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# Turning the tables

Restaurants and Bars Report 2025

# The Restaurants and Bars Report 2025

Once again the sector has had to face challenges on all fronts. Macroeconomic headwinds, UK budget policies and consumer sentiment all testing the resilience of our businesses.

This is, however, when our sector becomes most creative. In this report we look back at the year that was, but also consider the opportunities for the years ahead.

After years of uncertainty and pressures on top line and costs, its time to focus on turning the tables, ensuring stability as a foundation for growth.

## Contents



# Introduction from Mark Edwards

## Head of Leisure and Hospitality

Welcome to the 2025 edition of our annual Restaurant and Bars report: A focused insight into consumer behaviour and trends in the sector.

There cannot be many sectors where when challenges continue to mount up, the enthusiasm to improve, innovate, develop and deliver seems to swell in greater measure. While there was much expectation surrounding 2024 and moving into 2025, the reality is that trading has been much tougher than anticipated with costs rising more sharply as well.

We have delayed the issue of this report as we had hoped that the UK Spring Statement may have offered the sector some light relief and were hoping to be flooded with a wave of optimism. Immediately after this disappointment, we then had the US President announcing tariffs and a slew of concerns about the impact on global growth and inflation. This leaves us with the reality that there is currently limited chance of a boost to trade from macro-economic factors so operators are really focusing on operational excellence.

The growth period for the sector may be slower in accelerating than hoped and may even be fragile for some period to come, but the foundations are well laid. Culturally, in the UK as elsewhere, there is no evidence that we are becoming more socially isolationist. The idea of eating out, socialising, going away from home for holiday, visiting friends and family, is as important to consumers as ever and so focusing on what you can control now is crucial.

We are delighted to be able to support you as you navigate the challenges of current market conditions. I hope you find our report interesting and informative, and we would be delighted to discuss any of the issues highlighted with you so please do get in touch.

I wish you every success for 2025 and beyond.

**Mark Edwards**
Partner
Head of Leisure & Hospitality

# Boardroom agenda

While operators have got extremely skilled in dealing with changing trading environments and challenges coming from all sides, it was hoped that 2024 and 2025 would signal the start of a recovery period for the sector with food inflation starting to ease off, real wage growth and a UK Government promising investment for growth.

In reality, the challenges became significantly tougher with employment costs rising far more than anticipated through NI changes, US tariffs being introduced and consumer confidence eroding.

While we still believe the underlying data suggests growth should be achievable over the year, it will require a clear focus on operational excellence to achieve it. Here are the topics we believe should be on the Boardroom agenda:

## People, people, people

There is no getting away from the fact that labour is more expensive than it was, and this is causing extreme challenges. We are seeing a reduction in operating hours as well as a fall in open vacancies. We anticipate therefore, that plenty of time at board level will be discussing the use of technology and efficiencies. While this is completely appropriate, using people to do what only they can do is also key to delivering a customer experience that leads to repeat visits and recommendations. The risk is high turnover of staff, leading to inconsistent delivery and concept dilution. A focus on talent management, through ensuring belonging, development, wellbeing is key to converting top line to bottom line.

## If you've got it, flaunt it

Now is not the time to be holding back or shy about what makes you special. Data driven marketing is commonplace for consumers and so using this to sell what makes you different, and ideally better, than the competition is key. This will include knowing how to get at your ideal customer – is it through social media, loyalty programmes or a product or event you offer?

## Pennies make pounds

It remains imperative to extract every penny possible from a customer who has made it into your venue. If you are offering a discount or loyalty boost then make sure its clearly understood and appreciated. We are beginning to see mixed data on visits depending on sector – some indicating that visits are declining but average spend is higher than previously (this is inflation adjusted but suggesting that when people go out they are prepared to spend more), but plenty also suggesting that visits are stable but average spend is slightly lower. Wording out what is happening in your sites allows much greater focus on making the most of customer behaviour.

## Flight to value

This is not new but without doubt, it has come into sharper focus especially with the two groups who are currently spending most; namely early twenties and baby boomers. Their concept of value will be quite different through so working through personalised experiences and maximising on this is key. As noted in prior years, pricing has been challenging as the headlines consumers hear underplay the impact of food inflation in particular so we anticipate menus shrinking and being carefully curated to maximise margin as far as possible.

## The non-negotiables

It appears clearer each year that consumers are becoming more demanding before parting with their hard-earned cash. There are certain things now which have become base expectations and these include sustainability credentials which feel real, menu options for dietary requirements, a range of non-alcoholic drinks which appeal for the duration of a stay, and the ability to settle payment in a straight forward, transparent way.

# Market and consumer overview

Following the record inflation of 2023, the UK Hospitality market has shown signs of recovery in 2024, with inflation easing and consumer confidence stabilising. Despite this, rising costs and high interest rates have kept pressure on both operators and consumers, shaping a cautious spending environment. While price sensitivity remains a key driver of behaviour, businesses that have embraced diversification, experiential dining and technology-led personalisation have found opportunities to grow. As 2025 approaches, the sector is poised for continued evolution. BDO's Strategy team reviews the past year, highlighting the major trends that have shaped restaurants and bars and the opportunities that lie ahead.

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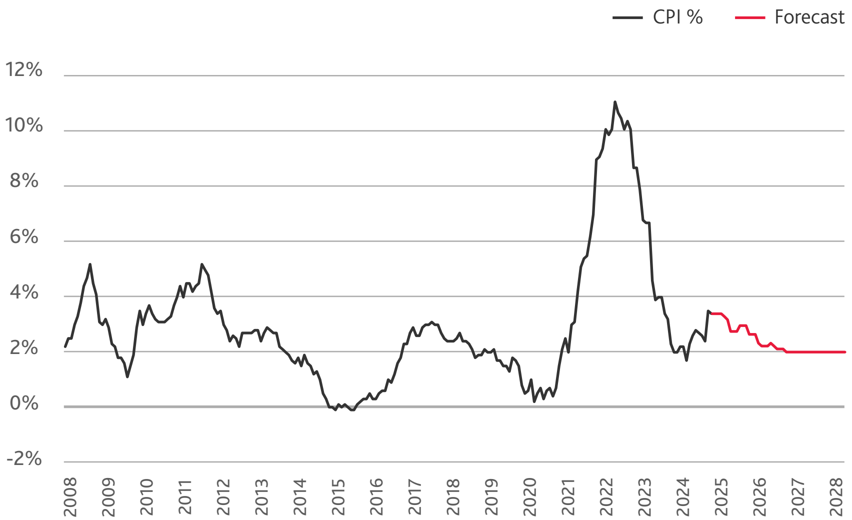
## Economic drivers

Following the record inflation levels of 2023, the UK foodservice market has seen some relief as inflationary pressures have begun to ease.

