

# NICRE Submission to APPG Inquiry into the Cost-of-Living in Rural Areas

November 2022

## Background to NICRE

The National Innovation Centre for Rural Enterprise (NICRE) undertakes research and knowledge exchange to inform policy, foster the innovation and resilience of rural businesses, and unlock the potential of rural economies across the UK. It is funded by Research England and founding University Partners, with in-kind support from many public, business and third sector organisations. NICRE builds on three leading centres of expertise: the Centre for Rural Economy (CRE) and Newcastle University Business School, the Enterprise Research Centre (ERC) at the University of Warwick, and the Countryside and Community Research Institute (CCRI) at Gloucestershire and Royal Agricultural Universities. Strutt & Parker property consultants is its founding national professional business service partner. Further information is available at: <https://ncl.ac.uk/nicre>

This short submission draws on initial research evidence and insight from NICRE with a particular focus on questions relating to rural enterprise. Specifically, we draw on insights from a small sample of in-depth qualitative interviews<sup>1</sup> with rural businesses specifically conducted by NICRE researchers to inform the APPG's questions. We focus largely on non-farm rural businesses. Further evidence from NICRE will become available as the cost-of-living and business crisis unfolds, most notably through a second major national survey of rural businesses early in 2023.

## What are the main impacts of the current crisis on businesses? Are there challenges uniquely faced in rural areas?

Evidence from the Enterprise Research Centre's Costs of Doing Business Index suggests that small business costs rose more quickly in 2022q1 and 2022q2 than at any time since 2008. This was primarily due to fuel and energy price rises which form a significant proportion of the costs of many hospitality and retail businesses<sup>2</sup>. During 2022q3 cost inflation fell back somewhat but still 'baked in' the higher costs of previous periods. Moreover, energy and fuel cost rises are working through into other business costs – wages, service costs etc – which will further increase the costs of doing business in future. This is echoed by NICRE's qualitative interviews with small rural businesses.

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<sup>1</sup> In November 2022, NICRE conducted in-depth, online interviews with 13 small businesses from a range of sectors in rural locations across England.

<sup>2</sup> Roper (2022) The cost of doing business 2022q2: Data from the Small Business Price Index, Enterprise Research Centre, ERC Insight Paper Sep 2022.

The costs of doing business in rural businesses remains a significant gap in the evidence base. However, due to greater costs associated with transport and infrastructure issues (such as being off-grid for gas for some rural properties) we might anticipate that rural impacts will be more substantial. This will threaten the viability of many rural firms whose financial resources have already been reduced by Covid-19. Offsetting this is some evidence from the NICRE State of Rural Enterprise Survey<sup>3</sup> which suggests that rural businesses were more resilient during the Covid-19 pandemic than those in urban areas<sup>4</sup>.

The broad-based impacts of the cost-of-living crisis in rural areas (RSN and Kovia Consulting, 2022<sup>5</sup>) are likely to translate into substantial challenges for rural businesses, through their direct effects on businesses' operational costs, staff, and customer bases. Critically, the crisis serves to exacerbate longstanding challenges facing rural economies.

Almost all rural businesses interviewed reported significantly increased costs, especially related to energy. Cost pressures were especially stark for those reliant on heating oil or liquified petroleum gas (LPG). For some businesses rises in energy costs will not be fully felt until next year when their energy contracts are due for renewal. Increases in interest rates also impact on the costs of debt related finance, including vehicle finance.

Moreover, the impact of fuel price increases is compounded for dispersed and remote rural businesses which face greater average travel distances for accessing supplies and support, and distributing products and services. According to the Competition and Markets Authority's 2022 road fuel review<sup>6</sup>, the price of both petrol and diesel is also consistently higher in rural areas. This is partially due to the thinner market supply in rural areas which requires higher prices to compensate for associated costs, but which further highlights the challenges facing rural firms.

Rural business owners and staff are also more reliant on cars for travel due to more limited options for public transport. NICRE data (NICRE, 2022<sup>7</sup>) found that 57% of rural firms rated their local public transport as 'poor' or 'very poor', compared to only 21% of urban firms. This weakness impedes rural workers' and business owners' ability to switch to public transport as travelling by car becomes more expensive. Furthermore, due to poor broadband quality in many rural areas, higher transport costs of doing business are unavoidable where remote working is problematic.

