

Written evidence submitted by the Greater Manchester Combined Authority

Call for evidence: Department of Digital, Culture, Media and Sport: Impact of Covid-19

Key Messages:

- The GM Local Industrial Strategy agreed between Government and Greater Manchester in 2019 confirms that GM's DCT ecosystem is a considerable strength in the region and makes a significant economic contribution to the growth of UK Plc.
- Greater Manchester's Digital, Creative and Tech (DCT) sector has more than 10,000 businesses contributing almost £5bn GVA and is central to our Local Industrial Strategy ambitions. Prior to the Covid-19 outbreak the sector was experiencing rapid growth as the largest UK cluster outside London.
- Emerging impact evidence confirms there are significant risks to the ongoing viability of smaller DCT businesses, especially early stage start-ups, freelancers and contractors, and digital agencies across the economy.
- Shortening of global supply chains as a result of Covid-19 and the risks presented by no-deal at the end of the UK-EU transition period presents a significant risk to UK digital companies in the short and medium term
- Impact varies between DCT sub sectors – with some online businesses experiencing growth and others, including digital manufacturing, hit hard. It will therefore be important that business support measures are tailored accordingly.
- The availability of workers with “in demand” DCT skills will increase in the short term and thus address demand for talent from the growing sub sectors due to the loosening of the labour market. However, medium to long term sector growth will depend upon continued programmes to increase the volume and quality of digital skills across the economy. There is an immediate opportunity to invest in re-skilling people impacted by Covid-19 to support this growth sector.
- Covid-19 has highlighted the critical importance of digital infrastructure. Intervention is needed to bring forward universal access to high speed gigabit connectivity by two years to 2023 (the current Government target for 100% gigabit coverage is 2025). This can be achieved through a range of actions including targeting the final 30% of areas which are furthest away from commercial viability – rather than the current 20% under the Governments “outside in” programme.
- Cyber Security and e-commerce are two areas of the digital sector which is still experiencing growth. This is an area where GM is already a leading player in the UK, and increasingly globally. Actions that support this subsector specifically (e.g. through tailored business support and improved access to finance) would see early benefits.

Introduction: Please provide a short introductory commentary, setting the scene and providing the local context.

DCT is the fastest growing sector in our city region, employing 86,000 individuals and with the fastest investment growth in tech in Europe last year. The UK Top Tech Towns Index released in late 2019 placed Manchester first in the list for the best place for IT professionals to live and work in the UK.

Digital cuts across all sectors of our community and will make an increasing contribution to economic growth. GM is continuing to work across the DCT community through its Business Growth Hub services and its mature digital ecosystem to exchange knowledge, expertise and opportunities that will help ensure that our digital businesses are best placed to be at the forefront of response and recovery.

This response focuses on three aspects: Digital Businesses, Digital Skills & Talent and Digital Infrastructure. We also highlight the significance of Cyber Security and e-Commerce and their importance moving forward in our economic recovery.

The pandemic offers a real opportunity to build on the accelerated familiarisation and adoption of digital tools by our residents and businesses. This leap-frogging in adoption could drive an increase in business productivity by increasing efficiency, and in resident skills and trust to adapt to an ever more digital world

WHAT HAS BEEN THE IMMEDIATE IMPACT OF COVID-19 ON THE DIGITAL SECTOR?

Digital businesses

The Business Growth Hub in Greater Manchester is currently working with over 250 Digital Creative and Technology businesses to determine the impact of Covid-19.

Over 90% of GM digital businesses are micro businesses (< 10 people) which have seen large drops in revenue. Many are worried about survival in the short term and uncertain about how they can bounce back. The GM Growth Hub is currently seeing decreased revenues of up to 60% in some digital businesses which is leading to a raft of cash-flow issues. This is a result of falling demand for new projects as well as instances of immediate termination of “retainer contracts”.

In contrast, some tech businesses have experienced increased demand for their services. AR / VR, 3D Printing, Online Education, Intranet, Music streaming, Games industry, Website and Apps are some of the sub sectors experiencing an uplift and are coming for support from the Business Growth Hub to take full advantage of accelerated business trajectories.

In common with other sectors, DCT sector businesses are facing challenges around home working related to team management, processes and efficiency. However, it is also clear that DCT sector has had fewer issues adapting to digital only delivery, although for many it has still been a steep learning and adaption curve.

The emerging picture across the digital sector is summarised below. This has been informed by survey work undertaken by Manchester Digital, which represents digital and tech businesses across the City Region, following the government announcing its package of support.

