The Rural Economy, Communities and Natural Environment: Discussion Paper for the new Rural Board

Recommendations:

1. The Board is invited to:

a. Consider the trend analysis showing developments in rural areas, including the impact of the current economic downturn on these trends, and agree what additional intelligence and data is needed for the Board to be able to make judgements about the efficacy of current and planned interventions in rural areas (paragraphs 2-30);

b. Agree the short- and long-term trends on which the Board wishes to focus on over the coming months;

c Consider what are the most critical interventions on which the Board wishes to focus, either short or longer-term;

d. Agree communications messages arising from their discussions, including any for lobbying of government.

Trends in the Rural Economy, communities and environment, and what more data is needed

2. Annex A provides an analysis of recent reports as they impact on the South East. The data should be regarded with a degree of caution because:

- Actual GVA figures lag a long way behind real time;
- Much data is not gathered at either local or sector level. For example, GVA figures at local authority level appeared for the first time in 2008 State of Countryside report and were based on 2005 figures; and
- Some information can only be gathered through direct surveys. For example, opinion surveys of people's shopping habits could be carried out with sample surveys, but this will only capture a specific point in time and will not be easily comparable with later years' results.

3. Nonetheless, analysis across the range of data sources provides useful insight into some key trend issues, including the impact of the economic downturn, further information on which is set out at Annex B. These trends should be seen in the context of the contribution that rural areas make to a healthy economy and communities, and an environment that contributes to the region's quality of life and economic competitiveness, set out at Annex C. They should also be seen in the context of the conclusion, by the Commission for Rural Communities, that there is much more to be done to tap fully the potential of rural areas.

Living in the Countryside – Quality of Life

4. The annual State of the Countryside 2008 report by the Commission for Rural Communities shows that rural areas continue to fare better on most measures of quality of life than urban areas in England. Indicators have more positive values for rural areas, which are characterized by having an older age profile, more people moving in than moving out, fewer homeless people, more healthy lifestyles, better educational achievement, lower crime and less deprivation than urban areas.

5. However rural areas have poorer access to services, poorer housing affordability, and the greater numbers of older people mean that illness is more prevalent. There are pockets of deprivation in most rural communities. For example an analysis of an apparently affluent parish in Wealden, East Sussex showed that 47% of the population were earning less than 60% of the national median income. Indices of Multiple Deprivation (IMD) reflect where there are major concentrations of deprivation, invariably urban and poorer and more vulnerable rural residents are disenfranchised if funding relies on IMD. It is more difficult for the provision of services to tackle these more scattered problems. The dispersed nature of rural poverty, underemployment, poor access to services and lack of transport are critical issues but hard to address and occasional funding opportunities (such as Wealden Districts' mobile play services project) are not sustainable in the long term.

6. Nor is the picture getting better in terms of the poorest. A report 'Rural Financial Poverty' published in August 2008 by the Commission for Rural Communities finds that the proportion of rural households living in relative poverty rose by three per cent between 2004 and 2007. It identifies low rates of benefits uptake, a proliferation of low skilled and low paid jobs and the impact of rising housing, transport and other costs as some of the main drivers of rural poverty. There is not yet data to demonstrate the impact of the current economic downturn, but the increase in unemployment and increase in the cost of credit will logically hit hard households that are already on the border-line of poverty.

7. According to the Commission for Rural Communities, the impacts of the economic downturn will be greater in rural areas in the South East because of higher housing, domestic fuel and transport costs, lower wages and fewer opportunities for employment. This will increase the already significant polarity between the affluent and the poor in the region. **It would be useful to use the Rural Services Network to identify the greatest impacts and the potential for solutions using ideas from across the country.**

8. The *South East Rural Community Council network* report that villages, where many more homes rely on oil for their heating, are also suffering the fastest rises in food and fuel prices. Rural residents' budgets are being squeezed by their distance from supermarkets, longer commutes to work, and lack of access to gas. Rural households without gas are paying double what they were last year to heat their homes, and are likely to be the biggest victims of the increases in energy prices. Fuel poverty affects 15% of households; twice the rate found in urban areas and towns. Moreover fuel price rises over the past year, rising inflation and the withdrawal of the Government's Rural Bus Challenge Fund, has hit rural transport services hard and some bus companies are considering withdrawing from rural areas. This will have significant implications for access to employment, training, education

and other services. It is not clear that the present downward move of fuel prices will be passed on, or indeed that it will be lasting.

9. Existing problems over the shortage of affordable rural housing are deepening in the recession. Interest in shared ownership schemes has faltered, and there is also a worry that Registered Social Landlords who provide affordable housing in both rural and urban areas rely on private sector contributions from house builders, which are drying up.

10. In terms of what more data would be useful to the Board, business and communities make a contribution to the social well-being of the region through significant volunteering activity, and we need more data at a local level, on the social impact. **Data on this could be collected through the Rural Community Council Community Led Planning Database.**

Economic Wellbeing:

11. Details of regional GVA figures are set out in the Annex but a more detailed split is needed to understand the trends in different sectors and the impact of the recession. Such segmentation should include not just agriculture, forestry and fishing, but food and food processing, tourism and culture.

12. The State of the Countryside Report 2008 'Economic Wellbeing' section and the latest UK Competitiveness Index 2008 make it clear that rural areas do make a substantial contribution to the economy. The central south, which includes most of the South East together with parts of other regions, is the most successful part of England and where we should be looking to invest in the continued success of rural districts in this area. However, a second report from the Commission for Rural Communities to the Prime Minister 'Releasing the Potential of England's Rural Economies', published in June 2008 makes it clear that rural economies are not performing to their full potential, held back in part by lower levels of capital investment, poorer access to finance, and lower funding for rural economic initiatives.

