

PKF FRANCISCLARK

Chartered accountants & business advisers

SHARED**A**MBITION

WINTER
2019

LEISURE & TOURISM





Key trends:



- Increase in occupancies of nearly 5% by the end of April
- August now trending at an average occupancy of over 87%
- September occupancies were more than 10% up
- Wage percentage has risen from 34% on average to over 36%



- Occupancies fell away by 2% in early summer
- Percentage of turnover with food costs now 1% lower than the 17.8% they were historically running at
- Advertising spend is down slightly at 2.2% of turnover

With the 2019 holiday season now a distant memory thoughts are turning to next year. As we look forward to the New Year, however, a review of past performance is always a useful indicator into future trends and likely future performance.

We started the year in the knowledge that the previous year had been exceptional through the summer boosted by a weaker pound and some superb weather. For this reason when we were considering likely outcomes for 2019 we knew that for it to be as strong, the early part of the year needed to take full advantage of improved conditions. It was unlikely that there would be another Beast from the East, but we knew that previous years would have a bearing on future bookings. This was largely borne out in the statistics. March and April were particularly good with increased occupancies of nearly 5% by the end of April, picking up about half of the fall in the previous year.

Early summer occupancies were not as strong as 2018, falling away about 2%, however August and September have continued their long term trends upwards. September was more than 10% up in occupancy terms on a decade ago and August is now trending at an average occupancy of over 87% and has now fully recovered from the lows of the late noughties of around 78%.

To put this into context, we have done a brief analysis of a broad sample of hotels from our database to consider some of the key trends in spend and core costs. Revenue has risen well over the last five years with overall sales increasing by 16.5% compared with overall inflation (RPI) of 13.2%. This represents good progress. With the introduction of the living wage in 2016, we were concerned that the wage inflation already being experienced in the industry would be exacerbated. Initially we actually saw wages, as a percentage of turnover, holding fairly well which was partly a factor of the increased sales per room being

achieved. However, more recently the wage percentage has risen from about 34% on average to over 36%. Given the rise in turnover that has been achieved, this demonstrates the difficulties which hotels are facing.

Of course some of the increase is attributed to the way some hotels are transitioning from a pure bed offering to more service led businesses. This in part distinguishes them from the national franchise operators and moves them towards Instagram style products which are providing their own marketing noise through differentiation and creating a higher quality, niche, client-focussed experience.

These trends are further demonstrated when looking at overall food costs as a percentage of turnover with food costs now 1% lower than the 17.8% that they were historically running at. Similarly, advertising spend as a percentage of turnover is down slightly at 2.2% of turnover compared with 2.5% historically.

And of course, since the economic climate continues to be shrouded in Brexit, it would seem that the pull of a weak pound is being offset by statistics which suggest that Europeans are less inclined to visit. We therefore look at the longer term trends and it appears we should see some further improvement in the early part of 2020 as the upward trend in occupancy from last year should continue, weather permitting! The core summer months are likely to be relatively benign with a possible minor boost from people holidaying in the UK.



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SOUTH WEST TOURISM AWARDS

So many tourism businesses exist in isolation, looking after customers, making sure they are happy, and continuing to invest to ensure the business remains successful in what is one of the world's largest and fastest growing industries. But how can you always know what others are doing, how you compare, and whether you are at the cutting edge in terms of service and innovation?

This question is what, I believe, at the root of why we're seeing such growth in entries into the South West Tourism Awards, which have seen record entries of 773 in 2019/20. When we ask businesses why they enter they give a range of answers:

- To benchmark ourselves against others
- For the free feedback (something few other awards schemes offer)
- For the chance of winning
- To have something to celebrate with the team
- For the PR
- For the camaraderie of like-minded business

The fact that the region's Tourism Awards are themselves award-winners, having been awarded Gold in the awards TrustMark scheme, adds further credibility. To date these are the only awards of any kind in South West England to achieve this accolade.

The Tourism Awards launch in April each year, proceeding through three judging phases before reaching their finales at awards events in the autumn and spring. They include the South West Tourism Excellence Awards, Cornwall Tourism Awards, Devon Tourism Awards, Dorset Tourism Awards and the Bristol, Bath & Somerset Tourism Awards.

There are numerous reasons to enter, the main ones falling under the headings of quality improvement, promotion and staff morale:

Quality improvement comes at all stages of the process, which starts with completion of an entry form that some compare to completion of an annual self audit. Many entrants tell us that its completion brings business benefits of its own.

