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The levelling up outlook

CPP outlook #5
April 2022

About the outlook

The government's levelling up agenda aims to address the place-based inequalities that have held back the country's economic progress for decades. It is at the heart of the promise made by the Conservative Party to former Red Wall seats in the 2019 General Election but fulfilling it has been made harder by the Covid-19 pandemic and now the worst cost of living crisis for 60 years.

The purpose of *The levelling up outlook* is to track the country's progress in reducing economic inequalities – particularly as they relate to place – in the context of the ongoing economic challenges. We use latest official statistics and other reliable data with all sources listed at the end of this report.

Key takeaways from the April outlook

A new index measuring the cost of living crisis

The cost of living crisis poses a significant and immediate threat to the defining mission of this government, threatening to worsen living standards in the poorest places and further entrench unacceptably high place-based inequalities.

This outlook presents the results of a new index highlighting spatial patterns of vulnerability to this crisis to gain a greater understanding of which places will be worst hit without further government support.

To our knowledge it is the first index of this sort – and while closely related to existing measures of deprivation – it takes a broader view by incorporating a range of economic factors to determine:

1 a place's relative risk of more people being pulled into poverty; and
2 the relative risk of those who were already hard up being pushed into destitution.

It finds that the North of England will be particularly hard hit by rising living costs with many local areas such as Kingston upon Hull and Blackpool doing badly on all of our indictors. The prevalence of low pay and working age economic inactivity in coastal and rural communities in the South and the East of England also puts areas such as Hastings, Thanet and Dover at high risk. Meanwhile, very high rates of child poverty and food insecurity account for much of the vulnerability in several London boroughs.

Local authorities ranking in the top decile of our index – covering a total population of 8.9 million people – are all urban areas located in London, the North, and the Midlands. Half of the English core cities are present, as are smaller cities such as Middlesbrough and Bradford, and places on the urban peripheries such as Blackburn with Darwen, Sandwell, and Burnley. Half of the most vulnerable local authorities (the top decile) encompass former Red Wall seats such as Burnley, Blackpool and Sandwell.

Government support measures are insufficient and poorly targeted at vulnerable places

The Council Tax Rebate announced in February disproportionately benefits wealthier households in places like Rushmore, with low vulnerability, at the expense of highly vulnerable places like Redbridge. Covering the cost of April's energy price cap rise (£693) for those in receipt of Universal Credit would cost £2.4bn – £600m less than the current Council Tax Rebate – and would result in more spending on the most vulnerable people and places.

Greater immediate spending on Universal Credit is necessary but not sufficient. Our index points to broader vulnerabilities including a high prevalence of low wages or people that have left the workforce early. Further interventions must be appropriately targeted to alleviate the threat of rising poverty, while aligning with the principles to reduce spatial inequalities as set out in the *Levelling Up White Paper*.

Background: cost of living crisis

This month the cost of household energy bills will rise dramatically as Ofgem increases the energy price cap by 54% due to rising global gas prices, making 22 million people around £693 a year worse off.[1] This rise is part of a widespread increase in prices as a result of the Covid-19 pandemic and supply chain disruptions, with consumer price inflation rising to the highest level for 40 years.[2]

The Chancellor's budget in March did nothing to alleviate the impact of this crisis on the lives of poorer people, failing to uprate benefits in line with inflation and going ahead with an increase in the rate of national insurance, which it has been estimated will push an additional 1.3 million people into poverty.[3]

In this context, CPP's latest edition of the levelling up outlook holds a geographical lens up to the cost of living crisis, exploring which places will be worst hit and why.

To do so, we have developed the CPP Cost of Living Vulnerability Index. This index seeks to cast new light on how and why places will experience differing levels of hardship taking into account both existing levels of poverty, alongside other measurements that characterise the local labour market, to identify the places where the greatest proportions will be pushed into poverty due to this crisis or, if already living in a state of poverty, pushed yet further into hardship.

The cost of living crisis is fundamentally a levelling up issue

Since Boris Johnson's initial appointment as Prime Minister and successive election victory in 2019, the government has persistently committed to bringing to an end the UK's postcode lottery for living standards. Culminating in the *Levelling Up Agenda*, the long-awaited *Levelling Up White Paper* outlines this ambition as its very first mission – promising that by 2030, pay, employment, and productivity will increase in every part of the UK, with a converging of the gap between the top performing and other areas.

Yet against the backdrop of the publication of the *Levelling Up White Paper* in February 2022, the UK was already enduring an unprecedented squeeze in living standards. At the time of writing, households across the country are coming to grips with a new economic reality characterised by a significant fall in their real incomes, driven primarily by short-term price increases in the cost of household essentials such as food and energy. In light of inflation rising to a 40-year high, the Office for Budget Responsibility has suggested that 2022/23 will see the biggest fall in living standards since records began in the mid-1950s.[4]

The full scale of the economic turmoil ahead is difficult to fathom and could take years to unravel. The continuation of supply-side pressures stemming from Covid-19 is showing no sign of subsiding, while more recently, the Russian invasion of Ukraine – and the subsequent economic sanctions imposed on Russia by the West – has sent commodity markets spiralling and the energy industry into a more intense state of turmoil.

