

Submission: Eat Out to Help Out scheme – Value for Money

Issue: For you to consider our value for money assessment of the Eat Out to Help Out scheme.

Timing: A decision is needed for Monday 6 July, so that HMRC can progress with Accounting Officer responsibilities.

Summary: This advice sets out our value for money assessment of the Eat Out to Help Out scheme, and notes the likelihood that Jim Harra as HMRC Accounting Officer will request a ministerial direction on the basis of Managing Public Money principles.

Recommendations:

- That you note our assessment of the value for money of this scheme.
- That you decide whether or not to proceed with the scheme.
- That you note the likelihood of HMRC requesting a ministerial direction on the basis of value for money.

1. We have previously provided you with advice on broad consumption measures and their value in supporting the economic recovery. You have now taken detailed decisions on the shape of the scheme (recapped at para. 27), and we have further considered the value of this specific scheme.
2. We are unable to undertake a robust quantitative assessment of this policy. To do so would require us to quantify the behavioural impact of the policy on dining-in restaurant consumption – due to the novel circumstances, we do not have strong data to assess demand this August either with or without this policy in place. In addition, there are significant compliance and fraud risks which mean that our costings are highly uncertain.
3. We have set out the economic evidence on the potential impact and value of this scheme. There is likely to be some increase in consumption as a result of this policy, with the magnitude of this increase dependant on how it influences consumer behaviour. This policy is well targeted towards a sub-sector which has been heavily impacted by Covid-19, where there is evidence to suggest that demand will not fully recover immediately and where capacity will remain limited by social distancing requirements. This sector employs a disproportionate number of part-time workers, women, young people and workers without degrees or higher qualifications. **Do you still wish to proceed with the scheme?**
4. Jim Harra as Accounting Officer for HMRC will also consider this advice on value for money and come to his own view. It is likely that he will ask for a ministerial direction in order to proceed with delivery.

Sector background

5. This sector has been heavily impacted by Covid-19, particularly as a result of NPIs requiring business who were not able to convert to takeaway service to close. This is reflected in their uptake of the CJRS scheme, weekly redundancies data, company insolvency levels and job vacancies.

6. **Redundancies:** Data on planned redundancies¹ show that redundancies in the hospitality sector have increased almost eightfold. This data does not fully represent the labour market.
7. **Vacancies:** We have seen a decrease in vacancies across most sectors since lockdown began. This includes the catering and hospitality sector.
8. **CJRS:** This scheme will be running in August, when CJRS will still be in place. From 1 August employers will be expected to pay NICs and pension contributions for the hours an employee is on furlough. From 1 July employers may bring employees back to work while still claiming CJRS for hours not worked. In the accommodation and food services sector as of 14 June, CJRS has supported 1,467,261 jobs and the value of claims made in this sector stood at over £3 billion. We have some information showing that the proportion of firms in this sector topping up CJRS payments is lower than average, indicating that there may be a greater risk of job losses in this sector.
9. **Company Insolvency:** Despite Covid-19 troubles, insolvencies have been substantially below 2019 levels for a month. In the hospitality industry, insolvencies have dropped to 24.7% of 2019 levels.
10. Companies in this sector have relied heavily on support such as CJRS. As this support tapers away, and they re-open with social distancing constraints and in an environment with lower consumer confidence, without support we might expect to see this sector face more difficulties.

Consumption background

11. **Household consumption represents 63% of GDP and is therefore the largest part of the economy.** Due to this relative weight, small changes in household spending can have noticeable implications on economic

¹ >20 people in one place at one time, not necessarily representative of the total labour market as a whole. The underlying data is very volatile.

growth. Almost 20% of consumption is deemed as 'social' and will be restricted by social distancing measures.

