

How to level up economic performance across the UK

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The National Innovation Centre for Rural Enterprise (NICRE) undertakes research and knowledge exchange to inform policy, foster the innovation and resilience of rural businesses, and unlock the potential of rural economies across the UK. It is funded by Research England and founding University Partners. NICRE builds on three leading centres of expertise: the Centre for Rural Economy and Newcastle University Business School, the Enterprise Research Centre at the University of Warwick, and the Countryside and Community Research Institute at Gloucestershire and Royal Agricultural Universities. It involves a partnership between Universities, Government departments, local authorities and enterprise partnerships, businesses organisations, rural stakeholders and enterprises. Baldwins Accountants and Strutt & Parker Property consultants are its founding national professional business service partners.

Introduction

There is now a valuable opportunity to bring a strategic focus to the role that the nation's rural economies will play in recovery from COVID-19 and in strengthening and levelling up economic performance. 'Levelling-up' has traditionally been imagined through the lens of cities as the locus of growth, innovation and regional development, with the contribution of the rural presumed to be tied narrowly to farming and tourism based activities. Bringing rural economies into this agenda more centrally and comprehensively is important for several reasons:

- the **scale, diversity and national significance of our rural economies**¹ – In England alone, a GDP of over £260 billion, representing a fifth of the population, over half a million enterprises and 3.5 million employees represented in all industries and sectors.
- the **untapped potential of rural economies**² - For example, only 13% of England's rural firms are engaged in exporting, but a further 18% of rural firms report having goods or services suitable for export but not yet exporting. Half of rural firms have introduced new or significantly improved goods/services/processes, but only 12% have been involved in new-to-market innovation, despite 60% expressing strong business capability for innovation.
- the **contribution of rural areas** to the nation's natural resources, resilience, green space, health and to underpinning urban economic performance, and of special significance in areas facing regional disparities.
- the potential **role of rural economies as test beds for innovation** - Rural areas can play a key role in pioneering more creative responses to ageing populations, harnessing mobility and digitalisation for goods, services and people, and realising the value of natural capital and ecosystem management for clean growth.
- the **growing rural productivity gap** - Many rural places can be identified as marginalised and 'left behind'. According to Government data rural productivity is currently 85% that of urban (excluding London), with the productivity gap growing, and 3 million people live in rural local authority districts with high levels of economic and social deprivation.
- the **rural economy impacts of COVID-19**³ - Though experiencing fewer instances of infection in aggregate terms, there are serious rural hotspots in infection rates and rural businesses will potentially suffer disproportionately in terms of impacts and jobs at risk given many areas' high

¹ Defra (2020) **Statistical Digest of Rural England**. Government Statistical Service

² Phillipson J, Gorton M, Maioli S, Newbery R, Tiwasing P and Turner R (2017) **Small Rural Firms in English Regions: Analysis and Key Findings from UK Longitudinal Small Business Survey 2015**, Centre for Rural Economy

³ Phillipson J, Gorton M, Turner R, Shucksmith M, Aitken-McDermott K, Areal F, Cowie P, Hubbard C, Maioli S, McAreavey R, Souza-Monteiro D, Newbery R, Panzone L, Rowe F and Shortall S (2020) **The COVID-19 Pandemic and Its Implications for Rural Economies**, Sustainability, 12(10), 3973.

dependency on visitor economies. Suitably enabled, rural areas are also set to be at the vanguard of society's accelerated preferences for remote working and living, as businesses and employees realise that in many instances they can work remotely away from the crowds.

1. What are the key barriers to private sector investment and growth in the regions? How can business and government work together to address these?

