THEMATIC GUIDE 4

Inequality and Inclusive Growth:

Rebalancing Growth Through Place-Based Interventions in Midlands

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Abstract

Regional inequality in productivity has long been a challenge across the UK, and the Midlands is no exception. While national figures highlight the scale of the issue, significant disparities also exist within the Midlands itself, leading to uneven patterns of economic growth and development across the region.

Across the Midlands, the variation in productivity at the Local Authority District level is striking. This growing divergence between the most and least productive areas highlights the spatial nature of economic inequality within the Midlands and underscores the need for targeted, place-based interventions to rebalance growth across the region.

Introduction

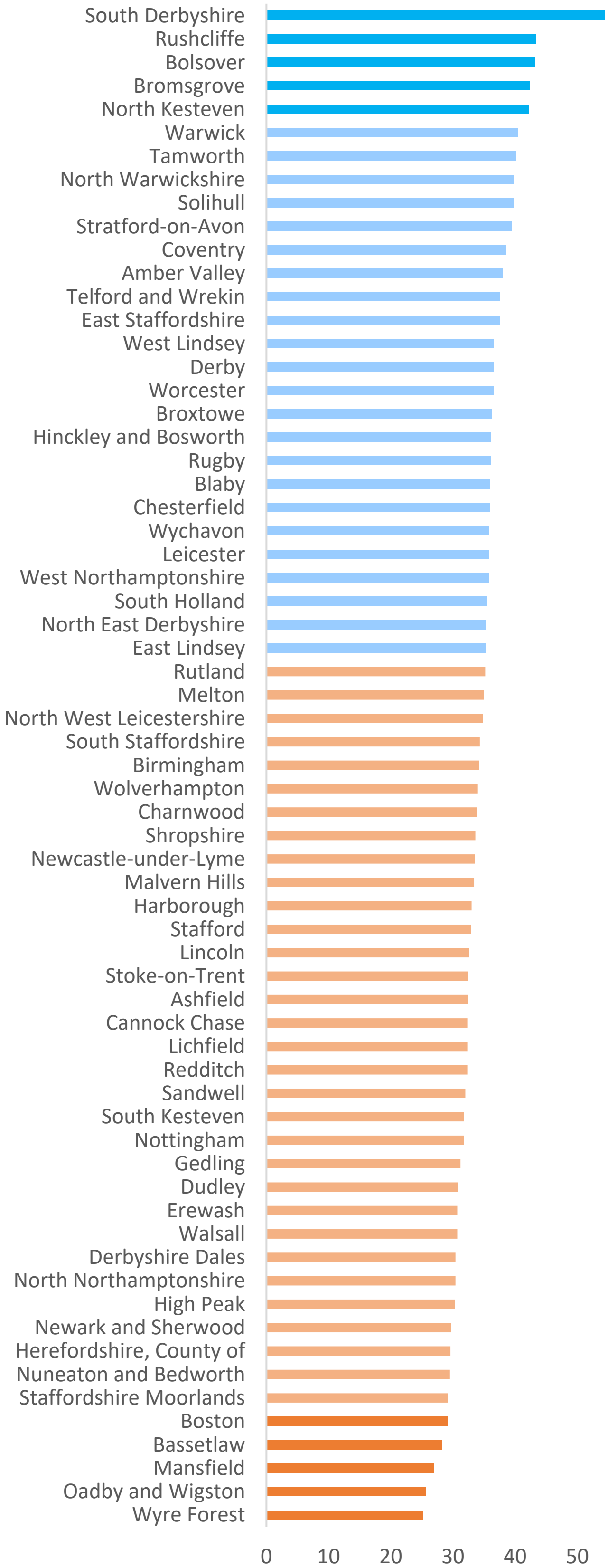
Regional inequality in productivity has long been a challenge across the UK, and the Midlands is no exception. While national figures highlight the scale of the issue, significant disparities also exist within the Midlands itself, leading to uneven patterns of economic growth and development across the region.

