MONTHLY BRIEFING REPORT

September 2022

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Introduction

In addition to my Weekly Briefing Report, which remains free of charge, I provide a premium version which includes a subscription to my Quarterly Briefing Report and Monthly Briefing Reports. You can find details here.

I would value your feedback on topics you would particularly like me to add to my coverage – you can contact me at peter@peterbackmanfs.com or 07785 242809.

If you have any comments, or concerns, please contact me on 07785 242809 or at peter@peterbackmanfs.com

A momentous month

In my Monthly Briefing Report one month ago the outlook I described was dominated by the looming energy crisis. Nevertheless I was able to identify some good things and I ended with a forward view which, although not upbeat, was positive. Since then there have been changes.

The death of the Queen has not been the only important – perhaps momentous – factor that has happened during the past month. For the benefit of anyone reading this some time in the future when the details are being forgotten, other noteworthy factors are the installation of a new Prime Minister, growing national and international furore over the contents and impact of a budget announced by the new Chancellor of the Exchequer, and a very noticeable increase in the rhetoric, and practice, of pressure by the Russian President on the war in Ukraine.

In an effort to shed light on the effects of these events, in this Monthly Briefing Report I shall investigate and focus on the budget statement of 23 September. In doing so, I recognise that at the time of writing it is a very current topic – with unknown short term ramifications – political, economic, social and, of course, fiscal.

Because the scenery is fast moving, I have a word of caution. What I say here may well be out of date by the time you get to read what I've written; perhaps some political initiative will have changed the landscape, or some economic development may have created a change of direction.

Having aid that, I believe it is also important to recognise the death of the Queen and so I also provide my views on what I think it could mean for the foodservice sector.

A range of factors

But let me start by listing a host of issues that are having an impact on the foodservice sector and which I shall be covering in my next Quarterly Briefing Report to be published at the end of October.

I would include: inflation, rising fuel costs, borrowing costs, the repercussions of the war in Ukraine, staff availability and worker's visas, strikes, climate change, and a rise in global travel.

Death of the Queen

The death of Queen Elizabeth II slowed the economy a bit, it changed the national 'mood' (for the positive, in the sense of increasing a wider sense of community and solidarity, but perhaps only for the short term).

It produced a momentous State Funeral which surely affected all, but the most dyed-in-the-wool anti-monarchist. It was transmitted worldwide and must surely have moved the dial somewhat in terms of raising awareness of 'brand UK' and enhancing its international standing – at least amongst some people and for a while.

The net impact on the foodservice sector was fairly limited: some working days were lost (there was a Bank Holiday on the day of the funeral), and this meant a reduction for some food to go operations and B&I, but it increased business for some pubs and restaurants not associated with workplaces.

At a trivial level, there was a positive but overall, very limited, positive effect on opportunities for operations that fed people queuing (at one point the queue was 10 miles in length) to pay respects to the Queen while she was lying-in-State.

The future net impact of these activities surrounding the funeral will be nil.

What might have a small impact is the showcasing of 'brand UK' and the possibility that it will lead to an uptick (possibly limited) in visitors from overseas. I assume there will be a very modest increase over the next year or so, helped by the announcement of changes to the application of VAT that will help overseas visitors. But this might be negated by possible (and in my view likely) damage caused to 'brand UK' by the fallout from the budget.

The Budget

The budget has some specific implications for the foodservice sector

There is major uncertainty about the impact of the budget on interest rates, the availability of mortgages, and concern over pensions and much more – with reactions involving the Bank of England, the IMF, and other bodies and governments. There is also talk that the budget may be overturned – or substantially revised – but, at the time of writing, this is an unknown.

Some taxes are being removed or lowered. Other taxes will see planned increases removed or delayed. This latter makes for difficult analysis of the effects on foodservice because they will only affect what would have been – not what is.

This means that the impact will not be seen overtly but there may be a positive impact nevertheless in the form of perhaps fewer business failures.

I have summarised the impacts in a separate table, and here I give my slightly more detailed comments under 5 headings: Consumers, High Earners, Business, Falling Value of £, and ending with Overall impacts of the budget on foodservice:

Consumers

- The beneficial impacts of **tax changes** for consumers are likely to be swallowed up for all (except the wealthiest) by inflationary costs, fuel prices rises, rising mortgage rates and interest rates generally

- The planned increase in **National Insurance (NI)** will be reversed, meaning that consumers will have more money than otherwise would have been the case for people paying NI – and that excludes the worst off, and pensioners. It is likely to lead, at the optimistic level, to a small increase in sales for foodservice operators

- The basic level of **Income Tax** is to be reduced from April 2023, so any impact will be felt beyond the forecast period when it may lead to a small increase in foodservice business – but that is likely to be minimal.

