

borrower's guide

for the hospitality trade


Cumberland • **business**

Since 1850 Cumberland Building Society has provided finance for property related transactions. Whilst our mortgages have traditionally been associated with the residential property market, we do have a team of experienced Business Lending Managers who are available to discuss mortgage finance on a wide range of business properties, in particular Guesthouses, Hotels and Self Catering businesses.

In this leaflet we provide information which we hope will help you if you decide to purchase a property and business in the “hospitality” sector and to apply to the Cumberland for a business mortgage.

FINDING A SUITABLE PROPERTY

The following questions may be of use when you are looking to purchase a guesthouse, hotel or self catering business:

The Property

- What is the condition of the building (floors, windows, heating etc)?
- How many bedrooms are there?
- What are the arrangements for private quarters?
- Is there enough storage area (e.g. for food, laundry facilities etc)?
- Are there enough bathrooms or en-suites for guests? If not is there room to install more?
- Are the neighbouring properties well maintained?
- Is the site easily accessible from the nearest main road?
- Are there adequate utilities?
- What provision, if any, has been made for disabled accommodation?
- Is sufficient parking available for guests? If not, what alternative parking arrangements are there?
- What is the current star rating? When is it due for review?

Location

- Is the property in a prime location or in a secondary trading position?
- Are there any barriers to the visibility of the property (i.e. trees)?

- Is the property close to local tourist attractions or the town centre? If not, is public transport available and close by?
- What local attractions, events, shops will attract tourists?
- What will be the impact of those attractions on the type of guests visiting the area (e.g. age group)?
- What local competition is there and how close is it?

Legal Issues

Legislation may apply in various guises. Different properties may require you to think about different issues, e.g:

- What are the health and safety issues (including fire safety)? Does the property comply with current fire regulations?
- Is the building listed, or in a conservation area? If so what are the planning implications should you wish to expand?
- If there are facilities to sell alcohol can you comply with the local licensing laws?
- Is Planning Permission held for the business to operate as a guesthouse, hotel, or self catering business?
- Do any existing staff have rights under Employment Law?

PREPARING A BUSINESS PLAN

Business plans will vary according to the type of property being bought and the level of borrowing required. However, listed below are areas we would normally expect to be covered in a business plan, although some may not be appropriate to every proposal.

Background

- Name and address of the applicant(s).
- Details/brief description of the property being bought.
- Selling Agent's sales particulars.
- Purchase price, loan required, and term of years.
- Source of contribution towards the purchase price.

Personal Background

- CVs for all parties.
- Personal skills/qualifications relevant to the proposition.

Business Details

- S.W.O.T Analysis:
 - Strengths of the business, e.g. location, reputation etc.
 - Weaknesses of the business, e.g. location etc.
 - Opportunities available to expand the business.
 - Threats to the business, and how they can be overcome.
- Short/long term objectives for the business.
- Timescale for completing the purchase, to undertake any refurbishment or renovations, and to implement objectives.
- Staffing requirements, recruitment and retention.

Financial Information

- Previous 3 years' accounts for the business being acquired.
- Projected profit and loss account, and cashflow.
- Statement of personal assets and liabilities.

PROFESSIONAL HELP AVAILABLE

Whatever stage you are at, we have experienced people who are ready to help you with any mortgage issues however big or small. You should however always ensure that you take appropriate independent professional advice before proceeding with any business venture. Guidance and support are available from a number of sources:

CUMBERLAND BUILDING SOCIETY

Can help meet your mortgage and borrowing requirements by:

- Providing an efficient service and offering competitive mortgage rates with flexible terms.
- Assessing each case individually.
- Agreeing with you in advance how much you can afford to borrow so that you can target your search for a property.
- Illustrating the costs involved in purchasing the business so that you can budget accordingly.
- Arranging a financial package to suit your particular business needs.
- Considering loans for either the purchase, re-mortgage or improvement of a property, or even to raise capital for other business expenditure.
- Utilising our Business Lending Managers' knowledge of the market.
- Undertaking follow up service calls and providing ongoing support - all features of a Cumberland Business Mortgage.
- Business current accounts offered through our extensive branch network.

ACCOUNTANTS

Can help with advice on:

- Preparing or fine tuning a business plan or financial projections.
- Personal and Business Tax Planning including payment of Income Tax, National Insurance, and VAT.

- Employee wages, Income tax and National Insurance payments.
- Setting up and maintaining accounting records and systems.
- Establishing a business in the most tax efficient manner.

SOLICITORS

Will usually be required to:

- Complete the purchase or sale of a property and/or business.
- Resolve any legal issues to ensure you obtain a good title to the property, including investigation of any planning matters.
- Offer advice and guidance on general business issues, e.g. employee legislation.

