# Cultivating rural growth

## Recognising and addressing the post-pandemic rural productivity challenge

August 2021

RURAL SERVICES NETWORK

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## A report for Rural Services Network

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**Disclaimer**

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# Contents

# Introduction and summary

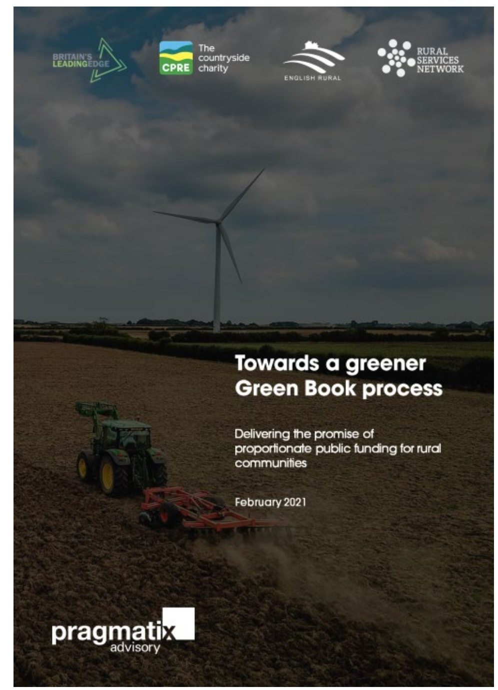
# Recognising rural communities' specific needs

## Looking at Levelling Up through a non-urban lens

Over the past year, Rural Services Network and its partners have commissioned three studies from Pragmatix Advisory to help inform policymakers on the nature of the economic challenges faced by rural communities and encourage debate on what needs to be done to stimulate their lasting recovery and revitalisation beyond the pandemic.

This report summarises some of the emerging key themes and recommendations.





## The rural challenge

The challenge of levelling up disadvantaged communities is one which is as much, if not more, about differences within regions as between regions. The gaps between rural and urban can be more acute than those between north and south.

There has been increased focus in recent years on the economic gap between northern England and the southern regions, including the extent to which there are differences in levels of government expenditure. Since the 2019 general election, the so-called 'Red Wall' constituencies which flipped from Labour to Conservative have provided both political and journalistic loci for the 'levelling up agenda'. But, the 'north-south divide' trope fails to capture the complexities of England's socio-economic disparities and inequalities.

Rural areas face the triple whammy of higher costs, lower funding and greater need. Lack of economies of scale mean delivery of services in rural areas will likely cost more than in urban locations. But despite this, public sector spending per head is higher in regions with a greater share of the population living in urban areas. This urban-centric bias has a particularly acute impact on the rural regions with no major cities that make up Britain's Leading Edge*.

The way in which government allocates spending spatially is placing rural communities at a disadvantage - and failing to unlock the opportunities they can offer to the nation as part of a digitised, decarbonised and decentralised modern economy.

**Productivity**

- Industry mix in rural areas is constrained by limits of geography and scale
- Rural jobs have lower rates of productivity, even in key sectors like manufacturing and tourism

**Standards of living**

- Lower wages and higher living costs squeeze rural living standards
- Official statistics fail to capture rural poverty and low earners

**Housing**

- Beyond London, problems of affordability are most acute in rural areas, with key workers priced out of their communities
- Building new affordable rural homes is essential to meet growing demand – and will help to boost public finances

**Funding**

- Rural areas are in receipt of proportionally less government funding
- Appraisal mechanisms and priority frameworks favour urban locations
- Focussing on real incomes should determine areas in need of 'levelling up'

* collaboration of twelve rural upper tier local authorities with no major cities (see appendix)

# Productivity challenge

# Distinct business mix brings its own challenges

**The mix of industries found in rural communities is limited by the constraints of geography and scale.**

Although a wide range of businesses can be found in rural areas, three sectors are often over-represented: farming, fishing and agri-food; manufacturing; and tourism.

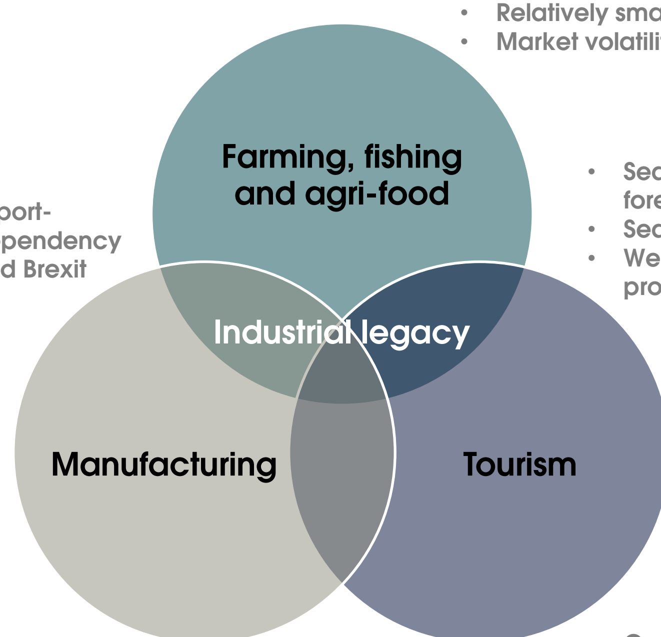
There are other over-represented or critical sectors – such as the creative industries, retail and personal care. But these three account for almost a quarter of jobs in the most rural locations.

Agri-food, manufacturing and tourism are key drivers of what makes rural different to the rest of the country. And, the specific characteristics and challenges of these businesses are reflected in the overall performance of rural economies.

- Land and natural resource constraints
- International competition and pricing
- Asset rich / cash poor businesses
- Relatively small number of domestic buyers
- Market volatility

- Export-dependency and Brexit

- Seasonal and/or foreign labour
- Seasonality
- Weak marketing and promotion




- Limited local skills pool
- Reliability of supplies and deliveries

- Capacity and bottlenecks
- Relevance in modern market
- Competition for open space

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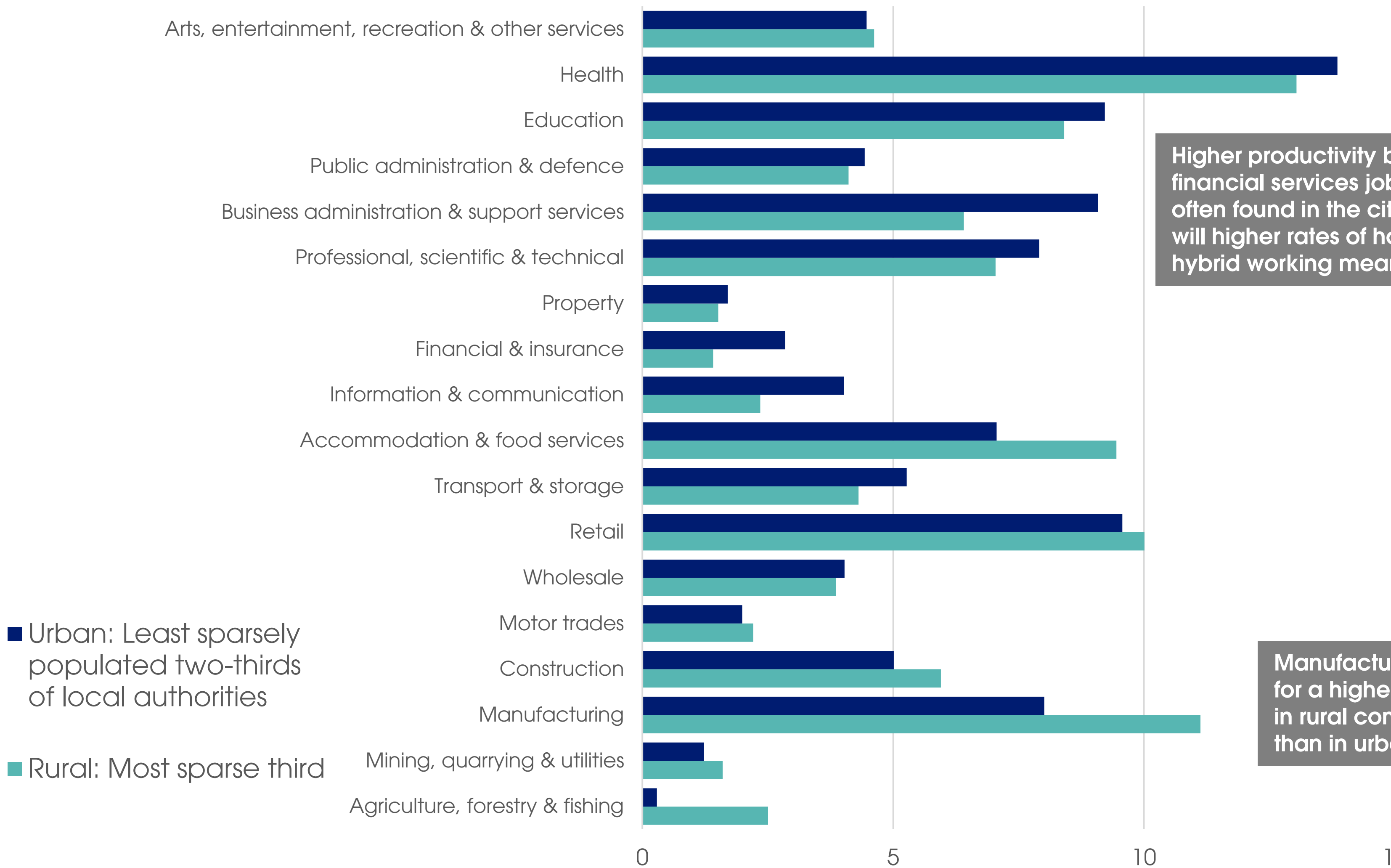
## Employees by sector

Local authorities, Great Britain, 2019, per cent




**Higher productivity business and financial services jobs are more often found in the cities. But what will higher rates of home and hybrid working mean in the future?**

**Manufacturing provides for a higher share of jobs in rural communities than in urban.**



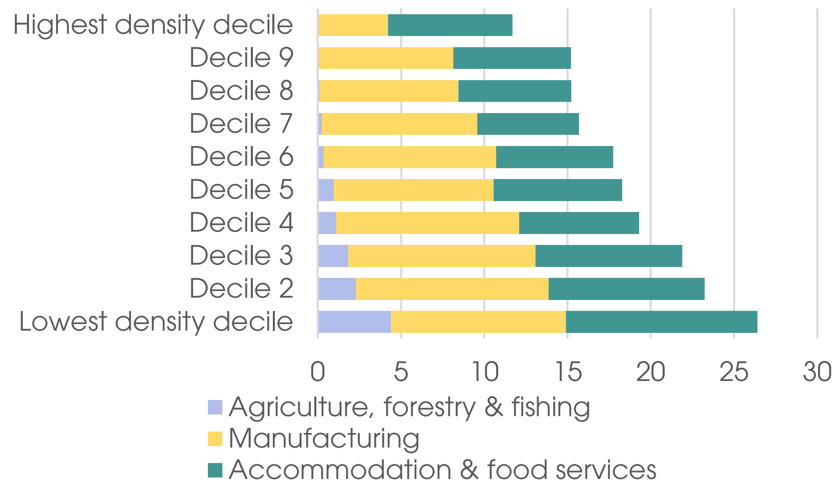
Source: Office for National Statistics

## Tourism, manufacturing and agriculture are three key rural employment sectors.

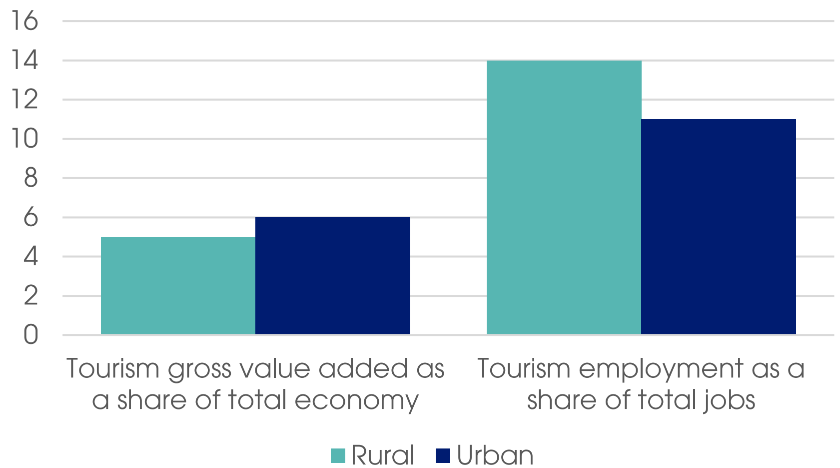
Although the same business sectors can be found in urban and rural locations, the types of activity carried out within specific sectors may vary.

