# What rough beast, its hour come round at last

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It's difficult not to inhale sharply when confronting the impacts of Covid-19 on our society and economy.

As the IMF forecasts a 3% global contraction, the British government continues to pump an estimated £900 billion into our economy – a gargantuan life support package amounting to 41% of last year's GDP and perhaps 50-60% of this year's outturn. One of such colossal scale and representing such a break with recent economic orthodoxy, it includes the full panoply of available monetary and fiscal tools – and perhaps even some still to be invented.

Coronavirus, a rough beast indeed, will change things beyond anything anticipated and, as and when we exit the lockdown, more business failures, unemployment and hardship lie in store. This is the moment for our entrepreneurs SMEs and innovators to come to the fore – but will they survive this nightmare or fall apart?

The Office for Budget Responsibility (OBR, 14th April) has warned that our economy may contract by as much as 35% by June assuming a three month lockdown, with this leading to £273bn of borrowings, or 14% of GDP.

The Midlands Economic Forum (MEF, *March Update*) predict a 14% contraction in UK GDP this year with some upturn predicted for 2021 and 2022 forecast at 4% and 3% respectively.

Phil Rush of Malvern-based Heteronomics, conscious of the variabilities linked with any gradual lifting of lockdown restrictions during June and July, sees the potential for the 2019 Q4 peak not being regained until Q4 2021. However given the West Midlands dependency on manufacturing, accounting for 16% of our GDP, and with a smaller proportion of our workers able to work from home, it’s anticipated that households in this region will suffer more than the national average.

The March UK Report on Jobs for the Midlands (published by KPMG and REC) showed staff appointments falling at the fastest levels for over 11 years. The OBR, in turn, predicts unemployment rising from 2.1m to 3.4m by the end of June, hitting 10% before ‘easing back to’ 7.3%, at around double the current levels.

The UK flash PMI (March 2020) fell from 53.0 to 37.1 – the largest, steepest decline in its history. Not much relief either when we look across the Channel to Europe as the destination for around 45% of our exports, with the March IHS Markit Eurozone PMI Composite Output Index recording its biggest ever single monthly fall to hit a record low of 29.7.

Resumptions in retooling and restocking are not anticipated before Q4 2020, so even with the possibility of a phased lifting of the current lockdown, it seems we are in for a tough time – perhaps the likes of which few of us have encountered during our lifetimes.

Many wartime analogies have been used by this government over recent weeks. In Britain, following the end of hostilities after WW1 and WW2, output fell by 28% between 1919-21 and by 14% between 1944-47. In comparison, output fell by almost 5% in real terms after the financial crisis 2008-09, all too painful for those caught up in it at the time.  If we really are to see a 14% contraction in GDP this year as MEF predict then we truly are facing wartime conditions.

Add to this the ending of the EU transition phase for the UK economy, with a move to trading with the block on the basis of a limited trade deal, or worse still an exit on WTO terms, things could begin to look dire indeed.

It may be worth reminding ourselves of some specifics from the governments support package for business.

This includes – deferring VAT and Income Tax payments; Statutory Sick Pay relief package for all SMEs; a 12-month business rates holiday for all retail, hospitality and leisure businesses in England; small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief; grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000; the Coronavirus Business Interruption Loan Scheme offering loans of up to £5million for SMEs through the British Business Bank; a new lending facility from the Bank of England to help support liquidity among larger firms, helping them bridge coronavirus disruption to their cash flows through loans and the HMRC Time To Pay Scheme.

There is a lot in this package, but with so many clearly defined specifics it’s becoming apparent that too many businesses are falling through the gaps. In particular our smaller high tech, high growth firms, essential engines of growth – the new companies, start-ups and early stage innovators – these have so far been left behind.



In Worcestershire the Malvern Hills Science Park hosts over 30 high growth, high tech firms. The Wyche Innovation Centre offers facilities to a further group of innovators in cyber security and high tech activities, Bloom. Space Malvern hosts around 30 further early stage specialised businesses, like economics forecaster, Heteronomics, with the county’s acceleration programme, BetaDen, helping to launch our high growth businesses.

However since the coronavirus crisis, these dynamic small business hubs and others like it across the region are facing a financial black hole. The big concern is that there is no pipeline feeding the smaller companies absolutely central to our economy’s growth and the recovery engine in Worcestershire and the West Midlands region. We simply cannot afford to let them fail.

In helping to set up 49 businesses since 2015 through our Institute for Design & Economic Acceleration, *IDEA,* at Birmingham City University, we are well aware of the tiny margins between success and failure. Right from the get-go these businesses confront a gaping hole in their finances, known as the ‘Valley of Death’, when there is not yet an established revenue stream. The tremendous SME incubation success story in both Worcestershire and the West Midlands is now facing an existential threat.

Bloom.Space Malvern founder Jack Wratten explains: “We need to acknowledge that investment has stopped and won’t re-start anytime soon. Many start-ups can’t access any part of the government support packages which will cause many to fail in the next few weeks and they won’t re-start and new start-ups won’t start at all.”

Dr Adrian Burden, Technical Director at Key IQ Ltd, says that while the businesses in the Wyche Innovation Centre are all ‘doing their best to weather the coronavirus storm’, more long-term targeted support is needed.

“Some companies are eligible for a business grant linked to small business rate relief, and others may consider furloughing staff, but what worries me is the many that fall between these rather rigid schemes, as a lot of early stage start-ups can’t afford to simply put their operations on hold.  Cashflow will become a critical problem and I fear they will have real trouble navigating this crisis as it continues into the months ahead.”

The danger is that government is supporting larger more secure plcs but ignoring SMEs which due to their size are less well-equipped to weather the storm – but it is these firms bringing forward most of the cutting edge innovations we will rely on to rebuild our economy. Over the past 20 years, technology has driven transformation across our global economy through companies from Apple to Uber. The Malvern Hills area alone has generated many successes including Collins Aerospace, Metrasens, Malvern Panalytical, Anglo Scientific, amongst others.

Now is the time for the Chancellor to look at America’s stimulus package for their SMEs and innovators, our upcoming competition. They are providing £282bn of government loans in the form of debts to be fully written off when companies use them to rehire staff or pay rent. This ‘pro-growth package’ has been directly targeted to support small flexible businesses, not just large corporates.

This is exactly the sort of approach we should be adopting and reinventing to ensure we are protecting our innovators and SMEs, the startups that will be vital to fuelling the rebound in our economy and taming this ‘rough beast’.