TOURIST BOARDS

Can provide information on:

- Business planning, e.g. local business trends, occupancy levels, etc.
- Training courses to help you improve your business, e.g. motivation, food preparation, training for employees.
- Marketing opportunities, e.g. magazines and mail shots, as well as participation in events to help raise the profile of the business, along with Internet exposure on the Tourist Board's website.
- Other guesthouse/hotel owners who can be a useful source of local information.
- Tourist information centres, which may be able to direct potential customers to you.
- Various help-lines for advice.

SPECIALIST PROPERTY AGENTS

Whose knowledge of the local or national business property market can:

- Provide the expertise to help guide you through the formalities of purchasing a particular business.
- Help highlight the merits of properties you may otherwise have missed, and can usually provide access to the trading accounts of the business.

WEB DESIGNERS

Who in view of the increasing use of the Internet, and the importance of a well-designed website can:

- Create a professional website to present your business in the best possible light thereby increasing bookings particularly in the traditionally quieter times.
- Provide support if you are faced with technical problems and maintenance of the site to ensure it is always updated.

VAT

One of the most common concerns for new business owners is the issue of Value Added Tax (VAT). VAT is a tax on most goods and services. It is collected at every stage of production, distribution and sale. If, in the previous 12 months, the total value of a business' taxable supplies, i.e. its sales of products or services ("turnover"), has exceeded the current VAT registration threshold then the business must be registered for VAT. The rates charged are summarised below: -

Zero rate – a NIL percentage rate that is only applied to certain goods, e.g. books, newspapers and children's clothing.

Lower rate – a rate of 5% which is applied to a limited range of goods and services, e.g. installation of energy saving materials and renovation of dwellings.

Standard rate – currently 20% - applied to all goods and services which are not exempt or covered by the other two rates above.

Exempt services include loans of money, insurance, education and certain sales and lease of property.

Flat Rate Scheme – Designed to simplify the way small businesses calculate their VAT by applying a flat rate percentage to the tax inclusive turnover for the period. The flat rate to be used depends on the main business activity. For further details visit HM Revenue and Customs' website at www.hmrc.gov.uk

If it is perceived to be beneficial a business may still voluntarily register for VAT, even where its taxable supplies are below the threshold.

There are two types of VAT – output and input. **Output tax** is the VAT collected by the business on its taxable goods or services it supplies. **Input tax** is the VAT charged to the business, on purchases and expenses. Each quarter a VAT registered business will require to complete a VAT Return. In order to do this the business should keep a record of its sales and purchases as well as the amount of VAT it has been charged and paid. The quarterly return is sent to HM Revenue and Customs.

Businesses will incur a surcharge for late submission of a return or late payment of VAT due.

It is simplistic to believe that VAT can be added to guests' bills as tax rules require. In common with most markets, the bed and breakfast industry determines price based on supply and demand. If accommodation commands a given price, a single supplier cannot increase that price unilaterally by adding a supplement for the taxman. The reality is that VAT has to be absorbed within normal running expenses, thus reducing profitability.

The following table provides a rough illustration of profitability trading below and above the VAT line:

Turnover £	Expenses & VAT £	Net profit £	Loss of profit	Increase in effort
69,990	34,995	34,995		
70,000	42,350	27,650	21%	
75,000	45,375	29,625	15.3%	7.1%
80,000	48,400	31,600	9.7%	14.2%
89,000	53,845	35,155		27.1%

N.B. Calculations are based on industry wide assumptions, a VAT threshold of £70,000, and a VAT rate applied under the flat rate scheme at 10.5%

As the figures reveal, initial impact of the tax is to generate a considerable increase in expenses, resulting in a significant reduction in profitability. Although the profit reduction gradually evaporates as income climbs, the figures demonstrate the level of increased business required to simply recover the position. However, increasing income also significantly increases the day to day workload,

and proprietors may in fact work harder to earn less money. Understanding the impact of VAT on profitability at any given level of turnover, is essential. VAT is very important and cannot be ignored. It is a complex tax however and can prove confusing for many businesses. It is essential therefore that sound professional advice is secured when embarking upon VAT planning.

We hope this leaflet will help you with your plans. Nevertheless we strongly recommend that you talk with one of our Business Lending Managers about your mortgage needs...



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The logo for Cumberland, featuring a stylized house roof shape above the word 'Cumberland'.
Cumberland · business

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To help us monitor and improve customer service telephone calls may be recorded.

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Your home may be repossessed if you do not keep up repayments on a mortgage or any other debt secured on it.