Research

Did Eating Out Really Help Out?

The impact of the Eat Out to Help Out Scheme on North Norfolk's hospitality sector

March 2022

Title:

The impact of the Eat Out to Help Out Scheme on North Norfolk's hospitality sector.

Research Question:

To what extent did government support, such as the Eat Out to Help Out Scheme, enable restaurants, cafes and pubs in North Norfolk to cope with the COVID19 pandemic?

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Introduction

The COVID19 Pandemic caused economic turmoil not seen since the 2007 financial crisis. Governments around the world enforced national lockdowns to try to curb the spread of the virus, preventing the general public from making unnecessary journeys or gatherings. This left 'brick and mortar' businesses vulnerable, as consumption of their goods decreased drastically. The hospitality sector was particularly hard hit by these restrictions, who suffered from the lack of tourism and recreational activities.

On top of the short term downturns caused by government enforced restrictions, it was feared that long term changes in consumer behaviour brought about by the desire to avoid becoming infected with what was, at the time, considered a new and unknown virus, would cause a lasting, long term downturn in demand for hospitality goods and services, even after restrictions were lifted (Fetzer, 2020).

The pandemic also caused unemployment and workers were furloughed, so consumers would have had much less disposable income to spend on discretionary expenses, such as eating out.

The only way to combat these drastic changes in consumer behaviour is to provide incentives in the form of discounts. As a result, the Government of the United Kingdom decided to subsidise eating-out through the Eat Out to Help Out (EOHO) Scheme. On Mondays, Tuesdays and Wednesdays, consumers were offered a 50% discount on a meal and non-alcoholic drink worth up to £10, at participating businesses, paid for by the government. Nationwide, the scheme cost the UK government a total of £840 million, with a total of 160 million meals claimed – which is roughly £1.5 per head (Hutton, 2020).

North Norfolk is a seaside constituency (See Appendix A) and therefore relies heavily on tourism and the hospitality sector. In total the industry there is worth about £530 million and employs 29.7% of the constituency (Destination Research, 2019). 383,000 EOHO discounts were awarded in North Norfolk, the highest in Norfolk, with a total value of £1.9 million (HM Revenue & Customs, 2021). In my interview with Duncan Baker, MP for North Norfolk, he hailed the scheme as a "lifeline" to local businesses, saying it "stimulated an industry".

In the scope of this essay, it would be impossible to gain the full picture of how the scheme effected every single business in North Norfolk, therefore I attempted to analyse the effects of the subsidy on eat out meals; changes in consumption patterns caused by the virus and the scheme; and the considerations and side effects of the scheme, to ultimately conclude whether or not the scheme did in fact, provide a "lifeline" to businesses as a whole in North Norfolk.

Why I Chose This Topic

Having lived in North Norfolk for my whole life, I have witnessed first-hand the constituency's dependence on tourism and the hospitality industry, and when the COVID19 Pandemic began, I saw the hardship that local businesses faced. Having also used the Eat Out to Help Out Scheme once or twice myself, and studied the effects of a subsidy at school, I became interested in the economics behind the scheme.

It is for these reasons why I decided to analyse the impacts of the scheme on North Norfolk's local economy and businesses.

Research Methods

When assessing to what extent the Eat Out to Help Out Scheme helped North Norfolk's businesses, it is important to gather both quantitative and qualitative data, in order to gain a full understanding of the scheme's impact.

Interviews

I interviewed the Member of Parliament for North Norfolk, Duncan Baker, who gave me his thoughts on the scheme and it's impacts on local businesses.

I also contacted Destination Research, who provided data on the tourism industry from previous years, so that I could compare changes in demand for hospitality services.

So that I could gain an inside insight to how the scheme was accepted from a firm's perspective I interviewed an employee of a venue, who offered an interesting insight as to why they stopped using the scheme before it came to an end officially (see Appendix B).

Google Community Mobility Data

Furthermore, I used "Google Mobility Data" to assess by how much the scheme boosted footfall in restaurants in the region. Google Mobility Data (GMD) uses data from users' mobile phones to assess movement trends over a category of places. Data is represented as the percentage change in footfall for a day compared to the baseline week. The baseline week is the median value from the 5-week period Jan 3 – Feb 6, 2020 (Google, 2021). This data does have limitations however, for instance, one must also take into consideration the differences in area and demographics - North Norfolk, for instance, has a peak in tourism during the summer months, whereas tourists visit London all year round (U.S.News, n.d.).

Demand for Eat Out Meals and Effects of a Subsidy

There were fears that, despite easing the lockdown restrictions, consumers would be reluctant to return back to their normal habits straight away. Creating an uncertainty around how demand for eat out meals would bounce back after the national lockdown.

Permanent Secretary of HMRC, Jim Harra, wrote to the Chancellor of the Exchequer voicing his concerns about the uncertainty of the level of effect that the scheme would have on the demand for eat out meals: "...it has proved difficult to establish a counterfactual for this scheme, which depends on the future demand for eating out in the absence of this scheme, which is currently highly uncertain..." (HM Revenue & Customs, 2020).

