



BREXIT AND THE REGIONS

**HOW VULNERABLE ARE THE UK REGIONS TO
THE POTENTIAL ECONOMIC IMPACTS OF BREXIT?**

REPORT SUMMARY

**A Financial Inclusion Centre report
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About the Financial Inclusion Centre

The Financial Inclusion Centre is an independent, not-for-profit research and policy group. Our aims are to:

- promote financial and social inclusion by understanding the root causes of exclusion and developing practical policy interventions; and
- promote a fair and inclusive, efficient and competitive, well-governed and accountable, regulated financial system.

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FOREWORD

Brexit is one of the most challenging issues the UK has faced for many generations. But, the heat generated by political debate in the UK, and between the UK and the EU, means insufficient light is being shed on the relative vulnerability to Brexit of ordinary households in the UK regions. The impact of Brexit will depend on three factors: the scale of the 'external' economic shocks caused by Brexit; how resilient regional and local economies are to those shocks; and how financially resilient households are to the effects on regional and local economies.

We may not have much time to understand the potential impact. We are yet to see the shape and substance of a Brexit deal. But, as it stands, a 'no deal' or a relatively limited free trade agreement are still very possible outcomes. Most, if not all, economists (and the Government's own assessment) conclude these outcomes would present the greatest economic challenges.

There have been a number of attempts to model the economic impact of different Brexit scenarios on the UK regions. We cannot know, *ex ante*, what the precise economic impact would be on the regions and local communities – not least because the terms of the deal are unknown.

But, we do have good data on current levels of economic and financial vulnerability. Organisations such as the Office for National Statistics and the Financial Conduct Authority are continually improving the data available on issues ranging from overindebtedness and financial vulnerability, to the level of fiscal transfers each region receives in the form of cash benefits and benefits in kind, and the health of regional and local economies. We have compiled this data to build a picture of economic and financial vulnerability at regional and local authority level in the run up to Brexit.

This report aims to establish where the areas of greatest vulnerability lie. The picture we paint suggests that policymakers and stakeholders should be particularly concerned about the North East of England, Wales and Northern Ireland. Yorkshire and Humberside, the North West, and the West Midlands also look very vulnerable. The powerhouse economy of London, the South East, and East of England look the strongest. This report confirms the well-known problem with regional economic imbalances in the UK. But, on certain measures there is more inequality within regions as between the regions. London is a case in point – its powerhouse economy conceals a city of extremes of wealth and poverty.

Nevertheless, we cannot ignore the strength of the London economy and its importance to the rest of the UK. The Government's own analysis concludes that London will be least affected by Brexit. But some analysts believe London would do badly under a hard-Brexit scenario because of the impact on its critically important financial sector. This could lead to a rebalancing of the UK economy - for the wrong reasons as rebalancing would be done by shrinking the London economy rather than growing the other regions. This would be cold comfort for some of the other regions given the importance of fiscal transfers from London and, to a lesser extent, the South East. A potential reduction in transfers would come on top of a loss of EU structural funds.

We argue that mitigation strategies are needed in good time to protect vulnerable regional economies and households from the potential impacts of Brexit. Indeed, the results suggest that renewed efforts should be made to tackle the problems identified here even if Brexit didn't actually happen. We hope this report provides food for thought and, more importantly, prompts action.

Malcolm Hurlston

Chairman, Financial Inclusion Centre

SUMMARY

Despite heated debate about Brexit, little light has been shed on the potential impact on UK regions and households

- It is now more than two years since the UK voted to leave the European Union. Since then, there has been much discussion about the potential impact of Brexit on the UK economy with a large number of economic analyses published. There are a few dissenting voices who argue that fears about Brexit's impact were significantly overstated before the referendum, are still being exaggerated now, and that Brexit will be positive for the UK. But, the clear majority of economic analyses conclude that Brexit will harm the UK economy and public finances. Many argue the impact is already evident in the poor comparative performance of the UK economy following the referendum compared with its major economic peers.
- The full economic impact will depend on which form of Brexit the UK finally goes for – ranging from 'soft-Brexit' to 'hard-Brexit'. It will also depend on how business and policymakers respond to mitigate potential impacts.
- The Government's own assessment is that, without Brexit, the UK economy (as measured by GDP) would grow by just over 25% over 15 years. According to the Government's model, a 'hard Brexit' would reduce the economy by 7.7% over that period – a loss of nearly one third of its potential growth. That economic impact will not be felt evenly with the North East, West Midlands, Northern Ireland, the North West, and Wales facing the biggest relative economic losses. London is expected to be the relatively least affected.

