

Evidence Submission to the Inquiry into Rural Productivity

APPG for Rural Business and the Rural Powerhouse

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Summary

Rural economies are part of the Levelling Up challenge. However, given their scale, significance and unrealised potential, they are also part of the solution for revitalising non-rural areas and regions and addressing long-standing structural barriers that hinder economic performance and productivity. If Levelling Up is to be effective, at both a national and sub-national level, it will therefore require a new strategic focus on realising growth and innovation from all places rather than only cities, towns or specific sectors. This approach should:

- Address systemic barriers to growth in rural areas;
- Invest inclusively and equitably across cities, towns and rural areas;
- Strengthen local business networks and clusters;
- Target skills and employment support to aid economic recovery and drive productivity;
- Strengthen support for rural economies from economic development institutions; and
- Enable the adaptation and contribution of rural areas to net zero goals

These considerations would help bring consistency on prioritisation of rural contributions and opportunities across local and national economic strategies. They relate closely to the questions informing the APPG inquiry:

Connectivity

- NICRE analysis 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 less likely to be planning to introduce new digital technologies following the pandemic.

Planning

- Smaller-scale developments offering benefits to rural communities and businesses can often fall foul of complex planning regulations. For rural businesses seeking to expand or grow, suitable premises are hard to find in many rural areas which can lead to sub-optimal performance and productivity. Our research points to the success of enabling the creation of local rural business hubs in providing a flexible approach for overcoming local constraints.

Land use

- Increasing productivity may increase average farm income but is not sufficient to offset the impact of eliminating the Basic Payment Scheme (BPS) for those farms heavily reliant on direct payments. Other farms are less dependent on these payments and therefore in terms of policy response/support 'one size does not fit all'.
- It is unlikely that the Environmental Land Management (ELM) scheme will directly result in productivity growth. However, ELM is an opportunity to incentivise land managers to deliver public goods and to innovate their land management practices. Analysis shows that the financial incentives have to be attractive and accessible, combined with excellent advice and fostering collaboration to deliver results across holdings.
- Our research shows that farmers with access to off-farm and diversified income (income from sources not related to farming) will be in a better position to cope with the agricultural transition period. Nevertheless, non-farm sources of income are unlikely to be a panacea for all.
- Moreover, farms whose other sources of income have been severely impacted by COVID restrictions could be especially vulnerable to removal of BPS irrespective of their farm business productivity.

Skills

- NICRE research shows that rural firms often face difficulties in recruiting or retaining skilled staff, often caused by lack of affordable housing, poor public transport, inadequate broadband/ mobile connectivity etc.
- Leadership can be the key to success in rural areas, but significantly fewer rural employing firms are planning to improve their leadership capabilities over the coming years.
- Support for skills should include:
 - collaborative and shared approaches amongst small rural firms to meet their recruitment gaps, training needs and support for apprentices.
 - the transition to net zero, including an imperative to provide knowledge and training for carbon sensitive land management, rural renewables and development of new environmental markets.

Process

- Bolstering the evidence and capacities for rural policy within central government will be vital to meet rural challenges and opportunities and to support the role of Defra in championing rural affairs across government.
- Increased capabilities for rural policy within central government should be accompanied by strengthened, better evidenced and more transparent rural delivery responsibilities sub-nationally.
- Our research highlights that a more holistic and integrated approach to rural policy formation, delivery and evaluation is necessary to address what are interconnected drivers of innovation and productivity in rural areas and to build upon the many mutual interdependencies that exist between rural and wider urban and regional development.
- Rural areas and businesses provide vital steps in the supply chain to net zero. A comprehensive and integrated Net Zero Strategy for rural areas would free this up to benefit the whole of the UK.

