HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: The impact of coronavirus on businesses and workers, HC 105

Tuesday 13 July 2021

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Richard Fuller; Mark Jenkinson; Charlotte Nichols; Mark Pawsey.

Questions 1 - 33

Witnesses

I: Ghislaine Halpenny, Director of Strategy and External Affairs, British Property Federation; Kate Nicholls OBE, Chief Executive Officer, UKHospitality; Helen Dickinson OBE, Chief Executive Officer, British Retail Consortium.

Written evidence from witnesses:

– British Retail Consortium [COV189]

Examination of Witnesses

Witnesses: Ghislaine Halpenny, Kate Nicholls and Helen Dickinson.

Q1 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee. We are covering two issues this morning. The first hour will be as part of our inquiry on the impact of Covid on workers and business, which is an ongoing inquiry, as we try to understand the impact of the pandemic on the economy. The second half will be part of our pre-legislative scrutiny of the Downstream Oil Resilience Bill. For the first hour, I am delighted to welcome Kate Nicholls, the CEO of UKHospitality, Ghislaine Halpenny from the British Property Federation and Helen Dickinson, the CEO of the British Retail Consortium. Welcome and good morning to all of you.

I am going to kick off the discussion this morning on commercial rent arrears, which is something we focused on in our pre-Budget report under this inquiry. Ghislaine, if I can come to you first, do we have an assessment as to the total value of commercial rent arrears in the UK at the moment?

Ghislaine Halpenny: Good morning, everybody. We know that, according to Remit Consulting, which has published figures every quarter since last March, the rent arrears from the beginning of the March quarter 2020 to the end of the March quarter 2021 is about £6.4 billion in rent shortfall. However, between rent waivers and payment plans, the majority of this has been resolved. We are currently a bit less than three weeks after the June quarter day and we cannot really draw firm conclusions at this point about the overall arrears, but it is likely to be around £7 billion. It is also worth noting that of that £6.4 billion, although it is from retail and hospitality, almost £2 billion is from offices and logistics, so it does not cover quite the full gamut.

Q2 **Chair:** You said that most of it was dealt with through rent write-offs or payment plans. How much of the residual amount is disputed and therefore may be subject to legal action, bankruptcy or whatever else it might be that needs to resolve that?

Ghislaine Halpenny: There is no single source of truth on commercial leases, and this is one of the challenges that we have all come across over the last year. We undertook what we think is the biggest study, of over 16,000 retail, hospitality and leisure property leases across the UK. We know that 50% of that rent from March 2020 has been paid and that property owners and tenants have reached agreement on a further 27%, so there is about 23% outstanding that is yet to have agreement one way or another.

Q3 **Chair:** Kate Nicholls from UKHospitality, rent payments are often a very significant payment for many hospitality businesses. There have been some grants from Government to try to help towards that cost. Do we have a sense of how many businesses in the hospitality sector have been paying their rent even though they have not been able to open? If so, how have they been doing that?

Kate Nicholls: Rent is the second biggest overhead for our leasehold premises, after their staffing, so it is a huge issue. We estimate, having done a survey of over 2,000 commercial leases in hospitality, that around half of those have reached an agreement now on the way forward, but you have a significant proportion that have not been able to pay. When we look at the total amount of rent debt, it is about £2.5 billion that has accrued in the hospitality sector alone since the start of the pandemic last year. While agreements may have been made in order to be able to pay debt going forward or to resolve rent arrears, a lot of that has not resulted in payments being made yet because of the state that the businesses are in.

However, we know that, on estimate, about 10% of businesses have been able to continue paying rent in full throughout the pandemic for premises. About 25%, in total, have been paying in part throughout the pandemic as a result, largely, of enforcement action that has been taken by some of their landlords to recover some of that debt despite protections that the Government have put in place or because they have prioritised paying some of the rent debts for smaller landlords where they have felt able to do so.

Around a third of hospitality premises are subject to leasehold agreements and have made some or all of their rent payments. That has been a struggle and they have taken on higher levels of debt from banks and Government-backed loans but also private investment from the businesses themselves, particularly for those SMEs, in order to fund that and to be able to continue to make those payments. It is a choice of what you are continuing to do—paying people, landlords or Government debt—to be able to fund that. A small proportion have been able to continue making payments throughout the crisis.

Q4 **Chair:** Presumably, while some settings have been able to open but with social distancing in place, they have had some capacity. Presumably, in areas where rental levels are lower, maybe they have been able to cover those rental payments, but maybe in high-rent areas like cities, that has been more difficult. Do we have any sense or any data around that?

Kate Nicholls: It is difficult to get any data as to where the payment has been made. Much of the time, these are multiple companies, so they have multiple landlords and they have had to make adjustments throughout that period. As we have made clear to the Committee many times previously when we have given evidence, throughout this crisis hospitality has not been able to break even, so, even when businesses are open and trading with restrictions, those restrictions have not meant that they are profitable and viable businesses. That is an area where it has been quite a challenge to be able to make sure that landlords understand that, as we move forward: open does not mean viable and able to make a payment. There has been some adjustment there.

Clearly, it has been much more difficult for business in those town and city centre locations, particularly central London and central Manchester, that are disproportionately affected by the work-from-home guidance and the lack of international travel. Many of those businesses, even though, legally, they could open, have not been able to and so have not been able to make that same level of payments. You are right. Where businesses have traded successfully or more viably over the course of the pandemic, they have prioritised trying to make payments where they can.

