

Government's Growth Review – Stage 2

Topic: Rural Economies

Submission by the Centre for Rural Economy, Newcastle University, in collaboration with the UK Research Councils' Rural Economy and Land Use Programme

RURAL ECONOMIES: INCUBATORS AND CATALYSTS FOR SUSTAINABLE GROWTH

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Executive Summary

Introduction

The Centre for Rural Economy at Newcastle University has undertaken extensive research over many years on rural economies and societies and here, in collaboration with the UK Research Councils' Rural Economy and Land Use Programme, we summarise those findings of greatest relevance to the Government's Growth Review. We focus on the two Themes adopted by Defra for the Review (*Enabling rural businesses to innovate and thrive* and *Realising the value of natural capital*) and identify strategic opportunities for the future growth of rural economies.

Rural economies have great potential to achieve more for rural firms, the rural workforce and rural residents, and for the UK as a whole. Nonetheless, there are also deep-seated challenges and policies for economic development, innovation and growth typically assume an urban focus, neglecting the capabilities of rural areas. Despite the systematic bias they have faced, rural economies do make a significant contribution to economic growth and compare favourably, on several indicators, with urban economies.

There are also many interdependencies and flows between rural and urban economies, and rural areas act as both incubators and catalysts for growth. The key to sustainable rural development is to enlarge the capacity of individuals, households, communities and firms and to manage the flows and connections between town and countryside in ways that capture value locally. Challenges and opportunities pertaining to environmental quality and land use, housing and infrastructure, and human resources, are also important. Realising the full potential of rural areas therefore requires a 'place-based' approach that realises the value of interdependencies between economic growth, social wellbeing and environmental quality within a growing green economy.

Recommendation 1: The Growth Review should recognise the significance of rural economies, realise their actual and potential contribution to national growth, and commit to overcoming their long term neglect within central Governments' economic development and innovation policies. Measures across all topics in the Growth Review should be accessible, appropriate and resourced to realise rural potential.

Recommendation 2: The variation in economic activity, challenges and growth potential between and within rural places, industries and firms, means that policies and plans for growth should:

- be tailored to reflect this diversity in rural economies;
- enable and build upon local institutions and capacities;
- realise the value of interdependencies between economic growth, social wellbeing and environmental quality.

Recommendation 3: We welcome the commitment of some Local Enterprise Partnerships (LEPs) to embed rural issues in their board membership and strategic processes, and the establishment of a LEP rural forum, but we urge the Government to ensure that all LEPs demonstrate their relevance to rural as well as urban areas through an annual report to Defra. Central Government and LEPs should encourage partnerships and the pooling of available resources to support rural business institutions (e.g. local enterprise agencies or companies and local business associations) and community sector enterprise (e.g. local development trusts and LEADER Local Action Groups).

Enabling rural businesses to innovate and thrive

Support for rural businesses

Many rural firms aspire to grow, and broadly similar proportions of rural and urban-based firms achieve growth. Of course those businesses not wishing to grow must still innovate and develop so that they remain viable and maintain market share, and can continue to provide local employment and support the community services and amenities vital to attracting and supporting high growth firms. Many types of business report practical constraints on their growth, principally relating to the current state of the economy, accessing or managing finance, regulations, taxation, and recruitment of skilled staff. If we are to overturn these barriers, businesses need access to finance, more enabling local planning and development controls, help with recruitment difficulties and skill gaps, and better communication infrastructure, business networking and support.

Challenges to growth vary with sector and firm size. Agriculture, for example, has some of the lowest growth ambitions and its firms feel particularly constrained by an ageing workforce. In contrast, manufacturing has highest growth aspirations but is challenged by inadequate sites and premises. The growth ambitions of small, medium and large rural firms are most challenged by difficulties in recruiting skilled staff, and lack of space. Micro and home based businesses, which are more prevalent in rural economies, have particular characteristics and needs, but they often fall under the radar of business groups and support organisations. Such firms typically have limited in-house resources, which affects their ability to access external support and means that business regulations or other costs can impact disproportionately. Their growth is often achieved by expanding their markets and clients to enable higher turnover and profit. However, taking on employees is often either not desired or constrained by inadequate premises. They also report problems with managing tax, National Insurance and business rates.

Rather than seeking business advice from public agencies or bodies, many firms choose to collaborate with or look for mentoring from other businesses and join local business associations. Forms of collaboration and association that emerge from the businesses themselves offer most prospects for economic growth. Local associations, for example, tend to attract more profitable businesses and provide key sites for integrating incoming businesses with the local business community. Public bodies, local enterprise partnerships and larger business associations must make greater effort to support, seek their views and work through them.

Recommendation 4: The Growth Review should concentrate on measures which would benefit a majority of rural communities and firms, not just those that are distinctly rural in character, by building on their enterprising strengths and tackling the constraints that prevent them making a greater contribution to the national economy and to social and environmental wellbeing.

Recommendation 5: The Growth Review and support measures for rural enterprise should recognise the important contribution of 'steady state' local firms to local employment and consumer services and in providing business services, including to high growth firms and the wider rural economy.

Recommendation 6: A particular focus of the Growth Review should be on unlocking the growth constraints on micro- and home based businesses which predominate in rural economies. The Government should:

- explore the provision of support for recruitment and employment agencies in rural areas, to help ease the difficulties facing micro-employers wishing to take on employees and fill labour market gaps;
- facilitate a pilot scheme in sparse rural communities to explore tax and rate simplification for micro-, estate and home based businesses;
- establish a tax allowance for expenses/fees for rural home based businesses registered with HMRC, who register for membership or advice through the national mentoring portal, the Workhubs Network, or local chambers of commerce and other registered business associations.

Recommendation 7: Land and non land rural businesses seek simplified and reduced regulatory burdens. Government should explore adopting a holistic approach to regulation management mirroring that for environmental management under ISO 14001. This could reduce and harmonise regulatory inspections for certified micro-businesses, provide appropriate transition periods to incorporate new regulations into their business management systems, and support from regulators where they have followed regulators' assured guidance but not yet achieved adequate levels of compliance.

Recommendation 8: Innovation policies and initiatives, and Research Council and University knowledge transfer strategies, should be reviewed and improved in relation to their connectivity and targeting to rural businesses and economies. The Government should promote policies that encourage innovation in rural areas. Moreover, it should consider adding *Future Rural* as a candidate area for new Technology and Innovation Centres (*Future Cities* is already included).

Recommendation 9: The Government should:

- work with the National Federation of Enterprise Agencies, British Chamber of Commerce and the Federation of Small Businesses to review the operation and needs of enterprise agencies/companies/ business associations in rural areas with a view to encouraging their future development.
- set up a Capacity-Building Fund to support collaborative working between rural businesses, particularly over: recruitment of skilled staff; overcoming growth constraints; innovation; and improving business performance including management and provision of ecosystem services.

Ensuring rural broadband connectivity

The viability and performance of many rural firms could be enhanced by intelligent use of Information and Communications Technologies, but many rural areas have an inadequate telecommunications infrastructure. While parts of Britain are already being provided with Next Generation Access (NGA), some rural areas are still struggling to get connected to basic broadband services. Barely half of firms in north east England's hamlets and isolated dwellings thought that current speeds would satisfy future business needs.

The government's commitment to at least 2 mbps for all homes and businesses will benefit those rural areas with very poor speeds, but the differential in speeds between those on basic broadband and those with 'superfast' broadband is likely to create a significant gap. The 10% of homes and businesses not included in the superfast broadband target will be predominantly in rural areas, and sparser locations are likely to be at a particular disadvantage. Some remote rural places will benefit from the new Rural Community Broadband Fund, however, there are significant differences in the capacities of existing community broadband organisations, and providing NGA rather than basic broadband will add new

challenges. Before the Broadband Delivery (BDUK) funding, many local authorities were examining how far they might open up their own corporate telecommunications networks to businesses and/or residents. This approach needs to be revisited, and extended to other parts of the public sector.

Recommendation 10: The Broadband Delivery UK Programme is unlikely to reach sparser rural areas, and Central and Local Government need to be proactive in linking up their corporate broadband infrastructures to community broadband organisations and private communications companies and in thinking creatively about affordable ways of reaching remote customers.

Promoting efficient use of land and buildings within an enabling planning system

The planning system is crucial to releasing growth potential of rural economies. Rural firms frequently cite lack of suitable premises and limitations of present worksites, as a leading constraint on growth. Lack of affordable housing is also a key influence impacting on staff recruitment.

Planning can play two vital roles in setting a positive context for economic growth and rebalancing the UK economy. One role is to adjudicate and mediate between individual interests and the broader public interest, which includes safeguarding the natural environment but also achieving social cohesion and national economic growth. It is vital that planning strikes an appropriate balance between individual interests and the general good, between amenity protection and economic growth. Greater priority for economic growth need not mean destroying our countryside, when less than 6% of land is developed. Rural planning policies in England are unduly protective and stuck in the 1940s, directing new industrial development away from rural areas. A more appropriate balance is needed for the pursuit of sustainable development in the 21st Century.

Spatial planning may also help to mobilise communities to achieve rural economic development. However, in the case of parish planning it has proved difficult to achieve tangible community level influence and reconcile localism with rural development and economic growth objectives. This means that action to promote economic growth still needs national, not just local, policy, but also that locally agreed plans should have a stronger role in directing and defining what development is appropriate.

Recommendation 11: We support proposals for a presumption in favour of sustainable development across all communities and spatial areas, whilst acknowledging the special circumstances of Protected Areas, and the need for a clear steer in National Planning Policy Guidance that rural economic growth is a national priority that should be achieved without net loss of natural capital. Policies that now protect agricultural land for its provisioning role (e.g. the basis for identifying the 'Best and Most Versatile' land) should also be broadened to recognise the value of enhancing the much wider range of ecosystem services that rural land provides, alongside food, wood and water production; and embedding the ecosystems services approach within the development planning and control framework.

Recommendation 12: Government should establish Enterprise Zones for suitable locations in sparse areas of England with a similar support package to those Zones confirmed in major cities and towns, to achieve sustainable job creation and business growth, i.e. business rate discounts, rate retention and refunds; NIC and tax holidays; simplified planning system; and support for roll out of superfast broadband. Enterprise Zones in sparse areas should cover larger areas than those already approved, to reflect their lower business density and to embrace ecosystem management, and should apply schemes from the Government's Action Plan to create local markets for ecosystem services.

Recommendation 13: In recognition of the profile of rural employment and businesses in rural areas in the UK, the Government should seek extension of CAP Pillar 2 funds for non-land based job creation in sparse and remote areas, building upon the experience of the South of Scotland Competitiveness and Innovation Strategy and Cornwall's Regeneration (Objective 1) programme.

Realising the value of natural capital

Securing the value of nature

The Natural Environment White Paper recognises that a 'healthy, properly functioning natural environment is the foundation of sustained economic growth, prospering communities and personal wellbeing' and that 'ecosystem services' are critical to our economy and society. While some services have been actively traded in the market, many have not. The National Ecosystem Assessment has shown the consequences of our failure to value the full range of ecosystem services.

Rural economies have the potential to lead innovation in the green economy, offering opportunities for businesses to develop and embed green approaches by integrating economic, social and environmental agendas. The opportunities include: developing new environmental sectors; promoting synergies between business development and environmental quality; and securing marketing benefits, and competitive advantages, by adopting 'green' business practices.

Recommendation 14: The Government should embrace and support a range of opportunities to: develop new products and services based on natural capital; secure better use of natural resources, and public funds; and encourage agricultural, forestry and horticultural productivity. Government policies and delivery processes should be aligned, as far as possible, with these opportunities.

