Leisure/Hospitality

Specialist Leisure & Hospitality Accountants

Newsletter
Summer 2016

www.hawsons.co.uk

Introduction

Welcome to our Summer 2016 leisure and hospitality newsletter.

With Brexit now confirmed no one really knows what's coming next or what it could all mean in the long term. Brexit has created an air of uncertainty for the majority of UK businesses and leisure and hospitality businesses are no different. In this newsletter, we look at the challenges and opportunities for the sector in an uncertain financial market. We also look at the recent changes to business rates, a further rise in the National Minimum Wage and the impact of the new apprenticeship levy.

In this issue we look at:

- Challenges for leisure and hospitality businesses
- Opportunities for leisure and hospitality businesses
- The apprenticeship levy for large businesses
- Hawsons launch new exit planning service
- Changes to business rates in the 2016 Budget
- National Minimum Wage to rise again in 2016

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

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Hawsons are specialist leisure and hospitality accountants

Hawsons has a dedicated team of specialist leisure and hospitality accountants in Sheffield, Doncaster and Northampton. Our specialist team offers a wide range of services which are tailored to meet your individual needs. Our understanding of the issues faced by businesses in this dynamic sector means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

For more information on our leisure and hospitality expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/leisure**

HLB International

INVESTORS IN PEOPLE

Challenges for leisure/hospitality businesses

The leisure and hospitality sector is facing a number of important challenges, which is leading operators in the sector to not only re-think their commercial strategies and day-to-day operations, but also about how they can add value through innovation and embrace new technologies or business processes to reduce input costs and connect better with their guests. This article summarises some of the key challenges facing operators in the leisure and hospitality sector today.

Squeezing profit margins

The leisure and hospitality sector is a highly competitive market, so increases in room rates, menu prices, alcohol prices and memberships are usually extremely tight. So whilst input costs continue to rise, many operators in the sector are facing even tighter profit margins. The sector is also being pressured by the impact of changing customer demands, including the growing use of online booking providers (who also impact margins further). Businesses are re-thinking their models to cope with squeezing profit margins; around half of all pub visits now involve food and pubs are the biggest seller of coffee and breakfasts, for example.

Rising wage rates and increasing payroll costs

One of the key elements that has contributed to squeezing profit margins in the leisure and hospitality sector has been the steep upward trend in wage rates. As well as yearly National Minimum Wage increases, the sector is going to be one of, if not the, hardest hit by the introduction of the new National Living Wage, as we wrote in our detailed analysis of the impact of the National Living Wage in our last newsletter. By their very nature operators in the sector – be that hotels, restaurants or pubs – employ large numbers of staff working on the National Minimum Wage, so it is not surprising that payroll costs have risen significantly in recent months and years. The new apprenticeship levy, which we focus on in a later article in this newsletter, also brings a new substantial payroll cost for larger operators from April 2017. The continued implementation of auto enrolment is also another factor increasing payroll costs.

Preparing for auto enrolment

The law on workplace pensions has changed and by 2016 every organisation in the UK, must automatically enrol their employees. The ability of pension providers to provide solutions is becoming a real issue of capacity and, if you do not start preparing early, the cost of auto enrolment (which is your legal obligation) will soon build up. On the back of The Pensions Regulator fining Swindon Town Football Company £22,900 after it failed to comply with auto enrolment, this is a worthwhile and needed reminder. Regardless of the size of your business, non-compliance could mean an initial £400 fine, with the possibility of further escalating fines. Escalating auto enrolment fines are daily penalties that are imposed in addition to the initial fixed penalty and could be as much as £50 per employee.

Register for one of our free monthly auto enrolment workshops at www.hawsons.co.uk/workshops

Cyber security and data protection

Over the past few years the sector has had some uninvited guests: an increasing number of cyber criminals. No sectors are immune to fraud and cybercrime and, as they collect a lot of personal and confidential data, hotels and restaurants are becoming very attractive targets. Those businesses will inevitably find themselves more vulnerable to cyber breaches in the years to come, and need to be prepared for such attacks. Now might be the time to review your data protection procedures and implement appropriate changes.

With the new EU General Data Protection Regulation (GDPR) finally released, in April 2016, leisure and hospitality businesses will need to start planning ahead and preparing for the changes. In the short term, given the timing of the UK's exit from the EU, UK businesses will be required to adhere – at least for a few months in 2018 – to the new rules, which apply from May 2018. In the longer term, although it is unclear whether EU GDPR rules will still apply in the UK (much will depend on post-exit negotiations), it is likely that any new UK data protection standards would have to be equivalent to the EU's GDPR framework.

