

Senedd Cymru
Pwyllgor yr Economi, Seilwaith a Sgiliau

Effeithiau COVID-19: Galwad Agored am
dystiolaeth a phrofiadau
EIS(5) COV - 01

Ymateb gan: Bargen Dinas Rhanbarth
Prifddinas Caerdydd

Welsh Parliament
Economy, Infrastructure and Skills
Committee

Impacts of COVID-19: Open Call for
evidence and experiences

Response from: Cardiff Capital Region
City Deal

SUMMARY – CCR PRIORITIES FOR RESPONDING TO COVID-19 & BEYOND

- The economic fallout of Covid is dramatic and horrible. However things are changing and evolving all of the time and whilst the economy will not ‘snap back’ – we must keep an open mind, avoid knee jerk reactions & work in real-time
- The things we have previously prioritised still stick and in fact the focus on priority sectors such as med-tech, fin-tech, cyber, energy AI/Data, infrastructure and compound semis all have heightened relevance
- The challenge is not so much about preparing for a fixed view of whole-scale and long-term change but the ability to adapt and adjust and be clear about the kind of legacy, this crisis might enable CCR to achieve
- For example – working patterns, public policy challenges, re-framing how we value ‘key’ occupations and focusing on the unevenness of impact across places and economic sectors in CCR
- CCR has devoted time to building the intelligence & data, informing criteria and priorities for government; helping navigate businesses through frameworks and programmes and ensuring businesses optimise support available, as well as planning for next steps as the economy emerges from hibernation. Within this, new scheme proposals are also being brought forward in direct response to Covid.
- In terms of future priorities, CCR should therefore:
 - Stay away from short-term crowded response space
 - Stick with the plan – long-term, strategic and focussed on industries of future and balance with local foundational growth
 - Ensure it can adjust and adapt programmes & future-proof
 - Deploy relevant financial tools and solutions where there is proven viable company or proposal
 - Support med-tech innovation and innovation-readiness and R&D
 - Take opportunities to create a positive public sector-led post-Covid legacy

CCR response contains 10 priorities to frame future focus under 3 headings:

1. Account Management:

- Building business intel base and helping businesses navigate options/opportunities
- Preparing for what next

- Kicking tyres of existing programmes to adjust and adapt to new normal
- 2. Response and Resilience:
 - Support for new businesses – assistance for start-ups
 - Structured funds: SME Co-investment Fund; Evergreen Premises Fund and Investment Readiness
 - Challenge Fund Programme to re-build local wealth post COVID
 - Med-tech open call for innovation
 - Stabilising key businesses through different products – convertible equity, IP shares, guarantees and security and potential match for Future Ready Fund
- 3. Recovery and Re-emergence:
 - Forging forward with support programmes for industrial scale priority clusters
 - Support for medium sized businesses

INTRODUCTION

It was only 9 March but feels like a lifetime ago CCR Cabinet last sat to approve Homes for all the Region, Graduate Scheme, Metro Central and kick-starting life sciences and digital activity. So great is the difference now to the world that was, the first iteration of this report cast a bleak outlook for the economy. The outlook is still dramatic and horrible. However this is an evolving space. What is a priority one day, isn't so much the next. Schemes, initiatives and new flexibilities are being introduced all of the time. Economic forecasts, whilst still predicting large-scale recession, show that the 'V' shape revival could still occur over time and, the full year arithmetic on GDP projections, whilst clearly radically different to anything pre-Covid, may not be as intensely bad as first thought.

This is not to say the economy will just 'snap back'. It won't. But the challenge in such a period of volatility and uncertainty is keeping an open mind, avoiding quick structural reactions and working in 'real time'. In the long-term, things may not change as much as we might expect and it certainly seems that priorities such as infrastructure, data, cyber, compound semis, energy and med-tech will have heightened relevance. The future priorities set out below are not so much about preparing for whole-scale long-term change. But they do provoke the question: *can* we change – and for the better? Never waste a crisis. What added impetus can CCR in its 20 year outlook give to patterns of working and to re-setting public policy challenges and issues? How can we re-frame how we view and value certain occupations and focus on the unevenness of economic impact across communities and sectors of the economy?

