

# NICRE Submission to LRRG Call for Evidence: The Future of the Rural Economy

May, 2026

## Introduction

At a strategic level nationally and sub-nationally, rural economies have been under the radar of economic and growth policies<sup>1</sup>. If growth is to be achieved in every part of the United Kingdom it must encompass an inclusive and positive vision of the contribution that all types of places and sectors can make, including supporting and utilizing the diversity, spatial reach and dynamism of the nation's rural economies.

Evidence from the National Innovation Centre for Rural Enterprise (NICRE) points to significant rural opportunities for growth. However, realising these opportunities requires balancing the unique strengths and potential of rural places with the need to address a distinct set of constraints, like workforce shortages, limited infrastructure, lack of financial resources, planning restrictions, and unfavourable access to markets.

NICRE (<https://nicre.co.uk/>) was established with funding from Research England and is led by Newcastle University. We build on the strengths of our founding university partners: Newcastle University's Centre for Rural Economy and Business School, Enterprise Research Centre at Warwick University and the Countryside and Community Research Institute at the University of Gloucestershire and Royal Agricultural University. Our work is now backed by a growing mix of funders and partners. We collaborate with communities, businesses, local authorities, governments and researchers to support rural innovation, and we're always keen to work with others who want to make a difference in rural places.

This response to the LRRG call for evidence<sup>2</sup> is organised around three questions: What are the current challenges that rural economies face? What can rural economies offer to support growth? and How can policy reflect the needs and opportunities of rural economies?

## 1. What are the current challenges that rural economies face?

**Recruitment of suitably skilled staff** is a leading constraint to realising local growth opportunities for one in two rural businesses<sup>3</sup>. Lower density and smaller labour pools make it harder for rural firms to recruit employees with the skills they need, limiting their growth and ability to innovate with new products, services, technologies or working practices. Low wage levels and a lack of suitable apprenticeships or training are also important. Rural enterprises' staffing challenges are

---

<sup>1</sup> House of Lords Select Committee on the Rural Economy (2019) Time for a Rural Strategy. HL Paper 330.

<sup>2</sup> This response has been prepared by NICRE Director Jeremy Phillipson and builds on a recent submission by NICRE to the national Taskforce led by DEFRA considering Government Mission Delivery in a rural context. See <https://nicre.co.uk/media/voajnp2h/growth-mission-nicre-submission.pdf>

<sup>3</sup> NICRE (2024) Labour and skills availability: impacts on rural enterprise, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No 7. [nicre-state-of-rural-enterprise-report-no-7-february-2024-labour-and-skills-availability-impacts-on-rural-enterprise.pdf](https://nicre.co.uk/media/voajnp2h/state-of-rural-enterprise-report-no-7-february-2024-labour-and-skills-availability-impacts-on-rural-enterprise.pdf)

compounded by weaknesses in local services and infrastructure provision, notably a lack of affordable housing and poor public transport for staff<sup>4, 5</sup>.

Models for addressing staffing and skills challenges that work in urban areas are not always transferable to the rural context where population and business density is lower and there are gaps in the physical and digital infrastructure that helps attract, retain and develop skilled workers. The nature of demand for skills is also evolving as rural areas find themselves at the forefront of key challenges facing the UK. Particular gaps are emerging around: green skills to support land use, circular bioeconomy and net zero transitions; skills to maximise the opportunities arising from the data and digital economy; and skills development linked to the needs of an aging population and growing demands on health and care services.

**Inadequate provision of infrastructure** - both physical (broadband, mobile phone, public transport, services, etc.) and soft (institutional capacity, networks etc.) – remains a significant barrier holding back the long-term adaptation and development of rural economies<sup>6</sup>.

- A third (34%) of rural enterprises judge their **broadband quality** to be ‘poor’ or ‘very poor’, compared to a fifth (20%) of urban enterprises. This weakness in digital connectivity leads to slower adoption and use of existing digital technologies<sup>7</sup>.
- The **unaffordability of rural housing** for those on low and middle incomes and the lack of social rented housing are widely recognised barriers that lead to increasingly socially exclusive and demographically unbalanced communities. 49% of rural firms judge the availability of affordable housing in their local area to be ‘poor’ or ‘very poor’, compared to 30% of urban firms.
- A similar share of rural firms give local **basic services** (e.g., banks and post offices) the lowest ratings, with 50% judging them ‘poor’ or ‘very poor’ compared to 30% of urban firms. As with affordable housing, poor access to services is a widespread problem across rural settings.
- Rural businesses are also twice as likely as urban businesses (36% vs 19%) to rate their **transport infrastructure** as ‘poor’ or ‘very poor’. Public transport is rated ‘poor’ or ‘very poor’ by 57% of rural firms and 21% of urban firms.

