THEMATIC GUIDE 6

Competitiveness & Business Dynamics:

Powering Productivity Through Business Resilience

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Introduction

This thematic guide explores the current state of business competitiveness and market dynamism in the Midlands, drawing on recent evidence and local insight. With cost pressures rising, demand faltering, and regulatory uncertainty mounting, regional firms—especially SMEs—face growing barriers to growth. Yet promising interventions in local growth initiatives, energy innovation, decarbonisation, and SME support provide a roadmap to resilience.

A recent survey [2] by EMC paints a concerning picture of the region's business environment. Sales, orders, and profitability expectations of Midlands businesses have declined, with a notable 38% drop in businesses anticipating profits. Additionally, 30% of firms reported a decrease in UK sales, and the proportion of businesses planning to reduce recruitment has doubled. These trends suggest that many companies are shifting from growth-oriented strategies to protective measures, influenced by factors like increased corporate taxation, inflation, and business rates. This shift underscores the urgent need for targeted interventions to bolster business resilience and competitiveness in the Midlands.

This sentiment is not surprising given recent policy changes introduced by the Labour government — including increased employer National Insurance contributions, Employment Rights Bill, and among other business rate adjustments [3] — which have added to operational costs and deepened uncertainty. On top of that, recent changes in the US tariffs under the Trump administration and escalating tensions between Western allies and US-China, that could lead to further disruptions in international trade flows and supply chains, especially in the manufacturing sector.

However, if we put the current situation aside, and look back to the past few years, business dynamism has been marked by volatility, with some structural changes and uneven recovery from Covid-19, Brexit and the Ukraine-Russia conflict. Figure 1 for example shows employment and business growth for the Midlands region between 2018 and 2024 (i.e. before and after the shocks). The picture is mixed. While some sectors have experienced modest gains in business births and employment growth—such as wholesale and retail, hospitality, and health and social care—other sectors like agriculture, information and communication, automotive manufacturing, and traditional high-energy industries have seen a decline or stagnation.

What lies behind the fragility in Midlands' business competitiveness and dynamism? Further analysis and local insight point to a combination of drivers — from rising energy and labour costs to skills shortages, infrastructure gaps, regulatory complexity, and weak domestic demand, a range of interlinked pressures are constraining business growth. Moreover, access to finance, innovation capacity, and the ability to adapt to technological and environmental change vary significantly across sectors and places. In the following sections, we discuss the key ones in more detail and explore where interventions (cases) are beginning to make a difference and where we should focus more.

Figure 1: Business growth and decline in Midlands by sectors (the bubble size is the number of people employed)