13. The economic downturn and the increases in commodity prices are having a mixed impact on the rural economy. The impact on the land-based sector is important: although not contributing a high proportion to overall GVA for the region, it is this sector that manages and maintains the countryside, providing the region with highly attractive landscapes considered to be a major contributor to the region's competitiveness and quality of life.

14. A summary of information gathered gives a picture of some real concerns but also some opportunities for new markets which can be exploited to help the rural economy through the recession and in a better place thereafter. Arable farming is faring better than livestock; horticulture is facing labour shortages but all sectors have faced huge rises in input costs. Rising food prices are causing shoppers to be more careful, less meat is being eaten but there has been a rise in the interest of local produced food. Catering is definitely suffering from the credit crunch.

15. *Business Links* report that numbers to visitor attractions are down, and investments being delayed. This is a particular concern given that the visitor economy is an important sector for the South East. **A big marketing drive is**

planned by Tourism South East, and it will be important that the rural offer is enhanced and highlighted as part of this.

16. On the more positive side, *Business Link* reports that businesses are looking to co-operate to share transport costs, local tradesmen are not seeing a lack of demand, and there is an increase in interest in renewable fuel sources and boilers for wood chips and pellet. Nor does there seem to be a slowdown in inquiries from people looking to start up their own business; indeed the impact of the credit crunch on the City is likely to result in an increase in the number of new start-ups, and **it will be important that the offer to new businesses is fully marketed in rural areas.**

17. One potential new market is in the increasing numbers of home based rural business and home working. This provides the potential to break the link between economic growth and infrastructure and to reduce journeys and carbon emissions. However, the closure of many rural post offices means that a commute to the nearest town to post or collect business items costs more in time and money for rural and home-based businesses, than for urban based businesses. Data on home-based businesses and the problems they face is patchy, but would help make the case for infrastructure investment in rural areas to support greater home based businesses/working as well as more remote commercial buildings. **The Board is invited to consider what data might be available to help make the case for investment to support this growing sector.**

18. The picture reported from the *South East Rural Towns Partnership* is generally one of shops closing and lack of uptake on the existing empty shops. However it is not all doom and gloom. Waitrose has announced it is to launch a series of smaller convenience stores (one being piloted in the small rural town of Buckingham) which will also look to source a larger number of products within 30 miles of their location.

19. One potentially worrying impact of the credit crunch is that rural businesses may be unable to take up public sector grants due to the need for match funding. So far there is no firm evidence that this has yet materialised as a real problem, but **this is an area on which the Board may wish to keep a close eye, advised by data captured through Business Link and the RDPE work**.

Environmental wellbeing:

20. The Environment Agency State of the Environment Report shows that there are some positive trends in the South East. Water usage is down; pollution incidents to water and land are steadily reducing; otter populations are on the increase and wildlife sites are improving. On the negative side, nitrates in ground-water are high, we are generating more waste every year, and certain species are struggling. The high level of growth in the South East (notwithstanding the recession) means that the impact on the environment, biodiversity and ecosystems needs particularly careful attention.

21. There are also indications that some rural communities are working to reduce their carbon footprint; evidence to show the levels of communities undertaking this activity across the region, is being gathered jointly by the Rural Community Councils and the Greening Campaign. **The Board may wish to have regular reports, to demonstrate the contribution of rural communities on tackling energy and carbon use.**

22. Another issue is the contribution of land use and impact in rural areas to tackle and mitigating and adapting to climate change. Work is being done as reports and we will bring the results to the Board. The region's iconic landscapes are under threat as substantial rises in production costs in the meat and dairy sectors are making livestock farming vulnerable causing concerns over the future management of our chalk grasslands which are mostly managed by sheep farmers. In addition Natural England is leading on work with SEEDA on a Land Use Strategy and again we will bring an update to the next Board.

What Are the Trend Areas on which the Board wishes to focus, either short or longer term?

23. The immediate concern for the Board must be the impact of the economic downturn on rural areas. Unlike previous economic crises, this time the impact is on industries that work in or commute from the South East. So we cannot be complacent for South East businesses and communities. This puts a premium on understanding the implications for rural businesses and communities, and ensuring that changes in government interventions, such as those announced in recent weeks, are 'rural proofed'.

24. In particular, the worsening economic situation puts many small businesses at risk. Businesses will need increasing help to resist the effects of the slowdown. While it is fair to assume that rural businesses and communities will suffer many of the same problems and have the same needs as in urban areas, there may be some particular issues that are hidden. **The Board is invited to discuss what additional needs rural communities and businesses might have in the recession, and what further trend data or analysis needed to allow judgements about new or adjusted interventions.**

25. Services which support existing business get through the crisis and survive are particularly important. The government has made announcements in recent weeks including on workforce skills and support to SMEs (the Healthcheck). SEEDA in August announced a £10M package including a new £3M Commercialisation Fund to the South East Funding Escalator to support businesses bring new products and services to the market, and new support for firms undertaking R&D specifically to reach new overseas markets. **But the Board may wish to consider whether it has sufficient understanding at present on whether these interventions are helping in rural areas, or whether more needs to be done to 'rural-proof' them and local authority interventions.**

Labour force

26. The economic downturn, combined with the weak pound, has seen a reversal of migrant flows, with labour-force returning home to Eastern Europe. The Food and Farming Group has set some work in hand to gather data on the current and future workforce requirements of land-based businesses, given the very real vulnerability of our dependence on migrant labour in the horticulture sector and security of future supply. **The Board may wish to consider what more needs to be done to determine future labour needs and how these might be filled. Such analysis could, for example, allow the Board to lobby government in behalf of the South East, on any policy changes to ensure a more secure supply of labour.**

