

Reigniting rural futures

Rural communities' capacity to boost economic growth

A report for The Rural Coalition

SUMMARY REPORT

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Relative productivity in rural England is lower than elsewhere. Some of this is to do with the geography of the areas, but there is strong evidence to suggest that rural could substantially narrow the gap with the implementation of appropriate policies.

This report examines the potential for rural England if it has the right policy framework in place, and the impact that will have on its prosperity and that of the entire country.

This report has a detailed supporting analysis report.

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Time for change in the rural economy

	Now	2040 (existing trend)
Non-rural GVA	6 x rural	6½ x rural
Productivity	82% of non-rural	79% of non-rural
Rural economic inactivity rate	40% of residents aged sixteen and over	48% of residents aged sixteen and over

Outcomes for the rural economy if existing trends continue
 England, based on 2011 to 2021 ten-year trend

Throughout this report, 'rural' includes mainly and largely rural local authorities, as classified by the Department for Environment, Food and Rural Affairs. 'Non-rural' includes the remaining four classifications of local authorities.

The rural economy in England has been underperforming for decades, but the current environment presents an opportunity for change.

Over the past several years, the rural economy has grown at a slower pace than that of the non-rural economy. Currently, the non-rural economy is around six-times the size of the rural economy. Based on recent trends in economic growth, the non-rural economy will be 6.5-times the size of the rural economy by 2040. In 2021, productivity of the average rural worker was 82 per cent of that of a non-rural worker. If recent trends continue, we expect that to decrease to 79 per cent by 2040.

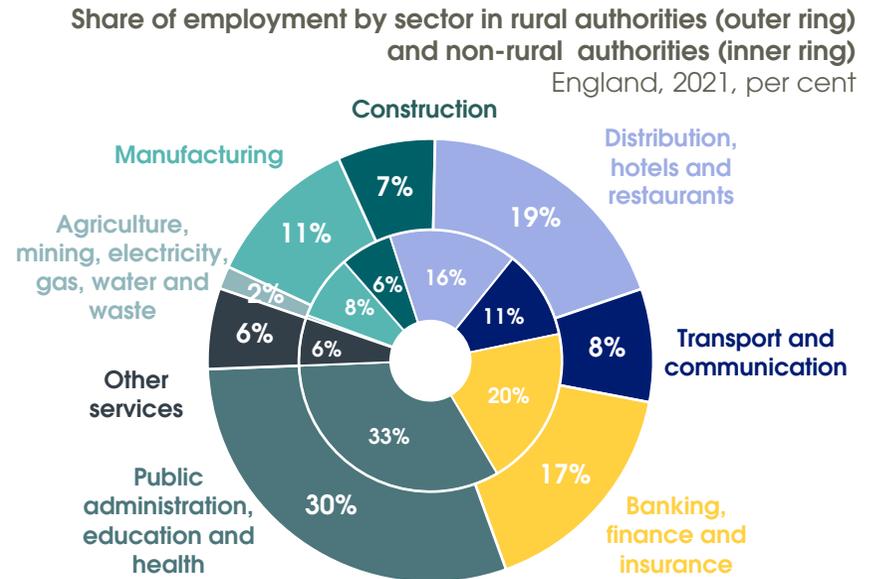
This is of course the business-as-usual base case – things could get better, or they could get worse. If the rural economy declines in comparison to non-rural due to a failure to address current issues, the cost to the national economy could be far greater. Doing nothing will be costly, with spiralling healthcare bills for an ageing population, a shrinking working age population, and the burden of maintaining ever more unsustainable communities.

But an ever-widening gap in productivity is far from inevitable, and there is significant potential and demand for change. The changing structure of the United Kingdom economy in the new normal, with shifting preferences and priorities of households, offers the chance to narrow the productivity gap and for rural areas to contribute even more to the national economy.

