MIDLANDS ENGINE
Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 26: MAY 2022

Executive Summary

The May 2022 edition of the Midlands Engine Economic Monitor covers a wide-range of topics, bringing together recent data releases, insight and real-time business intelligence from across the region. It reports at a time of the **highest inflation in 40 years, which is hitting Midlands communities and businesses hard through increased prices** for food, energy, raw materials, wages and other essentials. Exacerbated by continuing effects of the war in Ukraine and the legacy of the pandemic, this tough environment is reflected in **subdued performance in key barometers**:

- The West Midlands Business Activity Index **decreased from 59.1 in March 2022 to 54.5 in April 2022. The East Midlands decreased from 60.5 to 58.1.**
- The West Midlands Future Activity Index **decreased from 75.2 in March 2022 to 71.8 in April 2022. The East Midlands decreased from 69.2 to 67.5.**
- The West Midlands Input **Prices Index increased from 83.8 in March 2022 to 85.0 in April 2022**. The East Midlands however decreased from 86.1 in March 2022 to 84.7 in April 2022.

The impact of price rises is felt by Midlands Engine businesses across sectors, with anecdotal and survey-based evidence reported in an array of industries including **manufacturing, construction, life sciences, and agriculture / farming** amongst others. And, yet, some businesses and sectors continue to report high confidence and demand for their goods and services – reflecting a **continually mixed picture in the Midlands' economic environment.**

A similarly conflicting picture is presented in the local labour market. On the one hand, **jobless figures continue to fall and job postings continue to rise**, reflecting positive developments:

- There were 284,620 claimants aged 16 years and over in the Midlands Engine area in April 2022, which is a **decrease of 7,930 claimants since March 2022.** This equates to a decrease of 2.7% for the Midlands Engine area.
- There were 48,000 claimants aged 16-24 years old in the Midlands Engine area in April 2022 – a **decrease of 1,720 claimants since April 2022.** This equates to a decrease of 3.5% .
- There were 789,071 total job postings across the Midlands Engine area in April 2022 compared to 688,633 in April 2021 (+14.6%). Of the total postings in April 2022, **278,500 were unique vacancies. This is up 37.3% compared to the same period last year.**

Whereas businesses continue to report **staff shortages, reflective of both volume required and the skills pool available.** Mirroring trends at both the national and regional level, **care roles and nurses remain the most in-demand positions**, but other sectors are badly affected too – including manufacturing, construction, and professional services.

All of these trends are critical benchmarks for the Levelling Up agenda, but **insight continues to suggest this policy priority has struggled to get off the ground and places across the UK – not least in the Midlands Engine – are yet to tangibly benefit.**

- New analysis by Bloomberg suggests that most of the places that lagged behind London and the South East of England when the Levelling Up Policy was first touted (2019) **have seen little sign of better times.** All parliamentary constituencies across the Midlands Engine were found to have had **"no overall levelling up" so far.**
- This is reinforced by a recent report by the Skills and Productivity Board that highlights the **importance of low productivity in strengthening UK regional inequalities.** Multiple LEP areas in the Midlands Engine area – including Greater Lincolnshire, the Marches, and the Black Country are deemed particularly **"left behind" in this regard.**

Central government funding for regional economies is therefore more important than ever to reverse these trends. And while the recently announced **UK Shared Prosperity Fund (UKSPF)** will be a welcome boost to local economies – **providing a total of £350m+ to the Midlands Engine geography** - analysis suggests a funding gap with previously allocated European Structural Funds. **Analysis of the Midlands Engine geography suggests an estimated loss of £237.4m in funding compared to pre-Brexit – a 40% cut.** As outlined by other local areas and fiscal experts, **adjustments to the scale, certainty and duration of the funding are required to make UKSPF a real success.**

Separately, this month's monitor summarises the key findings from recently released data on **innovation and digital**.

- The recent UK Innovation Survey release shows that, between 2018-2020, **47% of East Midlands businesses and 49% of West Midlands businesses were innovation active, compared to 45% of UK businesses.** The West Midlands was the 2nd highest region; the East Midlands came in 4th. Midlands Engine companies reported **stronger than average activity related to investment in machinery and equipment, design, training and computer hardware** – citing Covid-19 as both a key reason for innovating, and a key barrier to innovation.
- An update from Ofgem reports that 96.2% (4.57m) of premises in the Midlands Engine area had superfast broadband (SFBB) availability, **above the UK proportion of 95.6% as of January 2022; though the region is slightly behind when it comes to full fibre and about average for 4G.** A geographic breakdown of digital exclusion also demonstrates the **varying levels of digital accessibility across the Midlands Engine.**

Policy Considerations

THEME	KEY INSIGHTS
Trading Conditions	• There is a continually **mixed picture across the Midlands' business environment**. On the one hand, the cost of living and cost of doing business crisis is causing continued concern for business and is leading to **severe financial impacts for some**. However, there are **other reports of relatively high confidence** within the region's business base and investment markets, particularly buoyed by months of no Covid restrictions and future growth prospects. • The **drastically rising cost of key inputs** – such as people, materials, energy – is damaging the **competitiveness and sometimes feasibility of many Midlands businesses.** Inevitable **cashflow pressures** are unfortunately leading to firms being in financial stress and some facing closure. • A number of businesses are highlighting the continued impact of the **Covid pandemic with business owners and staff continuing to contract the virus**. Reduced staff numbers significantly reducing capacity means that they haven't moved forward with introductions to support programmes and partners or been able to complete required applications for much needed grant funding as instead they have had to ensure business continuity. Others have not been so fortunate and have had to impose temporary closures, putting their futures at risk. • **The continuing conflict in Ukraine** is having rippling affects across businesses across the region, especially in sectors such as manufacturing and hospitality. • Businesses in the Midlands are **repeatedly raising the issue of rising energy prices**, with all sectors seeing significant increases in their energy bills. They continue to seek ways to reduce outgoings in order to aid their survival during such challenging times. The main route continues to be reducing energy costs, however with **very little support offers for small to medium SME's looking to undertake standard adjustments such as solar panels**, LED lighting and general energy loss reductions these companies do not have the cash flow to fund this type of development. • More positively, there have been further examples recently of **regional businesses looking to re-shore their supply chain.** This is partly linked with a focus on net zero strategies and reviews of supply chain management.
Labour Market	• **Recruitment –** there has been a reported growth of both permanent placements and temporary billings, with demand for staff increasing at an increasingly fast rate. In particular, there has been an increase in the number of hospitality and IT roles being advertised. • **Staff Shortages** – permanent candidate availability has fallen, with recruitment agencies stating that this has been due to a generally low unemployment rate and the added uncertainties related to the pandemic and situation in the Ukraine, with fewer EU workers and high demand for those that are available to work. • **Permanent Vacancies** – the permanent vacancy growth continues to outpace that seen for short-term roles, as has been the case throughout the past year. This has resulted in real financial challenges for local business, with one business saying they have seen starting salaries increase between 10-20% in order to attract staff, which is putting pressure on their finances. • **Staff Shortages** - A general lack of skilled workers in less desirable roles continues to be a problem with employers needing to inflate salaries to both attract and retain staff. • **Anecdotally, it seems that that many employers are not recruiting apprentices for several primary reasons,** including that they are still reluctant to recruit apprentices due to **financial considerations;** they are still **confused on how the reformed funding and processes work**; and are still **unable to attract good quality, appropriate candidates.**
Business Support Enquiries	Engaged companies are often **unable to access much business support regionally at present** due to a lack of funded provision across the region, with many ERDF funded projects coming to an end and new projects not running yet – highlighting the **importance of new funding such as the UK Shared Prosperity Fund.** However, common Growth Hub enquiries in recent weeks have included: • **Exit Strategy Planning** – Mentoring and guidance being offered to multiple clients of to successfully conclude exit strategies. In the main, the sale of established and profitable businesses feature most with advisors assisting with the mapping and navigation of the process. • **Access to Grants & Investment** – Planned capital investments, expansions and refurbishments requiring financial support. • **Digital Marketing Support** – Further, continued, high demand from businesses across all sectors keen to develop their digital marketing skills capability.

1. Economic and Labour Market Impacts

Global and National Outlook

Global

China's economy is slowing down, with multiple indicators showing greater weakness than many analysts had expected. It was well known that lockdowns would stifle economic activity; however, the impact in China is worse than expected. In April, retail prices in China were down 11.1% from a year earlier; the **highest youth unemployment rate on record (18.2%)**; industrial output down 2.9%, with manufacturing down 4.6% and **automotive manufacturing down 31.8%**. In recent decades, an excessive share of economic activity came from property development and China's government has deliberately reduced the size of the sector, in an effort to achieve a more sustainable economic model through greater consumer spending. The reduction in this sector is having serious economic consequences on growth and there is little information on the government's plans to help boost consumer spending in other areas.

After massive growth following the pandemic, the US economy is being stifled by an ever-tightening jobs market, as employers struggle to find qualified labour to fill job openings. The Financial Times reported that, according to Goldman Sachs, it was contending with the most severe imbalance between labour demand and supply since the Second World War. For every unemployed worker there is on average 1.9 vacant positions, the tightness varying by location and industry.

The tightest labour markets are in places such as Utah, Nebraska and Montana, where there are more than 3.3 job openings per unemployed person, whereas in California and Connecticut the ratio is 1.4. In terms of sector tightness, those experiencing the highest levels of tightness are sectors which struggled most under the pandemic and saw the highest numbers of people leaving the industries. **Health care, hospitality, accommodation and food are amongst the most impacted. However, even in sectors where there has been growth such as transportation, the higher wage gains have been swallowed up rapidly rising inflation. Real hourly earnings, adjusted for inflation, are now down 2.6% year on year.**

The EU is also struggling with a cost-of-living crisis, following Russia's invasion of Ukraine, which has meant EU growth prospects have been revised downwards. Rocketing energy prices as a result of the conflict have pushed up inflation and increased economic headwinds during a period when they were expected to subside, the European Commission said in its latest forecasts. The Commission is forecasting growth of 2.7% in 2022, down from 4% forecast in the last quarter. If Russia was to cut off supplies of gas this would reduce growth to 0.2%.

The war in the Ukraine is also stoking a global food crisis. There are massive shortages in grain and fertiliser caused by the war, warm temperatures and pandemic-driven supply problems, which are threatening to tip millions of people into food insecurity. **The Ukraine is the world's breadbasket and without the supply of wheat usually expected, prices have rocketed.** The UN's food and agricultural price index reached an all-time high of almost 160 points in March before falling 1.2 or 0.8% in April. Cereal and meat price indices also hit record highs in March. A year ago, wheat was trading in Chicago at US674c per bushel. Today it fetches US1,242c per bushel in a near-doubling of the price driven and compounded by the lack of supply. Across the globe there will be food and drink price rises. Those suffering the greatest impact will be the less developed nations, where large populations are reliant on subsidised foods and drinks. Without subsidised foods and drink many globally may now be facing famine, and this may drive further conflict.

