

## **Annex I: The Eat Out To Help Out Scheme and VAT Relief For Hospitality**

1. The Eat Out to Help Out ("**EOTHO**") Scheme was formulated in May and June 2020 by HM Treasury, in partnership with HM Revenue & Customs ("**HMRC**"). The scheme was introduced in the context of the safe reopening of the hospitality sector following the first Covid lockdown, on the basis that premises implemented 'Covid-Secure' measures, designed by the Government in conjunction with health and scientific experts. EOTHO was also developed and introduced alongside a Value Added Tax ("**VAT**") relief for hospitality.

### ***EOTHO Scheme Design***

#### *Initial design process*

2. Following the first 2020 lockdown, HM Treasury Ministers and officials were extremely concerned about the potential for widespread unemployment in the absence of a recovery in consumption, even where it was permitted by the Non-Pharmaceutical Interventions ("**NPIs**"). Consumption, being the use of goods and services of a household, accounts for a large proportion of the UK economy and the hospitality and leisure sectors. These sectors are very employment intensive, with employees tending to be younger, on lower incomes and zero-hour contracts and therefore extremely vulnerable to unemployment. Further, these sectors provide significant employment to those from protected gender and ethnicity backgrounds.
3. Hospitality and leisure businesses had been particularly impacted as their in-person settings were central to their operations. In contrast, other sectors which were not customer facing were more easily able to adapt and stay operational despite the restrictions (for example, staff could work from home). Even after the reopening of settings, necessary Covid-Secure measures had the effect of reducing the volumes of customers these settings could accommodate. Businesses in the hospitality sector are often low margin; therefore, reduced demand and reduced capacity threatened the viability of many businesses in the sector.
4. The EOTHO scheme was designed to be targeted and inexpensive relative to other interventions, but eye-catching, in order to reassure the public that hospitality venues, in the context of their Covid-Secure measures, were now safe to access following the

earlier mandatory closure of the sector, and hence to encourage behavioural change and increased consumption. The ultimate objectives of this, together with wider support for the hospitality sector, were to help support employment and preserve otherwise viable businesses at risk of failure.

5. As with other Covid economic support measures, decision-making on the EOTHO scheme was the responsibility of the Chancellor. The policy design of the scheme was largely worked up by HM Treasury officials, as directed by the Chancellor's objectives and steers. As the policy options were developed and narrowed into what ultimately became the EOTHO scheme, the Chancellor agreed that delivery of the scheme should be led by HMRC. HMRC officials therefore also played an important part in supporting the Chancellor through later advice on the scheme, both prior to and following its announcement. This annex therefore also includes reference to HMRC's role in the issues, events and topics covered, where relevant information is held by HM Treasury. However, a detailed account of delivery matters and the full role of HMRC is likely to be covered in more detail by HMRC in their statements.
6. Under the EOTHO scheme, individuals could get a 50% discount on food or non-alcoholic drinks to eat or drink in participating restaurants, up to a maximum of £10 per diner. The EOTHO scheme ran every Monday, Tuesday and Wednesday between 3 August and 31 August 2020 (13 days in total). Individuals could use the scheme as many times as they wished. There was no minimum spend requirement. The discount was automatically available at participating restaurants which had registered for the scheme. The establishments would then claim a reimbursement from HMRC for the discount provided to the individuals. Participating establishments could include restaurants, cafes, bars, pubs, work and school canteens or food halls, where food could be consumed on the premises. The EOTHO scheme did not extend to takeaway services; this was because they were less impacted by NPIs, the policy was aimed at supporting dining in restaurants and improving consumer confidence. The EOTHO scheme closed on 31 August 2020. As set out above, during the period EOTHO was in place, hospitality venues could open as long as they abided by Covid-Secure measures such as table service, providing clear guidance on social distancing and encouraging the use of hand sanitiser.
7. Whilst the EOTHO scheme was undoubtedly a high-profile and novel economic intervention, it was only one comparatively small part of a much broader package of

economic support measures, which benefited the hospitality sector during the summer of 2020. The EOTHO scheme was announced as part of the 'Plan for Jobs' by the Chancellor on 8 July 2020 — the overall package, and associated estimated costs, are set out in Table 1 below. The VAT rate reduction for hospitality, accommodation and attractions was also included in the Plan for Jobs. Over the course of the crisis the sector also benefitted from the following measures, amongst others:

- a) Business rates support for the retail, hospitality and leisure sector.
- b) Business grants, administered by local authorities.
- c) Access to economy-wide schemes, including the Coronavirus Job Retention Scheme ("CJRS"), the Covid loan schemes, substantial tax deferrals and protection from eviction for commercial rent arrears relating to Covid.

**Table 1: Plan for Jobs policy decisions**

	£ billion
	Total
<b>Job Retention Bonus</b>	
Job Retention Bonus <sup>1</sup>	Up to 9.4
<b>Supporting jobs</b>	
Kickstart Scheme <sup>2</sup>	2.1
Boosting worksearch, skills and apprenticeships <sup>3</sup>	1.6
<b>Protecting jobs</b>	
Reduced rate of VAT for hospitality, accommodation and attractions <sup>4</sup>	4.1
Eat Out to Help Out <sup>5</sup>	0.5
<b>Creating jobs</b>	
Infrastructure package <sup>6</sup>	5.6
Public sector and social housing decarbonisation	1.1
Green Homes Grant <sup>7</sup>	2.0
Stamp Duty Land Tax temporary cut <sup>8</sup>	3.8
<b>Total support announced<sup>9</sup></b>	<b>Up to 30</b>

<sup>1</sup> This presents the maximum possible cost if the bonus is paid to all 9.4 million furloughed jobs claimed for as at 5 July. The final cost will depend on the number of qualifying furloughed employees that are retained. Costs will likely be lower than the maximum presented in this table.

<sup>2</sup> Final costs and timing of spending subject to take up.

<sup>3</sup> Includes the indicative cost of 100,000 incentive payments for new apprenticeship hires. Final costs will depend on the number of new apprentices hired and may be lower.

<sup>4</sup> Based on eligible spending in the Spring Budget 2020 VAT forecast. The final cost will depend on consumption levels.

<sup>5</sup> Based on 2018 ONS Annual Business Survey turnover for the relevant sectors, then grown with the Spring Budget consumption forecast. The final cost will depend on take up and could be lower or higher.

<sup>6</sup> Infrastructure spending announced by the Prime Minister on 30 June.

<sup>7</sup> Final costs will depend on take up.

<sup>8</sup> Based on eligible payments from Spring Budget 2020 property forecast. The final cost will depend on property transactions and price levels.

<sup>9</sup> This presents the maximum level of fiscal support available. As explained above, the final costs will be dependent on take up of the schemes, how the economy recovers and the number of rehires of furloughed workers qualifying for the Job Retention Bonus. In aggregate the final costs are likely to be lower than the maximum set out here. A small proportion of the costs may occur after 2020-21, especially where spending is dependent on take up.

### *Data Gathering*

8. On 10 May 2020, the Prime Minister publicly set out a timetable for the easing of the NPIs imposed in England, thereby seeking to ease the restrictions imposed during what is now referred to as the first national lockdown. This included setting out a roadmap that would see certain businesses be able to reopen, albeit subject to certain restrictions including strict social distancing requirements. Under the roadmap announced, pubs and restaurants were to reopen on 4 July 2020.
9. It was in this context that the Chancellor asked HM Treasury officials to assess the impacts on household consumption, consider ways to support consumption (and hence employment reliant on this consumption) and therefore support the wider economic recovery following the easing of NPIs.
10. This analysis was reflected in a submission commissioned by the Chancellor dated 19 May 2020, which analysed the impact of the pandemic on household consumption and its importance in economic recovery and set out a number of policy options to help restore consumption [BR/I/01 - INQ000088055]. Significantly, by the time of the proposed reopening date of 4 July 2020, pubs and restaurants would have been unable to operate (in their usual way) for over three months. As the 19 May 2020 submission explained, *"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 [sic] economic growth"*. Because household consumption is the largest component of GDP and because sectors within the economy that rely on it are employment intensive, it is vitally important for both the performance of the economy and employment in the near and long-term. HM Treasury Ministers and officials were concerned that, if consumers did not return to hospitality, leisure and retail venues, many businesses might not survive; this was exacerbated by these sectors being particularly reliant on customer footfall and limited in how they could adapt. Should this happen, hundreds of thousands of people risked becoming unemployed; the hospitality workforce is generally young and on lower incomes and therefore these workers are particularly vulnerable to sudden unemployment. There would also have been impacts on creditors, contributing to further economic disruption.
11. It follows that, the longer household consumption remained depressed, the greater the economic and fiscal cost. A significant part of HM Treasury officials' work around May

2020 was therefore to consider how best, within the context of the safe lifting of NPIs, to stimulate consumption and therefore support the economy.

