

# The Rebuilding Britain Index

The deflating impact of inflation

March 2023





# Foreword

In July 2022 we published our first look at how the cost of living crisis was affecting households and the broader impact it was having on levelling up the UK. Within that report we stated that “it does not feel like an exaggeration to state that this is a critical moment, if we are to see serious positive action on levelling up the UK”.

In the intervening months, inflation – and its impact on the cost of living for households – has only further deepened. The impact, as highlighted through our research, is that many of the inequalities felt between our wealthiest and lowest income households have widened.

Ultimately the UK still finds itself back at the same crossroads it did in July 2022. Our data shows no signs of the rest of the UK catching up with the capital, while our index suggests that much of our critical infrastructure – housing and health in particular – is on the decline nationally.

Earlier this month the Spring Budget was positioned as having levelling up at its heart and as “set to put powers and money in the hands of communities most in need”. There is room for optimism in the approach set out in the Budget - with perhaps the first evidence of the Government beginning to adopt the “place-based” approach called for in its own Levelling Up White Paper. Furthermore, the devolution of decision making in the cases of the West Midlands and North West Combined Authorities and a keen focus on jobs and prosperity chime with some of the key recommendations we have highlighted throughout this series.

Only last year Legal & General announced a working partnership with the West Midlands Combined Authority, committing £4bn of investment over a period of seven years for regeneration, housing and levelling up the region. The announcement in the Spring Budget show signs of Government beginning to match the greater ambition we, and many others, have been calling for.

This, the eighth report in the Rebuilding Britain Index series, sometimes makes for grim reading. Our findings are based on survey responses from 20,000 UK households and a range of UK-wide quantitative secondary measures.

These findings reveal that, outside of improvements to unemployment rates, very little has changed across jobs and economic prosperity compared to previous quarters. While this makes the Spring Budget focus on growth a welcome one, such growth across the regions can only be achieved with holistic local-led investment in other areas like housing and health - with the former notably absent from Budget announcements.

It remains our view that, while the public purse will be a vital component in addressing these inequalities, far more needs to be done to put the weight of private capital to work in support of those ambitions.

Legal & General have already invested over £30bn in towns and cities across the UK as part of our approach to inclusive capitalism – which takes a place-based approach to where and how we invest. These investments are having a demonstrable and positive impact on the communities in which we invest. This can be seen in the continued success of our joint venture in Bruntwood Scitech, which has just posted record profits. It is this type of success story that we wish to replicate across other similar investment - for example in our recent development in of two new offices in Sunderland City Centre, that will create 150,000 sq ft of space for professional service firms and retailers alike.

It is our belief that a more joined up approach, through further government and industry collaboration, will result in the type of impact that is really needed in the places that need it the most.





# Executive summary

Short-term support and long-term action are both vital in alleviating the financial pressures households are facing as a result of the cost of living crisis. Pairing immediate support with longer-term action and thinking will help ease current and future financial pressures while also addressing wider social inequalities that exacerbate the impacts of cost-of-living crises. This strategic approach can truly level up the whole of the UK.

Our data shows that people in the UK want the government to focus on longer-term solutions, to both aid levelling up and tackle this cost of living crisis, with specific action on government investment, greater devolution and increased housing.

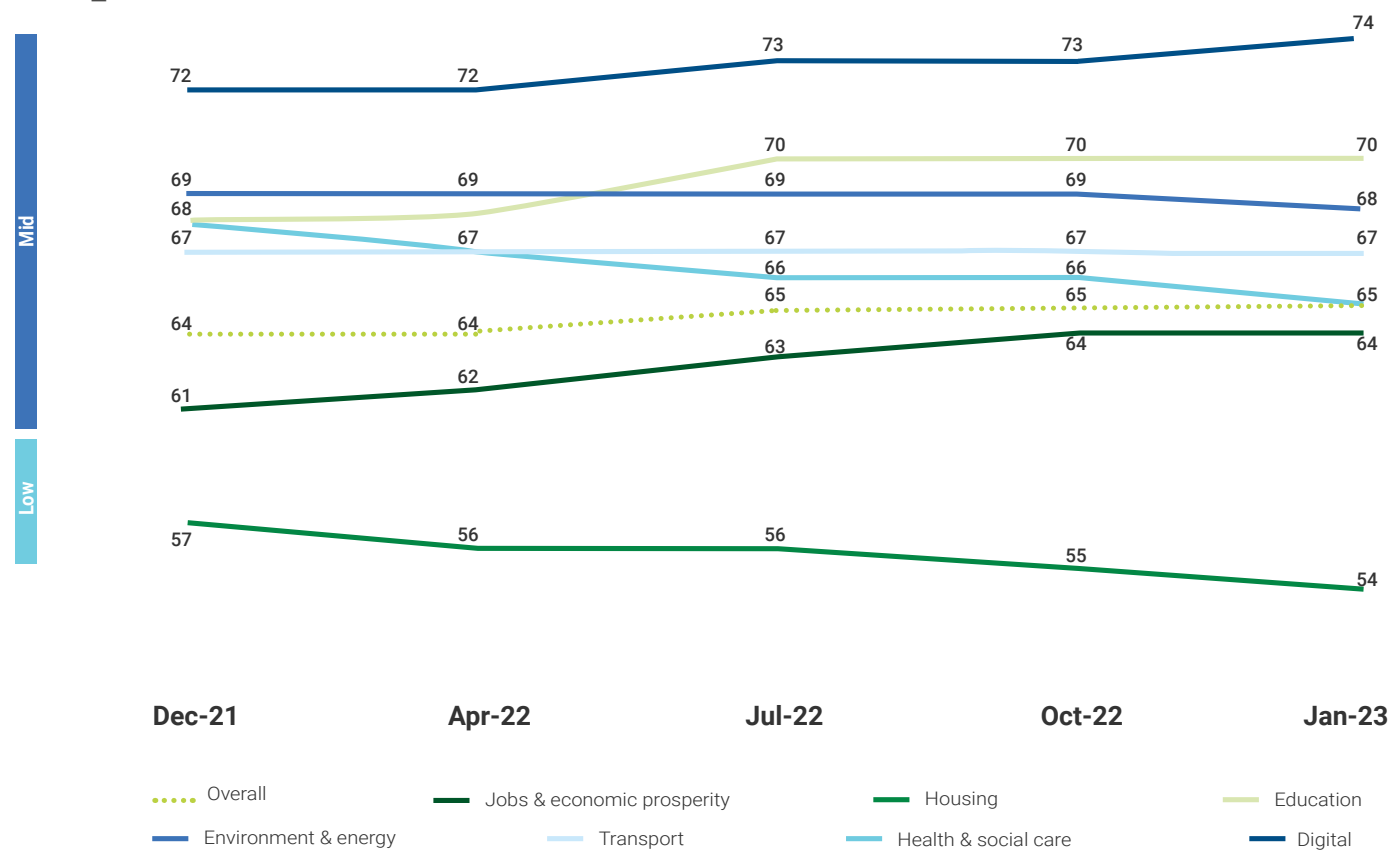
**On investment**, we need a more targeted, collaborative and joined up strategy, over a longer period of time.

**On devolution**, greater powers need to be given to people who know their areas best, allowing local leaders to take the decisions which will have the best outcome for them.

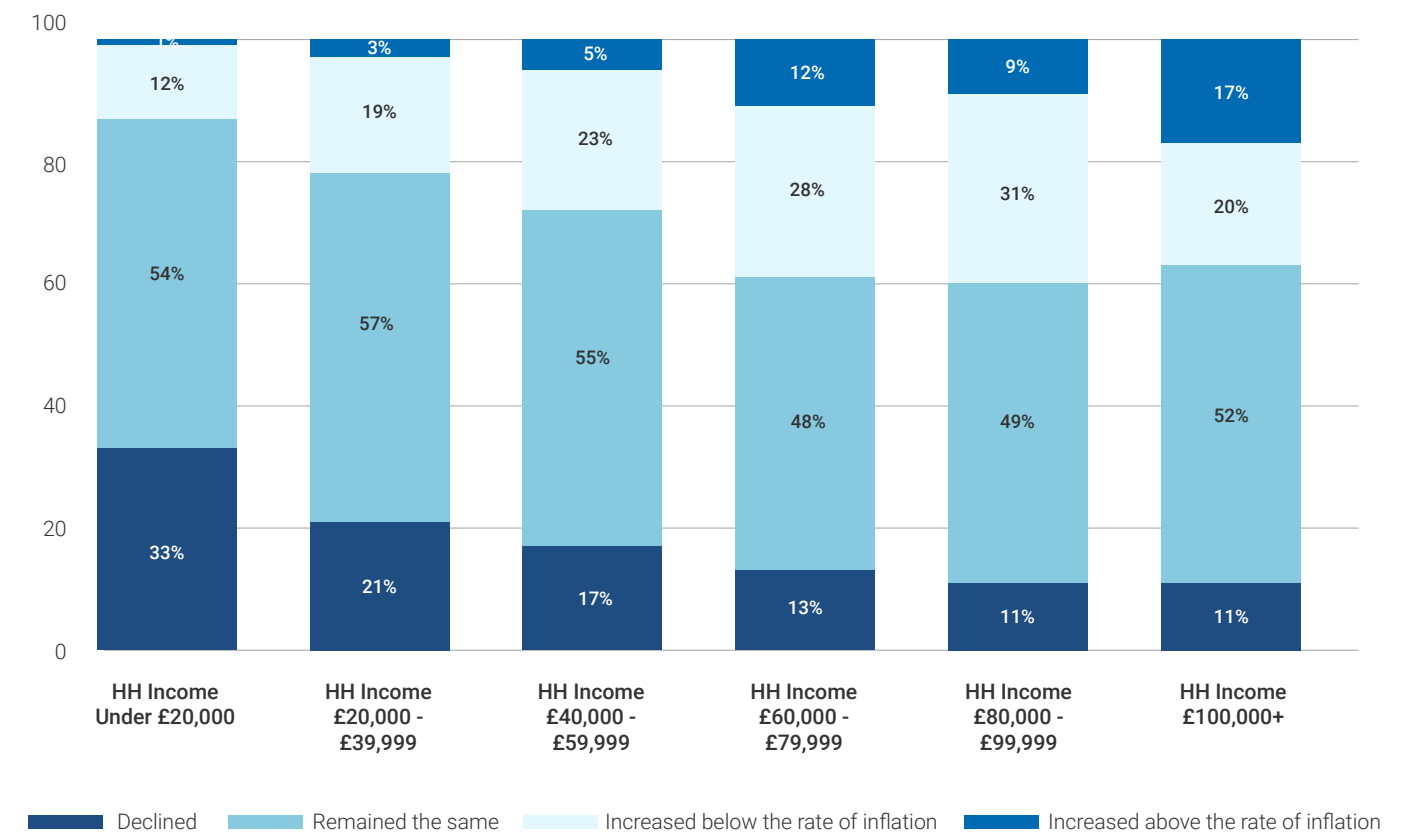
**On housing**, we need a significant change of approach to how we build and heat our houses and buildings.