Across the Midlands, the variation in productivity at the Local Authority District (LAD) level is striking. As shown in Figure 1, the top-performing South Derbyshire achieve significantly higher level – almost twice bigger - compared to Wyre Forest which has the lowest level of the productivity spectrum. This growing divergence between the most and least productive areas highlights the spatial nature of economic inequality within the Midlands and underscores the need for targeted, place-based interventions to rebalance growth across the region.

Further evidence from the Midlands Engine review shows that investment in transport and digital infrastructure has been disproportionately concentrated in already successful areas, exacerbating existing inequalities. Limited investment in underperforming areas restricts their economic potential and reinforces a cycle of low productivity and limited opportunity [8].

While it is likely that similar patterns of productivity variation exist in other UK regions, this guide focuses specifically on the Midlands to explore the factors underpinning these disparities. By comparing and contrasting the top five most productive LADs with the bottom five (shown in Figure 1), we aim to assess whether differences in productivity can be linked to underlying disparities in investment levels, geographic positioning, infrastructure, institutional support, and historical development trajectories. Understanding these dynamics within the Midlands can offer valuable insights into the broader challenges of addressing regional inequality and inform the design of more effective place-based policy interventions.

Figure 1: Productivity levels by Local Authority District (Midlands only) in 2022



Source: ONS Current Price (smoothed) GVA (B) per hour worked (£); Local Authority District 2022

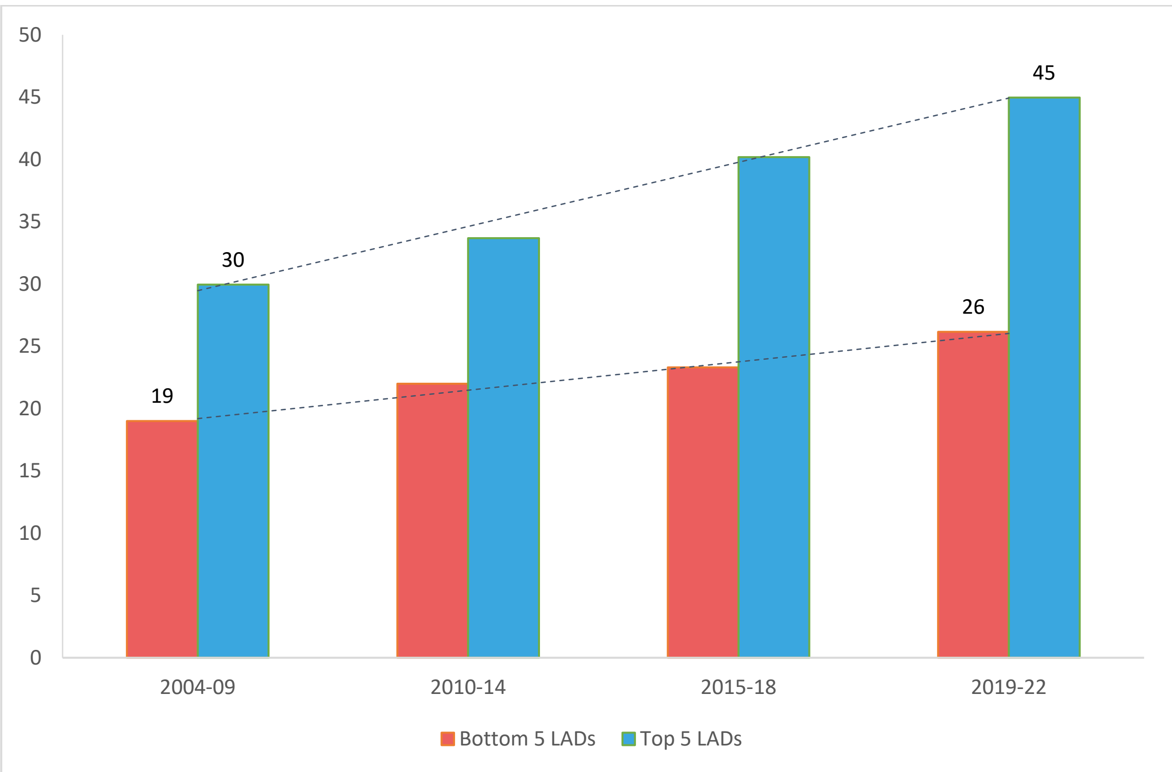
Increasing Sub-Regional Productivity Gap