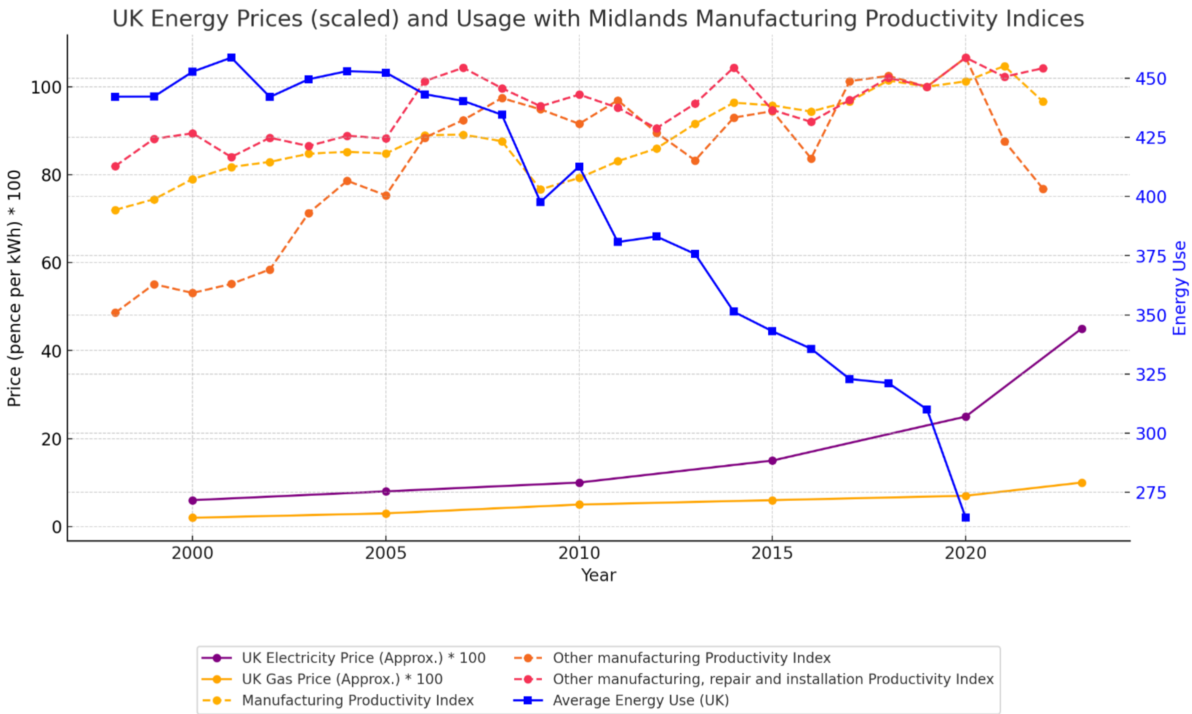
Cost of doing business is rising

Energy costs are making British-made goods uncompetitive. Energy is a significant expense for many Midlands firms, particularly within manufacturing. For example, with UK electricity prices for businesses (26p/kWh) over twice the EU average (17p/kWh) and four to five times those in the US (6p/kWh) and China (4p/kWh), Midlands manufacturers face a distinct disadvantage. High energy costs not only squeeze profit margins but also severely limit firms' abilities to innovate and invest in efficiency, impacting competitiveness on both price and productivity.

In response to these structural cost challenges, the Midlands has introduced strategic, place-based interventions such as the Black Country Industrial Decarbonisation Zone (Case Study 1), which targets both emissions and energy cost reductions through collaborative infrastructure, local generation, and zero-carbon technologies.

The electricity price has grown from 19p to 38p/kWh since 2020 [1], intensified by high inflation, has worsened this burden, creating severe pressures on Midland's businesses to control costs while maintaining operations. The figure 2 shows for Midland's manufacturing, productivity indices for some sectors start to decline post-2020, in line with the sharp rise in energy costs.

Figure 2: High energy prices, fall in the energy use and decline in Midland's manufacturing productivity levels



Source: ONS productivity data by sectors and regions plus energy use and energy price data

As one local insight provider put it, *"The UK has wildly uncompetitive industrial electricity costs because the marginal grid price is set by high-cost gas-fired stations 98% of the time. This kills off UK industry and associated investment."* Despite growth in renewables, gas still dictates electricity prices in Britain, as intermittent supply from wind and solar cannot meet constant demand. As reported by *The Economist* [3], this gas dependence makes UK electricity significantly more expensive than in Europe or the US, with energy-intensive firms like British Steel paying up to £37m more annually compared to German counterparts.

Case Study 1: Black Country Industrial Decarbonisation Zone (IDZ) project	
The Black Country IDZ was designed to transform infrastructure and reshape industrial energy systems by enabling businesses to co-locate and exchange excess heat, cooling, and energy resources—while also reducing energy usage and carbon emissions across energy-intensive industries in the West Midlands, particularly in sectors like metals, chemicals, and ceramics. Led by local government, universities, and partners such as Camirus, the Black Country IDZ established low-carbon industrial hubs with access to clean, cost-effective energy—including hydrogen infrastructure, on-site generation, and private wire systems. The programme supported SMEs in adopting low-carbon technologies while fostering regional collaboration in 2021. The project aims to cut industrial emissions by 1.3 million tonnes, support 20,000 jobs, and generate £16 billion in clean growth by 2030. By clustering businesses and enabling resource-sharing, the Black Country IDZ is fostering both economic and environmental sustainability for enterprises of all sizes. While large-scale regional strategies like the Black Country IDZ aim to transform infrastructure and energy supply chains, firm-level innovations—such as those implemented by Thomas Dudley Ltd., located within the IDZ—demonstrate how manufacturers in the region are already embracing smart technologies to significantly reduce energy consumption, lower emissions, and enhance competitiveness [10].	“ 1.3m CO_2 emissions to be removed by 2030 due to UK’s industrial decarbonization zones like the Black Country’s Zone IDRIC (2023)

