







The cost-of-doing-business crisis: rural impacts and adaptation

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At the National Innovation Centre for Rural Enterprise (NICRE), we put knowledge to work for an enterprising countryside... combining research with practical innovation to find new ways of unlocking potential and supporting thriving rural businesses and communities.

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Executive summary

This report provides an assessment of the headline impacts of **'cost-of-doing-business' pressures on rural businesses**. The analysis draws on data from a **large-scale survey** of 2,000 rural firms and 600 urban firms. The summary findings are:

- Over the last 12 months, a period heavily impacted by sharply rising costs, two thirds of rural and urban firms were able to maintain their level of employment and two fifths their level of turnover. In the same period, 15% of rural firms and 13% of urban firms reduced their workforce, but 20% were able to increase it. Rural firms appear to have been particularly resilient, with a higher share of them increasing (41% rural, 35% urban) and fewer decreasing (18% rural, 25% urban) their turnover.
- Nevertheless, the cost-of-doing-business crisis is having widespread effects on rural and urban businesses – two out of three report that rising costs have significantly impacted their cash flow. One in three describe this as being 'under pressure', and 7% consider the situation to be 'critical'.
- For the two thirds of businesses for which rising costs are having significant impacts on cash flow, energy or power, and goods and raw materials, are the most prominent contributors to increased costs, for both rural and urban businesses. Rural firms are slightly more likely to highlight increases in costs of goods and raw materials than urban ones, while fewer cite the increased costs of energy or power. Yet the cost of fuel for transport is identified as a much more prominent challenge in rural areas.
- Businesses have responded swiftly to cost-of-doing-business pressures with a wide range of coping mechanisms. Common strategies, for rural and urban firms, include increasing their prices for goods and services, as well as (and especially for rural firms) improving the efficiency of production or processes. Rural firms are also more likely than urban ones to have altered their range of products or services, reduced staff or working hours, and be drawing on household labour and personal resources.
- To cope with increased energy costs, most rural and urban firms have pursued broad changes in business practices, including efforts to reduce their use of energy and to educate staff about green behaviours. In terms of further targeted measures and investments, more rural firms than urban firms emphasise an 'efficiency-first' approach involving investment in energy-saving measures or equipment. They are also more likely to have installed insulation or developed their premises with energy-saving materials. A quarter of rural and urban firms have switched to alternative sources of energy or suppliers.

- One in three rural businesses are planning to take further action in the coming year to reduce energy use. Specifically, 24% of rural firms (more than the 20% for urban) plan to invest in energy-saving measures and equipment. Significantly, 17% (11% urban) plan to switch to alternative sources of energy (such as solar, wind, or ground/air source pumps) and 15% (13% urban) intend to install insulation or develop their premises.
 - Some actions, such as improving efficiency of production/processes, installing better insulation, and switching to alternative sources of energy, will contribute to improved business viability and growth in the medium to long-run, and help support the government's objective of reaching net zero by 2050. However, other coping mechanisms may come at the expense of long-term competitiveness and growth. For instance, approximately two-fifths (40%) of rural businesses for which rising costs negatively impacted their cash flow have reduced, cancelled, or postponed investment. These responses will compound a long-standing problem for the UK economy and its policymakers, which have seen persistently low levels of business investment.
 - The impacts of the cost-of-doing-business crisis on rural businesses have not been uniform – some challenges increased with increasing rurality. Of those enterprises experiencing significant cash flow pressures from rising costs, 71% of those located in the most remote and smallest settlements reported substantial increases in the costs of goods and raw materials, compared to 60% of those in rural towns and villages. Similarly, half of the firms in small hamlets and isolated dwellings faced significant increases in the costs of fuel for transport, compared to 38% and 44% of enterprises in rural towns and villages respectively. The crisis, therefore, has exacerbated those long-standing challenges facing more remote rural businesses. They face greater average travel distances to access supplies and support, and to distribute products and services, as well as fewer garages and higher petrol and diesel prices.
- However, the greater cost pressures in isolated rural locations have not necessarily fed into lower turnover and employment growth, which appear most sluggish in rural towns, which is also where cash flow pressures are more likely to be reported as 'in a critical state'.
- Micro businesses generally have smaller cash buffers and lower investment capabilities than larger firms, so it is unsurprising that they are substantially more likely than bigger firms to report cash flow pressures. To cope, they have especially relied on family resources, dipping into household savings and drawing on unpaid labour. In response to rising energy costs, these firms have been more likely to reduce their use of energy, but less likely to invest in energy-saving measures, switch sources of energy, or plan further actions, than larger firms. Nevertheless, it is the larger firms which are more likely to report substantial impacts of increased wages and energy costs on cash flow, reflecting their different cost structure.
 - Rising costs are having a widespread impact on rural firms across all sectors. Hospitality businesses faced the most acute disruption during the Covid-19 pandemic and this sector has also been hardest hit by the subsequent cost-of-doing-business crisis, being most likely to report turnover shrinkage, staff retention problems and rising costs all impacting on future growth potential. Given its labour-intensive nature and reliance on physical, permanent venues, hospitality is particularly vulnerable to increases in wage and energy costs. Meanwhile, rural firms in the Production and Business services sectors are most likely to have experienced turnover growth, notwithstanding that 71% and 50% of them say they are facing significant impacts of rising costs. Rural Construction sector businesses report the greatest incidence of scaling back investment as a way to cope with rising costs.

- The findings generate important policy implications. Firstly, a small group of firms face a critical cash flow situation, associated with negative growth and performance, which could prove persistent. This group of firms are more likely to be located in rural towns, to employ fewer than 10 employees, and to operate in the Hospitality sector.
- Secondly, the effects of the crisis impinge on broader UK government policy objectives. On the one hand, the crisis is stimulating rural firms to take action to reduce energy consumption, seek out alternative sources of energy, and invest in energy efficiency. This provides an important opportunity for engaging with and supporting businesses to decarbonise, and building their capacity to invest in carbon reduction measures. On the other hand, cost-of-doing-business pressures are exacerbating the long-term structural problem of relatively low business investment in the UK. Support and advice helping businesses to better understand and manage their cash flow and to improve their investment capacity will be important for mitigating the long-term, adverse effects of the crisis.

1. Introduction



In this report, the National Innovation Centre for Rural Enterprise (NICRE) presents the findings of its **2023 State of Rural Enterprise (SORE) survey**, focusing on the impacts of '**cost-of-doing-business**' pressures on **rural businesses**. The report provides a non-technical overview of headline findings.

The survey was undertaken between May and August 2023 and included businesses across three English regions – the North East, the South West and the West Midlands. The survey covered 2,602 firms.

In this report we focus on the cost-of-doing-business. Attention on the rural implications of the cost-of-living crisis has, to date, largely focused on the community and household impacts, highlighting a rural premium surrounding transport, fuel, energy, housing and other everyday expenses for rural residents which combine in meaning that cost-of-living pressures are biting especially deep in rural Britain (RSN and Kovia Consulting, 2022; NICRE,

2022a; APPG, 2023; RSN, 2023). However, little is known regarding how the cost-of-doing-business crisis is affecting rural businesses and there remains a significant gap in the evidence base.

SORE is first and foremost a rural business survey. We aim to capture the diversity of rural areas using aggregated rural categories based on England's official urban-rural classification (ONS, 2013). Specifically, we distinguish between three types of rural locations: town and urban fringe; villages; and dispersed hamlets and isolated dwellings. We also include data from a reference sample of urban businesses in

each region which, whilst accepting this is a simplification of complex urban geography, allows us to provide an initial comparison between rural and urban enterprises, at different points in the report.

The report focuses on the cost-of-business pressures for non-farming enterprises. Other SORE reports will address themes concerning environmental impacts and business responses to the climate crisis; rural opportunities; skills/labour availability in rural economies; as well as the challenges and opportunities faced by farm businesses and their responses to these.

The population of interest for our survey is private sector for-profit and not-for-profit enterprises employing at least one person. The survey covered 2,602 non-farm businesses in total, made up of 2,001 rural businesses and 601 urban businesses. We surveyed 800 rural firms

in the North East (NE), 601 in the South West (SW), and 600 in the West Midlands (WM). Table 1 provides an overview of the samples analysed in this report. The survey was conducted using Computer Assisted Telephone Interviewing (CATI), which has proven to be a reliable means of reaching the appropriate personnel within a business. As the sample was weighted by firm size, responses are weighted to give regionally-representative results for the rural and urban business populations. The weighting process and profile of the sample are set out in Appendix A.

The report is structured into six parts. In section 2, we analyse firm performance over the 12 months prior to the survey. Section 3 examines the impacts of the cost-of-doing-business crisis on cash flow and cost structure. Section 4 considers firms' adaptation strategies. Section 5 looks into business future planning, and section 6 concludes this report.

Table 1: Numbers of interviews, rural vs urban, by region

	All regions	North East (NE)	South West (SW)	West Midlands (WM)
Total	2,602	1,000	802	800
Rural	2,001	800	601	600
- Town	840	447	214	179
- Village	644	196	207	241
- Hamlets	517	157	180	180
Urban	601	200	201	200

2. Firm performance: changes in turnover and employment



Over the last 12 months, a period heavily impacted by **sharply rising costs**, two thirds of firms (66% rural, 64% urban) were able to maintain stable employment, and approximately a fifth (19% rural, 22% urban) grew their workforce. However, 15% of rural firms and 13% of urban firms reduced their workforce (Figure 2.1). Rural firms appear to have been particularly resilient, with a higher share of them increasing (41% rural, 35% urban) and fewer decreasing (18% rural, 25% urban) their turnover (Figure 2.5).

These figures show that a considerably higher proportion of firms maintained or improved their performance over the last 12 months compared to the 12-month period at the height of the Covid-19 pandemic (see NICRE, 2022b) in terms of turnover and maintaining employment. The exception to this picture concerns a weaker performance in terms of employment growth compared to during the pandemic, and especially so in respect to rural areas (when 29% of rural firms and 25% of urban firms increased their workforce).

Over the last 12 months, business performance has varied according to region, type of rural location, firm size, and sector.

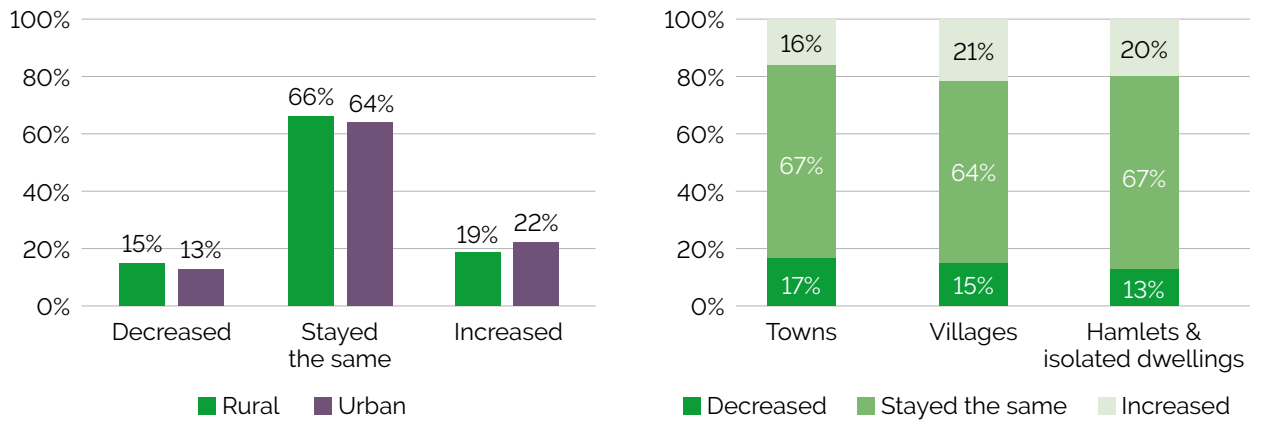
Rural enterprises located in the SW are slightly more likely to have seen employment shrinkage, yet more likely to have had turnover growth, compared to those in the NE and WM. Comparing urban firms between regions, those in the WM were more likely to have seen employment growth, but least likely to have increased turnover, and most likely to have decreased turnover compared to the other regions (Figures 2.2 and 2.6).

Among rural businesses, those located in towns performed less well. Specifically, they are less likely to have experienced employment and turnover growth, and more likely to have experienced employment and turnover decline, compared to those in rural villages, and in rural hamlets and isolated dwellings. Businesses in rural hamlets and isolated dwellings were the most likely (44%) to have increased their turnover (Figures 2.1 and 2.5).

A comparison of firm size shows a difference in performance between micro (1-9 employees), small (10-49), and medium/large (50+) firms, with micro businesses overall appearing to have fared far less well during the last 12 months (Figures 2.3 and 2.7). While similar proportions of micro, small, and medium/large rural firms experienced employment decline (circa 15%), only 16% of rural micro businesses had employment growth compared to 37% of small and 48% of medium/large rural businesses. In terms of turnover growth, again rural micro firms are far less likely to have achieved turnover growth (40%). They are also more likely to have seen a shrinkage in turnover (19%).

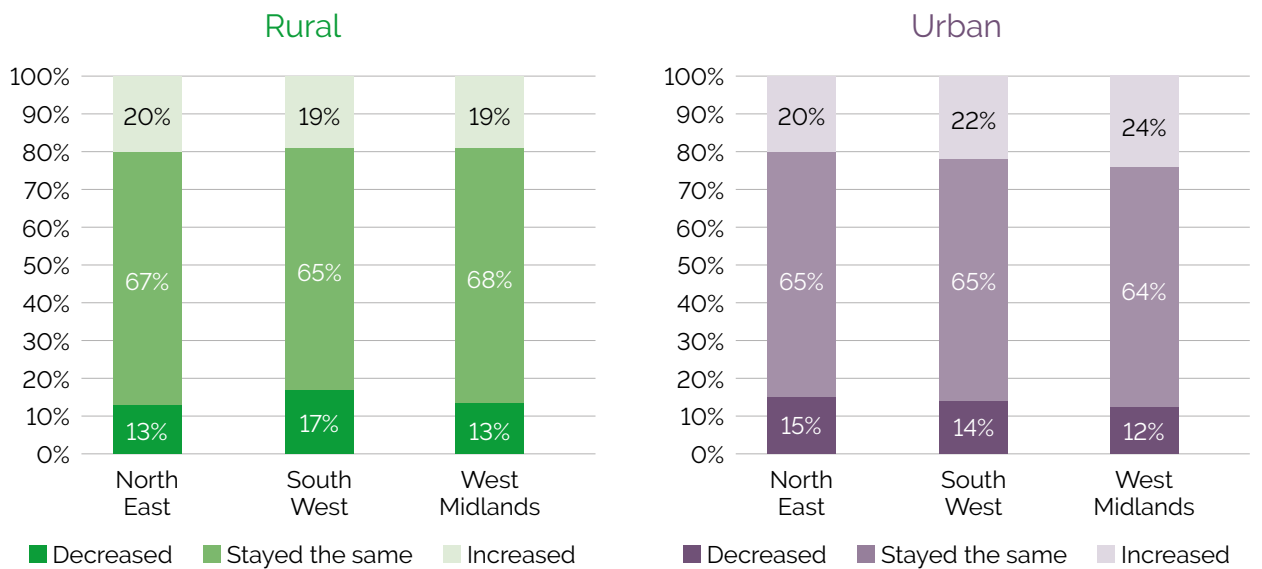
There are also significant differences in the performance of rural firms between sectors (Figures 2.4 and 2.8). Rural Hospitality businesses have experienced significant volatility and change – they are much more likely to have seen employment (26%) and turnover (30%) shrinkage, and least likely (55%) to have maintained existing levels of staff. Rural Construction firms are least likely to have had turnover growth. On employment growth, rural firms in Wholesale, retail and transport performed slightly less well (16%) than all other sectors (where a fifth of firms saw growth). However, they are an important source of stability in the workforce, having been less likely to have decreased employment and more likely to have maintained existing levels. Meanwhile, rural firms in Production sectors are most likely to have experienced turnover growth (52%), followed by those in the Business services (45%) and Other services (41%) sectors.

