

Witness Name: Kate Nicholls

Statement No: 1

Exhibits: KN/01 – KN/06

Date: 15 July 2025

## UK Covid-19 Inquiry Module 9

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### WITNESS STATEMENT OF KATE NICHOLLS

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In relation to the issues raised by the Rule 9 request dated 04/03/2025 in connection with Module 9, I, KATE NICHOLLS, will say as follows:

#### **Part A: Introduction to UK Hospitality**

1. I am Kate Nicholls OBE, Chair of UKHospitality Industries Limited (registered company no. 11114077), referred to as 'UKHospitality'. I was previously Chief Executive of UKHospitality between April 2018 and July 2025. We are grateful to the Inquiry for designating UKHospitality as a Core Participant for Module 9, and we hope our views and insights from a business perspective on the various economic interventions designed and implemented during the pandemic, are useful.
2. UKHospitality is the representative body representing more than 130,000 venues, from pubs, bars and restaurants to hotels, indoor leisure and contract catering. UKHospitality's membership is threefold, composed of operators (including pubs, bars, nightclubs, restaurants, hotels and accommodation, attractions and leisure, contract caterers, cafés/coffee shops, membership clubs and other hospitality venues), those who supply the hospitality industry, and affiliate organisations who wish to come under the umbrella of UKHospitality. It was created in April 2018 by the merger of the Association of Licensed Multiple Retailers (the trade body for eating and drinking out businesses) and the British Hospitality Association, thus bringing together businesses from all aspects of hospitality to form a single, authoritative voice for the sector.
3. In my role as UKHospitality's Chief Executive, I led the organisation during the pandemic period. I was also chair of the Tourism Alliance during part of the

pandemic, co-chair of the London Tourism Recovery Board, chair of the Institute of Licensing and I am the government's Disability and Access Ambassador for hospitality. I was awarded an OBE in 2021 for services to the hospitality sector – particularly during the pandemic. I am also a member of the UK Government-led Hospitality Sector Council, the Food and Drink Sector Council, the Tourism Industry Council, and former Chair of the London Night Time Commission. UKHospitality works to ensure that the industry's needs are effectively represented, campaigning and lobbying on behalf of its members to influence government policy and legislation and advocating for a fair operating environment for hospitality businesses which protects their commercial interests.

4. In terms of work undertaken outside of times of national emergency that relate to the UK economy – this relates to the fair operating environment referred to above. UKHospitality will, at a high level, advocate for the sector to HM Treasury, the Department for Business and Trade (formerly BEIS), the Department for Culture, Media and Sport, the Department for Environment, Food and Rural Affairs and other relevant Government departments. This involves areas such as business taxation (including business rates), VAT, national minimum and living wage and other economic areas.
5. The Inquiry has asked UKHospitality to provide an overview of the sector as it stood on the eve of the pandemic. In 2019, the UK's hospitality sector—which includes food and accommodation services—generated £59.3 billion in economic output, accounting for approximately 3.0% of the country's total output. Of this, £17.7 billion (30%) came from accommodation services, while £41.6 billion (70%) was contributed by food and beverage services, according to data from the Office for National Statistics (ONS). As of January 1, 2020, there were 223,045 food and accommodation businesses in the UK, making up 3.7% of all UK businesses. Among these, 137,225 were employers, representing 10% of all UK employers. The majority—172,390 businesses (77%)—operated in food and drink services, while 50,660 (23%) were in accommodation services.
6. Like many other sectors, most hospitality businesses are small or medium-sized enterprises (SMEs). In fact, 97% of hospitality employers (133,315) were classified as micro or small enterprises, employing between 1 and 49 people. There were 3,235 medium-sized businesses (50–249 employees) and 675 large businesses (250 or more employees). According to the 2019 Small Business Survey by the

Department for Business, Energy & Industrial Strategy (BEIS), the hospitality sector had a notably higher proportion of SMEs led by ethnic minorities and women compared to other sectors. Specifically, 7% of hospitality SME employers were led by individuals from minority ethnic backgrounds (vs. 5% across all sectors), and 21% were women-led (vs. 15% across all industries).

7. In the three months leading up to March 2020, the accommodation and food service sector provided 2.53 million jobs in the UK, accounting for 7.1% of total employment. It's important to note this figure refers to the number of jobs, not individual workers, as some people may hold multiple jobs. From March 2013 to March 2020, employment in the sector steadily increased—from about 2 million jobs in early 2013 to 2.5 million in early 2020—marking a 25% rise. By comparison, overall employment across the economy grew by 11% during the same period. With 7.1% of the UK's jobs, hospitality ranked as the 7th largest employer among the 20 main industrial sectors.
8. The hospitality sector employs a greater proportion of young people, foreign-born individuals, part-time workers, and those from minority ethnic backgrounds than many other industries. According to the Office for National Statistics (ONS), as of March 2020, 46% of hospitality jobs were full-time while 54% were part-time—significantly different from the overall UK workforce, where 68% of jobs were full-time and 32% part-time. In 2019, 35% of hospitality workers were aged 16 to 24, compared to just 11% in the wider economy. The Migration Observatory also found that 30% of employees in the food and accommodation sector were born outside the UK, compared to 18% across all sectors.
9. Looking at ethnicity, data for the 12 months leading up to June 2020 shows that 17% of workers in the food service and accommodation sector were from minority ethnic groups (including Black, Asian, and Mixed/Multiple ethnic backgrounds), versus 13% of the total UK workforce. Additionally, 7% of all minority ethnic workers in the UK were employed in hospitality, compared to 5% of all workers.
10. Hospitality offers a greater number of entry level positions and as such employs more staff on lower wages. In April 2020, the median hourly wage in the accommodation and food service industry was £8.48—the lowest among the UK's 20 main industrial sectors—compared to a UK average of £10.39. This pay gap affected both full-time

and part-time employees in the sector. The Resolution Foundation reported that in 2019, more than half (52%) of hospitality workers were classified as 'low paid'—earning less than two-thirds of the UK median hourly wage—compared to 15% of workers across all sectors. The sector also had a higher share of employees in 'non-standard' work arrangements. In 2019, 3% of hospitality workers were on zero-hour contracts (versus 2% in the overall workforce), and 9% held temporary positions (compared to 5% across all industries).