- **Stamp Duty** is being reduced possibly overcoming or indeed reversing the negative impact of increased borrowing costs – but the equations are difficult to work out. I assume that the impact on foodservice is not going to be noticeable.

High Earners

- The budget has a significantly higher - and much more positive – impact for high earners than for the majority.

- However, its impacts will not be as great as the headline changes might suggest

- The change to **NI** and the abolition of the increase in the top rate of Income tax (meaning a 5% reduction in the top rate below where it would have been) may put more money into the pockets of high earners leading to some growth in restaurant sales. But this will be very marginal and probably restricted to high-spend businesses, especially in London.

- The abolition of the **cap on banker's bonuses** might put more money in the pockets of some high earners. But most have adjusted their salary: bonus ratio in favour of salary, so any effect won't be seen until well into 2024 – certainly beyond the forecast period.

- Reductions in **Stamp Duty**, while significant, won't make much difference to existing restaurant sales in the short term, and any longer term benefits of the change in stamp duty towards encouraging high earners to remain in this country (or to increase immigration by more high earners) are for the longer term.

Business

- Reversals in the rate of **NI** will take less money from foodservice businesses and might help employment in the sector.

- The overall effect will probably be marginally beneficial for company finances.

- The same can be said for the planned rise in **Corporation Tax.**

- **Scrapping of the planned rise in alcohol duty** will reduce operators' costs below where they would have been – but they will not be reduced in themselves. This will be of some help to pubs, hotels, and restaurants. But the impact over the next six months will be minimal. Firstly, because the impact on sales will be immeasurable but small. And second, the tax would only have been increased in the last two months of the six month forecast period.

- The Chancellor announced plans to **reduce VAT** paid by overseas visitors – and, while in my view, this is unlikely to apply to restaurant meals (any scheme will be too complex to deliver) this will help enhance the attraction of the UK as a place to holiday. And this, in itself, would lead to an increase in restaurant and hotel business.

- But again, the impact over the next two quarters is likely to be minimal. If the planned reduction in VAT is successful there should be a resulting increase in foreign visitors during 2023.

- However, at a governmental level, reduced VAT will lead to a fall in government income and therefore more borrowing (given that increased taxes are not a route for the current government).

- The precise impact on the foodservice sector of this increased borrowing is beyond my ability to compute but any resulting financial impact is likely to be folded into all the other financial impacts facing the foodservice sector both in the short term and the long term

Falling value of £

- The budget has been badly received internationally, resulting in a major run on the £. The fall is unlikely to be significantly reversed – indeed it may worsen. Prices will continue to rise (not only as a result of the budget) well into 2023; the resulting uncertainty may well increase.

- The impact on foodservice will be higher costs for anything sourced from overseas and this includes food, beverage and other ingredient costs, equipment, and much else besides which I will cover below.

- Consumers will also experience higher prices as a result of the falling £. Overseas holidays will be more expensive – and for many, will make foreign holidays impossible. The UK holiday market – hotels, restaurants, and pubs in resorts and at leisure sites – will benefit. But this is for the summer of 2023 and won't be felt in the short term.

- Alongside this, one positive benefit from the falling value of the £ is the attraction of the UK for overseas visitors – currently the £ has fallen primarily against the $ so it is for people from countries using that currency (and of course, that is principally the US) who will see their money going further in the UK.

- But should sterling fall against other currencies - the Euro, the Rupee, the Yen – the UK will be an attractive holiday destination, financially at any rate. However, the impact is likely to be small over the forecast period.

Overall impacts of the budget on foodservice

- **Overall,** the budget itself (and without its negative wider impact) gives **a bit more security** for foodservice businesses (and business generally), but this is unlikely to take effect until next spring if at all.

- There may be a **minimal increase in sales** – although it's more likely to be less of a reduction than otherwise would have been the case.

- An unknown, but probably significant and widely trumpeted, number of **loss-making and marginally profitable businesses across the foodservice sector will still fail.**

- And finally, a possible victim of the international reaction to the budget is '**brand UK**' with a negative impact on the UK as a destination for holidays (and certainly for investment and business generally).