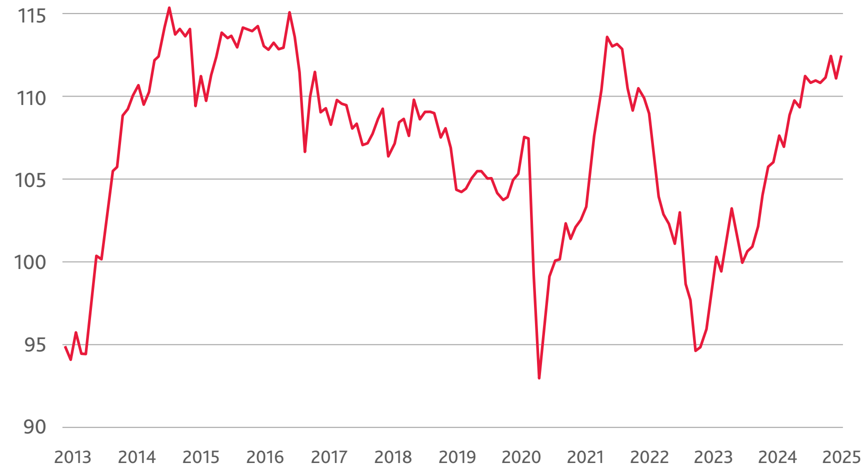
**Consumer price inflation**




However, high interest rates and lingering cost-of-living concerns have continued to weigh on consumer confidence.

**YouGov/CEBR Consumer Confidence Index**

Axis value is 100. A score of <100 represents a negative score; a score of 100 represents a neutral score; a score of >100 represents a positive score




Source: ONS and CEBR Forecast

Looking ahead, 2025 is expected to bring economic stabilisation, but financial pressures will persist for businesses and consumers. Rising employer costs, including an increase in National Insurance Contributions which came into effect in April, alongside high wage and property costs, will strain small and medium-sized operators, potentially leading to closures, job cuts, and reduced reinvestment. Global factors, including shifts in U.S. trade policies under a new Trump administration, may introduce further uncertainty, particularly around supply chain costs and currency fluctuations. Consumer spending will remain cautious, driven by financial confidence and real wage growth, with affordability remaining a key priority.

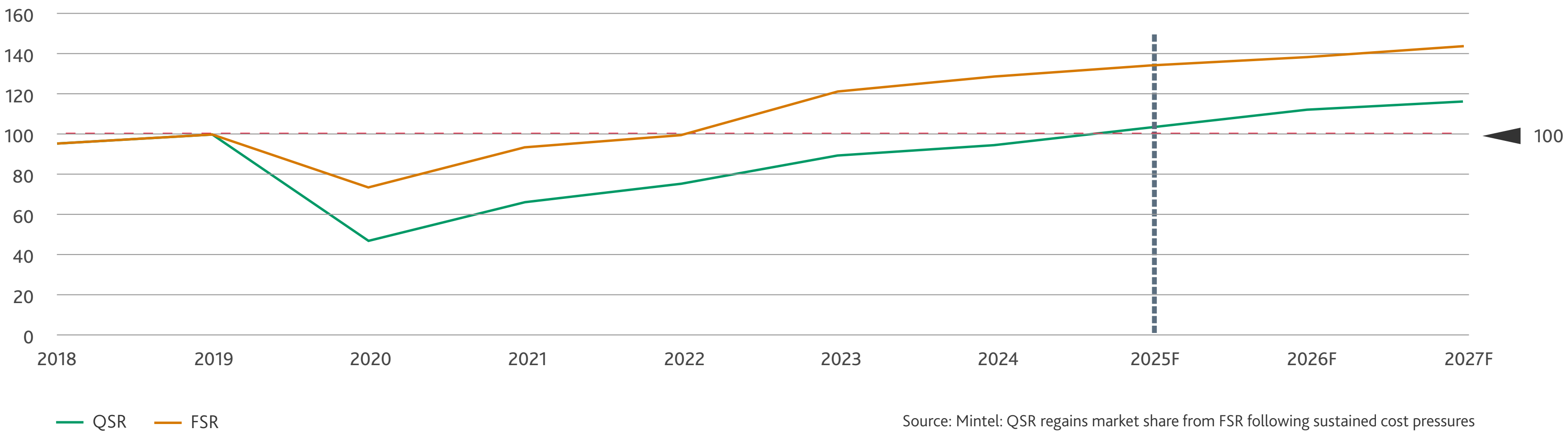
# Market and consumer overview

## 2024 Recap – Takeaways Take Charge

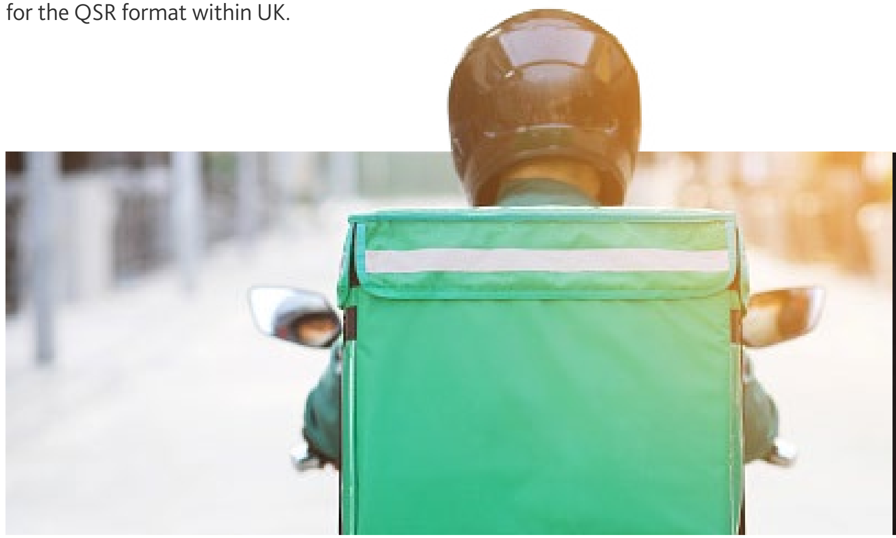
In 2024, the UK foodservice sector remained resilient despite ongoing economic pressures. While the market saw modest growth, consumer preferences continued to shift towards takeaway and delivery, with dine-in earnings still trailing behind 2019 levels as a share of the overall market. Full-service restaurants (FSRs) have yet to fully recover to pre-pandemic performance, though a return to 2019 levels is expected in the near term. In contrast, quick service restaurants (QSRs) have now exceeded their 2019 performance, driven by sustained demand for convenient and affordable options.

This continued momentum in the QSR space has drawn strong investor interest. American fast-food chains such as Wingstop and Popeyes made substantial inroads into the UK market, reflecting the pace at which the segment is growing. Wingstop's success was further highlighted by its acquisition by private equity firm Sixth Street for c.£400m, underscoring both the brand's strong performance and the broader market demand for the QSR format within UK.

