

hotels update

February 2008

Welcome to the latest edition of Hotels Update, our twice-yearly round-up of business and financial news affecting the hotel and leisure sector in the North West.



Moore and Smalley's experience in advising clients in the leisure and hotel sector is extensive. Our specialist tax and VAT advisory services mean that our clients in this sector are able to minimise their business and personal tax bills and maximise their income. Our specialists in the fields of Accounting, Corporate Finance, and Human Resources are also on hand for when our client's businesses need their support.

If you have any ideas of issues that you would like to see us cover in future editions please contact us at info@mooreandsmalley.co.uk or call 01772 821021 (Preston) or 01253 404404 (Blackpool).

Andrew Norman
Partner

MOORE & SMALLEY
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

BENCHMARKING: HOW DO YOU MEASURE UP?

The firm recently undertook a benchmarking exercise amongst our hotel clients with a turnover between £1m and £4m to understand the percentage of their annual turnover that they spend in a number of key areas.

In this turnover bracket, average gross profit was a very healthy 82%, however net profit averaged just 10% (with substantial differences between the highest and lowest profit rates), which really highlights the importance of controlling your costs.

Taking costs into consideration, unsurprisingly by far the greatest cost for all the hotels was wages, which on average, accounted for 33% of turnover. At its highest, the wage bill accounted for 38% of the turnover, whilst at its lowest it was just 29% of turnover. Efficient usage of staff, such as employing temporary staff during the season, rather than employing a larger number of permanent staff throughout the year can assist you in making cost savings in this area, however this could have a knock-on effect on the perceived quality of service that you provide.

Other significant cost areas include repairs and capital expenditure, which accounted for 9% and 7% of turnover respectively. However, by removing one hotel that had by far the largest repair and capital expenditure bills due to a recent refurbishment, the average figure for a 'normal' year of both repair work and capital expenditure appears to be closer to 5-6% of turnover per annum. Some repair and redevelopment work is inevitable but it is important to ensure that

you recover money from guests that cause damage (an area which my colleague Stephen Adams has covered on page 3) to cover your costs to some extent.

By comparison with these much larger costs, the spend on advertising the benchmarked hotels is relatively negligible at between 1 and 2% of turnover, but like any cost, you should ensure that you are negotiating and 'shopping around' to get the best prices and most value for your investment. You should also regularly review your advertising investment to ensure that you spend money on the most effective media for your hotel in terms of generating bookings.

While benchmarking yourself against the figures provided may give you an overview of how your business is currently faring, this is by no means a suitable substitute for a review by a business advisor with specialist knowledge of the leisure and tourism sector.

For business advice tailored to the specific needs of your hotel, contact Judith Dugdale, Corporate Manager, on 01253 404404 or judith.dugdale@mooreandsmalley.co.uk

IN THIS ISSUE

- CGT Planning: sell assets now or sell later?
- Update on VAT and customer deposits
- Time to review your protection?

THE CHANGING FACE OF UK TOURISM

What does the future hold for UK tourism? As 2008 kicks off, Moore and Smalley's Leisure and Tourism specialist, Judith Dugdale, considers the changing face of the marketplace.

The tourism industry in the UK is ever changing. The UK prides itself on its wide range of tourist attractions be them the historic and cultural attractions in London or the more unique attractions such as the Eden project in Devon. The UK attracted over 30.7 million international visitors in 2005 and according to Visit Britain this is because the world sees the UK as having a very strong culture and heritage.

The UK's global market share of tourism in terms of international tourist arrivals had been on a steady decline between 1979 and 2001. From 2002 we saw an increase with levels hitting a 6 year high in 2006. The UK is currently ranked at no 5 in the world for tourist receipts sitting behind USA, Spain, France, Italy and China respectively. Why have we seen such a decline since 1979? It appears to be directly linked with the changing behaviours of tourists. They are now much more likely to visit the UK for a short stay which leads to a lower spend per visit. On the bright side however, the average spend per night has remained at around £60 during the 26 year period. Whilst we are still along way from our high in 1979 the past few years have seen us achieve an annual growth rate in international arrivals of 6% which is much better than our 5 closest rivals. The USA for example has only seen a rise of around 2%.

