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Leisure & Hospitality

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Big firm expertise,
small firm personal attention

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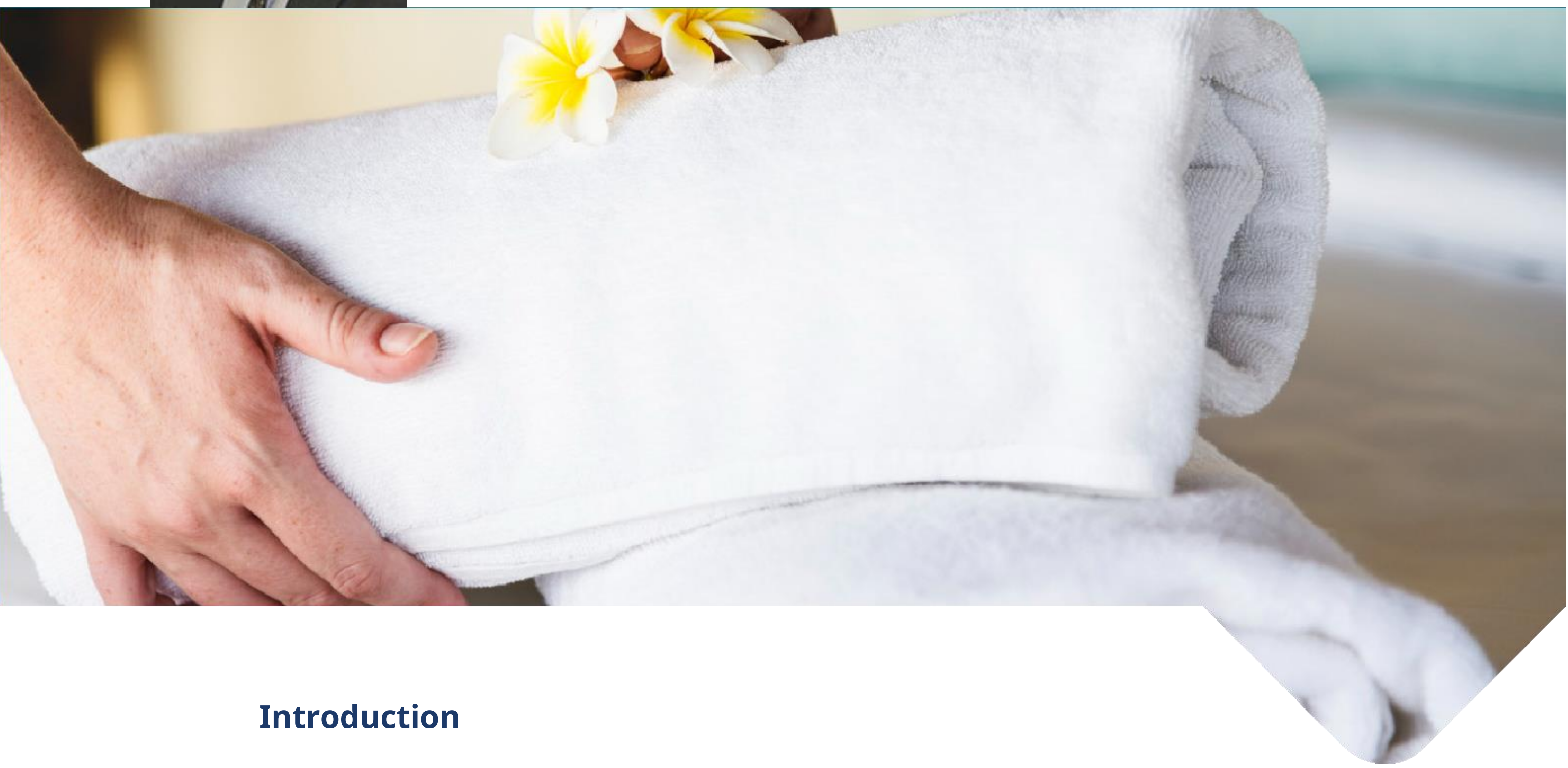

Introduction

Welcome to our latest leisure & hospitality newsletter. The leisure and hospitality sector has been one of the most, if not the most affected sector through the pandemic with many businesses forced to close their doors during large periods of the last 15 months or so.

In this newsletter we consider how the pandemic has forced hospitality businesses to increase their menu prices; is technology improving the overall customer experience? We also discuss how long it might take for the eating out market to recover to pre-pandemic levels.

We hope you enjoy the contents of this newsletter and if you have any questions, please do not hesitate to contact us.

Hospitality businesses increase menu prices

The pandemic has forced the hospitality sector to close its doors for the best part of 12 months. These periods of closure have caused rising levels of debt and along with the pressure of increased costs have resulted in many businesses increasing their customer prices. A recent survey of business leaders has revealed that 48% of pub, restaurant and QSR sectors have raised their prices since reopening to protect the future of their businesses.