Before continuing with an analysis of the likely drivers of current disparities, it is important to ask whether such productivity gaps between the top and bottom LADs are a recent phenomenon or have been long-standing. Understanding the historical evolution of these gaps is crucial, as it sheds light on whether the widening inequalities are the result of recent policy and investment patterns or reflect deeper, more persistent structural challenges. By comparing productivity levels over the past two decades, we can better assess the extent to which the Midlands' growing divergence is a continuation of long-term trends or a more recent development.

Figure 2 provides a perspective on productivity levels across the Midlands' top and bottom LADs over the past two decades. The data reveals that, while productivity differences between the highest- and lowest-performing areas have long existed, the gap has widened significantly over time. Whereas the top LADs already had an advantage twenty years ago, the divergence has become more pronounced in recent years, suggesting that newer economic, policy, and investment dynamics have further reinforced regional inequalities. This historical pattern highlights the importance of addressing not only the current investment and infrastructure disparities but also the deeper structural factors that have allowed these gaps to persist.

The Midlands' overall productivity levels remain below the UK average, as we identify in the new insight report [67] it has been falling further in recent years. Perhaps, part of this underperformance may be attributed to the significant disparities within the region itself, with weaker sub-regional economies dragging down the broader productivity figures.

Figure 2: GVA per hour worked (£/hrs) between Most and Least Productive Groups of Local Authorities



Source: ONS 2024; Note: In terms of productivity top 5 LADs are Solihull, Warwick, Rushcliffe, Bolsover & South Derbyshire, and the bottom 5 LADs are Wyre Forest, Oadby and Wigston, Mansfield, Bassetlaw, & Herefordshire. A similar pattern of widening gap we observe when used GVA per filled job instead.

Divergence in Investment

> "The UK is often characterised by the extensive use of national, sectoral, and spatially blind policies, which, in turn, have largely failed to tackle the deep-seated problems associated with regional inequalities."
>
> Phillip McCann, 2020 [12]

Insights gathered from experts and local stakeholders consistently point to investment into infrastructure as the primary factor explaining the variation in productivity across the Midlands. Investment in infrastructure is yet remains highly uneven across the Midlands too. Analysis of investment data from 2010 to 2023 reveals that top-performing Local Authority Districts such as **Solihull and Warwick**, received **nearly three times more capital** investment per hour worked **compared to** least-performing districts like **Mansfield and Bassetlaw** [6]. For example, in 2023, Solihull attracted £9.6 per hour worked in investment, while Mansfield received only £3.3. This disparity has led to vastly different levels of infrastructure development, with better-connected areas continuing to thrive and less connected regions struggling to attract new businesses and talent.

Tackling regional inequality also requires sustainable investment into underserved areas. The Good Economy's place-based investment model, particularly its leadership in social housing sustainability standards, offers an important example (See case study 1).

