

Domestic Economy Review

Hospitality

3 June 2021

Strictly private and confidential



Important notice

Due to the time constraints involved in meeting the reporting deadlines required, this report might not have considered all areas which could have been relevant. We have identified those areas which came to our attention and deemed relevant for further consideration in assessing the impact on the hospitality sector and the mid-term future to 31 March 2022.

The scope of our work was limited to a review of documentary evidence made available to us by Business Isle of Man and members of the Isle of Man's hospitality businesses. We have not independently verified any information given to us relating to the services.

We cannot guarantee that we have had sight of all relevant documentation or information that may be in existence and therefore cannot comment on the completeness of the documentation or information made available to us. Any documentation or information brought to our attention subsequent to the date of this report may require us to adjust and qualify our report accordingly.

In preparing this report we have relied upon information and explanations provided by selected interviewees and survey respondents. We have not performed any work on the accuracy and completeness of their comments any more than assessing the reasonableness alongside other information gathered.

We have not carried out anything in the nature of an audit nor, except where otherwise stated, have we subjected the financial or other information contained in this report to checking or verification procedures. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of the information in this report, except where otherwise stated.

To the extent that our report touches on points of law it should not be taken as expressing an opinion on any matters of law.



Nicholas Halsall
Partner
T: +44 (0) 1624 689 680
nicholas.halsall@pwc.com

Ferran Munoz Lopez
Partner
T: +44 (0) 1624 689 687
ferran.munoz-lopez@pwc.com

PricewaterhouseCoopers LLC
Sixty Circular Road, Douglas
IM1 1SA
T: +44 (0) 1624 689 689
F: +44 (0) 1624 689 690

Strictly private and confidential
PwC | Domestic Economy Review

The Department for Enterprise – Business Isle of Man
St George's Court
Upper Church Street
Douglas
IM1 1EX

Dear Ladies and Gentlemen

Review of the domestic economy (phase 1 – hospitality)

We have been instructed by the Department for Enterprise – Business Isle of Man (“Business Isle of Man”) to provide a review of the Domestic Economy, in accordance with our engagement letter dated 15 April 2021.

This document has been prepared only for Business Isle of Man and solely for the purpose and on the terms agreed with Business Isle of Man in our engagement letter dated 15 April 2021. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

The partner responsible for issuing this report is Nicholas Halsall who assumes responsibility for the engagement and has signed this report on behalf of the firm.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2015 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), you are required to disclose any information contained in this report, you will consult with us prior to disclosing such report. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with us, you disclose this report or any part of it, you shall ensure that any disclaimer which we have included or may subsequently wish to include in the report is reproduced in full in any copies disclosed.

Yours faithfully

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers LLC'.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC is an Isle of Man limited liability company with incorporation number 00934L and principal place of business at the above address. Members: I G Clague, K M Cowley, A D Dunn, N M Halsall, D P Jones, F Munoz-Lopez and N J Shepstone. PwC refers to the Isle of Man member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

3 June 2021

Contents

Executive summary	5
Introduction	7
Recommendations	10
Support in other jurisdictions	20

Executive summary



Recognise

We recommend that the hospitality sector be duly recognised for its contribution to the visitor economy and to our quality of life

The support offered to hospitality businesses has been different to that offered to accommodation providers. Hospitality businesses feel disadvantaged, in the belief that hospitality is an integral part of the visitor economy and is interdependent with accommodation providers. The current distribution of support has greatly aggrieved some business owners and has potentially exacerbated recruitment difficulties within the hospitality sector. Hospitality provision on the Isle of Man today can only be self-sustained in the short-term by the successful attraction of visitors to the Island for headline events.



Tailor

We recommend that support offered to hospitality businesses should be tailored to their circumstances

Support schemes provided by Government have been gratefully received and were swiftly implemented. They have not accommodated the variety that exists within the hospitality sector, however. Future support should be commensurate with business' characteristics, recognising the diversity within the sector. For instance, consideration should be given to

- a business' age and stage in its lifecycle,
- the size of the business and its venues and the number of its employees, and
- the location of the business.