Food security

27 Conflict between growing for fuel versus growing for food is leading to real concerns over future food security. Also the western world is cutting its meat consumption, whereas other areas in the world (China and India) are increasing their demand for meat. Globally this will mean more land to feed livestock and the consequent need for massive increases in yields which will open debates on the necessity for technologies for genetic modification, which has been very controversial in the past. **The Board may wish to keep an eye on this and be prepared to initiate or contribute to a structured and rationale debate.**

Disease resilience

28. There are also major concerns over the threats posed by animal and plants diseases. We have had recent outbreaks of Foot and Mouth and Bluetongue, with the threat of new strains not far way in Europe. The fruit industry (the region produces up to 80% of the national crop), is threatened by chronic bee paralysis virus already and other fast spreading Asian diseases. Bees are moved into orchards for pollination and the numbers doing so are well below that in past years. The need for resilience measures will be critical and SEEDA is leading on a disaster recovery plan for the region. **The Board is invited to note that the UK Climate Impacts Programme will be issuing up-to-date data in the New Year; and agree that this should be analysed to identify the impacts on the South East environment (and, by consequence, communities and businesses).**

Forestry

29. Although the UK housing market is slowing down, current market predictions are that demand will rise in the next 2-3 years and may be more acute as a result of the current slow-down. The rise in prices of conventional material (concrete and steel etc) means that there is a real opportunity for new markets, using more sustainable sources. For example, a German company is manufacturing bricks that are honey-comb and include biomass in their structure. The challenge is for the SE to take advantage of new markets. One way is to improve the management of its forests and woodland, and the skills of forest workers, to achieve the production of high quality timber and returns made on it. **The Board is invited to consider what more can be done to put the South East in a good position to take advantage of potential new markets.**

What key interventions and investments should the Board focus on, both short and longer-term?

30. There are a significant number of interventions being taken at different levels of government across the region, including European programmes, which require match funding, as well as by the voluntary/third sector, and indeed by communities and businesses. A list of key existing or potentially significant interventions which also link back to the implications is set out in Annex D. For simplicity these are put under sub-headings, but some interventions have multiple benefits. The interventions are also identified in the current Regional Rural Action Plan. If the Board's work is to remain focused and strategic on what works and what does not, it will need to concentrate on major interventions and investments – or at least on those which have or the potential to have a transformational impact.

Mainstreaming

31, The role of the new Board will be to act as a watchdog on mainstreaming, promote it and make sure that the rural dimension is strengthened Current mainstream activity already covers the work of Business Links: Train to Gain; Innovation and Creativity; Local Employment and Skills Boards; major rural brown-field site development, tourism and culture and health services. **The Board is invited to discuss how it might help with mainstreaming of these core services to rural communities and businesses.**

32. Given the importance of the forthcoming Regional Funding Allocation Advice to government, the Board may wish to set in hand work to carry out **rural proofing of the RFA advice, including in relation to the work of the Regional Transport and Housing Boards,** to identify the extent to which the rural economy is likely to benefit or miss out.

33. In terms of local and place-based interventions, the impact of the withdrawal of direct Defra support to rural communities and its assumption that rural community service needs will be met by mainstreaming through Local Authorities will need to be tested. The Community Strategies and Local Area Agreements are the primary means by which such 'rural proofing' is likely to take place, and there are considerable advantages to local authorities in engaging rural communities. Such communities can contribute to improved engagement of local people, better use of local assets and increased service delivery, effective input to the shaping of Sustainable Community Strategies, jointly owned partnership solutions and more sustainable and enterprising Third and Business sectors. **The Board is invited to agree that this is an area on which it wishes to focus, advised by the Rural Forum for the South East.**

Key leadership messages, to the region and to government

34. The Board is uniquely placed to raise the profile of the needs of rural communities and businesses in the current economic downturn, and to ensure that local and regional bodies, and national government, do not focus on urban needs to the exclusion of rural. At this stage, the **Board is invited therefore to agree that its key leadership messages should focus on the current economic downturn and the need for new initiatives to be rural-proofed.**

35. **The Board is also invited to look at longer term rural issues facing the region and develop other key leadership messages resulting from their discussions.**

SEEDA: 30 October 2008

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- Livestock farming and meat
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ANNEX A – Background data and Trend Analysis

Background Facts: How 'rural' is the South East

1. Geographically more than 82.6% of the region is classified as rural under Defra definitions at Super Ouput Areas. In 2005 Defra also classified what makes a 'rural' local authority, based primarily on the percentage of rural population living in them. The South East has thirty three 'rural' Districts/Unitary Authorities – more than any other region. However only 6 appear in the top band, more than 80% rural: but 14 in the more than 50% rural band. These 80/50 areas referred to as the 'most rural' Districts/Unitary Authorities. The South East also has 13 Districts in the third rural category, called 'significantly rural'. All three categories make up the definition for 'rural'.