## UK hospitality market size, FSR & QSR (£BN) 2018 – 2027F, Indexed 2019 = 100




Source: Mintel: QSR regains market share from FSR following sustained cost pressures



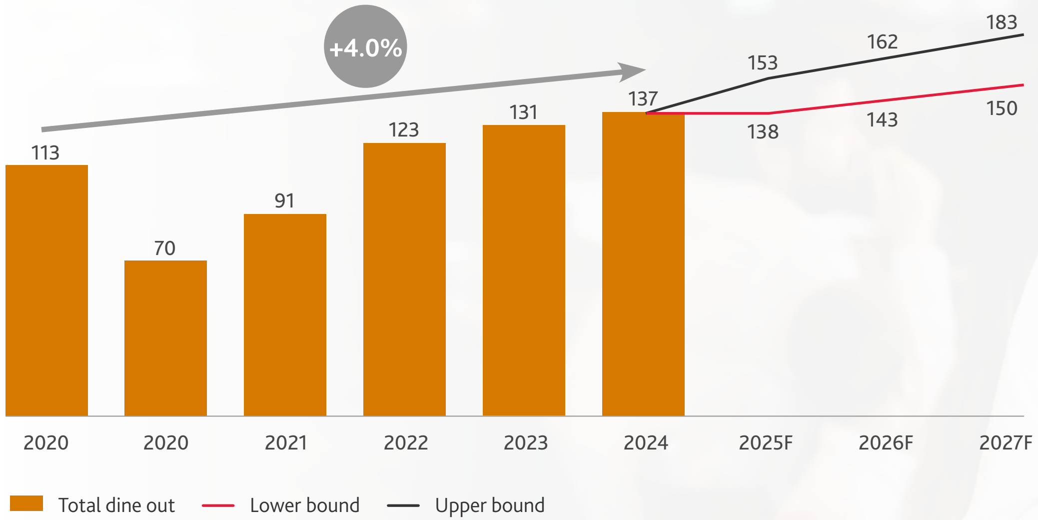
# Case study

## Foodservice market dynamics

### 2025 Outlook – Balancing costs and consumer demand

Looking ahead, 2025 is expected to bring gradual economic stabilisation, but financial pressures will continue to shape the foodservice sector. Rising labour and property costs, coupled with the increase in National Insurance Contributions in April, will challenge small and medium-sized operators.

For dine-in operators, success will depend on offering experiences that justify the cost. Restaurants will experiment with hybrid service models, incorporating self-service kiosks and digital ordering to streamline operations while maintaining a personalised experience. Dynamic pricing strategies, such as time-sensitive discounts or off-peak meal deals, may emerge as ways to drive footfall without eroding margins.




Source: Global Data & BDO analysis

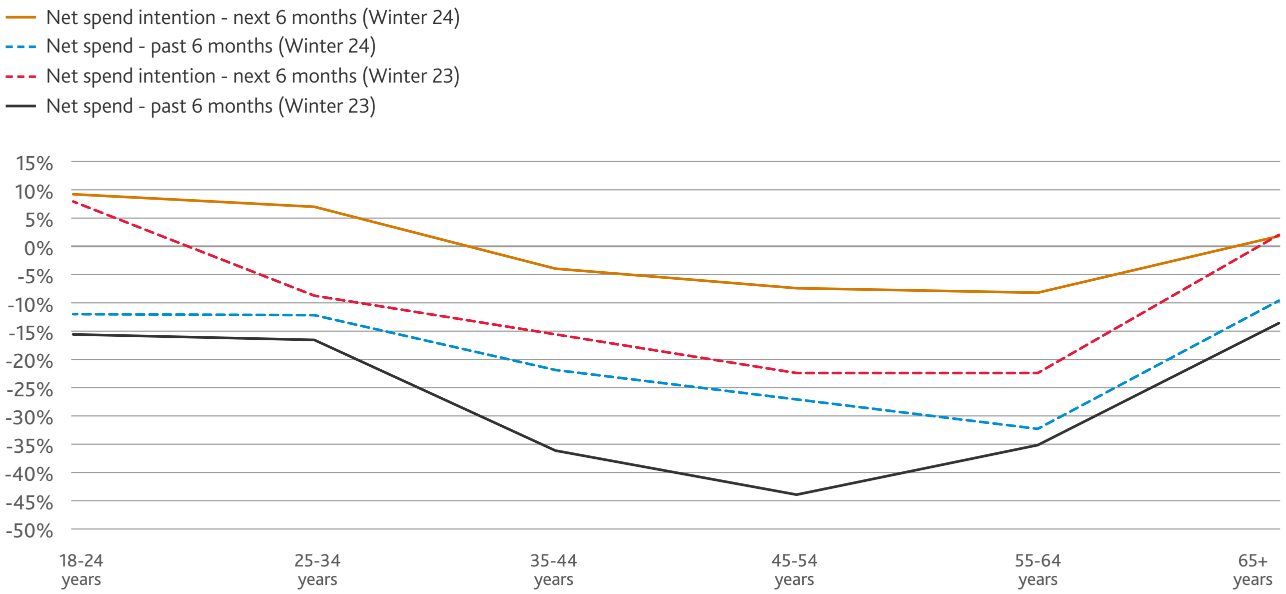
The market outlook is expected to remain flat in the near term, primarily as the sector navigates upcoming regulatory changes. However, a stronger growth trajectory is anticipated beyond 2025.

# The consumer context

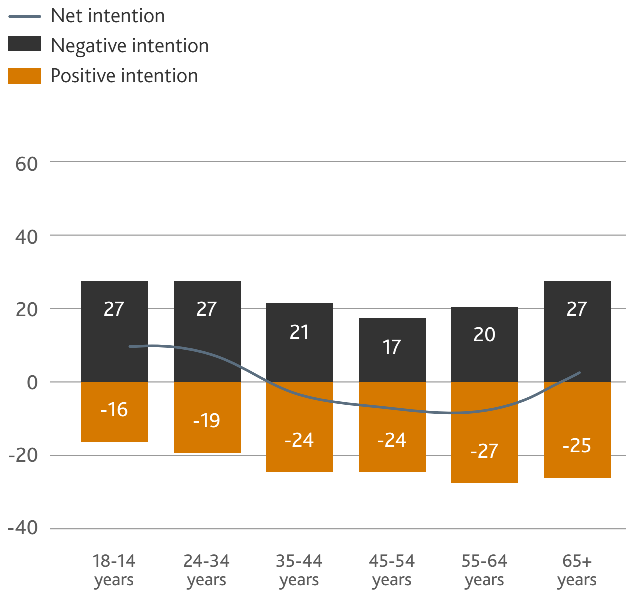
## Dining Out

BDO's seasonal consumer study highlights a strong rebound in the dining-out sector, with a 10-percentage-point increase in year-over-year sentiment as consumers begin to prioritise eating out after a period of reduced activity. This resurgence has been driven primarily by 18-24 and 25-34-year-olds, who continue to shape demand through a mix of affordability-driven choices and a renewed appetite for experiential dining.

### Eating out




### Spend intention sentiment by age




Source: BDO Consumer sentiment survey

### Trends shaping the sector

**Experiential Dining Gains Momentum:** The demand for experiential dining continues to shape the restaurant industry, with operators integrating storytelling, interactive elements, and theatrical presentations to create memorable moments for guests. Concepts like The Murder Express in London offer a fully immersive experience, blending fine dining with live entertainment in a vintage train setting. Similarly, pop-up events such as Feast on Cloud 9 at The Grove are leveraging multi-sensory environments, allowing diners to engage with themed narratives while enjoying bespoke menus.

As consumers seek more than just a meal, restaurants that embrace themed decor, curated storytelling, and interactive service models will gain a competitive edge, enhancing customer loyalty and driving footfall.