Support

We recommend that Government provides clear, positive messaging to boost consumer confidence and to stimulate consumer demand for hospitality businesses

As consumers return to hospitality sites and venues, Government must lead with the clear message that the Island's hospitality businesses need support. At a minimum, and wherever possible, a concept of "safe socialising" should be promoted while targeting consistency across the hospitality sector.

Making it easier to organise community events and promoting weekday trade in particular will mitigate some of the revenue losses resulting from lower visitor numbers, increased levels of remote working and other lifestyle changes.

We recommend also a code of best practice (including contact tracing tools) be available to businesses to assist in living with Covid-19 and responding should the situation evolve. This will help build consumer confidence.

Executive summary



Sustain

We recommend that Government continues to respond to the financial hardship that threatens the hospitality sector

Businesses will carry the burden of the pandemic for months or even years to come. They have responded to the challenges variously but a common consequence is the impact on their ability to maintain existing services and/or to proceed with future growth and investment. Sustained financial support will be a lifeline for many but it must also be periodically reviewed. Government must be flexible in its approach to working with businesses in recognition of the pandemic's extraordinary impact.

In the short term

- Cash support in some form is needed until normal trading conditions resume (likely Easter 2022).
 - The Salary Support Scheme could continue for businesses that can demonstrate reduced turnover.
 - A grant scheme could be made available (in conjunction with or to replace the Salary Support Scheme) through expansion of the Coronavirus Recovery Scheme to all hospitality businesses that can demonstrate reduced turnover.
- Payment plans for Government debts should reflect the exceptional nature of the disruption to trade in the last year.

In the medium term

- Government could explore ways to continue the effect of reduced VAT rates on hospitality supplies.
- Reduced excise duty on beer and a transfer to metric measures could ease financial strain on licensed traders.
- Government could provide a credit line facility (perhaps by enhancing the current Coronavirus Recovery Scheme) tailored to business needs for working capital purposes as businesses recover.



Adapt

We recommend that Government continues to facilitate business adaptation

Businesses cannot be expected to adapt to the post-pandemic world without a vision for the Island's future, guidance on how to operate and financial support to make necessary or innovative change.

The pandemic appears to have hastened lifestyle changes which require businesses to evolve. Government should recognise this in the availability and terms of adaption schemes.

- The Coronavirus Adaptation Scheme could be improved by removing the requirement for a business to fund adaptation in its entirety prior to receiving support.
- Strategic projects and infrastructure investment should consider hospitality and its contribution to the Island's future.

Introduction

We have been asked to assist Business Isle of Man, an executive agency of the Department for Enterprise, with a review of the case for providing financial support to the Isle of Man's hospitality sector and the case for wider support to the domestic economy following the impact of Covid-19.

The Business Isle of Man Board is aware that many customer facing businesses in the domestic economy, and those who supply them, have been impacted long term because of Covid-19, especially small and medium enterprises. The hospitality sector has fed back to the Board that the current financial support schemes are insufficient and will not ensure that businesses in the hospitality sector can operate as a going concern in the medium term.

We have carried out our work in order to gain an understanding of how hospitality businesses have been affected, and what their prospects are for the next 12 months. We have done this in three ways:

1. We designed an online survey and invited any businesses within the hospitality sector to complete it. The survey included questions about the respondent's business performance prior to and during the last 12 months, and what they expect business to be like in the next year.
2. We held interviews with select hospitality business owners and managers to explore in more detail their own circumstances and opinions.
3. We gathered and analysed financial performance data from a number of sources in order to assess the scale of the pandemic's impact.

Due to the urgency of the situation, as advised by Business Isle of Man, we completed our work expeditiously between mid and late April 2021. Our work has revealed two major concerns within the hospitality sector. Firstly, many do not believe the support they have been offered has been enough. Over the last 13 months, their trading was stopped or restricted, through no fault of their own, for 22 weeks. Businesses, and the individuals that own them, are poorer on exiting this crisis than they were on entering it. The scale of their losses has been dramatic: our survey respondents' aggregate revenue fell by 40.6% when comparing the 12 months to March 2020 with the same period to March 2021.

