



The All-Party Parliamentary Group for  
Rural Business and the Rural Powerhouse

# THE RURAL PREMIUM:

exploring the impact of  
the cost-of-living crisis  
in rural areas



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The views expressed in this report are those of the All-Party Parliamentary Group (APPG) for Rural Business and the Rural Powerhouse. All-Party Parliamentary Groups are informal groups of Members of both Houses with a common interest in particular issues.

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For further information on the APPG report *The Rural Premium: exploring the impact of the cost-of-living crisis in rural areas*, published in April 2023, contact:

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# The Rural Premium:

## exploring the impact of the cost-of-living crisis in rural areas

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The economic consequences of the Covid-19 pandemic and then, soon afterwards, Russia's invasion of Ukraine has hit virtually every community in every country. It is a stark reminder that global events almost always impact the individual.

The UK economy has not escaped the pain. Indeed, by some metrics, it has been hit among the hardest. As so often happens, rural areas can suffer the most.

This report, *The Rural Premium: exploring the impact of the cost-of-living crisis in rural areas*, concludes the only investigation into the impacts of the cost-of-living-crisis on the rural economy. The inquiry by the All-Party Parliamentary Group (APPG) for Rural Business and the Rural Powerhouse began in autumn 2022, and took evidence from a large number of business groups, charities, academics and individuals.

Its recommendations should not be seen as a retrospective. There is little use in looking backwards. Instead, they should be considered in light of a broader debate as to how to make the rural economy more robust and productive, and how it can be better defended from future crises.

The rural economy is 19% less productive (per worker) than the national average – a problem that costs the UK £43bn in lost economic output each year. As a seminal report by this APPG published in spring 2022 concluded, this productivity gap is largely caused by poor public policy and lack of political will to address it, rather than any fundamental underlying and irrevocable circumstance.

This failure by successive governments over many decades created an environment that left rural communities uniquely vulnerable to geopolitical events.

This report should therefore be seen as a supplement to our 2022 report *Levelling up the rural economy: an inquiry into rural productivity*. We hope it furthers the debate not just on how to protect the rural economy, but how to unlock its vast potential.

We believe strongly that rural businesses and rural communities alike can, with the right policy support from government, lead an economic and social boom for the betterment of the people, and the country as a whole. This will not be achieved, however, until the Government accepts responsibility for removing the considerable barriers that exist to achieving that ambition.



Julian Sturdy MP



Lord Cameron of Dillington

**Co-Chairs of the APPG inquiry into the impact of the cost-of-living crisis in rural areas**

**In order to mitigate the impact of the cost-of-living crisis in rural areas, the All-Party Parliamentary Group (APPG) for Rural Business and the Rural Powerhouse recommends the following policies across four key areas.**

### **Chapter 3: Rural Communities**

The APPG urges the Government to:

1. extend the Rural Fuel Duty Relief scheme for remote rural areas to address the sparsity and increased travel and costs associated with rural areas;
2. encourage rural local authorities to increase awareness and uptake of grants among the rural business community, give tailored advice, and communicate the ease with which the Rural England Prosperity Fund (REPF) can be accessed;
3. support local authorities to adopt the Warm Hubs toolkit to allow more village halls or community buildings to be transformed into village hubs, with targeted financial support delivered through the UK Shared Prosperity Fund (UKSPF).

### **Chapter 4: Employment**

The APPG urges the Government to:

4. update the definition of poverty to include expenditure so that it fairly reflects rural circumstances;
5. extend the Rural Mobility Fund to all rural local authorities without a bidding process, to ensure equality of access;
6. revise the Local Government Settlement formula to bring parity to rural areas.

### **Chapter 5: Housing**

The APPG urges the Government to:

7. produce a rural housing strategy detailing how the numbers of homes (both for ownership and affordable rent) will be built and delivered across rural communities over the next decade;
8. make an economic assessment on the development to rural areas a criteria for assessing new applications, as part of National Development Management policies;
9. remove the freeze on housing benefit and increase the support available to the lowest earners in rural areas through Universal Credit;
10. conduct an impact assessment of requiring private rented sector (PRS) landlords to meet Energy Performance Certificate (EPC) standards and the impact this will have on the wider supply and affordability of rental properties.

### **Chapter 6: Energy**

The APPG urges the Government to:

11. outline a long-term plan of the energy support available to businesses over the next 12 months, in order to allow businesses to plan and invest for the future;
12. extend support for off-grid properties to match that of domestic users.

The delivery of policies in rural areas is as important as the policies themselves.



Whilst the Covid-19 pandemic ended up – in many cases – strengthening rural communities, the cost-of-living crisis risks threatening these same structures. In 2022, the APPG held an inquiry into the barriers to rural productivity. Among those identified, unaffordable housing, high transport costs and poor broadband were cited as some of the principal barriers. The National Innovation Centre for Rural Enterprise (NICRE) remarked that the current cost-of-living crisis “*serves to exacerbate long-standing challenges facing rural economies*”, and this is corroborated by the Country Land and Business Association (CLA) which notes that while the impacts are “*not unique to rural areas ... the impacts will be disproportionate compared to urban areas*”.

This chapter considers the general impacts of the crisis on rural businesses and rural consumers, such as transport or energy. It seeks to identify whether a rural premium exists, that is, if additionality is needed to ensure parity of service provision and access at both an equivalent cost and standard to urban areas, as well as what support is available.

### 3.1 Rural life

Whilst everyone across the country has been tightening their belts to cope with the cost of living, Action with Communities in Rural England (ACRE) identified that “*people in rural areas have less good access to the lowest cost food*” which includes access to food banks. This, in turn, leads to a reduction in the “*real purchasing power of rural consumers*” according to NICRE. The Cambridge Food Poverty Alliance describes a “*food desert*” as an area poorly served by food shops where people without adequate transport or limited mobility struggle to access healthy food<sup>1</sup>. Citizens Advice Rural Issues Group (CARIG) notes that such a concept is “*by nature rural*” and “*indicates other linked problems with the difficulty and expense of travelling to obtain healthcare, cash, welfare services and even company*”.

Access to cash is already a growing problem in rural areas which ACRE reports “*does create a problem for quite a lot of people*”. Many rural businesses rely on cash due to connectivity issues which can make it impossible to rely on card payments. This affects both business and customer and is why the issue is particularly salient in rural communities. The closure of many high street banks and Post Office branches in rural areas, partly due to the popularity of internet banking, disproportionately affects rural communities. This adds financial isolation onto the already existing social isolation some face, which can cause serious mental health problems. CARIG notes that “*rural people have increasing difficulty with debt*”, which could correlate with the reluctance among some to seek advice. The Government is proposing a right of access to cash as part of the Financial Services and Markets Bill to ensure that those living in rural areas are not excluded from society. This is vital and the APPG welcomes this commitment.

In addition to physical barriers to access, ACRE points out a cultural barrier, “*where people don't want to be seen receiving [that] kind of help*”. This pattern was also picked up by NICRE that identified a “*general reluctance*” among rural businesses to engage with advisers or take up support.

1. Food deserts and food swamps in Cambridge, Cambridge Food Poverty Alliance.

## 3.2 Transport

Travelling and access to transport is a challenge inherent to rural areas. CARIG notes that travel cost is *“a prime indication of the difference for rural lives”*. Data from the Association of Convenience Stores (ACS) shows that if village shops were to cease trading, rural consumers would have to travel around *“three and a half miles to get to further services”* which would require some form of transport, costing money for either fare or fuel, not to mention time, which affects productivity and wellbeing. The Federation of Small Businesses (FSB) pointed to data which showed that 30% of rural-based businesses, when asked about why they struggled to hire staff, stated their remote location and the lack of available transport options as an obstacle, compared with only 4% of urban firms.