Most entrants who make it to the short-list will go on to be mystery-visited, resulting in a detailed and constructive report that is often used to identify further business improvements.

There are also workshops to help businesses refine their skills - all designed to help entrants get better still, in what is an unendingly more and more competitive field.

There's also the chance to progress to even greater recognition, with finalists

PKF Francis Clark is proud to sponsor the self-catering category in the South West Tourism Awards for 2020. Good luck to all who have entered the awards.

being nominated to represent the region in the national VisitEngland awards. For the past three years the South West has had more finalists than any other region - cementing our position as England's top destination - and our goal is to keep it that way!

HOW TO ENTER

Entry is straightforward, with all details, entry forms and guidance notes included at the five tourism awards websites:

Devon Tourism Awards
devontourismawards.org.uk

Cornwall Tourism Awards
cornwalltourismawards.co.uk

Dorset Tourism Awards
dorsettourismawards.org.uk

NEW Bristol, Bath & Somerset Awards
somersttourismawards.org.uk
(coming soon)

South West Tourism Excellence Awards
southwesttourismawards.org.uk



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'Winner of Winners' in the Cornwall awards 2017/18, Carolyn Screech of the Screech Owl Sanctuary in Cornwall said: "It is great to be recognised by the tourism industry and helps to make all the dedication and hard work of our organisation worthwhile and gives our staff a big morale boost. Our visitors also like to monitor our progress on social media and it gives us a much better profile winning these awards. The judge's feedback is extremely helpful and we have used this to focus on many future improvements."

WE BECOME PART OF YOUR FAMILY BUSINESS

A family business could be anything - from a husband and wife team working from their kitchen table all the way through to a multi-million turnover company with 3 generations working in the business - and everything in-between.

Sometimes there can be the misconception that a family business is small but this couldn't be further from the truth in a lot of cases. In fact according to the Institute of Family Business (IFB), two-thirds of UK businesses are family run, equalling 4.8 million in total. Of this number 18,000 are medium and large businesses, showing the importance of the family business to the UK economy.

So what is the difference between running a business and a family business? With the latter, there tends to be extra dynamics to consider. Within the tourism sector, businesses are typically asset backed businesses and are sometimes run between different generations so topics like succession and inheritance are key to look at and review.

Other topics for family businesses to consider range from increasing the value of the business to family wealth preservation to barriers to growth and all that falls in-between. It's fundamental that family businesses take time to consider their options and plan properly for the future of their businesses.

At PKF Francis Clark, we work with numerous family businesses in the leisure and tourism industry and understand the challenges that a family business can face. We always look at the big picture and make sure we don't just look at what's important for the business but also for the family itself.

Our vision is 'Shared Ambition' - whatever a business goals, we will work with our clients to achieve these. Importantly, we don't impose what we think success is onto our clients; we start by listening to find out what our clients would like to achieve and how work with them to achieve their goals.

So whether it's that you want a better life/work balance or maybe you want to look at a succession plan to enable you to take a step back from the business or maybe you want to look at doubling your revenue, we will work with you on this.

With our experience, we look at every angle and can ask the questions that the business doesn't even realise need to be asked. We can then work with the client step by step to make sure we achieve these objectives.

To do this, we have developed a platform called Family Business Connect which provides a structured approach to help family and owner managed businesses access understanding, support and guidance. To begin to look inside your business with a little more clarity and confidence, now and into the future, get in touch with one of our Family Business advisers at PKF Francis Clark and arrange your initial Family Business Connect review.

One of the key areas where we have identified weaknesses is in the structuring of the rules around the way in which businesses are owned and managed. Where we have met with particular clients to work through the Family Business Connect platform, we have introduced them to solicitors who have helped to consider this further, as this is certainly in part a legal issue. The following article by Henry Maples from Murrell Associates considers shareholder agreements in more detail.



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THE IMPORTANCE OF SHAREHOLDERS' AGREEMENTS IN FAMILY BUSINESSES.

WHAT IS A SHAREHOLDERS' AGREEMENT?

A shareholders' agreement is a private contract between the shareholders and the company. It regulates the way in which the company is run and arrangements as between shareholders. Unlike a company's articles of association, a shareholders' agreement does not need to be filed with Companies House and is kept confidential.

WHY IS A SHAREHOLDERS' AGREEMENT SO IMPORTANT?

As the directors control the day to day running of a company, the shareholders' agreement can hold the directors to account for certain actions, compel directors to seek consent on important decisions and protect the interests of minority shareholders. In the absence of a shareholders' agreement, minority shareholders with less than 26% equity have very little statutory protections.