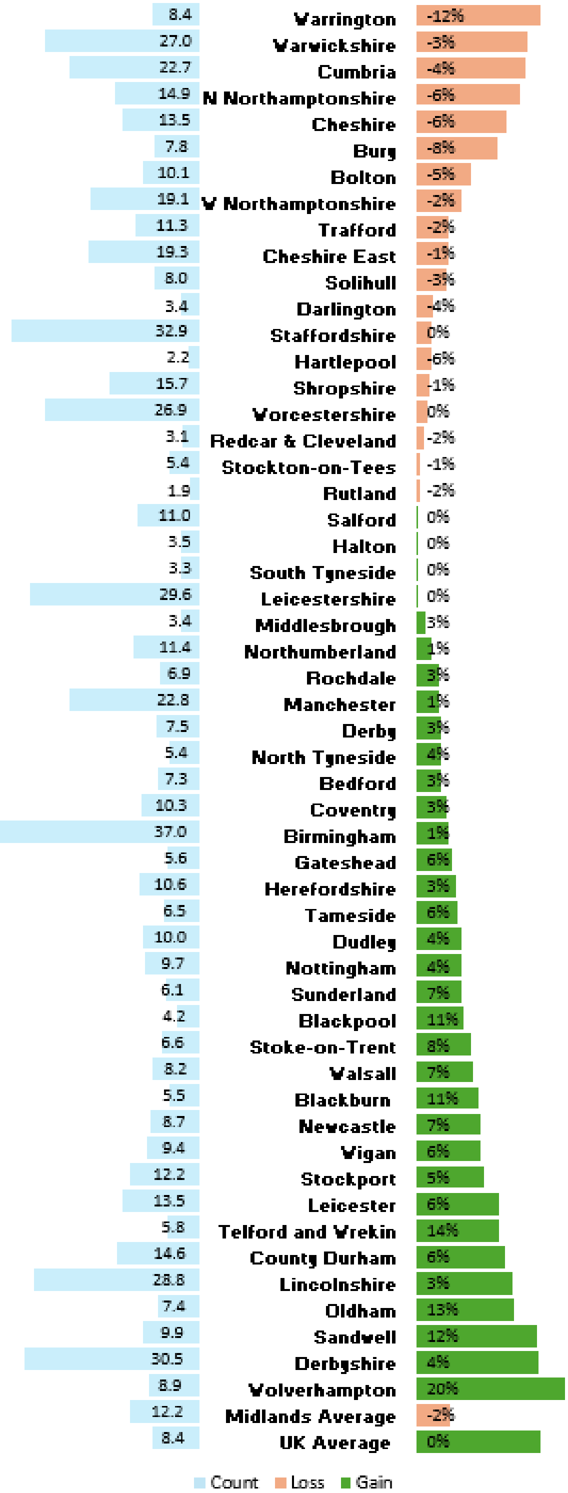
The “Change” came with more taxes and labour costs for businesses to absorb. When Labour Government came to power in 2024 —with the "Change" agenda, Kier Starmer promised to restore business confidence while driving productivity, stable taxation, a new industrial strategy, green investment, and stronger employment rights. However, the early phase of implementation has introduced additional costs for businesses [9]. In the Autumn Budget, the UK government announced plans to increase employer National Insurance (NI) contributions. Starting from 6th of April this year, the employer NI rate will rise from 13.8% to 15%. The increase poses a significant challenge for businesses in the Midlands.