National

It was announced by OFGEM that the cap on energy bills will increase to £2,800 per year in October. This comes after the price cap had already been risen by £693 in April to £1,971. The increase will mean that by October the price cap will have risen by £1,522 compared to the year before.

OFGEM also warned that such significant increases in energy bills would likely double the number of households in fuel poverty to 12 million.

The railway workers union RMT has voted in favour of strike action across Network Rail and 13 train operating companies. Strike could affect both passenger services and the movement of goods by train, including bulk consignments of fuel, and some food.

The Sue Gray report on the findings of the investigation into alleged gatherings on government premises during Covid restrictions has been published. **'Partygate' has impacted negatively on trust between the public, businesses, the government and institutions.**

Analyses of Trust in Government figures from the OECD show that **trust in government in the UK has decreased from 50.4% in 2010 to 34.7% in 2020. The UK public now has the lowest levels of trust in its government amongst G7 countries.** There are concerns that a lack of trust creates a vicious cycle that effects governance and the functioning of institutions, including the capability to address economic insecurity.

Economists are revising down their growth figures for 2023. Inflation has already hit its highest level in 40 years.

Source: WMRedi

Business Activity

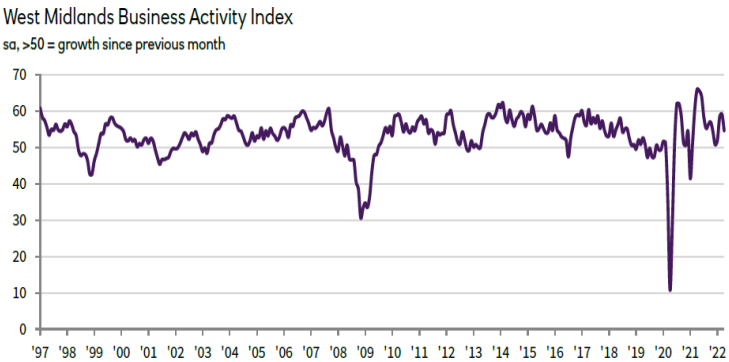
Business Activity Index

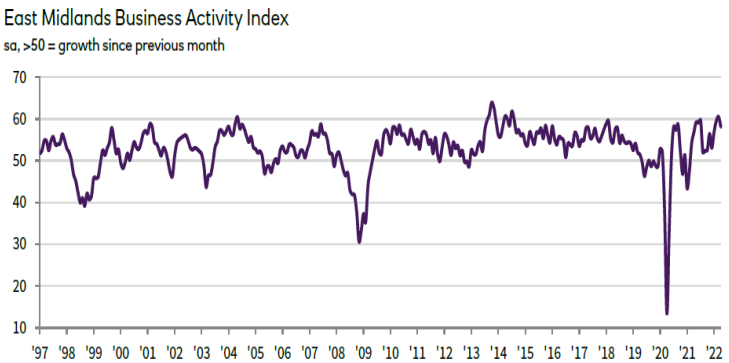
The **West Midlands Business Activity Index decreased from 59.1 in March 2022 to 54.5 in April 2022.** The upturn was restricted by subdued demand conditions, amid acute inflationary pressures and concerns around the cost of living.

The **East Midlands Business Activity Index decreased from 60.5 in March 2022 to 58.1 in April 2022.** Although firms stated that client demand strengthened, higher prices and lower disposable incomes at customers weighed on the upturn. The rate of growth was the slowest for three months.

The overall UK Business Activity Index decreased from 60.9 in March 2022 to 58.2 in April 2022.

The West Midlands and East Midlands Business Activity Index trends:





Source: IHS Markit, NatWest PMI, May 2022

Of the 12 UK regions, the West Midlands and the East Midlands was second lowest and sixth highest respectively for the Business Activity Index in April 2022.

Demand

The **West Midlands New Business Index decreased from 55.4 in March 2022 to 50.2 in April 2022**. **The East Midlands New Business Index decreased from 58.0 in March 2022 to 51.0 in April 2022**. Many firms stated that inflation concerns and lower disposable incomes at customers weighed on the rise in new orders.

Exports

The **West Midlands Export Climate Index decreased from 53.9 in March 2022 to 53.4 in April 2022,** this was linked to the downturn to China intensifying (37.2). The **East Midlands Export Climate Index increased from 53.0 in March 2022 to 55.1 in April 2022,** due to sharp output expansions across key export markets.

Business Capacity

The **West Midlands Employment Index increased from 53.9 in March 2022 to 55.1 in April 2022.** Those companies that took on additional workers indicated that retirees and voluntary leavers had been replaced. The **East Midlands Employment Index increased from 56.9 in March 2022 to 55.5 in April 2022**. The rate of job creation softened to the slowest since October 2021.

The **West Midlands Outstanding Business Index decreased from 50.8 in March 2022 to 50.2 in April 2022**. The **East Midlands Outstanding Business Index decreased from 52.7 in March 2022 to 50.5 in April 2022.** For both regions, the pace was the slowest in the current 14-month sequence of growth.

Prices

The **West Midlands Input Prices Index increased from 83.8 in March 2022 to 85.0 in April 2022**. The **East Midlands Input Prices Index increased from 86.1 in March 2022 to 84.7 in April 2022**.

The **West Midlands Prices Charged Index increased from 70.7 in March 2022 to 71.2 in April 2022.** The **East Midlands Prices Charged Index increased from 68.5 in March 2022 to 70.2 in April 2022.** For both regions, the rate of increase was a record high.

Outlook

The **West Midlands Future Activity Index decreased from 75.2 in March 2022 to 71.8 in April 2022.** The **East Midlands Future Activity Index decreased from 69.2 in March 2022 to 67.5 in April 2022.** Despite the level of positive sentiment falling, firms in the Midlands remained upbeat. Optimism was restricted due concerns over inflationary pressures and energy price volatility that would curb demand and business activity.

Out of the twelve UK regions, the West Midlands was and the East Midlands was joint third highest (with Wales) and fifth lowest respectively for the Future Business Activity Index in April 2022.

Source: IHS Markit, NatWest PMI, May 2022.

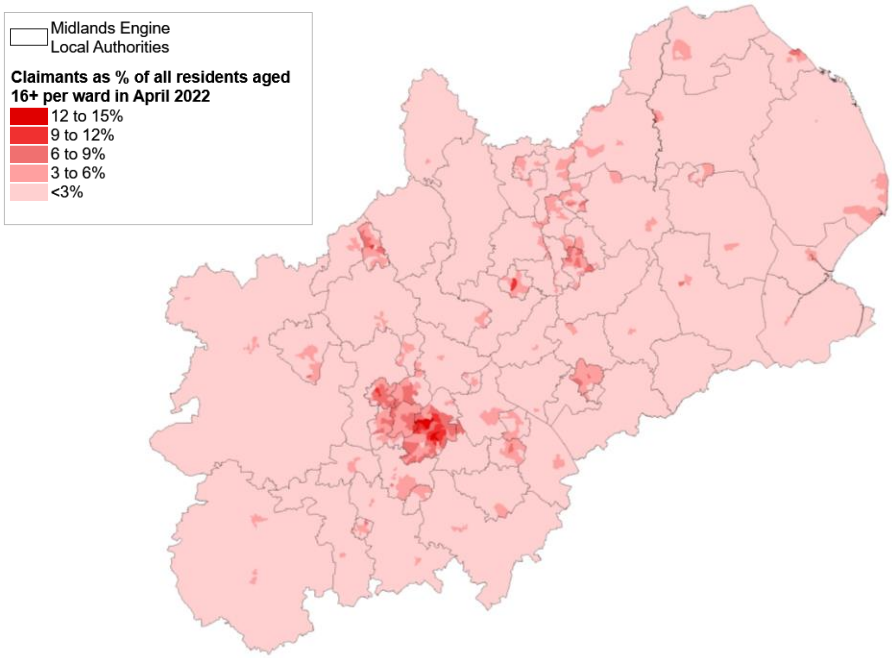
Located on the Midlands Engine Hub is an [Interactive Regional Business Activity Dashboard]

Labour Market Impacts: Claimants

There were **284,620 claimant**s aged 16 years and over in the Midlands Engine area in April 2022, which is a **decrease of 7,930 claimants since March 2022**. This equates to a decrease of 2.7% for the Midlands Engine area, compared to a 3.7% decrease across the UK. **There are 63,080 (+28.5%, UK +30.4%) more claimants when compared to March 2020**. Notably, North East Lincolnshire and East Lindsey had lower levels than March 2020.

The number of claimants as a percentage of residents aged 16 years was 3.4% in the Midlands Engine (UK 3.0%) in April 2022 – remaining above the pre-pandemic levels of 2.7% (UK 2.4%) in March 2020.

Claimants as Percentage of Residents Aged 16 Years and Over in April 2022:



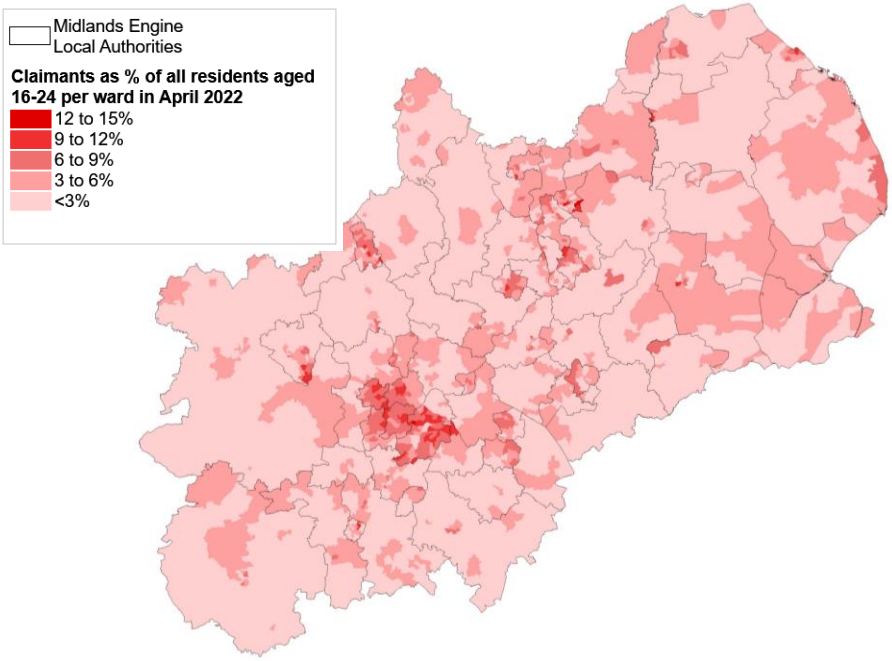
Out of the 1,511 wards within the Midlands Engine, **426 were at or above the UK proportion of 3.0%** for the number of claimants as a percentage of the population aged 16 years and over in April 2022.

The wards with the highest number of claimants as a percentage of the population aged 16 years and over were based in Birmingham, with Birchfield the highest with 14.9%. This is followed by Handsworth at 14.7% and then Lozells at 14.4%.

