

Policy brief - how increased connectivity is boosting economic prospects of rural areas

December 2014

Summary

- Rural areas make a substantial contribution to the UK economy. Rural areas currently account for 16% of Gross Value Added, 16% of employment and 26% of businesses in England.
- The importance of rural areas is set to grow as increased connectivity enables more flexible working, further growth in knowledge-based industries in rural areas and increased transfer of innovation.
- Continuation of such trends could be expected to lead to stronger productivity growth, job creation and higher output in rural areas. Over the next decade, productivity in rural areas could grow faster than in urban areas.
- The UK Government is supporting these trends and enabling rural areas to harness their economic potential by investing in connectivity – including superfast broadband and roads – and by promoting skills and strong business conditions.

Policy brief

1. The Chancellor's Autumn Statement for 2014 re-emphasized the government's commitment to promoting balanced growth. It also highlighted the need to strengthen UK productivity, announcing further measures in the critical areas of boosting skills, innovation and infrastructure to help deliver this. This policy brief considers the increasingly important roles of rural areas for such agendas and how UK government measures are harnessing these.

Rural areas' contribution to the UK economy

2. Rural areas already make a substantial contribution to the UK economy. In particular, rural areas:
 - Contribute a significant portion of national output. Areas classified as 'predominantly rural' by the Office of National Statistics contributed around £210 billion of Gross Value Added in England in 2013 – 16% of England's total GVA, according to

provisional estimates¹. Rural areas are spread across the country but are particularly prevalent in regions such as the North and the South West of England (see figure 1);

- Account for around 16% of total employment in England², with such employment showing relatively high resilience during the recession. According to a report commissioned by Defra, employment in rural areas grew by 2% between 2008 and 2012 and around 60,000 net private sector jobs were created in rural areas during this period³.
- Have strong entrepreneurial make-up with around 486,000 businesses registered in rural areas – 26% of total businesses. In 2012, there were 40 business start-ups per 10,000 people in ‘predominantly rural’ areas compared with 36 per 10,000 in large urban areas and 27 per 10,000 in other urban areas (though for ‘major’ urban areas, including London, the start-up rate was 56 per 10,000)⁴;
- Are well diversified, contributing to a UK economy that is balanced across sectors. The modern rural economy extends well beyond agriculture to include significant manufacturing and services sectors. For instance, manufacturing accounts for around 12% of rural business units (compared with 8% urban). Professional, scientific & technical services account for 7% of rural business units (compared with 8% of urban)⁵;
- Contribute to UK exports. There is evidence suggesting that people moving to rural areas to start new businesses have a relatively high tendency to supply products to markets further afield, including overseas⁶.

¹ Defra, *Productivity in rural and urban areas (provisional)*, December 2014.

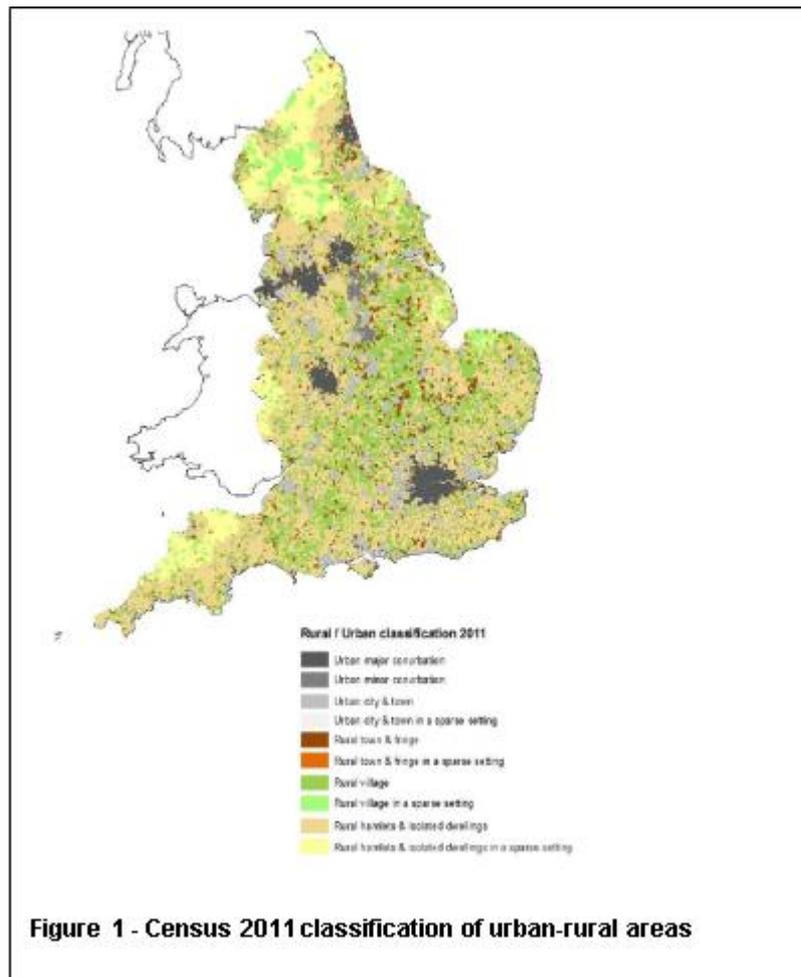
² Based on numbers of people working for business units located in rural areas, not only businesses registered in rural areas. Including people working from home for rural areas for business units located in urban areas, the number figure could be higher.