Q5 **Mark Jenkinson:** Starting with Ghislaine, what proportion of landlords and tenants do we know have not been able to reach agreement on rent arrears?

Ghislaine Halpenny: From our study a few weeks back, we know there is still 23% of rent left unpaid, or rather where an agreement has not been made. We also know that 14% of tenants have not been responsive and have not engaged when landlords and property owners have tried to have that conversation with them. The majority of property owners and occupiers are working very well together. No rational property owner wants to have an empty asset. They do not want to have to find a new tenant or pay business rates, so the majority are working very well together.

Q6 **Mark Jenkinson:** The Government have said they are working to encourage constructive dialogue between landlords and tenants. From a landlord's perspective, have the Government's efforts been effective?

Ghislaine Halpenny: Yes, in that the most recent announcement finally set out the Government's plans to help. However, it has taken us an awfully long time to get there. At the very least, the call for evidence that we all responded to earlier in the year felt like it could have happened an awfully long time ago. The code of practice that we all worked on last year was a good start. However, it was created a mere three to four months after the first lockdown. Life has moved on. The debt mountain is now significantly larger and some players on both sides are now so deeply entrenched that a voluntary code simply is not enough to help that deadlock.

Throughout the last 16 months, as I know the Committee has heard over many sessions, we have made multiple suggestions to Government, worked very closely with Helen and Kate on those suggestions, and our three organisations have worked closely together. None of that has been taken up, and now we find ourselves in this situation.

Q7 **Mark Jenkinson:** Helen, I can see you nodding along. Is there anything you would like to add?

Helen Dickinson: No. Ghislaine has highlighted that we put a huge amount of effort into the code of practice last year. Our concern at that point was that it was just a code of practice; it was not something that had stronger weight. It helped some of those businesses to facilitate those conversations, but, without the legal weight behind it, we are left in the situation that we have now.

I agree with Ghislaine's statistics. Across retail there is probably a slightly better situation than Kate is seeing within hospitality because, obviously, retail has been open for slightly longer, and many retail businesses have online and digital operations that they have been able to invest in and rely on over the period that their physical shops were closed.

Regarding the tail, my statistics show that between 70% and 90% of retail properties have either had their full rent paid or an agreement put in place to do that. We are talking about the tail, and the size of the tail depends on the nature and location of the business, as the Chair just asked in terms of businesses in city centres being in that worse situation, because footfall in those city centres is still much lower than the average across the UK. We have footfall still down by about 30% nationally. That is a bigger percentage in urban locations, for the reasons Kate highlighted around tourism and office occupancy.

Q8 **Mark Jenkinson:** Do we think the remaining proportion where there is no agreement is going to end up in the courts?

Helen Dickinson: That takes us on to the arbitration process that has been announced and what that will look like. As we sit here today, there are a lot of questions, certainly from our membership, around the detail of that and how practical and workable it will be. There are also questions around whether or not it will be an arbitration interpretation of what the law says, in which case all we are doing is deferring or offloading a legal process that might otherwise have gone through the courts into an arbitrator who is just going to say, "The lease says you should pay your rent," versus something that is much more akin to a qualitative assessment looking at the positions of both the parties, their financial situations and the backdrop they have faced.

At the moment, we are a month post the announcement that was made in the middle of June about the fact that this binding arbitration would be put in place, but we do not know what that is going to look like and exactly when it is going to be put in place. That tail is dependent on what happens with the process over the coming months, because there will probably be some of it that gets negotiated through ongoing discussions. There will still remain a chunk that is very entrenched. The tenants will say that is the landlords' fault and I am sure the landlords will say it is the tenants' fault. Either way, there will be a small proportion of that tail where, for whatever reason on either side, those two parties have not been able to reach an agreement and we need some other process to facilitate that.

Q9 **Mark Jenkinson:** Do you see a difference between the ability of large commercial businesses and smaller businesses to negotiate agreements with landlords?

Helen Dickinson: In either situation, you have different sizes of tenants and different sizes of landlords. Both sides of the equation are variable, if you see what I mean. A bigger tenant business has more capacity in terms of expertise, but the converse is also true in that a bigger institutional landlord is going to have that as well. You have the two relative expertise quotients of the parties and all the other variables that sit around it, such as the location and the type of business that you are talking about. Even within retail, if you are a clothing, footwear or beauty business, you have suffered much more than if you were a homeware or electronics business because of the nature of what we have been buying. Location, category and relative expertise of the businesses are all variables that come into play.

Kate Nicholls: Just to pick up on your final point, you need to have a willingness to negotiate. Irrespective of the respective size or ability of the parties to negotiate, if you do not have a willing party on either side or both sides, to be able to start that negotiation, you are going to have a challenge. There is lack of contact on both sides. Ghislaine has highlighted tenants that have not made contact. There are also landlords who have not made contact. The situation is undoubtedly improving. Part of that is because we have had confirmation of the roadmap and certainty about reopening, which allows people to have meaningful negotiations.

Before Christmas and around about January, when we came into the third lockdown for hospitality, you saw about a third of business premises that had reached agreement with their landlords on a deal on the way forward. It might not necessarily be a writing off of debt or a concession on rent, but there was a deal and a negotiated settlement on how to treat that issue. That has now increased to 49%, but it still leaves one in five where there is just a stalemate in negotiations and an inability to cut through that. That is going to need willingness on both sides, irrespective of the size of the businesses that are involved. You will have differentials on both sides.