Case Study 1: The Good Economy initiative	
Objective: Founded in 2015, *The Good Economy* aims to support inclusive, sustainable growth by guiding investment into affordable housing, workforce training, and infrastructure in underserved regions like the Midlands. **Implementation** in the Midlands: The Good Economy (TGE) has collaborated with various housing associations to develop the Sustainability Reporting Standard for Social Housing (SRS), a voluntary ESG reporting framework. As of September 2023, TGE reports that 94 housing providers have adopted the SRS, representing approximately 45% of England's social housing stock. **Outcomes:** The Good Economy (TGE) has contributed to significant investments in affordable housing through its initiatives, with a focus on improving tenant satisfaction and stability. TGE's place-based investment strategies have also supported job creation and local economic growth in targeted areas.	83% increase in the median housing price in West Midlands while the earnings have growth by 27% in the past decade (New Midlands, 2024)

Innovation Capacity Differences

Innovation is a cornerstone of productivity growth, yet it is unevenly distributed across the Midlands. High-productivity LADs benefit from better innovation ecosystems and significantly more R&D investment from both the public and private bodies. Again, if we take for instance **Warwick and Solihull have seen consistent annual R&D spending growth rates of 5% and 4%, respectively, since 2015, while areas like Bassetlaw and Herefordshire have lagged with growth rates of less than 1%** [2]. How fair is that? There must be a logic to it. This discrepancy, however, in innovation capacity significantly contributes to the widening productivity gap in the region too.

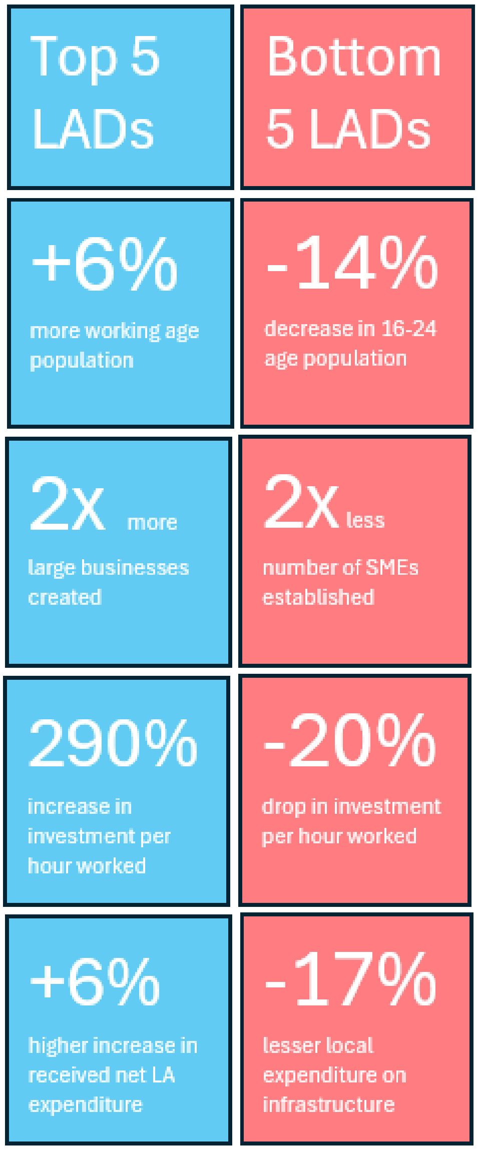
The CEIG report illustrates how smaller firms in less innovative regions struggle to keep pace with technological advancements [10]. These firms often lack access to the necessary resources and expertise to engage in meaningful R&D, further exacerbating regional disparities in productivity. The result is a two-tier economy within the Midlands, where only certain areas benefit from the advancements that drive productivity growth.

One example of a targeted place-based growth initiative is Midlands Mindforge (Case study 2), a collaborative investment platform established by Midlands Innovation and local 8 universities to fund technology and biotech ventures, driving local resilience and innovation.

