

Newcastle Institute for Social Renewal, Newcastle University  
Centre for Rural Economy, Newcastle University

# Independent Economic Review of the North East: Rural Report

The potential contribution of the NE rural economy

## INDEPENDENT ECONOMIC REVIEW OF THE NE:

### RURAL REPORT

#### Highlights

- The NE rural economy is not primarily land-based but has become a more mixed economy, with the public sector the most important in generating GVA.
- It makes a surprisingly high contribution to the NE economy on a number of indicators: proportion of enterprises, proportion of employment and proportion of GVA, but the contribution varies between places and sectors.
- Growth orientation is particularly high amongst rural businesses in the Manufacturing and Professional, Scientific & Technical sectors, and among newcomer-owned firms.
- These growth aspirations are constrained by the financial climate, lack of finance, regulation, recruitment of skilled staff, space constraints, and broadband speeds.
- A high proportion of rural businesses are micro-businesses (0 to 4 fte staff), and about one third of rural businesses are run from home. These may be incubators for future growth.
- Most entrepreneurs who locate into the rural area move from outside the NE region. Only 11% had moved from urban to rural locations within the NE.
- Quality of life is important to many rural entrepreneurs, and the rural area's landscapes, peacefulness, water, wind, etc are important assets for the region and its economy.
- Local peer-to-peer networking provides support to many businesses.
- Recommendations:
  - Investment in high-speed and robust broadband
  - Give the potential of the rural economy prominence in the NE Economic Strategy
  - Address the skills development needs of rural growth businesses.
- Leverage from these measures would be high. Rural businesses' inputs are typically from within the region, while 27% of sales are beyond the region. And entrepreneurs coming to the rural NE typically move from outside the region, so displacement is very low.

#### Introduction

This report addresses the rural economy theme of the NE Independent Economic Review. It is 'expert evidence' from the Centre for Rural Economy (CRE) which carries out high quality research into rural issues and their governance in the NE, the UK and internationally, undertaken on behalf of Newcastle Institute for Social Renewal. We use a fine-grained definition of the rural NE, using Census super output areas, as illustrated in Annex 1. In terms of the statistical data used as evidence in this report, it draws mainly on two studies, both undertaken in 2009:

- A study for OneNE which drew together an Evidence Base for the rural North East using a wide range of existing data sets (referred to as 'ONE Evidence' here)
- The Survey of Rural Businesses in the North East of England, undertaken by staff in CRE which surveyed 957 businesses (referred to as 'RBS' here).

## **What do we mean by the NE rural economy?**

The NE rural economy is a mixed economy, and broadly mirrors the industry sector spread of urban and national economies. As in the urban NE, the key sectors for the generation of GVA are, in descending order: Public sector; Business services; Distribution, hotels and restaurants, and retail (including tourism); and Manufacturing. These four sectors account for about 75% of the rural GVA in the NE. Agriculture, so commonly associated in people's minds with rural areas, makes only a small contribution to the overall GVA or employment of the rural region. However, it is still a significant actor in the local economy of certain parts of the region, and serves as an example of the need for a further breakdown of the rural region for a richer understanding of trends. Typically, differentiations are geographic: the uplands, the coalfield areas, the coastal strip, for example. More analytical classification is provided in the ONE Evidence which used cluster analysis to map seven socio-economic typologies for the rural NE (again see Annex 1).

Location matters to rural businesses. As with their urban counterparts accessibility is important, and can be particularly problematic in remoter areas. For some NE rural businesses, their location in a rural area is central to their enterprise. Some need extensive areas of productive land for their businesses (e.g., agriculture and forestry); others want to locate in an attractive working and living environment. This search for beauty and quietness is particularly important for accommodation businesses, and for people looking to relocate to set up businesses, often from home, as a lifestyle choice. The attractiveness of a location can also serve as a brake for growth firms that might want to develop larger premises in valued landscapes.

A dominant feature of the rural economy in the NE as elsewhere in rural England is the number and density of microbusinesses (less than 10 fte employees). ONE Evidence found that 65% of the rural business stock was in the 0-4 category, although this is likely to be an understatement as a significant number of very small and/or home based businesses are underreported in official statistics. The RBS found 88% of business respondents in this category, that 20% of businesses were registered as sole traders. Homeworking was common (38% of respondents). This was an attractive option for incomers, and homeworkers were more likely to be graduates than for businesses in general. The bond of many businesses with their household and social life was also evident in that: half reported involving their spouse/partner in the business (paid or unpaid); half said that one of their main motivations in setting up the business was a personal interest they wanted to develop; and that for newcomers in particular, changing their work/life balance was an important motivation.

