

Rural Briefing Paper – June 2015

Introduction

Over the last eighteen months, the Enterprise M3 Local Enterprise Partnership (LEP) through its Rural Action Group has been considering how best to deploy the £4.4million of European Agricultural Funding for Rural Development (EAFRD) that is available to the area.

The original thinking was to establish a Rural Business Network but following audit guidance it was identified a) that the delivery of skills, training and business advice should be subject to a formal procurement processes, rather than a grant call and b) there should be demarcation between skills, training and business advice and that EAFRD funding should not be used for activities that could be funded through ESF/ERDF. Guidance from DEFRA also indicated that capital projects that add value to funding new and developing non-agricultural micro, small and medium sized businesses provides the greatest return in terms of job creation and sustainability.

As the role of the LEP is to give guidance to DEFRA as to the kind of projects that the LEP would like to support, Enterprise M3 has been asked to review its rural priorities and provide additional guidance to DEFRA. This rural briefing paper is designed for this specific purpose.

Importance of the Enterprise M3 rural economy

The economy of the rural area of Enterprise M3 Local Enterprise Partnership (LEP) is of considerable importance with 15% of the economic output of Enterprise M3 generated from rural locations (ONS data, 2012). The Enterprise M3 area supports a population of 1.6 million people of which 33% live in a rural location. The Enterprise M3 LEP has the 11th highest rural population in England (out of 39 LEPs) with Winchester, Waverley and East Hampshire having the highest percentage of residents living in rural areas. Enterprise M3 has the 7th highest number of rural business units in England, the 9th highest number of rural business units with >250 employees, the 6th highest number of rural business units with 50-249 employees, the 6th highest number of rural business units with 1-49 employees and the 12th highest number of rural business units with no employees

The rural area is extensive with 26% of the Enterprise M3 land mass situated in the two national parks; New Forest National Park and the South Downs National Park. Surrey is the most wooded county in England, Hampshire is the most visited county outside of London and the Surrey Hills Area of Outstanding Natural Beauty covers over one quarter of the county of Surrey. The rural economy is diverse and is not just focused on agriculture, farming and woodland but showcases a wide range of highly innovative and productive businesses. Whilst the rural economy has been generally resilient throughout the recession, it does suffer from a set of challenges relating to its location, typically poor infrastructure and limited access to services.

Background research

The compilation of this paper has taken reference from the county based rural strategies for Hampshire and Surrey, where these exist, alongside the 5 Local Development Strategies produced in August 2014 by the Local Action Groups which cover the Enterprise M3 area. Consideration has also been given to the Enterprise M3 Strategic Economic Plan (April 2014) and European Structural and Investment Fund Strategy (ESIF) from January 2014. Further insight has been provided through work undertaken by the Centre for Rural Economy at Newcastle University in 2014, the ACRE (Action with Communities in Rural England) election manifesto and the Rural Action Network.

The Centre for Rural Economy at Newcastle University provides a useful resume of the issues facing the rural economy

- The rural economy embraces a wide range of people and communities with similar concerns to those of urban locations
- The rural economy is dynamic and more than just farming or traditional land management industries
- Low pay, higher living costs and unaffordable housing
- Need for planning that protects the rural environment whilst promoting growth
- Need to treat rural economies as a cross-cutting theme and embedding them in mainstream plans for economic development, whilst acknowledging the unique challenges faced by rural businesses.
- The rural demographic is typically older than urban locations and less diverse
- A place-based approach, meeting local constraints and opportunities, and recognising the distinctive make-up of local rural economies.
- Investment in affordable housing, business premises, infrastructure, broadband and mobile phone coverage and local services.
- Market towns could be engines for the rural economy through the development of enterprise hubs which become business and social hubs for the disparate communities that surround them
- Lack of affordable housing

Looking more specifically at the Enterprise M3 area, analysis of the work on the Surrey Rural Strategy and Hampshire Rural report reveal some common areas of focus with the following statements being true for both areas.

- Achieving an equality in policy and investment with the urban areas
- Creating empowered and self-sufficient communities
- Developing a thriving rural economy and land-based sector
- Creating a bio-diverse and well-managed countryside
- Ensuring there is adequate and dependable infrastructure – including roads, water and housing
- Putting in place resilience to adverse impact – including climate change, flooding, disease and energy costs.
- Safeguarding a high quality and attractive countryside is essential to support the basis of food production and a growing visitor economy.
- Protecting and enhancing our natural capital

The local reports also recognise that regulatory barriers are impeding essential economic opportunities in the countryside and developments in rural areas need to reflect the balance between the needs of the Environment, the Economy and the local Community.

Rural consultation

To also inform this paper, 1-2-1 discussions took place with the members of the Enterprise M3 Rural Action Group and other rural partners (see Appendix for a full list of consultees). This helped inform the development of the Rural SWOT analysis for Enterprise M3 – see below.