Secondly, the relationship between tourism and the hospitality sector has been made apparent through our research, and hospitality businesses do not understand why they have not received support in the same way and to the same extent as have accommodation providers.

Visitors to the Island provide hospitality businesses with vital weekday trade. Profits generated from festivals and events such as the TT counterbalance the typically quieter trading months of November, January and February, for example. Visitors' financial contribution has been highlighted in previous Government research: the TT Visitor Survey 2019 shows that TT visitors spent £16.8m "whilst on Island", compared to £9.8m on travel to and from the island and £7.8m on accommodation; and the Isle of Man Passenger Survey 2018 showed that visitors spent on average a total of £113 in bars and restaurants compared to £129 on accommodation.

As a result of these factors, there are significant levels of disappointment and frustration in the hospitality sector.

Introduction

Based on the information we have gathered, we have identified risks to the hospitality sector that include the loss of substantial numbers of visitors to the Island for a second year running, reduced numbers of Manx residents remaining on the Island once border restrictions are relaxed, lifestyle changes that affect the way hospitality businesses are used and the ongoing challenge of learning to live with Covid-19 and its variants. For some business owners, the stress of the last 13 months and low morale is also a real threat to their desire to continue operating.

Businesses' responses to these risks and challenges will vary, not least due to their age and capacity to adapt. Government should continue to support the hospitality sector but the form of that support and the purposes it serves shall necessarily differ from that which has been provided to date. In summary, we recommend:

- The strategy for supporting hospitality businesses should recognise and be related to the important contribution the businesses make to the Island
- Any support provided to hospitality businesses should be tailored to individual business' characteristics
- A clear message in support of hospitality businesses be given by Government to the public in order to boost consumer confidence and demand
- Financial support should be continued
- Businesses should be encouraged to adapt to new living and working conditions.

Sector engagement

We held 16 interviews with business owners, managers and representatives of trade groupings or associations. All interviewees engaged positively with us and provided helpful contributions.

We received 22 qualifying responses to our online survey. We believe there are multiple reasons for this number of responses. We received feedback that the survey was too intrusive: some businesses have been reluctant to share their data due to concerns about privacy. We also believe that trust in Government and how it will use any data it receives is a contributing factor in this regard.

Some interview respondents described to us their weariness of completing surveys and not seeing tangible benefits resulting from it. We are also conscious that the timing of this survey coincided with the reopening of hospitality businesses, and business owners and managers had little time to give to the survey. Businesses may also not have been aware there was a survey they could contribute to.

Another factor to consider is business capability. Based on some of the survey responses and our understanding of the sector, we believe that some businesses within the sector are unable, due to size or experience, to provide the information we requested without deploying extra resources or incurring extra costs (e.g. accounting services).

We are conscious that the Isle of Man's hospitality sector is a broad and diverse industry. Our recommendations are based on the data we have received from our questionnaires and interviews. While we believe the recommendations are applicable to the industry as a whole, wider representation from the various hospitality subsectors and across different geographical areas of the Island could capture greater nuance.



Recommendations

Recognise



We recommend that the hospitality sector be duly recognised for its contribution to the visitor economy and to our quality of life

The differences between the Government support offered to hospitality businesses and tourist accommodation providers were frequently cited by our interviewees. While none disagreed with the principle of supporting accommodation providers, many hospitality businesses felt unfairly treated given the disparity in type and scale of support given to the different sectors despite the similarity the sectors share in the seasonality of their trade.

Several of our interviewees described how the peak tourism weeks of TT and Classic TT are the most lucrative trading periods of their year, with profits made then counterbalancing losses in other times of the year.

Acknowledging the support that has been given to accommodation providers, some of our respondents suggested hospitality businesses (or, more specifically, restaurant or dine-in venues) be given financial support on a “per cover” basis, or a similar method using a venue’s capacity. Such a system could be easily measured using data readily available to businesses.