The main reasons why many hospitality businesses are doing this are:

- Supply issues
- Social distancing measures affecting profits
- Customer's not showing up for bookings

Supply issues

Since outdoor trading began on 12 April 2021, 63% of survey respondents said they have experienced some supply issues.

Social distancing

21% of those surveyed believed that the social distancing measures currently in place will result in them making a loss because this impacts the number of covers, they are able to offer. 44% of those surveyed believe they will start to make a profit from 17th May 2021 when restrictions started to ease.

Customers not showing up for bookings

Customers not showing up for bookings continue to be a major issue for the hospitality industry, especially when bookings are essential during the pandemic in order to get a table. The latest research from the CGA found 8% of consumers have admitted to not showing up for bookings. The actual number is likely to be significantly higher. This is resulting in many hospitality businesses losing money. However, this a very difficult issue to solve and businesses may need to think of different ways to minimise the level of no shows and to make it easier for customers to cancel reservations so they can reallocate the space.

UK Hospitality suggest more targeted loan system to the Treasury

UK Hospitality has suggested in a letter to the Treasury that they should work together in order to develop a more targeted loan system that recognises the unique issues the hospitality sector face. This is because banks are denying many hospitality businesses access to the critical loans they need in order to get back on their feet.

The hospitality sector is ready to help the economic recovery and will boost employment levels over the coming months. However, many hospitality businesses have significant debt including back rent and other business costs. Access to capital is essential to help them recover as quickly as possible.

Continued overleaf

Hospitality businesses increase menu prices (continued)

Conclusion

To conclude many hospitality businesses have been forced to increase customer prices in order to increase profit and hopefully safeguard the future of their business. Ongoing issues include supply issues, COVID restrictions limiting customer numbers, recruitment difficulties and customers not showing up for bookings.

With many hospitality businesses requiring further support, UK hospitality has proposed developing a targeted loan system to ensure the hospitality sector can recover to full strength.

Making Tax Digital for landlords

New tax obligations from April 2023

From 6 April 2023, significant changes will be made to the Self-Assessment reporting system for landlords with gross rental income above £10,000 per tax year. Bringing landlords within the scope of MTD is part of HMRC's plan to make the UK tax system more efficient and to make it easier for landlords to get their tax affairs right.

Get ready to go digital

From 6 April 2023, if you are a landlord you will need to submit your annual Self-Assessment tax return online (unless you can satisfy HMRC that you are unable to comply with their online filing requirements due to age, disability, religion, etc.). As most people already submit their returns online, this particular requirement should not affect many landlords, however, if you are one of the few who submit paper returns then is vital that you make preparations in advance so that you are able to comply with HMRC's online submission process. If you use Hawsons to prepare and submit your tax return for you, then because (wherever possible) we submit all tax returns online this condition will be automatically satisfied.

Quarterly financial updates

In addition to your annual tax return, you will also need to submit financial updates electronically to HMRC each quarter. You will need to use MTD-compatible software or a spreadsheet to do this. These quarterly updates are then used to form part of your annual tax return. This means that you will be required to make a total of five submissions per tax year to HMRC, instead of just one!

Government confirms start date for Plastic Packaging Tax

The UK government has confirmed that the new Plastic Packaging Tax (PPT) will come into force on 1 April 2022.

The PPT will be charged at a rate of £200 per metric ton of chargeable plastic packaging.

The aim of the tax

The plastic packaging tax is designed to encourage the use of recycled rather than new plastic within plastic packaging. It is hoped that this will in turn stimulate increased levels of recycling and collection of plastic waste, diverting it away from landfill or incineration.

What will it apply to?

It will apply to plastic packaging components manufactured in or imported into the UK.

Plastics covered by the tax include bioplastics, including biodegradable, compostable, and oxo-degradable plastics.

Recycled plastic

The tax will not be chargeable on plastic packaging which has 30% or more recycled plastic content, or any packaging which is not predominantly plastic by weight.

Exemption

There will be an exemption for manufacturers and imported into the UK, whether the packaging is unfilled or filled (for example plastic bottles filled with drinks).

Expected recovery date for eating out market in doubt as lockdown easing is delayed

Recent research conducted by Lumina Intelligence has found that the UK eating out market was expected to make a full recovery by the end of 2022. By the end of 2021 the UK eating out market was expected to grow by 33.4% to £63.6bn and expected to continue growing by the end of 2022 to £91.9bn, just over the pre-pandemic levels of £91.3bn. This data was based upon all restrictions coming to an end on 21st June. However, the extension of COVID restrictions for a further four weeks is likely to have a significant effect on the recovery of the eating out market.

Could the UK hospitality sector suffer from long economic COVID?

There are concerns that the hospitality sector will suffer from long economic COVID which are likely to be emphasised due to the extension of COVID-19 restrictions across England. The UK Hospitality chief executive, Kate Nicholls, gave a speech in the House of Commons on 7 June which highlighted the impact that forced closure and strict trading conditions was having on the hospitality sector.