STRENGTHS <ul style="list-style-type: none"> • Strong attraction as a visitor/tourism destination • Beautiful and high quality environment with diverse landscape • Extensive woodland • Excellent connections by rail to London • Diverse rural economy • Key market towns adjacent to rural landscape • Strong rates of business start up and survival 	WEAKNESSES <ul style="list-style-type: none"> • Congestion of transport links • Poor broadband and mobile phone connectivity • Lack of affordable housing and office space • Lack of wood processing facilities • Loss of land based skills • High cost rural economy • Declining livestock industry and absence of local livestock market/abattoir • Out commuting
OPPORTUNITIES <ul style="list-style-type: none"> • Development of woodland • Investment in rural connectivity • Enhancement of visitor economy • Consumer interest in supply chain and food provenance coupled with local food and drink production • New technology and innovation to improve productivity • Water and energy efficiency and renewable energy schemes • Farm diversification • Investment in our natural capital • Developments in key sectors with potential for growth • Woodland land management • Use of natural capital to enhance health and wellbeing 	THREATS <ul style="list-style-type: none"> • Ongoing demise of public services in rural locations • Rural is perceived as ‘non important’ compared to cities • Water resources and water quality under increased pressure from development, abstraction, farming practices and waste management • Flooding • Climate change • Energy provision and cost • Growing urban population requiring countryside access • Ageing population

The consultees identified the items for the SWOT and sense checked the following ESIF priorities in terms of relevance and appropriateness for Enterprise M3.

Enterprise M3 strategic priorities

As part of the development of the European Structural and Investment Fund Strategy in January 2014, an extensive economic review was undertaken to inform the investment priorities for the rural area. The key priorities and their rationale were as follows – these are not in priority order

1). Deployment and development of low carbon technologies and renewable energy.

Enterprise M3 is keen to support the shift towards a low carbon economy in all sectors and building the market in low carbon environmental technologies, goods and services. Analysis has identified that we have clusters of business that are already operating in this marketplace and who could develop further. As the area also needs to develop much more housing, Enterprise M3 is keen to develop and advocate low carbon technologies in construction. Due to the large amount of woodland across Enterprise M3, activities focused on woodland management and renewable energy also plays to our strengths

2). Exploitation of broadband technologies

Whilst broadband infrastructure continues to be developed, the Enterprise M3 economy will only benefit from the impact of the infrastructure if businesses adopt and use the technology effectively. For businesses that have not had access to new technology in the past, awareness of the opportunities that it can provide is sometimes overlooked. Businesses may also have to exploit alternative broadband technologies if current BDUK activity does not provide adequate coverage to all locations. It is predicted that 95% of all locations will have coverage by end 2016 but the last 5% is anticipated to be in primarily rural locations.

3). Agricultural diversification

Supporting long term sustainable agriculture is a priority. The modernisation of farming and improving agricultural competitiveness is critical to ensure the productivity and longevity of the sector. Improvements in agricultural techniques will also be required to meet the increasing demands for food from a growing population.

4). Strategic projects that are designed to have a significant impact on the Enterprise M3 economy and complement work of Local Action Groups/other funding streams

The diversity of the rural economy in Enterprise M3 is a key driver of its success. The rural area supports a large number of small and micro businesses often working in non-agricultural activities i.e. digital entrepreneurs working in barn style rural conversions. A further example includes the development of the Pirbright based animal health incubator which is an important and growing Enterprise M3 niche sector and which could support supply chain SME development.

5). Affordable housing

The availability of affordable housing is critical for the Enterprise M3 area and recognised by business as crucial to supporting labour mobility and recruitment. This is true for both urban and rural locations.

6). Development of the rural and visitor economy.

The estimated value of the visitor economy within Enterprise M3 is £2.66bn supporting over 61,000 jobs. Enterprise M3 has 2 national parks situated within its geography along with the

Surrey Hills Area of Outstanding Natural Beauty. Destination management plans are not required, neither is the development of visitor accommodation. However, ongoing investment in visitor attractions and facilities is required to ensure the area can compete nationally and internationally and to take advantage of the area's close proximity to the London market

7). Enhancement of food (including drink) and farming businesses

Whilst not a key sector for Enterprise M3 overall, food and drink is massively significant for the rural economy and therefore needs to be considered a priority sector within our rural landscape. The area both hosts large scale manufacturers e.g. Vitacress, Hildon Water and over 600 food and drink producers. Development of food and drink links to the visitor economy and therefore provides a complementary approach, particularly with respect to the growing importance of provenance for consumers. Our area is also home to a powerful science/academic community that may be able to link food production and food science to matters regarding production, productivity, crop resilience amongst others

So, which Enterprise M3 funding streams can best support these identified rural priorities?

	Rural priority area	Potential funding stream
1	Deployment and development of low carbon technologies and renewable energy	EU/ERDF- low carbon. £4.2m available Local Growth Deal – woodfuel hub project, £2m secured
2	Exploitation of broadband technologies	EU/EAFRD
3	Agricultural diversification	EU/EAFRD
4	Strategic projects that provide significant impact on the Enterprise M3 economy	EU/EAFRD
5	Affordable housing	Local Growth Deal
6	Development of the rural and visitor economy	EU- EAFRD
7	Enhancement of food and drink businesses	EU – EAFRD

This suggests there are five rural priority areas for Enterprise M3 that might best be supported by EAFRD.