The UK needs to stop playing on the fringes if it is serious about levelling up. A more ambitious and fundamental approach is required.

## RBI performance over time



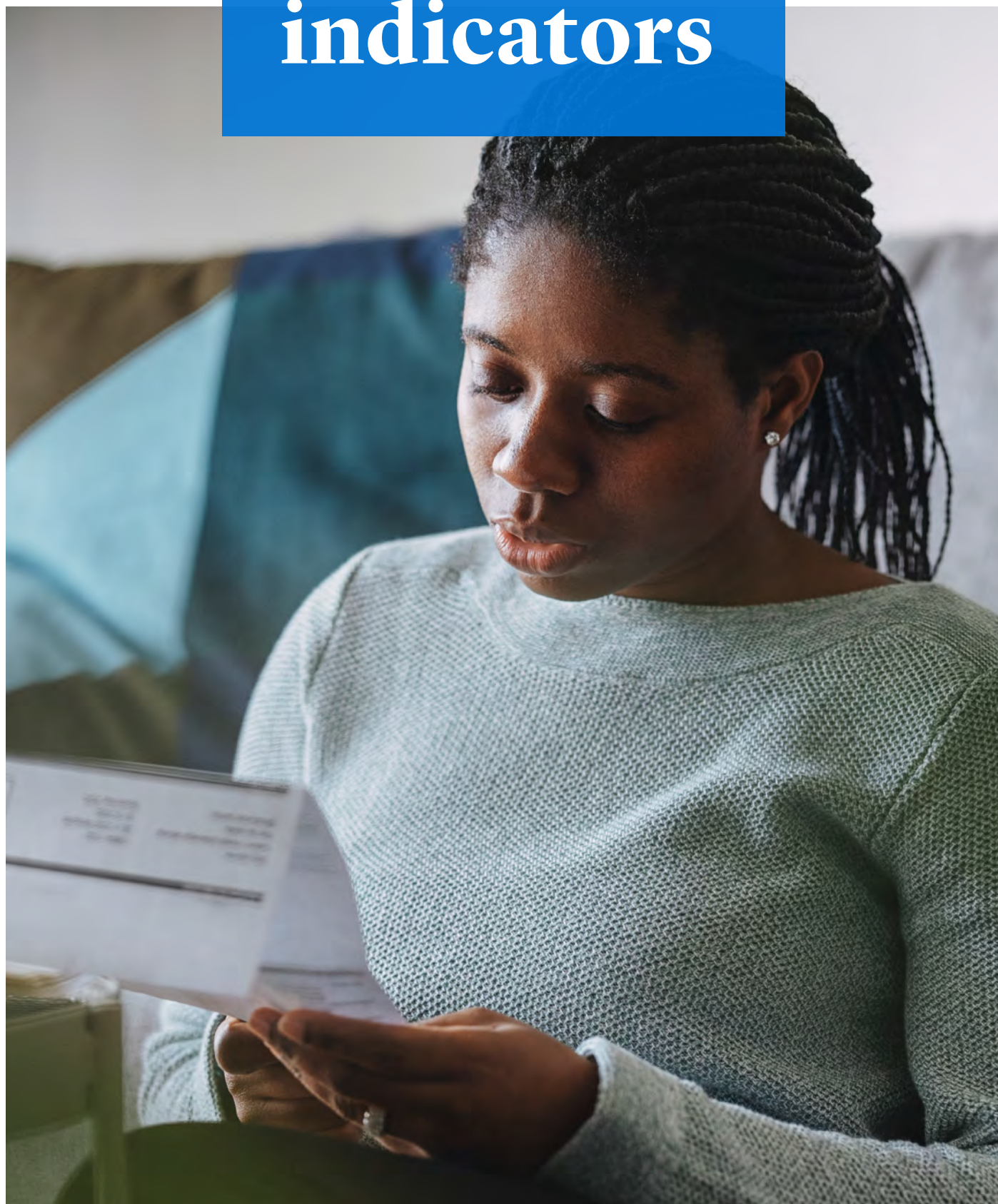
## Over the last 12 months the income disparities across the UK have further widened



## Component Index scores by UK country and region

	North-East England	North-West England	Yorkshire & Humber	East Midlands	West Midlands	East of England	South-East England	South-West England	London	Wales	Scotland	Northern Ireland
OVERALL RBI SCORE	65	65	64	64	63	64	65	63	68	63	65	63
HEALTH INDEX	62	62	62	63	63	67	69	69	72	60	62	63
EDUCATION INDEX	69	69	67	66	66	68	71	73	75	65	73	63
HOUSING INDEX	63	60	59	58	58	51	48	45	49	56	60	61
JOBS & ECONOMIC PROSPERITY INDEX	58	61	61	62	59	67	70	63	73	59	64	61
ENERGY & ENVIRONMENT INDEX	69	67	68	68	67	70	69	71	67	70	69	69
TRANSPORT INDEX	68	68	66	66	67	65	66	63	74	64	66	64
DIGITAL INDEX	75	76	75	76	75	72	74	67	80	70	73	67

# RBI key indicators



With a prolonged period of high inflation and ongoing public sector strikes throughout the country impacting multiple services (including ambulance workers, nurses, train drivers and teachers), it is all the more crucial that levelling up is at the forefront of government policy.

There is some reassurance, then, that the recently announced Spring Budget was positioned as having levelling up at its heart and included the announcement of numerous funding pots to boost high potential growth clusters.

Since the beginning of 2021, findings from the Legal & General Rebuilding Britain Index (RBI) evidence that efforts to level up the UK have, thus far, failed to have a material impact. Of further concern is that, in many cases, inequalities across the UK have widened over this period. Since the inception of the RBI, there have been various lessons which, if enacted, would help the government take this mission forward to reduce inequality throughout the UK<sup>1</sup>.

Positively, we have seen some signs of policy progress - with the West Midlands and Greater Manchester Combined Authority being given greater budget autonomy on investment decisions. This can be viewed as a pilot for an approach that may, eventually, see a more fundamental shift in decision making powers UK-wide.

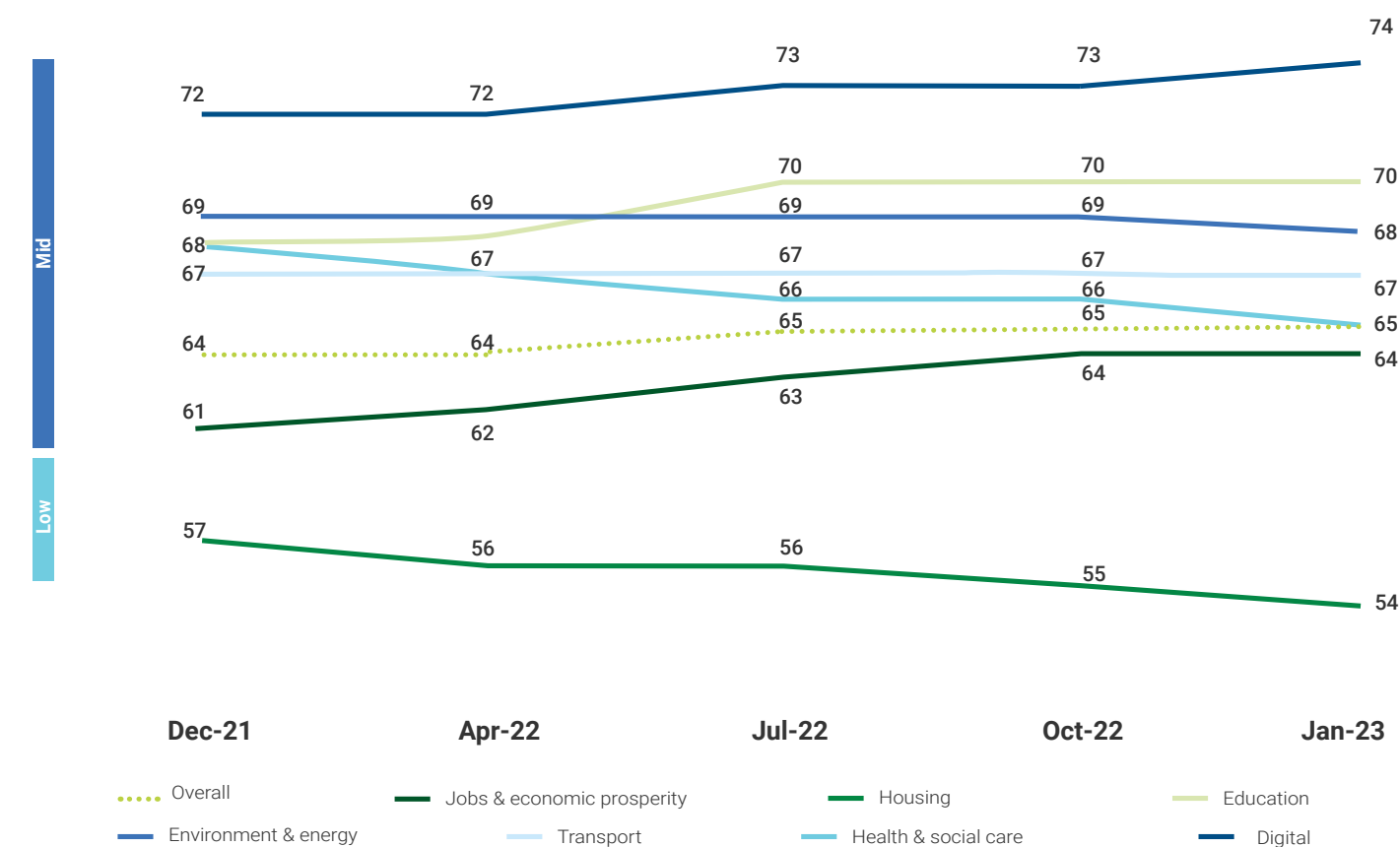
Such reforms will be crucial, and quickly, if ambitions for growth and levelling up are to be achieved.

