



Smart decisions. Lasting value.

IHF Business Planning Webinar

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Budget 2021 Supports for the Hotel Sector

- VAT to 9% ✓
- EWSS extended to the end of 2021 ✓
- Rates wavier extended to 31 December 2020 ✓
- New support scheme for substantially closed businesses ✓

Background

- The next 12 months may turn out to be the most challenging ever for hospitality business owners
- Weak demand, uncertain demand patterns, higher operational costs, redundancies and cash flow pressures will pertain
- International travel to be down over 60% in 2021 - all will be chasing the domestic market
- Ongoing deferment of weddings, banquets with size restrictions resulting from government requirements and health concerns of invitees
- Corporates will limit employee travel and meetings only held if essential
- Limited staff functions
- Businesses to operate at least 30% down on 2019, resulting in a lower margin business as room rates are lower and volume efficiencies are lost
- Payroll cost % to jump to levels that may become uneconomic

In summary:

Businesses need to endure during a period where tight or negative cash flow is the norm

Topics to be Covered in Today's Webinar

- Make your business lean and maximize variable cost element
- Preserve cash within the business
- Having available funding lines to support the business needs
- Tax warehousing of Covid-19 era tax liabilities
- Change from TWSS to EWSS
- Opting in and out of EWSS
- July to December 2019 reference period for claimants
- January to March 2021 qualifying criteria
- Balance of 2021 - what we know from Budget 2021
- Subsidy levels provided by EWSS
- Open and close considerations
- New support scheme for substantially closed businesses
- Corporation tax reclaims

Cost Cutting – Make your Business as Lean an Operation as Possible

- Consider payroll measures
 - Headcount reduction, temporary wage reduction, reduced hours
- Close outlets
- Avail of rates waiver
- Put all contracts out to tender and ask for 10-15% saving from all suppliers
- Utility usage: How can quantities be reduced? - Staff training focus and internal meters and reporting on consumption
- Replace inefficient plant
- Other general cost compression initiatives as advised by IHF in previous reviews, should be revisited

Key takeaway:

Prepare your list for initial areas to be prioritized over the next 4 weeks and tick off as they are done - record and quantify expected savings achieved, which will motivate you to do more and reference what is possible amongst the team

Re-look at Sales & Marketing Initiatives for the Domestic Market

- When the trading fundamentals are weak, the facilities of the hotel and the value proposition are often the hooks to win business. It is important to have initiatives in place to maximize spend per guest.
- Perhaps the mantra of TrevPar (total revenue per available room) and upselling and focus on keeping guests in-house is part of the staff training initiatives.
- Staycations may require hotels in particular locations offering packages with other tourism services providers.

Seek Out Opportunities for Operational Leverage

- Can management take on other activities that may not justify stand-alone overheads, which generate a positive cash flow if bolted on to your business?
- Perhaps, for certain businesses, the Future Growth Loan Scheme, which is available through SBCI could provide term facilities to invest and generate the efficiencies and growth opportunity that bring greater profits to combined operations.

Preserving and Creating Cash for the Business

- Seek to reschedule capital repayments for the next 6-12 months
- Extend term on leasing facilities
- Consider whether VAT and payroll taxes need to be warehoused until 2021 or 2022
- Avail of government supports to subsidies costs, e.g. EWSS to bring efficiency to payroll cost
- Avail of all grants
- Access and create safety valve by organizing a term loan through SBCI loan guarantee scheme.
- Features of SBCI guaranteed loans:
 - Loans available up to €1 million
 - Term available up to 5 years with 6 months interest only
 - Approval period closed 31 December 2020
 - Purpose of loans is to cover Covid-19 costs

Tax Warehousing of Covid-19 Era Tax Liabilities

- Qualifying companies
- Which taxes can be warehoused
- Repayment terms
- Comparison between using tax warehousing and SBCI loan for tax payments

Payment Comparison of Covid Era Taxes

Repayment Terms	Interest Rate	Sept 2020 - Aug 2021	Sept 2021 - Aug 2022	Sept 2022 - Aug 2023	Sept 2023 - Aug 2024	Total Repayments
Option 1 - Revenue (18 month term)	3.0%	-	69	35	-	104
Option 2 - Debt Finance (4 year term)	3.5%	17	31	31	31	110

Option 1 - liability can be warehoused for 12 months at 0%

Option 2 - assumes 6 month interest only repayments with capital and interest over a further 3.5 years

Funding the Impact of the Change from TWSS to EWSS

Scenario	EWSS	TWSS
Employees	50	50
Subsidy per week	203	350
Weekly payment	10,150	17,500
Payment frequency	Monthly	Weekly
Less generous support impact	7,350 Per week	
Impact on cash flow to first EWSS receipt	60,900 6 week gap until payment made	

Other Issues:

- Tax clearance cert required
- Revenues down 30% in H2 2020 v H2 2019 - self declare and exit if not qualify
- Potential clawback
- Opt-in and opt-out criteria
- Anti-avoidance rules apply
- Balance of 2021 new EWSS scheme

Subsidy levels provided by EWSS

- Does not apply to those earning more than €1,462 per week or €76k per annum
- For an employee €75k per annum the weekly saving is 22% or €355 - (€203 being wage subsidy scheme and €152 being employer PRSI)
- For an employee on €50k the weekly saving is 29% or €304 - (€203 being wage subsidy scheme and €101 being employer PRSI)
- For an employee on €26k the weekly saving is 46% or €256 - (€203 being wage subsidy scheme and €53 being employer PRSI)
- For part-time/casual staff earning €176 per week the saving for the business is 87% or €166 – (€151.50 being wage subsidy scheme and €14 being employer PRSI)
- For part-time/casual staff earning less than €151.50 per week, there is no EWSS subsidy

Key takeaways

- Max and min levels outside of which EWSS does not apply
- Hotels gained a higher level of subsidy from employees on lower levels of salary

Overall – Q1 Revenue and Cost Comparison

		2019		2021	2021	2021	2021
Overall - Quarter 1 - 13 weeks		7 day opening		7 day opening	7 day opening	Short week	Closed period
Revenues		538,550		355,443	269,275	269,275	0
Ratio to 2019 sales		100%		66%	50%	50%	n/a
Cost of sales - ex payroll	25%	134,637	27%	95,970	72,704	72,704	10,000
Overheads/fixed costs ex payroll	18%	96,939	22%	78,197	78,197	78,197	25,805
Payroll cost		296,202		171,302	152,701	119,330	28,467
Payroll cost %		55%		48%	57%	44%	N/A
EBITDA		10,771		9,974	(34,328)	-956	(64,272)
Re-opening costs/ramp-up							(20,000)
Total Cost Deficit							(84,272)

Total deficit before use of support scheme for substantially closed business

Corporation Tax Provisions

- New support schemes for substantially closed businesses
- (CRSS) Covid-19 restrictions support schemes
- Refund of corporation tax already paid

Questions & Answers

Contact The Team

As the leading consultants in relation to the hotel, tourism and leisure business globally, Crowe can provide you with the reassurance and expert advice you require in developing strategies to ensure your operation is best placed to overcome the current challenges.



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