The reason behind the rise of international visitors is partly linked to the levels of immigrants. In 1979 18% of international visitors came to the UK to see friends and family where as in 2006 this had grown to 29%. Likewise the growth in our business markets lead to 9% more business trips in 2006 compared to 1979.

Whilst international visitors are important to the survival and growth of UK tourism the UK actually receives 79% of its tourism income from British nationals. Of the tourism income from British nationals, only 7% relates to overnight trips or trips in excess of 1 nights stay. That means that a massive 52% of our tourism income comes from day trips.

The future of Tourism

Day trips are likely to increase over the next few years along with a further decrease in long breaks. This means that the tourism industry needs to take stock. Hotels need to make sure they are attracting the growing number of people looking for 1 night break and try where possible to entice them in staying for a short break. Many hotels in Blackpool and the lakes have started offering more short break deals, which encourage the tourist to stay an extra night. With average spend per night remaining the same it is worth trying to get people to stay the extra night. With day trips on the increase it looks promising for theme parks, attractions and cultural places of interest. With so much choice

2008 ECONOMY COULD FAVOUR UK SHORT BREAKS?

Extra financial pressure on many UK households could prompt a surge in short breaks and holidays in the UK this year, it has emerged.

A slowdown in the housing market combined with additional inflationary pressures such as rising food prices and fuel costs could mean that foreign holidays are increasingly shunned in favour of UK breaks.

out there now for the consumer, getting the correct branding and promotion is going to be key in attracting more visitors.

It is a must now for businesses within the tourism industry to have on line facilities. Travel, accommodation and holidays are the most popular on-line purchase. The number of households with access to the internet is at an all time high with 61% households in June having access. Those using modern day technology are getting younger too. Children and teenagers are not just altered to attractions through television but also through on line advertisement. Whilst online promotion can be simple and effective the internet brings other problems/opportunities to the tourism industry. For example in for the Hotel sector, websites such as Tripadvisor.com now offer all a view of your hotel through how the individual saw it/experienced it and not necessarily as you would hope.

Many people in the industry believe that following the predicted credit crunch more British people will choose to stay in the UK and take day trips or even holiday here if the oil prices and therefore flight costs increase. The "open skies" from March may lead to a further increase in business visitors as the price of business class fares should be reduced. However, the UK has been hit recently with fewer US visitors due to the strong pound. If the pound continues to stay strong it is unlikely that we will see the levels of US visitors that we have in the past. Also, it is unknown yet how popular the new Eurostar service from St Pancras will be and the impact it will have on incoming tourism and of course gives the possibility of more British nationals travelling abroad to France. Some commentators believe that the rising fuel costs and traffic congestion may mean UK nationals decide to stay more local when visiting attractions in UK.

Going Green?

We are all well aware of the changing climate and the need to go green. But what is your business doing about it? Consumers are now becoming increasingly environmentally conscious, and being seen as green attraction or hotel you may be able to increase your revenue. This is something that Devon County Council have tried capitalise on. They are actively promoting Devon as a green resort. Hotels and B&B's are targeted and encouraged to attained accreditation from the council as a green establishment. They have Gold, Silver and bronze standards and have many of the local businesses on board. They even help the businesses work out their carbon footprint. By offering links to outdoor activities such as walking, cycling and golf they are able to promote the health benefits of a holiday in Devon. Before they undertook this exercise Devon tourism was suffering from a very seasonal trade, a low skill base, poor quality of hotels with high prices and a lack of investment. With the work done, Devon is proving to be a much more popular destination with tourists.

Speaking at the Tourism Society Prospects, Superbreak joint managing director Nick Cust predicted that the first half of this year would be financially challenging for consumers due to the ongoing global credit crunch, Travel Weekly reports.