There were 48,000 claimants aged 16-24 years old in the Midlands Engine area in April 2022 – a decrease of 1,720 claimants since April 2022. This equates to a decrease of 3.5% with the UK decreasing by 4.7%. Since March 2020 (44,195 claimants), **the number of claimants aged 16-24 years old has increased by 3,805** (+8.6%, UK +8.2%).

The number of claimants as a percentage of residents aged between 16 and 24 years old was 4.1% in the Midlands Engine and 3.7% for the UK in April 2022.

Claimants as Percentage of Residents Aged 16 Years and Over in April 2022:



Out of the 1,511 wards within the Midlands Engine, **590 were at or above the UK proportion of 3.7%** for the number of claimants as a percentage of the population aged between 16-24 years old in April 2022.

The wards with the highest the number of youth claimants as a percentage of the population were based in Portland (Mansfield) at 14.9%. This was followed by Oak Tree (Mansfield) at 12.8% and then Handsworth (Birmingham) at 12.2% at 12.7%. In contrast, within the Midlands Engine there **were 127 wards with no youth claimants** in April 2022.

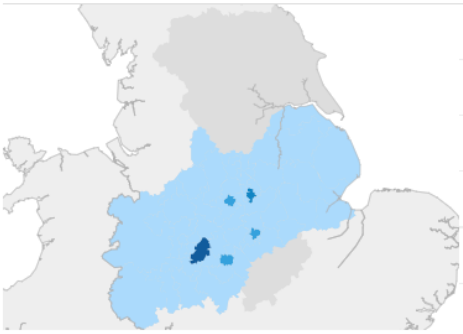
Source: ONS/ Department for Work and Pensions, May 2022.
Located on the Midlands Engine Hub is an Interactive Claimants Dashboard

Labour Demand

Job Postings

There were 789,071 total job postings across the Midlands Engine area in April 2022 compared to 688,633 in April 2021 (+14.6%). Of the total postings in April 2022, **278,500 were unique vacancies. This is up 37.3% compared to the same period last year.**

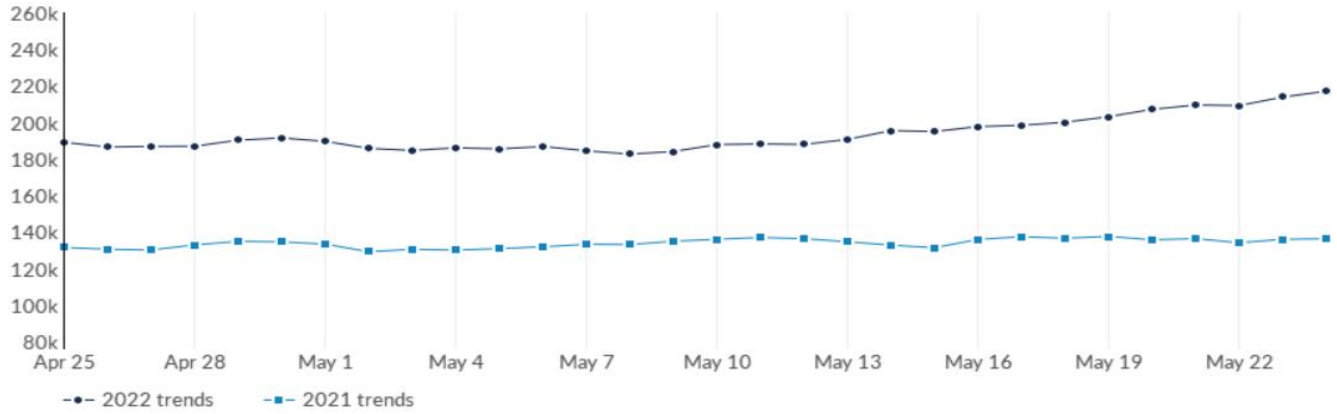
As seen below in the map and table, the top 5 areas for *unique* job postings were Birmingham, Nottingham, Leicester, Coventry and Derby. These areas accounted for 47% of all advertised unique vacancies:



Local Authority	Unique Postings (Apr 2022)
Birmingham	58,319
Nottingham	32,789
Leicester	16,022
Coventry	12,584
Derby	11,464

Current **posting activity is 59.2% higher than at this same point last year** and 14.8% higher than at the start of the last 30-day period. All major occupational groups across the Midlands Engine region recorded an increase in job postings in the last 30 days.

The most recent 30 days of unique job postings across the Midland Engine (for near term trend) and compares to the same period in 2021:



Advertised Salary

The **advertised median salary for roles across the Midlands Engine was £29,000** – up 0.4% compared to the previous year.

Median advertised salary:

52% of the roles advertised were salaried up to £30,000 with 17% advertised at over between £45,000pa.

Source: Emsi – Labour Market Analytics & Economic Data, May 2022

Labour Demand

Top Occupations

Mirroring trends at both the national and regional level, **care roles and nurses remain the most in-demand positions**, further evidenced by the heightened posting intensity*. Demand also continues to be elevated for Programmers and Software Development Professionals and Sales and Customer Service Occupations.

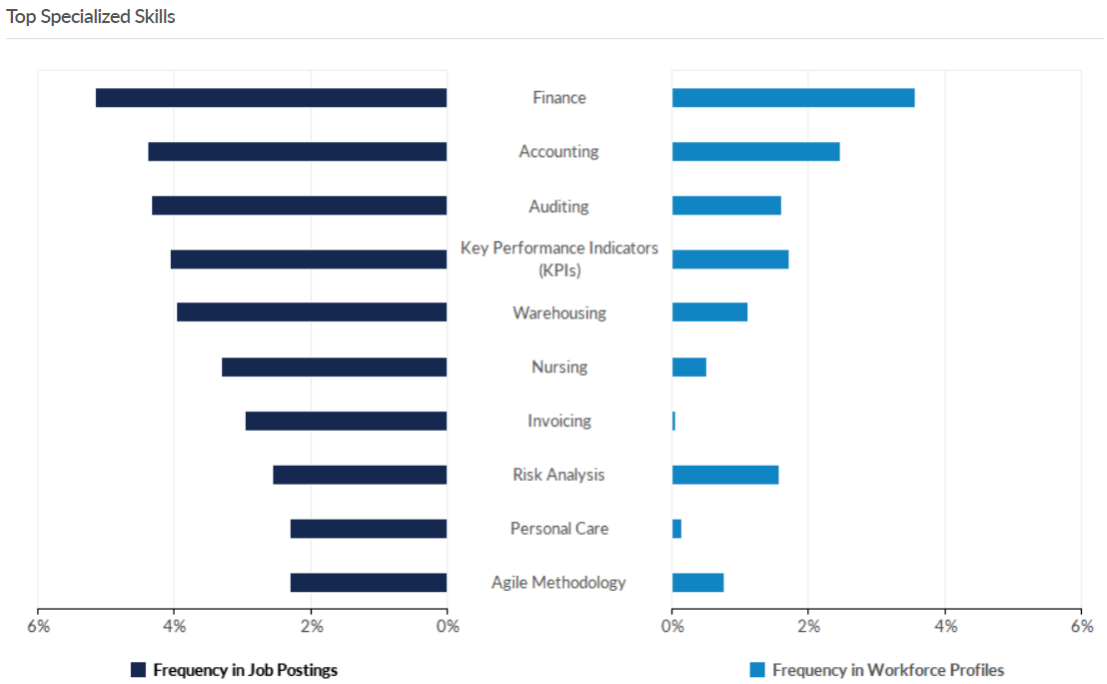
The top posted occupations below account for a third of all job postings:

Occupation (SOC)	Total/Unique (Apr 2022)	Posting Intensity
Care Workers and Home Carers	44,458 / 11,564	4 : 1
Nurses	81,909 / 11,330	7 : 1
Sales Related Occupations n.e.c.	18,368 / 8,237	2 : 1
Other Administrative Occupations n.e.c.	17,783 / 7,834	2 : 1
Programmers and Software Development Professionals	20,238 / 7,779	3 : 1
Customer Service Occupations n.e.c.	20,915 / 6,516	3 : 1
Human Resources and Industrial Relations Officers	14,005 / 5,192	3 : 1
Managers and Proprietors in Other Services n.e.c.	10,544 / 4,550	2 : 1
Teaching Assistants	12,523 / 4,519	3 : 1
Elementary Storage Occupations	14,542 / 4,376	3 : 1

Most Sought-after Hard Skills

Reflecting the most advertised occupations, the **biggest skills gaps are around 'personal care'**, 'nursing', 'warehousing' and 'invoicing'.

The most in-demand hard skills compared to workforce profiles:



*Posting Intensity indicates the effort recruiters and employers are using towards hiring for certain positions.

Source: Emsi – Labour Market Analytics & Economic Data, May 2022

2. Business Environment

Local Business Intelligence

This section draws on contributions from the East Midlands Chamber, Make UK, the National Farmers Union, and the Federation of Small Businesses).

East Midlands Chamber Regional Overview

At the time of writing the latest Quarterly Economic Survey is still in the field. This commentary draws on early responses to the survey.

The major story identified by Chamber members this month is of rising input costs on all sides. Where this narrative differs in relation to previous reports is in the ranking of the factors driving this general picture:

1) Labour costs;
2) Utilities costs;
3) Fuel – both as an input to production as in relation to distribution; and
4) Raw materials

Notwithstanding these pressures on firms, demand for the goods and services that they supply is reported to be holding-up. Whether this will continue to be the case as the 'cost of living' crises impacts on household expenditure remains to be seen.

At the time of writing, roughly 40% of Chamber members were reported to be operating at full capacity. A figure that is reported to be high by historic yardsticks.

While around a third of members indicate they intend to increase future business investment, in general, there is evidence that **investment intentions have softened in the context of ongoing uncertainties associated with fuel prices, the impact of war in Ukraine and continuing disruption to global supply chains.** It has been suggested that with a significant proportion of firms now operating at or near to full capacity, **one would normally expect investment intentions to be stronger.**

Recruitment remains a significant business concern. More than 60% of members report that they have attempted to recruit. Of these firms, 85% indicate that they have struggled to fill vacancies. It is noteworthy that recruitment difficulties are now being reported at all skill levels – including in relation to unskilled roles.

Anecdotal evidence from Chamber members has highlighted **significant wage inflation evident in some professional services sectors.** Additionally, members active in the automotive sector have reported **supply chain disruption as a consequence short-time working by German component manufacturers affected by energy supply problems.**

Rising input cost pressures on businesses are not yet thought to have fed through into rising insolvency rates, although this remains a future risk.

Make UK - manufacturing

Make UK report a very volatile picture characterised by great uncertainty. Key concerns highlighted by manufacturers on order of severity include:

1) Recruitment;
2) Supply chain problems; and
3) Input price inflation including energy

Some manufacturers have reported that increased prices to consumers have not necessarily resulted in higher prices being paid to firms further up the supply chain.

