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Latest News

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Leisure & Hospitality

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Introduction

Welcome to our latest leisure & hospitality newsletter. The leisure and hospitality sector has been through many challenges over the past couple of years. Firstly, the pandemic forced leisure and hospitality businesses to close for long periods. However, despite the fact that the pandemic is now hopefully in our rear view mirror, increasing inflation is making it more difficult than ever for businesses to recover.

In this newsletter we look at the following areas:

- The UK hospitality sector is set to benefit from the ban on Exclusivity Clauses
- The hospitality sector is optimistic for 2022 despite staffing challenges
- How will the return of the 20% VAT rate affect hospitality?
- The new VAT penalties coming from 1 January 2023

We hope you enjoy this edition of our leisure & hospitality newsletter. As ever, please contact us if you have any questions.

Hospitality sector to benefit from the ban on exclusivity clauses

What is an exclusivity clause?

When an exclusivity clause is put into an employee's contact, it restricts the employee from being able to take on additional work with another employer. In 2015, exclusivity clauses were banned from being placed into zero-hours contracts. The government judged this unfair when work is not guaranteed to the employee.

What are the new rules on exclusivity clauses?

Business Minister Paul Scully has recently announced that the Government has decided to extend the ban on exclusivity clauses further which includes those earning less than £123 per week. This rule changes means employers will no longer be able to insert exclusivity clauses into employee's contracts where their guaranteed weekly income is £123 or less (the Lower Earnings Limit). It has been estimated that 1.5 million workers across the UK are earning £123 or less per week. The intention of the new rules is to ensure that workers within this group with exclusivity clauses have the option to top up their income with additional work.

How will this benefit hospitality businesses?

This announcement has been welcomed by the hospitality sector and has been described as 'positive for businesses and workers in hospitality' and UKHospitality have said that the reform will benefit firms that are currently experiencing recruitment issues. The reform to the rules will enable those who would like a second job to have one. The hospitality sector has over 160000 vacancies and enabling people to work with contracts that suit them should help with recruitment and increase business confidence.

Hospitality employees working longer hours

As referenced earlier, the hospitality sector currently has over 160,000 vacancies which is double the number of vacancies the sector had before the pandemic. The shortage of employees in the sector means that employees are being asked to work longer hours. According to a survey conducted by workforce management specialist Bizimply, it has been found that staff working hours in the hospitality sector has increased on average by 6 hours per week (25 hours per week compared to 19 hours per week) before the pandemic. The hospitality sector is hoping that changes to exclusively clauses will help fill some of the many vacancies available. This may alleviate some of the pressure on their current staff who are working additional hours.

Hospitality sector optimistic for 2022 despite staffing challenges

A recent survey conducted by the CGA and Fourth's Business Leaders has found that hospitality leaders are optimistic about the prospects 2022 has to offer. The poll shows that 65% of multi-site business leaders are confident about the next year for the market. This has increased from 59% in December 2021.

Why has confidence increased?

Despite the recent news that the 12.5% temporary VAT rate has now returned to 20%, the survey demonstrates that multi-site businesses are starting to find their feet again with 84% confirming that they are now operating at a profit. This is 4% more than in December 2021. Furthermore, the hospitality sector is now become very attractive for investors and consumers and the sector is quietly confident that profits and sales will continue to improve in the second quarter of this year.

Staffing shortage cause for concern

Despite the increased confidence for leaders in the hospitality sector, there are considerable challenges that the sector is currently facing. Not only is the sector being affected by increasing inflation and the cost-of-living crisis but it is also facing widespread staffing issues.

As the hospitality sector emerges from the pandemic, staff shortages are becoming a major issue. This shortage is causing job satisfaction to fall with 45% saying that their job is now less appealing than it was previously. The most common reasons cited by employees to explain staff shortages were:

- Unsociable hours (54%)
- Increased workload (49%)
- Pay not matching the job (47%)

What improvements would staff like to see?

The survey "Transforming The Employee Experience In Hospitality" has shown that teams would welcome implementation of technology into the workplace. This technology said to be most welcome are:

- Digital clock-in/clock-out
- Smart scheduling
- Shift management

This highlights that implementing technology to improve employee experience is crucial in keeping members of staff engaged. Therefore, hospitality businesses that adopt technology to provide a good employee experience will in many cases, have a better employee retention rate.

