



Growth, Productivity & Public Investment in the East Midlands

1. Introduction

- 1.1 The following paper presents levels of Government investment into the East Midlands over recent years as detailed in HM Treasury's Public Expenditure Statistical Analysis for 2021, published on 21 July 2022.
- 1.2 The paper details trends in public investment into Transport and other services over recent years and how the East Midlands as a region fares against other parts of England and the devolved nations. Unless stated otherwise, for the purposes of this paper the East Midlands is recognised as the Government region of Derbyshire, Leicestershire, Lincolnshire (excluding North and North East Lincolnshire), Northamptonshire, Nottinghamshire and Rutland.

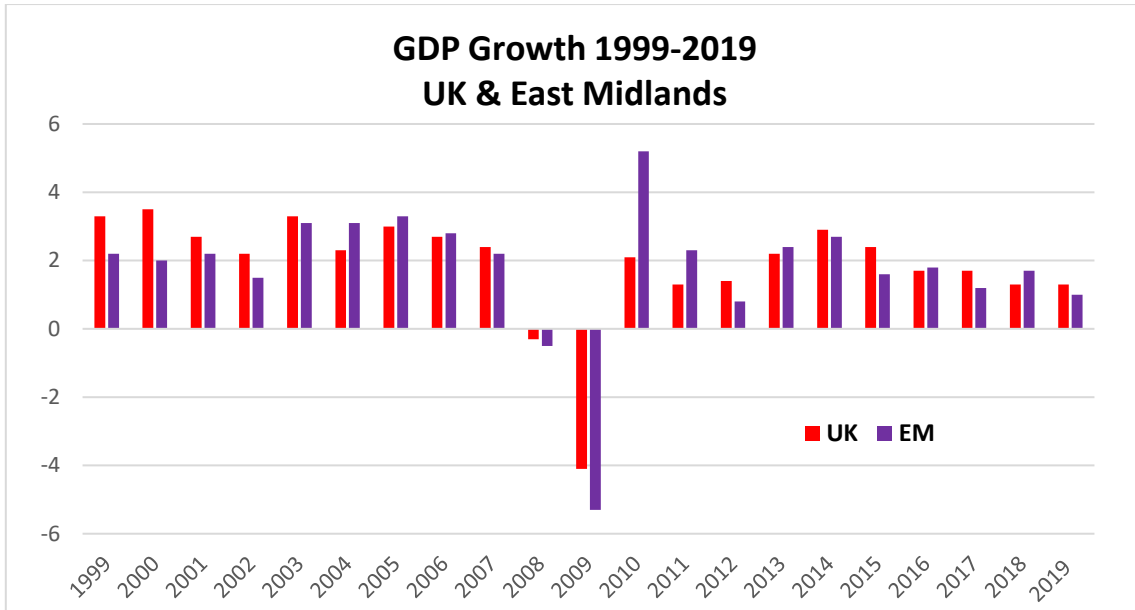
2. Current Economic Performance and Profile of the East Midlands

- 2.1 The East Midlands is a region of 4.87 million people and 367,000 businesses. Total regional output in 2019 was £130 billion, equivalent to 5.9% of the UK economy. The East Midlands employment rate (2022) is above the UK average at 76.0% (UK= 75.6%). However, median weekly earnings are below the UK average: £573 pw compared to £611pw. 10.7% of the workforce work in manufacturing, compared with 7.3% for the UK¹ – although this percentage has declined significantly in recent years. The region's unemployment rate is below the UK average: currently at 2.5% compared to 3.8%.
- 2.2 GDP growth in the East Midlands over the last 20 years has been better than most other regions/nations before the impact of Covid hit in 2020, but generally just below the UK average - 1.8% p.a. between 1999 and 2019 compared to 1.9% p.a. for the UK².
- 2.3 Similarly, productivity has remained below the UK average over the last 20 years and has been declining relative to the UK to 85.4% in 2020³

