



Innovation funding in the Midlands

INSIGHTS

Across the Midlands, funding from the European Regional Development Fund (ERDF) and wider European Structural and Investment Funds (ESIF) has helped facilitate economic and social development for over 45 years. During the Brexit transition period, the ERDF continued to invest in projects. However, in late 2023 all European funding concluded as the transition period came to an end.

This **Innovation Funding in the Midlands Engine** report by the Midlands Engine Observatory sets out the size of the estimated funding gap now faced by the region, explores the associated impacts and risks, and rounds up other funding sources that could help mitigate the shortfall. Here, we summarise the findings of that research and the implications for our region.

In the 2014-2020 funding period, the Midlands Engine 9-LEP area received £470m from ERDF across 256 projects, accounting for 17% of England's allocation. **27.8% of the Midlands' overall funding was dedicated to research and innovation - 5.6 pp (percentage points) higher than the national average (22.2%).**

While nationally, universities received 61% of research and innovation funding on average, in the Midlands, universities were allocated 78%. A report from the National Centre for Universities and Business (NCUB) revealed that **every £1 of ERDF income received by universities generated up to £7.53 of additional income for knowledge exchange.**

£334m (71.0%) of the Midlands Engine region's ERDF allocation was dedicated to research and innovation and business support, spanning 165 projects providing core

funding to support business and innovation accelerators, catapults, SMEs and academia.

Looking at wider ESIF funding, which includes ERDF and other funds such as the European Social Fund (ESF), the total allocation for the Midlands averaged £565m over three years. Comparing this to the UK Shared Prosperity Fund, one of the domestic successors to ESIF funding, highlights an estimated gap of nearly £211m. The £353.2m earmarked UKSPF funding over three years is 37.5% less than the £565m three-year average ESIF funding to the Midlands.

This shortfall in funding, and the fact that UKSPF has no ring-fenced funding for innovation, could present a real risk to the Midlands innovation ecosystem, particularly when it comes to knowledge transfer between universities and businesses.

71.0% of all Midlands Engine ERDF funding was within Research and Innovation and Business Support – 9.7pp higher than the England average (61.3%).

European Regional Development Fund

Over the course of the [2014-2020 ERDF funding period](#)¹, England received a total of £2.7bn of ERDF funding across 1,100 projects, of which almost **£1.7bn of ERDF funding was earmarked specifically for innovation and business support² across 718 projects.** Business support activities received the bulk of this funding, at almost £1.1bn (40%) across 428 projects, while research and innovation received £604m (22%) across 290 projects.

At the same time, the Midlands Engine 9-LEP area received a total of £470m (17% of England's allocation) across 256 projects (23% of England's projects). Innovation and business support activities in the region accounted for £334m (71.0% of the Midlands Engine total³), spanning 165 projects, and constituting 23% of all ERDF-funded innovation and business support projects in England.

In particular, **27.8% of overall funding was allocated to Research and Innovation, 5.6pp more than the national average (22.2%).** Additionally, business support received 43.2% of the funding, surpassing the national average by 3.5pp (39.7%). **This higher concentration of funding implies a larger gap within the Midlands compared to the rest of the country now that the fund is no longer available.**

This is especially true for Stoke-on-Trent and Staffordshire (33.9%), Greater Lincolnshire (32.4%), and the Black Country (31.7%), all of which had a high proportion of ERDF funding allocated within the innovation priority axis. Similarly, Greater Birmingham and Solihull (54.1%), Greater Lincolnshire (47.4%), and Leicester and Leicestershire (42.2%), which relied significantly on ERDF funding for business support.

Area ⁵	Research & innovation (£m)	%	Business support (£m)	%	Other ERDF investment (£m)	%	Total allocation (£m)
Black Country	12.1	32%	12.9	34%	13.2	34%	38.2
Coventry and Warwickshire	10.6	25%	17.3	41%	14.1	34%	42.0
D2N2	25.9	26%	39.1	40%	33.8	34%	98.8
Greater Birmingham and Solihull	23.9	25%	51.5	54%	19.9	21%	95.3
Greater Lincolnshire	14.6	32%	21.3	47%	9.1	20%	45.0
Leicester and Leicestershire	9.9	25%	16.4	42%	12.6	32%	38.8
Stoke-on-Trent and Staffordshire	19.9	34%	23.8	40%	15.1	26%	58.8
The Marches	8.6	30%	11.5	40%	8.5	30%	28.6
Worcestershire	5.3	22%	9.2	38%	10.0	41%	24.5
Midlands Engine	130.9	28%	203.0	43%	136.1	29%	470.0
England	604.3	22%	1,079.1	40%	1,036.2	38%	2,719.7
National LEP average	15.9	23%	27.0	40%	25.1	37%	68.0