Figure 2.1: Employment change over the previous 12 months, rural vs urban, and by type of rural location



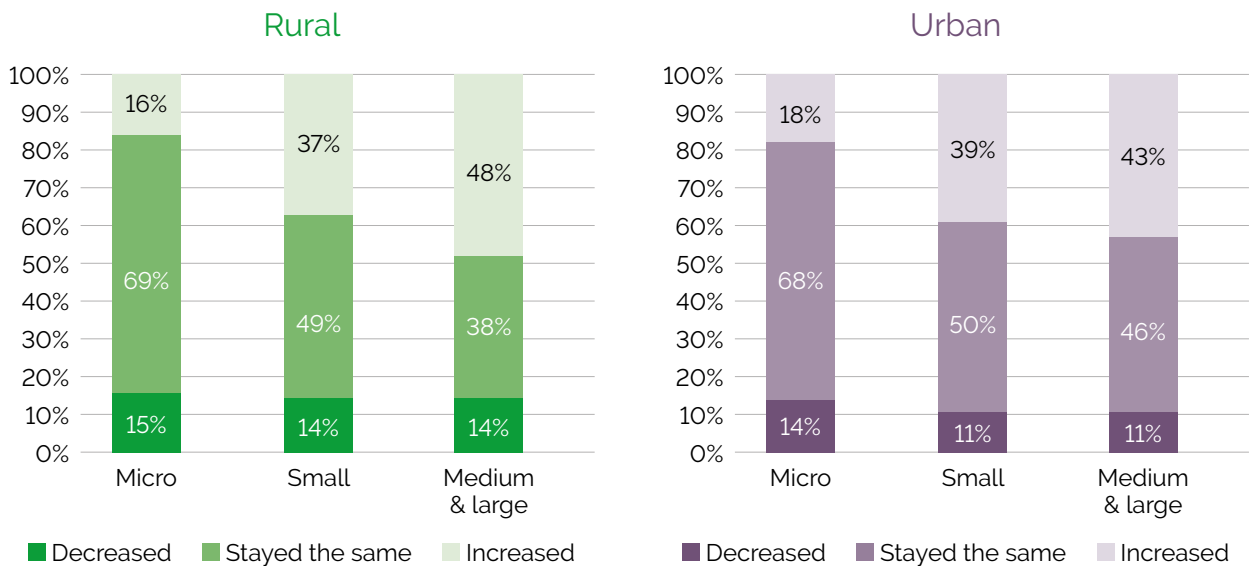
Unweighted total of 2,599 firms, 1,999 rural firms (838 in rural towns, 644 in rural villages, 517 in rural hamlets & isolated dwellings) and 600 urban firms

Figure 2.2: Employment change over the previous 12 months by region



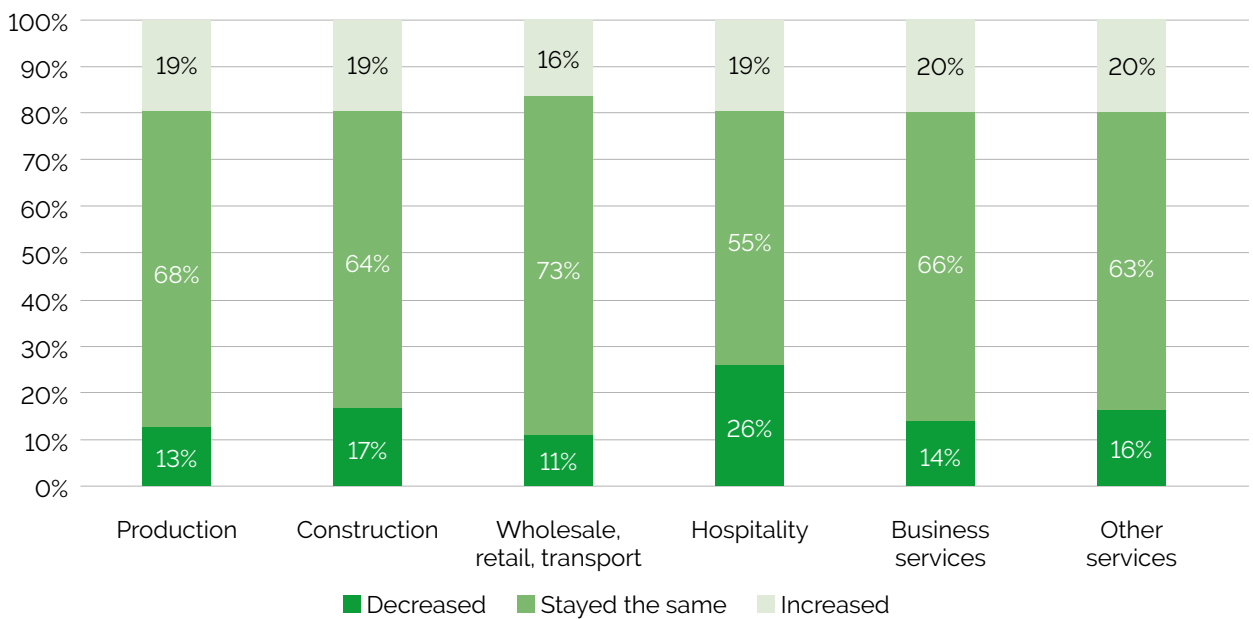
Unweighted total of 1,999 rural firms (800 in the NE, 599 in the SW, 600 in WM) and 600 urban firms (200 in the NE, 200 in the SW, 200 in WM)

Figure 2.3: Employment change over the previous 12 months by firm size



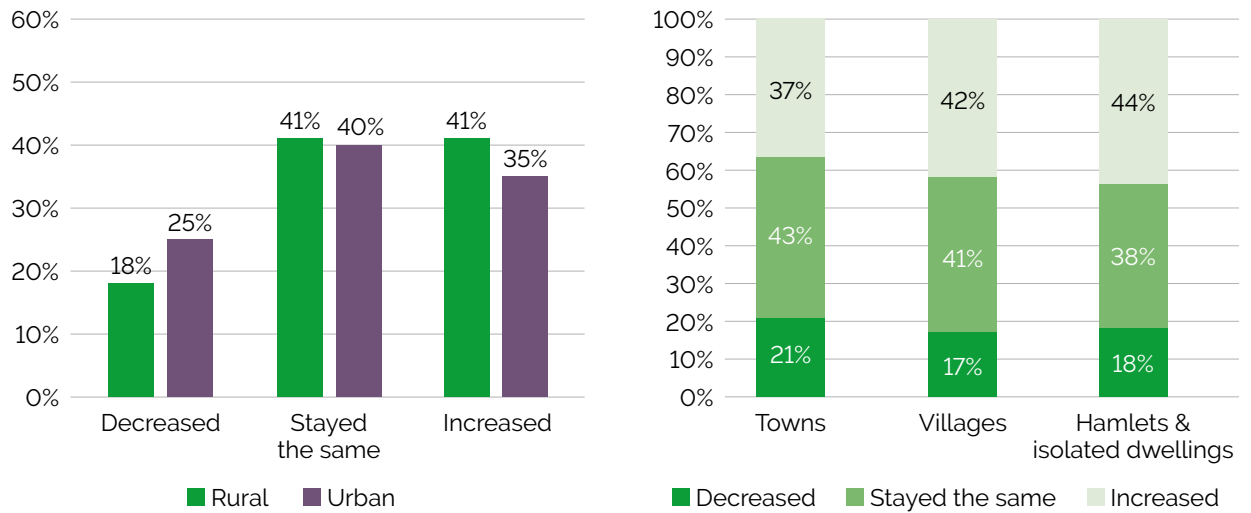
Unweighted total of 1,999 rural firms (1342 in micro, 566 in small, 91 in medium and large) and 600 urban firms (301 in micro, 174 in small, 125 in medium and large)

Figure 2.4: Employment change over the previous 12 months among rural businesses by sector



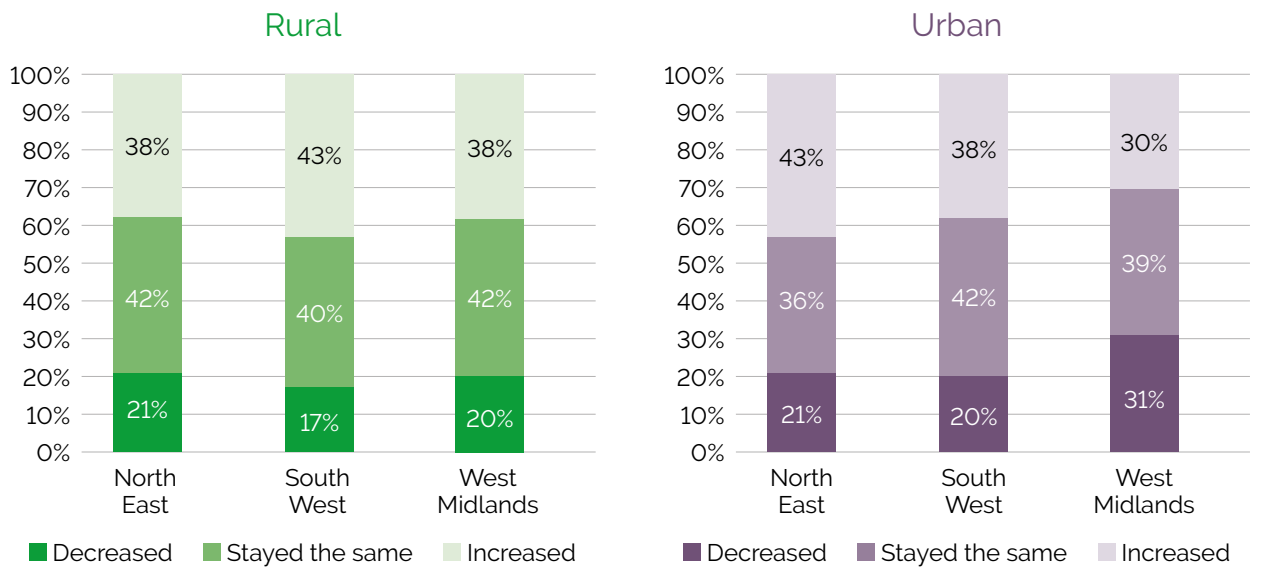
Unweighted total of 1,997 rural firms (260 in Production, 177 in Construction, 475 in Wholesale, retail and transport, 254 in Hospitality, 330 in Business services, 501 in Other services)

Figure 2.5: Change in turnover during the previous 12 months, rural vs urban, and by type of rural location



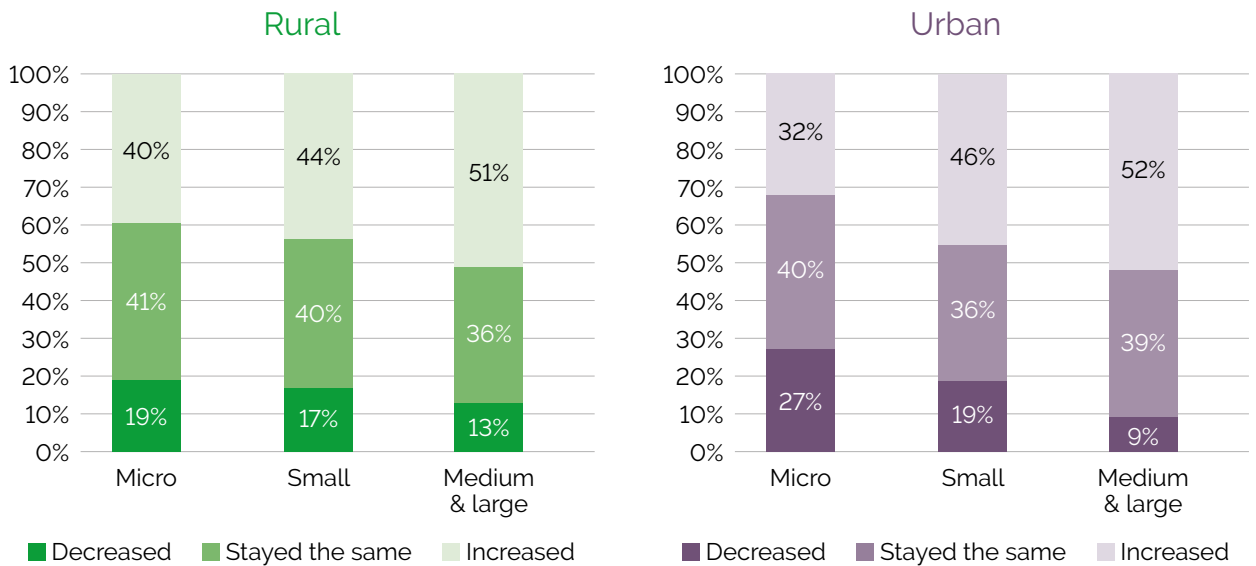
Unweighted total of 2,507 firms, 1,938 rural firms (818 in rural towns, 620 in rural villages, 500 in rural hamlets & isolated dwellings) and 569 urban firms

Figure 2.6: Change in turnover during the previous 12 months by region



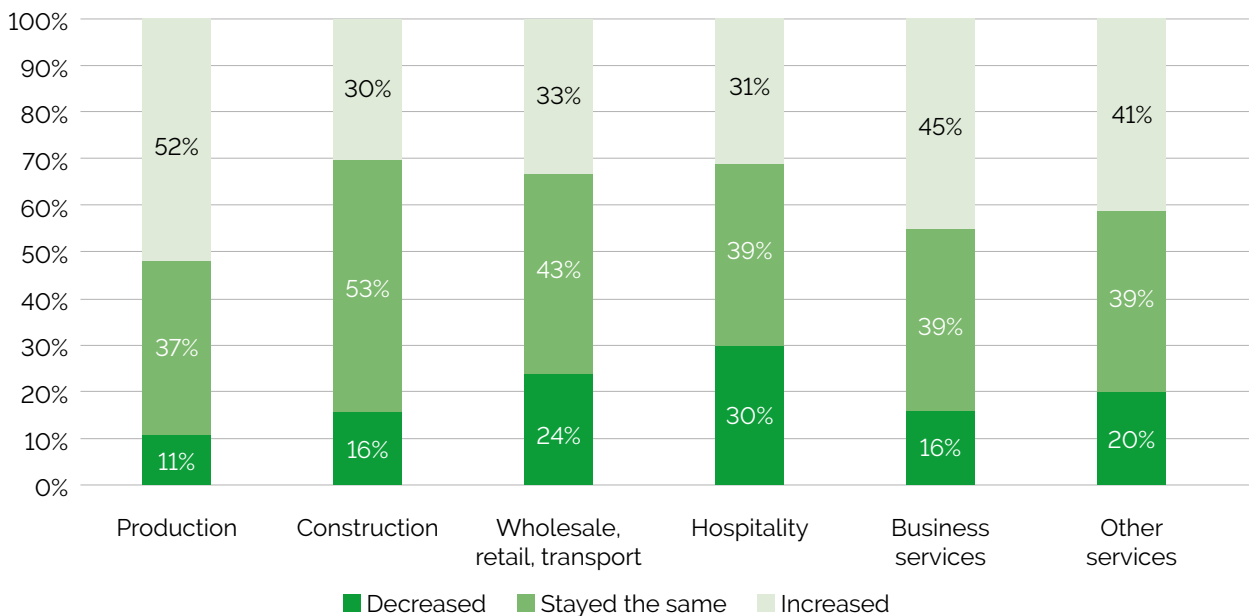
Unweighted total of 1,938 rural firms (774 in the NE, 580 in the SW, 584 in WM) and 569 urban firms (193 in the NE, 188 in the SW, 188 in WM)

Figure 2.7: Change in turnover during the previous 12 months by firm size



Unweighted total of 1,938 rural firms (1,306 in micro, 544 in small, 88 in medium and large) and 569 urban firms (289 in micro, 163 in small, 117 in medium and large)

Figure 2.8: Turnover change during the previous 12 months among rural businesses by sector



Unweighted total of 1,936 rural firms (254 in Production, 169 in Construction, 462 in Wholesale, retail, transport, 245 in Hospitality, 324 in Business services, 482 in Other services)

3. Impacts on cash flow and costs



The cost-of-doing-business crisis has translated into **serious and widespread** problems for many businesses, through **direct effects** on operational costs, staff, and customer bases.

Cash flow is under significant pressure. Figure 3.1 shows that about two in five businesses in both rural (41%) and urban (43%) areas are facing cash flow pressures. For 7% of firms the position is critical due to costs and lack of revenue. A third of firms consider cash flow pressures over the previous 12 months to have been manageable. Meanwhile, a third of businesses described cash flow over this period as being normal and stable, with one in four having a positive cash flow.

Among rural businesses, firms in rural towns (9%) and villages (8%) are more likely to face critical issues with cash flow than those in rural hamlets and isolated dwellings (5%). Even after controlling for size (number of employees), turnover, industry, and age of business, regression-based analysis indicates that enterprises in rural towns

are significantly more likely to face critical issues with cash flow. Meanwhile, enterprises in rural hamlets and isolated dwellings are considerably more likely to describe their cash flow as having been under pressure but manageable.

Across the three regions, rural firms in the SW (38%) are less likely to have faced cash flow pressures than those in the NE (45%) and WM (44%), and more likely to have had a stable cash flow (37%) (Figure 3.2). However, similar proportions of rural firms across the regions consider their cash flow as either being critical (circa 7%) or positive (circa 25%). More rural (38%) than urban (34%) enterprises in the NE describe having (manageable) cash flow pressures. WM rural firms (8%) are more likely than WM urban firms (5%) to face a critical cash flow situation.

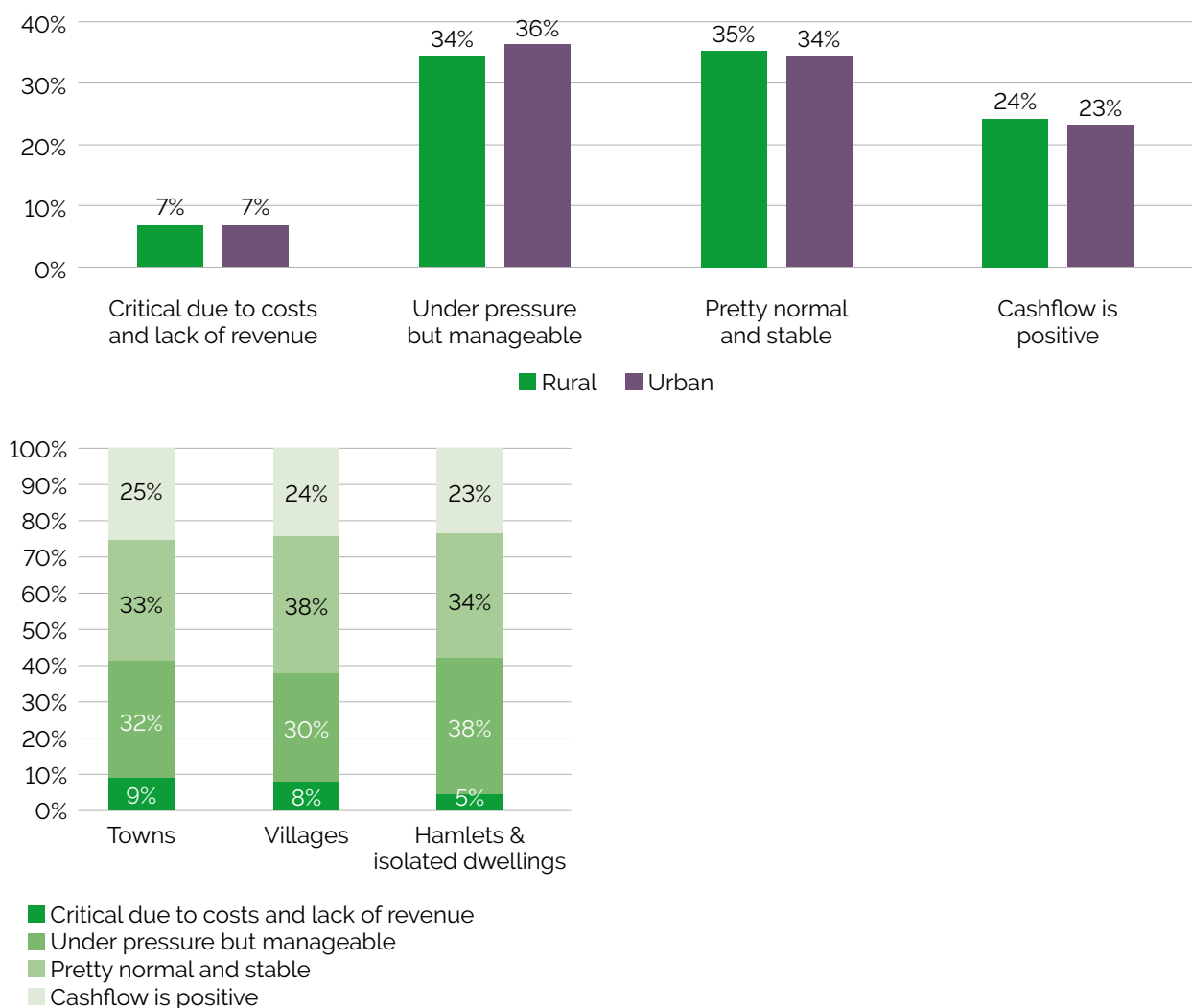
Meanwhile, in both rural and urban areas, cash flow pressures are more keenly felt by micro businesses (Figure 3.3). Some 8% of micro rural firms report a critical cash flow situation, compared to only 2% of medium and large firms. By contrast, medium and large-sized firms (30%) in rural areas are more likely to have a positive cash flow than micro (23%) and small firms (28%).