> **“The increases in employer National Insurance means that employers will have to pay an additional £900 for each employee on median average earnings.**
> IFS, 2024 [4]

Several other policy changes introduced by the Labour government have not been perceived as “confidence-boosting” by the business community but rather mixed reactions. For example, the Employment Rights Bill, which includes day-one rights and a ban on zero-hours contracts, which meant more labour costs for SMEs and reduced flexibility [5]. The rise in the National Living Wage to £12/hour from April 2025 puts further cost pressures, especially in hospitality, retail, and care sectors—2/3 of businesses claiming “damage to UK investment” [3]. While these measures are rooted in broader economic and social objectives, their cumulative impact has added to operational uncertainty at a time when many firms are already under financial strain. Such measures disproportionately impact private sector employers, particularly SMEs, which are already contending with high energy costs and underinvestment in infrastructure. As identified in the latest EMC’s economic survey, businesses expressed heightened concern over recent policy changes, with many businesses reporting possible reduction sales, production plans and using cost-cutting measures in response to the policy changes [2].

The Lingering Effects of Brexit, Covid, and Conflicts

Figure 3: Business Birth & Death by Local Authorities (Midlands' region only)



Note: Count is the number of establishments (in '000s) as of 2023; Gain and Loss show % increase or decline in the counts relative to the number in 2019 (i.e. before Covid-19).

Midland's businesses are still reporting about the lingering effects of external shocks with a 2% decline in businesses—namely Brexit, the Covid-19 pandemic, and the Russia–Ukraine conflict—and have not yet fully recovered, leaving The Trump tariffs alone. Brexit, in particular, has introduced customs checks, tariffs, and regulatory hurdles for exporters, hitting the region's manufacturing and automotive sectors hardest due to their strong ties to EU markets. Around 61% of manufacturing firms report increased export difficulties and additional costs, making it harder to compete in European markets.

Covid has shown that Midland's businesses are particularly vulnerable to supply chain disruptions due to their heavy reliance on suppliers from elsewhere especially the upstream part of the supply chain operations. The recent report by the Midlands Engine highlights that 54% of manufacturers face delays and increased costs caused by Brexit and Covid, which limit their competitiveness and profit margins.

These shocks are now visibly reflected in the net change in business numbers across the region (Figure 2). The figure illustrates net gains and losses in businesses, and the spread. Areas such as Wolverhampton (+20%) or Derbyshire (+4%) have seen notable gains, places like Warrington (-12%) or Warwickshire (-3%) experienced declines.

While these changes in business birth and death rates are partly a response to external shocks, they are also shaped by internal conditions for doing business. In this climate of uncertainty, short-term policy fixes are not enough. What is increasingly needed are long-term investments that anchor future competitiveness, and foster resilience. The STEP Fusion Project (Case study 2), a major national initiative rooted in the Midlands, exemplifies this type of forward-looking intervention needed. By combining clean energy innovation with regional job creation, advanced manufacturing, and infrastructure investment, it can stabilise business ecosystems and drive long-term productivity growth.

Case Study 2: Spherical Tokamak for Energy Production (STEP) Program	
The STEP project, led by the UK Atomic Energy Authority and based at the former West Burton A coal-fired power station in Nottinghamshire, aims to demonstrate the feasibility of fusion as a clean, virtually limitless, and sustainable energy source. Beyond energy generation, the project is designed to act as a major catalyst for economic transformation, regional reindustrialisation, and long-term resilience. Expected to become fully operational by 2040, STEP is one of the UK's most ambitious clean energy investments, with a total programme value of over £20 billion. It is already generating activity across planning, design, and skills development phases. The project includes the creation of the STEP Skills Centre, which will provide specialised training in fusion engineering, advanced manufacturing, and energy systems—equipping local communities with capabilities to engage in the fusion economy. It is also helping to shape an emerging 'green energy' cluster in the East Midlands, drawing interest from private investors and creating a supportive ecosystem for future spinouts and supply chain development. STEP is projected to generate an average of **£1.24 billion in Gross Value Added (GVA)** per year and support **over 19,000 job-years** annually from 2019 to 2065 through direct, indirect, and induced effects. Its long-term impact spans infrastructure investment, inward capital flows, innovation transfer, and the repositioning of the Midlands as a global leader in sustainable energy technologies. The initiative is expected to strengthen regional supply chains and enhance the UK's energy sovereignty by developing domestic capabilities in a frontier field. Such long-term, mission-led innovation programmes can provide economic certainty in times of volatility and drive sustainable industrial regeneration in left-behind areas. As a place-based science and energy initiative, it also demonstrates the power of fusing climate goals with industrial strategy.	" **£4 in return** is expected for **every £1 invested** in fusion research with significant boosts from jobs and expansion of adjacent industries UK Government (2023

What Businesses want?