Case study 2: Place-Based Growth Initiatives	
Objective: *Place-Based Growth Initiatives* target economic growth by focusing on local needs and assets, promoting investments in sectors like biotech and infrastructure to support regional resilience. **Implementation** in the Midlands: Key to this initiative is *Midlands Mindforge*, a collaborative investment founded by *Midlands Innovation* and eight universities to fund local tech and biotech ventures, along with pension funds directed toward SMEs and infrastructure projects. This targeted approach leverages local capital for sustainable regional benefits. **Outcomes**: *Midlands Mindforge* anticipates creating 33,000 jobs and generating £4 billion annually, helping diversify the economy through innovation and targeted investment. The initiative's financial models have strengthened local growth while prioritizing community-centric outcomes	£506 is the spending on transport infrastructure per person in West Midlands while the same figure for East Midlands is £311 (EMBL, 2022)

Skills Gap and Labor Market Dynamics

Figure 3: The Widening Gap leads to Substantial Differences in Performances



Note: We are comparing the same group of most and least productive LADs, as we did in Figure 1, over the past decade

The skills gap remains one of the most significant barriers to productivity in the Midlands. There is a pronounced mismatch between the skills available in the labour market and those demanded by high-productivity sectors. According CIPD study, only **60% of the workforce in the least productive local authorities in Midlands possess qualifications at NVQ Level 3 or above, compared to 75% in the most productive locations** [1]. This skills gap is particularly evident in sectors like advanced manufacturing and digital technologies, which require a highly skilled workforce to drive innovation and productivity.

> "The region is losing young, skilled workers because there isn't sufficient infrastructure or housing to retain them"
>
> Midlands Engine, 2024

Figure 3 contrasts the five most and least productive Local Authority Districts across a range of socio-economic and investment indicators. The most productive LADs have experienced a 6% increase in their working-age population, created twice as many large businesses, and benefited from a 290% rise in investment per hour worked. In contrast, the least productive areas have seen a 14% decline in their 16–24 population, established half as many SMEs, and experienced a 20% drop in investment per hour worked, alongside a 17% reduction in local infrastructure spending.

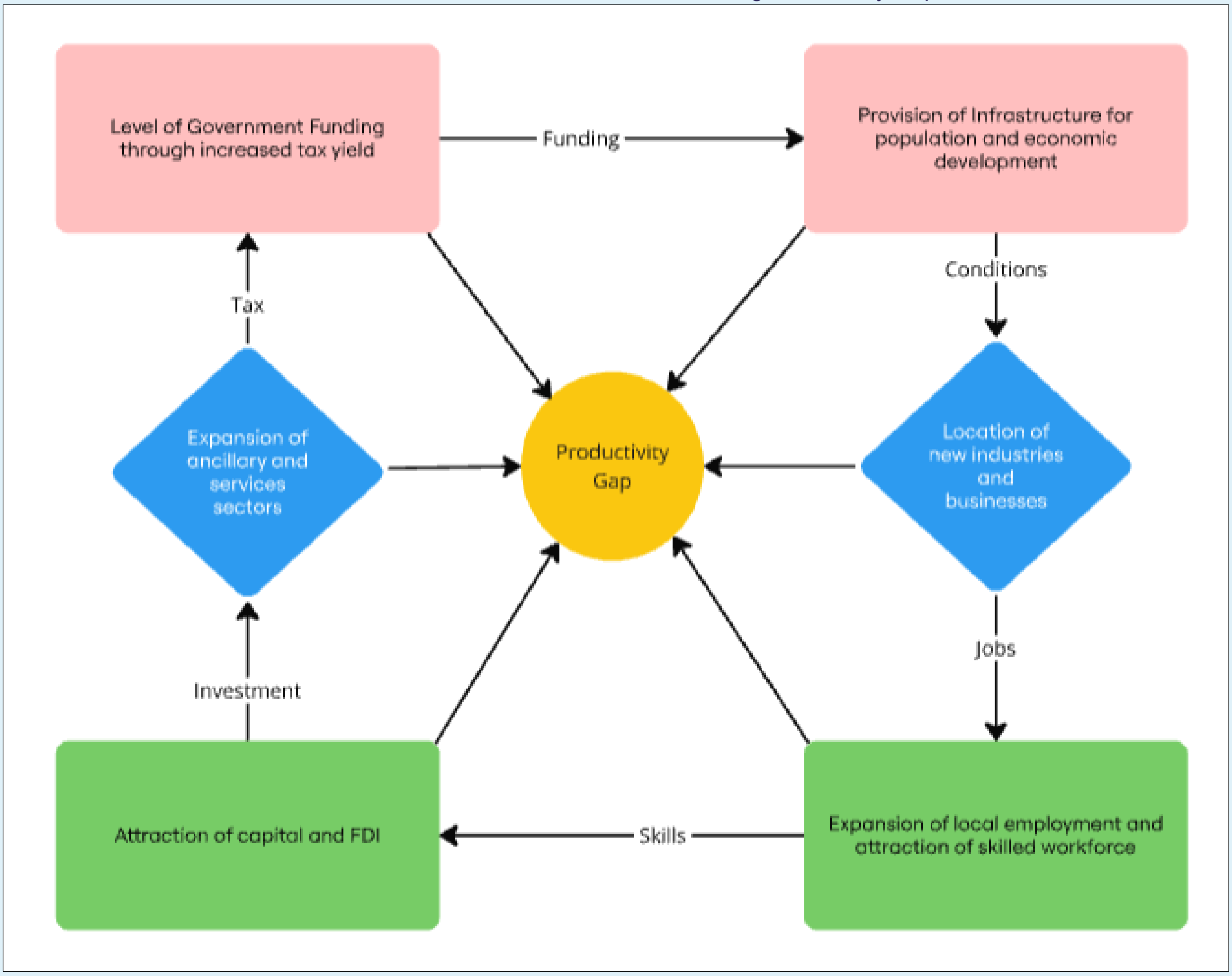
It is clear that these productivity disparities intertwin with demographic trends, business activity, and uneven access to public and private investment. This gap not only increasing over time but it also limits the growth potential of businesses in lower-productivity regions but also hampers individual employability, creating a cycle of low wages and limited job opportunities and loss of its talented youth. The situation is exacerbated by the fact that many graduates from the Midlands' strong university and further education institutions leave the region for better opportunities elsewhere, further draining the region of much-needed talent [3].