Countryside Alliance research from 2022 shows that rural households spend almost £800 a year more on fuel than people who live in urban areas, and spend up to 6 pence per litre more for petrol<sup>2</sup>. The average trip length for those in a rural village, hamlet or isolated dwelling is 7.9 miles compared to 5.3 miles for those in an urban conurbation, and 5.9 miles for England as a whole. In 2020, people living in rural villages, hamlets or isolated dwellings travelled 5,767 miles on average, compared with 3,625 miles in urban conurbations and 4,334 miles in England<sup>3</sup>. A poor public transport network and sparsely-spread services such as dentists or hospitals leave rural inhabitants more reliant on private transport, which is more expensive than taking buses or cycling. Not everyone can afford to own or maintain a car, and the Office for National Statistics (ONS) reports 78% of UK households own or rent one or more cars or vans<sup>4</sup>. The combination of the longer distances travelled by rural inhabitants, coupled with the increase in fuel during the cost-of-living crisis causes a rural multiplier, by which any increase hits harder.

Responding to the call for evidence, CLA member Lorna Hardwick cited her personal experience of the difficulty and expense in accessing medical services no longer provided by GPs (such as ear syringing). This can cost *“in excess of £60 at a private clinic plus the cost of a taxi which could be as much as a £50 return”*. The alternative is deafness which Hardwick described as *“avoidable and socially isolating”*. This rural premium has long been paid in exchange for benefits such as open spaces or good air quality, but it is now making life for many in rural areas unbearable.

In 2001, the Government introduced the Rural Fuel Duty Relief scheme for remote rural areas to assist with the cost of travel. In 2015, secondary legislation was introduced to extend that scheme. The rebate provided a 5 pence per litre reduction on the standard UK rate of excise duty for retailers of fuel, with claimants in specific postal areas able to submit a claim to HM Revenue and Customs (HMRC) on a monthly basis, at no financial impact to the Exchequer<sup>5</sup>. The rebate only applies to the most remote parts of the UK, such as the Hebrides, Isles of Scilly, and parts of Devon and North Yorkshire. Blackdown Hills Parish Network notes that *“the scheme only applies to one small area in Devon around Lynton”* despite Devon being a predominantly rural county. In 2022, the

2. Rural residents will pay £800 more per year to keep driving, Countryside Alliance, 2022

3. Statistical Digest of Rural England, Defra, 2022

4. Percentage of households with cars by income group, tenure and household composition, ONS, 2018

5. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/409744/Rural\\_Fuel\\_Duty\\_Relief.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/409744/Rural_Fuel_Duty_Relief.pdf)



Liberal Democrats called for the Rural Fuel Duty Relief scheme to be extended to cover most rural areas in the UK, and the APPG supports extending the Rural Fuel Duty Relief scheme, which would specifically address the sparsity and increased travel and cost associated in rural areas.

### 3.3 The village shop

At the heart of many rural areas is the village shop. According to data from ACS there are 17,000 convenience stores operating in rural areas with half of them run by independent retailers. *“Almost half of them are trading in locations where there are no other businesses ... the only source of service provision and access to goods in rural communities”*. This service provision ranges from Post Office facilities, access to cash and parcel deliveries. This critical role was noted by the Plunkett Foundation, in that *“rural community shops provide a social service within the community”* and by Blackdown Hills Parish Network, which remarked that *“when they fail, they leave behind empty space with no other provision”*.

The inquiry heard that the cost-of-living crisis has changed shopping patterns in rural areas as confidence has fallen among consumers. In 2018, rural shoppers visited their local shop 3.4 times per week on average<sup>6</sup>, this fell to 2.5 times per week in 2022<sup>7</sup>. ACS pointed to the ability to manage expenditure and food waste more tightly through *“little and often”* visits to the village shop; its 2022 Rural Shop Report identified the rural shopper buys an average of 3 items per visit with an average spend of £8.72<sup>8</sup>. However, the lack of economies of scale makes it difficult for village shops to compete with larger retailers on the price of products, which threatens their viability if people manage their budget by spending more on transport (provided they are able to) to get accrued savings at a supermarket. The Countryside Alliance echoed the *“risk to small local shops, farm shops and craft producers operating with higher production costs if consumers, having less disposable income, are forced to substitute cheaper, mass-produced goods and shop at larger discounted stores”*.

Any changes to consumer patterns are felt by businesses as the two are intrinsically linked. There are, though, additional impacts felt by rural businesses which the FSB referred to as *“the cost of doing business crisis”*. In the FSB’s quarterly Small Business Index, Q3 2022 recorded the lowest confidence score among small businesses since Q2 2020. Low business confidence, particularly among village shops, *“tracks quite closely with consumer confidence because it reflects their discretionary spend and ability to go out and shop”*.

### 3.4 Supporting businesses

Whilst improving confidence comes down to wider market mechanisms such as a fall in inflation, there are measures which the Government has in its control, such as regulatory changes, which do not help retailers. Policies such as deposit return schemes, whilst undeniably important, have associated costs and complexities which are disproportionately felt by small businesses.

In another example of the regulatory burden facing small businesses, the Plunkett Foundation highlighted *“reports of community businesses being refused*

6. The 2018 Local Shop Report, ACS

7. The Rural Shop Report 2022, ACS

8. The Rural Shop Report 2022, ACS

*new fixed-tariff energy contracts, owing to technicalities relating to their legal structure. Credit checks for new contracts are carried out through accessing Companies House records, but most community businesses are only registered with the Financial Conduct Authority (FCA), as Community Benefit Societies".* Community businesses, which are predominantly situated in rural areas, and collectively employ 3,000 people and have around 25,000 volunteers across the UK, appear to be at a disadvantage because of their structure, constraining their ability to operate effectively.

All businesses require clarity and consistency which can help owners determine how to invest, enabling them to adapt and survive. This support should be delivered at both central and local government levels, according to ACS. Centrally, *"enabling certainty around what's coming and prioritising"* would help businesses in increasing confidence to invest. Though this is not just limited to rural businesses, the role of the local shop as lifeline to many rural communities means that any repercussions from uncertainty that harm businesses are more pronounced in rural areas.

Locally, *"it's the ability to have contact and understanding what support is available"*. Blackdown Hills Parish Network remarked that rural businesses and consumers require *"support be provided quickly and efficiently from a more local level channelled from the principal authorities"*. The inquiry heard that among rural businesses, *"there's not really an awareness of what support is available"* which was identified by ACS as *"a breakdown in their contacts with their local authority"* such as the economic support team that exists at a local level for this very purpose. A communications vacuum between rural business and local authorities undermines any support that is being administered.

It has been the role of Local Enterprise Partnerships (LEPs) to foster local economic development in England. Previously, this was administered through the development of Growth Hubs, which still exist across the country and are the main repository of information, advice and support for businesses. The 2022 APPG report, *Levelling up the rural economy: an inquiry into rural productivity*, called for LEPs with a rural component to have at least one rural business on their leadership board, so that the specific needs and challenges facing rural businesses could be addressed. Implementing this recommendation would have improved the communications vacuum between rural businesses and local authorities. However, the absorption of some LEPs by local authorities leaves the future of LEPs uncertain, followed by the 2023 Budget announcement to consult on transferring powers from LEPs to local authorities before April 2024. It will fall to local authorities to bridge the communications vacuum to help rural businesses.

The Rural England Prosperity Fund (REPF), announced in September 2022, is a government fund that will provide investment to help rural businesses, distributed by local authorities, and is a welcome measure that specifically targets rural areas. However, as noted by the FSB, the administration of the REPF has been undermined by a lack of dialogue between the business community and local authorities: *"There was great scepticism from the rural business community in regards to how local authorities view them but also how much of their interests they actually take into consideration when they make decisions on applications"*.

This was echoed by ACRE as well as ACS which remarked that “we talk about it at a strategic level but we really need to think about it at an operational level, how do I demonstrate that these funds and this resource is for these businesses”.

This disconnect is alarming and highlights the potential that can be unlocked in the rural economy. If the administration of the fund is to be focused on local business growth, then strengthening that rapport is of fundamental importance. Typically, larger businesses in urban or industrial areas have the resources to put in bids for funding and have the necessary resources and skillset. Small and medium-sized enterprises (SMEs) in rural areas do not have those and require much more hand-holding in order to help them access the funds that are available. 23% of all registered SMEs are in rural areas, with 16.3% of rural businesses sole traders (compared to 7.1% of urban businesses)<sup>9</sup>. **Local rural authorities must increase awareness and uptake of grants among the rural business community, give tailored advice, and communicate the ease with which the Rural England Prosperity Fund (REPF) can be accessed.**

### 3.5 Policy delivery

The delivery of policies in rural areas is as important as the policies themselves. The FSB added that it is vital that existing policies work for rural areas and called on local authorities to play a greater role so as to utilise regional knowledge. “It’s fantastic to have a bus strategy and a rail strategy but if they don’t align, if they don’t connect, they don’t work for rural areas.”