How will the return of the 20% VAT rate affect hospitality?

Introduction

In the Chancellors Spring Statement he announced that the VAT rate for hospitality businesses would return to 20% as the temporary 12.5% rate ends. This decision has sparked outrage from the hospitality sector as they look to recover after the disturbance of the Omicron variant over the Christmas period and was one of, if not the most affected sector during the pandemic. Furthermore, the sector is attempting to recover during a time where inflation is rapidly increasing the costs of supplies generally.

Hospitality businesses will have difficult decisions to make

Due to the increased VAT rate, hospitality businesses will have to decide whether to absorb the hit of the rising costs themselves in order to retain customer loyalty, or increase prices but run the risk of losing customers due to pressures on the cost-of-living.

Some hospitality businesses will be forced into the latter route as many do not have sufficient cash reserves. It has been reported that one in three hospitality businesses have less than a months worth of free cash reserves. This means that hospitality businesses will likely be forced to increase their prices which may cause a decrease in demand.

Some hospitality businesses who are fortunate enough to have available cash reserves have confirmed that they plan to shoulder some or all of the cost in order to retain and increase customer loyalty going into the crucial summer months, one of them being London based pizza chain, Four Hundred Rabbits. They have said that they considered increasing their prices but have choose not to as they did not want their customers to feel that eating out or ordering a takeaway was too much for them.

Should the Chancellor reconsider his decision?

Michael Kill, CEO of the Night Time Industries Association said that the Spring Statement announcement demonstrated the Government's disengagement and lack of understanding of the industry. The small increase in the Employment Allowance was the only announcement the Chancellor made that helped the hospitality industry. Over the last two years the hospitality sector has lost over a third of its nightclubs due the pandemic, with many more struggling. The withdrawal of financial reliefs such as the increase of VAT back to 20% will only result in the sector losing more businesses and jobs.

New VAT penalties coming from 1 January 2023

What are the new VAT penalties?

From 1st January 2023 a new penalty-based points system will be introduced for all VAT returns that are submitted late or where the payment is late. This new system will replace the current default Surcharge.

Nil or repayment returns that are received late will also receive penalty points and financial penalties.

HMRC to introduce 12-month soft landing period for new penalty system

HMRC has confirmed that there will be a soft-landing period of 12 months which means that they will not be charging a first late penalty in the first year, only if the outstanding amount is paid within 30 days of the normal due date. We recommend that our clients DO NOT get into the habit of using this soft-landing period as a means of benefitting cashflow and get into the habit of submitting returns and paying on time for every return.

Further guidance to be introduced in December 2022

Unhelpfully, HMRC has stated that further guidance will be issued in December 2022 which gives little time for businesses to assess/implement these new rules.

New rules are complicated – so don't get caught out!

What we know so far is that the new rules are complicated, so once again we recommend that all our clients submit their returns and payments on time:

- For each VAT return submitted late one penalty point will be received
- Once a threshold has been reached the business will receive a standard £200 penalty
- A further £200 penalty will be received for each subsequent late submission

Continued overleaf

New VAT penalties coming from 1 January 2023 (continued)

A business can reset their penalty points back to zero by:

- Submitting returns on or before the due date
- Making sure all outstanding returns for the last 24 months have been received by HMRC

For late payment penalties the sooner the penalty is paid the LOWER the penalty rate will be.

Up to 15 days overdue – There will be no penalty if the VAT is paid in full or a payment plan is agreed with HMRC

Between 16-30 days overdue – The first penalty is 2% of the VAT owed at day 15 if the outstanding VAT is paid in full, or a payment plan is agreed.

More than 31 days overdue – The first penalty is 2% of the VAT owed at day 15 plus 2% of the VAT owed at day 30. A second penalty will be calculated at a daily rate of 4% per year for the duration of the outstanding balance. This is calculated when the outstanding balance is paid in full or a payment plan is agreed.

Get in touch

Specialist leisure & hospitality accountants

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, nation 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 hotel, pub and restaurant accountants offer professionals advice and guidance that is tailored to their individual needs and requirements, providing a full range of proactive services.

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