Developing new products and services

Though there will be a need for continued targeted public sector support to tackle areas of market failure, there is potential to establish new market based mechanisms to help manage and improve natural resources or ecosystem services. We welcome the Government's proposed action plan under which those who benefit from ecosystem services, pay those who provide them. Payment schemes should be considered for diverse services, alongside activities already funded under agri-environmental schemes. Opportunities should also be taken to develop schemes which provide long-term benefits, over decades rather than years. This will be critical in managing carbon, and in creating networks of wildlife habitats to aid adaptation to climate change. Concern about climate change has, in particular, highlighted the potential of carbon offsetting schemes. For example, in recognition of the value of managing peatlands as carbon stores, carbon offsetting could be used to support peatland restoration.

Other mechanisms include biodiversity offset, which enables developers to compensate for biodiversity losses by investing in the compensatory creation or restoration of habitats elsewhere. Biodiversity benefits are most likely to be secured through a compulsory legal framework focused on securing a net gain in biodiversity alongside new development. We also welcome government support for tourism payback schemes, which allow those who benefit economically from the environment to contribute to its enhancement. Diverse opportunities also exist to develop niche products from land management systems in order to generate added value, and to

support anaerobic digestion as a new source of income in rural areas and a contribution to a low-carbon economy.

Recommendation 15: The Government should support private enterprise and initiative in devising mechanisms to reward a much wider range of ecosystem services, as far as possible, through the market. New mechanisms are needed to purchase and guarantee the long-term provision of key environmental services; and to encourage residential, visitor and business consumers to adopt greener practices. Where new enterprises are being developed the Government should work with businesses to overcome and minimise any barriers, whether related to knowledge, policy or regulation.

Securing more efficient and effective use of resources

Making more effective use of resources in land management, maintaining and maximising our natural assets, and reducing the costs which bad practice imposes on other sectors of the economy, will contribute to growth by releasing resources for investment elsewhere. The voluntary agri-environmental schemes, which now cover some two-thirds of the utilised agricultural area in England, offer particular opportunities in this respect. We support the government's current priorities, but suggest some further opportunities, such as: making 'biocontrol' an explicit objective; extending incentives for erecting streamside fencing to a wider range of livestock farms; reviewing support for conversion to organic systems in areas of highly productive farmland; providing formal agri-environment training, targeted on novel or technically difficult options; promoting collaborative approaches among groups of land managers; and paying greater attention to the social benefits of investment in agri-environmental schemes.

Recommendation 16: The Government should seize opportunities to improve the efficiency and effectiveness of agri-environmental schemes. Priorities include: reviewing the range of ecosystem services supported; facilitating collaborative action between land managers at scales which are relevant to the particular services being provided; improving the evidence base on impacts and environmental outcomes; and providing training to equip farmers with the skills needed for effective implementation of complex scheme options.

Improving agricultural productivity

Agriculture is a small part of England's economy, accounting for 0.5% of GDP and 1.5% of total employment. In six of the last 10 years productivity in UK agriculture has declined. The ability of the sector to innovate and adapt to changing circumstances is constrained by a number of factors which mean that it is unlikely to provide a substantial engine for growth in the UK economy. Nevertheless agriculture contributes £5.8 billion of output and forms the foundation of a substantial food sector (7% of GDP), and together with other land-based enterprises accounts for a substantial share of firms in 'sparse' areas.

Government could help productivity growth and investment by enabling farmer-recipients to use the banks and capital markets to 'roll-up' their stream of payments into a capital sum. This could be used to finance the restructuring and adaptation of their businesses, enhancing adjustments in rural areas, and promoting local and regional growth. In addition, Pillar 2 funds, supported by greater flexibility in planning regulations, could be used to encourage businesses to start up in, or to relocate to, under-used land or farm buildings. R&D investment is also needed, not least to enable the sector to respond to future demands for food production and environmental protection. This would assist sector innovation, in terms of new animal husbandry and welfare procedures, crop strains, production systems and processing.

Recommendation 17: The Government should explore options to facilitate adaptation in the farming and allied land-based industry post-2013 and thereby enable productivity growth and investment. Rural development funds should be used to encourage productive use of land and buildings no longer needed for farming. R&D spending should be enhanced and supported by effective processes for knowledge transfer and exchange. Regulatory requirements should be reviewed, rationalised and simplified perhaps through the adopted ISO 14001 mechanisms proposed in Recommendation 7 above.

Introduction

Scope of report

This Government's focus on a growing economy stands on a different economic and political foundation from that of previous administrations. The search for growth has been given added momentum by the economic downturn, lingering fragility of many western economies and by more fundamental concerns about the social and environmental sustainability of conventional growth models. Cuts in public sector spending and the need to rebalance the economy are placing greater emphasis on: jobs created by the private sector, growth from all places rather than only certain cities or sectors, and economic development driven by local partnerships, investment, exports and the green economy. Rural economies are well placed to meet these challenges. They have great potential to achieve more for rural firms, the rural workforce and rural residents, and for the UK as a whole. To release this potential requires an understanding of their diverse nature and the interdependencies between rural and urban in our national economy.

The Centre for Rural Economy at Newcastle University has undertaken extensive research over many years on rural economies and societies and here, in collaboration with the UK Research Councils' Rural Economy and Land Use Programme, we summarise those findings of greatest relevance to the Government's Growth Review. In this submission we firstly explore the contribution of rural economies and provide a commentary on the policy context and models for growth. We then focus on the two Themes adopted by Defra for this Review: A - *Enabling rural businesses to innovate and thrive*; and B- *Realising the value of natural capital*. Under each theme we discuss strategic opportunities for the future growth of rural economies. Under Theme A these include: Support for rural businesses; Ensuring rural broadband connectivity; and Promoting efficient use of land and buildings. Under Theme B we consider: Securing the value of nature; Developing new products and services; Securing more efficient and effective use of resources; and Improving agricultural productivity.

Rural areas are diverse in their economic contribution, challenges and opportunities. A single set of measures and outcomes will not fit all areas. It follows that efforts to release sustainable growth should build upon and enable diverse local capacities and should come from many departments, agencies and sectors.

The contribution of rural economies

Policies for economic development, innovation and growth typically assume an urban focus, neglecting the capabilities of rural areas¹, even though they constitute 19% of England's economy. Despite the systematic bias they have faced, rural economies make a significant contribution to economic growth and potential. They:

- contain 86% of England's land area and 19% of its population;
- contribute £200 billion or 19% of national Gross Value Added (GVA);
- are home to 4.6 million employees, with a further 0.8 million working in urban workspaces and contributing directly to the productivity of these areas;
- contribute to UK's 72% self sufficiency in indigenous food products.

Rural economies compare favourably, on several indicators, with urban economies. Rural areas:

¹ Huggins, R. and Clifton, N. (2011) Competitiveness, creativity and place-based development, *Environment and Planning A*, 43, 1341- 1362.

- have more businesses and more start-ups per head of population than urban areas, apart from London², with rural firms having a higher propensity to export their goods and services.
- display higher levels of self-employment and entrepreneurial activity³.
- have higher growth rates in knowledge intensive businesses, including business and financial services which now account for a quarter of rural economic output⁴.
- contain a greater proportion of employees in manufacturing⁵.
- have higher employment rates.

Rural economies have a great deal to offer the national economy, acting as both incubators and catalysts for national growth. There are many interdependencies and flows between rural and wider economies. In some of these flows rural areas act as **incubators** to UK plc:

- Inflows of young families, attracted by the quality of life in rural communities, supporting local services, and contributing to business creation (incomers are prominent in setting up new rural businesses⁶).
- Inflows of visitors and tourists seeking to enjoy the semi-natural and cultural assets of rural areas.
- Inflows of older active migrants who bring greater experience and financial equity, create new rural firms, but who also hold directorships and management roles in urban firms.
- Outflows from rural firms of products, services and ideas to regional, national and international markets.
- Outflows of food, water, energy and other key primary resources and environmental services for UK businesses, consumers and communities.

² Nationally there were 366 enterprises/10,000 people. The respective figures for rural and urban areas were 537/10k (Rural) but only 325/10k (Urban).

³ See Turner, R. (2010) Rural entrepreneurship – does English economic policy recognise its strength? ISBE Entrepreneurship Conference, 2010; and Levie, J. (2010) Entrepreneurial futures in rural areas in England and Scotland. Insights from Global Entrepreneurship Monitor. Presented at Rural Entrepreneurship Conference, 2010.

⁴ CRC (2008) *State of the Countryside*. Commission for Rural Communities.

⁵ An assessment of rural West Sussex's competitiveness, revealed that with 12.5% of employees "Manufacturing is somewhat surprisingly the largest sector", including "higher value sub-sectors such as computers and electronics....". *Skills and Enterprise in Rural West Sussex*, Produced for West Sussex County Council by Simpson Consulting Ltd, September 2010.

⁶ Over half of rural businesses in north east England were set up by incomers, either as newcomers (45%) to the locality or returnees (9%). Most had come from full or part time employment in the public or private sectors and had not intended to set up a firm as part of their relocation plans but did this having established themselves in the rural economy. They were found to be an important source of jobs (in the north east they are responsible for 8000 jobs or 10% of all rural jobs), to have better external networks, and to be more profitable and growth oriented (49% were growth oriented compared to 38% for local firms). They also dominate knowledge intensive sectors, making up 73% of rural Professional, Scientific and Technical firms and 67% of businesses in Information and Communications. See: Atterton, J. and Affleck, A. (2010) *Rural Businesses in the North East of England: Final Survey Results* (2009) Centre for Rural Economy Research Report; Bosworth, G. (2008) Entrepreneurial in-migrants and economic development in rural England, *International Journal of Entrepreneurship and Small Business*, 6 (3), pp. 355-369; Atterton, J. (2007) The 'strength of weak ties': Social networking by business owners in the Highlands and Islands of Scotland, *Sociologia Ruralis* 47 (3), 228-245.

Other changes in rural population, management of assets, and flows of people deliver growth elsewhere, but rural people, products and services still act as **catalysts** for growth:

- Inflows of products and services from urban firms supplying rural consumers and firms.
- Inflows and outflows of older residents, making the ageing of the population most advanced in rural areas, boosting health, care, leisure and other services.
- 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 higher waged urban jobs.

Recommendation 1: The Growth Review should recognise the significance of rural economies, realise their actual and potential contribution to national growth, and commit to overcoming their long term neglect within central Governments' economic development and innovation policies. Measures across all topics in the Growth Review should be accessible, appropriate and resourced to realise rural potential.

New models and policies for rural growth

Such a framework of flows serves to indicate how economic growth might be stimulated. To this end there is a wealth of policy analysis profiling England's rural economies, their linkages and comparisons with international, EU, country, regional, urban and local economies, which has identified potential routes to growth⁷. Despite this expert commentary, recently-introduced growth measures such as Enterprise Zones, Tax Incremental Financing and the Regional Growth Fund, show in their design, targeting or adoption, an urban bias. This perpetuates the long established disregard of rural economies (beyond agriculture) within an urban-fixated economic development policy. In the previous administration this was most prominently manifest in the city-regions concept which, despite long run trends of population decentralisation and deconcentration, maintained the conventional but unsubstantiated view that, fundamentally, cities are the engines of the modern economy⁸. Through the 20th Century, governments acknowledged this basic urban bias in policy and sought to counteract it through a succession of agencies (e.g. the Rural Development Commission, the Countryside Agency and the Commission for Rural Communities).