THE CHALLENGE

Covid-19 is having profound impacts on the global economy. In April the independent Office of Budget Responsibility published a report forecasting a steep 35% drop in GDP for Q2 2020 with incremental improvements thereafter. The scale of government's response by way of fiscal stimulus is unprecedented and the package of mass market measures, undeniably generous. Nevertheless there are gaps and companies of all sizes and operating scales are falling between the cracks. Liquidity has improved with Quantitative Easing, extension of financial support schemes and

in Wales, the £500m economic resilience fund. However, challenges remain in getting money to eligible and viable businesses quickly enough.

The response of local public sector organisations has been exceptional - both in dealing with civil contingencies deployment and a public health crisis. In addition, many CCR Councils were getting rate relief/business grants out the door within days. In terms of the cost of this however, public sector liabilities are rising; and, bond markets will find it increasingly difficult to digest the scale of government debt issuance needed in short time to fund extra spending.

The pandemic will continue to affect households for a sustained period of time - no longer judged in just weeks or months. The response to date has focussed mainly on the medical/ public health emergency with a secondary emphasis on the economy. However, the psychological/ societal impacts will also need to be explored.

In global economic terms, supply chains and thus, business order books are being impacted. Signs now suggest that China is recovering faster from Covid-19 which could mean the Chinese economy strengthens its position in trade wars with the USA which could see the shift in the centre of the global economy.

There is a growing focus on the state taking equity shares and provision of security. Feedback from medium/larger businesses shows that whilst access to commercial finance is holding - the need to sensitise future strategies in volatile trading settings highlights risk for even the strongest businesses. This impacts covenant strength and thus, cost of borrowing.

Behaviour in the banking sector has also been variable. From tardy responses to imposition of Personal Guarantees against the CBILS and through to again, recurrence of the security/ guarantee challenge - questions are raised about the ability of financial institutions (some of which were themselves 'saved' by the state during the 2007/08 financial crisis) to respond.

The position of Universities is also critical. The reliance on overseas students is being seriously undermined by COVID-19. For the upcoming academic year 20/21, there are major viability challenges with calls for government intervention not to mention the impact on innovation and science - one of the positives of the pandemic - and not just in terms of finding a vaccine, but in data mapping genomics features, rapid sanitisation and agile manufacturing of devices and diagnostics. This has consequences for the 2.4% R&D target by 2027.

For CCR, this means:

- Responding in a way which is considered/complementary to stimulus packages. The immediate response space is crowded. We must stick in large part to the plan, albeit, accelerating it and in line with the 20 year outlook, show preparedness for 'what next'
- Catalysing & backing innovation readiness. COVID-19 is fuelling the next wave of innovation - particularly in the digital, med-tech, e-commerce, remote working, supply chains and data and AI. Firms are already showing signs of the ability and agility to capitalise on these underlying and disruptive changes
- Deploying different financial tools and solutions where due diligence requires them and where there is a viable company or proposition to support

- Continue to support priority clusters given evidence shows sectors like compound semis, med-tech, fin-tech, AI, infrastructure & energy are key to re-building economies
- Taking opportunities to do things differently. Countries are setting out plans for new economic manifestos post-Covid. From Universal Basic Income in Spain to Holland's plan to transform agriculture to boost food security – there is a will for a different post-Covid legacy. This is not about accepting 'change/ no change' as an inevitability – it is about deciding *what* CCR wants to change through public sector leadership.