- a. Rural economies are part of the levelling-up challenge and also part of the solution. This means capitalising on the performance, innovation and untapped potential of rural enterprise, whilst also addressing longstanding barriers that hinder performance and productivity^{4,5}. A preponderance of highly dispersed sole traders and micro-businesses presents particular difficulties in terms of their coping with regulations/red tape, business collaboration and networking, access to skilled labour, services and finance, and in more remote areas, their ability to undertake 'new to the market' innovation. There are ongoing barriers to digital connectivity as a critical enabling technology. COVID-19 has demonstrated how digital competencies matter more than ever and is a weakness of many SMEs. Many have goods and services suitable for sale via Internet and social media but don't have the set up or knowhow to fully exploit this potential. There are weaknesses in some rural areas in affordable housing, transport infrastructures and education and services provision that hold back businesses' ability to recruit and retain employees, innovate and expand their markets. These barriers are regionally and locally specific, requiring a place-based approach.
- There are particular barriers concerning the equitable reach of business policy and enterprise support in rural areas. In designing future policies and investment programmes, such as the UK Shared Prosperity Fund, it will be necessary to overcome prevailing perceptions and assumptions, for example: that larger investments should be made in more populated/ concentrated business locations and that these will inevitably trickle down to other areas; that capital investment is necessarily more useful and valuable than revenue investment; that the majority of rural investment should continue to be channelled through farming, food or tourism sectors; or that social and community enterprise is a lesser concern in the levelling-up agenda. Without changes in these perceptions there is a risk of under investment and lack of enterprise support in rural businesses and places.

2. How can government and businesses work together to identify meaningful opportunities to invest across the whole of the UK, including in the Midlands, the North and the Devolved Nations

- a. There needs to be greater visibility, support and attention to the contribution and opportunities of rural economies within our national and local economic strategies, regional powerhouse initiatives and area growth deals - so that all places benefit and contribute. Rural places are often out of view and thinly represented or engaged in these initiatives; addressing this gap will bring new, more integrated and inclusive opportunities^{6,7}.
- b. Multi-regional deals and cross-border partnerships, such as the Borderlands Inclusive Growth Deal, present much opportunity. However, prior to allocation of funding, all such partnerships should be tasked to consult on, and demonstrate, two key features: (i) that funds will be distributed to all locations within their areas equitably, by share and need of

⁴ Phillipson J, Turner R, Tiwasing P, Gorton M, Maioli, S and Newbery R (2017) **What's holding rural businesses back?** Rural Economy and Land Use Policy and Practice Note No 2, Centre for Rural Economy.

⁵ Phillipson J, Tiwasing P, Gorton M, Maioli S, Newbery R and Turner R (2019) **Shining a spotlight on small rural businesses: How does their performance compare with urban?** Journal of Rural Studies, 68, 230-239

⁶ House of Lords Select Committee on the Rural Economy, **Time for a Strategy for the Rural Economy**, Report of Session 2-17-19.

⁷ Davoudi S, Turner R and Garrod G (2017) **A New Deal for the North: A briefing paper for the British Academy.** Newcastle University.

their economies, for each theme, programme or driver; and (ii) how larger funds for the more populated and business- dense urban areas will benefit peripheral towns and rural areas.