Together these infrastructure deficits impact growth and investment<sup>8</sup>. 40% of rural firms in England that feel well placed to take advantage of local growth opportunities highlight the lack of affordable housing locally as a key barrier (33% urban), 39% flag the lack of transport services and infrastructure (26% urban), and 33% inadequate broadband capacity (25% urban).

---

<sup>4</sup> NICRE (2025) Rural business perspectives on Northumberland’s housing needs. NICRE Research Report No 27, March 2025. [northumberland-employers-rural-housing-needs-report-1.pdf](#)

<sup>5</sup> Skills England (2024) *Driving growth and widening opportunities*. Department for Education.

<sup>6</sup> NICRE (2022) Infrastructure and networks: rural enterprises and the Levelling Up agenda, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.2. [nicre-state-of-rural-enterprise-report-no-2-may-2022-infrastructure-and-networks-rural-enterprises-and-the-levelling-up-agenda.pdf](#)

<sup>7</sup> Wishart, M. & S. Roper. (2021) Digital adoption in rural SMEs. NICRE Research Report No 3 June 2021 <https://www.ncl.ac.uk/mediav8/nicre/files/NICRE%20Research%20Report%20No%203%20June%202021%20igital%20adoption%20in%20rural%20SMEs.pdf>.

<sup>8</sup> NICRE (2024) The rural economy post-pandemic: opportunities and barriers for business growth, State of Rural Enterprise Report No 6. <https://nicre.co.uk/media/1j1byg5r/nicre-state-of-rural-enterprise-report-no-6-january-2024-the-rural-economy-post-pandemic-opportunities-and-barriers-for-business-growth.pdf>

**Challenges and constraints are not uniformly experienced** across rural areas and localities, requiring locally tailored strategies to drive growth<sup>9</sup>. Some obstacles impact more on rural villages, hamlets and isolated dwellings, including broadband quality, provision of public transport, and transport infrastructure. At the regional level, the ability to recruit and retain staff as a constraint is more commonly cited by rural firms in the South West and West Midlands. North East rural firms emphasise lack of financial resources, while rural firms in the South West highlight local housing costs and local transport services. Rural firms in the West Midlands highlight a lack of available premises and planning restrictions. At the local level, places display different combinations of strengths and structural weaknesses relating to distance to key services, market size, presence of anchor institutions, broadband availability and speeds, business networks, skills in the local labour market etc. - which influence start-up, growth and survival of rural businesses<sup>10</sup>.

**Growth obstacles are experienced to differing extents across sectors**<sup>11</sup>. Difficulties to recruit and retain staff are highlighted more by rural firms in construction, wholesale, retail and transport, hospitality, and production. Rural firms in hospitality perceive constraints related to the lack of services or infrastructure, and to planning and affordable housing. Business premises are a greater concern for wholesale, retail and transport businesses, and for rural firms in construction.

**Firm level characteristics and objectives influence growth**<sup>12</sup>. Rural firms that focus on introducing new digital technologies achieve higher growth by 5% points than those which do not have this as a priority. Rural firms that prioritise improving productivity see a 4% points increase in employment growth. The high prevalence of family businesses in rural areas has a stabilising role in rural communities, which can mean an emphasis prioritising long-term stewardship over aggressive expansion<sup>13</sup>. This cultural preference can slow the scaling-up of rural enterprises, and lead to a lower share of rural firms having ambitions to grow or aspiring to a higher scale of growth - though they appear to outperform these expectations in terms of actual growth performance<sup>14</sup>.

**Smaller-scale rural employers emphasise several challenges to growth** or retention/ stability:

- new or increased taxation of employment, inheritance, business premises especially hitting retail, hospitality, tourism, land and community-based operations;
- withdrawal of local services affecting recruitment/ retention and customer bases, from public road and marine transport, to schools/ nurseries and banking outlets;
- growing distances in engagement and sense of disconnect from public authorities' facilities, including employment and skills centres, advisers, due to re-organisation and financial cuts in local

---

<sup>9</sup> NICRE (2024) The rural economy post-pandemic: opportunities and barriers for business growth, State of Rural Enterprise Report No 6. <https://nicre.co.uk/media/1j1byg5r/nicre-state-of-rural-enterprise-report-no-6-january-2024-the-rural-economy-post-pandemic-opportunities-and-barriers-for-business-growth.pdf>