1. Background

The National Innovation Centre for Rural Enterprise (NICRE) undertakes research and knowledge exchange to inform policy, foster the innovation and resilience of rural businesses, and unlock the potential of rural economies across the UK. It is funded by Research England and founding University Partners, with in-kind support from many public, business and third sector organisations. NICRE builds on three leading centres of expertise: the Centre for Rural Economy (CRE) and Newcastle University Business School, the Enterprise Research Centre (ERC) at the University of Warwick, and the Countryside and Community Research Institute (CCRI) at Gloucestershire and Royal Agricultural Universities. Azets Accountants and Strutt & Parker property consultants are its founding national professional business service partners. Further information is available at: <https://ncl.ac.uk/nicre>

This submission draws on research evidence and insight from NICRE, and allied rural institutions and bodies, pertinent to the remit of the inquiry into rural productivity conducted by the APPG for Rural Business and the Rural Powerhouse. In the submission we provide an initial response and look forward to further opportunities to contribute additional expertise and evidence as needed. As NICRE continues to build its portfolio of research and innovation projects, we also invite the APPG to signal areas where they would particularly welcome additional evidence or dialogue.

2. Overarching message

Rural areas constitute a substantial part of the nation's population, businesses and GVA and embrace all sectors and drivers of the economy. Yet some 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 therefore part of the Levelling Up challenge. However, given their scale, significance and unrealised 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 non-rural areas and regions¹. Enhancing enterprise performance and outcomes 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. Yet in debates about and approaches to national and sub-national economic development, the scale and potential of non-metropolitan areas beyond the cities is little recognised, and often poorly integrated – a national 'blind spot'².

'Levelling Up', raising and sharing prosperity has traditionally and crudely been seen through the lens of cities and towns as the foci of growth, innovation and regional

¹ NICRE (2021). **What is the Contribution of Rural Enterprise to Levelling Up, and How Can this be Further Enabled?** NICRE Briefing Paper No. 1, March 2021, Newcastle University.

² 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

development or neglect. Indeed, this is starkly illustrated in an opening paragraph to the UK Government's *Build Back Better: Our Plan for Growth*, sic

"The primary objective of this government is to change that, ensuring no region is left behind as we achieve greater economic prosperity. Our cities will be the engines for this growth, and our long-term vision is for every region and nation to have at least one internationally competitive city, driving the prosperity of the surrounding region and propelling forward the national economy. Our towns are crucial too - we will ensure that they are places that people are proud to live and raise their families, with good schools, vibrant high streets, and access to jobs that give everyone a fair chance to achieve their full potential"³.

The first specific recognition for 'rural areas' only surfaces 20 pages further, as part of the spatial spectrum, whilst all remaining references to these extensive places and communities relate solely to the potential investment in a Shared Rural (broadband) Network. Rural economies and communities offer, and deserve, greater recognition than this.

Generally the contribution of rural areas is presumed to be tied narrowly to agri-food and tourism-based activities. Levelling Up should include the nation's rural economies and their contribution to the prosperity of firms, workers and residents across the nation. This will be vital if approaches intended to reduce disparities **between** regions are to avoid opening up disparities **within** regions.

If Levelling Up is to be effective, at both a national and sub-national level, it will require a new strategic focus on realising growth and innovation from all places rather than only cities, towns or specific sectors. Such a vision needs to recognise the substantial and active contribution that rural firms and local rural economies can make to local and regional development across the UK. This requires a sensitivity to the distinctive characteristics and diversity of local economies beyond the main urban areas and their particular opportunities and challenges.

3. Evidence on APPG strategic themes and questions

3.1. Connectivity – has the government given up on bridging the digital divide?

Questions to consider

- To what extent is digital connectivity the key to unlocking rural productivity?
- Has the pandemic renewed the focus on the digital divide?
- Has the government given up on the hardest to reach rural communities?

³ H M Treasury (2021) *Build Back Better: Our Plan for Growth*. pg 12. H M Treasury. CCS0221029762

There is no doubt that good digital connectivity is an essential element in business efficiency and reach, particularly in the current context of COVID and, as a result of adaptation to the pandemic, in the post-Covid future. In order to be competitive now and in the future, UK firms will need to embrace digital technologies, as a critical enabler of new business models and enhanced productivity.

Yet digital connectivity remains a major barrier faced by rural enterprises, holding back their ability to recruit employees, innovate and expand markets. 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 tradesmen/women 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 or other services.