An urban-centric view of development has been shored up by the planning system. Since its inception in the 1940s, planning has prioritised urban containment, initially to prevent 'urban sprawl' and protect farmland, but also out of a belief that this might facilitate an urban renaissance and encourage sustainable communities⁹. In recent years, a rethink of planning policies has been advocated – not least in rural

⁷ See for example: OECD's *New Rural Paradigm* and its review of English and Scottish rural policies and ways of strengthening rural economies; Study on Employment, Growth and Innovation in Rural Areas (SEGIRA), European Commission Directorate General for Agriculture and Rural Development; Taylor, M. (2009) *Living, working countryside. Rural Economy and Affordable Housing*; CRC (2010) *Agenda for Change: releasing the potential for growth from England's rural economies*; CRC (2010) *Growth sectors in rural England: perspectives on planning for growth by rural businesses, authorities and organisations*.

⁸ This view may have been valid until the early 20th Century. However, the advent of the motor car and the telephone unleashed powerful centrifugal forces, which subsequent communication technologies (such as the internet) have simply compounded.

⁹ Lowe, P. and Ward, N. (2007) Sustainable rural economies: some lessons from the English experience, *Sustainable Development*, 15, 307-317; Sturzaker, J. and Shucksmith, M. (2011) Planning for housing in rural England: discursive power and spatial exclusion, *Town Planning Review*, 82, 2, 169-193.

constituencies, with considerable support expressed for a new approach¹⁰. However, rural areas have had little influence over regional or national economic policy. Agriculture is the exception, but is managed as a national economic sector rather than as a force for local development, linking land-based sectors and the wider rural economy.

The partiality of national and regional economic policy has marginalised rural areas, even though rural economies are highly connected to the outside world. The key to their sustainable development is to enlarge the capacity of individuals, households, communities and firms and to manage the flows and connections between town and countryside in ways that capture value locally. Rural areas with highly educated and skilled populations, strong institutions and social capital may be sites of innovation, prosperity and security. Such places are also attractive to a 'creative class' whose entrepreneurial and innovative presence can further underpin economic performance¹¹.

Successful local responses to globalisation often derive from cultural and social factors, though these can be encouraged/discouraged by institutional arrangements and forms of organization that encourage or undermine local initiative and independence. Growth policies for rural areas should therefore consider ways of strengthening local institutions and facilitating community action. Challenges and opportunities pertaining to environmental quality and land use, housing and infrastructure and human resources are also important¹². Realising the full potential of rural areas to national economic growth therefore requires a 'place-based' approach within a strong and coherent policy framework that addresses the following challenges:

- harmonising policies and measures of different sectors and at different scales;
- government adopting an enabling role fostering local action and inclusion;
- realising the value of interdependencies between economic growth, social wellbeing and environmental quality within a growing green economy.

Rural areas are most instantly recognised for their spatial, environmental and cultural capital – semi natural habitats, historic landscapes, traditional and contemporary built settlements, and people. These are substantial assets to the national economy and society, of which rural businesses and communities are stewards and consumers. Assets of land, water, air and the ecosystems they sustain are managed by firms, organisations and communities, producing and maintaining a wide range of public and private goods. Such assets are valued and commoditised by many industries, particularly hospitality, retail, service, energy, water, transport, agriculture and housing. The local environment can act as an important economic driver for industries such as tourism and a stimulus to investment as businesses and individuals seek to relocate to areas offering higher environmental quality.

The Green Economy can make an important contribution to place-based rural development. It represents a fundamental reorientation of perspective, in which

¹⁰ Taylor, M. (2009) *Living, Working Countryside. Rural Economy and Affordable Housing*.

¹¹ Florida, R. (2002) *The Rise of the Creative Class*, New York: Basic Books; Hepworth, M. (2004) *The Knowledge Economy in Rural England*, London: DEFRA.

¹² Bryden, J.M. and Hart, J.K. (2004) *Why Local Economies Differ? The Dynamics of Rural Areas in the European Union*. The Edwin Mellon Press; Terluin, I. and Post, J. (2000) *Employment Dynamics in Rural Europe*, CABI, Oxford, UK; Terluin, I. (2003) Differences in economic development in rural regions of advanced countries: an overview and critical analysis of theories. *Journal of Rural Studies*, 19, 327-344; OECD (2006) *The New Rural Paradigm: Policies and Governance*, Paris, OECD.

economic growth is linked more closely with personal, social and environmental wellbeing objectives¹³. The Government has recognised the need to re-orientate values, metrics and accounting, to create an economy which is the servant rather than the master of societal and environmental values. As part of this it is extending national accounting beyond GDP by creating natural capital accounts and a national wellbeing measure¹⁴. This is prompting discussions about how to integrate economic growth and environmental and social wellbeing targets.

Rural areas are home to major reserves of environmental resources and social capital. Their communities typically display strong and sometimes fierce commitment to their localities and favour approaches to local development that are sensitive to protecting and supporting local amenities and community life. Many support community enterprises and voluntary initiatives that predate the Government's Localism Agenda. Rural businesses also display relatively high intrinsic levels of resilience arising from: more stable local customer bases, fewer local competitors, greater reliance on internal rather than external finance, greater likelihood of owning own premises, and the higher proportion of family based businesses able to call upon household assets and family labour¹⁵. These characteristics of rural communities offer great scope for leading new approaches to economic development which go hand in hand with place making and stress social and environmental sustainability.

Recommendation 2: The variation in economic activity, challenges and growth potential between and within rural places, industries and firms, means that policies and plans for growth should:

- be tailored to reflect this diversity in rural economies;
- enable and build upon local institutions and capacities;
- realise the value of interdependencies between economic growth, social wellbeing and environmental quality.

Recommendation 3: We welcome the commitment of some Local Enterprise Partnerships (LEPs) to embed rural issues in their board membership and strategic processes, and the establishment of a LEP rural forum, but we urge the Government to ensure that all LEPs demonstrate their relevance to rural as well as urban areas through an annual report to Defra. Central Government and LEPs should encourage partnerships and the pooling of available resources to support rural business institutions (e.g. local enterprise agencies or companies and local business associations etc.) and community sector enterprise (e.g. local development trusts and LEADER Local Action Groups).

¹³ Stern, N (2006) *The Economics of Climate Change: the Stern Review*. Cambridge University Press.

¹⁴ Dolan, P., Layard, R. and Metcalfe, R. (2011) *Measuring Subjective Well-being for Public Policy*. Office of National Statistics; HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082.

¹⁵ Phillipson, J., Bennett, K., Lowe, P. and Raley, M. (2004) Adaptive responses and asset strategies: the experience of rural micro-firms and Foot and Mouth Disease. *Journal of Rural Studies*, 20(2), 227-243; Bennett, K. and Phillipson, J. (2004) A plague upon their houses: Revelations of the foot and mouth disease epidemic for business households, *Sociologia Ruralis*, 44(3), 261-284; Atterton J. and Affleck A. (2010) *Rural Businesses in the North East of England: Final Survey Results* (2009). Centre for Rural Economy Research Report.

Growth Review Theme A: Enabling rural businesses to innovate and thrive

Support for rural businesses

Overcoming growth constraints

Despite making an important economic contribution to economic growth, rural economies also demonstrate a number of key weaknesses¹⁶: lower average productivity per employee¹⁷, poorer job choice¹⁸, low security and wages¹⁹, and limited housing supply for those who work or want to work in local rural economies²⁰. Despite flexible labour markets, some of the reasons behind these weaknesses are:

- poorer infrastructure provision (e.g. transport and ICT communications);
- distance from services (e.g. advice and training);
- constraints on networking;
- limited local markets and a shortage of skilled labour;
- planning constraints for housing developments in the countryside.

As a result rural areas' share of England's employment levels or turnover falls below its strength in forming businesses. Whilst rural enterprises make up over 28% of the national stock, these support less than 13% of England's employees, and achieve only 10% of sales revenue or turnover. Some of the apparent underperformance of rural businesses is due to the lack of major growth potential in traditional, land-based sectors, such as agriculture and extractive sectors²¹ and a misconceived policy dating back to the 1942 Scott Report of discouraging other sectors of economic activity from locating in rural areas. However, the widest performance gap between rural and urban firms of similar size is to be found in the small number of large employers, rather than in the thousands of very small firms²².

There are mixed signals about the trajectory of economic health of rural areas. In 2008 rural areas generated £149 billion, or 14% of national GVA. By 2011 Defra estimated rural GVA at £200 billion or 19% of national GVA, suggesting improving productivity and parity with the wider economy. However, although rural areas have more businesses and start-ups per head of population, statistics suggest that urban districts have been closing the gap with rural districts in recent years. Moreover, whilst over the last decade rural England has seen greater increases in its population than urban areas, historically driven in large part by internal migration from urban to rural areas, the latest internal migration figures show that such movement has slowed²³. So one of the drivers of rural enterprise may be expected to weaken in future years. This coincides with the introduction of policies directing development to

¹⁶ OECD (2011) *OECD Rural Policy Reviews. England, United Kingdom 2011*.

¹⁷ Defra (2011) *Statistical Digest of Rural England*. May 2011

¹⁸ As measured by Job densities below the English average of 0.79 in 2008. See ONS Regional Trends 43, 2010/11 Rural and Urban areas: comparing lives using rural/urban classifications.

¹⁹ Lawton, K. (2009) *Nice Work If You Can Get It – Achieving a sustainable solution to low pay and in-work poverty*. Institute for Public Policy Research.

²⁰ Satsangi M., Gallent N. and Bevan M. (2010) *The Rural Housing Question*, Policy Press

²¹ In recent years the biggest fall in the number of rural workplaces have been within agriculture, energy and transport sectors, and in more remote locations within retail, hotels and catering.

²² CRC (2008) *England's Rural Areas: Steps to Release their Economic Potential. Advice from the Rural Advocate to the Prime Minister*. Commission for Rural Communities, May.

²³ Average levels in 2008/09 were approximately half that of 2000/01.

brownfield land, making rural housing less affordable and less available²⁴, and restricting the opportunity of local economies to grow and diversify.

Many types of business face practical constraints on their growth. A consistent message of business surveys is that many rural firms aspire to grow, and broadly similar proportions of rural and urban-based firms achieve growth (Box 1).

Box 1: Rural businesses: Aspirations to grow

- The Annual Small Business Survey in 2004 recorded that 59% of firms planned to grow. Rural responses were at similar levels, rising to over 62% in Sparse Rural Towns.
- GEM-UK measured high growth aspirations between 2004-08 and found that rural scores were almost identical to the England score, but higher than for urban entrepreneurs. Levels of entrepreneurs in rural villages who expected to employ at least 20 people in their business in five years time, was exceeded only by Inner London.
- The Centre for Rural Economy Rural Business Survey 2009²⁵ found that 43% of firms wished to expand. The highest proportions of growth-orientated businesses were in Manufacturing (57%), firms run by incomers into the area (49%), and firms in Professional managerial or scientific activities or Accommodation and food services (45%).
- Across Devon growth-orientated owners ranged from 57% in Teignbridge, to 48% in Mid Devon district²⁶, while in Milton Keynes and Buckinghamshire 53% of firms were planning growth/ expansion²⁷.
- In Herefordshire 66% of self employed were seeking to grow their firm's turnover, about 60% of firms sought to increase the numbers of clients, and more than one in three were seeking to grow by collaboration with an increasing number of associates.