12. In order to help assess the impact of the pandemic on household consumption, and as set out in the 19 May 2020 submission, HM Treasury officials obtained card spending data from a number of sources, including Office for National Statistics card spending data, Barclays spending analytics and daily CHAPS Bank of England estimates. The data suggested that household spending had plateaued significantly below pre-Covid levels. The examples cited in the 19 May 2020 submission indicate a year on year drop in card spending of between 20% and 30%. By way of comparison, and to provide context, the highest recorded fall in consumption in a previous recession was 5.5% between the first quarter of 2008 and the second quarter of 2009. The overall pattern of spending having plateaued substantially below pre-Covid levels was consistent across the UK although there was variation in the scale of the spending decline across the country; card spending was noticeably down in London relative to the rest of the United Kingdom. There was also evidence that seaside and university towns had seen greater falls in spending.

#### *Factors Considered*

13. The impact of Covid on different types of consumer spending was markedly different. The largest falls in activity were seen in respect of (i) restaurants and fast foods, and (ii) travel, with spending down 71% and 88% respectively.
14. HM Treasury officials also examined international experience, following NPIs being eased in other countries. Generally, and as at 19 May 2020, a rapid return in activity and consumption was not being seen in other countries where lockdowns had been eased, although it was gradually increasing. Differences across countries, where first phase easing of measures varied, made drawing robust conclusions difficult. But, for example, in Germany, in the first week of eased restrictions inner-city sales were 67% lower than normal, compared to 83% lower during the 'hard lockdown'. In Spain, according to the Spanish Confederation of Commerce, over 80% of small businesses had chosen not to reopen as they expected low sales, although it was estimated that around 40% of retail had opened by the end of the first week. In China, retail sales recovered more slowly than industrial production following the lifting of NPIs and, in the USA, states which had

eased restrictions (e.g. Alaska, Georgia, Oklahoma, South Carolina) had seen spending plateau well below pre-virus levels following the easing of restrictions on activity. HM Treasury officials also considered that confidence that the virus was under control may have played a role in people's behaviour: in New Zealand, for example, where case and death numbers had been very low, there had been more reports of a surge in activity, around fast-food restaurants and hair salons, as lockdowns had been eased. International experience therefore indicated that the lifting of NPIs was unlikely of itself, at that stage, to see household consumption return to near pre-Covid levels.

15. HM Treasury officials considered that the main factors that had affected consumption were (i) government action, including the imposition of NPIs, which had closed many sectors of the UK economy and made it impossible, and indeed illegal, for people to consume goods and services in the usual way, and (ii) the strong public health message which the Government had sent which had dissuaded people from non-essential activity generally and meant that individuals could be reluctant to consume certain goods/services if they were concerned about the potential impact on their health.
16. In the context of HM Treasury's role in working to mitigate the risks to strong and sustainable economic growth - and based on analysis of the factors set out above assessed as affecting the level and growth of consumption - the Chancellor asked HM Treasury officials to consider options for a policy response. These were set out in the 19 May 2020 submission.
17. First, HM Treasury officials considered the safe lifting of NPIs to be the initial and most vital first step for supporting consumption. That was a prerequisite for consumption recovering.
18. HM Treasury officials considered that measures also needed to be taken, simultaneously with the safe lifting of NPIs, to ensure that individuals felt that it was safe to consume goods and services. It was considered that this could be achieved through careful and positive communications, targeted advertising, clear government enforcement of measures such as social distancing and credible and effective health policy.
19. They expected that the effective delivery of this first step (the safe lifting of NPIs and the simultaneous measures to ensure that individuals felt that it was safe to consume goods

and services) would restore a significant proportion of the reduced consumption, because it would unlock the 'hard barriers' that had constrained consumers and because it was anticipated that many households would have increased savings as a result of the lockdown. HM Treasury officials assessed that this was likely to be causing a measure of pent-up demand expected to emerge once NPI constraints were lifted. That analysis was consistent with previous recessions where consumption had tended to return quickly after the initial shock.

20. Secondly, it was in this context, namely the safe lifting of NPIs and encouraging the safe consumption of goods and services (in order to support employment and preservation of viable businesses), that HM Treasury officials considered that there might be a case for temporary policies to support consumption, either to support certain sectors or to provide a targeted incentive to consumers who might not otherwise do so to leave home and consume certain goods and services. In order for such policies to be effective, these policies needed to be credibly temporary (i.e., for a limited period only), so consumers were actively incentivised to bring forward their consumption rather than delay their spending. Also, it was considered that such policy options could send a strong positive signal that such consumption was safe.
  
21. Conversely, HM Treasury officials considered that measures targeted at the economy as a whole should not be deployed at that stage, so further support for the whole economy (such as, for example, a cut in the main rate of VAT) could be held back and potentially deployed if consumption failed to 'bounce back' after the complete lifting of NPIs. Similarly, support for consumption in general was considered to be poorly targeted and potentially ineffective. There was also a concern that whilst the immediate outlook was for lower inflation, there was a risk that additional measures to boost consumption could lead to overheating the economy in recovery and higher inflation. Similarly, additional income support was considered unlikely to be an effective way of boosting consumption. The job retention and income support schemes already in place (e.g. CJRS and the Self Employed Income Support Scheme ("**SEISS**") were already providing significant and unprecedented support. Further broad-based income support (such as the stimulus cheques used in the USA) would be unlikely to be effective at supporting consumption, as the money would be more likely saved or used to pay down debts. That was especially the case if NPI measures remained in place or uncertainty / low confidence remained amongst consumers.

*Policy options in the 19 May 2020 Submission*

22. As a result, and as set out in detail in the 19 May 2020 submission [**BR//01 - INQ000088055**], HM Treasury officials recommended that the Chancellor take steps to support consumption in the short term by safely lifting the NPIs and taking steps to support consumer confidence through messaging to the public. This was supported by the Government's strategy on health, which would also be key to the return to consumer confidence. HM Treasury officials also recommended that the Chancellor should consider pursuing regulatory stimulus (examples being continuing the measure already in place to allow all restaurants to offer takeaway services with no change of use requirement, supporting planning changes to enable restaurants to use outside space or further liberalisation of retail opening hours), and developing temporary, targeted price incentives to support consumption in the sectors where there was greatest need.
  
23. Because consumption, unlike investment, tends to recover quickly after crises, HM Treasury advised the Chancellor to focus on short-term interventions which would bring forward consumption at that point in time and unwind quickly as the economy recovered. HM Treasury also noted that many of the levers that might have the biggest behavioural response, such as mass voucher schemes, would be novel and untested and it would take time for HM Treasury to develop and deliver the best options. HM Treasury also considered that health interventions, including the readiness of Test and Trace (the strategy for which was being formulated at that time), would be essential to supporting consumer confidence and may have substantial benefits for consumption if delivered effectively.
  
24. HM Treasury's role in decision making is to set direction on economic policy and work to achieve stronger and sustainable economic growth. It is ultimately the role of the Prime Minister to balance the range of objectives across the whole of the government to reach collective decisions. In that context, the work that HM Treasury carried out, at that time, to analyse, devise and formulate economic policy to support and stimulate the economy was predicated on the basis that such policy could only be designed and implemented in a way that was consistent with the decisions taken around the safe easing or lifting of NPIs and therefore consistent with decisions taken collectively across government regarding how best to respond to the pandemic and when and how safely to ease NPIs.

