The Rebuilding Britain Index

Rebuilding during a cost of living crisis

July 2022

Foreword

Households up and down the UK are, every day, having to balance their immediate financial needs against their longer-term resilience – with one often coming at the possible expense of the other. Some immediate term priorities become so pressing that they simply cannot be ignored.

This precarious balancing act is one that the new UK government will have to deal with as it looks to level-up the UK, in the midst of one of the biggest cost of living crises in a generation.

Many households need more money in their pockets as a matter of urgency in order help alleviate severe financial challenges.

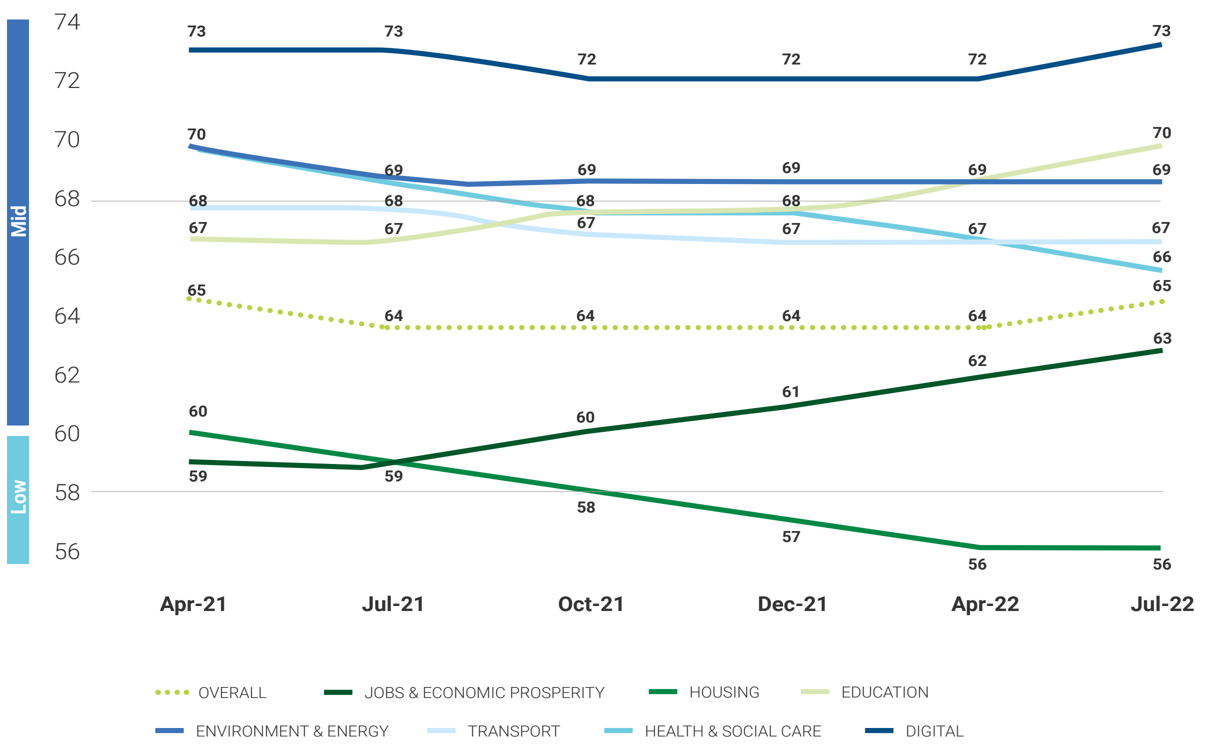
Whilst immediate financial support for households is important, longer-term strategic action to tackle the root cause of inequalities needs to remain a key focus. Private capital has a crucial role to play in the UK's levelling-up journey, and more needs to be done to attract this investment, including in energy efficient homes, high wage employment and green energy solutions.

Legal & General have been long-standing advocates of infrastructure – in local economies, housing, health and energy – playing a critical role in achieving better inclusive and sustainable economic growth and restoring social mobility. Similarly, we have been vocal in our support for more fiscal devolution – providing local communities with the means, and empowering them to make decisions, that can have a positive impact in the communities that need them the most. While it is understandable that processes are put in place to ensure monies from the Levelling-Up Fund are spent wisely, the process of Councils bidding for funding on an ad hoc basis lacks the necessary strategic oversight to really address the unique mix of needs each region faces.

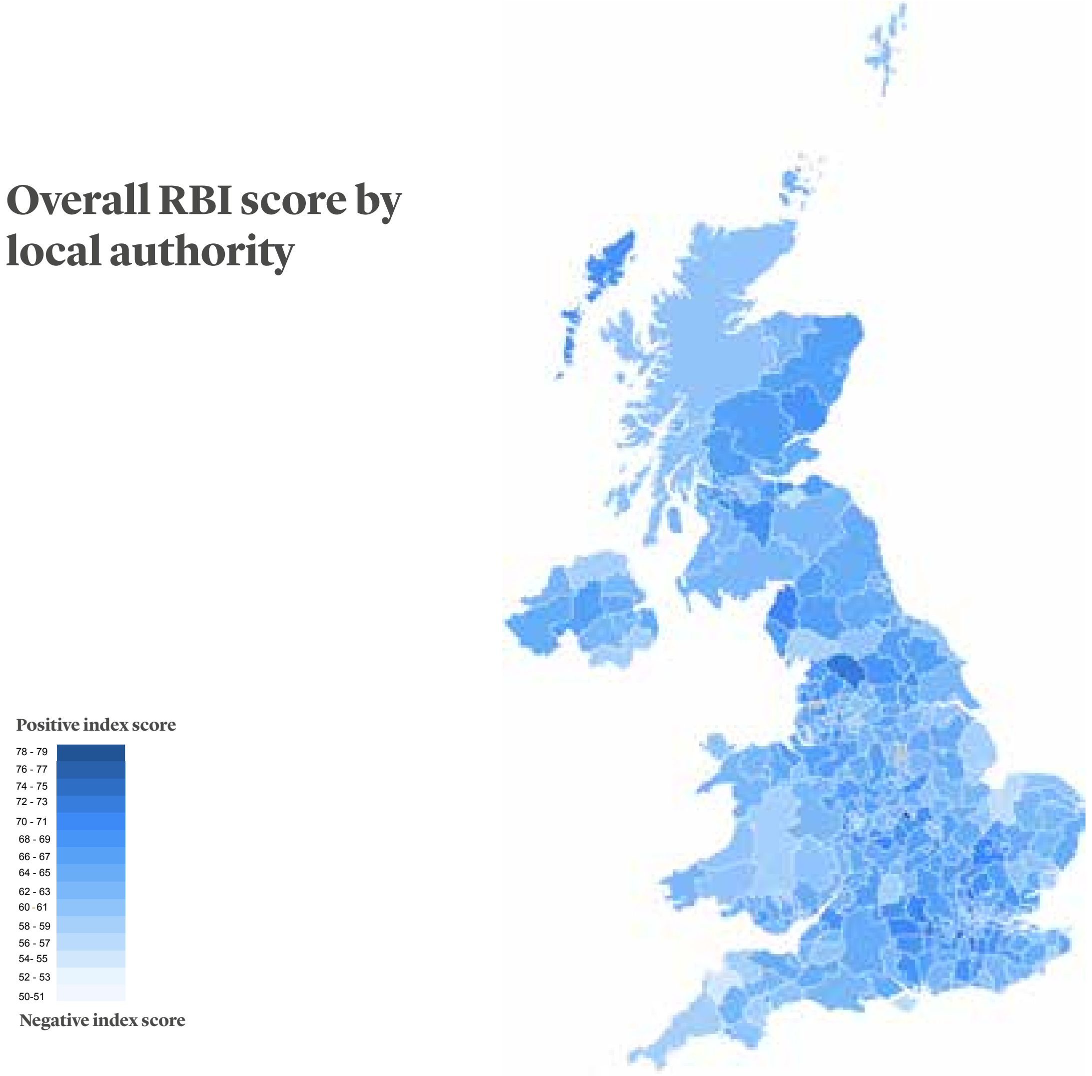
This report forms the sixth edition of the Rebuilding Britain Index. The research is based on survey responses from 20,000 UK households and a range of UK-wide quantitative secondary measures. The findings reveal that the current cost of living crisis presents a real danger of widening the existing inequalities found between and within different parts of the UK. Some of the findings that detail how difficult some households are finding it to cope in the current financial climate make for challenging reading. We must, however, use them to reaffirm how action is urgently needed, at a fundamental and structural level, to ensure we address the root causes of these inequalities and build better equity between our communities and resilience within them.

