THEMATIC GUIDE 2

Investment Levels:

Boosting Regional Productivity Through Strategic Investment

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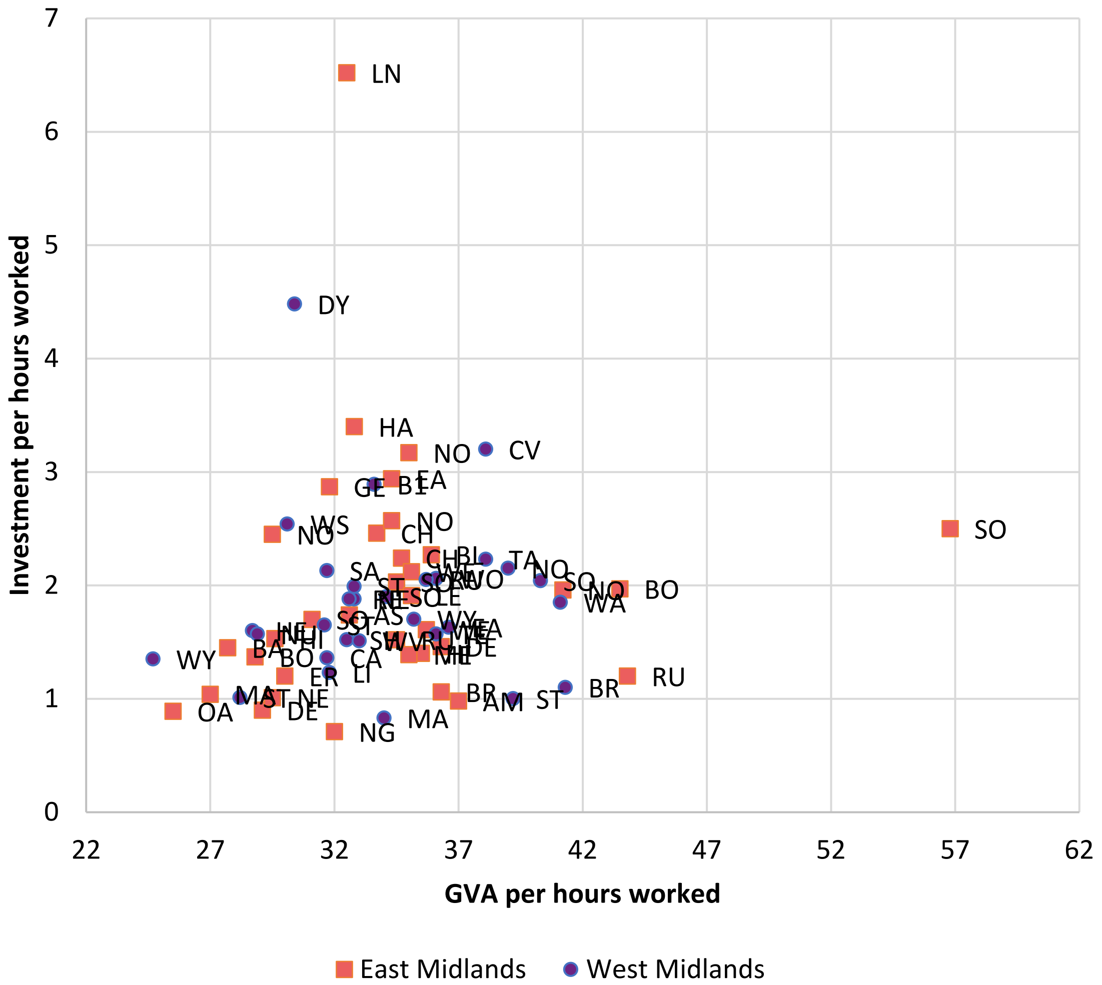
Introduction

Investment is a critical driver of regional economic growth and productivity. In the Midlands, persistent gaps in public and private investment have widened inequalities and constrained the region's overall competitiveness. Despite its economic strengths, the Midlands has faced a long-term decline in investment compared to other UK regions, leaving it less resilient to economic shocks and structural changes.