That is the quantum or the scale of the problem of those who are going to need a further nudge to make a move forward. As I say, 49% of our business premises have now reached agreement. Some is rent reduction. Some is writing off a proportion of the debt. Some is a longer time to pay. We have 22% that are in active negotiations now. Helen is right that we now need to see detail from the Government about the proposal on the next steps to be able to give a further nudge to get those deals over the line and to give an indication and a direction. We need the next iteration of the code of practice ahead of the binding arbitration being introduced later this year through legislation, so that we can narrow down the small number of cases that cannot reach agreement other than through external arbitration.

Q10 **Mark Pawsey:** May I first draw attention to my entry in the register of Members' interests? I want to ask about the Government's rent arrears arbitration process. First, I want to pick up a point that Kate made. I think you said that, in some instances, businesses in hospitality have been obliged to pay because of enforcement action taken by landlords. Can you elaborate on that? Our understanding is that the moratorium on rent arrears prevents landlords from taking exactly that action. What has been happening?

Kate Nicholls: The moratorium is fairly comprehensive, but it does not cover all enforcement activity, so we have seen a number of county court judgments that have been brought forward and county court action that has been started. Clearly, for a large number of businesses, that is an action that has larger consequences for the business as a whole and the reputation of the business as a whole.

Q11 **Mark Pawsey:** Is this action that predates the pandemic?

Kate Nicholls: No.

Q12 **Mark Pawsey:** If there is a moratorium on this action, how have the landlords been able to start it?

Kate Nicholls: The moratorium excludes county court judgments. A county court judgment is started to be able to determine if there is a dispute on the debt that is falling due if the two parties disagree. We have seen landlords starting that process in hospitality and also in retail to be able to get confirmation that the rent is a debt that remains payable and falls due. There is no enforcement action that can be taken as a result of that. Clearly, a ruling in the county court that says you have a debt that has remained unpaid is something that a business, from a reputational point of view, cannot afford to have. Therefore, it has been used as a threatening tool to require people to make payments.

We have also seen that, in some cases, there will be personal guarantees or head businesses above the individual tenant. Landlords have used that to exert pressure to get payments, too.

Q13 **Mark Pawsey:** Kate, are you suggesting there is something wrong in the fact that some landlords have sought to identify or crystallise their debt? Are you saying they should not have done that?

Kate Nicholls: I am saying it was a gap in the enforcement moratorium that we identified at the time. We said there was a danger that some businesses would be put under pressure to make payments unless that was covered and extended to include county court judgments. It is something we have been raising with Ministers subsequently as a result. It is a small proportion of cases, but, where they are used or, more importantly, where the threat is used, it has a real impact.

I hesitate to use the word “loophole” because it is not a loophole, but it is an enforcement mechanism that was not covered by the debt enforcement mechanisms that were introduced as part of the Insolvency Act.

Q14 **Mark Pawsey:** It is not a legal enforcement. Having identified the debt through the county court judgment, tenants have chosen to pay rather than be obliged to pay through the legal system. Is that what you are saying to us?

Kate Nicholls: In some cases, they have felt that they have no option but to pay, but, yes, you are right fundamentally. If there is a ruling in the county court, it cannot be enforced and the debt cannot be collected immediately because the enforcement moratorium kicks in. It confirms that the rent debt is payable in full at the point at which that moratorium ends. I know Helen has had many more cases that have gone all the way in retail. In hospitality, a lot of our companies have felt they have no option but to make that payment.

Q15 **Mark Pawsey:** I think we perhaps were not aware of that practice. Helen, do you want to elaborate on that?

Helen Dickinson: I have a couple of points to reinforce what Kate has highlighted. Where cases have gone all the way to court, the courts are left with no alternative other than to look at what the lease says, so there has been no interpretation by the court of the backdrop and the fact the Government forced these businesses to close their doors. Those businesses that have been subject to county court judgments are left with no alternative than to—

Q16 **Mark Pawsey:** With the greatest respect, those tenants entered into those leases on the basis they were going to do what the lease said.

Helen Dickinson: Yes, absolutely.

Mark Pawsey: Nobody has done anything wrong here.

Helen Dickinson: No, but that comes to the nub of the whole debate about the tail of unresolved cases because many of these businesses, if they had to pay all their outstanding rent all at the same time, would effectively go bust or have to close many of their premises. It is a qualitative debate about how you interpret the surroundings they have found themselves in and whether or not that takes you straight back to the law. If that is the case, you end up with a whole bunch of businesses that, basically, will become insolvent tomorrow or will end up closing a big proportion of their portfolios. I take your point.

The other point I wanted to make on CCJs is that, once a process is initiated against a business, it impacts their wider ability to take on any other lease or debt of any description, so you cannot be sitting there as a business with a county court judgment against you.

Q17 **Mark Pawsey:** You are suggesting it affects their credit rating. Is that essentially the case you are making?

Helen Dickinson: Yes. That is a much more succinct way of putting it.

Mark Pawsey: That is a reason why businesses have wanted to settle it.

Helen Dickinson: Yes.