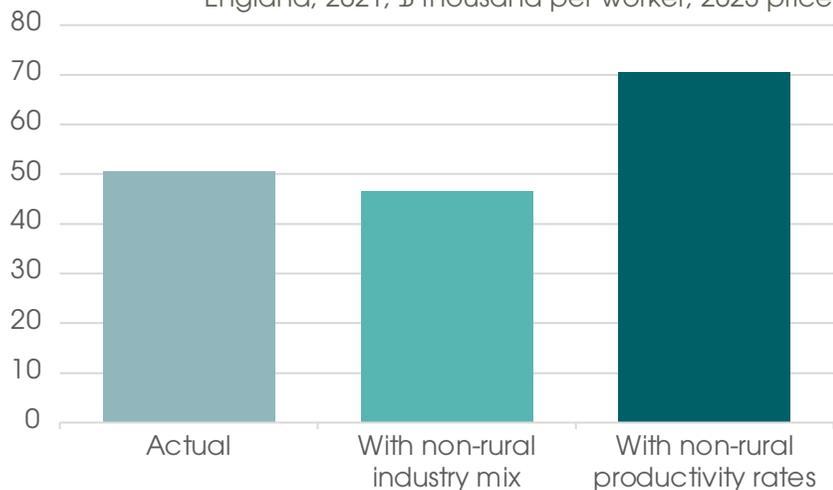
Different mix of industries in rural and non-rural.

Rural economies have traditionally been built on industries like agriculture and manufacturing. These continue to be important, but they are only part of a diverse mix.

Easier access to natural resources and agricultural land often attracts manufacturing activities including food processing and textile production. Space intensive advanced manufacturing also thrives in such locations. Rural areas also frequently rely on seasonal tourism as a major source of income, leading to a higher concentration of businesses in the hospitality sector to cater to visitor needs. Non-rural authorities tend to have higher rates of employment in the likes of banking and finance, transport and communication, and public administration, education and health.



Rural gross value added with non-rural industry mix or with non-rural productivity rates
England, 2021, £ thousand per worker, 2023 prices



But industry mix doesn't explain the productivity gap.

In all sectors but manufacturing, there are lower rates of productivity in rural authorities than there are in non-rural. This means that the overall gap between rural and non-rural areas isn't simply down to the types of businesses operating there.

With the current industry mix in rural authorities, the average worker generates £50,500 a year in gross value added. If the industry mix in rural areas was the same as non-rural, productivity rates would actually be lower, suggesting that aiming for an industry mix closer to that of non-rural is not necessarily the way to grow rural productivity. When the rates of productivity being achieved in non-rural areas are applied to the current rural industry mix, productivity of the average rural worker is £20,000 more. This suggests interventions which support growth in existing sectors, as well as emerging industries, can help to close the productivity gap.

Unmet potential worth billions to UK economy

Potential additional productivity per rural worker
England, 2021 (2023 prices)



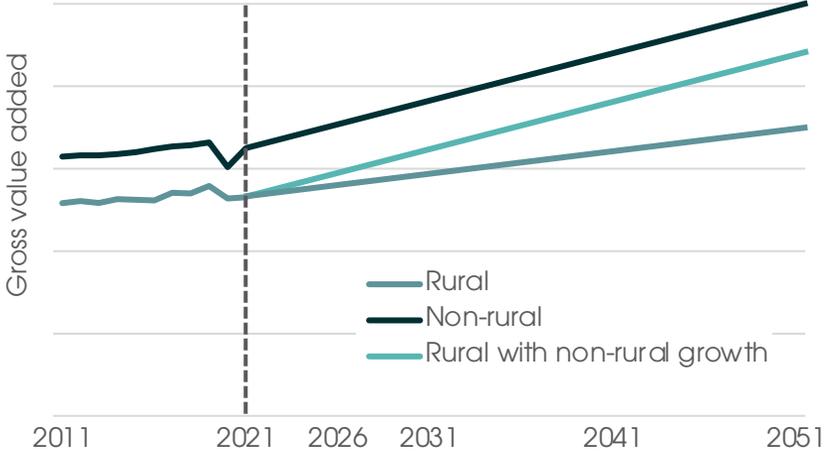
With policies to support growth, rural economies could add £5,000 to £11,000 per worker to current rates of productivity.

Rural and non-rural areas have distinct characteristics and, although there is some diagnostic value in looking at the differences between their rates of productivity, there is no sense in using non-rural performance as the target for rural.