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.). However, NICRE analysis⁴ at the ERC 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. CCRI's current evaluation of local action for rural development across the UK and Europe is also highlighting that many businesses located in rural areas which currently do not enjoy good broadband have suffered disproportionately from the impacts of lockdown, because the adaptive response for many businesses has been to move trade online. The fact that poor broadband frequently coincides with less than perfect mobile phone coverage is a double disadvantage in these locations. Some communities have responded with self-help broadband access schemes, but these have been relatively rare across rural areas.

Policy initiatives will need to acknowledge and address these differences to ensure that rural firms have the opportunity, skills and confidence to adopt digital technologies. Yet, 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.

Whilst we welcome the Government's Plan for Growth and the £5 billion commitment within the National Infrastructure Strategy to roll out faster broadband and 4G mobile network, the aim again leaves 5% of the UK outwith this plan. We hope the recent announcement of proposed joint activity by BT and OneWeb, for the use of low-orbit

⁴ Wishart M and Roper S (2021), **Digital Adoption in Rural SMEs**, NICRE Research Report 3.

satellites, will focus on these 'left behind' rural communities, and will be converted soon from an idea to practical reality for our harder to reach rural areas.

3.2. Planning – is the planning system fit for purpose for economies and communities in rural areas?

Questions to consider

- Do you have proposals for how the planning system can be made to work better for economies and communities in rural areas?
- Is the current planning system acting as a barrier to rural productivity? If so please give examples.
- Has the planning white paper done enough for rural areas?
- Do policy or other barriers exist that impede rural development? If so, is this at national or local level? And which policies?
- Successive governments have told land managers to diversify their farming business to find alternative sources of income. To what extent does the planning system make it so easy or difficult to deliver this policy objective?

Safeguarding the countryside from inappropriate development has been a preoccupation of successive Governments since the late 1940s and continues to be a priority. While this focus has led to the protection of the special qualities of many nationally important landscapes, it can be argued that these policies have also contributed to a range of economic and social problems through the restrictions that they place on development.

However, land use planning is about more than development control and should also be used as a vehicle to promote economic growth and social well-being in rural areas. This is not always the case, with many smaller-scale developments offering benefits to rural communities and businesses falling foul of a range of complex planning regulations such as those around affordable housing and permitted development. On the other hand, finding an appropriate balance is key. Maintaining high quality rural landscapes can benefit the wider economy by providing attractive places for people to live, work and visit. Rural tourism is an important source of income in many areas and landscape character and quality underpin the marketing of many local goods and services from artisan foods to outdoor activities. These same landscapes also deliver a range of important ecosystem services that benefit both the economy and the natural environment, the loss of which could have serious economic consequences.

The current planning system and the way it is implemented is therefore often a real, as well as a perceived, barrier to rural economies. A concrete example concerns business premises. The majority of rural businesses are small or micro-businesses. They are overwhelmingly family businesses. These characteristics present challenges when they expand or grow. Suitable premises are hard to find in many rural areas. This often leads to sub-optimal performance and productivity with businesses stuck in cramped unsuitable premises or else split across a number of small sites. The alternative, especially seeking extensions to accommodate growth and too often recommended by economic agencies and business advisors is to relocate the business to suitable premises outside their community, often a long commute away, and in more urban environments. This

breaks their connection to their local community, is less sustainable and is therefore only done as a last resort.

This situation arises because the planning system adopts a settlement hierarchy approach when it comes to commercial development, steering development to the main service centres or else to nearby urban centres. There is provision for 'exceptional' circumstances to develop business premises in more rural locations but this is at the discretion of planning officers and planning committees. A lack of certainty and clarity in the decision making can put off businesses who are thinking about development or looking for suitable premises for expansion.

The planning white paper risks making this problem worse with its crude categorisation of three planning area types. Many rural areas are likely to be in the '*Protected*' category and as such face a presumption against development. There needs to be clear development policies that allow family SMEs with a strong local connection to develop suitable business premises to allow them to expand and improve productivity. This would have to follow other policies around design and sustainability and be in keeping with the local area.

Our evidence also points to the success of enabling the creation of local rural business hubs⁵. The lessons from the Pilot Rural Growth Networks (RGN) in England shows how hubs can 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 homebased firms that face particular limitations. They have generated a good return of investment, especially where they have been accompanied by proactive management and facilitation, and coupled with improved knowledge exchange, digital connectivity, business-to-business networking and business support. Many successful business hubs have been established by diversifying farmers and landowners in redundant estate buildings, often attracting a variety of local and incoming entrepreneurs producing and trading in higher value, skilled goods or services, or attracting more tourists and visitors to the countryside.