Pubs, restaurants and hotels will therefore still need to prepare for and start to comply with the new EU GDPR data protection rules, before the regulation comes into law in 2018. As the new rules bring greater power to authorities, data protection errors will now be far more expensive – both financially and through loss of reputation – than ever before. Find out more about the new rules at www.hawsons.co.uk/new-eu-gdpr-rules

Opportunities for leisure/hospitality businesses

Brexit and exchange rates

It is difficult to predict what may happen over the coming months and years following the UK's vote to leave the European Union – a lot of questions remain unanswered. The post-referendum exchange rate volatility (which may continue for a prolonged period) has had a varied impact across UK sectors; for the leisure and hospitality sector, a fall in the value of the Sterling may encourage more overseas visitors and lead to increased tourism. Rising business and tourist travel has led to a growing hotel sector in recent years, whilst hosted global sporting events, such as the 2012 Olympic Games, have been particularly important for hotels, pubs and restaurants. Let's hope a weakening pound sees this trend continue. In the long term, exiting the EU will likely bring both opportunities and challenges for the sector - much of this, however, will depend on the terms that the government is able to negotiate post-exit.

Maximising tax reliefs and allowances

Non-residential stamp duty

The Chancellor announced in his 2016 Budget speech that, from 17 March 2016, the non-residential SDLT calculations would be realigned with residential SDLT calculations, which were reformed last year in the 2015 Budget. This was a surprise element of the 2016 Budget, but is a change that will be welcomed by the majority of leisure and hospitality businesses, with almost 90% set to see a reduction in their taxes. Only on very large property purchases will businesses see their taxes increase. Find more information on non-residential SDLT at www.hawsons.co.uk/commercial-stamp-duty-land-tax-changes-2016-budget

Annual Investment Allowance

The Chancellor announced in the Summer 2015 Budget that the Annual Investment Allowance (AIA) will be set permanently at £200,000 from 1 January 2016. This announcement is positive news for businesses across the leisure and hospitality sector who are considering funding new developments or refurbishing existing properties. The AIA provides a 100% deduction for the cost of fixtures/fittings as well as most plant and machinery purchased by businesses, up to an annual limit. This is certainly an attractive prospect for the sector, particularly as items such as lighting, electrical systems and lifts may all now qualify – reducing your tax bills! Find more information on the AIA at www.hawsons.co.uk/chancellor-gives-annual-investment-allowance-certainty

The digital revolution

Nearly everything we do now is technology enabled, and there is certainly a strong demand for more technology access in the leisure and hospitality sector. As customers, we want to communicate with operators across a number of different communications, including mobile apps, online booking forms, live chat systems, social media and so on. Mobile technology and the important of social media as challenges for customer engagement cannot be overstated. The ever-increasing role of technology in the leisure and hospitality sector is making a number of crucial differences to both front of the house and back of the house operations. From the initial booking to the check-in desk or restaurant order, technology is now at the heart of the this evolving sector. Technology is playing a big part in choice of destination for travellers and restaurateurs. For example, the majority of guests now expect essential amenities – such as WIFI – to be available, and included in their price.

Training and development funding available

Many other sectors are experiencing skills shortage, including manufacturing and technology, but the leisure and hospitality sector has been particularly affected due to its very high levels of staff turnover. The introduction of the apprenticeship levy (from April 2017), whilst bringing an additional payroll costs for large employers, is positive development to help tackle the shortage. The Skills Bank is a government/LEP initiative aimed at workforce training and development in the Sheffield City Region. It is a £17m fund – new for 2016 – comprising of funding from the European Social Fund and Growth Funding. The Skills Bank is an exciting new service which invests in skills and expertise to drive business growth, and will run from Spring 2016 until March 2018 to help local businesses develop skills and grow. The Skills Bank is a facility to help improve the skills base of the workforce in the Sheffield City Region, whilst also changing the way the skills system operates – placing the purchasing power for skills in the hands of employers. The £17m support will be used to either fully fund or partially fund the training and development needs of local employers. Find more information about the Skills Bank at www.hawsons.co.uk/funding-sheffield-city-region-skills-bank

The apprenticeship levy for large businesses

In April 2017 the way the government funds apprenticeships in England is changing, with the introduction of the new apprenticeship levy. The government first announced the new apprenticeship levy in the 2015 Autumn Statement, but has since provided details on how the levy will work. This is an extremely important issue for large leisure and hospitality businesses in the UK.

How will the apprenticeship levy work?

Starting 1 April 2017, the apprenticeship levy will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against the levy, so only employers with a wage bill in excess of £3m will be affected. All employers operating in the UK with a wage bill of over £3m will therefore need to pay the new 0.5% levy, regardless of whether or not apprentices are employed. It is expected that 2% of UK companies will have to pay the levy.

What is the levy allowance?