ACRE added that rural areas are not “asking for any kind of special pleading ... it’s about getting [rural proofing] hardwired into government so we don’t keep hitting the ‘rural as an afterthought’ problems”. This comes down to a lack of training and skills in understanding how the rural economy works, as made clear in the previous report by the APPG assessing rural productivity.

### 3.6 Energy

While there will be an entire chapter focusing on energy, it would be remiss not to highlight the number one impact affecting those living and trading in rural areas: high energy costs. The initial package of energy support offered to businesses was welcomed by respondents to the inquiry, but with a clear ask of an extension beyond March 2023 targeted for rural businesses. ACS expressed the view that “many of them, on the margins they are operating on and with their operating costs, will find it really challenging to keep going if that’s not addressed”. The Plunkett Foundation recorded a prevailing view among many rural businesses without mains gas that they “felt forgotten in the cost-of-living debate”.

ACRE welcomed charities operating in rural areas, like village halls being covered by energy price support measures in the same way as businesses. ACRE found that “many village halls are finding the size of their potential bills for the next six months to be well beyond what they consider they can reasonably budget for in relation to their charges for the people who use the halls”, although 14% of village halls were “seriously considering mothballing for the next six months, simply because they don’t feel they are going to be able to afford to heat their buildings”. Village halls, like the village shop, play a much larger role in

9. 2022 Rural Business Statistics, Defra

rural communities than venues in urban areas and have a social and cultural importance in fostering a community. Therefore, such government support has an even stronger impact in rural areas due to the knock-on effect that losing such community functions would entail to the fabric of rural life, and must be maintained.

Innovation can be borne out of crisis. The expansion of the village 'warm hub' scheme can mitigate the cost-of-living crisis for rural communities. The scheme, initially created by Community Action Northumberland (CAN), establishes "*places within the local community where people can be assured of finding a safe, warm and friendly environment in which to enjoy refreshments, social activity, financial information and advice and the company of other people*". The scheme tackles the twin challenges of fuel poverty and rural isolation and is run locally. CAN has recently developed a Warm Hubs Toolkit and secured funding for a Warm Hubs Coordinator which will be available to support other areas of the country that wish to follow the Warm Hub model. There is also the potential to extend its remit, entrenching it as a village hub that offers not only heating in the winter, but advice and socialising throughout the year. This was highlighted by ACRE that said "*the really important thing is not just to have a warm place but to use that then as a focal point for advice and support from a whole range of agencies that can come and use that relatively easy access to people who are vulnerable*".

There are 36 warm hubs across Northumberland and the scheme has been replicated by many local authorities across the UK with rural populations. In September 2022, Welsh Government announced £1m of funding to be distributed via local authorities to deliver more warm hubs throughout Wales, of which there are currently around 300<sup>10</sup>.

Clearly this scheme has taken off in order to support residents struggling to heat their homes during the cost-of-living crisis but there is huge potential here for these warm hubs to have a shelf-life that goes beyond current circumstances. As well as charitable or financial advice there are other social benefits that could be administered, such as a library service. The Warm Hubs toolkit provides an invaluable resource. **The APPG would like to see rural local authorities adopt the Warm Hubs toolkit to support more village halls or community buildings to be transformed into village hubs, with targeted financial support delivered through the UK Shared Prosperity Fund (UKSPF).**

### **3.7 Improving resilience**

A key part of coping with crises is resilience. Improving the resilience of rural communities so that they can survive and protect their inhabitants is vital over the long term. NICRE pointed out that "*rural businesses have previously shown themselves to be able to adapt in response to adversity and with appropriate and effective support*". Part of this support involves government action "*around the regulatory framework of the energy industry ... about how we change the way in which the energy market is regulated in order to give positive incentives to rural communities to take greater ownership*". This is echoed by the Plunkett Foundation who noted that "*UK government investment to improve rural energy independence and efficiency will not only provide short-term relief but also long-term economic*

10. Written statement: Warm Hubs, Welsh Government

*benefits” and ACS that remarked “we have to help businesses be able to manage these structural increases in energy costs by making their buildings and their businesses more sustainable, more energy efficient and we’re not going to be able to do that without some support and investment from central government”.*

ACRE cited Storm Arwen as leading to an *“enormous groundswell of interest in developing more resilient and renewable energy systems within rural communities”*. This *“makes it possible for communities to invest themselves in their own resilience and find their own ways forward”*, which may not be feasible via the National Grid. This solution will also help rural businesses in profiting from that transition. NICRE pointed out that already *“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”*.

The inquiry assessed whether businesses wanted the same kind of direct financial intervention seen during the Covid-19 pandemic. The response to this question was mixed, but there was a clear demand for support with energy costs to continue beyond 2023.

ACS argued that *“the most important thing that [rural] businesses can do is invest and be resilient, and adapt and bring in new services that the community needs, but they need support to do that”*, calling for *“a regulatory environment that supports and doesn’t put too many burdens on them”* such as the planning system. Right now, however, interest rates are increasing the cost of borrowing, meaning there is less money to be invested.

People in rural areas typically need to spend 10-20% more on everyday requirements than those in urban areas.



The inquiry looked at the impact of the crisis on employment in rural areas. This chapter considers the implications on both rural employees and employers including connectivity and labour, and the opportunities to rural businesses.

The rural premium has an impact on employment. CARIG reported that the *“earned average wage in rural areas is 7.5% lower than the urban equivalent”*. Below average wages and higher living costs make rural areas less desirable places to work, as highlighted by the Rural Services Network (RSN) and the FSB, which characterised these pre-existing infrastructure weaknesses as adding a *“rural niche”* to the cost-of-living crisis.

### 4.1 The rural economy

The CLA referenced the *“unique differences”* that separate rural from urban economies, such as agriculture, as well as the gap between input costs (e.g. raw materials) and actual consumer prices, with the disparity *“causing more pressure for rural businesses”*. Rural businesses tend to have longer supply chains than urban businesses, and so any restriction in labour will lead to reductions in output and risk seeing rural businesses stagnate. The CLA added that this is being felt *“particularly in hospitality, primarily because their costs are far too high”*, leading to another vicious circle where consumers cannot afford the discretionary spend which then harms the business. Similarly, the Countryside Alliance shared its concern about *“the impact of rising energy prices, general inflation and reduced disposable incomes on the viability of rural businesses that target discretionary spending, such as those in the tourism and hospitality sectors”*.

Although inflation has been around 10% for consumers, ag-inflation – which is the increase in the price of agricultural inputs and raw materials, and by its nature only occurs in rural areas – has been running at 25-30%. This has placed huge pressures on agricultural businesses where the costs of inputs and raw materials are increasing, but the increase in returns from supermarkets are often less than consumer price inflation. Input prices, such as fertiliser, have increased by over 350% over the last 12 months, meaning that costs for intensive livestock, pig or poultry producers have rocketed whereas gross margins have been adversely affected. This has had a negative impact on rural businesses throughout the supply chain. When the volatility and increase in energy prices are factored in, the farming sector faces an uncertain future, leading to faster restructuring and an increase in insolvencies through the supply chain.

However, the CLA remarked that *“although it is inevitable that unemployment will rise in rural areas, we do not believe that the rise will be as pronounced as in urban areas given the resilience of rural businesses”*. Evidence from NICRE suggested that *“rural firms were more likely than urban firms to reduce fuel or energy usage and less likely to make staff redundant”*. This suggests that there are differences in responsive strategies to the cost-of-living crisis between urban and rural areas, with maintaining existing employment given a greater weight by rural businesses. NICRE also noted that such coping mechanisms are *“typically more informal and family-based”*.