We asked this question from businesses across the Midlands, as it seems there is something is not quite right with the environment for doing good business. The responses made one thing clear: **small and large businesses face different challenges and different needs**. As we portray in the figure 4 shows, small businesses typically need microloans, local grants, and advisory services to access finance, along with support for affordable training, digital upskilling, and visibility in local markets. Their concerns centre on day-to-day operational hurdles: navigating complex tax and compliance systems, finding talent, and overcoming infrastructure gaps—especially in rural areas. In contrast, large businesses tend to focus on strategic growth drivers, including tax incentives, executive training, university partnerships, and inter-regional logistics infrastructure such as HS2. They also seek consistency and stability in regulation, advanced trade policies, and support for international expansion. Understanding and addressing these distinct needs is essential for designing policies that truly enhance business dynamism at every level of the regional economy. The experience of the D2N2 Growth Hub Accelerator suggests that targeted funding and tailored support can play a valuable role in strengthening SME resilience and growth—offering a useful model for consideration in the evolving post-LEP landscape

Figure 4: What Large and Small Businesses Want? Not the same

Another critical point is the **limited domestic demand** for locally produced goods and services. In our insight report [6], we show that the local content in domestic trade is low except the waste collection and recycling parts. This is also the source of instability as our economy is heavily dependent on inputs and goods made elsewhere. Many Midlands firms operate in an environment where consumers and buyers often favour imported alternatives, which are perceived as cheaper or more accessible due to economies of scale or global branding. This demand-side issue makes it difficult for local businesses—particularly smaller ones—to scale up or compete effectively, especially against large national or international outlets offering broader variety, lower prices, more convenient distribution channels and locations. Stimulating regional demand through public procurement, targeted marketing, and local loyalty initiatives could play a vital role in strengthening domestic competitiveness.

Businesses are tired of constant changes and demand **policy stability and simpler regulatory frameworks**. Frequent changes to tax rules—such as corporate tax rates, capital allowances, and stamp duties—create planning uncertainty and discourage long-term investment. Since 2008 when the productivity gap begun to widen, the corporation tax rate has changed **eight times [7]**, capital allowances—particularly the Annual Investment Allowance—have been adjusted **at least seven times [8]**, and **stamp duty thresholds and rates** have been revised **over six times [9]**. Many SMEs are also burdened by **complex compliance obligations**, lacking the internal capacity to navigate them efficiently. A clearer, more consistent regulatory approach, coupled with support for compliance—particularly for smaller firms—would significantly improve business confidence and unlock investment potential.

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Case study 3: D2N2 Growth Hub Accelerator – EMC's support programme to SMEs

The D2N2 Growth Hub Accelerator, delivered by East Midlands Chamber, is an active programme aimed at strengthening the resilience, innovation capacity, and long-term competitiveness of SMEs across Derbyshire and Nottinghamshire. It provides targeted funding, specialist advisory support, and access to new technologies to help businesses grow and adapt in a challenging economic landscape.

To date, it has provided direct grants to nearly **200 SMEs** and delivered tailored guidance to over **1,300 businesses**. Support has enabled firms to adopt digital tools, invest in new equipment, enhance productivity, and expand into new markets—particularly valuable amid rising input costs and supply chain disruptions.

To some estimates, the Accelerator has generated **£12 in economic value for every £1 invested**, contributing over **£14 million in Gross Value Added (GVA)** to the regional economy. Participating SMEs saw **14% job growth in the first year**, increasing to **22% within five years**, and created over **190 new jobs**. Additionally, **78% of firms reported enhanced innovation activity**, and **73% gained access to new technologies or facilities**. The programme has also delivered excellent cost-efficiency, operating at roughly one-third the cost of comparable business support schemes.

Emerging evidence from the Accelerator programme highlights the value of place-based SME support—especially when advisory services and funding are tailored to local economic priorities. The programme offers practical insights for Combined Authorities and regional policymakers aiming to develop effective, scalable business support infrastructure under the UK Shared Prosperity Fund and related frameworks.