3.3. Land use – how can we better manage the land to meet demand for environmental delivery and food production?

Questions to consider

- Will the removal of direct payments and the shift to payments for public goods result in productivity growth in rural areas?
- What has the most potential to drive growth e.g., new farming systems, forestry and woodland, environmental management, other commercial activities such as tourism, retail or hospitality, energy production? And over what timescale?
- What are the barriers to agricultural productivity growth? And how should these be addressed?

⁵ 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

- How can a farm woodland economy be developed to incentivise tree planting and carbon sequestration?

A very large number of farms are heavily dependent on direct payments: c.61% of average farm business income in England comes from the Basic Payment Scheme (BPS). However, for beef and sheep grazing farms BPS accounts for c.90% of income⁶, while sectors such as pigs, poultry and horticulture rely very little on direct payments. There is no link between direct payments and agricultural productivity *per se*, as BPS provides income support and is decoupled from production. Our research⁷ at the CRE suggests that increasing productivity among UK beef and sheep enterprises may increase average farm income but is not sufficient to offset the impact of eliminating BPS, for these kinds of farm. As other farms are less dependent on these payments 'one size does not fit all' in terms of policy response/support.

It is unlikely that the Environmental Land Management (ELM) scheme will directly result in productivity growth. The main drivers of productivity are economies of scale (linked to structural change), innovation and technical change. Any form of payment which is linked to land is likely to be capitalised into land values (as well as captured by others across the supply chain). If the removal of BPS is too rapid or unassisted by help in adjusting (e.g. advice and planning), this may cause additional volatility in supply-chains, discontinuity in environmental land management, undesirable impacts on rural communities, and unnecessary or inefficient structural change in farming.

The removal of direct payments will have some significant impacts on certain farming businesses, but there is no reason to believe that this will result in productivity growth in rural areas. Those who may struggle to stay in business will not necessarily be those with lower than average productivity. The biggest losers in financial terms are defined by sector, namely those with grazing livestock enterprises; and by scale: particularly those who have smaller holdings, and also those with borrowings or tight supply contract constraints. These will often be businesses operating at a relatively high degree of technical and economic efficiency, but with heavy dependence upon a continuing income stream from BPS.

Because about half of all farm businesses in England are diversified, the pattern of business impacts will also depend upon the non-farm incomes available to them – those with incomes from tourism and hospitality are likely to be most fragile in the current COVID context, and those who derive incomes from agricultural contracting may also be vulnerable due to the higher costs linked to EU exit. Whereas those who can cross-subsidise their farming via professional occupations (e.g. with a spouse in teaching, accountancy, veterinary practice) will probably be better able to adapt and survive. Again, this means that the impact on productivity cannot be predicted with any accuracy. Our

⁶https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf, Accessed 27 April 2021.

⁷ Hubbard C (2019) (Ed). **Brexit: How might UK Agriculture Thrive or Survive?**, Final report: <https://research.ncl.ac.uk/esrcbrexitproject/outputs/Final%20Report%20Brexit%20and%20Agriculture%20March2019.pdf>

research⁸ shows that farmers with access to off-farm and diversified income (income from sources not related to farming) will be in a better position to cope with the changes associated with new domestic and trade policies following EU exit. Nevertheless, opportunities for off-farm employment and on-farm diversification are distributed unevenly across the sector. Non-farm sources of income are unlikely to be a panacea for all. Moreover, farms whose other sources of income have been severely impacted by COVID restrictions could be especially vulnerable to removal of BPS irrespective of their farm business productivity.

Agricultural policy is a devolved issue, with differences between the four countries. A move away from direct payments has been treated with much more caution in Scotland and Northern Ireland than in England and Wales. Scotland's Agriculture Bill (2019) foresees continuing the current CAP schemes, including direct payments, for some years. Policy differences between the four nations may create tensions regarding fairness and competitive advantage within the UK internal market.