Fuel costs and other cost-of-living pressures are likely to dampen the willingness of customers and visitors to travel to more distant and remote rural services and destinations. Demand from local rural residents is also likely to be reduced. Local customers are usually a source of income stability and resilience for businesses in weathering crises, but are facing disproportionately higher transport, heating, rental, housing, transport and food costs

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<sup>3</sup> NICRE (2022) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.1

<sup>4</sup> <https://www.business-live.co.uk/enterprise/resilient-rural-businesses-innovate-diversify-22672989>

<sup>5</sup> RSN and Kovia Consulting (2022) Rural cost of living: Overview of key differences in cost of living between rural and urban locations

<sup>6</sup> [Road fuel review \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/111111/road-fuel-review-2022.pdf)

<sup>7</sup> NICRE (2022) Infrastructure and networks: rural enterprises and the Levelling Up agenda, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.2

as a proportion of their disposable income (Defra 2021<sup>8</sup>; RSN and Kovia Consulting, 2022<sup>9</sup>). Higher food prices in rural areas also imply higher input costs for rural food and drink businesses and outlets, as well as reducing the real purchasing power of rural consumers. Generally consumer spending remains below pre-pandemic levels and retail sales have been on a downward trajectory for the last 6 months (ONS, 2022<sup>10</sup>).

Pressures on house prices and borrowing mean added pressure for rural business owners and staff who were already facing a rural premium in housing affordability. Of the businesses NICRE surveyed in 2021, 49% of rural businesses judged the availability of affordable housing in their area to be 'poor' or 'very' poor, while 30% of urban firms said the same (NICRE 2022<sup>11</sup>).

Together, additional transport and housing cost pressures on rural workers (who already experience on average lower workplace earnings, despite higher living costs) mean added difficulties for rural businesses in their efforts to recruit and retain employees. Transport and housing costs are key factors in explaining rural businesses hard to fill vacancies and skills gaps.

### How long do you expect the economic downturn to last? Will this downturn be more pronounced in rural areas?

Interviewed businesses report a lack of certainty as to how the crisis will affect them, or how long the economic downturn will last. This is either because the crisis is at a relatively early stage, or because they will not see increases in their electricity bills until early 2023. Others, especially in the rural tourism sector, expected uncertainty to continue due to the seasonality in their businesses, and depressed customer discretionary spending. While some business owners expect to be less affected, either due to providing essential services or occupying a particular market niche, it is nonetheless difficult for them to predict how long the current crisis will persist and for how long inflation will remain high.

Some effects of the crisis will be more pronounced in rural areas, especially due to higher transport and fuel costs. For instance, the owner of a social enterprise in North Yorkshire reported having to visit her disabled and geographically isolated clients in person, as they cannot afford higher fuel costs. This is also exacerbated by the ongoing effects of Covid-19, as many older or more vulnerable people remain reluctant to leave their homes.

### Are there ways in which businesses can mitigate the impacts?

Rural businesses have previously shown themselves to be able to adapt in response to adversity and, with appropriate and effective support, the current cost-of-business crisis is likely to lead to similar mitigating responses.

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<sup>8</sup> [Rural expenditure statistics - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

<sup>9</sup> RSN and Kovia Consulting (2022) Rural cost of living: Overview of key differences in cost of living between rural and urban locations

<sup>10</sup> [Retail sales, Great Britain - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

<sup>11</sup> NICRE (2022) Infrastructure and networks: rural enterprises and the Levelling Up agenda, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.2

Rather than a single set of 'best practices' which aid business resilience, a range of options is likely to be used, with their appropriateness and use varying across firms, sectors and localities. The Covid-19 pandemic, for example, prompted enormous market innovation and adaptive responses amongst rural businesses (NICRE, 2022<sup>12</sup>). The most commonly adopted strategies that rural firms adopted was to address the firm's financial position or reduce costs, followed by changes to staffing or production, diversifying the business in some way (new sales channels, customer base, products and services), or increasing marketing or advertising. Of those taking steps to improve their financial position or to reduce cost, rural firms were more likely than urban firms to reduce fuel or energy usage, and less likely to make staff redundant. Other key cost reduction strategies involved reducing spending on marketing or selling, cancelling or postponing investment, and reducing working hours.

Similar strategies are being followed to cope with the cost-of-living crisis, according to NICRE interviews. Some rural businesses reported cost-cutting measures like scaling back on training and professional development or delaying the recruitment of staff. Moving to being home-based, to cut rental and energy costs, is another mitigation action pursued by some businesses.

Meanwhile, to maintain competitiveness, some businesses reported absorbing price rises rather than passing them on to their customers. Some had also increased employee pay, either because this was already company policy or because they felt this was necessary for employee retention, as well as recompense for lost earnings during the Covid-19 pandemic.

Notably, NICRE's qualitative research indicates that businesses are adopting cost-cutting measures that are also decarbonisation measures, such as investing in lower-energy light fittings, light timers, and cavity wall insulation. Such measures provide businesses with more control over their energy consumption and reduce costs.