2. Set out below is a list of Rural Districts and Unitary Authorities in the South East region

80% or more rural – 5 Districts and 1 Unitary Authority

West Oxfordshire	Chichester, West Sussex
South Oxfordshire	Mid Sussex, West Sussex
Isle of Wight	Wealden, East Sussex

50% rural (but less than 80%) – 14 Districts

Aylesbury Vale, Buckinghamshire	Lewes, East Sussex
South Bucks	Rother, East Sussex
Vale of White Horse, Oxfordshire	Waverley, Surrey
Test Valley, Hampshire	Tandridge, Surrey
Winchester, Hampshire	Sevenoaks, Kent
East Hants	Tonbridge and Malling, Kent
Horsham, West Susses	Dover, Kent

Significantly rural – 12 Districts and 1 Unitary Authority

Cherwell, Oxfordshire	Guildford, Surrey
Chiltern, Buckinghamshire	Tunbridge Wells, Kent
Wycombe, Buckinghamshire	Maidstone, Kent
West Berkshire	Swale,Kent
Basingstoke, Hampshire	Ashford, Kent
Hart, Hampshire	Shepway, Kent
New Forest, Hampshire	

Source: Defra 2005: Classification of Local Authority District and Unitary Authority

Regional value of rural based businesses

3. In 2006 the South East output (GVA) was £157.7 billion (constant 2003 prices) and it is projected to increase to £172.2 billion (constant 2003 prices) by 2010. The GVA for the farming, forestry and fishing sector made quite a small contribution in 2006 of £1.1 (constant 2003 prices), 0.7% the total South East output (GVA). By 2010 the contribution of this sector is projected to decline around 0.6%.

NB. Since these estimates are based on an independent set of projections produced in April and given the current market downturn and a possibility of global recession these figures have to be taken with a great degree of caution.

3. The GVA for the whole region was £157 billion in 2006 and is estimated to increase to £172 billion in 2010. The GVA for the farming, forestry and fishing sector made quite a small contribution in 2006 of £1.1, only 0.7% share of the South East GVA billion, but is estimated to fall in later years with an overall contribution to the region of 0.6%.

4. **Tourism** contributes one billion pounds to the economy per annum and employs 40,000 people. There are some 320 million day visits to the countryside. 70% of the region's land mass is under agriculture, and 14% is wooded (although this figure includes woodland in urban areas).

5. **Farming** employs more than 56,000 people (27,000 farmers and 29,000 workers with 41% of these being casual workers many of whom will be migrant workers) The horticultural industry is particularly significant, and accounts for a fifth of the farming output (cannot be separated from the GVA for farming / forestry and fishing). In Kent and West Sussex the annual turnover is £300 million.

6. The **agri-food sector** includes agriculture supplies, food and drink manufacturing, food and agriculture wholesaling, food and drink retailing and non-residential catering (and figures for this region need to be established) as well as agriculture (GVA for the whole agri-food sector in the UK in 2005 accounted for 7.6% of the total economy yet agriculture itself only accounted for just over 1%). The speciality farming food and drink sector alone (not including any commodity foods) in this region is estimated to be worth 550 Million pounds per annum. Mainstream retailing in the region (2002) comprised 1,017 supermarkets, 992 butchers and 209 delicatessens. More up-to date figures need to be obtained and comparisons made with other similar regions. The value of this agri-food sector is expected to rise through increased food prices and eating out. The value of the fishing catch at quayside was estimated at £21 million (2006) but there is significant added value through sales to other European markets and tourism and the contribution to the maintenance of the natural heritage of the coastline above and below water.

7. The Defra reported in November 2007 (Market Research on Quality Regional Food Businesses) that the South East has 800 food businesses, 20% of the figure for England (based on ONS statistics Interdepartmental Business Register 2004 and the estimation that 50% of businesses with the Food and Drink production sector are Quality Regional Food producers). The average permanent full time equivalent employees in 2007 was 11.9 per company for the South East compared to the English average of 21.4. The annual average turnover for 2007 was estimated to be £1.5 million for the South East compared to the figure of £1.39 million for England and ranked third after North East (2.3 m) and North West and Yorkshire (both at £1.6 m)

Trends from the 'State of the Countryside' Report

8. It has been difficult in the past to find evidence to provide a rural/urban analysis of **Economic Well-being** but the latest 'State of the Countryside' report,

produced by the Commission for Rural Communities in August 2008, has been able to present evidence on the core measure of economic growth and productivity, Gross Value Added (GVA), at Local Authority level for the first time (2005 figures).

9. **Household income** uses two core indicators: Disposable Household Income (DHI) and Gross Domestic Product (GDP), or at the sub-national level by Gross Value Added (GVA) which encompasses all income earned from goods and services, which includes income from employment, self employment, profits and services and rents.

10. In 2008 the Department of Work and Pensions (median equivalised) state that rural households had higher average gross incomes than urban: the mean equivalised household disposable income was £26,600 in rural areas compared to £24,000 in urban areas. After housing costs the mean income was £23,200 in rural areas compared to £20,400 in urban areas. This reflects that many rural residents, particularly true in the South East, commute to relatively well-paid jobs in urban areas and does not mean that wages are higher in rural areas.

11. DWP data also shows that 18% of households in rural areas were below the poverty line in 2006/07 compared to 19% in urban areas, without taking account of housing costs, and 19% and 23% respectively when housing costs are added in, and the rural percentage had increased from 16% in 2004/05.

12. Another part of the 'State of the Countryside' Report looks at **wage levels** at Local Authority levels. In 1999 the Commission for Rural Communities reported that the lowest levels of average full-time weekly pay were found in peripheral rural counties with five counties getting £88 per week less than the national average. The Isle of Wight was one of those five. In 2007 the mean weekly pay for England was £461.30. The lowest rates for pay in England were all in peripheral rural areas. This included the Isle of Wight, Wealden, Chichester (all 80% rural) and Rother (50% rural) which are in the lowest band reported – less than £376.99 – all more than £84 per week less than the rate for England.

13. Nevertheless during the period 2002-07 most rural 80/50 Local Authorities have generally witnessed increases in weekly pay greater than the national increase, but the pattern has been variable and rural areas seem to have experienced greater volatility in wage rises than elsewhere. By 2007 the rise in rural wages (1.6%) had fallen below one of the Government's indicators of inflation – the Consumer Price Index (just above 2%). By comparison the rise in mixed and urban areas was 3.0%.