Overall, the RBS shows that rural NE businesses mainly serve, and are served by, local and regional markets. However, some sectors have a more national orientation than others: the professional, scientific and technical sector regularly sold its services in this way (35% of its sales) and the wholesale and retail sector regularly sourced supplies in this way (43% of supplies).

However, while highlighting some of the special characteristics of the economy of the rural NE, it would be wrong to think that this is a bounded, local economy. It relates symbiotically to the NE and national economy: it is part of a complex system of flows of people, products, and raw materials.

## **What is the NE rural economy's economic contribution to the North East and UKPLC?**

Aggregate statistics provide mixed messages about the relative economic contribution of the rural region to the NE economy. According to ONE Evidence, the rural NE economy provides:

- 44% of the enterprises
- 26% of the employment,

- 14% of the turnover, and
- 25% of the GVA of the region's economy.

With only 18% of the working age population of the NE living in the rural areas, some indicators suggest an impressive contribution. However, aggregate turnover figures are low, and productivity (GVA per employee) in the rural NE (using 'rural county' proxies) is lower than for the region as a whole. Its aggregate GVA and productivity contributions to the region compare unfavourably with the contributions of other rural regions. GVA per capita in the NE rural counties is lower than for the region as a whole which in turn is below the England average. Growth in GVA per capita between 2002 and 2006 was 22% for the NE as a whole, but only 14% for County Durham and 16% for Northumberland. A descending ranking of the 39 rural counties in England, comparing their GVA per capita with the corresponding region as a whole, shows Co Durham at 35 and Northumberland at 29.

Such overall statistics for the rural NE mask some significant variations. For example:

- Co Durham's GVA contribution from 'production'<sup>1</sup> is 25%, higher than the NE average.
- While overall rural productivity is lower than for the region as a whole, construction in the rural region exceeds the regional figure, as does business services in Northumberland.
- Three rural 'districts' (Tynedale, Castle Morpeth, Durham) are in the top four performers on the Competitiveness Index for the NE, but some others are in the least competitive category.

The full contribution that the rural region makes to NE economy is somewhat masked by static and traditional economic statistics such as these. A common pattern is for a business to start up in a rural area, to grow, and subsequently relocate to a more urban setting, in particular because of the inadequacy of sites and premises and difficulties in recruiting skilled staff. In this way, rural areas incubate businesses which may subsequently become growth firms elsewhere.

Just over half of the businesses in the RBS wanted to maintain their current position, rather than grow. These 'steady state' rural businesses make an important contribution in providing local employment and ensuring the flexibility and diversity of local economies. Many provide products and services to other businesses and consumers locally, and/or source their supplies from the local market. Steady state firms can also provide many of the amenities that generate an attractive living and working environment for high growth firms and entrepreneurs. Farms that are part of the local tourism offer would be examples of these steady state firms.

The rural NE also contributes significantly to the NE economy by providing untraded cultural and environmental goods. It manages many of the natural and landscape assets of the region which are consumed directly or indirectly by urban NE businesses and their employees. The landscapes, peacefulness, wind, water and other natural resources remain of economic importance.

### **What are the NE rural economy's prospects for economic growth?**

Although typically small, many rural businesses have entrepreneurial/growth potential:

- The six highest rates of business formation by NE district are rural (ONE Evidence)
- Microbusinesses do not necessarily have low turnover: in the £250-499k turnover category 88% were microbusinesses; in the £500-999k category, 59% were microbusinesses (RBS)
- Almost half the RBS survey respondents reported some form of innovation in the last 5 years
- At the time of an economic downturn (2009), 43% of RBS respondents were looking to expand their business activities in the next two years.

---

<sup>1</sup> The ONS use 'production' terminology to denote manufacturing, mining & quarrying, utilities.

The table below gives data, derived from the RBS, about the four sectors with firms most likely to plan growth (34% of firms in the Construction sector anticipated growth in the next 2 years, and 29% in the Agriculture sector).