Some hospitality businesses perceive they have been disadvantaged indirectly by the support offered to accommodation providers. They have described difficulty in recruiting staff, which they attributed, in part, to the shortage in quality applicants. They believe staff employed by accommodation providers are disinclined to leave their positions within the visitor economy (which are relatively secure thanks to government support given to their employer), for employment in the hospitality sector (where their salary and position may not be as secure). Further

work in this area is required to understand how wage support schemes, including the Manx Earnings Replacement Allowance, may deter people from returning to work or changing employer.

Our research has highlighted that several businesses adapted during lockdowns and provided services in new ways or brought new products to the market. However, they feel that despite the good intentions of their actions – to mitigate their losses, to provide a service to the community and to support their staff – continuing to operate and, commonly, making losses doing so, has made their position worse compared to businesses who did not open and did not adapt. Hospitality businesses have played an important role in continuing to employ staff and maintaining hospitality provision in a difficult time for the Island.

The stress that business owners and managers have been under in the last year was made clear to us during our interviews and in the survey responses. More than half of survey respondents described their or their staff morale as a real and immediate threat to the viability of their business in the next 12 months. Interviewees explained to us that with hindsight, they would not have adapted their business to continue trading because doing so was not financially effective. Government should therefore recognise the contribution hospitality businesses have made to the Island during the last 12 months and the toll it has taken on the individuals connected to these businesses.

Tailor

 **We recommend that support offered to hospitality businesses should be tailored to their circumstances** 

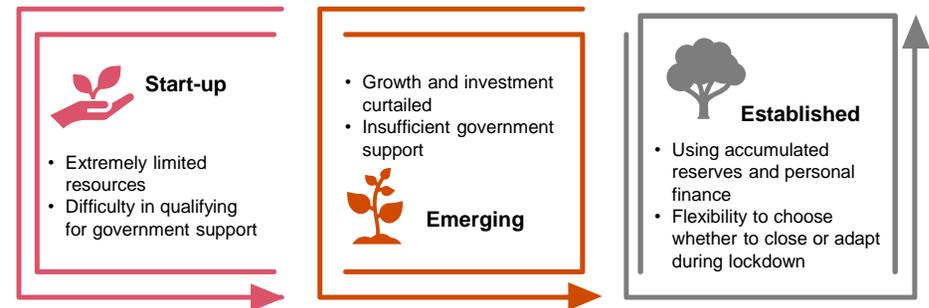
Hospitality businesses were appreciative of the financial support they have received over the last 12 months, particularly those that have benefitted from the Salary Support Scheme. They acknowledged that in the initial phases of the pandemic, the support was introduced rapidly and, by necessity, it was simple and uniform in design.

Some businesses, however, regretted the fact that the schemes have not since been more significantly redesigned and that, despite the time that passed since the end of lockdown in 2020, a more “finely-tuned” system, capable of adapting to the scale and conditions of differing types of hospitality businesses, was not deployed when further lockdowns were introduced in 2021.

Many of our respondents felt that the size of the grants made available by Government were simply too small to mitigate in any meaningful way any of the damage the pandemic had caused. Furthermore, some were deeply upset at the value of the element of the Business Premises Support Scheme that related to business closures on the last weekend of February 2021.

Future support could take into consideration the stage of the applicant’s business in its lifecycle. Our research identified that start-up businesses had no reserves to draw on and little or no trading history in order to qualify for Government support; emerging businesses had recently acquired or made investment but found their growth and consolidation plans upended and curtailed due to the urgent demands on their cashflow, while Government support was not sufficient to meet their needs; and established businesses used their reserves and personal

finance to weather trading suspension, with greater ability to choose whether to adapt and provide new services.



Support could also better reflect the size of the business seeking support and how the financial contribution to an employer of multiple people needs to be different to the contribution to a sole-trader.