Recent analysis of local authority data (Figure 1) shows a positive relationship between investment levels and productivity [6]. However, the distribution is uneven, with many districts exhibiting low-to-moderate investment relative to productivity benchmarks. Outliers such as Lincoln (LN) and Solihull (SO) highlight the potential gains from targeted investment strategies to close regional gaps.

Underinvestment in critical areas such as innovation, infrastructure, and skills has limited the Midlands' ability to modernise and adapt to changing economic conditions. Addressing these challenges is essential to unlocking the region's productivity potential and fostering sustainable, inclusive growth. This thematic guide examines the patterns and impacts of investment across the Midlands, identifies barriers to investment, and explores strategic interventions to foster long-term economic resilience and inclusive growth.

Figure 1: Investment and Productivity (by Local Authority Districts)



Source: ONS 2021; Note: LADs labelled with the two letter postcode abbreviations

Regional Investment Patterns and Obstacles

Public and Private Investment

A key issue is the relative lack of public investment in comparison to private capital flows. Government funding in the Midlands remains disproportionately low when compared to other UK regions, which further widens the productivity gap. On top of that, local authorities in the region often have lower levels of public-private partnership deals and limited access to significant infrastructure investment which is essentially for attracting FDI.

Private investment, in particularly from foreign investors, has been concentrated in high-value sectors like manufacturing, science and IT, while retail and traditional industries receive less support. This is understandable but such sectoral concentration amplifies the disparities between urban areas such as Birmingham and Coventry, which are better positioned to attract capital, and more rural or deindustrialised areas that continue to fall behind.

An emerging approach to addressing these disparities is Place-Based Impact Investing (PBII), which targets underinvested areas and sectors to foster inclusive growth. The following case illustrates its application in the Midlands.

Case study 1: Place-Based Impact Investing (PBII)	
Objective: PBII seeks to address investment disparities by driving institutional investment into projects that foster social, economic, and environmental benefits tailored to the Midlands. This approach focuses on high-impact areas like affordable housing, support for SMEs, and clean energy. **Implementation:** PBII has catalysed regional development through affordable housing projects, stimulating construction sector jobs and enhancing local infrastructure. The initiative has also provided essential capital to SMEs, particularly in underserved areas, bolstering innovation and local economic resilience. Moreover, clean energy projects have positioned the Midlands toward a sustainable future by reducing carbon emissions and advancing green practices. **Impact:** The success of PBII demonstrates the potential of targeted investment to yield lasting economic growth. With the alignment of financial and regional development goals, PBII has proven effective in addressing the Midlands' investment gaps, creating a foundation for sustainable growth and resilience	30% of PBII funding has been allocated to clean energy projects, aiding in the region's transition to a low-carbon economy and reducing emissions Impact Invest (2021)

Short-termism in Investment Decisions

A prevailing focus on short-term returns rather than long-term strategic gains significantly undermines the Midlands' long-term productivity potential. Both public and private sectors often prioritise immediate financial outcomes over investments in long-term assets like infrastructure and R&D, which are critical for sustained economic growth. This short-termism not only affects the quality and scope of investments but also limits the region's capacity to innovate and adapt to future economic challenges.

Moreover, public sector investment patterns are not immune to short-term pressures. Local authorities often operate under constrained budgets and shifting central government priorities, which can discourage long-term project planning. The stop-start nature of regional funding initiatives—frequently rebranded or redesigned with every spending review—further complicates efforts to sustain strategic investment agendas.

> "UK firms continue to prioritise short-term profitability over long-term strategic investment, in part due to capital market expectations but also managerial incentives that reinforce quarterly performance metrics."
>
> Deeg & Jurgens, 2024 [9]

This short-term orientation has tangible consequences for the Midlands. It narrows the region's innovation pipeline, reduces capital formation, and limits the scaling potential of promising start-ups and SMEs. In sectors such as advanced manufacturing, healthcare, and low-carbon energy—where long development cycles and high upfront costs are the norm—lack of long-term financing hampers technological diffusion and business growth.