<sup>10</sup> RESA-P toolkit for rural local authorities to assess the strengths and weaknesses of their entrepreneurial ecosystems <https://resa-p.org.uk/>

<sup>11</sup> NICRE (2024) The rural economy post-pandemic: opportunities and barriers for business growth, State of Rural Enterprise Report No 6. <https://nicre.co.uk/media/1j1byg5r/nicre-state-of-rural-enterprise-report-no-6-january-2024-the-rural-economy-post-pandemic-opportunities-and-barriers-for-business-growth.pdf>

<sup>12</sup> Nguyen, T., Phillipson, J., and Gorton, M. (2024) In-house Secondary Analysis of the Longitudinal Small Business Survey.

<sup>13</sup> Phillipson, J., P. Tiwasing, M. Gorton, S. Maioli, R. Newbery & R. Turner (2019) Shining a spotlight on small rural businesses: How does their performance compare with urban? Journal of Rural Studies, 68, pp. 230-239.

<sup>14</sup> Nguyen, T., Phillipson, J., and Gorton, M. (2024) In-house Secondary Analysis of the Longitudinal Small Business Survey.

and central government, including withdrawal of rural-specific grants/ funds; and  
- lack of rurality-sensitive investment in growth premises, hubs and enterprise zones in rural areas.

Finally, low population density reduces competition among service providers, **driving up costs** for rural firms when accessing finance, business support, logistics, energy and other critical services<sup>15,16</sup>. Rural businesses also operate in thinner markets, which means that while they may face fewer competitors they also tend to be more **remote from major markets and suppliers**.

## 2. What can rural economies offer to support growth?

**Rural economies bring substantial contributions and comparative advantages to wider regions and the nation as a whole, including contributing to economic renewal and growth.** There are 600,000 registered business units in rural areas in England alone, employing 4.2 million people. They make up a quarter of businesses and contribute over £315 billion to the economy, with their supply chains, workforces and innovations reaching well beyond rural areas. They contain considerable diversity in enterprise scale, sector and performance, with many creating high-value, advanced or internationally-traded products or services, and with the expansion and productivity of many firms boosted from operating from a rural location.

### **Rural areas do and can attract inward investment and support industrial diversity and growth.**

Rural SMEs have as strong a performance as urban SMEs in terms of the proportion of businesses achieving turnover and employment growth as well as the scale of growth<sup>17</sup>. Just under a quarter of rural firms wish to build a national and/international business (a similar share to urban). They are also an important source of growth and stability during times of economic crisis, being less likely than urban firms to have reported a fall in turnover and more likely to have had an increase in turnover during the height of the COVID pandemic<sup>18</sup> and the later Cost of Living crisis<sup>19</sup>. Once characteristics such as sector, size, and age are controlled for, rural firms grow just as fast as urban firms. This suggests that, with the right support, rural businesses can contribute fully to national growth ambitions.

**Evidence points to new rural opportunities**<sup>20</sup>. Significant proportions of businesses in rural areas perceive local opportunities for business development, which is a critical starting point for entrepreneurial activities that can lead to growth and productivity improvements. This includes 47% which see an opportunity for providing services and products that improve health and wellbeing,

---

<sup>15</sup> Lee, N. & M. Cowling (2015) Do rural firms perceive different problems? Geography, sorting, and barriers to growth in UK SMEs. Environment and Planning C-Government and Policy, 33, pp. 25-42.

<sup>16</sup> NICRE (2023) The cost-of-doing-business crisis: rural impacts and adaptation, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No 4. [nicre-state-of-rural-enterprise-report-no-4-november-2023-the-cost-of-doing-business-crisis-rural-impacts-and-adaptation.pdf](https://nicre.co.uk/media/1j1byg5r/nicre-state-of-rural-enterprise-report-no-4-november-2023-the-cost-of-doing-business-crisis-rural-impacts-and-adaptation.pdf)

<sup>17</sup> Nguyen, T., Phillipson, J., and Gorton, M. (2024) In-house Secondary Analysis of the Longitudinal Small Business Survey.