14. The picture of peripheral areas struggling to achieve parity with national average weekly wages and those earned in urban districts is reinforced by the analysis of the proportion of employees earning low levels of pay. The average percentage in low pay for England in 2006 was 24.7%. The majority of Local Authorities in the South East, including most rural Districts, have better rates of pay than the national average, with Guildford (significantly rural) recording the second lowest at only 12.5%. However, the Districts of the Isle of Wight, and Chichester (both rural 80), Rother (rural 50) and Swale and Maidstone (both 'significantly rural') all have a rate higher and worse than the national average. All but Maidstone are peripheral rural areas.

15. The 2007 State of the Countryside report also covers **Consumption and Expenditure** and states that on average rural households earned more, had more disposable income and spent more – an average additional spend of about £60 per week. The 2008 report uses the Expenditure and Food Survey (EFS), and the evidence seems to point to the cost of living being higher in rural areas for 'essentials' with those in the lowest quintile spending 19.7% of their disposable income on food and non-alcoholic drink compared with 16.5% and 16.8% in mixed and urban authority areas.

16. The State of the Countryside has used consultants to **estimate GVA down to Local Authority areas**. Defra and Office for National Statistics have developed and released analysis for GVA and GVA per workforce job to which rural/urban classifications could be applied and based on Local Authority level data. However, it will not be published due to methodological issues about robustness and confidentiality.

17. Data on a rural/urban split shows that in recent years the increase in GVA from the most rural Districts (the 80/50) has been higher than elsewhere. By 2005 the GVA from rural areas exceeded that from England's major urban areas outside London, amounting to £178.7 billion, representing 19.4% of England's GVA. The data shows a central south – which includes most of the South East – and a band from Manchester to East Yorkshire having the highest levels of GVA and the lowest rates in the peripheral areas. Lewes and Rother appear in the worst levels and Isle of Wight, Test Valley, East Hants, Chichester, Wealden, Tunbridge Wells; Ashford, Maidstone, Swale, and Shepway in the next lowest level.

18. Despite this healthy contribution to national economic output and growth, **levels of productivity** – as measured by GVA per worker – in rural districts was marginally lower in 2005 than the English average. The overall GVA per worker across England was £35, while rural districts marginally under attained at £34 (Rural 50) and £31 (Rural 80).

19. Productivity has been rising at faster rates in rural areas between 2002-05, with the Rural 80 districts rising 4% over this period, exceeding that of London (3.9%). The geographical distribution of these changes in productivity rates is varied but it seems that areas with the best trends are the central south, which includes much of the South East. Increases are seen in the Districts of West Berkshire: Test Valley; Isle of Wight, Waverley, Horsham, Tandridge, Tunbridge Wells, Ashford and Shepway, but all the rest show a decrease.

20. Looking at **Business turnover and income**, in 2006 rural firms registered for VAT or PAYE earned at least £321 billion – 10% of turnover earned by English firms. However over the 4 year period from 2003 to 2006 the turnover in businesses in the predominantly rural districts (the 80/50 category which has 20 districts in the South East) has marginally declined by -1.3% or £4.3 billion in contrast with the increases of 11.21% or £373 billion across England as a whole.

21. Analysis of the earnings or turnover per worker shows similarities with the pattern of low wages referred to above - wages are in part determined by earnings of businesses. Median turnover per worker is highest in London and the districts in Surrey and Bedfordshire and Hertfordshire – with turnover between £61,000 and

£84,000. The lowest turnover is again in the peripheral rural and urban areas. The lowest turnover (between £44,000 - £53,000) is found in Dover District (Rural 50) in the South East and the second lowest band with turnover of £54,000 - £57,000 include Tunbridge Wells (significant rural). However there are a large number of rural districts that could not be analysed through too small a sample.

UK Competitiveness Index 2008

22. The latest UK Competitiveness Index 2008, compiled by Professor Robert Huggins of the Cardiff School of Management, states that their research strongly suggests that urban development in the UK is achieving a significant degree of success which appears to be at the expense of many rural areas. It suggests that regeneration cash has not done enough in the countryside. The South East has a high concentration of the most competitive areas in the country with most local authority districts reporting a competitiveness score higher than the UK average. Of the rural districts which fare well, West Berkshire is ranked 12; Waverley is ranked 19 and Guildford ranked 21 in the top 25 localities on the UK Competitiveness Index 2008. By contrast many coastal localities, including the New Forest, East Sussex and Kent rural coastal districts, are 10-20% lower than the UK average. The Isle of Wight is the lowest in the region ranked at 371 out of 407. Improvements in rankings of rural districts showed Chichester with an increase in position (32) and Rother the largest decrease (27). The Vale of White Horse, and West Oxfordshire are in the top 10 locations with the lowest unemployment rates. West Oxfordshire was ranked 2nd in the Economic Activity Rates and Winchester was ranked 4th in the Proportion of Working Age Population with NVQ level 4 or higher qualifications. This supports the State of the Countryside report that the central south area is more successful.

ANNEX B: Impact of the economic downturn on land-based businesses

1. **Agricultural land prices** News is emerging from the *Farming and Rural Issues Group* (*FRIG)* that some agricultural landlord agents are seeking rent increases of about 50% to reflect their perception that farm profitability has improved significantly as a result of higher product prices. This of course would cause real hardship as the higher product prices reflect the very much higher input prices (mostly due to increased global demand and fuel) not in most cases an increased profitability. The rapid price rises seen for high quality land and larger farms appear to have slowed and there are more of the smaller 'lifestyle farms' coming onto the market. These are not viable on the value of their agricultural output and are expensive to maintain when other incomes are reduced.