For example, urban agri-food jobs are more likely to be headquarter activities or downstream processing, where wages and 'added-value' are higher, whereas rural will comprise more upstream and farming activities.

**Employment in selected sectors**
Local authorities by population density, Great Britain, 2019, percentage of total employment

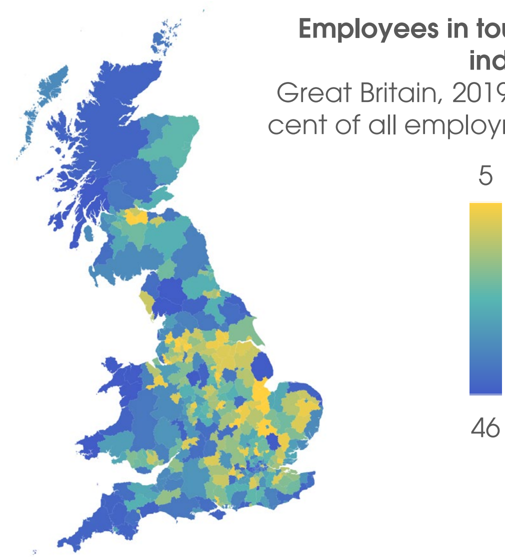



**Tourism-related gross value added and employment**
England, 2017-18, per cent




**Tourism accounts for a higher share of rural jobs than urban, but its contribution to rural economic output is lower.**

**Employees in tourism industry**
Great Britain, 2019, per cent of all employment






Source: Office for National Statistics

# Fewer jobs in higher skilled/valued occupations

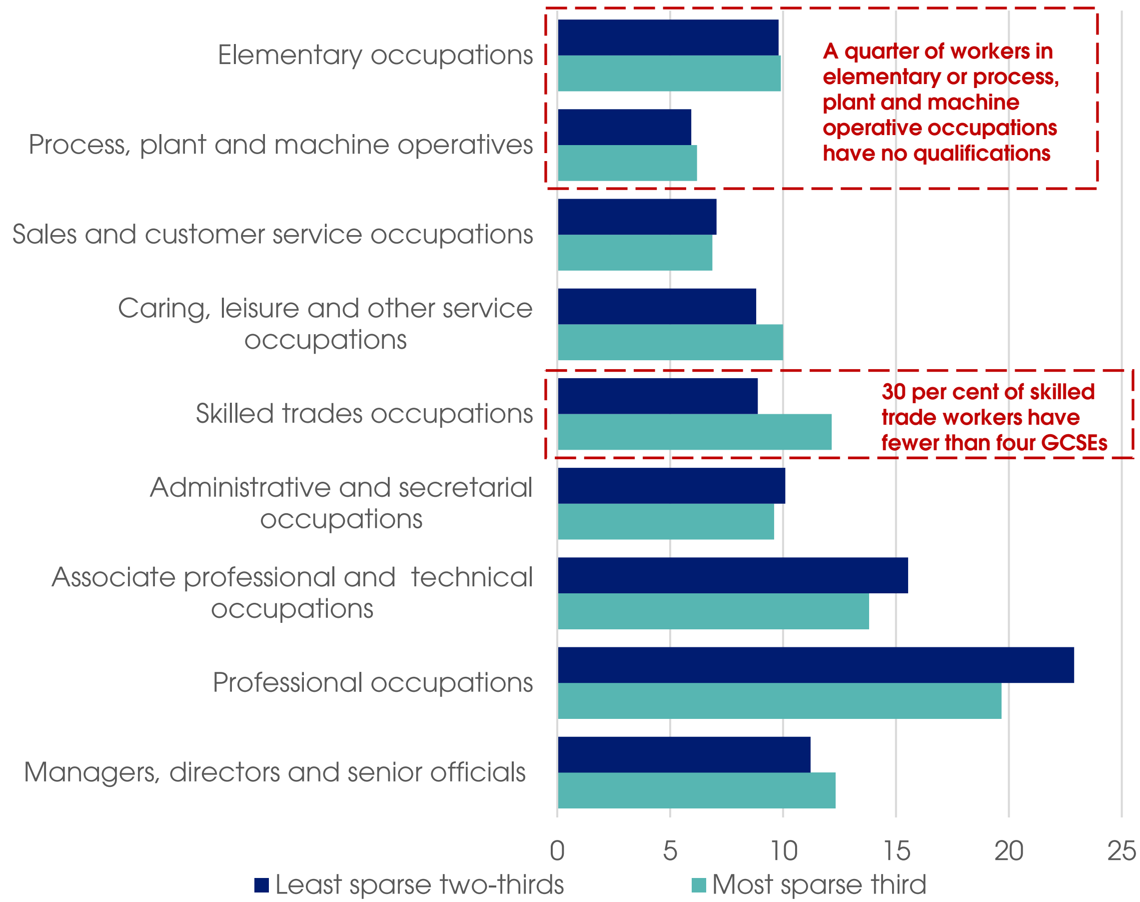
**The rural mix of industries and economic activities impacts on the type, value and security of jobs available to local workers.**

The key sectors have high levels of seasonal and casual working. Almost a quarter of employees in the accommodation and food sector are on zero hours contracts, along with one in ten of those employed in manufacturing.

There are higher proportions of lower skilled and lower value occupations.

With greater opportunities for employment in higher-skilled sectors in more urban areas, many young adults relocate to towns and cities for jobs.

**Employees by occupation class**
Local authorities, Great Britain, 2020, per cent




Source: Office for National Statistics

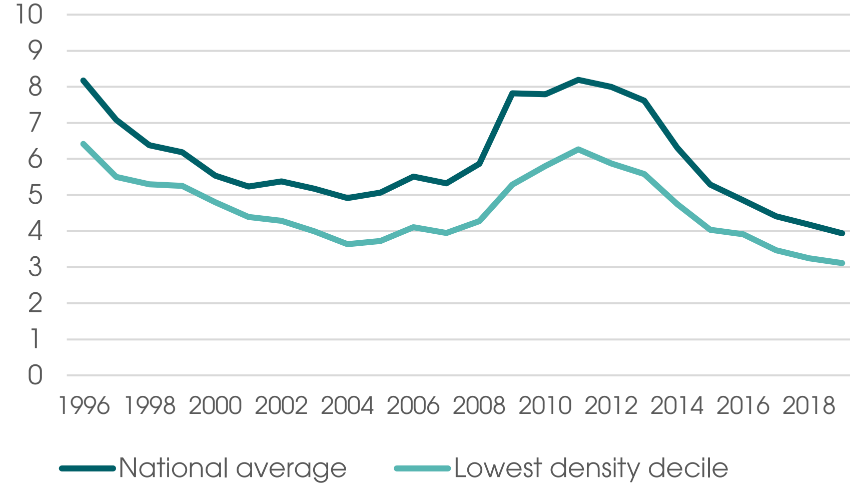
## Don’t be fooled by lower unemployment rates.

Although rural rates of joblessness compare favourably to urban, they mask differences in the volume, security and quality of jobs available.

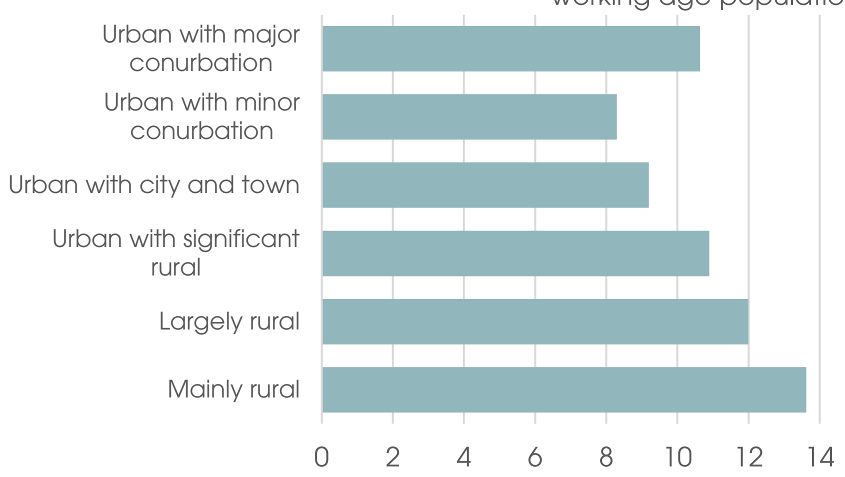
Self-employment is more prevalent in rural communities, as is the holding of multiple jobs.

Fewer rural employees report having ‘quality work’ – i.e. with satisfactory hours, contractual terms and pay.

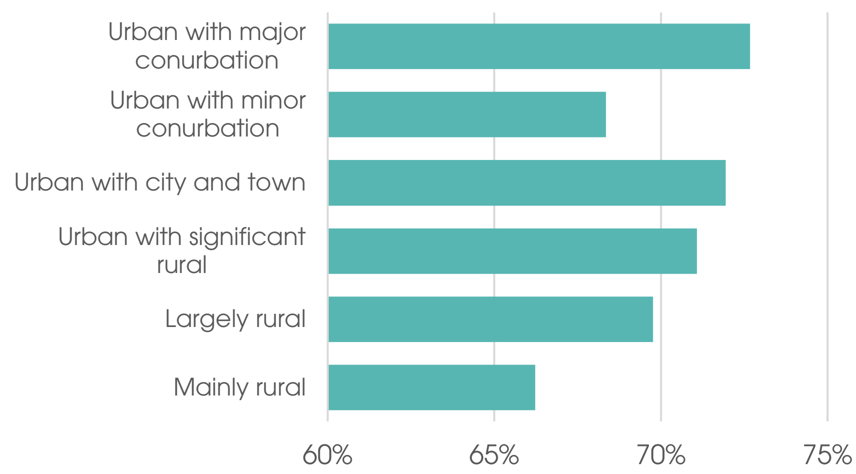
**Unemployment rate**
Local authorities, Great Britain, per cent




**Self-employment rate**
Local authorities, England, 2020, percentage of the working age population




**Share of employees in quality work***
England, 2018, per cent




*Note: quality work on a UK pay basis is defined as employment with satisfactory hours, the desired contract and not low pay. Source: Office for National Statistics

# Rural has largest productivity gap to level up

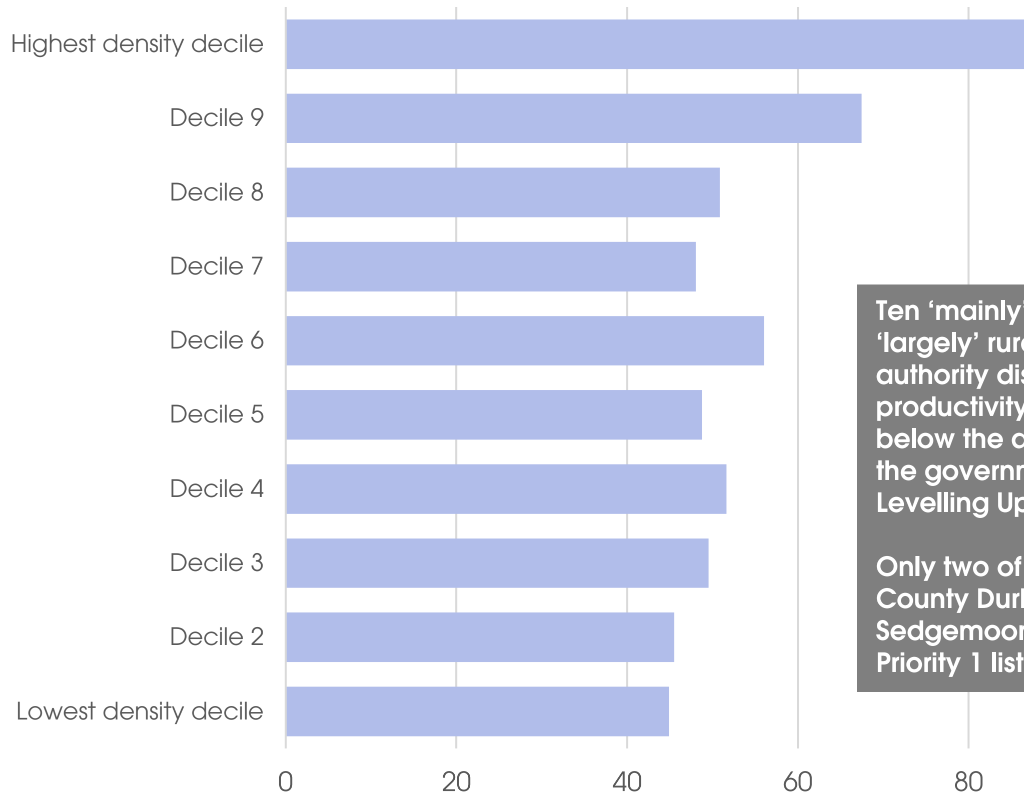
**Rural economies face a striking productivity challenge.**

Productivity declines with population density. Gross value added per person in employment in the lowest population density local authorities is around half that in the highest.