Cumulative Causation and Economic Disparities

The evidence presented in the preceding sections points to a complex, interconnected system of regional divergence. We find that the concept of "cumulative causation" described by Gunnar Myrdal, is particularly relevant to explain this complex situation (Scheme 1). Essentially, it shows that economic disparities between regions create a self-reinforcing cycle where prosperous areas continue to attract more investment, talent, and innovation, while less developed areas fall further behind. This cycle is evident in the growing productivity gap between the top and bottom LADs, which has widened from 35% in 2010 to nearly 50% in 2023 [7]. The concentration of high-value industries in certain areas accelerates this divergence, creating stark contrasts in economic prospects across the Midlands.

Differences in investment levels, infrastructure provision, business activity, skills attainment, and labour market dynamics do not operate in isolation—they reinforce one another over time, hindering the productivity gap. For instance, underinvestment in infrastructure limits the ability of less productive areas to attract high-value industries or skilled workers, which in turn constrains job creation and reduces local tax revenues. These constraints then further weaken the case for future investment. Conversely, more productive LADs benefit from a virtuous cycle of capital inflows, skilled labour retention, and expanding economic opportunity.

Scheme 1: 'Cumulative Causation' & Widening Productivity Gap



Recommended Policy Interventions

Targeted Infrastructure Investment

To address the infrastructure deficit that underpins much of the regional inequality in productivity, it is essential to implement targeted infrastructure investments. The Midlands requires a coordinated approach to upgrading transport and digital connectivity, particularly in underperforming areas. For example, strategic investments in transport links in Mansfield and Bassetlaw could make these regions more attractive for business investment, while expanding high-speed broadband coverage in rural areas would support the growth of digital industries.

This approach is supported by the PwC report, which emphasizes the significant economic benefits of infrastructure investments, noting that every £1 spent on infrastructure can add £1.60 to GDP [9]. By prioritizing infrastructure improvements in less developed areas, policymakers can help close the productivity gap and promote more balanced regional development.

