



THE HOSPITALITY SECTOR IN NORTHERN IRELAND

THE ROAD TO RECOVERY

11 May 2020

HU Hospitality
Ulster

NI
HF
NORTHERN
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HOTELS
FEDERATION

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EXECUTIVE SUMMARY

- Prior to the COVID-19 pandemic, the Hospitality Industry in Northern Ireland was on an upward trend.
- With an annual turnover of c£2bn and sustaining c65,000 jobs, it is a significant economic sector in its own right.
- It is also the backbone of the growing tourism economy, accounting for c60% of tourism spend.
- However, as a result of the economic fallout, the potential for business closures and job losses is significant. Risk analysis suggests that up to 2 in 5 restaurants, 1 in 4 hotels and 1 in 7 pubs/bars are at risk of closure.
- The economic impact associated with this risk of closure is substantial for the sector and includes the potential loss of up to:
 - 1 in 4 hospitality businesses - 440 businesses
 - 1 in 3 direct jobs - 15,800 jobs
 - 32% of the sector's contribution to wages - £158m
- The impact of any reopening under social distancing measures restricting customers/covers will present significant challenges for the hospitality industry and its viability.
- All of these factors will have severe consequences for the sector, with an estimated loss of £1.1bn in turnover in this year alone.
- Whilst any resumption of trading in the hospitality sector under social distancing measures comes with significant challenges,

both socially and commercially, the industry believes that reopening can be achieved to a degree, if all stakeholders work in partnership with the proposed '12 Point Plan' detailed in this report.

The 12 Point Plan:

1. Health and safety
2. Consumer Confidence
3. Social Distancing Implementation Voucher
4. Rates Relief
5. Business Suspension Fund
6. Extension to the Job Retention Scheme
7. Bank Support
8. Bounce Back Loans
9. Rent Hardship Fund
10. HMRC
11. VAT Rate
12. APD

- The economic and social benefits that would arise from a successful partnership approach between Government, financial institutions and the Hospitality sector will set the tone and pace of the economic recovery from COVID-19.
- If an appropriate and deliverable support package cannot be developed for the Hospitality Industry, then it is likely that there will be redundancies in the tens of thousands over the coming 12 months.
- It is in all interests that this outcome should be avoided.

PREFACE

- The health of the nation and support for the health service is, and should be, the primary focus of Government, both in Westminster and the NI Assembly.
- However, it must also be acknowledged that the economy and the relationship between secure employment and peoples' wellbeing is also of critical importance.
- This is particularly evident in the Hospitality Industry where there are many people employed on flexible working arrangements that are necessary to suit their life and family circumstances.
- It is in this context that the following paper has been written.
- The Hospitality Industry is well known for its innovation, drive and entrepreneurial spirit. To survive this crisis these qualities will be essential.
- In order to consider the impact of the COVID-19 crisis, the industry has come together in the form of Hospitality Ulster and the Northern Ireland Hotels Federation. An Industry Response Group, chaired by Brian Murphy, Managing Partner of BDO Northern Ireland, has been formed with the following objectives:
 1. To establish a panel of key stakeholders that represent all aspects of the hospitality sector in Northern Ireland.
 2. To assess the impact of the COVID-19 pandemic on the hospitality sector in Northern Ireland.
 3. To engage directly with operators in the hospitality sector in Northern Ireland to identify the key issues affecting them.
 4. To develop potential strategies to address the challenges arising from the pandemic.
 5. To engage with Government and other stakeholders in order to put in place a range of financial packages to preserve jobs and enable the sector to survive.
 6. To engage with Government and statutory bodies to develop policy guidance in relation to staff and consumer safety in relation to Coronavirus.
 7. To develop a recovery strategy that recognises the very real challenges facing the sector and that provides a pathway for the rebuilding of the hospitality sector in Northern Ireland.
- The Hospitality Industry has always been proactive and its response to this crisis is no different. Through this report, the efforts and opinions of the Industry have been collated to show that a road to recovery can be achieved and what steps need to be taken to do so.
- There is no doubt that the Hospitality Industry is critical for Northern Ireland, its economy and its people. The Industry recognises that it cannot rely on Government solely to protect it from the challenges in the current market, it believes that it must work in partnership with Government and other stakeholders to survive and to protect the many employees and associated businesses across the Province.
- As a result, this paper has been prepared as a consultation document for Government and other stakeholders to consider what steps should be taken to preserve this vital sector.