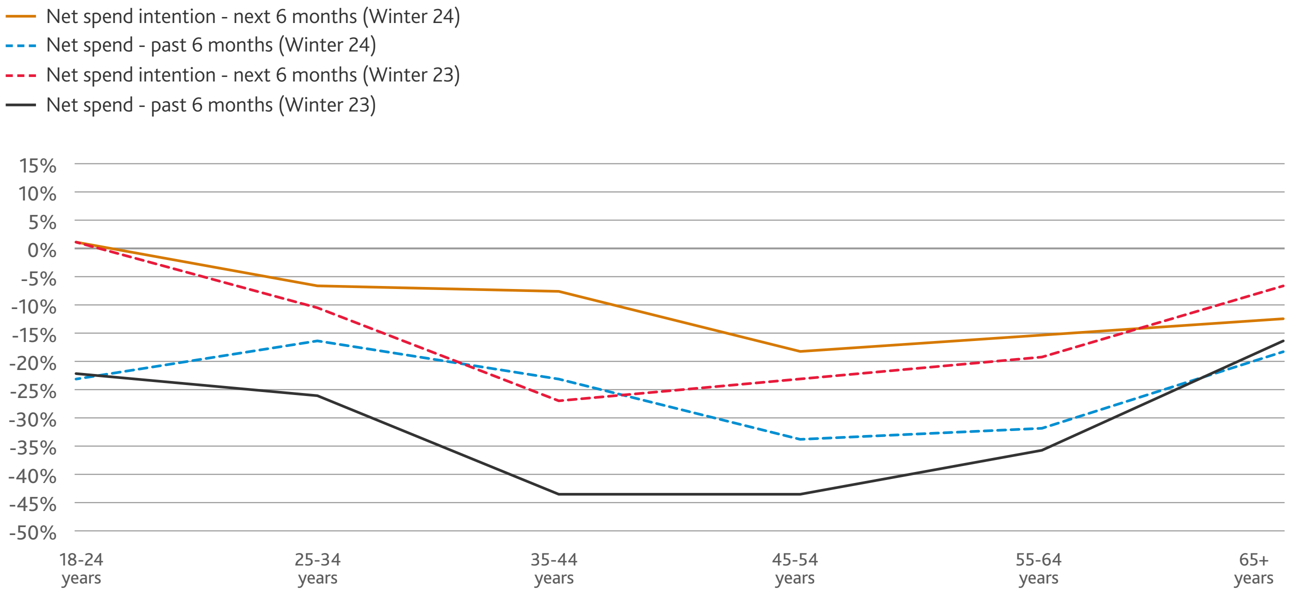
**Value-Driven Models Dominate Spending:** Economic uncertainty continues to shape consumer spending habits, driving demand for value-led promotions and loyalty incentives. PizzaExpress has partnered with Tastecard, offering discounted dining to boost footfall. Meanwhile, Mowgli Street Food's stamp-based loyalty app rewards repeat customers with vouchers, fostering engagement. Gamified promotions, such as McDonald's Monopoly, further highlight how brands are incentivising spending while strengthening customer loyalty.

# The consumer context

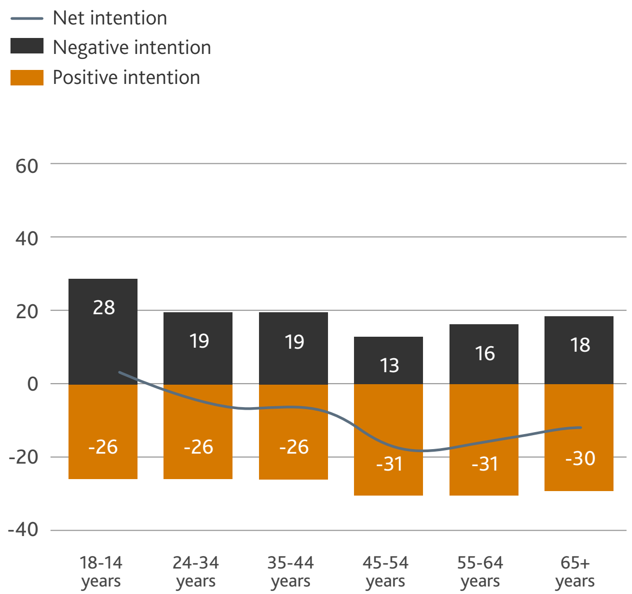
## Drinking Out

BDO's latest consumer study shows drinking out sentiment has improved, rising 6 percentage points from Winter 2023 to Winter 2024, but still sits at -10% overall. Despite broader challenges, 18-24-year-olds are driving activity, making them the only age group expecting to drink out more in the next period. With going-out habits closely tied to age and income, younger and wealthier consumers remain the most resilient, venues have turned to creating unique experiences like wine tastings, quizzes, and interactive events while juggling operational costs to remain competitive.

### Drinking out




### Spend intention sentiment by age




Source: BDO Consumer sentiment survey

### Trends shaping the sector

**Innovate to differentiate:** Traditional drinking-out models, such as the classic corner pub, are facing challenges as consumers increasingly question the value of a night out, especially when many experiences can be replicated at home, albeit imperfectly. To remain competitive, venues must offer unique, in-person experiences that cannot be easily recreated at home.

The rise of competitive socialising venues exemplifies this shift, with establishments integrating activities like mini-golf, darts, and bowling alongside food and drink offerings. This trend has led to a 40% increase in such venues since 2018, highlighting the growing consumer demand for experiential outings.

**Market consolidation accelerates as independents face mounting pressures:** Across the UK hospitality sector, consolidation is gaining pace as larger, well-funded operators seek to expand their presence through strategic acquisitions. With continued cost pressures and a challenging trading environment, scale is becoming increasingly important to maintain margins and operational resilience. In early 2025, Punch Pubs & Co announced plans to accelerate the acquisition of single-site venues, reflecting the wider shift toward portfolio growth and efficiencies across the sector.

Independent operators, meanwhile, are feeling the strain. Rising costs—from energy and wages to supply chain inputs—are making it harder for smaller businesses to remain competitive. While consumer appetite for quality, community-focused, and experience-led venues remains strong, the ability to deliver these sustainably is becoming more difficult without the backing or scale enjoyed by larger groups. Going forward, the sector is likely to see further consolidation as operators pursue growth while navigating the realities of a high-cost operating environment.

# The consumer context

## About the Consumer Strategy & Commercial Due Diligence team

BDO's experienced Strategy & Commercial Due Diligence Consumer team has worked with major players across the hospitality sector. Key to our success is our ability to understand the UK consumer and their dining and leisure habits, and how these will impact the modern restaurant and bar concepts of today.

Our hospitality-focused services include:

- Site location rollout strategy, in the UK and internationally
- Asset model strategy
- Proposition and sales channel recommendations
- Competitor benchmarking and key learnings
- Supply chain and operations streamlining
- Revenue and cost analysis
- Improving customer experience
- Using consumer insights to develop and enhance marketing and branding

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# Deals overview

Consumers continue to be cautious in the UK and global uncertainty hasn't helped encourage consumers to spend more on hospitality. Savings in the UK as a % of disposable income remain above recent historical averages. So businesses are facing a cautious consumer economy alongside a heavy cost burden with increased labour costs in particular hitting EBITDA margins. In this environment, only the top tier of brands and operators will have volume like for like growth and will be able to protect EBITDA margins. If consumers are cautious, private equity investors and public markets are even more so and only the very best businesses with leading KPIs will transact in this environment.