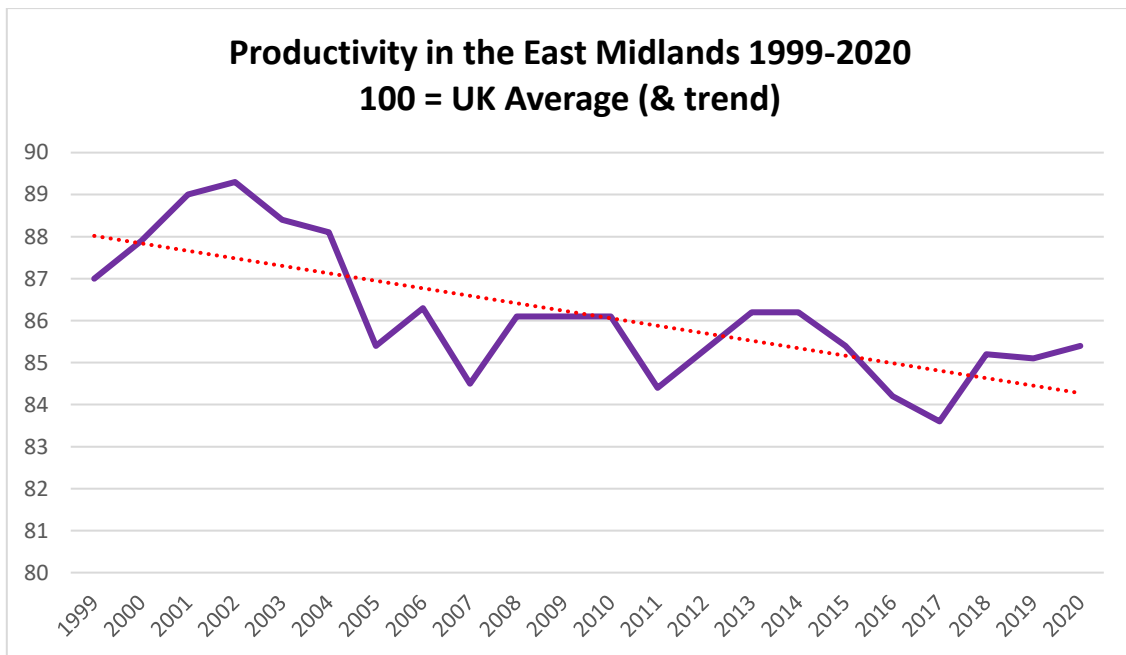
¹ [Regional and National Economic Indicators - House of Commons Library \(parliament.uk\)](https://parliament.uk)

² [Regional gross domestic product: all ITL regions - Office for National Statistics](https://ons.gov.uk)

³ [Annual regional labour productivity - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)



Source: [Regional gross domestic product: all ITL regions - Office for National Statistics](#)



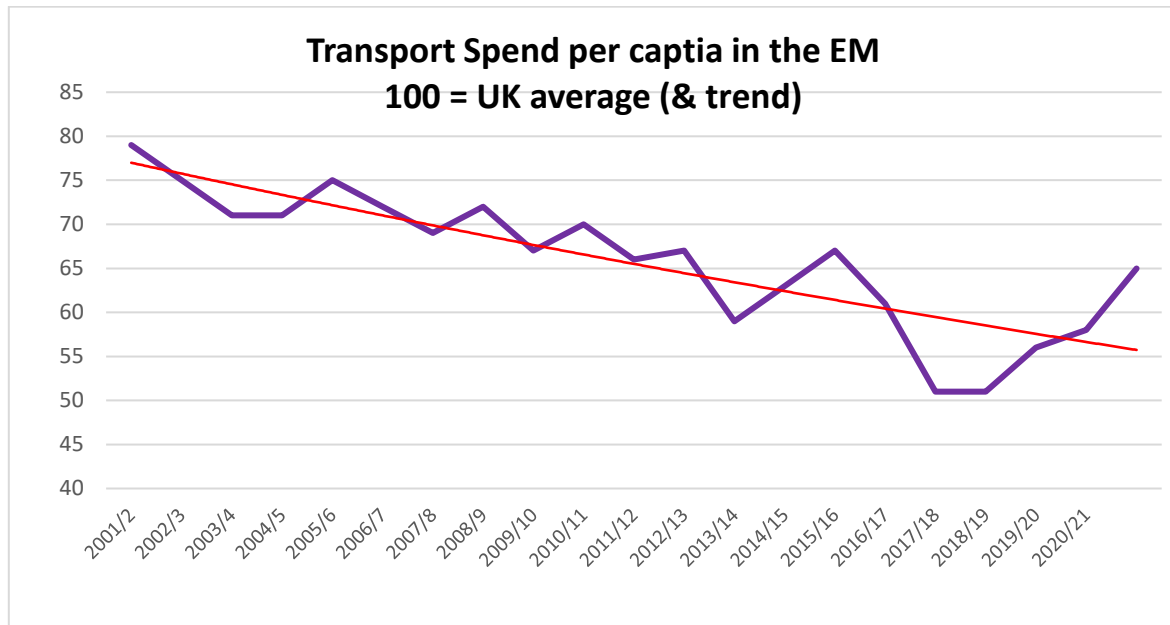
Source: [Annual regional labour productivity - Office for National Statistics \(ons.gov.uk\)](#)