A: Impact on Micro Businesses in Digital Sector

- 65% of micro businesses said that they would not be able to benefit from the package of support announced by the government as many self-employed people set up companies, and use PAYE and dividends to pay themselves.
- 52% of freelancers said they have lost at least 75% of their current/pipelined work.

B: Impact on Start Ups

- There has been a significant and immediate drop in revenue in the wider supply chain with contracts being cancelled or stalled. Most companies contacted had only 3 months of funding to keep them afloat, even after accounting for government interventions.
- 70% of mid-sized business have indicated that they will require financial assistance/cash flow to survive the next 3/6/12 months
- Many digital start-ups are pre-revenue and reliant on investment which has either dried up or stalled whilst investors wait to see what happens in the next 3 months.
- Many digital start-up businesses are aggressively cutting costs/ stalling expansion to reassure current investors.

- Many contracts for early stage digital companies are on hold currently or are non-priority as other businesses cut their cost base. This has particularly impacted on businesses that sit in marketing/creative space.
- However, some forward looking digital companies have taken the opportunity to build scale up and investment readiness skills during the last few months as reflected in increase take-up on the DCMS funded Creative Industries Scale Up pilot in Greater Manchester.

C: Impact on Digital Mid-Size midsize/scale up

- There has been a drop in revenue for the majority of B2C businesses as a result of households reigning in spending.
- Majority of mid-sized businesses have implemented a twelve month hiring freeze and have laid off contractors.
- Companies are now moving into aggressive cost savings which is having a disproportionate impact on the micro supply chain.

D: Impact on Digital Corporates

- Many digital corporates have furloughed significant levels of staff (between 25% and 60% of their workforce). There is concern that the early rollback of government support could lead to redundancies or terminations.
- The digital corporates surveyed estimated that it will take at least 2 - 3 years to build their workforces back to pre-Coronavirus levels.

Skills and Talent

Over the next three months we expect to see a significant amount of tech talent re-enter the jobs market and a drop in demand from companies. This is likely to see the urgency around the digital skills shortages temporarily subside. This is expected to negatively impact on demand for entry level talent. This, in turn, will impact on apprenticeships and recruitment and training boot camps because employers will be able to fulfil their immediate needs from the mid and senior level talent pool now available to them. Our evidence suggests that employers will cut graduate intakes and not take apprentices this year. In addition, recruitment/hiring budgets will remain frozen for many companies whilst large numbers of technology hires have been furloughed.

Digital infrastructure

Covid-19 is highlighting the critical importance of access to digital infrastructure and connectivity to enable businesses and society to continue to function during a major crisis. Importantly, some vulnerable people without access to reliable high-speed connectivity and the hardware and skills to use it are likely to be at increased mental and physical health risk and potentially face lost economic opportunities.

More positively, our consultation with providers confirmed that the mobile and fixed connectivity networks have held up well in the face of increased demand throughout the day. Capacity adjustments were needed to deal with the 50% of people working from home, rather than in urban centres.

In the short to medium term, Covid-19 is likely to lead to bandwidth demand exceeding current projections as more people have discovered they can work effectively from home and out of school children use online services. Gigabit coverage across the ten local authorities in Greater Manchester remains very patchy with gigabit coverage ranging from 3.51% in Wigan to 79% in Bolton. It is estimated that 70% of GM will get gigabit connections through the market alone. The DCMS "Outside in" programme could enable some rural areas to get connected. However, there is a significant risk that up to 20% of Greater Manchester will not be commercially viable in the short to medium AND will not benefit from intervention funding under the Government's Outside in Programme.

HOW HAS GREATER MANCHESTER RISEN TO THE CHALLENGE

Business support

Greater Manchester has introduced a range of measures that are directly targeted upon the digital, creative and tech sector.

The GM Business Growth Hub considers that the government actions have been fast and effective in addressing the digital sector immediate needs. Bounce back loans have been popular. Furloughing has had high uptake and has been seen as vital in sustaining DCT businesses.

GMCA and the Growth Company have been very proactive in publicizing and directing digital businesses towards nationally-provided sources of financial and other support.

The GM Business Growth Hub (BGH), part of the Growth Company, ran a series of publicly funded programmes to support the digital, creative and tech sector in Greater Manchester on behalf of GMCA. **Since the outbreak began, staff contacted over 250 DCT businesses and offered specialist support.** BGH used the intelligence gathered to re-design their programmes to focus on supporting the sector through the current crisis. The re-designed Greater Connected programme (Survive; stabilise, adapt and regrow) was rolled out in early May.