25. It was within those parameters that HM Treasury sought to formulate economic policy to support and assist the recovery of the economy, and, regarding what ultimately became the EOTHO scheme, to support and stimulate household consumption (in the context of supporting employment and preservation of viable businesses). In short, the EOTHO scheme was designed to operate consistently with the broader decisions taken by HM Government regarding how to respond to the pandemic (discussed in the accompanying overarching statement on Module 2). The EOTHO scheme was also designed to operate consistently within the UK's public health rules, which were informed and guided by expert medical advice. As a result, HM Treasury did not seek or receive scientific advice or data relating to the virus in relation to the EOTHO scheme. Nor did HM Treasury consult SAGE or seek its advice on the EOTHO scheme prior to its implementation. To have done so would have been unusual, as SAGE's remit during the crisis did not include advising on economic support measures.
26. Overall, HM Treasury officials considered there to be a strong case for considering targeted price incentives, especially to support sectors which had been hardest hit. HM Treasury officials carefully considered international examples of similar voucher schemes (see in particular Annex B to the 19 May 2020 submission) including, in France and Austria, where vouchers schemes had been set up to support consumption in bars and restaurants. As explained above, generalised stimulus, directed at the economy as a whole, was considered to be the wrong solution to the consumption problem at that stage, and recommended that whole economy levers should be kept in reserve and only deployed if there was ongoing evidence of a consumption problem once NPIs were fully lifted. Vouchers were considered to be advantageous (as opposed to general stimulus) as items eligible to be purchased using a voucher could be prescribed, a time limit could be imposed, and vouchers were not able to be used by consumers to pay down borrowings or add to savings. Accordingly, the recommendation to the Chancellor was that HM Treasury officials develop temporary support options focused on targeted ways to reduce prices for consumers, including a possible voucher scheme, as well as to provide regulatory support, and in due course provide the Chancellor with a more developed proposal along those lines and reflecting any steers from him.

27. On 1 June 2020, HM Treasury officials provided a further submission to the Chancellor [BR//02 - INQ000088058]. The purpose of the 1 June 2020 submission was to set out detailed information to enable the Chancellor to consider the relative merits of either a targeted VAT cut, aimed at particular sectors, or a bespoke voucher scheme to support consumer demand and therefore support economic recovery. HM Treasury officials' advice to the Chancellor in the 1 June 2020 submission can be summarised as follows:
- a) Steps to stimulate consumption should only be deployed once the stringent NPIs then in place had been safely lifted. Whilst the timetable remained uncertain, at that stage the earliest dates when relevant sectors would be allowed to reopen were 22 June 2020 for outdoor restaurants, bars, cafes and pubs and 4 July 2020 for all other hospitality/leisure. It was also acknowledged by HM Treasury that sectors could be forced to close again if a second wave of infections appeared likely and that there could be geographical variations if lockdowns were reinstated on a localised basis once the Joint Biosecurity Centre ("JBC") was operational. Whichever course was chosen, the interaction with the NPIs would be crucial; no consumption stimulus could be effective until relevant sectors were allowed to reopen.
  - b) There was a case for targeted and temporary measures to support the hardest hit sectors by generating additional spending that would not otherwise happen and to bring forward that spending to support the recovery. A time-limited intervention with a clear expiry date would be most effective to bring forward consumption.
  - c) In this context, the policy could also send a strong positive signal to consumers that consumption is safe.
  - d) The economic evidence pointed towards pursuing a voucher scheme as the best option to generate additional consumer spending in the relevant sectors as it would provide greater tangible benefit to the consumer when compared with a VAT cut and thus produce a more pronounced behavioural response. It was also intended to generate a clear signal to the public and would carry less deadweight loss (subsidising of expenditure that would have taken place in the absence of the intervention) and likely a lower fiscal cost than a VAT cut.
  - e) However, HM Treasury considered the delivery risks attached to a voucher scheme to be substantial and potentially insurmountable, if focused on a summer 2020 timetable.

- f) The voucher scheme (or VAT cut) should be targeted at the worst affected sectors. The strongest case would be to target a scheme at food and beverage services (cafes, bars, pubs and restaurants), for the following reasons:
- i. The sector is a major employer, supporting 2 million jobs (5.5% of UK employment), disproportionately occupied by young, female, part-time workers, in the bottom half of incomes.
  - ii. Linked to the previous point, this was a sector that was making heavy use of the CJRS. Therefore, whilst intervention to support the successful reopening of the hospitality sector would carry costs, these held out the possibility of offsetting savings by helping to reduce use of the CJRS.
  - iii. This is a sector where consumption had been reduced most significantly. Spending on restaurants and fast food was down 58% compared to the same week in 2019, albeit an improvement on the minus 77% at the start of April. Ultimately, as the first lockdown continued, spending increased on takeaway and home-delivered food.
  - iv. The sectoral eligibility would be easy to explain via a public communications campaign.
- g) Takeaways could be included in the scheme, which would increase the degree of support provided to the sector and also help mitigate likely criticism of the scheme from individuals/groups who would not otherwise be able to benefit from the voucher, particularly the shielding population. However, as below the advice noted that broadening the scope of the scheme would make it more challenging to define and police clear boundaries.
- h) The strength of the case for targeting restaurants and bars would be subject to an ongoing judgement regarding the extent to which they have excess capacity, which in turn would depend on the latest requirements to be Covid-Secure, which remained uncertain.
- i) In general, the broader the business population targeted, the more challenging it would be to define clear and policeable boundaries. HM Treasury officials had considered whether domestic tourism accommodation could be included in a scheme, as part of a campaign to promote 'staycations'. However, the voucher value would have needed to be much higher to generate additional trips than it would, for example, to generate additional meals out, so officials advised that vouchers for domestic tourism (unless very generous) were likely to generate a higher deadweight loss.

28. In addition to a voucher scheme, the 1 June 2020 submission analysed a proposed targeted reduction in the VAT rate, to quickly stimulate consumption in the retail, hospitality and leisure sectors. As a potential demand side stimulus, it aimed to reduce prices and encourage people to consume goods and services, every day of the week. In a lower demand environment, the reduction was also expected to bolster business profit margins. This was able to occur as a business could increase its prices, equivalent to the amount saved by the VAT reduction. The business would receive an increase in profit, which otherwise would have been payable as VAT. This measure was first considered by HM Treasury, in partnership with HMRC, in early April 2020 [BR/1/03 – INQ000609086]. The impact of social distancing forced closures and travel bans had caused significant hardship for the sector's businesses. A VAT reduction was highlighted as able to be quickly implemented as well as a targeted and temporary measure. The potential scope, timing and impact of a targeted VAT cut was considered drawing on international comparators where certain tourism and hospitality-related services were subject to a reduced tax rate. Annex A to the 1 June 2020 submission sets out examples of other countries which had amended their VAT rules or taken other measures to support these industries.
29. In relation to the potential voucher scheme then also under consideration, the 1 June 2020 submission set out some possible options around individual eligibility (such as whether to restrict eligibility to lower income individuals or households) and how the scheme might be delivered, albeit on a preliminary basis and high level.
30. Some initial cost estimates of a voucher scheme were also provided in the 1 June 2020 submission. The cost assumptions ranged from £263 million (on the basis of a £20 voucher taken up by 25% of UK individuals aged over 18) to £1,053 million (on the basis of a £50 voucher taken up by 40% of UK individuals aged over 18). HM Treasury had also had regard to general analysis by the Office for Budget Responsibility ("OBR"), examining take-up of different government schemes, but it was recognised that more refined costings would need to be worked up as the possible scheme design became clearer.
31. At that stage, 1 June 2020, HM Treasury sought from the Chancellor any initial design steers for a voucher scheme, recognising that HM Treasury still needed to fully explore what could be delivered rapidly. An indicative model scheme was annexed to the 1 June 2020 submission together with a summary of how such a model would compare to

existing gift card or pre-paid debit card schemes. In order to explore technological solutions, HM Treasury wished to discuss theoretical fin-tech solutions with private sector companies. HM Treasury therefore noted that if the Chancellor wanted officials to continue to develop the scheme, they would ask to engage more fully with the Cabinet Office and Crown Commercial Service to explore the best way to procure or deliver a scheme through a third-party. At that time a number of different options were being explored which would have required working with a third-party supplier, including:

- a) Vouchers that could be distributed to individuals through different digital routes, e.g. in the form of a QR Code for mobile phones.
  - b) Pre-paid debit cards that could be distributed through digital wallets or distributed in physical card form.
  - c) Vouchers or financial rewards that could be loaded onto individuals' existing debit cards e.g. in the same way that some card providers have cash-back incentive schemes.
32. HM Treasury also suggested approaching HMRC to discuss their capacity to contribute to delivery, noting that they were already stretched across different priorities.
33. On 3 June 2020, HM Treasury officials met with the Chancellor to discuss and progress the 1 June 2020 advice [**BR//04 – INQ000609110**]. The Chancellor confirmed instructions to continue to work on both vouchers and a VAT reduction at pace, so that both could be ready for inclusion within the July economy update [**BR//05 – INQ000609113**]. At a later date, the Chancellor would determine whether to implement either option, weighing up delivery and the size of the fiscal intervention

#### *11 June 2020 Submission*

34. Following this advice and meeting, HM Treasury moved to focus its analysis on how such a voucher scheme might work. In a submission to the Chancellor dated 11 June 2020, HM Treasury set out its initial assessment, having built an understanding of the models and technologies used as part of other government voucher schemes (e.g. free school meals) as well as voucher schemes used in the private sector, that such a voucher scheme could be delivered for August 2020, albeit with rough edges and significant delivery risks, due to the extremely compressed timeframe [**BR//06 -**

**INQ000088061**]. In particular, there was a concern that HM Treasury would not have time to properly test developed systems, meaning that there would likely be issues with user experience. Also, it was considered inevitable that some businesses would be wrongly excluded or argue that their exclusion was unprincipled or arbitrary and that there would be issues with certain individuals accessing or redeeming their vouchers. It was emphasised that there would also be significant risks of fraud that HM Treasury could only partly protect against.

35. On the morning of 15 June 2020, it was indicated by the Chancellor's assistant private secretary that the Chancellor had noted the advice in the 1 June 2020 submission and wished HM Treasury officials to further explore the idea of the pre-paid Mastercard / Visa system and to provide a further update later that week. The Chancellor agreed with HM Treasury officials that delivery of any such scheme sat most aptly with HMRC but wanted to understand the impact on HMRC's other delivery priorities before making a final decision [**BR//07 - INQ000088063**].
  
36. Later on 15 June 2020, the Chancellor's assistant private secretary emailed [**BR//08 - INQ000088064**] HM Treasury officials to report that he had discussed vouchers further with the Chancellor, and in particular encouraged exploration "*at pace a more universal system, whereby all restaurants / eligible sectors automatically get say a 10% (or whatever the right number is) reimbursement from HMG for consumers on their dining bills, which those businesses can claim back via existing systems (CJRS or other etc). in essence, meaning all consumers need to do is turn up and eat at a restaurant, with 10% already automatically off their bill, and the restaurant reclaims that from HMG. Obviously will need to work the eligibility aspect — but if that's simpler to deliver than a twin-armed approach, we should prioritise that... We have some time Wednesday to discuss with the Chancellor, where we should go through a) your conversations with private sector providers and where you've got to with those b) whether this more universal model is a feasible alternative.*"

#### *16 June 2020 Submission*

37. On 16 June 2020, HM Treasury officials submitted further advice to the Chancellor, setting out a review of conversations with third party card providers [**BR//09 - INQ000088065**]. It was clear from those discussions however that the implementation

of any card-based scheme involving the provision of benefits or rewards tied to individuals was going to be very challenging in the time available.

38. As a result, the 16 June 2020 submission concluded with an invitation to consider other approaches for stimulating consumption within the hospitality sector. These included a reduced rate of VAT for the tourism and holiday sectors as well as "*measures that would entitle businesses to claim reimbursement for consumer expenditure in a qualifying period — e.g. a percentage claim back or an absolute reduction per meal or head, perhaps with a cap*". It was noted that such an approach could be made more flexible than VAT and could be made of benefit to businesses that fell below the VAT registration threshold. However, it was also noted that it would require a manual reclaim process and would mean businesses having to accept a cash-flow impact. HM Treasury assessed that options not tied to individuals would be less novel and simpler to deliver but that that would need to be traded off against their higher fiscal cost, the greater likelihood of deadweight and the risk of measures becoming permanent.
39. Work continued on the vouchers issue at pace. Following a meeting with the Chancellor on 17 June 2020, HM Treasury officials were tasked to do further detailed work, ahead of a further meeting on 19 June 2020, regarding the delivery of a) a scheme involving the distribution of pre-paid debit cards, or alternatively the provision of a cash-back reward to individuals that use a registered debit card to spend within participating restaurants; and b) an alternative proposal whereby a letter/voucher would be sent to all households which would entitle the recipient to a cash benefit at eligible restaurants who would then reclaim the benefit. Also, a potential VAT cut for the hospitality sector remained on the agenda [**BR/I/10 - INQ000088066**].
40. HM Treasury officials set out analysis of these options, including the risks attaching to them, in a submission dated 18 June 2020 [**BR/I/11 - INQ000088068**]. Following the meeting on 19 June 2020, HM Treasury officials produced a further submission dated 22 June 2020, ahead of a voucher meeting on 23 June 2020 [**BR/I/12 - INQ000088069**]. The 22 June 2020 submission considered two options to encourage people to return to restaurants, namely a) the distribution of pre-paid debit cards and b) the announcement of a fiscal incentive for eligible expenditure in restaurants in the UK for a time limited period accompanied by a targeted communications campaign.

41. The first option, namely the distribution of pre-paid debit cards, presented substantial challenges and risks. For example, registering every adult in the UK would have presented very significant challenges in the time available. Even if that could be achieved, there would have been significant risks associated with tens of millions of cards being distributed through the post as part of a highly publicised and marketed scheme, such as theft, fraud and loss. That was a risk that also attached to sending out vouchers by post. A substantial customer support function would also have been required, which did not exist. The compressed timetable of the scheme increased the significance of these challenges.
42. The second option, as noted in the 22 June 2020 submission to the Chancellor, "*would be subject to your specification, but could be a percentage off or a reduction of £X, when you spend above £Y. The policy could also be finessed in a number of ways to sharpen its impact, including so that it would only be active Monday — Thursday when demand is lower. It may also be possible that the incentive may only be available against specific comestibles eg food and soft drinks, but this would be challenging to enforce.*" It was assessed that this scheme would have fewer delivery risks than the pre-paid debit card option and could be delivered to a summer timetable. In terms of risks associated with this option, HM Treasury officials assessed that it was likely to have less impact on behaviour than a pre-paid scheme, although it could be augmented by a targeted letter campaign, and it was assessed that an ongoing incentive over the course of a month could be expected to have a greater behavioural impact than a one-off incentive. Other risks identified at this stage were around identifying eligible businesses, risks with fraud and compliance, such as preventing and detecting inflated claims, and ensuring that the reimbursement process was particularly smooth so as to avoid the risk that restaurants that did not expect a demand problem chose not to register for the scheme.
43. Following the meeting on 23 June 2020, the Chancellor agreed to drop further work on the two debit card ideas (a pre-paid debit card or a rebate) [BR/I/13 - INQ000088070]. The policy focus remained on restaurants and responding to the risk that the public had got out of the habit of eating out over the previous few months. The Chancellor requested that full policy focus be directed to developing the option of an HMRC letter to households which could be used as a voucher in eligible businesses. As recorded in the summary of the 23 June 2020 meeting, the Chancellor remained minded towards excluding alcohol, a capped meal size to avoid subsidising very expensive meals and a system which was only available Monday to Wednesday/Thursday, when demand is

lower. The Chancellor had noted the fraud risk but asked HM Treasury to do further work on how best it could be mitigated.