All this suggests that CCR's approach should be structured through three main phases:

1. **Ph 1/ Early Response 'Account Management Plus'** – co-ordinating information; signposting and directing; building a rich economic intelligence base and influencing. This includes highlighting gaps and helping to broker solutions as well as kicking the tyres of existing programmes to assess continued relevance and need for adaptation.
2. **Ph 2/ Stabilising and Building Resilience** – supporting survivability of key businesses and firms through new approaches and financial levers that respond to evidenced challenges; acceleration of plans for more targeted structural support (SME Co-investment Fund; Strategic Premises Fund and an Investor Readiness Programme); establishment of a Challenge Fund and specific focussed support around the Med-tech innovation opportunity. This latter is critical. Even though we have a fairly well developed sector in the region around devices and diagnostics specifically, over 60% of tools are still coming from China.
- **Ph 3/ Preparing for Recovery and Re-emergence** – developing an approach to economic re-growth and revival. This should back our priority clusters as evidenced 'industries of the future' capable of having a transformative impact. This will require more tailored packages of support and a long-term approach to access to finance.

What we've found so far

In March CCR commissioned a Business Survey. Over 700 responses were received with scores more coming through company insights and leveraging networks with industry bodies:

- 98% businesses confirmed they'd be affected by COVID-19 – with declining customer base, cash-flow and loss of income being main concerns along with worker welfare
- Eligibility and how to access support. A finance function is now always a given
- Dissatisfaction with the CBILS scheme and banking behaviour/ procedures
- Beyond access to quick funding – medium/long-term bespoke patient finance is critical
- Challenges around securitisation and collateral
- Speed of implementation and measures implemented as a comprehensive package
- Support for sole traders and self-employed
- Innovation needed to extend practices like Invoice Discounting
- Support for business diversification and in particular, e-commerce/ digital businesses

- Need for LAs to run ‘keeping in touch’ sessions and a need for webinars for SMEs
- Giving thought to ‘what next’ – the current schemes merely give a holding position
- Support needed around growing active cluster of med-tech businesses many of which have gone out of their way to innovate & solutions-focussed
- Tailored packages of support needed for medium and larger enterprises. When key vulnerabilities show, the ripple effects work down through supply chains
- Disproportionate impact of the rate relief thresholds and the £500k imposition and affects for hoteliers, retail and larger supermarkets

What we’ve done

We have developed and shared with UK & Welsh Governments influential advice notes and guides. The first was [Business Support Schemes Overview](#); the second [Gaps in provision](#) and the third [Business Support Expectations v Reality. \(Gambit\)](#). Additional actions include:

- Ongoing engagement across all ten LAs, WG, Business Wales, Chief Regional Officers and WLGA to share early communication and strive for consistency
- Focused engagement with Innovate UK and UKRI on new challenge & open calls
- Developed one co-ordinated comms campaign across LAs to help businesses maximise support available
- Engaged with Chambers of Commerce, CBI, IoD, British Business Bank, Wales Government and Wales Office to share intelligence and co-ordinate key messages
- Over 20 articles published via Business News Wales portal & LinkedIn
- Developed our own COVID-19 section on the CCR website
- Developed FAQs and handy links which have been updated daily
- Continued communications on key schemes and programmes
- Media focus on R&D and science and innovation showcasing Medtech
- A series of podcasts and 121 interviews on the above subjects
- Continued to originate and develop schemes, accelerating timescales and impacts through 2 Investment Panels

Forward Focus

Phase 1 - Account Management, Business Intelligence & Influencing

The economy is evolving and currently, contracting at a rapid rate. The immediate assistance ‘rescue & bail-out’ space is a crowded and often frustrating one. Access, eligibility and the differing criteria for each of the schemes can present barriers to entry.

PRIORITY 1 – Helping to navigate CCR must continue to play a vital role in helping businesses navigate this landscape; interpret guidelines and highlight gaps so that governments are able to flex/refine their offering. We will do this through continuation of the communications strategy for signposting and coordinating; updates to the ‘Expectations v Reality’ piece; support to governments and British Business Bank on implementation and ensuring that businesses have the information needed to fully capitalise on what’s on offer.