	<b>Manufacturing</b>	<b>Professional, Scientific and Technical</b>	<b>Accommodation and Food Services</b>	<b>Wholesale and Retail</b>
<b>Planning expansion in next 2 years (%)</b>	57%	45%	45%	44%
<b>Profit level at more than 10% of turnover (%)</b>	31%	58%	24%	29%
<b>Profit level increasing over last 5 years (%)</b>	49%	46%	38%	32%

Of these, attention is drawn to the Manufacturing sector which shows the strongest inclination to grow, and also reports the strongest profit growth trend amongst its firms, and to the Professional, Scientific and Technical sector which has the second highest scores for both these indicators, and the highest proportion of firms with profit levels at more than 10%. Analysis of the RBS also showed other differences:

- Aspirations to grow generally increase with size of turnover
- Businesses with 10-49 employee FTEs display the highest growth orientation in the short term; medium firms (50 – 249 FTEs) show the highest growth orientation over 10 years.
- Newcomer-owned firms have a 49% growth orientation in the short term (38% for locally-owned firms).

However, for the business types identified as having stronger growth orientation to achieve their potential, they need a supportive economic context, including: markets where they can sell their goods and buy their supplies; the services of private sector advice and business support companies and of local steady state firms; and peer support networks. They will also need the public sector, using a range of mechanisms to enable growth in rural areas.

### **What barriers currently exist that are inhibiting this growth, and how can they be overcome?**

Rural businesses, proportionately, are about as likely to aspire to grow as urban businesses. Evidence from the RBS about the key factors currently inhibiting growth emphasises:

- Anxiety about the current economic climate
- Increased regulation affecting the business
- Shortage of finance in the business/high cost of borrowing
- Broadband speeds that would be inadequate for their business needs in the future.

Firms in four sectors were identified above as having higher growth orientation than the others. Analysis of their responses shows that:

- All concurred with the constraints listed above
- All also cited the recruitment of skilled staff as an important constraint
- All except the Professional, Scientific and Technical sector included the space on their current site in their top five constraints
- Almost half the businesses in the highest growth oriented sector (Manufacturing) anticipated that broadband speeds would not be adequate in the future.

The RBS also asked businesses what measures would enable them to grow. Overall the most important measures, in descending order, were:

- better access and adjustment to national and regional business development programmes and grant funding
- better access to new IT
- better access to private capital
- working in collaboration with other business
- better access to skills/training programmes
- closer relationships with business support agencies.

Within this, there were some differences between types of firms:

- For firms with 10-49 fte employees, access to private capital was the most popular measure
- For firms in the Professional, scientific and technical sector, better access to new IT was in first place.

Understanding the constraints for existing businesses and what measures they think would enable them to grow is an important aspect of encouraging growth of the NE rural economy but so too is consideration at a more strategic level of the constraints to growth in the rural region and of the measures that might encourage it.

A major concern for those interested in developing the rural economy (in the NE and elsewhere in Britain) is that although there is a wealth of analysis which has identified the potential for growth in rural areas, accepted wisdom is still that cities are the (only) growth engines of the modern economy. As a result, growth initiatives such as city-regions, Enterprise Zones, City Deal and Regional Growth Funds are usually urban oriented. There is a need to embrace the growth contribution and potential of rural economies.

The land use planning system has also contributed to a conceptualisation of rural areas as places to be preserved rather than developed, which has been reinforced by the nation's deep cultural attachment to the 'English countryside' idyll. Central government has made changes to the ethos of the planning system with the 'presumption in favour of sustainable development' written into both the National Planning Policy Framework and the neighbourhood planning aspects of the Localism Act, which could have a significant impact in rural areas. However, as the TCPA's vision for rural England explains, it will be important for the local planning system to take into account special rural issues: the need for affordable housing, developing effective and sustainable transport networks, and encouraging new businesses and homeworking, for example.

Helping existing businesses to grow is one type of measure to enhance the rural economy; encouraging new people to set up businesses is another. Incomers are more likely to be growth oriented than businesses run by local people, and are more likely to introduce innovations and work with external organisations to do so. Measures to encourage more businesses or individuals with business acumen, and especially returnees, into rural areas would be beneficial. Changes in the planning system, if implemented effectively at the local level would help to alleviate some of the constraints to such flows.