Our Greater Connected sector programme served as GMs Covid-19 first response programme and was oversubscribed. It received good feedback, helping business not only to stabilise but also pivot and go to market with new tech solutions.

The **GM DCMS funded Creative Scale-Up Programme** also enabled some creative sector businesses to already enter a phase of growth again due securing investment despite this current crisis.

The **GM Coronavirus Business Interruption Loan Scheme** (GM CBILS), a £3 million package of financial support for GM businesses was announced by the LEP and the Growth Company in April and publicised via <https://www.growthco.uk/news/gm-lep-approves-3m-funding-to-bolster-financial-support-available-to-greater-manchester-businesses-battling-impact-of-coronavirus/>. However, the uptake by Digital businesses has so far been cautious.

Skills & Talent

Prior to Covid-19 GM established a **Fast Track Digital Workforce Fund** which is a £3 million, joint venture between DCMS, the Greater Manchester Combined Authority (GMCA) and the Lancashire Digital Skills Partnership (LDSP). This aims to help employers, in GM and Lancashire areas, to address their specialist digital skills needs through short, innovative, bespoke training courses.

The fund was set up to address locally identified digital skills gaps: supporting employers to recruit for hard to fill vacancies through specialist co-designed digital skills training. It was also established to support GM and Lancashire residents to gain digital employment within digital companies and across all sectors.

The announcement of round 2 of this funding coincided with Covid-19 lockdown and recipients will now be working closely with digital businesses to provide GM and Lancashire residents with accessible routes into digital employment, specifically targeting under-represented groups in digital roles across the country.

It is critical that short term reduction in demand for digital skills does not lead to reduced support for digital skills programmes. This is because the expertise and knowledge that is embedded within these schemes could be lost and constrain the forward pipeline of digital talent across the City Region at the time when the economy starts to recover.

Digital Infrastructure

In Greater Manchester we are working closely with providers to minimise costs of market roll out. Our GM Full Fibre Prospectus launched in October 2019 includes the provision of bulk wayleaves and dig once approaches.

In addition, we are keen to build on the implementation of the GM LFFN Programme, subject to DCMS support, to connect a further 300-400 public sector premises in Bury, Bolton, Oldham, Rochdale, Stockport, Trafford and Wigan to encourage wider market roll out to businesses in semi-rural areas.

There is also the opportunity for DCMS to invest in full fibre backbone infrastructure in Salford and Manchester to support wider roll out through the Tameside Cooperative. It is also critical that decision making to address gaps in connectivity is informed by the best possible available data from Ofcom and the market – to improve targeting and maximize investment return.

LONGER TERM IMPACTS IN GREATER MANCHESTER

Our evidence suggests that impacts will vary across the digital sub sectors. The cost of doing business will increase for sub sectors involved in physical manufacture (e.g. systems integrators / PCB manufacturers etc.) and decrease for others engaged in 'service' activity, For example, web and app development, agencies etc. will see a reduction in their overheads as they move staff out of offices to permanent home working arrangements.

There will be increased manufacturing production costs due to social distancing, hygiene practices and higher input costs as global supply chains become more expensive due to reduced frequency of international transport routes. Digital companies will also be impacted by pressures for businesses to shorten supply chains to increase resilience although this could be a significant opportunity for the UK if those businesses could be funded to scale up. There is a risk that UK digital manufacturing businesses could suffer a double whammy with EU companies excluding UK digital businesses from their supply chains whilst a no deal outcome to UK-EU transition remains possible.

In the short term, the market for knowledge sector workers will become less tight due to the influx of available labour supply. This could lead to short term wage deflation for the DCT sector.

The demand for business support for the digital sector is likely to continue to increase. Many of the sector businesses are relatively young and will not have experienced a crisis or recession at this scale before. Access to experienced, high quality support either through advisors, peer-to-peer networks or mentoring over this period will be important. Business support will also need to be adapted to meet the particular needs of each subsector.

To survive, businesses will need to adapt quickly to ensure they can implement fluid transitions of social distancing measures, appropriate pricing/marketing/sales, financial planning, and external processes in a rapidly changing environment where further localised lockdowns remain a risk. Support to embed strong leadership and encourage continuous innovation will be needed.

WHAT DOES THE FUTURE LOOK LIKE FOR THE DIGITAL SECTOR IN GREATER MANCHESTER?

Greater Manchester has good support structures and a strong digital eco system in place to help the digital sector bounce back quickly.