Brexit could compound existing financial problems facing households in weaker economic regions

- The potential impact of Brexit on the UK *economy* is obviously front of mind. But, our priority is understanding how Brexit might hurt ordinary *households*. Remember, real average earnings are still 3% lower than ten years ago¹. The impact on households in different regions will depend on three factors: the scale of the 'external' economic shocks created by Brexit; how resilient regional *economies* are to those shocks; and how financially resilient *households* in those regions are to those effects. We show how the gaps between the best and worst performing economic regions widened after the financial crisis in 2008. Those gaps are set to widen further after Brexit unless action is taken. The economic shocks created by Brexit could compound the problems facing vulnerable households with low levels of financial resilience.
- We are concerned that there is little comprehension of just how well or badly prepared regional and local economies and households are as Brexit approaches. Our goal in this report, therefore, is to raise awareness of the state of the regional economies and household finances in the run up to Brexit, and to prompt recognition of the need for interventions to mitigate the potentially severe impacts on economies and households.

APPROACH

This report compiles research to paint a fuller picture of regional vulnerability as Brexit looms

- We assess regional household financial resilience by examining earnings levels, net wealth, households without savings, over-indebtedness, reliance on benefits to boost incomes, and levels of poverty in each region.
- Economic performance and resilience is assessed by considering a range of economic indicators including economic value added and productivity, economic inactivity rates, business growth and business density, and fiscal transfers.

¹ And 6% below the pre financial crisis peak

- On some measures, there is more economic imbalance and inequality *within* regions than *between* regions. We pick this up by also analysing similar data for every local authority in Great Britain. Not enough data was available for Northern Ireland at this level.
- We then incorporated the available economic analysis on the impact of Brexit at regional level (using the Government’s own analysis) and at local authority level (using independent economists’ analysis) to give a fuller picture of economic and financial vulnerability.

SECTION 1: REGIONAL HOUSEHOLD FINANCIAL RESILIENCE

The earnings gap between the best and worst paid regions widened after the financial crisis

- Average gross weekly pay in the UK stood at £601 as at 2017² (see p17 of main report³). Households in Northern Ireland (£509), the North East (£510), East Midlands (£527) had the lowest average earnings. Wales (£530), Yorkshire and Humberside (£535), and the North West (£550) all ranked in the bottom half of the table. London (£753), the South East (£665), and the East of England (£632) had the highest earnings. The earnings gap between the highest and lowest regions has widened post the great financial crisis of 2008 (p19). For example, over the 10 years in the run up to the GFC, the gap between UK earnings and earnings in Northern Ireland averaged £75 a week. In the 10 years post GFC, that gap had widened to £91 a week. Compared to the UK average, the earnings gap has also grown for East Midlands, West Midlands, Yorkshire and Humberside, the North West, the North East, and Wales.

London has the highest proportion of households in relative poverty⁴ but welfare reforms mean other regions will close the gap

- When measured *before* housing costs, 16% of UK households are in relative poverty (p19). Wales (20%) has the highest proportion with Northern Ireland, North West, North East, West Midlands, and Yorkshire and Humberside all on 19%. Once housing costs are taken into account 22% of UK households are in relative poverty. London has the highest proportion (28%) followed by West Midlands and Wales both on 24%. The North East and North West also have higher than average levels of poverty at 23%.
- The recent welfare reforms have yet to take full effect. Some of the regions are projected to close the gap on London in terms of the proportion of households in relative poverty.