1. INTRODUCTION

1. INTRODUCTION

- With an annual turnover of c£2bn and sustaining c65,000 jobs, the NI hospitality industry is a significant economic sector in its own right.
- It is also the backbone of the growing tourism economy, accounting for c60% of tourism spend (c£600m) and providing three out of four tourism jobs.
- Unlike many other sectors, the NI hospitality industry provides jobs in every city, town and village across Northern Ireland. The NI hospitality industry also plays an important role as a local economic, community and social hub, providing jobs locally for the less economically mobile and a community support system for the socially isolated.
- The NI hospitality sector is fundamentally different from the rest of the UK, as the vast majority of the businesses are small/micro and locally owned and operated. By way of example, the largest UK chain operating in Northern Ireland has only five premises.
- Regrettably, the hospitality industry has also been the most vulnerable sector when it comes to the financial impact of COVID-19. It was the first impacted, it is the hardest impacted, and it will take considerable time and financial intervention to rebuild.
- Whilst the independent nature of the NI hospitality industry brings a uniqueness to the consumer offering, it has also left it in a weaker position than its GB counterparts to withstand the economic impact of the Coronavirus crisis.
- This paper looks at a potential road map to recovery and the challenges faced by 3 of the key business models within the NI hospitality industry. It does so under the following sections:
 - The Impact of COVID-19 (Section 2);
 - The Road to Recovery (Section 3):
 - i. The challenges of preserving, reopening and rebuilding the industry;
 - ii. When and how the industry may be allowed to reopen and under what social distancing/physical distancing restrictions; and
 - iii. Commercial viability of a return to trading.
 - How stakeholders can come together to secure the Recovery (Section 4).



2. THE IMPACT OF COVID-19

2. THE IMPACT OF COVID-19

On 20 March 2020, the UK Prime Minister announced the requirement for pubs, restaurants and hotels to close. Whilst a number of food led businesses have tried to diversify into a limited takeaway/delivery service, the vast majority of hospitality businesses remain closed at this time.

It is welcomed that both Westminster and the NI Executive have recognised that the Hospitality sector is one of the worst impacted industries and will most likely be the slowest to recover. The financial assistance packages that have been put in place have provided businesses across all sectors with a lifeline to get through the initial lockdown period.

2.1 What is Happening on the Ground

- Businesses have been utilising their own cash reserves, where available, to meet the ongoing costs of effectively mothballing their operations.
- There have unfortunately been redundancies within the sector. In the hotel sector alone there have been 1,200-1,500 redundancies to date, representing some 12%-15% of the workforce.
- The working capital cycle has ground to a halt, some drinks suppliers are engaging proactively with the sector and have agreed to collect unused product and to issue credit notes. This has helped to alleviate immediate cashflow pressures.
- Appropriate steps have been taken to physically secure hospitality premises across Northern Ireland, with many erecting boarding and fencing to prevent access and to protect both the premises and the general public.
- Businesses are having to meet the ongoing costs of maintaining their premises in this mothball state, including:
 - Insurance Costs;
 - Security Costs;
 - Utilities (although at a greatly reduced level);
 - Rent; and
 - Capital/Loan Repayments
- It is estimated that over 90% of NI hospitality employees are now on the UK Government Furlough scheme (CJRS).
- All businesses in Northern Ireland are availing of the three-month rates holiday from the NI Executive, regardless of business type, sector or impact on trading by the Coronavirus.

2. THE IMPACT OF COVID-19

- All businesses with a NAV of £15,000 or less are in the process of being paid a Coronavirus grant of £10,000 by the NI Executive, regardless of business type, sector or impact on trading by the Coronavirus. These monies have now been received by many businesses.
- Hospitality, Tourism and Retail businesses with a NAV between £15,001 to £51,000 have been applying for the NI Executive Coronavirus grant of £25,000. Unlike England, these grants are paid once per business, not per premises.
- Eligible NI businesses have also been applying for UK Government's CBILs, CLBILs and Bounce Back Loan facilities.
- In many cases Banks and financial institutions have offered additional working capital facilities and capital moratoriums on term debts. This is in addition to the provision of the CBILs, CLBILs and Bounce Back Loan facilities to clients. The Banks and financial institutions have played, and will continue to play, a key role in the coming months and years.

2.2 Economic Impact

- The following sets out the potential economic losses that could be sustained by Northern Ireland's Hospitality sector in the aftermath of the COVID-19 crisis.
- These findings are set within the context of compelling evidence that the Hospitality sector is arguably the most exposed sector in terms of potential business and job losses. The matter in hand is the sustainability and survival of a sector that is critical to communities, tourism and the cultural fabric of this region.
- The sector has effectively been shut down because of the COVID-19 pandemic, with immediate and deeply negative consequences.
- It is important to note that the figures set out below are indicative figures at this stage and the industry's assessment of the potential impact is largely based on qualitative research including conversations with the industry and suppliers credit risk analysis. As more evidence emerges the figures will be updated to reflect new data coming forward.