This is not a uniquely rural phenomenon but it is amplified in rural areas when you factor in the cost of travel and lower wages. As far back as 2010, the Joseph

Rowntree Foundation called for a minimum income standard for rural households, noting that *“people in rural areas typically need to spend 10-20% more on everyday requirements than those in urban areas”*<sup>11</sup>. CARIG argued that current assessments of poverty *“contain a huge weakness because they consider only income, and it is essential expenditures – such as transport costs – that make the difference for rural people”*. CARIG is calling for a change in the ONS definition of poverty which *“almost completely obscures rural poverty”* by not taking account of necessary expenditures. The ONS has acknowledged expenditure-based poverty as being *“thought to be a better measure of achieved living standards”* as well as the volatility that income can have compared to expenditure<sup>12</sup>. **The APPG would like to see the definition of poverty updated to include expenditure so that it fairly reflects rural circumstances.**

## 4.2 Connectivity

Growing a business can depend on good connectivity, yet only 46% of rural businesses receive decent 4G coverage<sup>13</sup>. NICRE identified that *“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”* showing how the cost-of-living crisis highlights the cracks in rural infrastructure.

Unreliable connectivity can directly affect those in or close to poverty. ACRE highlighted that *“data suggesting take-up of [Universal Credit] is dramatically lower in rural areas”*. Universal Credit *“is extremely difficult to manage if you don't have good connectivity, broadband or mobile phone, you don't have access to advice and help that you might get in urban areas, and the business of managing things like Universal Credit, when it hasn't been designed for both seasonal work and multi-employment, which is much more of the norm in rural areas, there are simply design problems in a lot of these benefits, which do not fit the kind of way that people work in rural areas”*. Equally, registering to be self-employed requires text verification – a point that overlooks the swathes of rural Britain that still struggle with mobile connections. This was encapsulated by the RSN which said: *“From an employer and an employee perspective, connectivity and transport are fundamentals”*. This is another example of a failure of rural proofing, and points to why the cost-of-living crisis is biting deeper in rural communities.

There is also data suggesting that there is lower uptake of pension credit in rural areas. ACRE suggested this is *“probably because there isn't the advice available quite so easily as there would be in urban areas, because it's not a very straightforward benefit to apply for”*. This is where village hubs have an important role as signposting means of support to people and highlights the interdependency of the rural economy. The combination of lower benefits take-up, and less access to both cash and foodbanks *“is starting to have some really quite serious mental health problems because they are just kind of stuck [in] all ways”*.

11. A minimum income standard for rural households, Joseph Rowntree Foundation

12. An expenditure-based approach to poverty in the UK: financial year ending 2017, ONS

13. Connected Nations 2020 England report, Ofcom



### 4.3 Labour

The “wider operating costs, particularly around the cost of labour and access to labour” was identified by ACS as exacerbating the cost-of-living crisis in rural areas, in addition to the “reset after the pandemic which means people have reflected on how they want to live their lives”. Whilst this reset has affected employment patterns nationally, smaller firms in rural locations may find it harder to attract staff because of the higher living costs. The CLA pointed out that “rural areas have the highest proportion of small and micro businesses in the UK. Whereas larger businesses may be able to benefit from economies of scale, small and micro businesses often have to shoulder these additional costs which is not easy when they are facing challenges in staying solvent”.

The CLA remarked that, for rural areas, “the unavailability of labour has become a serious impediment to business growth” with the issue “getting the right number of people into jobs in rural areas”. The RSN added that there is “an elderly rural population, therefore fewer workers” which further shrinks the pool. What this has led to is “a competitive race from a number of rural businesses to get employees, not just good employees, but any employees”. The CLA described the situation as “an imbalance between the level of wages and inflationary pressures” as businesses need to decide whether they can increase wage levels and cut costs elsewhere in order to remain competitive in the market place. It also explained that, “if you have a situation where you allow wages and wage levels to spiral out of control, all this does is lead to further inflationary pressure ... a vicious circle”.

Rural businesses are seeking to widen the labour pool, for example by offering employment to military veterans or with ex-offenders. The Oswin Project, based in rural Northumberland works with offenders in prison to give them the skills to find employment upon release, such as working in a café or bakery, or through garden and maintenance teams with local landowners. Oswin Project Chairman, Pam Walker MBE describes the role of the Oswin Project as not only “linking up potential employers with potential employees”, but “breaking down that fear of working with somebody who is an offender”.

However, innovative as they are, projects like the Oswin Project still have to contend with the rural premium, with the main challenge the lack of transport infrastructure in the countryside. Ex-offenders are not typically car owners upon release of prison, which can make navigating limited to no public transport in rural areas difficult or even impossible. This type of barrier undermines efforts to transition back into society, and rural areas should be no exception. This was encapsulated by the CLA that said that “if that labour is mobile and the cost of living in rural areas is so much higher than in urban areas, is it going to be as willing and able to actually find their way into the rural economy?”. Charities and projects are left “trying to plug some of the gaps that are left by failures of government policy and the cost-of-living crisis” said the Oswin Project which provides two minibuses to assist ex-offenders.

Challenges with rural employment highlight the interdependencies of the rural economy. People living in rural communities often hold down more than one position, or their employment complements the family farm income or other rural enterprise. Walker detailed her own experience as a governor at a rural

school in Northumberland, where decisions were made because of the cost-of-living crisis, such as the school having to offset rocketing heating bills through reducing the number of non-teaching staff. That then had a domino effect on the rest of the community. *“You start cutting one bit and other bits start to fall down”* Walker warned. This was echoed by the RSN that highlighted the connection between the interdependencies and the lack of choice that rural communities have: *“There isn’t the choice in rural areas to say ‘I can’t afford to put petrol in the car, I’ll get the bus to work today’, there is no bus”*.

#### **4.4 Challenges for rural employees**

There have, of course, been efforts to tackle rural transport issues over the years, such as through Wheels2Work, but it is clear that a new approach is needed as urban solutions seem unviable in the countryside. There are examples of minibus schemes across Europe, such as the Local Link Rural Transport Programme in Ireland, or the EcoBus pilot project in Germany. These transport solutions circumvent the costs associated with fixed times and routes by offering a hybrid of on-demand and scheduled services, that link villages and towns with existing transport nodes and local attractions or through combining different routes with similar start and end points<sup>14</sup>. In October 2022, Gloucestershire County Council launched its own pilot rural minibus scheme<sup>15</sup>, connecting residents in areas without a bus provision to local transport hubs, booked via an app or over the phone, following a successful bid into the Department for Transport’s Rural Mobility Fund. This pilot is welcome. However, rural residents should not have to be at the whim of a lottery grant to decide whether or not they can access transport. **The APPG would like to see the Rural Mobility Fund extended to all rural local authorities without a bidding process, to ensure equality of access.**

The cost-of-living crisis has also had a knock-on effect on the cost of childcare, particularly for those employed in lower-paid jobs. The inquiry heard that it can be more cost-effective for a parent not to work, because the combined price of using a car and using childcare ends up as a higher outgoing than any wage received. The RSN added that the cost of childcare is *“a significant worry”*, particularly for those who are working more than one job. This is another failure of rural proofing, and the exclusion of sections of society from the labour market has a knock-on effect on rural businesses and overall UK productivity, and is separate to the allocations for childcare issued to local authorities, which varies considerably across the UK and sees two year olds receive £9.06 in Camden, and only £2.75 in Torbay<sup>16</sup>.

The RSN also pointed to the impact of the cost-of-living crisis on the adult care sector, which as a sector is a big employer in the rural economy due to its ageing population. *“We are seeing care workers leave that sector because they can earn more per hour, perhaps not an awful lot more, by going to work in a supermarket.”* This was supported by the Oswin Project which added that *“with domiciliary care, carers aren’t paid for the time they spend driving between jobs”*. The pressures facing not just care homes but the NHS are more acutely felt in rural areas due

14. <https://www.interregeurope.eu/find-policy-solutions/stories/supporting-mobility-in-rural-regions>

15. <https://www.gloucestershire.gov.uk/gloucestershire-county-council-news/2022-news-archive/news-october-2022/county-council-launches-pilot-rural-minibus/>

16. <https://www.rsnonline.org.uk/early-years-childcare-in-all-rural-areas>

to the aforementioned issues of a smaller labour pool and higher transport costs and a higher proportionate number of residents. The RSN added that *“rural local authorities get substantially less grant per head from government than their urban counterparts ... let alone the extra cost of providing services in rural areas”*, with urban areas receiving 59% (£105.21 per head) more<sup>17</sup> in the 2022/23 Settlement Funding Assessment. Social care is part of the statutory services that local authorities provide, and any increased costs result in lower expenditure on discretionary services, like public transport support.