Rural economies' future contribution to sustainable economic growth will therefore not be constrained by lack of aspiration to grow or lack of entrepreneurial activity. An overarching rural challenge is to convert more firms' growth aspirations into real growth and high levels of business start-ups into business growth. There is also a need to secure higher levels of innovation through improved access to R&D and specialist support. Rural firms suffer from their distance from innovation centres and sources of technological expertise, and from an urban focus within innovation policies and initiatives (e.g. Science Cities, Technological Parks etc.)²⁸.

Barriers or challenges to growth reported by rural firms across the UK, include principally: the current state of the economy; accessing or managing finance; regulations; taxation and similar outgoings; and recruitment of skilled staff (Box 2).

However, rural business surveys and local economic assessments reveal specific challenges to growth which vary with sector, firm size and owner characteristics:

- By sector: agriculture has some of the lowest growth ambitions and its firms feel particularly constrained by an ageing workforce. In contrast, manufacturing has highest growth aspirations but is challenged by inadequate sites and premises. Issues relating to premises, transport and infrastructure affect some sectors and firms but not all.
- By size: rural economies are dominated by sole traders and micro-firms. Firms with a turnover of < £100,000 and micro-businesses (ie, less than 10 employees)

²⁴ Affordable Rural Housing Commission (2006) Final Report to CLG and DEFRA.

²⁵ Analysis of Centre for Rural Economy Rural Business Survey, 2011.

²⁶ Devon Renaissance Business Survey, 2007.

²⁷ MK & B Rural Business Survey, 2010.

²⁸ Atterton, J., Hubbard, C. and Affleck, A. (2010) Rural Businesses, Innovation and Newcastle Science City, Final Report, Centre for Rural Economy Research Report, ISBN 1-903964-31-8; NESTA (2007) *Rural Innovation*, NESTA: London.

point to their own unwillingness to employ additional staff²⁹. Whilst the growth ambitions of small, medium and large rural firms are most challenged by difficulties in recruiting skilled staff, and lack of space on current sites and/or suitable premises³⁰.

- By character or background of owner: incomers and return migrants have been found to be significantly more entrepreneurial than lifelong residents, especially in sparse and remote rural areas³¹, and graduates in rural England similarly had higher levels of entrepreneurial activity than non-graduates³².

Box 2: Rural businesses: Barriers to growth and improved performance

- Generic barriers and challenges identified in CRC's Rural Growth Sectors report (2010) were: Skills shortages and gaps; Training demand and provision; Infrastructural weaknesses, especially of broadband provision; the Application of spatial planning and development control; Availability and access to business support; and Access to finance.
- The Centre for Rural Economy Rural Business Survey (2009) recorded key constraints in the rural north east as: Current economic climate; Increased regulation affecting business; Shortage of finance or high cost of borrowing; and Problems recruiting skilled staff locally³³. 43% of firms identified better access and adjustments to development programmes and grant funding would help growth, with almost a third identifying a need for better access to ICT and private capital.
- Cumbrian firms see as main barriers: Recession; Transport issues; Local planning and development control; and Difficulties in getting skilled and committed staff.
- Devon firms face difficulties in: Obtaining finance; Road access and alternatives to road transport; and Availability of appropriately-sized or good quality premises³⁴.
- Firms in Derbyshire identified: Taxes/NICs/Rates; Employment regulations; and Availability of skilled workers³⁵.
- In Scotland rural firms highlighted: The Economy; Obtaining finance; Recruiting staff, Regulation and taxation. More firms in accessible areas were affected by Regulations and Taxes/NICs/rates. Transport issues had a higher impact in remote locations³⁶.
- Rural Home Based firms in South East England were particularly challenged by: Finding new clients and customers, Controlling costs; Ensuring prompt payments; Complying with regulations; and Keeping up with technology.
- Almost two thirds of Herefordshire employers highlighted the State of the economy as the major concern. 39% described Regulations as a significant problem; followed by Managing cash flow; and Taxation and business rates.
- In Cheshire rural firms said that they needed support and advice in: Legislation and regulation (48%) and Money and finance (42%).

The following measures would help overturn these barriers and stimulate growth:

- improve access to finance;
- deliver local spatial planning and development controls that enable and mobilise rural firms and communities to grow and which support diverse affordable rural housing options;

²⁹ Analysis of Centre for Rural Economy Rural Business Survey, 2011.

³⁰ CRC (2010) *Growth Sectors in Rural England*. Commission for Rural Communities.

³¹ Atterton J. and Affleck A. (2010) *Rural Businesses in the North East of England: Final Survey Results* (2009).

³² Entrepreneurial Futures in Rural Areas in England and Scotland. Insights from Global Entrepreneurship Monitor. Presented at Rural Entrepreneurship Conference, 2010; Newbery, R., Bosworth, G., Ruto, E. and Hubbard, C. (2011). The effect of in-migrant origin on commercial activity: intra and extra-regional variation. Presented at the Regional Studies Association Conference, April 2011. Newcastle.

³³ Atterton J. and Affleck A. (2010) *Rural Businesses in the North East of England: Final Survey Results* (2009).

³⁴ Devon Renaissance Business Survey, 2007.

³⁵ iB Annual Business Survey, 2007.

³⁶ Rural Scotland. Donald McRae for Lloyds TSB for Rural Development Council, June 2009

- offer greater support to reduce recruitment difficulties and skill gaps;
- develop better communication infrastructure, business networking and support.

Furthermore, although the state of the national economy and government policy are important factors, for most firms the local context and local economic conditions are equally, or perhaps more, important to their viability and prospects. The Plan for Growth needs to respond to such variability and drive attention and resources to rural economies at local, as well as national level, if it is to be successful.

At the same time, not all businesses see themselves on high growth trajectories and any approach to stimulating rural economic growth risks losing its essential underpinning should it overlook this rump of the business population. 53% of north east rural businesses for example wish to maintain their current position. Firms not wishing to grow have often been perceived as of secondary concern by business support providers and economic development agencies. However all businesses must still innovate and develop so that they remain viable and maintain market share, albeit this may not result in an increase in scale of activity or employment. 'Steady state' rural businesses are valuable sources of local employment and contribute to the diversity and flexibility of local economies. Many are local services firms providing business and consumer services. They serve local markets and they often source their supplies locally. Many bring core resilience and community services to rural economies which are vital in providing the amenities, living and working environment that attracts and supports high growth firms and entrepreneurs. As the public sector is restructured the role of these small, often family based rural firms in providing local services and social enterprises is becoming increasingly pivotal.

Two thirds of England's rural enterprises are micro-businesses (342,000 from 510,000)³⁷. In some rural communities this proportion is considerably higher, especially in sparsely populated districts and small rural settlements. These may be incubators for national economic growth if supported by appropriate policies.

There is a need to further tailor policies and support measures to enable the development of rural micro-businesses, in recognition of their particular characteristics and needs³⁸. Such firms typically have limited in-house resources (capital, time and labour), which affects their ability to access external support and means that business regulations or other costs can impact disproportionately. The business owner is central to running the enterprise. They are required to tackle a wide spectrum of business tasks and are often disinclined to seek external public support. Business owners have diverse goals and motivations, but quality of life and independence are important themes and have a bearing on decision making. Micro-firms are dominated by sole operators and family businesses. This means they often have informal decision making and there is a close interdependency with business households, which is central to their resilience during economic or environmental shocks.

³⁷ Defra Rural Stats digest 2011.

³⁸ Raley, M and Moxey, A. (2000) *Rural Microbusinesses in North East England: Final Survey Results*. Centre for Rural Economy Research Report; Phillipson, J., Lowe, P., Raley, M. and Moxey, A. (2002) *The Nature of Needs of Rural Microbusinesses in the North East of England*, Centre for Rural Economy Research Report; Bennett, K. and Phillipson, J. (2004) A plague upon their houses: Revelations of the foot and mouth disease epidemic for business households, *Sociologia Ruralis*, 44(3), 261-284; Atterton J. and Affleck A. (2010) *Rural Businesses in the North East of England: Final Survey Results* (2009). Centre for Rural Economy Research Report.

Many micro-businesses are also home based and the Growth Review must give further consideration to the constraints and opportunities they present. Home based businesses are often dismissed as lifestyle businesses. However, rural economies have higher proportions of home based workers and firms than urban England. In north east England's rural areas they represent 50% of firms, and are dominant in 'Professional, managerial etc' activities. On average, home based businesses have fewer employees than other rural firms, and are less willing to take on staff, but they display higher profits and levels of broadband use³⁹. In south east England they formed 44% of all firms, but 58% of rural firms⁴⁰. Many express a need for better access to grant and funding schemes, improved IT, and opportunities to work in collaboration with other firms. However, home based businesses are often hard to locate and therefore fall under the radar of business groups and support organisations. There is a need to encourage them to become more visible and to engage with business associations, mentoring networks, and training and other support providers.

Growth of rural micro-businesses and home based firms is often achieved by expanding their markets and clients to enable higher turnover and profit. For many, taking on any or more employees is either not desired or constrained by inadequate premises.

Problems with managing tax, National Insurance and business rates is also one of the more regularly reported challenges of many rural firms, and this is particularly the case for micro-businesses. In its March 2011 report to the Chancellor of the Exchequer, the Office for Tax Simplification acknowledged the need to simplify such issues, and reduce the high administrative costs and burden for both the smallest firms. The Federation of Small Businesses (FBS) has argued for consistent and simpler access to rate relief for small rural firms.

The Country Land and Business Association (CLA) has also frequently demonstrated the fiscal challenge faced by rural estates, and sought integration of tax allowances, relief and payments. Across many parts of England's countryside, landed estates continue to make an important contribution to food and timber production, rural employment, services and housing and provision of business premises for other firms. They also combine management of landscape and wildlife habitats to deliver environmental and tourism benefits to wider society. They engage in a rare combination of trading activities and investment activity, resulting in complex tax returns which ignore or cut across the realities of running integrated estates with cross funding between enterprises and activities, between income, earnings and expenditure. Owners of landed property are not easily able to deal with the income and any relief as a single business tax unit.

Recommendation 4: The Growth Review should concentrate on measures which would benefit a majority of rural communities and firms, not just those that are distinctly rural in character, by building on their enterprising strengths and tackling the constraints that prevent them making a greater contribution to the national economy and to social and environmental wellbeing.

³⁹ Analysis of Centre for Rural Economy Rural Business Survey, 2011.

⁴⁰ SEBL (2009) *Hot Topic Spotlight 27: Home based SMEs Revisited*. South East Business Monitor. South East Business Link

Recommendation 5: The Growth Review and support measures for rural enterprise should recognise the important contribution of 'steady state' local firms to local employment and consumer services and in providing business services, including to high growth firms and the wider rural economy.

Recommendation 6: A particular focus of the Growth Review should be on unlocking the growth constraints on micro- and home based businesses which predominate in rural economies. The Government should:

- explore the provision of support for recruitment and employment agencies in rural areas, to help ease the difficulties facing micro-employers wishing to take on employees and fill labour market gaps;
- facilitate a pilot scheme in sparse rural communities to explore tax and rate simplification for micro-, estate and home based businesses;
- establish a tax allowance for expenses/fees for rural home based businesses registered with HMRC, who register for membership or advice through the national mentoring portal, the Workhubs Network, or local chambers of commerce and other registered business associations.

Recommendation 7: Land and non land rural businesses seek simplified and reduced regulatory burdens. Government should explore adopting a holistic approach to regulation management mirroring that for environmental management under ISO 14001. This could reduce and harmonise regulatory inspections for certified micro-businesses, provide appropriate transition periods to incorporate new regulations into their business management systems, and support from regulators where they have followed regulators' assured guidance but not yet achieved adequate levels of compliance⁴¹.