However, the Covid-19 pandemic has reduced the ability of rural businesses to cope with the cost-of-living crisis. For many their buffering reserves are already weakened following the pandemic, during which many experienced reduced sales and income, reduced productivity, supply chain disruption and depletion of financial reserves. This problem is likely to be particularly acute for sectors which experienced disproportionately negative impacts during the pandemic, such as rural hospitality, which may also be more immediately vulnerable to changes in consumer behaviour and/or the effects of decreased footfall.

Furthermore, rural businesses' coping mechanisms are more typically informal and family-based (and even more so for farm businesses), with rural business owners usually turning to family labour and capital to help cope with the impacts of adversity (Phillipson,

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<sup>12</sup> NICRE (2022) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.1

et al., 2004<sup>13</sup>; NICRE, 2022<sup>14</sup>; 2022<sup>15</sup>). However, some of those with the ability to put their own or family resources into their businesses have already exhausted this option during the Covid crisis. These resources are also likely to be under added strain as business households face the cost-of-living crisis.

According to NICRE survey research, rural businesses are less likely to have formal risk management strategies than their urban counterparts, or to prepare formal business plans, which could leave them more vulnerable to the cost-of-living crisis. For instance, only 32% of rural businesses have an up-to-date business plan. Split by sector, rural hospitality, other services, and production firms are most likely to have a business plan, while rural construction businesses are the least likely.

Evidence from NICRE during the pandemic also highlighted the importance of broadband quality as a key determinant of more crisis-resilient businesses (NICRE, 2022<sup>16</sup>). However, with 34% of rural enterprises deeming their broadband quality to be 'poor' or 'very poor', compared with 20% of their urban counterparts, this weakness is likely to restrict the mitigating responses and options for many firms, whether it be finding efficiencies through digital solutions, opening up new online sales channels and services, accessing online customers, networks and support, or meeting business stakeholders online.

Some interviewed rural businesses perceive few options for further cost cutting to mitigate the impact of the crisis. For example, a B&B owner in rural Northumberland with no employees told us she is unable to further cut energy and labour costs, with the only possible alternative strategy being to close throughout the winter.

### Who is best-placed to deliver advice for businesses on how to mitigate the current COLC?

Many businesses do not turn to external support or advice during times of adversity, with uptake tending to be lowest among micro-firms, which overall suggests a need for improved promotion and delivery of more accessible support. During the pandemic for example, NICRE analysis (NICRE, 2022<sup>17</sup>) showed that just under a third of businesses sought external support or advice, with the most likely sources being an accountant, followed by a government department or agency (including their website) and business networks, trade associations and chambers. It is therefore important to ensure that these groups are familiar with any support measures being implemented to maximise the value of any advice they are providing.

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<sup>13</sup> Phillipson, J., Bennett, K., Lowe, P. and Raley, M., 2004. Adaptive responses and asset strategies: the experience of rural micro-firms and foot and mouth disease. *Journal of Rural Studies*, 20(2), pp.227-243

<sup>14</sup> NICRE (2022) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No. 1

<sup>15</sup> NICRE (2022) Farm business performance: planning, adaptation and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.3

<sup>16</sup> NICRE (2022) Infrastructure and networks: rural enterprises and the Levelling Up agenda, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.2

<sup>17</sup> NICRE (2022) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No. 1

Evidence from the NICRE State of Rural Enterprise Survey suggests that businesses are increasingly turning to on-line sources for business support. They expressed a preference for online information about how their peers were coping in similar situations, access to business leaders with similar experience, and an app which provides links to sources of information and advice. This may be particularly important for rural firms where the costs of travel to physical sources of support may be greater. These types of support should be a priority as support is put in place for businesses facing cost-of-living pressures.

The in-depth interviews in November 2022 highlight some unevenness in small rural businesses' uptake of external advice. Many said they were not seeking external advice in relation to the cost-of-living crisis, some because they felt the advice available was unapplicable to or too costly for very small businesses. Businesses said there was a need for recognition and support for firms which are growing and taking on new employees.

Amongst rural businesses, there is a general reluctance to engage with business advisors. Only 10% of those who turned to support during the pandemic approached a business adviser. Just over a quarter said that support from a business advisor or mentor would have been useful with dealing with the crisis.

Patterns of support uptake also vary between regions, suggesting a need for regionally targeted support and advice. For example, during the pandemic, South West rural firms were more likely to turn to a business network, but less likely than their urban counterparts to have consulted an accountant. In the West Midlands rural firms were less likely than urban firms to have used a business network, trade association or Chamber of Commerce, but more likely to have turned to a bank. In the North East fewer rural firms accessed a bank, legal adviser or business networks, though here local authorities were more significant.

Arrangements for support and advice should also connect to sector-based networks and communications to deal with sectoral patterns of support uptake. During the pandemic for example there was comparatively lower engagement with external advisors among rural firms in the North East business services sector, within the South West hospitality sector, and in the West Midlands production sector.