3. Transport investment in the East Midlands

3.1 Transport investment is a key driver of productivity and economic growth. Transport spend per head has been very significantly below the UK average level for all of the last 20 years. The additional financial support resulting from Covid has smoothed some of the disparities, but even so the transport spending in the East Midlands was just 64.7% of UK average for 2020/21, the joint lowest level of any UK region or nation⁴. If the region was funded at a level

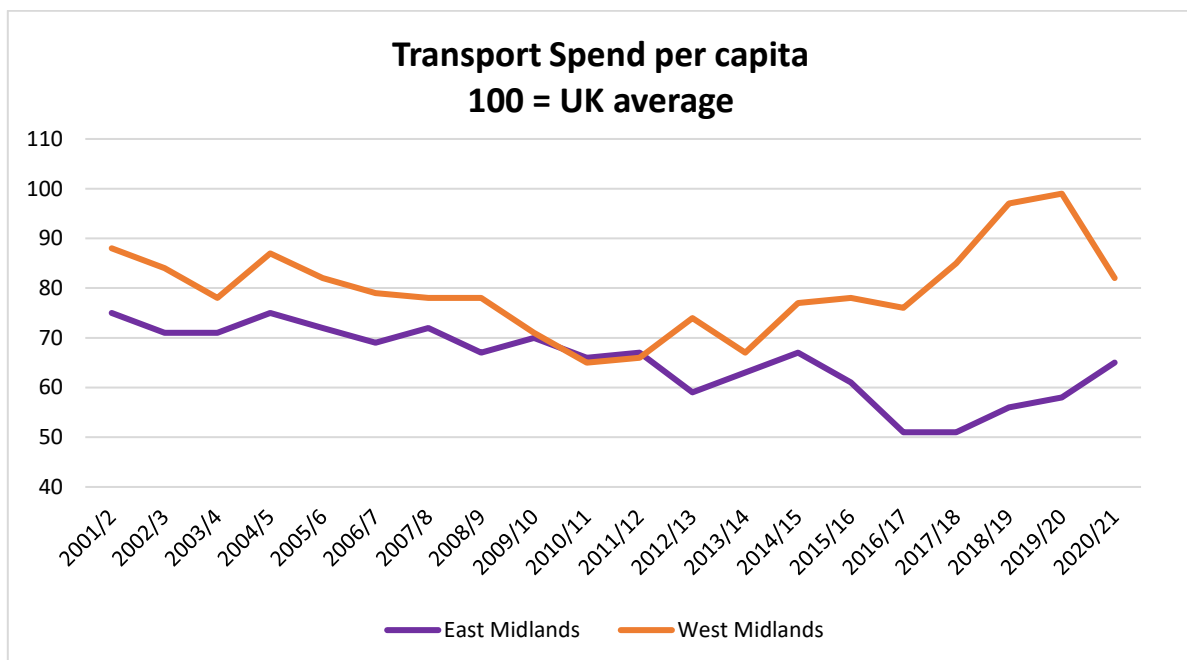
⁴ <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2021>

equivalent to the UK average, a not unrealistic target, the East Midlands would have an **extra £1.26bn a year** to spend on transport.