Summary of the impact of the budget on foodservice

… follows on the next page:

Impact of Budget on 23 September 2022 on Foodservice		
Tax	**Effect of tax change**	**Impact on foodservice**
All consumers		
Reverse rise in NI	Some more money in everybody's pocket. But unlikely to / won't overcome inflationary rises for anyone	Marginal / no impact
Income tax reduced	Some more money in everybody's pocket. But unlikely to / won't overcome inflationary rises for anyone	Maybe slight increase in sales
Reduced stamp duty	Will provide more money for house buyers	Marginal / no impact
High earners		
Reverse rise in NI	Some more money in everybody's pocket. But unlikely to / won't overcome inflationary rises for anyone	Marginal impact
Abolition of top rate	Considerably more £ in top earners' pockets	Marginal impact
Remove cap on banker's bonuses	In theory, considerably more £ in top bankers' pockets. However, given previous offset of bonus with salary, the impact may be modest. And likely to be small in short term anyway	Maybe some more demand at higher end
Reduced stamp duty	May provide £ for buyers of expensive houses	Maybe some more demand at higher end
Business		
Reverse rise in NI	Reduced cost of employment - therefore protect balance sheet or increase pay	Some help to some/ considerable help to financially stretched
Scrap rise in Corporation Tax	Maintain balance sheets to current position	Some help to some/ no help to businesses not making a profit
Freeze alcohol duty until 31 Jan 2024	Increase not coming into effect	Lower costs for pubs (plus a bit in hotels, restaurants)
Overseas visitors		
Sales Tax-free shopping	Small increase in foreign visitors	Marginal impact

Conclusions

- Short / medium term: Not much will change - still dire
- Medium term (next few months): Perhaps a small increase in sales (but likely to be rounding error). Some specific businesses (high end) might see a measurable increase
- Longer term: Some benefit to some financially stretched businesses
- General: Loss-making / marginal businesses will still fail

The remainder of this Monthly Briefing Report contains a very brief summary of corporate activity over the medium and long term that has been reported in the past month.

News in the month

Restaurants

- Caffe Concerto completes CVA
- Caffe Concerto sales fell -83.6% in the year to August 2021 versus the prior year
- Ivy Restaurants sales rose 59.3% in calendar 2021 versus 2020; sales rose 0.9% versus 2019
- Caprice Holdings sales rose 57.5% in calendar 2021 versus 2020; sales fell -28.0% versus 2019

QSR

- South Coast Foods sales rose 54% in calendar 2021 versus the prior year; sales rose 33% versus 2019
- Caskade Group sales rose 36.3% in calendar 2021 versus the prior year; sales were up 24.7% on 2019
- McLean Restaurants sales rose 54.8% in calendar 2021 versus 2020; sales rose 51.8% versus 2019
- K&G Restaurants sales rose 46.8% in calendar 2021 versus 2020; sales rose 24.1% versus 2019
- Santio sales rose 16.1% in the year to end September 2021 versus 2020; sales rose 9.6% versus 2019
- Blades Restaurants sales rose 62.0% in calendar 2021 versus 2020; sales rose 17.4% versus 2019

Pubs

- Brewhouse & Kitchen sales fell -7.4% in the year to end September 2021
- Brunning & Price sales rose 50.9% in calendar 2021 versus 2020; sales fell -11.8% versus 2019

Hotels

- The Celtic Collection sales rose 92.3% in calendar 2021 versus 2020
- Interesting Hotels sales rose 60.5%; sales fell -8.8% versus 2019
- Brayford Hotels sales rose 85.5% in calendar 2021 versus 2020; sales fell -23.0% versus 2019
- Review Hotels sales rose 343% in the year to end March 2022; sales fell -23.7% versus 2019

Leisure

- Curzon Cinema sales rose 3.2% in calendar 2021 versus 2020
- Veladail sales rose 32.6% in calendar 2021 versus 2020; sales fell -57.0% versus 2019
- Showcase Cinemas sales rose 95.0% in calendar 2021 versus 2020; sales fell -47.2% versus 2019
- Bluestone Resorts sales rose 44.2% in calendar 2021 versus 2020; sales fell -10.7% versus 2019

- Welcome Break sales rose 46.6% in calendar 2021 versus 2020; sales rose 4.0% versus 2019
- Parkdean sales rose 54.3% in calendar 2021 versus 2020

Suppliers

- Denbies sales rose 56.2% in calendar 2021 versus 2020; sales rose 3.1% versus 2019