However Mr Cust added that things could pick up again by the end of the year.

IS IT TIME TO REFRESH YOUR PROTECTION PORTFOLIO?

The New Year is the perfect time to give your finances an overhaul and in particular to review the protection element of your financial planning strategy. When was the last time you considered and reviewed your critical illness cover, income protection and life insurance requirements?

Critical illness insurance

Critical illness insurance pays out a tax-free lump sum if you are diagnosed as having one of the specific life-threatening conditions defined in the policy. Some policies will also combine life and critical illness cover together. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first.

The Association of British Insurers (ABI) launched the 'Statement of Best Practice for Critical Illness Cover' to enable people to understand exactly what critical illness cover provides and what they can claim for. The ABI specify a number of illnesses and definitions that must be covered for a policy to be classed as a critical illness policy, however some companies offer additional definitions and illnesses on top of these.

Income protection insurance

Income protection insurance is also known as permanent health insurance. It is designed to replace part of your lost earnings if you are unable to work because of illness or disability. Depending on how much cover you chose to buy, income protection insurance provides a tax-free monthly payment of between 50 and 60 per cent of your usual earnings. The monthly payment typically continues until you go back to work or you reach retirement age.

Life insurance

Life insurance assists your dependants to cope financially in the event of your premature death. When you take out life insurance, you set the amount you want the policy to pay out in the event of your death – this is called the sum assured. There are two basic types of life insurance: term assurance and whole-of-life cover.

1. Term assurance

This is the most straightforward type of cover with no investment element, paying out a lump

sum if you die within a specified period. Often term assurance is bought at the same time as a mortgage, and taken out for the same period.

There are several types of term assurance, and the type you will require will be entirely dependent upon your circumstances.

2. Whole-of-life insurance

This is a policy that lasts throughout your life, so your dependants are guaranteed a payout whenever you die. There are different types of whole of life policy. Some offer a set payout from the outset, others are linked to investments and the payout will depend on performance. Investment-linked policies are unit-linked policies, linked to funds, and with-profits policies offer bonuses.

Please note, levels and bases of, and reliefs from, taxation are subject to change.

For more advice on protection against the unexpected, contact Laurence Kelly on 01772 821021, or e-mail laurence.kelly@mooreandsmalley.co.uk

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WHERE DOES THE VATMAN STAND ON CUSTOMER DEPOSITS?

If a customer pays you a security or reservation deposit to stay at your hotel and then either cancels the booking at the last minute, or damages their accommodation, it is usually standard practice that you keep part of the deposit in compensation. If you are VAT-registered though, how should you account for VAT on this amount?