Table 1. Total ERDF and research and innovation and business support in the Midlands Engine and England, 2014-2020

Projects funded through business support & research innovation⁴

Digital Innovation for Manufacturing (DI4M)

Sector: Advanced Manufacturing
Location: Warwick Manufacturing Group, University of Warwick, West Midlands

University of Derby ESIF Spend

Sector: ERDF and ESIF Portfolio
Location: University of Derby East Midlands

Accelerating Thermal Energy Technology Adoption (ATETA) SME Engagement Programme

Sector: Energy and net-zero
Location: University of Birmingham, West Midlands

The Advanced Services Group (ASG) Programmes

Sector: Advanced manufacturing
Location: Aston University, West Midlands

FuturEnergy Ltd

Sector: Net-zero
Location: Aston University, West Midlands

European Bioenergy Research Institute (EBRI) Successor Project

Sector: Net-zero
Location: Aston University, West Midlands

Leicester Innovation Accelerator

Sector: SME innovation
Location: University of Leicester, East Midlands

BRIC Project - Dunton Environmental Sector: Brownfield regeneration

Location: University of Wolverhampton, West Midlands

Hereford Cyber Security Project - Cyber Tzar

Sector: Cyber
Location: University of Wolverhampton, West Midlands

Medilink Midlands ERDF Programmes

Sector: Life sciences
Location: Medilink Midlands

RootWave

Sector: Food and Agri-tech
Location: Coventry University, West Midlands

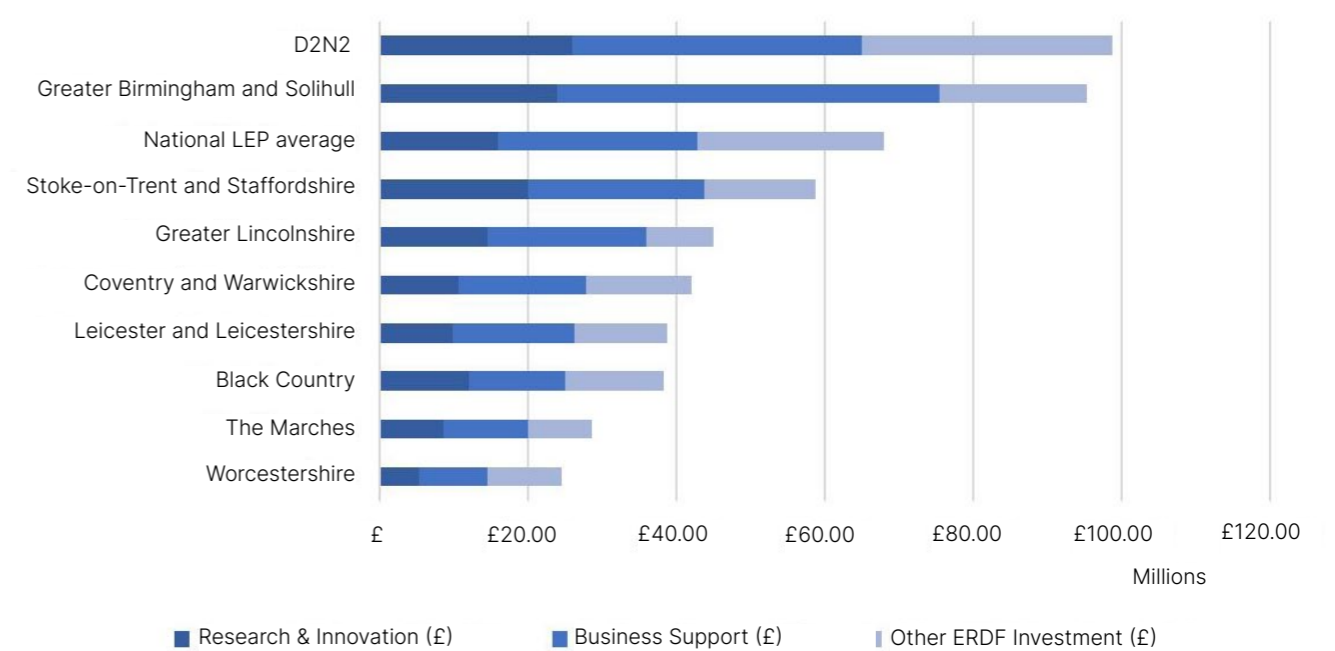


Figure 1: Total ERDF and research and innovation and business support investment in the Midlands Engine 9-LEP areas, 2014-2020

1. Data should be reflective of the full ERDF funding period 2014-2020, including spend up to December 2023.
2. Priority Axis 1 (Research and Innovation) and Priority Axis 3 (Enhancing the Competitiveness of SMEs) were used in column D to identify innovation funding within the spreadsheet.
3. 71.0% was taken from adding the % for research innovation and business support funding from Table 1.
4. The full list of projects can be found in Annex 1 of the full report, available on the Midlands Engine Resource Library.