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43% of Midlands SMEs cite high cost of adopting new technologies, and other 38% point to a lack of skilled staff to support the upgrades (CBI, 2023)

Policy Interventions Needed

The following policy interventions are needed:

▶ **Boosting Domestic Demand:** Limited demand for locally produced goods is a significant issue for Midland's businesses, especially smaller firms competing with national and international suppliers. To address this, policymakers can encourage local demand by offering tax incentives for companies sourcing within the region. Additionally, awareness campaigns promoting "Made in the Midlands" products can foster pride in regional goods, encouraging local consumer and business support.

▶ **Energy Cost Relief:** High energy costs are a substantial burden on Midlands firms, particularly in manufacturing, where margins are slim. The energy prices for businesses specially manufacturing sectors have to go down to competitive levels (as in EU and the US) to make the sector attractive for investors. Expanding initiatives like like the Black Country Decarbonisation Zone provide scalable models for regional industrial energy transformation, linking sustainability with competitive advantage. Furthermore, tax breaks or capital allowances for investments in energy-efficient infrastructure can reduce ongoing costs, allowing firms to reinvest savings into growth and innovation, or introduce a network charge rebate scheme for industrial users, similar to the 90% rebate offered in much of continental Europe.

▶ **Enhanced SME Support:** In the context of rising operational costs and escalating global trade tensions, SMEs are increasingly in need of dedicated support. As we highlight initiatives like the D2N2 Growth Hub Accelerator show how locally coordinated individualized support structures can enhance SME capacity—raising important questions about how similar models might be adapted in other parts of the Midlands. Establishment of regional investment funds through Combined and Independent Authorities could equip local SMEs with critical resources—such as affordable finance and tailored advisory support—to help them scale operations and adapt to a more volatile business environment.

▶ **Ensuring Long-term Stability:** Regulatory complexity and frequent policy (taxes and duties) changes have made it challenging for Midland's businesses—especially SMEs—to plan and operate efficiently. A streamlined regulatory portal focused on Midlands-specific needs could reduce administrative burdens, and provide clearer guidance for firms lacking in-house legal capacity. Long-term projects like the STEP Fusion programme are important for stability and business confidence in enabling ambitious innovation initiatives to take root. When regulatory frameworks are consistent and aligned with long-term goals, they not only reduce business uncertainty but also attract large-scale investment and support the development of strategic regional capabilities.

▶ **Supply Chain Resilience:** Recent global disruptions have exposed vulnerabilities in the Midlands' supply chains, especially for manufacturing. Strengthening regional supply networks by incentivizing local partnerships between suppliers and manufacturers can reduce reliance on international inputs. Supporting collaborative efforts within Midlands clusters can also enhance resilience, enabling businesses to adapt more flexibly to external shocks.

▶ **Reducing Tax Burdens:** Local voices from businesses are urging about significant negative impacts on doing business, employment, and inward investment. This is also what economic surveys indicate. Constant increases in taxes, duties and contributions are eroding competitiveness, deterring international investment, and reducing workforce expansion, and the overall economic cost could outweigh the possible additional tax income generated by the government. A more balanced approach to taxation is necessary to ensure that businesses, particularly SMEs, can continue to grow and contribute to the regional economy without undue financial strain.