What is clear, as was the case during the Covid-19 pandemic and the 2007–08 financial crisis, is that the most significant burdens are borne by those with the least means. In the absence of a robust and targeted policy response, the cost of living crisis poses a significant and immediate threat to the defining mission of this government, threatening to worsen living standards in the poorest places and further entrench our unacceptably high place-based inequalities.

> Failure to support those who are struggling through this crisis risks setting levelling up back years.

What will all this mean for households?

Recent forecasts by the Resolution Foundation have suggested that UK inflation would peak at around 8% this year, calculating that an inflation rate above 8% could leave real household incomes £1,000 lower in 2022/23 than in 2021/22, a scale only previously seen during recessions.[5] As households in the bottom 40% of the income distribution already spend between 38–43% of their income on food, housing and bills in 2019/20, high inflation will have a more significant effect on those at the lower end of the distribution scale.[6] Citizens Advice have estimated that some 5 million people will be unable to afford their energy bills following this month's energy price cap rise, with this number potentially rising to around 14.5 million people should prices rise yet again in October.[7]

Further research conducted by Citizens Advice has also shown that nearly half (47%) of people on low incomes predict that they will fall behind on essential bills, or cut back on essential spending elsewhere.[8] With food and energy costs having risen at substantial pace, some households are facing a choice between 'heating or eating', with the Fuel Bank Foundation stating that 96% of those who it had issued fuel vouchers to having faced this choice in the past 12 months.[9] Research by the Trussell Trust has also found that one in three recipients of Universal Credit have already been unable to afford adequate food, anticipating this figure to rise further without adequate intervention.[10]

The cost of living vulnerability index

This index seeks to explore differences in place-based vulnerability to the crisis, at the Lower-Tier Local Authority (LTLA) level in England. Here, vulnerability to the cost of living crisis is characterised as a combination of both:

1. **Poverty-based vulnerability:** this refers to existing levels of poverty in a place, focusing specifically on indicators that correspond with pressures arising from the cost of living crisis. Where a place has high levels of existing poverty, we assume that they will be more vulnerable to an increase in the severity of poverty experienced locally, as a consequence of the cost of living crisis.
2. **Work-based vulnerability:** this measurement of vulnerability is based upon rates of participation in the formal labour market alongside the prevalence of low-paying jobs within a place. Where a place has high levels of work-based vulnerability, there is a heightened risk of people on the cusp of the poverty threshold being pulled into a state of poverty as a consequence of this crisis.

Determining the indicators

Our index is comprised of six indicators which we judge to be particularly salient in the current crisis: fuel poverty, food insecurity, child poverty, claimant count, economic inactivity and low pay.[11]

Table 1: The indicators

Indicator	Justification
Poverty-based vulnerability	
Food insecurity The % of adults within a local authority experiencing food insecurity	The price of food has risen substantially since the beginning of this crisis and it continues to be one of the most significant drivers of inflation. Food insecurity is also a significant determinant of other forms of financial and material deprivation and has a significant impact upon the healthy life expectancy of people across places.[12] Places with high levels of existing food insecurity are therefore vulnerable not just to increases in the severity of food insecurity itself, but additionally to other determinants of place-based inequality.
Fuel poverty The % of households within a local authority living in fuel poverty	The increasing cost of energy is another key driver of general inflation, with households at the lower end of the distribution scale spending far greater proportions of their household income covering energy costs.[13] By capturing the prevalence of poverty relating to energy costs in a local area, we can infer the extent to which rising energy costs may exacerbate the severity of fuel-related poverty relative to other places.
Child poverty The % of children living in households with below 60% median income before housing costs	Child poverty rates vary significantly between places, and act as a good general measure of the prevalence of poverty within a given place. The Resolution Foundation have forecast that child poverty rates will rise as a consequence of the cost of living crisis.[14]
Work-based vulnerability	
Universal Credit claimant count The % of the population aged 18 to state pension age claiming universal credit	Claimant count captures those who are recipients of state-related income support, including both the unemployed and those who are in work. Given that those claiming universal credit will be on low incomes and, without a change in public policy, will see a substantial real terms fall, a high claimant count within a place reflects a high proportion of a local population who may increasingly struggle to meet the basic costs of living.
Economic inactivity (working-age population) The % of the population aged 16–64 not in employment and not actively seeking employment	Working age economic inactivity is a useful indicator of labour market participation (or lack of it). The indicator includes several groups, including those who can't work due to disability, those out of work relating to illness and those who can't work due to caring responsibilities. Each group would likely be particularly vulnerable to cost of living increases. Recent analysis by Institute for Employment Studies (IES) shows that the Covid-19 pandemic was a point of departure for significant numbers of older workers from the labour market, in large part due to ill health and a lack of suitable work.[15]
Low pay The % of jobs that pay two-thirds or≈below the UK median gross hourly pay by local authority	Over the longer-term, one of the critical drivers of today's cost of living crisis has been wage stagnation. Where costs in essential goods are now rising fastest, people in jobs that are considered low pay remain significantly vulnerable to being pushed into poverty, despite being in-work. The Living Wage Foundation estimate that across the UK, employees must be paid at least £9.90 an hour to get by in 2021. This amount is set to rise sharply in 2022, yet this indicator identifies places with a high proportion of jobs that are already paid way below this level.