Key findings

RBI performance over time



Overall RBI score by local authority



Nigel Wilson, CEO at Legal & General:

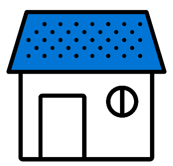
“Many households across the UK are currently facing very tough financial choices. For some, those choices seem impossible.”

However, what is most concerning is that the impact of the cost of living crisis is being felt more severely in some parts of the UK than in others. This threatens to widen the existing demographic and geographic inequalities that the Government's levelling-up agenda was designed to address.

Whilst immediate financial support for households is important, longer-term strategic action to tackle the root cause of inequalities needs to remain a key focus. Private capital has a crucial role to play in the UK's levelling-up journey, and more need to be done to attract this investment, including in energy efficient homes, high wage employment and green energy solutions.

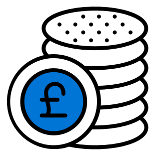
L&G have already invested over £30bn in towns and cities across the UK as part of our approach to inclusive capitalism. Truly addressing the root causes of the inequalities felt around the UK will require greater collaboration between public and private sectors. This means empowering local and regional communities to make decisions that can have a positive impact where change is most needed to ensure better equity between our communities and resilience within them.”

The current cost of living crisis is having a significant impact on UK households



49%

are concerned about keeping up with mortgage or rent payments over the next 12-months



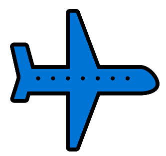
13%

of households will not be able to cope should we see the expect rise in energy bills later this year

This rises to…

28%

among those with less than £20,000 in household income



44%

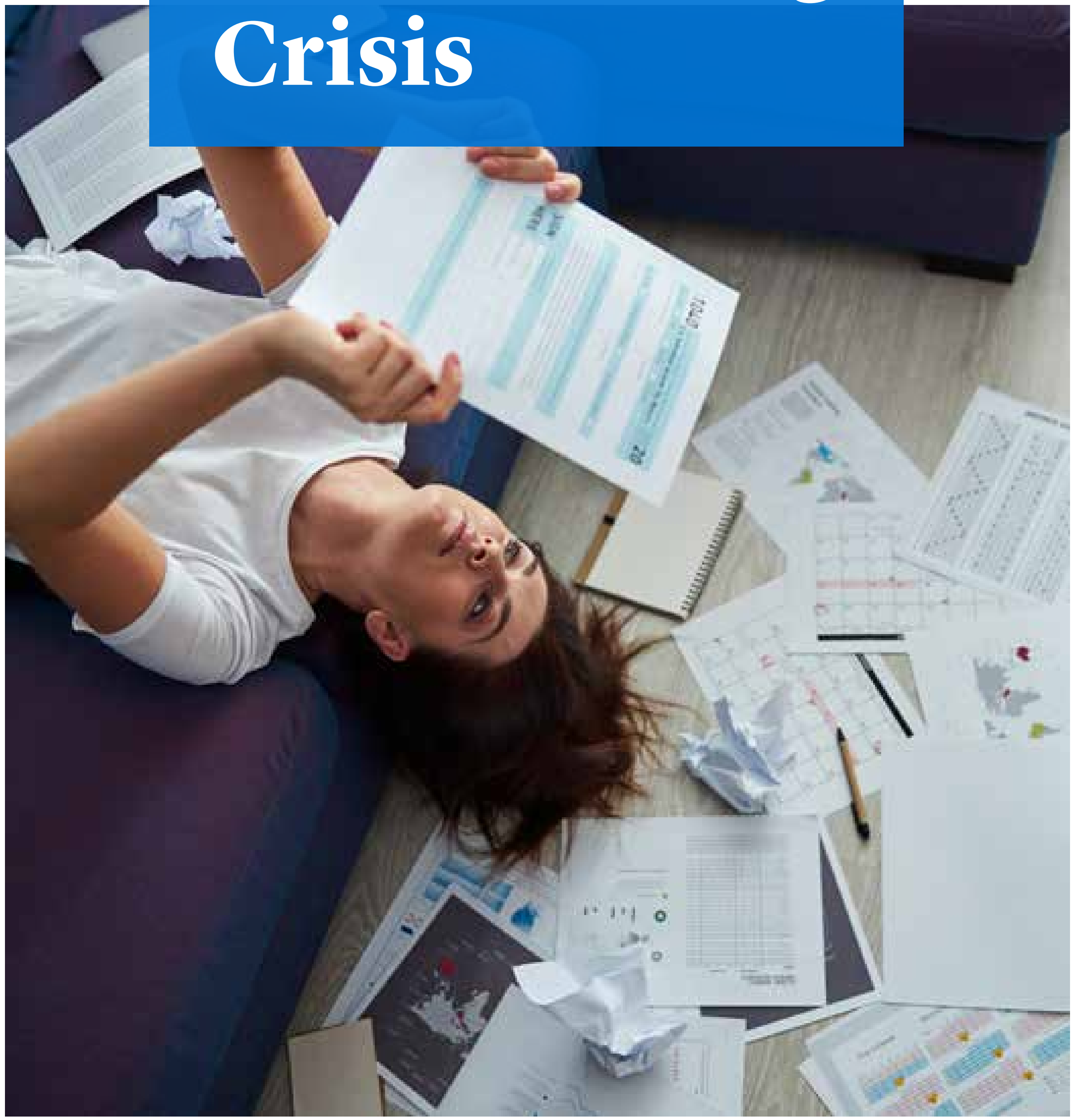
of households are not confident about being able to maintain their current lifestyle over the next 12-months

This rises to…

51%

in Yorkshire & Humber, the South-West of England and Northern Ireland

Life in a Cost of Living Crisis



The latest average earning statistical release from the Office for National Statistics (ONS)[1] puts the real numbers behind the stories that have played out on news channels throughout 2022 and that have been felt in households up and down the country.

While headline statistics show an average growth of 6.8% of nominal total pay and continuing record low unemployment, the rapid rise in inflation (which hit 9% in April 2022) has resulted in real terms regular pay falling by 2.2% on the year – a level of decline not seen since 2011.

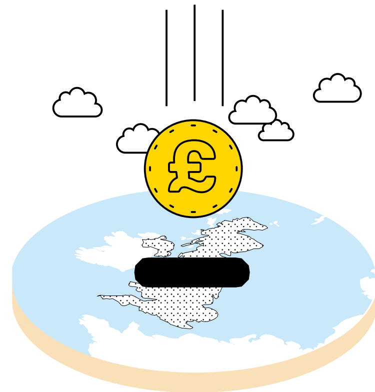
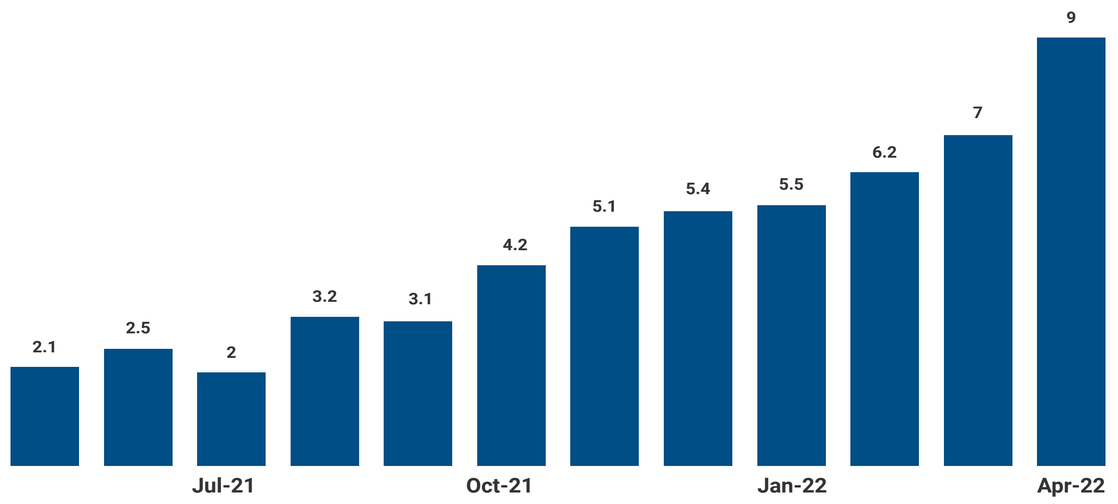