<sup>18</sup> NICRE (2023) The cost-of-doing-business crisis: rural impacts and adaptation, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No 4. [nicre-state-of-rural-enterprise-report-no-4-november-2023-the-cost-of-doing-business-crisis-rural-impacts-and-adaptation.pdf](https://nicre.co.uk/media/1j1byg5r/nicre-state-of-rural-enterprise-report-no-4-november-2023-the-cost-of-doing-business-crisis-rural-impacts-and-adaptation.pdf)

<sup>19</sup> NICRE (2023) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience. State of Rural Enterprise Report No 1. [nicre-state-of-rural-enterprise-report-no-1-january-2022-the-effects-of-the-covid-19-pandemic-on-rural-businesses-experiences-and-resilience.pdf](https://nicre.co.uk/media/1j1byg5r/nicre-state-of-rural-enterprise-report-no-1-january-2022-the-effects-of-the-covid-19-pandemic-on-rural-businesses-experiences-and-resilience.pdf)

<sup>20</sup> NICRE (2024) The rural economy post-pandemic: opportunities and barriers for business growth, State of Rural Enterprise Report No 6. <https://nicre.co.uk/media/1j1byg5r/nicre-state-of-rural-enterprise-report-no-6-january-2024-the-rural-economy-post-pandemic-opportunities-and-barriers-for-business-growth.pdf>

44% for providing environmental / green services and products, 37% around improving data skills and use of data, 37% around expanding opportunities for tourism, and 21% exporting. This potential presents a strategic opportunity for rural economic development, if challenges around skills, infrastructure, and support can be addressed<sup>21</sup>.

**Two fifths of rural businesses believe their businesses are well positioned to seize local growth opportunities. Opportunity recognition and readiness varies across regions, business size, sectors and between rural areas.** For example, rural firms in the North East are more likely to identify opportunities for tourism. Larger rural firms are more likely to feel well placed to take advantage of opportunities. Businesses in hamlets and isolated dwellings are less likely to highlight opportunities around improving data skills and use of data, or in relation to tourism. Business services firms emphasize improving data skills and use of data. Exporting is more likely to be highlighted by rural firms in the Production sector.

**All of the proposed growth driving sectors for the UK Industrial Strategy have a substantial rural footprint<sup>22</sup>.** For example, businesses in rural areas account for 25% of manufacturing business units and 22% of manufacturing employment. Firms in rural areas contribute large proportions of businesses in all three Advanced Manufacturing sub-sectors, for example 22% of business units in computer, electronic and optical products, 29% of business units in the air and spacecraft sub-sector and 21% of employment in pharmaceutical products and preparation.

Similarly, the rural economy contributes substantially to the **defence** sector. A third of businesses and a fifth of employment in defence locate in rural areas, as well as 39% of businesses engaged in the manufacture of weapons and ammunition. In Professional, Scientific and Technical Services 21% of business units and 13% of employment is rural. This includes, for example, 24% of business units and 31% of employment in **scientific research and development**, with many examples of **globally respected, cutting-edge science and technology clusters** in rural settings across the country.

As for the **creative industries**, we estimate the rural economy accounts for 16% of business units and 10% of employment in this sector, with some sub-sectors having a strong presence in rural areas, such as book publishing, architectural activities, photographic activities and artistic creation.

Other businesses and sectors in rural areas **underpin regional and national growth**. As the primary stewards of land and natural resources, land based and agri-food enterprises are quintessential foundational sectors which underpin extensive supply chains of firms and jobs across cities and towns, as well as rural communities. They provide essential consumer and ecosystem services that benefit the resilience of both rural and urban areas – flood management, river and water quality, energy generation and transmission, food and recreational resources, enhancing wider public well-being and environmental health.

Land based businesses are furthermore key for the **drive to net zero and reduced carbon emissions** through their renewable energy provision, carbon capture and storage, leading to benefits for both rural and urban communities. They are the primary suppliers and stewards of wood/ timber, water and energy related products and services.

**Food and Drink Manufacturing** is one of the biggest manufacturing sectors in terms of business stock (9% of manufacturing businesses) and employment (17% of manufacturing employment). It

---

<sup>21</sup> Tiwasing, P., M. Gorton, J. Phillipson & S. Maioli (2023) Rural businesses and levelling up: A rural-urban analysis of business innovation and exporting in England's north and midlands. *Journal of Rural Studies*, 100, 103007.

<sup>22</sup> Nguyen, T., Phillipson, J and Gorton, M. (2025) NICRE in-house analysis of the Business Structure Database.

has significant potential for developing and applying new technologies including robotics, bio-science, and digital innovations.

**Social enterprises** comprise up to a third of the total UK social enterprise population and about one tenth of all SMEs found in rural areas<sup>23</sup>. In addition to their economic contribution, they drive wider social and environmental transformation. They have considerable potential to play a much greater role in growth in a way that also directly addresses health/wellbeing concerns, NetZero /environmental sustainability and the regional economic imbalances that limit inclusive growth and prosperity.