The CLA pointed out that for economic and community development, rural local authorities are budgeting to spend £67 per head, whilst in predominantly urban areas it is nearly double that at £131. This has profound effects on the quality of life experienced by those in rural areas, with the Oswin Project arguing that *“the discretionary spend is actually the stuff that keeps people away from the statutory services to a great extent”*, exacerbating the rural premium and perpetuating the vicious circle. The Fair Funding Settlement, introduced in 2013 following sustained lobbying by rural groups such as the CLA and RSN, went some way to levelling the playing field for rural local authorities through giving greater weighting to sparsity in the local government funding formula which meant rural areas were eligible to receive £247 million. However, since then three quarters of this was lost due to damping, a government method which minimises big swings in funding grants<sup>18</sup>. This damping restriction has continued to apply now for nearly ten years. The Rural Fair Share Campaign, a cross-party group of MPs, has been calling for local authorities to receive this outstanding sum, but the formula used to fund local authorities has been frozen since 2013 resulting in rural areas remaining underfunded. This is manifestly unfair and a clear example of the rural premium, which amplifies the impacts of the cost-of-living crisis for those living in rural areas. **The APPG would like to see the Local Government Finance Settlement formula revised to bring parity to rural areas.**

The chronic understaffing of rural businesses and public services in rural areas highlights the need for a strategic framework for rural areas. The CLA pointed out that infrastructure and housing issues are all interlinked *“from an economic point of view, from a social point of view and a political point of view. But if there is no strategy, there’s no rural policy”*. Crucial to this framework is an emphasis on skills which might demonstrate a clear route with employment prospects.

17. <https://rsnonline.org.uk/images/APPG/briefing-notes/rural-fair-share-autumn-statement-nov-22.pdf>

18. <https://ruralfairshare.org.uk/>

Nobody wants to concrete over the countryside, but small-scale development is necessary.



As was previously touched on in the 2022 APPG report, *Levelling up the rural economy: an inquiry into rural productivity*, both the poor availability and affordability of housing in rural areas place significant pressure on people who wish to work or live in the countryside. When conducting this inquiry into the cost-of-living crisis, the APPG wished to examine whether further hardships had been put on rural communities by the rising costs of housing.

CARIG highlighted that it had seen a spike of over 100% in people coming to them for help, *“In the year to end September 2021, 14,588 rural clients brought housing issues to us (of 534,473 nationally). In the year to September 2022, 28,992 rural clients brought housing issues to us (of 543,000 nationally)”*. This demonstrates that rural housing problems are increasing as the national figure has remained stable during this period. This was not an isolated example amongst the evidence that was provided from charities, individuals and other rural stakeholders.

### 5.1 Affordability

Housing has long been a significant barrier to the rural economy, with the average house price totalling 8.6 times the average earnings in rural areas compared to 7.4 times in urban areas (excluding London). In some high-pressure areas, it is over 10 times. This is without turning to the private rented sector (PRS), which is also proving unaffordable for many. A report from CPRE: The Countryside Charity<sup>19</sup> found in 2019 that private rent accounted for more than 35% of key worker’s post-tax income in over 9 out of 10 rural areas. This is due to low average wages, as well as the poor availability of homes to rent. This is without the extra pressures placed in high tourism areas, which has reduced the availability even further.

### 5.2 Availability

The availability of housing was a theme repeated during the inquiry. The Countryside Alliance pointed out that *“The need for more housing stock is not just an issue in towns and cities. Many rural areas are also suffering from a lack of housing, especially affordable housing. That shortage is one of the greatest challenges for communities across the country, including in rural areas”*.

New development in rural areas is stagnating, with an 11% decrease in the number of dwellings built in 2020/21. This is not providing anything near the amount of housing needed per year, with nearly 175,000 people on rural housing lists. English Rural outlined that *“90,000 new social homes are needed every year”*. High interest rates and the inflationary pressures on the cost of construction are having a direct impact on housebuilding, with major house builders scaling back. The CLA added *“confidence has dropped, people are unable to access mortgages, they are not buying new homes and, as a direct result of that, the major housebuilders are halving, in some cases, the number of new sites that they are buying. And what that means to suppliers is that in the next two, three, four years, we won’t see an immediate drop in supply but those sites that would have been bought now, that would have delivered houses in the next two, three years, are not*

19. <https://www.cpre.org.uk/about-us/cpre-media/homes-for-heroes/>

*going to be built*". This highlights that this is not just an immediate problem but one which has knock-on effects for the next decade on housing supply. There is a lack of data available currently on the impact this is having on the SME builders, but if the large builders with the resources to build on a large scale are stepping back, then this is an area that should be examined with urgency. This lack of availability for housing is severely impacting other areas of the rural economy, with one of the main difficulties in recruiting staff contributing to insufficient housing available, as touched on in the chapter examining employment. **The APPG would like the Department of Levelling-Up, Housing and Communities (DLUHC) to produce a rural housing strategy detailing how the numbers of homes (both for ownership and affordable rent) will be built and delivered across rural communities over the next decade.**

The availability of housing is intrinsically linked to difficulties with the planning system due to the length of the process, and the uncertain nature of success especially in rural areas. One Parish Network told the inquiry that *"rural housing supply is stymied by a planning system that restricts rural growth and seems intent on creating more new towns"*. The planning system has been touched on before by the APPG for Rural Business and the Rural Powerhouse, but it continues to be opaque and a barrier to rural growth and sustainable development. Many planning decisions are based on out-of-date local plans, and sustainability criteria that do not match modern lifestyles, placing weight on whether an area has a pub or a Post Office than on infrastructure like high-quality internet connection or availability of services in nearby villages. The planning system is also an extremely costly and bureaucratic process, with the possibility of an application taking years to progress and with no early stage indicator of likelihood of success. The bible for planning decisions is the National Planning Policy Framework (NPPF) which is due to be updated in 2023, and in this the APPG would like to see revisions that take into account the value of the rural economy. The NPPF currently fails to assess the economic and social benefits to the rural economy that a small development could bring, for example, providing more children for the village school. When ascribing whether or not to grant planning permission, these benefits should be given the same weight as decisions currently made regarding the greenbelt and other designations.

There was consensus among respondents on the lack of variability in housing approved by rural planning authorities, with applications from larger building providers getting the go-ahead more quickly. CPRE: The Countryside Charity added that these applications were *"only a very narrow segment of the market, and it's usually the upper-middle end of the market. And the rate at which new properties are built is determined by the absorption rates of that end of the market"*. These properties are typically larger and aimed at those with families rather than people either looking to enter the market for the first time, or those seeking to downsize from a large property into something more manageable for their later years.

### 5.3 The planning system

The inquiry considered whether it was not actually planning that was the issue but the completion of homes. A reference was made to Shropshire Council which has approximately 18,000 homes that have planning permission but is only building around 1,500 a year. In Shropshire this is largely due to concerns about rising phosphate levels in waterways, which has led to long planning delays and even bans in development unless an area can prove that there is negligible impact on the level of phosphates. There are many other causes for high phosphate levels such as water treatment plants and agriculture, but housing is currently facing the most draconian restrictions in this area. While permission banking does go on generally, it is not typically in rural areas but on the fringes of towns and cities, and this is largely a problem from big providers who can sit on planning permission until it is financial lucrative for them to build out.