As we approach the end of Q1 2023, the overall RBI score remains unmoved with a total of 65/100. This period has seen slight declines across health (65), housing (54) and energy (68) indices, while the digital measure (74) has shown slight improvement.

**Jobs & Economic Prosperity:** Given its larger weighting within the RBI, the jobs & economic prosperity index will always have a significant bearing on the overall score, so it is worth examining in detail.

After a prolonged but slight improvement in the jobs & economic prosperity score, there has been little movement over the latest quarter, with a score of 64 consistent with October 2022. However, there is data to suggest that the continued period of high inflation and interest rates are hitting household sentiment. While scores for average earnings (+3) and levels of unemployment (+4) continue to improve, sentiment towards local prospects and the local high street have both declined, while the same is true of GDP per capita. Given the flatlining scores for the availability of well-paid employment and skills and training, the question remains as to whether people are being suitably equipped to apply for more skilled jobs with higher salaries.

**Figure 1. In all measures except digital, the RBI indices either decreased or stayed the same.**



<sup>1</sup> Legal & General and H/Advisors Cicero, *Levelling-up 2.0 – Delivering a Continuing Shared Priority*, October 2022



**Housing:** Housing continues to be the worst performing metric within the RBI – with the housing score having fallen for the seventh consecutive quarter. An overall housing score of 54 means it is 10-points behind the next lowest scoring measure. It also means that the two measures that have the greatest bearing on the index itself are the lowest performing across the entire index.

Within the housing index, all measures have continued to fall, including the perceived extent to which local housing meets local needs and the perceived availability of starter homes. These results are unsurprising in the current housing context: mortgage rates reaching a high in December 2022 have led to media reports of a ‘property ice age’<sup>2</sup>, making it difficult to build, buy, sell and rent, affecting buyer confidence. Given that the Home Builders Federation expects housebuilding in England to fall to its lowest rate since the second world war<sup>3</sup> reversing this trend will be a key challenge across the country.

However, more needs to be done on a policy level if we are to meet this challenge. Policies to address planning blight - which is hindering and delaying many housing developments - are urgently required, while the decision to make housebuilding targets for local councils advisory as opposed to mandatory will also not have helped.

**Figure 2. Component Index scores and change over the previous quarter by UK country and region**

	North-East England	North-West England	Yorkshire & Humber	East Midlands	West Midlands	East of England	South-East England	South-West England	London	Wales	Scotland	Northern Ireland
<b>OVERALL RBI SCORE</b>	<b>65</b>	<b>65</b>	<b>64</b>	<b>64</b>	<b>63</b>	<b>64</b>	<b>65</b>	<b>63</b>	<b>68</b>	<b>63</b>	<b>65</b>	<b>63</b>
<b>HEALTH INDEX</b>	62	62	62	63	63	67	69	69	72	60	62	63
<b>EDUCATION INDEX</b>	69	69	67	66	66	68	71	73	75	65	73	63
<b>HOUSING INDEX</b>	63	60	59	58	58	51	48	45	49	56	60	61
<b>JOBS &amp; ECONOMIC PROSPERITY INDEX</b>	58	61	61	62	59	67	70	63	73	59	64	61
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<b>TRANSPORT INDEX</b>	68	68	66	66	67	65	66	63	74	64	66	64
<b>DIGITAL INDEX</b>	75	76	75	76	75	72	74	67	80	70	73	67

<sup>2</sup> The Telegraph, *We have entered a property ice age – here’s what’s coming next* (2023)

<sup>3</sup> The Financial Times, *House building set to slump in England, warns trade body* (2023)

**Health:** The health metric has fallen the second farthest of all measures across the lifetime of the RBI, with its current score of 65 down from a score of 70 in April 2021.

With the nurse and ambulance driver strikes and increasingly lengthy GP appointment and hospital waiting times, it is understandable that we have seen a fall in sentiment across the board for primary, secondary and tertiary care services.

**Energy & Environment:** The energy & environmental index saw a slight decrease over the latest quarter. This decrease is a result of falling scores for the amount of renewable energy generated per household (decreasing by 2 points) and the perceived energy efficiency of homes (decreasing by a point).

Given the high costs of energy it is perhaps not a surprise to see sentiment fall on the perceived energy efficiency of homes, but the fall in renewable energy generation per household does beg the question as to whether the UK is doing enough to support households in going greener.

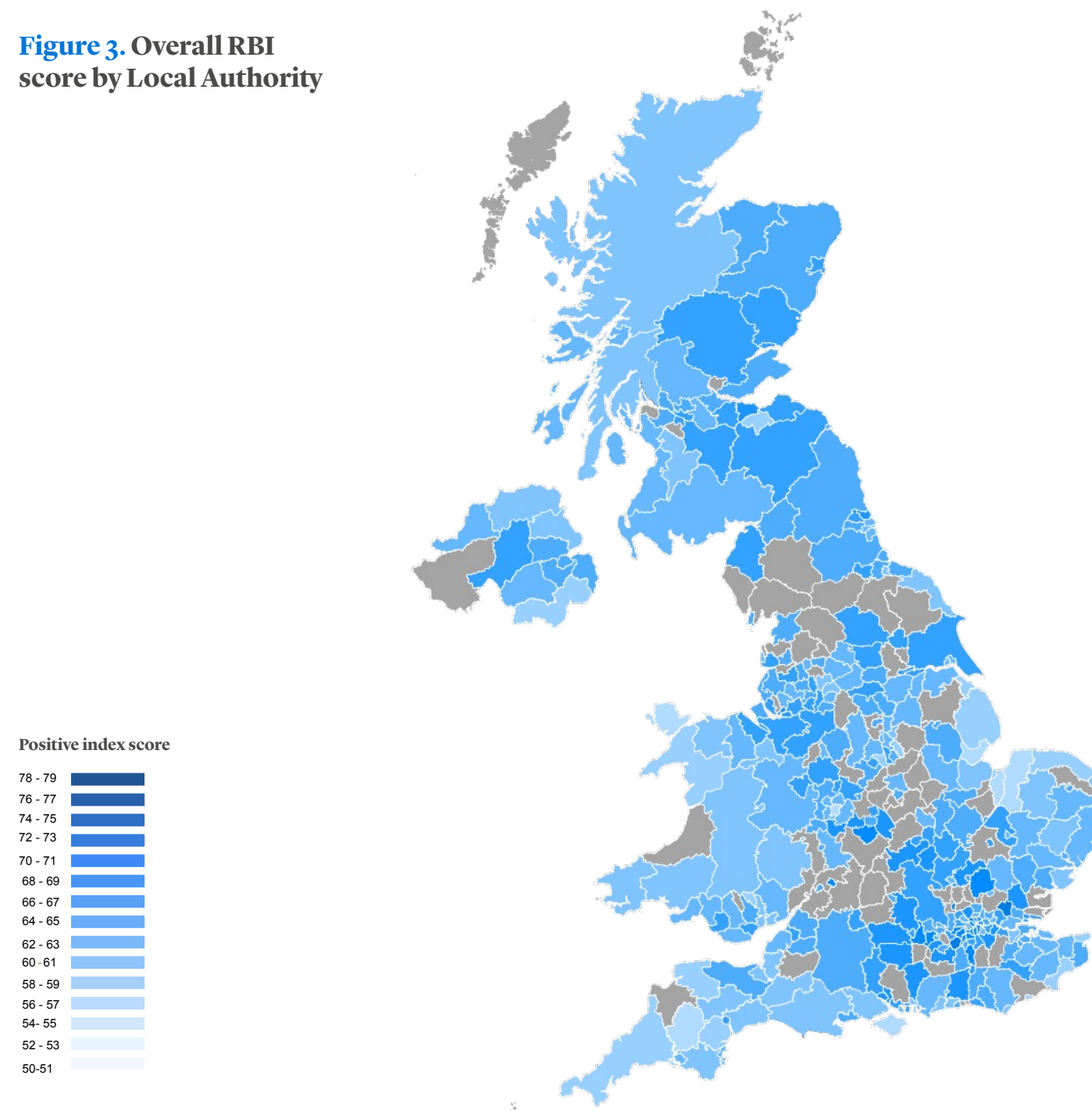
## Regional and Local index performance

It is clear there are various disparities between the overall RBI score and a region’s individual index score. Each local authority within any given region will have various individual strengths and challenges, which can be examined on a more specific level with our **interactive mapping tool**<sup>4</sup>. Spanning each of the 52 individual metrics across the RBI, this map details the points in which each individual local authority is pushing ahead or falling behind.

While there are various disparities throughout the RBI on a regional level, these differences are far more pronounced on a local authority level.

Increases seen nationally in the jobs & economic prosperity index are also seen on a regional level, with eight out of the 12 regions and nations increasing in line with the national index average. That said, three of the six poorest performing parts of the UK on this measure – the North-East of England, North-West of England and Yorkshire & Humber – have failed to see any improvement over the latest quarter and, as such, are falling yet further behind the likes of London.

**Figure 3. Overall RBI score by Local Authority**



<sup>4</sup> Legal & General RBI, *Interactive Mapping Tool* (2023)



# Inflation: deflating household confidence



While Russia's full-scale invasion of Ukraine saw a sharp spike in the rate of inflation in the UK, inflation had already been hitting households during the 12-months prior. It remains to be seen as to whether inflation in the UK has peaked, but an inflation rate of 10.1% for January 2023 is significantly higher than the sub 1% figure seen in January 2021. Furthermore, it is in some of the everyday household spending categories that we are currently witnessing the highest rates of inflation – transport (14%), housing & utilities (14%), recreation & culture (13%) and food and non-alcoholic beverages (12%).

## Inflation is not felt equally...

While we have seen the RBI score for average earnings increase slightly over the last 12-months (a score of 52 in wave 8 compared with 49 in wave 4), this pales into insignificance alongside the rate of inflation, leaving most households poorer.