The Midlands Engine Innovation Fund (MEIF) provides a good example of how targeted initiatives can counter short-term investment behaviours by supporting long-term innovation and SME growth, as the case below highlights.

Case study 2: Midlands Engine Innovation Fund (MEIF)	
Objective: Established by the Midlands Engine and the British Business Bank, the MEIF addresses funding gaps for SMEs, aiming to boost regional innovation and job creation. **Impact**: Since its inception, MEIF has supported over 2,370 jobs and helped launch numerous innovative products and services. Nearly 60% of funded businesses reported that MEIF support helped them avoid closure during economic challenges. Moreover, 41% secured additional follow-on funding, adding £65 million in growth capital to the region. MEIF has demonstrated significant impact, with nearly 74% of firms launching new products or services and a third contributing to carbon reduction efforts.	**74%** launched new products or services contributing to a £73m regional boost MEIF (2023)

Foreign Direct Investment

FDI remains a critical component of the Midlands' economic landscape, but its distribution has been uneven. While FDI inflows have been robust in certain sectors – particularly financial services and high-tech industries- investment levels are still below pre-COVID levels nationally. Moreover, the West Midlands consistently outperforms the East Midlands in attracting FDI projects. Part of it, inward investment agencies such as WM Growth Company that played a vital role in attracting FDI. Between 2019 to 2021, the West Midlands secured more FDI projects in high-growth sectors such as IT, creating more jobs and raising productivity in those areas. Based on Figure 2, the West Midlands exhibits substantial FDI, with high-tech and automotive sectors reaching over £500 million each in net inward investment between 2019 and 2021. The disparity between East and West Midlands in terms of FDI highlights broader issues around infrastructure quality, accessibility, business competitiveness, and local economic conditions, all of this play a key role in attracting domestic and foreign capital.

Furthermore, the Midlands suffers from comparatively high energy costs, particularly in the manufacturing sector, discouraging investment in energy-intensive industries [1]. Planned increases in National Insurance contributions in 2025 risk further undermining business confidence and regional growth. Several other policy changes introduced by the Labour government have also generated mixed reactions among the business community. For example, the Employment Rights Bill, which introduces day-one rights and bans zero-hours contracts, is expected to increase labour costs for SMEs and reduce workforce flexibility [7].

> "This tax policy risks accelerating the trend of businesses choosing to invest outside the UK, thereby undermining regional economic growth and productivity."
>
> IFS, 2024

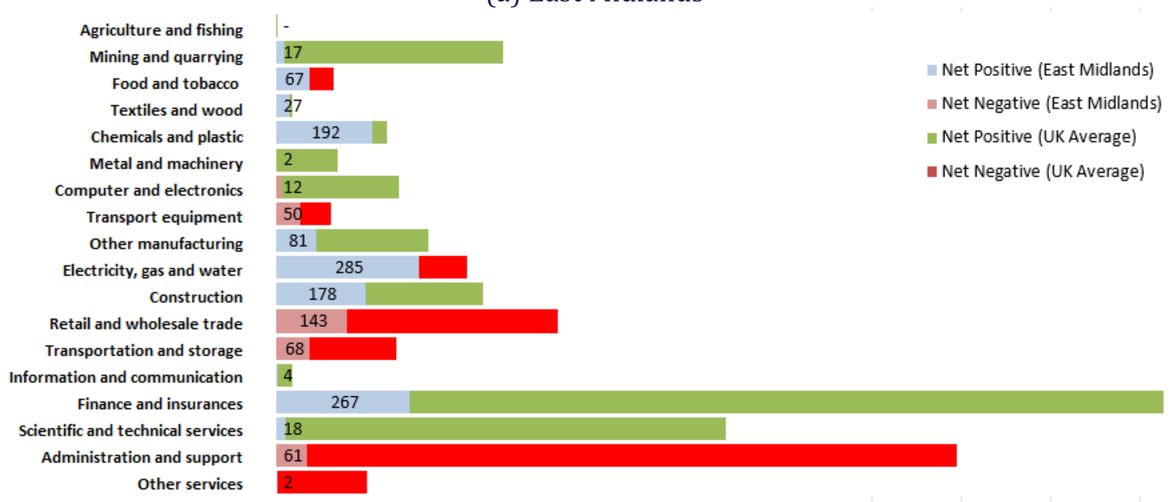
In addition, the planned rise in the National Living Wage to £12 per hour from April 2025 will add further cost pressures, particularly for businesses in hospitality, retail, and care sectors, with two-thirds of firms claiming it could "damage UK investment" [8]. While these measures aim to support broader economic and social objectives, their cumulative impact has added to operational uncertainty at a time when many firms are already under financial strain.