### 3. How can policy reflect the needs and opportunities of rural economies?

Recognising and nurturing the contribution of rural economies and their extensive interrelationships with wider regions and urban areas is a vital ingredient for economic growth. This requires:

- (i) Developing a **'whole-of-government' rural plan** outlining a long-term, overarching vision for rural economies, operationalised through setting out of tangible outcomes and targets, which would bring a **rural lens** to the policies and investments of all departments and agencies of government.
- (ii) Establishing **appropriate governance arrangements** (for example a Rural Economies Board jointly led by the Cabinet Office and DEFRA) to oversee ongoing implementation of the plan across government and to proactively ensure that policies contribute towards these outcomes in rural areas.
- (iii) Embedding a **place-based approach** which reflects the diversity of rural economies and communities, which **brings a rural enterprise lens to devolved and local growth, skills and innovation plans**, and supports **community organisations and community-led approaches**.
- (iv) Valuing local knowledge and **inclusive participation** of public and private bodies, community groups, businesses and individuals, and strengthening **participation from rural stakeholders** in policy formulation and implementation, in the plans of Devolved Strategic Authorities, and in key sector/sub-sector strategies.

More specifically, a rural lens should be considered for each of the following key foundations relating to infrastructure, place, people, industrial strategy and innovation:

#### 1. Infrastructure

Rural deficits linked to housing, transport and digital connectivity stand out as a major priority. These foundational infrastructures and services create the enabling environment for businesses, workforces, key sectors and clusters to thrive and grow. Crucially, enterprise start-up, business growth, and growing employment opportunities have to be matched by accompanying housing, infrastructure, schools, health provision, transport etc, as part of a holistic approach.

#### 2. Place

To date, sub-national economic development has been highly urban-centred. The city-region approach has rested on trickle down assumptions, and not addressed Britain's geographical

---

<sup>23</sup> Rural Social Enterprise: contributions, challenges and support needs. NICRE Research Report No 12. [nicre-research-report-no-12-november-2022-rural-social-enterprise-contributions-challenges-and-support-needs.pdf](https://www.nicre.org.uk/research-report-no-12-november-2022-rural-social-enterprise-contributions-challenges-and-support-needs.pdf)

imbalances<sup>24</sup>, including of rural areas, to towns, cities, regional and national economies. Rural contributions can be sustained and enhanced by a model that supports ‘trickle up’ contributions from rural areas, strengthened by government support for rural capacity to ‘reach in to economic development resources to tackle rural weaknesses or release rural potential<sup>25</sup>.

Local growth and devolved development strategies must be tailored and sensitive to the challenges and opportunities of rural areas<sup>26</sup>. Following the addition of rural affairs as an area of competence of devolved strategic authorities, the setting of framework expectations around the design, delivery, governance, monitoring, and evidence base of devolved strategies, investments and local growth plans, will be crucial to bringing a rural lens to economic development goals and programmes.

This would benefit from:

- Building capacity of rural businesses and communities to develop, apply for and manage investments, including through support of community-led local development;
- Continuous monitoring, evaluation and development of data and evidence base at sufficient granular level to ensure plans remain relevant and effective in driving sustainable growth and to ensure spatial tailoring and inclusivity of investment;
- Modified targeting, design and evaluation of new policies and investment programmes, to eliminate investment bias to cities and larger settlements and ensure spatially inclusivity;
- Choice of inclusive metrics and indicators of required benefits, economic or operational outcomes;
- Provision of dedicated investment funds for rural areas to strengthen interdependencies between places.

### 3. People

Skills and recruitment challenges represent one of the most significant constraints on rural businesses ability to innovate and grow. Without the full set of skills and capacity they need, rural firms’ ability to introduce new technologies and processes, and to develop new products and services is limited. Skills shortages are a key factor in rural businesses not meeting customer needs, losing business to competitors or having to withdraw from markets altogether, and also hinder efforts to adapt and improve social and environmental impact.