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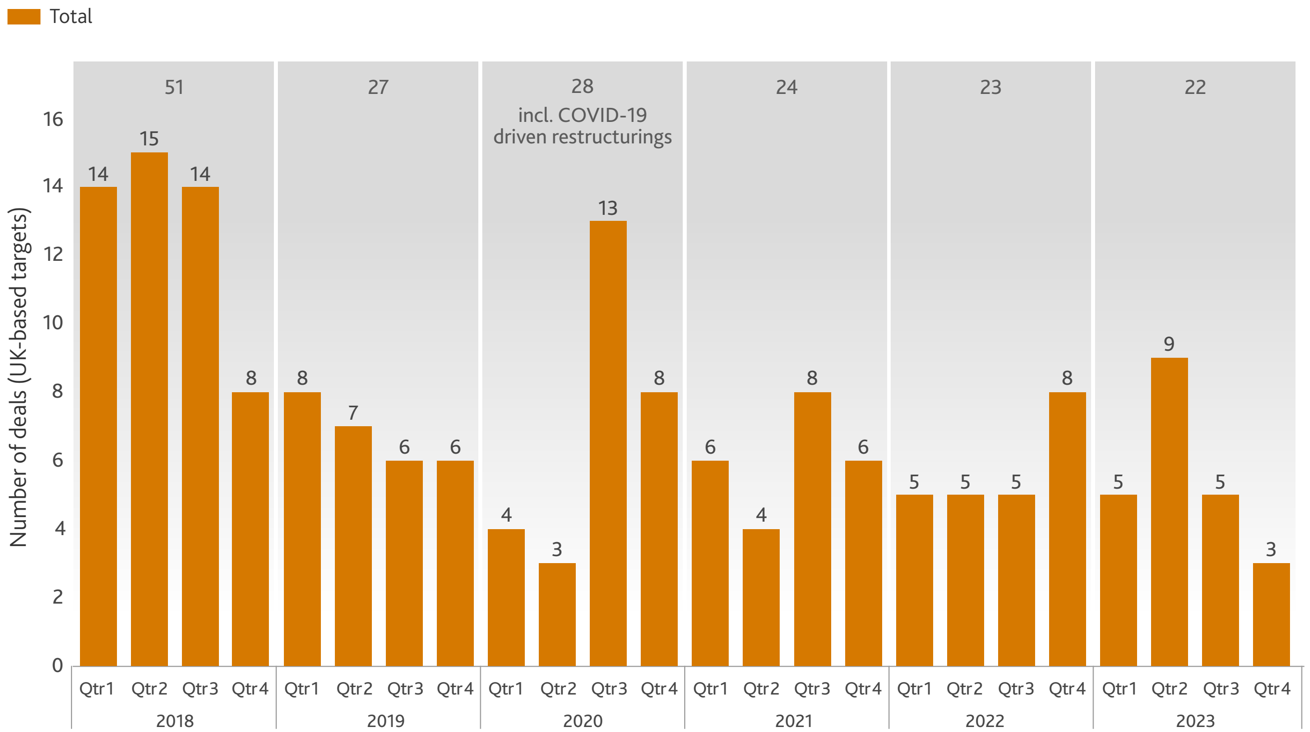
## Coming out of the woods

Restaurant, bar and pub businesses across the UK entered 2024 with cautious optimism. Inflation, interest rate, and consumer confidence all trended positively, providing a glimmer of hope for operators. By and large, businesses had managed to pass higher food and operational costs onto consumers. However, the reported like-for-like (LFL) revenue increases often masked a concerning reality: many operators faced consistent declines in LFL covers (customer volumes) and EBITDA erosion. It is therefore, without surprise that 2024 was subdued in restaurant M&A activity, with institutional investors largely shying away from financing restaurant roll-outs.

**R&B deal count** *Source: Mergermarket*



# Deals overview

## The Autumn Budget blow

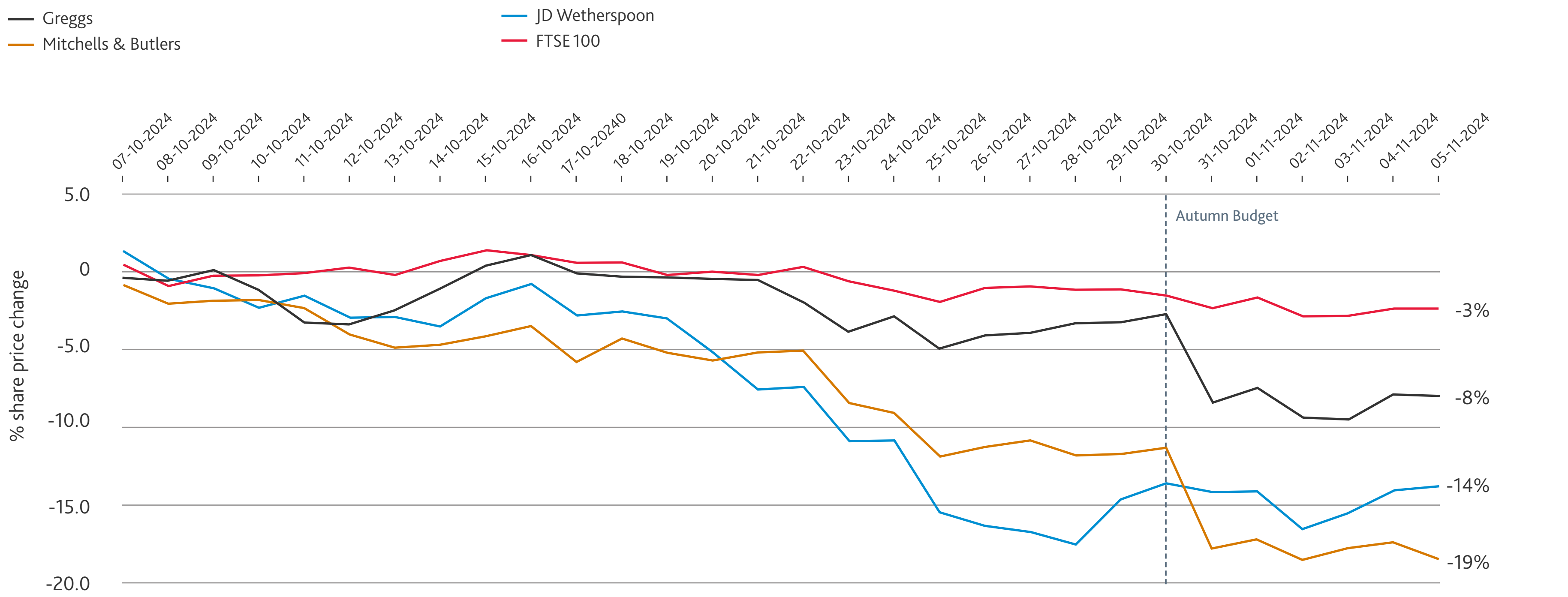
Optimism returned briefly in early autumn, with several high-profile names indicating plans to enter the market. However, this optimism was swiftly hammered with the Labour Government's first budget which introduced increases to Employer National Insurance and Minimum Wage. As an inherently labour-dependent sector, with labour costs typically representing 30% of revenue, the hospitality sector was dealt yet another blow. The reaction was quick, with listed restaurant and bar operators experiencing double-digit declines in their share prices (see Chart 1).