ELM is an opportunity to incentivise land managers to deliver public goods and to innovate their land management practices. If the new approach to public money for public goods is to have a positive impact on farm incomes, farmers will need to engage successfully with it and there are many drivers of ELM uptake that influence this success. The CRE's evaluation of the ELM Test and Trial with Northumberland National Park, and CCRI's continuous evaluation of the FWAG SW Test and Trial, both demonstrate that the financial incentives have to be attractive and accessible, in order for farmers to engage, combined with excellent advice and guidance, and fostering collaboration to deliver results across holdings and landscapes.

Looking ahead, agricultural innovation policy has a key role to play in providing support for innovation and farm investment in order to change business orientation. Multi-functional land use, which can generate multiple income streams from sustainable land management, has the greatest potential for productive development. However, current economic analysis fails to recognise the multiple values generated, in an equal way, over-emphasising resource-exploitative business models over those with higher resilience and sustainability. Narrow measurement of productivity and 'growth' in conventional, non-green economic analysis falls short of indicating the best way forward in climate-challenged circumstances. The measurement of rural productivity, as with productivity in general, needs to be adapted to take account of the critical need for environmental sustainability and climate resilience in future economic development.

Research carried out by the CCRI for Natural England points to key barriers that need to be addressed to encourage more farmers into forestry and woodland management, including: lack of financial resources, poor knowledge and skills in woodland management, and a perception that such practices are not profitable (whether timber production, or selling carbon credits) or are incompatible with existing farm practices. In

⁸ Ojo M, Hubbard C, Wallace M, Moxey A, Shresta S, Harvey D, Davis J, Feng S, Patton M, Scott C, Philippidis G and Liddon A (2020) **Brexit: Potential impacts on the economic welfare of UK farm households**, *Regional Studies*, published online <https://doi.org/10.1080/00343404.2020.1778164>

addition, unlike agricultural land, woodland does not qualify for inheritance tax relief and land values are generally lower for woodland than farmland. Land tenure can influence willingness or opportunities to plant trees, with tenanted farms less likely to engage in woodland planting due to the short-term nature of most farm business tenancies. Here learning can also be drawn from the previous work done by NFU, CLA, Forestry Commission, and other environmental and forestry organisations to create and support farm woodland planting and multi-management of native woodlands.

3.4. Skills – how can we future-proof the rural workforce?

Questions to consider

- What are the skills shortages in rural areas?
- Are there barriers to upskilling in rural areas?
- How do we encourage people to remain living in rural areas?
- How can we encourage investment in rural housing and transport?

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 training⁹. Moreover, rural firms that create skilled employment opportunities can have difficulty recruiting or retaining skilled staff, often arising from limitations in other features of their rural areas – lack of affordable housing for incoming employees, poor public transport or alternatives for young commuters or shift workers, inadequate broadband/ mobile connectivity for social activities and schoolwork etc.

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. Moreover, significantly fewer rural employing firms are planning to improve their leadership capabilities over the coming years, compared with their urban counterparts¹⁰. Rural firms are also far less likely to 'Strongly agree' or 'Agree' that they have the skills to introduce new technologies¹¹. Tackling investment in a wider skills development agenda will also be vital to realising the full contribution of rural areas to the net zero agenda, with an imperative to provide knowledge and training for carbon sensitive land management, rural renewables and development of new environmental markets.

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 being identified and addressed. This should include the potential role of enabling collaboration amongst firms to meet their recruitment gaps and training needs. It has also

⁹ Defra (2020) **Statistical Digest of Rural England**. Government Statistical Service.

¹⁰ 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

¹¹ Wishart M and Roper S (2021) **Digital Adoption in Rural SMEs**, NICRE Research Report 3.

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 practices¹².

Apprenticeship 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 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, through development of shared apprenticeships in which trainees work across several local firms to gain a fuller breadth of skills and work activities. Such approaches should be more widely promoted and supported, harnessing the UK Government's extended National Skills Fund.

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, especially young workers, the costs of car ownership, insurance, 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. 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 a joined-up approach to the range of policies that impact on rural areas (see below). Lessons could also be drawn from previous approaches that have holistically 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 alternative 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 also offer an additional route for employers to help new employees access accommodation or transport to the workplace.