2. THE IMPACT OF COVID-19

2.3 The Importance of the Sector

- Prior to the COVID-19 crisis, the hospitality sector in Northern Ireland supported 50,000 direct jobs and half a billion pounds in direct wages to the local economy (based on 2017 data). Turnover amounted to £1.9bn and the sector added £900m in direct value to the region (GVA). These impacts are even larger when multiplier effects are taken into account in terms of the sector's purchasing of local goods and services and the impact of wages spent in the local economy.
- In overall terms therefore the Hospitality sector is estimated to contribute more than 65,000 jobs to the region and almost £900m in wages to the local economy.

HU Economic Impact of the Hospitality Sector - GVA, Jobs, Wages (2017)

	GVA (£m)	Employment	Wages (£m)
Direct Impact	£897	49,151	£494
Multiplier Effects			
Indirect (buying goods & services)	£377	7,981	£226
Induced (wages spent in economy)	£310	8,303	£180
Total Impact	£1,584	65,435	£899

Source: HU Economic Impact Study, ONS data

- The restaurant sector is the largest contributor to jobs at 30,375, followed by hotels at 10,548 jobs and pubs at 8,071. The restaurant trade accounts for around half of turnover and value to the local economy.

HU Economic Impact of the Hospitality Sector - GVA, Jobs, Wages by Sub-Sector

Premise Type	Turnover		Direct Employment		Direct GVA		Direct Wages	
	£m	%	Jobs	%	£m	%	£m	%
Pubs	£419	22%	8,071	16%	£178	20%	£76	15%
Hotels	£486	26%	10,548	21%	£285	32%	£120	24%
Restaurants	£966	51%	30,375	62%	£432	48%	£297	60%
Event Management	£7	0.4%	157	0.3%	£2	0.2%	£2	0.4%
TOTAL	£1,878	100%	49,151	100%	£897	100%	£494	100%

Source: HU Economic Impact Study, ONS data

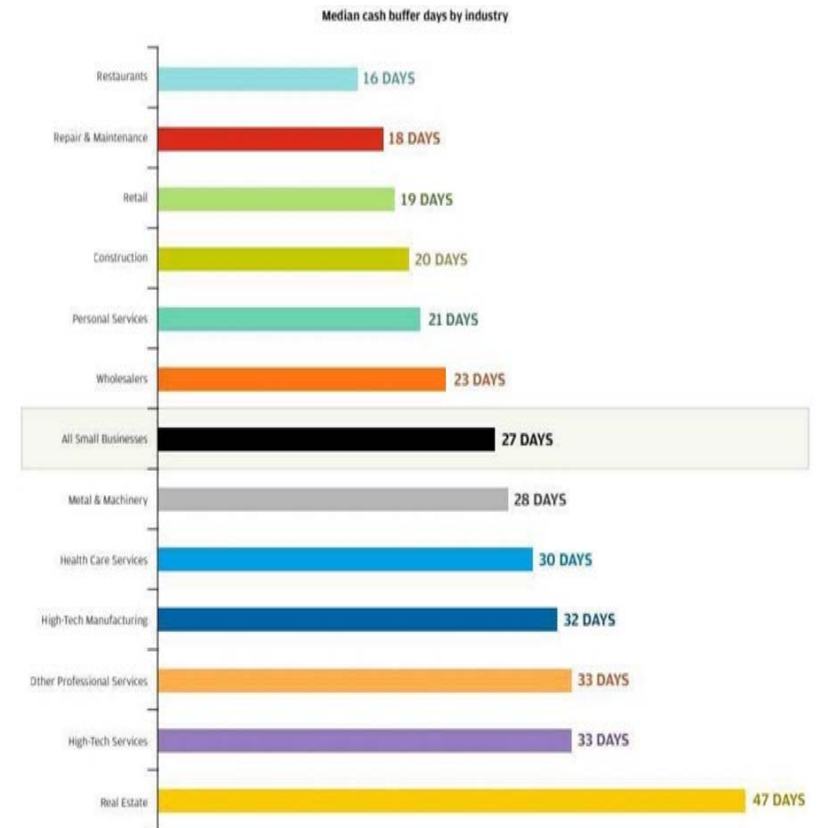
2. THE IMPACT OF COVID-19

2.4 The Fall Out from COVID-19 - Anticipated Business Failures & Job Losses

- With the majority of hospitality businesses effectively closed, the economic resilience of the sector, particularly restaurants, is being severely tested. The sector has a typical cash buffer of just sixteen days, one of the lowest of any sectors, as indicated in UK Hospitality's research.
- This exposure will inevitably lead to closures and job losses as the sector deals with the fall out of what is essentially a collapse in demand from large parts of a sector that relies on both domestic and tourism demand to survive.
- Set out below is an assessment of the potential fallout from this exposure in terms of business failures and jobs losses, including the potential impact from a restriction in the ability to trade where social distancing rules are to be implemented to allow the sector to restart.