A frustration from much of the evidence received on the planning system was the lack of expertise on the needs of rural communities and the benefits that could be delivered through small-scale development. The Government, following a rebellion among MPs on the Levelling-Up and Regeneration Bill, is currently adopting a practice of prioritising development on brownfield sites, which while laudable would strangle housebuilding in rural areas as 87% of brownfield areas are in urban environments and the majority of these are in the South East. Nobody wants to concrete over the countryside, but small-scale development is necessary. English Rural said: *“I want to make the point around the economic development impact, that just a small development of homes can make in rural communities. So when we’re going into a rural community and building six, eight, ten, twelve houses, it’s quite often the biggest investment that community will see for a generation in terms of money being spent in that community. And that filters out into employment, into supporting businesses and services”*. **The APPG recommends an economic assessment on the development of rural areas to be made a criteria for assessing new applications, as part of National Development Management policies.**

With the demand for properties in rural areas, many have had to turn towards the PRS to secure a home. Sadly, the public rented sector is poorly available in rural areas, due to right-to-buy properties being sold off, and never replaced. The PRS is also being greatly impacted by the cost-of-living crisis both for consumers and those providing the properties. According to the English Housing Survey, there are around 408,000 properties currently in the rural PRS, significantly down from the 551,800 properties available in 2018. This chapter has already examined the lack of availability of new homes to buy, but the reduction in properties to rent at the same time is demonstrating a worrying picture. Shelter outlined some of the challenges facing prospective renters and especially low earners: *“There is a smaller private rental sector, ... and that means there’s very fierce competition for properties, often there’s very few which are affordable within those rates, local housing rates – for context – are meant to cover*

*the cheapest 30% of local rent but they, at the moment, seem to cover as low as 2% of new asking rents. Because of the smaller size of the private rental sector in rural areas, that means that in many rural areas there simply won't be any properties available within housing benefit rates".* In many areas, housing scarcity is pushing rents up, at a time when people are dealing with inflationary pressures across the board and wages are not increasing at the same rate. An increase in the availability of housing, both in the social and private sector, would lead to a decrease in housing benefit spending in the long term. **The APPG urges the Government to remove the freeze on housing benefits and increase the support available to the lowest earners in rural areas through Universal Credit.**

The issues around the planning system and the building of new homes cannot be solved overnight and will require a long-term focus. The only way to alleviate the pressures in the short term would be an increase in the number of properties available through the PRS, but as the figures above illustrate, almost a third of properties have left the sector since 2018.

#### **5.4 Housing standards**

Landlords are facing more legislative and bureaucratic pressures with the proposed removal of Section 21 (no fault evictions) and, of more concern, the ongoing uncertainty regarding upcoming higher Minimum Energy Efficiency Standards (MEES). MEES was brought forward in 2015 to help renters pay less for energy bills and have more energy efficient homes, stating that privately rented property in England and Wales must have an Energy Performance Certificate (EPC) rating of E or above. These standards came into force on 1 April 2018 for new tenancies, and on 1 April 2020 for existing tenancies. This came with a maximum cost cap of £3,500 per property if the landlord could prove this money had been spent, and if the property still could not meet the EPC rating then there would be an exemption. In 2020, the Government stated its intention to take this further and raise standards from an "E" to a "C" and increase the minimum cost cap to £10,000. There is still not a date for when these proposed changes will be brought in or what landlords will actually be required to meet. Rural properties typically have more challenges in meeting higher ratings for EPCs due to their construction methods and age, typically having stone walls or solid floors. EPCs are currently used as a tool to tackle both fuel poverty and carbon emissions. However, the energy efficiency rating used in MEES is based on fuel cost only. This severely disadvantages rural homes which are off gas grid and have expensive fuel types. Additionally, a rating based on fuel cost will not deliver the desired outcome of meeting net zero while renewable energy remains more expensive than fossil-fuel alternatives. MEES should instead be set on carbon emissions, to include embodied carbon of the property and upgrades.

Not being on mains gas and being dependent on oil also lowers an EPC rating. The CLA described how having such a large cost cap could actually push landlords into poor decisions: *"The small things that can actually make a really big difference in terms of comfort, things like draft-proofing, secondary glazing, they*



are much more likely to help the tenant with their fuel bills, than a landlord investing a significant amount in, say, an air source heat pump, which actually can be very expensive to run". The ongoing uncertainty around the future of MEES legislation is causing unease with landlords who are also feeling financial pressures of the cost-of-living crisis, and is prompting some to sell PRS properties before they are unable to remove tenants easily and before they have huge bills for energy efficiency works. The newly created Department for Energy Security and Net Zero (DESNZ), created in February 2023, needs to work more closely with rural providers to develop a suitable timeline for compliance, and provide grants to landlords to improve energy efficiency. **The APPG recommends that the Department for Levelling-Up, Housing and Communities (DLUHC) conducts an impact assessment of requiring private rented sector (PRS) landlords to meet Energy Performance Certificate (EPC) standards and the impact this will have on the wider supply and affordability of rental properties.**

## **5.5 Homelessness**

As seen throughout the inquiry, rural communities are very interdependent and are often rightly praised for their resilience and community mindedness, however this strength in communities does often hide societal problems that would be more visible in urban areas. English Rural highlighted the considerable issues surrounding homelessness across the countryside and that this is often overlooked due to the lack of visibility of those facing this issue. *"Rural homelessness is on the up which actually is a trend that isn't necessarily as severe [as] in urban areas but it's not seen, it's hidden, it's not counted in official statistics and it's not well supported either."* The rural homeless, particularly the young, tend to find themselves sleeping on sofas and floors in a variety of other people's houses. The problem with this hidden homelessness is that those affected do not receive the level of support or assistance that they would get if officially classified as homeless. Shelter also highlighted in their evidence that *"rural local authorities are now dealing with levels of homelessness they are simply not used to dealing with. And that's a real issue because in urban areas, there's maybe a bit more of a history of dealing with this and a bit more expertise within local authorities"*. There needs to be greater knowledge sharing across local authorities both rural and urban about how best homelessness can be aided and supported.

It is clear that the cost-of-living crisis is having a huge effect across the rural economy, and there is no silver bullet for solving the housing crisis as many have tried in the past. The APPG would advocate that the Government must provide an effective plan for the future into how more and better-suited housing can be delivered over the next decade, and what can be done to reduce the burden of the planning regime. In the short term, pressures could be reduced by encouraging more landlords to remain in the private sector, and providing support to those who find themselves without a home.

Rural areas are less likely to be on the mains grid, and therefore dependent on more expensive means of energy such as oil.



One of the core motivations behind the APPG wanting to examine the impact of the cost-of-living crisis in rural areas was the extreme anxiety that was being felt by both consumers and rural businesses. With the growing escalation of energy bills before winter 2022/2023, the fear prevailed that costs would push more families into fuel poverty and businesses into closure. The average household in 2021 was paying £1,335<sup>20</sup> for combined gas and electricity. By autumn 2022 this was estimated to be reaching £3,000. This was before the Government announced the Energy Price Guarantee (EPG), which capped the amount to be paid at £2,500. This was primarily for people connected to conventional energy methods, which rural areas are typically not. During this same period, heating oil rose by 77%<sup>21</sup>, and the price of liquid gas doubled.

The EPG, which only covers on-grid properties, was initially set to be in place for two years but after the change in political administration in October 2022, this was reduced to six months with a review due in March 2023. The 2023 Budget confirmed that support would continue at £2,500 for a further three months, with the expectation that the cap would then be raised to £3,000. The causes of the energy crisis can be traced back to international factors, such as the increase in demand following the Covid-19 pandemic and the Russian invasion of Ukraine. It is important for the inquiry to understand if the Government has done enough to support rural communities and businesses and if any easy measures can be put in place to improve energy security for the future.

While consumers have found this period tough, the pressure placed on businesses has been in some instances greater. The Energy and Climate Intelligence Unit (ECIU) described to the inquiry that *“in terms of electricity and gas price rises, [businesses] have been at the sharp end of it, facing even higher rises than domestic consumers, so for domestic consumers, government’s own figures show that in quarter three of last year, electricity was up 46% and gas up 85% compared to the same period twelve months earlier. For businesses, it was 61% for electricity and 124% for gas”*. The Energy Bill Relief Scheme announced in September 2022 brought some immediate relief for businesses, placing a cap on non-domestic users covering up to 40% of the total energy cost.

The scheme for businesses was only made available from October 2022 and ended in March 2023, with many businesses now facing an uncertain future, particularly in sectors that use a lot of energy to cool or heat products. The CLA told the inquiry, *“stopping the relief scheme abruptly in April and creating a cliff-edge scenario, rural businesses will begin to fail and any recovery will take longer to materialise”*. The FSB described the cliff edge as *“very problematic”* with the *“need for a more long-term solution”*. The Government announced that it would be reducing the energy support for businesses from April 2023, with a move from a fixed price on wholesale gas prices to a discount, which will be larger for those businesses in energy-intensive industries. While the detail is as yet unclear, many rural industries, such as food and drink manufacturing, are energy-intensive, and any discount must ensure that trading remains viable.