2. **Arable farming / Volatility of grain prices** The *National Farmers' Union (NFU)* reports that the last two seasons have seen a dramatic rise in growing input costs across all areas of agriculture and horticulture. The cost of production remained relatively unchanged over the period 1994 and 2003, possibly due to the combined affects of reducing (real) input costs, a strong currency and low interest rates. However since 2003 year on year increases of 4-5% lasted until 2006 but since then the rates have increased dramatically to 10 or even 20%.

3. These huge price rises over the past 2 years reflect increased energy cost in manufacture, increased global demand and the effect of currency exchange rates. The costs of energy and lubricants alone have increased by 77% over the last 5 years. Volatility in grain prices reflects the growing alternative demands for use in bio-fuels as well as food and has added to the problem. Prices for oil seed rape now stand at £275 per tonne against £200 a year ago. However grain prices are currently low and the trend is downwards. Farmers have been held back on harvesting because of lack of machinery capacity and the cost of fuel for drying (red diesel cost of £70 a tonne. Wheat quality is poor because of the weather also leading to lower prices. Milling and feed wheats are at lower prices than this time last year.

4. The NFU also reports that there has also been a 90% increase in the costs of fertilizers and soil improvers (natural gas being the single biggest cost of producing inorganic fertilizers).

5. Strong sales of agricultural arable machinery resulting from last years high prices have slowed and are allowing supply of equipment to catch up with demand. Sales are not expected to be as strong this year because of decreased profitability, volatile prices and decrease in the Single Farm Payment

6. Interest in R&D for industrial and fuel crops is strong, but the high risk, lack of secure markets and capital expense of manufacturing plant is discouraging investment in production

7. **Livestock farming and meat** Livestock farmers, pigs, beef, lamb and dairy producers are suffering from the high price of feedstocks and many pig farmers have reported that they will go out of business. *The Financial Times* reported from the Red Meat Industry Forum on the soaring cost of grains for animal feed. While meat

and dairy prices have risen under the influence of changing diets in countries such as China and India, they have failed to keep pace with grain prices and may not cover the cost of production. It requires seven pounds of grain to produce one pound of beef. *The United Nations Intergovernmental Panel on Climate Change* report that increases in meat consumption will also have a detrimental increase in levels of methane released into the atmosphere, exacerbating the impact on climate change, although critics argue that meat production in the UK is more environmentally friendly than many other parts of the world where rainforests are bulldozed to rear cattle.

8. The *Meat Trades Journal* states there is a lag between demand and production in the UK, so a lot of beef that is ready now was planned before the credit crunch. But they have been fattened using feeds that were more expensive that anticipated, and they are also getting a lower price because people are cutting back. We expect to see an impact on production over the next few months. The higher costs of animal welfare and hygiene inspections will add to the burden on the industry and we would therefore expect to see a market downturn and less livestock numbers. Historically beef consumption has been declining for many years, following the impact of BSE and other animal diseases and possibly because people are being advised to cut down on red meat consumption.

9. The *English Beef and Lamb Executive* (EBLEX) report that sales in all categories of meat has fallen during the 3 months ending in July 2008 compared to the equivalent period in 2007 (fall of 6% for beef, 7% for lamb; 3% for pork and 1% for poultry). The only meat products to experience rising sales were sausages in terms of volume and sales – an increase of 7% and offal increase of 10%. At the same time meat prices have increased due to higher production costs yet there is a drop in the volume of meat consumed. The value of sales increased because of higher retail prices but consumers are paying more for less product. There has been a shift in buying patterns towards 'value' retailers.

10. It is not only the UK, Europe as a whole is seeing a crisis in the sheep sector. *Rural Europe* reported that the EU sheep flock is in serious decline, yet it provides an environmental role of great importance. Most of our iconic chalk down-lands are maintained by sheep farming.

11. **Horticulture and Labour** The *NFU Report* recognises the major differences in cost structures between agriculture and horticulture sectors. Whilst agriculture has been able to replace increasingly expensive labour with high levels of mechanization, opportunities to make such savings in horticulture are more limited and the sector has been left more exposed to rising costs of living and wage rates. Recent reports by the *BBC* have highlighted real problems in securing labour to gather in fruit crops. Local people are no longer involved in fruit picking, even though fruit pickers can earn up to £7 per hour, and all labour is through migrant workers who are now essential for the success of South East horticulture. Migrant workers from non EU countries are no longer accepted under the Seasonal Agriculture Workers Scheme (SAWS). Although they can come in privately it is difficult to secure enough through this route. The downturn in the value of the pound against the Euro has meant that many workers from places like Poland are returning home. One report highlights the fact that many migrant workers are highly skilled and are entering jobs as managers in the food industry and are no longer available for picking. There are instances

where fruit crops have not been picked at all. Pick your own has also experienced a downturn in parts of the UK.