³ Report for Defra, forthcoming. The report used ONS’s 2001 classification of rural and urban areas.

⁴ *Statistical Digest of Rural England*, 2014.

⁵ ONS Inter-Departmental Business Register (2012/13) and Defra analysis

⁶ Centre for Rural Economy, University of Newcastle, *Rural areas as engines of economic growth*, 2013.



Recent trends enhancing rural economic prospects

3. There are several recent trends that can be viewed as enhancing the economic importance of rural areas, with increasing connectivity of rural areas with the wider economy being an underlying driver. These trends include:
 - Net migration from urban to rural areas. Whilst in many OECD countries there has been a trend towards greater urbanisation, the UK has been experiencing net migration from urban to rural areas. In 2011/12 there was net population migration to predominantly rural areas of around 46,000 and net migration to predominantly urban areas of 68,000, with net migration from predominantly urban to predominantly rural areas of 40,000 people⁷. This trend is set to continue, albeit to a lesser extent. It can be expected to drive increased spend and economic activity in rural areas, not least as those relocating to rural areas tend to be relatively wealthier⁸. There is also evidence that people moving to rural areas are more likely

⁷ *Statistical Digest of Rural England*, 2014. Based on 2001 ONS classification of rural and urban areas.

⁸ OECD, *OECD Rural Policy Reviews: England, United Kingdom*, 2011.

to start a business than those already there, helping to drive up economic activity and potentially productivity⁹.

- Growth in flexible and home working. According to the OECD, 16.7% of workers in England's rural areas work from home compared to 7.5% in urban areas¹⁰. Some estimates suggest there are around 2m working from home from rural areas¹¹. This trend is likely to continue with continued extension of communications, including the Government's commitment to expanding superfast broadband coverage to 95% of areas by 2017. Such flexible working arrangements can be expected to expand employment opportunities, reduce commuting times and enhance productivity¹².
- Growth in knowledge-intensive businesses. As noted by several studies, there has been relatively high recent growth in knowledge-intensive businesses in rural areas¹³. Computer programming and consultancy were in the top 10 areas of private employment growth in rural areas between 2008 and 2012¹⁴. With increased connectivity this trend is likely to continue. Knowledge-intensive industries are widely associated with higher productivity¹⁵.
- Increase in innovation transfer. Growing connectivity of rural with urban areas is enabling increased transfer of innovation to and from rural businesses - innovation being a critical engine of business growth and productivity¹⁶. Studies have highlighted the tendencies and potential for rural businesses to innovate - including in areas of climate-change related technologies and renewable energy, and in areas relevant for urban growth¹⁷. In a survey of rural businesses carried out in 2009, 46.4% of businesses reported that they had introduced an innovation in the previous five years, although only 15.4% revealed that they had worked with an external organisation to develop the innovation¹⁸. Improved connectivity can be expected to strengthen innovation links, benefiting rural and other areas as new technologies and practices find additional outlets.

⁹ Carmen Hubbard and Jane Atterton, 'Unlocking Rural Innovation in the North East of England: the role of innovation connectors', in OECD, *Innovation and Modernising the Rural Economy*, 2014.

¹⁰ OECD, *Rural Policy Reviews: England, United Kingdom* 2011.

¹¹ Carnegie Trust UK, *Future Directions in rural Development*, 2012.

¹² SQW, *UK Broadband Impact Study*, 2013.

¹³ See, for instance, Centre for Rural Economy, University of Newcastle, *Rural Economies: Incubators and Catalysts for Sustainable Growth*, 2011.

¹⁴ Report for Defra, forthcoming.

¹⁵ OECD, *The Knowledge-Based Economy*, 1996.

¹⁶ BIS, *Innovation and Research Strategy for Growth*, BIS Economics Paper No. 15, 2011.

¹⁷ E.g. OECD, 2014.

¹⁸ Reported in Hubbard and Atterton, 2014.

Potential implications for employment and economic output

- If harnessed, these trends could help to drive significant growth in productivity, employment and output for rural areas and for the UK economy overall: The trends could be expected to boost rural productivity, potentially enabling it to catch up with productivity in urban areas. Productivity in rural areas is currently around 83% that of urban areas including London and 94% of urban areas excluding London. If the gap between productivity in rural areas and productivity in urban areas, excluding London, was to close completely over the next ten years, assuming annual average productivity growth of 1.9% for urban areas based on the Office for Budget Responsibility's latest projections for UK productivity growth overall,¹⁹ then annual productivity growth for rural areas would average around 2.5%. GVA per worker for rural areas would increase from around £40,234 (2012) to £53,777 in real terms by 2025 leading to increased real earnings in rural areas. The overall rate of productivity growth for the UK could be raised above the OBR's central projection²⁰.
- Expanded economic opportunities in rural areas, combined with continued movement of people to rural areas (with lower outflows of younger age groups) and increased labour market participation, particularly of women²¹, could offset aging demographics and lead to significant employment growth in such areas. ONS population projections suggest that the rural population is likely to increase by 6% between 2015 and 2025. If employment in rural areas grew at the same rate as rural population then the level of employment would increase by over 300,000 by 2025.
- If realised, such increases in productivity and employment for rural areas would deliver higher output. GVA in rural areas could increase by around £35bn compared to what it might otherwise be – with national productivity increases and zero overall employment growth.