All sectors are facing cash flow challenges, though to varying degrees (Figure 3.4). Around one in ten rural firms in Other services and Hospitality sectors describe facing acute cash flow pressures. Moreover, with a further 42% of Hospitality firms under (manageable) cash flow pressure, this sector is experiencing the most widespread cash flow challenges, followed by Wholesale, retail and transport, Other services, and Production sectors. The cost-of-doing-business crisis is thus similar to the Covid pandemic, in that the worst effects

are witnessed in the Hospitality sector (NICRE, 2022b). Although 8% of rural Construction firms are facing a critical position, the sector stands out for its high proportion of firms that have a stable cash flow. Rural firms in Business services appear far more likely than other sectors to have positive cash flow.

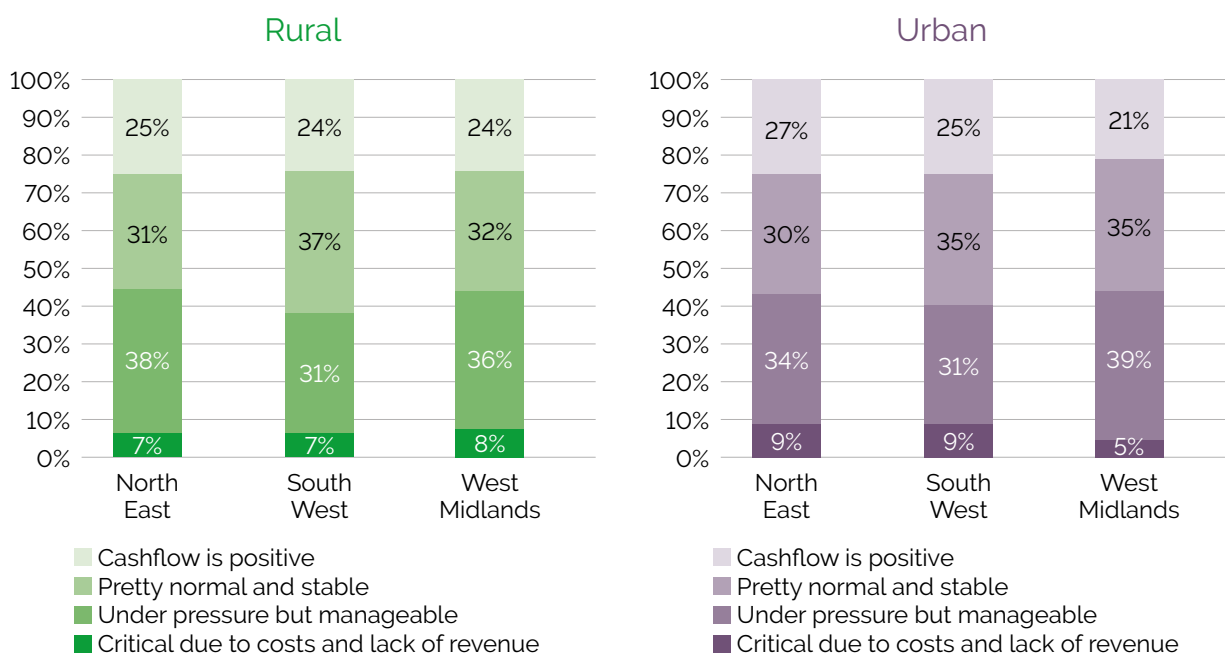
Cash flow problems are associated with decreased turnover. Specifically, 50% of those enterprises describing their cash flow situation as critical witnessed decreased turnover, compared with 39%, 16% and 11% of those reporting their cash flow as 'under pressure but manageable', 'normal', and 'positive' respectively. Similarly, while only 20% of rural businesses reporting their cash flow situation as critical increased turnover, in contrast 25%, 34%, and 56% of those in the 'under pressure but manageable', 'normal', and 'positive' cash flow groups increased turnover, respectively.

Figure 3.1: Cash flow situation over the last 12 months. rural vs urban, and by type of rural location



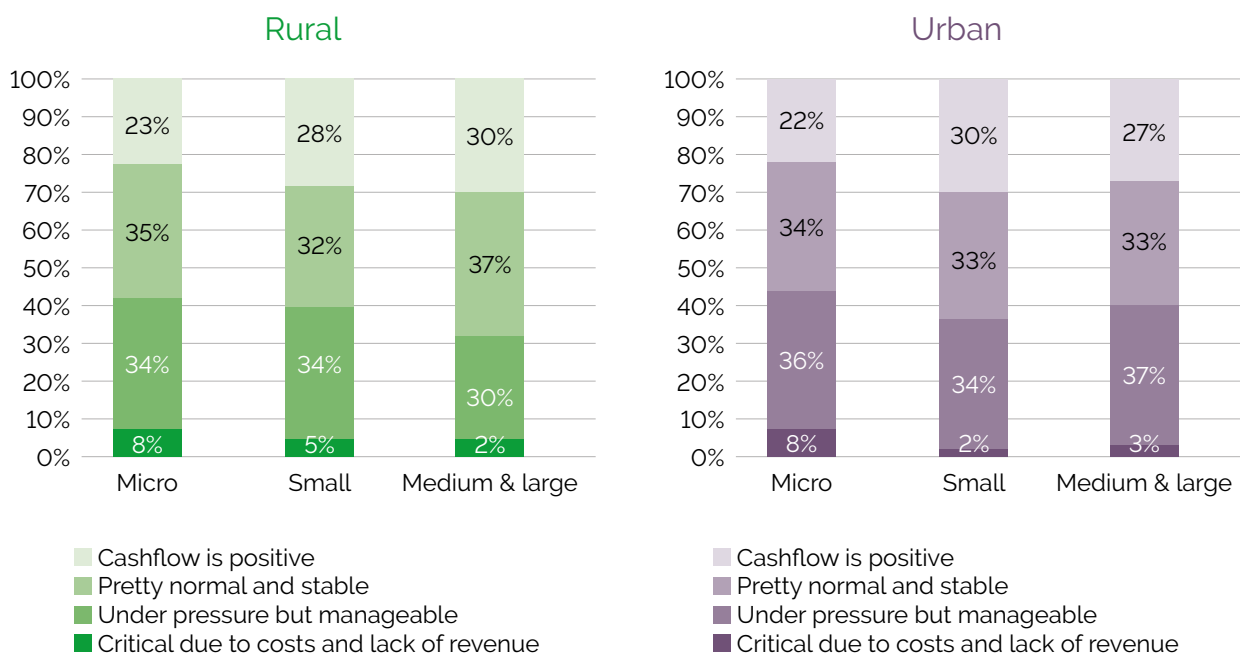
Unweighted total of 2,563 firms, 1,975 rural firms (830 in rural towns, 635 in rural villages, 510 in rural hamlets & isolated dwellings) and 588 urban firms

Figure 3.2: Cash flow situation over the last 12 months by region



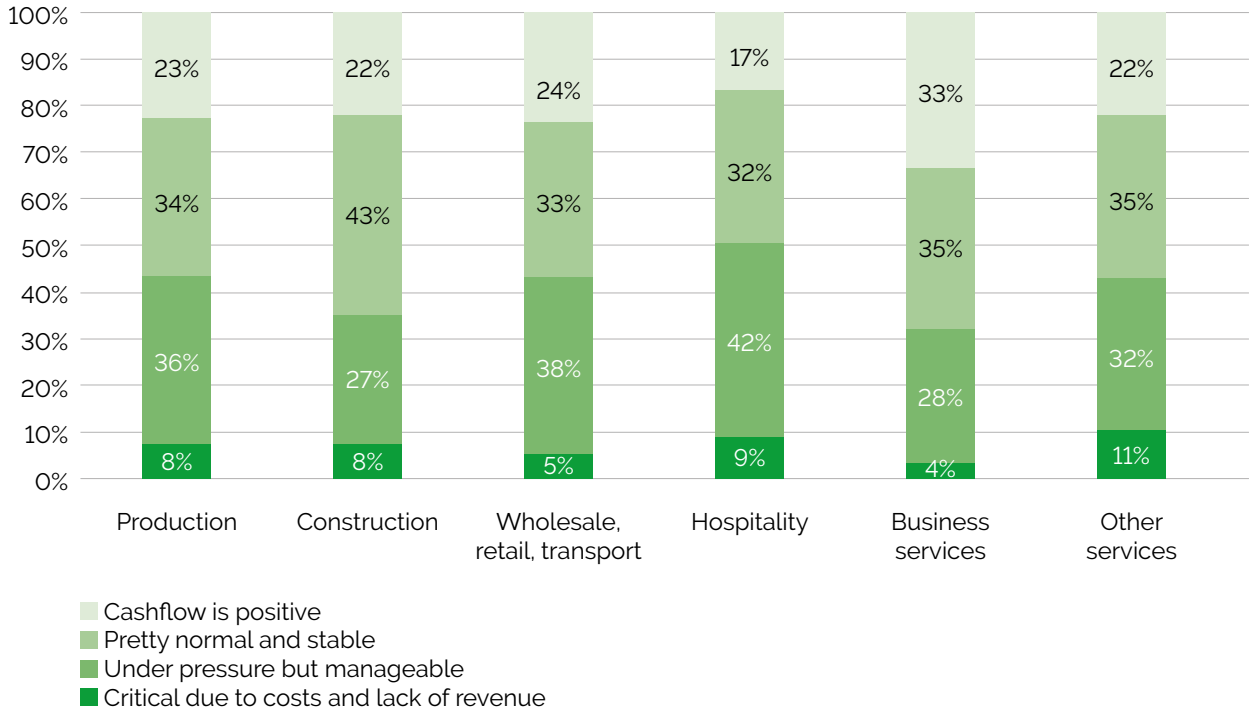
Unweighted total of 1,975 rural firms (795 in NE, 588 in SW, 592 in WM) and 588 urban firms (197 in NE, 196 in SW, 195 in WM)

Figure 3.3: Cash flow situation over the last 12 months by firm size



Unweighted total of 1,975 rural firms (1,333 in micro, 554 in small, 88 in medium and large) and 588 urban firms (298 in micro, 171 in small, 119 in medium and large)

Figure 3.4: Cash flow situation over the last 12 months among rural businesses by sector



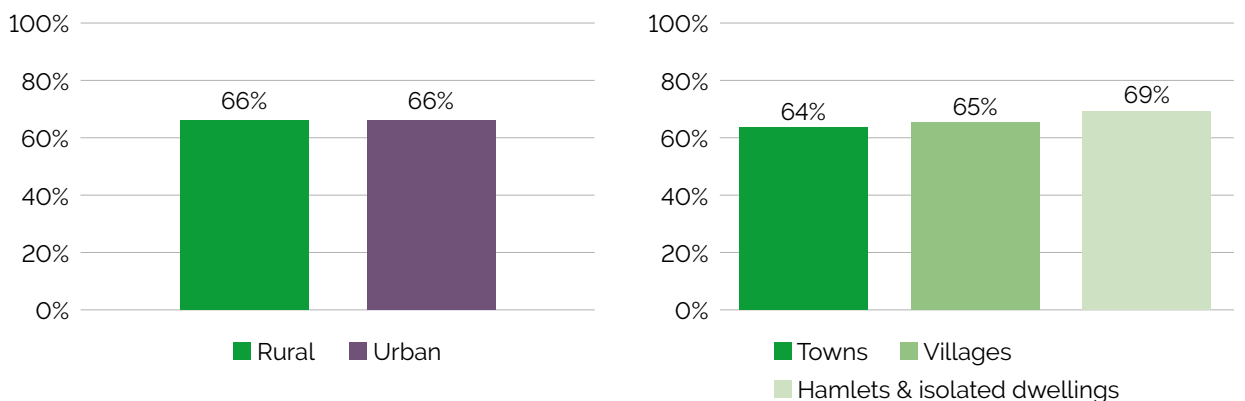
Unweighted total number of 1,973 rural firms (258 in Production, 176 in Construction, 469 in Wholesale, retail, transport, 248 in Hospitality, 329 in Business services, and 493 in Other services)

Overall, two in three firms (rural and urban) report that rising costs have significantly impacted cash flow (Figure 3.5). Proportionally more firms (69%) in rural hamlets and isolated dwellings face cash flow pressures due to rising costs. Urban firms in the SW are slightly less likely than rural firms to face cost pressures that significantly impact cash flow, and vice versa in the WM (Figure 3.6). In both rural and urban areas, micro firms are slightly less likely to face significant impact on

cash flow from rising costs compared to larger firms, with this difference being slightly more pronounced in urban areas (Figure 3.7).

Rising costs are having a widespread impact for rural firms across all sectors, though this is especially so in the Hospitality (82%) and Production (71%) sectors. In contrast fewer, albeit still 50% of rural firms, in Business services report cost pressures (Figure 3.8).

Figure 3.5: Proportion of firms claiming that rising costs have had significant impact on cash flow over the last 12 months, rural vs urban, and by type of rural location



Unweighted total of 2,572 firms, 1,981 rural firms (834 in rural towns, 633 in rural villages, 514 in rural hamlets & isolated dwellings) and 591 urban firms

Figure 3.6: Proportion of firms claiming that rising costs have had significant impact on cash flow over the last 12 months by region

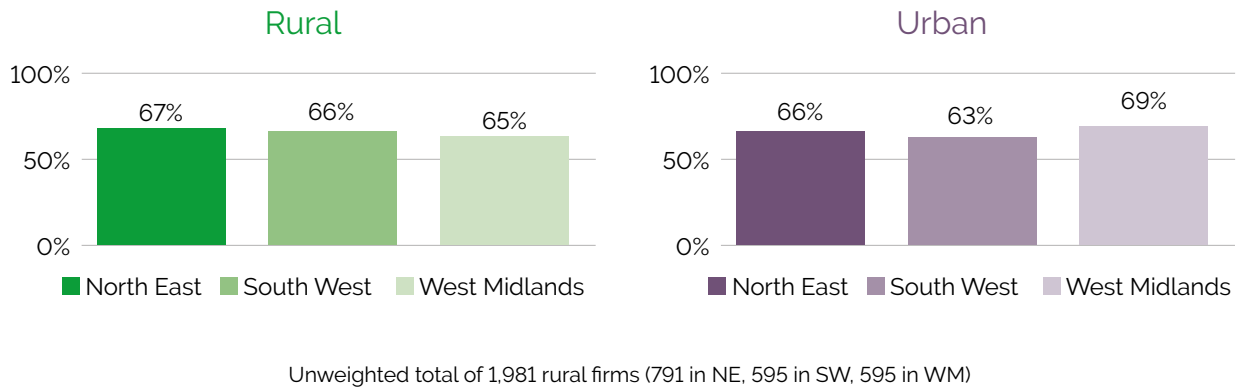


Figure 3.7: Proportion of firms claiming that rising costs have had significant impact on cash flow over the last 12 months, by firm size

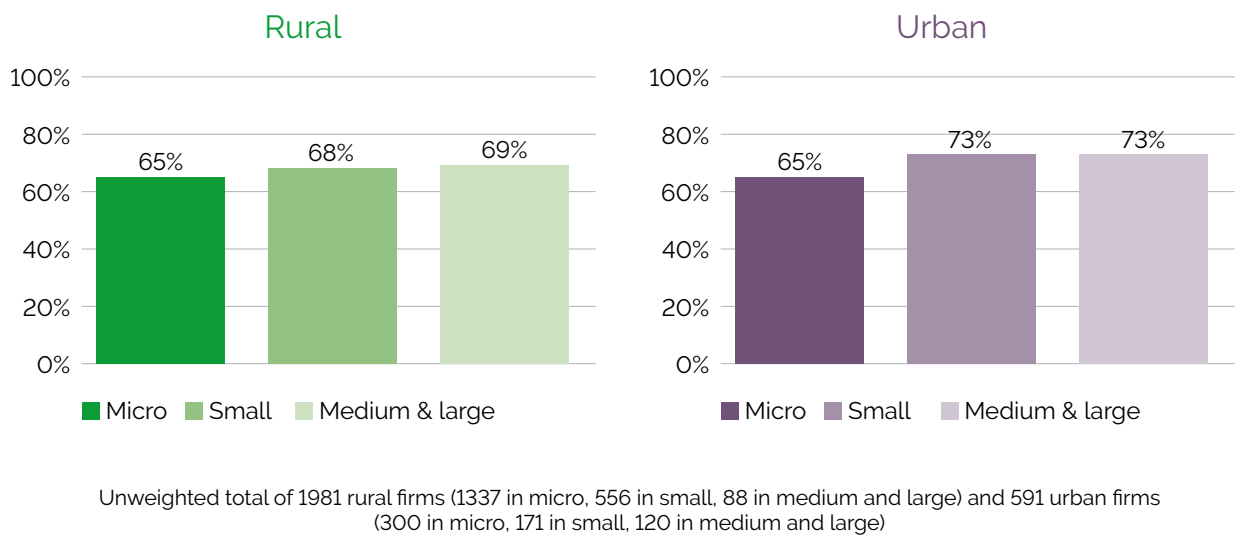
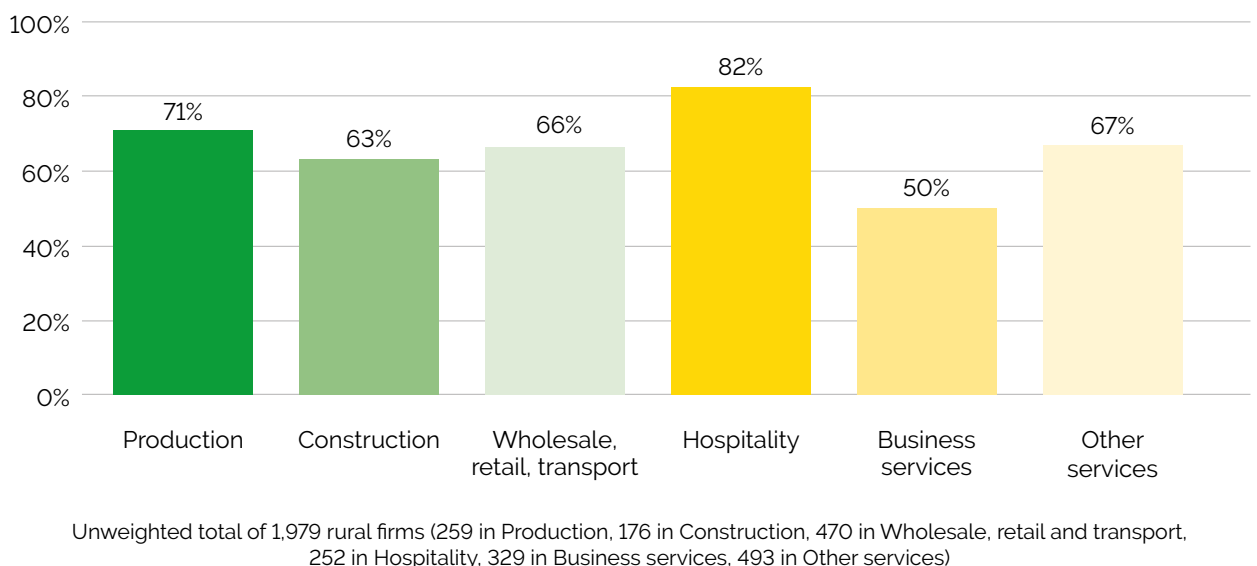


Figure 3.8: Proportion of rural firms claiming that rising costs have had significant impact on cash flow over the last 12 months by sector



For the two thirds of businesses for which rising costs are having significant impacts on cash flow, a breakdown of the contribution of these cost pressures reveals notable differences between rural and urban firms (Figure 3.9). Energy or power, and goods and raw materials, are the most frequently cited sources which have substantially contributed to increased costs, for both rural and urban businesses¹. Rural firms are slightly more likely to highlight increases in costs of goods and raw materials than urban ones (rural 63%, urban 60%), while fewer cite the increased costs of energy or power (63% rural, 67% urban). Yet the cost of fuel for transport is identified as a much more prominent challenge in rural areas (44% rural, 36% urban).