Median Cash Buffer Days by Industry

Source: UK Hospitality



Note: Cash buffer days are the number of days of cash outflows a business could pay out of its cash balance were its inflows to stop. We estimate cash buffer days for a business by computing the ratio of its average daily cash balance to its average daily cash outflows.

Source: JPMorgan Chase Institute

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2.5 Potential Business Failures and the Consequences

- Hospitality Ulster has sourced industry data that has been extrapolated to obtain an indicative 'business failure rate' for key business premises/types within the hospitality industry at the 'four-week point' since closure. It is highly likely the 'business failure rate' and resulting job losses will increase as businesses remain closed and outgoings exceed Government support. However, at four weeks into closure the range of predicted business failure rates is as follows:

Predicted Business Failure Rate as a percentage of current businesses: Week 4 after Closure

Premise Type	Failure Rate (%) Range
Pubs	10% to 15%
Hotels	10% to 26%
Restaurants	29% to 39%

Source: Industry Suppliers Credit Risk Analysis (confidential)

NOTE: Coffee shops, catering, etc. are another significant business type within the hospitality industry. However, due to the lack of data, we have been unable to model the risk level.

- This credit risk analysis suggests that in a lowest risk scenario, up to 29% of restaurants could fail, rising to 39% in the upper risk scenario. This means that up to 2 in 5 restaurants (40%) are assessed as 'at risk' of closure, 1 in

4 hotels and 1 in 7 pubs. This gives a sense of the magnitude of the impact on the sector in a very short space of time.

- Hospitality Ulster also has access to information on the number of pubs/bars, hotels and restaurants in the sector, taken from the Department for Communities licenced premises data. This helps provide a sense of the scale of loss in terms of actual business numbers.

HU Assessment of Impact on Business Closures

Premises Type	No. of premises	% closure risk	Potential Business Closures
Pubs / Bars	1,236	10% to 15%	124 - 185
Hotels	145	10% to 26%	15 - 38
Restaurants	555	25% to 39%	139 - 216
Total	1,936		277 - 440

Source: Department for Communities 2018

NOTE: This should be regarded as an indicative figure due to the methodology used and challenges are acknowledged in comparing different data sources and timelines

- This means that the sector is at risk of losing up to 440 businesses, which is 23% or almost 1 in 4 businesses. Even under the lowest risk scenario, the sector could lose 14% of its business base.

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2.5.1 How might this translate into potential job losses and wages lost?

- On the basis of the data available, it is possible to make an assessment of potential job losses. This would suggest that up to 16,000 jobs could be lost because of the potential risk of closure of businesses in the Hospitality sector. This represents an estimated 1 in 3 jobs among those directly employed by the Hospitality sector. Again, even taking the lower risk scenario an estimated 1 in 5 jobs could be lost through closure.

Potential Job Losses from Business Closures

Premises Type	Direct jobs	% businesses at Risk	Potential job losses Lower Risk Scenario	Upper Risk Scenario
Pubs / Bars	8,071	10% to 15%	807	1,211
Hotels	10,548	10% to 26%	1,055	2,742
Restaurants	30,375	25% to 39%	7,549	11,846
Total*	48,994		9,456	15,799

* Events are excluded from this analysis.

NOTE: This should be regarded as an indicative figure using the 'average number employed'

- This loss in jobs has obvious consequences for wages also. On the basis of the figures (and related wages data)

outlined above, this suggests that the potential loss in wages to the economy could range from £94m to £158m, up to 32% of the wages contributed by the sector to the economy.

- There are knock on effects into the wider economy in terms of the reduction in purchases from local suppliers and the fact that those wages are no longer being spent in the economy.
- The wider jobs impact could lead to as many as 21,000 jobs lost to the local economy on the basis of the current risk assessment.

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2.6 Potential Impact of Social Distancing Measures

- It has been mooted that social distancing will be in place for some time, with the Hospitality sector the last to return to 'normality'.
- One suggestion is that customer numbers in certain parts of the sector could be reduced to allow for social distancing to take place. This would result in a potentially unsustainable model for parts of the sector.
- Businesses would still have to maintain a certain level of staff to open and would incur largely the same level of costs (with the exception of lower food/drink purchases) if not more because of the need to invest to maintain social distancing. This has a direct impact on viability.
- Profit margins in these sectors are already challenging for many businesses. This reduction is simply not sustainable. The customer base will also take some time to recover until the public has the confidence to return to these establishments meaning that the reductions imposed by social distancing could be much greater.
- This adds further uncertainty as to how to rebuild a sustainable model for the Hospitality sector going forward. It will only increase business closures and job losses further. In fact evidence suggests that three

quarters of restaurant and bar operators could not survive with social distancing measures in place.

- It is therefore vital that Government support continues with ongoing targeted relief, using a range of measures to support the industry to manage any social distancing measures that may be put in place and keep the sector open for business.