We must also take into account the fact that incomes were significantly lower during the pandemic, with a total of 11.6 million people having used the Job Retention Scheme (HM Revenue & Customs, 2021), and an average of 35% of economically active people reporting their incomes had decreased in 2020 (ONS, 2021). Creating further uncertainty surrounding whether or not people would be able to afford to eat out as regularly as they had done before the pandemic.

In order to assess to what degree the scheme helped North Norfolk's hospitality sector, first, the extent to which the scheme helped boost demand must be determined. By simplifying the situation down such that it can be represented on a supply and demand diagram, the EOHO Scheme would be shown as an ad-valorem subsidy, capped at £10 in value.

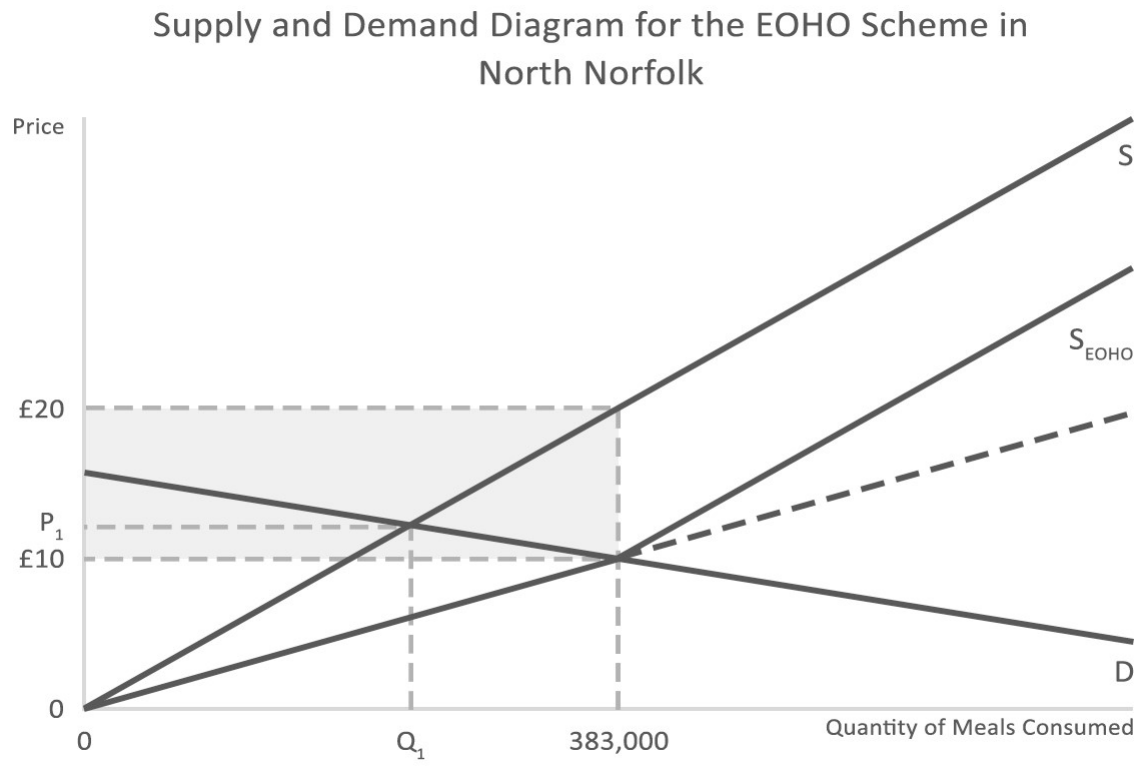

Figure 1 Supply and demand diagram for the EOHO Scheme

As in Figure 1, an ad-valorem subsidy shifts the supply of eat out meals to the right, which causes an increase in supply at all price levels. This moves the equilibrium position from (Q_1,P_1) to the second equilibrium at £10 and a quantity of 383,000. After the £10 threshold is reached, the ad-valorem subsidy becomes a unit subsidy (essentially a £10 subsidy at all price levels).

The level to which this subsidy increased demand depends on the elasticity of eat out meals. The responsiveness of the quantity demanded to a change in price, in this case, depends on 3 variables: The availability of substitutes; the necessity of eat out meals; and the proportion of income spent on eat out meals:

Firstly, eat out meals have substitutes at varying levels of expense, for example: Eating at home and take-away meals.

Secondly, eat out meals are not an essential good, given that eating at home is the most common type of meal. Research from The Grocer suggests that 60% of meals are home cooked (The Grocer, 2020).

Lastly, spending on eat out meals, on average makes up a large proportion of a consumer's income. According to OpenTable, a British family spends on average 25% of an average annual income every year on dining out (OpenTable, 2015).

Therefore, in this case, eating out is considered price elastic, so demand would be very responsive to a subsidy, such as the Eat Out to Help Out subsidy.