Moreover, increasingly businesses are becoming dependent on high-speed broadband, and this was being flagged by growth sectors as a significant constraint back in 2009. Government plans to ensure that the 'final 10%' of premises nationally (estimated as about half of all rural premises) are given at least 2mbps by 2015 seem woefully inadequate. In the case of Northumberland, a particularly sparse county, the County Council estimates that between 20,000 and 25,000 of

premises (13-16% of the total) will be in this category. The Council is also concerned that many rural premises will be connected to 'superfast broadband' (currently defined as at least 24 mbps) with less than state-of-the-art technologies which might not allow upgrades – speeds of over 100 mbps are now available to SMEs in Newcastle.

### **How can rural businesses work effectively with other partners in the NE area to maximise economic performance?**

There is a culture of collaboration in many rural areas. Locally rural businesses link with others in Business Associations, Chambers of Trade, or local branches of national organisations (e.g., Federation of Small Businesses, National Farmers' Union, Women in Rural Enterprise). They also may link locally with cross-sectoral partnerships such as those coming together over community-led planning (e.g., Parish Plans and the new Neighbourhood Plans), Market Town initiatives, and the LEADER Local Action Groups; however, it is often difficult for these partnerships to encourage much participation by the business sector. There are also examples of a number of bottom-up, business-led collaborative initiatives such as the Northumberland Art Tour which organises an annual open studio event to promote creative businesses, often in remote rural areas.

Local Business Associations are often hubs of the more profitable firms. The effectiveness of such collaborations between rural businesses should not be underestimated. Benefits include allowing them critical mass for buying goods, allowing them to collectively market their products/services more widely, making savings by sharing premises or back office functions, or working together to address a local concern (flooding, for example) or constraints on growth. However, these small and generally voluntarily run local networks which represent many businesses are often below the radar of public bodies, LEPs and larger business associations. There is a need to support the development of rural business networks, their capacity to overcome locally identified growth barriers and the strengthening of their voice within wider economic development circles.

Considerable potential exists for rural areas to be important sources of innovation in the NE, but 'innovation' is typically framed in a narrow sense as a process led by experts in large organisations such as businesses with R & D departments and Universities. However, the RBS found that many small rural businesses had introduced innovations, and the rural economy would appear well-placed to lead on innovations associated with demographic ageing, renewable energy technologies and the wider 'green' economy. Very few rural businesses connect to the Newcastle Science City initiative, and if rural business innovation is to be encouraged and valorised it will be important for Science City and its innovation hubs to actively develop linkages with rural firms.

The NE has recently won DEFRA funding for a rural growth network. One strand of this will provide a number of physical hubs in rural places where individual firms can work together. Not only can resources be shared, but also collaborative networks can develop between businesses to support growth and counteract problems of isolation, and to support new businesses. The second strand of the rural growth network will develop three networks to foster enterprise and innovation in the rural economy more generally.

Research has shown that one of the keys to fostering enterprise and innovation in rural economies is through training **and** mentoring schemes. Starting a business is often as much a social decision as an economic one. The switch from being an employee to an entrepreneur requires the development of a whole new skill set. This knowledge is both formal, i.e. protecting IP rights or dealing with the tax system; and informal, i.e. getting involved in supplier networks or collaborating with other businesses to win contracts. Mentoring also provides the necessary social and cultural support new

business often need when starting out on what can be a lonely path of entrepreneurship exacerbated by the remoteness of rural businesses and the isolation of the many home-based businesses employing only the business founder.

### **Which cross cutting issues matter most to the NE rural economy's growth potential and why?**

Economic development planning and innovation strategies have served to marginalise the potential of rural areas as sites of growth, innovation, prosperity and security. There is a clear requirement for more effective 'rural proofing' of policies so that they address the special nature of opportunities and constraints in the rural economy.

In a similar vein, the land use planning system to date has severely constrained development in rural areas. This is particularly acute for businesses in certain sectors, and for businesses that want to expand their premises beyond a size deemed rurally appropriate. Through constraining housing development, the planning system has also been significant in making local housing unaffordable to many potential employees. Rural roads are generally of poorer quality than in urban areas, with less winter maintenance, (and there are rarely other transport options) and this can cause access problems for some remoter businesses. It is, however, the need to travel coupled with a lack of public transport that constrains business more than the hard infrastructure. Many employees cannot afford to live near their work, and therefore have to travel; owning a car becomes essential for them. Accessing postal systems, banks and cash machines can involve significant journeys. One business in Teesdale told our researchers how they had to make a 24 mile round trip to find a postbox with an aperture large enough to take an A4 letter.