11. London is home to 18% of the UK's food and accommodation businesses, totalling 40,816 establishments. Wales has the highest concentration of hospitality businesses relative to its overall economy, with the sector making up 5.5% of all businesses in the region. In contrast, Northern Ireland has the lowest share, where hospitality businesses account for just 2.8% of the total (ONS). London also recorded the highest number of jobs in the hospitality sector. However, the South West had the largest share of hospitality jobs as a proportion of total regional employment at 8.7%. Northern Ireland again ranked lowest, with hospitality jobs making up only 5.9% of total employment in the region. London accounted for nearly a quarter (24%) of the hospitality sector's total economic output, while the South East contributed 13%. Despite these regional differences in output volume, the sector's contribution to overall economic output is relatively consistent across the UK, with food and accommodation services making up between 3% and 4% of total economic output in each country and region (ONS data).

## **Part B: UK Hospitality During the Pandemic**

12. The Inquiry has requested an overview of the work UKHospitality engaged in or facilitated to inform the Government's economic response to the pandemic, including the working relationship with relevant Government departments and devolved administrations. Given the absence of the usual formal structures of policy development and engagement due to the immediacy of pandemic impacts, the following section sets out our views on interaction with government in a broadly chronological structure for the period January 2020 to early April 2020.
13. Part A mentions briefly the work usually conducted with government and relevant departments on economic issues outside of times of national emergency. I feel it would be helpful to expand upon this here. In January 2020, UKHospitality drew up

its submission for the national budget scheduled for 11 March 2020. The key economic asks of Treasury at this stage included a 10% cut in the business rates multiplier alongside a review of the business rates system as a whole – which in our view has penalised hospitality and other ‘bricks and mortar’ businesses versus other sectors. Other requests included a reform of the Apprenticeship Levy and reduction in the rate of VAT for the sector (as seen in other European countries).

14. Therefore, interactions with Treasury and other government departments in January and early February 2020 were focused on these economic asks before the potential impact of Covid-19 became fully clear. These are mentioned, as a reduction in VAT and business rates in particular did go on to form significant parts of the Covid-19 economic support package. In terms of UKHospitality’s access to government at this point, whilst we engaged with a wide variety of departments on specific regulatory issues, on economic issues pre-March 2020 this was via the formal annual (or sometimes bi-annual) submission to the Treasury ahead of budgets/fiscal events alongside semi-regular meetings with Treasury officials, and via the hospitality sector’s sponsor department at the time – the Department of Culture, Media and Sport (DCMS). As mentioned in Part A, I sit on the Tourism Industry Council which brought together government, hospitality and wider tourism sector holders to raise issues key to the sector including economic issues. These departmental relationships are mentioned here as they are relevant to UKHospitality’s engagement with government relating to economic interventions in the early phase of the pandemic.
  
15. It is important to note that although pandemic-related economic interventions were not discussed with Government during January and February, UKHospitality was raising concerns about the impact of the pandemic in jurisdictions outside the UK and knock-on effects on international travel. Over the course of January and into February 2020, international travel for tourism and business rapidly declined as countries began advising their nationals against it.
  
16. The UK reported its first cases of Covid-19 on 31 January 2020. On 10 February 2020, the Health Protection (Coronavirus) Regulations 2020 came into force, making provision for the screening, isolation and detention of individuals where certain conditions were met.

17. Throughout February and into early March 2020, trading conditions began to significantly deteriorate as the scale of the impact of Covid-19 in other jurisdictions and potentially within the UK became clearer.
18. Ahead of the scheduled budget on 11 March 2020, the Chancellor of the Exchequer held a pre-budget roundtable for various sectors of the economy, which took place on 9 March. By this point, evidence from our members and the wider hospitality sector showed that significant economic intervention from central government was required to prevent the closure of many businesses in our and other industries. Early indicators of what was required from Government were put forward by UKHospitality to Cabinet Office (Number 10) and Treasury officials at this specific meeting, and in writing immediately afterwards. UKHospitality feedback included the impact of Covid-19 was already being felt in the hospitality sector, and had accelerated over the past week - acutely affecting London and major metropolitan areas as well as tourist destinations. Therefore immediate intervention was required to support some businesses and allow them to survive what (at the time) was expected to be a short but sudden major shock.
19. To directly quote my correspondence with Number 10 and Treasury officials from 9 March, exhibited as KN/01 - INQ000597903: *'what we saw last week was a sudden and immediate introduction of social distancing plans by many companies - work from home, travel bans and restriction of meetings of more than 6-20 people. Business events have also been cancelled. As a result, footfall is down in London by 34% and other large city centre locations are also down, albeit less significantly. Sales in London restaurants and bars are -7% like for like on the previous week. Hotels and major events spaces are seeking a significant increase in cancellations of bookings over the next two weeks - in contrast to the early part of the year this is largely domestic and guests are seeking refunds as travel restrictions and uncertainty are likely to be protracted- and future bookings beyond that are down 50% (60% of hotel and event bookings are made more than two weeks out. This is having a real and significant impact on cash flow and the forward booking data suggests that this will be continued. Absent any immediate support or intervention, the situation will become critical by the end of the month as 1 April is a crunch date when lots of bills need to be paid - quarterly up front rent payments, quarterly business rates and VAT as well as corporation tax and PAYE. Our sector will need confirmation of payment rescheduling or time to pay delays in all these areas if businesses are to survive or not have to close for extended period. This would simply be a deferment of these tax*