Continuing disruption to supply chains and rising freight costs over the last two years is said to have resulted in **many firms reviewing their supply chain arrangements**. Make UK have characterised this as a shift in emphasis from Just in Time to Just in Case (see below). While these supply chain problems have been widely experienced since the onset of the Covid pandemic, they are now reported to be more prevalent. **It has been suggested that the costs of international shipments alone has now reached a level that it has now affected the firms views on the merits of off-shore production. There is some evidence of firms diversifying supply chains as a means of promoting greater resilience.**

Rising energy prices remain a major concern for manufacturers. Firms are described as facing a particular problem when existing energy supply contracts must be renewed. **Many manufacturers have taken steps to reduce energy consumption/improve energy efficiency.**

Ongoing recruitment problems are reported to have encouraged **many employers to review non-monetary benefits associated with employment as a means of improving the attractiveness of employment to existing and prospective employees.** Replacement demand for skilled labour remains a major issue for many manufacturing employers.

Raw materials remain a major source of input cost pressures on many manufacturers. War in Ukraine has exacerbated the supply problems many had experienced as a result of the covid pandemic.

Local Business Intelligence

Make UK has published 2 recent reports addressing issues highlighted in this section:

Operating without Borders – Building Global Resilient Supply Chains | Make UK

Industry calls for a task force to tackle supply chain resilience as survey shows stark effects of economic shocks. 'Just in time' being replaced by 'just in case' as volatility becomes the norm and companies increase suppliers close to home.

Key findings:

- Pandemic (93%) and Brexit (87%) have caused disruption to supply chains
- **80% of companies say increased energy costs have caused disruption to supply chains**
- **Increased raw material (79%), transport costs (74%) and transport availability (54%) major supply chain challenges**
- Almost a quarter of companies have between 51 and 100 suppliers, 14% more than 200
- Over a third of companies have increased the total number of suppliers in the last two years, almost half of companies increasing their UK suppliers
- In the next two years almost half of companies intend to increase UK suppliers, a quarter to increase suppliers from Western Europe including Turkey
- Almost three quarters of companies have an intermediate or advanced supply chain strategy
- One in five companies have digital supply chain monitoring but concerns over smaller companies only having a more basic approach

Levelling Up: Bridging the gap between policy and progress

Key findings:

- A quarter of manufacturers said regional mayors should be given responsibility for distributing levelling up funds to target areas of local concern effectively and 22% said local councillors should also have input
- 30% of manufacturers do not believe levelling up is happening and have **yet to see any tangible benefit to their business**
- A quarter of manufacturers want to see Government **prioritise better support for skills training to create better job opportunities**
- A fifth said **upgrading local transport infrastructure including rail and road is key to levelling up in the regions while 17% said greater incentives for their business to become net zero is needed**

FSB – Small Business Experiences

FSB's latest meetings with Midlands stakeholders have identified a number of common challenges facing local businesses. The rising cost of doing business, supply chain disruption, barriers to efficient international trade, difficulties recruiting appropriately skilled staff and uncertainty over local business support structures and programmes are recurring themes.

This is borne out by quantitative and qualitative research. For example, in May, FSB released the findings of it's first quarterly Small Business Index (SBI) for 2022.

For the Midlands as a whole, the SBI showed that small business confidence has improved slightly since the end of 2021, though it remains significantly lower than it was in the first quarter of last year. Confidence is higher in the East Midlands (17%) versus West Midlands (12%).

Employment within small businesses has remained either stable (East Midlands) or declined (West Midlands) and the majority of Midlands employers report that their average salaries have increased in the past 12 months. The most prevalent 'barriers to growth' are 'general **domestic economic conditions, closely followed by utility/input costs then weakening consumer demand.**

On a more positive note, many small businesses in the Midlands remain upbeat about their growth potential in the next 12 months. Those in the West Midlands are most optimistic, with 53% expecting to grow rapidly or moderately, comparted to 41% in the East Midlands.

NFU – Farming

The major concern reported by the farming sector echoes those of other sectors: **input costs are reported as rising on all sides. It is said to be inevitable that farmers input costs will have to be passed-on to consumers**. A recent NFU survey reported that 87% of farmers think that rising input prices will adversely affect their business.

The poultry sector is reported to have been particularly hard hit by these problems as a result of both rising wheat prices (used for feed and 57% more expensive than a year ago) and energy costs associated with heating poultry sheds. These price pressures are reported to have already fed through into the hospitality sector.

In contrast to other economic sectors, **labour costs or availability are not currently reported to be major concerns. This will likely change as we approach the part of the year when seasonal demands for labour become more pronounced.**

Some farmers are reported to have responded to vegetable/sunflower oil supply problems associated with the war in Ukraine by planting more rapeseed.

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Construction	• **Rising costs are a key concern** for construction companies, with some absorbing them and others passing them onto the customer. However, order books are looking healthy for the next 6 to 12 months with **some smaller employers saying they are now having to decline work** as they just physically can't do it. • Ultimately, **the costs may start to show an impact as the year progresses** however for the immediate future, businesses are going well. • **Supply chain issues more widely are threatening to impact projects and factories**, as recently reported in Staffordshire.
Manufacturing	• **UK manufacturing output grew at its fastest pace in ten months over the quarter to May**, according to the latest monthly CBI Industrial Trends Survey. Output still failed to keep pace with demand, however, as the **volume of stocks of finished goods became less adequate compared with last month.** • MakeUK recently published two reports around global trends and UK manufacturing's response. Firstly, a "COP 26: 6 Months On" report demonstrates that **UK manufacturers are leading the charge in the green revolution**. Almost two thirds (65%) of manufacturers are found to have taken positive action towards their net zero target in the past 12 months, while **over a third (35%) of the businesses surveyed already have a fully formed net zero strategy in place and have started to implement it.** • Secondly, a report on "Building Global Resilient Supply Chains" shows the stark impact on UK manufacturers from the economic shocks of the last two years and the **knock-on effects to supply chains from increased energy, transport and raw material costs**. The findings indicate that the strategies manufacturers adopted of off-shoring in response to globalisation, operating a 'just in time' process with virtually guaranteed transport links and low-cost production, have been **turned upside down with disruption and increased volatility fast becoming normal**.
Health & Life Sciences	• Energy prices are a concern for life sciences companies as **lab space generally incur higher energy costs than just office space.** • Concerns remain about **new med tech regulations as we continue to see the effects of Brexit.** Medical device consultants continue to remain in-demand, without enough professionals to meet demand. **Investment from local authorities and/or government would be welcome in this issue.** • **Recruitment of technical staff also continues to be challenging.** A national skills shortage in this sector continues to slow growth. Companies report that difficulties with the **"work visa" process are off putting and confusing.** • Continued **struggle for staff within the care sector**, with these businesses saying it is now damaging their operations due to lack of staff. • **Three Midlands hospitals have been awarded a share of a £553m decarbonisation fund.** The Public Sector Decarbonisation Scheme will direct £50m to Birmingham Women's Hospital and Birmingham Children's Hospital to install low-energy heating alternatives, £32m will be awarded to New Cross in Wolverhampton and more than £70m has gone to the Queen's Medical Centre in Nottingham to **decarbonise the hospitals.**
Professional Services	• **Midlands deal activity declined by almost 50 per cent during the first quarter of 2022**, according to a new report, which also revealed the region's most active advisers. • Experian's M&A Review of the UK and Ireland showed that **186 transactions were completed in the region in the three months to 31 March 2022** worth a total of £1.2bn. • This figure represents a **48 per cent decline from Q1 2021**, which had the highest quarterly volume of the last four years with a total of 357 transactions.
Energy / Low Carbon	• The permanence of high energy prices is causing some businesses consulted into **strategically rethinking their business models**. • Increasing numbers of business owners are exploring how they can not only reduce their energy use, but also **generate their own energy.** Solar panel installation is (anecdotally) the most popular solution in this area, amongst Midlands businesses consulted. However, **high capital costs are preventing businesses from installing solar arrays.** Government grant assistance would be welcome in this regard.

Business and Insights and Conditions Survey

The Office for National Statistics (ONS) have published the final results from [Wave 56 of the Business Insights and Conditions Survey (BICS).]

International Trading

When compared to April 2021, **15.7% of businesses in the West Midlands and 13.0% of East Midlands businesses were exporting more than normal.** The figures for importing more than usual were 14.4% for both the West Midlands and East Midlands.

50.2% of West Midlands businesses and 51.9% of East Midlands businesses were exporting as normal when compared to April 2021. While 55.6% of West Midlands importers and 56.0% of East Midlands importers reported to be importing as normal when compared to April 2021.

15.7% of exporting businesses in the West Midlands and 17.4% for the East Midlands reported their businesses were exporting but less than normal when compared to April 2021. 10.4% in the West Midlands and 11.6% in the East Midlands were importing less than normal when compared to April 2021.

1.0% of West Midlands business had not been able to export in the last month.

Supply Chains

47.2% of West Midlands businesses and 44.0% of East Midlands businesses were able to get the materials, goods or services it needed from the EU in April 2022.

4.5% of West Midlands businesses and 4.3% of East Midlands businesses were not able to get materials, goods or services needed from the EU.

8.0% of West Midlands businesses and 7.8% of East Midlands businesses were only able to get materials, goods or services needed from the EU by changing suppliers or finding alternative solutions.

66% of West Midlands businesses and 65.4% of East Midlands businesses were able to get the materials, goods or services it needed from within the UK in April 2022.

5.9% of West Midlands businesses and 5.5% of East Midlands businesses were not able to get materials, goods or services needed from within the UK.

12.4% of West Midlands businesses and 13.5% of East Midlands businesses were only able to get materials, goods or services needed from the UK by changing suppliers or finding alternative solutions.

Global Supply Disruption

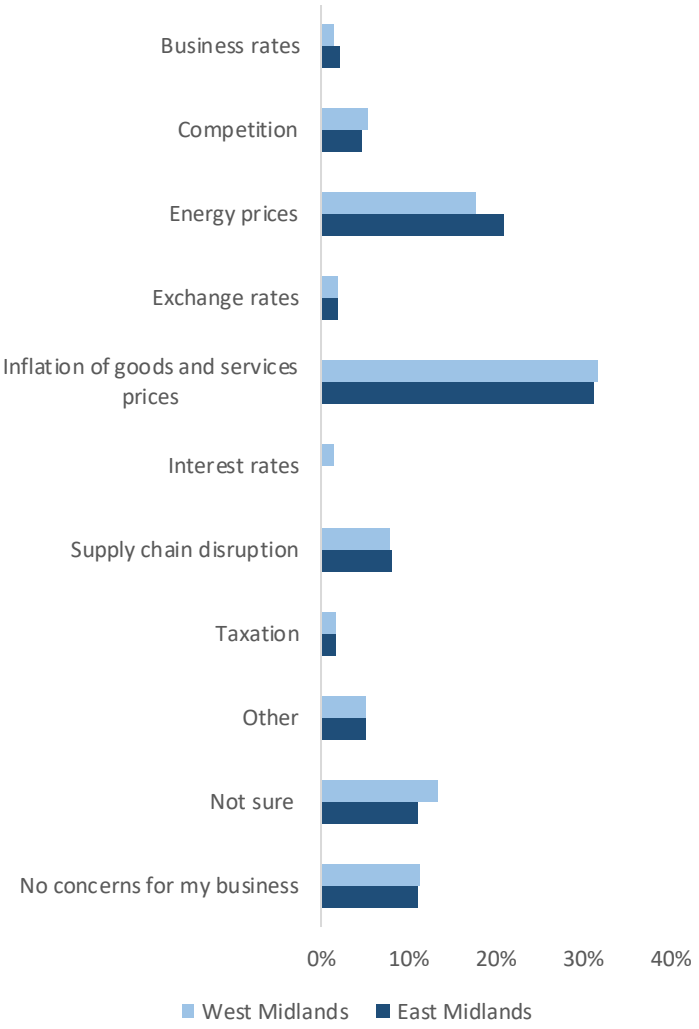
26.8% of West Midlands businesses and 24.2% of East Midlands businesses reported experiencing global supply chain disruption in April 2022.