Transfers from wealthier regions boost the incomes of households in the poorest regions and reduce inequality

- Here we calculated how much households in each region received annually in benefits (in cash and in kind) compared to total taxes paid (p21). Households in the North East received £3,316 more in benefits than they paid in taxes (13% of original income⁵). Northern Irish households received £1,704 more in benefits than taxes (7% of original income). West Midlands households received £2,150 more (7% of original income). In contrast, households in the South East (£4,352/ 10% of original income), London (£4,378/ 9%), and East of England (£2,659/ 7%) paid more in taxes than they received in benefits.
- Other research points to regional inequality as measured by disposable income in the UK being the highest in Western Europe⁶. These transfers play an important role in reducing inequality in the regions. For example, Yorkshire and Humberside, the North East, Northern Ireland, Wales,

² Averaged out over the year

³ All data sources can be found in the main report

⁴ Defined as having an income lower than 60% of median income, after housing costs

⁵ That is before benefits received

⁶ For example, see <http://inequalitybriefing.org/brief/briefing-61-regional-inequality-in-the-uk-is-the-worst-in-western-europe>

the North West, and the West Midlands regions all have a Gini coefficient⁷ of just over 0.5 if income distribution is measured without including taxes, benefits, and pensions. Once these have been accounted for the Gini coefficient reduces to around 0.3 (a greater reduction than that for the UK overall which reduces from 0.52 to 0.34)⁸. The general pattern is that the better off the region, the lower the reduction.

Millions of households have no savings to fall back on with big difference between the regions; many households in the poorest regions actually have negative wealth

- Having liquid savings is an important feature of financial resilience. The North East has the highest proportion (17%) of households without any savings or investments, followed by North West (15%), and Yorkshire and Humberside (14%). The South East (8%), South West (10%), East of England (10%), and East Midlands (10%) had the lowest proportion of households without savings or investments (p22).
- Households in the North East, Wales, and the North West the lowest median level of net financial wealth⁹ (p23). The top three spots are taken by the South East, South West, and East of England. It is worth noting that in the North East, North West, Yorkshire and Humberside, East Midlands, and Wales the lower quartile figure is *negative* while in the London the lower quartile is 0. The lower quartile figure for Great Britain is also 0. This suggests that one quarter of GB households have negative wealth – that is nearly 6.5 million households.
- We also measured the gap between median net financial wealth in each region and for Great Britain and compared the latest data and 2006/08 data to see how this gap has changed since the financial crisis. In seven of the 11 regions for which we have data, the gap has actually widened (p23).

Worrying levels of households of over-indebtedness¹⁰ are evident in some regions; in eight out of 12 regions the proportion of adults considered to be financially vulnerable is 50% or more

- Northern Ireland (20%), Wales (17%), and London (17%) have the highest proportion of adults who are over-indebted (p23). The region with the lowest proportion of over-indebted adults is East Midlands (10%). The South East, East of England, South West, and Scotland each had lower than average proportions.
- The Financial Conduct Authority's Financial Lives Study brings together a range of indicators to assess how many adults show characteristics of potential vulnerability¹¹ if things go wrong in their lives. The regions with the highest proportion of adults considered to be potentially vulnerable are Northern Ireland (56%), Wales (55%), and the North West (55%), with Scotland not far behind on 54% (p25). The regions with the lowest proportion are South West (46%), South East (47%), London (47%), and East of England (48%) though these percentages are still very high.
- Table 5 brings together the data and rankings on financial resilience (p27). There would seem to be four distinct tiers. Tier 1 regions (with the highest proportions of financially resilient households) consists of the South East, East of England, and the South West. Tier 2 consists of East Midlands, Scotland, and London. There is a significant gap between Tier 2 and Tier 3 which consists of Yorkshire and Humberside, West Midlands, and the North West. Tier 4 regions (the lowest proportion of financially resilient households) consist of the North East, Northern

⁷ The Gini coefficient is a measure of income or wealth inequality. A Gini coefficient of 0 means there is perfect equality – in other words everyone has the same income. A coefficient of 1 means there is maximal inequality

⁸ Adam Tinson, Hannah Aldridge and Tom MacInnes, Economic inequality in Northern Ireland, Centre for Economic Empowerment, New Policy Institute, NICVA, Fig: Figure 14: the effects of redistribution on in equality

⁹ Measured by level of savings and investment minus any outstanding mortgage debt. Data was not available for Northern Ireland

¹⁰ We use the definition adopted by the Financial Conduct Authority (FCA) in its large scale analysis of over-indebtedness in the UK

¹¹ This takes into measures such as financial resilience, over-indebtedness, financial capability

Ireland, and Wales. Again, it is worth noting that London scores very badly on some measures - a reflection of how its powerhouse economy conceals extremes of poverty and wealth.

SECTION 2: ECONOMIC PERFORMANCE AND RESILIENCE

- To gauge how well regional economies have been performing, and how resilient they have been post the financial crisis in 2007/08, we looked at the following indicators: economic productivity, economic output, business growth and density, economic inactivity levels, and fiscal transfers.