3. How can government work with business to strengthen local business networks and ecosystems?

- a. Programmes connecting groups of businesses have been shown to increase business performance⁸. However, SMEs in less advantaged areas often lack good business networks. Here it is necessary to find ways for them to be plugged into networks to take full advantage of opportunities. Future support for local business networks and groups is especially warranted⁹, given that for many small and rural firms these are, together with their specific trade or professional business organisations, the prime sources of advice, information and help. This is often before wider sources of support are considered (whether it be from LEPs, Enterprise Agencies, Innovate UK etc).
- b. There is an opportunity to capitalise on firms' new shared approaches to business operations, marketing and delivery that have emerged in their responses to the COVID-19 pandemic. Local knowledge is a critical support for innovation but evidence shows firms collaborate with too few partners which is sub-optimal. Brokering local collaborative partnerships may have strong benefits for innovation in rural areas to build on the existing innovation capability of rural firms¹⁰.
- c. Evidence also points to the success of supporting the creation of local rural business hubs for dispersed rural enterprises, drawing on the lessons from the Pilot Rural Growth Networks (RGN) in England. Lessons from the RGN Pilots may prove valuable to Local Industrial Strategies and as the Government devises its UK Shared Prosperity Fund. Research and evaluation shows that hubs have been a flexible approach for overcoming local constraints, lack of critical mass, and the dispersed nature of rural firms – and in enabling growth and grow-on premises for home based firms that face particular limitations¹¹. They have generated a good return of investment, especially where they have been accompanied by proactive management and animation and coupled with improved knowledge exchange, networking and business support.
- d. More broadly, networks are key to sharing responsibility and bringing strategic focus to rural issues at a national or local level. They must be developed and supported. Examples include the LEP Network's Rural Group, Scotland's Rural Enterprise Roundtable, English regional Farming and Rural Networks, and local networks such as the East Riding of Yorkshire and Leicestershire Rural Partnerships. There is an urgent need to renew and build on the many EU funded, LEADER Local Action Groups which have proved successful in supporting and nurturing rural enterprise through the delivery of micro-grants according to community-led needs.
- e. One potential focus of new network development is the Protected Food Names scheme being developed to replace the European Geographical Indications (GIs) scheme. The evidence suggests that GIs can contribute positively to supporting heritage food products

⁸ Cai J and Szeidl, A (2018) **Interfirm Relationships and Business Performance** The Quarterly Journal of Economics, 133, 1229-1282.

⁹ Newbery R, Gorton M, Phillipson J and Atterton J (2016) **Sustaining business networks: Understanding the benefit bundles sought by members of local business associations**. Environment and Planning C: Government and Policy, 34(7), 1267-1283.

¹⁰ Roper S, Love JH and Bonner K (2017) **Firms' knowledge search and local knowledge externalities in innovation performance**. Research Policy, 46(1):43-56

¹¹ Cowie P, Thompson N and Rowe F (2013) **Honey Pots and Hives: Maximising the Potential of Rural Enterprise Hubs**. Centre for Rural Economy Research Report

and related tourism and rural development initiatives¹². This is consistent with analysis at the EU level that GIs and short food supply chains can benefit the fortunes of their producers and in turn contribute to rural resilience and prosperity¹³. Increasing the number of PFNs in the UK, however, will require co-ordinated action among producers to develop the business case for each PFN. Government and local agencies can play a key role as facilitators of such networks.

4. How can government target skills and employment support to best aid economic recovery and drove progression and productivity, and which interventions should we prioritise?

- a. Many rural challenges in relation to staff development and skills are long standing and structural. In many rural areas people often have poorer choice of jobs, get paid less for jobs requiring fewer work place skills, and experience less on-the-job training. There is therefore an overarching need for more choice and variety in rural labour pools, especially for young people and skilled employees. Moreover, rural firms that create skilled employment opportunities can have difficulty recruiting or retaining skilled staff. Our analysis of the Longitudinal Small Business Survey shows this is an issue for a third of England's rural small firms who employ staff. It is also a concern that significantly fewer rural employing firms are planning to improve their leadership capabilities over the coming years, compared with their urban counterparts¹⁴. Attention is therefore needed within local and sector skills strategies to support rural firms' staff development, including the potential role of collaboration among firms in meeting their recruitment gaps and training needs. It has also been shown that combining skills and training development with a focus on mentoring/advisory support can be mutually reinforcing in helping firms' embed and implement management practices¹⁵.
- b. Apprenticeships requirements often appear to have been designed with little recognition of the higher financial and time costs of many non-land based rural business sectors to fulfil formal training requirements for apprentices. Local FE college and training infrastructures in rural areas are either few in number or distant, and offer limited variety in industry courses for sectors such as construction, manufacturing, transport, and professional and business services, so placing higher burdens on small rural firms and their apprentices. Whilst larger firms in more urban areas have often been able to reduce these burdens by gaining accreditation for in-house training centres and programmes. Another limitation in rural areas relates to stipulations linked to apprenticeship age limits, given the higher proportion of older people in rural areas and with some rural industries attracting working age people at a later stage in their careers. Some progress towards meaningful alternatives for rural and small firms has been made in recent years, especially in Wales, through development of shared apprenticeships in which trainees are shared by several local firms to gain fuller breadth of skills and work activities, benefitting both owners and trainees, and through apprentices 'employed' by formal training bodies such a Sector Training Boards, Machinery Rings, Colleges etc. This needs to be more widely promoted and supported.