5. Figures presented in Table 1 have been rounded to the nearest million for simplicity and clarity. While this has aided readability, it could result in minor discrepancies when compared to exact calculations.

UK Shared Prosperity Fund

With the cessation of ESIF funding there are concerns that the UKSPF, will not match previous allocations. [Over the next three years](#), the UKSPF will be allocated as follows:

2022/23 – £400m

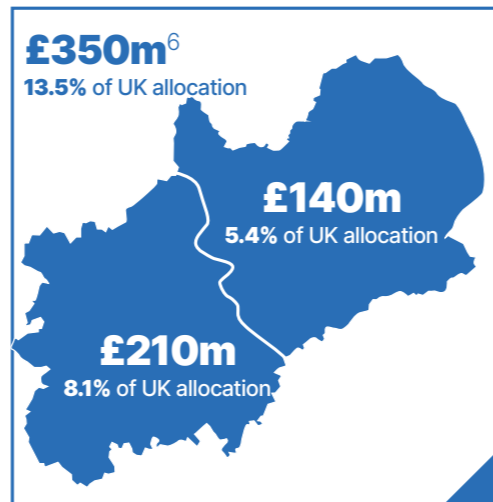
2023/24 – £700m

2024/25 – £1.5bn

A portion of this will be dedicated to innovation support activity. However, it is important to note that **the UKSPF isn't exclusively earmarked for innovation purposes and does not have ring-fenced innovation funds like the ERDF.**

In total, the UKSPF amounts to £2.6bn of funding by 2024-25 across the UK.

England's allocation totals £1.56bn: £239m in the first year, £409m in the second, and £918m in the third. The Midlands will receive just over £350m (13.5% of the UK allocation): £210m for the West Midlands (8.1% of the UK allocation) and just over £140m for the East Midlands (5.4% of the UK allocation).



LEP/region	Previous 3-Year EU funding average (£m) ⁷	Announced UKSPF 3-year funding (£m) ⁸	Change (£m)	Change %
Black Country	72.70	42.10	-£30.60	-42.1%
Coventry and Warwickshire	50.70	32.10	-£18.60	-36.7%
Greater Birmingham and Solihull	90.00	70.50	-£19.50	-21.7%
Greater Lincolnshire	53.20	39.70	-£13.50	-25.4%
D2N2	120.10	66.80	-£53.30	-44.4%
Leicester and Leicestershire	47.40	30.10	-£17.30	-36.5%
Stoke and Staffordshire	65.10	44.30	-£20.80	-32.0%
The Marches	42.70	26.70	-£16.00	-37.5%
Worcestershire	23.00	21.70	-£1.30	-5.7%
West Midlands (3-LEP)	213.40	144.80	-£68.60	-32.1%
West Midlands (Region)	344.20	216.60	-£127.60	-37.1%
East Midlands (3-LEP)⁹	220.70	206.60	-£14.10	-6.4%
Midlands Engine	564.90	353.20	-£211.70	-37.5%

Table 2: Midlands Engine LEPs/regions UKSPF and ESIF allocations.

6. Please note that the numbers in this figure and the above paragraph are estimates and may not exactly match those in Table 2 due to rounding, double counting, and variations in geographic definitions going beyond LEP geographies.

7. Please note that the EU funding average in this table was calculated as a total of ESIF funding, including the European Social Fund, not just the ERDF. This is because the UKSPF is not directly comparable due to lack of full breakdown (i.e. % of funding earmarked for innovation and business support). This is also why EU funding appears significantly higher here than in Table 1.

8. Some double counting may be present in the UKSPF data given that some local authorities have historically been located in multiple LEPs.

9. East Midlands (3-LEP) includes D2N2 LEP, Greater Lincolnshire LEP & Leicester / Leicestershire LEP. Excludes Northamptonshire.

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A comparative analysis of the UKSPF settlement with previous ESIF funding suggests an estimated loss of **£211.7m in funding to the region – a 37.5% deficit**. This reflects an estimated three-year average of £565m in ESIF funding to the Midlands, substantially higher than the £353m earmarked through UKSPF over three years.

This is a significant shortfall affecting all regional development funding areas, including innovation support. The gap in funding, and therefore capacity, has the potential to weaken the link between universities, Research and Technology Organisations (RTOs) and small firms.