National and local skills strategies and plans should fully account for the particular cross-cutting drivers which impact workforce needs and challenges in rural economies<sup>27</sup>. There is a need to develop support and advice provision to help small and micro-businesses to tackle their recruitment challenges, including to develop alternative recruitment approaches, in-house training provision,

---

<sup>24</sup> 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. [nicre-sota-no-1-march-2021-levelling-up-and-rural-areas-â\\_a-review-of-lessons-from-rural-and-regional-development-neil-ward.pdf](#)

<sup>25</sup> NICRE (2021) The strategic case for equitable recognition of rural economies in Levelling Up policies. NICRE Briefing Paper No 2. [nicre-briefing-paper-no-2-november-2021-the-strategic-case-for-equitable-recognition-of-rural-economies-in-levelling-up-policies.pdf](#)

<sup>26</sup> Phillipson, J., Turner, R., Tiwasing, P., Gorton, M., Maioli, S. and R. Newbery (2018) Rural economies and the UK Industrial Strategy. Rural Economy and Land Use Policy and Practice Note No. 6. Rural Enterprise UK. [ppn-no-6-july-2018-rural-economies-and-industrial-strategy-on-line-version.pdf](#)

<sup>27</sup> NICRE (2024) Labour and skills availability: impacts on rural enterprise, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No 7. [nicre-state-of-rural-enterprise-report-no-7-february-2024-labour-and-skills-availability-impacts-on-rural-enterprise.pdf](#)

and access to apprenticeships, as well as support for collaborative approaches and solutions between groups of firms<sup>28</sup>.

Existing apprenticeships' provision should be reviewed in terms of whether it is providing the right offer for rural businesses who want to hire and train their own skilled staff. This should consider how apprenticeships can be used to support the ageing workforce in rural communities and also what adaptations may be needed to meet the needs of small and micro businesses (for example hybrid and pooled apprenticeships).

Business support and local development organisations have an important role to play in working with rural businesses to create a holistic, place-based approach that supports worker recruitment and retention. They can encourage and enable employers to tackle common staffing problems, both within and between sectors, such as transport to work, staff training and marketing. Multi-agency coordination would enable the communication of a consistent brand to prospective workers, including integrating natural capital as a central plank of business-focused communications<sup>29</sup>.

The demand for new skills has to be met by supply. Skilled jobs in the bio-economy and wider land use transition related to clean growth are also an opportunity to be exploited in land based and non-land-based sectors in rural areas<sup>30</sup>, as well as further development of digital skills linked to data use, sharing and AI.

#### **4. Industrial strategy**

Achievement of the Industrial Strategy's sector and place focused ambitions will only be fully achieved by moving beyond the emphasis on "growth opportunities in city regions and clusters" and "potential in our cities, regions, and nations", to recognize the contribution of the nation's rural economies to growth and innovation. Alongside this strategy, emerging small business policy frameworks also need to be considered for their rural reach and sensitivity, given the significance of small businesses to rural employment<sup>31</sup>.

##### **4.1 Sector / sub-sector prioritization:**

Adopting a holistic, multi-sector focus around growth and investment of businesses, at both national and local level, will be vital to realising the nation's economic ambitions, including focussing on releasing growth of businesses located in rural areas. If they are to succeed, sub-sector support initiatives and plans will need to explicitly recognize the spatial distribution and geographical context of their constituent businesses and supply chains and tailor their approaches accordingly to the particular growth challenges and opportunities that are presented by a business environment characterised by sparsity and physical/digital distance and challenges around access to knowledge, markets, labour, support services and capital.

---

<sup>28</sup> Foster, C., Kirk, S. and Kyle, P. (2024) Attracting and retaining workers in the Derbyshire Peak District. Policy Briefing. [nicre-policy-briefing-attracting-and-retaining-workers-in-the-derbyshire-peak-district.pdf](https://nicre.co.uk/media/5e4bfcw1/land-use-innovation-final.pdf)

<sup>29</sup> Foster, C. and Kirk, S. (2024) Exploring identity, place and worker attraction and retention in rural businesses. NICRE Research Report No 21. [nicre-research-report-no-21-july-2024-exploring-identity-place-and-worker-attraction-and-retention-in-rural-businesses.pdf](https://nicre.co.uk/media/5e4bfcw1/land-use-innovation-final.pdf). See also a policy toolkit at <https://indd.adobe.com/view/cfadd99e-d74d-4f27-899f-9f57c64dae2e>

<sup>30</sup> MacMillan, T., Norton, E., Lewis, K., and Payne, V. (2025) Land use innovation: How the UK can unlock solutions to the pressures on land. <https://nicre.co.uk/media/5e4bfcw1/land-use-innovation-final.pdf>

<sup>31</sup> NICRE (2024) NICRE submission to Green Paper 'Invest 2035: The UK's Modern Industrial Strategy'. November. [nicre-submission-to-green-paper-invest-2035-the-uk-s-modern-industrial-strategy.pdf](https://nicre.co.uk/media/5e4bfcw1/land-use-innovation-final.pdf)

The Government's identification of sector and sub-sector priorities should reflect locally driven and identified development needs and opportunities, and sector choices that are flexible and reflective of local economic specialisms and assets. Analysis at a local and combined strategic authority level should be undertaken to inform the choice of sub-sectors and to build on local comparative advantages in these and other foundational sectors.