The index findings

Chart 1: Cost of living vulnerability index

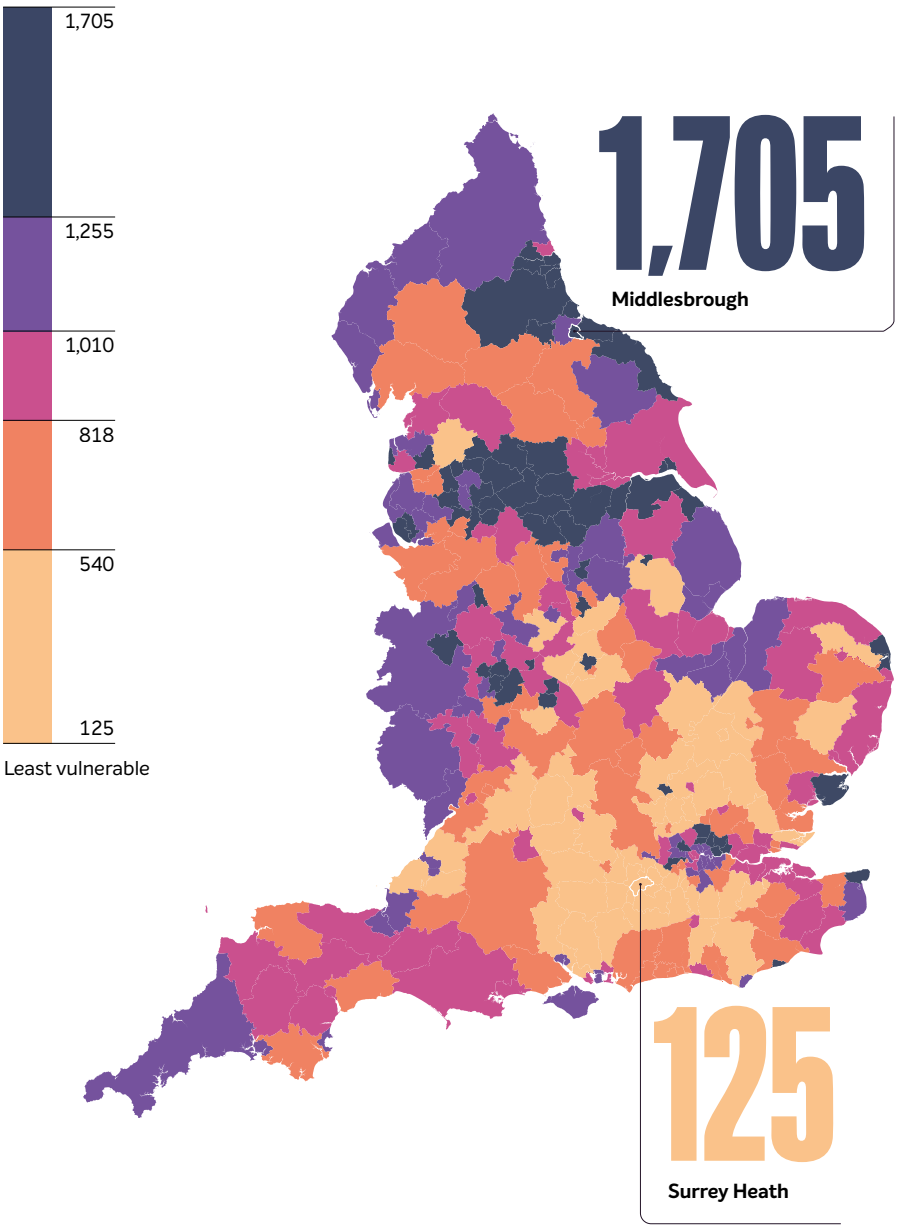