The 'persons in employment' metric is used here, rather than 'employees', to take account of different rates of self-employment.

Too often the scale of non-urban disadvantage is under-stated and over-looked because the choice of statistics have failed to reflect the different ways in which rural economies operate compared to those of bigger towns, cities and conurbations.

**Gross value added per person in employment**
Local authorities by population density, England, 2016*, £ thousand

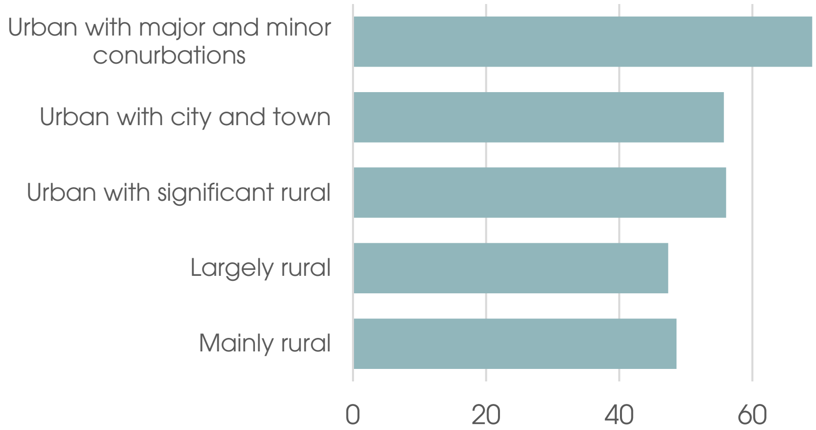



**Ten 'mainly' and 'largely' rural local authority districts have productivity rates below the average for the government's Levelling Up priority list.**

**Only two of them, County Durham and Sedgemoor, are on the Priority 1 list.**

*most up to date local authority data available Source: Office for National Statistics

Gross value added per person in employment
Local authorities by rural and urban classification, England, 2016, £ thousand



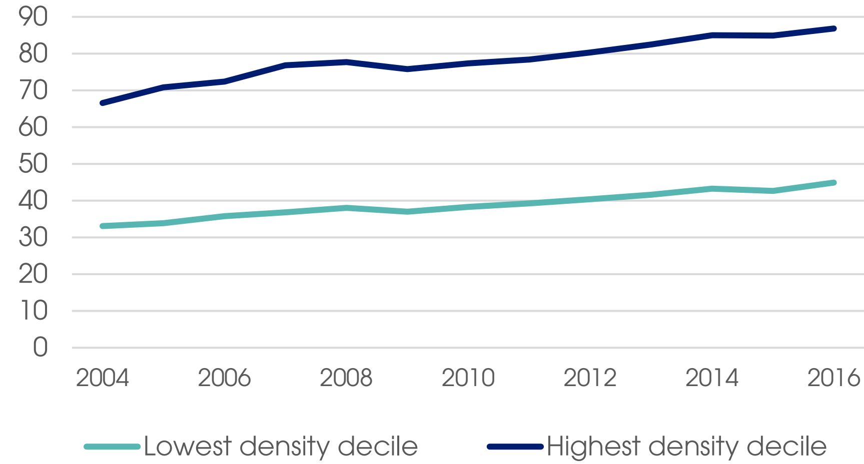

## A similar picture of low rural productivity is revealed using the ONS's rural-urban classification of local authorities.

Labour productivity rates in 'mainly' and 'largely' rural local authority districts are on average equivalent to 77 per cent of those in other more urban locations.

## The productivity gap has closed slightly over the recent decades.

Nonetheless, productivity in the lowest population density local authorities remains around half that in the highest.

Gross value added per person in employment
Local authorities by population density, England, £ thousand



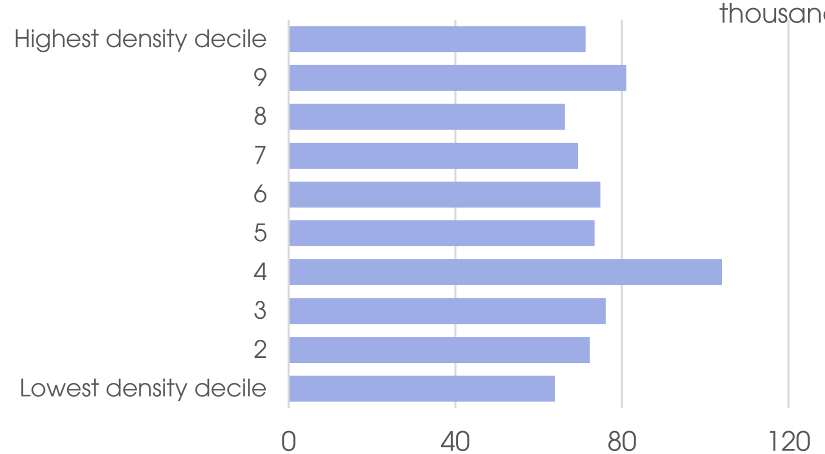



Source: Office for National Statistics

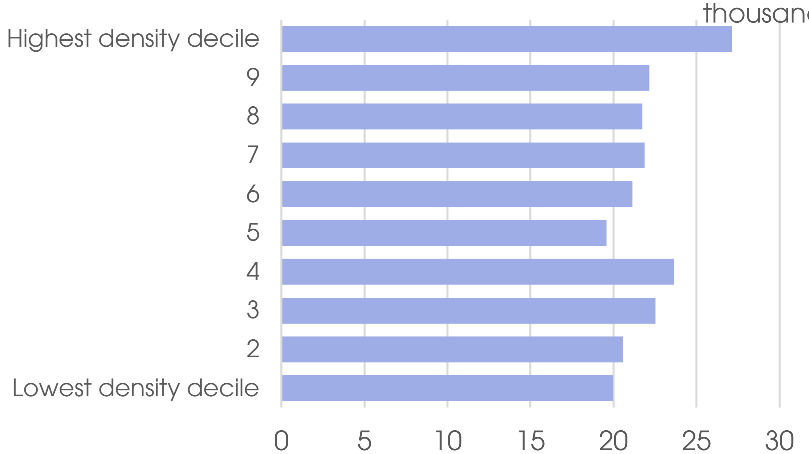
## Even in sectors where rural areas are over-represented, productivity lags behind the rest of the country.

Manufacturing in most rural locations are the least productive. Manufacturing gross value added per person in employment in the lowest population density local authorities is around 90 per cent of that in the highest.

**Gross value added per person in manufacturing employment**
Local authorities by sparsity, England, 2018, £ thousand




**Gross value added per person in food services and accommodation employment**
Local authorities by sparsity, England, 2018, £ thousand




## Rural tourism jobs have lower productivity in a sector that's already low productivity.

For the food services and accommodation sector, gross value added per person in employment in the lowest population density local authorities is around 74 per cent of that in the highest.



Source: Office for National Statistics

# Standards of living challenge

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# Rural jobs pay less

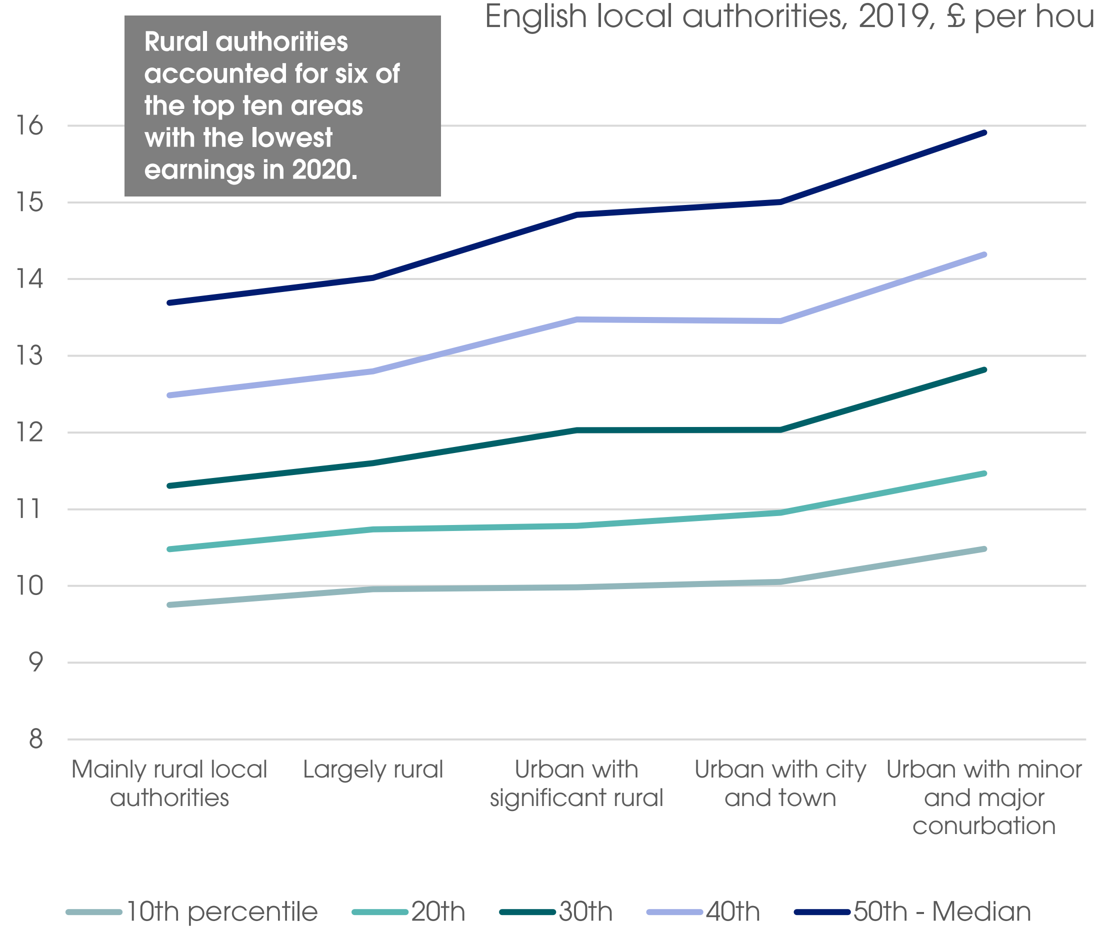
**The challenges of rural industry mix and productivity are reflected in rates of pay.**

Wages and salaries paid by employers in rural areas are, on average, lower than those paid in towns, cities and conurbations

This difference is seen throughout the income distribution – with the lowest paid in rural areas being paid less than the lowest paid in urban jobs.