*payments. The government could also consider bridging finance to help manage cash flow. Given the severe impact on hospitality at all levels, it is vital that this is not restricted to SMEs or limited by employee number otherwise we are likely to see collapse in larger companies, particularly high street and town centre. We also discussed govt putting pressure on insurers, institutional landlords and utility companies to extend payment terms. In addition, a business rate holiday for affected businesses - mirroring the measures put in place during foot and mouth would be helpful...we have today surveyed our members on business confidence and while this had recovered to pre referendum levels at the start of the year, it has now fallen to its lowest level for two years due to coronavirus and immigration proposals. On the former, 58% of members are extremely concerned, with 42% experiencing a decline in sales and 51% anticipating a hit on profits, already reduced by a third to 4% net margin. The summary is that this is has been an unexpectedly sudden shock and therefore immediate help effective from this week's Budget is urgently needed.'*

20. The above illustrates the economic asks from the sector immediately prior to the 11 March 2020 budget, pivoting away from those submitted for the Treasury's consideration earlier in the year firmly towards pandemic support measures based on facts known at the time (and the expectation that the Covid-19 outbreak would be short lived).
21. The 2020 Budget was presented to House of Commons on 11 March 2020. The Chancellor predicted in the Budget speech that the effects of Covid-19 would have "a significant impact on the UK economy. But it will be temporary". The Budget included some support measures for businesses that might experience disruption as a result of Covid-19. The context of these measures was that the non-coercive guidance being given at this time would lead to changes in behaviour that would be sufficient to slow the progression of the virus and that most businesses, including those in the hospitality industry, would continue to trade, albeit with some disruption. There were four main measures announced. First, the existing Business Rates Retail Discount ('the Retail Discount') for businesses in England with a rateable value less than £51,000 would be increased to 100% for the 2020 to 2021 tax year, and extended to leisure and hospitality businesses. The separate business rates discount for pubs with a rateable value below £100,000 was increased from £1,000 to £5,000. Secondly, the Chancellor announced a Small Business Grant Fund ('SBGF') of one-off £3,000 grants for the smallest businesses to be administered by local authorities who would be reimbursed by central government using section 31 Local

Government Act 2003 powers. Thirdly, businesses in all sectors with fewer than 250 employees became eligible for a refund from HMRC of two weeks' Statutory Sick Pay paid to employees incapable of work from 13 March 2020 due to isolating in accordance with advice on coronavirus. Fourthly, provision was made for a temporary Coronavirus Business Interruption Loan Scheme ('CBILS'). Loans of up to £1.2m would be covered by an 80% government guarantee and interest would be payable after 12 months. All such loans were discretionary and, if made, repayable.

22. Whilst these budget announcements were welcome in the sense that the government had recognised that some form of economic intervention and support for business was required in the face of mounting evidence that Covid-19 would be severely impactful for sectors such as hospitality, our view at the time was that this did not go far enough. To that end, following the March 11 budget we put forward – publicly and privately – the economic support measures that would prevent mass closures in our sector. These can be summarised as a 'furlough' scheme to ensure that businesses could retain staff during the periods of lockdown and reduced trade and further Business Rates Relief in the form of an immediate suspension or reduction in business rates. In particular, we called for the extension of 100% business rates relief to all hospitality businesses, including those that might not have qualified under the budget measures. This would be a crucial measure to help businesses with fixed costs during the period of restricted operations. Other representations made to government at the time include central government direct financial support in the form of grants, alongside the loan schemes then being introduced, a temporary reduction in VAT for hospitality services, a moratorium on rent payments to prevent eviction and reduce financial strain, and the implementation of more flexible loan schemes. These economic measures were raised with government departments by UKHospitality and a number of our individual members over the week between the budget of 11 March to the announcement of further economic support measures by the Chancellor on 17 March.

23. On 17 March 2020, the Chancellor gave an update to the House of Commons on "*the next stage of our economic response*". This followed an announcement on 16 March whereby the government began urging the public to avoid non-essential contact with others, to stop all unnecessary travel and to work from home wherever possible. The Prime Minister specifically advised the public to "*avoid pubs, clubs, theatres and other such social venues*" and also to "*take particularly seriously the advice about... avoiding confined spaces such as pubs and restaurants*". First, the Chancellor

announced that the CBILS would be extended to cover loans of up to £5m. Secondly, the Chancellor announced the launch of a Covid Corporate Financing Facility ('CCFF') to purchase short-term debt of investment-grade companies. Some larger companies within the sector accessed this facility, but most hospitality businesses were ineligible. Thirdly, in the same announcement, the Chancellor explained that the 100% Retail Discount was being extended to retail, hospitality and leisure businesses of any rateable value for 12 months. Fourthly, one-off grants to small businesses were increased to £10,000 from £3,000 and a cash grant of £25,000 was announced for retail, hospitality and leisure businesses with a rateable value of less than £51,000 (the Retail, Hospitality and Leisure Grant Fund or 'RHLGF').