*Analysis of the impact of the scheme*

44. At this time, HM Treasury officials were analysing the various impacts of the voucher schemes under consideration. On 25 June 2020, HM Treasury officials circulated a document [BR//14 - INQ000088071] analysing the potential benefit of a £1 billion voucher scheme to households in different income brackets, depending on whether the benefits of the scheme were distributed across the household income distribution in line with expenditure on restaurant and cafe meals or equally. The latter was considered to be more progressive.
45. There continued to be frequent dialogue between HM Treasury officials and the Chancellor in this period in relation to this proposed policy. A further meeting [BR//15 - INQ000088072] with the Chancellor took place on 25 June 2020 (following the production by HM Treasury of a further submission dated 24 June 2020) at which, amongst other things, eligibility criteria were discussed [BR//16 - INQ000088073]. At that stage, the Chancellor was minded not to include takeaways in the voucher scheme, but HM Treasury officials agreed to come back with full and final advice on eligibility including more analysis to inform the decision as to whether or not to include takeaways.
46. As HM Treasury officials sought to refine the proposal, further work was carried out to understand the sector better, including through detailed analysis [BR//17 - INQ000088074] of the average household spend on eating out and speaking to Henry Dimbleby, a hospitality sector expert with connections to other parts of the sector [BR//18 - INQ000088075].
47. By the end of June 2020, the final version of the scheme was starting to take shape. A further meeting took place, at short notice, between the Chancellor and HM Treasury officials on 29 June 2020 [BR//19 - INQ000088076]. The readout from the meeting on 29 June 2020 records the Chancellor's decisions on a number of issues, which were ultimately reflected in the final design of the EOTHO scheme, including:
  - a) The design approach of a discount per head.

- b) The maximum cap per head of £10. In relation to the % discount, the Chancellor wanted further advice from the behavioural insights team as to whether 1/3 off or 40% off would drive greater consumer response.
  - c) No minimum cost cap.
  - d) The scheme was to operate Monday to Wednesday.
  - e) Alcohol would not be included in the scheme.
48. HM Treasury officials continued to brief the Chancellor on the impact of the Covid crisis on various sectors of the economy, including the hospitality sector. A briefing on the hospitality sector to the Chancellor dated 30 June 2020 explained that, by that time, pubs and restaurants had been closed since 22 March 2020 and had been some of the businesses hardest hit by Covid [BR/1/20 - INQ000088077]. Before the pandemic, pubs and restaurants had together contributed approximately £40 billion in Gross Value Added and employed over 2 million people. However, 83% of workers had been furloughed and 75% of businesses were not trading. Pubs and restaurants were due to reopen on 4 July 2020, but it was clear they would be impacted by both constrained supply and suppressed demand in the near to medium term.
49. This analysis considered how to help increase both supply and demand. The most recent polling data available to HM Treasury, from 17 June 2020, suggested that if restrictions were lifted that day, 34% of respondents would be willing to visit a pub, bar or restaurant whereas 52% wouldn't (versus 31% and 55% on 27 May 2020). It was also noted that firms in the sector typically operate on very slim margins and low cash reserves, and many would not be profitable with social distancing in place. Re-opening at 1 metre social distancing would constrain capacity, even if there was sufficient demand. UK Hospitality reported that, on average, capacity across the sector would be capped at 60%. It was estimated that, if trading at 60%, costs would outweigh sales for many businesses and redundancies and insolvencies would begin to crystallise. This supported the importance to the sector of making best use of available capacity by stimulating demand. HM Treasury officials' analysis concluded that vouchers would have behavioural impacts and indicated the scheme should be limited to Monday to Thursday to help smooth demand across the week, limiting excess demand at the weekend and reducing spare capacity Monday to Thursday.

50. In a submission dated 30 June 2020, the policy design for what was by then being referred to as a 'restaurant discount scheme' (rather than a voucher scheme) was becoming increasingly developed [BR/I/21 - INQ000088079]. HMRC was named in the submission as the department that would deliver the scheme. The policy objective of the scheme, namely, to intervene to boost consumption in the hospitality sector (and thus to protect employment and preservation of viable businesses), remained constant however and is encapsulated in paragraph 1 of the 30 June 2020 submission: "*Consumption is the largest component of GDP and vital to the performance of the macroeconomy. The longer consumption is depressed, the greater the economic and fiscal cost of the COVID-19 crisis, including via business and labour market scarring channels. Consumption in the hospitality sector has dropped significantly during lockdown, in line with NPI restrictions and connected to health uncertainty and low confidence. Internationally, where lockdowns have been eased, we have not seen a rapid return in activity and consumption, though it is gradually increasing.*" In paragraph 2 of that submission to the Chancellor, HM Treasury officials recorded that, "*You have asked us to consider how to support the economic recovery by stimulating consumption in the hospitality sector, with focus on businesses that sell food for immediate consumption on the premises, including restaurants, cafes, pubs and bars. You have also asked us to consider how we can incentivise consumers to break their lockdown habits and consume sit-down meals, altering social behaviours that risk becoming entrenched. You have decided that you wish to provide that incentive through a discount on sit down meals.*"
51. The purpose of the 30 June 2020 submission was to secure final decisions from the Chancellor on a number of features of the policy design including whether he still wished to exclude alcohol from the scheme, the scale of the discount to be offered (at that point the options were either 1/3 or 40%), that he agreed to roll out the policy UK-wide, and also setting out a detailed equalities impact assessment of the scheme.

### ***Implementation and delivery***

#### *The final plan*

52. The Chancellor's responses to the 30 June 2020 submission were sent to HM Treasury officials on 2 July 2020 [BR/I/22 - INQ000088081]. The Chancellor essentially agreed with the advice but wished to give further consideration to a small number of issues, including the 1/3 or 40% discount issue.

53. By early July 2020, the Chancellor had taken detailed decisions on the shape of the scheme, which was by then being referred to as the 'Eat Out to Help Out' scheme following discussions with Special Advisers (a name approved by the Chancellor on 3 July 2020) [BR//23 - INQ000088083]. Also, the Chancellor was unequivocal that the scheme must be up and running so that claims submitted by businesses on Friday 7 August 2020 would be paid within five working days (i.e. by Friday 14 August 2020). The Chancellor also decided that letters would not be sent to each household, and alternative communications strategies would need to be worked on. More generally, it had by then been decided by the Chancellor, having regard to advice submitted by HM Treasury officials, that the shape of the scheme would be as follows:
- a) The scheme would run from 3 August to 31 August 2020.
  - b) HM Government would provide a percentage reduction on all food and non-alcoholic beverages consumed on an eligible bill in an eligible business. Any other consumables, such as tobacco products, were not eligible for this reduction.
  - c) Eligible businesses were at that stage defined as any establishment that sells food for immediate consumption on the premises. Takeaway meals were not eligible.
  - d) Any adult or child eating in an eligible business would be eligible for the discount. There were no limits on the times it could be used.
  - e) Eligible spend was restricted to food and non-alcoholic drinks bought on Monday to Wednesday.
54. On the basis of the decisions taken to date, HM Treasury officials continued to analyse the potential value of the scheme based on the decisions taken [BR//24 - INQ000088082] [BR//25 - INQ000088087]. A value for money assessment was set out for the benefit of the Chancellor in a submission dated 3 July 2020, which also concluded that it was likely that the HMRC Accounting Officer would require a ministerial direction on the basis of Managing Public Money principles [BR//26 - INQ000088084]. As set out in Part 1 of this statement, a Ministerial Direction is required where a proposed item of departmental spending does not meet the accounting officer standards of regularity, propriety, feasibility and value for money as set out in Managing Public Money (the guidance issued by HM Treasury on the main principles to be followed for dealing with resources in public sector organisations in the UK). A Ministerial Direction ensures that urgent and necessary activity can take place even where the requirements under the

accounting officer standards are not met. In this case, a Ministerial Direction was sought because of the uncertainty of EOTHO's value for money, which was a result of:

- a) Difficulty establishing a counterfactual for the scheme. This would depend on the future demand for eating out in the absence of EOTHO.
- b) Ambiguity of the efficiency of the measure.
- c) The urgency to introduce the scheme meant insufficient time to gather further evidence and wider external opinions.