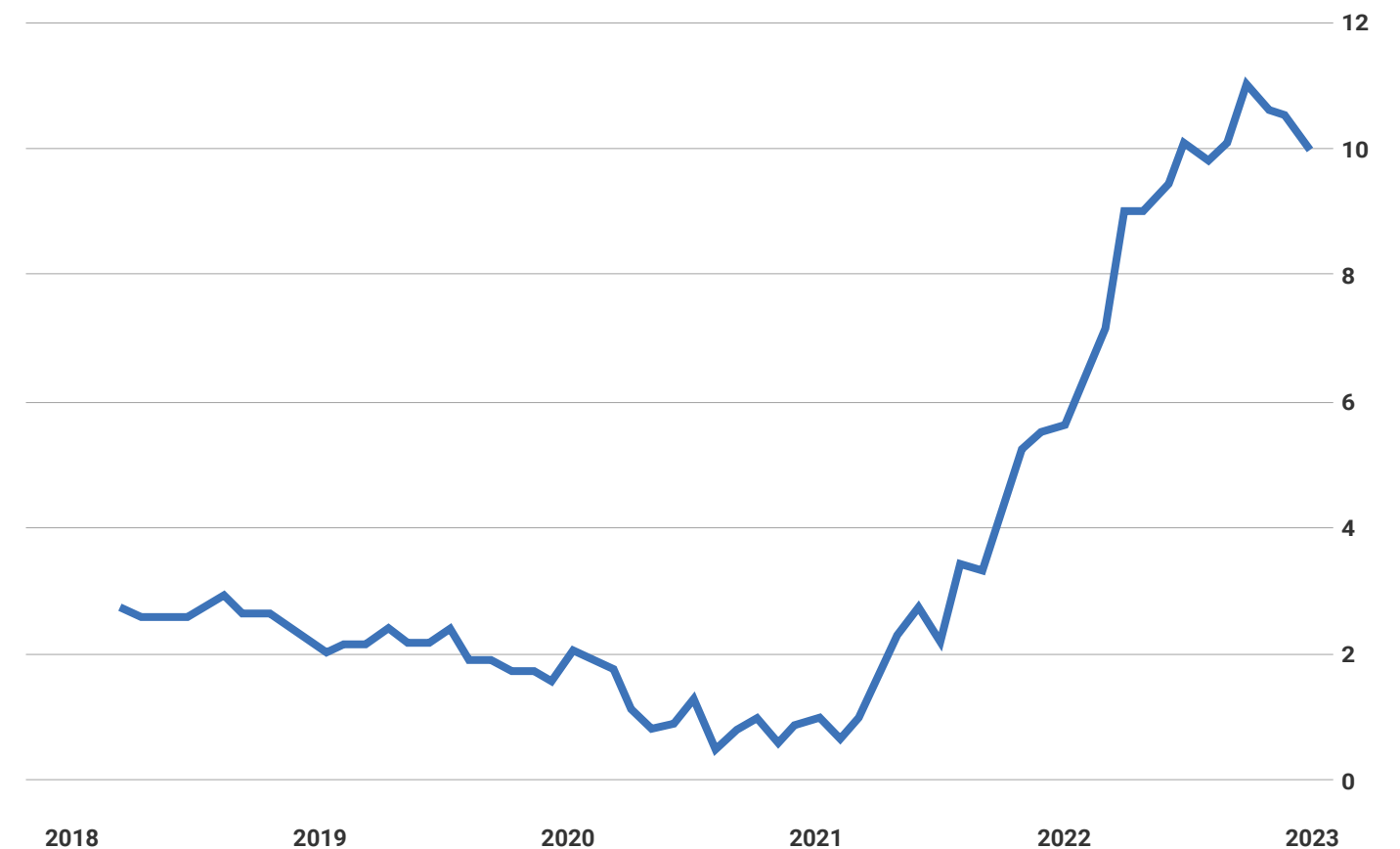
Our findings show that, across the UK, only 5% of households have experienced an increase in income at or above the rate of inflation. The remaining 95%

of households will have experienced a real-terms pay cut during this period, with around one-in-five (18%) experiencing a decline, which will be felt twice as keenly given rising household costs.

While there is little difference in these findings across the UK, our data demonstrates that it is the lowest income households that have been the hardest hit – meaning the gap between the UK's wealthiest and poorest households is widening significantly during this crisis. Over the previous 12-months 33% of households with under £20,000 in income have seen a decline in that income and only 1% have seen a rise at or above inflation. Conversely, among those households with an income of £100,000+, only 11% have experienced a decline in income and 17% have seen an increase at or above inflation.

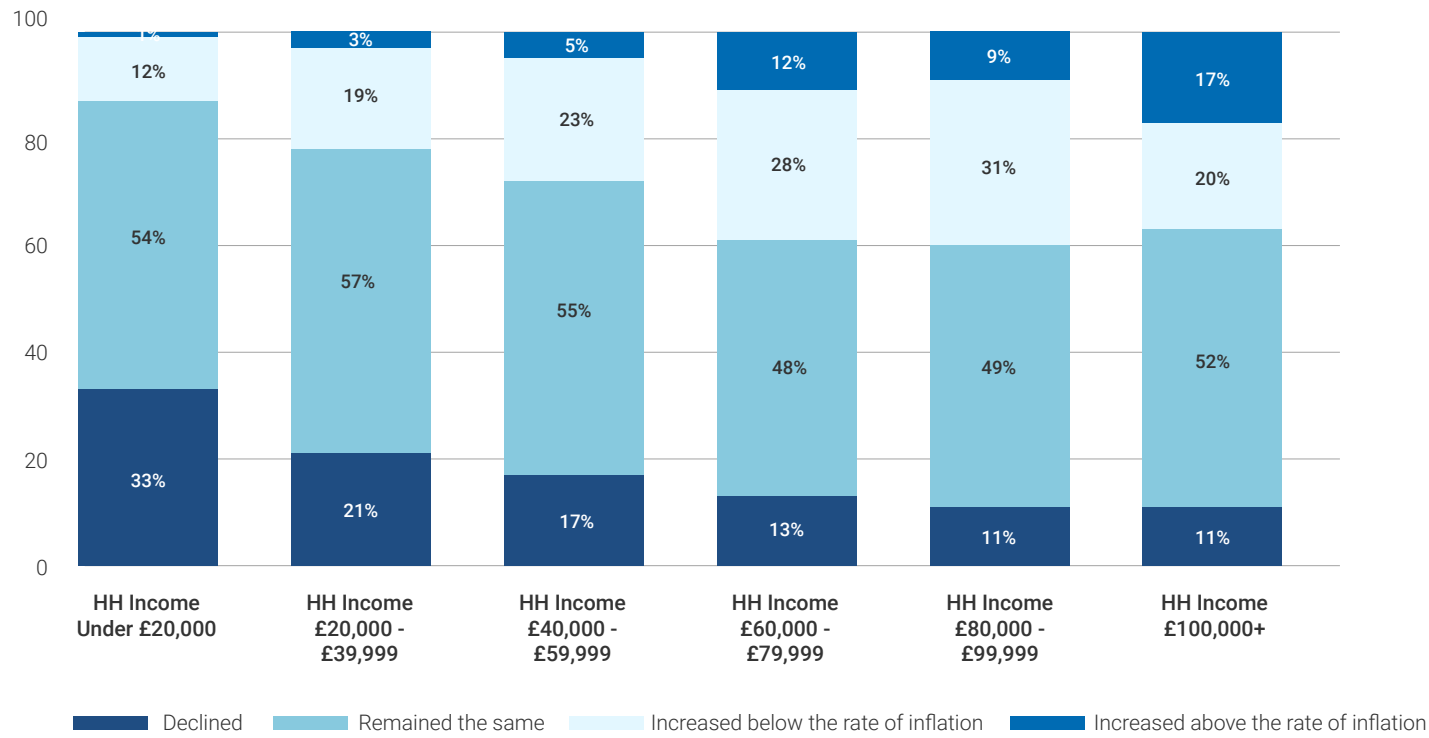
Given this real terms pay decrease across the vast majority of households it is little surprise to see nearly half (47%) stating that they are very or fairly concerned about being able to keep up with their housing payments over the coming 12-months.