12. According to various survey measures, consumer confidence has fallen dramatically since the Covid-19 outbreak, with confidence in the economy and personal finances falling to levels last seen during the Financial Crisis. GfK's consumer confidence index fell to -34 throughout April and May (compared with -7 in February), and remained low at -27 at the end of June. A daily morning consult consumer sentiment index also shows consumer sentiment at around 20% lower than pre-Covid levels, with UK levels lower than both France and Germany relative to the pre-Covid benchmark.
13. Whilst sentiment remains low and has been slow to recover, consumer spending has showed signs of recovery since the re-opening of non-essential retail, following a gradual improvement throughout the end of May and early June. However, spending across the hospitality sector remains well below pre-Covid levels (except for fast food and takeaways). Whilst there has been a positive response to the re-opening of non-essential retail stores, it is particularly difficult to predict how consumers will react to the re-opening of hospitality, given the different nature of activity associated with consumption in the sector.
14. There is an additional element of health uncertainty which may continue to suppress consumer demand, with consumers worried about the health risks of going out and visiting public places. This is likely to be particularly relevant to social consumption, with polling suggesting that members of the public who would normally visit pubs, bars and restaurants are currently less willing to do so.

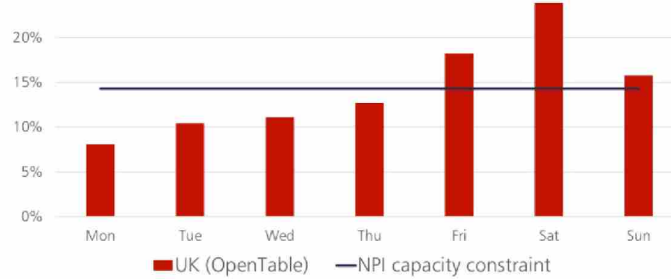
Polling: Would you visit a pub, bar or restaurant in the next week if the government lifted the lockdown today?

| % willing out of those who would normally do so | Total | Male | Female |
|---|-------|------|--------|
| Total | 40% | 47% | 34% |
| 18-24 | 51% | 54% | 49% |
| 25-34 | 47% | 49% | 45% |
| 35-44 | 39% | 44% | 33% |
| 45-54 | 36% | 45% | 27% |
| 55-64 | 38% | 44% | 31% |
| 65-74 | 34% | 47% | 19% |
| 75+ | 32% | 41% | 26% |

Source: No10 Hanbury polling, 22 June **Sample:** online panel of 4130 members of the public. Quotas for age, gender, region and education. Data weighted to be nationally representative on age + gender, region and education

15. Consumer activity will also be affected by supply, with a UK Hospitality survey showing that around 60% of the sector will re-open on, or within a few days of, 4th July, with only 53% of restaurants already open or taking bookings on or within a few days of 4th July.² This compares with latest data from OpenTable showing only c. 18% of restaurants open for reservations on 20th June.
16. There is also a supply limitation placed on this sector by social distancing guidelines. Sales breakdowns by day of the week indicate that demand Monday-Wednesday is less than capacity with social distancing constraints, but that demand may outstrip supply on Friday, Saturday and Sunday. It is worth noting that NPIs during August could be different across the four nations of the UK, which could have an impact on capacity in this sector and consequently the value for money of this scheme.

² <https://www.ukhospitality.org.uk/news/514878/One-million-hospitality-staff-members-expected-to-return-to-work-in-July.htm>



This is based on OpenTable data, which is imperfect as it covers around a third of the market and over-represents more sophisticated businesses in metropolitan areas. Overall trade is likely to be more skewed towards the weekend than shown here. NPI constraint is taken as 60% of peak capacity (Scotland and Wales are at 2m, which caps capacity at around 30%), which is assumed to be Saturday trade.

17. A targeted measure between Monday and Wednesday, is therefore likely to provide more additionality than a VAT cut by shifting demand towards days where there is likely to be over-supply.
18. The take-up of the scheme is also likely to be influenced by the communications approach.