**Industry partly explain lower rural wages. Nationally, tourism pays an average of £9.50 per hour and manufacturing £14.37. Across all industries, the average is £17.60. Farming pays £10.51.**

**Average hourly wage of full-time workers**
English local authorities, 2019, £ per hour






Source: Office for National Statistics

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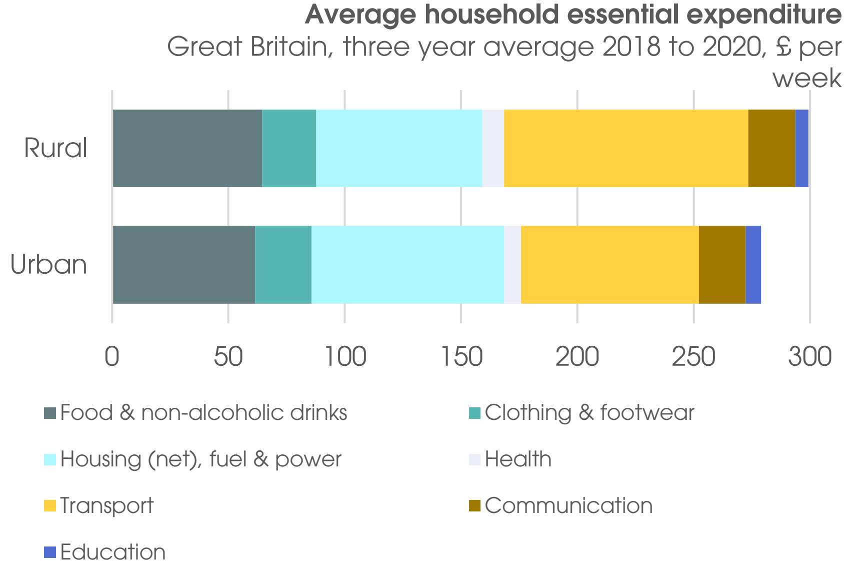



## While wages are low, rural living costs more

Although urban households spend more on average per week on housing, expenditure on other essentials is higher for those living in rural areas.

Rural households can expect to spend on average over £1,000 more a year on essentials.

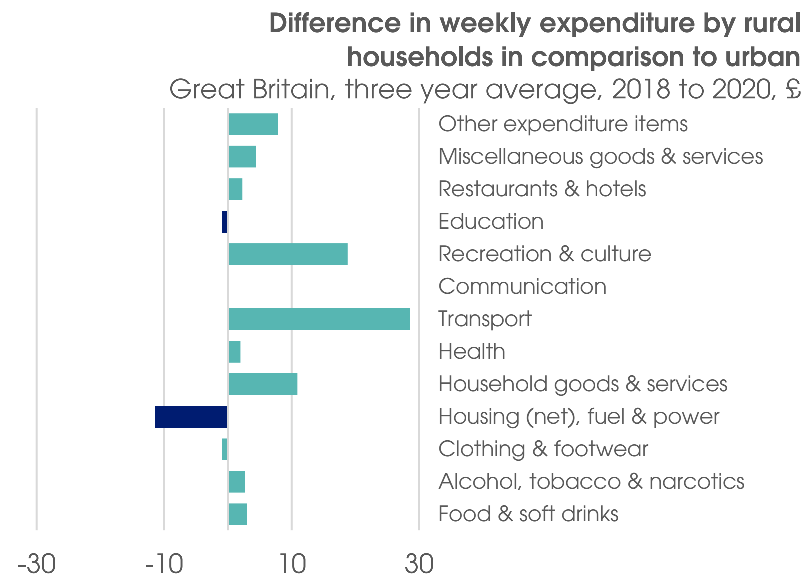
**ONS data show average annual gross domestic household income in mainly and largely rural local authorities is less than £200 per person more than other districts. But, their spending on essentials is higher.**

## Transport a key driver of higher spend

Rural residents see the biggest differential in relation to spending on transport. Those living in sparse locations are likely to face more lengthy (and costly) journeys by public transport to work or education, if it is available at all.

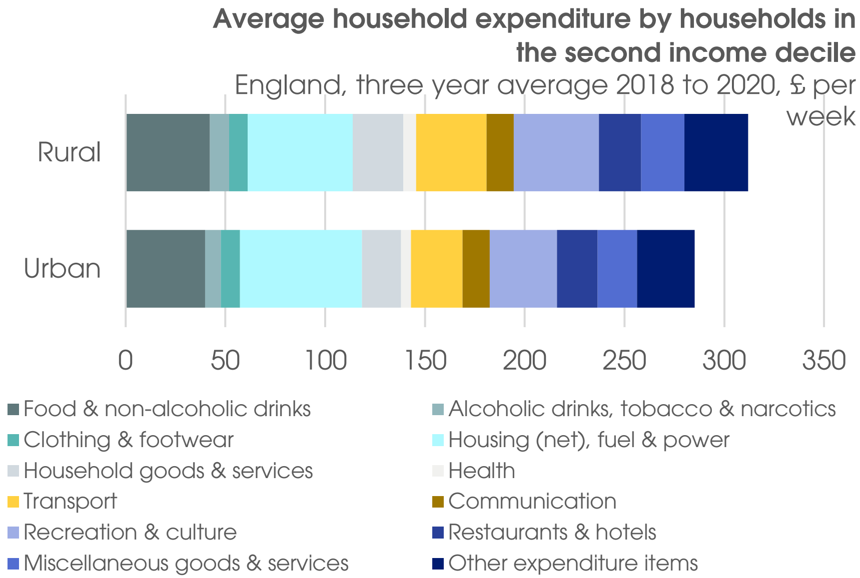
In areas where there is no reliable transport network, households take on the additional financial cost of purchasing and maintaining one or more vehicles.

Rural households typically spend around £1,500 more a year on transport than their urban counterparts.






Source: Office for National Statistics



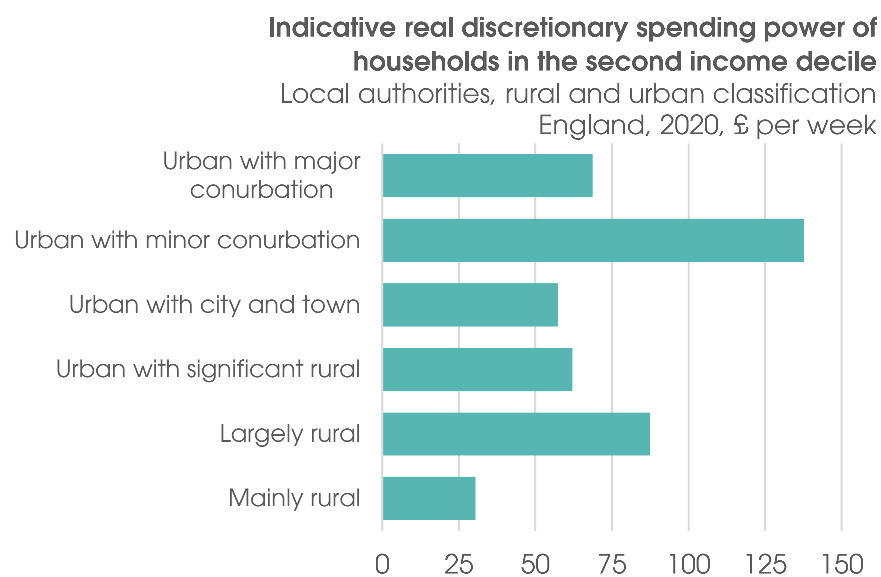

## Rural low income families have to spend more than their urban counterparts.

As with the average rural household, those in the second income decile spend more on essential costs. They spend 37 per cent more on transport, and around 27 per cent more health.

Additional costs mean rural residents on low incomes spend almost £1,400 a year more than those in urban authorities.

## With lower incomes and higher costs, rural low income families face lower living standards.

Low wages and higher essential expenditure mean households have much less of their income leftover to spend. Those in mainly rural authorities have real discretionary spending power just 44 per cent of that of households in the most urban authorities.






Source: Office for National Statistics (top left); Pragmatix Advisory Alternative Priority Areas model and Office for National Statistics (bottom right)

# Official statistics miss rural poverty

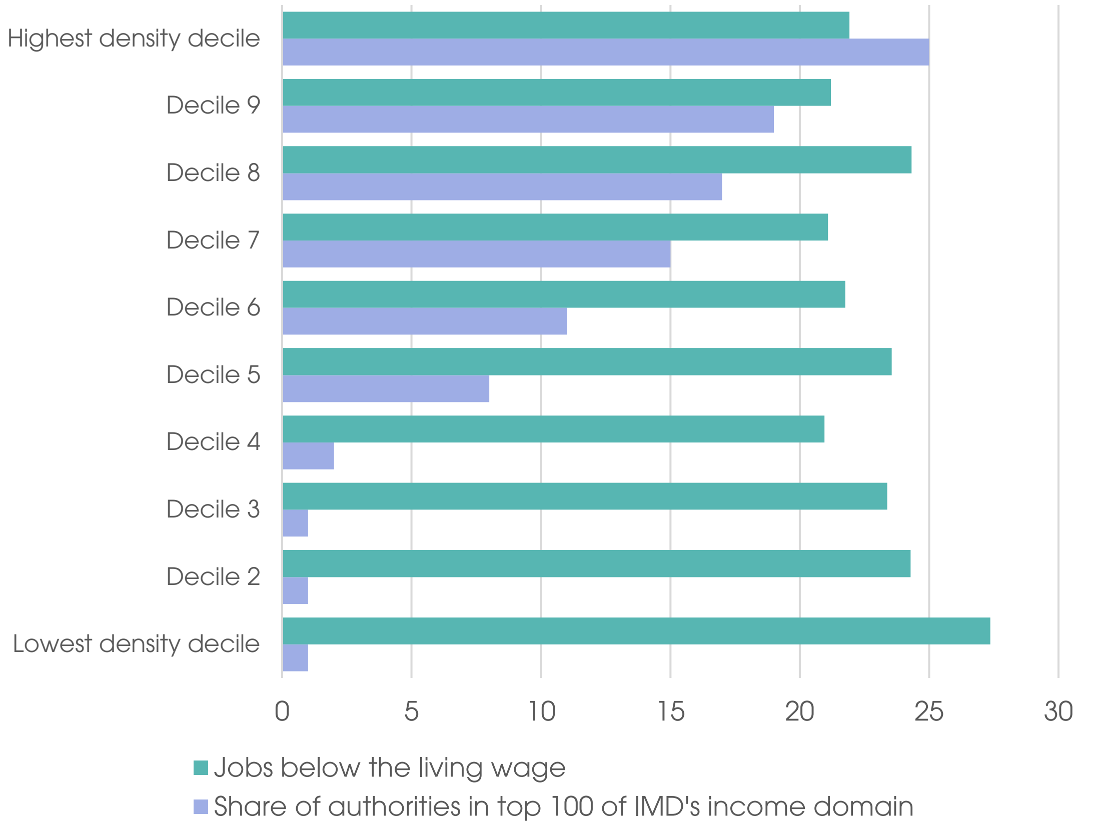
**The official income deprivation measure largely misses the rural living standards problem.**

The Index of Multiple Deprivation's income domain is based only on measures of the numbers of individuals and households in receipt of benefits. There is no direct assessment of earned income incorporated in the metrics. Indeed, there is no measurement of levels of any kind of income (other than that that can be inferred from benefits eligibility).

It does not account for lower wages or jobs below the living wage, and doesn't factor in household expenditure or differences in the cost of living.

While rural communities have the highest proportion of jobs below the living wage, they rarely appear in the official list of areas with greatest income deprivation.