Figure 4. 5-year UK rate of inflation

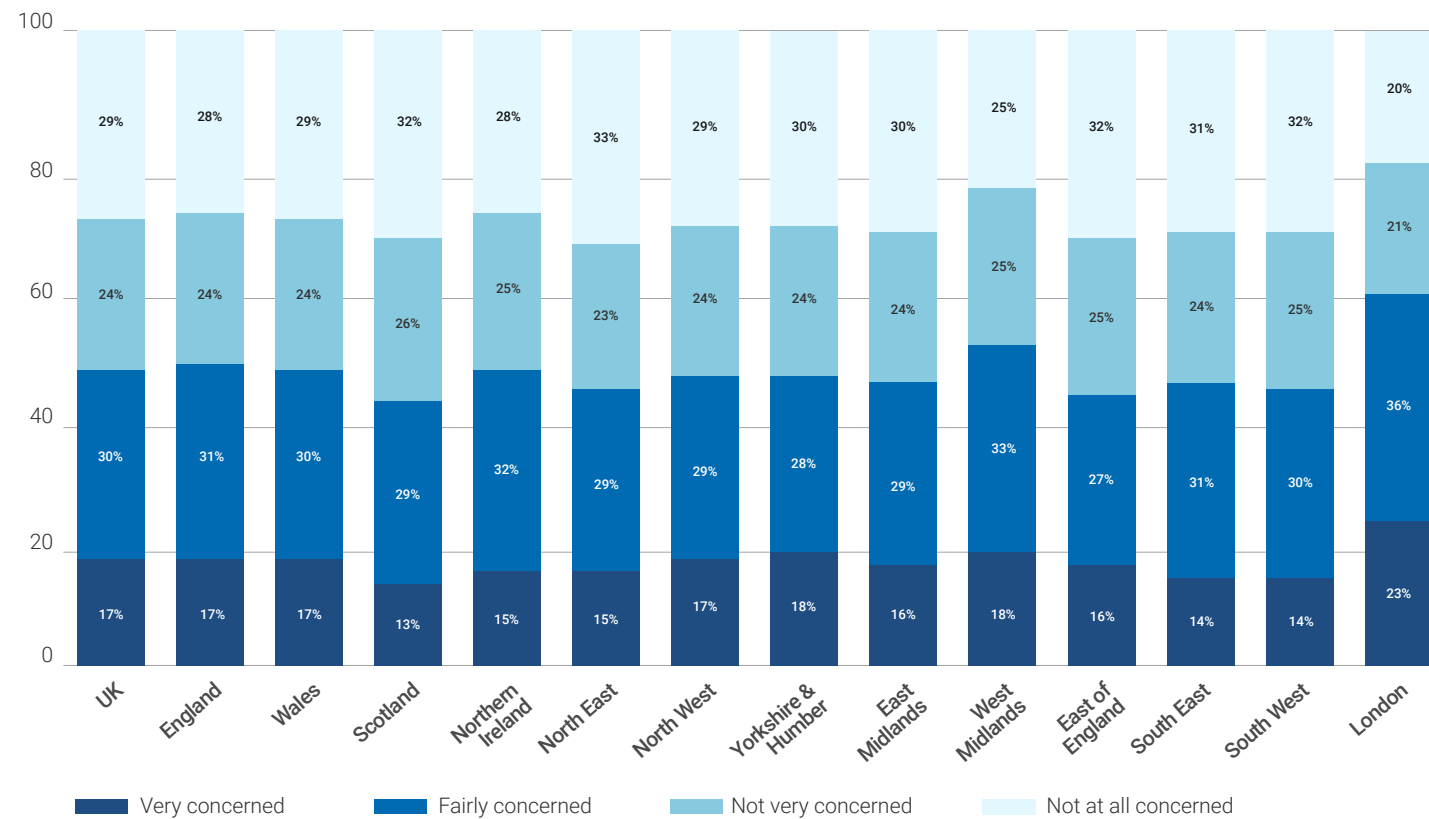


<sup>5</sup> Trading Economics, United Kingdom Inflation Rate (2023)

**Figure 5. Changing household income over the previous 12-months by income level**



**Figure 6. Level of concern in being able to keep up with rent / mortgage payments over the next 12-months by region**

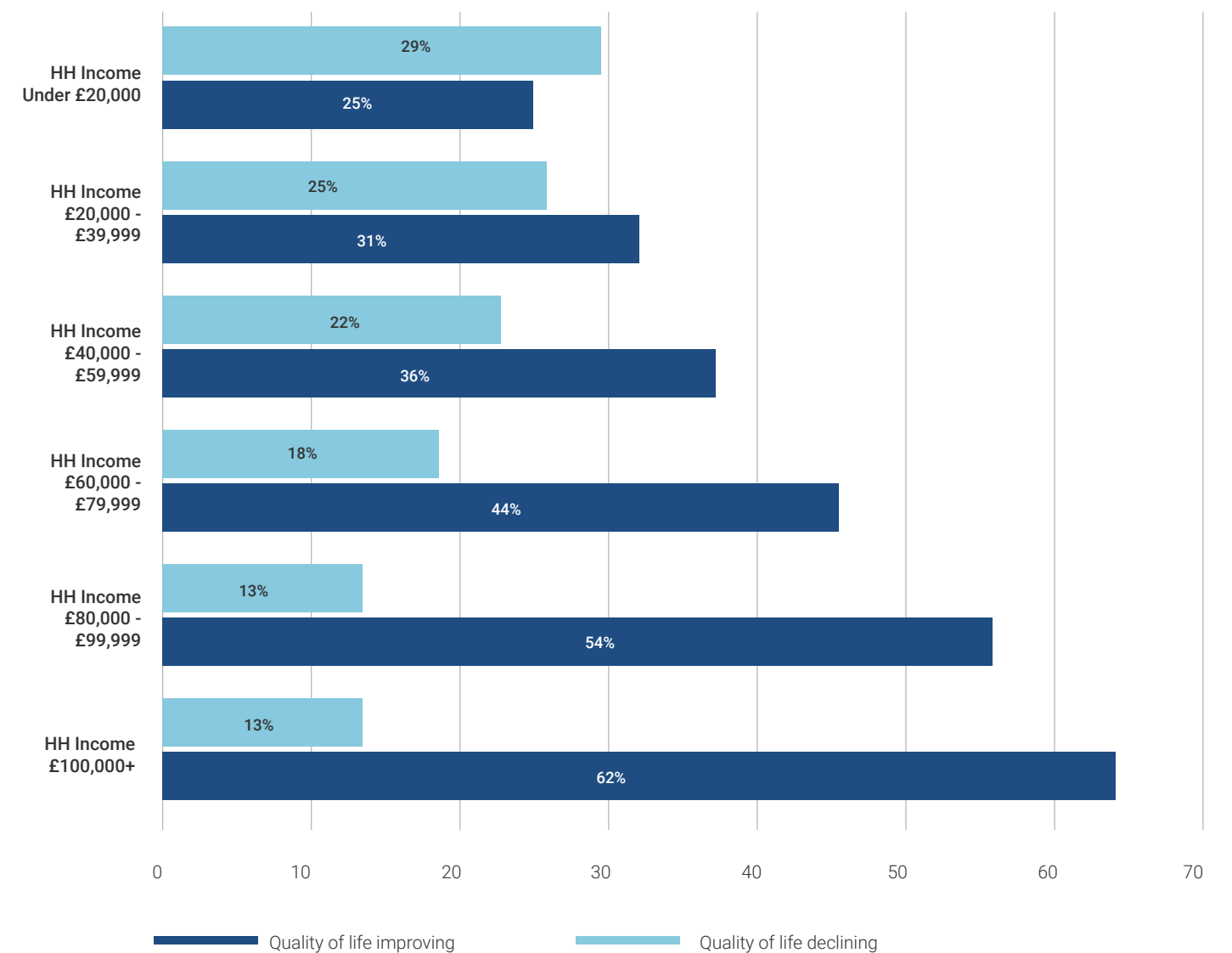


## This is leaving lower income households feeling that quality of life is declining...

The impact of the cost of living crisis is having a direct impact on perceived quality of life – the determining factor that assigns the weight of the component parts of the RBI – across the UK. While in our latest findings the proportion of households who feel that quality of life is improving (34%) outweighs the proportion who feel it is declining (23%), findings again differ widely depending on household income. Indeed, households with an income of sub-£20,000 are more likely to feel that quality of life is declining (29%) than improving (25%).

Again, the story is very different among wealthier households, with quality of life seen to be improving by 62% of households with an income of £100,000+ and declining by only 13%.

**Figure 7. Perceived changing quality of life among UK households by household income level**



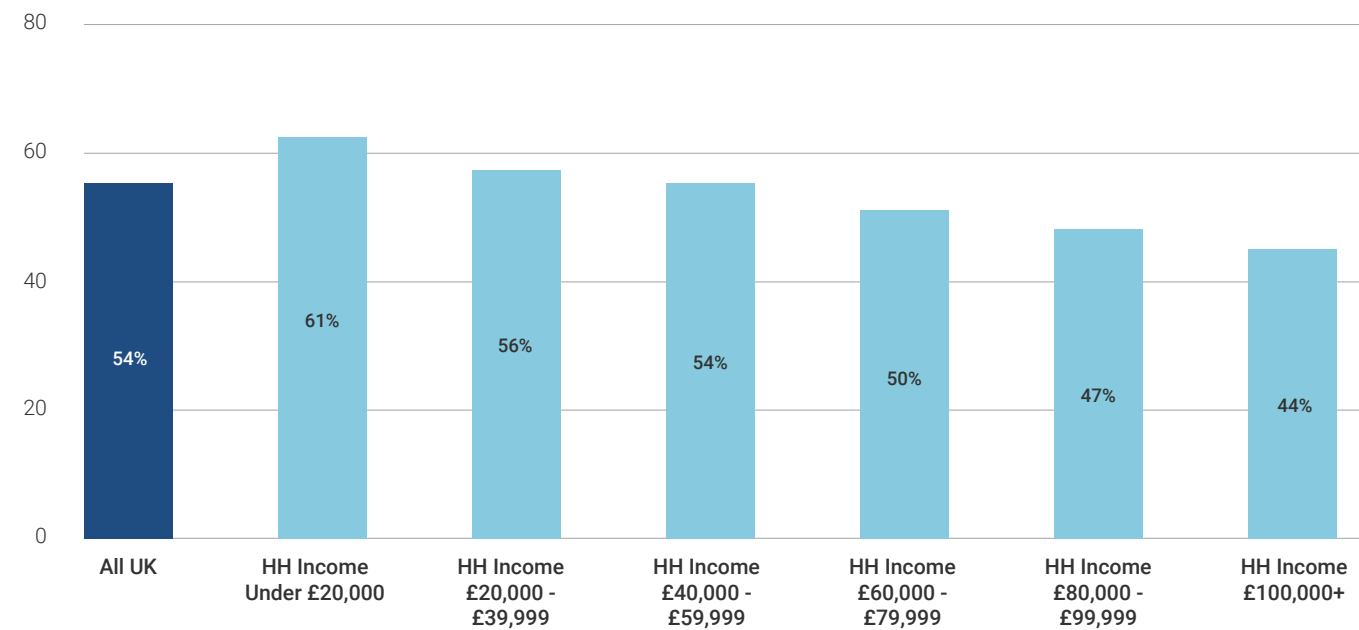


## Household spending taking a hit...

The economic mood music has already hit household spending. Over half of UK households have reduced their day-to-day spending over the previous 12-months in response to the financial strain caused by the cost of

living crisis. Furthermore, it is notable that a significant proportion of households have taken this action, regardless of household income levels.