Figure 1. Annual growth in nominal total pay was 6.8%, nominal regular pay was 4.2%, real total pay was 0.4% and real regular pay was negative 2.2% in February to April 2022[2]

[1] Office for National Statistics, Average weekly earnings in Great Britain, June 2022
[2] Office for National Statistics, Average weekly earnings in Great Britain, June 2022

Figure 2. Annual inflation rate in the UK jumped to 9% in April, the highest level since 1982 [3]



For context, households have faced rising cost of energy following the increase in the Ofgem cap on energy prices – with the cost of electricity jumping by 53.5%, gas by 95.5% and liquid fuels by 113.9%. Petrol prices at the pump reached a record of 161.9 pence per litre in April and, while official data has yet to be published, pump prices have subsequently reached north of 180 pence per litre across many parts of the UK.

The impact of such severe rises is clearly always going to be felt at a household level. However, given what we know of the inequalities across the UK and the different realities experienced by many households, it is only right that we explore these impacts in more detail and consider the extent to which they may further deepen existing inequalities.

The squeeze on households

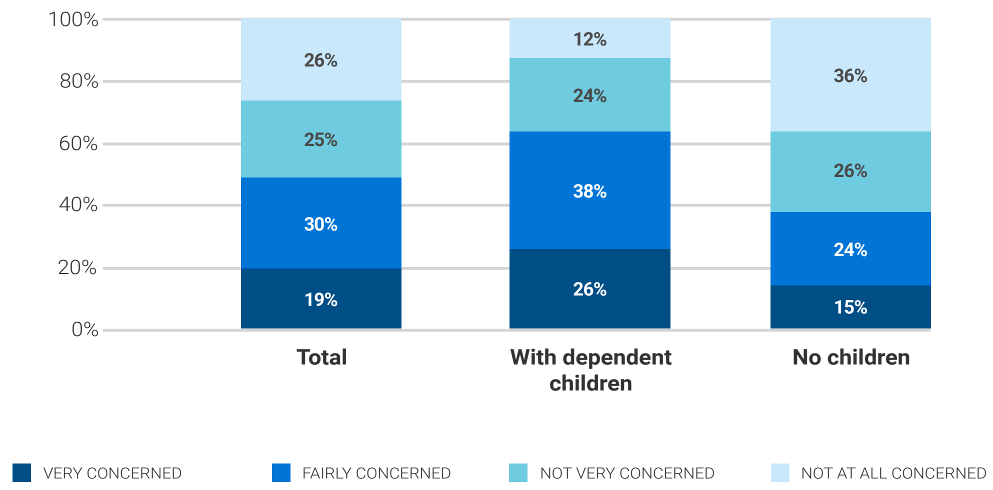
The impact of the cost of living crisis is profound on households, and in particular, on families.

Nationally, the rising cost of living means almost half (49%) of households in the UK are fairly or very concerned about being able to keep up with rent or mortgage payments over the next 12 months.

UK families with dependent children are feeling the squeeze. Faced by the reality of more monthly outgoings, almost two-thirds (64%) of households with dependent children are very or fairly concerned about being able to keep up with rent or mortgage payments over the next 12 months, compared with fewer than two in five (38%) among households will no children. Data from Loughborough University suggests that two-child families are paying £400 per month more to cover basic living costs than they did this time last year.[4]

[3] Trading Economics, United Kingdom Inflation Rate, Accessed 16 June 2022
[4] BBC News, Cost of living: Two-child families paying £400 a month more, May 2022

Figure 3. Concern about the ability to keep up with rent or mortgage payments over the next 12 months is felt most strongly by families with dependent children



As previously detailed, the cost of living crisis is partly fuelled by the ongoing energy crisis. The average cost of filling a typical family car with petrol has exceeded £100 for the first time. Meanwhile the revised energy price cap, which was increased in April this year, means millions of UK households could pay as much as £693 more per year for the energy they use – with a significant increase expected again in the second review of the price cap later this year.

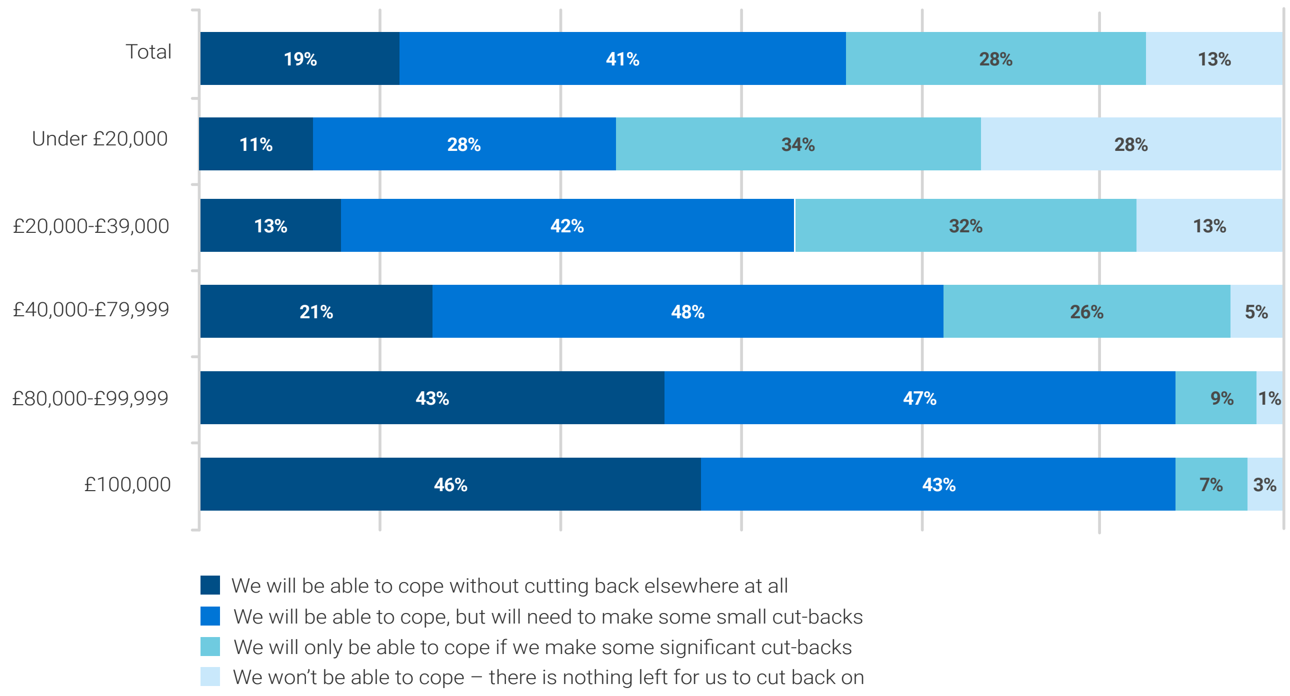
Fewer than one-in-five (19%) UK households feel they are in a position to accommodate energy price increases without having to cut back. In contrast, 69% of households feel they will have to make small or significant cut-backs.

Most worryingly, more than one-in-ten (13%) UK households say they will not be able to cope and that there is nothing left for them to cut back on. And it is naturally the lowest earning households that will suffer – 28% of UK households with an annual income below £20,000 say they will not be able to cope and that there is nothing left for them to cut back on.