Main Concern for the Business

11.4% of West Midlands businesses and 11.1% of East Midlands businesses reported there were no concerns for business in May 2022.

Although, **31.8% of West Midlands businesses and 31.4% of East Midlands businesses reported that inflation of goods and services prices was the main concern for the business.**

The main concern (if any) for Midlands businesses in May 2022:



Worker Shortages

34.4% of West Midland businesses and 39% of East Midlands businesses reported to currently experiencing a shortage of workers.

Business Insights and Conditions Survey

Due to the shortage of workers, 63.8% of West Midlands businesses and 58.2% of East Midlands businesses reported employees were then working increased hours.

How the shortage of workers affected Midlands businesses (if any):

Innovation

20.9% of West Midlands businesses and 19.7% of East Midlands businesses reported there had been more innovation since March 2020.

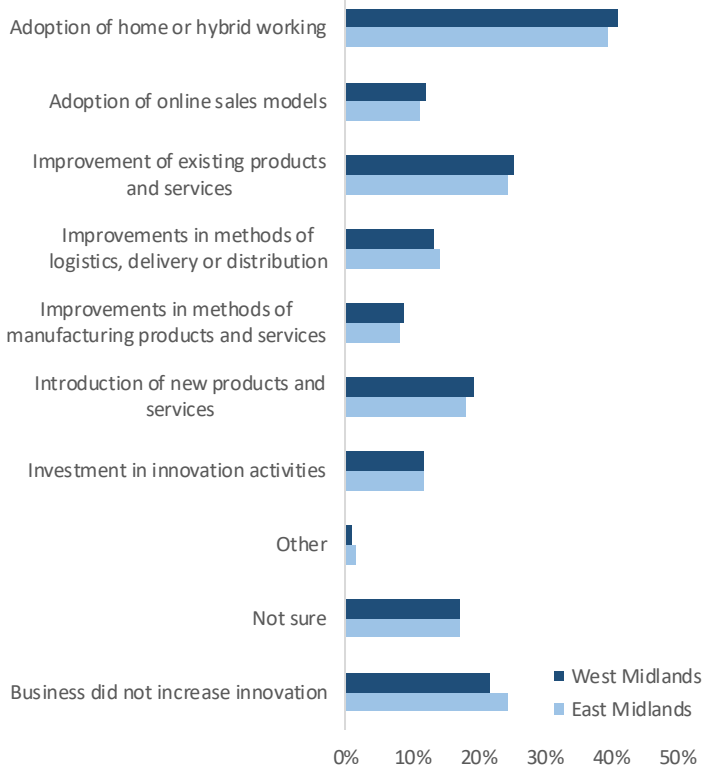
38.3% of West Midlands businesses and 38.7% of East Midlands businesses reported that innovation had not changed since March 2020.

3.5% of West Midlands businesses and 2.1% of East Midlands businesses reported that there had been less innovation since March 2020.

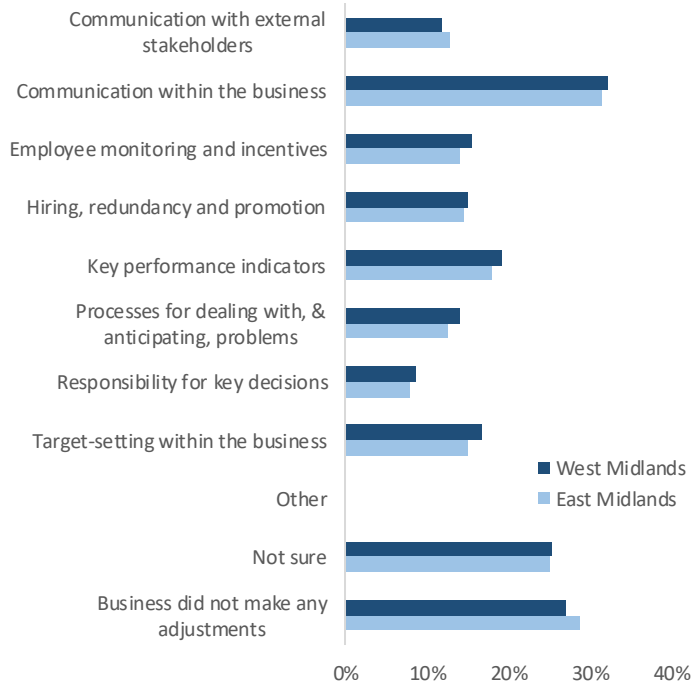
41.1% of West Midlands businesses and 39.8% of East Midlands businesses reported they had increased innovation since March 2020 by adoption of home or hybrid working.

32.3% of West Midlands businesses and 31.5% of East Midlands businesses reported they had made adjustments to support innovation since March 2020 by communication within the business.

Which areas, if any, did Midlands businesses increase innovation since March 2020:



Which areas, if any, did Midlands businesses make adjustments to support innovation since March 2020:



Source: ONS: Wave 56 of the Business Insights and Conditions Survey. In the West Midlands there was a response rate of 24.2% and in the East Midlands there was a response rate of 26.2% where businesses have a presence in the region. There was a response rate of 22.8% for the West Midlands and 26% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 30th April 2022. Survey live period: 3rd to 15th May 2022. As response rates are low and the data is unweighted and should be treated with caution.

3. Levelling Up and UK Shared Prosperity Fund

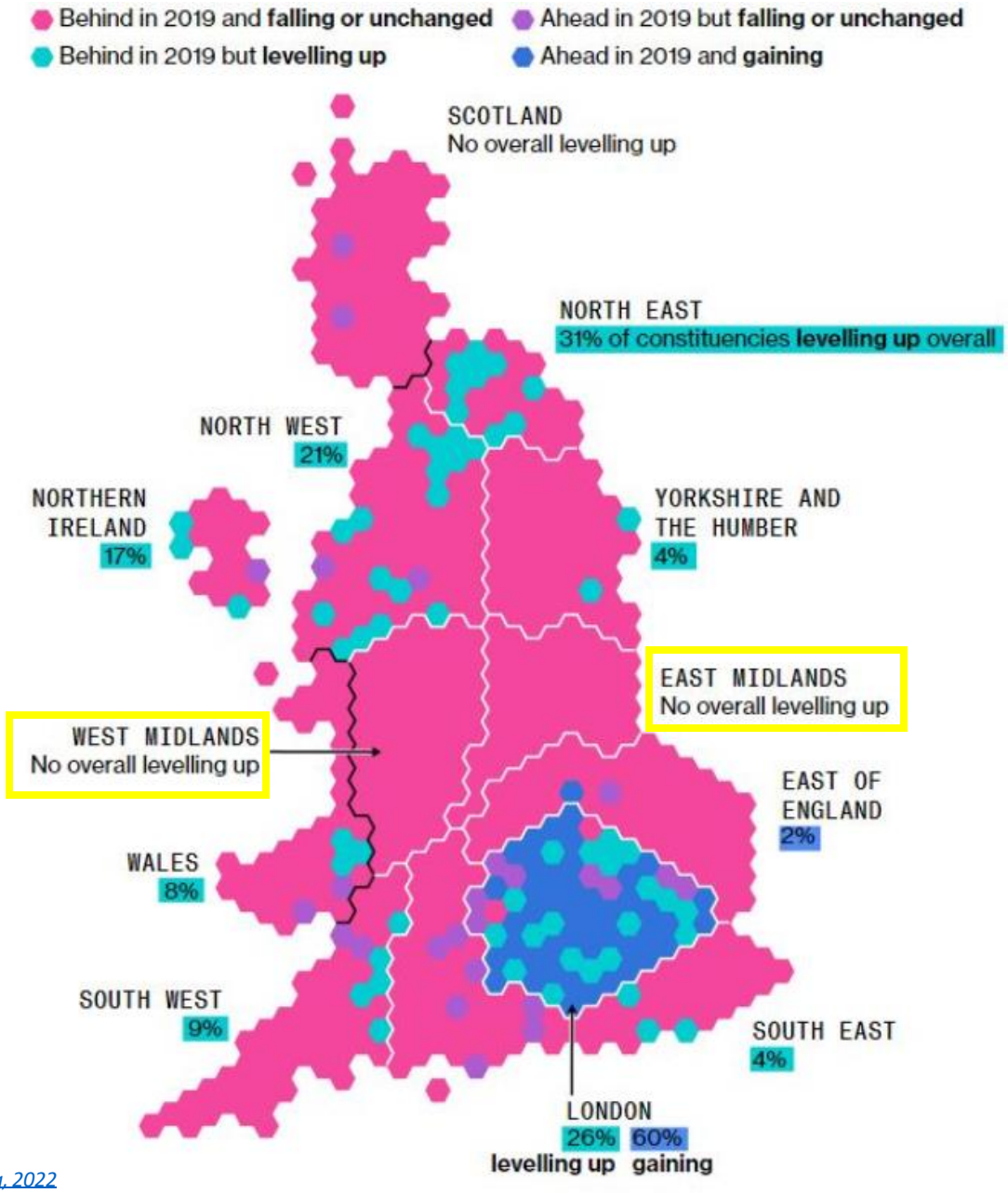
Levelling Up – 2 Years On

More than two years since the election, in a period dominated by the coronavirus pandemic, **most of the places that lagged behind London and the South East of England when Boris Johnson came to power have seen little sign of better times. In fact, as a new Bloomberg News analysis shows, they're more likely to be falling further behind.**

The analysis looked at 12 key socioeconomic metrics across every one of the UK's 650 parliamentary constituencies to measure whether the gap has changed—one way or another—since 2019.

- In 9 out of 12 metrics, the performance of most constituencies relative to London and the South East is now **worse or unchanged compared to 2019.**
- The salary gap is widening in nine out of 10 constituencies, that home affordability is getting worse nearly everywhere, and that **public spending per head has fallen behind the capital in every region of England**.
- Only on a few metrics has the gap narrowed for much of the UK—including life expectancy and the share of people receiving Universal Credit benefits—and in both those cases it's because the **situation in London and the South East has worsened.**

As seen in the map below, London pulls ahead as most of UK struggles to Level Up. Overall, the Midlands and East of England are falling behind while the North of England and Northern Ireland are levellingup the most.