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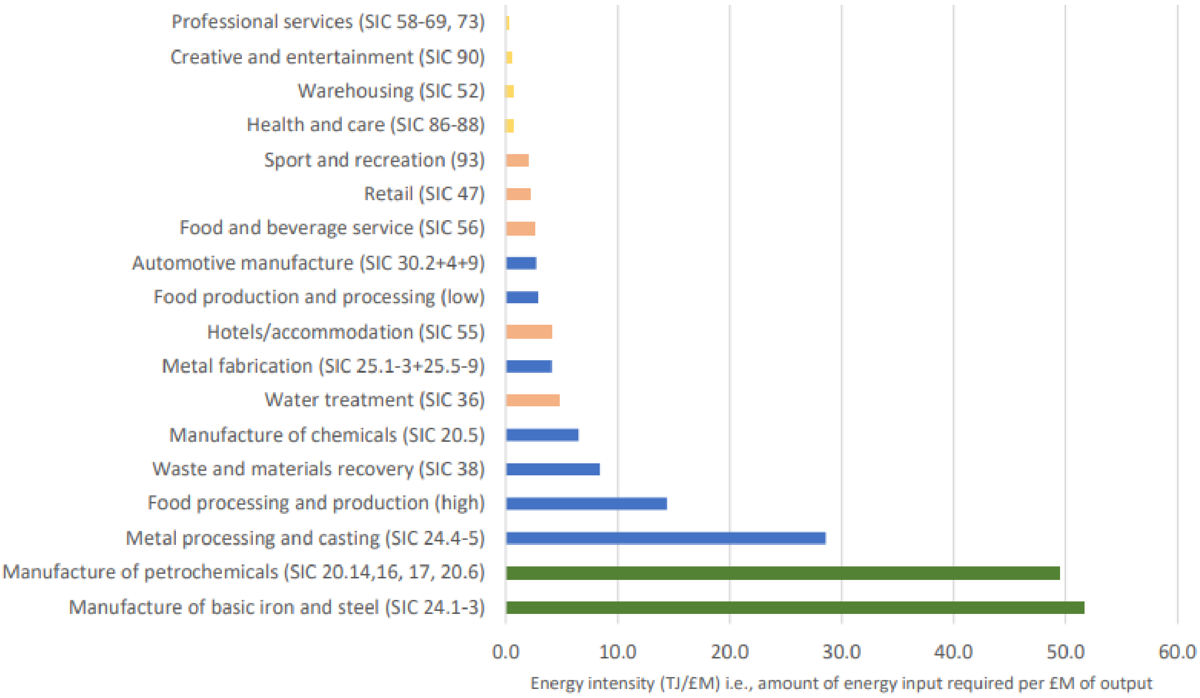
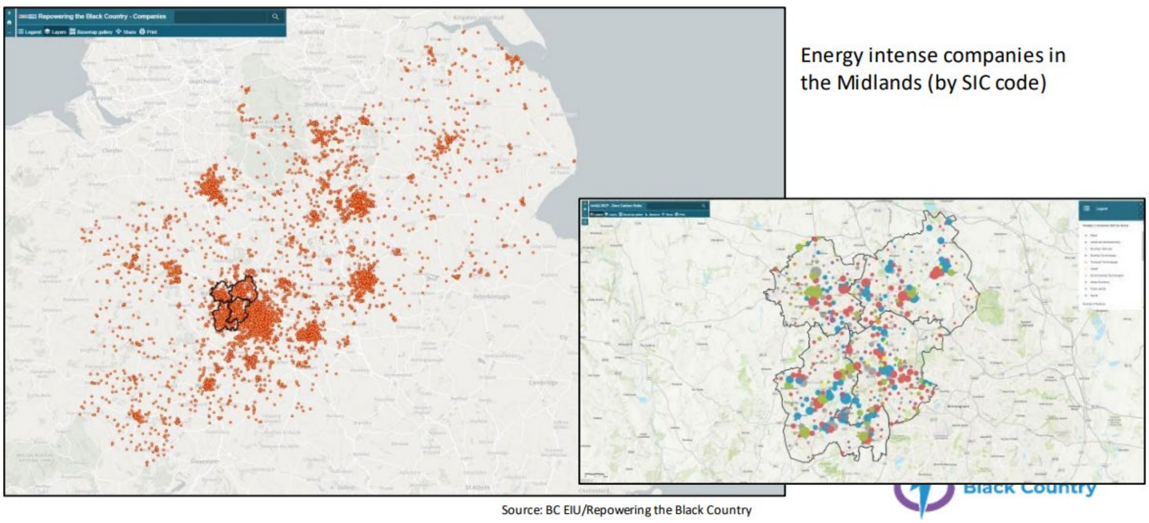
Appendix

Figure 1A: UK's reallocated energy use and energy intensity



Source: ONS ([2024](2024))

Figure 2A: Midland's map of energy intense business locations



Source: BC EIU (2022) This data is available from the BCEIU as an interactive online resource developed as part of the Repowering the Black Country Project, funded by Innovate UK.