Chart 2: Poverty-based vulnerability

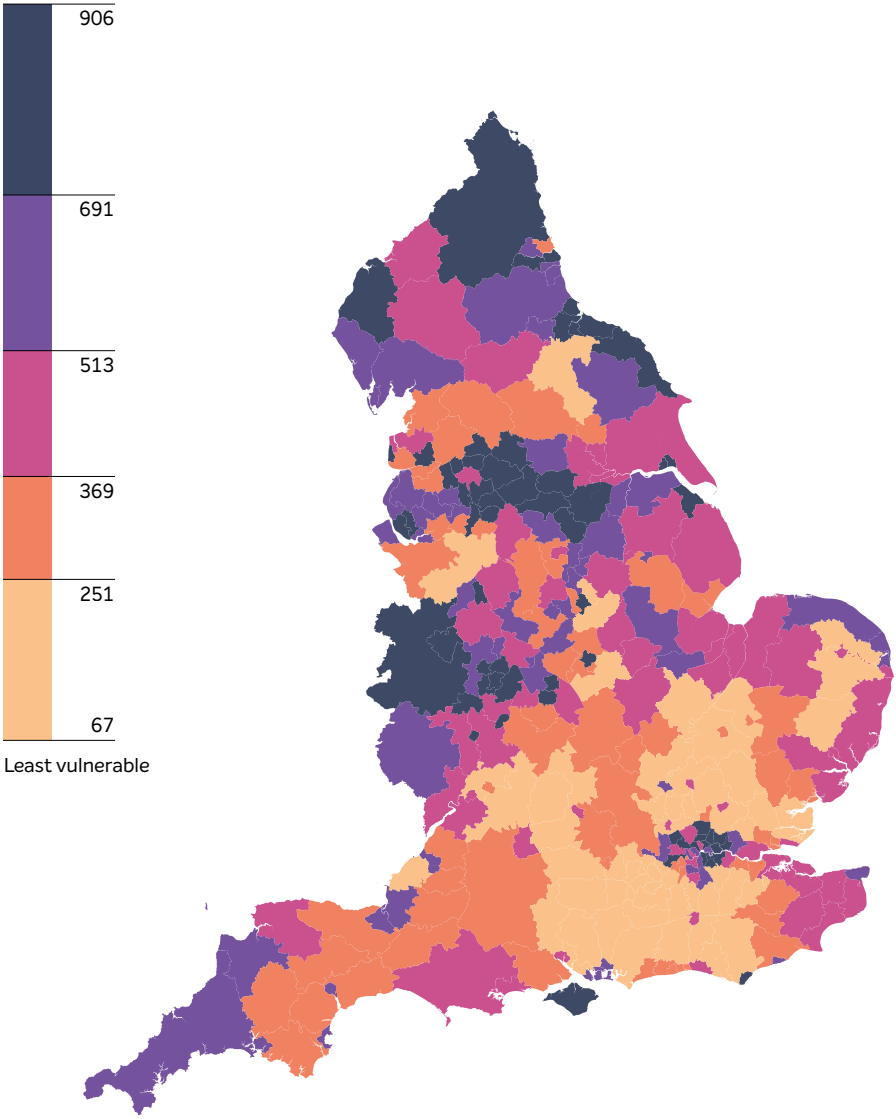
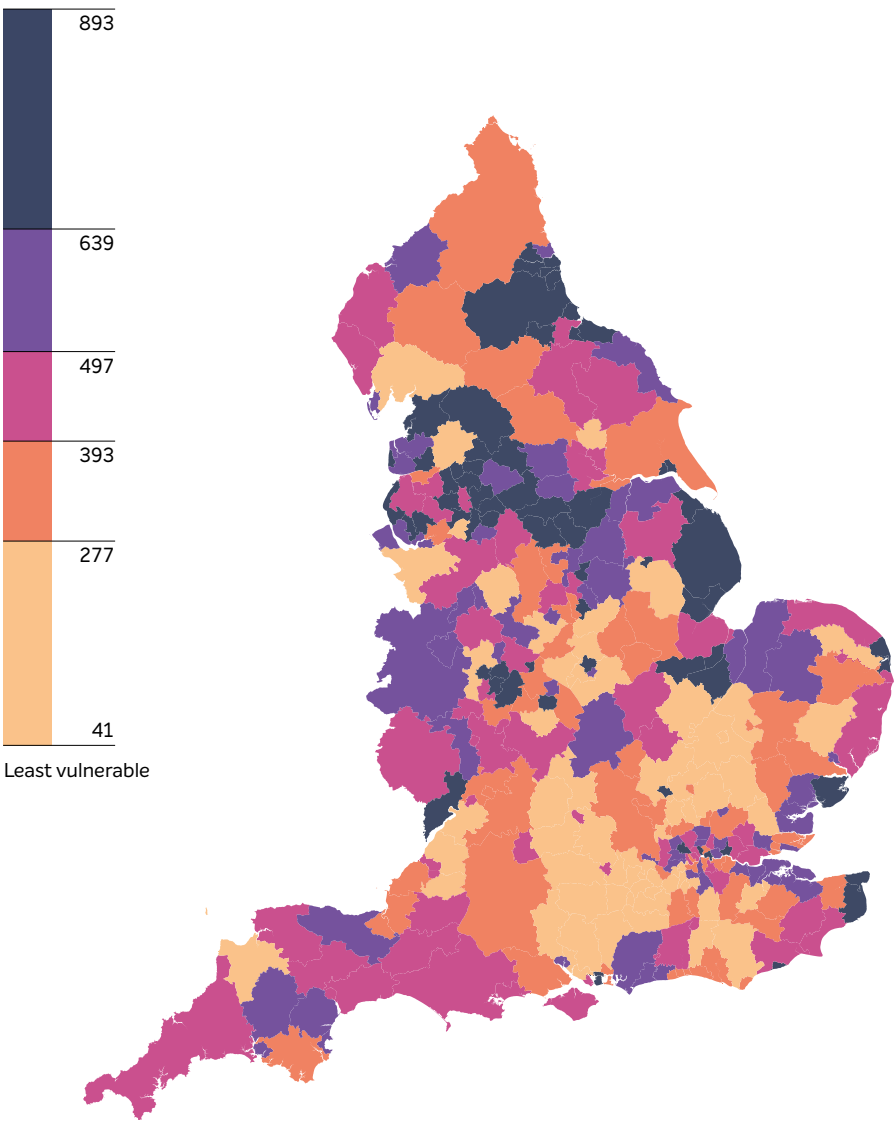