Further investigation could be undertaken to understand to what extent people continue to work from home and business meetings do not take place on Island. Hospitality businesses within Douglas will be most affected in this regard due to the loss of footfall at lunchtimes, for example. Likewise, the continued disruption caused by the Douglas Promenade Refurbishment has a localised (but dramatic) impact which could exacerbate already precarious financial situations. Support schemes should therefore be tailored where local conditions demonstrably show disproportionate impact compared to other areas.

Tailor



We recommend that support offered to hospitality businesses should be tailored to their circumstances



Accessing financial support from Government also proved problematic for those businesses with debts due to Government for which payment plans are not in place. As trade looks likely to be disrupted due to cancelled tourism events this year, it may be the case that increased numbers of businesses accrue greater debts towards Government. Support schemes should therefore be reviewed to consider the option of extending them to such businesses, provided that they meet certain criteria such as with regard to future profitability.

In order to provide the tailored solution outlined above, the Government could create an online portal through which businesses supply information about their turnover, expenses, employee numbers, etc.. Based on the information provided, businesses could automatically be shown what support they could apply for and/or the size and terms of support they could be given. Although such a system may take time and resources to set up, it will afford businesses and the Government numerous opportunities in the medium and long term: businesses will be able to access support they may otherwise not have been aware of, the Government can ensure the right businesses get the right support, and all parties will be able to understand and monitor their performance.

Support



We recommend that Government provides clear, positive messaging to boost consumer confidence and to stimulate consumer demand for hospitality businesses

Hospitality venues have recently reopened and consumers are beginning to return and socialise in them. Our interviewees commonly reported good volumes of trade immediately following the end to the latest lockdown, quickly followed by lower numbers. Businesses have attributed this to people saving their money for holidays and to continued wariness. Restaurant reservations, for instance, were cancelled when Government announced the identification of new Covid-19 cases in April 2021 after the end of lockdown. It appears that hospitality businesses are particularly sensitive to sudden changes in circumstances, and, therefore, the messaging that accompanies them.

Hospitality businesses feel that Government must provide clear and positive messaging directly in relation to the hospitality sector. Months of guidance on avoiding socialising and indoor gatherings have now stopped but it has not been replaced by a similar level of encouragement to return to normality.

The sector is also concerned about the relaxation of border restrictions which will mean Manx residents will not stay on the Island in the same numbers as they did in 2020.

A campaign to support local businesses must, as occurred last year, be initiated. At the simplest level it should encompass positive messaging. Guidance for businesses on how they can provide a safe environment to socialise would help ensure consistency across the Island's hospitality sector. Such an initiative could include a Code of Best Practice, to which businesses voluntarily subscribe.

Similarly, Government messaging could also centre on the safety that

hospitality venues can provide. One of the purposes of venues being licensed to sell alcohol, for example, is to ensure the safety of those that drink there. This will boost consumer confidence, and, by extension, consumer demand.

Consumer confidence could also be increased with relative ease through technological solutions. For track and trace purposes, hospitality businesses could be supported in introducing online booking systems. Wifi log-ins and QR code scanning could also provide ways for guests to record their presence accurately.

Other demand stimuli that Government may wish to consider include a scheme to encourage weekday and lunchtime trading. A number of our interviewees described how demand on Friday and Saturday nights outstrips supply but during the week they have capacity to trade (and sometimes close early due to low numbers). This uneven weekly trading pattern is not new to the hospitality sector but with an expected reduction of visitors to the Island, who may dine out every evening or have weekday business lunches, the hospitality sector expects the quieter weekdays to be less busy than in previous years.

Interviewees also described the difficulties they face or have had when arranging public events designed to boost trade. Their comments included a lack of coordination from within Government (being passed from one department or officer to another) and protracted scrutiny of event plans. The proponents of events felt there is a reluctance to allocate resources or to trust organisers. Government may wish to consider identifying ways to make events easier to organise.

Sustain



We recommend that Government continues to respond to the financial hardship that threatens the hospitality sector

Analysis of the data we have collected from our survey and of data provided by members of the hospitality industry (including wholesale suppliers) shows that hospitality businesses have taken a significant financial loss in the last year and do not expect a return to normal trading before April 2022.