**Income deprivation: Comparison of official 'Index of Multiple Deprivation' with living wage data**
Local authorities by population density, Great Britain, 2020, per cent




Source: Ministry of Housing, Communities and Local Government and Office for National Statistics

# Housing challenge

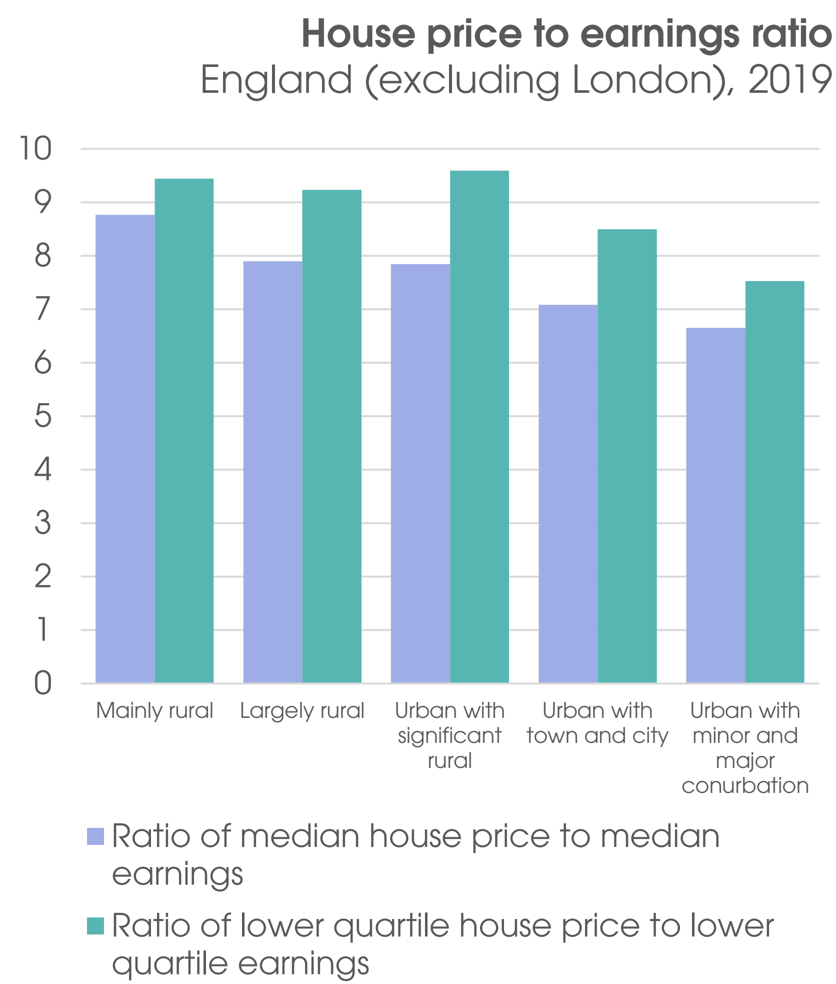
# Housing affordability more acute for rural areas

**Market-rate house prices and private rental costs are out of reach of many local people**

Excluding London (which is an outlier), the ratio of house prices to local wages is higher in rural or significantly rural areas of England than in urban locations. This is the case both for the 'typical' household and those on lower incomes.

The pandemic has made this worse. Increased demand for rural homes driven by the pandemic has seen average house prices grow faster and higher, exacerbating the existing housing problem. Across the United Kingdom, average house prices increased by ten per cent in the year to May 2021, to an average of £255,000. The North West of England saw the highest annual growth, with average prices increasing by over fifteen per cent.

It has been a similar story, all be it not as big an increase, for private renters. Excluding London, which saw rental prices decrease, private rents were up 1.7 per cent in the year to May 2021. In addition, the rise in staycations has led to many private landlords in popular tourist destinations to switch dwellings from long-term rental accommodation to short-term holiday lets.

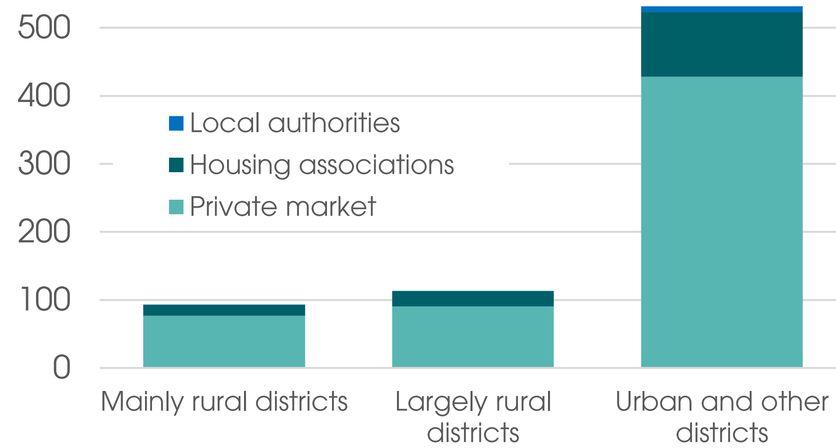



Source: Office for National Statistics

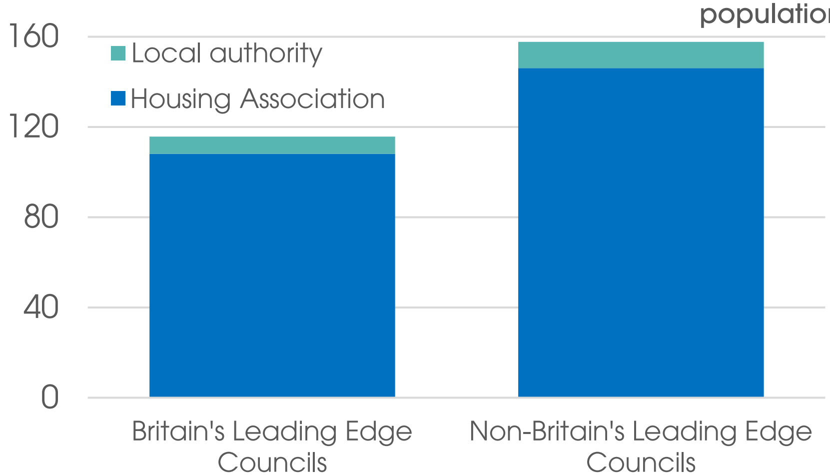
## Weak housing supply is a rural problem too

The rate at which new houses are being built fails to meet demand across all regions of England. New home build rates in rural communities are not meeting demand. This was the case before the pandemic and will be further compounded by new post-covid demand from home and hybrid workers, and staycationers.

**New build dwelling completions**
England, 2014-15 to 2018-19, thousands




**New build dwelling completions for social or affordable tenure**
England, 2016/17 to 2018/19, per 100,000 of population




## Lower rural build rates for social and affordable homes.

Both rural and urban locations require substantially more new homes for affordable and social rent, to meet not only the existing demand from households on housing association and council waiting lists, but also the increased accommodation need that is expected to arise from covid.

Rural build rates, at least in the Britain's Leading Edge council areas*, for homes with these vital tenures lag elsewhere.



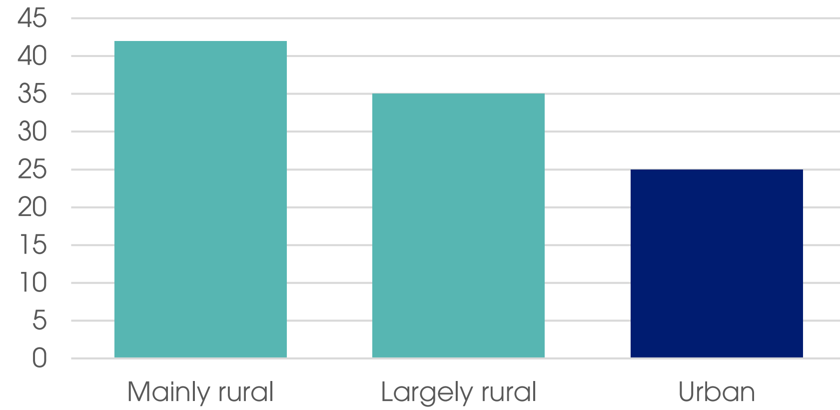
* See appendix for Britain's Leading Edge councils. Source: Ministry of Housing, Communities and Local Government

## Rural areas popular as second addresses and home to a rapidly ageing population.

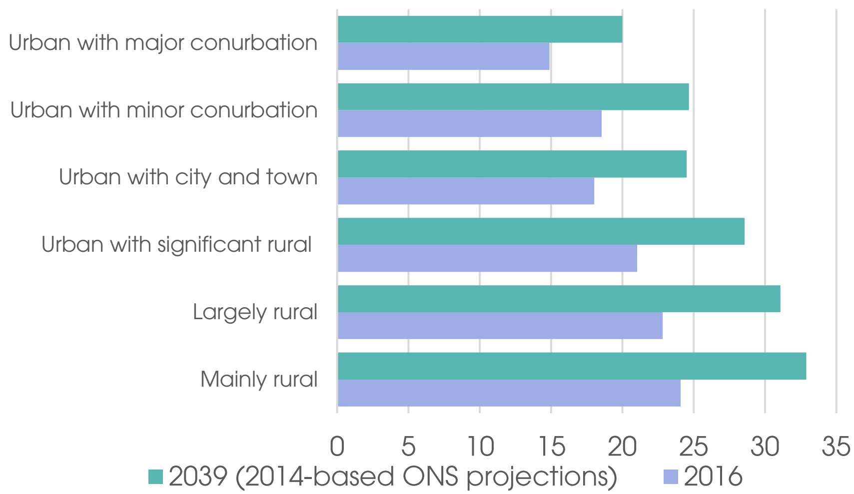
Housing supply in rural areas is further restricted by the purchasing of second homes.

Although household net migration flows are typically from urban to rural, there is greater outward migration to urban areas by young people. The flow is out of the countryside for those in the sixteen to thirty years age bracket, which has an impact on the scale and nature of the workforce available to rural employers.

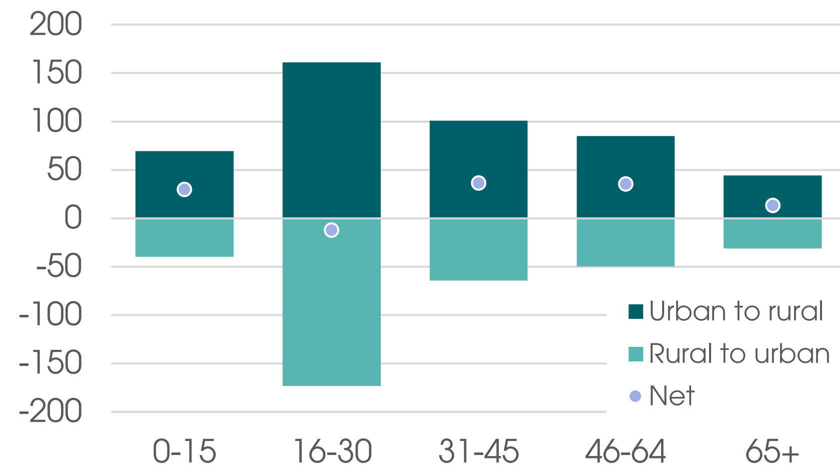
**People with a second address in a local authority, who are usually resident outside of that local authority, per 1,000 usual residents**
England, 2011, median




**Proportion of population aged 65+ years**
England, 2014, per cent



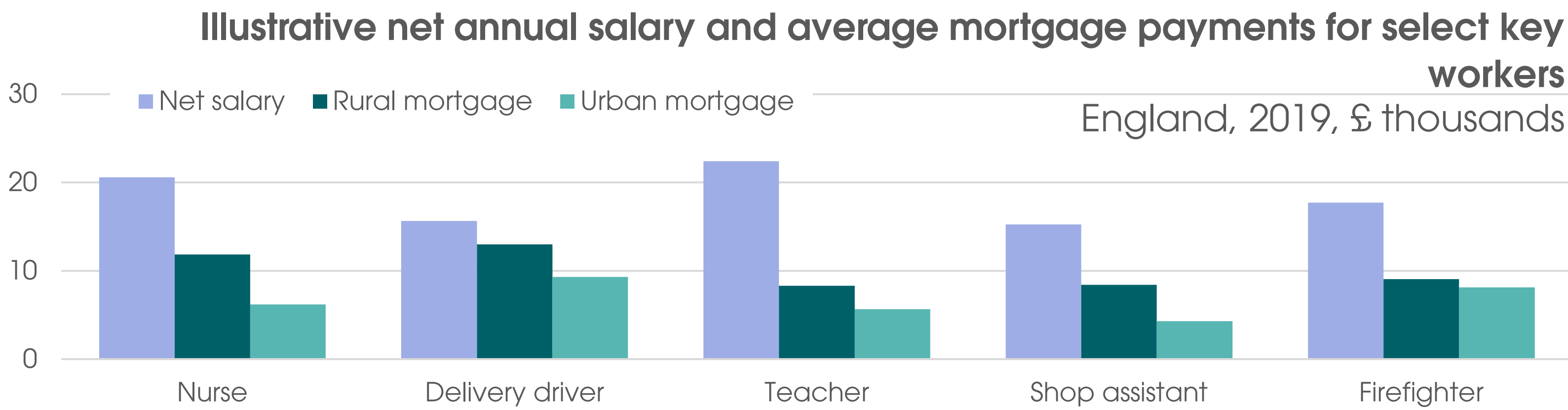

**Internal migration: number of moves between rural and urban local authorities by years of age**
England, 2018-19, thousands






Source: Office for National Statistics

# Key workers priced out of local rural homes




| | Nurse | Delivery driver | Primary school teacher | Shop assistant | Retained firefighter & part-time receptionist |
|---|---|---|---|---|---|
| Case study | Newly qualified. Works in **South Hams,** flat | Delivers for food retailer in **Stratford-upon-Avon,** house | Qualified one year. Works in **East Riding of Yorkshire,** house | Works in a village shop in **Staffordshire Moorlands,** flat | Must live in five minute radius of fire station in **High Peak,** house |
| Net salary | £20,577 | £15,631 | £22,408 | £15,245 | £17,713 |
| Property price | Rural: £210,000<br>Urban: £110,000 | Rural: £230,000<br>Urban: £165,000 | Rural: £133,500<br>Urban: £100,000 | Rural: £149,000<br>Urban: £76,000 | Rural: £160,000<br>Urban: £144,000 |



Sources: UK House Price Index; Office for National Statistics; Glassdoor; NUWUT; Fire Brigades Union; nurses.co.uk; Royal College of Nursing

# Strong fiscal case for investment in new homes

**Building new affordable homes will improve public sector finances.**

Once built, every new home will save the government money through a reduction in housing and unemployment benefits, spending on the health service, and costs of providing temporary accommodation.