Instead, to assess the potential scale of opportunity available to rural communities, we have calculated four alternative target benchmarks:

1. Rural productivity grows as fast as in cities
2. Rural achieves the England average performance (excluding the benefits experienced by metropolitan areas)
3. Rural achieves the relative productivity performance of the other G7 countries
4. Rural achieves the relative productivity performance of the Scandinavian countries

Stylised rural England gross value added with growth equal to cities
2023 prices



With non-rural rates of growth, gross value added in rural could grow by an additional ten per cent in 30 years.

Potential productivity benchmark 1: Growth equal to cities.

The 'new normal' environment of technological advances, changing preferences, and shifting priorities offers an opportunity for rural areas to grow at the same rate of non-rural areas. This benchmark examines the scale of productivity growth that could be achieved going forward.

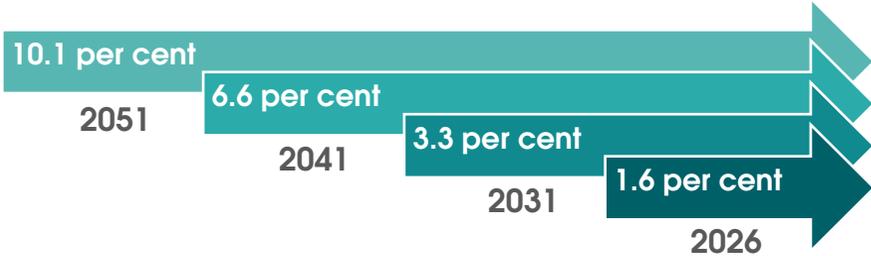
When applying productivity growth of non-rural industries, in 2026, rural industries could see around two per cent in additional growth to productivity. By 2051, additional growth in gross value added for rural industries would be ten per cent greater than it otherwise would've been.

Rural could eventually reach non-rural levels of productivity with non-rural rates of growth.

The productivity differential between rural and non-rural underscores an existing imbalance in economic output and efficiency. This productivity gap signifies both a need and an opportunity for targeted interventions and support mechanisms to unlock the latent potential within rural economies. By addressing the underlying factors contributing to this gap, policymakers can create an environment conducive to rural prosperity and sustainable growth.

Recognising and addressing this disparity is essential not only for the economic vitality of rural communities but also for achieving broader regional development goals and fostering social equity across the country.

Additional growth to rural England gross value added with rural productivity growth equal to cities

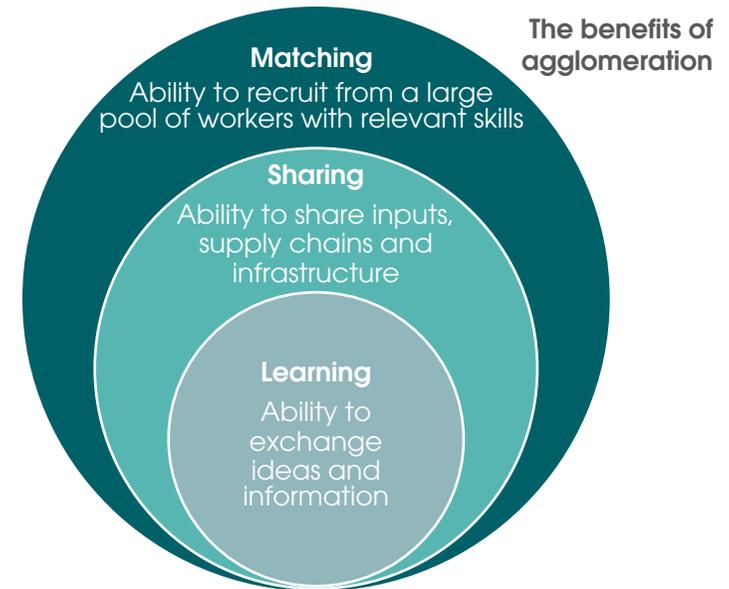


Non-rural productivity rates benefit from agglomeration.

Agglomerated benefits are the added combined advantages that come from businesses and resources being grouped closely together in one area, such as in metropolitan cities in England. While these benefits strengthen urban centres and nearby areas, rural areas, being more distant, will never achieve the advantages of agglomerated economies.