Recruiting skilled staff is an important constraint for many rural businesses, and accessing formal training programmes for existing workers can be difficult: these small firms have very limited resources and are often at a distance from training centres. More local and less formal approaches to skills development are often more effective in providing the knowledge that can stimulate growth. Examples would include the collaborative work of local business associations and business to business mentoring.

For rural businesses, it is often the overlaying of a number of NELEP's cross-cutting themes that constrain or enable their growth. So, for example, public policy, land markets and journey distances/time/cost all contribute to constraints in the local labour market. And in many cases, relatively mundane aspects of the NELEP's cross-cutting themes can be very important: under 'infrastructure', for example, rural businesses might give as much attention to the location of a cash point or a postbox as to large civil engineering projects. It is also important to note how many rural businesses operate in ways that cross between economic, social, and environmental domains rather than solely in the economic realm as described by the NELEP cross-cutting themes.

### **Three evidence based reasons for further public and private sector investment in the area**

*1. Investment in high speed broadband infrastructure* is essential if the rural economy is to grow. The potential for ICTs to make a significant difference to the rural economy was, perhaps, visionary dreaming 20 years ago, but could now be realised if broadband speeds in rural areas matched those in the rest of England. The economic growth potential of superfast broadband, as recognised by the government in investing through BDUK, is as essential to rural businesses as to those in the rest of England. However, this public investment will not provide superfast broadband to many rural businesses; nor will the promise of 4G mobile coverage 'everywhere' be realised without a nearby



fibre connection (which will not be available in many rural areas). Without high-speed broadband, existing growth oriented firms are unlikely to remain and entrepreneurial incomers and return migrants are likely to be deterred.

*2. Ensure that the contribution the rural NE can make to the NE's future prosperity is prominent in the NE Economic Strategy.* The economy of the rural NE is rarely portrayed as dynamic in such strategies; instead urban areas are thought to be the engines of growth with rural areas passively waiting for 'trickle down' effects. In order to reinforce this change in thinking, the wider region needs a more nuanced understanding of the NE rural economy. Such understanding would be enhanced by learning from the NE Rural Growth Network, and by developing detailed data gathering and analysis on the NE rural economy.

*3. Enterprise development schemes which create a more resilient and entrepreneurial rural economy* The development of the personnel for rural businesses needs addressing; publicly funded schemes to date have generally failed to impact on rural microbusinesses. The approach needs to combine formal training and advice with informal mentoring schemes. The former has to address the needs of tiny businesses, perhaps run from home, in remoter areas; the latter means giving support to local and/or voluntary networks of businesses.

*What difference would this make?* There is evidence that supporting rural businesses in these ways would lever growth in the wider NE economy, both through accessing external markets and through purchasing inputs locally. On average 27% of rural firms' sales are beyond the region (over 100 miles away), so a significant proportion of rural growth will access markets beyond the NE. For sectors with higher propensities to grow, the proportion is higher – manufacturing 36%, professional, scientific and technical 46%, and accommodation and food services 36%. At the same time most of rural firms' inputs (68%) are purchased from within the NE region. For accommodation and food services, 93% of supplies are bought from within the NE.

Finally, there is no evidence that supporting the rural economy would have displacement effects on the region's urban economies. The RBS showed that 45% of rural entrepreneurs moved into the rural NE as newcomers from elsewhere, but only 11% of these had moved from urban to rural locations within the NE. More than half came to the rural NE from elsewhere in the UK. National surveys have shown that many young family and active older households aspire to live in more attractive market town and village environments, and some of these start businesses. This is a real competitive advantage which the NE can offer to attract a 'creative class' of in-migrants.

## **Key Sources of Information**

Atterton, J. and Affleck, A. (2009) **Rural Businesses in the North East of England: Final Survey Results**, at <http://www.ncl.ac.uk/cre/publish/researchreports/index.htm>

DEFRA (2012) **Statistical Digest of Rural England 2012** at [www.defra.gov.uk](http://www.defra.gov.uk)

ONE North East (2009) **Rural Policy Support One North East: The Evidence Base Section B – Data**, at [www.nerip.com/library/view.aspx?id=1059](http://www.nerip.com/library/view.aspx?id=1059)