Each new rural affordable rent tenure home will reduce the annual deficit by £6,500.

A programme of building new affordable rural homes will improve the public finances over 30 years by the equivalent of £54,000 per house in today's money.

| Construction phase costs and exchequer savings | |
|---|---|
| Construction and land costs | £144,000 |
| Tax receipts from construction phase | £24,000 |
| Unemployment benefits savings (covid period only) | £6,000 |
| Total net cost of construction | £114,000 |
| **Annual net revenues and exchequer savings** | |
| Rent revenue (less maintenance, etc.) | £5,000 p.a. |
| Housing benefits and temporary accommodation savings | £500 p.a. |
| Unemployment benefit savings | £500 p.a. |
| NHS and other savings | £500 p.a. |
| Total annual benefit | £6,500 p.a. |
| Net present value of public sector surplus (30 years) | +£54,000 |

**Impact on public finances of building one typical rural affordable home (with 50 per cent land contribution)**
Mainly and largely rural local authorities in England

Source: Pragmatix Advisory calculations from Department of Work and Pensions, Ministry of Housing, Communities & Local Government and Office for National Statistics

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# New affordable homes deliver for taxpayers

| | 1 bed flat | 2 bed flat | 3 bed house | 4 bed house | All |
|---|---|---|---|---|---|
| North East | 4.7% | 3.8% | 4.0% | 3.0% | 4.0% |
| North West | 4.4% | 3.9% | 2.7% | 3.1% | 3.6% |
| Yorkshire & Humber | 3.8% | 3.4% | 2.1% | 2.1% | 3.1% |
| East Midlands | 3.9% | 3.5% | 2.2% | 2.7% | 3.1% |
| West Midlands | 3.9% | 3.5% | 2.2% | 2.5% | 3.2% |
| East of England | 4.3% | 4.1% | 2.9% | 3.2% | 3.7% |
| South East | 3.1% | 3.0% | 1.7% | 2.2% | 2.6% |
| South West | 4.6% | 4.4% | 3.2% | 3.4% | 4.0% |
| England | 4.1% | 3.8% | 2.7% | 2.9% | 3.5% |

**Real rate of return to the public sector**

England, real rate of return over 30 years (with no developer but 50 per cent public/third party land contribution)



Source: Pragmatix Advisory calculations from Department of Work and Pensions, Ministry of Housing, Communities & Local Government and Office for National Statistics

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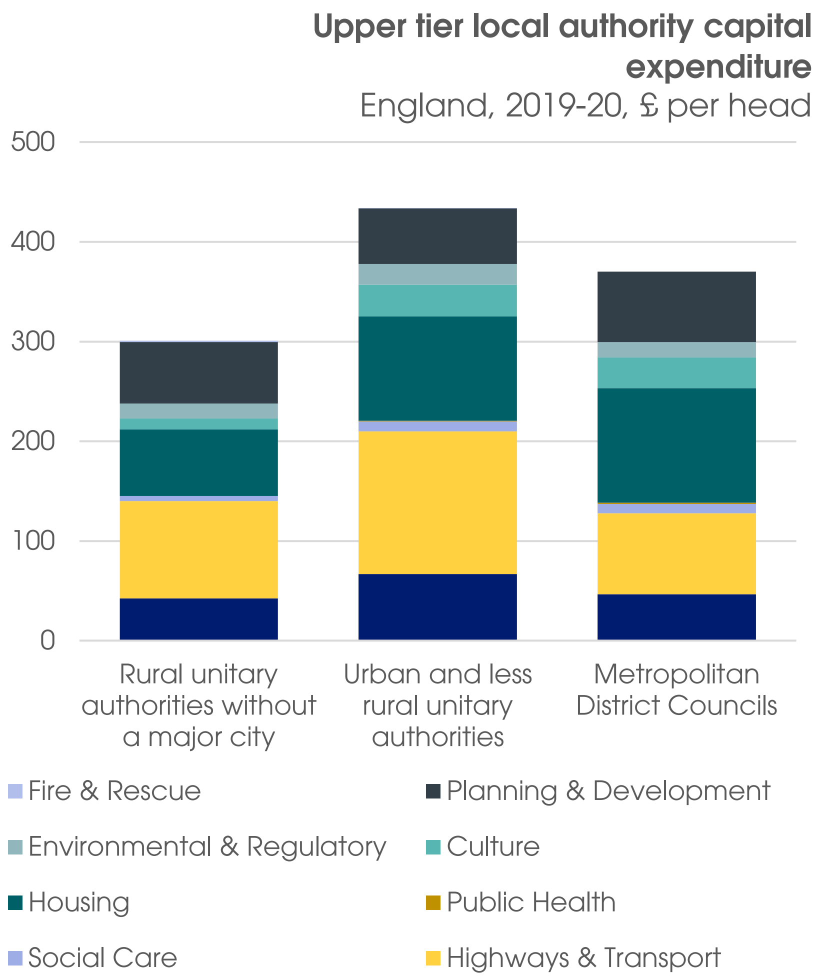
# Affordable housing delivers rural sustainability

# Funding challenges and solutions

# Rural areas have been under-funded generally




**The way in which government allocates spending spatially is placing rural communities at a disadvantage, and failing to unlock the opportunities they can offer to the nation.**

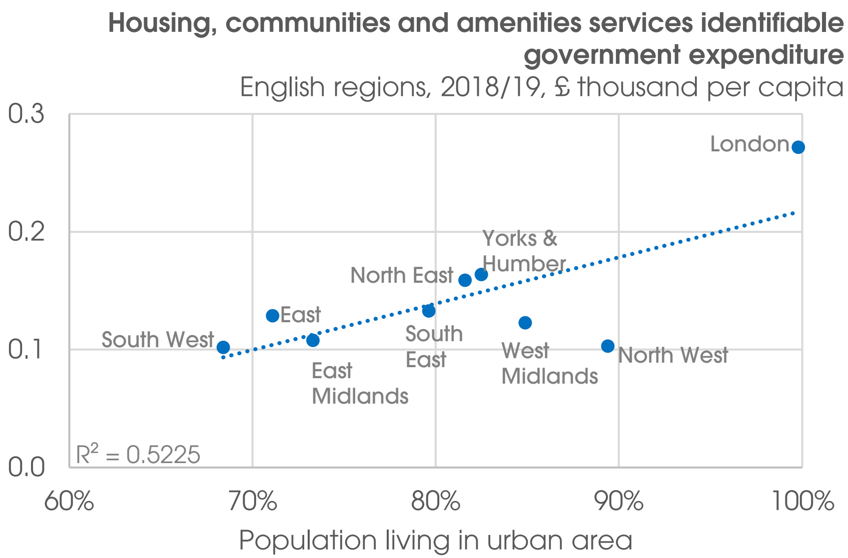
Rural areas face the triple whammy of higher costs, lower funding and greater need. Lack of economies of scale mean delivery of services in rural areas will likely cost more than in urban locations. But despite this, public sector spending per head is higher in regions with greater urban populations.

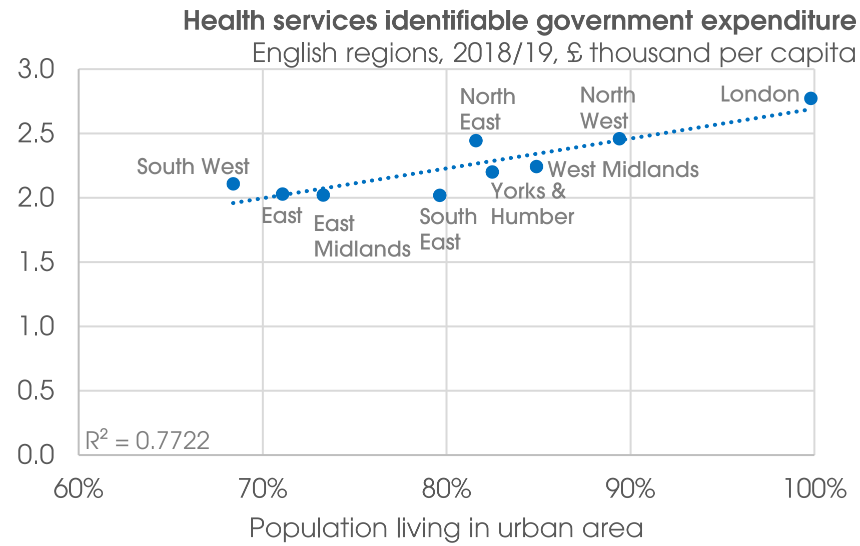
Metrics used to prioritise fund allocations often fail to reflect the reality for sparsely populated areas and remote communities.

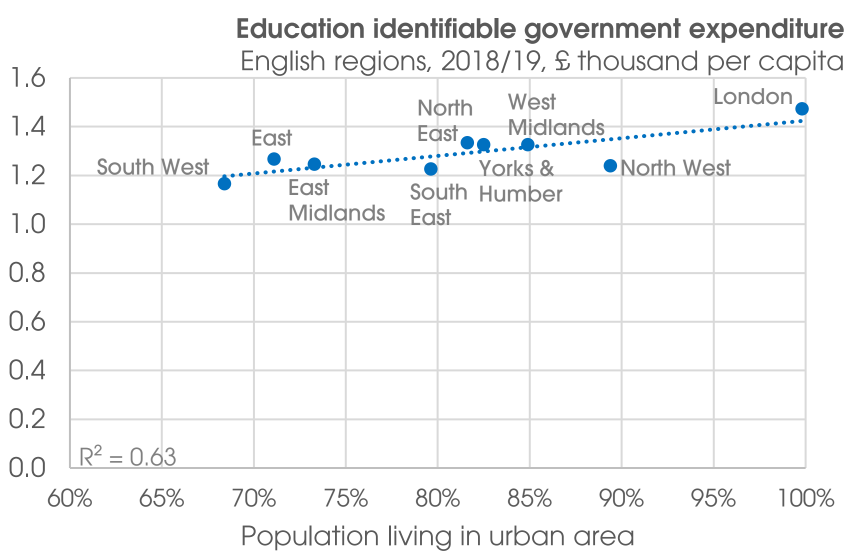
**The higher costs in rural areas are explicitly acknowledged in the United Kingdom government's funding settlement for the devolved administration in Wales. The Holtham Commission recognised that per capita government spending there should be fifteen per cent greater than in England partly based on the larger proportion of the Welsh population living in sparsely inhabited areas.**

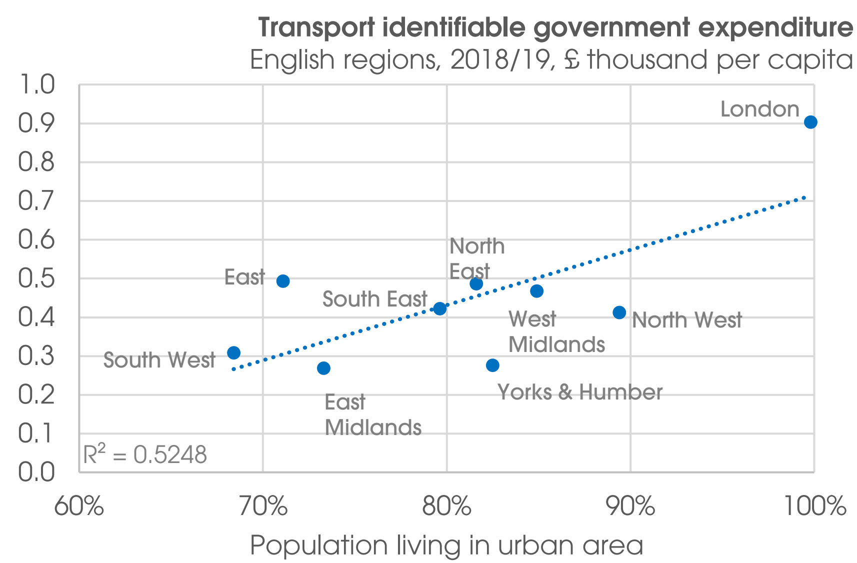


Source: Ministry of Housing, Communities & Local Government




$R^2$ value is a measurement of how well the dotted lines 'fit' or explain the data. An $R^2$ of 1 would indicate a perfect fit, with all data points on the estimated line. All values here reflect a reasonable fit given the type of data used.