20. <https://researchbriefings.files.parliament.uk/documents/CBP-9491/CBP-9491.pdf>

21. <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/kj5u/mm23>

Localis highlighted the importance of the businesses involved: *“And in terms of, if you think about the types of institutions involved: pubs, community hubs, cafés, small businesses, which are vital for social infrastructure in rural areas, attention always has to be paid to making sure they remain viable, despite the hikes in energy costs which they are having to bear”*. The removal of support for businesses is going to make viability very difficult for many over the next few months until prices return to a more stable level. Respondents to the inquiry highlighted the need for long-term assurance to continue to trade. **The APPG recommends that the Government outlines a long-term plan of the energy support available to businesses over the next 12 months, in order to allow businesses to plan and invest for the future.**

## **6.1 Support for those off grid**

ONS data shows that in recent years urban areas have become proportionately more affected by fuel poverty than rural areas. However, the fuel poverty gap (the additional income needed to bring households out of fuel poverty) is greater in rural areas. In rural areas the average fuel poverty gap is £388; in rural villages, hamlets and isolated dwellings this rises to £501 (2020).

Rural areas are also less likely to be on the mains grid, and therefore dependent on more expensive means of energy such as oil, with respondent Carol Oliver, a member of the public, citing *“the main inequality in rural areas is the lack of access to the cheap energy of the gas network”*. 76% of rural housing is off grid, compared to less than 10% of urban and suburban areas<sup>22</sup>. With over half of rural homes off gas grid, the APPG was surprised it took the Government so long to make equitable support available for rural communities as it did for those on more conventional packages. The Government's initial energy support package for consumers who heat their home through oil or liquefied petroleum gas (LPG) was a one-off payment of £100. ACRE described this figure as *“a deep underestimate of what is needed to help those homes get to the same level of bills and heating as urban premises”*, instead citing £250 as a more comparable figure, but insisting that *“the most urgent thing is that it's paid upfront because that's the way people pay for that kind of energy”*. Those who heat their homes with electricity are *“even more disadvantaged by the Government's formula for the price-gap guarantee ... because of the differential between the price guarantee for energy and gas”*. Similarly, FSB described the prevalent use of alternative fuels such as heating oil as the *“rural niche”*, with 18% of rural businesses reliant on it as opposed to 2% of their urban counterparts. Alternative fuels are high cost and poorly efficient, and the FSB cited the higher increases in energy costs for small businesses using alternative fuels, with 48% reporting higher energy costs compared to 36% of small businesses overall. This highlights the rural premium.

In December 2022, the Government announced the payment would rise to £200 for households using alternative fuels across Great Britain, with the application portal opening in January 2023. Though this support is welcome and is a more comparable figure, it is yet to be seen whether this payment will be enough for those on alternative fuels, and crucially, is still yet to be received unlike

22. 2017 English Housing Survey: Energy report, MHCLG

conventional users who have received it automatically through their bills. This is a clear instance where rural proofing has failed those living in rural communities. As touched on in the 2022 APPG report, *Levelling up the rural economy: an inquiry into rural productivity*, the intention of rural proofing is to make sure government policy works as effectively for rural areas as it does for urban centres, but it is largely reactive instead of being considered when the policy is delivered. It makes little sense why it has taken longer for those in rural areas to receive the same level of support. Rural proofing needs to be taken much more seriously across government departments, rather than left to the sole responsibility of the Department for Environment, Food and Rural Affairs (Defra). **The APPG recommends that the Government extends the equivalent level of support to those living in off-grid properties to match that of domestic users.**

## 6.2 Retrofitting homes

The inquiry examined if there were ways to mitigate the impact of rising bills on rural communities and if there should be a greater focus placed on making homes more energy efficient.

In September 2022, the Government launched the Home Upgrade Grant (HUG) to provide financial support for low-income households that are off the gas grid to become more energy efficient. This could include measures such as loft and underfloor insulation or the installation of heat pumps. Although in concept this scheme sounds a welcome approach, Age UK raised concerns about the amount of funding that will be available: *“The Home Upgrade [Grant] scheme, we’ve estimated that eligible households represent about 530,000 but the amount of money that’s available for HUG will only support 71,500 of those. So that’s a significant gap in terms of the amount of funding, Conservative manifesto commitments have fallen £1.4 billion short on that home upgrade grant and one of the key things we really want to see is, within the next couple of years, that £1.4 billion placed into the HUG to make sure as many of those homes can be upgraded as possible”*.

Localis added that, within the scheme, the Government is focusing on more expensive solutions such as heat pumps, which can cost up to £30,000, rather than providing support for more *“fabric first, efficiency improvements, where repairs, insulation, draught-proofing are prioritised ahead of add-ons and any changes. And this is particularly important, we felt, given the fact that many rural households will require substantive retrofitting in order to maximise these technologies”*. Both organisations raise interesting points on the limitations of the scheme thus far. If the Government intends to meet its target of getting the majority of properties up to an EPC Band C by 2025, much more funding and support will be needed for older rural off-grid properties.

As touched on, heat pumps are expensive to both run and install and are not going to be the solution for many people in off-grid properties to adopt immediately. The Government also needs to be considering renewable energy options like renewable Liquefied Gas (rLG) which can be produced from organic matter. This area should be properly assessed by the Government to see if it would be more cost-efficient and quicker to roll out for off-grid homes who are already dependent on LPG.

### 6.3 Energy security and decarbonisation

The supply of renewable energy is critical in preventing further energy crises in the coming years. There are opportunities in rural areas for greater energy production through initiatives like installing solar panels and onshore wind which could help rural businesses become more energy secure and protect them from the variability of the market. There is also a need to consider more renewable sources of energy such as the installation of heat pumps, and increased use of electric vehicles.

However, both aspects are currently being stymied by the issues regarding insufficient grid capacity. Localis remarked: *“If the Government wants to realise its ambition to increase production of renewable energy, or, say battery storage, in rural areas, then they are going to have to prioritise the reinforcement of rural electricity infrastructure and grid capacity”*. Without investment into the electrical grid to improve capacity, it will also prove difficult for many in rural areas to move toward heat pumps and other low carbon heating. Whose responsibility it is to improve the electrical grid is also somewhat unclear, with the Office for Gas and Electricity Markets (Ofgem), the National Grid and the energy network companies all having a role to play. ECIU summarised *“so to a certain extent, there’s a little bit of buck-passing between those different bodies of who takes charge and who pays for the investment and I suppose greater coordination is potentially a way to help overcome that hurdle”*. It is hoped that DESNZ will have a more proactive approach in bringing together the bodies to provide a strategy for further investment in the grid.

A lack of strategy and long-term consistency was the most common critique from the evidence received, particularly on the progress of decarbonisation and the Government’s ambitions for net zero. There was some concern that the cost-of-living crisis has stalled investment by consumers looking to decarbonise, with Age UK explaining that inflation is causing *“the average retrofit cost to go up something like threefold”*. However, there was a small glimmer of optimism from ECIU that the surge in energy prices has made the average person evaluate their energy usage and look at how improvements can be made: *“The cost-of-living crisis, because it’s primarily being driven by the cost of gas, has increased interest in those measures. So enquiries about solar panels are up by about a fifth, installation of solar panels more than doubled from January to November last year [2022]. And in December last year, at the end of last year, a third of all new car sales were electric cars”*.

Current predictions are estimating that the energy crisis will begin to subside in the second half of 2023, and with the right support it is hoped that many rural businesses will make it through this difficult period. Lessons must be taken forward from this turbulent time, especially the failures around rural proofing, the purpose of which is supposed to ensure that rural people are not disadvantaged by policy decisions. There is also a lot of long-term planning for DESNZ to do in working with rural businesses to enable them to become more energy secure, but also to enable greater participation in the production of renewable energy.

The cost-of-living crisis faced by the UK – and much of the world – was caused primarily by Russia's invasion of Ukraine. This further weakened a global economy that was still struggling to recover from the Covid-19 pandemic.