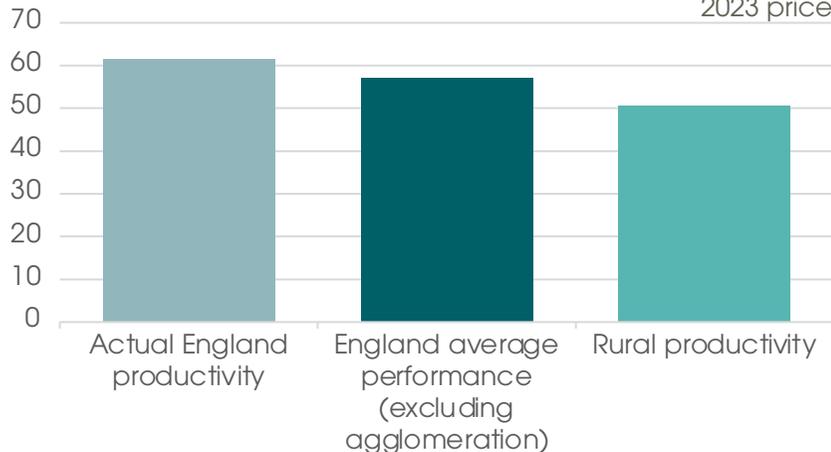
Potential productivity benchmark 2: Achieve England average performance (excluding agglomeration).

Rather than compare against non-rural productivity rates, a more meaningful benchmark for rural areas is the national rate excluding the estimated benefit of the economies of scale and agglomeration achieved in metropolitan areas.



Productivity in England excluding agglomerated benefits

England, 2021, GVA per worker, £ thousands, 2023 prices

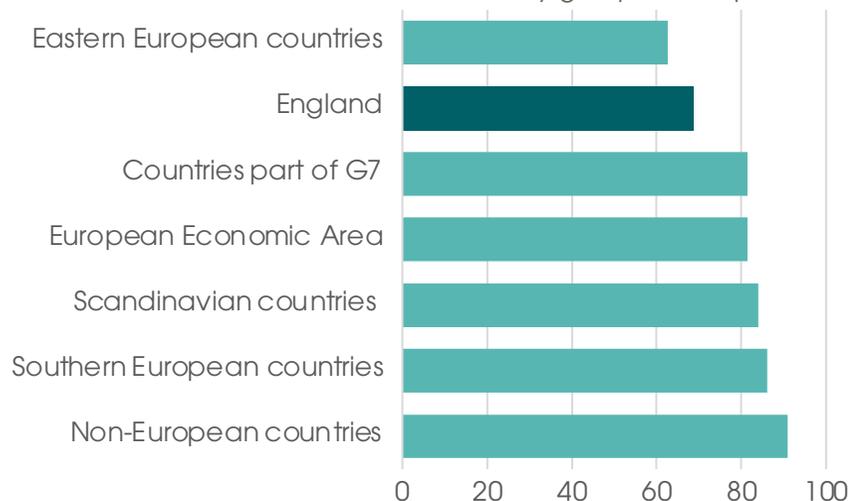


Productivity could be thirteen per cent greater.

Academic literature on agglomeration in the United Kingdom suggests there is an associated benefit from agglomerated economies that impact productivity rates, although it is less clear as to the scale of these benefits. On the basis of the limited evidence available, it is not unreasonable to assume that England’s economy is around seven per cent larger than it would otherwise have been because of the economies of networks, scale, and scope created by its conurbations. As such, rates of rural productivity are around thirteen per cent behind those of England once these ‘agglomeration’ benefits are removed.

If rural productivity matched national rates, excluding agglomeration impact, an additional £29 billion in gross value added would be created each year. This would see rural authorities’ contributing £257 billion a year.

Rural productivity as a share of non-rural productivity
Selected country groups, 2017, per cent



England is underperforming internationally.

With the exception of eastern Europe, rural England’s ratio of rural to non-rural productivity lags behind the rest of the developed world for countries for which data are available. Productivity rates are on average twenty per cent less than comparator countries.

Unlike other countries where rural productivity typically accounts for at least 81 per cent of non-rural productivity, in England, rural productivity is only equivalent to 69 per cent of non-rural levels.