One effect of the cost-of-living crisis is greater interest among businesses in receiving advice to cut energy costs in ways consistent with decarbonisation. For instance, a farming and tourism business in Kent reported having received valuable peer-to-peer support and consultant advice on reducing Net Zero and energy costs through a scheme supported by the local authority.

## What sort of government support would you like to see for rural businesses? Is the choice between direct financial aid and lower-tax, lower-regulation?

During the COVID-pandemic rural businesses found a broad package of support to be helpful, ranging from local authority grants and business loans through to business rate relief and deferral of VAT (NICRE, 2022<sup>18</sup>).

NICRE research shows that while the COVID support package was vital for short-term crisis management (especially addressing issues of short-term cash flow, employee retention and survival), it was less useful for longer-term restructuring in enabling rural firms to create new products or services, pivot to a new business plan or expand their networks. In this regard, the evidence indicates that short-term support, while essential for short term cash flow, is by itself insufficient. Priorities for government support and information for businesses should therefore in part be steered to enabling businesses to pivot their business model, for example in facilitating their net zero transition.

NICRE's interview evidence points to gaps in knowledge regarding current government support. Notably, many of the small businesses interviewed had not made use of government support for the cost-of-living crisis, often because they were not aware such support existed. Some said they did not expect any government support for their business for a variety of reasons related to the age, size or type of their business.

The businesses we interviewed that are without mains gas felt they had been forgotten in the cost-of-living debate. Almost all reported a reliance on oil or LPG for heating, They referred to volatility in prices and perceived that there is currently little incentive to provide competitive pricing for rural communities.

## Are specific industries being affected more?

FSB survey (2022<sup>19</sup>) findings show that businesses in the accommodation and food services sectors are the most concerned with rising energy prices, followed by those in manufacturing sectors. Accommodation businesses we interviewed felt they could do little to mitigate the impacts of the crisis, as they are unable to reduce their food and energy bills substantially given customers' expectations and the need to preserve demand long-term. For instance, one B&B owner in rural Northumberland explained that she currently has little choice but to run the heating, both for guests' comfort and to avoid negative online reviews. The winter may well be low season, but they must still pay the fixed costs even for a much-reduced number of guests. Generally, businesses relying on customers' discretionary spending are more likely to suffer from decreased demand.

## Will the crisis lead to a restructuring of rural businesses?

The crisis is likely to lead to further restructuring of rural businesses, continuing a trend that was also accelerated by the pandemic. For example, NICRE research highlights that 57% of rural businesses responded to the pandemic by making changes to staffing or

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<sup>18</sup> NICRE (2022) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No. 1

<sup>19</sup> [Out In the Cold: Helping small businesses through the energy crisis | FSB, The Federation of Small Businesses](#)

production. Some 35% diversified in some way - in terms of products and services, customers or developing a new sales channel (NICRE, 2022<sup>20</sup>). Non-farm rural firms were more likely than farms to change the organisation of their staffing or their production, as well as to diversify their businesses or introduce a new sales channel, which emphasises a need for concentrated support for farm business planning<sup>21</sup>. NICRE's qualitative interview evidence suggests that the cost-of-living crisis, as well as the aftermath of the pandemic, has brought forward retirement decisions for some rural businesses, particularly where demand has fallen and costs risen substantially.

### What impact, if any, will the cost-of-living crisis have on efforts to decarbonise?

NICRE's interview findings indicate that many rural businesses are adopting measures which simultaneously cut their energy costs and decarbonize their business. Importantly, many businesses regard these two priorities as complementary, rather than competing. Consequently, the current crisis is an opportunity to engage businesses with the decarbonization agenda, demonstrating how both business level financial and wider environmental benefits can be realized simultaneously. For instance, greater business interest in co-operation regarding logistics and aggregated selling, can also reduce carbon emissions in the long-term. However, it is important to address the barriers to adopting such "win-win" measures – like the lack of electric charging points in rural areas and the perceived shortage of reliable insulation installers.

While government support during the Covid-19 crisis was very effective at preventing bankruptcy and job losses in the short term, it did very little to aid business restructuring in the long-term.. The current crisis offers a window of opportunity for engaging businesses in decarbonisation efforts that can help reach long-term, decarbonization targets. However, to realise this potential requires co-ordinated government action to inform and engage businesses, and overcome common impediments to the adoption of decarbonisation measures.

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<sup>20</sup> NICRE (2022) The effects of the Covid-19 pandemic on rural businesses: experiences and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No. 1

<sup>21</sup> NICRE (2022) Farm business performance: planning, adaptation and resilience, National Innovation Centre for Rural Enterprise, State of Rural Enterprise Report No.3