For many operators, passing extra costs to already price-sensitive consumers is far from ideal amid ongoing volume declines. Yet, some level of price increase is unavoidable, making it crucial to strike the right balance. Businesses will also begin seeking cost-cutting measures, such as reducing team sizes through attrition, limiting hours, and outsourcing support functions.

As the sector grapples with the full impact of the Budget on profitability, some casualties are inevitable. Brands offering value-for-money propositions and enjoying strong customer loyalty are likely to weather the storm, potentially capturing market share from competitors unable to withstand the mounting cost pressures.

From a Capital Gains Tax (CGT) perspective, the announced increases were significantly lower than the rumoured rates circulating in the press. This relative leniency in CGT raises may incentivise shareholders who had been considering a transaction to move forward, particularly those seeking to lock in gains before potential future hikes.

**Chart 1: Share/Index Price daily % change**



# Deals overview

## Hospitality deal lifecycle

To maximise deal value and secure the right partners for growth, restaurant businesses must align their operational performance and strategic positioning with investor expectations at each stage of their growth journey.

At the early stage, restaurant investors look for consistent like-for-like (LFL) performance, particularly in customer volumes, along with strong site-level unit economics (typically site EBITDA margins of 18% or more). Return on capital employed (ROCE) across sites is a key metric, which are expected to exceed 40%. These attributes make businesses attractive for their first round of private equity (PE) investment, as shown by BGF's investment in 6-site restaurant group, Blacklock.

As brands expand to the 20-site mark, businesses need to demonstrate the ability to replicate their success across multiple locations while maintaining strong returns and operational efficiency.

Factors such as consistent proven unit economics and a clear white space opportunity for further UK expansion play a critical role in securing investment. A recent example of deal at this stage was Greene King's acquisition of Hickory's, which demonstrated a clear path for over 100 sites across the UK.

Businesses with 20–40 sites typically appeal to secondary PE firms or strategic trade buyers. At this level, investors prioritize a brand's ability to sustain strong returns across all sites and scale profitably. Multi-brand operators also gain traction at this stage, as they leverage synergies to drive further growth.

Beyond 40 sites, the focus typically shifts to proven international scalability, including franchise or expansion opportunities beyond the UK. These brands often attract interest from international private equity players, global strategic buyers, or even public markets through IPOs.

# Deals overview

## QSR Deals revival

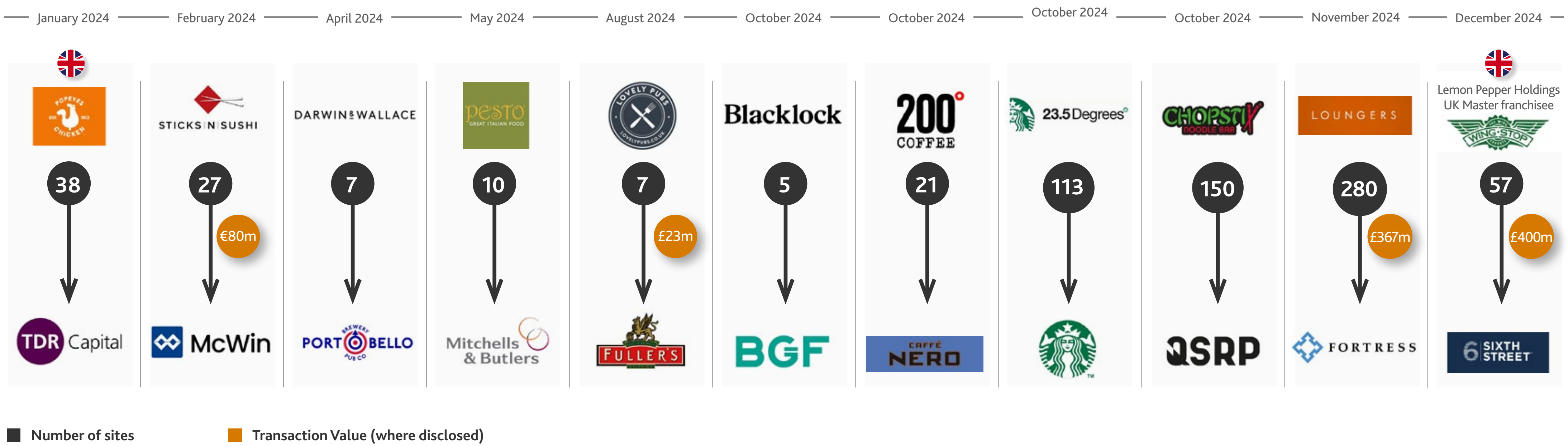
Despite challenges, 2024 saw notable deals emphasizing the strength of value-driven, low-ticket concepts. Early in the year, TDR Capital increased its stake in Popeyes UK, the rapidly growing fried chicken brand, gaining effective control of the business. Chopstix, a pan-Asian noodle chain, was acquired by Switzerland-based QSRP.

Other major moves included Starbucks Coffee Company's acquisition of its largest UK franchisee, 23.5 Degrees, which added 113 stores and 1,650 employees to its portfolio. This followed similar moves by KFC and Papa John's which acquired their largest UK and franchisees in the prior year.

The largest UK R&B deal of the year was the £400 million acquisition of Lemon Pepper Holdings, the UK master franchisee of US brand Wingstop, by US investment firm Sixth Street. Reports suggested that other potential buyers, including Domino's Pizza, TSG Consumer Partners, and KKR, had expressed interest in the business (FT.com).

**2024 Restaurant & Bars - Key deals**

*Source: FT, Propel, The Caterer, The Business magazine*



# Deals overview

## Outlook on M&A activity

In the latter half of 2024, several prominent restaurant brands entered the market. Among them, all-day dining, 20-site restaurant group Megan's and 23-site Pizza Pilgrims appointed advisors to explore their options (Propel). With only a handful of sites outside of London, both brands are likely focusing on the growth opportunity across the UK to drive deal value.

Meat restaurants were also heavily featured in deal activity with Blacklock, Hawksmoor and Flat Iron.

Graphite Capital-backed Hawksmoor opened its second US site in Chicago in November amid rumours that it was seeking buyers (FT). With its high average spend per head and established footprint in the UK, the growth plan of Hawksmoor is likely to lie in international expansion, focusing on the US. Buyers will likely laser in on the performance of the US restaurants to prove the international expansion strategy. Flat Iron, the affordable steak brand will launch in 2025 as Piper approaches the 7th year of its investment (Propel).

The Ivy Collection was reportedly nearing a sale in September, though no announcement had been made by the end of the year. The cited buyer, Si Advisers—a relatively unknown firm—was said to have valued the group at £1 billion (Sky News).

Gail's, the fast-growing 140-site bakery chain engaged bankers for a potential sale in 2025, reportedly targeting a £500m valuation (Sky News). Bloomberg reported that incumbent sector investor McWin was attempting to pre-empt the formal process. This sale is poised to be one of the sector's most closely watched transactions in 2025.

## Looking ahead

As UK restaurant operators contend with ongoing cost pressures, M&A activity is likely to focus on consolidation with group EBITDA margin improvement on the menu. The current environment also creates opportunities for international buyers, particularly US-based private equity firms, to acquire robust UK businesses at attractive valuations. Looking ahead to 2025, take-private deals and international PE involvement are expected to feature prominently in the sector's M&A landscape.