Government support for rural growth

4. The UK government is actively supporting these trends and positive outcomes associated with them by facilitating connectivity of rural areas and through policies to promote skills and the right conditions for business growth.

¹⁹ Office for Budget Responsibility, Economic and Fiscal Outlook, December 2014. The OBR projects a return to historical trend annual productivity growth of around 2% by 2019.

²⁰ In its fiscal scenarios, the OBR notes uncertainty around productivity projections and includes both an upside and a downside scenario.

²¹ The proportion of females living in rural areas and working full time in 2012 was 52.2% compared to 58.8% of females living in urban areas (*Statistical Digest of Rural England*)

Facilitating improved connectivity

- Expanding broadband access is critical. The Government is investing £780m to achieve 95% superfast broadband coverage by 2017 and approximately £13.1m under the Rural Community Broadband Fund to reach less accessible areas. As of November, over 1.5 million premises had been given access with Government funding. The Government is continuing to explore solutions to meet near universal superfast broadband coverage, including through a £10m investment to market test pilots to explore delivery options for the final 5% hard-to-reach premises. A study commissioned by DCMS suggested that the government's initial investment to achieve 90% coverage could result in annual gains of £6.3bn by 2024, with £3.3bn of these accruing to rural areas²². With the extension to 95% superfast coverage and potentially beyond, the benefits will be greater and a larger share of could be expected to accrue to rural areas.
- A £150m Mobile Infrastructure Project is building new mobile communications masts to benefit people living and working in 'total notspots'. Two masts are currently live and are providing mobile services in North Yorkshire and Devon.
- As part of its infrastructure plan, the Government recently announced £15bn investment in roads infrastructure²³. Part of this will help promote rural connectivity. For instance, planned schemes to upgrade the A303 connecting the South West and the A1 to the North will improve physical connectivity of the large number of areas in these regions.
- The flat vehicle fuel duty also supports connectivity for rural areas by managing transportation costs, rural populations having greater reliance on private car use.
- The Government's 5-year, £38 billion plan to transform Britain's railways includes projects such as electrification of the Great Western Main Line that will improve overall connectivity of rural areas.

Creating the right conditions for business growth

5. The Government has put in place measures targeted specifically at supporting businesses in rural areas:
 - Five pilot Rural Growth Networks (RGN) have been established to tackle the barriers to rural economic growth by providing tailored business support programmes and assistance for women-led enterprises. These cover Cumbria, the Heart of the South West, the North East, Swindon/Wiltshire and Warwickshire and will continue until September 2015. Provisional figures suggest that between October 2012 and September 2014, the 5 RGNs together had assisted over 2,000

²² SQW, 2013.

²³ DfT, Road Investment Strategy, December 2014.

businesses, given advice to over 800 individuals who were interested in starting a business and created or safeguarded over 500 jobs.

- Through the Rural Development Programme for England over 10,000 jobs have been created in England and a further 10,880 safeguarded through business support and skills measures.
 - To support rural tourism, Government has invested £12 million in Visit England's marketing campaigns, and £6 million (through the Rural Development Programme for England) in projects to make rural destinations more attractive and accessible.
 - Government is working with rural food and drink businesses through the International Food and Drink Action Plan to help them export the goods they produce. Exports are targeted to grow by £500m before October 2015.
6. Rural businesses can also expect to benefit from general government measures aimed at improving business conditions, particularly small businesses, recently including:
- Doubling of the Small Business Rate Relief and capping the annual increase in business rates at 2% from April 2015 to March 2016;
 - An increase in the 'high street discount' on business rates for small businesses from £1,000 to £1,500;
 - Further support for the British Business Bank to create more effective and efficient finance markets for small and medium-sized businesses across the UK;
 - A £20m package of support for first-time exporters;
 - £2m of support through Local Enterprise Partnerships to help small businesses 'Do More Online'.

Strengthening skills

7. The Government has put in place measures specifically for rural areas, such as:
- Managing and part-funding the Skills and Knowledge Transfer Programme, a range of training and networking programmes for business people in rural areas;
 - Funding is provided by Defra and through the Rural Development Programme for England for UK RuralSkills partners to provide training in management and business skills to farmers across England.
8. More generally, the Government has met its commitment to deliver 2 million apprenticeships this parliament, and has recently removed National Insurance Contributions on apprentices under 25. Other measures include the introduction of 'study programmes' and reforms to vocational qualifications for 16-19 olds.

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