Supply Constraints as a Result of a Time Lag

A necessary condition for a subsidy to have its full effect is that the subsidy must be applied at the instant of the transaction. This ensures that no party is waiting to receive the full payment and has its full revenue from the time of the transaction.

Due to the nature of the Eat Out to Help Out subsidy, firms had to submit claims for that day's trading, and the government had to calculate the appropriate amount of subsidy to provide the firm. Both of which took time. This meant that the Government reimbursed businesses who made claims on a weekly basis (Hutton, 2020). As this does not fulfil the above condition, this created a time delay between people buying eat out meals and businesses being paid in full.

In the meantime, however, businesses were coping with an increased demand, at a time of the year when demand is already at its peak. They had to pay their staff's wages, bearing in mind that the number of job adverts in restaurants increased by between 7-14% during this period, as firms had to take on more staff (The London School of Economics and Political Science, 2021). All the while they were only taking in half of the usual revenue, until they were

reimbursed. This created a cash flow problem, as firms did not have the cash available to purchase the supplies for the next week's trading. This was compounded by the lack of trading earlier in the year.

This pushed some firms to the point where it was simply unaffordable to continue using the scheme.

Changes in Consumption Patterns as a Result of Virus Infections

The UK Government believed that people's fear of the virus would cause a change in their behaviour, making it more likely that they would stay at home and make fewer unnecessary trips. This would cause a decrease in the demand for eat out meals.

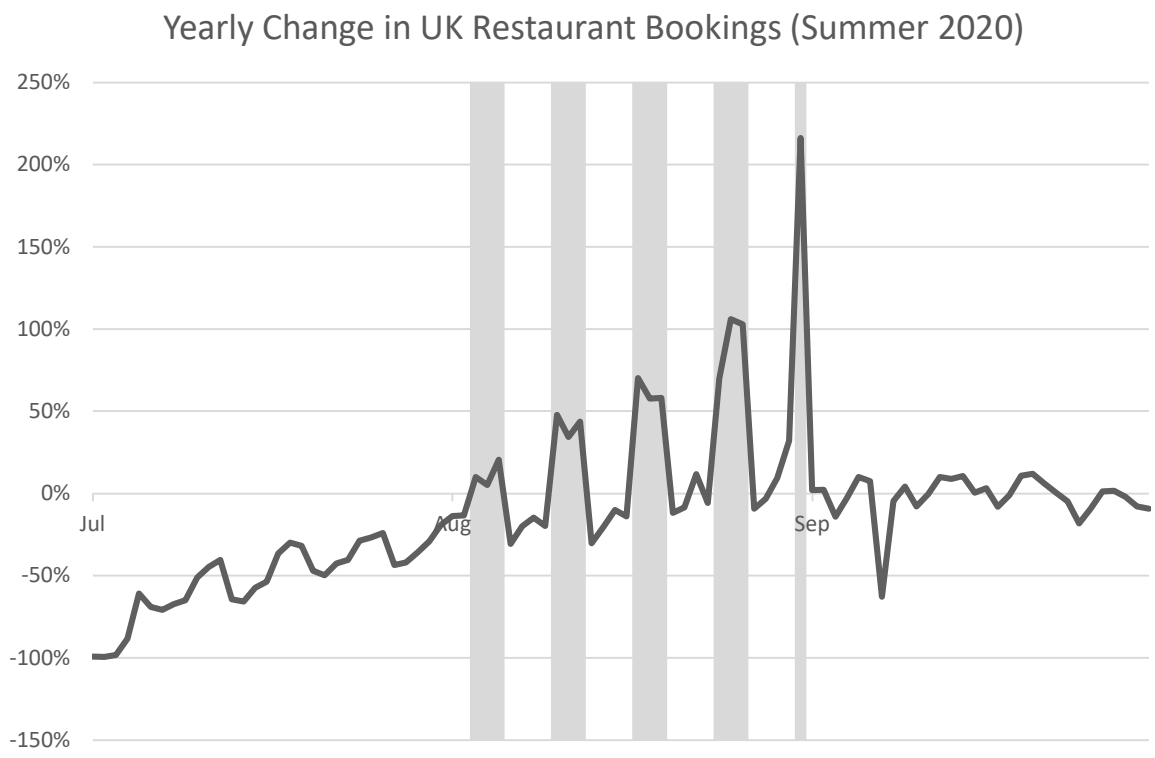

Figure 2 Year on year change in bookings for UK restaurants 2019/20. Data from (OpenTable, n.d.).

Figure 2 shows the yearly percentage change in UK restaurant bookings between 2019 and 2020. Before the EOHO Scheme was implemented, restaurant bookings were on average down by 50% year on year, suggesting that there was a significant reduction in demand, supporting the notion that the virus deterred people from eating out.

However, during the period when the scheme was active, there was a significant increase of 64% of the consumption of eat out meals. The graph also shows that for each week

the scheme was active, consumption had increased, suggesting that there was a rising level of consumer confidence throughout the duration of the scheme[1].