There are large gaps in output and productivity between the strongest and weakest regional economies; worryingly the gap in output per head has actually widened over the long term

- Comparing the economic output of the regions using gross value added (GVA) per head data (as at 2016), the worst performing regions were Northern Ireland, the North East, and Wales (p28). The GVA per head figure for the UK overall is £26,584. GVA per head for Northern Ireland was £20,435 (£6,149 lower than UK average), for the North East it was £19,542 (£7,042 lower), and for Wales £19,200 (£7,384 lower). The best performing regions were London (way out ahead at £45,046 per head), the South East (£28,506), and Scotland (£24,876).
- We also looked at the data back to 1998 to see how these regional gaps had changed pre and post the financial crisis (p30). London had by far the highest GVA per head in the ten years pre the financial crisis - £10,859 a year higher than the UK average and more than twice the level of the lowest regions such as Northern Ireland, Wales, and the North East. Post financial crisis, London further extended its lead with an average GVA per head £16,262 a year higher than the UK average. The three weakest regional economies (as measured by GVA per head) pre financial crisis fell significantly further behind after the crisis – the gap for Wales widened by -£1,910, Northern Ireland by -£1,632, and the North East by -£1,343.
- Looking at productivity (as measured by GVA per hour worked), the worst performing regions were Yorkshire and Humberside, Northern Ireland, and Wales – with the East Midlands and West Midlands not far behind (p31). The three best performing regions were Scotland, the South East, and London (London is way out ahead on this measure).

London and the South East have significantly more businesses per head than poorer regions; the number of businesses in London grew twice as fast as weaker regions post GFC; businesses in London account for 30% of all turnover of UK businesses (with just 13% of adult population)

- An indication of how well regional economies performed after the financial crisis in 2007/08 can be seen by looking at the growth in businesses (p31). Between 2010 and 2016 the number of businesses in the UK grew by 23% (3.5% a year annualised). Only three regions saw growth in line with or more than 3.5% a year – South East (3.5%), South West (3.7%), and London (5.9%). Northern Ireland (0.6%) stood out as being by far the worst performing region. The next worst were Scotland (2.2%), and West Midlands (2.4%) with Wales (2.5%) and Yorkshire and Humberside (2.8%) not far behind.
- Next, we looked at business ‘density’¹² (p32). At the UK level, there were 1,040 businesses per 10,000 adults (as at 2016). London (1,464), by far, had the highest density of businesses, followed by South East (1,243), and South West (1,144). In contrast, Yorkshire and Humberside (895), Wales (872), Northern Ireland (845), Scotland (728), and the North East (679) all had rates of less than 900 businesses per 10,000 adults.

¹² This measures the number of businesses in a region adjusted for population size. In this case, it is shown as number of businesses per 10,000 adults in the region.

- Similarly, London and the South East rank top for the density of high growth businesses. Yorkshire and Humberside, North East, Wales, and Northern Ireland have the lowest density of high growth businesses (p32).
- Again, the strength of the London economy stands out. London has 13% of the adult population, 18% of the total businesses, but those businesses accounted for 30% of the total turnover of UK businesses. Adding in the South East, those two regions have 27% of the total adult population, 34% of total businesses, and 47% of total turnover (p33).

In some regions, around one in four of the working population are economically inactive

- Looking at levels of economic activity amongst 16-64 year olds, the worst performing regions were West Midlands (23%), Wales (23%), the North East (24%), and Northern Ireland (28%). Taking into account the 65s and over the North East, Wales, and Northern Ireland each had economic inactivity rates of 40% or more (p35).

The poorest regional economies are supported by fiscal transfers from wealthier regions, the size of fiscal transfers to poorest regions grew post financial crisis