2.6.1 What this could mean for the Hospitality Sector's turnover in 2020?

- Hospitality Ulster has modelled the potential impact on the sector's turnover arising from the numerous challenges that COVID-19 has brought. This is based on a number of assumptions because decisions have yet to be made around when lockdown will end for the sector and the extent to which social distancing measures might be introduced. It will also become clearer over time which businesses will either be forced to, or choose to close for the remainder of this year, if not permanently.
- The assumptions made are as follows:
 - The Lockdown period for the sector will cover 24 weeks up to the end of August;
 - For the most part, the sector will not be trading with the exception of limited sales by the restaurant sector;

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- There will be closures (temporary/permanent) for the rest of the year - we have used the lower and upper closure risk assessment discussed above; and
- For those businesses that can open after lockdown, their business will be reduced by c33% because of social distancing measures put in place (potentially an underestimate as the practicable application on individual premises could be much greater and customer confidence will also be a factor).
- These are assumptions at present and will be revised as decisions are made by government to exit lockdown.
- On this basis, our estimates suggest that:
 - The sector could see a fall in turnover of 60% to 63% during 2020, around 3/5ths of the total, because of lockdown, potential business closures and restrictive trading conditions through social distancing measures;
 - This could amount to a loss of just over £1.1bn in turnover for the sector in just one year alone; and
 - The lockdown period alone accounts for around 70% of the overall loss of turnover to the sector.



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2.7 Ongoing Closure

- Despite the considerable financial interventions by Government, the ongoing closure and the associated financial implications it brings will further increase the number of NI hospitality businesses 'at risk of permanent closure'.
- The Bank of England has stated that in its opinion the economic recovery will not just be a fiscal challenge, it will primarily be a behavioural challenge. The longer the closure period extends, the more people's lockdown behaviours will become ingrained. Therefore the population will, understandably, be less likely to want to go into social environments where they may feel at risk.
- The Hospitality Industry in particular has been considering this point in great detail, in an attempt to formulate health and safety policies and procedures to enable trading to resume safely and to not put staff and customers at risk.
- It is likely that an industry led campaign would not be successful in changing these ingrained behaviours, due in the most part to the potential conflict of interest that could be perceived. Instead, a Government led media campaign would likely be more impactful.
- These behavioural changes will not be effected immediately and as a result, the recovery period for the Hospitality sector will be longer than that of the rest of the economy.
- The Hospitality sector believes that it is critical that it is permitted to move forward with its rebuilding strategy, so as to preserve jobs and to in general, reinforce Government's focus on getting back to a new normal.
- Further ongoing financial interventions of existing and new forms will be necessary if a significant proportion of the industry and the jobs it provides are to be saved.





3. THE ROAD TO RECOVERY

3. THE ROAD TO RECOVERY

3.1 Preserving the Industry Until Reopening

- The Government's Financial Assistance package has been key to securing the Hospitality sector in the immediate aftermath of the industry closure. The Grant Funds and the Job Retention Scheme have enabled many Hospitality businesses to stabilise their position and to allow them time to consider their plans and timeline for reopening.
- As a direct result of the crisis, Hospitality businesses have closed and are being preserved with a view to reopening at a point in the near future.
- Whilst very much welcomed, the financial assistance packages are finite and will only support a limited period of closure. The sector therefore wishes to move to the "rebuild" phase as soon as is permissible in the circumstances.
- The physical premises can be reopened on relatively short notice, but there are wider concerns that must be considered before reopening can be achieved.

3.2 Resumption of Trading

- Referring simply to the Reopening of the Hospitality sector is a considerable understatement of the issues that need to be considered and addressed before any resumption of trading can commence.
- Due to the scale of the impact COVID-19 is having, the more accurate way to consider a resumption of trading is as a "Rebuilding" of the sector.
- The key factors to be considered are as follows:
 - I. Health & Safety under COVID-19 Social Distancing;
 - II. Effecting Behavioural Change; and
 - III. Commercial Viability of a return to trading.



3. THE ROAD TO RECOVERY

I. Health & Safety under COVID-19 Social Distancing

- When businesses are permitted to reopen, it is anticipated that Government will require the implementation of social distancing measures for staff and consumers.
- The safety of staff and customers is paramount and the industry believes that this can be best delivered by Government and the industry working in partnership.
- The development of policies and procedures that can be both effective and deliverable is a priority. It is envisaged that this will require individual premises to carry out risk assessments against those policies and procedures, and to implement a range of measures that could include staff training and behaviour changes, and physical and technical interventions to achieve a safe environment for all.
- To deliver this, the Hospitality Industry Recovery Steering Group now includes representatives from HSE and SOLACE and work is underway to develop a framework. It is also important that responsibility for advice and oversight of any regulations should rest with Local Authorities, who already oversee Health and Safety in the industry.