55. The Principal Accounting Officer at HMRC wrote to the Chancellor on 6 July 2020 to request a written direction that HMRC deliver the scheme [BR//27 – INQ000235020]. The Chancellor signed the written direction to HMRC to be responsible for the payment and management of amounts to be paid under the EOTHO scheme on 7 July 2020 [BR//28 - INQ000088019]. It should be noted that the EOTHO direction was far from unique in the exceptionally uncertain and challenging policy-making circumstances of 2020, where written directions were sought for several other support schemes, as can be seen from the collection published on GOV.UK [BR//29 - INQ000088022].
56. EOTHO was not put through any potential processes for managing State aid on the basis that it was not selective and did not affect trade between Member States.
57. The legislative underpinning for the scheme was Section 76 of the Coronavirus Act 2020, which gave HM Treasury the power to direct HMRC to carry out functions in relation to coronavirus or the coronavirus disease.
58. The attitude of the public to re-entering hospitality venues played an important part in the economic evidence for the potential impact of the scheme. This submission therefore included consideration of the survey and polling evidence relating to consumer behaviour, reflecting that evidence of public concern noting that: "*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.*"

### *The exclusion of takeaways from EOTHO*

59. Takeaways were not included in the EOTHO scheme for two key reasons. First, the policy was aimed at encouraging people to safely return to eating out and to support dining in restaurants. Second, takeaways had been less hard hit by the Covid crisis and associated closures and social distancing than restaurants. Unlike takeaway outlets, many restaurants had had to shut entirely during this period. Spending on takeaways and fast food had reduced during the first lockdown (by 27% in May) but by much less than in restaurants (down 90% in May) [BR//30 - INQ000088092]. Also, takeaway businesses would benefit from the temporary VAT reduction for hospitality from 20% to 5% in the period from 15 July 2020 to 12 January 2021 (later extended). This was explained in response to questions asked in Parliament in July 2020 about why takeaways were not included in the scheme.

### *Equalities Duty*

60. HM Treasury officials considered that this scheme may be disproportionately under-used by disabled people, those who have been shielding, pregnant women, people from black and other ethnic minority backgrounds, men and those with caring responsibilities. HM Treasury officials considered whether amendments to the policy should be made to address these issues, including whether to include takeaways in the policy in order to mitigate some of the access issues faced by different groups with protected characteristics. However, officials did not consider this would be in line with the Chancellor's intent to encourage confidence to attend hospitality settings in person and the Chancellor agreed with this view. HM Treasury also noted that this was a time-limited offer which would support employment, and that employees in the sector were disproportionately young, female, part-time workers and in the bottom half of incomes. Accordingly, on balance HM Treasury did not consider that the Chancellor needed to significantly alter the scheme (or not proceed with it at all) on the basis of these equalities considerations. The full Public Sector Equalities Duty Assessment is at Annex A to the 30 June 2020 submission.

### *Devolution Issues*

61. The 30 June 2020 submission also addressed devolution issues associated with rolling out this scheme across the UK. Whilst lockdown was being eased more slowly in the devolved nations, which potentially meant fewer restaurants had reopened, HM Treasury still believed there was a strong argument for this scheme to be rolled out UK-wide.

#### *Clearance with No10 and Cabinet*

62. The EOTHO scheme was announced as part of the Chancellor's Summer Economic Update, known as the Plan for Jobs, on 8 July 2020 (see below). As is the convention with all fiscal events set out in the Cabinet manual, the Plan for Jobs was developed in consultation with the Prime Minister before being presented to Cabinet shortly before the event. The Prime Minister's Deputy Principal Private Secretary was provided with hard copies of the draft statement on 3 July and 5 July. In both iterations the EOTHO scheme is described in principle, with exact policy details (such as the level of the discount) subject to final decisions [BR/I/31 - INQ000088039] [BR/I/32 - INQ000088041]. The Chancellor then briefed Cabinet on the Plan for Jobs' ahead of his statement to Parliament, in accordance with usual procedure. The Chancellor's briefing for Cabinet included the EOTHO scheme specifically [BR/I/33 - INQ000088040].

#### *The Final Scheme*

63. By 7 July 2020, the shape of the EOTHO scheme was finalised, including the 50% discount rate. As explained in an HM Treasury briefing document of 7 July 2020, prepared ahead of the Summer Economic Update on 8 July 2020, "*In order to support 129,000 businesses and help protect almost 2 million jobs by encouraging people to return to eating out, the government is launching an Eat Out to Help Out scheme. This will entitle everyone to a 50% discount on their meal, up to £10 per head, at any participating restaurant, cafe, pub or other food service establishment. The scheme will be valid from Monday to Wednesday on any eat in meal or non-alcoholic drinks for the entire month of August. Participating restaurants will be fully reimbursed*" [BR/I/34 - INQ000088085]. That briefing document also provided updated international comparisons in relation to the use of subsidy or support schemes for the hospitality sectors in France, Austria and Germany.

64. The Chancellor delivered his Summer Economic Update statement to the House of Commons on 8 July 2020, setting out HM Government's Plan for Jobs. The Chancellor announced a number of measures as part of the plans to support, protect and create jobs, including the Job Retention Bonus, the Kickstart Scheme, boosting work search, skills and apprenticeships and, as discussed in further detail below, reduced rate of VAT for hospitality, accommodation and attractions. One of the measures announced was the EOTHO scheme.
65. Business registration for the scheme, across the UK [BR/I/35 - INQ000088086], opened on 13 July 2020. HM Treasury officials continued thereafter, at the Chancellor's direction, to address outstanding policy issues, such as the regional impact on the scheme of local lockdowns (see submission dated 16 July 2020) [BR/I/36 - INQ000088094]. By that stage, the main focus was on the delivery of the scheme, which was the responsibility of HMRC.

#### *Identification and Management of Risks*

66. Following announcement of the EOTHO scheme, but before its commencement, HM Treasury officials engaged extensively with the hospitality sector on some remaining details regarding the scheme's design. Issues discussed included, for example, how best to define an eligible establishment, whether existing offers could be included in the scheme and scheme marketing.
67. Various risks were identified and assessed in connection with a scheme of this type, as referred to above and set out in the ministerial submissions and briefing notes exhibited to this statement — including the scheme's impact, value for money, delivery, presentation, potential for fraud and non-compliance. Advice on these risks was taken into account by the Chancellor in deciding to proceed with the scheme and directing the HMRC Principal Accounting Officer to proceed accordingly.
68. There was no specific risk assessment of how the EOTHO scheme might impact on Covid transmission. However, as described above, the decision to proceed with the scheme took place in the context of extensive cross-Government decisions on the safe lifting of NPIs, in which HM Treasury participated. In turn, HM Treasury's policy work on development of the EOTHO scheme assumed a safe lifting of NPIs (and continued

social distancing and other restrictions in hospitality settings), as described above in relation to the 19 May advice in particular. This safe lifting of NPIs was often referred to as Covid-Secure', and included, for example, limits on group sizes in hospitality settings and ensuring a safe distance between different groups. Businesses had to abide by those rules whilst participating in the EOTHO scheme, just as they would if they had not.

69. Following the decision to proceed, a briefing note was produced shortly before the scheme's launch, which sought to capture the risks associated with the scheme's launch [BR//37 - INQ00088089]. The most significant risks identified at that stage were IT changes not being ready or failing to deploy, a major criminal attack or fraud and customer experience issues. The principal risks focused upon at that stage were operational risks. The briefing did, however, note the risks to the successful delivery of the scheme as intended if there were a tightening of NPIs or local lockdowns.
  
70. The scheme was rolled out and delivered by HMRC between 3 and 31 August 2020.

***VAT Reduction for hospitality, hotel and holiday accommodation and admission to certain attractions***

71. In parallel with EOTHO, the reduced rate of VAT scheme was developed in consultation with the Chancellor throughout June and early July. Advice sought in relation to the scope and design of the scheme included:
  - a) Advice dated 12 June 2020 regarding including the reduced rate for non-alcoholic beverages and takeaway food [BR//38 – INQ000609419].
  - b) Advice dated 24 June 2020 regarding the inclusion of accommodation, attractions and sports/fitness [BR//39 – INQ000609423].
  - c) Advice dated 2 July 2020 confirming the timing, rate and scope of the scheme [BR//40 – INQ000609121].
  
