

Rural Economy Growth Review

On **29 November 2011**, government announced a strong package of new measures designed to stimulate sustainable growth in the rural economy and help rural businesses to reach their full potential. This package, led by Defra, was produced as part of government's "Growth Review".

The Review generated a range of evidence about the rural economy in England. This report provides an overview of the evidence base most relevant to the Rural Economy Growth Review. The breadth of the coverage necessarily curtails some of the detail, and where regulatory measures have been identified and are to be taken forwards, impact assessments will be developed in line with standard procedures.

The Rural Economy Growth Review carried out in 2011 looked at evidence on:

- The Economy in Rural Areas
- Growth Performance
- Supporting Growth in Rural Areas
- Equality Analysis

Note: the evidence and data presented in this report were the latest available to feed into the review conducted in 2011. More up to date evidence may be available in the Rural Statistics area of the website.

The Economy in Rural Areas

Businesses in rural areas make a substantial contribution to the national economy. In England they generate around 22% of employment and 19% of Gross Value Added (GVA), equating to £200bn in 2008. Recent population trends suggest that the importance of rural areas to national growth will continue to grow. Between 2001 and 2009, the population of England's rural areas grew 10% faster than in urban areas. Counter-urbanisation is a reasonably established trend in England although there is some evidence the trend is slowing.

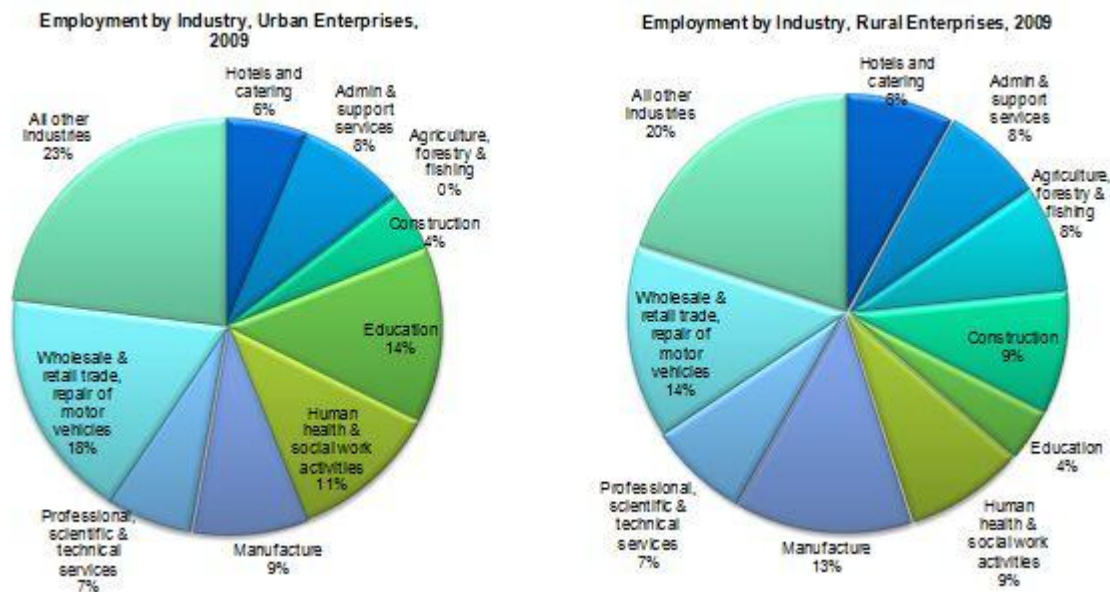
There are strong interdependencies within rural areas (e.g. market towns and their rural hinterlands) and between rural and urban areas. For example, the last Census showed 2.1m rural residents working in urban areas (compared with 2.3m rural residents working in rural areas) and around 1.1m urban residents working in rural areas.

At the aggregate level, the industrial composition in rural England is broadly similar to that of England as a whole. In terms of GVA, the agricultural, forestry and fishing sectors together only accounted for 3% of the economy in Predominantly Rural districts. Public administration, education and health services make up over a quarter of GVA in rural districts (vs. 23% in Predominantly Urban districts). Business services/finance also account for around one quarter of rural GVA, although this is a lower share than in urban districts (39%). Primary production makes a relatively important contribution to rural GVA (17% compared with 11% in urban districts).

Aggregate differences are more apparent when looking at employment, as the data allows a lower level breakdown of industries. There are higher shares of rural

employment in agriculture, construction and manufacture, and lower shares in education, wholesale and retail trade. This can be seen in Figure 1 below.