- Consideration should also be given to the creation of a quality mark that could be used to reassure consumers that premises are compliant.

II. Effecting Behavioural Change

- Rebuilding consumer confidence post-lockdown will be key to rebuilding the viability of the hospitality industry.
- The stay at home behaviours that have been necessary over the last six weeks and the fear factor that will remain, will only be materially changed by addressing the health and safety concerns of the public and by rebuilding their confidence.
- There needs to be a collaborative approach between Government, health experts and the Hospitality Industry to provide consumer confidence that demonstrates that it is a safe environment for both customers and employees to return to.
- This can best be achieved through a proactive and structured plan over a period of time.

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III. The Commercial Viability of a Return to Trading

- Current thinking would suggest that there is a high possibility that social distancing measures will be required for a considerable period of time.
- Social distancing will bring challenges to many businesses, but by the very nature and purpose of the hospitality industry, implementing social distancing measures will have severe implications on capacity, impacting viability and may in some cases not be feasible. Likewise, restrictions on the size of public gatherings may result in some hospitality businesses being commercially unsustainable until all restrictions are lifted.
- Therefore, the opening of hospitality businesses under any social distancing restrictions is unlikely to be commercially viable and indeed, even sustainable, without ongoing and tailored government support.
- The hospitality industry is responsible for capturing c60% of tourism spend annually. The loss of the visitor market will also deliver a significant financial blow.
- Given that the return of visitors is most likely to begin within the domestic market, followed by visitors from ROI the role of Tourism NI will be vital, as it provides the marketing for both the domestic and ROI markets.
- It is likely to be some time before the GB market returns and international markets could take years to recover.
- The supply chain time-lag will also be a consideration when reopening. Using data gained from major industry suppliers in Northern Ireland, the hospitality supply chain will require up to four weeks lead time to reengage.

Case Studies

- The NI hospitality industry is made up of a diverse range of business types, sizes and consumer offerings.
- To examine the impact of COVID-19 and the associated social distancing requirement on the industry, case studies have been prepared for:
 - Bars;
 - Restaurants; and
 - Hotels.
- In order to standardise and simplify how a resumption of trading might look in each of these models, we have consulted with a number of operators in order to detail an example for each.

3. THE ROAD TO RECOVERY

Case Study 1 - Bars

	PRE COVID-19 Weekly	POST COVID-19 Weekly	PRE COVID-19 Weekly	POST COVID-19 Weekly
Product Offering	Beverage	Beverage	Food & Beverage	Food & Beverage
Location	Town	Town	Town	Town
No of Staff	10	6	40	20
Average No of Covers	800	350	2,350	900
Average Spend per Cover	£15	£15	£15	£20
Estimated Weekly Turnover	£12,000	£5,250	£35,000	£18,000
Payroll Costs	£(2,400) (20%)	£(1,050) (20%)	£(10,850) (31%)	£(6,500) (35%)
Cost of Sales – Food (32%), Beverage (34%)	£(4,200) (35%)	£(1,838) (35%)	£(11,700)	£(5,940)
Other Costs (15%) + (10%) (% based on actuals)	£(2,400) (20%)	£(1,575) (30%)	£(6,750)	£(5,200)
Average Weekly Profit/Loss	£3,000	£787	£5,700	£360

NB: Excluding Rent & Rates

Data provided by NI Operators

The above Case studies show that despite the challenges of trading in the COVID-19 era, it is still believed that a breakeven position, before rent and rates, can be achieved. This is no small statement from the industry in light of the potential difficulties it is facing. Operators are already looking at their premises to see what steps can be taken to prepare for a reopening and they are determined to create a practical and viable solution. Whilst reflecting a breakeven position, trading levels are still challenging and the industry will need further financial and market support to create a truly viable solution.

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Case Study 2 - Restaurants

	PRE COVID-19 Weekly	POST COVID-19 Weekly
Product Offering	Food & Beverage	Food & Beverage
Location	Town	Town
No of Staff	30	15
Average No of Covers	1,000	400
Average Spend per Cover	£25 net	£25 net
Estimated Weekly Turnover	£25,000	£10,000
Payroll Costs	£(8,750) (35%)	£(4,000) (40%)
Cost of Sales	£(7,500) (30%)	£(3,000) (30%)
Other Costs	£(3,750) (15%)	£(2,500) (25%)
Average Weekly Profit/Loss	£5,000	£500

NB: Excluding Rent & Rates

Data provided by NI Operators

As with bars, restaurant operators believe that they can reopen and contribute positively to the recovery. Covers are expected to reduce by 50-60% to allow for proper social distancing to be implemented and payroll and other costs such as utilities will go up as a percentage of turnover as there will be a loss from previous economies of scale. The restaurant sector is a major contributor to the hospitality industry and the wider economy and it employs a large percentage of the hospitality workforce. By developing innovative ways of engaging with their customers, restaurant owners believe that with a degree of support they will be able to restart and rebuild the sector.