For many low-income households, having nothing left to cut back on means turning to financial buffers in the form of cash savings, provided they exist, or to take on more debt. There has been a surge in credit card borrowing in the UK, with the annual growth rate for credit card borrowing hitting 11.6% in April of this year, its highest level since 2005.[5]

[5] Bank of England, Household Credit, accessed June 2022

Figure 4. The majority of households expect to make cut-backs in response to the energy price cap increase, and expected future increases



The UK is not rebuilding, and is not levelling-up

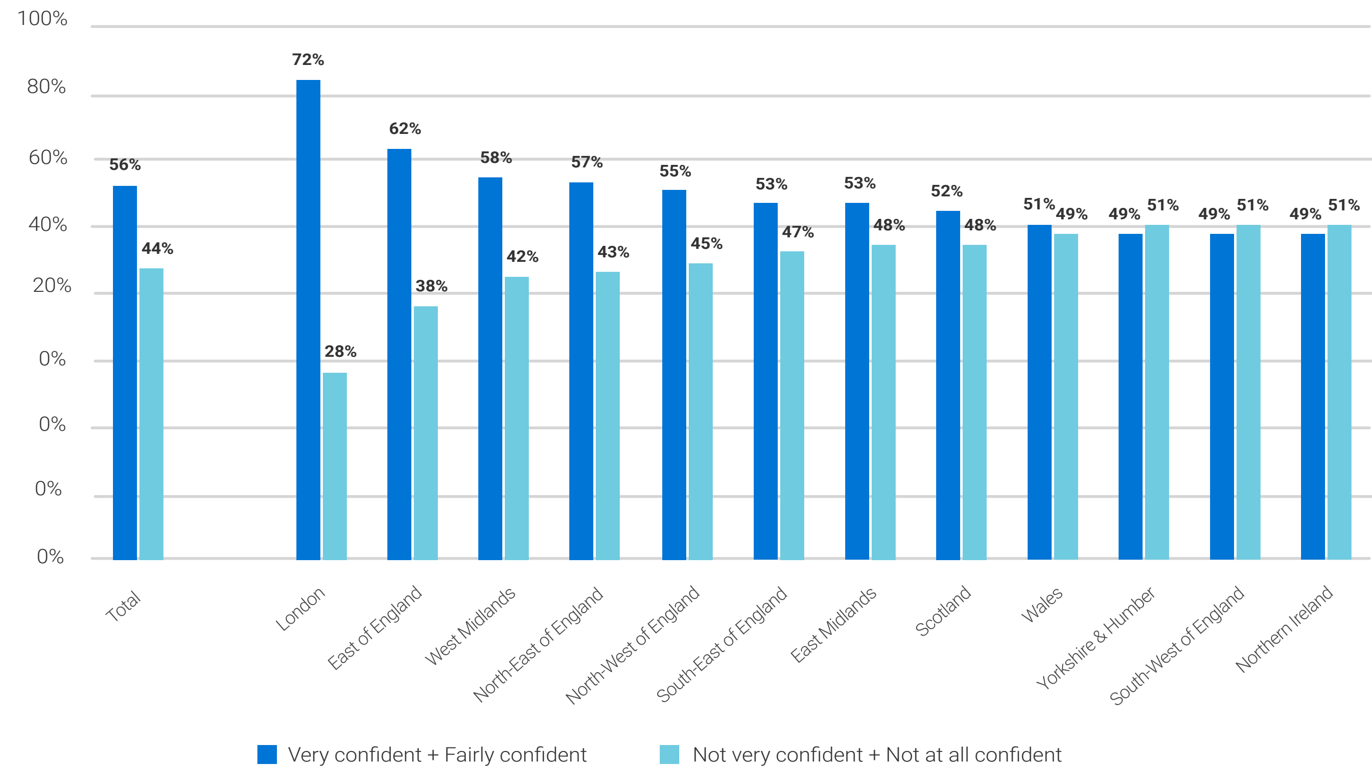
The hardship that households are currently facing, and future difficulties they expect to face ultimately distil into many UK households fearing they will have to accept a lower quality of life in the future.

Almost half of UK households are not very confident or not at all confident that their current household income will be sufficient for them to maintain their current lifestyle at this time next year. However, when we scratch below the surface, there is an uneven picture across the UK.

Households in Northern Ireland, the South West of England and Yorkshire are the least confident that they will be able to maintain their current lifestyle at this time next year. Indeed, the majority of those living in these parts of the UK are not confident.

This is in contrast to just 28% of households in London who are not very confident or not at all confident that their current household income will be sufficient to maintain their current lifestyle. This strongly suggests that we are not only failing to rebuild, but we are also not levelling-up.

Figure 5. Against the back-drop of the cost of living crisis, those in London are most confident that their current household income will be sufficient to maintain their current lifestyle this time next year



The impact of the cost of living crisis is not being felt equally across the UK

44%

... of households are not confident they can maintain their current lifestyle over the next 12-months

28%

... of households in London are not confident they can maintain their current lifestyle over the next 12-months

The day-to-day sacrifices being made by households

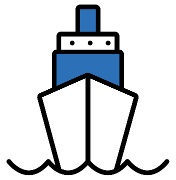
In response to the squeeze on finances, households expect to make sacrifices over the coming months to meet the increasing costs of essentials.

Over half (52%) of UK households expect to decrease expenditure on consumer goods such as clothes and new tech, half (50%) expect to decrease spending on a family holiday while an almost equal proportion (49%) expect to cut back on leisure activities, such as heading out to the cinema.

Following the two years of a stop-start recovery against this economic backdrop, retailers and many high-street outlets are now once more faced with significant uncertainty and a sharp decline in consumer confidence.

52%

expect to decrease expenditure on consumer goods such as clothes and new tech



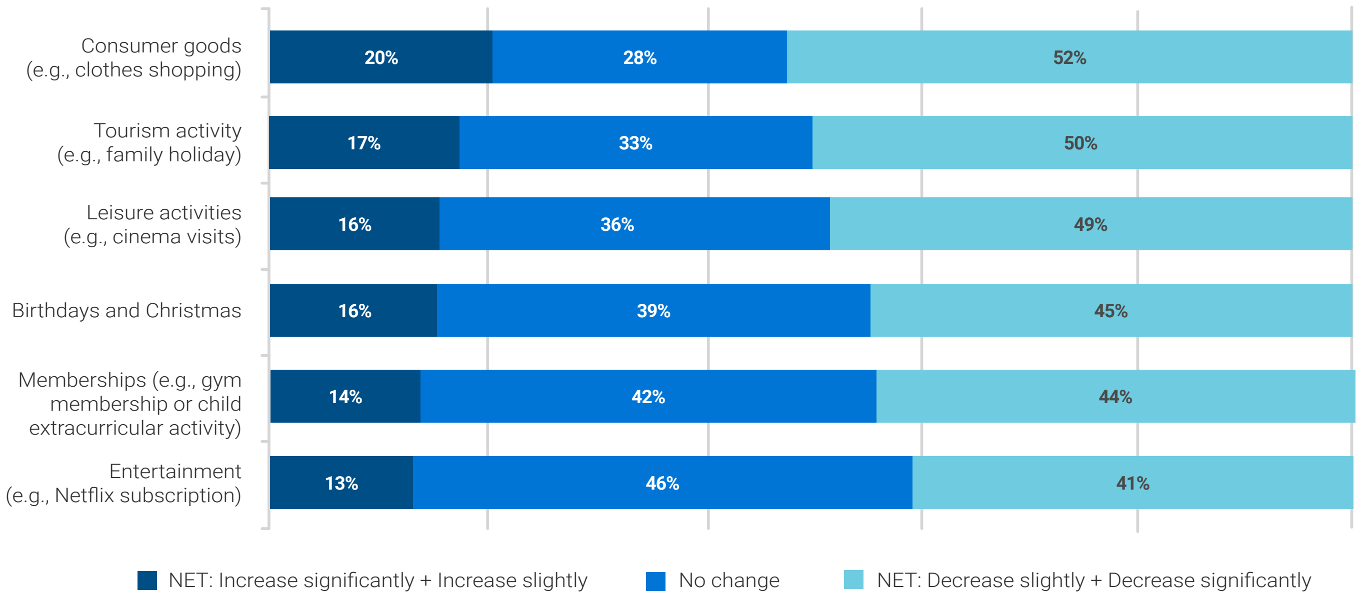
50%

expect to decrease expenditure on tourism activity

49%

expect to decrease expenditure leisure activities

Figure 6. More than two in five households expect to decrease their spending on entertainment such as a Netflix subscription as households budgets become squeezed over the coming months