Figure 1: Breakdown of employment by sector, rural and urban enterprises



Source: Interdepartmental Business Register, 2009

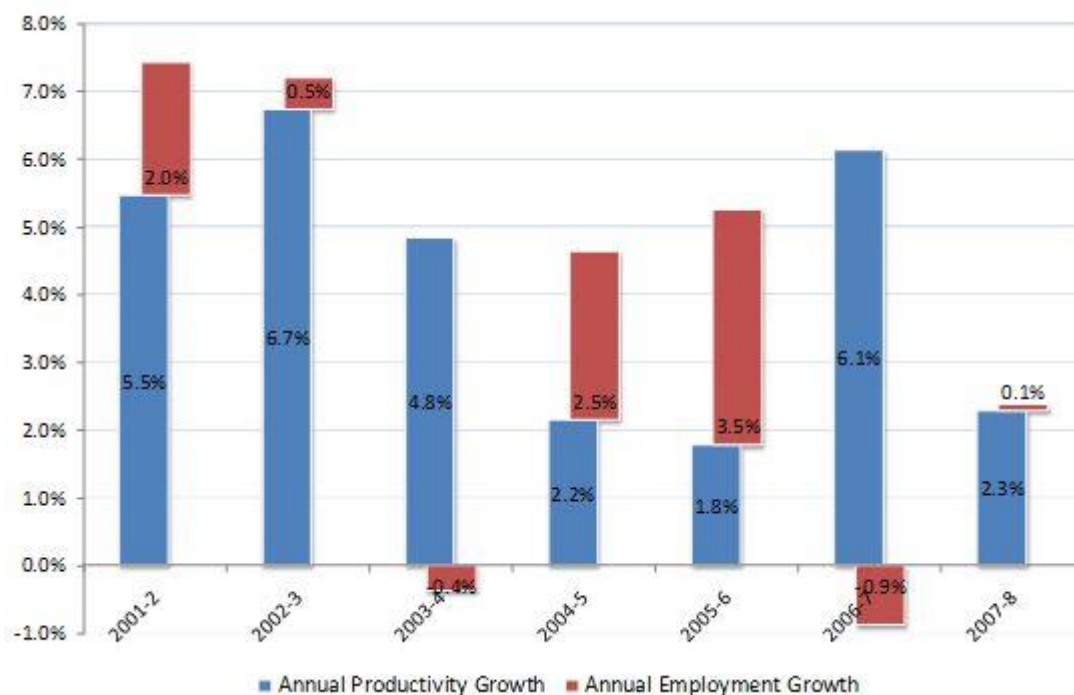
Smaller businesses (with fewer than 50 employees) play a relatively strong role in rural areas, accounting for over 1/2 of employment in rural areas compared with around 1/4 in urban areas. Conversely, large firms employ a relatively small share of labour in rural areas compared to urban areas.

A further difference worth noting is that rates of home working are more than twice as high in rural areas as in urban areas. In sparse rural areas, 13% of employees and self-employed work from home (and in hamlets and isolated dwellings the figure rises to 15%), compared with only 3% in urban areas.

Growth Performance

In the long term, productivity increases will expand the productive capacity of rural areas and the national economy as a whole. Over the last decade, rural areas have been relatively successful at creating jobs but slightly less successful at increasing productivity compared with England overall. Between 2001 and 2008, workforce jobs increased by 7.4% in rural areas compared with 4.7% in England as a whole. Over the same period, productivity (GVA/workforce job) increased by 33% in rural areas (nominal terms) compared with the England average of 36%.

Figure 2: Annual Growth in Employment and Productivity



Source: Annual Business Inquiry, 2001-2008

At the aggregate level, differences in productivity between urban and rural areas are significant but should not be overstated. London has outperformed the rest of the country in terms of productivity growth in the last few years, and its size has a considerable impact on the England average. If London is excluded, Major Urban districts are only around 6% more productive¹ on average than the most rural districts (where at least 80% of the population live in rural areas or larger market towns).

Supporting Growth in Rural Areas

Despite the strong economic performance set out above, there remains a gap between rural and urban areas. And given the significant and increasing role that rural areas play in national sustainable growth, it is a valuable exercise to scrutinise the barriers and opportunities for businesses in rural areas.

In general the same drivers of growth operate in a rural and urban setting, and there is certainly no dichotomy between them. Capital investment, skills, enterprise and innovation are vital components in rural and urban areas. However, one fundamental difference is that rural areas tend to be more distant from economic mass and the associated productivity benefits (or agglomeration economies) for businesses. These benefits include knowledge transfer, thick labour markets, and access to supplier and customer markets. A consequence of being at distance from agglomeration is that knowledge transfer is weaker, labour and skills are more sparsely spread, and upstream and downstream markets are more difficult to access.

¹ Productivity proxied by GVA per workforce job, using 2008 data from ONS Annual Business Inquiry

Forthcoming research for Defra on innovation illustrates how geographic clustering, even in rural settings, can bring some of the agglomeration economies enjoyed by urban businesses. These 'localisation economies' can arise when multiple firms within the same industry co-locate and benefit from a local pool of labour with specialised skills. Promoting stronger networks across clusters may also bring similar economies.

Increasingly, businesses do not need to locate in agglomerations in order to derive such productivity effects. It is an established hypothesis that investing in 'Information and Communication Technologies' can extend the geographical reach of these positive effects. Thus virtual network effects can reduce the so-called 'tyranny of distance'. However, presently 23% of rural households have no or slow (less than 2Mbit/s) broadband, compared with 8% in England overall (this proportion rises to just under ½ of households in sparse hamlets/isolated dwellings). Ofcom research also found higher levels of dissatisfaction with mobile and fixed-line markets amongst rural businesses compared with the UK average.