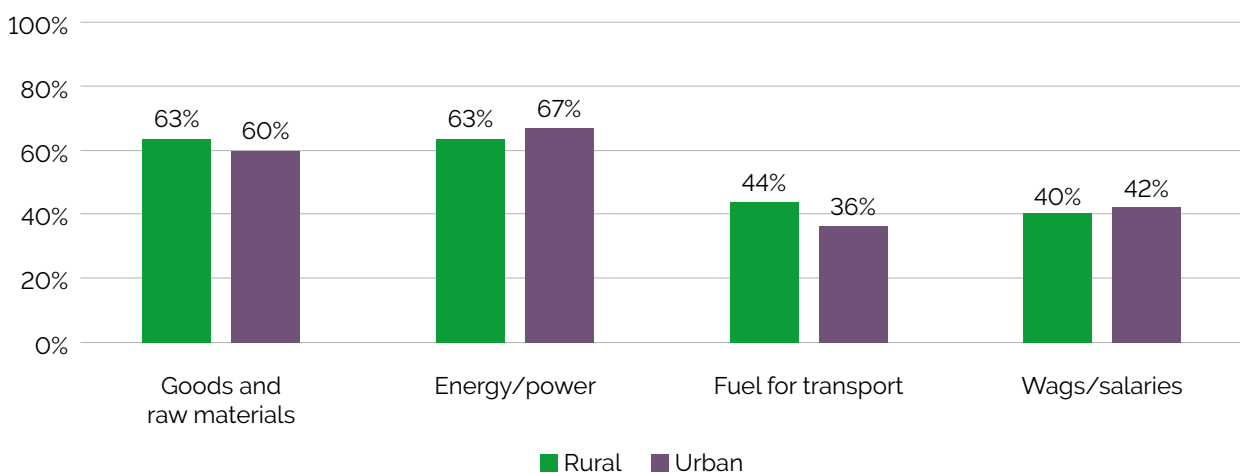
Rising costs of goods and raw materials and fuel for transport are more pronounced for rural firms in hamlets and isolated dwellings (Figure 3.10). Here 71% of firms experiencing significant cash flow pressures from rising costs, reported substantial impact of increases in costs of goods and raw materials, which compares to around 60% of firms in rural towns and villages. Similarly, half of firms in hamlets and isolated dwellings point to substantial increases in the costs of fuel for transport, compared to 38% of firms in rural towns and 44% of firms in rural villages. Even after considering differences in business size, industry, and age, enterprises in rural

hamlets were significantly more likely to face higher costs in goods and raw materials, as well as transport. This may reflect that enterprises in such locations are more reliant on private transport, face greater distances to customers and suppliers, as well as a lower density of fuel stations and higher average petrol and diesel prices.

In rural areas, increasing business size (from micro, to small, to medium/large) is associated with a higher likelihood of reporting the substantial impact on rising costs of energy/power and wages/salaries (Figure 3.11).

Costs are impacting rural businesses across sectors in different ways (Figure 3.12). For example, rising costs of energy and power, together with goods and raw materials, are heavily impacting Hospitality firms. Hospitality is also the sector most likely to emphasise costs of wages and salaries, closely followed by Other services, which also face significant energy/power pressures. Rural Construction businesses are most likely to signal costs of goods and raw materials and fuel for transport. Finally, the Business services sector is characterised by its consistently lower proportion of firms reporting increasing costs across different cost components.

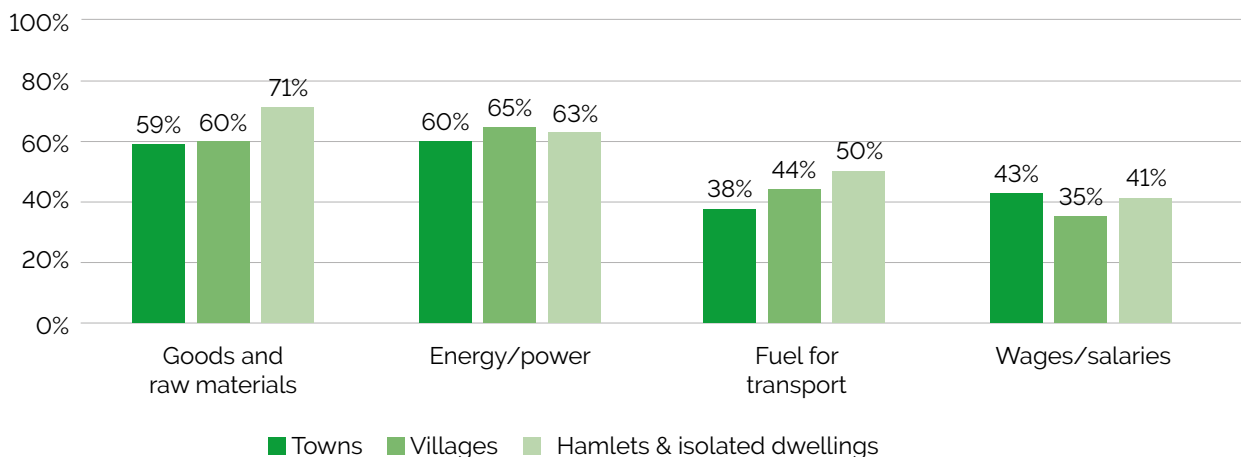
Figure 3.9: Proportion of businesses reporting cost components contributed substantially to the overall increased costs, rural vs urban



Unweighted total of 1,718 firms, 1,319 rural firms and 399 urban firms for 'Goods and raw materials'. For other categories, the number of observations varies slightly due to some missing observations.

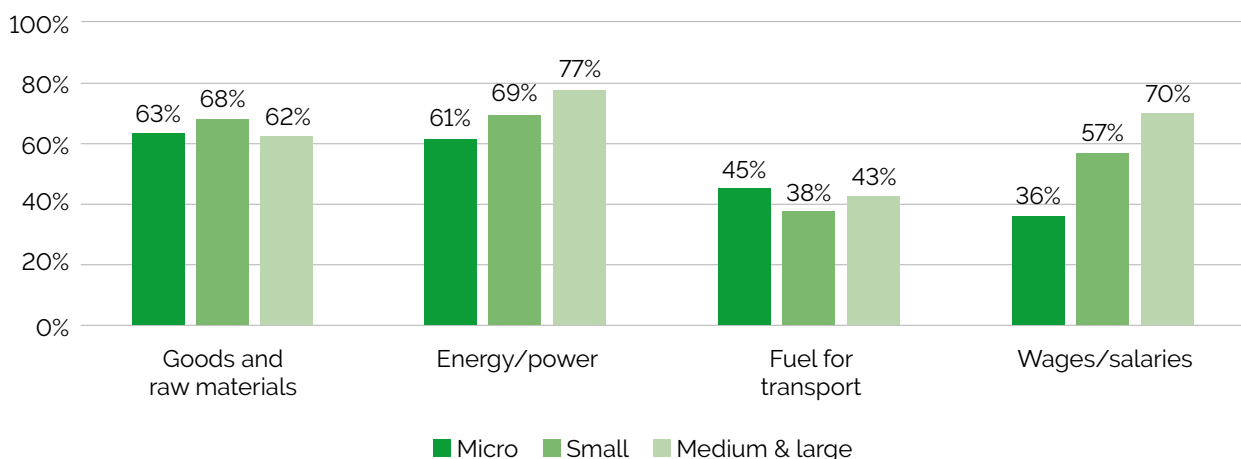
¹Among firms which reported that rising costs have had a significant impact on the cash flow of the business over the last 12 months, they were further asked to rate the extent each cost component contributed to their increased costs on a five-point Likert scale, where 1 is no impact at all and 5 is a significant impact. Firms which answered 4 or 5 in the Likert scale are considered as facing substantial impacts.

Figure 3.10: Proportion of businesses reporting cost components contributed substantially to the overall increased costs by rural location



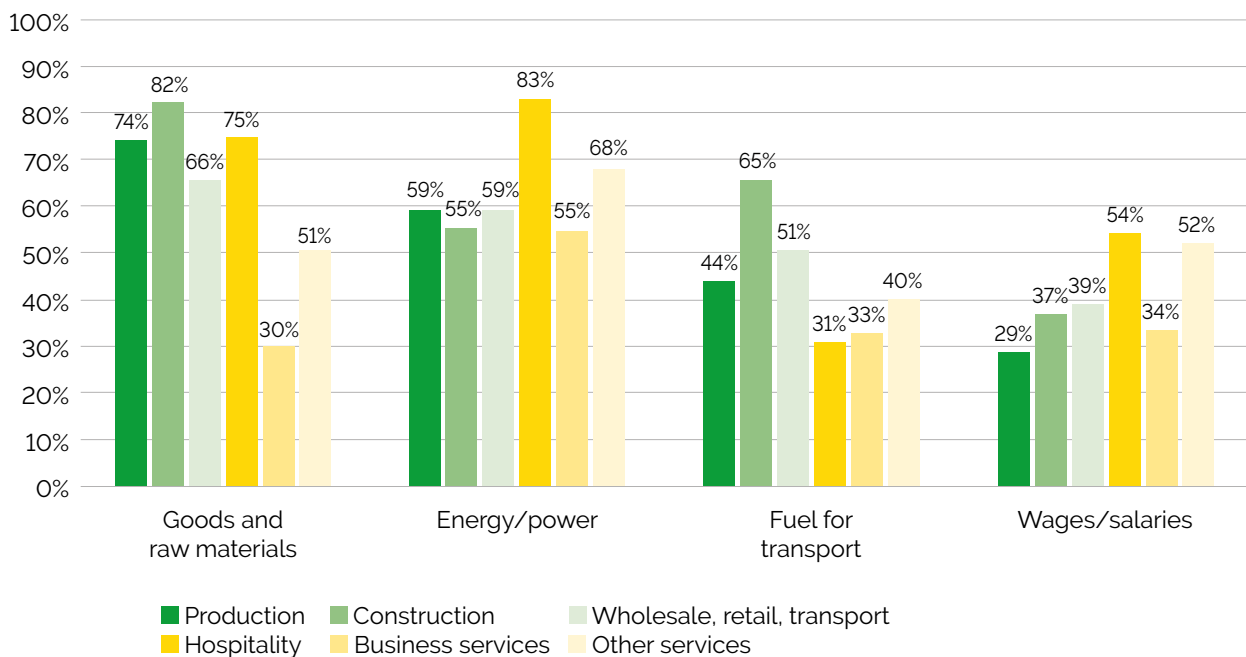
Unweighted total of 1,319 firms, 561 rural towns, 405 rural villages, and 353 rural hamlets and isolated dwellings for 'Goods and raw materials'. For other categories, the number of observations varies slightly due to some missing observations.

Figure 3.11: Proportion of rural businesses reporting cost components contributed substantially to the overall increased costs by size



Unweighted total of 1,319 rural firms (874 in micro, 383 in small, 62 in medium or large) for 'Goods and raw materials'. For other categories, the number of observations varies slightly due to some missing observations.

Figure 3.12: Proportion of rural businesses reporting cost components contributed substantially to the overall increased costs by sector

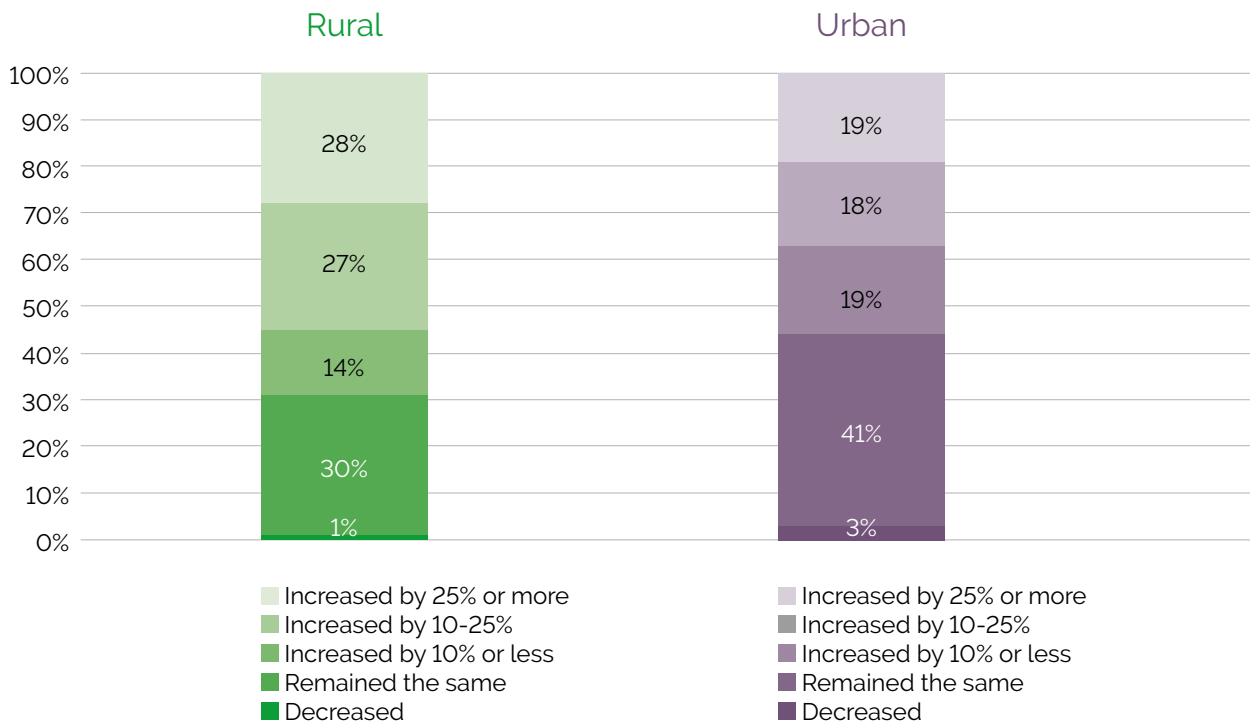


Unweighted total of 1,318 firms, 169 in Production, 100 in Construction, 322 in Wholesale, retail and transport, 201 in Hospitality, 172 in Business services, 354 in Other services for 'Goods and raw materials'. For other categories, the number of observations varies slightly due to some missing observations.

Some 23% of rural businesses were involved in exporting in the last 12 months, compared to 16% of urban firms (see Appendix A). Adding to other cost pressures, most of these firms have faced an increase in exporting-associated administration and paperwork costs (Figure 3.13). Yet, this change is especially prominent for rural exporters, where 27% report an increase of 10–25% in costs, and 28% an increase of more than 25% costs, compared to only 18% and 19% of urban exporters, respectively.