24. On 21 March 2020, the Secretary of State for Health made the Health Protection (Coronavirus, Business Closure) (England) Regulations 2020. These in effect closed all hospitality premises for 'normal' purposes. The next measure taken was the Coronavirus Act 2020, which received Royal Assent on 25 March 2020. It set out a wide range of new measures to combat Covid-19, both through healthcare and further restrictions on society and business. It also provided for further financial assistance for businesses by HM Treasury such as further provision for reimbursement of sick pay paid out to certain businesses for up to a fortnight. The impact of this was assessed for section 149 Equality Act 2010 purposes, with the assessment document noting briefly that it would support the financial position of small and medium employers which might otherwise be constrained or compromised.
  
25. On 21 April 2020, UKHospitality wrote to the Minister responsible for the Cabinet Office summarising the sector's response to the series of economic interventions to that point. This is exhibited as KN/02 - INQ000597901. Overall, we were grateful for the unprecedented support the government has provided to protect hospitality businesses, their teams and their guests. In effect, survival for the majority of the sector (at that point) had been made possible by Government economic support measures. However, what became clear throughout the pandemic period was that the situation for business evolved – primarily around the government imposed restrictions – and therefore the economic support had to flex with it. Early indications were set out in this letter, but this remained true throughout the period in question and typified how UKHospitality interacted with government. In April 2020, we set out views on the longevity of the CJRS scheme, additional legislative under-pinning to support resolution on rent (extending the legal right to deferment and protection from

lease forfeiture for 9 months and to include all forms of debt enforcement), reforms to CBILs as these were challenging to access in the early part of the pandemic and many loans were granted on conditionality that they were not used to pay rent (which we believe should have been allowed) and State Aid rules precluded many businesses from accessing government loans, and a sustained cut in VAT for the hospitality sector. These additional requests were based on our members' feedback following the main tranche of economic interventions announced in March 2020 and we continued to make representations to government around improvements to the interventions over summer 2020 (recognising of course that these had enabled the majority of hospitality business to avoid closure in the initial shock of the pandemic and government closure interventions).

26. From the period May 2020 to the end of June 2022, UKHospitality's liaison with government on aspects of the economic interventions can be characterised by proposing amendments to the various schemes based on practical considerations as to how they operated 'in the field' and extensions of the various schemes based on the ability to trade to various levels of capacity influenced by full closure, partial closure, mandatory restrictions and customer behaviour. An example of this is exhibited as KN/03 - INQ000597977. With the framework of the main economic interventions effectively set by April 2020 (with some exceptions) UKHospitality continued to work across government to ensure decision makers had accurate information as to what was happening across the sector in terms of the economic impacts of interventions, likely economic changes arising from government decision making in the areas of restrictions and non-pharmaceutical interventions and fiscal events such as budgets. We now look at engagement and economic support subsequent to April 2020 based on the above related to the main areas of economic support.
27. Given the progressive reintroduction of coercive measures and introduction of new ones towards the latter part of 2020 (tier system, second national lockdown, re-imposition of tier system), it might have been anticipated that the support measures would be fully reviewed and a new package would be introduced. This did not occur. Few measures had been introduced since March to support the hospitality industry and, with one notable exception, the further support measures announced between July and September were modest.

28. First, the Value Added Tax (Reduced Rate) (Hospitality and Tourism) (Coronavirus) Order 2020 came into force on 15 July 2020 which brought about a temporary reduced VAT rate of 5% for some supplies in catering, holiday accommodation and attractions. This would have stimulated demand briefly. The VAT deferral arrangements ended on 30 June 2020, however.
29. Secondly, the 'Eat Out to Help Out' scheme ('EOTHO') used powers under Section 76 of the Coronavirus Act 2020 to provide a 50% discount to consumers on meals up to £10, with restaurant, cafés, and pub reimbursed for the discount by HMRC. EOTHO was operated on Mondays to Wednesdays in August i.e. for 13 days. Industry and government data show that the EOHOS was successful in boosting demand on Mondays, Tuesdays and Wednesdays in August. At the time, we described the scheme, along with the temporary VAT cut for hospitality, as a "*huge bonus*" given that consumer confidence is key to the sector's recovery.
30. However, the rise in trade from EOTHO, whilst welcome, was not sustained. One analysis by the Coffey Peach Business Tracker of data from around 50 restaurant and pub chains indicates that, by September, like-for-like monthly sales were 14.7 per cent down on 2019. The general tracking data for the week commencing 7 September 2020 indicates that the measure was down 24% on the previous year. By the week commencing 28 September this trend had fallen by 34% compared to the previous year. By the week of 19 October it had fallen by 44%.
31. Thirdly, on 9 September 2020, the Government announced a new Local Restrictions Support Grant ('LRSG') for businesses required to close due to localised restrictions. Those with properties of a rateable value of less than £51,000 were eligible for £1,000 per three weeks of closure, and those with a rateable value of £51,000 or more were eligible for £1,500 per three weeks. How these sums related to the impact of the new regulations was never explained.
32. Fourthly, the Winter Economy Plan of 24 September 2020 extended the reduced VAT rate and outlined a Job Support Scheme ('JSS') to replace the CJRS from 1 November 2020.
33. There was, however, a major, widely welcomed commitment given to help business recover in the future. A Government policy paper, 'A Plan for Jobs 2020', published on 8 July 2020 included a 'Job Retention Bonus' to provide £1,000 to employers for

each furloughed employee kept employed until 31 January 2021. It was described as “a new policy to reward and incentivise employers who successfully bring furloughed staff back”. Reinforcing this, on 7 July 2020, the Chancellor wrote to the First Permanent Secretary of HMRC in response to concerns he had voiced. The Chancellor’s letter stated: “there are clearly compelling reasons to justify the introduction of this scheme, which fall outside the confines of MPM [Managing Public Money]. Following the end of the Coronavirus Job Retention Scheme in October, the Job Retention Bonus will play a vital role in supporting employers to bring their furloughed staff back to work to protect jobs and help support economic recovery. Without such action, jobs will be at acute risk”. Regarding interaction with government around this scheme, UKHospitality attended the launch event with the Chancellor, and provided feedback from industry and asked for points of clarification around practical elements of the working of the scheme.