## DEAL SPOTLIGHT - BGF acquires a minority stake in Blacklock

BDO provided sell-side advice to the shareholders of Blacklock on the minority sale to BGF. The 6-site restaurant group opened its first site outside of London, in Manchester, in mid-September shortly before the deal was due to complete. The strength of the brand, excellent unit economics and results-driven management team led to significant interest from buyers who had been tracking the brand for a number of years.

**+7%** LFL covers growth

**4.7*** Average rating

**50%+** Return on Capital Employed

**£35** Average spend per head

**20%+** Average site EBITDA margin

# Headwinds and opportunities

The resilient hospitality sector has faced unrelenting headwinds since the Covid-19 pandemic, with more to come in the form of increasing business rates and labour costs. Many restaurants and bars have accrued high levels of debt and will need to navigate the real cash impact of increasing business rates and labour costs on their ability to meet the debt service costs as they fall due.

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**The hospitality sector continues to face sustained headwinds, with little sign of these easing after the announcement of increases in National Insurance (NI), National Minimum Wage (NMW) and National Living Wage (NLW) in the autumn budget. Core costs have fallen since the significant increases seen in the years after the Covid-19 pandemic, but increases are on the horizon with the business rates discount that the hospitality sector benefits from being reduced from 75% to 40% in April 2025. This, coupled with many businesses in the sector continuing to hold high levels of debt and facing customers who are restricting their spending, will impact businesses' ability to manage these headwinds and for some, it will bring into question their viability.**

## Headwinds

Many restaurants and bars accrued substantial amounts of debt during the Covid-19 pandemic, such as bounce back loans and Coronavirus Business Interruption Loan Scheme (CBILS) and continue to hold high levels of debt. Although the base rate has been reduced in 2025, it has remained stubbornly high, which has led to increased debt service costs reducing the available cash to bring down the debt burden and, in some cases, wiping out operating profit.

Labour costs remain a key challenge to the hospitality sector. The increases in NMW and LMW, as well as those businesses impacted by the NI increase, that have taken effect from April 2025, will further squeeze already slim margins. Core costs have fallen but inflation in the hospitality sector has traditionally been higher than the UK wide CPI figure, evidenced by the CPI figures for the year to January 2025, the UK economy at 3.0% compared to 3.3% in the restaurant sector.

Consumers face their own discretionary spend challenges due to the performance of the economy and a stubborn base rate. Further to this, nervousness about job security amid the reports of redundancies may impact consumer's saving vs spending decision. Businesses will therefore have limited opportunities to pass on higher labour and input costs to protect their profit levels.

The reduction in the business rates discount, coupled with the increase in labour costs, will have a direct real cash impact. Cashflow management is an essential task as businesses must continue to facilitate their debt with high monthly debt service costs. As cash outflows increase, pinch points are inevitable and regularly reviewing forecast cashflow will allow businesses to manage their way through cash restrictions, most likely to occur at month-end as payroll and tax payments fall due.

# Headwinds and opportunities

## Opportunities

The Government has announced its intention to create fairer business rates for the hospitality sector in 2026-27, which will have come as welcome news as this is a major cost that hospitality businesses face. This topic will be closely monitored as businesses navigate the next few years and hope to benefit from reduced rates.

There is an increasing number of empty retail units on UK high-streets, and a prolonged fall in the base rate will put pressure on landlords who will need income to cover their own debt service costs. This may create opportunities for businesses to achieve positive deals on leases, as landlords favour having a tenant at a lower rent than an empty unit with no income.

Whilst consumers have reduced their discretionary spending, there has been a trend since the Covid-19 pandemic in consumers searching for an experience and an increasing willingness to spend on new, unique and value for money experiences.

## Final thoughts

The challenges that the hospitality sector faces have been relentless since the Covid-19 pandemic, and while it continues to be a resilient sector, it has started to show signs of these challenges taking effect, as demonstrated by recent high-profile site closures. Debt service costs and especially the increasing labour costs will mean that cash management will be a key focus to ensure pinch points can be avoided and don't lead to an inability to pay debts as they fall due, or are appropriately planned for and managed if unavoidable. Ultimately, opportunities remain in a resilient sector, but the prolonged fall in the base rate, increasing business rates and labour costs will bring into question the viability of some businesses and early engagement with experts is a key consideration for Directors in this scenario.

# Tips and troncs update

The Hospitality sector is facing tough times with new regulations and financial pressures. The Allocation of Tips Act, introduced last year, mandates fair distribution of tips to employees. From April 2025, employers are contending with increased costs due to a rise in Employers NIC and higher National Minimum Wage rates. These changes require careful planning and adaptation to ensure compliance and manage expenses effectively. Let's delve into the details to understand the impact and necessary adjustments

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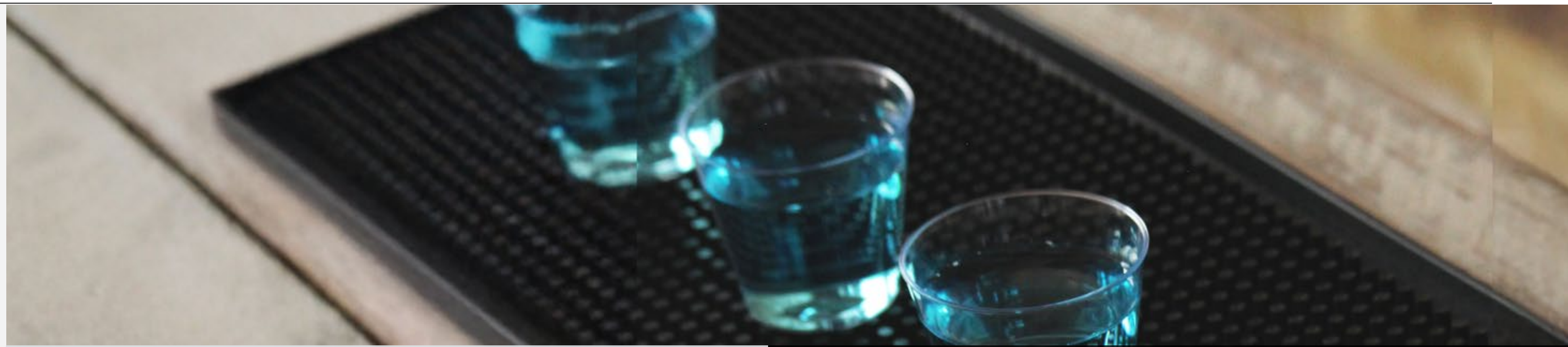

It is fair to say that the Hospitality sector has been hit hard. There has been the introduction of the Employment Bill Allocation of Tips bill last year and the impact of the Employers NIC from April 2025 announced in the Budget with increases to National Minimum Wage ('NMW'). So let's unpack this.