¹² Oldenma A and Roper S (2020) **What's in a name? The impact of Geographical Indications of Origin on producer growth and food heritage**, Enterprise Research Centre, Research Paper No 86.

¹³ Mattas K, Tsakiridou E, Karelakis C, Chousou C, Lazaridou D, Amilien V, Arfini F, Bellassen V, Brecic R, Dries L, Giraud G, Gorton M, Hartmann M, Majeskwi E, Malak-Rawlikowska A, Quarrie S, Schaer B, Tregear A, Veneziani M and Vittersø G (2019), **Synthesis of findings of the Strength2Food Project**, <https://www.strength2food.eu/wp-content/uploads/2019/11/D10.1-Synthesis-of-Findings.pdf>

¹⁴ Phillipson J, Gorton M, Maioli S, Newbery R, Tiwasing P and Turner R (2017) **Small Rural Firms in English Regions: Analysis and Key findings from UK Longitudinal Small Business Survey 2015**, Centre for Rural Economy

¹⁵ Peng B, Mole K, and Roper S (2019) **Skills, management practices and productivity in SMEs**. Enterprise Research Paper No 75 2019

- c. More broadly, evidence has consistently shown that in contrast to urban firms, rural hard to fill vacancies have less to do with skills shortages and gaps *per se*, and more to do with lack of affordable or suitable housing and transport. Differences in the density and frequency of public transport often make rural jobs less accessible with take-up contingent on car ownership. For low paid workers especially, the costs of car ownership, maintenance and fuel can make rural jobs less attractive. Moreover, while rural England has witnessed counter-urbanisation, this has inflated rural house prices and been skewed to older workers and retirees. Concurrently, the outmigration of young people to urban areas, in search of higher education, affordable housing and more lively social environments is a persistent issue for rural firms seeking to recruit and retain energetic and enthusiastic younger staff. These broad challenges linked to housing and transport emphasise the need for joined up rural proofing of the range of policies that impact in a place based way in rural areas. Lessons could also be drawn from previous approaches that have focussed policies and interventions in rural towns, such as the Market Towns Initiative, as well as Wheels to Work schemes which offer a practical response to accessing employment for young people. Could government also consider extending tax reliefs and allowances to rural firms, aligned to key stages in their business cycle, to incentivise employers to help new employees' access accommodation or transport to the workplace?

5. What could be the single most meaningful priority for business and government to work towards in order to level up? (e.g. skills, transport, science & innovation, net zero etc)

- a. Different marginalised or under-developed areas will have different overarching priorities, and different priorities within each driver (eg skills, transport etc). These are best recognised in each region or locality, with national government supporting and enabling this locally driven place-based approach.
- b. A holistic and integrated approach is needed that reflects the cross cutting and systemic nature of barriers to levelling up and performance. Rural enterprises need targeted/tailored support to address specific challenges arising from their distance from support services, markets and business networks, staff recruitment and skills, etc., and for these needs to be reflected throughout mainstream support services and networks. Attention, for example, is needed to the dynamics of rural enterprise within future export strategies in order to maintain rural economies' export orientation and release their untapped export potential. This suggests a policy to extend internationalization of SMEs in rural areas. Evidence shows internationalization advice can boost the internationalization capabilities of SMEs and internationalization itself can boost the capabilities and performance of firms, particularly if they engage in consistent exporting. Consequently major spillover effects may accrue from internationalization support for a targeted group of rural firms^{16,17,18}.
- c. One integrating priority would be to focus on **Better Connectivity** – digitally (eg Broadband and 4G), physically (e.g. movement of people, goods and services by buses, trains, delivery networks), economically (e.g. distributed local enterprise hubs, support for local business networks, connecting people with jobs etc.) and strategically/institutionally (e.g. rural enterprise mainstreamed across enterprise policies, regional and local strategies maximising the value of urban-rural linkages, inclusive and connected research and innovation ecosystems, investment partnerships etc.).