34. A Ministerial Direction was subsequently made on 1 October to take forward the scheme. The next day a Treasury Direction was made under Section 71 and 76 of the Coronavirus Act to set out the legal framework for the Job Retention Bonus and guidance was published on accessing the Job Retention Bonus and determining if employees meet the minimum income threshold.
35. Of all these measures, the Job Retention Bonus was by far the most significant. It had three principal merits. First, it was substantial, estimated at £9.4 billion of expenditure of which UKHospitality estimates £2.1 billion would have been claimed by the hospitality industry. Secondly, it was a proportionate scheme because the number of employees is often a good indicator of business size and turnover (and arguably a better one than ratable value). Thirdly, it was targeted at the time when other forms of support were intended to end and businesses would need money most to resuscitate their operations fully. Fourthly, it was a direct payment, rather than a stimulus or salary-covering measure, a loan or debt deferral.
36. UKHospitality therefore began to make plans for a fresh start in 2021 and commitments in the meantime based on receipt of the Job Retention Bonus payments. However, on 5 November 2020, the Chancellor made the following announcement in an ‘Economy Update’ to the House of Commons: “Of course, as the furlough itself is now being extended to the end of March, the original purpose of the job retention bonus to incentivise employers to keep people in work until the end of January obviously falls away. Instead, we will redeploy a retention incentive at the

*appropriate time.*” A Treasury Direction withdrawing the job retention bonus was made on 13 November 2020. In summary, the main, “vital” measure introduced to protect jobs in the long term especially those in the hospitality industry, which was worth an estimated £2.1 billion to that industry, for which there was a “compelling” case was withdrawn halfway through the second period of the most coercive restrictions. That step was taken without assessing the impact on the hospitality industry, its consequences, and the extent to which they would be mitigated by the support measures that had been announced and those already in place. This is again not to say the overall economic support from Government was unwelcome or developed in isolation from industry, in fact the opposite, but this acts as an illustration of decision making on economic interventions which at the time was seen as sudden and unevidenced at a critical juncture (increased trading restrictions).

37. Grants, loans and rent were also areas UKHospitality regularly returned to after April 2020 in our interaction with Government. On rents, this was a focus in the early stages of the pandemic. The issue of rent debt continued to hang over the sector from the first lockdown, where virtually no revenue was coming into businesses but rent liabilities continued to accrue. UKHospitality worked proactively with colleagues at BEIS and MHCLG to bring landlords and tenants together to collaboratively deal with this burden. UKHospitality made a number of proposals to those departments but a critical part in getting agreement was financial support from government. A proposal offered in November 2020 would have seen government offering tax reliefs for landlords who forgive debt and low-cost, long-term loans or bonds for those tenant organisations who need support in paying a portion of their rent. We strongly urged the Treasury team at the time to engage with other departments to broker solutions in this very important area.
38. On loans such as CBILs and BBLs, whilst we welcomed the introduction of such schemes, practical difficulties in implementation arose which we raised with the Treasury and BEIS. The major barrier to accessing funds many of our members faced was due to the way in which the government chose to apply the “undertaking in difficulty” test related to State Aid rules via very strict definition and interpretation which impacted the ability of high growth, successful hospitality businesses to access such loans.
39. Regarding grants, one of the key issues that lasted throughout the period in question was the difficulty in accessing funds by local authority area. On 5 January 2021, the

Chancellor announced additional support measures in the form of grants that were intended to mitigate some of the effects of the third national lockdown. The new support measures took the form of further grants to eligible businesses under a scheme called the Local Restrictions Support Grant. The grants were based on the rateable value of the property on the first full day of restrictions. Businesses with a property with a rateable value of £15,000 or less, may have been eligible for a cash grant of £1,334 for each 28-day qualifying restrictions period. Those with properties with a rateable value over £15,000 and less than £51,000, may have been eligible for a cash grant of £2,000 for each 28-day qualifying restrictions period. Businesses with properties with a rateable values of £51,000 or above, may have been eligible for a cash grant of £3,000 for each 28-day qualifying restrictions period. Up to three such grants could be made per business property.

40. There are a number of difficulties with these arrangements which are similar to those which arose with the earlier grant schemes. First, the sums each business was permitted to secure were small relative to losses and ongoing costs of remaining open. Even when other forms of support are considered those losses and cost are not covered. Further hospitality businesses were therefore likely to become insolvent during the third national lockdown, with livelihoods and jobs being lost. Secondly, the banding was still based on rateable values, which were out of date, took no account of the pandemic and were not a reliable indicator of turnover. Thirdly, the highest band embraced a huge range of businesses with different circumstances. A business that qualified for the highest level of grant (i.e. one based in a property with a rateable value of £51,000 or above) potentially got the cash grant of £3,000 for up to three months, but businesses with £200,000 rateable value properties such as hotels did not despite having very different support needs. Fourthly, there were many hospitality businesses that would do poorly from the grant scheme, despite having comparable needs to those who would do better. For instance, businesses would be disqualified if the amount of help they received up until 31 December (a period to which part of the grants relate) exceeded the state aid thresholds. There are also hybrid businesses, such as restaurants that would normally offer both takeaway and table service meals that did not qualify because an assessment was made that their dominant activity was providing takeaways. Last, local authority administered grant schemes continued to be affected by delays at a local level.
41. Business rates support throughout the period 2020-2022 was extremely important to our sector. The business rates holiday was welcome, eliminating significant fixed

costs. In June 2021, in a letter to the Treasury we indicated that a further year of business rates relief at that point was the most popular choice of continued economic support from government, with 65% of hospitality businesses choosing this in their top three measures in a UKHospitality member survey. During the course of 2021 and into 2022, suggestions were made to government on improvements to business rates support such as allowing local authorities to let business to pay their business rates bills quarterly in arrears (the majority of local authorities were seeking payments on a pre-pandemic schedule), a flexible cap on rates for larger businesses and reforms to empty property rate relief.