- Fiscal balances measure the difference between public spending on households and enterprises in a region and public sector revenue raised in that region. We analysed this data over the period 1997-2016. Northern Ireland received the most per head (£4,417 on average a year), followed by Wales (£3,805), and the North East (£3,357). It is also interesting to compare the fiscal balances in the regions in the pre and post financial crisis periods. In every region – except for London and the South East - the annual averages were significantly higher post financial crisis. For example, in Northern Ireland the post crisis average was £5,495 a year compared to £3,578 pre crisis (p35).
- Again, we see that London, the South East, and East of England were net contributors both pre and post financial crisis. This is why we are at pains to stress that, even if the Government’s analysis of Brexit impacts is wrong and London is hit harder than the other regions, this will be cold comfort for places like the North East, Wales, and Northern Ireland because of the reliance on fiscal transfers.
- Table 13 (p38) brings together all the economic indicators we used. Overall, Northern Ireland, Wales and the North East are the regions with lowest economic performance – these regions score well below average on all the measures. These are followed by the West Midlands and Yorkshire and Humberside which score poorly on all the measures. Scotland, the North West and East Midlands are mid table. East of England and the South West score above average in all the measures. The top two slots are taken by the South East and London (which ranks top on all the measures).

SECTION 3: BREXIT RELATED ISSUES

- The indicators above illustrate how vulnerable certain regional economies, and the households, within those regions are in the run up to Brexit. Next, we look at the evidence on the potential impact of Brexit on regional economies. We focus on EU funding received by the regions, the potential impact on manufacturing jobs, tariffs, and the Government’s official analysis of the impacts of Brexit on the economies of each region.

Some of the poorest regions face losing significant EU funding

- In the period 2014-2020, funding from the European Social Fund (ESF) and European Regional Development Fund (ERDF) is equivalent to €24 per person per year at UK level (p39). But this

conceals a wide range of funding levels. Wales stands out as receiving the most EU funding per head – more than four times the UK average at €111 per person per year over the period. The next highest are Northern Ireland (€55), Scotland (€45), North East (€41), and South West (€40). In contrast, the South East (€5), East of England (€10), and London (€13) received a fraction of that level of funding per person per year.

- It is also worth noting that significant funding from the European Investment Bank (which has been used for regional infrastructure and housing) will not be available to the UK from the beginning of the Brexit transition period next year¹³.

Poorest regions also face the greatest loss of manufacturing jobs including high tech jobs

- The impact on manufacturing jobs is measured as the change per 100,000 economically active jobs. The North East (-437), West Midlands (-426), and the North West (-363) are expected to see the biggest losses (p39). With high tech manufacturing jobs, the regions expected to be worst affected are the North East (-464), West Midlands (-449), and Wales (-335) with Northern Ireland (-332) not far behind.

Tariffs could exacerbate the 'poverty premium' faced by households in the poorest regions

- Lower income households spend a higher proportion of their incomes on goods that could be affected by changes in tariffs. The impact of this will be felt differently around the regions given the varying levels of regional poverty. For example, 47% of household spending in Northern Ireland could be affected by tariffs, compared to 32% in London (p40).

The majority view is Brexit will harm the economy; Government analysis concludes that regions such as the North East, West Midlands, Northern Ireland, and the North West will be hit hardest

- The Government's own analysis¹⁴ estimates that if Brexit didn't happen the UK economy would experience cumulative growth of 25% over the next 15 years. Three different Brexit scenarios were modelled – staying in the European Economic Area (EEA), getting a free trade agreement (FTA), and reverting to World Trade Organisation (WTO) rules otherwise known as the hard Brexit option. Under the EEA scenario, the Government estimates that the UK economy would be -1.6% lower compared to underlying growth, -4.8% in the FTA scenario, and -7.7% in the WTO/ hard Brexit scenario¹⁵ (p40).
- But, there is expected to be significant variations across the regions (p40). The regions expected to be hit hardest in a 'hard Brexit' scenario are the North East (-16%), West Midlands (-13%), Northern Ireland (-12%)¹⁶, and the North West (-12%). London is expected to face the least impact (-3.5%), followed by the South West (-5%), Yorkshire and Humberside (-7%), and the South East (-7.5%).
- It is also important to note that the Office of Budget Responsibility (OBR) has initially estimated that the economic effects of Brexit would weaken public finances by £15 billion per year by the early 2020s. This could affect the availability of fiscal transfers which support regional economies and households.

¹³ This is part of the terms of the draft withdrawal agreement. See <https://www.local.gov.uk/about/news/lga-government-urged-clarify-access-vital-infrastructure-funding-post-brexit>

¹⁴ EU Exit Analysis Cross Whitehall Briefing, House of Commons Exiting the European Union Committee, January 2018, p16

¹⁵ These are the mid range estimates. In the EEA scenario, the lower range estimate is -0.6%, upper range -2.6%. In the FTA scenario, lower range is -4.8%, upper range -6.6%. In the WTO scenario, the lower range is -7.7%, while the upper range estimate is -10.3%.