Addressing the productivity-energy use correlation in energy-intensive industries remains a priority, with ongoing work from a high-profile task force focused on creating solutions within the region's drive towards net-zero emissions.

Enhancing Innovation Ecosystems

Strengthening the innovation ecosystems in lagging regions is crucial for boosting productivity. This can be achieved by developing localized innovation hubs that bring together businesses, research institutions, and government agencies to foster collaboration and knowledge sharing. The Productivity Institute advocates for the creation of such hubs in both the eastern and western parts of the Midlands, where innovation capacity is currently underdeveloped [3].

Public-private partnerships are key to supporting these hubs, providing the necessary funding, expertise, and infrastructure. Establishing a Midlands Innovation Fund, for instance, could help finance high-potential startups and SMEs, particularly in emerging sectors like green technology and advanced manufacturing [36].

Bridging the Skills Gap

Closing the skills gap is essential for enhancing regional productivity. This requires a coordinated effort to improve education and vocational training, particularly in areas with low educational attainment. The CIPD's report recommends expanding apprenticeship programs and developing targeted training initiatives that align with the needs of local economies.

Moreover, there is a need for more flexible and accessible training options, such as online learning platforms and micro-credentialing. These initiatives can help upskill the workforce in underperforming areas, making them more competitive in the labour market. Strengthening partnerships between businesses and educational institutions is also crucial to ensure that training programs meet industry needs [1].

Inclusive growth also requires addressing leadership gaps. In the Midlands, initiatives like the Investing in Women Code and Enterprising Women Network are working to enhance female entrepreneurship and leadership opportunities across sectors (Case study 3).

Incentivizing Private Investment

Encouraging private sector investment in underdeveloped areas is crucial for addressing regional productivity disparities. This could involve offering tax incentives, grants, or low-interest loans to businesses willing to establish operations in these regions. Incentivizing FDI and local investment could significantly boost productivity in lagging areas.

Supporting SMEs through financial and advisory services is also vital. The CEIG report highlights the challenges faced by smaller firms in low-productivity areas, particularly in accessing finance and expertise. By providing targeted support to these businesses, policymakers can help mitigate the SME drag effect and stimulate economic growth in underperforming regions [10].

Integrated Regional Planning and Governance

Effective regional governance is necessary to coordinate these interventions and ensure that they are aligned with broader economic strategies. The establishment of MCAs could remove the territorial obstacles for regional integration. The Productivity Institute's 2023 agenda calls for a more integrated approach to regional development, emphasizing the need for collaboration between different levels of government and the private sector [4].

Leveraging these new governance structures, policymakers can implement a coherent strategy that addresses regional inequality and promotes more balanced economic growth across the Midlands. This could include the development of regional economic plans that prioritize investment in infrastructure, innovation, and skills, as well as the establishment of performance metrics to track progress and ensure accountability [5].

The newly established MCAs have the potential to deliver targeted interventions more rapidly by collaborating closely with the West Midlands Combined Authority, which has been driving regional initiatives since its formation in 2017.

Case study 3: Empowering Women in Business	
Objective: Addressing the leadership gender gap in the Midlands, initiatives like the *Investing in Women Code* and *Enterprising Women Network (EWN)* focus on improving access to finance, mentorship, and networking for female entrepreneurs and leaders. **Implementation** in the Midlands: The *Investing in Women Code* promotes financial transparency for women-led businesses, while EWN connects 500+ women, offering skills workshops, networking, and annual awards. These efforts foster relationships and provide leadership opportunities across sectors. **Outcomes**: EWN's programs have expanded female leadership networks and supported gender parity in executive roles, with a 7% increase in women executives regionally over three years. The *Investing in Women Code* has enhanced finance access for female entrepreneurs, promoting an inclusive business environment	48% of companies in Midlands have no women on their boards (Midlands Engine, 2022).

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