72. As announced at the Summer Economic Update, the Chancellor decided to introduce a temporary reduced rate of VAT on services relating to hospitality, hotel and holiday accommodation and admission to certain attractions. The scheme operated in the UK from 15 July 2020 for an initial six months to support industries which had been impacted

by public health restrictions. The measure was specifically designed to support cash flow and the viability of businesses.

73. On 16 September 2020, HM Treasury officials provided advice to the Chancellor in relation to extending the VAT reduction [BR//41 – INQ000609472]. The Chancellor approved an extension until 31 March 2021 at the same rate of 5% [BR//42 – INQ000609473].
74. On 14 January 2021, HM Treasury officials again provided advice to the Chancellor in relation to extending the scheme [BR//43 – INQ000609576]. The Chancellor approved an extension for six months at a rate of 5%, followed by a further six months at a rate of 12.5% [BR//44 – INQ000611616]. The economic support ultimately concluded on 1 April 2022 with VAT returning to the standard 20% rate.
75. Both EOTHO and the VAT reduction were specifically demand-side stimuli designed to support consumption. Whilst EOTHO provided targeted support for the hospitality sector, the reduced VAT rate was more far ranging, supporting the hospitality, tourism and leisure sectors. The scheme was available to 150,000 business which supported 2.4 million jobs [BR//45 – INQ000609574]. EOTHO lasted just 13 days and it was forecast to cost around £500 million, while the VAT reduction cost £8.36 billion (sixteen times more significant) and lasted from 15 July 2020 to 31 March 2022.

#### ***Adjustments and cessation of support***

76. Towards the end of August 2020, specific consideration was given to accommodating an extension of EOTHO for Aberdeen so as to permit the scheme to operate there in September 2020 [BR//46 - INQ000088099]. Whilst there had been a variety of local restrictions in the UK during August 2020, none had required the enforced closure of "standalone" restaurants, cafes, pubs and bars. However, in Aberdeen a localised lockdown resulted in the scheme being unavailable for 11 of the 13 days on which it was available, in 188 registered restaurants. The Chancellor commissioned advice on this issue, which was that if he wished to announce a regional extension of the scheme in Aberdeen this was both appropriate and in accordance with the policy intent of the scheme. Ultimately, however, this option was not taken forward.

77. Otherwise, the advice submitted to the Chancellor by HMRC officials on 26 August 2020 was that there should not be any local extension in areas where restaurants, cafes and pubs had been able to remain open, there should not be a national extension in September and HMRC should close the scheme in a way that allowed it to be resurrected at a future date [**BR/I/47 - INQ000088100**]. The scheme was not extended.
78. It was too early at the end of August 2020 to assess the full impact of the EOTHO scheme on the hospitality sector. However, there was, as set out in the 26 August 2020 HMRC submission, considerable reporting that the scheme had been successful at restoring consumer confidence and providing support to the hospitality sector, examples of which included the following;
- a) Insight received on 14 August 2020 from a data analytics firm, CGA, indicated that the "the scheme appears to have achieved the sector's hope of bringing back people who were previously hesitant about eating out".
  - b) The EOTHO scheme had incentivised some operators to reopen more sites, with four in five (79%) venues in the Tracker cohort trading in the previous week.
  - c) Research by retail analysts, Springboard, indicated that footfall rose 18.9% across the UK's high streets, shopping centres and retail parks between Monday and Wednesday, during the first days of the scheme. The scheme also boosted visitor numbers between 12pm and 2pm, when they rose 9.6%. Smaller market towns benefited the most, with footfall up 25% over the first three days of the previous week (to 26 August 2020), while regional cities recorded a 19.2% gain.
  - d) Open Table data showed that in the first two weeks of August 2020, restaurant bookings were between 10% and 48% higher than on the equivalent days in 2019.
  - e) The stakeholder panel (which included some large chains and UK Hospitality) were also enthused about how confidence among consumers had increased. Their sales data echoed the reports from CGA and others. Indeed, businesses had been encouraged by the success of the scheme and were planning their own promotions for September 2020.
  - f) By midnight on 31 August 2020, there had been 100 million meals claimed for as part of the scheme. Subsequent Open Table data showed that in the final full week of the scheme, seated diner numbers were up 65% compared to 2019 and up 95% on EOTHO days (i.e. Mondays, Tuesdays and Wednesdays) [**BR/I/48 - INQ000088101**].

79. At that stage, it was considered possible that the scheme had already generated sufficient consumer confidence to support the sector going forward but that in any event it had provided the intended boost to the hospitality sector. It is also important to note that the hospitality sector continued to benefit from the temporary reduced VAT rate (reduced to 5%) until 12 January 2021 (which was later extended further) so targeted sector support remained in place in any event. The sector (and its employees) also continued to benefit from the broader range of economic support schemes including the CJRS and SEISS, business rates relief, business grants, tax deferrals, loans and protection from eviction for commercial rent arrears. HM Treasury also considered there to be good reasons not to extend the scheme, in particular in light of the impact on consumption as set out above.

***Risk of fraud and error***

80. On 2 July 2020, HMRC provided advice to the Chancellor on the delivery of EOTHO [BR/I/49 – INQ000625763]. In relation to fraud, the following was noted:

- a) HMRC would ensure appropriate accounting and auditing of all government funds used in this scheme.
- b) Where controls were available, HMRC would act to protect the scheme from serious abuse and criminal attack.
- c) As the scheme was outside HMRC's usual functions, they had limited relevant data against which risk and compliance could be assessed. HMRC also did not have access to sophisticated risk analysis and intelligence data, to mitigate against attacks. This meant that there were limited relevant controls readily available for HMRC's compliance teams to use. The scheme, therefore, was at a higher risk of low-level abuse and fraud. However, on comparison to other Covid control schemes, the threat to scheme from organised crime was low.
- d) It was difficult for HMRC to estimate potential losses from the scheme. Based on historic non-compliance rates in this sector, it was estimated that around 30% of the EOTHO claims could involve some degree of fraud or error. Estimates on potential losses were highly sensitive to decisions on policy controls, including eligibility criteria, claim caps, refined estimates of the eligible population and the scheme's likely take-up. In addition, it would also be influenced by further work on system controls and risk approaches.

- e) The mitigation of clear fraud risks was reliant on the successful delivery of a suite of policy, system and operational controls, which would be highly challenging to land due to short timelines. Many of the terms and conditions of the scheme required self-policing by the sector.
81. HMRC considered that the primary threat of EOTHO was opportunistic fraud by businesses through the inflation or falsification of sales to claim higher grants. With limited auditable sale data, this would be hard to detect. Other risks to the scheme included:
- a) Restaurants not passing on the discount to diners whilst still submitting claims.
  - b) The opportunistic inflation of the claims for more or higher value meals than what was served to customers.
  - c) Businesses that were ineligible participating.
  - d) Organised criminals, that operated existing fraudulent restaurants, being able to register and claim the subsidy.
82. In line with other Covid scheme payments, there would be a legislative basis for HMRC to assess and recover grants paid in error or fraud.
83. To mitigate against misuse, HMRC identified the following measures:
- a) *Record keeping* – businesses would be required to keep records of the receipts and amounts claimed.
  - b) *Claims* – business would be unable to make claims after September 2020, a unique payment reference was attached to each claim made, multiple claims for the same business within the same period would be prevented and payments were unable to be made to foreign bank accounts.
  - c) *Registration* – HMRC could block access to the service for dormant credentials. They also would collect each businesses Food Services registration ID prior to the scheme announcement to mitigate the risk of fraudster's creating sham restaurants to make claims.
  - d) *Payment controls* – payments would be held and investigated if above a certain threshold.