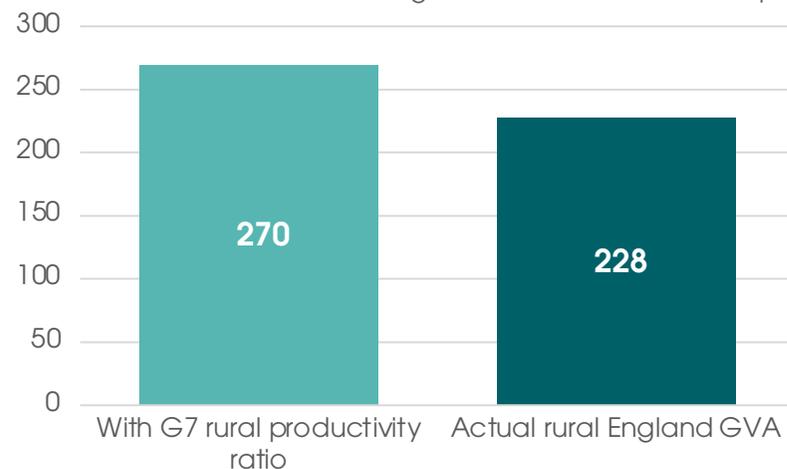
International peers demonstrate scope for growth.

Comparison with other countries provides another perspective on the scale of opportunity for England’s rural communities. Rather than compare absolute productivity rates between countries, which fail to account for contextual differences, we examined the ratio of rural to non-rural rates of comparable nations.

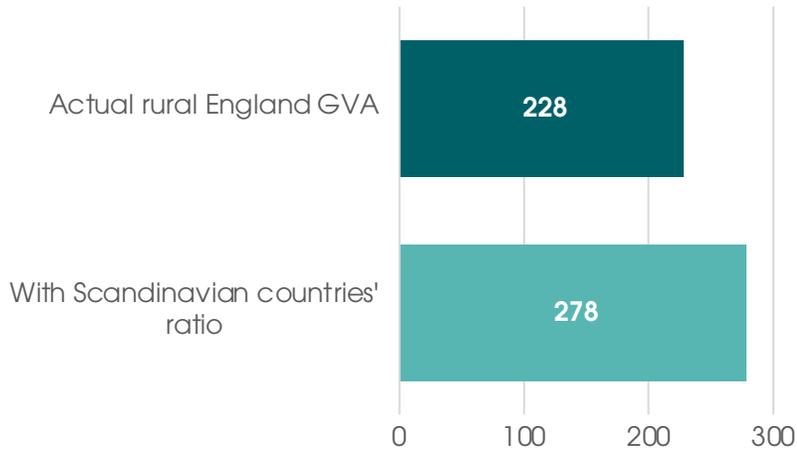
Potential productivity benchmark 3: Achieve G7 relative rural performance. If rural productivity was equivalent to the ratio of rural to non-rural productivity in the G7 countries, rural England would generate £270 billion in gross value added - £42 billion more than it does now.

Potential rural gross value added with G7 relative rural performance

England, 2021, £ billions, 2023 prices



Potential rural gross value added with Scandinavian relative rural performance
 England, 2021, £ billions, 2023 prices



Performance of Scandinavian nations provides an achievable target for rural England.

Potential productivity benchmark 4: Achieve Scandinavian relative rural performance.

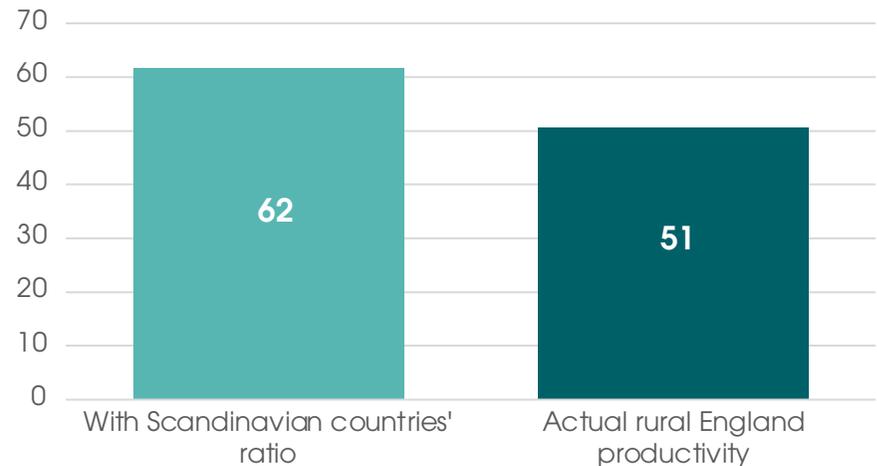
Norway, Sweden, Finland, and Denmark share several similarities with rural England, making them useful benchmarks for its potential. Commonalities include natural resources, agriculture, tourism, food processing, and a prevalence of small business entrepreneurship.