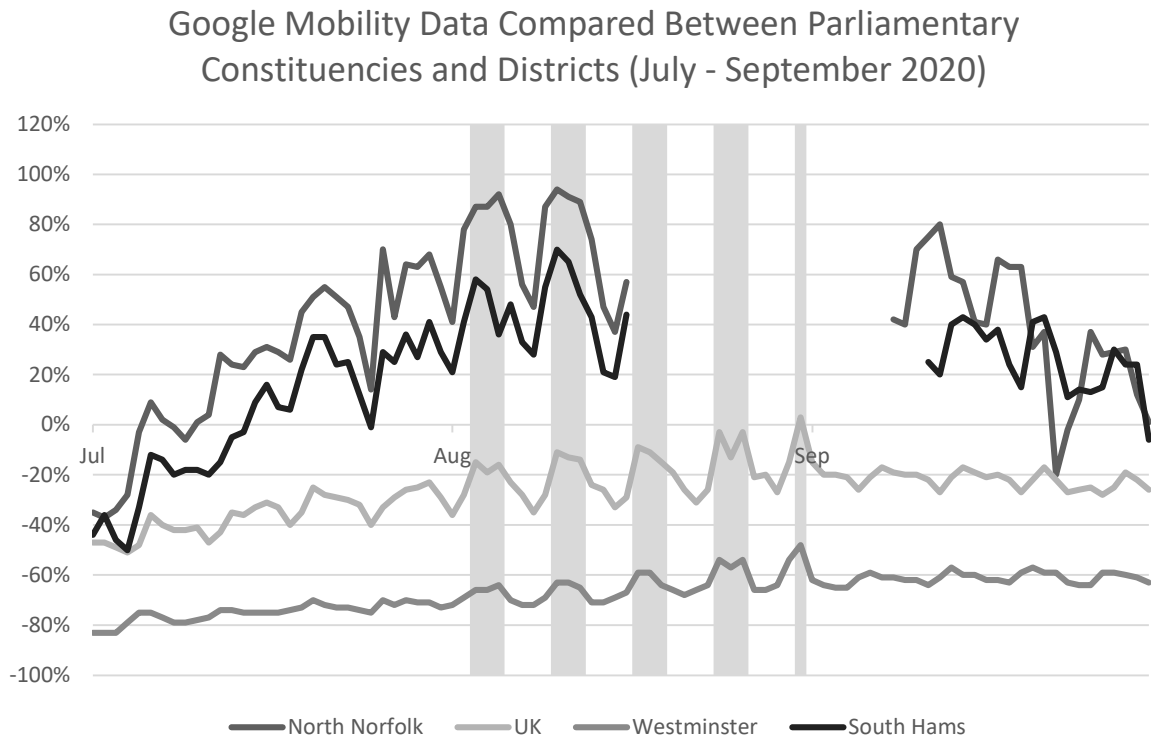

Figure 3 Similar and Contrasting areas' retail and recreation footfall. Data from (Google, n.d.).

Figure 3 shows the level to which the scheme boosted footfall in restaurants during the summer of 2020. The data shows that North Norfolk experienced the highest percentage increase in footfall compared to the baseline week, and a similar district South Hams, both in terms of proximity to the coast, age demographics and population performed similarly.

Westminster, on the other hand, was the constituency with the highest number of registered venues and the highest number of claimed meals, but in this graph, seems to not have

[1] **Note:** The scheme's last active day fell on the 31st of August 2020, which coincided with the Summer Bank Holiday (Government of the United Kingdom, n.d.), which explains the extreme change in footfall on the last day. The Summer Bank Holiday in 2019 fell on the 26th of August.

boosted footfall by as much as North Norfolk. Westminster is a contrasting environment in this case, and the differences in footfall can be put down to a few factors:

Firstly, pandemics have, throughout history, had a greater impact in cities. (The Economist, 2020). This is because COVID19 and other viruses spread more quickly and easily due to the densely populated areas and crowded spaces. Afterall, a lack of ventilation has been proven to be a factor in the rapid spread of COVID19, as the virus is primarily transmitted through droplets and aerosols (Public Health England, 2021).

Therefore, Londoner's fear of becoming infected with the virus was likely higher than that of people in North Norfolk, who just a week before the EOHO Scheme commenced, reported zero new COVID19 infections (Baker, 2020). Therefore, consumers in London may have been more cautious and hesitant to go and eat out.

Secondly, London's tourism is at a constant peak throughout the whole year (U.S.News, n.d.), which makes it difficult to compare Google Mobility Data from each area. This is because during the baseline week, tourism in London was at its peak, whereas in North Norfolk, it was at its lowest point. Therefore, in the summer, when tourism is at its peak in North Norfolk, there would naturally be a higher percentage change in footfall to recreational venues.