Tackling the root causes of the growing cost of living crisis

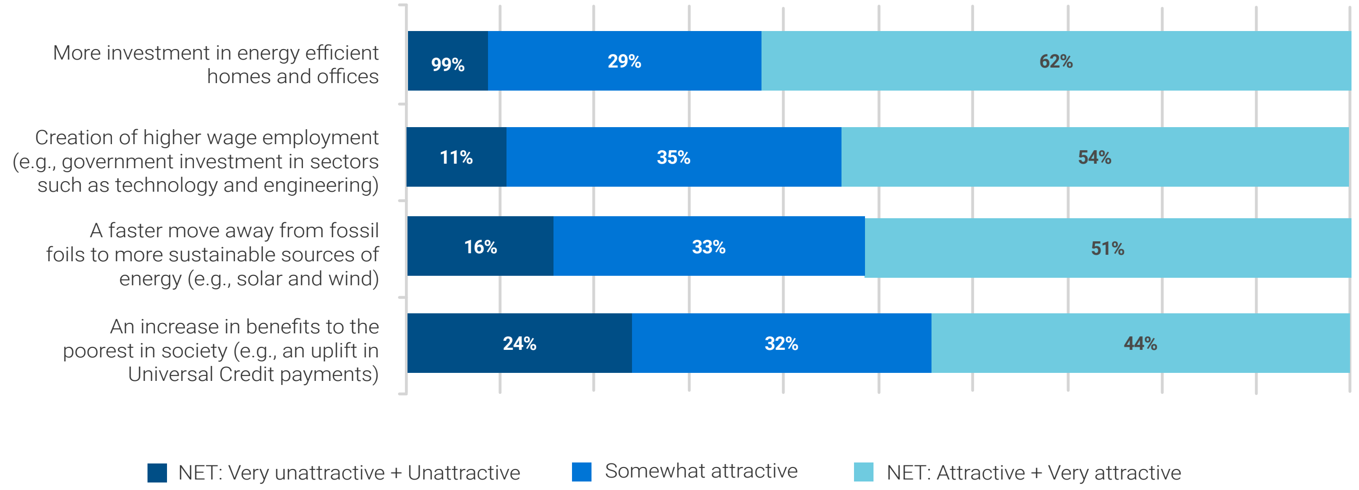
In response to the pressure growing on households, the Chancellor recently announced a £15 billion package of 'targeted government support' inclusive of a new one-off £650 "cost of living payment" to vulnerable households who receive universal credit and £400 of universal support to all households.

While short-term relief is welcome, when a range of policy solutions are put to UK households, it is long-term solutions that are viewed most positively. Almost two-thirds (62%) of UK households see more investment in energy efficient homes and offices as an attractive or very attractive option to address the cost-of-living crisis.

Meanwhile, 54% of UK households see the creation of higher wage employment (e.g. government investment in sectors such as technology and engineering) as an attractive or very attractive option to address the cost of living crisis.

This is in contrast to significantly fewer (44%) who see an increase in benefits to the poorest in society (e.g. an uplift in Universal Credit payments) as attractive or very attractive.

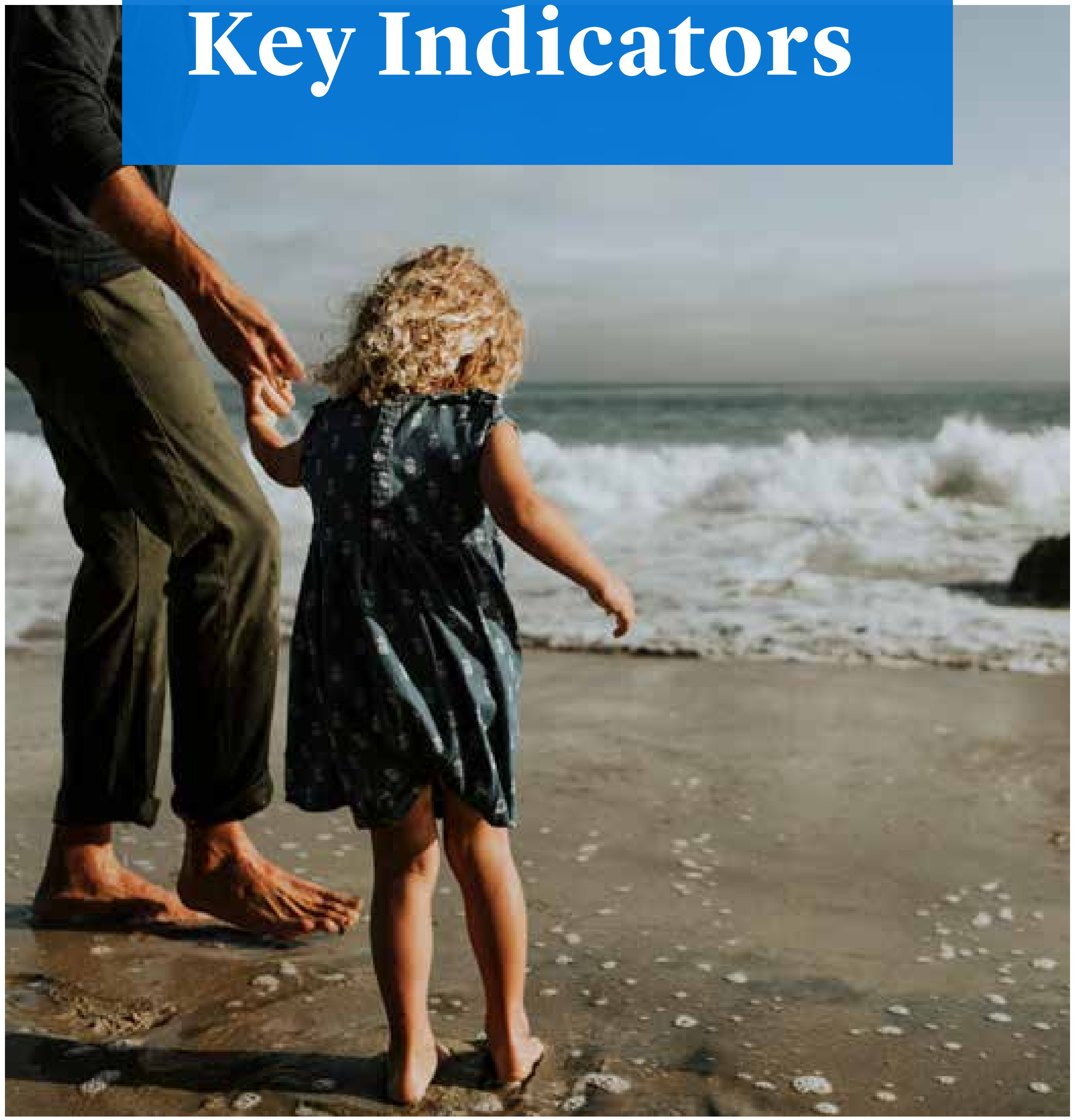
Figure 7. UK households see more investment into energy efficient homes and offices as the most attractive solution to the cost of living crisis. An approach that would directly address rising energy costs in the longer-term.



The verdict from UK households is clear. While short term support to address the immediate and acute difficulties being faced in many UK homes is to be welcomed, there is now an urgent need to address the fundamental structural problems that are driving up inflation and impacting on household resilience.

A strategic response, in the form of investment in infrastructure, particularly housing and economic infrastructure, is the path most welcomed as we try to navigate the current climate and longer term direction of the UK.

The Rebuilding Britain Index: Key Indicators



Rebuilding during a cost of living crisis

As we enter the second half of 2022, the headwinds facing the UK show few signs of abating. A recent update from the British Chamber of Commerce[6] predicts that "economic growth is expected to grind to a halt this year before dipping briefly into negative territory."