If rates were equivalent to the ratio of Scandinavian countries, gross value added would be £278 billion a year.

Productivity could be £11,000 greater per rural worker.

If rural England’s productivity was equivalent to the ratio of rural to non-rural productivity in Scandinavian counties, rural workers would have generated £62,000 each in 2021.

Potential productivity per rural worker
 England, 2021, £ thousand, 2023 prices

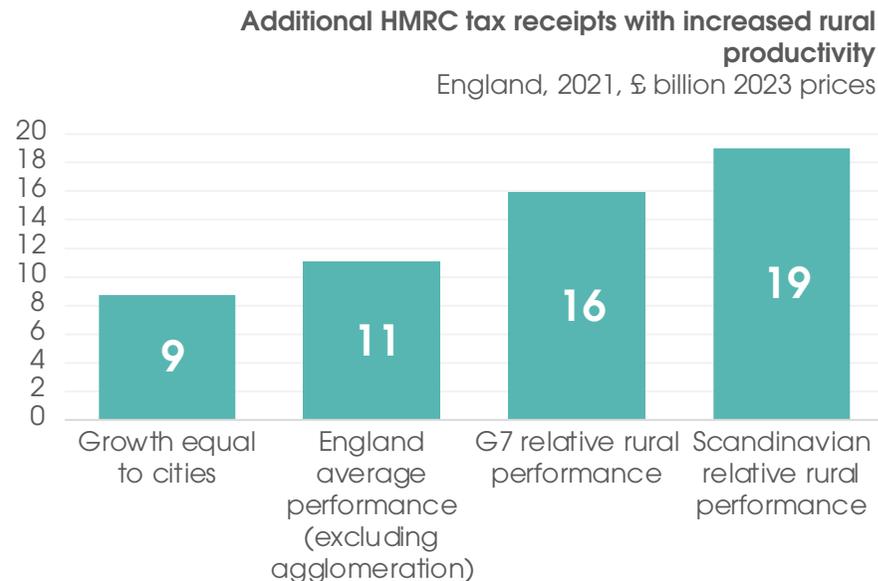


Treasury would expect to see between £9 billion and £19 billion more a year in tax receipts.

Growth in the rural economy would not only benefit rural communities and the national economy but would have significant tax implications for the Treasury.

If rural productivity growth rates had been equivalent to that of cities over the last three decades, HMRC’s tax receipts would have been £9 billion greater in 2021. Our England average performance (excluding agglomeration) scenario suggests the additional tax benefit would have been around £11 billion.

And if England had experienced Scandinavian relative rural performance, central government would potentially have received additional taxes totalling £19 billion in 2021.



	Growth equal to cities	England average performance (excluding agglomeration)	G7 relative rural performance	Scandinavian relative rural performance
Nurses	236,000	299,000	430,000	514,000
Teachers	216,000	275,000	395,000	472,000
Dentists	171,000	218,000	313,000	374,000

Public spending equivalents to additional HMRC tax receipts with increased rural productivity
 Salaries per year

Additional taxes could fund much-needed public services.

The scale of additional tax receipts that a more prosperous rural economy could generate have the potential to fund significant national priorities.

Our estimates suggest that the additional tax raised could pay the annual salaries of between 250,000 and half a million NHS nurses. In other words, if the rural productivity ratio in England was equal to that of Scandinavian countries, the additional tax raised could pay the annual salaries of 514,000 nurses.