¹⁶ Cumming D, Fischer E and Peridis T (2015) **Publicly funded business advisory services and entrepreneurial internationalization**. *International Small Business Journal*, 33(8):824-39.

¹⁷ Love JH and Roper S (2015) **SME innovation, exporting and growth: A review of existing evidence**. *International Small Business Journal*, 33(1):28-48.

¹⁸ Bernini M, Du J, Love JH. **Explaining intermittent exporting: Exit and conditional re-entry in export markets**. *Journal of International Business Studies*. 2016;47(9):1058-76.

- d. For example, strategically, the emphasis on city-focused growth policies in the NP and ME initiatives should be revisited to ensure an inclusive approach to levelling up. Evidence shows that rural firms in these regions are just as likely to register similar levels of productivity, turnover, profit, sales growth, employment growth, exporting, potential to export and goods and service innovation to urban firms¹⁹. Consequently, policies for enhancing regional performance should recognise and support the contribution of rural enterprise. Research²⁰ by the Centre for Urban & Regional Development Studies suggests this requires more integrated and inclusive regional strategies that account for the potentials and interdependencies between cities, towns and rural areas and which extend beyond identified high growth sectors to embrace the 'everyday economy', basic services and infrastructures that people rely on beyond big cities.

6. How can government strengthen the support provided by publicly funded economic development institutions? (e.g. the role of Mayor led Combined Authorities)

- a. A greater emphasis is needed on the spatial (rural) impacts and reach of services, support, investments and programmes that aim to influence the drivers of productivity and encourage 'levelling up'²¹.
- b. For example, support and encouragement is needed for Local Enterprise Partnerships and other local economic development organisations so that they may align their activities to include their rural economies and natural capital and to bring consistency of prioritisation of rural contributions and opportunities across Local Industrial Strategies. At local scale LEPs and other local economic development organisations should develop their own strategies to inform the mainstreaming of rural issues across their strategies²²:
 - i. Setting out the diversity of rural enterprise and their contribution to city and town economies, international links, natural capital and the choice and quality of work.
 - ii. Identifying cross-boundary linkages with neighbouring strategies given particular significance to rural economies.
 - iii. Elaborating mechanisms for local co-delivery with rural stakeholders and engagement of rural micro- and small businesses in informing strategic objectives and the design from the bottom up of more flexible and appropriate programmes and supports to meet their needs.
 - iv. Connecting grand and society-wide challenges with tangible local opportunities for their rural areas.
 - v. Outlining investment criteria and evaluation metrics for defining rural outcomes and measuring success.

¹⁹ Tiwasing P, Gorton M, Phillipson J, Maioli S, Newbery R. (2019) **Spatial Variations in SME Productivity**. ESRC Productivity Insights Network.

²⁰ MacKinnon, D (2020) **Reinvigorating the Northern Powerhouse? Recommendations for Policy Makers**. Centre for Urban & Regional Development Studies.

²¹ Phillipson J, Turner R, Tiwasing P, Gorton M, Maioli S and Newbery R(2018) **Rural Economies and the UK Industrial Strategy**. Newcastle: Newcastle University. Rural Economy and Land Use Policy and Practice Note 6.

²² Phillipson J, Gorton M, Tiwasing P, Cowie P, Maioli S and Newbery R (2019) **Progressing Rural Contributions to the UK Industrial Strategy**. Newcastle: Newcastle University. Rural Economy and Land Use Policy and Practice Note 8.