Recommendation 8: Innovation policies and initiatives, and Research Council and University knowledge transfer strategies, should be reviewed and improved in relation to their connectivity and targeting to rural businesses and economies. The Government should promote policies that encourage innovation in rural areas. Moreover, it should consider adding *Future Rural* as a candidate area for new Technology and Innovation Centres (*Future Cities* is already included).

Supporting rural business collaboration

Rural firms regularly access business advice, with accountants and banks often their prime sources, as opposed to public agencies or bodies such as Business Link. Low levels of satisfaction with public sources of advice also often contrasts with the decision of many firms to collaborate with or seek mentoring from other businesses. Working in collaboration with other businesses is favoured by rural businesses in many sectors, including agriculture, professional and scientific services, manufacturing, property and business services, and health⁴². Imaginative schemes collaborative recruitment in rural areas are also currently being considered, for example by the Scottish Government's local employability partnerships.

Collaboration of rural firms has many faces:

- Membership of national associations with local branches (e.g. Federation of Small Businesses, National Farmers' Union, Women in Rural Enterprise);

⁴¹ This responds to the BIS consultation on *Co-regulation or shared responsibility for regulatory compliance between business and government*, and to the concern from small firms over the amount of regulation. It offers a holistic approach to regulation compliance which shifts the balance of control towards the business owner more than the regulator(s).

⁴² Atterton J. and Affleck A. (2010) *Rural Businesses in the North East of England: Final Survey Results* (2009), Centre for Rural Economy Research Report; Devon Renaissance (2007) *Devon Renaissance Business Surveys, Report July 2007*.

- Informal support and marketing networks, or web communities (e.g. Workhubs Network for Home Based Businesses, or ruralworkspace.co.uk for rural work premises);
- Organisations and companies undertaking national marketing for members, (eg FarmStay UK, English Country Cottages);
- Business open days, management visits, arranged particularly by farming and forestry organisations and clubs;
- Local business associations and chambers of trade in rural towns and communities (eg Blackdown Hills Business Association in Devon, Clare Business Association in Suffolk, or The Business Association (Wensleydale) Ltd.);
- Informal local business groups supported by Rural Community Councils.

Governments' business measures such as Business Improvement Districts and town centre regeneration funds also rely on collaborative action. Yet their spatial focus, amount of organisational capacity, and top-down administration have resulted in only limited adoption in rural areas. Rural firms do however value and appear well connected with business associations - using generic, professional or sector-specific trade and representative organisations⁴³, though these are generally more thinly spread in rural areas.

Rural business associations tend to be smaller than their urban equivalents. A survey⁴⁴ of rural associations in the north east of England found them to range between 14 and 159 members. Increasing size of membership is positively related to association's performance, and they are particularly valued in areas where levels of business-to-business trust are low. Associations also tend to attract more profitable businesses and provide key sites for integrating incoming businesses with the local business community, which are often key to the generation of new ideas and innovations with rural economies. Business associations can therefore provide a key tool in the evolution of the rural business community, and allow innovation through mixing new with old⁴⁵.

The role and characteristics of associations vary by locality, purpose and internal organisation. At the local or branch level, they often share a common characteristic of being run by volunteers, usually drawn from the local membership. This often creates or exacerbates capacity and leadership challenges. It also presents difficulties for such groups to participate with economic agencies through the routes often created by such authorities, such as consultations, surveys, daytime forums and meetings. Yet, as they are often representative of the overwhelming majority of businesses (including micro-businesses), public bodies, LEPs and larger business associations must make greater effort to seek their views and work through them. Without such engagement LEPs cannot claim to be truly representative of their local business community.

⁴³ Cheshire County Council (2008). *Rural Business Survey 2008*. People and Partnership Department, Cheshire County Council, October.

⁴⁴ Newbery, R. (2011) The role and performance of business associations in rural service centres, PhD thesis, University of Newcastle.

⁴⁵ Phillipson J., Gorton M. and Laschewski, L. (2006) Local business co-operation and the dilemmas of collective action: Rural micro-business networks in the North of England, *Sociologia Ruralis*, 46(1), 40-60; Atterton, J., Newbery, R., Bosworth, G., Affleck, A. (2011) Rural enterprise and neo-endogenous development. In G. Alsos, S. Carter, E. Ljunggren, F. Welter, *The Handbook of Research on Entrepreneurship in Agriculture and Rural Development*, Edward Elgar.

Given the diversity within rural business community, forms of collaboration and association that emerge from the businesses themselves offer most prospects for economic growth. However, public bodies from national to local level can support this bottom-up driver of development, by adopting better ways to engage with such groups and supporting their capacity and effectiveness.

We urge Government to explore the introduction of a Capacity-Building Fund for employer/ employee collaboration, inviting bids from any local (rural) group, network or collaborative initiative without paid administrative staff or support. Such a fund for small one-off grants might favour bids where private or social firms work collaboratively to overturn identifiable local constraints on growth, eg boosting local channels to recruitment or training; sharing facilities, joint development of services or products; or increasing access to innovation and research funds.

Recommendation 9: The Government should:

- work with the National Federation of Enterprise Agencies, British Chamber of Commerce and the Federation of Small Businesses to review the operation and needs of enterprise agencies/companies/ business associations in rural areas with a view to encouraging their future development.
- set up a Capacity-Building Fund to support collaborative working between rural businesses, particularly over: recruitment of skilled staff; overcoming growth constraints; innovation; and improving business performance including management and provision of ecosystem services.

Ensuring rural broadband connectivity

Providing communications and connectivity to small and dispersed communities that characterise rural England has always been a significant challenge. This challenge includes providing physical networks such as better road access or public transport which impact on access to markets, information, visitors, and employees⁴⁶. In recent years, requests for improved access to broadband and mobile telephony from rural businesses and communities have become widespread⁴⁷. The viability and performance of many rural firms could be enhanced by intelligent use of Information and Communications Technologies (ICT), but many rural areas have an inadequate telecommunications infrastructure. This includes 'not spots' for mobile telephones, low levels of fibre optic cabling, and low speeds from existing broadband. While parts of Britain are already being provided with Next Generation Access (NGA)⁴⁸, some rural areas are still struggling to get connected to basic broadband services (2 mbps).

The poor provision is not, however, an effect of a lack of engagement with ICTs by rural businesses and residents. In England, the use of the internet is higher in rural than in urban areas, and this finding holds true for a number of different usages⁴⁹. The largest differential use between rural and urban areas is the use of online banking, suggesting that the internet compensates for poorer access to physical services. In the north east of England four in every five rural firms use the internet

⁴⁶ Devon Renaissance (2007) *Devon Renaissance Business Surveys, Report July 2007*

⁴⁷ Talbot, H. (2010) Rural Broadband. Centre for Rural Economy Policy and Practice Briefing Paper.

⁴⁸ NGA is generally taken to mean broadband speeds well in excess of those offered by existing technologies which will necessitate an upgrade from copper to fibre. Superfast broadband is defined by Broadband Delivery UK as having access speed of at least 20 mbps; typically this would necessitate fibre connections.

⁴⁹ www.statistics.gov.uk/articles/RegionalTrends/rt43-rural-urban-areas.pdf

(83%)⁵⁰, a substantial increase since 1999 when only 57% reported accessing the internet⁵¹. However, use by firms in sparse locations is lower than in less sparse areas, and use falls with declining size of settlement and in firms run by older owners (16.3% of owners aged 60-64 did not use the internet, compared with only 2.3% of owners aged 30-39). Barely half of firms in north east hamlets and isolated dwellings (51%) thought that current speeds would satisfy future business needs. There are specific concerns in certain sectors. In manufacturing, 46% of firms did not expect future speeds to be adequate for their business plans, while 40% of firms in the Professional, Scientific and Technical sectors saw there to be a future problem. In rural Wales only 67% of rural firms had internet access⁵².

So if infrastructure is improved, would rural firms' use of this technology achieve growth? This is the belief of governments worldwide; the OECD claim that "the economic and social case for developing broadband access is very strong and takes on added significance for rural and remote communities, where improved telecommunications can address a variety of challenges posed by distance"⁵³. In the north east of England, the most popular use of the internet was for gathering information, purchasing supplies and making contacts. Much lower proportions (34%) of businesses used the internet as a tool for sales. However in Professional, scientific and technical services, Accommodation and food sectors, and Information and Communications, firms currently show highest levels of usage and plans to increase this focus mainly on improving sales and marketing.

For some time, the identified gap between broadband provision in urban and rural areas was viewed by governments as a lag effect – given time and/or some pump-priming interventions, the market would provide in rural areas. Over the last 5 years or so, the public sector has shifted its position and now views rural broadband provision by the market alone as problematic – without intervention, rural areas would be in perpetual rounds of catch up as technologies and expectations moved on. This problem became more pressing with the advent of Next Generation Access /Superfast Broadband, which represents a step change in the speed and quality of provision.

In 2009 the previous government's Digital Britain Final Report⁵⁴ identified that a 'final third' would not be provided with NGA by the market and that 11% of households did not receive basic broadband (2 mbps). The current government also recognise the NGA 'final third' and the basic broadband problems⁵⁵. Their early 'vision' was for the UK to have the best superfast broadband network in Europe by 2015, and a commitment to ensuring the delivery of "a decent level of broadband service to virtually all" (p.9). In order to realise this, £530m of government investment (potentially matched by other EU/national funding) is to be rolled out by Broadband Delivery UK (BDUK) to tier one local authorities or Local Enterprise Partnerships for the delivery of "connectivity in rural and hard to reach areas" (p.21). The funding is for capital investment in telecommunications infrastructure. BDUK also provide specialist support over such issues as State Aid and provide a forum where local authorities can share experiences. BDUK's initial approach was an evolutionary one:

⁵⁰ Atterton J. and Affleck A. (2010) *Rural Businesses in the North East of England: Final Survey Results* (2009), Centre for Rural Economy Research Report.

⁵¹ Raley, M and Moxey, A. (2000) *Rural Microbusinesses in North East England: Final Survey Results*. Centre for Rural Economy Research Report.

⁵² Wales Rural Observatory (2008).

⁵³ OECD Working Party on Telecommunications and Information Services Policies 2004, p.4

⁵⁴ www.dcms.gov.uk/images/publications/digitalbritain-finalreport-jun09.pdf.

⁵⁵ www.bis.gov.uk/assets/biscore/business-sectors/docs/b/10-1320-britains-superfast-broadband-future.pdf.

they intended to learn from four pilot projects (Cumbria, North Yorkshire, Herefordshire, Highlands and Islands) which would inform later projects. However, it is not now clear how these pilots will help future projects: contract start dates for the pilots are now into 2012, which leaves little time for learning if the 2015 targets are to be met.

DCMS have now refined their delivery model and approach. This includes⁵⁶:

- A commitment to at least 2 mbps to everyone
- The target of superfast broadband to 90% of homes and businesses by 2015
- The formula based allocation of BDUK funds to local authorities.

The commitment to at least 2 mbps will benefit those rural areas with very poor speeds, but the differential in speeds between those on this basic broadband and those with 'superfast' broadband is likely to create a significant gap. As the norm became 2 mbps or more, the behaviour of website designers and email authors changed: they used more bandwidth. People in rural areas working with much slower speeds found, for example, that they could not now open attachments if they included a logo. So as the norm becomes superfast broadband it is likely that behaviour will again change and make it difficult for those with only basic broadband to use the internet even for basic functions, let alone for transformative purposes. It is unlikely that 2 mbps will support many of the e-health and e-learning applications currently being developed that could provide a cost-effective service delivery mechanism in rural areas.