42. The reduced rate of VAT applied to hospitality and related services was welcome support from government, applying at a 5% rate from July 2020 to September 2021 and 12.5% between October 2021 and March 2022 – returning to the standard rate after this latter point. UKHospitality had called on government to reduce VAT as a result of pandemic impacts from March 2020. It should however be noted that for the periods the reduced rate of VAT was in effect, many hospitality businesses were closed or operating under severe trading restrictions therefore limiting the impact of the reduction.
43. As an overall summary of how far UKHospitality was consulted on, asked to advise and requested to monitor the numerous economic interventions by government – as illustrated above it can be characterised by an intense, short period of interaction at the beginning of the pandemic as such schemes were constructed at speed followed by providing information as to how such interventions were working in practice and recommending amendments based on rapidly changing trading conditions (also influenced heavily by government restrictions as well as the behaviour of the virus itself).
44. We have used the shorthand throughout of the ‘government’ to mean interactions with HM Treasury, BEIS, DCMS, MCHLG and others. This is because the usual means of consultation on economic issues (structured consultations etc.) were for the most part absent due to the necessity and speed at which important interventions had to be designed and implemented to ensure the survival of industry sectors of which hospitality was no doubt one. As such, requests for information from UKHospitality and our own proactive views and that of our members on the economic interventions were delivered to multiple government departments via officials at the same time, in addition to more formal letters to Ministers as the situation dictated.

This can be seen in the early stages of pandemic whereby business asks for economic support began with DCMS in the tourism sphere with the impact on visitors, then to Treasury, Cabinet Office and BEIS around the time of the March 2020 Budget, then into a dedicated hospitality team being set up within BEIS to 'tirage' the economic and non-economic intervention issues arising across government departments. As government and trad bodies settled into a rhythm as the pandemic progressed, requests relating to economic impacts from government officials and UKHospitality (and crucially vice versa) could in the vast majority of cases be directed to the right people within the relevant department very quickly. Semi-formalised structures such as regular meetings with BEIS hospitality team officials were set up and proved effective at a two-way sharing of issues and information on economic interventions. More formalised structures between government and industry such as the Hospitality Sector Council and Tourism Emergency Group provided further avenues of liaison with BEIS, DCMS, MCHLG and Treasury in addition to 'on the go' contact with individual officials and their teams throughout the period 2020 – 2022. Examples of interaction between UKHospitality and Government illustrating the above are exhibited as KN/04 - INQ000597891, KN/05 - INQ000597920 and KN/06 - INQ000597738.

### **Part C: the Economic Impact of the Pandemic on the Hospitality Industry**

45. The hospitality sector experienced the steepest economic declines of any industry during the pandemic. Overall, in 2020, the sector's economic output was 42% lower than in 2019, and in 2021, it remained 21% below 2019 levels. As a result, the industry's share of the UK economy dropped from 3% in 2019 to 2% in both 2020 and 2021 (ONS).
  
46. Periods of public health restrictions led to significant reductions in economic output. The most severe downturn occurred in April 2020, when food and accommodation sector output was 90% lower than pre-pandemic levels (February 2020). By July 2020, when dining resumed with customer number restrictions, sector output had rebounded to just 44% below February levels. The recovery continued in August 2020, boosted by the Government's Eat Out to Help Out Scheme, the easing of lockdown measures, and the summer holiday period. In August, output grew by 71% compared to July, driven by increased activity in food and beverage services. However, output was still 14% lower than in February 2020.

47. Following the August 2020 recovery, sector output declined again as restrictions were reintroduced, culminating in a full nationwide lockdown by December 2020. However, the winter 2020 lockdown had a less severe impact on hospitality, as many businesses had adapted to the restrictions, for instance by expanding online takeaway services. Output began to recover strongly in April 2021 as restrictions eased. During the summer of 2021, hospitality output surpassed pre-pandemic levels from August to November, fuelled by high customer numbers. In December 2021, output fell again due to the emergence of the Omicron variant, which led to a return to work-from-home guidance and increased customer caution. Despite this, the decline in output was less severe than previous waves. By December 2021, hospitality output was 6% below pre-pandemic levels, and by January 2022, it was 3% below. By February 2022, the sector's monthly output had surpassed pre-pandemic levels, reaching 4.9% above February 2020. Early data from March 2022 suggested that growth in the service sector was being driven by a recovery in hospitality and leisure industries as customer demand returned.
48. There were variations in how different hospitality sub-sectors recovered during the pandemic. While all sub-sectors experienced a sharp drop in turnover initially, the recovery trajectory differed. For instance, by the third quarter of 2021, turnover in camping grounds and short-stay accommodations had exceeded pre-pandemic levels by over 70%, whereas hotels remained 2% below pre-pandemic levels. This disparity is likely due to domestic tourism bouncing back, while hotels—particularly in city centres—suffered more from the ongoing decline in international visitors. International visitor numbers remained low throughout the pandemic and were still limited in Q3 2021, even though most domestic restrictions had been lifted, due to ongoing travel restrictions such as testing and quarantine requirements.
49. It is challenging to determine exactly how many hospitality businesses permanently closed or how many new ones opened during the pandemic, as there is no single measure of closures and openings across all business types. Between January 2020 and 2021, the total number of hospitality businesses in the UK dropped by 10%, compared to a 7% decline in businesses across all sectors. The decrease was mainly driven by the closure of businesses with no employees. However, when focusing on hospitality employers, there was a 3% increase in the number of businesses, meaning that more new hospitality employers opened in 2020 than closed.