Chart 3: Work-based vulnerability



Places that are most vulnerable

Table 2: Local authorities in the top decile of CPP's cost of living vulnerability index

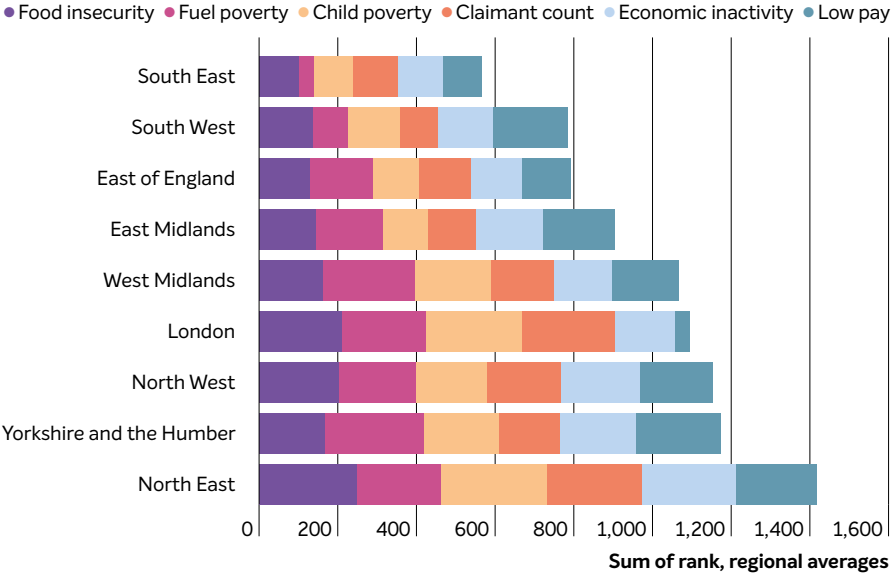
Local authority	Region	Food insecurity (% of adults)	Fuel poverty (% of households)	Child poverty (% of children)	Claimant count (% of working age)	Economic inactivity (% of working age)	Low pay (% of jobs)
Middlesbrough	North East	13.7	16.5	39.4	7.6	29.2	26.0
Kingston upon Hull, City of	Yorkshire and the Humber	20.7	19.6	36.3	7.4	23.9	23.0
Blackburn with Darwen	North West	18.2	16.4	36.1	6.1	27.7	23.0
Burnley	North West	17.4	16.4	35.8	6.5	26.7	23.0
Sandwell	West Midlands	23.7	20.9	40.0	7.3	21.4	23.0
Hyndburn	North West	19.1	15.6	35.9	6.0	27.7	24.0
Barking and Dagenham	London	18.6	22.5	48.1	7.5	34.7	15.0
Leicester	East Midlands	11.5	19.0	37.9	5.7	28.2	27.0
Blackpool	North West	16.8	16.3	34.1	8.6	23.3	32.0
Wolverhampton	West Midlands	14.4	21.1	38.9	8.0	24.7	18.0
Birmingham	West Midlands	11.8	21.2	42.5	9.1	27.8	18.0
Doncaster	Yorkshire and the Humber	14.2	17.8	34.7	5.3	24.9	25.0
Walsall	West Midlands	13.9	19.4	38.9	6.4	25.4	18.0
Bradford	Yorkshire and the Humber	19.9	18.4	37.7	7.4	23.3	17.0
Rochdale	North West	12.2	15.7	36.0	6.7	30.5	20.0
Newham	London	17.4	21.7	50.0	7.8	23.7	14.0
Rotherham	Yorkshire and the Humber	13.7	17.0	34.3	5.3	25.6	20.0
Bolton	North West	11.1	14.8	37.0	6.3	29.9	23.0
Manchester	North West	11.5	19.8	41.8	6.6	23.9	18.0
Coventry	West Midlands	16.9	18.8	36.5	4.9	26.3	16.0
North East Lincolnshire	Yorkshire and the Humber	13.8	16.7	35.1	5.0	26.0	19.0
Kirklees	Yorkshire and the Humber	16.0	16.8	36.1	4.8	23.8	19.0
Preston	North West	18.5	15.1	33.8	4.9	28.1	19.0
Pendle	North West	11.0	17.3	35.6	5.5	23.2	25.0
Hartlepool	North East	16.4	14.8	37.8	6.2	26.1	17.0
Brent	London	13.6	17.3	40.0	7.7	28.4	12.0
Redcar and Cleveland	North East	14.1	14.4	36.8	4.9	27.7	19.0
Stoke-on-Trent	West Midlands	20.5	21.8	37.8	6.1	20.6	16.0
Nottingham	East Midlands	11.4	18.5	35.7	5.8	22.1	20.0
Barnsley	Yorkshire and the Humber	14.8	18.6	33.3	4.3	26.6	17.0
Redbridge	London	16.8	15.4	39.7	5.8	25.5	13.0

While the local authorities ranking in the top decile of our index – covering a total population of 8.9 million people – perform poorly across all of our indicators, there is significant variation in the drivers of their underlying vulnerability to the cost of living crisis. Stoke-on-Trent and Bradford for instance, have some of the highest rates of food insecurity in the country but sit around the median score for low pay. Meanwhile Bolton has the lowest rate of food insecurity of our most vulnerable places, despite being one of the top three most economically vulnerable places, performing badly on pay, claimant count and economic inactivity.