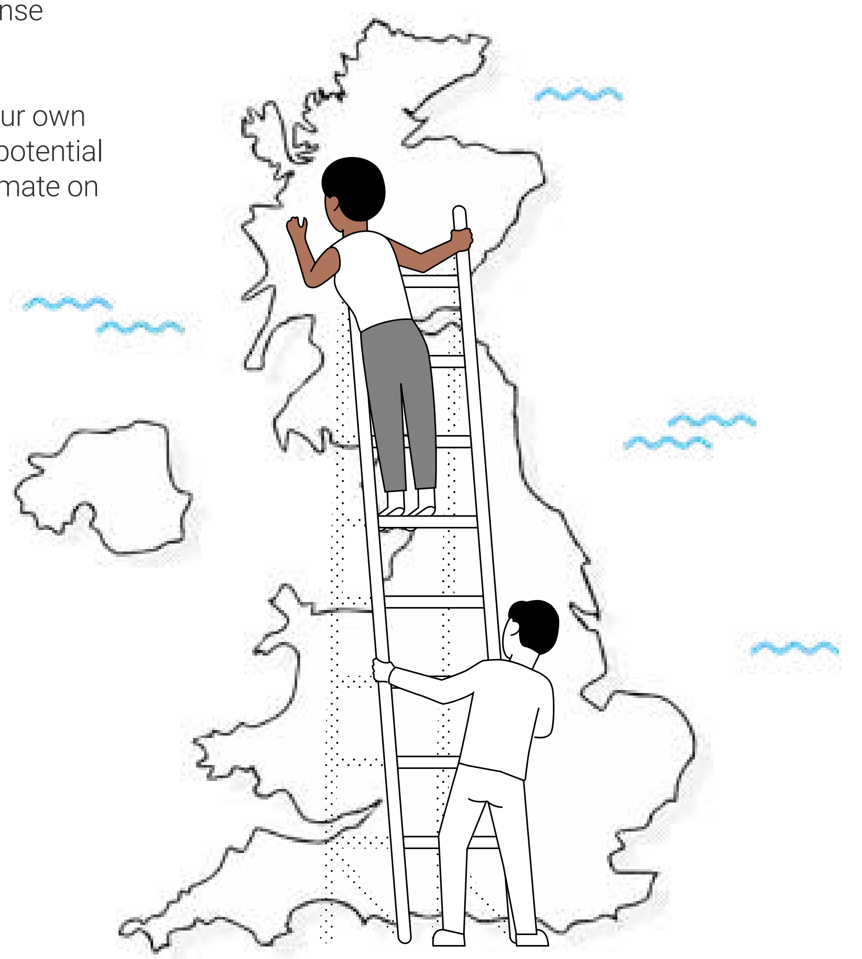
> "Economic growth is expected to grind to a halt this year before dipping briefly into negative territory."

This, along with UK inflation expected to reach 10% in Q4 2022 – far exceeding average earnings growth (forecast at 5% for 2022) means that we face looking to rebuild and level up during a time of intense economic uncertainty.

Consumer confidence is already low and our own research findings have already shown the potential uneven impact of the current economic climate on households.

The recent performance of the Rebuilding Britain Index, and its likely performance over the coming quarters, must acknowledge this reality. That said, it is arguably times like these that most strongly and convincingly reaffirm the need to meet the challenges that we face in rebuilding and levelling up the UK.

We know from the RBI findings to date, that investing in a strong economy and jobs market is essential in raising standards across housing, transport, digital, education and health for local communities. We can also see that there has been a continued improvement in the RBI Jobs & Economic Prosperity measure, driven by continued low unemployment rates. This, however, masks a fall in population sentiment with regards to the perceived availability of well-paid employment and access to entry-level jobs. Furthermore, the last quarter has shown a slight dip in GDP per capita.



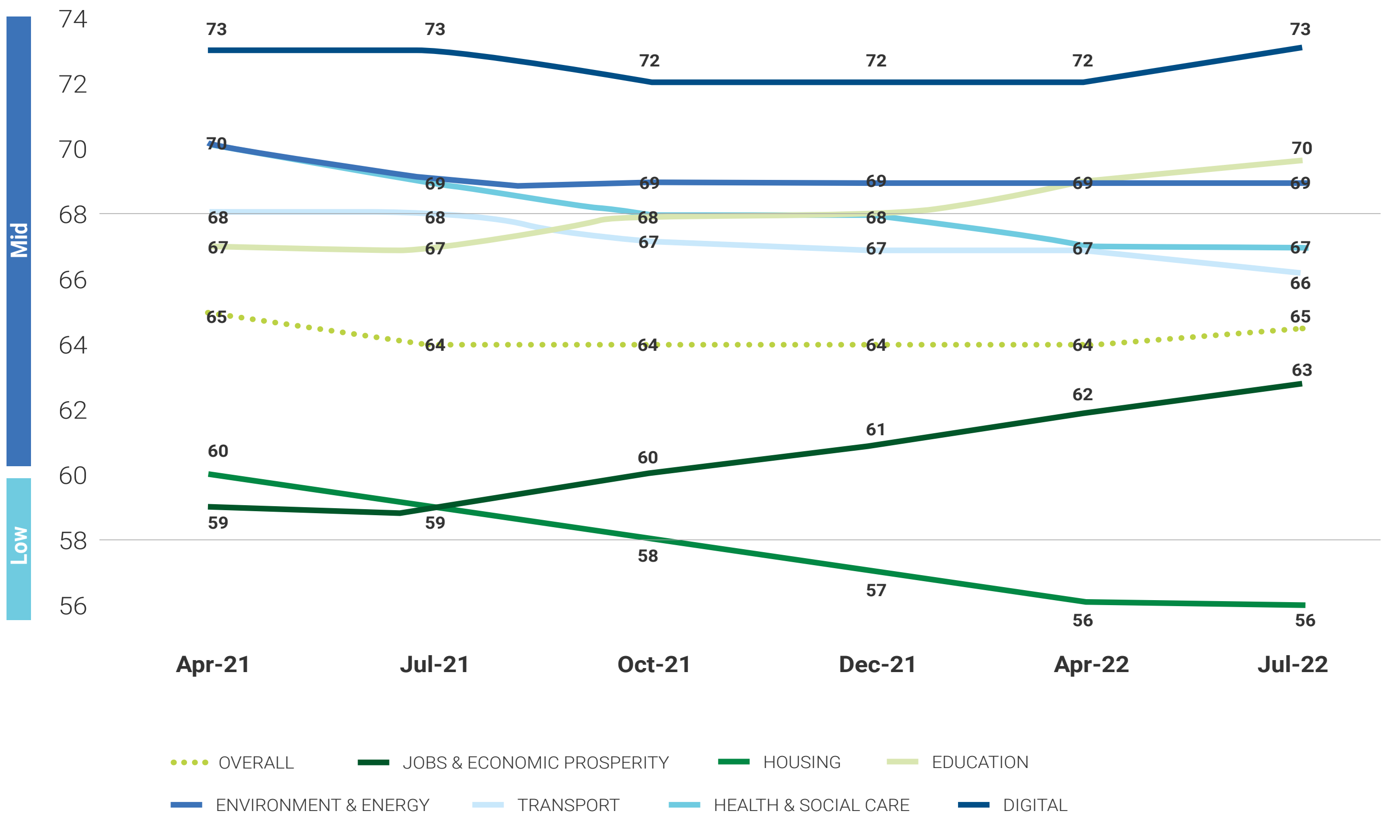
[6] British Chamber of Commerce, BCC Economic Forecast: Testing times as quarterly growth dries up, June 2022
[7] Refer for further details: Rebuilding Britain Index (RBI) | Legal & General (legalandgeneral.com)

In a cost of living crisis, lower unemployment is clearly positive. However, this must be tempered by the evident need to ensure that these jobs are increasingly higher wage and higher value in order to support both regional economies and the households within them.

Elsewhere, results for Q2 2022 at least bring to an end the consistent downward trend in the housing measure .

However, this will be scant consolation for those that continue to identify a lack of affordable housing stock as a challenge in their local area. With the Bank of England already increasing interest rates in an effort to curb inflation, home loans are already becoming more expensive, and we run the risk of seeing a further decline across this measure over the coming quarters, particularly as there is no guarantee that house prices become more affordable in response.