PRIORITY 2 – Evidencing what next We will use this initial phase to gather the evidence and build analytical capability provided by the School of Economic Geography at Cardiff University and through work on the data dashboard; bringing on board the KESS data PhD studentships and continuing thought-leading publications. This will enable us to pick out the trends and see the priorities – for example – the unevenness of economic impact with aviation, tourism, non-food retail and leisure closed down for an extended period whilst healthcare facing industries, equipment and consumables are seeing massive upsurges.

This phase will help us move beyond directing others to ‘funding’ to informing medium term issues around patient access to finance. Using data to guide development of more bespoke support will also help mitigate the social risks emanating from economic contraction. This will be key in CCR given the already well established link between poverty, poor health and limited life chances. There will be a pivotal role for the revised Business Council to play here.

PRIORITY 3 – Kicking the tyres AA and other experts have reported on transit changes post-Coronavirus, predicting a permanent reduction in demand for travel due to the take-up of remote working and big gains made in improved air quality. Some commentators are arguing that more policy emphasis/public expenditure should go on digital infrastructure rather than road infrastructure. Maintaining a focus on public transport will be key given the potential for a better balance across home, office and local working.

Early discussion with WG suggests that all transport related forecasts should be re-run and it has been recommended that a joint piece of work is carried out via the Regional Transport Authority to inform a shared position on future transport investment in the region. There is a real opportunity to think about how this might lead to a more differentiated strategy for CCR striving for better ratios than the current 80:10:10 of car use, public transport & active travel.

For the Graduate Scheme – the emphasis at this time is on maintenance and working with those companies that have participated to sustain relationships and interest (Through the Looking Glass series). Demand has fallen drastically for the scheme in most areas, however there are signs of new interest in others (health/ med-tech). It is likely though the focus will need to pivot into a broader reskilling/ HE/ FE support programme that mirrors shifts seen as some sectors become redundant whilst others grow and require talent and capacity.

Work on the housing fund to test assumptions and see it in the context of lower risk thresholds (SME Finance Fund in particular) has demonstrated it can still work – albeit perhaps with a slower start and through portfolio-led approaches that mitigate the now more prevalent risks.

Increased levels of entrepreneurship, growth and productivity will be vital in the region recovering from the Covid 19 lockdown. Programmes such as full fibre connectivity, 5G and Data /AI need acceleration given reliance upon them as core infrastructure. A meeting with the DCMS Digital Minister in March has resulted in a request for CCR to share its digital ambitions. It is further that advanced manufacturing, fintech, compound semiconductors and life sciences will be fundamental to CCR’s long-term endeavours.

Phase 2 - Response and Resilience

Easing lockdown at the relevant points will need careful judgement of when the health imperatives give way to economic concerns. CCR has to be in the space of what happens post-exit from economic hibernation and mitigating macro-economic fallout.

PRIORITY 4 – Supporting new businesses. Ensuring that entrepreneurs are supported through the process of starting up and developing a business is vital to ensure that the region recovers, especially as new businesses create the majority of the jobs in an economy. Entrepreneurs need access to expertise, knowledge, seed capital and to a supportive community but the COVID 19 lockdown has seen many start-ups unable to access support. Such funding provision would be an ideal fit for Shared Prosperity Funds.

Traditional models of business support may no longer be applicable. Instead, there can be different solutions driven through online provision that will create a more supportive environment to increase the number of start-ups, improve their survival rate and ensure more companies grow. Key interventions to strengthen the environment for entrepreneurship will include more co-working spaces in all parts of CCR, strong local networks of entrepreneurs to ensure mentorship support and an interactive online business support programme.

PRIORITY 5 - Developing more structured funding support. It is time to accelerate ambitions for establishment of a first wave of key targeted funds with which to mitigate some of the worse effects on businesses. A second phase of funds could see CCR looking to Shared Prosperity Funds for further support on a range of programmes.