Through this phase of the Growth Review, we have undertaken a statistical analysis to deepen our understanding of the 'Drivers of productivity' in rural and urban areas.

The National Ecosystem Assessment demonstrates the importance of ecosystem services in the economy and wider welfare. Rural areas are net exporters of ecosystem services, and this is reflected in the industries predominantly found in rural areas. The relative abundance of natural capital is an opportunity for rural areas, and a revealed comparative advantage in terms of the industries that depend on ecosystem services such as agri-food, tourism and renewable energy.

Equality Analysis

i) Profiling of the rural population

Using the Annual Population Survey 2010, we have looked at the profile of the rural population and workforce in terms of the protected characteristics under the Equality Duty. This helps us to better understand the context in which the Growth Review measures will impact. Sample sizes only allowed a consideration of:

- Gender
- Age
- Disability
- Ethnicity

There may also be differences in terms of pregnancy and maternity, sexual orientation, race or religion, and gender reassignment.

This report also looks at some of the potential positive effects and opportunities for promoting equality, and conversely some of the risks to equality arising from the impacts of the Rural Economy Growth Review.

Gender

As you would expect, the gender balance is equivalent in rural and urban areas. There is quite a lot of variation in the gender make-up of employment between industrial sectors. Almost 90% of employees in construction are male, whereas the balance between male and female employees in distribution, hotels and restaurants is approximately 50:50.

In the key sectors examined through the Rural Economy Growth Review (with the exception of renewable energy, where a sectoral definition is not readily applicable), there is a more balanced gender mix. Women account for 48% of rural employment in the agri-food industry and 53% of rural employment in tourism-related activity (higher than the average for all industries, and the respective shares in urban agri-food and tourism). However, the sub-sectors agriculture and food manufacture are more male dominated. This is shown in Figure 3 below.

Figure 3: Gender breakdown by Industrial Sector in Rural Areas

Industrial sector	rural		urban	
	male	female	male	female
agriculture	73%	27%	71%	29%
food manufacture	66%	34%	68%	32%
food retail/tourism	40%	60%	50%	50%
agri-food	52%	48%	53%	47%
accommodation	41%	59%	50%	50%
recreation	53%	47%	54%	46%
food + drinks	39%	61%	51%	49%
tourism	47%	53%	56%	44%
all industries	54%	46%	54%	46%

Source: APS, 2010

Women may face additional barriers to starting businesses. In 2010 the rate of female entrepreneurial activity in all rural locations was 5.3% compared to 9.1% for males.

Age

Due to established migration trends, the rural population tends to be older than the urban population. In rural areas, 30% of the economically active population are under the age of 35, compared with 41% in urban areas. Conversely, 48% of the economically active population in rural areas are over the age of 45 compared with 36% in urban areas.

Around 17% of 16-24 year olds in rural areas are unemployed, compared with around 20% of 16-24 year olds in urban areas.

Both the agri-food and tourism industries in rural areas tend to employ younger workers than all industries taken together. For example, over 32% of employees in rural agri-food and tourism were aged 29 and under, compared with 18% of employees in all industries. The age profile of the agri-food sector is quite heavily

driven by the younger profile of food retail/tourism as compared with the older profile present in agriculture and food manufacture.

Disability

There is no difference in the proportions of rural and urban residents that have a DDA disability (20% of over 16s in both rural and urban areas). There are lower proportions of disabled people in employment than in the population overall. In the agri-food and tourism industries, disabled people account for around 10% of the rural workforce (this proportion is not significantly different in urban areas).

Ethnicity

A substantially lower proportion of rural residents are from ethnic minority backgrounds compared with urban residents (2% compared with 16%)

ii) Opportunities to Promote Equality

Successful job creation in the rural tourism and agri-food sectors has the potential to positively impact on the gender equality of employment. In addition, funding has been made available over the next three years to support rural enterprises led by women, particularly in Rural Growth Networks. Enabling more flexible use of farm buildings may also make a contribution to the gender equality of employment in some localities as farms (predominantly employing male workers) may be opened up to further retail and service opportunities.

Given the older age profile of rural residents, increases in general rural employment may increase the proportion of older working age people in work. However, this will be offset by some extent if employment increases come disproportionately from the agri-food and tourism sectors. The forestry apprenticeships, in addition to any apprenticeships stimulated by the Rural Growth Networks, may be of particular benefit to younger people looking to find employment.

Other measures within the package are expected to have a positive impact on equality of opportunity. Extending the reach of high speed broadband will enable more people to access services online, mitigating some of the access issues faced by older people and disabled people (and their carers). The North Yorkshire broadband pilot will involve working with partners in local government, the Race Online 2012 team and the business community to help ensure that businesses and individuals are ready to take advantage of the forthcoming investment.

iii) Risks to Equality

Successful job creation in rural areas may have a marginal impact on the ethnicity of employment overall, as a lower proportion of rural residents are from ethnic minority backgrounds.

The new grant schemes (e.g. for community broadband and renewables) will need to be carefully designed so they are accessible to as wide a population as possible. Where regulatory measures are to be consulted upon or implemented, impact assessments will be developed and a more detailed equality analysis conducted.