¹² Peng B, Mole K, and Roper S (2019) **Skills, management practices and productivity in SMEs**. Enterprise Research Paper No 75 2019

3.5. Tax – does the tax system provide benefits or barriers to rural productivity?

Questions to consider

- To what extent does the tax system actively encourage or discourage a land manager from investing in their farming/diversified farming business?
- How can we simplify the tax system to encourage rural diversification?
- To what extent does the tax system actively encourage or discourage farming or other land-based businesses from developing innovations that may improve productivity?
- Are there any aspects of way that businesses must engage with the administration of the tax system, now or as contemplated by the digitalization of the tax system project, that may hinder productivity?
- How can we best use tax levers to boost rural productivity?

NICRE does not currently have active research in this area. With our professional business and network partners we would be willing to initiate research/debate solutions based upon findings that the APPG consider merit further investigation.

3.6. Process – do government structures/mechanisms help or hinder the development of rural policy?

Questions to consider

- How can government have a joined up rural approach and why does it matter?
- How can we encourage government departments to be more collaborative?
- Should the rural affairs portfolio sit in Defra? Should there be a Treasury unit focusing on the rural economy?
- Should there someone in Treasury to focus on the rural economy?
- Has this government (and successive governments) been ambitious enough about delivering rural objectives?
- To what extent will rural areas be disadvantaged as the country decarbonises, and how should it be addressed? Are rural areas at risk of facing the same battle on electricity grid upgrades as they are on digital connectivity?

The Rural White Paper of 2000 was followed by a long term, progressive hollowing out of rural policy capabilities, evidence, resources and focus within government and its agencies. Throughout its life Defra has been heavily occupied by its farming and environmental focus. Rather than being a central integrating pillar and driver of the rural affairs/policy agenda wider rural economies at times have appeared more marginal to the Department's overarching remit.

On the other hand we have noted substantial strides in the last few years in Defra's inter-departmental dialogue, including for example on rural engagement and proofing of the recent UK Industrial Strategy. Defra's evidence (eg in the Digest of Rural Statistics) now

offers a considerably more detailed and usable source of national data and trends than has previously been available and visible for other government departments leading on economic and business affairs. This work has been helped by collaborations with NICRE, Rural England, RSN and other rural research and representative bodies. Bolstering the resources, profile, evidence base and capacities of what is an imaginative and committed rural policy team within the department will be vital if Defra is to fully champion rural affairs across departments and if the government is to set out and deliver an ambitious rural policy agenda.

A more holistic and integrated approach to rural policy will be necessary to address the interconnected drivers of innovation and productivity in rural areas and to build upon the many mutual interdependencies that exist between rural and wider urban and regional development. The six areas highlighted by the APPG are partly interdependent (Connectivity, Skills and Land Use), partly dependent (eg Land Use is dependent on Planning) and together form part of a system that currently enables or holds back productivity and innovation in rural areas. In turn, translating them into productivity growth requires innovation. For example, planning, taxation and government process are enablers to economic activity and growth. They (plus other enablers) provide the institutional framework. They also co-determine, with other regulations and institutions, land use. However, land use is impacted by the available skills and preferences of land managers and the physical and geographical conditions of the land. Connectivity and skills are also closely related. Skills are required to make best use of the available connectivity and connectivity is an essential tool to build up skills.

All of these drivers, along with externalities relevant to most businesses, such as available external finance, trade agreements, demographic changes and structural investments, therefore impact ultimately on productivity. As the primary policy levers for addressing these are located across multiple government departments and between national and sub-national levels of governance, we need policies, programmes and mechanisms to understand and address this wider rural 'ecosystem', in other words how things 'join up'. Productivity and growth are more complex than prices, inputs, outputs and profit alone. Complexity and interdependencies within drivers of productivity and rural development require institutional innovation in the form of more joined-up policy formation, delivery and evaluation, taking into consideration synergies and trade-offs¹³. Wherever lead responsibility for the rural affairs agenda is ultimately located within the machinery of government, effective cross government working will be necessary and the mechanisms and relationships to ensure this will require constant nurturing.