All of the places in Table 2 are based within the North, the Midlands and London. We also see that it is urban areas who exclusively make up this list – half of the English core cities (London, Manchester, Birmingham, Nottingham) are present, while the remaining places in this list are occupied primarily by smaller cities such as Middlesbrough, Coventry, and Bradford, or urban peripheral places such as Blackburn with Darwen, Sandwell, and Burnley.

> Half of the most vulnerable local authorities encompass former Red Wall constituencies such as Burnley, Blackpool and Sandwell.

Chart 4: Breakdown of rank by region and indicator



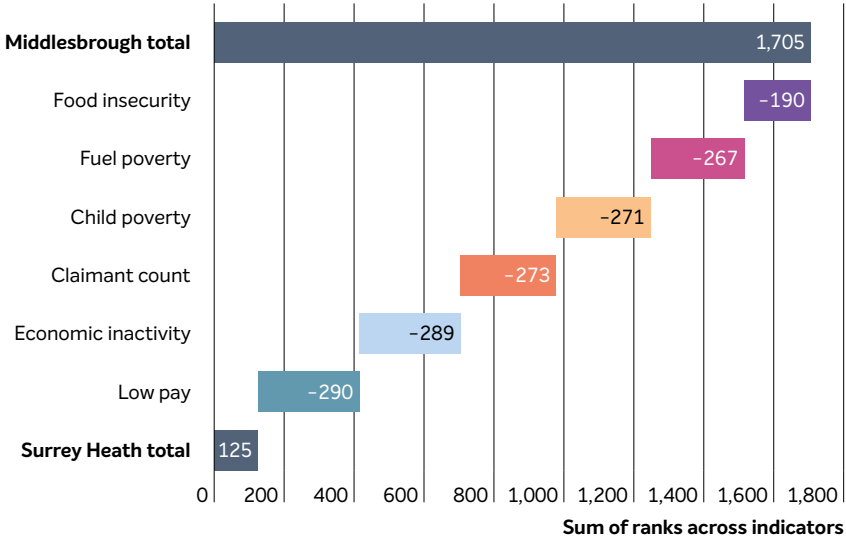
The scale and nature of vulnerability varies between regions

Vulnerability is highest in the North East and lowest in the South East.

> In the North East sensitivity to the cost of living crisis is driven by relatively high levels of children in poverty and people on benefits compared to the country average.

Places in the South East have considerably lower levels of fuel poverty compared to other regions and represent 68% of the places in the least vulnerable decile. Yet there are some notable outliers across the south coast including Hastings, Thanet, Isle of Wight, and Dover, which have high levels of economic inactivity and low pay. Poverty based indicators drive vulnerability in London, with working age people in the capital less likely to experience low pay jobs or be inactive.

Chart 5: Breakdown of indicator differences between the most and least vulnerable local authority areas

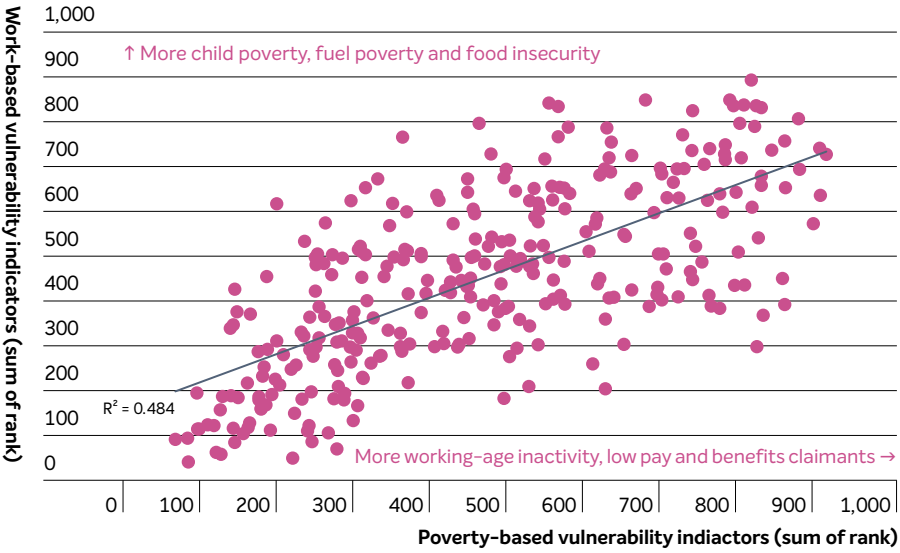


All indicators play a role in determining the relative vulnerability of places

Comparing what drives the difference between the most vulnerable place (Middlesbrough) with the least (Surrey Heath), we can see that at these two ends of our index the balance between poverty-based and work-based indicators is relatively even.