Furthermore, in the weeks leading up to the start of the scheme, according to Figure 3, demand for retail and recreation was already rising in North Norfolk, even without the Eat Out to Help Out Scheme in place. Footfall appears to be higher on EOHO days, however, there is also high footfall on non-EOHO days too. It appears from the Google Mobility data that although the scheme impacted consumer's decisions to eat out on certain days, it seems as though consumers in North Norfolk would have been happy to eat out anyway, without a

scheme in place, but were just capitalising on some consumer surplus by shifting their demand from non-EOHO days to EOHO days.

However, whether or not consumers were only taking advantage of the discount, it still boosted footfall and consumer confidence in the area.

Matt Rush from The Rising Sun in Coltishall commented “It was smashing with the amount of people coming through the door and a lot of people that you wouldn’t normally get coming in as well.” (Eastern Daily Press, 2020). This supports the idea that the scheme helped to boost confidence by encouraging consumers, who were hesitant to eat out, to do so.

How Did the EOHO Scheme Impact Future Consumption of Eat Out Meals?

One of the primary purposes of the Eat Out to Help Out Scheme was to cause a long-term change in consumer behaviour by trying to reassure consumers that eating out would not cause an increase in virus cases and would not put people at risk of becoming infected.

Changes in Consumption After the Scheme Finished

In a survey conducted by YouGov towards the end of the scheme, people who used the scheme were asked whether they would dine out as often after the scheme had finished. 50% said they would dine out the same or more often, whilst 43% said that they would eat out less than they had done whilst the offer was available.

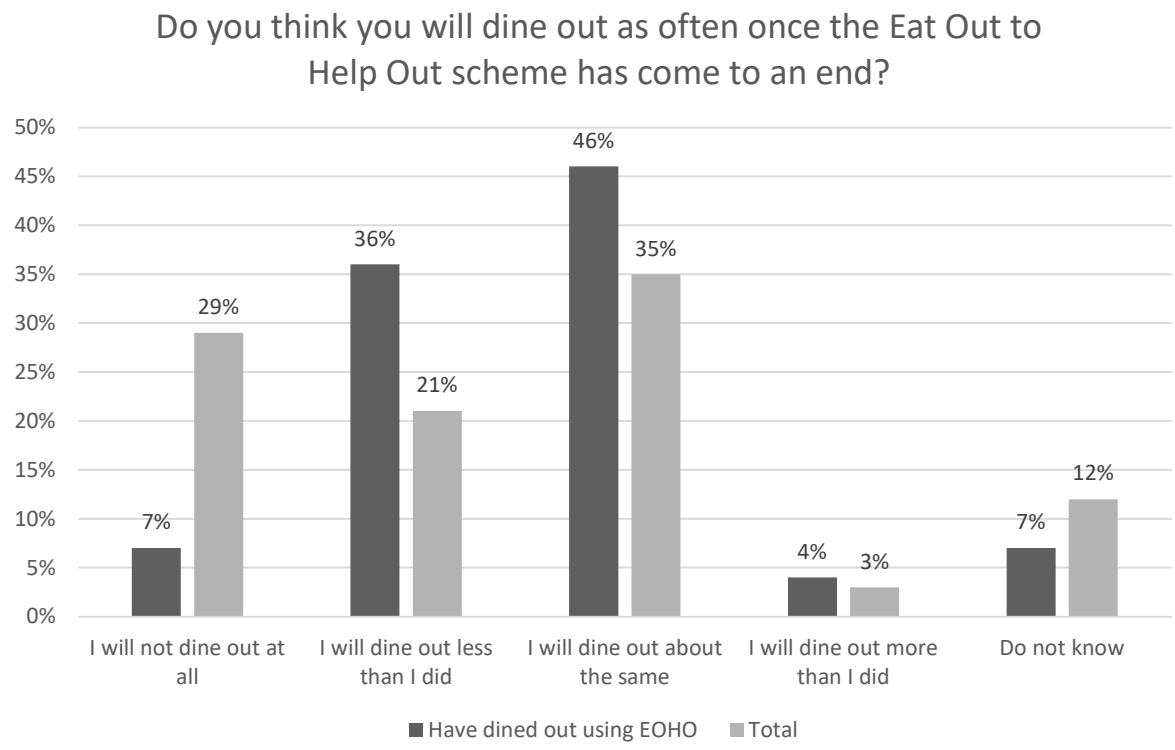

Figure 4 Frequency of dining out post-EOHO Scheme. Data from: (YouGov, 2020).

Whilst this data shows that the scheme helped to boost demand to levels higher than usual, this also highlights one of the considerations that must be made when using a temporary discount on price elastic goods: Once consumers become used to the lower than average price, they will be reluctant to pay anything more in the future (Sinek, 2009, p. 18). As eat out meals are price elastic, they are very responsive to changes in price, and therefore demand would decrease drastically if, say, a subsidy was removed. This would have a catastrophic effect on business in North Norfolk, as businesses would be left with no choice but to lower their future prices, at their own expense, if consumers reacted to the significant discounts being removed at the end of the scheme.