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Case Study 3 - Hotels

	PRE COVID-19 Weekly	POST COVID-19 Weekly
Product Offering	Accommodation/Food & Beverage	Accommodation/Food & Beverage
Location	Town	Town
No of Staff	37	19
Average No of Covers Bar & Restaurant	580	386
Capacity 1 Sitting Bar & Restaurant	1148	766
Average No of Cover Function Room	140	40
Capacity 1 Sitting Function Room	280	70
RevPAR	£57	£33
Average Spend Bar & Restaurant	£23	£23
Average Spend Function	£42	£10
Weekly Turnover Average Net	£31,000	£15,648
Estimated Weekly Costs Excluding Payroll	£(17,000)	£(11,200)
Payroll Costs	£(11,600) (37%)	£(7,500) (48%)
Average Weekly Profit/Loss	£2,400	£(3,052)

*Function room just utilised for meetings and small events only
Data provided by NI Operators*

Hotels face many of the same challenges as bars and restaurants, but in addition they have to consider the significant impact of social distancing on events such as weddings etc. Income from these events often forms a large part of their revenues and as such a new approach is being developed that places less reliance on larger group gatherings. As a result of this challenge, it is expected that hotels will trade at marginal breakeven/loss level during the crisis.

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3.3 Is it Commercially Sustainable to Reopen?

- The commercial imperative cannot be overlooked and as can be seen from the above case studies, the reduction in trading that is anticipated could result in a marginal breakeven situation for each of the scenarios.
- However, it should be noted that these case studies do not reflect charges for rent or rates. Special consideration must be given to these costs in order to ensure a viable resumption of trading.
- On a more positive note, they also do not take into account the wider social and confidence building benefits that arise as a result of the resumption of trading.
- A further consideration is that the longer the resumption of trading is delayed, the harder it will be to establish a commercially viable level of trade and the greater the risk that many operators will not be in a position to reopen at all.
- Therefore, a proactive approach of resuming trading as soon as is possible, working in partnership with Government and other stakeholders, is considered the optimal course of action for the Hospitality sector.
- A possible structure of this partnership approach is detailed in Section 4.

3.4 The Alternative to Reopening

- There is a very real fear that if the Hospitality sector is not able to resume trading on a viable basis, it will lead to a significant number of business closures and the redundancy of many workers within the sector. It has been estimated in the media that up to 45% of the Hospitality and Tourism Industry in the United Kingdom will go bust if further Government intervention and support is not forthcoming.
- Such redundancies, if they were allowed to arise, would lead to further financial burdens on Government in the form of redundancy payments through the Redundancy Payments Branch and then going forward, Universal Credit payments.
- In distressed trading situations, the Government office of the Redundancy Payments Branch steps in to make statutory rate payments for redundancy, holiday pay and pay in lieu of notice to employees.
- It is proposed that if a partnership approach can be secured with Government and other stakeholders, then the feared costs of redundancy can be avoided and the economy can instead benefit from a resumption of trading within the Hospitality sector and the resultant uplift in confidence that this could bring.



4. WORKING IN PARTNERSHIP TO SECURE THE RECOVERY

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- Businesses in the hospitality sector can only reopen when the time is right, both from a public health perspective and a financially sustainable one.
- Government requirements on social distancing will be a significant factor in the ability of the sector to reopen and be financially sustainable.
- Positively, there is a clear desire within the industry to resume trading, but it is acknowledged that this cannot be done;
 - a) Until Government states that the time is right;
 - b) Until sector specific health and safety measures that protect staff and consumers are in place;
 - c) If it is not commercially sustainable (without Government support); and
 - d) If the business premises are seasonal or unable to implement the required health and safety measures.
- We await Government direction with regard to a reopening timeline. But in preparation, the industry is now working with the HSE and SOLACE to develop industry specific social distancing policies and guidance.
- However, if it is not commercially sustainable to reopen under social distancing measures, due to fixed operating costs and reduced revenues, Government support will be required to sustain such businesses until social distancing measures are reduced or removed to a level that allows a return to a viable business model.
- Likewise, businesses within the sector that cannot practically implement the required social distancing measures or businesses that operate in a seasonal business and miss their prime season will require financial assistance in order to allow the preservation of their business through the closure period, or until social distancing measures are reduced or removed to a level that allows the business to reopen.
- Whilst any resumption of trading in the hospitality sector under social distancing measures comes with significant challenges, both socially and commercially, the industry believes that a level of reopening can be achieved if all stakeholders work in partnership.
- As we move to the reopening and rebuilding phases the need, level and type of Government support will change. It is important to recognise that all businesses will be different and that a 'one size' fits approach all will not be effective.