- The first priority is to develop a ***SME Co-investment Fund*** as a key part of an entrepreneurship, growth and productivity plan for the region. Dialogue is progressing with prospective investment partners regarding capitalisation. In light of the need for more medium-term tailored access to finance, this will operate in the scale-up space, promote priority sectors and create more structured support systems beyond the fund to encompass entrepreneurship support. The potential size of the fund will be upward of £50m, with at least a requirement of £25m of CCR (subject to business case) & will provide equity into commercially viable businesses.
- Aligned to this, is ***Investment Readiness*** support that facilitates access to finance and focuses on raising the quality of deal-flow. Often investment proposals take longer than we'd like to 'pull through' because even though they are interesting – the proposer cannot explain its impact; simply describe the business model and succinctly articulate the investment proposition. This would also work as an active investment leverage tool.
- CBRE has been commissioned to develop a ***Strategic Premises Fund*** drawing on the evidence and research done by JLL (for CCR) and SQW (for WG). Whilst again, demand impacts on office accommodation in a 'business as usual' scenario will adapt, the emphasis here is more about a distinguished strategy, linked to likely changes in travel to work; alignment to priority sectors/ cluster strategic sites and

flexible working. In particular, increasing the number of new businesses located outside of the two main cities is vital in ensuring a more entrepreneurial region.

PRIORITY 6 – Establishing a Re-building Local Economies Challenge Programme

There is a real opportunity for public bodies to build a positive legacy post-Covid. The measures, behaviours and adaptations now in place as we continue to lockdown should not be temporary crisis responses. Organisations, services and people everywhere have moved quickly beyond comfort zones. We have re-connected with what matters and perhaps more importantly, one another. Changed operating models, new collaborations and recognition of digital/ data as a core resilience pillar have all featured – and must continue to do so.

The programme would work through selecting a 2 or 3 challenges to form the focus on individual challenge funds. The idea is these would aim to build new thinking, services, ways of working and potentially products, that contribute to new momentum and the ‘new normal’ in a post-Covid world.

The core principle is about putting innovation capability and skills in alongside the changes and challenges so that learning and value is *applied* and can continue to spread, scale and develop. This is as opposed to a reversion to ‘business as usual’ – when the worse of the pandemic is over. There is a real danger that when the healthcare imperatives give way to more long-term economic concerns, we will reach for what we know and not stick with what we have learned. The proposed programme will therefore involve:

1 - An innovation skills and capacity building element aligned with InFuSe – our bid under the WEFO P5 Building Institutional Capacity Programme

2 - Investment to support the development of new innovations through a SBRI style programme considering challenges such as healthy ageing, decarbonisation, foundational economy renewal, digital democracy and future mobility/ better jobs closer to home

3 - A unique blended partnership across CCR, Cardiff University, Nesta/ Y-Lab and Alacrity (the emergent Public Services Testbed) and potentially, colleagues within WG Innovation and the SBRI Centre of Excellence

4 - A funding programme that is made up of £10m CCR, £4m WEFO and contributions from challenge owner partners as progress is made through the programme and further leveraged investment through potential first or end customer commitments. There is also potential to ‘match’ SBRI run through WG and SBRI Centre of Excellence and achieve further leverage.

PRIORITY 7 – Accelerating CCR Med-tech Cluster through supporting Med-tech innovation. There is a moment in time to capture the full benefits of a Med-tech Cluster in CCR. Intelligence suggests that it is our second most mature economic prospect with a strong supply chain, good anchor companies, international market reach and represents about 6-7% of GVA output for the region totalling some £1.5bn annually. Despite having all of the ingredients of a ‘cluster’ – it is estimated that more than 60% of the devices and diagnostics in the region are imported from China.