The 10% of homes and businesses not included in the superfast broadband target will be predominantly in rural areas. Sparse rural locations with dispersed populations, where superfast broadband provision is more difficult and costly, are likely to be at a particular disadvantage as a result of the BDUK funding formula. The formula uses the number of premises in 'white' areas (those where the market is not expected to provide superfast broadband) to allocate its funds and therefore favours more densely populated areas.

More remote rural places might benefit from BDUK's commitment to exploring the "viability of a broadband community hub at a local level"⁵⁷ where communities would be involved practically in installation or management of the network. The Rural Community Broadband Fund, worth up to £20m, was also announced in March 2011 by DEFRA, but details are not expected until November 2011. Community broadband initiatives already play a role in some rural areas. Many rural communities have taken steps to reduce their isolation and now offer many good examples of practical applications of ICT to help resolve the remote delivery of services and provide the 'last mile connection' into their locality. These include a groundbreaking agreement between a telecom provider and the Diocese of Hereford for their parish churches to become effectively local exchanges for this infrastructure. However, there are significant differences in the capacities of existing community broadband organisations, and providing NGA rather than basic broadband will add many new challenges. Nor can all rural communities be expected to take on the demanding task of providing broadband. While individual community broadband initiatives could make further significant contributions, especially with support from the Rural Community Broadband Fund, their overall coverage is likely to be very patchy.

⁵⁶ www.culture.gov.uk/news/media_releases/8388.aspx

⁵⁷ www.bis.gov.uk/assets/biscore/business-sectors/docs/b/10-1320-britains-superfast-broadband-future.pdf. P.21

The Broadband Delivery UK Programme is therefore likely to leave many sparser rural areas without superfast broadband. The public sector will need to assess what else needs to be done to narrow this gap. Before the BDUK funding, many local authorities were examining how far they might open up their own corporate telecommunications networks to businesses and/or residents, perhaps via a local service provider or a community broadband organisation. This approach needs to be revisited, and extended to other parts of the public sector. Policy domains at the national level also need to be joined up: the costs saved in service delivery to rural areas by some e-provision need to be factored in to the case for superfast broadband provision to all. The public sector will need to be proactive in looking for additional ways of working in partnership with the private and/or community sectors to more fully share resources, expertise and ideas.

Recommendation 10: The Broadband Delivery UK Programme is unlikely to reach sparser rural areas, and Central and Local Government need to be proactive in linking up their corporate broadband infrastructures to community broadband organisations and private communications companies and in thinking creatively about affordable ways of reaching remote customers.

Promoting efficient use of land and buildings within an enabling planning system

The planning system is crucial to releasing growth potential of rural economies. It impacts on firms considering or seeking a change of use of building or construction / modification. Rural firms also frequently cite a lack of suitable premises and limitations of present worksites, as a leading constraint on growth. In north west England, for example, rural areas have been found to suffer from a serious lack of vacant, modern and freehold floorspace and small units⁵⁸. In Scotland, such limitations have led to calls for a national level programme of support for rural business property development⁵⁹. Lack of affordable housing is also a key influence impacting on staff recruitment.

Not all these development mismatches rest with planning policies. However, planning can play two vital roles, which may well be in tension with one another, in setting a positive context for economic growth and rebalancing the UK economy:

- To adjudicate and mediate between individual interests (e.g. to build in the countryside or to protect one's property value) and the broader public interest, which includes safeguarding the natural environment but also achieving social cohesion and national economic growth.
- A means and focus for mobilising communities to work together towards a future they collectively imagine for their places.

Planning as mediator

A rural location is consistently found to be the residential preference of the majority of English people: 89% of people living in the countryside would prefer to continue to live there. Only 21% of city dwellers wish to stay in cities, with 51% aspiring to live in the countryside. For 50 years there has accordingly been outward movement from our urban areas to the suburbs and rural areas, despite planning policies which

⁵⁸ Cheshire & Warrington Rural Workspace Study. March 2009.

⁵⁹ Ekos Limited, 2008. *Rural Business Premises and economic development. Final Report for Scottish Enterprise Rural Group*, May 2008.

sought to restrict development in the countryside⁶⁰. Such policies not only frustrate people's aspirations to live in the countryside: they also hamper opportunities for sustainable economic growth.

Newcomers, including returnees, to rural areas create new businesses and add knowledge, skills, innovation, connections and diversity to rural economies. Within this group, the main motivations for setting up their business were to change their work-life balance or to take on a new challenge. In recent years many new rural businesses have started in rural homes, and there is growing recognition from south east England to sparse areas that such Home Based Businesses are important to the growth and diversity of many rural economies⁶¹.

This combination of workspace and residence poses a new challenge for the planning system, especially as users are seeking purpose built live-work premises and access to flexible space Workhubs. Visible examples of rurally-established home based businesses that are now important businesses in cities and towns, are growing. For example, *The White Company* and *Charles Tyrwhitt* shirt retailers found in central London and major high streets and shopping centres across the UK, started this way. There are growing examples of planning authorities pressuring such rurally-established firms to move to urban locations to grow their activity.

Newcomers also include international migrants who have moved to the British countryside, particularly from ex-communist countries of Eastern Europe. Notwithstanding challenges for integration within rural communities, their positive impact has been well documented in introducing new industries, sustaining the viability of certain businesses and contributing to the rural economy as a whole⁶². However, due to restrictive housing policies in the countryside, their relocation has further compromised housing availability and affordability⁶³.

It is vital that planning strikes an appropriate balance between individual interests and the general good, between amenity protection and economic growth. Greater priority for economic growth need not mean destroying our countryside, when less than 6% of land is developed⁶⁴. Nevertheless, rural planning policies in England are unduly protective and remain stuck in the 1940s, directing new industrial development away from rural areas. A more appropriate balance is needed for the pursuit of sustainable development in the 21st Century.

Planning as a mobiliser

Spatial planning may also help to mobilise communities to achieve rural economic development. Over the last two decades, 3-4,000 parish-based community groups have undertaken some kind of community based planning exercise including

⁶⁰ Shucksmith, M. (1990) *Housebuilding in Britain's Countryside*, Routledge; Shucksmith, M. (1990) A theoretical perspective on rural housing: housing classes in rural Britain, *Sociologia Ruralis*, 30, 2, 210-229; Best, R. and Shucksmith, M. (2006) *Homes for Rural Communities: Report of the Joseph Rowntree Foundation Rural Housing Policy Forum*. York, Joseph Rowntree Foundation; Satsangi M., Gallent N. and Bevan M. (2010) *The Rural Housing Question*, Policy Press.

⁶¹ CRC and Live/Work network (2006), SEBL (2009); Workhubs (2010)

⁶² Wales Rural Observatory (2006) Scoping study on Eastern and Central European migrant workers in rural Wales; Commission for Rural Communities (2007) A8 Migrant Workers in Rural Areas: Briefing Paper.

⁶³ Satsangi M., Gallent N. and Bevan M. (2010) *The Rural Housing Question*, Policy Press

⁶⁴ Countryside Survey (2011) Final Report for LCM2007 - The New UK Land Cover Map.

producing 'parish plans'⁶⁵. Their development has been helped by public investment and activity from government agencies including the Countryside Agency and Regional Development Agencies and from the voluntary sector. These plans reflect the views of the whole community; identify features and characteristics that people value; identify local problems and opportunities; and spell out how residents and partnerships of organisations wanted their communities to develop in future. They also included a plan of action to achieve this shared vision. They are exemplars for Government's neighbourhood plans in other communities.

This Government's Localism agenda re-affirms commitment to the notion of empowered communities able to mobilise resources from within. However, in the case of parish planning it has proved difficult to achieve tangible community level influence. Many parish plans are ignored by planning authorities. Others are selectively and spasmodically used. Evaluations have concluded that overall these have little influence in the planning system⁶⁶. Rural Communities have unequal capacities to become engaged in community planning, without support and capacity-building. And within each community, it tends to be better-off residents who take advantage of the opportunities that community mobilisation can bring⁶⁷.

Parish planning serves as an important reminder of a fundamental difficulty in reconciling localism with rural development and economic growth objectives. Prosperous groups in rural England can increase their own property values and maintain social exclusivity by opposing further development⁶⁸, even though this maintains a low-wage rural economy. This means that action to promote economic growth still needs national, not just local, policy. The draft National Planning Policy Framework, currently out for consultation, will replace the range of existing Planning Policy Statements. The overriding principle is a presumption in favour of sustainable development. While some fear that this will unleash unregulated development and 'concreting over the countryside', this is unlikely. But locally agreed plans should have a stronger role in directing and defining what development is appropriate.

The Government should tackle the effects of such opposition and lack of meaningful mechanisms for resolving divergent views. The outcome of the Government's Neighbourhood Planning Vanguard Scheme which includes pilots in rural areas, should be closely monitored to see if the necessary balance is being achieved.

Recommendation 11: We support proposals for a presumption in favour of sustainable development across all communities and spatial areas, whilst acknowledging the special circumstances of Protected Areas, and the need for a clear steer in National Planning Policy Guidance that rural economic growth is a national priority that should be achieved without net loss of natural capital. Policies that now protect agricultural land for its provisioning role (e.g. the basis for identifying the 'Best and Most Versatile' land) should also be broadened to recognise the value of enhancing the much wider range of ecosystem services that rural land

⁶⁵ Shucksmith, M. and Thompson, N. (2011) Rural Communities, in Smith, S. et al (eds) *The International Encyclopedia of House and Home*, Elsevier.

⁶⁶ Gallent, N. Morphet J. and Tewdwr-Jones' M. (2008) Parish plans and the spatial planning approach in England, *Town Planning Review* 79, 1 – 29.

⁶⁷ Shucksmith, M. (2000) *Exclusive Countryside? Social Inclusion and Regeneration in Rural Britain*, Joseph Rowntree Foundation.

⁶⁸ Shucksmith, M. (1990) *Housebuilding in Britain's Countryside*, Routledge; Shucksmith, M. (1990) A theoretical perspective on rural housing: housing classes in rural Britain, *Sociologia Ruralis*, 30, 2, 210-229; Shucksmith, M. (2000) *Exclusive Countryside? Social Inclusion and Regeneration in Rural Britain*, Joseph Rowntree Foundation; Murdoch, J. (1995) Middle-class territory? Some remarks on the use of class analysis in rural studies, *Environment and Planning A*, 27, 1213-30.

provides, alongside food, wood and water production; and embedding the ecosystems services approach within the development planning and control framework.

Recommendation 12: Government should establish Enterprise Zones for suitable locations in sparse areas of England with a similar support package to those Zones confirmed in major cities and towns, to achieve sustainable job creation and business growth, i.e. business rate discounts, rate retention and refunds; NIC and tax holidays; simplified planning system; and support for roll out of superfast broadband. Enterprise Zones in sparse areas should cover larger areas than those already approved, to reflect their lower business density and to embrace ecosystem management, and should apply schemes from the Government's Action Plan to create local markets for ecosystem services.