In family businesses, a well thought through shareholders' agreement can provide a sensible framework for the family to follow in the event of any disagreement, reducing the risk of heated family arguments. It should also prompt some discussion around succession planning to enable the business to stay within family ownership without preventing its growth and development.



WHAT PROVISIONS DOES A SHAREHOLDERS' AGREEMENT USUALLY CONTAIN?

Although there are many different provisions that can be included, a shareholders' agreement for a family business will usually contain:

Share valuation provisions

It is common to provide a method for calculating a fair value of the shares to prevent any dispute as to price, should a shareholder wish to sell their shares.

Pre-emption rights on transfer

These rights ensure that if a shareholder wishes to sell their shares, they must be first offered to the existing shareholders, before they are offered elsewhere. This provision is important as it allows the shareholders to maintain control of who owns shares and prevent dilution. In a family business there may be further controls to prevent a transfer out of the family group.

Veto rights on reserved matters

In addition to the limited statutory controls under the Companies Acts, shareholders can also agree that other decisions that could significantly impact the company such as financing or strategic decisions, should also require a set percentage before they can be undertaken. This is usually achieved by including a voting rights clause required a percentage of between 75% to 90% of shareholders to be in agreement before certain decisions can be undertaken.

Non-competition & non-solicitation restrictions

Given the information available to shareholders, particularly in an owner managed business, it is common to restrict those shareholders from competing with the company and from soliciting key employees, customers and suppliers during and for a certain period after ceasing to be a shareholder.

Drag & tag along rights

As many buyers wish to purchase the entire share capital of a company rather than a percentage, a drag along right permits a shareholder to compel other shareholders to sell their shares on the same terms, provided an agreed percentage wish to sell. To protect minority shareholders, should a majority shareholder be made an offer for their shares, the minority shareholder is entitled to 'tag along' and sell their shares to the same buyer on the same terms as the majority shareholders.

If you wish to discuss any of the issues raised in this article please contact Henry Maples, Partner at Murrell Associates on 01872 226998 or henry.maples@murrellassociates.co.uk.



BUYING LAND AND PROPERTY

With HMRC looking increasingly closely at stamp duty land tax (SDLT) returns and in light of the newly issued HMRC guidance concerning the definition of residential property, it is more important than ever to be sure that you are applying the correct SDLT treatment to land transactions.

Generally speaking, hotels, inns and similar establishments will constitute non-residential property and will therefore be subject to the non-residential rates of SDLT. However, the treatment of bed and breakfast establishments (B&Bs) is a grey area and with the significant difference between the residential and non-residential rates of SDLT, especially when taking into account the higher rates surcharge for the purchase of additional dwellings, it is essential to consider and establish the SDLT treatment on a case by case basis.

HMRC's guidance indicates that a B&B would be considered non-residential property where there are 'bathing facilities and telephone lines etc.' installed in each room, and the rooms are available all year round. This seems fairly straightforward and should cover the majority of B&B establishments but what if you removed one of the suggested criteria? There are a number of establishments, for example, that do not have telephone lines in each room and some establishments which will have shared bathing and toilet facilities.

The truth of the matter is the absence of just one of the criteria as set out in HMRC's guidance is unlikely to be prohibitive in establishing a property as non-residential where it is operated as a B&B but each case must be considered on its merits. It is also important to consider the weighting of each of the criteria in relation to the others. For example, the absence of a telephone line in every room is unlikely to be as significant compared with the presence of bathing facilities in each room.

Another consideration when purchasing a B&B is establishing that the property is being used or has been used in the course of a business. HMRC's guidance indicates that the property's use at the effective date of the transaction, as well as historic use, will be taken into account when assessing whether the property is non-residential. However, no consideration will be given to the intended use of the property by either the vendor or the purchaser for categorisation purposes.

In connection with the presence of an established business, it is also important to consider how the consideration for the purchase of the property and business is apportioned, as this will likely impact the SDLT liability arising. For example, the consideration attributable to the goodwill of the business may form part of the chargeable consideration depending on whether it is linked to the land, whereas consideration given for chattels will not form part of the chargeable consideration for SDLT purposes. The consideration provided for chattels is not always established but the SDLT savings can be significant, especially when chattels includes items such as carpets, curtains, blinds and kitchen white goods (if not fully integrated). This split of the consideration can also be important for other property purchases such as hotels.