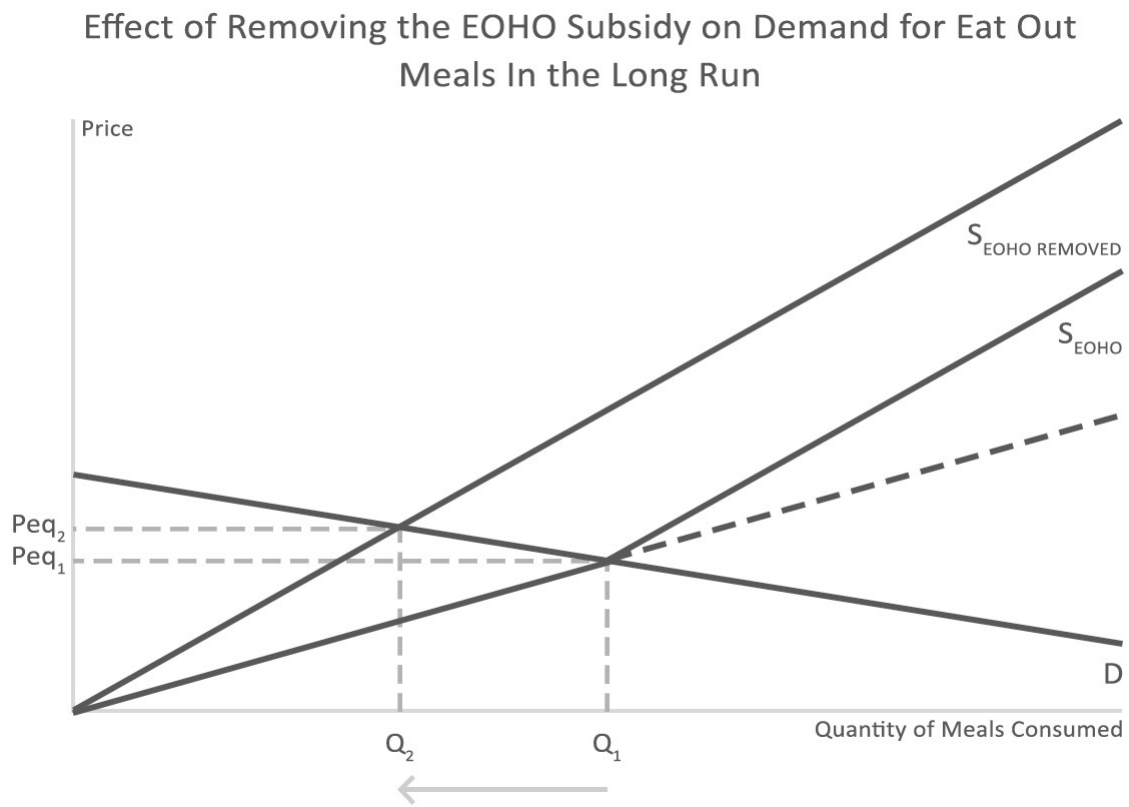

Figure 5 Effects on demand if a subsidy is removed from a price elastic good.

As in Figure 5, if the market has been operating at the point where S_{EOHO} meets D, then consumers become used to the discounted price, brought about by the subsidy. When the subsidy is removed, the equilibrium position moves back to the point ($S_{EOHO\ REMOVED}$,D).

This causes a large contraction in the quantity demanded, due to the price elastic nature of the good.

Continuation of the Scheme

Although the scheme officially ended on the 31st August, The Dormy House Hotel, in West Runton, decided to create their own, similar scheme, which offered their customers a 50% discount: "We still get people coming out for the first time since lockdown every day so we're just extending it to allow people to have more opportunity to experience different things and treat themselves" (Eastern Daily Press, 2020).

For a business to make such a large financial commitment like this, given that, on average in North Norfolk £13,400 was claimed per outlet (HM Revenue & Customs, 2021), suggests that the EOHO Scheme had such a great effect on demand that it was economically viable to offer the discount by themselves.

The Second Wave

Shortly after the end of the Eat Out to Help Out Scheme, the Government issued new restrictions to curb a new spread of COVID19. On the 14th of September, social gatherings of more than six people were banned and on the 22nd of September, a "work from home" order was re-issued. By the 31st of October, the UK was put back into a second national lockdown (Institute for Government analysis, n.d.). Fetzer argues in his research paper "Subsidising the spread of COVID19…" that the Eat Out to Help Out Scheme accounted for roughly 8-17% of all new virus infections in the summer months, and argues that more asymptomatic cases would

have gone undetected, which may have contributed to the second wave of the virus (Fetzer, 2020).