#### **4.2 Clustering:**

Cluster based approaches have traditionally been focussed on urban areas able to benefit from agglomeration economies and spillovers arising from a greater density of networks, businesses, knowledge institutions, skilled workforce, service providers and public institutions. However, if built on locally identified specialisms and competitive advantages, anchoring development on the specific needs and assets of each territory, the development of clusters can also represent a significant opportunity and unlock innovation potential in rural areas<sup>32</sup>.

By encouraging sectoral clusters, rural areas can generate agglomeration effects that enhance innovation and productivity, as well as tourism and export potentials. In addition to strengthening existing clusters, rural areas have shown the capacity to develop new sectoral strengths. The emergence of a robotics cluster in rural Cumbria and in-orbit space manufacturing in Cornwall demonstrate that cutting-edge technology sectors can thrive outside traditional urban hubs.

Future clusters and choice of sector priorities should be driven partially by locally-informed development needs and opportunities, with greater attention to delivering benefits to neighbouring communities and ways to extend the wider reach and benefits of clusters. One approach, for example, is to encourage a 'hub and spoke' model within high-potential clusters, to allow many more locations and high potential businesses to benefit.

Targeted cluster support linked to skills development can successfully revitalise regional economies<sup>33</sup>. Applying this model to rural areas — through targeted support for emerging and existing clusters — would help ensure that rural communities are not left behind in economic growth missions. This should aim to (i) work with what is there — build on existing firm bases and sectoral strengths rather than trying to implant entirely new industries; (ii) support clusters, not just individual firms — encourage collaboration between firms to overcome the challenges of low density and thin markets<sup>34</sup>; (iii) invest in sector-based skills and business advice — local sector-specific training initiatives and advisory services; and (iv) adopt a "public service portfolio" mindset combining customised services, infrastructure investment, skills development, and amenity enhancement to offers a more sustainable strategy than traditional tax incentive approaches<sup>35</sup>.

Alternative approaches are also be needed in areas with a more dispersed business base in order to develop effective knowledge infrastructures and encourage the proximity of and connection of firms and other actors<sup>36</sup>. This includes, for example helping firms to develop networks to internationalise,

---

<sup>32</sup> OECD (2022) [Enhancing rural innovation | OECD](#)

<sup>33</sup> Katz, L. F., J. Roth, R. Hendra & K. Schaberg (2020) Why Do Sectoral Employment Programs Work? Lessons from WorkAdvance. NBER Working Paper.

<sup>34</sup> Amezcua, A. S., M. G. Grimes, S. W. Bradley & J. Wiklund (2013) Organizational Sponsorship and Founding Environments: A Contingency View on the Survival of Business-Incubated Firms, 1994–2007. *Academy of Management Journal*, 56, pp. 1628-1654

<sup>35</sup> Bartik, T. J. (2020) Bringing Jobs To People: Improving Local Economic Development Policies.

<sup>36</sup> OECD (2022) [Enhancing rural innovation | OECD](#)

or supporting local business hubs<sup>37</sup> and micro-clusters that are reflective of local specialisms. The Creative Industries are an example where micro-clustering plays a key role, and which demonstrate the value of supporting a micro-clustering approach in rural areas<sup>38</sup>.

## 5. Innovation

Rural economies' contribution to 'new to the world' and 'new to the business' innovation remains largely hidden in UK innovation policy circles. Yet, our research<sup>39</sup> <sup>40</sup>indicates that rural firms are typically as innovative as their urban counterparts when innovation is measured broadly, rather than solely through R&D or patenting indicators. Rural firms engage in product, process and organisational innovation at rates comparable to urban firms.

However, in rural areas, due to lower levels of interaction and less accessibility to urban knowledge centres, new to the world innovation is slowed<sup>41</sup>. Skilled labour availability is also more difficult to access in rural areas and also having a detrimental impact on technology acceptance and use<sup>42</sup>. A paradox is that rural areas require the most advanced digital connectivity to compensate for their remote location, but they are the least connected<sup>43</sup>. Enhanced digital connectivity is critical both in building rural innovation and business resilience<sup>44</sup>.

Rural innovation varies significantly across settlement type and according to accessibility. Firms in smaller or more accessible rural settlements frequently outperform urban averages, while innovation rates are lower in larger rural settlements that are more distant from major towns and cities.