Our survey reveals that between the year to March 2020 and the year to March 2021, respondents' aggregate revenue fell by 40.6%. At individual business level, there are bigger drops: for example, one events business lost 64.4% of its revenue in that period.

In relation to the Licensed Victuallers Association, data provided by 13 of its members shows that their average revenue for the year to 31 December 2020 was £91,240, or 27.3%, lower than for the prior year. We have calculated that the same businesses received on average approximately £18,500 from the Government's Salary Support Scheme and the Coronavirus Business Support Scheme in the same period.

Our survey respondents expect their revenue for the year to March 2022 to be, in aggregate, 10.3% lower than their revenue for the year to March 2020. Significantly, the majority of these businesses believe their revenue for the year to March 2022 will be lower than that for the year to March 2021.

Hospitality businesses do not typically generate large profit margins. We are advised that net profit can range from 5% to 15%. For the year to March 2020, 40.9% of our survey respondents reported that they broke even or made profits of no more than £50,000, before paying any salary or dividend to the business owner. Profits of a large portion of hospitality businesses, therefore, have little room to accommodate reductions in turnover on the scale experienced in the last 14 months. For the year to March 2021, 63.6% of our survey respondents broke even or made a loss before paying any salary or dividend to the business owner.

A number of our interviewees from pubs described how their businesses are not run to make large profits and that providing a community hub and social environment is immensely important.

To respond to the financial challenges, businesses have taken on more debt. On the following page, table 1 shows how 22 of our survey respondents' debt has changed between March 2020 and March 2021.

Sustain



We recommend that Government continues to respond to the financial hardship that threatens the hospitality sector

Table 1: Aggregate change in debt of 22 survey respondents, by category of debt

	30 Mar '20 (£)	30 Mar '21 (£)	Change (£)	Change (%)
Friends & Family	1,054,020	1,477,000	422,980	40.13%
Government	490,282	636,206	145,924	29.76%
Financial institutions	1,810,969	1,946,577	135,608	7.49%
Trade suppliers	805,246	494,694	-310,552	-38.57%
Total debt	4,160,517	4,554,477	393,960	9.47%
Owner's contribution	n/a	1,556,132		
Debt + Contribution	4,160,517	6,110,609	1,950,092	46.87%

The table shows that the primary source of financial support in the year was the business owner. Friends and family provided the second largest source of support, while debts to Government also increased.

Figures provided to us from the Isle of Man Treasury show that total VAT debt not included in a deferral scheme owed by businesses within

the hospitality sector* increased from £973,676 on 31 March 2020 to £1,052,605 on 31 March 2021.

Debts to trade suppliers fell. Based on insight gained from our interviews, we believe this is due to the importance businesses place on paying their suppliers ahead of other creditors, debts being written off, lower stock levels being held and greater frequency of suppliers not accepting credit.

The relatively low increase in debt towards financial institutions can also be seen in the low uptake in the Government-backed credit schemes that were made available during the last 13 months. Only two survey respondents were accepted for the Coronavirus Business Working Capital Loan Agreement and three were accepted for the Isle of Man Disruption Loan Guarantee Agreement.

It appears that businesses have preferred to use personal sources of finance ahead of formal, institutional debt. Government may wish to consider enhancing the credit support it provides, perhaps under the banner of the Coronavirus Recovery Scheme, by providing credit facilities directly from Government.

The credit could have parameters reflecting applicants' characteristics (e.g. caps in relation to business size). The ability to consolidate existing debts, including those with Government (e.g. VAT arrears) with repayment plans over a number of years, may make structured credit more appealing and help sustain businesses.

*event catering activities, licensed restaurants, unlicensed restaurants and cafes, takeaway food shops and mobile food stands, and public houses and bars

Sustain



We recommend that Government continues to respond to the financial hardship that threatens the hospitality sector

The two most important Government support measures that have eased strain on business since March 2020 have been the Salary Support Scheme and the reduction to 5% in the rate of VAT on hospitality supplies.