Recommendation 13: In recognition of the profile of rural employment and businesses in rural areas in the UK, the Government should seek extension of CAP Pillar 2 funds for non-land based job creation in sparse and remote areas, building upon the experience of the South of Scotland Competitiveness and Innovation Strategy and Cornwall's Regeneration (Objective 1) programme

Growth Review Theme B: Realising the value of natural capital

Securing the value of nature

The Natural Environment White Paper recognises that a 'healthy, properly functioning natural environment is the foundation of sustained economic growth, prospering communities and personal wellbeing'⁶⁹. The 'ecosystem services' provided by a 'properly functioning natural environment' are critical to our economy and society. They fall into four categories:

- Provisioning: e.g. food, timber, fuel, water, game, biodiversity, natural biochemical;
- Regulating: e.g. regulating air quality, climate, flooding and erosion; purifying water; controlling diseases and pests; pollinating crops; buffering pollution;
- Cultural: e.g. enriching our spirits, providing opportunities for recreation;
- Supporting: e.g. soil formation, photosynthesis, nutrient cycling, water cycling.

A financial value can be ascribed to many of these services. For example, the National Ecosystem Assessment suggests that the health benefits of living near a green space are worth up to £300 per person per year, the benefits of inland wetlands to water quality are worth £1.5 billion per year, and the amenity benefits of living close to rivers, coasts and other wetlands are worth up to £1.3 billion per year. While some services have been actively traded in the market, many have not.

The ability of the private sector to generate wealth from some services but not others has distorted decisions about the use of our natural resources. For example, if livestock represent an upland farmer's only realistic source of income, then decisions about how to manage moorland will focus principally on this activity. As a result, the potential of that land to purify water, regulate flooding, produce wild game for shooting, or store carbon may be neglected, and even damaged.

The National Ecosystem Assessment shows that the consequences of our failure to value the full range of ecosystem services properly in economic terms include: pollution; the loss of biodiversity; damage to natural processes; and the under-supply

⁶⁹ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (p. 3).

of services such as storing carbon and protecting landscapes⁷⁰. The pursuit of short-term gain has led to over-exploitation of resources. We have also lost the economic value that we could have gained if our use of the natural environment had been more sustainable.⁷¹ A lack of market mechanisms to manage these consequences means that the costs of any action to tackle them have often fallen on taxpayers.

The Natural Environment White Paper endorses the findings of the National Ecosystem Assessment. It aims to 'mainstream the value of nature across our society', not least by 'creating a green economy, in which economic growth and the health of our natural resources sustain each other, and markets, business and Government better reflect the value of nature'⁷². The White Paper does not seek to rely on market mechanisms alone, but commits public funds to a range of actions to sustain ecosystem services.

The Plan for Growth aims 'to achieve strong, sustainable and balanced growth' and emphasises the importance of private sector investment and enterprise, with innovative British companies creating new jobs and rising prosperity⁷³. 'Innovation' in this context is not simply about developing novel products or applying new technologies to established challenges. It is also about improving processes (how things are done): 'innovation is what pushes up productivity, and every pound we save by doing something better is a pound we can invest somewhere else'⁷⁴.

Rural economies have the potential to lead innovation in the green economy, offering opportunities for businesses to develop and embed green approaches by integrating economic, social and environmental agendas. The opportunities include: developing new environmental sectors (such as waste management, renewable energy, environmental services, and green tourism); promoting synergies between business development and environmental quality; and securing marketing benefits, and competitive advantages, by adopting 'green' business practices.

Against this background, the Rural Economy Growth Review is examining how to increase, and sustain, the contribution which rural areas can make to the national economy. The following sections consider how this could be achieved:

- By developing new products and services, to create new income streams, principally through the private sector, with targeted public sector support where justified.
- By securing more efficient and effective use of natural resources, and public funds, so as to save resources and/or release them for more productive uses.
- By improving agricultural productivity through agricultural support policies, R&D, and competition policies and regulation.

Recommendation 14: The Government should embrace and support a range of opportunities to: develop new products and services based on natural capital; secure better use of natural resources, and public funds; and encourage agricultural, forestry and horticultural productivity. Government policies and delivery processes should be aligned, as far as possible, with these opportunities.

⁷⁰ National Ecosystem Assessment (2011) *UK National Ecosystem Assessment. Understanding Nature's Value to Society*. (Foreword)

⁷¹ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (paragraph 1.19)

⁷² HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (p. 3)

⁷³ HM Treasury (2011) *The Plan for Growth* (Foreword)

⁷⁴ Mandelson, P. (2009) Speech to the 'Innovate09 for Growth' conference, 13 October.

Developing new products and services

The Natural Environment White Paper recognises that there is potential to establish new markets to help manage natural resources or ecosystem services⁷⁵. As agri-environmental schemes have shown, making incentives available to farmers to protect soil and water, and to enhance biodiversity and landscapes, has improved and extended the delivery of ecosystem services. We believe that there will be a continuing need for these public subsidies, as they tackle an area of market failure. But there are also opportunities to develop new mechanisms for the private sector: 'As prices and markets increasingly reflect the value of natural capital, investors will look for new opportunities to make a financial return from investing in activities that improve natural services'⁷⁶.

Payments for Ecosystem Services

We welcome the Government's proposed action plan under which those who benefit from ecosystem services - businesses, civil society and the wider public sector - pay those who provide them⁷⁷. For example, water companies could pay farmers to manage land so that it produces high-quality water, thereby avoiding the costs of expensive and energy-intensive treatment. Ongoing Relu research work to evaluate a market-based catchment restoration scheme is relevant here⁷⁸.

Payment schemes should be considered for diverse services, including complex areas, such as alleviating flooding, alongside activities already funded under agri-environmental schemes. Opportunities should also be taken to develop schemes which provide long-term benefits, over decades rather than years. This will be critical in managing carbon, and in creating networks of wildlife habitats to aid adaptation to climate change. One approach, used by the National Forest Company, involves inviting land managers to submit competitive bids for a share of a fund to create and manage new woodland. The applicants submit tenders specifying what services they will provide, at what cost, over what period. Other possible approaches include purchasing long-term easements or covenants, or sale-and-leaseback arrangements.

Carbon offsets

Concern about climate change has highlighted the value of carbon sequestered in our upland peatlands. Economic value has been extracted from these areas over the centuries through agriculture, forestry, and game management, and from peat itself as a fuel and growing medium. While the benefits of managing peatlands as carbon stores are now recognised, there are as yet no effective mechanisms to encourage land managers to take this ecosystem service fully into account in their day-to-day management decisions. Peatland carbon stores accordingly remain at risk.

⁷⁵ 'We want land managers to get returns from a range of ecosystem services in addition to those they get from food production. We will work with the sector to investigate the development of markets for these services'. Defra 2011. Natural Environment White Paper (page 24)

⁷⁶ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (page 40)

⁷⁷ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (pages 38-40)

⁷⁸ See <http://www.relu.ac.uk/research/projects/Fourth%20Call/Smith.html> and www.watergov.org.

The Relu Sustainable Uplands project has proposed one possible solution: a carbon offsetting scheme for peatland restoration.⁷⁹ This would enable firms which have done everything possible to reduce their emissions at source, and want to offset their remaining emissions, to become carbon-neutral. They would invest in peatland restoration projects, creating an income stream to support carbon storage. Actions to enable the introduction of such a scheme include:

- Recognising peatland restoration as a legitimate way of offsetting carbon emissions under the Government's Greenhouse Gas Accounting Guidelines (e.g. through a 'UK Peatland Carbon Code' similar to the proposed 'UK Forest Carbon Code');
- Including changes in peatland carbon stocks in the UK's Greenhouse Gas Inventory, which would enable carbon emission reductions from peatland restoration to count towards the Government's targets under national and international law;
- Developing cost-effective ways to verify changes in peatland carbon stocks, to reduce the uncertainty and risk associated with restoration projects in these complex ecosystems. Current work by the IUCN UK Peatland Programme will assist here.

There may also be potential to package payments for carbon sequestration with other ecosystem services provided by peatland restoration. For example, tackling the erosion of peat at source could reduce the downstream costs incurred in treating drinking water to remove the resulting discolouration. Similarly, many wildlife habitats and individual species could benefit from peatland restoration projects.

Biodiversity offsets

Development projects are increasingly designed to safeguard and enhance biodiversity but are still likely to result in some losses. 'Biodiversity offsets' enable developers to compensate for such losses by investing in the compensatory creation or restoration of habitats elsewhere. We note that to help meet its overall objective of 'no net loss of biodiversity' the Government plans to test a voluntary approach to offsetting, supported by a set of guiding principles⁸⁰. The aim is that offsets, used strategically, should help to expand and restore the ecological network in England by helping to deliver more, better, bigger and joined up networks of wildlife habitat.

However, we believe that these benefits are more likely to be secured through a *compulsory* legal framework focused on securing a net gain in biodiversity alongside new development. Making offsets compulsory would acknowledge the social value of ecosystem assets. Developers could legitimately exploit the social license benefits and marketing opportunities associated with offsets. They should be encouraged to work with other interests to enlarge offset projects and generate further benefits. Groups of developers should also be able to pool offsets for multiple small development projects to create or restore large, strategic, and more sustainable areas of habitat.

79 Relu Policy and Practice Note 17 (Sustainable uplands: learning to manage future change), <http://www.relu.ac.uk/news/policyandpracticenotes.htm>; Paying to Restore Peatland with Carbon, <http://www.scribd.com/doc/58611485/Paying-to-restore-peatland-with-carbon>

⁸⁰ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (page 22)

Tourism payback schemes

Rural economies benefit significantly from tourist visits, though in some cases visitor pressure may erode environmental quality. It is reasonable to require those who benefit economically from the environment to contribute to its maintenance or enhancement. Payback schemes capture donations from visitors or local businesses which benefit from tourism to fund conservation work (e.g. repairing eroded paths or managing wildlife habitats). We welcome that the Government recognises the potential of these schemes (one, Nurture Lakeland, raised some £1.7 million over ten years) and has undertaken to collate and share good practice among tourism organisations⁸¹.

Another approach would be to introduce a charging system for car-users in National Parks and Areas of Outstanding Natural Beauty. This would be facilitated by satellite-tracking technology (which is likely to become more widely-used to support congestion charging and pay-as-you-drive initiatives). A charging system could theoretically raise revenue from visitors, workers and local residents (at differential rates) for investment in measures to improve environmental quality and enhance growth. Charges would need to be set at a level that would not unduly dampen growth, reduce visitor numbers or create undesirable knock-on impacts on adjacent areas not subject to charging.

Adding value in the agri-food sector

Diverse opportunities exist to develop niche products from land management systems. One Relu project examined the production and marketing of 'salt-marsh lamb', for sale within local food markets, using traditional farming systems based on unimproved pastures⁸². Such initiatives can support a wide range of economic, social and environmental objectives. A key benefit is that such products engage consumers directly in the delivery of specific ecosystem services through the market.

While it is reasonable to expect individual businesses to take the lead in this area, the Government could assist by:

- Facilitating the development of labelling systems based on product, place or process (as in France and Italy) to encourage and support niche products.
- Supporting producer groups and collaborative production, processing and marketing;
- Aligning management options under agri-environmental schemes with the requirements of quality production schemes (e.g. for managing species-rich grasslands);
- Developing links between sustainable farming, landscape quality and product marketing;
- Subsidising the costs of adjusting farming systems to produce niche products.