¹⁶ Note that the government's estimates are preliminary and did not factor in the full impact of a hard border between Northern Ireland and the Republic of Ireland. If there is a hard border the impact on the Northern Ireland economy will be significantly greater.

With the exception of Northern Ireland, the regions with the highest levels of economic vulnerability, and expected to be hardest hit by Brexit, voted Leave; but even if London is hit hardest, this will be cold comfort for those regions.

- Table 17 (p46) brings all the results together in one place. It shows that the regions in the bottom tier which rank consistently poorly (based on household financial resilience, economic resilience and performance, and potential Brexit impacts) are the North East, Wales, and Northern Ireland. In the third tier, the West Midlands, North West, and Yorkshire and Humberside score poorly across most of the indicators. The East Midlands, and Scotland are mid table. Near the top, London, East of England, and the South East each have high scores *on average*. But, it is interesting to note that although London is way out ahead on the economic and Brexit measures, it is dragged down by poor scores on household financial resilience (again reflecting the high levels of inequality within London's powerhouse economy). The South East comes top of the table, scoring consistently high across all the categories of indicator.
- Finally, we compared the performance of each region against the share of voters in that region who voted for Brexit. Five of the six regions which appear to be the most economically and financially vulnerable overall voted for Brexit – the exception was Northern Ireland.
- According to the Government's own analysis, some of the poorest regions are likely to be hardest hit by Brexit – particularly if it is a 'hard-Brexit'. Households in these regions are already more vulnerable going into Brexit than better off regions such as London. But, even if the Government's analysis is wrong and it turns out that London is hardest hit, this will be cold comfort for other regions which rely to a large degree on fiscal transfers.

SECTION 4: LOCAL AUTHORITY LEVEL ANALYSIS

We need to understand inequality at local, as well as regional, level to properly understand the effects of Brexit

- There are significant imbalances and inequalities *within* regions as well as *between* regions. To gauge this, we also undertook similar analysis at local authority level¹⁷. The six indicators used were not precisely the same as those used for the regional level of analysis but covered the same categories – household financial resilience, economic resilience and performance, and potential Brexit impacts.
- We ranked each local authority according to the six indicators and calculated a combined score for each. From this, each local authority was grouped into deciles – the worse the overall score, the higher the decile. Finally, to tie this local authority level analysis back to the regional level analysis, we calculated what proportion of local authorities in the bottom two deciles were located in each region. The data for every local authority in GB can be found in Annex B.

London has a powerhouse economy, concealing extremes of wealth and poverty; but, overall, the same regions score badly in the local authority level analysis as in the regional level analysis

- The overall ranking on the local authority indicators (p48) produces different results to that based on the higher level regional analysis. Certain regions score higher on the overall regional ranking than on the local authority based measure. This is because there will be pockets of relatively strong economic performance -such as urban areas- which lift the aggregate performance of a region. London stands out as coming out very well based on the high level regional score, where it is ranked second, but then ranks seventh based on the local authority

¹⁷ Unfortunately, we were not able to include Northern Ireland as sufficient data was unavailable.

score. This is a reflection of the extreme nature of the London economy – a powerful economy with high levels of wealth at the aggregate level but also high levels of poverty.

- However, generally speaking, the same regions which score badly in the regional analysis also score badly in the local authority analysis.

SECTION 5: CONCLUSIONS AND NEXT STEPS

The general consensus is that Brexit will harm the UK economy and, the harder the Brexit, the worse the impact; but the effects will not be uniformly felt across the UK regions