Nevertheless, this crisis exposed a number of fault lines at the heart of the UK's national and, more specifically for the purposes of this report, rural economy. This report does not seek to suggest that those living in urban areas are not facing similar challenges, but instead examines whether or not the effects of the cost-of-living crisis are more pronounced in rural areas.

Throughout the inquiry, a theme has emerged that is both a weakness and a strength of rural communities: interdependency. Rural communities can be tight-knit and good at pulling together, as seen during the Covid-19 pandemic when village shops and community groups across the UK looked after the vulnerable. However, this interdependency belies a reliance which is more susceptible to break down, and changes or losses, such as availability of services, can have knock-on effects throughout the whole community.

This report has concluded that those living or working in rural communities are subject to a rural premium as they face additional cost-of-living burdens. This rural premium is amplified in an economic crisis. For a long time, this premium has been absorbed by rural businesses and communities, masking underlying structural issues in the rural economy – but there is no more left in the tank.

Some of the recommendations in this report, such as supporting local authorities to adopt the Warm Hubs toolkit, or extending energy support for properties off grid to match the support given to domestic users, are policies with an immediate fix that directly respond to the cost-of-living crisis. Others, such as revising the Local Government Settlement Formula, or DLUHC providing a rural housing strategy, address long-standing structural bias in policymaking that would address some of the barriers facing rural communities that have augmented the effects of the crisis.

The 2022 APPG report *Levelling up the rural economy: an inquiry into rural productivity* identified many of these structural barriers across the rural economy which limited productivity and made life for those living there considerably harder. It is without doubt that many of the recommendations contained in that report would have mitigated the impacts of this cost-of-living crisis, not least the fundamental change of attitude required at the heart of government when it comes to rural policymaking.

Without all government departments appreciating the importance of the rural economy and its idiosyncrasies, many of these deep-rooted problems will persist. Until that changes and a rural strategy is implemented, which brings all of these aspects together, a domino effect will continue to ripple through rural areas.

## List of abbreviations

ACRE	Action with Communities in Rural England
ACS	Association of Convenience Stores
APPG	All-Party Parliamentary Group
ATP	Agricultural Transition Period
CAN	Community Action Northumberland
CARIG	Citizens Advice Rural Issues Group
CLA	Country Land and Business Association
Defra	Department for Environment, Food and Rural Affairs
DESNZ	Department for Energy Security and Net Zero
DLUHC	Department for Levelling-Up, Housing and Communities
ECIU	Energy and Climate Intelligence Unit
EPC	Energy Performance Certificate
EPG	Energy Price Guarantee
FCA	Financial Conduct Authority
FSB	Federation of Small Businesses
FTA	Free Trade Agreement
HMRC	HM Revenue and Customs
HUG	Home Upgrade Grant
LEPs	Local Enterprise Partnerships
LPG	Liquefied petroleum gas
MEES	Minimum Energy Efficiency Standards
MHCLG	Ministry of Housing, Communities and Local Government
NICRE	National Innovation Centre for Rural Enterprise
NPPF	National Planning Policy Framework



Ofcom	The Office of Communications
Ofgem	Office for Gas and Electricity Markets
ONS	Office for National Statistics
PRS	Private rented sector
R&D	Research and development
REPF	The Rural England Prosperity Fund
rLG	Renewable Liquefied Gas
RSN	Rural Services Network
SMEs	Small and medium-sized enterprises
SWP	Seasonal Workers Pilot
UKSPF	UK Shared Prosperity Fund

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Association of Convenience Stores

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Blackdown Hills Parish Network

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Citizens Advice Rural Issues Group

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Country Land and Business Association

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Countryside Alliance

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CPRE: The Countryside Charity

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Energy and Climate Intelligence Unit

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English Rural

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Federation of Small Businesses

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Localis

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National Innovation Centre for Rural Enterprise

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## Recommendations from the 2022 APPG report *Levelling up the rural economy: an inquiry into rural productivity*

Below is the summary of recommendations taken from the 2022 APPG for Rural Business and the Rural Powerhouse report into rural productivity.

### **Chapter 3: Planning**

In order to improve productivity across the rural economy through planning policy, the APPG urges the Government to:

1. ensure the National Planning Policy Framework (NPPF), and all planning-related policies explicitly refer to the need for economic growth in rural areas;
2. amend the National Planning Policy Framework (NPPF) to favour small housing developments in rural areas with emphasis placed on affordable housing;
3. transform the planning application process by broadening the use of permission in principle, which shifts development costs back to a later stage of the planning application process, unlocking economic investment in rural areas;
4. improve training provision to ensure planning officers understand the needs of the rural economy;
5. provide an additional £25m for an extra planning officer in every local authority in England and Wales.

### **Chapter 4: Tax**

In order to improve productivity across the rural economy through taxation policy, the APPG urges the Government to:

6. extend the scope of research and development (R&D) credits (as contained in the 2021 Budget) to apply to sole traders or family partnerships (currently only corporations);
7. simplify the tax system for diversified businesses through the Rural Business Unit;
8. align the VAT rate for repairs and conversions with that for new-builds to encourage regenerative development;
9. extend conditional exemption to encourage the delivery of affordable housing in local communities.

## **Chapter 5: Connectivity**

Excellent connectivity is essential in order to improve productivity across the rural economy, the APPG urges the Government to:

10. accelerate Project Gigabit with government funding to be made available more quickly based on requirements of the industry;
11. bring interested parties within the connectivity sector together as a collective voice and to work with them to remove the barriers to full connectivity;
12. introduce signposting from government to a central online hub for existing digital skills training;
13. place transparency requirements and firm targets on providers to accelerate coverage.

## **Chapter 6: Farming**

In order to improve productivity across the rural economy through agriculture, the APPG urges the Government to:

14. ensure that, through the Future Farming Resilience Fund, farm businesses can access high-quality advice throughout the agricultural transition period (ATP), and communicate clearly and directly with those involved;
15. publish a long-term plan of the application windows and themes to allow businesses to plan ahead and apply for grants and schemes at the right time;
16. address low prices in supply chains by implementing the requirements of the Agriculture Act 2020 to limit the influence of the major supermarkets, and address labour issues by extending the Seasonal Workers Pilot (SWP);
17. appoint a team of specialist agricultural attachés to every UK delegation negotiating a Free Trade Agreement (FTA).

## **Chapter 7: Skills**

Improving skills is critical to addressing the productivity gap, the APPG urges the Government to:

18. ensure the ring-fenced funding for rural communities continues under the UK Shared Prosperity Fund (UKSPF), as was previously provided under the Rural Development Programme;
19. stimulate the demand for business, technical and environmental training by providing vouchers for rural businesses during the agricultural transition period (ATP);
20. establish a natural capital skills strategy to identify skills gaps and how to remedy them, including working with land-based colleges;

21. tailor business support for rural businesses – such as through shared apprenticeships, and support for farmers who work collaboratively in cluster groups;
22. deliver Wheels to Work funding and shared community transport initiatives through the UK Shared Prosperity Fund (UKSPF).

### **Chapter 8: Processes**

**Productivity can be improved through enhanced delivery of rural objectives, the APPG urges the Government to:**

23. establish a ministerial-led, cross-departmental working group with a specific remit to create and deliver policies designed to improve productivity across the rural economy;
24. create a Rural Productivity Unit to sit in each relevant government department, focusing on delivering objectives identified by the ministerial-led, cross-departmental working group;
25. develop a strategic objective (within Defra) to improve productivity in rural environments with the specific intention of growing the economy;
26. require Local Enterprise Partnerships (LEPs) containing at least one rural constituency to have a minimum of one representative of a rural business on their leadership board;
27. strengthen the concept of rural proofing through monitoring, reporting and necessary training, organised by the Cabinet Office.

# **The Rural Premium:** **exploring the impact of the cost-of-living crisis in rural areas**

The views expressed in this report are those of the All-Party Parliamentary Group (APPG) for Rural Business and the Rural Powerhouse. All-Party Parliamentary Groups are informal groups of Members of both Houses with a common interest in particular issues.

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For further information on the APPG report *The Rural Premium: exploring the impact of the cost-of-living crisis in rural areas*, published in April 2023, contact:

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# The Rural Premium:

exploring the impact of the cost-of-living crisis in rural areas



The All-Party Parliamentary Group for  
Rural Business and the Rural Powerhouse