Rural firms find it more difficult to realise innovation investments into new-to-market sales. Specifically, while rural firms make innovation related investments at similar rates to urban firms, and in some cases more intensively such as for machinery, software and applied R&D, they are significantly less likely to convert new-to-market innovations into sales. In addition, rates of

---

<sup>37</sup> Merrell, I., Phillipson, J. and Gorton, M. (2022) Enterprise hubs to support rural development, NICRE State of the Art Review No. 5. [nicre-sota-no-5-august-2022-enterprise-hubs-to-support-rural-development.pdf](https://nicre.co.uk/media/1lwdzxhg/nicre-state-of-rural-enterprise-report-no-5-august-2022-enterprise-hubs-to-support-rural-development.pdf)

<sup>38</sup> NICRE (2022) Mapping and examining the determinants of England's rural creative microclusters. NICRE Research Report No 7. [nicre-research-report-no-7-with-creative-pec-may-2022-mapping-and-examining-the-determinants-of-england-s-rural-creative-microclusters.pdf](https://nicre.co.uk/media/1lwdzxhg/nicre-research-report-no-7-with-creative-pec-may-2022-mapping-and-examining-the-determinants-of-england-s-rural-creative-microclusters.pdf)

<sup>39</sup> Phillipson, J., Partridge, N., Gorton, M. and Nguyen, T. (forthcoming) (2026) Perspectives on the Innovation Ecosystem and Recommendations. Innovation Research Caucus Report.

<sup>40</sup> Nguyen, T., Phillipson, J., Gorton, M. and Partridge, N. (forthcoming) Unpacking Innovation Activities in Rural Firms: Evidence from National Data Sets. Innovation Research Caucus Report.

<sup>41</sup> Roper, S., & Jibril, H. (2024). Understanding the geographical distribution of innovation in England: density, accessibility and spillover effects. *Regional Studies*, 58(6), pp. 1320-1338. <https://doi.org/10.1080/00343404.2023.2252900>

<sup>42</sup> NICRE (2024) Labour and skills availability: impacts on rural enterprise, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No 7. <https://nicre.co.uk/media/1lwdzxhg/nicre-state-of-rural-enterprise-report-no-7-february-2024-labour-and-skills-availability-impacts-on-rural-enterprise.pdf>

<sup>43</sup> Saleminck, K., D. Strijker, and G. Bosworth, (2017) *Rural development in the digital age: A systematic literature review on unequal ICT availability, adoption, and use in rural areas*. Journal of Rural Studies, 2017. 54: pp. 360-371.

<sup>44</sup> NICRE (2021) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.1. <https://nicre.co.uk/media/3f351s/nicre-state-of-rural-enterprise-report-no-1-january-2022-the-effects-of-the-covid-19-pandemic-on-rural-businesses-experiences-and-resilience.pdf>

innovation protection are lower in rural firms than urban firms. In other words, rural firms find it more difficult to convert *innovation effort* into *NTM innovation realisation*.

These findings suggest that overcoming ecosystem and structural constraints, rather than firm-level deficits, are critical for improved outcomes from rural innovation. Notably, weaker access to specialist markets, scaling finance, external networks and institutional intermediaries appear to hinder the progression from “new-to-the-business” to “new-to-the-market” innovation. Tackling these issues requires a more dedicated and tailored focus within the UKRI and Innovate UK provision and support to connect to businesses located in rural areas<sup>45</sup>.

Specific actions are needed, for example to: broaden the definition of rural innovation to reflect the diverse composition of contemporary rural economies; strengthen rural Innovation data and evidence base to evaluate innovation activity and spending; enhance university engagement with rural communities and businesses; recognise the importance of rural enterprise in national and regional innovation strategies; improve cross-government coordination between Defra, Innovate UK, DSIT and Research England; ensure a ‘rural lens’ is consistently applied to national and devolved innovation policies, programmes and initiatives; and to ensure ‘dual access’, combining pilot stand-alone programmes specifically designed for rural businesses and adapted models within mainstream innovation support.

**For further information about NICRE:**

Email: [nicre@newcastle.ac.uk](mailto:nicre@newcastle.ac.uk)

Visit: [www.nicre.co.uk](http://www.nicre.co.uk)

LinkedIn: [National Innovation Centre for Rural Enterprise](#)

Facebook: [@NICRErural](#)

---

<sup>45</sup> Phillipson, J., Partridge, N., Gorton, M. and Nguyen, T. (forthcoming) (2026) Perspectives on the Innovation Ecosystem and Recommendations. Forthcoming. Innovation Research Caucus Report.