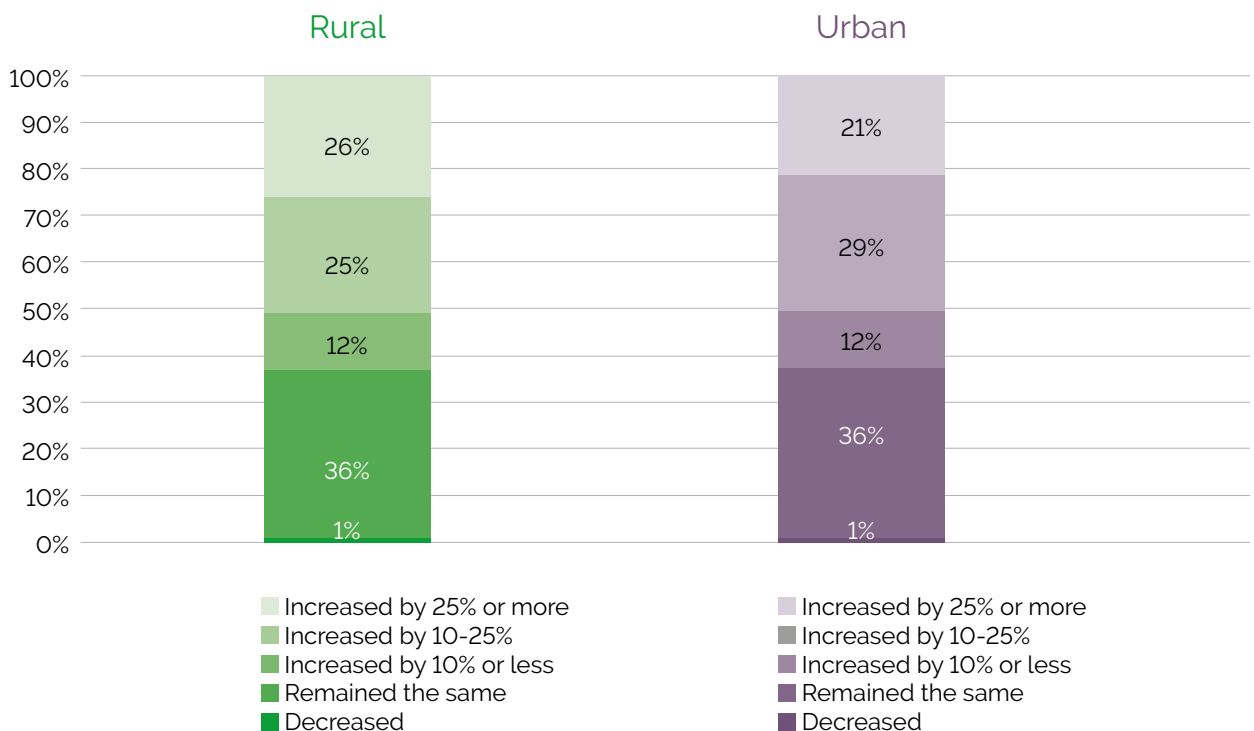
Some 31% of rural businesses were involved in importing (compared to 28% of urban firms) (see Appendix A). Of those importing, a similar share of rural (63%) and urban (62%) firms describe increases in the costs of associated administration and paperwork (Figure 3.14). However, rural importers are more likely to have faced the largest increase in their costs, with 26% of them reporting an increase of more than 25%, compared to 21% of urban importers.

Figure 3.13: Administration and paperwork costs associated with exporting, rural vs urban



Unweighted total of 471 firms, 364 rural firms and 107 urban firms

Figure 3.14: Administration and paperwork costs associated with importing, rural vs urban



Unweighted total of 685 firms, 507 rural firms and 178 urban firms

4. Coping strategies



Most businesses are responding to cash flow and cost pressures by **adjusting how they operate**, for example increasing prices or making efficiency improvements, as well as drawing on household labour and resources (Figure 4.1)².

For businesses in which rising costs have had a significant impact on cash flow, around two in five of them have reduced, cancelled, or postponed investment, presenting a serious challenge for innovation and growth. Further analysis indicates that 70% and 55% of rural businesses that describe their cash flow situation as either 'critical' or 'under pressure' are reducing, cancelling, and postponing investment, respectively. In contrast, only a fifth of those businesses which report their cash flow as 'normal' or 'positive' are reducing, cancelling, and postponing investment. One in five have taken out personal loans or used credit facilities.

The most prominent coping strategy, relevant to four in five rural and urban firms facing significant cost pressures, has been to increase the prices of goods and services. It has also been very

common for businesses to look to improve the efficiency of production or processes, with slightly more rural firms adapting in this way (rural 66%, urban 62%). Many firms have also altered their range of products or services, and again rural firms are more likely to have done so (47% rural, 42% urban). Rural firms are also more likely to have reduced staff or their working hours than urban firms (29% rural, 23% urban).

As well as a higher likelihood of making these business adjustments, rural enterprises are also more likely to draw on household labour and other resources to cope with cost pressures. This includes seeking help from family members who work longer hours or are unpaid (48% rural, 37% urban) and drawing on personal savings or pensions (34% rural, 25% urban).

²This question was asked for businesses which stated that rising costs have had a significant impact on cash flow over the last 12 months.

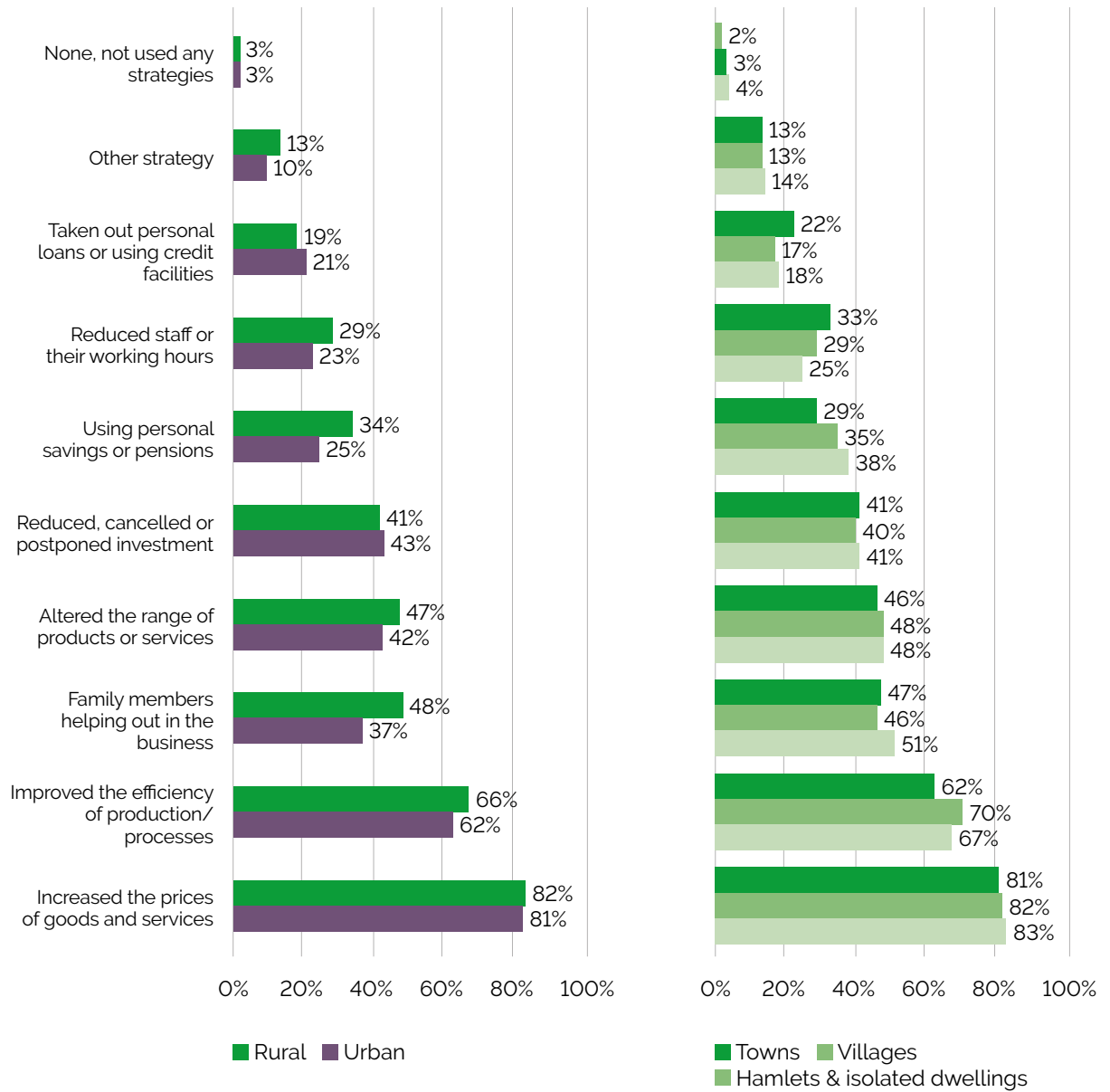
Across different rural locations, the overall prominence of various coping strategies is consistent, however, there are some differences in emphasis (Figure 4.1). For example, firms in rural towns are more likely to take out personal loans or use credit facilities, or to reduce staff or working hours, though less likely to make efficiency improvements. Whilst those in rural hamlets and isolated dwellings are more likely to seek help from family members or to use personal savings or pensions.

Rural firms in the WM are more likely to have improved their production and process efficiencies and to have turned to family members to help them, compared to rural firms in the NE and SW (Figure 4.2). Those in the NE are more likely to have taken out personal loans or used credit facilities. Meanwhile, rural firms in the SW have more often reduced staff or working hours. These patterns are not consistent with the picture for urban firms. In the WM, for example, urban firms have been less likely to make efficiency improvements, alter their range of products or services, or use personal savings. Whilst a higher share of urban firms in the NE have reduced staff or working hours.

Coping strategies also vary according to firm size (Figure 4.3). Medium and large-sized rural firms are more, and rural small and micro-firms less, likely to have increased the prices of goods and services or to improve the efficiency of production or processes, though both strategies are the most prominent response for all firms. Micro and small businesses emphasise altering the range of products or services, reducing staff or working hours, or using personal loans or credit. Micro rural firms, specifically, place much more onus on turning to family members and personal savings than micro urban firms and also other rural firms.

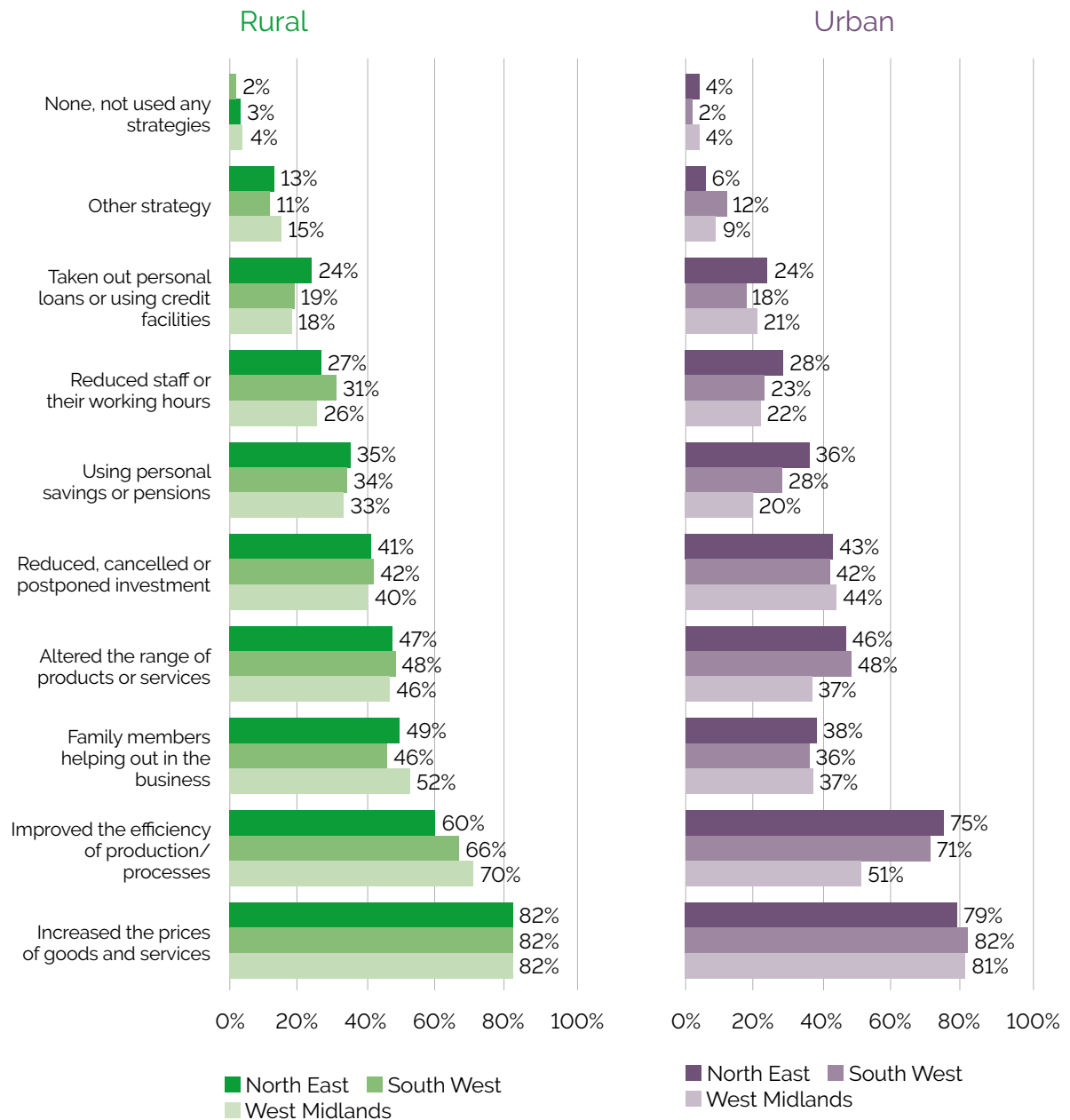
Use of particular coping strategies also varies by sector (Figure 4.4). For example, rural firms in the Other services and Business services sectors are less likely to have increased prices. Business services firms also are the least likely to have cancelled or postponed investment and most likely to have turned to personal loans or use of credit. Whilst rural Construction and Hospitality firms are both more reliant on family and personal resources than other sectors, and around half of them are pulling back investment plans. Hospitality firms have needed to alter their range of products and services and adapt their staff levels and hours.

Figure 4.1: Strategies used to cope with increased costs in the last 12 months, rural vs urban, and by type of rural location



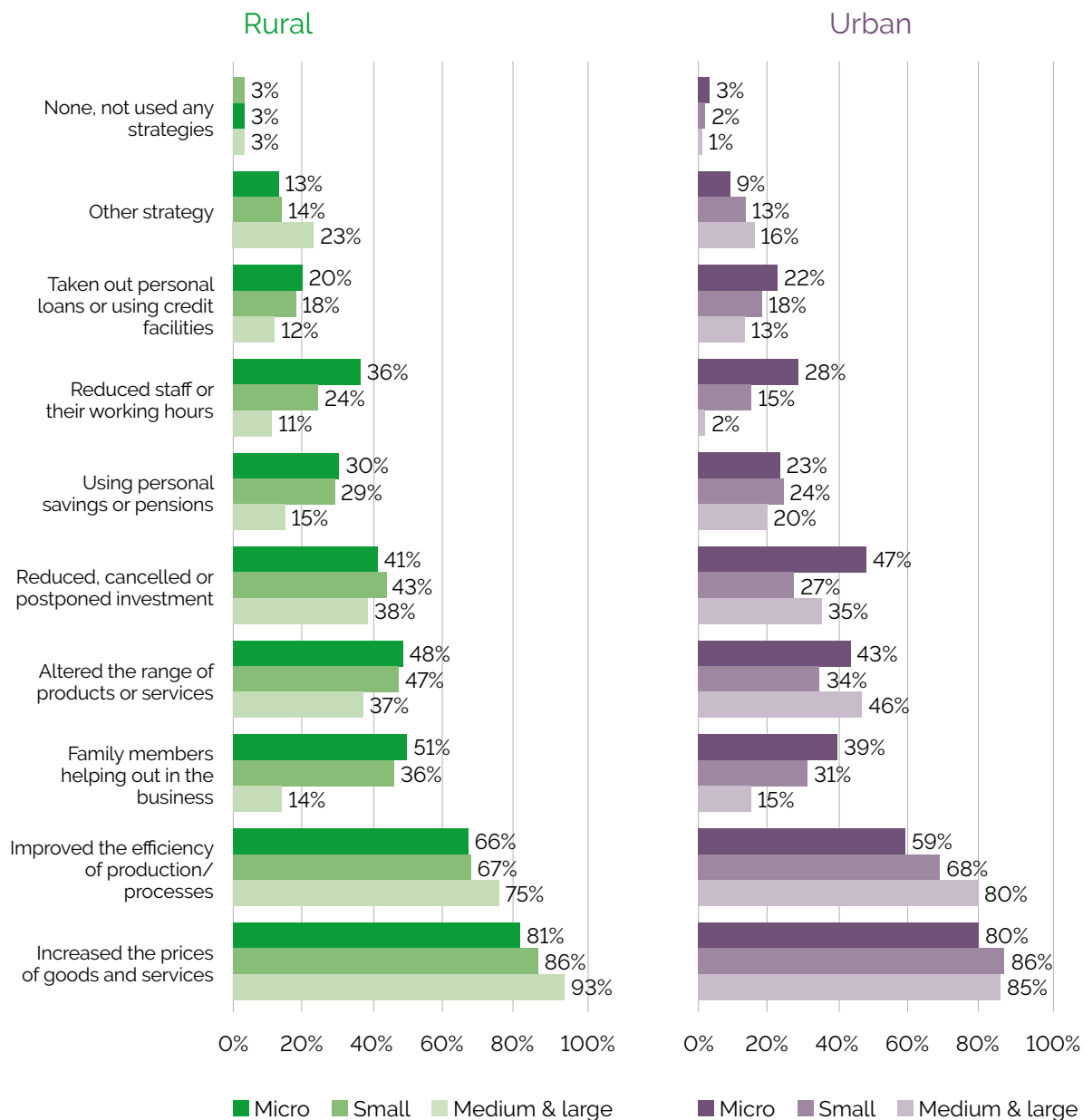
Unweighted total of 1,720 firms, 1,321 rural firms (562 in rural towns, 406 in rural villages, 353 in rural hamlets & isolated dwellings) and 399 urban firms

Figure 4.2: Strategies to cope with increased costs in the last 12 months by region