Source: Bloomberg, 2022

Left Behind Localities and Levelling Up: Skills and Productivity

Place-based inequalities are greater in England than in most of its traditional comparator countries. These inequalities have many dimensions, both economic and social. However, **low productivity is central, leading to low wages and relatively low living standards.** For Levelling up to be successful, it requires an improvement in the productivity of poorer areas of the country. **Only with higher productivity are we likely to see higher real wages.**

In the 'Left Behind Localities and Levelling Up: Skills and Productivity' paper released in May 2022, it investigates the degree to which sectoral productivity outcomes in Local Enterprise Partnership (LEPs) areas are influenced by the mix of activities versus other place-based effects. The paper analyses and ranks the relative productivity performance of each of the 38 LEP areas (see table below) into that attributable to sub-sectoral composition effects and that attributable to what they call local capacity effects.

For most LEPs **local capacity effects are found to be more important that sub-sectoral specialisation**, but results vary depending on economic performance in that LEP. In the high performing areas, sub-sectoral specialisation effects tend to dominate. In the middle performers, local capacity assumes greatest relative importance. In the low performers, although local capacity is the more important, specialisation effects are also a significant drag on productivity.

London is ranked best, more than double the England average in terms of productivity. Notably Thames Valley Berkshire and Enterprise M3 were above 100% in terms of productivity (123% and 107% respectively). **For Midlands Engine LEPs Coventry and Warwickshire sixth highest and Greater Lincolnshire was the lowest ranked at 35th (out of 38 LEPs).**

Relative importance of specialisation versus local capacity effects in explaining overall deviations in productivity performance from the national average across selected LEPs:

Rank /38	LEP	Productivity (relative to Eng. Avg.)	Specialisation-local capacity ratio
1.	London	207%	1.04
2.	Thames Valley Berkshire	123%	0.63
6.	**Coventry and Warwickshire**	**90%**	**1.13**
15.	**Greater Birmingham and Solihull**	**73%**	**0.09**
19.	Humber	68%	0.21
22.	**Stoke-on-Trent and Staffordshire**	**66%**	**0.03**
23.	**Leicester and Leicestershire**	**66%**	**0.13**
28.	**Derby, Derbyshire, Nottingham and Nottinghamshire**	**63%**	**0.28**
30.	**Worcestershire**	**61%**	**0.55**
31.	**Black Country**	**59%**	**0.63**
32.	**The Marches**	**58%**	**0.26**
35.	**Greater Lincolnshire**	**56%**	**0.23**
37.	Heart of the South West	50%	0.35
38.	Cornwall and Isles of Scilly	43%	0.54

Source: Department for Education, Left Behind Localities and Levelling Up: Skills and Productivity - released May 2022

UK Shared Prosperity Fund: Perspectives on Allocations in the Midlands

The launch of The UK Shared Prosperity Fund (UKSPF) in April 2022 was a welcome boost to local economies.

Background

In total, the Fund will provide £1.5 billion per year by 2024/25. Funding will be allocated to local areas across the UK using **formulas** rather than by inviting competitive bids. The formulas aim to largely replicate the amounts that areas received from the EU structural funds, with some needs-based adjustments within areas. UKSPF is being allocated nationally as follows: 2022/23 - £400m; 2023/24 - £700m; 2024/25 - £1.5bn; amounting to £2.6bn overall by 2024-25 across the UK as a whole. Allocations include core UKSPF funding and the £560m Multiply programme. England's allocation, including of the total equals £1.56bn: £239m in first year, £409m in second, and £918m in third.

Regional Allocations

The government has confirmed that each LEP area in England will, by 2024-25, receive the same real-terms level of funding through UKSPF as it received under the EU funding regime.

In theory, this is a welcome boost to local economies, supporting with levelling up at a time of dwindling European Structural Funds (EUSIF) and an accelerated need for initiatives across the country. There will no doubt be successful programmes within UKSPF in the coming years. Over £210m worth of funding will be pumped into the West Midlands and over £140m in the East Midlands in the given three-year period; the £350m+ total for the Midlands Engine geography is not a small amount of money and provides considerable opportunity for positive change in the region.

Funding Gap with EUSIF

There has already been multiple challenges to the government's claim of meeting the real terms EU Structural Funds allocations:

- The Financial Times highlight that, to match what the UK would have received from the EU by 2024-25, England would need to receive £23bn in 2024-25 prices from UK government. Instead, it will receive only £1.56bn over the three years of the current spending review.
- Northern Powerhouse Partnership report that, as per UKSPF allocations, the north of England alone is losing £331m compared to before Brexit – a 34% cut.
- Furthermore, writing in the MJ, Lord Kerslake points out that only in the last year does UKSPF match in real terms the EU structural funds.

As seen in the following table, analysis of the Midlands Engine geography suggests an estimated loss of £237.4m in funding compared to pre-Brexit – a 40% cut.

The Black Country is losing around £33.7m over the three years of funding, Greater Birmingham and Solihull £31.5m, Coventry & Warwickshire £29.1m, Greater Lincolnshire £19.0m, Derby, Derbyshire, Nottingham and Nottinghamshire £30.1m, Stoke and Staffordshire £28.1m, The Marches £16.2m and Worcestershire £7.9m.

Midlands Engine LEPs / Regions UKSPF and EUSIF Allocations:

Area	Previous 3-Year EU Funding Average	Announced UKSPF 3-Year funding	Change	Change %
Black Country	£75.9m	£42.1m	-£33.7m	-44%
Coventry & Warwickshire	£61.3m	£32.1m	-£29.1m	-48%
Greater Birmingham and Solihull	£102.0m	£70.5m	-£31.5m	-31%
Greater Lincolnshire	£58.7m	£39.7m	-£19.0m	-32%
D2N2	£96.9m	£66.8m	-£30.1m	-31%
Leicester and Leicestershire	£51.0m	£30.1m	-£20.9m	-41%
Stoke and Staffordshire	£72.4m	£44.3m	-£28.1m	-39%
The Marches	£42.9m	£26.7m	-£16.2m	-38%
Worcestershire	£29.6m	£21.7m	-£7.9m	-27%
West Midlands (3-LEP)	£279.0m	£144.8m	-£94.3m	-39%
West Midlands (Region)	£384.0m	£216.6m	-£167.4m	-44%
East Midlands (3-LEP)	£136.6m	£206.6m	-£70.0m	-34%
Midlands Engine	**£689.0m**	**£353.2m**	**-£237.4m**	**-40%**

Source: UK Shared Prosperity Fund Allocations and Black Country Consortium, Economic Intelligence Unit analysis

Therefore, Midlands Engine places will suffer similarly to the Northern Powerhouse from reduced development funding, and at an even greater rate (a 40% cut compared to 34%). Specific concerns are therefore mirrored in the Midlands Engine, stressing that it's not just the North that is losing out:

- **The replacement for EU funding through UKSPF will be worth less, with more strings attached and less time to spend it.**
- **As one of the most regionally imbalanced countries in Europe, parts of the UK – including the Midlands – were big winners of EU structural funding**, aimed at raising productivity and addressing entrenched inequalities. The lack of sufficient replacement funding threatens economic recovery and true levelling up.
- It should also be noted that this analysis has not adjusted for real prices, so the gap in funding is likely to be even larger in real terms.
- Also, analysis suggests that had the UK stayed in the UK, its EUSIF allocation for 2021-2027 would be 22% higher than 2014-20, suggesting an even larger gap with UKSPF.
- While some LEPs are set to lose out more than others: **Coventry & Warwickshire (-44%), the Black Country (-44%) and Leicester and Leicestershire (-41%) are experiencing the biggest estimated cut.**

Due to insufficient data, overlap EUSIF funding between 2022 and 2025 is not included in the analysis. And although this is likely to reduce the real terms cut in funding between EUSIF and UKSPF, it is unlikely to be substantial enough to provide local areas with the funding and tools required to recover, grow and level up, or to be level with previous and theoretical EUSIF funding (had the UK remained in the EU).

Overall, due to data gaps it's difficult confirm whether the levels of funding that local areas receive will remain in line with previous EUSIF totals during 2022/23 and 2023/24, but the likelihood seems low particularly when taking into account real prices and what the UK would had received if it remained in the EU.

Other Considerations

Concerns about UKSPF aren't limited to the lack of funding. Another gripe surrounds the three-year cycle outlined for UKSPF, seen inferior by many to the 7-year cycles of European funding. **The risk, according to Lord Kerslake and the Northern Powerhouse Partnership, is that shorter funding terms will lead to superficial short-termism rather than long-term strategic thinking.**

More broadly, the Institute for Fiscal Studies (IFS) has bluntly described the UKSPF launch and prospectus as "bad policy". The IFS describes the decision to keep funding allocations in LEPs across England the same as they had been under the EU structural funds as "a real missed opportunity".

Concluding Thoughts

Despite the criticism, the long-awaited launch of UKSPF is welcome to local economies – their public sector organisations, businesses and communities. The swiftly tapering off EUSIF projects and lack of replacement funding has created uncertainty and a gap in provision across key areas: from skills, business support and innovation to employment support and environmental initiatives.

There is still time to reap the perceived benefits of Brexit in this regard, by implementing a more flexible, responsive and demand driven funding system for local economies. But, as highlighted by local areas, fiscal experts and our Midlands-level analysis, adjustments to the scale, certainty and duration of the funding are required to make it a real success in contributing to levelling up.

As highlighted by Sir Geoffrey Houghton, Government could start by evidencing their claim that UKSPF provides a real terms match of EUSIF funding in the regions. If they cannot do this, then more funding should flow to the regions to make this manifesto pledge a reality.

Source: UK Shared Prosperity Fund Allocations and Black Country Consortium, Economic Intelligence Unit analysis

4. Innovation

UK Innovation Survey

The UK Innovation Survey 2021 reports on innovation activity in UK businesses in 2018-2020 and compares innovation activity to previous surveys.

Innovation Definition

The UK definition of innovation is based on an Organisation for Economic Co-operation and Development (OECD) definition, outlined in the Oslo Manual 2018.

This definition includes any of the following activities, if they occurred during the survey period.

1. The **introduction of a new or significantly improved product** (good or service) or **process**;
2. **Engagement in innovation projects** not yet complete, scaled back, or abandoned;
3. **New and significantly** improved forms of organisation, business structures or practices, and marketing concepts or strategies;
4. **Investment activities** in areas such as internal research and development, training, acquisition of external knowledge or machinery and equipment linked to innovation activities

A business that had engaged in any of the activities described in points 1 to 3 is defined as being '**innovation active**'. A business that had engaged in any of the activities described in points 1 to 4 is defined as a '**broader innovator**'. Finally, any businesses that had engaged in the activity described in point 3 were classed as a '**wider innovator**'.

Key Findings

In 2018-2020, **47% of East Midlands businesses and 49% of West Midlands businesses were innovation active**, compared to 45% of UK businesses. **The West Midlands was the 2nd highest region**, below the East of England at 51%. **The East Midlands came in 4th.** The North East was the English region with the lowest percentage of innovation active businesses in 2018-2020 (40%). There has been a reported increase in innovation activity in all English regions among businesses between 2016-2018 and 2018-2020. The largest percentage point increase of twelve percentage points was in the East of England. There was an increase from 37% in East Midlands and 39% for West Midlands businesses in 2016-2018, the UK increased from 38%.