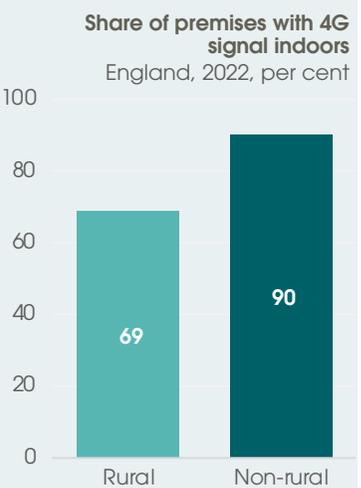
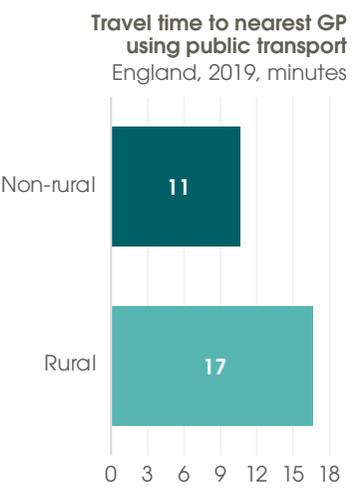
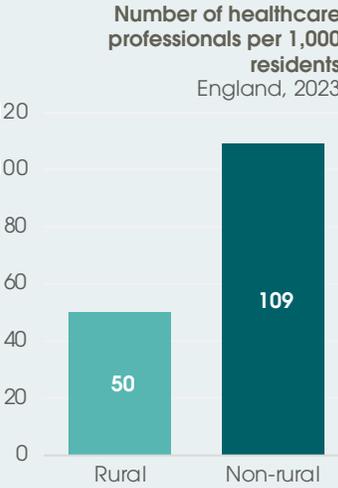
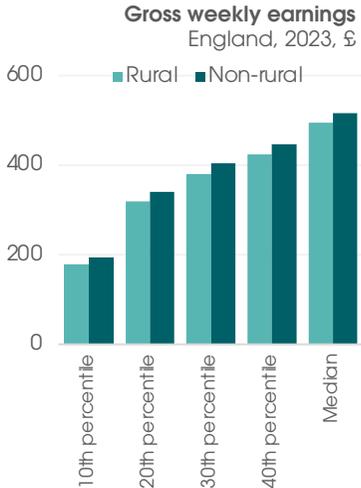
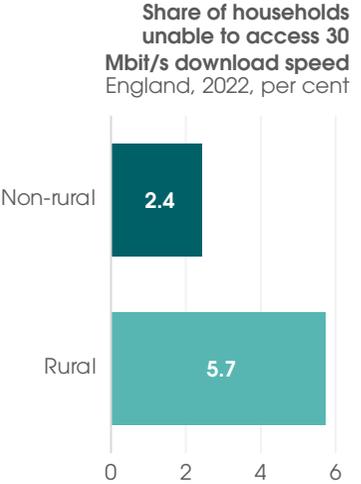
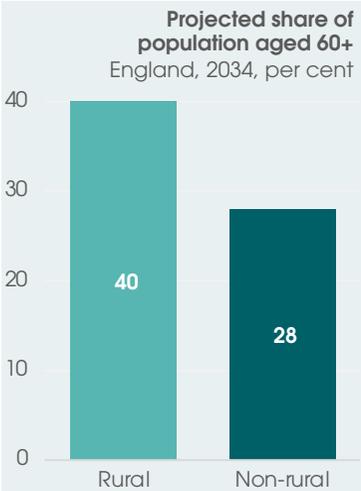
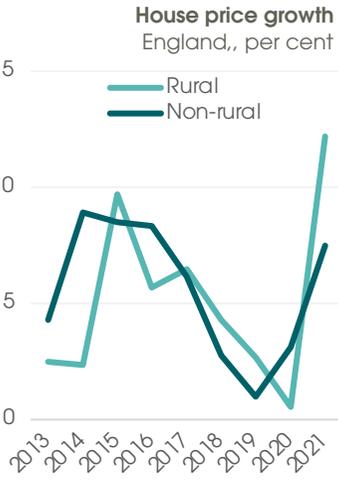
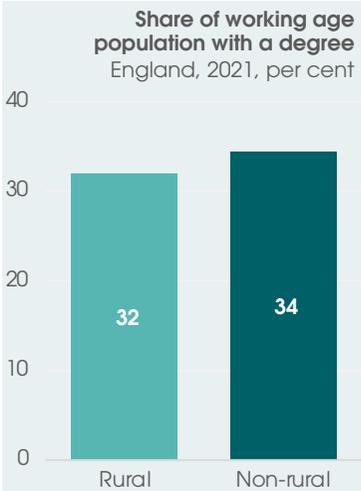
Alternatively, under our most conservative scenario, the additional tax revenues could pay the average yearly salaries of 216,000 teachers or 171,000 dentists.

