constitute a substantial part of the nation's population, businesses and GVA. Many rural areas lag national averages on productivity and wages, and often adjoin and are interconnected with left-behind urban areas. Rural areas and economies are thus elements of the Levelling Up challenge, but they can also be part of the solution for rural and non-rural areas. Enhancing enterprise performance in rural areas can not only contribute to improving prosperity and livelihoods in rural communities but can also help achieve national economic objectives while addressing long-standing structural barriers that hinder economic performance and productivity.

Acknowledgments

This Briefing Paper was funded by Research England and the ERDF Interreg Europe project INNOGROW (Regional Policies for Innovation Driven Competitiveness and Growth of rural SMEs). It was authored by Roger Turner, Jeremy Phillipson, Matthew Gorton, Paul Cowie, Janet Dwyer, Bryonny Goodwin-Hawkins, Inge Hill, Kevin Mole, Thao Nguyen, Stephen Roper, Melanie Thompson-Glen, Frances Rowe, Barbara Tocco and Maria Wishart.

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