To boost regional FDI attraction, initiatives like the Midlands Investment Zones have been established, offering targeted incentives to high-potential sectors and locations, as the following case illustrates.

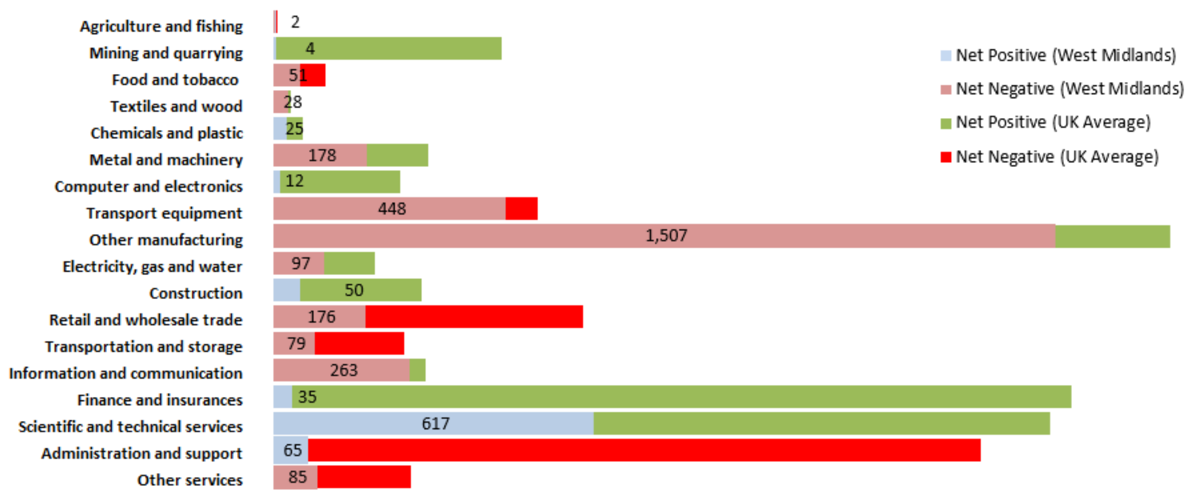
Investment Zones in the Midlands	
Objective: Investment Zones aim to boost economic activity in underperforming regions through tax incentives, planning simplifications, and infrastructure support to attract FDI and stimulate job creation. **Implementation:** in the Midlands: Two primary Investment Zones operate within the region—one in the West Midlands (e.g., Birmingham and Coventry-Warwick) focusing on advanced manufacturing and tech, and another in the East Midlands (e.g., Derby and Nottingham) prioritising logistics and green industries. These zones leverage local strengths, with projected investments up to £3.5 billion in the West Midlands and targeted growth in high-value sectors. **Outcomes:** Investment Zones are expected to create approximately 30,000 jobs over the next decade, fostering partnerships with local universities and businesses. Early data suggest enhanced business activity, particularly in advanced manufacturing, digital, and green industries, supporting regional productivity and economic competitiveness.	3000 new high-quality jobs to be created due to Investment Zones, directly addressing the region's skills gap and improving its competitive advantage in high-value industries Parliament, 2024