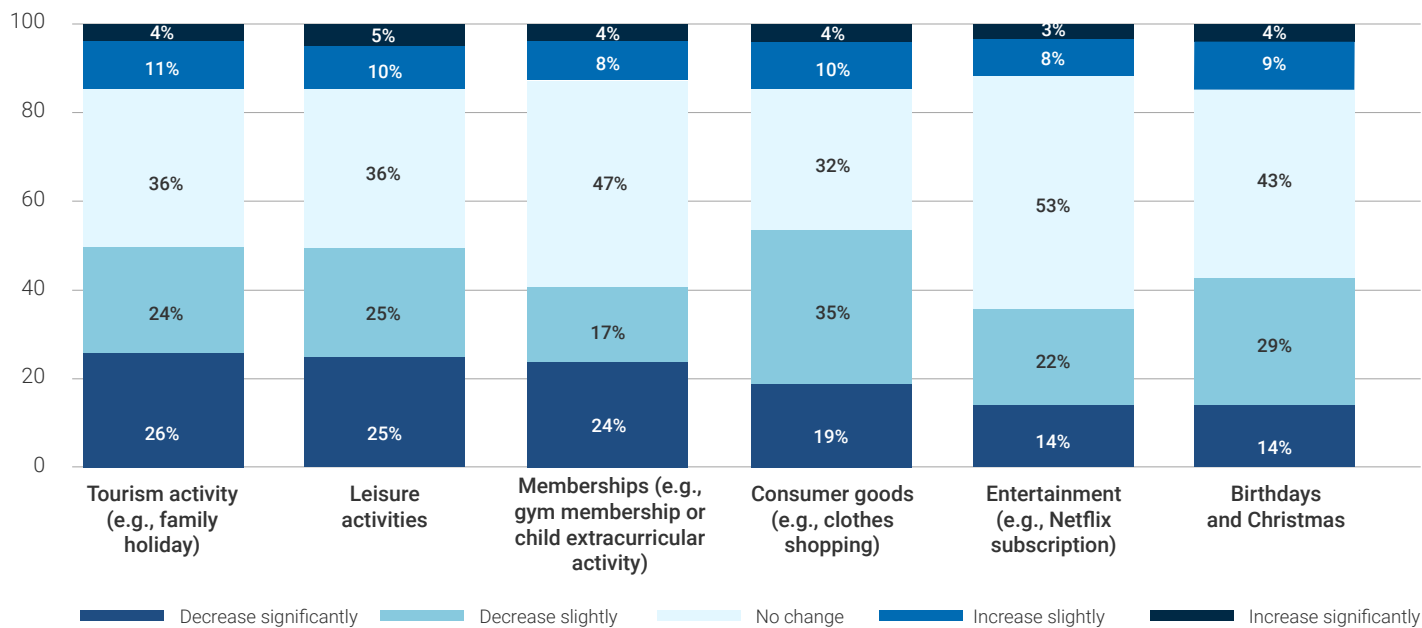
**Figure 8. % households reducing household day-to-day spend as a response to the financial strain caused by the cost of living crisis by household income**



This cut back in household spend has been seen across multiple spend categories, but is particularly prevalent in consumer goods (54% decreasing spend), tourism (50% decreasing spend) and leisure activity (50% decreasing spend). It is likely no coincidence that these are among the categories experiencing the highest levels of inflation.

The risk facing the country is that this reduced household spend becomes a vicious circle – affecting GDP, putting further pressure on High Street and online retailers and negatively impacting employment and average earnings.

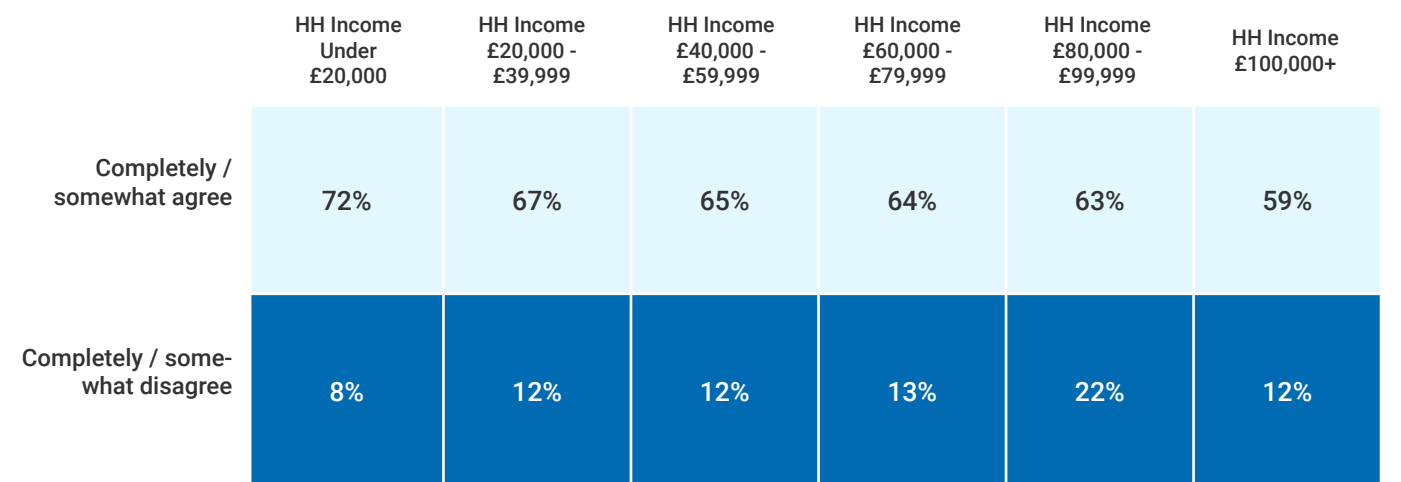
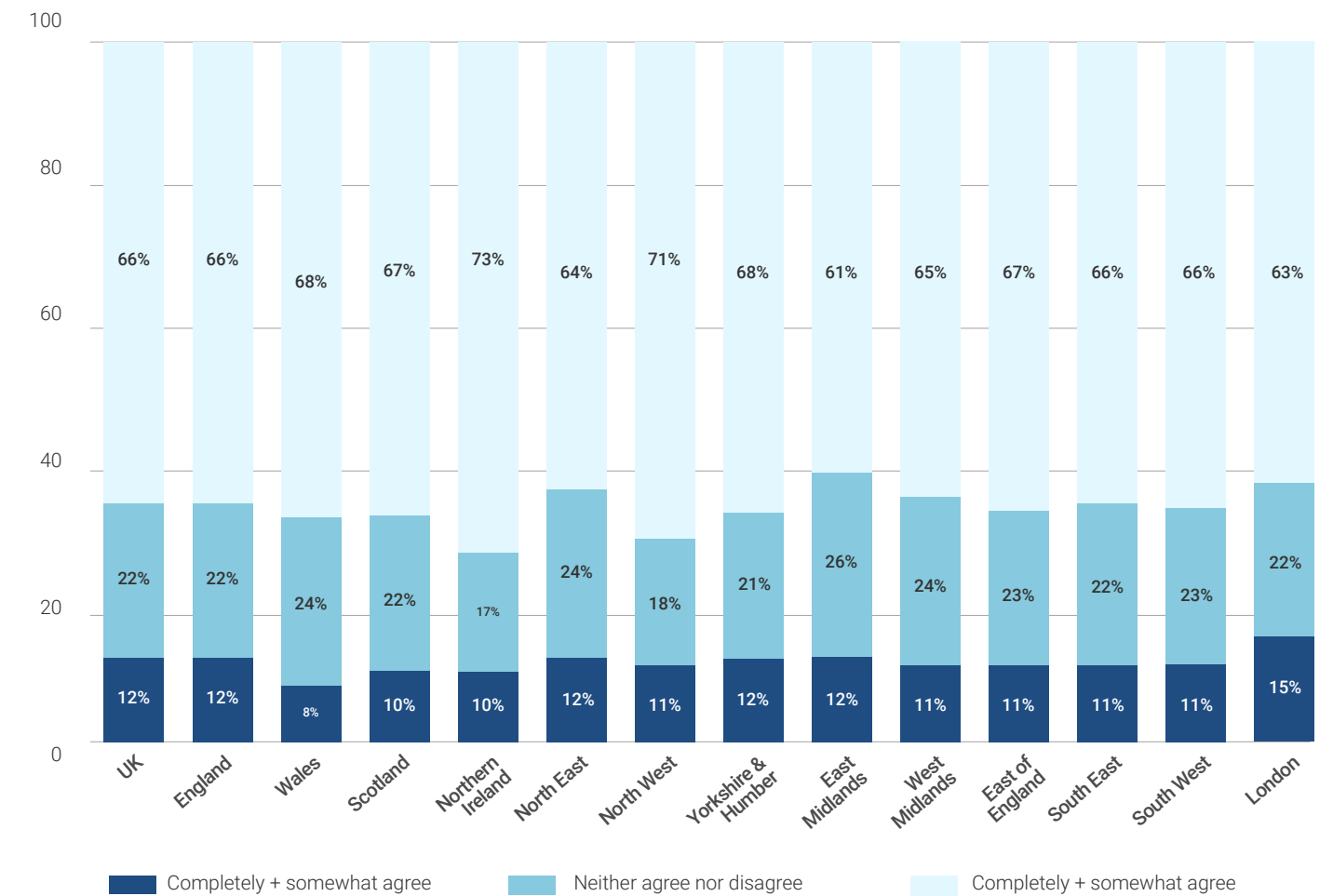
**Figure 9. Change in household spending over the previous 12 months**



As such, it is concerning to see that two-in-three households see no end in sight to the current cost of living crisis – with this figure broadly consistent across the UK.

Furthermore, and reflecting the impact of the crisis on household spending across all income brackets, even a majority of the highest income households agree that the crisis is far from over for them personally.