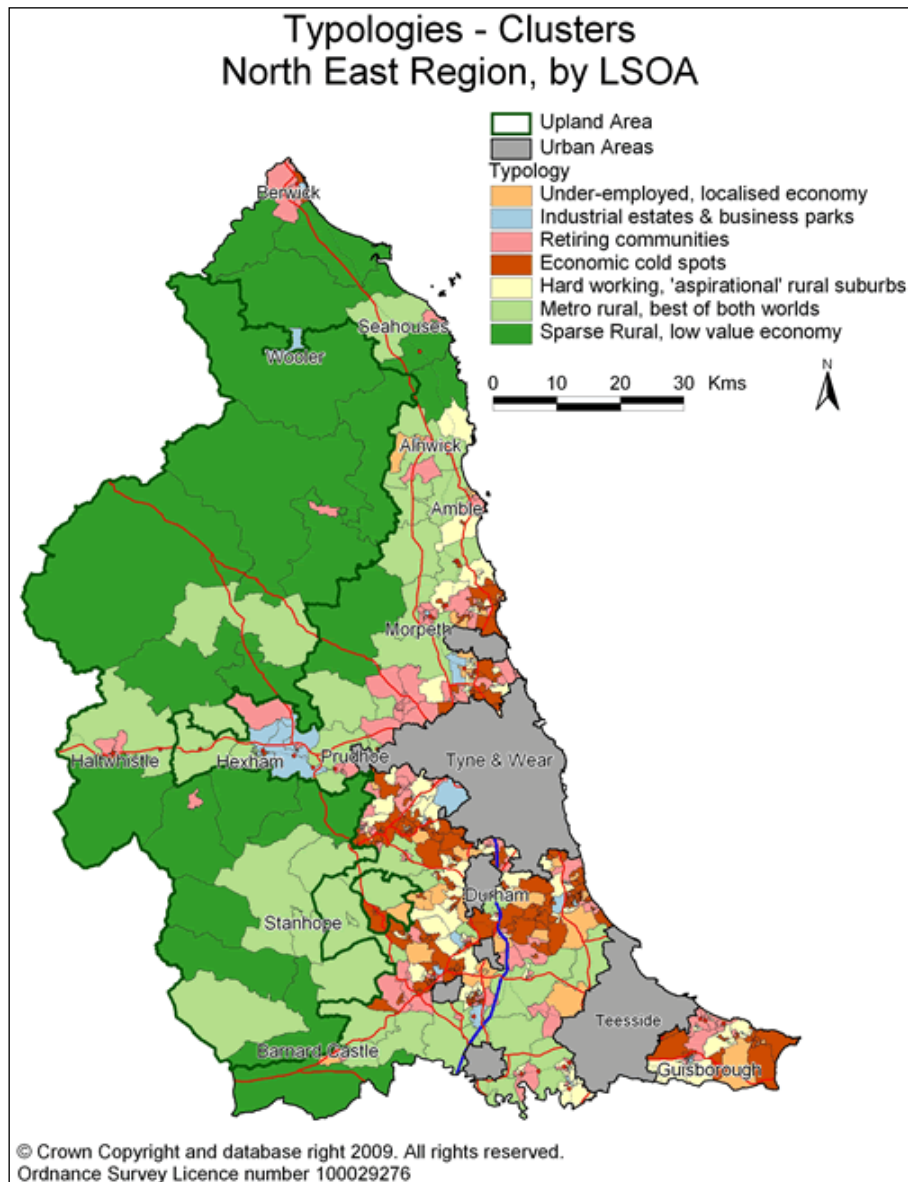
Phillipson, J., Shucksmith, M., Turner, R., Garrod, G., Lowe, P., Harvey, D., Talbot, H., Scott, K., Carroll, T., Gkartzios, M., Hubbard, C., Ruto, E. and Woods, A. (2011) **Rural Economies: Incubators and Catalysts for Sustainable Growth, submission to the government's growth review**, at <http://www.ncl.ac.uk/cre/publish/otherpublications/>

Shucksmith M (2012) **Future Directions in Rural Development**, Carnegie UK Trust. [http://www.carnegieuktrust.org.uk/publications/2012/future-directions-in-rural-development-\(full-report\)](http://www.carnegieuktrust.org.uk/publications/2012/future-directions-in-rural-development-(full-report))

## **Contributors**

Mark Shucksmith  
Hilary Talbot  
Jeremy Philipson  
Frances Rowe  
Carmen Hubbard  
Paul Cowie  
Rob Newbery

## Annex 1



Source: ONE (2009) Rural Policy Support One North East: Working Paper 2,  
[www.nerip.com/library/view.asp?id=1059](http://www.nerip.com/library/view.asp?id=1059)