Impacts

Some potential risk areas have been identified regarding the funding discrepancy between the UKSPF and ESIF funding, with a focus on the ERDF. These risks, if left unaddressed, could have significant ramifications for the region:

- UKSPF is administered by DLUHC, which has no remit for research and innovation. Additionally, no resources have been directed to ensuring innovation projects funded by the ESIF can continue. **Without sufficient alternative funding, innovation and business support projects, many of which are university-led, will have to terminate or scale down.**¹⁰
- While the UKSPF places investment decisions in hands of devolved and local authorities, it hinders structural investment activity, potentially compromising long-term benefits, including those linked to innovation. **It is possible that, with reduced resources, innovation support will need to compete with other priorities for local areas** such as 'community', 'supporting local business' and 'people and skills' activities.¹²
- **The scaling back of university placement schemes, such as the ERDF-backed Productivity through Innovation (PtI) initiative at universities like Derby, Nottingham Trent and Sunderland, is expected to have various drawbacks.** These include a decrease in graduate experiential learning, skill misalignments, potential innovation decline, diminished talent availability and decreased university-SME collaboration, ultimately curtailing knowledge exchange.
- Previous analysis based on modelling from the Conference of Peripheral Maritime Regions (CPMR) indicates that, **had the UK remained in the EU, its ESIF allocation for 2021-2027 would have been 22% higher than for 2014-2020.** This projection underscores a more substantial disparity with the UKSPF, accentuating the loss of innovation opportunities for the nation and the region.¹¹

10. Universities UK (2023), "Can we save the research and innovation projects currently supported by European structural funds?". [Available here](#).⁶ Some double counting may be present in the UKSPF data given that some local authorities have historically been located in multiple LEPs.

11. CPMR (2019), "UK entitled to €13bn regional funding if it remains in EU". [Available here](#)

12. HEPI (2023), "Innovation – Life After European Regional Funding". [Available here](#).

Alternative mechanisms to address the ERDF gap

Having established the funding disparity between the ERDF/ESIF and UKSPF and the potential impact on innovation, it is apparent that there is a need to close this gap. Fortunately, there are funding sources other than UKSPF with a clearer innovation remit and detailed expertise, such as Innovate UK, that are already funding partners in innovation projects.

It is clear that businesses, universities and other organisations will need to tap into these other sources of innovation funding and the funding bodies may need to increase their innovation investment to meet the ERDF/UKSPF shortfall. Simultaneously, efforts should be made to identify future sources and ways to capitalise on the UKSPF. Below are some alternative mechanisms to address the funding gap:

UK Research and Innovation (UKRI) is a non-departmental public body sponsored by the Department for Science, Innovation and Technology (DSIT) which is the UK's national funding agency for investing in science and research in the UK. UKRI spend in the Midlands in 2020/21 was £1.06bn, or 14.4% of the UK total spend (£452m in the East Midlands and £612m in the West Midlands).

Innovate UK is the UK's national innovation agency supporting business-led innovation across all sectors, technologies, and UK regions. In 2020/21, the Midlands received 29% (£443m) of all Innovate UK spend nationally - £128m and £315m in the East and West Midlands respectively.

Innovate UK Edge [is an arm of Innovate UK](#) which directly supports SMEs to innovate through expert support, funding and finance, operating across each region.

Made Smarter is a programme developed following an industry-led review of how UK manufacturing industries can prosper through digital tools and innovation. As part of the programme, [Made Smarter Innovation](#) is looking to invest £300m to speed up delivery of digital projects, so far including over 320 participants and 80 projects, including £11.9m

allocated to the East Midlands and £6.5m for the West Midlands. By 2034, Made Smarter Innovation aims to increase GVA by £2.3bn; create 4,000 skilled jobs, improve productivity by 30%; cut carbon emissions by 4.5%; and decrease waste by 25%.

Mayoral Combined Authorities (MCAs) will also use devolved powers to support innovation despite not being a funding body per se. The Levelling Up White Paper has set clear ambitions to increase public investment in research and development outside the Greater South East by at least 40% by 2030, and by a third in the current Spending Review period. One example of this is innovation accelerators, which will be funded through a new share of £100m divided between three regional accelerators. This includes the West Midlands Innovation Accelerator as part of a commitment to increase overall UK public R&D funding to £20bn by 2024/25.

Defence Innovation Accelerator for the North Atlantic (DIANA) is an international innovation engine for security and defence sectors supporting start-ups, spinouts, scale-outs, and innovation. DIANA is part of NATO and is thus accessible to all NATO member states. The programme grants innovators access to its wide network of accelerators (10+) and test centres (90+), experts and non-dilutive grants. The UK hosts the programme's European HQ.

Horizon Funding is a programme supporting research and innovation in Europe, has a budget of €95.5bn and runs until 2027. UK-based researchers and innovators can still apply to most funding opportunities on the same terms as EU-based applicants.

Regional Innovation Fund (RIF) is a recent development welcomed by universities. Funded by the Department for Science, Innovation and Technology (DSIT), £48.8 million was allocated for the financial year 2023-2024. DSIT's priority for the RIF is to target high-performing universities in areas with lower levels of R&D investment and high performance in regeneration funding.