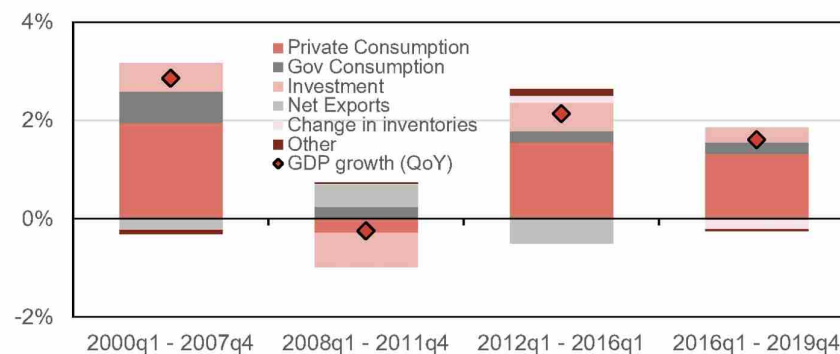
Costings

19. We provided you with a note detailing our work on the cost to government for this scheme. These are uncertain and subject to change, but indicate that the cost of a scheme running Monday–Wednesday in August are as set out below.

| Policy option | Discount - 33.3% | Discount - 40% |
|---------------------------------------|------------------|----------------|
| Excluding takeaway and alcohol | £290m | £370m |
| Excluding takeaway, including alcohol | £470m | £560m |

[Costings highly uncertain and subject to change]

Value of additional consumption



20. Where the discount provides the incentive for people to substitute already planned weekend dining for Monday–Wednesday dining, it can help reduce the supply constraints facing businesses during peak time. However, the substitution will contribute to deadweight to the extent that the policy is not encouraging people to eat out that wouldn't otherwise have done so.
21. It is difficult to robustly estimate the additional demand from the scheme, with the impacts on behaviour particularly difficult to quantify.
- a. From a consumer perspective, one behavioural aspect of the discount would be if it **increases consumers' willingness to eat in restaurants**. As previously mentioned, recent polling suggests that around 40% of respondents would be willing to visit restaurants, pubs or bars in the next week. Any increase in this proportion stemming from the policy could be counted as additional activity in the economy.
 - b. There are also second-round consumer impacts. To the extent that this policy boosts consumer sentiment in the wider economy (thereby reducing the scope for entrenched subdued spending behaviours), there could be positive spill overs to demand in other sectors of the economy.
22. With every additional pound spent in restaurants as a result of this scheme, a proportion of this spend will be received as revenue to the exchequer in the form of VAT. As set out above, we do not have a quantifiable sense of this scheme's impact on demand.
23. We expect the benefit of the discount to be passed through to the consumer. Given the reduction is applied to the final bill after VAT is applied, the business would need to increase menu prices to absorb the benefit in their margins (unlike VAT cuts). It is particularly unlikely that businesses would increase their prices given the very temporary nature of the policy.

Value of support for this sector

24. Pubs and restaurants together contribute c.£40 billion in GVA and employ over 2 million people. These businesses have been closed since 22 March and have been among the hardest hit by Covid-19, with 83% workers furloughed and 75% of businesses not trading.
25. If trading at 60% revenues, costs will outweigh sales for many businesses and redundancies and insolvencies will begin to crystallise.
26. Employees in the accommodation and food service sector are disproportionately young, with 35% under 25 compared to 11% in the general workforce. We know that unemployment in young people can have a scarring effect. Employees in this sector are also disproportionately female, part-time workers and in the bottom half of incomes. 76% do not have a degree or higher qualification, compared to 54% of the general workforce.
27. We expect that by supporting consumption in this sector, the scheme will support employers in this sector to reduce their reliance on CJRS either by bringing more staff back to work or bringing staff back for longer hours. In the longer term, the scheme may improve the likelihood of retention of jobs in this sector. Similar to the uncertainty around consumer behaviour, we cannot currently quantify the extent to which the scheme could have this impact.

Background

28. We have carried out this analysis on the basis that:
- The scheme will run from 3rd August to 31st August
 - The Government will provide a percentage reduction of on all food and non-alcoholic beverages consumed on an eligible bill in an eligible business. Any other consumables, such as tobacco products, are not eligible for this reduction.
 - Eligible businesses are currently defined as any establishment that sells food for immediate consumption on the premises. Takeaway meals are not eligible.
 - Any adult or child eating in an eligible business will be eligible for the discount. There are no limits on the times it can be used.

- Eligible spend is restricted to food and non-alcoholic drinks bought on Monday–Wednesday.
- Savings are capped at £10 per head per eligible bill.