For broadband, DEFRA have indicated that grants for rural broadband via EAFRD are not currently available in 2015. This arises as the phase 2 rollout of the BDUK superfast programme is still underway and the final 5% hardest to reach areas on which EAFRD funds could be used cannot yet be defined. The outcome of this work along with EU state aid

clearance to the UK's national broadband scheme beyond June 2015 will influence how EAFRD funds can be used to support rural broadband from 2016 onwards. Phase 3 of the BDUK programme is also exploring how to extend superfast broadband into the final 5% hardest to reach areas. Seven pilot projects in a range of locations are now testing a number of solutions suitable for rolling out in these areas. The findings from these trials will be published later this year.

If LEPs wish to consider EAFRD for broadband activity, they will need to work with the relevant county council broadband team to identify the final 5% hard to reach areas following completion of Phase 2. LEPs are encouraged to work with their county council teams and local organisations such as the National Association of Local Councils, Rural Community Councils, CLA, NFU and the Federation of Small Businesses to identify local demand and need for community local broadband projects.

For agricultural diversification, DEFRA are not planning to issue any calls under this heading in 2015 and further work is required to identify the specific priorities within this area. Some priorities might best be supported under the Countryside Productivity Scheme rather than EAFRD.

Recommendations

Having considered the detail within this paper, it is proposed that the following recommendations are made to the Rural Action Group and the European Management Group (ESIF committee) for use of EAFRD within Enterprise M3

- Launch of three specifications by DEFRA as the Managing Authority on behalf of the Enterprise M3 LEP in summer 2015. DEFRA has indicated there will be one call per month as shown
 - SME business development grants (strategic projects) 31/8/15
For EAFRD, SME relates to businesses employing up to 50 people
 - Rural tourism grants 27/7/15
 - Grants for food processing businesses (processing of basic agricultural products) 28/9/15
- A minimum grant of £50k. It is anticipated that the maximum value of a LEADER grant will be £35k and therefore there is a clear gap between LEADER type projects and those for EAFRD funding whilst still being complementary. The maximum grant is limited to €200,000 or £155,000 due to de-minimis state aid.
- EAFRD funding should provide high economic impact, improve GVA and create jobs. It is anticipated that 340 jobs will be created for £4.4 of spend, £13k per job created
- This is capital funding, not revenue
- Projects should provide benefit to the Enterprise M3 area not just the applicant
- The maximum intervention funding rate is 40%, therefore applicants must match fund at 60%. This is confirmed as the EU requirement for EAFRD funding.
- Use closed call approach with a 3 month window to seek applications to the specification. Plan for future calls in 2016 and 2017. Do not allocate all funding for this call. Future calls can then be changed based on learning and appropriate funding then allocated.

	When	Proposed EAFRD allocation for Summer 2015 call £k
SME business development grants	Summer 2015	620
Rural tourism grants	Summer 2015	465
Grants for food processing businesses	Summer 2015	465
Total		1550 (35% of total fund)

If grants of £50k are successful, this allocation of EAFRD funding in summer 2015 would support 31 businesses. If grants of £155k are approved, 10 businesses would be supported. It is anticipated that over the course of the scheme, the actual number of businesses supported would be somewhere between the two.

By not allocating all available funds for this Summer 2015 closed call, flexibility remains with respect to future calls particularly in relation to broadband.

APPENDIX

List of consultees

Enterprise M3 Rural Action Group chair	John Jervoise of Herriard Estate
Enterprise M3 board member	James Cretney, CEO of Marwell Wildlife
Surrey Rural Forum	Paul Wickham from SCREF and Surrey Nature Partnership
Local Action Groups	David Webb from Fieldfare plus programme managers from each of the 5 Local Action Groups
New Forest National Park	Alison Barnes, CEO of New Forest NP
South Downs National Park	Angie Blowman & David Doxford
CLA	Robin Edwards
NFU	Sandra Nichols
Forestry Commission	Alison Field
Not for profit sector	Jason Gaskell, CEO Surrey Community Action
	Jo Dixon, Action Hampshire
Hampshire County Council	Des Hobson
Test Valley Borough Council	David Gleave
Surrey County Council	Lisa Creaye-Griffin
Hampshire local authority rep	Dave Yates, CEO New Forest District Council
Wessex Rural Network	Mike Ridout
Private sector representatives	Simon Matthews
	Mike Lebus

Leader Funding for Enterprise M3 businesses

Funding is also available to support community led provision in rural areas through the use of LEADER funding allocated by Local Action Groups. For Enterprise M3, this totals £7.9million of LEADER funding available from 2015 to 2020.

Local Action Group	£k
Fieldfare	1,634
Loddon & Test	1,537
New Forest	1,430
North Wessex Downs	1,705
Rural Surrey	1,642

A meeting between Enterprise M3 and the 5 Local Action Groups is taking place on 24th June to ensure a close working relationship is maintained and each is aware of the funding streams that are available to rural businesses