Source: <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2021>

3.2 In addition, there has been a growing gap in transport spend between the East and West Midlands which has narrowed recently but is likely to widen over the next decade as a result of the delivery HS2 Phase 1 and associated investments, and initiatives that include the 'Midlands Rail Hub' and the 'City Region Sustainable Transport Settlements'.



Source: <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2021>

3.3 The fact that the East Midlands has consistently delivered GDP growth close to the UK average from very low levels of transport investment is testament to commitment and ingenuity of the thousands of SMEs that are the backbone of the region’s economy. But declining relative productivity means even this level of performance cannot be sustained.

3.4 Table 1 shows levels of transport investment per head from 2016-17 to 2021-21.

Table 1: Expenditure on Transport (£ per head)					
	2016-17	2017-18	2018-19	2019-20	2020-21
London	935	937	891	856	1,476
South East	350	355	448	528	785
England	419	440	477	497	746
UK	431	452	483	504	737
East	328	395	477	465	678
North West	366	481	450	453	622
West Midlands	322	342	488	506	604
North East	314	270	322	358	543
Yorks & Humber	328	301	309	336	500
South West	300	292	301	343	477
East Midlands	217	227	278	311	477

3.5 From this data, transport expenditure per head in the East Midlands, previously the lowest in the country, is now the joint lowest (shared with South West). Rather than any ‘levelling down’, this is largely due to a higher East Midlands increase from 2019-20 (£53 per head) than both the England average and many other regions. Notwithstanding this, however, investment levels in the East Midlands, South West and Yorkshire and Humber consistently lag behind that of other regions.

3.6 Investment per head transport of spend has seen the East Midlands narrow to that of the West Midlands (now a £127 per head disparity rather than £195) although difference between the East Midlands and the best performing region (London) grew from £545 to £999 per head. Using indexed measures, the comparison between East and West Midlands appears to be primarily due to the West Midlands reducing from previous years (82 down from 100) rather than East Midlands experiencing a marked increase (East Midlands increase from 62 to 65).

3.7 All regions saw an increased spend in 2020-21 from 2019-20 across both current and capital transport spend (total millions), except for London capital only, which was marginally down.

3.8 The effect of Covid-related transport investment, particularly any skew, has not yet been determined and will be the subject of further review.

4. Rail Investment in the East Midlands

4.1 Rail investment is an important component of Transport investment and has received much public focus in recent years given high profile projects such as HS2 and the Midland Main Line Electrification. Table 2 shows levels of rail investment over the period 2016/17 to 2020/21.

Table 2: Expenditure on Railways (£ per head)					
	2016-17	2017-18	2018-19	2019-20	2020-21
London	773	834	707	653	925
South East	201	200	240	249	446
East	144	160	236	233	433
England	249	279	283	275	427
West Midlands	150	233	289	288	388
North West	175	243	245	243	338
Yorks & Humber	137	132	133	130	240
South West	136	140	139	148	230
East Midlands	70	79	118	119	213
North East	110	141	114	111	201
UK					

4.2 On rail spending specifically there are slightly different trends than when looking at overall transport investment.

4.3 Rail investment per head in the East Midlands is 55% of that of the West Midlands, although the gap between these 2 regions has narrowed over the 5 year period. With reference to the actual levels of investment, the disparity between the East and West Midlands is higher, with the East Midlands receiving 45% of the investment received by the West Midlands (£1,035m and £2,312m respectively).

4.4 North East has the lowest rail spend in both total and per head measures. This is half the East Midlands spend in total (£539m) but fares better on the per head measures. Perhaps mitigating factors include the North East received double per head national road spending than the East Midlands, and approximately 50% more for R&D into economic affairs.