- e) *Credit Cards* – HMRC would use credit card transaction data to assess whether claims made appear reasonable and in line with business takings. This check however was not available with cash payments.
84. On 3 July 2020, the Chancellor’s Office advised HMRC that the Chancellor had noted the fraud checks, mitigation and what HMRC could and could not enforce **[BR//50 – INQ000609430]**.
85. The EOTHO scheme operated from 3 August 2020 to 31 of August 2020. On 26 August 2020, HMRC provided a submission to the Chancellor in relation to the potential extension of the EOTHO scheme **[BR//47 - INQ000088100]**.
86. In relation to extending the EOTHO scheme, the key risks identified for the scheme were assessed to be fraud, HMRC receiving unmanageable levels of contact from businesses and/or customers about the scheme and policy implications of local lockdowns. HM Treasury officials noted *‘contact has been low, but levels of fraud and error are high- and HMRC is seeing a marked increase in risk in newer registrations- although they remained within original estimations and agreed risk tolerance.’* It was considered that any extension would have increased these risks, particularly if new registrations were allowed. As the scheme became more understood, there was an increased risk of attempts of fraud by organised crime, as well as a greater risk of abuse by existing businesses with a high appetite for risk. The advice also noted the presentational risk that, *“an extension may be criticised for encouraging people to go out in higher risk areas, in contrast to its origins of supporting consumer confidence as COVID-19 transmissions slowed.”*
87. The final claims by participating restaurants had to be submitted to HMRC by 30 September 2020, and HMRC made payments within five working days of claims. The final cost of the scheme was recorded as £840 million in the HMRC Annual Report and Accounts for the financial year 2020 to 2021 **[BR//51 - INQ000088021]**. This compared to an estimated cost at the time the scheme was announced of approximately £500 million (as a demand-led scheme subject to take up, it was acknowledged at time of announcement that final costs could be higher).
88. On 30 November 2022, the HMRC Chief Executive confirmed to the Treasury Committee that EOTHO’s total cost was £840 million and £70 million of that was believed

to have been claimed in fraud or error. This represented 9.5% of the total scheme. Notably, this is significantly lower than the 30% estimate provided in July 2020.

89. In November 2020, HMRC wrote to businesses whose records suggested they may have made an incorrect EOTHO claim, requesting that they review their claims for accuracy and respond within 60 days. Failure to respond could have resulted in formal compliance checks being initiated. Since the conclusion of the scheme, HMRC and the Crown Prosecution Service have secured prosecutions and custodial sentences for those who made fraudulent claims.
90. HM Treasury and HMRC were aware – before the launch of the scheme – that there were risks with fraud and compliance. It was recognised that it would be challenging to verify whether food purchased within the restaurant premises was also consumed within premises or whether any excluded items (such as alcohol) was receiving discount. This was primarily due to the lack of capabilities to pursue tight compliance checks. Instead HMRC had to rely on spot checks on a small number of restaurants and the honesty of merchants. To minimise the various risk associated with the scheme, EOTHO was:
  - a) Only rolled out for five weeks.
  - b) Restricted to less busy weekdays.
  - c) A £10 cap placed on the discount provided per diner.

### ***Reflections and Lessons Learnt***

91. The EOTHO scheme was a novel scheme aimed at encouraging economic activity when it was safe to do so in some of the sectors of the economy most impacted by Covid. It was formulated in the context of the assessment undertaken by broader government in the summer of 2020 that NPIs could be eased safely. EOTHO was rolled out at a time where most areas in the UK had re-opened from local lockdowns - the scheme was strictly only available to those areas. It also did not waive any of the public health requirements such as social distancing measures. It was mandatory for participating cafes, restaurants, and bars to abide by health restrictions and guidelines, as provided by the Department for Health and Social Care (“DHSC”).

92. HMRC, who had oversight over the implementation of the scheme, has examined available data. Generally, EOTHO can be viewed as a successful scheme that boosted consumption in the hospitality sector. On 25 November 2020, HMRC published data with the most salient items including:
- a) By 30 September 2020, over 49,000 businesses (of all sizes) made a claim for the scheme. In total £849 million was claimed through the scheme providing discounts for over 160 million meals in August.
  - b) Around 83% of the PAYE-registered business who participated in EOTHO made use of the CJRS scheme to furlough staff by March 2020. This reduced to 61% by August 2020.
  - c) 84.3% of participating EOTHO outlets were located in England. The remaining outlets were split between Scotland (8.0%), Wales (4.5%), Northern Ireland (3.0%) and 0.1% were marked as unknown. These proportions are not significantly different from the share of the population in each country.

#### *Relationship with infection rates*

93. The data was also examined by HMRC to ascertain whether any relationship existed between the use of the EOTHO scheme and increased cases of Covid. The analysis found *"little evidence to support the claim that the [Eat Out to Help Out] scheme directly led to an increase in COVID-19 cases, on a UK-wide level."* At HM Treasury's request, on 15 December 2020 HMRC shared a note on this analysis, ahead of the publication of local area data on EOTHO [BR//52 - INQ000088102]. This exercise was completed by examining the meals claimed per head in local authority areas against new Covid cases during September and October 2020. The HMRC note set out that *"Currently, we find little evidence to support the claim that the EOTHO scheme directly led to an increase in COVID-19 cases, on a UK-wide level. Generally, correlations are either weak or not statistically significant."* This note was not published, however the underlying local area data on EOTHO was published [by HMRC] on 28 January 2021 [BR//53 - INQ000088023].
94. Establishments participating in EOTHO or receiving the VAT reduction were required to comply with public health guidance and regulations remained in force for the duration of the scheme. EOTHO was designed and delivered at extreme pace. Building in further time to involve or obtain agreement from other departments in advance of its launch

would have required slower implementation. It was also important to keep potential future announcements on new economic support measures closely protected in order to mitigate fraud risks.

95. Extensive searches of HM Treasury's records have not found any evidence of concerns being raised directly with HM Treasury about the impact of EOTHO on the prevalence of infection rates before or during the scheme's operation. This includes any concerns being raised by DHSC, the Chief Medical Officer, the Secretary of State for DHSC (SoS DHSC), or any other Ministers with HM Treasury officials or the Chancellor.
96. On 20 August 2020, a Local Action Committee (GOLD) meeting took place, chaired by the SoS DHSC and attended by the Chief Secretary to the Treasury. Areas of high Covid incidence in England and associated interventions in these areas was discussed. At this meeting, there was a brief mention of consideration given to local suspension of the EOTHO scheme based on local insights from Oldham, Blackburn with Darwen and Pendle but no action was recommended [BR//54 - INQ000184580] [BR//55 - INQ000184581].

#### *Delivery and working with HMRC*

97. The EOTHO scheme was a unique policy and responsibility for delivering it did not naturally sit with a specific HM Government department. HMRC was therefore chosen by the Chancellor as the delivery agent. HM Treasury has reflected on its collaboration with HMRC and regards the relationship as highly successful in the design and delivery of the scheme. Both department's strengths and expertise were used to their full advantage.
98. In designing the scheme, two-way discussions were frequently held between HM Treasury and HMRC on how to produce a scheme that would be the most effective and practical to implement, noting time was of the essence. As detailed in paragraph 26, other international methods were considered such as a voucher scheme, however given the objectives and feasibility was not considered the preferred option. HMRC provided valuable input with operational and technical knowledge. HM Treasury acknowledged when designing the scheme, it did not have the expertise, or the capabilities required to deliver the programme by itself. Therefore, close collaboration with a delivery

department was necessary. HM Treasury was able to take the lead in communicating, seeking advice and updating Ministers on the progress of the scheme.

99. The success of the relationship was in part attributable to the existing working relationship that was cultivated between departments prior to the pandemic. HM Treasury had a policy partnership with HMRC and had co-developed and delivered many tax policies over the years, working together to share knowledge, design and implement policy. The existing close relationship, previous experiences of working together and HMRC's existing capabilities enabled both departments to deliver the bespoke scheme at speed.
100. HM Treasury has not conducted any in-depth internal or external reviews evaluating EOTHO. The scheme was a short-term economic support measure (one month in duration) designed within very limited timeframes to boost consumption during the pandemic and protect jobs in hospitality sector.
101. HMRC as the delivery department may also have views on the implementation of the scheme, including what worked well and what could have been designed and/or implemented in a more effective way.