Source: HM Treasury

# Government appraisal framework doesn't help

**Rural communities are poorly served by Whitehall's mechanisms for allocating public funds.**

An incremental approach to evaluating and choosing policies and projects means that place-based interventions are not seen by policymakers in the round. Urban and more populated areas all-too-often take priority over rural.

Recent changes to the Treasury's guidance on how specific policies are appraised, the *Green Book*, have not addressed the problem. To 'level up' disadvantaged communities, including those that are rural, a more strategic approach is needed across Whitehall so different place-based interventions can be considered together to form an effective and efficient portfolio that meets the varied needs of different locations.

Government needs to: (i) make addressing rural disadvantage as important in its Levelling Up Agenda as tackling deprivation in urban or other areas; (ii) ensure that the appropriate localised data, information and insight are captured and published so that rural disadvantage can be identified, measured, tracked and successfully tackled; and (iii) build on the Green Book appraisal process and develop a more strategic cross-government portfolio approach to the allocation of place-based funds that recognises the specific needs of rural communities and the transformational opportunities they offer.


**Treasury should revise its 'Green Book' appraisal guidance to ensure both higher rural costs and the legacy of historical public under-investment in rural areas are properly recognised – through a new lower rural-specific discount rate and/or use of 'sparsity-normalised costs'.**

**In addition, more work is needed to understand and quantify the 'transformative' impact of infrastructure projects in rural locations.**

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# Recent fund allocations fail rural communities

**The United Kingdom's exit from the European Union has offered the government an opportunity to design and implement new funding programmes to fit the country's needs.**

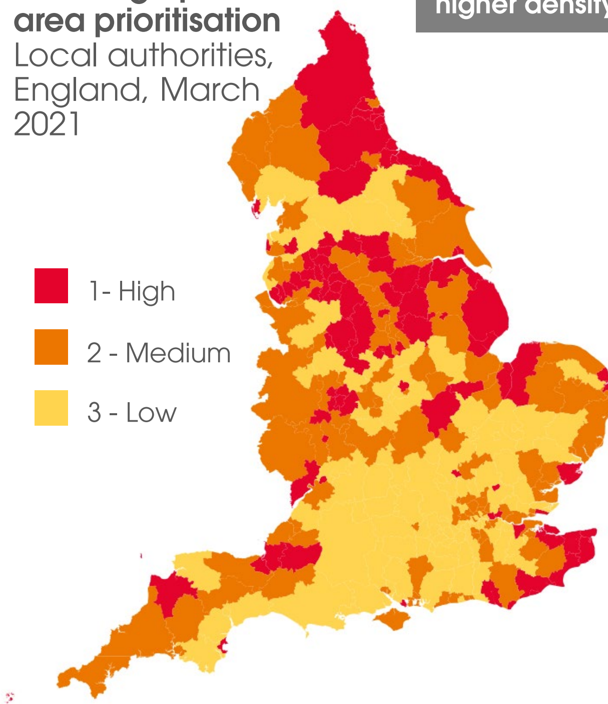
It has announced a range of new funding mechanisms, such as the Levelling Up Fund, Community Renewal Fund and Towns Fund, to support the economic development of local communities, both for post-covid recovery and to support its 'levelling up' agenda. Next year, it will introduce the Shared Prosperity Fund.

**Government funding priorities favouring northern urban locations.**

The choice of where to allocate funds has been based on both statistical evidence of need and the strategic judgement of politicians and officials. The metrics used in the geographical prioritisation of the Levelling Up, Community Renewal and Towns funds are a mixture of measures of economic performance and deprivation, and indicators of some of the causes of poor economic outcome. Taken together, the metrics chosen are partial and risk appearing arbitrary. Similarly, there has been a lack of clear and consistent explanation for how ministerial judgement has been applied. The outcome has been funding allocated in greater proportions to northern non-metropolitan urban locations – and away from more rural authorities.

**Rural and low population density local authorities are less likely to be ranked as a high or medium priority for the Levelling Up Fund than urban and higher density ones.**

**Levelling Up Fund area prioritisation**
Local authorities, England, March 2021





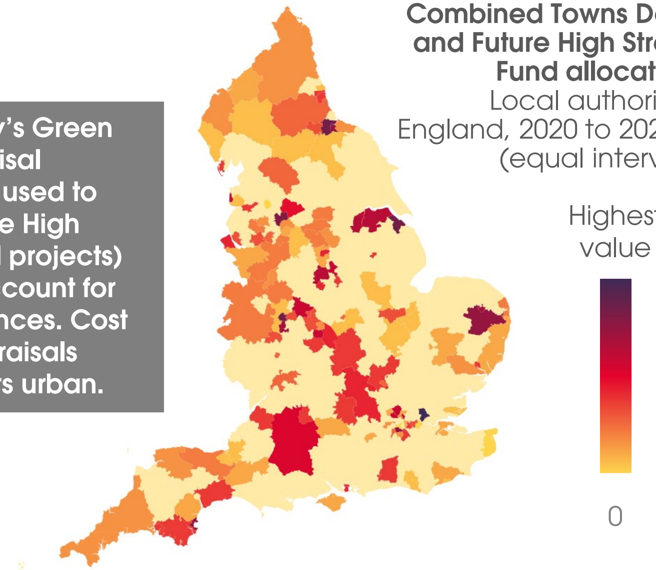

*Note: based on April 2021 local authority boundaries. Source: Ministry of Housing, Communities & Local Government

**Rural areas are losing out. Where data are available, they show actual funding favouring northern non-metropolitan urban locations.**

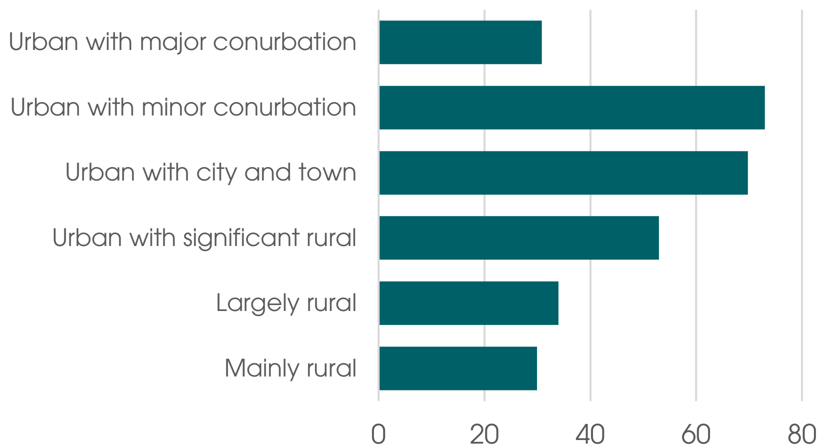
There is a paucity of data available identifying the location of spending via the various economic development and similar funds. Where there is transparency and disclosure, with the Towns Deals and the Future High Streets Fund, rural communities are receiving per head of population only 92 per cent of that received in urban areas.

**The Treasury's Green Book appraisal process (as used to assess Future High Streets Fund projects) does not account for rural differences. Cost benefit appraisals often favours urban.**

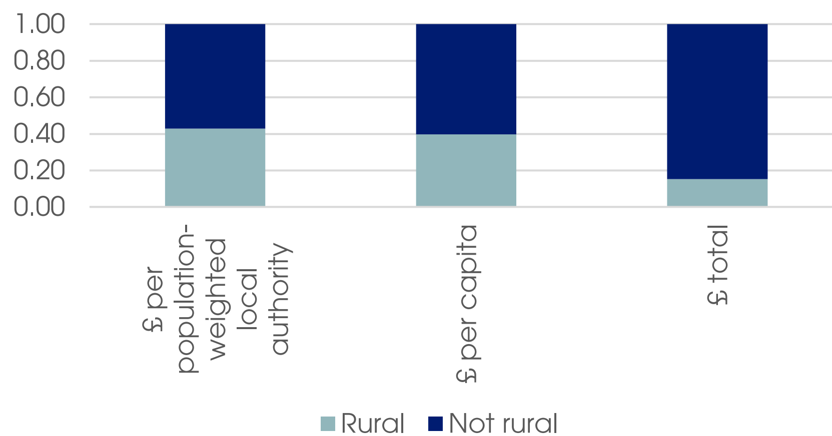
**Combined Towns Deals and Future High Streets Fund allocations**
Local authorities, England, 2020 to 2021, £ (equal intervals)




**Combined Towns Deals and Future High Streets Fund 2020-21 allocations**
Local authorities, England, £ per capita




**Ratio of combined Towns Deals and Future High Streets Fund allocations**
England, 2020 to 2021






Source: Ministry of Housing, Communities and Local Government

## Learning lessons for the Shared Prosperity Fund.

Now that the United Kingdom has left the European Union and the transition period has ended, the government is setting up a Shared Prosperity Fund which aims to "reduce inequalities between communities".

The process for the geographical prioritisation and allocation of the new fund must learn lessons from recent practice. It should be transparent, straightforward and focussed on key economic outcomes. Moving forward, the Shared Prosperity Fund needs a new mechanism with wider acceptability.

Although the causes and implications of poverty and disadvantage are multiple, complex and interrelated, its measurement does not have to be. The use of sophisticated multivariant indicators to assess need, and to target levelling up funds, may give the impression that a wide range of factors are being fairly considered. In practice, they leave the process complicated, confused and open to unintended (and potentially intended) bias.

## Focus on real income levels.

We recommend prioritisation based on assessing the standards of living achievable in different locations given local labour market conditions.

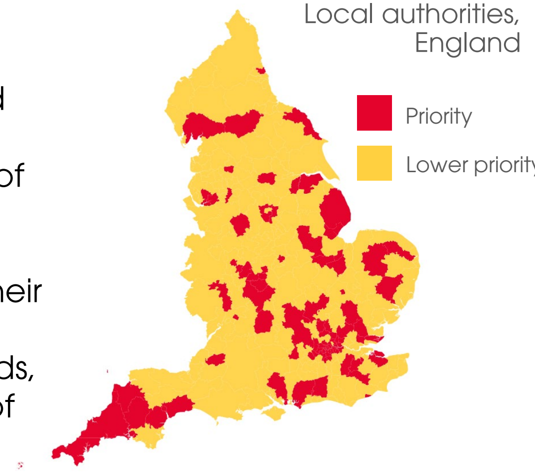
An emphasis on identifying and addressing differences in real incomes achievable by households from local jobs provides a sound, logical and clear basis for the Shared Prosperity Fund. Differences in local real household incomes capture the variations in economic performance between locations. They are a direct measurement of poverty, and result from local economic opportunities and (dis)advantages.

If government economic and structural development funds were prioritised and allocated on the basis of local real incomes, there would be a clearer line of sight from the levelling up objective through to action on the ground. And more rural locations, which have had their needs obscured in the past and been disadvantaged by recent funding rounds, would benefit from a fairer distribution of national funds.