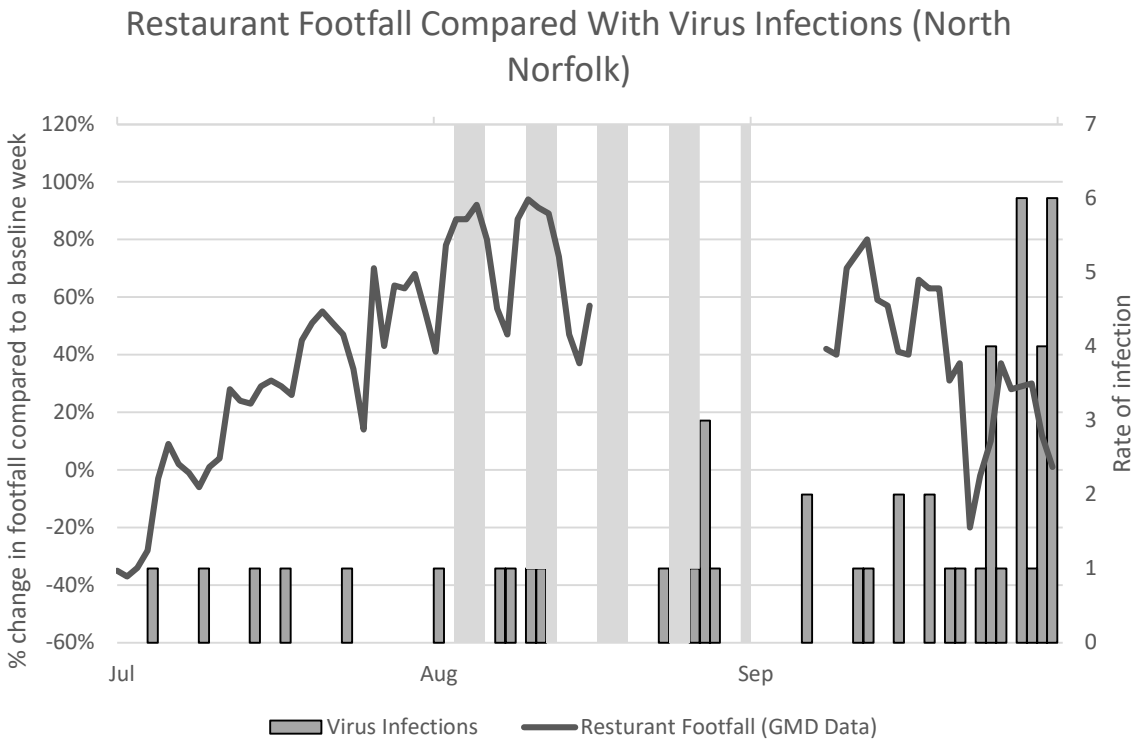

Figure 6 Rate of infection compared with footfall in retail and recreational venues in North Norfolk. Data from: (Government of the United Kingdom, 2021); (Norfolk County Council, n.d.); (Google, n.d.).

***Note:** Virus Infections are shifted back 5 days, to reflect COVID19's incubation period before a positive test result.*

Figure 6 shows daily COVID19 infections in North Norfolk, and the percentage change in restaurant footfall provided by Google Mobility Data. Contrary to Fetzer's report, which was focused on the nationwide impact of EOHO meals on virus infections, in North Norfolk, higher footfall in restaurants did not cause an increase in COVID19 cases. This is because of the open space a rural district like North Norfolk is able to offer.

Ultimately, however, the decision by the Government to implement national lockdowns was based on national data. So even if the EOHO Scheme did not cause a

significant up tick in virus infections in North Norfolk, if nationwide cases were rising then this would prompt more Government enforced restrictions.