Percentage of businesses engaging in innovation activity by Midlands Engine LEP and England-wide, 2018-2020:

(LEP) area	Innovation active	Product innovator	Process innovator	Strategic & marketing	Performing Internal R&D	Collaborating within business group	New to market goods and services as a % of turnover
England	45.7%	21.0%	16.7%	34.8%	16.5%	51.8%	8.0%
The Marches	54.7%	28.0%	17.1%	31.1%	17.0%	72.6%	3.9%
Derby, Derbyshire, Nottingham and Nottinghamshire	48.4%	18.9%	19.3%	33.9%	22.1%	49.2%	6.7%
Coventry and Warwickshire	48.2%	16.5%	14.8%	32.7%	17.8%	35.7%	11.9%
Leicester and Leicestershire	44.6%	24.9%	20.2%	35.8%	23.2%	46.8%	10.2%
Black Country	43.5%	13.2%	16.4%	31.8%	17.9%	47.3%	3.0%
Worcestershire	42.5%	-	-	-	15.0%	-	3.5%
Greater Lincolnshire	38.8%	12.7%	14.3%	26.4%	18.5%	25.3%	5.0%
Stoke-on-Trent and Staffordshire	38.7%	19.9%	18.8%	25.8%	20.8%	-	2.3%
Greater Birmingham and Solihull	36.4%	18.0%	12.3%	28.2%	17.2%	44.9%	7.4%

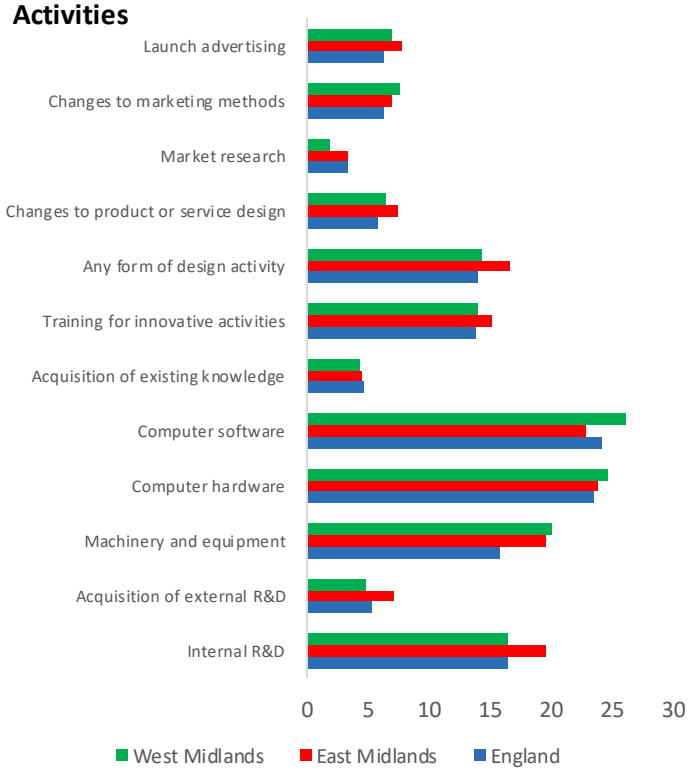
In 2018-2020, **48% of East Midlands businesses and 49% of West Midlands businesses were broader innovators**, compared to 46% of UK businesses. The West Midlands was the 3rd highest region and the East Midlands was the 4th.

34% of East Midlands businesses and 36% of West Midlands businesses were wider innovators, compared to 34% of UK businesses. The West Midlands was the 3rd highest region and the East Midlands was 7th.

Source: UK innovation survey 2021: report - GOV.UK (www.gov.uk)

UK Innovation Survey

Percentage of Businesses Investing in Innovation Activities



Innovation Investment

The percentage of businesses **investing in machinery and equipment was highest in the East and West Midlands (20%)** and lowest in London (9%).

The West Midlands performs better than the England:

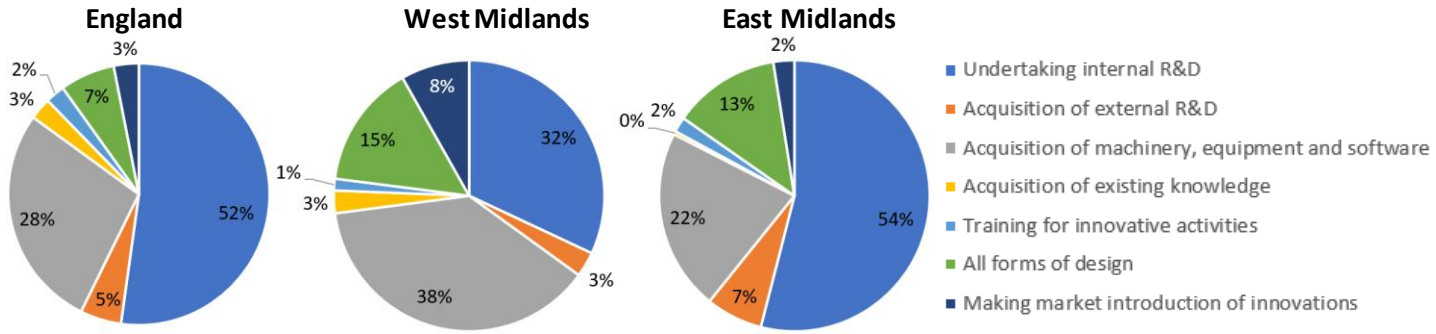
- Machinery and equipment (20.1% of businesses vs 15.8%)
- Computer software (26.1% vs 24.2%)
- Computer hardware (24.7% vs 23.6%)
- Training for innovative activities (14.0% vs 13.9%)
- Design activity (14.3% vs 14.1%)
- Changes to product or service design (6.4% vs 5.9%)
- Changes to marketing methods (7.7% vs 6.3%)
- Launch advertising (6.9% vs 6.3%).

The East Midlands performs better than England:

- Internal R&D (19.6% vs 16.5%)
- Acquisition of external R&D (7.2% vs 5.4%)
- Machinery and equipment (19.6% vs 15.8%)
- Computer hardware (23.9% vs 23.6%)
- Training for innovative activities (15.1% vs 13.9%)
- Design activity (16.7% vs 14.1%)
- Changes to product or service design (7.5% vs 5.9%)
- Changes to marketing methods (6.9% vs 6.3%)

In 2020, the percentage of innovation expenditure used for internal R&D across England was 52%. The East Midlands figure was slightly higher at 54%, while the West Midlands had a much lower proportion (32%). The activity that had the highest percentage of innovation expenditure in the West Midlands was the acquisition of machinery, equipment and software: 38% of the region's innovation expenditure. Investment in design also had a considerably higher proportion of spending in the Midlands regions compared to England overall, while the West Midlands also had a higher proportion of spend on making market introduction of innovations (8.2& vs 3.1% in England).

% of Total Innovation Expenditure in 2020



Financial Support

Around 6% of businesses in the 2021 survey reported receiving financial support from UK central government for innovation activities, compared to 3% receiving support in the 2019 survey. Around 1% of businesses received direct financial support (such as smart or collaborative R&D grants, work with Catapult centres, Innovation vouchers etc) and 4% received indirect financial support (such as R&D tax credits).

Separately, **6% of businesses received financial support for innovation activities from UK local or regional authorities and 1% received financial support from the European Union.** A theme from the comments given by businesses on the UKIS 2021 survey was that government R&D tax credits and government grants were both key factors, for businesses who innovated, in their decisions to invest in innovation

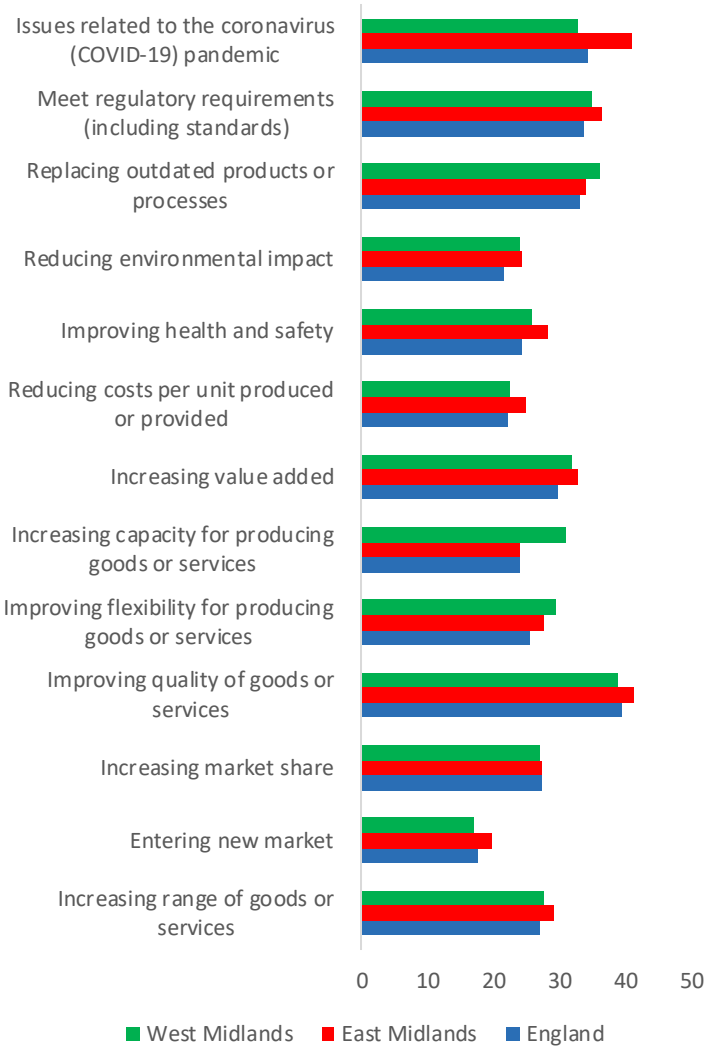
Source: UK innovation survey 2021: report - GOV.UK (www.gov.uk)

UK Innovation Survey

Factors Driving Innovation

- Businesses cited a number of different factors influencing their decision to innovate. **Improving quality of goods or services** remained the top-rated factor, being of high importance to 39% of broader innovator businesses in 2018-2020. The second highest rated reason for innovating was **issues related to the coronavirus (COVID-19) pandemic**, with 35% of businesses rating this factor as being of high importance.
- A theme from the comments given by businesses on the UKIS 2021 survey was that many **businesses innovated or diversified as a direct result of the coronavirus (COVID-19) pandemic**. The majority of innovation for these businesses was in the **online / digital area**.
- In 2018-2020, meeting **regulatory requirements was of 'high' importance to their decision to innovate** for 34% of broader innovators, as was **replacing outdated products or processes**. **Reducing environmental impact** was of 'high' importance to 22% of broader innovators.
- **Covid was disproportionately important to East Midlands businesses**, as was meeting regulatory requirements, improving health and safety, reducing environmental impact, increasing value added, improving the quality of goods and services and increasing the range of goods.
- **For the West Midlands, increasing the capacity and flexibility for producing goods and services was reported as particularly important** for driving innovation, as was replacing outdated products or processes.