50. Some sub-sectors performed better than others during this period. For instance, the number of takeaway food establishments grew between 2020 and 2021, while the number of bars and clubs declined. The trend of decreasing pubs and clubs continued, reflecting a broader decline over the past few years. UKHospitality reported that late-night venues, such as nightclubs, and businesses located in city centres, were among the hardest hit by the pandemic.
51. Referring to the publication 'statistics on new company insolvencies in England and Wales, and related statistics for Scotland and Northern Ireland 2020-2022' published by The Insolvency Service, the number of hospitality businesses going insolvent in 2020 was lower than in previous years, likely due to government support, including financial aid and temporary changes to insolvency laws that helped prevent viable businesses from closing. However, the number of insolvencies increased from January 2021 to January 2022. In the three months leading up to January 2022, 542 hospitality businesses went insolvent in England and Wales, nearly the same as in the pre-pandemic period.
52. Key support measures, such as the eviction moratorium for unpaid commercial rents and changes to insolvency laws, ended in March 2022. ONS data shows that the proportion of businesses operating gradually rose through July 2020 as establishments reopened after the first lockdown. By the summer of 2020, about 80% of hospitality businesses were trading, though this figure dropped in October and November as restrictions were reinstated. From late December 2020, the proportion of businesses actively trading fell below those that had paused operations. Between February 22 and March 7, 2021, 43% of UK hospitality businesses were trading, 55% had paused, and 2% had permanently closed. As restrictions eased, the number of businesses trading rose rapidly, and by the end of 2021 (December 13-26), 95% of businesses were operational, with only 4% paused.
53. The percentage of hospitality businesses that paused operations during the pandemic was higher than in most other sectors. Between February 22 and March 2, 2021, only the "other services" sector, including hairdressers and beauty salons, had a higher proportion of businesses that had paused. Across all industries, 74% of businesses were trading, and 24% had paused during this period.
54. Throughout the pandemic, hospitality businesses reported higher-than-average proportions of low profits, limited cash reserves, and diminished business confidence.

In mid-February 2021, 45% of hospitality businesses reported profits that were over 50% lower than usual for that time of year, compared to just 13% of businesses across all sectors. By late February 2021, 17% of hospitality businesses had cash reserves of less than one month or none at all, compared to 8% of businesses in other industries. Additionally, over a quarter of hospitality businesses (28%) expressed "low or no confidence" in their ability to survive the next three months.

55. By late February 2022, the situation regarding cash reserves showed improvement, with the proportion of hospitality businesses reporting less than one month or no cash reserves dropping to 13%, closer to the 15% average for all businesses. Business confidence also recovered, with only 8% of businesses expressing low or no confidence about their future survival.
56. Labour market data indicates a decline in the number of workers within the accommodation and food service sector. From January-March 2020 to October-December 2021, the workforce in the sector shrank by 3.6%, or 90,000 jobs, compared to a 1.3% decrease across all industries. While jobs in the sector began to recover during 2021 following a significant drop in 2020, by October-December 2020, the number of jobs in hospitality was still 13.6% lower than pre-pandemic levels.
57. As the economy reopened in 2021, the hospitality sector began facing staff shortages. Even before the pandemic, vacancy levels in the industry were already high compared to other sectors, and these levels reached record highs in mid-2021. In the three months leading up to February 2022, there were 166,000 job vacancies in the hospitality sector, accounting for 7.8% of all employee jobs. Labour shortages were particularly severe in London and regional tourism hubs, which experienced larger drops in customer demand during the pandemic.
58. Several factors contributed to these high vacancy levels, including many businesses simultaneously hiring workers as the economy reopened, workers not returning to furloughed jobs after finding other opportunities and a continued perception of hospitality as an unstable employer.
59. Other factors included workers who moved abroad during the pandemic and did not return, with travel restrictions and quarantine measures being a major barrier to the return of EU workers. The hospitality sector's higher-than-average proportion of foreign-born workers, especially EU-born workers, which saw a notable decrease

during the pandemic. According to the Office for National Statistics (ONS), 17% of hospitality businesses reported a reduction in the number of EU workers, compared to just 8% across all industries.

60. The hospitality sector also employs a larger share of younger and part-time workers, which may contribute to staff shortages due to changes in the labour market during the pandemic. In November 2021, the London School of Economics published an online article in its Business Review publication highlighting that part-time job opportunities in hospitality decreased more significantly than full-time jobs, dropping from 34% of the sector's workforce in 2019 to 31.3% in 2021. Furthermore, many young workers and students moved away from cities during the pandemic, leaving a mismatch between job vacancies and the workforce available to fill them. Additionally, disruptions to training courses during the pandemic have limited the influx of new trainees into the industry.
61. As a result of these labour shortages, hospitality businesses have been under pressure to raise wages and improve working conditions. Despite this, the sector continues to have lower median hourly pay compared to other industries. Industry bodies and trade unions have raised concerns over long working hours, especially for chefs. UKHospitality noted at the time that the pressure to increase wages was especially challenging for businesses already burdened with debt from the pandemic. It also pointed out that the pandemic served as a "reset moment" for the industry, providing an opportunity to reassess working conditions, training, and skills development.
62. In response to these challenges, the hospitality industry launched an industry-wide recruitment campaign, *Hospitality Rising*, aimed at addressing the recruitment crisis. This initiative was a fundraising effort within the sector to support an advertising campaign that seeks to improve the industry's image and make it more attractive to potential workers.