- We cannot say with certainty, *ex ante*, how much the UK economy will be hit by Brexit. It all depends on the form of Brexit, which mitigation strategies are adopted by national and local government and civil society, and how UK industry responds to the new challenges.
- But, the clear majority of economic analyses published - including the Government's own assessment - suggest the effects will be harmful to the UK economy. The harder the Brexit, the worse the economic effects will be. This, in turn, presents challenges for public finances.
- We have been more concerned in this report to understand the potential effects on the regions of the UK, rather than at the national level. There is no question that there are significant differences in the strengths and vulnerabilities of the UK regions in terms of household financial resilience, and economic resilience and performance. The historic gaps in economic performance and financial resilience could be exacerbated by Brexit.
- There can be more inequality *within* regions than there is *between* regions. London is a case in point. The fact that London has the strongest economy masks the fact that London is a city of extremes. It has one of the highest levels of poverty-after housing costs -and over-indebtedness in the country. As our local authority level analysis shows, it has one of the highest proportions of local authorities in the bottom two deciles of economic and financial resilience.
- One of the key unknowns is the impact on London's powerhouse economy. In contrast to the Government's analysis, other economic analysis suggests that London will be harder hit due to the reliance on the City of London and associated services which conduct a huge amount of trade with the EU. In this scenario, although the poorer regions appear to do less badly in comparison, their reliance on fiscal transfers still leaves them vulnerable.
- Thus, if the City of London and, therefore London itself is hard hit, it follows that, *ceteris paribus*, this will reduce the amount of tax revenue the City contributes to the Exchequer¹⁸. This, in turn, could jeopardise the fiscal transfers which support households and public sector in the regions.

Some vulnerable regions face a triple whammy of lost economic output, loss of EU funding and fiscal transfers if public finances are also damaged

- In the worst case scenario, some of the most vulnerable regions could face a 'triple whammy'. First, these regions face a very significant loss of potential economic output in economies that are already performing poorly. This would hit the earnings of households in these regions many of whom are already very financially vulnerable. Remember, this is at a time when average real earnings in the UK are still 6% below the pre crisis peak. Second, these regions also face the loss of EU funding. Third, unless fiscal transfers from stronger parts of the UK economy can be maintained at the same level to mitigate these impacts, the combined economic shock could be severe.

¹⁸ Unless new financial markets can be found – even if this is possible it will take some time for these markets to be developed

NEXT STEPS

- Of course, the more gloomy economic forecasts might not come to pass, or the UK may end up with a form of Brexit that mitigates some of the worst potential effects. Nevertheless, as it stands, it is clear that many of the UK's regions and households within those regions are already very vulnerable to potential Brexit effects.

Pre-emptive mitigation policies and interventions need to be identified and implemented early enough to prevent serious economic and financial harm to vulnerable regions and communities

- Whatever the shape of Brexit, policymakers at national and regional level should recognise these vulnerabilities before Brexit actually happens. Policies and interventions to mitigate the potential impacts need to be put in place in good time.
- This project was not intended to develop detailed mitigation policies or identify specific interventions but to raise awareness of the challenges and the need for interventions. Developing those detailed interventions is for the next stage. However, looking at the regional and local level data presented, it is possible to say at this stage what *type* of intervention is needed to pre-empt and mitigate the potential effects.
- Interventions are needed in two broad areas:
 - **Promoting household financial resilience:** these should focus on reducing over-indebtedness and helping households build up savings and assets to provide a cushion against potential economic shocks; and
 - **Improving regional and local economic resilience and performance:** this means tackling the large regional imbalances in economic performance, output, and productivity. This in turn might involve specific interventions to improve skill levels in the regions, attract inward investment to build infrastructure and improve the performance of local industry and help develop high value added, high tech industries. Linked to this, there are concerns that the financial system is not serving the interests of the regions well.

Interventions will need to be co-ordinated and implemented at the appropriate level

- The nature and scale of some of the challenges facing some of the regions in the run up to Brexit means that a wide range of stakeholders will need to be involved – government (national, regional, and local), industry, the banking and finance industry, and civil society organisations.
- A key question for policymakers and stakeholders will be determining the best level to intervene and implement mitigation strategies. With some of the longer term economic challenges, the resources required means that major structural interventions will be needed at national level if they are to have an impact. Other interventions will be more effective if made at a regional, local authority, or even community level. Ultimately, a coordinated effort will be needed combining national, regional, and local level interventions.
- The effectiveness of interventions will also depend on the political economy structures within regions, the ecology of civil society organisations, and the strength and resources available to civil society organisations and other stakeholders.
- More detailed work is needed to fully understand the specific issues at regional and local level. But, we hope this report has helped shed some light on the challenges facing the UK's regions as we head towards Brexit, and prompts debate about the need for interventions to mitigate the potential impacts. We look forward to discussing the findings with interested stakeholders and working with them to raise awareness and develop mitigation strategies.

**Financial Inclusion Centre
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