12. The *Horticulture Working Group* reports that the regions' and nurseries and growers have also suffered as any increase in market prices has not kept pace with rising input prices. The production and supply of hardy nursery stock to retailers was buoyant in the autumn of 2007 but has taken a serious nose-dive this year because of the weather and decline in consumer confidence. Sales to the major multiples have suffered most, where they have been very slow in confirming orders. Poor weather has led to a downturn in garden furniture sales. However, with the credit crunch keeping people from traveling they may spend more on their gardens. Also the cost of fuel and the strengthening of the Euro have led to a sharp drop in plant imports. Finally, the landscape industry is expected to be seriously affected by the downturn in building and a slow down in implementing projects

13. **Food** Globally, the *Oxfam* report 'From Poverty to Power' reports on food prices: major price rises for wheat and rice and its impact on poor people. Their view is that pressure to grow bio-fuels has led to a 30% increase in prices. Increasing fuel demand from China and India together with predicted population growth will exacerbate this situation. They also recognize that even before the focus on bio-fuels, when there was enough food to go round it was shared out unfairly. It is a real sign of inequality when 400 million people are obese and 800 million are undernourished. They consider that the current food crisis looks set to push another 100 million into hunger. Whilst the South East cannot act unilaterally, we need to understand that there will be a need to have a really fundamental look at the way farming is supported by governments and global trade rules. Poverty to Power report also argues that agriculture is one of the best ways for a country to develop as well as ensuring there is enough food for everyone.

14. *The Times* reports that nationally, Tesco is expecting to generate more than half a million pounds from the sale of **locally produced food and drink**, cashing in on a surge in demand for regional products. Sales of locally produced goods such as bread, meat, apples, eggs and rape seed oil have risen by 40% this year as increasing numbers of consumers shun big brands. Tesco's success reflects a boom in demand for locally sourced products, and heavy promotion in this area, partially because supermarkets are seeking to reduce their transport costs and increase resilience to supply shortages..

15. The *Institute of Grocery Distributors (IGD)* estimates the local food and drink market to have grown by 15% to £4.3 billion in the past three years and believes it could be worth £5.7 by 2012. The IGD's consumer analyst, Michael Freedman, has said that more people were buying locally branded food in the belief it was fresher, supported local communities and helped the environment by cutting food miles. He highlighted that two thirds of customers in London claimed they were keen to buy more regional produce which is really good news for this region. The IGD also states that in these tough economic conditions, people are keener than ever to support nearby jobs through their spending choices

16. The *South East Food Group Partnership,* has also reported that it is not all doom and gloom. High energy prices are having an impact but producers are becoming more resourceful. For instance, there is more co-operation in the cheese

sector, where producers wholesale each others products to expand market and at the same time reduce distribution costs.

17. Locally, *local food groups* networks also report strong interest in local new products by Sainsbury, Tesco and Waitrose who are looking for regional products with a difference. ASDA is sourcing supplies from a Kent food hub. However, sales growth in organic produce has virtually come to a halt and organic box schemes are really suffering and some expected to fold. Fuel prices increase have also hit the delivery schemes as well. Food shops also appear nervous. It is thought that people will become less interested in speciality foods but will focus on high quality food, but less of it. Rural farm shops and vineyards are concerned that they will be too far out and will suffer a reduction in tourism. Farmers Markets' with an established clientele in the region seem to be continuing to do well but some other markets state that they are not.

18. Restaurants and catering are reported as badly hit and are offering deals to entice people in. Wholesale market catering distributors report more restaurants going bankrupt than before the credit crunch

19. The new European Fisheries Fund, being launched in October will bring support for improvement in skills, quality marketing and collaboration. There is a need to encourage South East fishermen to recognize the need for improved marketing and achieving a greater share in the value of their product. The South East under 10 metre fleet has been badly affected by increased fuel costs and this will threaten businesses which do not adapt to quota management and new markets.

20. **Visitor Economy** Businesses engaged in **shooting** are experiencing a major drop in bookings as they depend to a large extent on corporate clients from the City.

21. **Forestry** Timber prices have been rising and trees are becoming attractive again for investors. The value of good quality woodland has risen in the past year because it has become attractive to investors. At the same time, the net return on sawn logs has doubled. Timber prices have risen partly because of growing demand from China and India as well as constraints on supply and high transportation costs due to rising oil prices. Nearly 16,000 hectares of woodland were sold in the UK last year, at an average price of £4,250 per hectare — an increase of about 80% in value compared with 2006. The demand for wood can be expected to rise to provide fuel for biomass power stations and 2nd generation bio-fuels.

ANNEX C – Assessing the Contribution to the region from rural areas

The economy

1. Just under one third of businesses in the region is based in rural areas (109,000 out of 350,000). This undoubtedly reflects a very significant proportion of SMEs in the south east. Only around a quarter of these are land-based businesses. More detailed information is included in the Annex 3

Social well-being

2. Communities undertake a significant number of activities which contribute to the social well being of the Region, often at levels which are below statutory radar and through significant volunteering activity. The traditional self help, and self governing nature of rural communities, with community ownership and management of assets, service provision at a very local level through volunteering and local activity to improve the environment and economy all contribute to the vibrancy of rural life and make rural areas attractive to visitors and residents.

3. The overall picture needs further development, but we recognize already the role of woodland and open access on farms which offer significant benefits for recreation, education and a more healthy lifestyle

- i. The South East is the most wooded region in the UK. The attractive, mainly deciduous woodlands are essential components of our nationally designated quality landscapes, and being in a crowded region are easily accessible to large numbers of people, which encourages more healthy lifestyles as well as contributing to improved air quality. Various studies on forestry have estimated that these public benefits from forestry in the south east are greater than in other regions. The total value is thought to be well over one billion pounds and worth more than all those in Scotland and Wales put together
- ii. The region's farms provide 23,000 hectares of open countryside offering significant benefits to the region's population for recreation, education and a more healthy lifestyle, and we need to look at whether this is being used to best effect.