4. WORKING IN PARTNERSHIP TO SECURE THE RECOVERY

THE 12 POINT PLAN: The range of measures required to; maintain businesses during the current lockdown phase; to reopen; and to rebuild the industry.

1. Health & Safety

The process to develop an industry specific health & safety/social distancing policy and procedures to ensure the wellbeing of staff and consumers has already begun. With HSE, SOLACE and the industry working in partnership to ensure they are both effective and deliverable.

2. Consumer Confidence

The development and delivery of an industry specific 'safety' kite mark and a coordinated marketing strategy, promoting the safety standards to the general public in order to restore confidence.

3. Social Distancing Implementation Voucher

A Government funded voucher scheme to support the installation of both physical and technical measures to comply with Government social distancing requirements. Based on similar voucher-based initiatives already offered by Invest NI and at a value proportionate to the capacity of the premises.

4. Rates Relief

With social distancing measures likely to severely restrict the capacity of premises and therefore severely reduce income, Government must introduce a targeted, rolling rates holiday, with quarterly reviews and requirement tests for the worst affected industries, particularly hospitality.

5. Business Suspension Fund

For businesses that are unable to safely implement the required social distancing measures, or that have a seasonal business and have missed their prime season, a Government funded Business Suspension fund could be used to meet ongoing fixed costs until they can resume trading.

This fund could be administrated by existing agencies such as Invest NI, with a light touch application process that pays agreed fixed costs within set parameters.

4. WORKING IN PARTNERSHIP TO SECURE THE RECOVERY

6. CJRS (Furlough Scheme)

Continued support through the Job Retention Scheme for employees whose services are not immediately required at the outset is essential, in order to allow a gradual return to work as business levels dictate.

In addition, the introduction of a 'Flexi-Furlough' type scheme - amending the current furlough system so that staff can work on a number of days as dictated by growing demand, but be furloughed on days when not required.

This could be followed by a phased move to a percentage of wage payments, to assist in the gradual crossover from subsidy to sustainability.

7. Banking

Continued support and flexibility from Banks and financial institutions during the recovery period. This would involve further support in respect of deferred capital payments and working capital facilities.

8. Bounce Back Loans

A continuation of the Bounce Back Loan scheme is required as businesses begin trading and need to diversify into a new business model and invest in new equipment.

9. Rent Hardship Fund

Establish a Government hardship fund to support tenants and landlords that have agreed a reduction in rents, with Government making up a proportion of the shortfall.

10. HMRC

Continued flexibility from HMRC in relation to VAT payments beyond the current deadline date of March 2021. With the delayed payments to be made over a five year period.

11. VAT Rate

A cut in the VAT rate, to assist businesses reduce dependency of other forms of Government support and boost the domestic and all island visitor market. It is noted that this has already been costed by Government.

12. APD

Abolish domestic APD. With GB being the major visitor market for NI, air connectivity will be a key factor in rebuilding both the tourism and wider economy.



5. CONCLUSION

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- The Hospitality sector in Northern Ireland has always been a key contributor to the region's economic success and growth. Before this crisis its innovation and growth set an example for the rest of the business community. Furthermore, its increasing number of visitors had a positive knock on effect for the whole economy.
- In the context of the NI executive's programme for government (outcome 10): 'We have created a place where people want to live and work, to visit and invest'!
- Therefore, for the economy as a whole, it is worrying that the Hospitality sector is likely to be hit the hardest and to take the longest time to recover.
- Instead of allowing the Hospitality sector to be a burden and an impediment to the economy's overall recovery, we believe that by working together with the proposed '12 Point Plan', it can in fact act as a catalyst to speed up the wider recovery.
- The Hospitality sector and its interaction with the public makes it best placed to begin to effect the behavioural change that is critical to the economy's recovery. The sooner the public regains the confidence to return to normal practices, the sooner the recovery can be achieved.
- Alternatively, the continued closure of the Hospitality sector will only serve to reinforce the public's concerns and as a result their levels of confidence will remain low. Such an outcome would only serve to delay and impede the recovery process.
- In preparing this report we have sought to demonstrate that despite the serious challenges facing the economy and the Hospitality sector in particular, there is a 12 Point Plan that can be followed to rebuild the sector and to set a new norm for how we all live during this crisis.
- The economic and social benefits that would arise from a successful partnership approach between Government, financial institutions and the Hospitality sector will set the tone and pace of the economic recovery from COVID-19.
- If an appropriate and deliverable support package cannot be developed for the Hospitality Industry, then it is unfortunately inevitable that there will be tens of thousands of redundancies over the next 12 months. It is in all of our interests that this outcome should be avoided.
- We are happy to meet with all stakeholders to discuss this report in more detail and to plan for the rebuilding of the Hospitality sector in Northern Ireland.



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