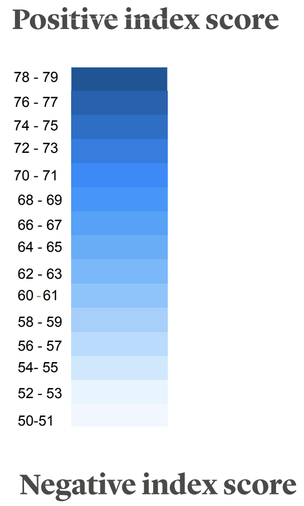
Figure 8. Improvements in unemployment continue to drive improvement in the Jobs & Economic Prosperity measure

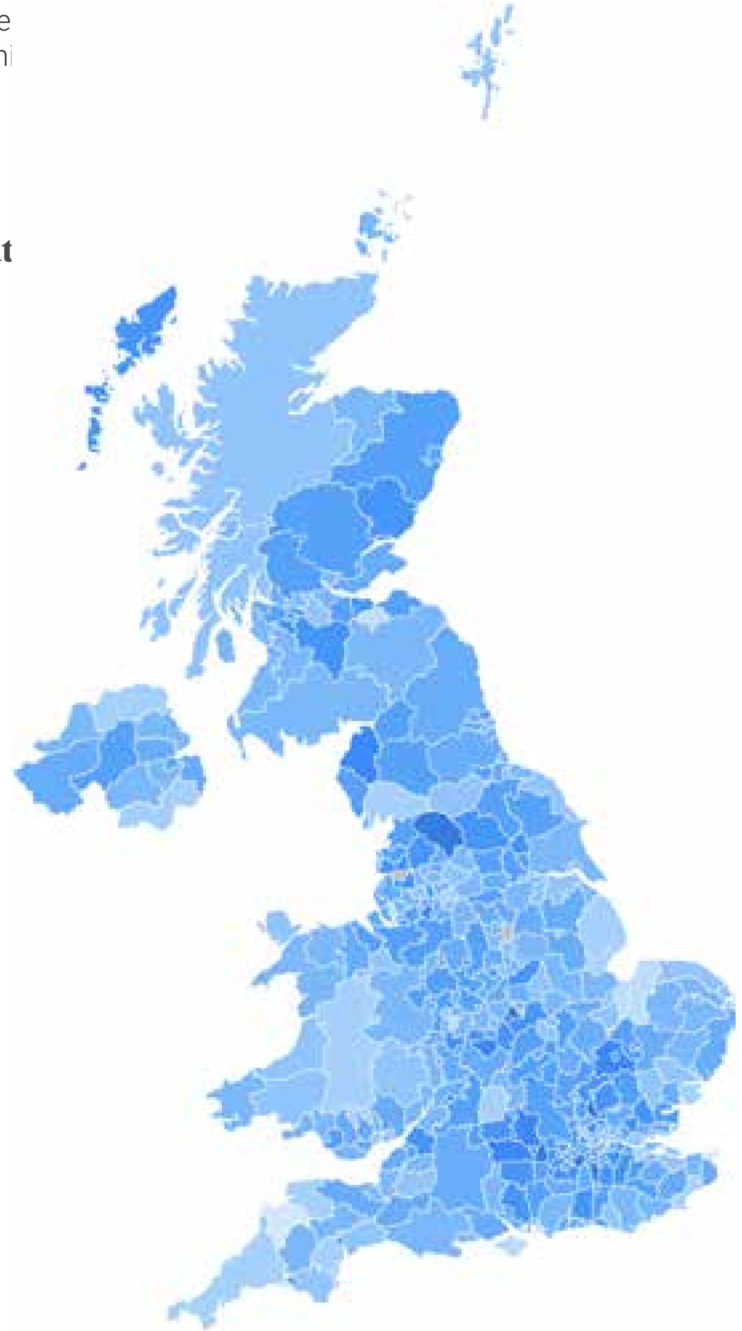


Regional and Local Index Performance

As can be seen in figure 9 there are often very wide disparities in the overall RBI score at a local authority level. Every local community within a given region has its own strengths and challenges which can be explored in granular detail using our interactive mapping tool[8]. The tool pinpoints the extent to whi each local authority is pulling ahead and falling behind across each of the individual 52 metrics captured within the RBI.

Figure 9. Overall RBI score by Local Aut





[8] Rebuilding Britain Index (RBI) | Legal & General (legalandgeneral.com)

As highlighted in our previous reports, while differences in RBI performance across the index also exist at a regional level, they remain far less pronounced than they are felt locally (figure 10).

Figure 10. Component Index scores by UK country and region

	North-East of England	North-West of England	Yorkshire & Humber	East Midlands	West Midlands	East of England	South-East England	South-West England	London	Wales	Scotland	Northern Ireland
OVERALL RBI SCORE	**64**	**65**	**64**	**64**	**64**	**64**	**65**	**63**	**67**	**63**	**65**	**63**
HEALTH INDEX	63	63	63	64	63	68	70	70	73	62	63	63
EDUCATION INDEX	69	69	67	67	67	68	71	73	75	65	73	63
HOUSING INDEX	64	61	60	60	59	52	49	47	50	58	62	62
JOBS & ECONOMIC PROSPERITY INDEX	57	60	59	61	58	66	69	63	71	57	62	59
ENERGY & ENVIRONMENT INDEX	69	68	69	69	67	70	69	71	67	70	70	69
TRANSPORT INDEX	68	68	66	66	67	65	66	64	74	64	66	64
DIGITAL INDEX	73	75	76	74	75	70	73	68	77	71	70	66

Latest results show that not only does London continue to outperform the rest of the UK on the key measure of Jobs & Economic Prosperity, but that it is also growing more quickly than elsewhere. With a score of 71/100 on this measure, London has grown by +3pts since the previous wave of the RBI – more than any other part of the UK. The devolved nations, by comparison have seen little to no change in this key measure – with Wales and Northern Ireland unchanged over the previous quarter and Scotland showing growth of only +1pt.

It remains vital that more is done to combat this jobs and economic inequality across the UK. We have maintained, since the inception of the RBI, that levelling-up is about a fairer distribution of economic opportunities across the UK. But, beyond the hard economic data, the lived experience for people in our local communities remains a key issue to address. The RBI shows that how people feel about their local economy, and its ability to provide jobs, housing, and prosperity, ultimately drives their assessment of their quality of life and their broader sense of wellbeing. Both of these are key metrics that Government are adopting in how they measure progress in levelling-up and there is little here to suggest that there will be any real positive movement thus far.

Becoming more granular, when we assess the changing score on the Jobs & Economic Prosperity measure over the previous quarter at a local authority level (figures 11 and 12) two things become evident:

- Firstly, the improvement in London is largely driven by three London boroughs – with Merton, Kensington & Chelsea and Lambeth seeing big gains. Each of these boroughs scores well above the UK average suggesting that, in London at least, disparities between the best and worst performing boroughs are widening.
- Secondly, that the majority of local authorities seeing the most significant improvements across this measure are from parts of the UK that perform under the national average. Indeed, some of the lowest scoring local authorities in the UK – including Blackburn-with-Darwen, Torbay and Derry City & Strabane have seen some of the biggest improvements across the UK. While, at a regional level, the economic prosperity gap may not be closing, these findings do suggest that gaps within regions may be starting to close.

Figure 11. Most improved local authorities across the UK on the measure of Jobs & Economic Prosperity

Local Authority	Region	Score Q2 2022	Change Over Last Quarter
Rochford	South-East of England	65	+8
Merton	London	76	+7
West Dunbartonshire	Scotland	59	+6
Blackburn with Darwen	North-West of England	50	+6
Redditch	West Midlands	63	+5
Kensington and Chelsea	London	88	+5
Lambeth	London	75	+4
Maldon	South-East of England	70	+4
Derry City and Strabane	Northern Ireland	53	+4
West Lothian	Scotland	67	+4
Slough	South-East of England	71	+4
Thurrock	East of England	61	+4
West Lindsey	East Midlands	56	+4
Havant	South-East of England	62	+4
Barnsley	Yorkshire & Humber	58	+4
Tamworth	West Midlands	57	+4
Lewes	South-East of England	64	+4
Babergh	East of England	68	+4
Broxbourne	East of England	69	+4
Rossendale	North-West of England	56	+4
West Lancashire	North-West of England	67	+4
Darlington	North-East of England	64	+4
Torbay	South-West of England	51	+4

Figure 12. Local authorities across the UK experiencing the biggest falls on the measure of Jobs & Economic Prosperity

Local Authority	Region	Score Q2 2022	Change Over Last Quarter
Antrim and Newtownabbey	Northern Ireland	60	-2
Wyre	North-West of England	54	-2
Cherwell	South-East of England	72	-2
Newark and Sherwood	East Midlands	60	-2
Lichfield	West Midlands	69	-2
Amber Valley	East Midlands	65	-2
South Northamptonshire	East Midlands	70	-2
North Kesteven	East Midlands	62	-2
Teignbridge	South-West of England	55	-2
Tewkesbury	South-West of England	69	-2
Stirling	Scotland	75	-3
Harborough	East Midlands	72	-3
Woking	South-East of England	73	-3
Midlothian	Scotland	52	-3
Broxtowe	East Midlands	64	-3
Hinckley and Bosworth	East Midlands	61	-3
Huntingdonshire	East of England	67	-3
South Derbyshire	East Midlands	68	-3
West Oxfordshire	South-East of England	60	-3
Torfaen (Tor-faen)	Wales	56	-4
South Lakeland	North-West of England	58	-4
Ryedale	Yorkshire & Humber	57	-4

Conclusion

It does not feel like an exaggeration to state that this is a critical moment if we are to see any serious positive action on levelling-up the UK.