Businesses that are now reopening are doing so after having suffered financial losses for over a year. They are generally in a weaker financial position than they were before the pandemic and so are worried about how the end of the Salary Support Scheme combined with an increase in VAT will impact them.

With the prospect of lower trade this summer compared to last year (due to border relaxations and the cancellation of events such as the TT), it could be catastrophic to some businesses to discontinue salary support and to increase VAT rates.

A common request from our interviewees and survey respondents was for salary support to continue, with several calling for the qualifying criteria of a reduction in revenue of 25% to be removed entirely. They also call for the VAT rate to remain at 5%.

We agree that cash assistance should continue to be given to hospitality businesses in the short term. The salary support scheme may be the appropriate system for this, since it is already in place. However, while the extent of income loss this year remains unclear, we recommend Government frequently monitors business performance as part of salary support. This would be achieved through inspection of periodic revenue reports (with comparatives) so that Government can

understand the market and adjust the scheme as required. Indeed, for various reasons, reconsideration of the 25% threshold in reduction of revenue may be required: for example, one wholesale supplier has reported an average increase due to Brexit of 10-14% in the price of their products, which, passed on to its clients, increases revenue figures before any increase in sale volumes.

Furthermore, Government may consider adjusting the scheme so that it compares trade on a “year to date” basis rather than month against month in order that the seasonal nature of the hospitality business on the Island does not result in seasonal support. In addition, the hospitality sector may benefit from the option to choose fortnightly, rather than monthly, payments of Salary Support given the frequency of employers’ payments to employees described to us during our research.

However, salary support was designed to serve all sectors of the economy, many of which have already returned to normal trading conditions. If that scheme cannot be continued an alternative form of support targeting the hospitality sector would be required if all hospitality businesses are to remain viable for the next 12 months and until the return of normal trading and normal tourism conditions.

Such cash support may be a “restart” grant, such as those recently made available by administrations in the UK, or an expansion of the Coronavirus Recovery Scheme Business Overheads Grant so that all hospitality businesses (not just tourism and travel) can benefit from it.

Sustain



We recommend that Government continues to respond to the financial hardship that threatens the hospitality sector

With regard to VAT, we acknowledge that Government has limited scope to change rates and that the current reduction significantly lowers Government income. Nevertheless, the reduced rate has had such a beneficial impact on hospitality businesses that Government should explore ways to continue the effect of the current level of VAT on hospitality supplies. In the same connection, helping businesses pay their VAT and other debts to Government over extended periods will provide relief on cashflows in the short term. The pandemic has been an exceptional event and so government policies towards payment of such debts should be more accommodating than ever. Given the expected delay to prolonged, normal trading, business may expect to have difficulty paying all their debts in the way they would manage to do so under normal circumstances.

In a similar vein, and to support licensed traders, a reduction in excise duty on beer and the transition to metric alcohol measurements would reduce costs and help these businesses achieve greater cash flows.

Finally, a number of our interviewees described to us the difficulties they have in retaining and recruiting staff. Various factors have contributed to the situation in the last 12 months including staff leaving the Island to return to families in other countries, staff leaving the hospitality industry in search of more secure work and the absence of people relocating to the Island while border restrictions have been in place. Our survey data shows businesses do expect to employ more people in the next 12 months than at present but, with the difficulties they have described, support may be required. The Manx Restart Scheme could be enhanced with a focus on the hospitality industry.

Adapt



We recommend that Government continues to facilitate business adaptation

Numerous hospitality businesses described to us the adaptations they made to their normal business model in order to continue trading during lockdown. Many believed that adaptations are still required in order to operate effectively and/or safely now we are “living with” Covid-19. In addition, the pandemic has brought about, or hastened, changes in lifestyle. Increased numbers of people working from home have shifted footfall away from business districts, and preferences for ventilation favour open-air or spacious venues.

The Coronavirus Recovery Scheme offers businesses financial support in adapting their business. Certain features of the scheme, however, could be adjusted in order to make the scheme more appealing to hospitality businesses.