Addressing challenges will boost productivity

Rural England is facing a series of challenges after years of underinvestment.

The differences between rural and non-rural communities underpin the productivity gap, and these issues need to be addressed if rural England is to achieve its true productivity potential.

Without change, the challenges being experienced by rural communities will only worsen, and the opportunity for them to contribute more to the United Kingdom economy will be missed.



Source: Office for National Statistics; Department for Levelling Up, Housing and Communities; Ofcom; Department for Transport

Getting governance right is catalyst for change

The Rural Coalition's policy principles:

1. Demonstrate leadership by producing a comprehensive rural strategy
2. Ensure fair funding which takes proper account of rural costs
3. Invest in rural infrastructure that is fit for the future
4. Adapt and mitigate for climate change
5. Create the conditions for a prosperous rural economy
6. Design services so they meet rural needs
7. Deliver services as locally as possible
8. Support the key contribution of the voluntary and community sector
9. Devolve decision-making powers closer to communities

More effective governance has the potential to help narrow the productivity gap between rural and non-rural areas. By prioritising fairness and local autonomy, central government can lay the groundwork for a more productive, inclusive, and resilient rural economy.

If the rural economy is to reach its productivity potential, there is a need to acknowledge the unique challenges and circumstances faced by rural areas and develop a system which allocates funding accordingly to support their sustainable development and prosperity. In rural areas of England, the challenge of achieving satisfactory returns on investment, both socially and commercially, is amplified due to greater distances and smaller markets. Delivering services or capital projects frequently incurs higher costs in comparison to non-rural areas, and often the capacity to deliver capital schemes and programmes, as well as bidding into competitive revenue funding streams, can be a challenge. There is an urgent need to distribute resources equitably, but also to address the systemic funding discrepancies needed to alleviate the financial pressures faced by rural communities. Without fair funding, cost-cutting through service level reductions, closures, and centralisation of local services by the public sector will likely continue. Inaccessible services will lead to a more unbalanced community, a reduced local workforce, and ultimately increased costs for public services. Regeneration and delivery of all services, for example planning, will become harder as local government's capacity is hollowed out.

Giving communities, local authorities, towns, and parish councils more control over decision-making promotes social cohesion and strengthens community bonds, as residents and local government work together towards common goals and priorities. Elected local representatives are integral to facilitating community empowerment and empowered communities are better positioned to pursue sustainable development practices that prioritise environmental conservation, resource management, and resilience to external challenges. Empowering local communities, if effectively supported, presents a clear opportunity to leverage local resources and commitment to help increase productivity. Community wealth building and place-based, community led solutions can pay back far more than the cost of catalysing them.

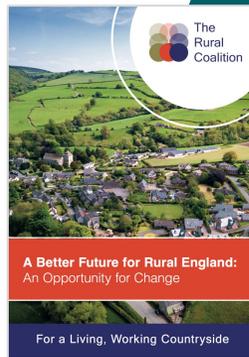
Change won't happen in isolation

Intervention is required across all policy areas, underpinned by fair funding, and local decision making.

There are a multitude of challenges and opportunities inherent in narrowing the productivity gap between rural and non-rural areas in England. Recognising the complexity and interconnectedness of the issues is pivotal.

Businesses will not have access to skilled workers if there are not homes to house them or education and training accessible to them. Young people cannot take advantage of green job opportunities if courses aren't accessible, or the transport networks aren't adequate to get them there. Health and social care services can't be delivered locally if there aren't the workers living in rural areas because housing is unaffordable for them.

By implementing policy changes to help achieve The Rural Coalition's ten-year vision set out in its roadmap, 'A Better Future for Rural England: An Opportunity for Change', rural communities have the potential to narrow the productivity gap with non-rural areas, while contributing more to the entire nation's economic prosperity.



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