% of businesses rating each factor as "highly important"



Barriers to Innovation

- **Issues related to the coronavirus (COVID-19) pandemic was the highest rated barrier to innovation.** It was rated as of 'high' importance by 37% of broader innovator businesses in 2018-2020. **Excessive perceived economic risks were rated as the next biggest barrier**, of 'high' importance to 19% of broad innovator businesses in 2018-2020. **Cost factors (including finance availability, direct innovation costs too high and finance costs) had been the biggest barrier in previous UKIS surveys.**
- **The withdrawal of the United Kingdom from the European Union** was of 'high' importance, as a barrier, to 13% of broader innovators in 2018-2020, compared to 15% in 2016-2018. **UK Government regulations** was of 'high' importance, as a barrier, to 13% of broader innovators in 2018-2020 and **EU regulations** to 9% of broader innovators.

% of businesses rating factors as highly important as barriers to innovation	UK-wide	East Midlands	West Midlands
Excessive perceived economic risks	19	20.5	18.9
Direct innovation cost too high	14.3	13.5	13.5
Cost of finance	16.3	17.2	15.8
Availability of finance	17.6	16.5	18.2
Lack of qualified personnel	12.6	14.6	13.2
Lack of information on technology	5.3	8	5.7
Lack of information on markets	5.1	7	5.1
Market dominated by established businesses	7.7	8	11.3
Uncertain demand for innovative goods or services	11.4	9.8	12.7
UK Government regulations	13.4	15.3	10.7
EU regulations including standards	9.2	9.8	10.9
Withdrawal of United Kingdom from the European Union	13.3	13.7	11.6
Issues related to the coronavirus (COVID-19) pandemic	37	42	36.4

Source: UK innovation survey 2021: report - GOV.UK (www.gov.uk)

5. Digital

Connectivity

In May 2022, Ofcom released an interim update from the last Connected Nations report published in December 2021. The interim update covers mobile coverage and fixed broadband availability across the UK as of January 2022.

Fixed Broadband Summary

There were just over **4.75 million premises in the Midlands Engine** in January 2022, an increase of 35,513 premises since January 2021.

Overall, **96.2% (4.57m) of premises in the Midlands Engine area had superfast broadband (SFBB) availability,** above the UK proportion of 95.6% as of January 2022. Compared to January 2021, SFBB has increased by 0.5 percentage points (pp) for the Midlands Engine and increased by 0.8pp UK-wide. Within the Midlands Engine, **SFBB availability varies across local authorities from 86.4% in West Lindsey to 99.3% in Sandwell.** Despite these high proportions of SFBB availability, it is worth noting that the local authority analysis will blanket the area as a whole and there **are areas at a the lower level geography where availability is extremely low.**

In January 2022, **26.7% (1.23m) of premises in the Midlands Engine area overall had full fibre availability,** below the UK proportion of 31.9%. Although, this has increased from 17.2% for the Midlands Engine area and increased from 20.2% UK-wide since January 2021. At local authority level within the Midlands Engine, the differences can be seen for full fibre availability. There were **30 local authorities where full fibre availability for all premises was under 20%**. At the lower end of the scale **only 2% of premises in North East Lincolnshire had full fibre availability, this was followed by; 2.5% in Oadby and Wigston, 3% in Melton and 3.1% in Wyre Forest.** While in contrast, **Coventry had the highest percentage of premises with full fibre availability at 91.4%,** this was significantly higher than the local authorities that followed; Gedling at 57.4%, Derby at 57% and Bromsgrove at 54.9%.

Overall, **65.5% (3.1m) of premises in the Midlands Engine area had gigabit availability,** above the UK proportion of 64% as of January 2022. Compared to January 2021, **gigabit availability has increased by 30.4pp for the Midlands Engine which was above the UK-wide increase of 27.5pp**. At local authority level in the Midlands Engine, gigabit availability varies **from 5.5% in High Peak**, 10.4% in Derbyshire Dales, 13.2% in Boston to 91.3% in Leicester, 93.3% in Derby and **94.3% in Coventry.**

Mobile

On average, 4G services for both premises and geographically (signal from all operators) were relatively similar for the Midlands Engine (97.7% and 93.8% respectively) and above the UK-wide averages (96.7% and 89.1%) in January 2022. Although, the average 4G services for indoor premises (signal from all operators) slightly lags behind at 77.8% for the Midlands Engine but this was similar to the average UK-wide figure (78.8%).

Summary of fixed broadband availability and 4G services for the Midlands Engine overall and UK, January 2020 and 2021:

	As of January 2021		As of January 2022		Percentage Point Change	
	Midlands Engine	UK	Midlands Engine	UK	Midlands Engine	UK
SFBB availability	95.6%	94.8%	96.2%	95.6%	+0.5pp	+0.8pp
UFBB (100Mbit/s) availability	65.0%	61.6%	68.9%	67.5%	+3.8pp	+5.9pp
UFBB availability	62.8%	59.2%	66.9%	65.7%	+4.0pp	+6.5pp
Full Fibre availability	17.2%	20.2%	26.7%	31.9%	+9.5pp	+11.7pp
Gigabit availability	35.1%	36.4%	65.5%	64.0%	+30.4pp	+27.5pp
Next Generation Access (NGA)	98.1%	97.5%	98.4%	97.9%	+0.3pp	+0.5pp
4G services, premises (outdoor): signal from all operators (avg.)	97.6%	96.6%	97.7%	96.7%	+0.1pp	+0.1pp
4G services, premises (indoor): signal from all operators (avg.)	75.9%	77.6%	77.8%	78.8%	+1.9pp	+1.2pp
4G services, geographic (outdoor): signal from all operators (avg.)	93.6%	88.8%	93.8%	89.1%	+0.2pp	+0.3pp

Source: Ofcom Connected Nations – released Spring 2022

Digital Exclusion Risk Index

Each digitally excluded person is different. Some people need assistive technology or devices to get online, others need an affordable connection. Some need basic skills, while others have the skills but not the confidence to use them. And some want to get online for their education or to get a job, while others – as shown by Age UK – don't want to be online.

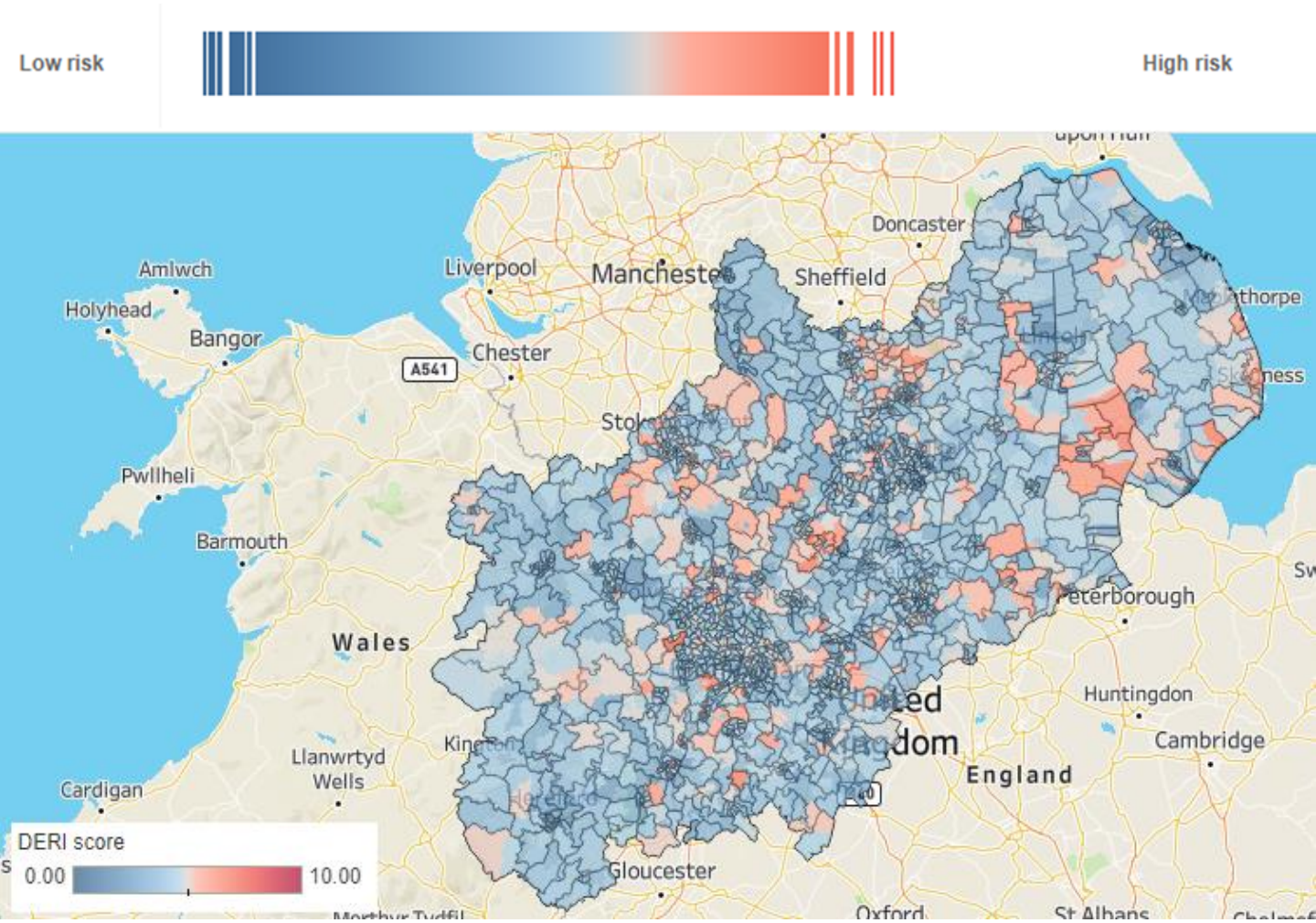
The Digital Exclusion Risk Index (DERI) is a dataset that **shows where digital exclusion is most likely to occur**. It uses 12 different indicators, covering demography, deprivation and broadband access which have been normalised and weighted to create a score for every area in the country – a number between **0 (low risk of digital exclusion) and 10 (high risk).**

In the Midlands Engine, the average DERI score is 3.6 The highest score of 8.3 is in a South Derbyshire LSOA, and the lowest score of 0.3 is in a Birmingham LSOA. 8.8% of all LSOAs in the Midlands Engine have a DERI score above 5.0.

Indicators used in the Index:

Indicator:
Average download speed
Guaranteed Pension Credit
Index of Multiple Deprivation Score
Percentage of connections less than 10MBit/s
Percentage of homes unable to receive at least 30MBit/s
Percentage of population aged 65+
Percentage of population aged 75+
Percentage of residents with no qualifications
Unemployment rate
DERI score

Digital Exclusion Across the Midlands Engine:



Source: Good Things Foundation (Greater Manchester Combined Authority), 2022

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