For instance, under the scheme Government will refund 50% of a business’ approved expenditure. We believe that at a time when cashflows are already strained, businesses may be unable or reluctant to use cash reserves to pay for adaptation in its entirety before any Government support is received. An alternative model, where Government provides cash or loan support “up front” may encourage businesses to progress with adaptation plans.

We also note that the scheme typically allows only one application per business. Given how society is still learning to live with Covid-19, Government may wish to consider increasing or removing the limit on the number of applications that a business can make. This will help businesses to respond in all the ways they can, as and when circumstances change.

Adaptation should not be limited to responding to the particularities of Covid-19, however. Interviewees described to us how they believe the hospitality sector plays an important role in the future for the Isle of Man. Notably, the most commonly cited demand stimulus by our interviewees was a larger population.

Undoubtedly, having a vibrant hospitality sector makes the Island a more attractive option for people choosing where to live and work. It is therefore sensible to incorporate a vision for hospitality into development plans and other strategic programmes. For instance, town centre regeneration and responses to climate change are likely to require or encourage businesses to think differently about what they do and how they do it. Support to make these changes now would contribute to a longer-term vision for what the Island will look like in years to come and could support Government programmes to encourage growth in the Island’s population. Public investment in such programmes and infrastructure should be made bearing in mind the importance of our hospitality sector.

Support in other jurisdictions

Support in other jurisdictions

We have looked at other jurisdictions within the British Isles to understand what Government support has been offered to hospitality businesses outside the Isle of Man. While comparisons with other jurisdictions may not always be appropriate, given the varying types and levels of resources authorities have to respond and the various ways Covid-19 has impacted different jurisdictions (for example with timing and length of suspended trading), we highlight below certain features of other jurisdictions' support schemes that may be relevant and of interest to the Isle of Man.

Restart Schemes

- The Welsh Government has recently announced a support scheme for businesses in hospitality (and its supply chain) which will provide them with a grant between £2,500 and £25,000 to assist them with meeting ongoing costs through to the end of June as they prepare for re-opening and more normal trading conditions.
- The Scottish Government paid grants in April 2021 of up to £19,500 to hospitality businesses to help them re-open progressively.
- The Restart Grant Scheme in England, available from April 2021, supports businesses in reopening safely as Covid-19 restrictions are lifted. Hospitality businesses may be entitled to up to £18,000.

Taxation, Deferrals & Holidays

- UK businesses that opted to defer VAT liabilities in 2020, and have remaining liabilities after 31 March 2021 can, if eligible, access a new scheme to pay any remaining liabilities across a period of 12 months.

- The Irish Government introduced its Debt Warehousing Scheme which allows businesses to 'park' employer PAYE and VAT tax debts arising from the Covid-19 crisis. The debts can be 'parked' on an interest free basis for 12 months following resumption of trading.
- In Jersey, businesses may defer Goods and Services Tax for a period of two years after which the businesses may conclude a time to pay arrangement which allows the payment of postponed tax to be spread over a further three years.
- Jersey employers can apply to defer Social Security payments for two years before agreeing a payment plan that can extend to another three years.
- Guernsey has permitted employers to defer social insurance contributions for two quarters in 2020, allowing them to spread repayments over a period of 12 months.

Credit Schemes

- The UK's Bounce Back Loan Scheme ("BBLs") provided interest-free credit, entirely underwritten by Government, for one year followed by up to another 5 years with interest at 2.5% per annum.
- "Pay As You Grow", an amendment to the BBLs, allowed businesses that had started to repay their loan to extend the term to 10 years (while retaining the same interest rate), switch to interest-only payments for a period of 6 months (up to three times) and take a repayment holiday once for up to 6 months.

Business & Wage Support

- It has already been confirmed that the UK Coronavirus Job Retention Scheme ("furlough") will continue until 30 September 2021.
- The amount of support offered under the UK Job Retention Scheme will reduce in stages over summer 2021.
- The UK Kick Start Scheme will entirely fund six months of employment of young people at risk of unemployment.

Thank you