It is clear that ascertaining the SDLT treatment of serviced accommodation such as B&B establishments can be challenging and regard should be had to obtaining advice well in advance of any transactions taking place so that you have the best opportunity to mitigate the cost.



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HMRC CONTINUES TO FOCUS ON THE NATIONAL MINIMUM WAGE (NMW), IDENTIFYING MORE ERRORS WHICH HAS LED TO AN INCREASE IN PENALTIES.

We continue to see employers mentioned in the press where they fail to comply with the legislation. Recently over 23% of businesses who were named for not complying with NMW legislation were in the hospitality sector.

This may come as no surprise given that there can be additional complexity for hospitality payrolls. Staff can be a mixture of part-time and full-time workers and paid on an hourly, weekly or monthly basis. There are also tips, service charges and shift swapping to contend with.

It's important that your hospitality payroll systems and processes are robust and will stand up to an HMRC NMW compliance review. You need to be able to demonstrate that you are paying your staff accurately, on-time and that you have consistency in the process.

Within the sector there are areas where genuine misunderstandings or failure to understand the legislation can lead to mistakes. These include the following:

STAFF UNIFORMS

Much of the hospitality sector have staff uniforms. Often as a dress code and sometimes the employee may have to pay for these either directly or as a deduction from their wages.

Where an employee is required to wear for example, black trousers or skirt and a white shirt the cost incurred is treated as a deduction for the purposes of calculating the hourly rate of pay. This means an employee can easily fall below the minimum wage threshold.

WORKING TIME

Working time includes any time spent at the start and end of the day or where the employee is required to arrive early or remain at work, for example, for a team meeting or to change into work clothing. Employers can overlook this time when calculating employees' pay.

In addition, where employees are sent to work at a temporary place of work, the travel time also needs to be factored into the minimum wage calculation.

ACCOMMODATION

If you provide employees with accommodation, this can be taken into consideration when determining whether it is appropriate to pay NMW. There is an accommodation offset that is available to use when calculating NMW.

The calculation does depend on whether you charge a rent or it is free accommodation another area where mistakes can occur.

TIP PAYMENTS

If tips and gratuities are paid at work they cannot count towards the NMW and should be paid in addition.

The use of a tronc scheme to collect and pay tips, gratuities and service charges is commonly seen across the hospitality sector. Where these are properly set out and operated, payments made to employees will not then be liable for class 1 national insurance contributions, however being part of this scheme does not affect the NMW regulations.

The October 2019 Queen's Speech stated that in the future, employers must ensure that all tips are passed on to their employees and there must be a system in place to demonstrate this. We are waiting for the draft legislation and HMRC's revised guidance.

EMPLOYER OBLIGATIONS

It is important that employers carefully consider their obligations under the NMW legislation.

Employers are required to maintain accurate records (and if requested make them available to their employees) to be able to demonstrate that the minimum wage is being paid to employees.

An employer can find it costly to make mistakes and not pay NMW at the correct rate:

- Penalties are calculated at a rate of 200% of the underpaid wages subject to a cap of £20,000 per underpaid worker (any penalty is reduced by 50% if the unpaid wages and the penalty are paid in full within 14 days)
- Paying the shortfall of NMW to the employees
- The reputational damage that may be caused by HMRC's 'named and shamed' listing

CONCLUSION

Whilst the legislation has been around for 20 years, there remains a considerable lack of understanding of the mechanics as to how it works.

Employers need to consider the following matters very carefully:

- What are the rates of pay in the organisation?
- What records of working hours are being maintained?
- Is travel time being recognised?
- Are tips and gratuities being used to supplement employee wages?
- Are there accurate records of deductions made from an employee's pay?
- Has the NMW rate been correctly calculated when providing accommodation?

If you have any queries on the contents of this article or would like to enquire about undertaking a NMW review, please do not hesitate to get in touch.



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CYBER SECURITY IN LEISURE & TOURISM

Holidays and cyber security aren't two things that would usually cross your mind in the span of a few sentences. Sunshine, plush hotels and outdoor activities do not gel well visually with the perceived glowing screen and a cold server room that is usually imagined. Take away the imagery, however, and you are left with businesses that are handling vast amounts of personal data and a large number of transactions on a day to day basis. In the desire to offer easier methods for people to book or reserve travel and accommodation through websites and apps, the industry is just beginning to see the tip of the iceberg of customer detail breaches, including high profile cases such as British Airways and Marriott Hotels.