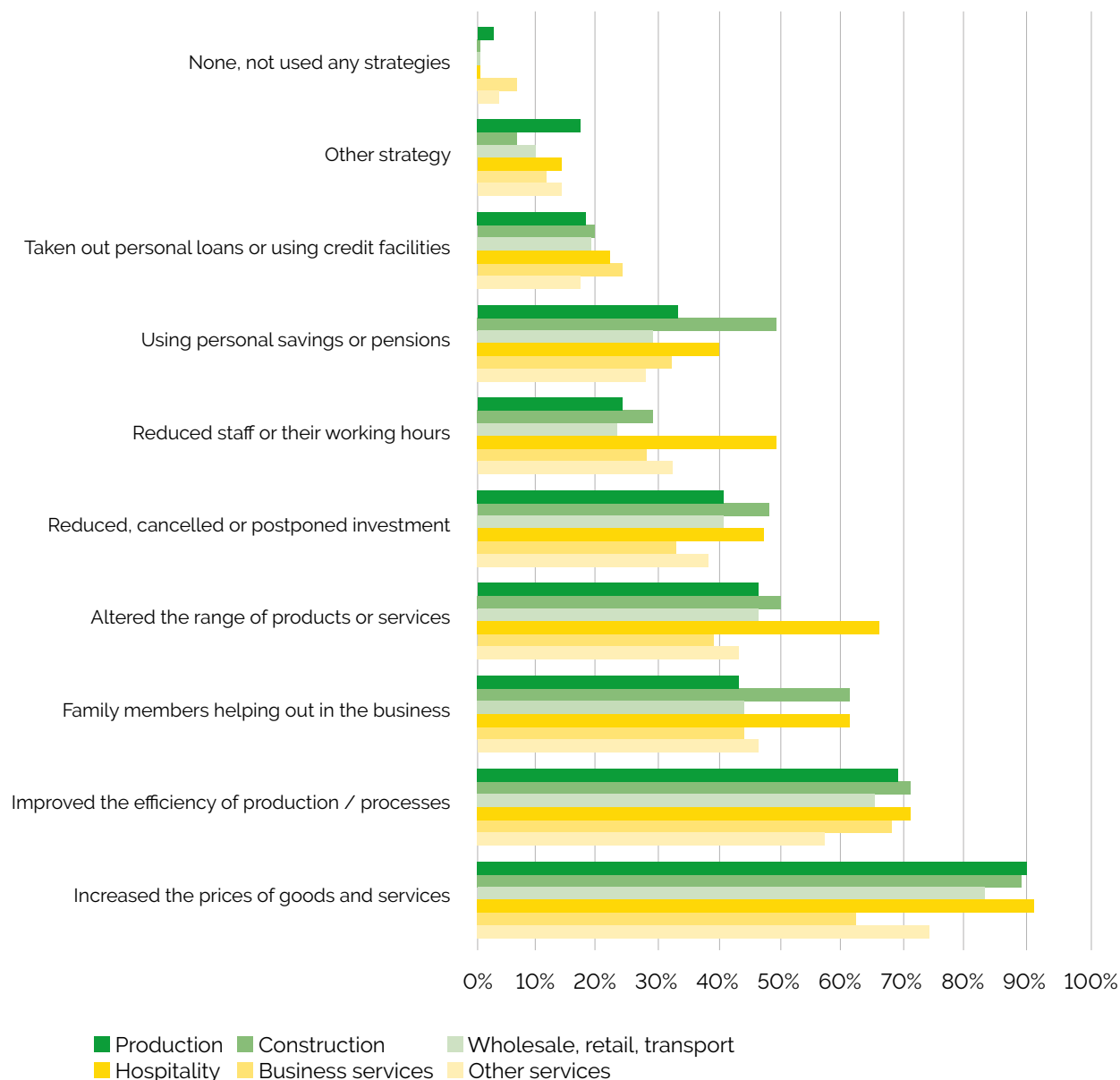
Unweighted total of 1,320 rural firms (542 in NE, 389 in SW, 390 in WM) and 399 urban firms (131 in NE, 133 in SW, 135 in WM)

Figure 4.3: Strategies to cope with increased costs in the last 12 months for rural businesses by firm size



Unweighted total of 1,321 rural firms (875 in micro, 383 in small, 63 in medium and large) and 399 urban firms (190 in micro, 121 in small, 88 in medium and large)

Figure 4.4: Strategies to cope with increased costs in the last 12 months for rural businesses by sector



Unweighted total of 1,320 rural firms (169 in Production, 100 in Construction, 323 in Wholesale, retail and transport, 202 in Hospitality, 172 in Business services, 354 in Other services)

Among those businesses that claimed rising energy and power costs are having an important bearing on cash flow, several coping strategies have been adopted (Figure 4.5).³ Most have pursued broad changes in business practices, including efforts to reduce their use of energy (three in four firms) and to educate staff about more green behaviours (two in three firms). More specific strategies have been to invest in energy-saving measures or equipment, with more rural firms choosing to do so (38% rural, 29% urban).

Rural firms are also more likely to have installed insulation or equipped premises with energy-saving materials (27% rural, 19% urban). Whilst one in four rural and urban firms have switched to alternative sources of energy or suppliers.

Among rural firms, there are some differences between rural locations in their actions to cope with increased energy costs. Namely, enterprises in rural hamlets and isolated dwellings (42%) are significantly more likely to install insulation or

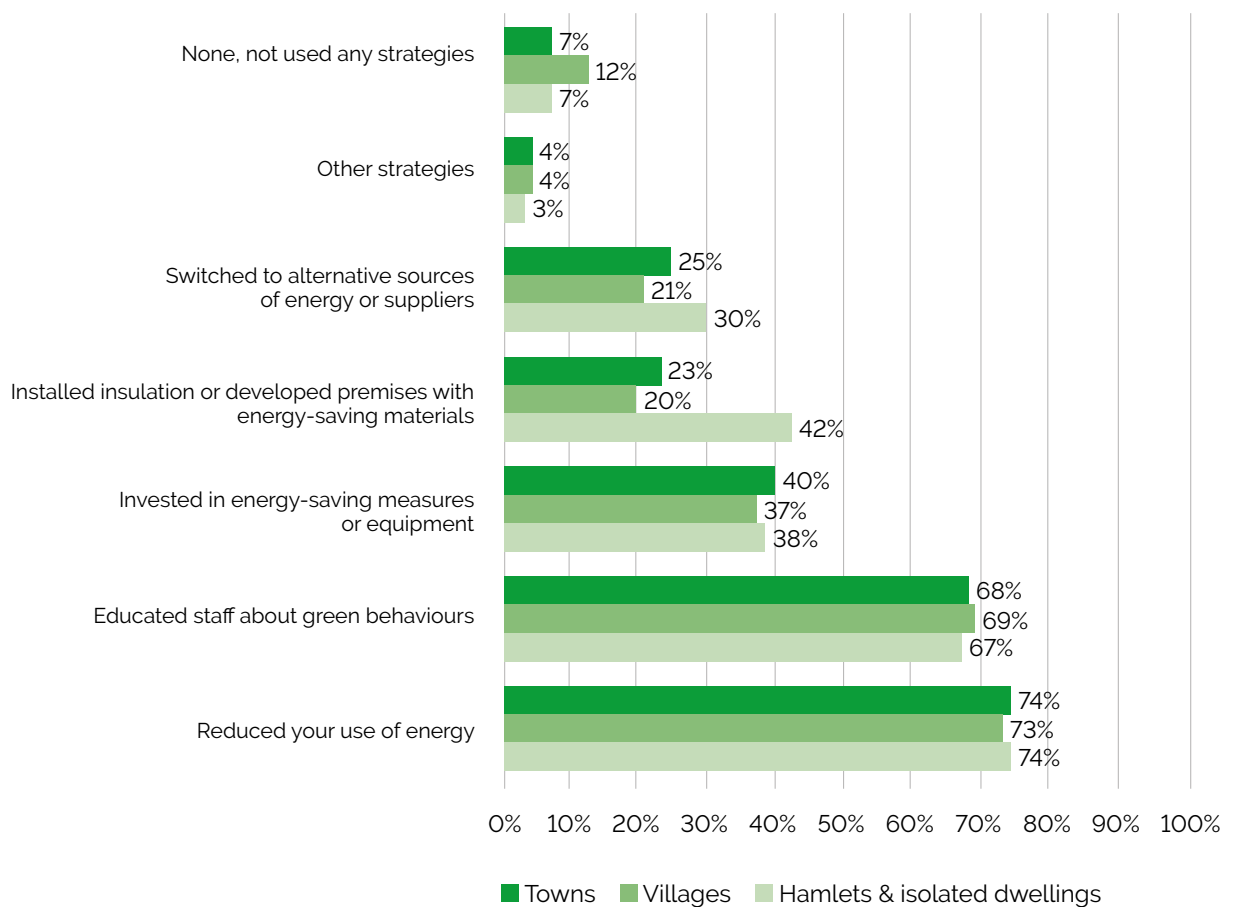
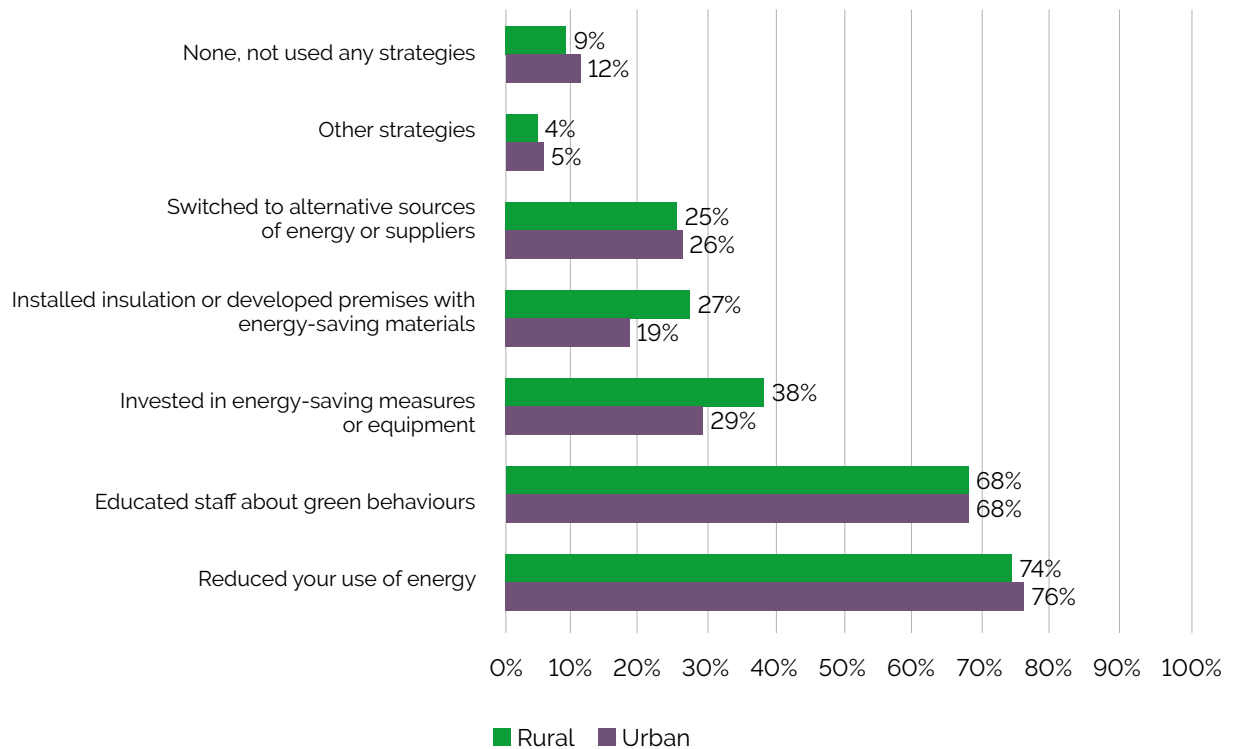
³This question was asked of businesses which claimed that rising costs had had a significant impact on cash flow over the last 12 months, and specifically those which rated 3, 4, or 5 on a five-point Likert scale (no impact [1] to significant impact [5]) about the contribution of energy/power to their increased costs.

develop premises with energy-saving materials than their counterparts in rural towns (23%) or villages (20%). They are also more likely to switch to alternative sources or suppliers (30%).

Responses to energy/power-related costs also vary by region (Figure 4.6). In particular, rural firms in the NE (21%) are less likely to have installed insulation or developed premises with energy-saving materials compared to those in the SW (27%) and WM (30%). Whilst rural firms in the SW (23%) and NE (25%) are less likely than in the WM (30%) to switch to alternative sources of energy or suppliers.

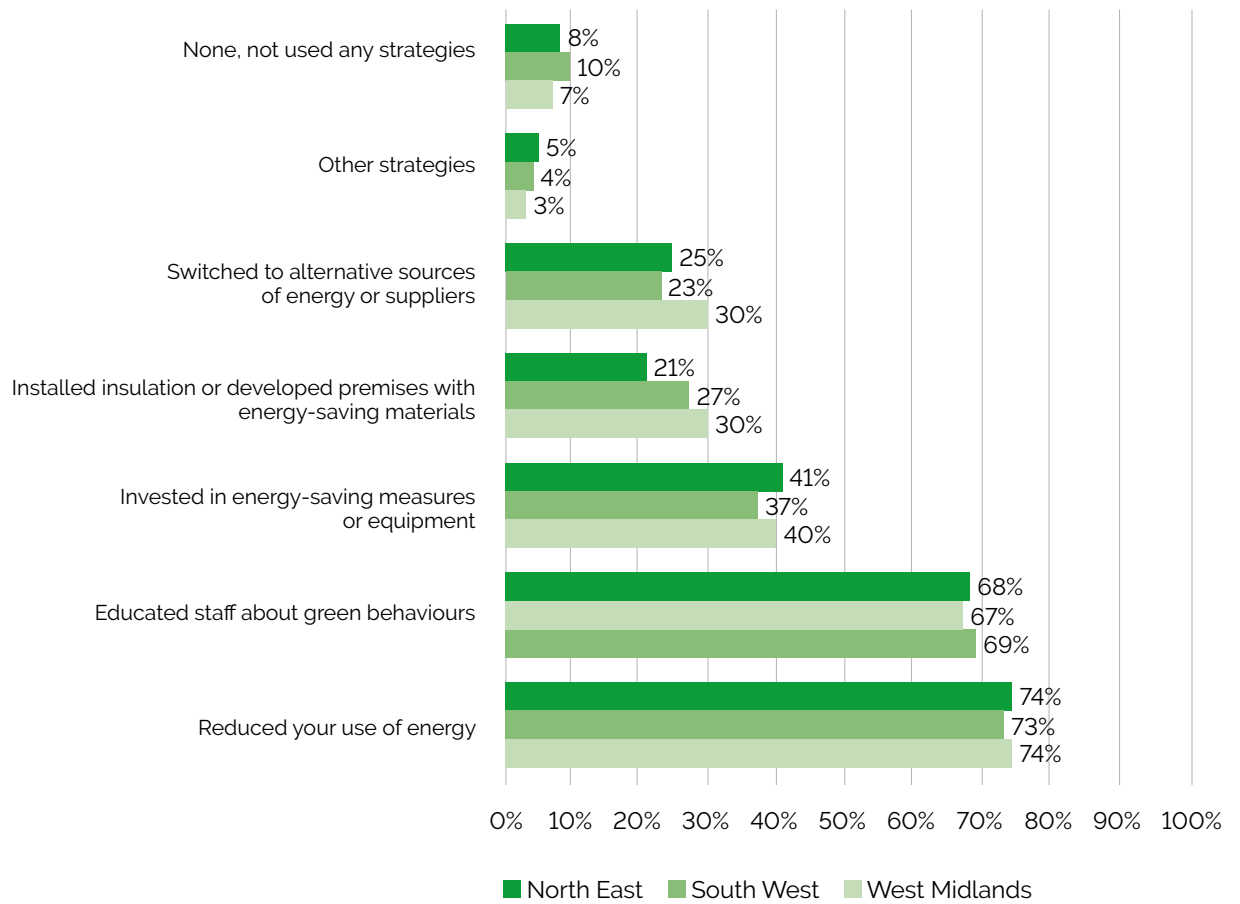
Responses to dealing with increased energy/power costs also vary by firm size (Figure 4.7). Micro rural firms are more likely to place an emphasis on reducing their use of energy (74% of micro firms compared to 70% of small and 61% in medium and large firms) but give less attention to educating staff about green behaviours (66% of micro firms compared to 79% of small and 81% of medium/large firms). On the other hand, medium and large-sized firms in rural areas are more likely to invest in energy-saving measures or equipment and switch to alternative sources of energy or suppliers.

Figure 4.5: Strategies used to cope with increased energy costs for heat and power in the last year, rural vs urban, and by type of rural location



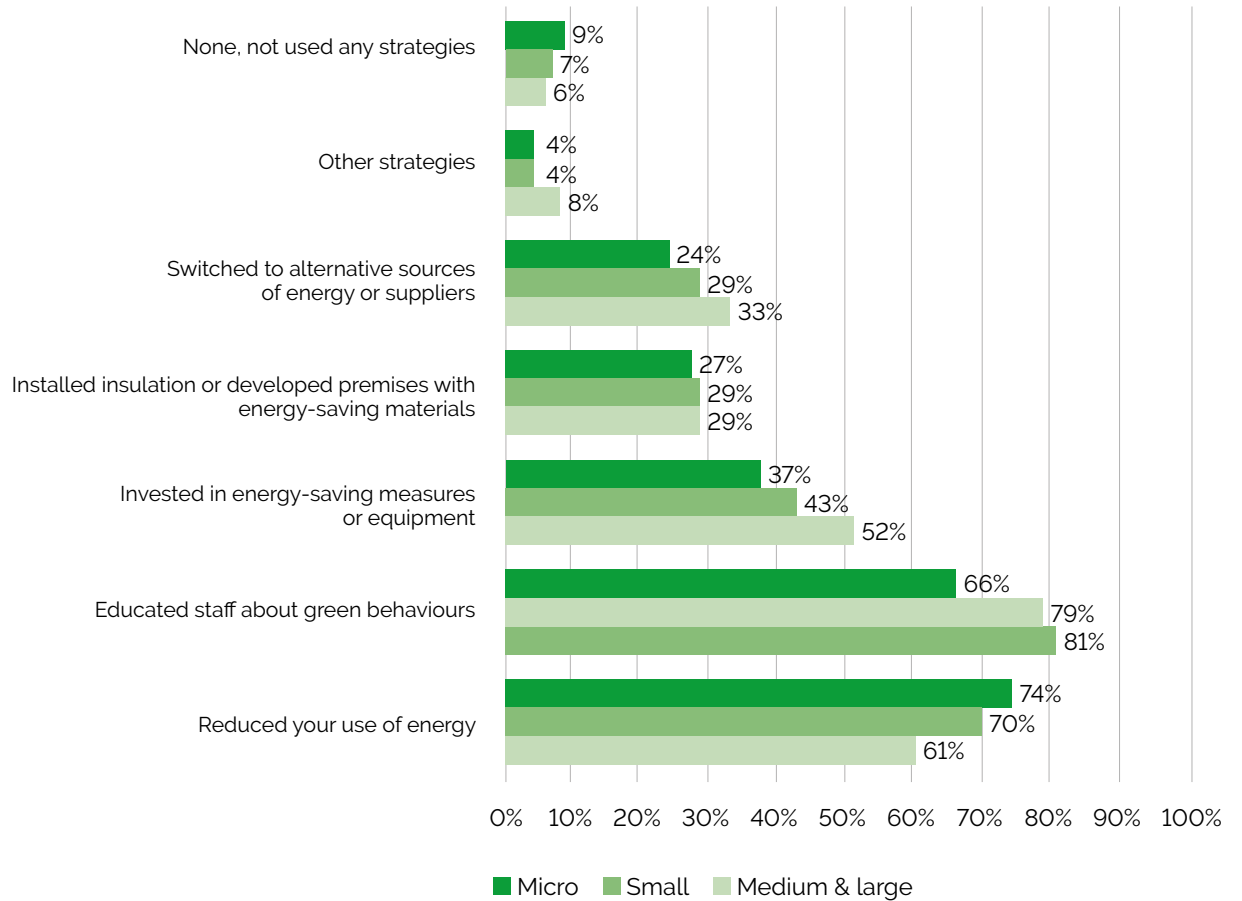
Unweighted total of 1,367 firms, 1,050 rural firms (447 in rural towns, 326 in rural villages, 277 in rural hamlets & isolated dwellings) and 317 urban firms

Figure 4.6: Strategies used to cope with increased energy costs for heat and power in the last year for rural businesses by region



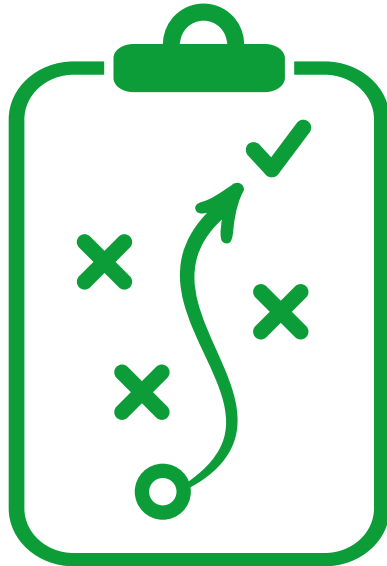
Unweighted total of 1,050 rural firms (432 in NE, 313 in SW, 305 in WM)

Figure 4.7: Strategies used to cope with increased energy costs for heat and power in the last year for rural businesses by firm size



Unweighted total of 1,050 rural firms (686 in micro, 313 in small, 51 in medium and large)

5. Planning for the future



Our survey also asked enterprises if they are planning to take any **further action** over the next year to reduce energy costs (Figure 5.1). This was the case for one in three businesses, with a slightly higher share of rural firms intending to do so (36% rural, 32% urban), and especially so for those in rural hamlets and isolated dwellings (38%). For firms which had already acted to reduce energy consumption over the last 12 months, they are even more likely to be planning further action (46% rural, 38% urban).