**Figure 10. % of households who agree / disagree that the cost of living crisis is far from over for you personally – by region and household income**





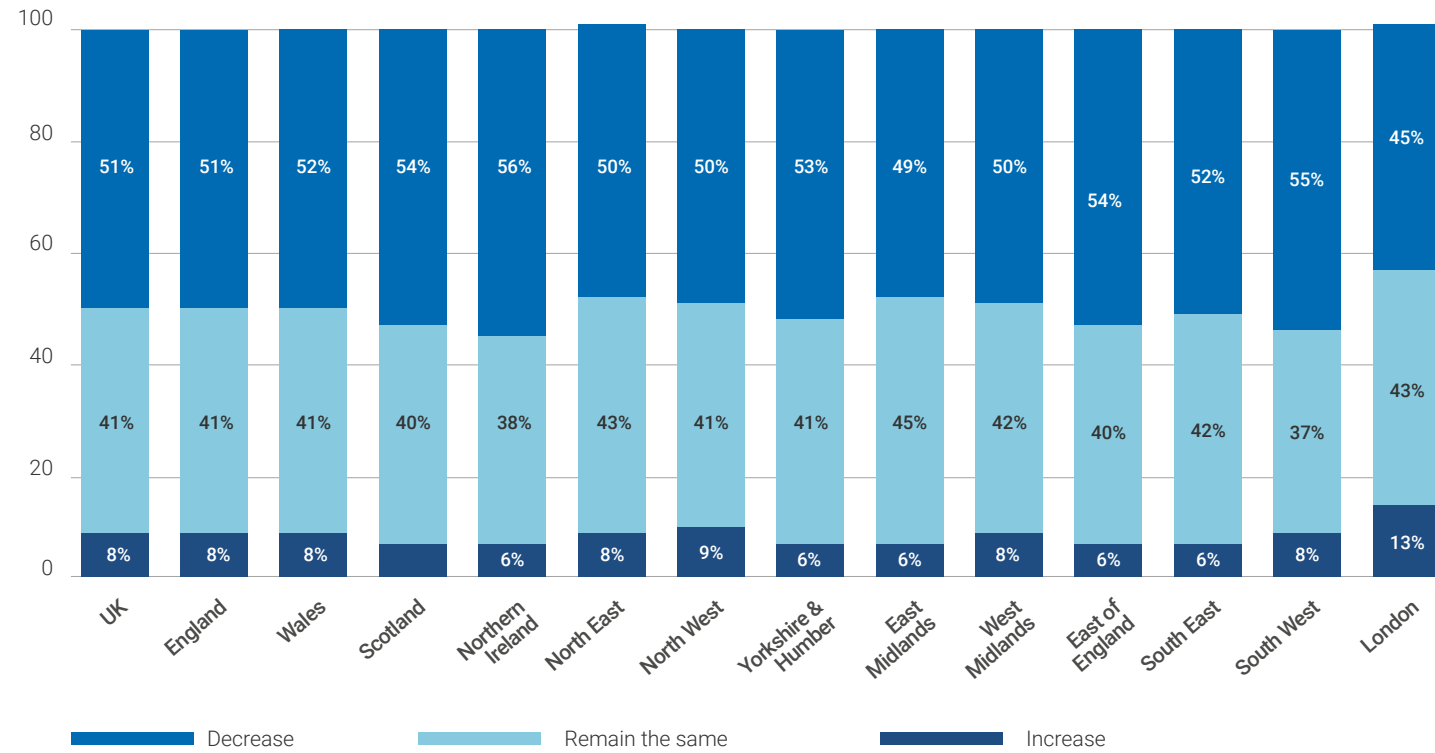
As a result, half (51%) of UK households expect that their discretionary spending over the coming 12-months will further decrease – with this figure rising to 59% among

households with less than £20,000 in income and falling to 33% among those with an income of £100,000 or more.

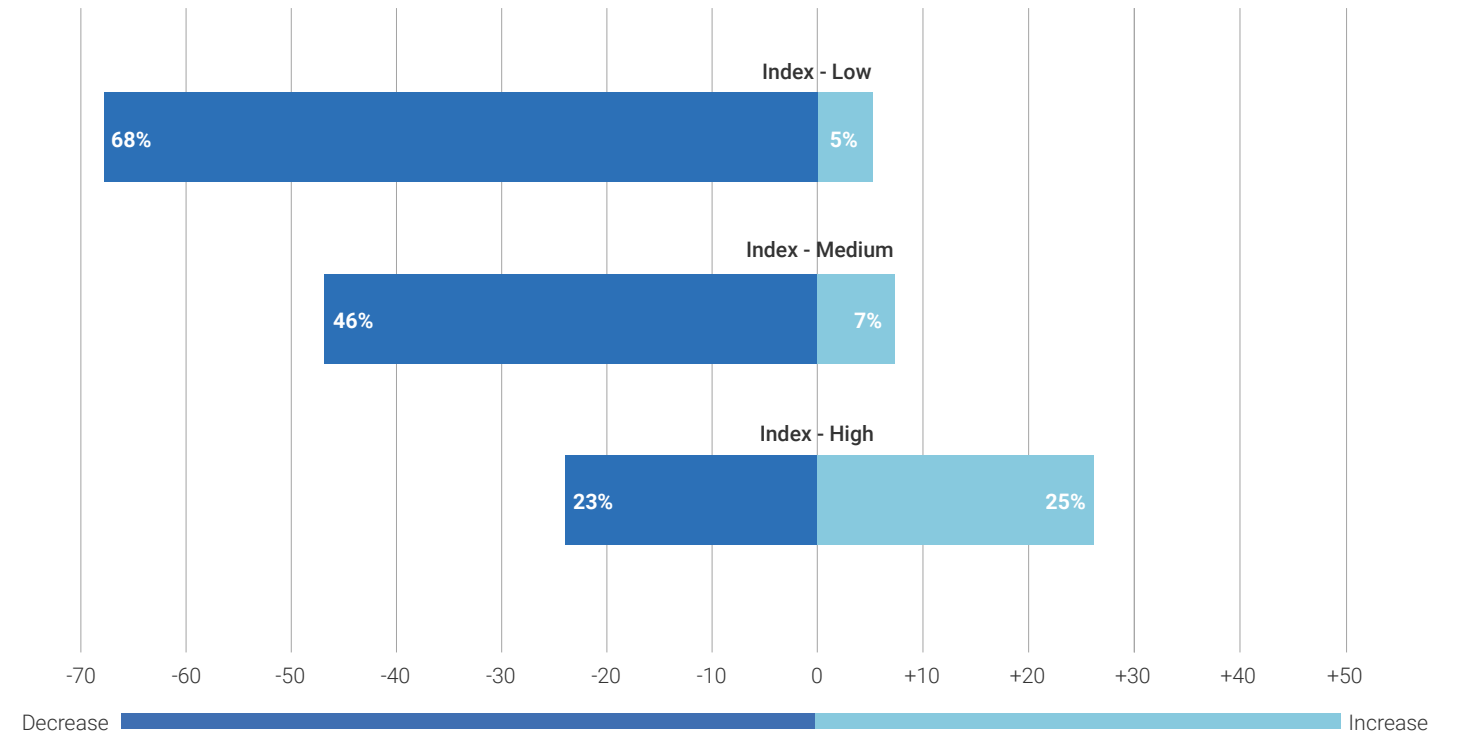
Further demonstrating how these trends are widening the gaps that the levelling up programme is aiming to close, households achieving a low RBI score are far more likely to

expect their discretionary spend to decrease compared with those achieving a high RBI score.

**Figure 11. Expected change in household discretionary spending by region over the next 12 months**



**Figure 12. Expected change in household discretionary spending by RBI score**



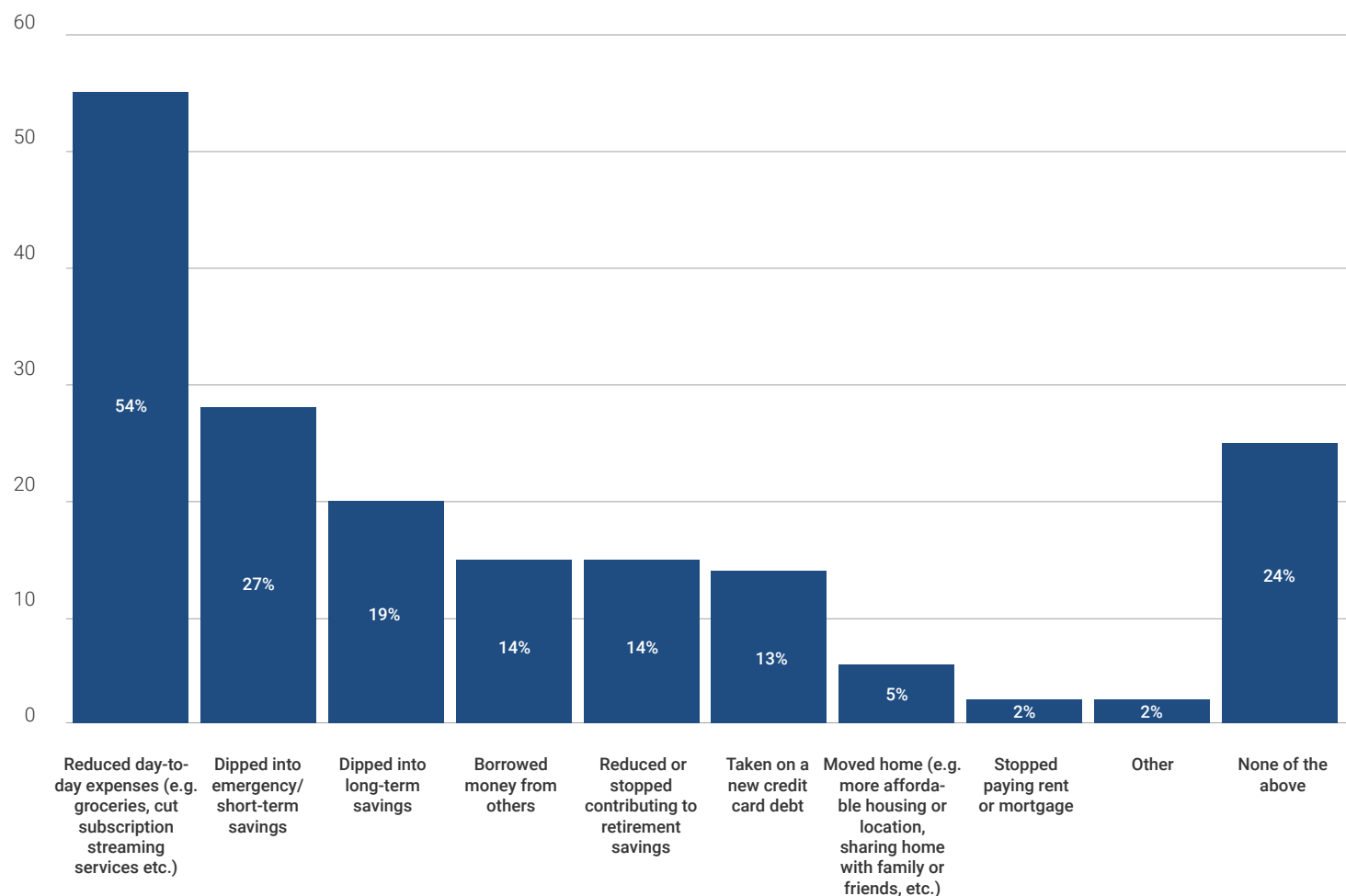


## The sting in the tail...

While, perhaps understandably, commentary around the impact of the cost of living crisis has focused on the pressures it has on the here and now, there is a further sting in the tail. The impact of financial pressure on households will continue to be felt far into the future, with many households being forced to dip into short and long-term

savings, take on additional debt or pause retirement contributions. For these households, it may take many months or years to replace the savings they have relied on during this period or to pay off any debt accrued, while they will also lose the benefit of any compound interest that they may otherwise have gained.