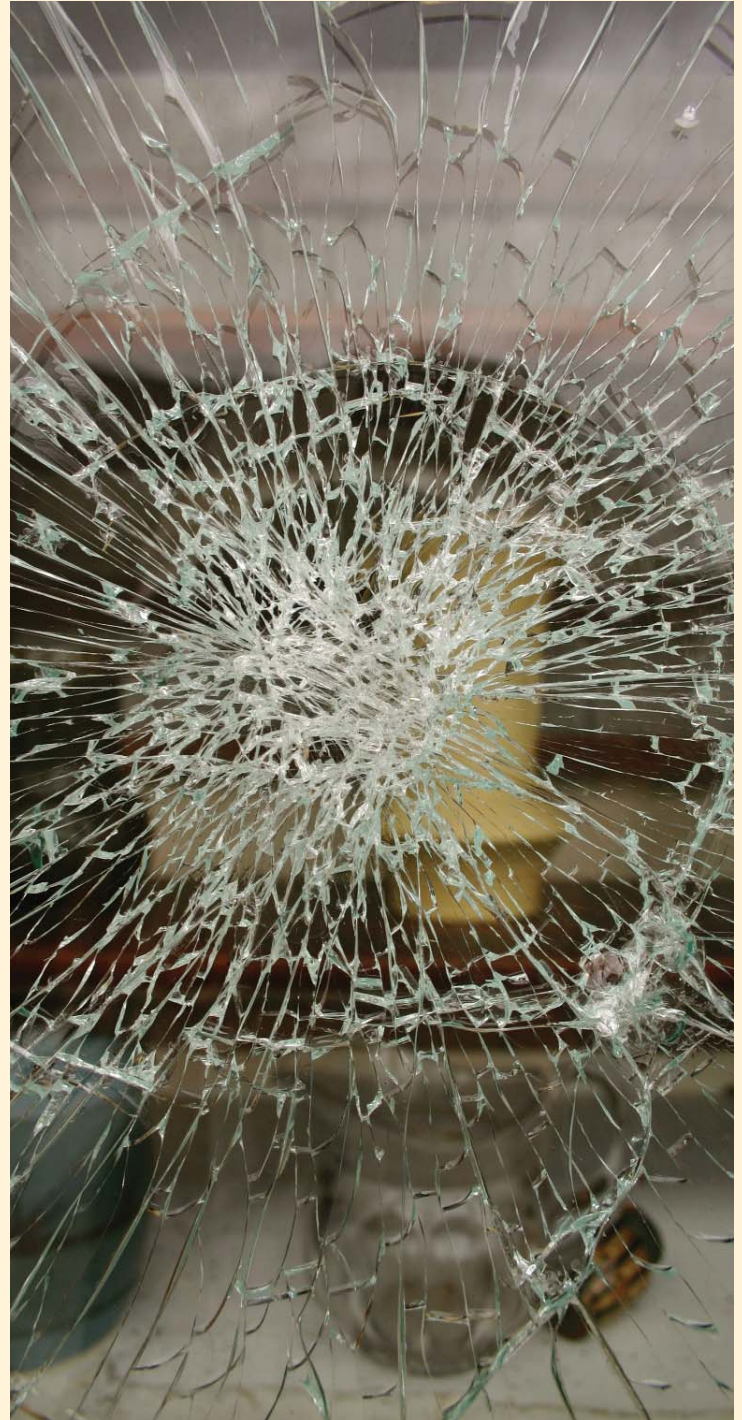
The rule on compensation payments is that they are outside the scope of VAT as they are not consideration for a supply. This is as they are usually made as a result of a court order or through an agreement between the two parties involved to compensate the other for loss or inconvenience.

In order to ensure that there has not been a supply for VAT purposes, you should confirm that your agreements allow for an early termination of the contract and include a formula for the payment of compensation (this is usually a payment for loss of earnings known as 'liquidated damages'). If these rights are not set out and you reach a negotiated settlement, then this is likely to be treated as a supply for VAT purposes.

A relevant European Court ruling was made earlier this year regarding deposits paid in advance by a client on booking a room in a hotel, which was then either deducted from the amount payable for the room or, in the event of a cancellation, retained by the hotel. The court ruled that on these grounds, the deposit was a fixed cancellation charge, paid as compensation for the loss suffered as a result of client default, which had no connection with the supply of any service for consideration. As such, it was not subject to tax.

Finally, taking compensation from security deposits will actually be cheaper for your customers than invoicing them (with VAT applied) for damage caused. For example, if you took £20 out of a security deposit for an individual, this is clearly cheaper than invoicing them £23 (£20 + VAT).

For specialist advice on VAT, including our 'VAT healthchecks' which are designed specifically to keep the VATman at bay, contact VAT & Employer Taxes Associate, Stephen Adams on 01772 821021 or e-mail stephen.adams@mooreandsmalley.co.uk



CUMBRIA TOURISM RE-LAUNCH VISITOR WEBSITE

Cumbria Tourism's re-developed consumer facing website Golakes.co.uk has now gone live.

The new web design ties in with Cumbria Tourism's 2008 media campaign and the 2008 holiday guide design. The new site will

incorporate a superb range of new developments, including improved navigation, a travel planner facility, improved mapping with a zoom function and much more.

The redesigned website is www.golakes.co.uk