Q18 **Mark Pawsey:** That is a good point and perhaps something we were not aware of. Ghislaine, in terms of the debt, is it exclusively rent? I have a constituent who is a landlord and has been in touch with me about his tenant not paying rent. He also tells me that the tenant is not paying the service charge or the insurance bill either. Is all the debt you have referred to rent, and have landlords been able to pursue tenants in respect of service charges and insurance?

Ghislaine Halpenny: The numbers I provided earlier are all rent. The Government have been very clear throughout this process that, in the same way that rent is owed, service charges and insurance should also be paid as well. I do not have the figures to hand right now, but, from memory, the service charge and insurance figures have been much higher and have held up quite well. I can make sure they are circulated to the Committee afterwards.

Q19 **Mark Pawsey:** Are service charges and insurance covered by the moratorium?

Ghislaine Halpenny: Yes, they are.

Q20 **Mark Pawsey:** The debt to the landlord exceeds the figure you have given us on rent. I think you told us it is £6.4 billion. Over and above the £6.4 billion of rent that is owed to landlords, how much is there in service charges and insurance?

Ghislaine Halpenny: I do not have the figure to hand, but I can circulate it after.

Q21 **Mark Pawsey:** Would you like to give us an estimate? Are we talking another £1 billion or so?

Ghislaine Halpenny: No. The figures for service charges and insurance have been much higher, in terms of the percentage paid, so I would imagine what is outstanding there would be significantly smaller.

Mark Pawsey: It would be useful if you could let us know the full details.

Ghislaine Halpenny: Of course.

Q22 **Mark Pawsey:** If I could stay with you, Ghislaine, I have, again, a landlord who says to me that, if he went into Sainsbury's and bought a basket of groceries and attempted to walk out, bypassing the checkout and not paying, a security man would very quickly have a hand on their shoulder. He argues that his tenants are able to do exactly that. Is that how the British Property Federation sees things?

Ghislaine Halpenny: In some cases, yes. The Government have been very clear all the way through that rent is owed, that those who can pay should pay and that those who cannot pay should talk to their property owners in trying to come to an agreement. We know that, in most cases, that has happened and we know that most landlords have been very sympathetic, particularly to small and independent businesses that they have supported.

There has been a number of well-capitalised businesses that have not paid, and that has been well publicised. We do not have a quantifiable figure on that. We do not know the final number, but we know it has a severe impact. It has three impacts, the first of which is that those large companies that have not paid are using their market power to abuse small landlords. Those smaller property owners are unable to pay their own bills and are potentially having to dip into their own savings. We also know that those landlords are unable to offer concessions to other tenants because those concessions are effectively being eaten up by those larger well-capitalised businesses.

The second is that the non-payment sends a really clear signal to the rest of the market that it is okay not to pay your rent. The Government have been very clear, but that has not had the cut-through, to be totally honest, so tenants who have not necessarily followed the Government announcements closely think it is okay not to pay up.

The third is that it is damaging their direct competitors. We hear a lot of complaints and stories about this. Most tenants and occupiers are behaving with integrity and recognise the importance of working with their property owners in economic partnership to make sure their properties and businesses can carry on. If you have one person who is not paying up, that makes it significantly more difficult for everybody else.

Q23 **Mark Pawsey:** My constituent tells me about a warehouse unit and a business that has traded throughout the pandemic and is relying on the moratorium not to pay its rent. Would you describe it as a blunt instrument?

Ghislaine Halpenny: Yes, absolutely, but we understand the Government put the legislation together in a very short space of time. It was necessary at the time and it is problematic to unravel. The biggest challenge we have is that it has taken quite so long to unpick this and find an exit strategy. We are now in a position where it looks like it is going to take at least another nine months for an arbitration system that none of us is particularly supportive of to come forward. You potentially end up in a situation where a landlord or property owner has had two years of no income and a business that may, indeed, be open and trading.

Q24 **Mark Pawsey:** Helen spoke to us about the arbitration process that the Government announced a month or so ago. She drew attention to the fact we were waiting for detail. What is your view so far of what the Government have announced? Will it be helpful?

Ghislaine Halpenny: We do not know very much. There was simply a press release on 16 June. That is the only thing we have seen so far. We all agree there is a need for a binding backstop, that there is a need for the Covid rent arrears to be ring-fenced and that there should be more time to negotiate around that, but the moratoriums on future rent payments should be lifted once businesses are open and trading.

The proposed arbitration scheme, or what we can piece together from the limited information that is out there, feels like it is a bit of a sledgehammer to crack a nut. It is going to be large, complicated and expensive to put together, and potentially a waste of taxpayers' money. We do not see why the courts, with some additional guidance, should not be used to carry out that backstop process. We do not have any clear idea of how many cases would go to arbitration, but we need to make sure it is a deeply unappealing prospect, so that as few cases as possible get there.

Q25 **Mark Pawsey:** Do we have any idea of who will manage the arbitration process?

Ghislaine Halpenny: We have been told that there will be a number of arbitrators. I think it is in the footnotes of the press release. We do not have any more information at the moment.

Q26 **Mark Pawsey:** Kate, do you have any thoughts about this proposed arbitration process? Do you think it will undo the logjam and get things moving again and get people negotiating? Do you think attitudes, in some cases, are now so entrenched that, no matter how skilful the arbitrator, it is not going to get sorted?