Anaerobic digestion

Anaerobic digesters offer important opportunities to develop new sources of income in rural areas. These plants treat farm and/or food waste. They produce methane, which is used to generate heat and/or power, and a solid digestate, which can be

⁸¹ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (page 52)

⁸² Relu Policy and Practice Note 3 (Eating Biodiversity: an Investigation of the Links between Quality Food Production and Biodiversity Protection).
<http://www.relu.ac.uk/news/policyandpracticenotes.htm>

used as a fertiliser and soil conditioner. They could make a useful contribution to the development of a low-carbon economy while also solving the challenges of managing significant, and potentially polluting, waste streams. The development of small-scale digesters, often on farms, in Austria, Germany and Denmark, has resulted in high levels of energy production and many other benefits for rural communities.

We welcome recent publication of a 'Strategy and Action Plan for Anaerobic Digestion'⁸³. This seeks to increase the growth rate of anaerobic digestion, by tackling reported barriers to its further development and adjusting incentive regimes where necessary. The Relu Anaerobic Digestion project⁸⁴ highlights the following areas as priorities for action:

- Providing local authorities with better guidance to inform planning decisions;
- Using incentives to promote on-farm co-digestion of agricultural and urban wastes (thereby reducing dependence, for economic viability, on the use of energy crops);
- Facilitating greater use of high-energy value food wastes (e.g. through centralised pre-processing to ensure biosecurity and reduce the need for complex digesters);
- Designing systems and procedures to promote anaerobic digestion at a farm scale, integrating the technology into the larger framework of waste management;
- Subsidising capital investment in farm-based digesters (e.g. through fiscal reliefs).

Biomass

Further opportunities to develop new income streams for land managers could come from investment in biomass as a source of heat and power. The recent introduction of the Renewable Heat Incentive is expected to stimulate considerable interest in biomass installations. Potential feedstock include short-rotation coppice willow, *Miscanthus* grass, and woodland residues. While the crops themselves can bring environmental benefits, potential impacts on food production and biodiversity need to be managed carefully. To this end, the Government plans to introduce 'sustainability standards' in this area and is developing a new bio-energy strategy⁸⁵. A Relu project has developed valuable GIS tools to integrate the evidence for decision making, mapping land suitability and appraising sustainability⁸⁶.

Recommendation 15: The Government should support private enterprise and initiative in devising mechanisms to reward a much wider range of ecosystem services, as far as possible, through the market. New mechanisms are needed to purchase and guarantee the long-term provision of key environmental services; and to encourage residential, visitor and business consumers to adopt greener practices. Where new enterprises are being developed the Government should work with businesses to overcome and minimise any barriers, whether related to knowledge, policy or regulation.

⁸³ Defra (2011) Anaerobic Digestion Strategy and Action Plan

⁸⁴ Relu Policy and Practice Note 26 (Farm diversification into energy production by anaerobic digestion). <http://www.relu.ac.uk/news/policyandpracticenotes.htm>

⁸⁵ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (page 23)

⁸⁶ Relu Policy and Practice Note 9 (Assessing the social, environmental and economic impacts of increasing rural land use under energy crops). <http://www.relu.ac.uk/news/policyandpracticenotes.htm>

Securing more efficient and effective use of resources

There is scope to improve existing land management practices, through a combination of information and advice, voluntary action, regulation, and market mechanisms. Making more effective use of resources in land management, maintaining and maximising our natural assets, and reducing the costs which bad practice imposes on other sectors of the economy, will contribute to growth by releasing resources for investment elsewhere.

Voluntary activities, such as the Campaign for the Farmed Environment, and the Voluntary Initiative for Pesticides, demonstrate that the farming community is willing to show leadership in this area. The Government can also influence the delivery of ecosystem services through regulation and incentives. The voluntary agri-environmental schemes, which now cover some two-thirds of the utilised agricultural area in England, offer particular opportunities in this respect.

We support the Government's current priorities which include: securing a greater share of a smaller CAP budget for the schemes; promoting the sustainable and efficient use of natural resources; exploring how the schemes can contribute to nature restoration; strengthening the focus on environmental outcomes, climate change mitigation, and biodiversity; enabling land managers to work together to achieve environmental outcomes; and introducing greater flexibility in how they achieve these⁸⁷.

Relu research generally supports these priorities, but suggests some further opportunities to improve cost-effectiveness⁸⁸:

- Making 'biocontrol' an explicit objective. The schemes should reward farmers for: diversifying farmland habitats and creating new habitats to harbour predators; controlling nutrient inputs to avoid oversupply, which encourages weeds, pests and diseases; and using organic manures, and reducing tillage, to encourage beneficial soil organisms. Important cost savings and natural resource benefits could arise from encouraging more farmers to adopt comprehensive strategies for integrated pest management⁸⁹.
- Extending incentives for erecting streamside fencing to a wider range of livestock farms. This would help to reduce faecal contamination of water, which can pose a risk to public health and local economies. Reducing the incidence of contamination of drinking water, bathing water, and shellfish, would yield economic savings in terms of health care, decontamination costs, and so on. Water ecosystems would also benefit from reduced contamination by livestock and reduced sedimentation from eroded banks⁹⁰.
- Reviewing support for conversion to organic systems in areas of highly productive farmland. Rather than trying to convert conventional farms to organic systems, the schemes could be used instead to set intensively-managed fields on conventional farms within a landscape of field margins and non-cropped areas

⁸⁷ HM Government (2011) *The Natural Choice: Securing the Value of Nature*, CM 8082 (page 63)

⁸⁸ Relu Briefing Paper 13, Shaping the Nature of England: policy pointers from the Relu programme; Relu Briefing Paper 12, Informing the Reform and Implementation of the Common Agricultural Policy. See <http://www.relu.ac.uk/news/briefings.htm>

⁸⁹ Relu Policy and Practice Note 10 (Overcoming Market and Technical Obstacles to Alternative Pest Management in Arable Systems). <http://www.relu.ac.uk/news/policyandpracticenotes.htm>

⁹⁰ Relu Policy and Practice Note 4 (Safe recycling of livestock manures). <http://www.relu.ac.uk/news/policyandpracticenotes.htm>

managed primarily for biodiversity. 'No-till' or 'low-input' approaches would enhance these benefits.

- Providing formal agri-environment training, targeted on novel or technically difficult options, as an integral part of all schemes. This would help farmers to understand fully *why* they are being asked to adopt certain land management actions and *how best* to carry these out (e.g. the techniques needed to establish a flower-rich field margin differ from those used to establish a cereal crop). This should help to improve the effectiveness of the schemes.
- Promoting collaborative approaches among groups of land managers⁹¹. The scale at which scheme agreements are planned, negotiated, funded and delivered should shift, over time, from the *individual* farm to the local *community* of farms. Co-ordinating the areas of land to be managed in specific ways between farms, at a scale appropriate to the specific ecosystem services which are being sought (e.g. 'landscape' for birds, 'catchment' for water quality), should improve the economic cost-effectiveness of the schemes and environmental outcomes alike. Evidence from Relu indicates that external facilitation would be helpful here
- Paying greater attention to the social benefits of investment in agri-environmental schemes, both strategically (e.g. by targeting investment to areas near towns and cities), and at a local level (e.g. by encouraging dialogue between local land managers and local communities about the location, design and management of schemes). These approaches would help to maximise the social benefits of this public investment.

Recommendation 16: The Government should seize opportunities to improve the efficiency and effectiveness of agri-environmental schemes. Priorities include: reviewing the range of ecosystem services supported; facilitating collaborative action between land managers at scales which are relevant to the particular services being provided; improving the evidence base on impacts and environmental outcomes; and providing training to equip farmers with the skills needed for effective implementation of complex scheme options.

Improving agricultural productivity

Agriculture is a small part of England's economy, accounting for 0.5% of GDP (around 3% of England's rural GVA) and 1.5% of total employment. Moreover, in six of the last 10 years productivity (output per job) in UK agriculture has declined (e.g. by 13.1% between 2009 and 2010)⁹². The ability of the sector to innovate and adapt to changing circumstances is constrained by:

- The abilities and aspirations of many thousands of small, family based businesses;
- The need for a continual outflow of people from the industry to maintain family farm incomes (given that agriculture is essentially a 'declining' industry);
- Reliance on traditional skills and seasonal labour, with risks of shortages in both areas;
- Lower investment and incentives to adopt new technologies, as these are mainly purchased from input suppliers (who price their services and products to their benefit), or founded on public sector R&D (which has contracted significantly in recent decades);
- Volatility across commodity markets which affects input costs. This is particularly so for oil and minerals, which underlie critical inputs such as fertilisers, chemicals,

⁹¹ Franks, J. R., Emery, S. B., Whittingham, M. J. and McKenzie, A. J. (2011) *Options for landscape scale collaboration under the UK's Environmental Stewardship Scheme*. Centre for Rural Economy Research Report.

⁹² <http://www.statistics.gov.uk/statbase/TSDdownload2.asp>

and fuel. The medium-term outlook for food prices is now stronger than it has been in the past, so long as growth rates in the rest of the world remain strong.

These dependencies are partly visible in CRE's rural business survey, where only 29% of firms in agriculture and forestry were planning expansion, and the sector's firms were most likely to be planning a reduction in the scale of activities in the short term. They were also experiencing lower profit levels, and were particularly concerned by an ageing workforce.

In short, agriculture is unlikely to provide a substantial engine for growth in the UK economy, even in most rural areas, unless world commodity and food prices escalate very substantially. Even in this event, the downward pressure on growth in the rest of the economy, depressed by rising food prices, will more than offset the boost from farming. Nevertheless, agriculture contributes £5.8 billion of output and forms the foundation of a substantial food sector (7% of GDP), and together with other land-based enterprises accounts for a substantial share of firms in 'sparse' areas. In 2009 over half of all firms in sparse rural hamlets and isolated villages were in agriculture, forestry or fishing, and 33% in sparse villages (5% for England as a whole)⁹³.

The Government can materially influence the economic resilience of the industry in three major ways:

- Through agricultural support policies: Past policies have insulated the industry from the market. The situation has changed progressively since 1992, although many farms still depend heavily on the Single Farm Payment (SFP). Rapid removal of SFPs post 2013 without compensation would have substantial detrimental short to medium term effects. In the long term, the sector would adjust, but only through the changing ownership and operation of businesses within it. Assuming that the SFPs remain, the Government could help productivity growth and investment by enabling farmer-recipients to use the banks and capital markets to 'roll-up' their stream of payments into a capital sum. This could be used to finance the restructuring and adaptation of their businesses, enhancing adjustments in rural areas, and promoting local and regional growth. In addition, Pillar 2 funds, supported by greater flexibility in planning regulations, could be used to encourage businesses to start up in, or to relocate to, under-used land or farm buildings.
- Through agricultural R&D: Reduced spending in recent decades has been detrimental to improving productivity and enhancing the environment. The reductions need to be reversed, not least to enable the sector to respond to future demands for food production and environmental protection. This would assist sector innovation, in terms of new animal husbandry and welfare procedures, crop strains, production systems and processing techniques.
- Through policies for competition and regulation: The Government should rationalise existing regulation and simplify its implementation, using third party validation and inspection. It should also prioritise support to consumers through more and better information sources and reliable market analyses of sources and processes. Not-for-profit third-party providers could also play a role here, in partnership with the industry.

Recommendation 17: The Government should explore options to facilitate adaptation in the farming and allied land-based industry post-2013 and thereby enable productivity growth and investment. Rural development funds should be used to encourage productive use of land and buildings no longer needed for farming. R&D spending should be enhanced and supported by effective processes for knowledge transfer and exchange. Regulatory

⁹³ Defra (2011) Statistical Digest of Rural England, 2011 p93.

requirements should be reviewed, rationalised and simplified perhaps through the adopted ISO 14001 mechanisms proposed in Recommendation 7 above.