Tackling Ecological Footprint

4. Farmed land and trees soak up significant amounts of carbon and lock in into soils:

- i Farmed land is a major contributor – every 100 hectares of crops can soak up between 30 and 60 tonnes of carbon per year. There are 1.2 million hectares of farmed land in the region. The amount absorbed depends on types of farming regimes - rotation, intensive/extensive etc. and work on this is being carried out by Natural England, but that may not lead to a regional figure.
- ii Trees lock up carbon in the soil at a better rate than arable crops, although it depends on growing trees rather than mature trees. The carbon locked up in the wood remains locked up if it is used for wood

products (including construction) but releases carbon when used for woody biomass (15 year cycle for chestnut coppice – a huge natural resource in the region). Well managed woodlands are therefore an asset to the region and would contribute significantly to the region's carbon footprint, but, at present, nearly 60% is considered to be under managed. The amount locked up in the region's woodlands and the amount of potential improvement is the subject of a study being carried out by the Forestry Commission and Natural England.(see Annex 6)

i. New coppice planting such as willow can also be used for flood control, reducing soil erosion and reducing the nutrient content of sewage, particularly valuable when near to large populations.

ii. Rural wastes from parts of crops not used in food or industrial production and from animals using anaerobic digestion could make significant contributions to new products and energy to displace fossil fuels.

iii. Encouraging local businesses to provide local jobs; encouraging home-working and provision of improved services locally can lessen the amount of travel and cut emissions.

iv Rural communities across the region are taking action to go carbon neutral and to develop more sustainable ways of living through recycling and resource reduction, encouraging active environmental groups, local food markets, community gardens, woodlands allotments etc, Such initiatives may be easier in smaller, rural communities than in big towns or cities. We do not yet however know the impact of action to date and therefore how significant it is – or might be - in regional terms, but work is presently underway to determine this.

Environment

5. It is important to recognize the very large percentages of land that are designated as national importance:

i Nearly 35% of the region is covered by national designations for quality landscapes (a higher percentage than any other region) which gives the South East a quality of life and competitive edge. This asset is maintained and managed by the land-based sector. A large component of these quality landscapes are grasslands maintained by livestock farming or woodlands. Livestock farmers are facing real economic challenges and both sectors need to be able to cope with diseases.

ii One third of England's unimproved lowland meadows and 40% of lowland heaths are in the South East

ANNEX D. Summary of existing and planned interventions

Economic interventions

1. **European funding** provides funding for 2007 until 2013 which supports the Single Farm Payment (providing a rough estimate of £1.4 billion for this region) and the Rural Development Programme for England which will contribute more than £60 million for Axes 1 and 3 and £300 million under Axis 2. The RDPE is targeted at improving competitiveness in land-based sectors, encouraging collaboration and improved links along supply chains, improved water management on farms; diversification of the economy and better environmental management. It is worth noting that so far, inquiries are still high for using the European Rural Development Programme for England (RDPE), although formal Expressions of Interest seem to be slowing down. We also have no indication at this early stage of projects being delayed because of the economic downturn.

2. **Sustainable Farming and Food** and the regional **Forestry Framework** using UK resources but also targeted at a more sustainable and thriving land based sector, using sector support initiatives, good practice etc

3. Investment in **business support and business development, including skills** to improve competitiveness through Business Link, Sector Skills Councils and the Regional Skills and Productivity Alliance; support on enterprise and innovation via SEEDA-initiated hubs

Business Link provides support to businesses and individuals thinking of starting a business; which can be accessed via the internet, phone and through face to face contact with Business Link Advisors. In the South East, Business Link has worked with more than 37,000 rurally-based businesses in the last 12 months and has supported just under 5,000 rural businesses intensively, and included a series of specialist workshops aimed at addressing the specific needs of rural businesses by providing key information and support that will enable rural businesses to survive, grow and diversify.

4. **The London and local Food Strategies** which encourage local product development and their penetration into local and London markets, and contribute to improved public procurement

5. **Revitalisation of small rural towns** to make them more sustainable with improved local businesses, new local jobs and services, leading to less travel giving an improved ecological footprint, and better able to serve their hinterland of villages and countryside.

6. **Regeneration investment** both **large-scale**, such as the former Kent coalfield (which covers rural and urban areas alike), and **small-scale** such as in redundant farm buildings providing local jobs

Social Interventions

7. The impact of the move towards the **mainstreaming of support to rural communities through Local Area Agreements and Sustainable Community**

Strategies, particularly with relation to social issues. This includes community programmes enabled through Local Area Agreements including transport, pre-school provision, youth services, climate change activity, older peoples services, criminal justice. Mainstreaming through LAAs is a significant change in the governments approach to supporting rural communities and will have a major impact on the wellbeing of rural communities across the region. It is also likely that budgetary constraints within Defra will have an impact on the work of other partners over the next year and this should be monitored as well.

8. Community programmes funded through the **Leader part of RDPE**

9. Interventions through **Primary Care Trusts, Learning and Skills Councils, Job Centreplus, Capacitybuilders, Grassroots Grants, lottery distributors and local trusts**.

10. Provision of support for **rural affordable housing**

11. Work through the **8 Rural Community Councils** in the region

Environmental interventions

12. Cross-compliance: Natural England's **entry and higher level schemes**.

13. Demonstrator projects to lead the market on **renewable technologies** that will also increase the value from rural areas (Anaerobic Digestion and Biomass).

14. Demonstrator projects using **renewable construction materials** such as timber, hemp, and textiles, to begin pull-through to the market.

15. The South East's **Pathway to Zero-waste** Region Initiative, which has a focus on energy from biomass and waste wood, which in turn should increase the demand for **biomass** and **forestry management**.

16. Flood control/water management, and identification of a **compensatory land bank** by Environment Agency and natural England, as part of developing a long-term **Land Use Strategy**.

17. **Greening the Olympics**.