Here, we see that the work-based vulnerability measures account for 54% (852) of the difference between these two places, compared to 46% (725) for poverty-based measures, with the difference here being driven by a relatively lower level of food insecurity in Middlesbrough compared to other indicators. Please refer to our website if you want to compare any two sets of local authorities.

Chart 6: Scatterplot of local authority's poverty- vs work-based vulnerability to the cost of living crisis

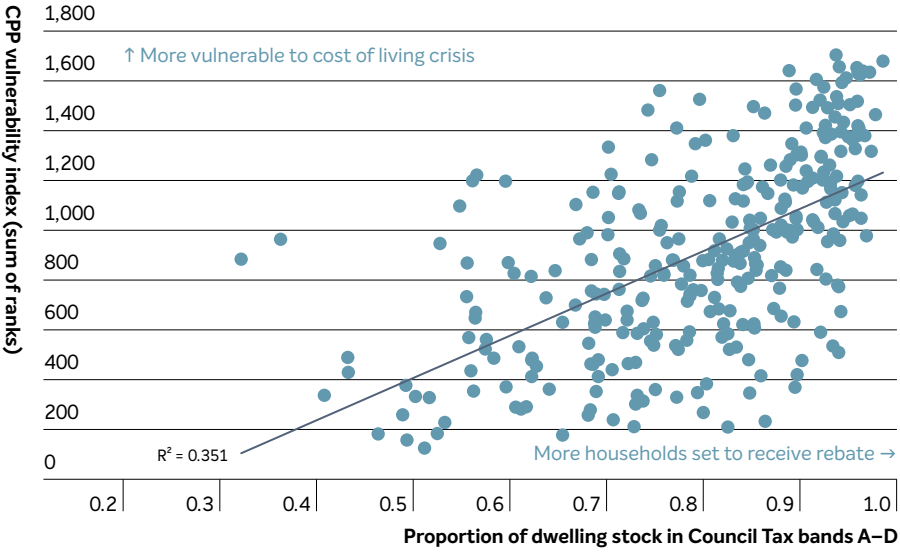


Within region differences are also important for assessing local vulnerability

Looking at Chart 6, we can see that there are numerous local authorities where the correlation between poverty- and work-based vulnerability measures is weak.
It is here that we can see significant differences in the nature of vulnerability to this crisis among urban-rural lines.

Coastal and rural places in the South and the East of England are significantly more vulnerable to the cost of living crisis on work-based criteria compared to poverty- based criteria. This compares to places in London and the West Midlands where large pockets of high deprivation already exist. In London this is driven by high levels of child poverty, whereas in the West Midlands this is driven mostly by relatively higher levels of fuel poverty and food insecurity.

Chart 7: Scatterplot of local authority's vulnerability vs the share of housing stock in Council Tax bands A–D



The Council Tax Rebate is untargeted, disproportionately subsidising wealthier households in less vulnerable places

To support households to weather some of the costs of energy price rises, the government has committed £3bn to administer a £150 rebate to households who fall within Council Tax bands A–D. But as Chart 7 shows, the proportion of households in bands A–D is only weakly related to our cost of living vulnerability index ranking.

While many of the most vulnerable places are likely to receive some support, many places with low levels of vulnerability will receive the same level of support as those with the greatest need.

Bands A–D comprises significant numbers of wealthier households who are being unnecessarily compensated, while failing to reach more vulnerable households who live in properties outside of bands A–D. The current plan to administer support based upon council tax banding, therefore, is a highly untargeted mechanism for delivering support to shield the most vulnerable people and places from price increases.

Spotlight on the Spring Statement

The Spring Statement did nothing to address the cost of living crisis for the most vulnerable, going ahead with National Insurance tax increases and failing to support those on low incomes, a move which risks setting levelling up back years. The £500m boost to the Household Support Fund was the only new targeted spend announced, leaving pre-announced council tax and energy bill rebates to do the heavy lifting.

These interventions fall well below the mark of what is necessary to ensure that vulnerable people and places do not succumb to significant increases in poverty, with recent analysis estimating that the crisis will push 1.3 million more people, including 500,000 children, into absolute poverty.[16]

This will be more acutely felt in places that our index identifies as particularly vulnerable, running counter to the government's commitment to levelling up. Instead, the council tax rebate subsidises wealthier people in places with low vulnerability to this crisis. While the Council Tax Rebate averages out at just £37.30 per person in Redbridge, one of the most vulnerable places in our index, spend per person in Rushmore, one of the least vulnerable places, is nearly £20 higher at £56.40.

A more efficient means of supporting poorer households and places is through the welfare system.

> CPP estimates show that covering the increase in the energy price cap (£693) for households in receipt of Universal Credit would amount to around £2.4bn – £600m less than the council tax rebate but targeted at those who need it most.