**Figure 13. Steps taken by households in response to the financial strain caused by the cost of living crisis**



## Where do we start?

The cost of living crisis and the challenging economic situation both add an unwanted level of complexity to how the government can work to combat the regional inequalities throughout the UK.

Whilst reducing the cost of living is an immediate priority throughout the country, reducing its impact on individuals can and must go hand in hand with longer term rebuilding and a structural re-think on how we level up the UK.

This must start with how we, as a country, create more higher wage and higher value employment and, crucially, how we better distribute this employment across the whole of the UK. However, attracting both employers and a workforce into the UK's left-behind areas, and being able to sustain that, will require increased investment into housing, health, transport and digital infrastructure right across the country.

Ultimately, this means that future investment needs to be holistic in nature and provided over a sustained period if its impact is to be meaningful. Smaller individual projects, sprinkled across the UK, that are not joined up

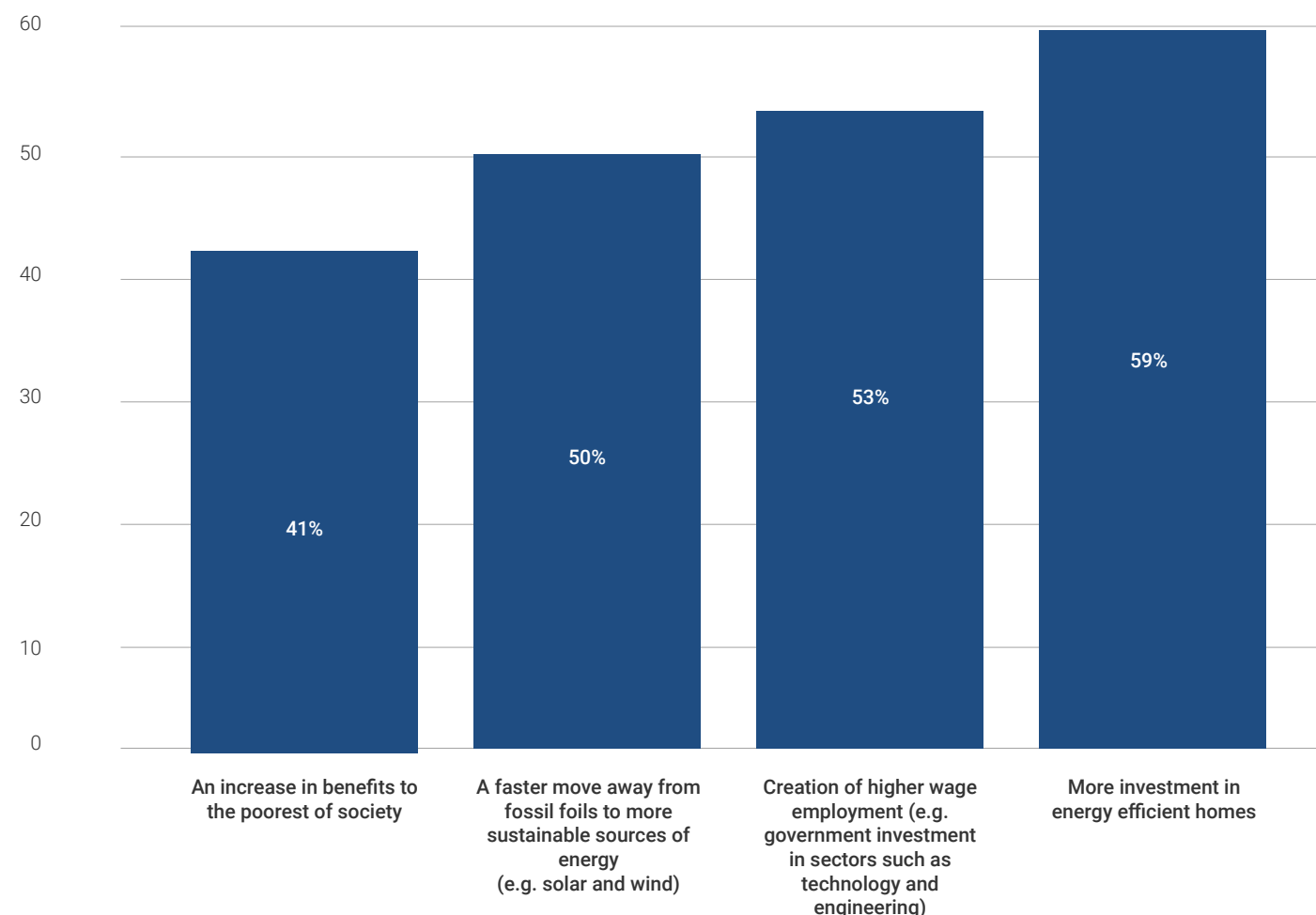
are unlikely to be either effective or efficient. Regardless of whether they are delivered or not, these projects will not be capable of addressing the fault lines beneath these regional and local inequalities.

Such a strategic approach at a local or regional level is difficult to manage centrally from Westminster or Whitehall. Instead, we need to consider increased 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.

With regards to addressing the impacts of the cost of living crisis, while public focus remains firmly on the creation of higher wage employment, there is also significant support for a more foundational rethink of how we build and heat our homes and business premises.

The message is clear – the UK needs to stop playing on the fringes if it is serious about levelling up. A more ambitious and fundamental approach is required.

**Figure 14. % of households supportive of approaches to help alleviate the current cost of living crisis**





# Appendix: Methodology



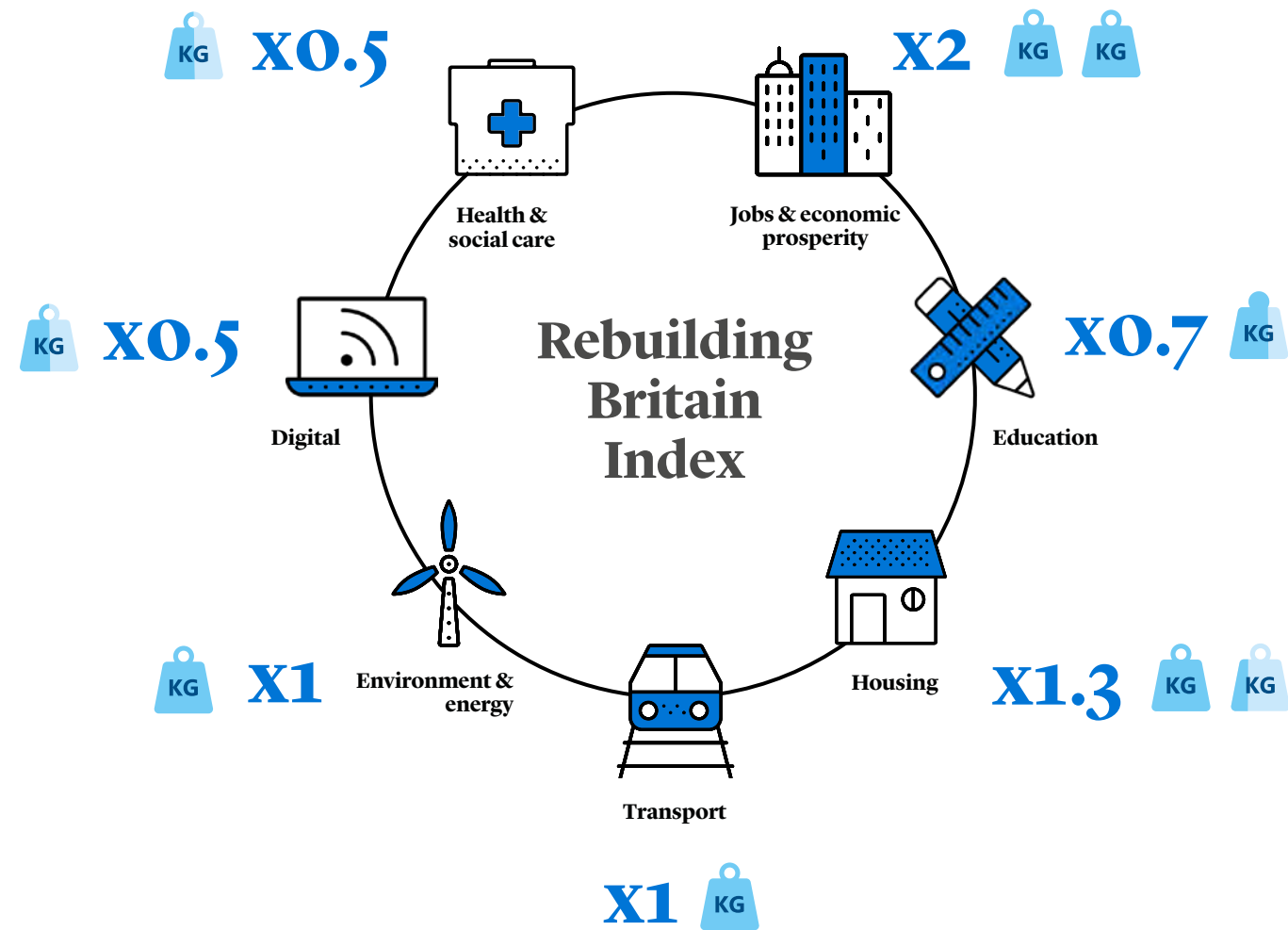
Legal & General is working in partnership with research specialists H/Advisors Cicero, to develop an index that combines key indicators of social and economic progress. The index – called the Rebuilding Britain Index (RBI) - Is designed to provide a benchmark of the UK's success in 'Levelling-Up' the 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 March 2022 and subsequently June 2022, September 2022 and January 2023.
- 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
  - OFGEM
- 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 one hundred 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.







**H/ADVISORS**  
*Cicero*