CCR has received a high level of contacts and proposals from Med-tech and diversifying manufacturing companies. CCR Cabinet recently approved the Devices and Diagnostics Strategic Framework and the first stage due diligence of a Life Sciences Park – both of which support the EOI to UKRI for a Med-tech Cluster. A

massive response has been seen from businesses diversifying their manufacturing base to medical tech and tools and there are many more strategic opportunities to build upon. Emphasising and reinforcing the importance of this sector through the CCR Investment Framework is an important signal to growing the maturity of this sector and play to unique advantages around: 3D printing of devices for on the job deployment, data mapping for prediction/prevention, alternative materials for face shields filtration methods, non-medical viable manufacture of oxygen & clean room pop-up space.

PRIORITY 8 – Stabilising key businesses. This is about responding quickly to the needs of businesses in our priority clusters that are starting to fall between the cracks and alleviating more specific challenges that will help viable businesses achieve the sustainability/continuity needed to be able to think about growth and inward investment again. Beyond provision of ‘funding’ – this is about access to bespoke patient capital.

There are key ‘ways CCR could help’ in this phase of building resilience. The overwhelming feedback from businesses, financial and legal advisors – as well as government – has been:

- Payment holidays & rental breaks & easing cash flow burdens
- Consider equity buy ins – which can be diluted over time or transferred into debt as company balance sheets improve (convertible equity)
- Consider the important role that could be played by guarantees, collateral support, asset-backed security to bridge gaps and help mitigate the prospect of risk where more stringent banking requirements apply
- Potential to match complementary initiatives such as the Future Ready Fund
- Considering shares of IP and know-how
- Re-set some of the metrics – some of the financial performance metrics commonly used will have limited use in this new environment. Increased collaboration to identify key transparent achievable KPIs will be vitally important and must be progressed with Wales and UK Govts, as well as a new approach to Risk Management.
- Greater emphasis could be placed on EBITDA (or equivalent) ratings to assess debt capacity and EBITDA(c) concept to assess core company stability
- Greater role for CCR and indeed other City Deals in this phase. The way and pace of working must change. In this period of re-emergence – it will timely to think about the establishment of a CCR Development Agency and ways to enhance democratic legitimacy at the same time as utilising new levers and opportunities.

Phase 3 - Recovery and Re-emergence.

PRIORITY 9 – BUILDING LONG-TERM INDUSTRIAL CLUSTERS The focus is identified ambitions to build viable and resilient industrial clusters in which connections, collaboration and competition enable the eco-system to thrive. Our evidence base for supporting Data/ AI, infrastructure, Compound semis, Cyber, Med-tech and Fin-tech is robust. The diligence regarding potential for future growth is continually updated and early indications show, if anything will need acceleration in a post-Covid world. They also offer potential to address challenges such the disruptive impact of automation, ageing society and energy.

For re-emergence, seed funds will be needed to catalyse the creation of formal cluster bodies, with some prioritisation given to how funds and investment can be deployed

in support of their inward investment and FDI opportunities and alongside funds such as Strength in Places. Reinforcing clusters through the blueprint of skills, marketing, building connections, collaborative R&D and key strategic sites, will be critical.

In addition to this, the renewal of the foundational economy in ways which connect into future challenges and opportunities and making food, farming, retail and tourism adaptive and resilient in the light of disruptive forces of AI and machine learning –so jobs are enhanced not displaced or replaced – will be crucial. This could also help channel future government ‘recovery’ funds as well a more focussed approach for Shared Prosperity Funds and emergent ambitions for the Western Gateway.

PRIORITY 10 – IMPROVING THE PRODUCTIVITY OF MEDIUM SIZED FIRMS In terms of improving the competitiveness of the CCR as the region emerges from COVID-19, one of the more focused approaches would be to target the medium sized firm sector (approximately 1300 firms across the region) that currently employs between 50 and 249 staff. This group of firms has a lower performance than its UK equivalent both in terms of turnover per enterprise.

This underperformance could be addressed through the development of focused interventions such as greater networking opportunities between CEOs, sharing of best practice and access to a high-level executive education programme. This could result in considerable impact on both employment and wealth creation within CCR. If this group of medium-sized businesses were performing at the same level as UK equivalents, annual turnover could be in region of £10 billion with an additional 52,000 jobs.