As mentioned above, all employers will receive a £15,000 apprenticeship levy allowance. This allowance will operate on a monthly basis (£1,250 a month) and will accumulate throughout the year. Your allowance can also be carried forward if it is not fully used in one month so, for example, if your levy charge in month A is £800 you will not pay the levy and your allowance in month B will be £1,700. If your levy charge in month C is £800 you will again not pay the levy and your allowance in month C will be £2,150, and so on.

What about connected companies and groups?

Based on the additional details the government has now published, there appear to be wider consequences for connected companies and groups than initially expected. The government has confirmed that: "where a group of employers are connected they will only be able to use one £15,000 allowance" to offset against the levy. The group can elect which of the connected companies receives the £15,000 allowance. This is similar to the employment allowance connected persons' rule.

The government has also announced that it intends to introduce an amendment to the Finance Bill 2016 for the £15,000 levy allowance for connected companies. The amendment will mean that if a company is part of a group of connected employers, the group must decide what proportion of the levy allowance each employer in the group will be entitled to. This decision to split the allowance must be taken at the beginning of the tax year and will be fixed for that tax year.

It was initially drafted that the allowance could not be split between connected companies, meaning that many smaller groups would have had to pay the 0.5% levy. This amendment is therefore a positive announcement for smaller groups. Larger groups of connected companies, however, will still likely be caught by the apprenticeship levy….even those connected companies that have paybills below £3m when the group total paybill exceeds £3m.

How we can help

As you can see, the new apprenticeship levy brings some detailed and complex rulings, particularly for connected companies and could have wider consequences than originally thought. Whilst the apprenticeship levy will not start until 2017 and the draft legislation is subject to change (the government's guidance says further details on the apprenticeship levy will be released in June, October and December this year) we recommend that all organisations begin to examine if and how the new rules will affect them now. The team at Hawsons can guide you as you consider the impact that the new apprenticeship levy may have on your business. Our experienced employment tax specialists and in-house payroll team can assist your business with preparing for the new levy, including preparing your payroll system, dealing with associated payroll administration, financial modelling and advising you on way of potentially mitigating the impact of the new costs. For more information, please do get in touch with your local office specialist.

Hawsons launch new exit planning service

Hawsons are pleased to announce the launch of a new exit planning service. The service is aimed at owner managed businesses looking to realise the maximum value of their business as they exit the business in the next 5 years. It puts a structure to the advice and guidance that we have been providing to clients through our corporate finance function.

Pete Wilmer, Corporate Finance Partner at Hawsons, said: “Our expert exit planning service is designed for businesses of all types and sizes to help them ensure their business is ready for sale, at the best possible value.”

“The advantage of our successful exit planning methodology is that it looks at the full spectrum of business functions – from processes, to marketing and intellectual property – to add real value to the business. Sometimes the true value of a business lies with an individual, rather than the business itself, and this is where we can work closely with business owners to set out a proactive plan to lower the risk for the prospective buyer and, in turn, increase the value of the business.”

“Typically, selling a business is a once in a lifetime transaction – one shot to get it right – and, whilst the majority of business owners recognise that exit planning is an essential part of any business, it can be quite a daunting task. Our exit planning service is all about executing a plan over a period of time, looking at finances in advance and preparing the business for sale.”

As part of our new exit planning service we are also launching a business attractiveness test. The test uses a series of tools to see if there are any areas that could improve the value of your business. Find more information and take the test at www.hawsons.co.uk/exit-planning

Changes to business rates in the 2016 Budget

The Chancellor recently announced a number of positive measures to reform business rates in the UK: Firstly, business rates have been devolved to Scotland, Northern Ireland and Wales. Secondly, there will be cuts on business rates for approximately half of all properties in England from 1 April 2017.

As the introduction of the new National Living Wage, onset of auto enrolment and forthcoming apprenticeship levies will see considerable yearly increases in operating costs for pubs and restaurants, this was a very welcome reform for the sector. Any change that signal a simplification of the tax system is a positive announcement for small business owners. The changes to business rates will also go some way to helping small businesses that are struggling financially.