Figure 2: Net Inward FDI between 2019 and 2021 (in £ millions), by industrial activities

(a) East Midlands



(b) West Midlands



Source: ONS FDI statistics

Policy Interventions Needed

1. **Strengthening Public Investment in Infrastructure:** The first step towards rectifying the investment imbalance in the Midlands is to double public spending on infrastructure projects, particularly in underperforming LADs. Investment in transport infrastructure, and housing is essential to make these areas more attractive to private investors and businesses. The Midlands Engine advocates for greater investment in infrastructure to reduce travel times and congestion, particularly in regions north of Birmingham [2]. Increasing the share of public infrastructure investment could unlock private capital by creating better conditions for business growth. As noted in PwC's report, every £1 spent on infrastructure has the potential to add £1.60 to GDP [3]. Expanding high-speed broadband access to rural areas and improving transport links would also enhance the region's connectivity and competitiveness, further attracting both domestic and foreign investments.

2. **Enhancing FDI Attraction Strategies:** There is a clear need to develop tailored strategies that enhance FDI attraction, particularly in the East Midlands. These could include more aggressive promotion of local sectors with high growth potential, such as renewable energy, advanced manufacturing, and digital technologies. The government's recent initiative to launch new Investment Zones, with one located in the East Midlands and another in the West Midlands, is a positive step towards boosting regional FDI. In addition, reducing red tape around foreign investments and simplifying the regulatory environment will be essential to attract long-term, sustainable FDI projects. Incentivising foreign businesses to establish regional headquarters or R&D facilities in the Midlands can create high-skilled jobs and help foster local innovation ecosystems.

3. **Expanding Support for SMEs and Innovation:** Small and medium-sized enterprises (SMEs) play a crucial role in the Midlands economy, yet they often face significant challenges in accessing the capital they need to scale up. The CEIG report highlights how smaller firms in the West Midlands, in particular, suffer from a lack of access to finance and expertise, which hampers their ability to innovate and grow [5]. Government intervention is needed to expand access to finance for SMEs, particularly in emerging sectors such as green technology and life sciences. This could involve creating regional venture capital funds or offering grants for innovation and technology adoption. Additionally, public-private partnerships that provide SMEs with advisory services, mentorship, and networking opportunities would help bridge the gap between smaller firms and larger, more established companies.

4. **Fostering Cluster Development:** Cluster development is another key strategy for driving investment and growth in the Midlands. The presence of successful business clusters, such as the automotive hub around Coventry and the digital tech cluster in Birmingham, has been shown to enhance local productivity by fostering collaboration between firms and creating synergies that benefit the entire region. Policymakers should focus on strengthening existing clusters while also developing new ones in less competitive areas. This could involve offering incentives for businesses to co-locate in specific regions, as well as investing in specialised infrastructure that supports cluster development.

5. **Promoting Long-term Investment strategies:** To counteract the prevalent short-termism, it is essential to promote policies that incentivise long-term investments. This can include:

    (a) Implementing tax breaks or credits for investments in long-term assets such as R&D and sustainable infrastructure;
    (b) Offering guarantees or co-investments in projects that have long gestation periods but are crucial for long-term economic sustainability;
    (c) Adjusting financial reporting and corporate governance standards to encourage longer-term outlooks in business and investment planning.

6. **Regulatory Reforms and Reducing Barriers:** Simplifying the regulatory framework and speeding up planning permissions are essential steps towards making the Midlands a more attractive destination for investment. Current delays in obtaining planning approvals often discourage both domestic and foreign investors from pursuing projects in the region. Policymakers must work towards creating a more streamlined and efficient system that reduces the burden on businesses and accelerates project timelines. The key to achieving this lies in coordinated policy interventions that target underperforming areas, strengthen local business ecosystems, and create the conditions for sustained, long-term investment growth. A comprehensive and strategic approach is needed to ensure that all parts of the region benefit from future investment and growth.

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