However, it is inevitable that the short term growth and development of the digital sector in the City Region will be impacted by on the length and shape of the recession and to a lesser extent, by the outcome of UK-EU trade negotiations.

We anticipate that our businesses across the economy will continue to strengthen their online presence and that new services taking advantage of consumer changes and new market opportunities will emerge.

Innovation sprints and gamified processes will become more important for business growth and therefore should be included in any business enablement programs or sector support. Further initiatives to bring together investors with the sector as well as financial support including bridging loans and start-up funding will also be vital.

Contracting and freelancer engagement over “hiring new permanent staff” is likely to continue to grow in the sector. Given the disproportionate number of contractors and freelancer in the DCT sector, specialist support for this part of the DCT economy should be considered.

Youth programmes encouraging up-take of digital skills can have real impact as the historic barriers of tech/digital jobs being inner city/ centralised are minimised in the current new way of working. Any skills programmes to restart the economy and counteract the likely increase in youth unemployment should be focussed around digital skills.

Finally, the public sector has a critical role to play in Greater Manchester in galvanising the business community to work with us to develop solutions that build on the work we have already undertaken. This includes:

- Interconnecting our smart and digital capabilities to drive innovation, growth and life chances for the people of Greater Manchester as a model for civic digital transformation. This will draw together more of our digital capabilities, through open interoperability standards and the Smart GM infrastructure to accelerate health and place-based benefits.
- Supporting the development of GM Cyber, bringing together Government and the security agencies, with local and regional assets to create a world leading digital security ecosystem that helps powers the northern economy and enhances national security.
- Technology alone does not drive better outcomes for citizens and we are already deploying these assets in support of recovery, through digital transformation of care pathways and services, working with public and private sector partners to drive digitally enabled radical improvements in health, productivity, and industry investment.
- We are developing partnerships across the global tech giants providing infrastructure, the life sciences industry which is moving toward new models for clinical trials and pathway redesign, and digital SMEs who are co-creating, landing and evaluating new value propositions in our ecosystem

AREA FOR COLLABORATIVE WORKING WITH DCMS

We would be very keen to work closely with DCMS and the Government in the following areas to support the recovery of our digital sector in GM.

1. Refinement of business support to tackle the issues arising from Covid-19 around leadership and digital innovation – including the need for clear and robust sector business resilience planning and tailored support measures for DCT business set-ups and business funding strategies at key business lifecycle points.
2. The financial safety net measures introduced by Government has been largely effective. However, it is critical that this support is tapered off in a way that allows businesses to trade at a level that is sustainable to retain employment wherever possible and GM is keen to work with DCMS on this.
3. Working with the GMCA and relevant agencies to support the cross sectoral growth of the innovative cyber security cluster and ecosystem in Greater Manchester.
4. Building on our existing digital skills support programme to better align workforce digital skills supply with the new requirements for businesses post Covid-19
5. Development of skills programmes that provides employers to access entry level talent schemes to connect young people from a wide range of backgrounds to high quality digital careers.
6. Targeting mid-level/skilled tech people who might be furloughed to upskill citizens and use this time to ensure that the workforce at large have good digital skills, this could be delivered remotely.

7. Development a Smart GM programme aimed at fully leveraging the benefit of our connectivity investments alongside DCMS - and extending it to poorly services areas of GM with innovative person and place based practices that are co-designed with communities and can scale.
8. We ask that Government reviews its current policy aimed at gigabit connectivity for all by 2025 - through its "outside in" programme - to ensure it remains fit for purpose. There is now a strong case to bring forward gigabit connectivity coverage to 2023 – utilising increased capacity to upskill and expanded the digital infrastructure labour force and supporting "shovel ready" projects.
9. The establishment of a targeted gigabit voucher scheme for our semi-rural areas not currently commercially viable for gigabit connections. This would be facilitated through local demand aggregation with GMCA working with local authorities, social housing providers and private sector business and housing landlords.
10. Building on the implementation of the DCMS backed, GM Local Full Fibre Programme, we propose mobilizing quickly to connect a further 300-400 public sector premises in semi-rural areas. This will also encourage wider market roll out to a further 50,000 homes and businesses in the city region.
11. There is the opportunity for the Government to use Greater Manchester as test bed for digital innovation which builds upon our strength of our collaboration and eco system and response to Covid19 which has included the launch of the GM Digital Platform – a city region wide data infrastructure.
12. Finally, Covid-19 has confirmed that there is now a very compelling policy argument for high speed digital connectivity to be recognised in law as important as access to power and water – therefore become a basic universal right.