Changes from 1 April 2017

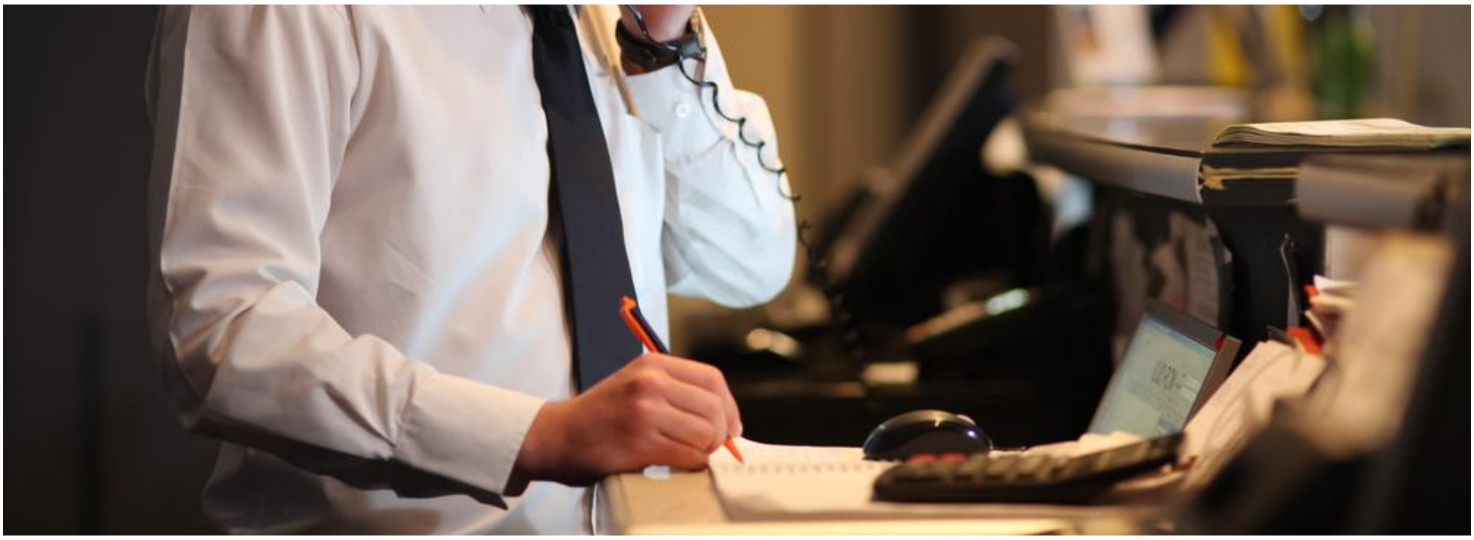
The government proposed to permanently double the Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses that occupy property with a rateable value of £12,000 and below (doubling from £6,000 and below) will receive 100% relief.

For properties will a rateable value between £12,000 and £15,000 there will be a tapered relief. There will also be an increase in the threshold for the standard business rates multiplier to a rateable value from £18,000 to £51,000. Announcing the reform, the Chancellor stated that the changes to business rates means that 600,000 small businesses will not pay a penny in business rates from April 2017, while a further 250,000 small properties will see a reduction in their rates.

Other changes

The government also proposed to modernise the administration of business rates to revalue properties more frequently and make it easier for businesses to pay the taxes that are due. Business rates will also, from 2020, be updated by reference to the CPI instead of the RPI (which is generally lower). Find examples of how the new rules work a www.hawsons.co.uk/changes-business-rates-announced-2016-budget

National Minimum Wage to rise again in 2016



The government announced increases to the National Minimum Wage, effective 1 October 2016, after accepting recommendations for the new rates from the Low Pay Commission (LPC). The main National Minimum Wage rate (for 21- 24 year olds) will rise by 3.7% from £6.70 to £6.95 per hour. This is an important issue for the leisure and hospitality sector and follows the recent introduction of the new National Living Wage, from April 2016, and a rise in the National Minimum Wage in October 2015.

The National Minimum Wage rates will increase from 1 October 2016 as follows:

	Current rate	Rate from 1 October 2016
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

**This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.*

A four-step checklist for employers following the announcement:

- Know the correct rate of pay (including the National Living Wage)
- Find out which staff are eligible which rates
- Update the company payroll in time for 1 October 2016
- Communicate the changes to staff as soon as possible

Moving forward – more compliance for employers

A government review has concluded that both the National Minimum Wage and the National Living Wage rates will increase from the same effective date come April 2017, rather than the usual October change for the National Minimum Wage.

This is a positive change, but does mean that the above rates will only be effective up until 31 March 2017.

Following the introduction of the new National Living Wage in April 2016, this will see be the fourth round of wage increases (in some form) in just two years. It is therefore unsurprising to see that many small (and indeed large) business owners are finding running their payroll an increasingly complex and time-consuming task. The compliance obligation on employers has never been greater and there has never been a better time to consider outsourcing your payroll.

If you are looking to outsource your payroll, please get in touch with your local office specialist. Alternatively, please visit our website at www.hawsons.co.uk/payroll where you can meet our payroll team and request a free initial payroll quote.

www.hawsons.co.uk

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Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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Find out more about how Hawsons can help your leisure & hospitality business.

Please call your local office or visit:

www.hawsons.co.uk/leisure

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