Across the three regions, rural firms in the NE are slightly less likely to be planning to take further action (Figure 5.2). This is also the case for small and especially micro businesses. Medium and large-sized firms are twice as likely than micro firms to be planning to take further action to reduce energy costs. Rural firms in Hospitality and Production sectors are also more likely to be planning to take further action (Figure 5.3).

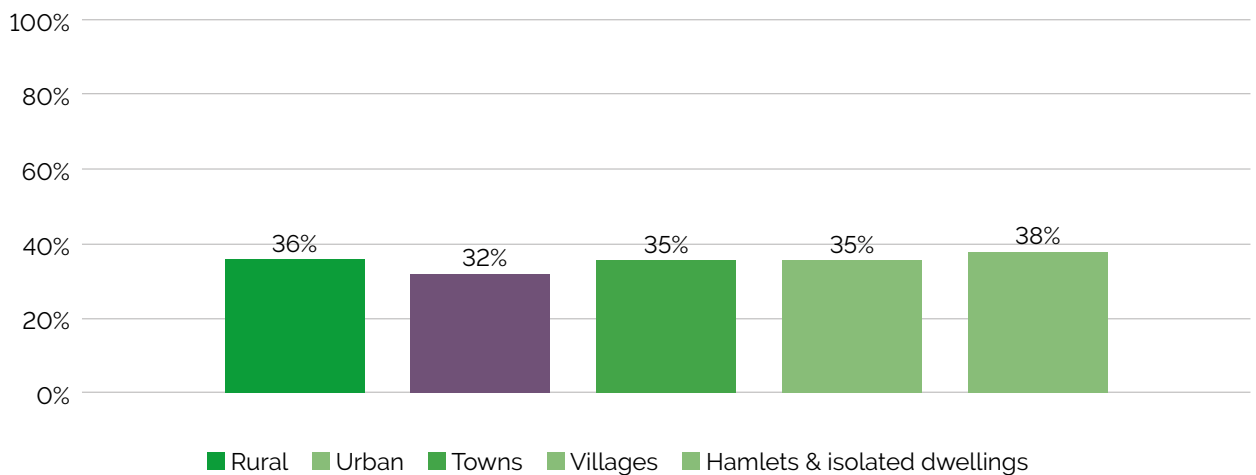
The most common planned future action⁴ is to reduce energy consumption, with urban businesses more likely to be doing so (72% rural, 85% urban) (Figure 5.4). Yet rural firms are more likely to be planning to invest in energy-saving measures or equipment (rural 66%, urban 62%) or switching to alternative sources of energy such as solar, wind or ground/air sources (48% rural, 36% urban). In addition, about 40% of rural and urban firms plan to install insulation or develop premises with energy-saving materials.

⁴This question was asked among those which said that they are planning to take further action to reduce energy costs over the next year.

Across the three regions, rural firms in the SW are the least likely to be planning to invest in energy-saving measures or equipment (64%) or to install insulation or develop premises with energy-saving materials (Figure 5.5).

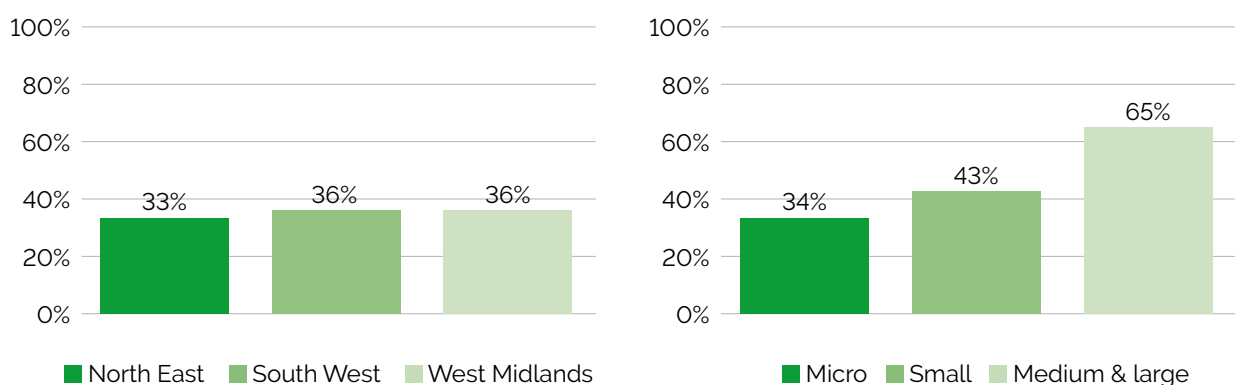
In rural areas, medium and large-sized firms are more likely than micro and small firms to be planning to adopt any of these actions (Figure 5.5). Rural micro firms, in particular, have the lowest likelihood of investing in energy-saving measures or equipment.

Figure 5.1: Proportion of firms planning to take further action to reduce energy costs over the next year, rural vs urban, and by type of rural location



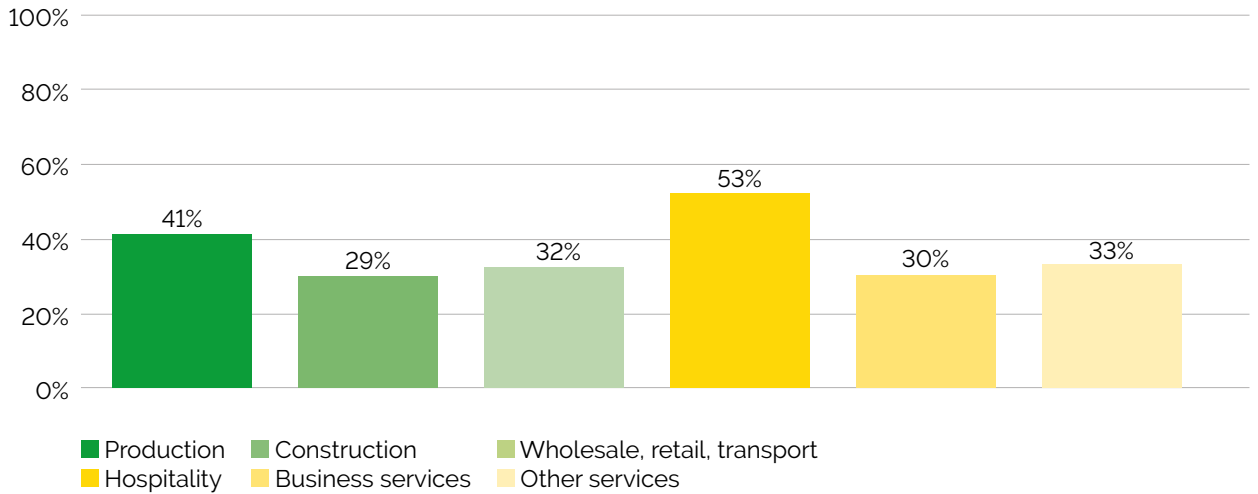
Unweighted total of 2,542 firms, 1,957 rural firms (827 in rural town, 624 in rural village, 506 in rural hamlet & isolated dwellings) and 585 urban firms

Figure 5.2: Proportion of rural firms planning to take further action to reduce energy costs over the next year by region (left) and by firm size (right)



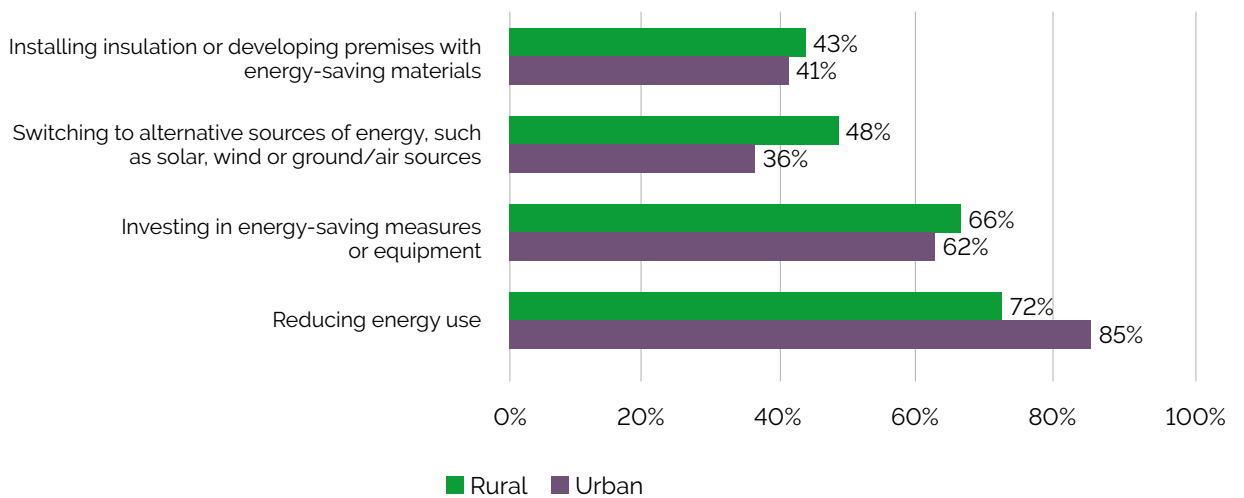
Unweighted total of 1,957 rural firms (785 in NE, 587 in SW, 585 in WM, and 1,325 in micro, 543 in small, 89 in medium and large)

Figure 5.3: Proportion of rural firms planning to take further action to reduce energy costs over the next year by sector



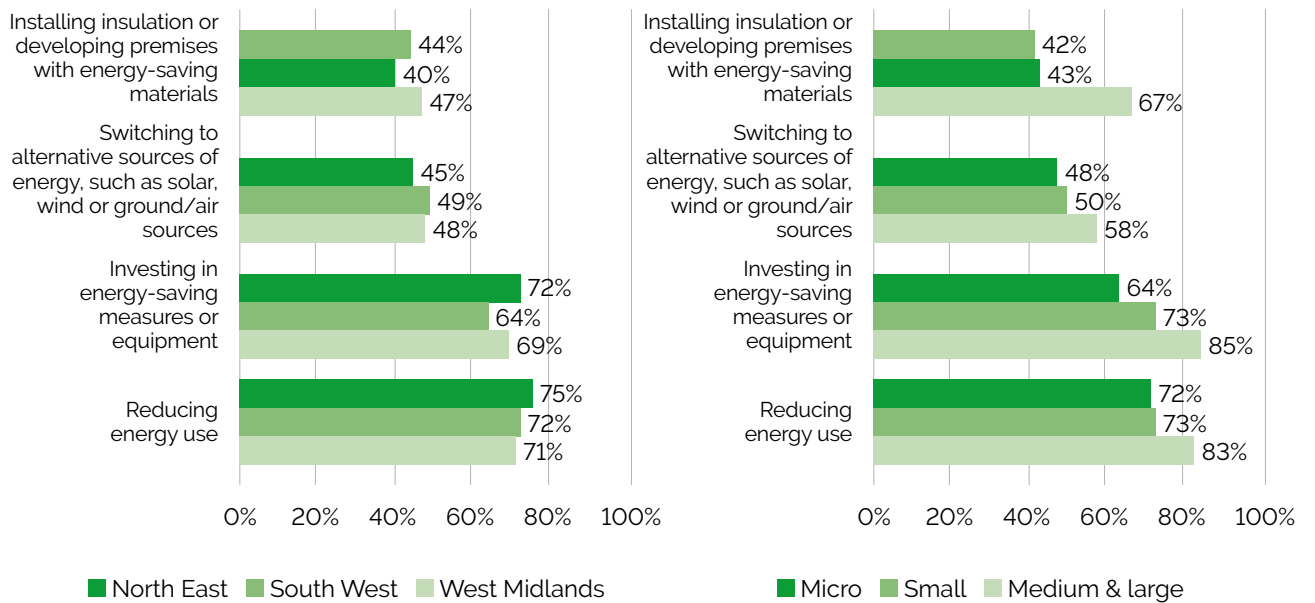
Unweighted total of 1,957 rural firms (256 in Production, 174 in Construction, 470 in Wholesale, retail, transport, 249 in Hospitality, 324 in Business services, 482 in Other services)

Figure 5.4: Further actions planned to reduce energy costs over the next year, rural vs urban



Unweighted total of 955 firms (721 rural firms and 234 urban firms)

Figure 5.5: Further actions planned to reduce energy costs over next year for rural business by region (left) and by firm size (right)



Unweighted total of 721 rural firms (272 in NE, 229 in SW, 220 in WM, and 434 in micro, 226 in small, 61 in medium and large)

6. Conclusions



Official government data indicate a **widespread cost-of-doing-business crisis**, stemming from **rising input costs**, especially associated with **increased energy prices and wages** (ONS, 2023). Specifically, in early 2023, nearly one in five businesses regarded energy prices as their biggest concern, followed by inflation (16%) and falling demand for goods and services (13%) (ONS, 2023). Unfortunately, however, ONS released data does not distinguish between rural and urban businesses, despite widespread concern that the adverse effects of the crisis disproportionately fall on rural enterprises and communities (APPG, 2023).

Over the last 12 months, a period heavily impacted by sharply rising costs, two thirds of rural and urban firms were able to maintain their level of employment and two fifths their level of turnover. In the same period, 15% of rural firms and 13% of urban firms reduced their workforce, but 20% were able to increase it. Rural firms appear to have been particularly resilient, with a higher share of them increasing (41% rural, 35% urban) and fewer decreasing (18% rural, 25% urban) their turnover.

Nevertheless, NICRE survey data confirm that the effects of the cost-of-doing-business crisis on enterprises have been widespread – with two out of three firms (rural and urban) reporting that rising costs have significantly impacted their cash flow. One in three describe this as being 'under pressure', and 7% consider the situation to be 'critical'.

For the two thirds of businesses for which rising costs are having significant impacts on cash flow, energy or power, and goods and raw materials, are the most prominent contributors to increased costs, for both rural and urban businesses. Rural firms are slightly more likely to highlight increases in costs of goods and raw materials than urban ones, while fewer cite the increased costs of energy or power. Yet the cost of fuel for transport is identified as a much more prominent challenge in rural areas.

Businesses have responded swiftly to cost-of-doing-business pressures with a wide range of coping mechanisms. Common strategies, for rural and urban firms, include increasing their prices for goods and services, as well as (and especially for rural firms) improving the efficiency of production or processes. Rural firms are also more likely than urban ones to have altered their range of products or services, reduced staff or working hours, and be drawing on household labour and personal resources.

To cope with increased energy costs, most rural and urban firms have pursued broad changes in business practices, including efforts to reduce their use of energy and to educate staff about green behaviours. In terms of further targeted measures and investments, more rural firms than urban firms emphasise an 'efficiency-first' approach involving investment in energy-saving measures or equipment. They are also more likely to have installed insulation or developed their premises with energy-saving materials. A quarter of rural and urban firms have switched to alternative sources of energy or suppliers.

One in three rural businesses are planning to take further action in the coming year to reduce energy use. Specifically, 24% of rural firms (more than the 20% for urban) plan to invest in energy-saving measures and equipment. Significantly, 17% (11% urban) plan to switch to alternative sources of energy (such as solar, wind, or ground/air source pumps) and 15% (13% urban) intend to install insulation or develop their premises.

Some actions taken by businesses, for instance, to improve efficiency, install better insulation and switch to alternative sources of energy are likely to support the medium to long-term viability and growth of the business, and help support the government's objective of reaching net zero by 2050 (Agrawal et al., 2023; Segarra-Blasco & Jove-Llopis, 2019). However, not all remedial actions have such positive effects. For instance, approximately two fifths of rural businesses for which rising costs negatively impacted their cash flow have reduced, cancelled, or postponed investment. This is particularly worrying given the UK's historically low level of business investment (Driver & Temple, 2013). How rural businesses successfully cope with the cost-of-doing-business crisis in the short term, may thus exacerbate long-term structural problems in the UK economy. Urgent attention should be given to how the adverse effect of the crisis on business investment can be best counteracted.