It follows that all departments, agencies, and authorities at national and sub-national levels should show that they have acknowledged rural needs and opportunities in their strategies, programmes and investments. Many recent policies and programmes have either omitted or mis-represented rural economies, and their business, employment, products and service contributions, needs or potential. There is also a need to avoid the past predicament whereby rural economies have fallen between dedicated funding for

¹³ Rowe F, Hejnowicz A, Penn A, Martin J and Rios-Wilks A (2018) **Evaluating complex policy for rural development at a time of dynamic change**. CECAN Evaluation and Policy Practice Note (EPPN) No. 10

rural development (focussed mainly on agriculture and the environment) and wider regional development, growth and national capital investments (that assumed rural economies were being addressed by rural funding streams). The rural affairs agenda is not entirely derivative of farming, land based sectors or environmental policy, albeit these being important drivers of a thriving rural economy. Land management is one among many drivers that impact on rural productivity and prosperity alongside business development, housing, services, transport, education, broadband, innovation, trade etc.

Rural policy is multi-purpose and multi-dimensional. Social, environmental and economic drivers and outcomes are intimately connected. Thus policies, programmes and resources need to be capable of acknowledging and working with such linkages and interdependencies to offer equitable support and outcomes for rural places, people and economies. Otherwise, rural areas' constraints, opportunities, potentials and evidence risk falling through the gaps when it comes to decision making. A key priority is therefore to ensure all government agencies understand that their interaction with businesses and communities has an effect on the success of rural economies and coordinate their engagement accordingly. Moreover, enhancement in the capabilities for rural policy within central government will need to be accompanied by strengthened, better evidenced and more transparent rural delivery responsibilities sub-nationally, within local government, combined authorities, local enterprise partnerships and regional growth partnerships like the Northern Powerhouse and Midlands Engine.

NICRE has therefore set out six strategic and crosscutting priorities¹⁴ to enhance enterprise performance in rural areas:

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. 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

¹⁴ NICRE (2021) **What is the Contribution of Rural Enterprise to Levelling Up, and how can this be further enabled?** NICRE Briefing Paper No. 1, March 2021, Newcastle University.

attention to extending their reach and benefits to neighbouring communities and high potential rural businesses. There is an urgent need to renew and build on the many EU-funded, LEADER Local Action Groups within a flexible and responsive approach to community-led local development, given their success in building capacity within rural communities. Reformulating Leader LAGs with government funding could also provide essential rural insight to local authorities and others bidding for or managing growth, Levelling-Up or Shared Prosperity Funds, as well as a local conduit to sensitise the design and delivery, and encourage rural uptake, of these resources.

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.

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.

APPG specifically highlight the theme of decarbonisation and we would point to our recommendation above for an integrated Net Zero Strategy for rural areas. Net zero is a critical area for rural economies and NICRE analysis suggests that rural firms are already more engaged with the net zero agenda than urban firms (for example more likely to consider environmental implications of business decisions, and to have taken steps to reduce their environmental impact)¹⁵. Yet decarbonisation is currently being pursued to an urban model rather than addressing the different needs, opportunities and appropriate approaches for decarbonising rural businesses and settlements. It will be vital to avoid a piecemeal or single sector approach and to look across the diversity of 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.

Such a Strategy will need to embrace relevant land-based industries as well as responding to the opportunity to refashion agricultural policy post EU exit. This means

¹⁵ Wishart M and Roper S (2021) *Rural SMEs and the Net Zero Agenda*, NICRE Research Report 1

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, water and energy. Rural areas host some of the most substantial and integrated supply chains and 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.

There are also wider agendas at stake that must be embraced by a Net Zero Strategy for rural areas. These include, for example, tackling investment in making rural housing stock energy efficient and in rural infrastructure for electric vehicles. Electrification via the national grid is not necessarily the best solution for remote rural locations, and a range of alternatives may offer a better balance of security and efficiency, including *in situ* biomass, anaerobic digestion, biofuels, solar PV and small-scale wind and hydro power generation. Additionally, improving energy efficiency in a rural context is a serious challenge given the existing housing stock. The lack of clear and independent advice and information for householders and business managers making decisions about how best to decarbonise is a significant problem which must be addressed urgently.

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