Kate Nicholls: We are already seeing the impact of it because, when we had the announcements earlier this year, it has unlocked more negotiations, so we are seeing a greater proportion of our businesses able to enter into negotiations with landlords who were previously not willing to enter a negotiation. As I say, before, around about January, we had about a third of landlords who were just not willing to negotiate; 30% to 40% has been the norm. That is now down to one in five where there is an unwillingness to negotiate, so you are seeing an impact already in the suggestion that there will be a binding backstop. As Ghislaine says, that is one of the things all three organisations have wanted to see for some time.

We need to see a strengthened code of practice in the interim, to be able to give greater direction to both parties as to what is a reasonable negotiation stance to have and how we can frame those negotiations to make sure that we, again, only have a minimum number of cases going to arbitration. Following the press release from the Government, three quarters of our businesses supported binding arbitration and the extension of the moratorium. They felt that was essential to their business. Half of our businesses said, without it, they would not be able to survive if the rent debt fell due in one go and they did not get agreement on paying. It is a material benefit and a material step forward in helping to support hospitality businesses.

They are already saying that, yes, they are reaching negotiations. It does not go as far as they want it to, but the negotiations are starting to happen on both rent reductions and writing off the debt. On average, it is looking at about a 40% reduction in rent or rent debt. It is either/or that people are looking at.

The Government's announcement gave great hope to the sector that we will be able to reach agreement. It talked about the Australian model as a benchmark, which looks at a 50% write-off of that ring-fenced rent debt as a benchmarked proportion. That should hopefully help to move the debate and discussion forward. There is broad agreement from a number of landlord and lessee companies that that is an appropriate benchmark with arbitration then left to pick up those cases where the parties do not agree that, dispute it or need to reach agreement on a timetable to pay.

Time to pay is the biggest factor our businesses are asking for. Quite often, when the rent debt is rescheduled, it is not sufficient time for them to be able to make those repayments. They would like to be able to negotiate a longer payment plan to repay that rent debt. It has the potential to deliver, but we need to see the detail urgently, because the devil is always in the detail. We need that, ideally, before the House rises for recess so that we can start to have some of those meaningful negotiations over the summer.

Q27 **Mark Pawsey:** I certainly take your point about the detail, but are you suggesting to us that the existence of the process and the Government's announcement has brought some landlords to negotiate because, when it comes to arbitration, if they are shown not to have had any discussions with their tenant, if they have simply dug in their heels and said, "The rent is due," that is not going to look good in the arbitration process? Is that essentially what you are saying to us?

Kate Nicholls: Yes, absolutely. We have seen that beneficial effect from the announcement. It is not just on the landlord's side. It also brings tenants to the table. As I have repeatedly said, you need two willing parties to reach a negotiated settlement and avoid arbitration. We have already seen the powerful effect that the announcement has had on unlocking some of those negotiations that had been stymied.

Q28 **Chair:** Helen, did you want to add anything very briefly on arbitration, or are you happy?

Helen Dickinson: The headline I would reinforce is that we are talking about a minority here. There is a direction of travel that is improving all the time, but we need that binding backstop. At the moment, the principles that will underpin the arbitration process are not clear and that is quite a lot of a thought process where there will probably be some tension, I am guessing, between the different perspectives of different parties. I am not guessing; I know. The sooner we get started on what it looks like, the better, so it is really about not taking the eye off the ball just because it feels like we have plenty of time. If we need some arbitrators, there is an army of them that will need to be recruited, so there is all sorts of detail that needs to be worked through. The sooner we can get going on that, the better. We are ready to do that as soon as the Government are.

Q29 **Alan Brown:** If we look at other financial support measures, in mid-June the UK Government extended the coronavirus restrictions from 21 June to 19 July. The devolved nations slowed down opening up as well. As we know, the wind-down dates for furlough and business rates relief were not changed in line with the extension. I wonder if Helen and Kate could outline what impact this has had on businesses.

Helen Dickinson: The impact on retail will be less than the impact on hospitality. There is no doubt that the furlough scheme has been an absolute lifeline for hundreds of thousands of businesses. It has protected hundreds of thousands of jobs over the last 15 months. The wind-down is less of an issue for retail, because all of retail has been open since April. We do not have the same impact on part of the industry that Kate has.

You touched on rates. The biggest thing that is most important for the future vibrancy of town centres and high streets is the outcome of the review of business rates. The holiday last year was a lifeline in the context of the pandemic. The business rates holiday combined with the CJRS saved, as I said, huge number of jobs in viable businesses. In terms of the future longer-term prospects for our town centres and high streets around the country, it is what happens in the autumn, with the outcome of that review, that is most important.

In terms of the support measures right now on rates, it is disappointing that we have ended up with something that is different in England from what we have in Scotland and Northern Ireland. In other parts of the UK, we have extended the holiday over the course of this year rather than limiting it. I come back to the point that, longer term, it is the outcome of the review that is the most important thing.

Kate Nicholls: I would echo Helen's points about how important furlough and business rates support has been to maintaining the viability of many businesses and jobs throughout the pandemic. Clearly, the impact of extending restrictions for an extra month in England was much more significant for hospitality. One in five hospitality businesses was legally prevented from opening, so 19 July is the first date on which they are able to open. The remainder are obviously subject to very stringent restrictions and additional costs, which means they do not break even with the restrictions in place, so you had that double whammy.