4.5 On rail investment, Yorkshire & Humber and the South West both fare slightly better than their overall transport standing – leaving the North East and the East Midlands clearly the two regions with the lowest levels of rail spending per head.

5. Other public investment in the East Midlands

5.1 The trend for transport investment is reflected in other forms of public investment in the East Midlands. The most recent HM Treasury [report](#)⁵ confirms that the region also has:

- The 2nd lowest level of public expenditure on ‘economic affairs’, £ per head.

⁵ <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2022>

- The lowest level of public expenditure on services, £ per head.

5.2 Table 3 shows the total identifiable expenditure on services per head in real terms, 2016-17 to 2020-21; examples include spending on health, transport, economic affairs, education, and social protection.

Table 3: Total Expenditure on Services (£ per head)					
	2016-17	2017-18	2018-19	2019-20	2020-21
London	10,101	10,304	10,427	10,919	15,490
North West	9,461	9,781	9,915	10,251	13,658
North East	9,695	9,726	10,014	10,316	13,480
UK	9,148	9,309	9,580	9,930	13,414
England	8,890	9,044	9,299	9,643	13,166
West Midlands	8,856	8,922	9,288	9,606	12,841
Yorks & Humber	8,867	8,899	9,20	9,399	12,637
South West	8,511	8,621	8,893	9,255	12,607
East	8,109	8,354	8,699	9,056	12,482
South East	8,136	8,296	8,646	8,905	12,302
East Midlands	8,278	8,334	8,587	8,915	12,113

5.3 Between 2016-17 and 2020-21, total expenditure on services has remained consistently below the England average (£1,053 per head lower in 2020/21). If the Northern Powerhouse is seen as a primary competitor for investment funds, then it's certainly out in front (£1,145 per head better funded than the East Midlands). And there's an imbalance within the pan-Midlands partnership with the West Midlands, at a little over £729 per head better off, faring comparably well too.

5.4 Table 4 shows the level of expenditure on economic affairs, per head for 2016-17 to 2020-21. This area of expenditure includes enterprise and economic development, science and technology, employment policies, agriculture, fisheries and forestry, and transport.

Table 4: Expenditure on Economic Affairs (£ per head)					
	2016-17	2017-18	2018-19	2019-20	2020-21
London	1,165	1,229	1,291	1,357	4,369
England	673	722	846	927	3,120
UK	722	777	881	963	3,113
East	573	672	814	923	3,103
South East	619	722	904	989	3,091
South West	590	613	682	805	2,920
North West	596	722	760	817	2,866
West Midlands	561	606	818	888	2,799
Yorks & Humber	583	553	646	735	2,710
East Midlands	493	513	609	681	2,640
North East	602	590	713	768	2,610

5.5 For this important element of public investment, it is not solely that the East Midlands is the 2nd lowest funded region per head of the population, it is the consistently wide gap between East Midlands' levels and the national average. However, while the 2020-21 data for all regions is inflated as a result of Covid support programmes and funding, and so this may skew the overall trend, it is at least positive that the most recent data shows a narrowing of the gap between the East Midlands and England as a whole, a gap that has previously stubbornly refused to narrow.

5.6 In monetary terms, over the 3-year period from 2018-21, the difference between East Midlands levels of funding against the England average equates to be approximately **£4.6bn loss of funding**, and £2.76bn less than the level received by the West Midlands region.

6. Summary

6.1 The East Midlands has consistently received at or near the lowest levels of public funding in the country, across a range of different services and with a particular deficit in Transport-related spending. While the Government spending response to coronavirus has impacted this data, there is little in the most recent Treasury figures to suggest the trend is changing.

6.2 Against this backdrop of lower public investment levels, the region's businesses continue to perform well and provide strong contributions to the country's overall GDP growth relative to investment. This can be used to make the case for greater investment in the region to maximise economic returns as a country.

6.3 There are current discussions across the East Midlands as to the different forms and levels that devolution may take under the current Levelling-Up and Regeneration Bill. Comparing the performance of the region over recent years to those regions where different forms of devolution are already in place may provide helpful context to those discussions in the East Midlands.