It is no longer just an embarrassing episode to have the personal data of customers lost or stolen as regulations now have real teeth and have been wielded recently. On top of this, add in the potential for significant reputational damage and what that can entail and there is a genuine threat to the industry that perhaps hasn't been taken as seriously as it should have been up until now. Plus, there is now full awareness amongst the public about the value of their personal data and why it should be kept secure. Can organisations bear the backlash from mishandling it?

A good place for any organisation to start is identifying what data they are using, where it is and what they are doing with it. This ranges from payment card data to customer personal data and even staff data. Understanding what you have is key to identifying where the risks lie and what needs to be done to mitigate them. Often this can be as simple as staff training on the subject. If your employees aren't aware of the correct ways of handling data and basic cyber security, they could unwittingly cause the problems.

It should also be on the board's radar to review policies around data protection and cyber security at least annually. Ultimately the board is responsible in the event of any

breaches and should be actively engaging with the topic to provide the necessary oversight and help identify shortcomings. Quite often, IT teams know of an issue but have trouble with getting their concerns heard. Having independent audits and tests can help highlight these issues and due to the specialist nature of them, shed light on some of the more unseen issues that may be underlying.

Guidance and frameworks already exist to aid with this including the PCI DSS which is a scheme required for organisations handling card payments. There are also government backed schemes that assess the state of cyber security in an organisation such as Cyber Essentials and beyond this there are international standards such as ISO 27001. Not every standard is the right fit for every organisation but understanding which one is right for your business can be key to the beginning of the pathway to cyber security and good data protection.

What this comes down to in the end is good risk management from the board. Cyber security has been identified as a 'Tier 1 threat' by the UK Government and in this digital age affects almost everyone. The responsibility lies with the heads of businesses to understand the risks and meet them to protect both themselves and those with whom they work.

At PKF Francis Clark, we have worked closely with businesses to deliver reviews, training and technical support for cyber security. If you have any concerns regarding cyber security or data protection, please get in touch with us at cyber@pkf-francisclark.co.uk.



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EMAIL CYBER ATTACKS

Email, while being an efficient method of communication, is not inherently secure. It is the simplicity of email that makes it so widely used but this also means that an email is only as secure as the password on your email account and the sophistication of your email provider.

For instance, while most business solutions attempt to add a level of encryption around an email, many consumer (free) email systems do not accept such encryption. This makes them prime targets for 'man-in-the-middle' attacks, where an email can get intercepted and changed.

Consequently we strongly encourage that clients remain vigilant and cautious when opening any emails, attachments or links and especially when responding to any requests for your bank account details.

We recommend that you contact our office to verify our account details before transferring funds to our account or to HMRC.

We will not accept responsibility if you transfer money into an incorrect bank account.

CAN I TRUST LINKS IN EMAILS?

The link shown within an email may not always take you to the location it says it will. Most email applications will allow you to hover over a link and inspect the true destination, although this does not work on Smartphones. You should be able to identify the domain name (e.g. bbc.co.uk) as being relevant; if not then it may be an indicator that the link is malicious.

If in doubt verify the link separately via Google or by ringing the organisation directly, using a known number and not one given on the email.

EMAIL CYBER ATTACKS ARE SYMPTOMATIC OF A WIDER TREND

In today's increasingly complex technological environment, new security challenges are constantly arising, making it harder for businesses to protect valuable intellectual property and business information against theft, damage and misuse. Cyber-crime is an ongoing critical business risk and though technology evolves to protect businesses, cyber criminals develop new ways to steal assets and identities and interrupt business activities.

WHAT CAN I DO TO PROTECT MY BUSINESS?

If your business was targeted today, would your cyber security protocols be sufficient to protect your valuable and sensitive company information? If you're not sure, then the chances are that your business is not doing everything it can to avoid being a victim of the latest cyber scams.

However, there are practical ways that businesses can reduce the risk of cyber attacks and we can work with you to implement and maintain robust cyber security policies and procedures.

Contact our team of experts at cyber@pkf-francisclark.co.uk for further information and guidance.

EVERYONE LIKES THE VIEW FROM THE TOP

We're proud to sponsor the Top 150 list and we're even prouder to see plenty of our clients in there. We share the ambitions that each of them have for their customers, their people and the south west, and we've been helping turn those ambitions into reality every day for the last century.

Each of our clients know that getting to the top is tough. They know what it takes, but they aren't about to stop now. And they know we're behind them all the way.

Talk to us if you're looking for a partner to share the climb.

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