An extra month of restrictions cost the sector £3 billion in lost revenue. Four weeks in February is not the same as four weeks at the start of our peak tourism season, so four weeks in June and July are more of our golden time of trading that we lost, so it is a hard loss of revenue there. The additional restrictions increased the costs.

From our point of view, the biggest impact was the lack of extension on the business rates support. One in five of our businesses started paying business rates in full from July because of the cap on the business rates relief. Although you come off and you get 67% relief, you are capped at £2 million, so you do not have to be a very big business before you are capped out and you get no more relief. Over the course of July, those four months of closure, £100 million-worth of business rates bills hit the sector. As I say, one in five businesses across hospitality in England alone will start to pay its business rates in full between July and September in this quarter. It will be a very big burden to bear.

Clearly, in Wales, Scotland and Northern Ireland, although a similar delay was put in place, the fact those businesses knew they had a guaranteed 12-month business rates holiday allowed them to navigate with a little more certainty and to prioritise paying, supporting and retaining their people and navigating the challenges of the change in furlough.

In respect of furlough itself, we understand the need to wind down furlough. You have an artificial labour market at the moment, which is causing labour shortages across hospitality and retail, so we understand and support the winding down of furlough. However, what caused a particular problem with those businesses that were planning on reopening on 21 June and then had it postponed, or that were planning on expanding their businesses, was that they were still stuck with the same rules. You had to be on the payroll in March to be furloughed, so we have a lot of new young staff who were recruited for the reopening who now cannot be furloughed because they fall outside the eligibility period. That would have been a bigger impact on our businesses.

Helen is absolutely right, the longer-term issue is resolving the business rates conundrum, because you have that short-term business support that has gone. We then have another cliff edge in March where the 67% rate relief falls away and we go back to business rates at the highest level they have ever been, set at rental levels that were last determined in 2015, so at the height of the market. We need to look urgently at what happens to our business rates for those sectors as we come out of this crisis.

The longer it takes to lift restrictions and move back into a more normal level of trading, the longer it will take to recover, and that impacts on the flowthrough into 2022. The cliff edge in March 2022 is a critical one for us. That is when both business rates support comes to an end but also when the VAT rate goes up.

Q30 **Alan Brown:** Both you and Helen touched on the fact that the devolved nations have extended the business rates holiday for this full financial year. Are you able to put a finger on why the UK Government have been so resistant to calls to do the same in England, while the devolved nations have acted?

Kate Nicholls: You would have to ask the Chancellor or the Financial Secretary for that decision. Obviously, with any decision that is made in England, you then get consequential payments that flow through to the devolved nations and it is for them to determine how best to use that money as they see fit. There have been slight differences where English businesses have benefitted from a more favourable grant scheme or more favourable support in other areas. In other cases, the Scottish and Welsh Governments have taken different decisions and have given different support across that. I cannot answer that question, I am afraid.

Helen Dickinson: It is interesting because much of the debate is similar to the rent debate. If you give a business rates holiday to everyone, there are some people who need it and some who do not. Scotland has required people to apply for it rather than everybody having it automatically. That was quite a neat mechanism to put the onus on the business to think about whether they really needed that holiday before applying for it, rather than it going to everybody and a debate ensuing about whether everybody, in fact, needed it.

Q31 **Alan Brown:** On furlough, you mentioned there is an artificial labour market just now. I have noticed a narrative in some quarters that is saying some people have been getting furlough but there will not be a job for them at the end, that it is time for that false protection to end. The hospitality sector needs labour, so these people can switch from the job they lose into hospitality. There is an argument that some people in hospitality have been able to take jobs elsewhere while on furlough and are then not returning to hospitality. How true is that narrative? How serious are labour shortages for hospitality? Again, how much of an impact does Brexit have?

Kate Nicholls: We are seeing labour shortages across hospitality, and there are a variety of reasons in different parts of the country as to what is driving that. We are seeing around one in five of our staff not returning to hospitality when furlough comes to an end. It is probably equal proportions. About 8% are saying they do not want to return to hospitality; they have found another job and do not want to return to their job, so they have left the sector for good.

There is a similar proportion who cannot move at the moment because they have other jobs. Clearly, hospitality has a lot of part-time workers. People have multiple jobs when they work in hospitality; they did pre-Covid and will post-Covid, as well as being full-time employed in hospitality. We understand that. They are not able to move at the moment because their other job does not allow them to take up the hours. There was a high degree of uncertainty at the time on whether the businesses would be able to reopen and trade without restrictions, so yesterday’s announcement will be helpful in ending that uncertainty.

You then have a proportion where you have workers in the wrong place at the wrong time. That is not just our non-UK nationals, many of whom returned home pre-Christmas to spend time with family and intended to come back but cannot because of travel restrictions. You also have UK workers who have moved around the country. There was an exodus of people from city centres back when they could not afford to live in city centres during the pandemic. We have a large number of students who work in hospitality, and they are in the wrong part of the UK at the wrong time. There are many factors.

We are seeing a vacancy rate in hospitality of about 10%. We know that, of those workers who are on furlough, 200,000 are still on full furlough and probably about 400,000 are on part-time furlough across the sector. Those are real jobs; they are not zombie jobs or jobs that they will not be able to return to. We have a vacancy rate of about 10%, so we are short of 200,000 workers, and we are actively trying to recruit for those. Then you have labour shortages that are now exacerbated by self-isolation and businesses having to juggle that process when workers are pinged and have to self-isolate. That is also exacerbating labour shortages at the moment.