**The most rural fifth of England account for only eight per cent of levelling up priority areas.**

**On a 'real incomes basis', the rural share should be eighteen per cent.**

**Alternative prioritisation based on real incomes, top 100**
Local authorities, England





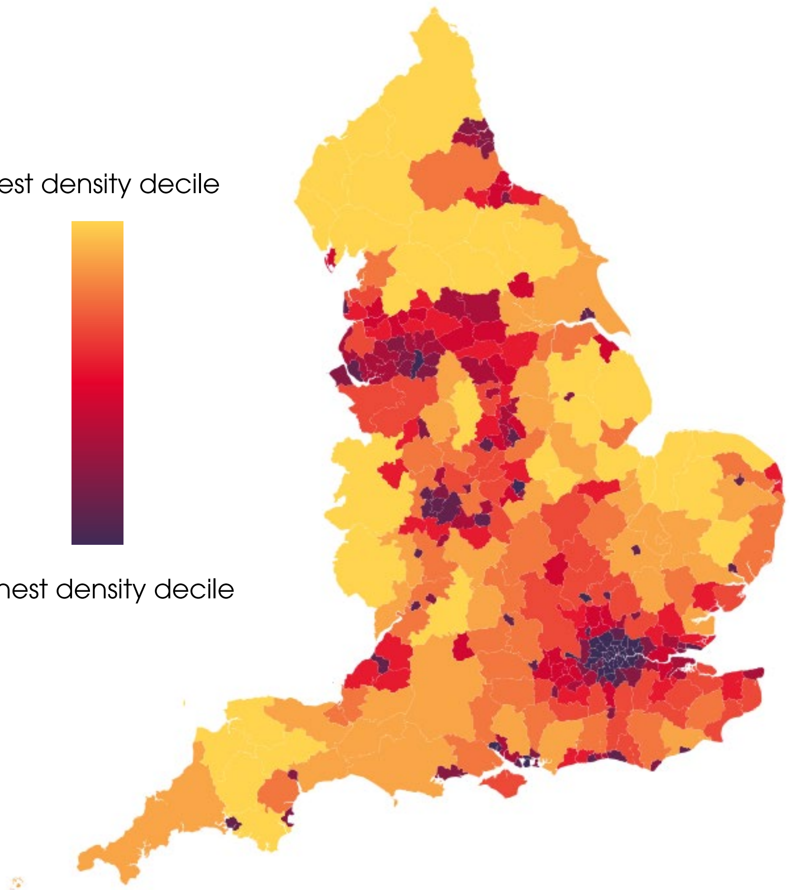

Source: Pragmatix Advisory Alternative Priority Areas model and Office for National Statistics (bottom right)

# Appendix

# Classifying rural areas

**Population density deciles**
Local authorities, England, mid-2019

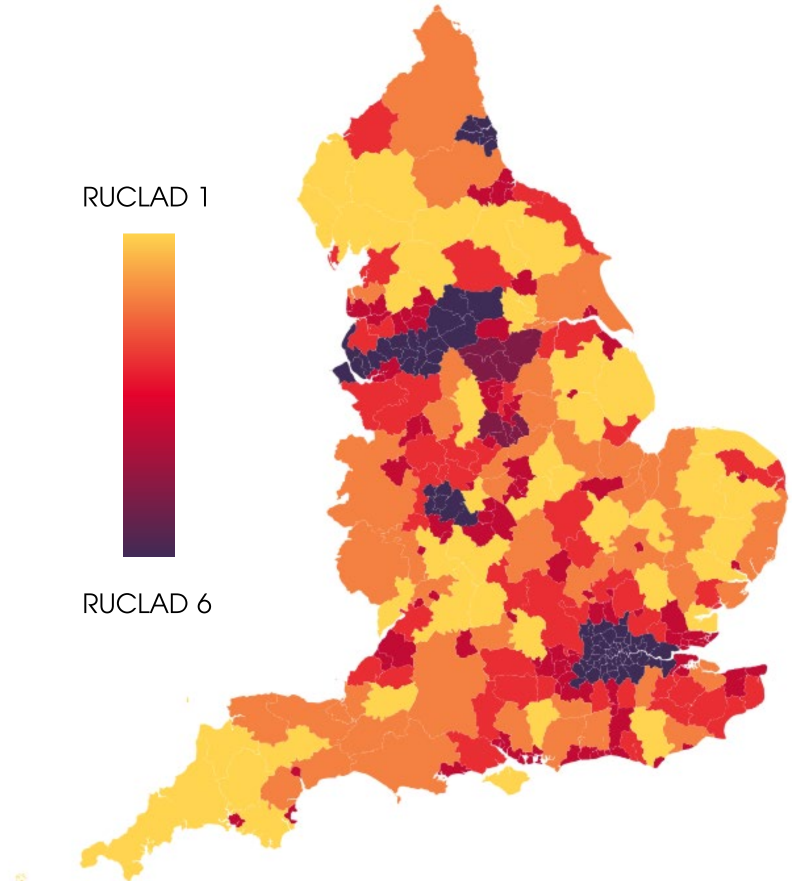
Lowest density decile



Highest density decile

**Rural-Urban Classifications (RUCLAD)**
Local authorities, England, 2011*

RUCLAD 1



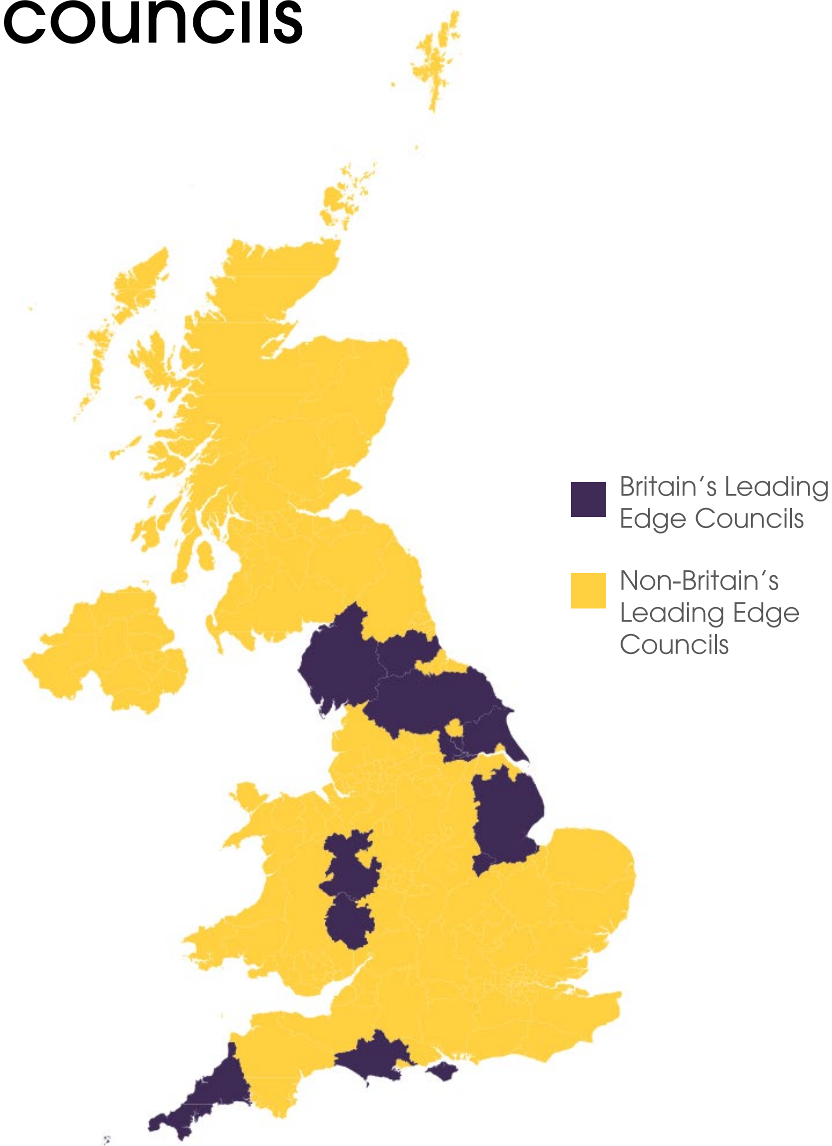
RUCLAD 6

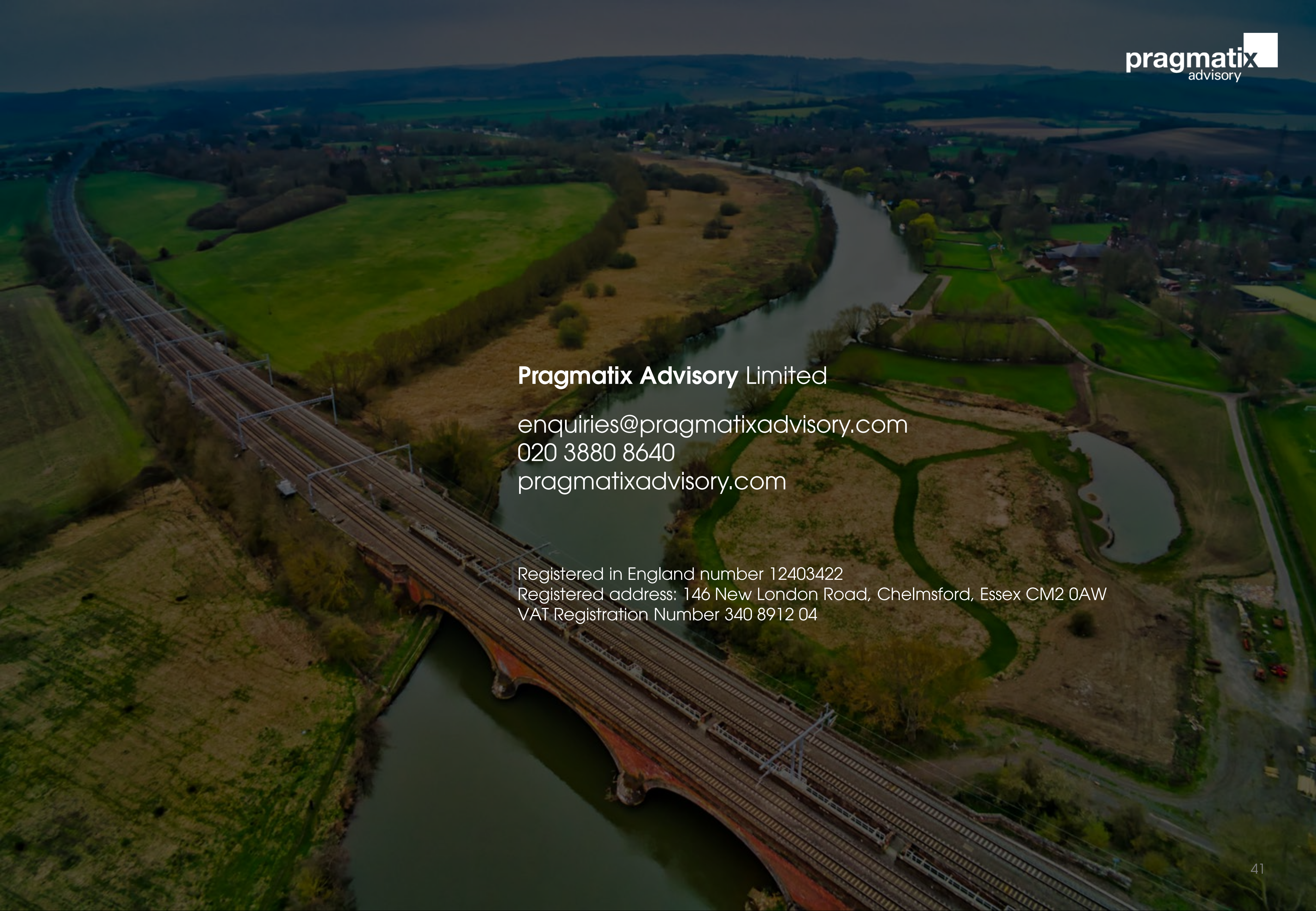


*Note: updated to correspond to local authorities as of April 2021. Source: Office for National Statistics (left); Department for Environment, Food & Rural Affairs (right)

# Britain’s Leading Edge councils

**Britain’s Leading Edge is a collaboration of twelve upper tier local authorities that meet the criteria of being mainly or largely rural, with no major cities.**





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