Few ambitions have united so many people as the need to level up the regional and local inequalities that exist with regards to opportunity, prospects, health and housing. What has divided people, and continues to divide people, is the best approach to making that a reality.

However, one approach alone is unlikely to have the required impact.

The current cost of living crisis adds an extra layer of complexity on decision making. In the same way that households are unlikely to think long-term when struggling with acute and immediate difficulties, so too can we ill-afford the new UK Government solely focused on using short-term measures to address immediate need.

Immediate term payments for households most in need will no doubt prove to be a vital intervention for many, but they will do nothing to reverse the inequalities that exist and that the cost of living crisis threatens to deepen still further.

There is an evident need for a long-term structural re-think in our approach to housing, local economies and fiscal devolution – and for that thinking to be put into action quickly. This will involve retrofitting existing housing stock and ensuring that new builds are more energy efficient. It will mean providing not just employment, but more highly paid jobs and redistributing them across the whole of the UK. It should mean greater resources being made available to local governments who are then empowered to use them.

Failure to support households through the current cost of living crisis certainly risks setting back levelling-up years. But not tackling the structural root causes of these inequalities now risks setting it back for decades.

Appendix 1: Detailed Methodology

L&G is working in partnership with research specialists Cicero/amo, to develop an index that combines key indicators of social and economic progress. The index – called the Rebuilding Britain Index (RBI) - Is designed to provide a benchmark of the UK's success in 'levelling up' the economy across the left behind communities and households in the wake of the global pandemic.

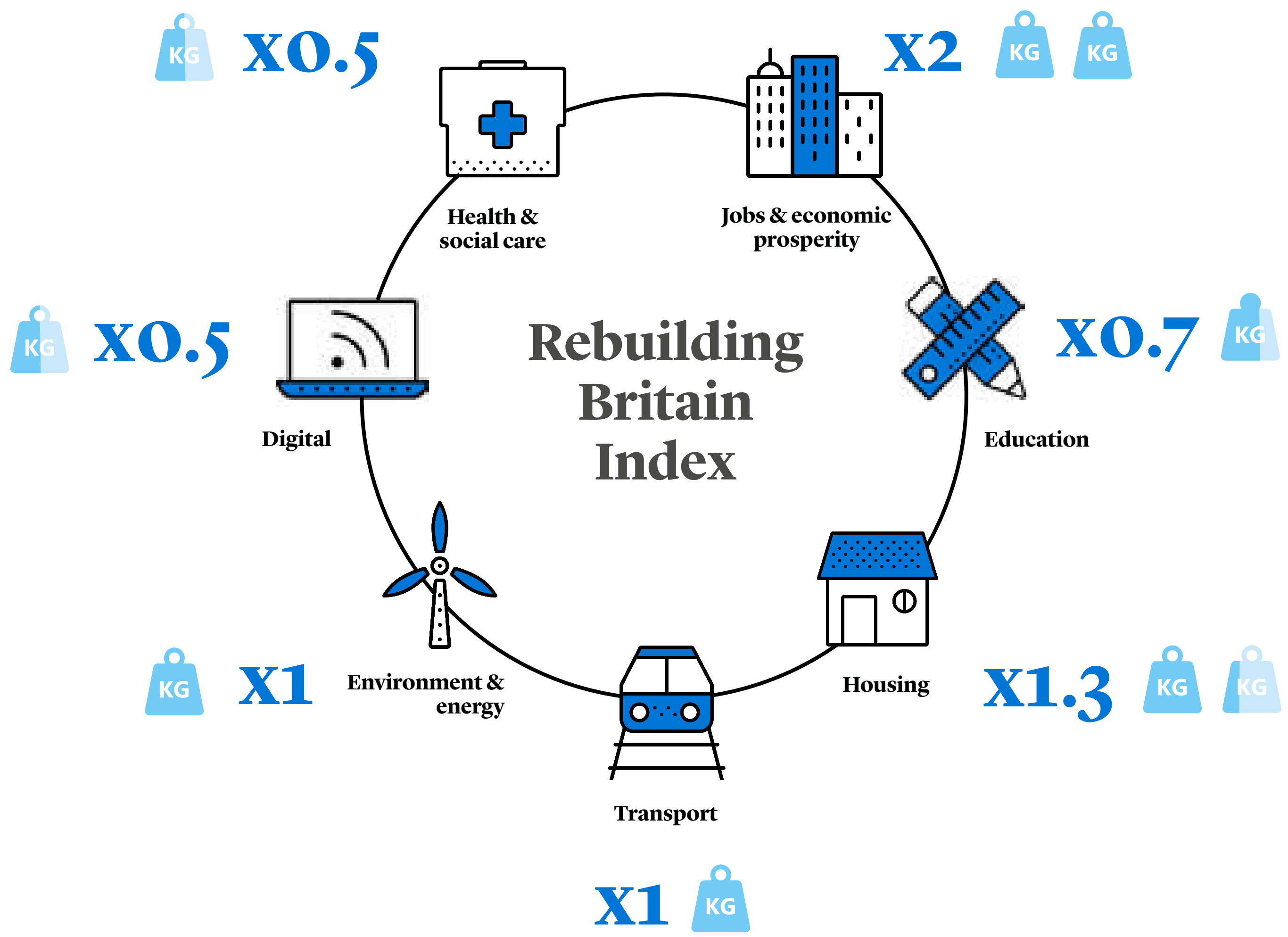
In developing the Index, we have identified seven key areas covering all aspects of the UK's economic and social infrastructure. For each of these seven areas we built out a series of quantitative and attitudinal statistical measures. In total, the RBI combines 52 different measures to provide a comprehensive assessment of how the UK's economic and social infrastructure is helping the UK to build back better. These measures are based on::

- A nationally representative survey (by age, gender and region) of 20,000 UK adults. Survey data collected across four waves – initially in September 2021 and subsequently in December 2021, March 2022 and June 2022.
- Secondary data collected on eleven outcomes measures. The measures were chosen based on the following criteria: being updated quarterly, data being reported to a Local Authority level and consistency and comparability of data across the devolved nations. Data was sourced from:
    - ONS
    - Gov.Wales
    - Gov.Scot
    - Education NI
    - Gov.uk
    - Ofcom

Using the data collected, the index was created based on the following approach:

- A standardisation of all 52 measures onto a 1-100 scale – where ten would equal the highest positive score and one the lowest score.
- Undertaking analysis in order to identify the extent to which each measure correlates with perceived quality of life in the local community.
- We have assigned a relative weight of importance for each of the seven key areas. This is based on a statistical analysis to assess the strength of correlation between a given measure and the extent to which households feel quality of life locally is improving or worsening. Ultimately, this ensures that our index has been built with our communities in mind and with what matters most to them front and centre

How the RBI is weighted across the seven key measures



‘Up-weighted’ factors

Our research analysis reveals that access to jobs, economic prosperity and housing are the key drivers in boosting a household’s perceived quality of life and economic wellbeing. To reflect this, we have upweighted the jobs and economic prosperity and housing measures accordingly – meaning they have a greater influence on the overall RBI score.

‘Down-weighted’ factors

Other factors, such as health, social care, and education, are clearly important. But they have less of a daily touch point on most people’s lives, and therefore have a weaker influence in determining a person’s sense of quality of life and economic wellbeing. The overall index score has been weighted to reflect this.