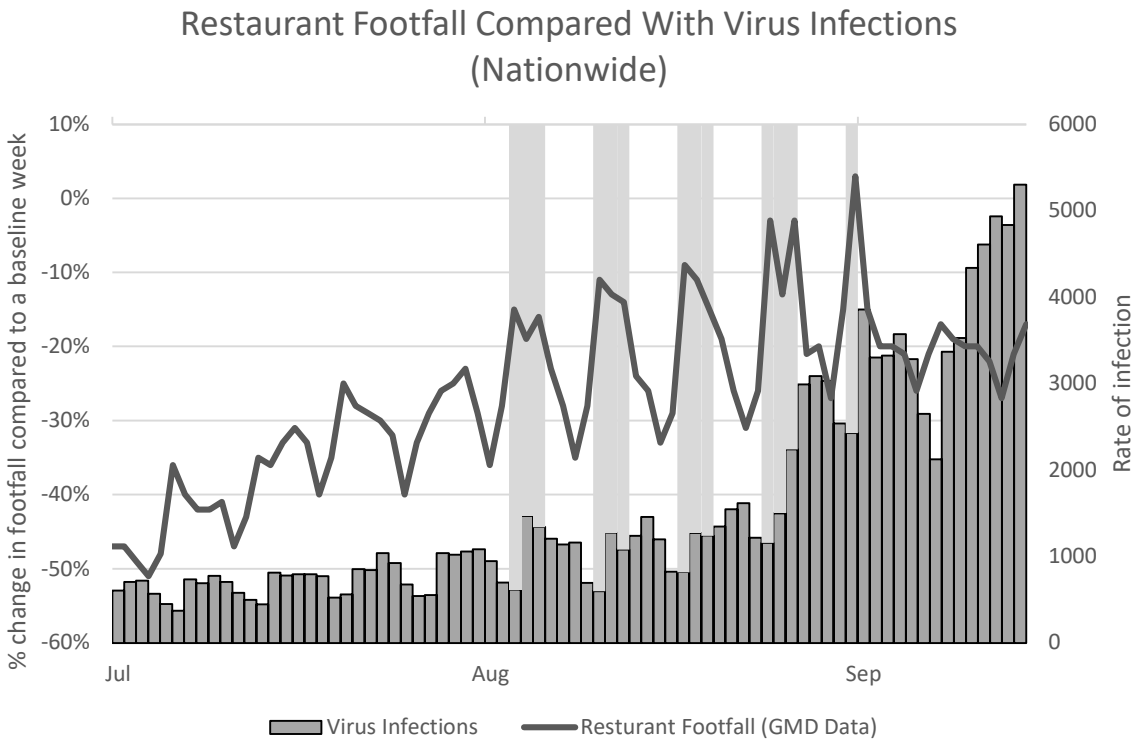

Figure 7 National COVID19 Infections and nationwide footfall in restaurants. Data from: (Government of the United Kingdom, 2021); (Norfolk County Council, n.d.); (Google, n.d.)

***Note:** Virus Infections are shifted back 5 days, to reflect COVID19's incubation period before a positive test result.*

As in Fetzer's report, the national statistics show a slight positive correlation between restaurant footfall, caused by the EOHO discount, and virus infections. Therefore, it is entirely possible that virus infections, brought about by the EOHO Scheme itself, prompted more restrictions. If this were the case, then another national lockdown would have had an extremely damaging effect on the demand for hospitality services.

Conclusion

The Eat Out to Help Out Scheme was largely hailed as a success in North Norfolk. There was a significant boost in footfall to restaurants on EOHO days, caused by an incentive to eat out with a 50% discount, footed by the government.

The scheme was designed to boost consumer confidence and stimulate the hospitality sector after 3 months of a national lockdown. However, I found that in North Norfolk, where COVID19 cases were lower than the national average, there was little change to consumer behaviour. Whilst there is a visible increase in footfall on EOHO days, this is partly due to the price elastic nature of eat out meals, whereby the incentive caused people to shift their demand from non-EOHO days to EOHO days. However, there is a clear boost in footfall throughout the whole of August, that undoubtedly helped to stimulate demand in the hospitality industry.

Due to the logistics of applying the subsidy, where venues would have to wait a week before being reimbursed by the government, some firms were left with low or negative profit margins and struggled to make the necessary minimum payment to stay in the market. In some cases, firms stopped using the scheme.

The evidence suggests that in North Norfolk, the scheme did not cause a significant up tick in COVID19 cases, however, there is evidence to suggest that in other areas of the country, the EOHO Scheme did contribute to infections. Therefore, it is not inconceivable to believe that the scheme did help to cause the factors that led to the imposition of a second national lockdown, which would cause another period of low demand in the hospitality sector. Thus, damaging demand in the long run.

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Appendices

Appendix A: Map Showing the Location of North Norfolk

*North Norfolk, **note:** South Hams and Westminster also shown*

Appendix B: Transcript from an Interview with an Employee of a Registered Venue During EOHO Period

Here are the main points from an interview I conducted with an employee who worked at a pub in North Norfolk, which used the scheme, to ask their opinions of the scheme, and how it impacted their business.

Q: Do you think the scheme helped to boost footfall?

A: As my shifts were spread throughout the week, I remember that on the days when the scheme was active there were more people who came to eat at our pub, and compared to the month before, when we had just come out of lockdown, it was a lot busier during lunch times.

Q: Do you think that these customers were mostly tourists or local people?

A: When I was talking to the customers, lots of them said they came from somewhere outside North Norfolk, but also lots of them were locals, who I recognised. But as it was during the summer, there were lots of tourists about already at the time. Some people I spoke to said that they came to North Norfolk for the day out and had a meal with the Eat Out to Help Out Scheme, so I would say that the scheme did help to attract tourists to the area for the day.

Q: Were there any limitations to the scheme, or things that the Government could have done better?

A: Yes, we actually stopped using the scheme before it ended officially, because the government repaid us for that week's claimed meals the week after. This meant that we didn't have enough money to buy the food to cater for the next week. Especially

as there was a larger number of customers to cater for, due to the increase in customers over that period.

Q: So, because the government reimbursed you for the claimed meals a week later, this created a period where your revenue was too low to make a profit?

A: Yes, and this is why we stopped using the scheme, because after the staff were paid, there wasn't enough money left to cover all our other costs.