

The future of the hospitality industry in the post pandemic economy

This roundtable was held in partnership with Diageo plc.

Summary

This discussion focused on how the Government and hospitality industry can work together to enable the sector to bounce back as fast and effectively as possible. It was chaired by Lord O'Shaughnessy and led by Paul Scully MP, the Minister for Small Business, Consumers and Labour Markets. The event was held virtually under the Chatham House Rule on 4 February 2021.

The conversation understandably centred around the economic effect the coronavirus pandemic has had on hospitality businesses. In particular, there was a strong focus on the precarious position many businesses are in now, more so than last March, because despite government support many businesses have used any spare cash in the last year. This led to calls for further support - both financial and non-financial - to the industry. There was a strong call for clear guidelines and understanding of both sensible, and practical solutions to ensure that when businesses are able to reopen, they can do so safely and sustainably for the long term.

On a more positive note, there was also a strong consensus that if we can keep institutions alive until reopening, hospitality will be an important driver of the economic and social recovery from the pandemic, employing large numbers of young people and fostering a sense of community.

Key discussion points

1. Urgent financial help is needed over and above existing schemes to help hospitality businesses that have no savings left to fall back on.

The strongest point to come out of the discussion was the very difficult financial position thousands of hospitality businesses are in as a result of the pandemic. It was noted by one member of the discussion that £19 billion was lost in December alone by hospitality businesses, with as much as £200 billion in lost output in the whole of 2020.

There was praise for the Government's financial support packages which have been a lifeline for many in the hospitality sector. Most mentioned was the furlough scheme and the Coronavirus Job Retention Bonus. However there was also consensus that more support was needed to address the additional costs businesses face on top of employment costs. It was noted that in March, many businesses had just completed their busiest quarter and therefore were in a strong financial position coming into the pandemic but a year into the pandemic only 1 in 5 small hospitality businesses feel they have sufficient capital to last until March.

There were a number of calls to rollout increased financial support, noting the another month could be the difference between many pubs and restaurants being forced to close their doors permanently. Many were concerned that announcing further support in the Budget on 3rd March would be too late. In the meantime, an extension of business rates relief was noted as something that would be particularly helpful given many non-trading businesses have not benefited from the VAT relief.

2. Once the economy reopens, there was consensus that hospitality has a significant role to play in the economic recovery.

As the UK unemployment rate hits 5%, and approximately 2.6 million people are out of work, it was noted that hospitality has an important role to play in the jobs recovery. The sector employs 3.5 million people and accounts for 127,000 UK businesses. Further, it is young people that are the largest recipients of work in the industry. 60% of the restaurant workforce is under 24 years old and this stretches to 70% in the night time economy.

As people fall out of work and seek new opportunities, attendees agreed that hospitality is well adept at skilling up new employers and providing flexible work. This is fundamental to recovery from recessions to help people get back on their feet without sacrificing existing commitments, for example childcare or education.

The sector also plays an outsized role in our national economy. It was pointed out that the West End in London contributes 3% to the GVA of the whole country. This is because theatre, nightlife, restaurants, bars and cafes are part and parcel of wider economic activity. For example, tourism requires attractive destinations nearby, as does retail.

3. Greater clarity is desired regarding reopening to enable hospitality to open back up safely.

There was an unsurprising desire around the virtual room to open as soon as possible, as this is the best way to mitigate the financial impact of the crisis. This was coupled with a strong desire for clear messaging from the Government to enable businesses to prepare for their opening in such a way that they will not have to close again.

It was remarked that many businesses have spent considerable amounts of money making their venues safe for customers, including PPE for staff, one way systems, table service and greater sanitation. One individual said small hospitality businesses had spent up to between £1,000 and £10,000 in doing so. Whilst there was broad sympathy for the past lockdowns, there was frustration that what followed was having to close their doors once more. There was a strong desire for the unlocking, when it comes, to be managed carefully to prevent further opening and closing which can be more costly than a delayed reopening.

4. Efforts need to be made to consider the long term. This means managing debt but also increasing resilience.

Given what has already been described, there was a strong consensus that the Government and industry need to start thinking about the long term financial health of hospitality. In particular, there were concerns regarding the impact of considerable debt that has been taken on during the crisis affecting businesses' ability to bounce back and grow.

It was noted that it would be a colossal waste if businesses are unable to make a profit due to crippling debts. There were some calls therefore for support packages that consider the long term viability of businesses, rather than immediate challenges. Alternatively, one attendee suggested a model to restructure debt, by enabling hospitality venues to transfer rent debt to lower interest rate property loans.

In addition, people recognised that this pandemic will not be an isolated event and that hospitality should prepare now for future pandemics, as businesses did in Asia after SARS which has stood them in good stead in the last year. A recurring subject across the discussion was the potential of good ventilation to stem the spread of the virus. Attendees were supportive of the idea of the Government helping venues to make necessary changes by publishing guidance on what ventilation systems are effective.

5. Ministers should introduce more flexibility for hospitality businesses to innovate and diversify

There was broad support for the flexibilities and easements introduced temporarily during the pandemic to allow businesses to continue trading, such as street dining, off licence trading and takeaway licensing. There was support for making these temporary freedoms permanent to allow businesses to diversify their income and increase their resilience.

The attendees touched on different ways that the Government could enable more of this innovation in future and it was agreed that "easements" of varying kinds would be essential as we reopen the economy. It was recognised that some of these changes cost money, and many businesses will have less cash in the bank, so public support or reliefs to do this would be helpful.

This is particularly important not just from an economic perspective but a social one. The roundtable also acknowledged the importance of hospitality venues as important cornerstones of community. This was evident in March when many pubs and restaurants stepped up to help the community response to the virus. As some sectors will not return to the same operating model as pre-pandemic, retail being the prime example, it was remarked that hospitality may have an increasing role in providing life and civic infrastructure to cities, towns and villages across the UK.