In addition to reaching the most vulnerable households, administering support through the welfare system means more spending on places with a higher proportion of such households. Table 3 looks at the places that would receive the most support relative to their population size and shows that 8 of the 10 places fall within our most vulnerable decile, with all of these places having high levels of child poverty and food insecurity as well as high claimant counts.

Table 3: The 10 local authorities that would see the greatest per-capita spend through targeting support through the welfare system are also some of the most vulnerable as identified in our index

Local authority	Region	Universal Credit uplift (£693): local authority spend per capita	CPP Vulnerability Index rank
Blackpool	North West	£79.30	9
Hartlepool	North East	£76.15	25
Middlesbrough	North East	£74.41	1
Haringey	London	£72.97	46
Birmingham	West Midlands	£70.76	11
Burnley	North West	£70.25	4
Hastings	South East	£70.07	37
Newham	London	£69.76	16
Barking and Dagenham	London	£69.62	7
Manchester	North West	£69.11	19

Greater immediate spending on welfare is required but will not be enough to support vulnerable people and places. Our index points to other forms of vulnerability that may sit outside the welfare system – such as those living on low wages or those who have left the workforce early. To have any hope of making progress on levelling up, policymakers must act to address these underlying vulnerabilities.

CPP will continue to monitor the evolution of the cost of living crisis, and suggest measures to help build up the resilience of people and communities.

Sources for indicator data

Fuel poverty
Department for Business, Energy & Industrial Strategy: Fuel poverty statistics (2019)
https://www.gov.uk/government/collections/fuel-poverty-statistics

Food insecurity
The University of Sheffield: Adult food insecurity at Local Authority scale (2021)
https://smartthinking.org.uk/article/one-thing-spring-budget/

Child poverty
Loughborough University: Local indicators of child poverty after housing costs 2019/20 (2020)
http://www.endchildpoverty.org.uk/local-child-poverty-data-2014-15-2019-20/

Claimant count
Office for National Statistics (2022)
https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental

Economic inactivity
Office for National Statistics (2022)
https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity

Low pay
The Health Foundation: Proportion of low-paid jobs by local authority (2021)
https://www.health.org.uk/evidence-hub/work/job-quality/proportion-of-low-paid-jobs

Endnotes

1 Ofgem (2022). Price cap to increase by £693 from April. Available at: https://www.ofgem.gov.uk/publications/price-cap-increase-ps693-april
2 OBR (2022). Economic and Fiscal Outlook. Available at: https://obr.uk/docs/dlm_uploads/CCS0222366764-001_OBR-EFO-March-2022_Web-Accessible-2.pdf
3 Resolution Foundation (2022) Inflation Nation Putting Spring Statement 2022 in context. Available at: https://www.resolutionfoundation.org/publications/inflation-nation/
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6 This data is pulled from the Joseph Rowntree Foundation's UK Poverty Statistics web tool, which can be accessed here: https://www.jrf.org.uk/data
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8 *Ibid.*
9 Fuel Bank Foundation (2022). Fuel Crisis Report 2022. Available at: https://www.fuelbankfoundation.org/wp-content/uploads/2022/02/Fuel-Bank-Whitepaper-3.2.2022-fbf013-1.pdf
10 The Trussell Trust (2022). The True Cost of Living: The action needed to stem the rising tide of destitution, March 2022. Available at: https://www.trusselltrust.org/wp-content/uploads/sites/2/2022/03/The-true-cost-of-living.pdf
11 Selected indicators were found to be statistically significant in determining local income deprivation and are weighted equally in the overall index. Please refer to the technical appendix for more detail on methodology.
12 Goudie, S (2022). Levelling Up on Regional Dietary Requirements: A Data Story. Food Foundation. Available at: https://foodfoundation.org.uk/publication/levelling-regional-dietary-inequalities-data-story
13 Citizen's Advice, *loc. cit.*
14 Corlett, A. & Try, L. (2022). The Living Standards Outlook 2022. Resolution Foundation. Available at: https://www.resolutionfoundation.org/app/uploads/2022/03/Living-Standards-Outlook-2022.pdf
15 Institute for Employment Studies [IES] (2022). IES Briefing: Labour Market Statistics, March 2022. Available at: https://www.employment-studies.co.uk/system/files/resources/files/IES%20briefing%20-%20Labour%20Market%20Statistics%20March%202022%20.pdf
16 Resolution Foundation. (2022). Inflation Nation: Putting Spring Statement 2022 in context. Available at: https://www.resolutionfoundation.org/publications/inflation-nation/

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Grateful for comments from Ben Franklin
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About the Centre for Progressive Policy

The Centre for Progressive Policy is a think tank committed to making inclusive economic growth a reality. By working with national and local partners, our aim is to devise effective, pragmatic policy solutions to drive productivity and shared prosperity in the UK.

Inclusive growth is one of the most urgent questions facing advanced economies where stagnant real wages are squeezing living standards and wealth is increasingly concentrated. CPP believes that a new approach to growth is needed, harnessing the best of central and local government to shape the national economic environment and build on the assets and opportunities of place. The Centre for Progressive Policy is funded by Lord Sainsbury and host of the Inclusive Growth Network.

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