You have a labour market in our sector that is hot and tighter than we might have anticipated. The point I was making about furlough is that, as it unwinds, you will get to see the real issues and challenges within the labour market. It is not necessarily that we want it to continue indefinitely. It is vital that it is in place until September for part-time to support those businesses as they reopen and recover.

Helen Dickinson: I was just going to make the point that Kate made at the end about the impact of self-isolation requirements. We have a combination of, as you highlighted, Brexit and the furlough scheme. Regarding the self-isolation requirements, think about the exponential growth in case numbers that we are seeing now and that is expected to rise, as outlined yesterday as part of the announcement on the roadmap. Those case numbers will continue to rise.

If the Test and Trace and self-isolation requirements continue as they are, with no change between now and mid-August, whether you are talking about hospitality, retail or businesses right across the economy, the volume of contacts of people pinged by the app or contacted by Test and Trace is exponentially growing. Terminal 5 had to close for some part of yesterday. We are seeing, across some businesses, vacancy rates of 20% and only a tiny proportion of those people are off because of Covid directly. It is all indirect consequences of needing to self-isolate, irrespective of the fact they have tested negative and/or have had two vaccines. That is quite an immediate issue associated with the lifting of restrictions and the ongoing roadmap.

Kate Nicholls: We have similar proportions. We have one in five hospitality staff at any one time in self-isolation at the moment, which is forecast to go up to about a third. Of course, the challenge for us is that 60% of our workforce is under 30. In reality, that change in policy from 16 August around fully vaccinated people not having to self-isolate will not really start to kick in and affect our workforce in a material way until the beginning of September, because of the higher proportion of young workers we have who, through no fault of their own, are not fully vaccinated at that point.

We need to work through a way of making sure that we can safely keep people in work and have a test-to-release policy that works to allow the economy to continue. For many of our SMEs—80% of hospitality is SME—if they lose one or two key workers, they cannot open the site at all. Therefore, they are closing the business fully and losing money just as we are moving into that reopening period.

Q32 **Charlotte Nichols:** I declare an interest as the chair of the all-party parliamentary group on pubs, just for the record. My question is around business rates, which have been touched on already today. The Government have announced the review of business rates. What changes would you like to see to business rates? How might these changes benefit UK businesses?

Kate Nicholls: Business rates are a big cost to the sector. The sector has long been disadvantaged by the current system, particularly in pubs and hotels it is based on an assessment of turnover from the premises rather than being a flat rate fee. Therefore, the earnings from the business get caught up in that.

About 12% of all business rates payments come from hospitality. In comparison, hospitality has about 3% to 5% of eligible income if you look at broad GDP turnover. Hospitality businesses are disproportionately paying business rates. If hospitality's business rates bill was equivalent to its trading levels, rates would be about £3 billion lower for the sector as a whole. It is partially the fact that the Treasury needs to get a set amount of money coming in, around £26 billion or £27 billion a year, and then the remaining businesses within scope need to share and pay up their proportions of that.

Clearly, we are property intensive. We also need to be in areas of the country, towns and city centres where you generate the highest footfall, so we tend to be in the highest rate-paying bands and areas within town and city centres. We cannot move our businesses offline. You cannot go into a pub virtually. Any income we generate offline through delivery sales, takeaway and accommodation is also factored into the business rates calculation. You need to have a broader reform that looks at how you are raising money from the breadth of business activity. You need to look at business taxation in the round.

The review and ongoing consultation looks at a shorter period of time between reviews, so three years rather than five years, which allows a review to be more responsive to the property market. This should mean that you are closer to the point at which your review happens from when the bill hits. As I said previously, you have an assessment in 2015, the bill then starts in 2017 and, by the time you get to the end of the period, the property market and overall economic conditions bear no resemblance to it. That shortening of the period will help, but you need to foreshorten the period between the assessment and the bill coming in.

More broadly, you need that root-and-branch reform of business rates that was promised in 2010 and 2015 to be able to look at how you rebalance the economy and make sure you are raising money across an economy that is 21st century rather than something that was set in the 1980s.

Helen Dickinson: My first point is that the Government made a manifesto commitment that it would reduce the burden of business rates. As part of the review, the scope of the review was that the burden of business rates would be reduced. That review outcome needs to live up to those commitments.

My second point reinforces what Kate said. Part of the biggest issue facing high streets and town centres is that we have a current business rates bill that is completely out of line with the market realities of the underlying rent of those properties. The business rates bill is supposed to be half of the market rent. Because the gap between valuations is so long, we are still based on valuations that were assessed in 2015. Estimations are that the market value of those properties, certainly in retail—I do not know about hospitality—has fallen between 30% and 40% since 2015. How we get the market reality into the system much more quickly has to be an outcome of the review along with reducing the burden.

The other more granular point is, whatever they announce at the end of this year, in autumn or whatever they have said, will take time to implement. There is a gap for which we need a bridge that takes us from the autumn announcement to whatever that new process looks like because, in that intervening period, we would still see the full 2015 market valuation business rates being paid. Finding a way to bridge from A to B would have implications.