According to Nicholls's evidence, only 40% of hospitality businesses are currently able to operate profitably.

The average monthly costs of running a hospitality business are between £10,000 - £20,000 whilst average government support is £3,000 per month. This has left hospitality businesses with average deficits of £7,000 to £17,000 per month which has contributed to the industry's rental debt exceeding £2bn. Nicholls has called for landlords to split the debt with businesses and write off 50% of rent debt for periods of forced closure.

With the extended restrictions, the Government will most likely be under pressure from business leaders in the hospitality sector to deliver further financial support.

Conclusion

The extension of the COVID-19 restrictions across England has put the expected recovery of the eating out market on-hold. This means that hospitality businesses face continuing stricter trading conditions. This decision by the Government will put them under more pressure to deliver further financial support to the hospitality sector with some unable to trade profitability in strict trading conditions.

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Is technology improving customers' hospitality experiences?

Introduction

In order to minimise physical contact, technology has become more commonly used in the hospitality sector, but does technology improve the overall customer experience?

How does technology improve the customers' hospitality experience?

Recent research by Zonal and CGA has found that 40% of consumers believe that technology has improved the hospitality experience. The top three benefits that consumers rate the highest are as follows:

- Speed and convenience (31%)
- Ease of ordering (29%)
- Tracking orders (17%)

Technology seems to remove a lot of the pain points that customers experience for example, struggling to attract the attention of the server, items not being on the menu, and feeling pressured to order quickly. Implementing a digital ordering process not only improves the customer experience, it also frees up the server's time so they can spend more time with guests answering their queries.

Technology can also remove another pain point. Paying the bill! Especially if the bill is being split between a number of people. This can be particularly frustrating. However, advances in technology means there are wide range of choices when paying the bill to make it easier.

Continued overleaf

Is technology improving customers’ hospitality experiences (continued)

Disadvantages of technology in hospitality?

One of the main disadvantages of technology in hospitality for the wider economy is the potential impact on employment levels in the sector. This may be counterbalanced by the impact of Brexit and a reduction in the available work force.

Implementing technology into a business also increases the risk of exposure to cybercrime. This is of particular concern as many hospitality businesses will be storing customers’ personal data on their networks and are subject to data protection requirements.

Conclusion

To conclude, technology has many positives in the hospitality sector and improves the customer experience in a number of ways. There are issues for the sector to address, including understanding the impact on required employee numbers, a resulting pressure on labour costs in the future caused by demand in other sectors and increases in the national minimum wage, a commitment to IT training and changes to systems and procedures to minimise the risk of cyber security issues and non-compliance with regulations.

The Financial reporting Council (FRC) has issued amendments to FRS 102 and FRS 105 - Covid-19-related rent concessions beyond 30 June 2021

To help them through the pandemic, many businesses that lease property have been supported by their landlords and have been granted rent concessions.

Before the pandemic, FRS 102 and FRS 105 didn't explicitly specify how to account for changes in lease payments resulting from rent concessions. In order to avoid businesses interpreting FRS 102 in different ways, the FRC acted fast and issued an amendment to the standards in October 2020 looking specifically at COVID-19 related rent concessions.

Prior to this amendment, businesses may have looked to treat these rent concessions in the same way as lease incentives, such as rent-free periods at the beginning of a lease, and spread the benefit over the remaining life of the lease.

This amendment changes this treatment. These concessions were specifically to help businesses out during the pandemic period, and are temporary in nature, and so should be recognised in the P&L in the period that the concession is intended to compensate – so effectively you recognise the reduction in the rent charge as it happens.

There are certain conditions to apply this treatment

- the change has to be a reduction in rent
- there has to be no other change to the terms of the lease – otherwise the rent concession could be due to those changes rather than just COVID-19
- the original amendment only applies to payments which were due on or before 30 June 2021. However, in June 2021, the FRC issued further amendments to the standards, such that the re-vised requirements now apply to rent concessions that reduce lease payments originally due on or before 30 June 2022.

The revised standards require disclosure of the change in lease payments in the financial statements.
The effective date is periods commencing on or after 1 January 2020, but early application is permitted, and Hawsons would recommend that such early application is adopted.

Here is a link to a video of our Technical Director Paul Hutchings discussing the revision to the standards.

Get in **touch**

How can we help?

Hawsons has a dedicated team of specialist leisure and hospitality accountants in Sheffield, Doncaster and Northampton.

As the sector continues to become ever more challenging, with changes in fierce global, national and regional competition leading to unrelenting pressures to maintain margins, it is more crucial than ever to seek sound and proactive advice.

At Hawsons our dedicated team of specialist accountants offer professional advice and guidance that is tailored to our clients' individual needs and requirements, providing a full range of proactive services.

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