#### **Part D: Analysis and Reflections**

63. The Inquiry has requested UKHospitality's high level views on the strengths of weaknesses of the state's economic response to the pandemic. We will begin with overall views and comment on CJRS (furlough), Eat Out to Help Out (EOTO) and the reduction in VAT in particular as requested.

64. At a top level, the hospitality sector received unprecedented economic support from the government during the period beginning March 2020 and June 2022, which in our view undoubtedly for the most part enabled our sector to survive what was an existential threat. UKHospitality's initial asks for the key pillars of an economic and support package from the state closely mirrored what was subsequently announced on or around March 2020 which from this we can say shows that the government did indeed listen to our (and other) sectors when designing and making decisions on economic interventions.
65. Initial relationships evolving out of 'normal time' relationships with government and the fast-paced environment of March 2020 were continued and expanded upon as the pandemic progressed. This can be seen by the government's decision to design and implement economic interventions at speed at the start of the pandemic and the recognition of UKHospitality's calls for our sector to have increased focus due to major impacts on our sector. As stated in Part B, this included the establishment of a dedicated hospitality team within BEIS, regular 'status updates' on what was happening in the sector provided to Treasury and other officials, and more formal mechanisms such as the Hospitality Sector Council in September 2021, BEIS's Hospitality Strategy and DLUHC's High Streets Strategy in July 2021 and DCMS's Tourism Recovery Plan in June 2021. All of these made allowances for discussion around economic interventions between industry and government. This was in our view a strength of the government's overall engagement with our sector and design, implementation and monitoring of economic interventions.
66. In terms of improving engagement between the hospitality sector and government ahead of future pandemics and potentially other major crises, it is key that ways of working that were tried, tested and found to be successful during the Covid-19 period (such as a dedicated hospitality unit at what is now DBT) are retained. It is positive to see the hospitality unit and Hospitality Sector Council in particular in existence as at April 2025. The risk is that over time, institutional knowledge could be lost and therefore harder to 'step up' again in the future. This in our view is why the work of this Inquiry is important in this regard.
67. One overall criticism of the economic interventions is the lack of proportionality between economic support offered and impacts on business from government non-economic interventions (closures, restrictions and the like). We are fully aware of

the fact that Module 9 of this inquiry is not focusing on this area and hence why we have limited mention of these in this witness statement, but we do feel it is important that in future the economic impacts of restrictions must be more carefully weighed against the economic support offered to balance these out – and of course taking into account the public health and safety dimension. As we state above, at a very top level the economic interventions were successful but at defined points during the pandemic greater scrutiny could have been given to the economic impacts of varying levels of restriction in place and for certain sub-sectors of hospitality.

68. Another learning from the design and implementation of economic interventions was certain sectors in or closely related to the hospitality sector missing out or receiving differential levels of support – despite logically being ‘in scope’ of intended support. These included the wedding, nightclub, events, indoor leisure and other sectors. Even if subsequently through engagement with government via UKHospitality or other bodies some support measures were flexed to include these, in future definitions of what type of business qualifies for various aspects of support must be looked at to prevent unintended consequences. Where grant funding and other support was in the control of local authorities to release, delays and other issues were reported which caused problems for businesses on the ground. Future schemes must look at this to ensure interventions reach businesses even at the final stages of implementation.

69. In terms of learning from the CJRS, I described this at the time as a "crucial lifeline" that enabled businesses to survive the initial crisis, preserve jobs, and maintain operations during various closures periods and lockdowns – and this remains true at an overall level. However, as with other elements of economic intervention, the constantly evolving nature of challenges presented by changing trading restrictions highlighted the necessity for the scheme to evolve in line with the sector's unique challenges. The ending of CJRS was also crucial in that other economic support measures had to be retained and flexed in order to allow for its withdrawal and businesses to enter a post-covid world. The situation around the Jobs Retention Bonus caused concern for many hospitality businesses as outlined in Part B and in future can be used as an example of economic support measures being announced but not implemented. Learnings from the withdrawal of such economic interventions and the business landscape post-pandemic must also be taken into account when looking at interventions for the future (although we recognise that those specific challenges faced by the industry post June 2022 are outside of the scope of this

Inquiry. We would support this Inquiry recommending the government explore a scheme based on the successful elements of the CJRS, which could be employed in future pandemics – again, to ensure that learnings from the 2020 – 2022 period are not lost and would work effectively for businesses and most importantly their employees.

70. On the VAT reduction, a reduced rate for hospitality is something we have long called for the government to explore both pre- and post-pandemic. For the pandemic reductions themselves, we were pleased government listened and implemented these but feel it was withdrawn too quickly and as stated in Part B many businesses did not feel the full benefit due to not being able to operate at all or in a severely reduced capacity (another example of economic support mismatch with closure restrictions).

71. Regarding the EOTHO scheme, as stated in Part B this was a significant boost for the sector, although the impact was not sustained due to subsequent restrictions on trading being implemented soon afterwards.

72. We have made a number of recommendations through this part of the statement, with perhaps the most important ones being ensuring the close working relationship between the hospitality sector and government on developing economic support during times of national crisis is not lost over time, an effective job support scheme is similarly considered to deploy in future, and a more rigorous assessment of the negative economic impacts caused by restrictions on civil society and businesses even if made for the right reasons are linked appropriately and with evidence to any economic support such businesses receive.

### **Statement of Truth**

I believe that the facts stated in this witness statement are true.

**Signed:**

**Personal Data**