Certainly for retail, it is all about marginal decisions: "Do I or don't I invest in opening this store? Do I or don't I decide to close this store?" You might have a portfolio that looks like this. There will be sites at those margins and the margins will fall one way or the other depending on the decision and the outcome of this process. It is vitally important that they live up to those commitments to make sure those decisions go a way that creates vibrancy and economic activity in all the constituencies of the members of this Committee, and where I live and where everybody else lives.

Otherwise, we will end up with the vacancy rates and subsequent job losses that would create in local areas up and down the country. It is a really simple decision for Government. I do not understand why it has taken so long to get us here and why it still seems so difficult.

Ghislaine Halpenny: I support Helen and Kate largely. If the Government are serious about levelling up, building back better and longer-term town centre recovery, we have to see the long-promised root-and-branch business rates reform. The can has been kicked down the road again. It feels like some of the effort that is being spent on messing around with arbitration mechanisms could perhaps be put into sorting out business rates, which might be a helpful reallocation of resource.

From our point of view, as Helen was saying, business rates need to be responsive in real time to market changes. Currently, it is based on historical out-of-date rental values, so it bears no reference to the real world. We need to get on with it and move this forward.

Q33 **Alan Brown:** We have already heard during the session about levels of debt that have built up. What more should the Government do to stop businesses carrying unsustainable levels of debt? Can you estimate how many businesses might be at risk of going into bankruptcy?

Kate Nicholls: It is quite clear that hospitality is going to emerge from this crisis with a very heavy level of indebtedness, and that is going to be one of the big challenges coming out of the recovery and will mean the sector remains fragile for the next six to 18 months. We know you have £2.5 billion of rent debt, which, hopefully, we will get resolved, but that will still carry over on to balance sheets. You have £6.5 billion of Government-backed loans. You probably have a further £1.5 billion of other forms of debt that have built up, both Crown debt that is starting to be repaid but also private debt. There is probably about £10 billion of debt.

The Treasury assessment is that, for most of the rest of the economy and the economy as a whole, corporate deposits are twice the level of corporate borrowings. It is exactly the reverse in hospitality. Corporate borrowings are twice the level of corporate deposits. That will impact on the speed of our recovery and on our ability to recover and bring a lot of those smaller businesses with us. It will impact on the level of bankruptcies we see going further forward.

We have managed to keep bankruptcies and business failures to a relatively low level throughout the crisis, but I think we are going to see that picking up. We lost 12,000 businesses, a contraction of one in five of our town centre restaurants, pubs and bars, one in 10 of our hotels and wider restaurant and tourism businesses, and about an 8% contraction in the pub market. We are seeing business failure but not at the scale that might have been anticipated. We will see more of that going forward, and it will be the level of debt that is the challenge.

One of the things we are finding is that, despite the Government recommending to banks that they should extend the CBILS loans for a maximum of 10 years, that is not translating through at the grassroots level in practice. We are seeing Government-backed loans into the hospitality sector usually with a maximum repayment term of six years. Further activity to encourage the banks to do the right thing, support those businesses and give them a longer time to pay and grow would be incredibly helpful. Again, this would help to avoid the repayment of Government-backed debt that started in July crippling those businesses going forward.

The Government also need to look at measures to recapitalise the sector. We are looking forward to continuing to work on that to be able to make sure that we have a system to get investment back into the sector, both private and bank debt, and ways to make that repayment of debt more manageable. Part of that is, obviously, as we have touched on, that the more we can reach agreement on how long the rent repayment schedule periods are, the more manageable other debts will become as well.

Helen Dickinson: I do not have the same level of concern that Kate would have in terms of the debt hangover within retail, as it is going to be much worse within hospitality. I come back to what I said before about business rates. My biggest concern is marginal decisions that individual businesses will be taking because of the combination of all the things we have been talking about, whether it is that chunk of businesses at the bottom that have not quite sorted out their rent negotiations with the landlord. More important are the business rates bills they will be facing in terms of those physical spaces.

It is all about the number of marginal decisions. If you have lots of businesses all making marginal decisions and those marginal decisions all go one way, that is a big chunk of impact across the country. I am more concerned about the things that impact those marginal decisions rather than big blanket swathes of bankruptcy on the back of a debt hangover issue, which is less significant in retail than it would be in hospitality for the reasons we highlighted earlier.

Kate Nicholls: Helen is right about all these marginal decisions. The more breathing space and headroom we can give these businesses to navigate their way through means it is not so critical if debt is at that level. They will benefit from having more headroom on their business rates or from the VAT cut. The lower rate of VAT has undoubtedly helped most of the hospitality sector to navigate this crisis. We need to make sure that is sustained going forward to help them navigate the recovery period, too. That is the single biggest thing that would help, over and above the things we have talked about in terms of business rates.

Helen is right. If you have businesses in hospitality and retail that rely on a high volume of low-value, low-margin transactions, anything that impacts on the cost of doing or running the business or the cost of supply has a bigger and disproportionate impact on viability going forward and on the ability to service all those other demands, whether that is debt, business rates payments or tax payments.

Alan Brown: Ghislaine, do you have anything to add in terms of what the Government could do to stop businesses carrying unsustainable debt?

Ghislaine Halpenny: I do not have anything to add over and above Helen and Kate, no.

Chair: We have timed out, so that brings us to the end of our first panel this morning. Thank you to Kate Nicholls, Ghislaine Halpenny and Helen Dickinson for your evidence this morning and for bringing us up to date as part of our ongoing inquiry on the impact of Covid on business and workers.