The impacts of the cost-of-doing-business crisis on rural firms have not been uniform – some challenges increased with increasing rurality. Enterprises located in the most remote and smallest settlements are more likely to report significant increases in the costs of goods and raw materials as well as fuel for transport. The crisis, therefore, has exacerbated those long-standing challenges facing more remote rural economies impacting further on growth potential. The impacts of increased costs are compounded for dispersed and remote rural businesses which face greater average travel distances to access supplies and support, and to distribute products and services, as well as fewer garages and higher petrol and diesel prices. However, the greater cost pressures in isolated rural locations have not necessarily fed into lower turnover and employment growth, which appear most sluggish in rural towns, which is also where cash flow pressures are more likely to be reported as 'in a critical state'.

Micro businesses generally have smaller cash buffers and lower investment capabilities than larger firms, so it is unsurprising that they are substantially more likely than bigger firms to report cash flow pressures. To cope, they have especially relied on family resources, dipping into household savings and drawing on unpaid labour. In response to rising energy costs, these firms have been more likely to reduce their use of energy, but less likely to invest in energy-saving measures, switch sources of energy, or plan further actions, than larger rural firms. Nevertheless, it is the larger firms which are more likely to report substantial impacts of increased wages and energy costs on cash flow, reflecting their different cost structure.

Rising costs are having a widespread impact for rural firms across all sectors. Hospitality businesses faced the most acute disruption during the Covid-19 pandemic (NICRE, 2022b; ONS, 2020) and this sector has also been hardest hit by the subsequent cost-of-doing-business crisis. Specifically, more Hospitality businesses report turnover shrinkage, staff retention problems and rising costs. Given its labour-intensive nature and reliance on physical, permanent venues, hospitality is particularly vulnerable to increases in wage and energy costs. To cope, rural hospitality firms are increasing prices, seeking help from family members, using personal savings, and altering their product and service ranges. Meanwhile, rural firms in the Production and Business services sectors are most likely to have experienced turnover growth, notwithstanding that 71% and 50% of them say they are facing significant impacts of rising costs. Rural construction sector businesses report the greatest incidence of scaling back investment as a way to cope with rising costs.

This report generates important policy implications. Firstly, a small group of firms face a critical cash flow situation, associated with negative growth and performance, which could prove persistent. This group of firms are more likely to be located in rural towns, to employ fewer than 10 employees, and to operate in the hospitality sector.

Secondly, the effects of the crisis impinge on broader UK government policy objectives. On the one hand, the crisis is stimulating rural firms to take action to reduce energy consumption, seek out alternative sources of energy, and invest in energy efficiency. These are long-term government objectives, consistent with 'clean growth' and net zero policies (BEIS, 2019). The crisis therefore provides an important opportunity for engaging with and supporting businesses to decarbonise. Business advice is important to provide necessary information to help firms further reduce their environmental impacts. Attention should also be paid to the barriers faced by rural businesses which limit their capacity to invest in carbon reduction measures, and how they may be overcome.

On the other hand, the crisis is exacerbating the long-term structural problem of relatively low business investment in the UK. Support and advice helping businesses to better understand and manage their cash flow is important in this regard (Gray et al., 2012). Businesses under cash flow pressures are much more likely to be reducing, cancelling, and postponing investment. Helping them to improve their cash flow or with loans or grants to improve their investment capacity will be important for mitigating the long-term, adverse effects of the crisis.

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Appendix A: Weighting procedure and profiling respondent firms

Weighting procedure

We derive the weights for non-farm businesses based on the enterprise population from the Business Structure Database. Within each region, firms are weighted by size-band (three size-bands), sectors (six sectors), and urban-rural types (two types). As this report considers the non-farm rural economy, farms were excluded from the weighting process. Weights were derived for both the non-farm rural economy and the non-farm urban comparison group.

Across the three regions surveyed samples were structured by firm size band, sector and between urban and rural areas. This structured sample requires sampling weights to be developed to allow representative results to be obtained for urban and rural areas within each region. Tables A1 and A2 provide the achieved sample divided by region and urban/rural. Tables A3 and A4 provide the business population in terms of the count of business units in each cell derived from the Business Structure Database (BSD) 2022 (ONS 2023). The BSD is the annual abstract from the Inter-departmental Business Register and is itself based on VAT and PAYE data. This was accessed through the UK Secure Data Service.

Tables A5 and A6 provide the sampling weights derived as the ratio of the business population relative to the number of respondents. Note that in a small number of cases where the numbers of respondents in a particular industry/size band cell is small, cells have been amalgamated to avoid extreme weighting numbers.

Table A1: Respondent numbers – rural firms

Respondents	Rural firms by number of employees			
North East	Less than 10	10 to 49	50+	Total
Production	66	17	6	89
Construction	54	14	3	71
Wholesale and retail, transport	141	24	4	169
Hospitality	80	26	3	109
Business services	129	15	4	148
Other services	163	43	8	214
Total	633	139	28	800
South West	Less than 10	10 to 49	50+	Total
Production	42	38	7	87
Construction	24	23	2	49
Wholesale and retail, transport	88	57	8	153
Hospitality	34	45	3	82
Business services	51	26	2	79
Other services	72	62	16	150
Total	311	251	38	600
West Midlands	Less than 10	10 to 49	50+	Total
Production	55	27	2	84
Construction	39	16	2	57
Wholesale and retail, transport	108	38	7	153
Hospitality	33	29	2	64
Business services	81	20	3	104
Other services	84	45	8	137
Total	400	175	24	599

Table A2: Respondent numbers – urban firms

Respondents	Urban firms by number of employees			
	Less than 10	10 to 49	50+	Total
North East				
Production	14	9	14	37
Construction	11	2	3	16
Wholesale and retail, transport	20	12	5	37
Hospitality	7	10	5	22
Business services	22	8	4	34
Other services	22	16	16	54
Total	96	57	47	200
South West				
Production	17	12	9	38
Construction	12	6	4	22
Wholesale and retail, transport	26	12	8	46
Hospitality	5	10	5	20
Business services	17	6	2	25
Other services	24	13	13	50
Total	101	59	41	201
West Midlands				
Production	12	11	8	31
Construction	10	5	3	18
Wholesale and retail, transport	30	12	7	49
Hospitality	5	9	2	16
Business services	23	5	3	31
Other services	24	17	14	55
Total	104	59	37	200

Table A3: Population numbers – rural firms

Respondents	Rural firms by number of employees			
North East	Less than 10	10 to 49	50+	Total
Production	3,070	286	94	3,450
Construction	1,537	183	32	1,752
Wholesale and retail, transport	2,052	317	40	2,409
Hospitality	1,226	384	39	1,649
Business services	1,834	190	50	2,074
Other services	2,404	461	95	2,960
Total	12,123	1,821	350	14,294
South West	Less than 10	10 to 49	50+	Total
Production	18,054	1,523	304	19,881
Construction	8,522	783	63	9,368
Wholesale and retail, transport	9,603	1,756	252	11,611
Hospitality	4,613	2,167	158	6,938
Business services	12,073	1,006	131	13,210
Other services	11,843	2,152	537	14,532
Total	64,708	9,387	1,445	75,540
West Midlands	Less than 10	10 to 49	50+	Total
Production	9,304	881	253	10,438
Construction	4,146	366	39	4,551
Wholesale and retail, transport	5,885	990	162	7,037
Hospitality	2,155	827	77	3,059
Business services	6,770	595	83	7,448
Other services	6,207	1,256	323	7,786
Total	34,467	4,915	937	40,319

Table A4: Population numbers – urban firms

Respondents	Urban firms by number of employees			
	Less than 10	10 to 49	50+	Total
North East				
Production	2,091	714	262	3,067
Construction	4,113	563	85	4,761
Wholesale and retail, transport	6,728	1,189	186	8,103
Hospitality	4,604	1,136	98	5,838
Business services	6,178	941	200	7,319
Other services	8,504	1,807	668	10,979
Total	32,218	6,350	1,499	40,067
South West				
Production	4,676	1,294	420	6,390
Construction	11,314	1,163	158	12,635
Wholesale and retail, transport	13,844	2,461	406	16,711
Hospitality	7,702	2,366	218	10,286
Business services	17,121	2,552	566	20,239
Other services	17,610	4,211	1,426	23,247
Total	72,267	14,047	3,194	89,508
West Midlands				
Production	6,778	2,587	857	10,222
Construction	11,236	1,281	166	12,683
Wholesale and retail, transport	25,451	3,903	631	29,985
Hospitality	9,640	1,905	177	11,722
Business services	17,754	2,485	498	20,737
Other services	27,558	5,232	1,615	34,405
Total	98,417	1,7393	3,944	119,754

Table A5: Sampling weights – rural firms

Respondents	Rural firms by number of employees			
North East	Less than 10	10 to 49	50+	Total
Production	46.5	16.8	15.7	38.8
Construction	28.5	13.1	10.7	24.7
Wholesale and retail, transport	14.6	13.2	10.0	14.3
Hospitality	15.3	14.8	13.0	15.1
Business services	14.2	12.7	12.5	14.0
Other services	14.7	10.7	11.9	13.8
Total	19.2	13.1	12.5	17.9
South West	Less than 10	10 to 49	50+	Total
Production	429.9	40.1	43.4	228.5
Construction	355.1	34.0	31.5	191.2
Wholesale and retail, transport	109.1	30.8	31.5	75.9
Hospitality	135.7	48.2	52.7	84.6
Business services	236.7	38.7	65.5	167.2
Other services	164.5	34.7	33.6	96.9
Total	208.1	37.4	38.0	125.9
West Midlands	Less than 10	10 to 49	50+	Total
Production	169.2	32.6	126.5	124.3
Construction	106.3	22.9	19.5	79.8
Wholesale and retail, transport	54.5	26.1	23.1	46.0
Hospitality	65.3	28.5	62.5	47.8
Business services	83.6	29.8	27.7	71.6
Other services	73.9	27.9	40.4	56.8
Total	86.2	28.1	39.0	67.3

Table A6: Sampling weights – urban firms

Respondents	Urban firms by number of employees			
	Less than 10	10 to 49	50+	Total
North East				
Production	149.4	79.3	18.7	82.9
Construction	373.9	281.5	28.3	297.6
Wholesale and retail, transport	336.4	99.1	37.2	219.0
Hospitality	657.7	113.6	19.6	265.4
Business services	280.8	117.6	50.0	215.3
Other services	386.5	112.9	41.8	203.3
Total	335.6	111.4	31.9	200.3
South West				
Production	275.1	107.8	46.7	168.2
Construction	942.8	193.8	39.5	574.3
Wholesale and retail, transport	532.5	205.1	50.8	363.3
Hospitality	1,540.4	236.6	43.6	514.3
Business services	1,007.1	425.3	283.0	809.6
Other services	733.8	323.9	109.7	464.9
Total	715.5	238.1	77.9	445.3
West Midlands				
Production	564.8	235.2	107.1	329.7
Construction	1,123.6	256.2	55.3	704.6
Wholesale and retail, transport	848.4	325.3	90.1	611.9
Hospitality	1,928.0	211.7	263.0	732.6
Business services	771.9	497.0	166.0	668.9
Other services	1,148.3	307.8	115.4	625.5
Total	946.3	294.8	106.6	598.8

Sample profile

Figure A1: Size & Industry

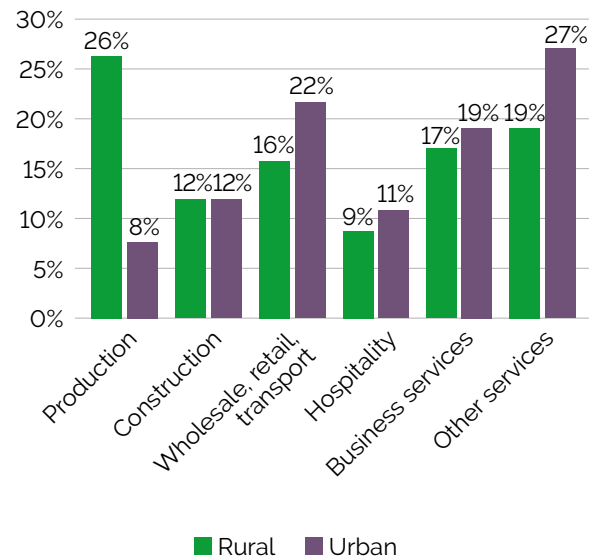
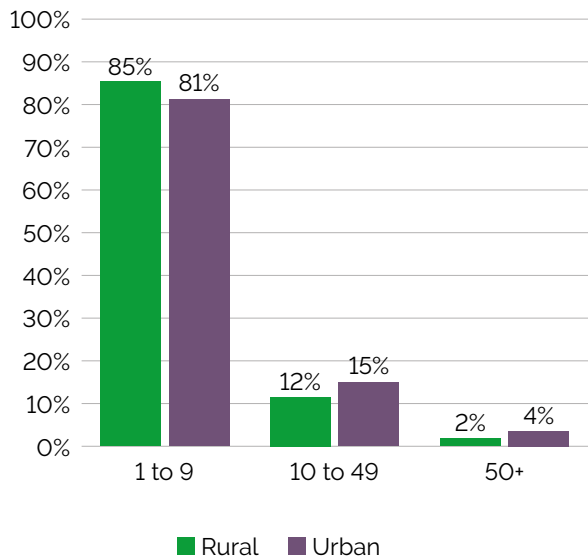


Figure A2: Age (left) & turnover (right)

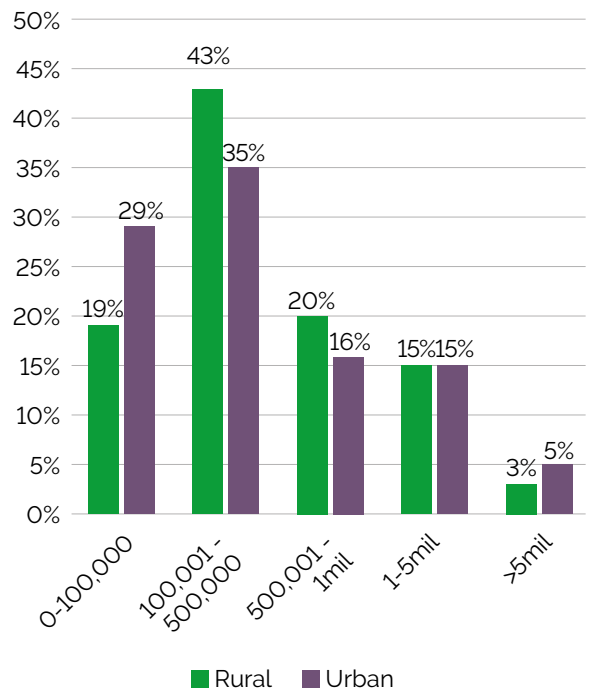
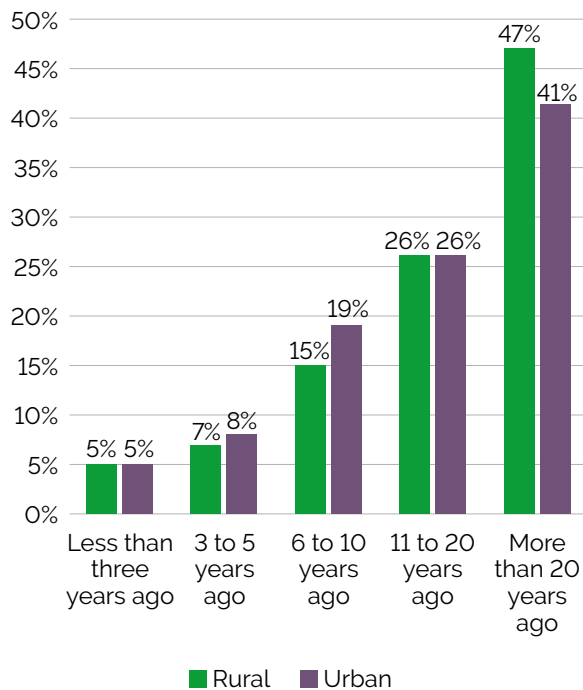
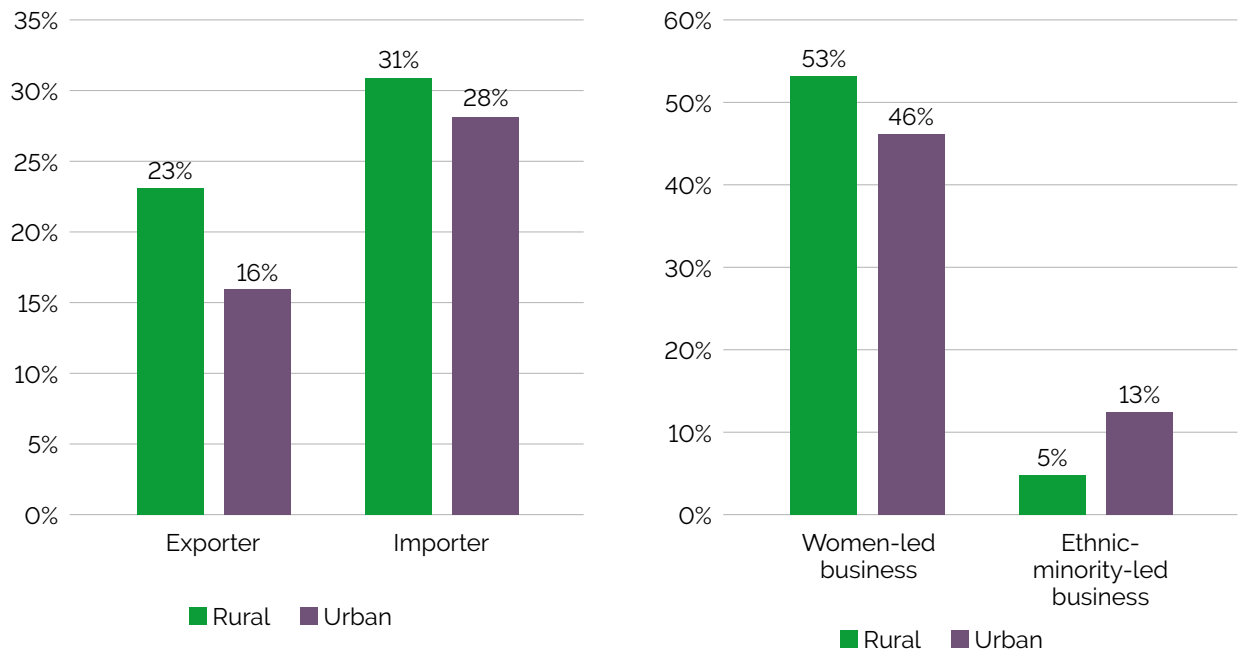


Figure A5: Exporter and Importer (left) & Women-led business and Ethnic-minority-led business (right)



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