The long awaited Allocation of Tips Act received Royal Assent on 2 May 2023. Having been pushed back twice till 1 October 2024, perhaps due the late publication of the Code of Practice ('COP') on Fair and Transparent Distribution of Tips on 29 July 2024. Following the implementation HMRC also issued its non-statutory guidance on 2 December 2024. A quick recap on the main rules:

1. **All tips, service charges and gratuities ('tips') must be paid to employees (including cover charges, mandatory service charges and discretionary tips).**
2. **The distribution must be fair and transparent.**
3. **Tips paid must be paid to employees by the end of the month following the month they were paid by the customer.**
4. **Agency workers are entitled to receive tips in the same way as employees.**
5. **Employees and agency workers have up to 12 months to raise a dispute through an Employment tribunal.**

Most businesses will have a Tronc arrangement to distribute discretionary tips and service charge, benefitting from the exemption of Class 1 National Insurance Contributions ('NIC') either operated internally or through an external third party. If an employer chooses to have a Tronc the instructions or framework the employer sets for its operation must be in line with principles of fairness. If they do so, and they have a reasonable belief that the tronc is operating independently and fairly (and take steps to rectify the position if they become aware that it isn't), the employer will be regarded as having complied with the new COP.

Hospitality businesses need to have reviewed their tipping policies to understand what types of gratuities are received, including any contractual and discretionary service, room or tray charges that must be distributed fairly. It is necessary to ensure that these new policies are clear, transparent and readily available to customers, employees and agency workers alike. Businesses also need to be mindful that any current or intended contractual service charges would be ineligible for allocation using a Tronc arrangement and therefore subject to NIC. In addition, businesses should have a clear process in place for handling employee queries and disputes

# Tips and troncs update

quickly and efficiently, and make sure that employees understand how to raise any questions to help prevent unnecessary claims made direct to the Tribunal. As tips can no longer be shared between multi-site businesses, there needs to be mechanisms in place to separately identify tips from different premises but also consider fairly employees who regularly work between sites to cover busy or slow periods. Another pitfall we are aware of is that some employment agencies do not understand the new rules and therefore not being equipped to deal with the distributions of tips to their temporary workers in a timely manner.

There are also additional costs April this year. With the Government's assurance that employees' taxes will not be affected, instead Employers NIC has increased from 13.8% to 15%. However, what was not so widely expected was the decrease in the Employers NIC Secondary threshold from £9,100 to £5,000 per annum. It is estimated that in the Hospitality sector that employers will see an approximate increase of £1,000 per affected employee.

At the same time National Living Wage has increased by 6.7% to £12.21/hour for over 21s; NMW by 16.3% to £10/hour for 18-20 year olds, and by 18% to £7.55 for 16-17 year olds and apprentices. While higher wages may attract more staff, NMW compliance is more complex than just the rate of pay.

Payroll checks alone may not ensure NMW compliance, as some factors, like uniform purchase requirements without reimbursement, may not be captured by systems and the impact on NMW pay can be overlooked.

The above changes mean employers are beginning to weigh up extra costs against investing in cost benefit analysis and saving opportunities to help support acceptable retention and recruitment levels. These could include examining total reward structures and considering tax/NIC efficient remuneration strategies such as pension, childcare and electric car salary sacrifice, where considerable savings can be made and shared with employees.

Finally, we expect HMRC to intensify efforts to ensure businesses meet employer compliance obligations, NMW/NLW and Holiday Pay. We know HMRC have been focusing on regions and sectors expected to have higher non-compliance rates including Hospitality. Non-compliance can lead to unpaid PAYE/NIC and for NMW financial and reputational damage. With the introduction of the new Fair Work Agency in 2026, this will serve as a 'one stop shop' for NMW compliance and wider employment rights, continuing investigations into non-compliance and supporting correct practices.

# Data Protection Update

Restaurants and bars process large amounts of personal data regarding customers as part of the booking process, so it's really important to ensure that they remain compliant with UK Data Protection requirements. In this article we outline potential changes on the horizon as a result of the draft Data Use (and Access) Bill, some of the recent trends in ICO enforcement action and how restaurants and bars should respond to the challenge.

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- Since the UK data protection regulatory landscape changed in May 2018 with the introduction of the Data Protection Act 2018 (the UK GDPR), the hospitality sector (specifically restaurants and bars) has had to grapple with the challenges of both meeting and evidencing compliance with data protection requirements.
- Further changes are on the horizon in the UK, with the draft Data Use and Access Bill (introduced by the Labour government) currently progressing through Consideration of Amendments stage in the House of Commons (at the time of writing). Restaurant and bar owners therefore need to be aware of potential changes and how this could impact their operations.

The risks associated with non-compliance with the UK data protection regulation continues to be significant. The Information Commissioner's Office (ICO) remains one of the most active regulators in Europe, regularly publishing enforcement action, with a range of powers at its disposal, including financial penalties (up to £17.5 million or 4% of global turnover – whichever is greater), reprimands, enforcement notices, and in some instances individual prosecutions.

ICO enforcement action is publicly available and often picked up by media outlets which can affect an organisation's reputation and reduce consumer trust, especially in a market where customers have the ability to take their purchasing power elsewhere. At a time when there are significant cost and inflationary pressures on restaurants and bars, and when margins can fluctuate - fines for non-compliance could have a significant impact on the overall performance of the business.

# Data Protection Update

**When looking at recent ICO enforcement action over the last 12 months, there are a number of recurring themes:**

- **55%** of enforcement actions relate to marketing infringements, specifically for organisations sending unsolicited marketing communications to individuals, without their consent. This is particularly pertinent to restaurant and bars businesses who process personal customer data for the purposes of managing bookings and for sending marketing communications. Consumer's often get irritated when they receive unsolicited marketing communications, and it's worth noting that they have the power to lodge a complaint directly with the ICO. The ICO continues to focus heavily on direct marketing therefore restaurants and bars need to be aware that if they are engaging in direct consumer marketing activity there needs to be robust processes in place to evidence the capture and management of consent, as well as processes if an individual subsequently withdraws consent (which they can do, at any time).
- **26%** of ICO enforcement action related to data breaches, for example in relation to security breaches, disclosing personal data to unauthorised individuals and use of 'cc' rather than 'bcc'). This tells us of the need for restaurant and bar owners to implement robust processes for assessing and reporting data breaches and of the need to maintain employee awareness of data protection compliance responsibilities, throughout the employee lifecycle.
- **12%** of ICO enforcement action relates to the management of data subject rights requests, particularly where requests were not completed within prescribed timescales. It's worth noting that many restaurants and bars operate CCTV, which capture and store large amounts of personal data, which may need to be provided in the event of a subject access request. Restaurant and bar owners therefore should ensure that there are robust processes in place to manage data subject rights requests within one calendar month.

**How should Restaurants & Bars respond to this challenge?**

1. **Tone at the top** – Ensure that key decision makers allocate sufficient time and resource to implementation and continued compliance efforts.
2. **In-house expertise** – Often, the responsibility for data protection is often 'bolted-on' to an existing role (i.e. CFO or Head of Compliance), when in reality, the individual often lacks the time, resource and expertise to maintain data protection compliance effectively. Restaurants and bars should therefore consider whether they have sufficient data protection expertise in-house or whether it would be prudent to seek support from a third party in an outsourced capacity.
3. **Oversight of data processing** – Restaurants and bars often struggle to maintain documented oversight of how personal data is collected and processed. It is vital that Restaurant and Bar owners understand this, to demonstrate accountability and compliance with UK data protection regulatory requirements.

# UK GAAP Financial Reporting Changes – Increases to EBITDA expected in 2026

EBITDA is used as a key performance metric by restaurant and bar operators. It provides a useful proxy for the ability of the business to generate cash returns. The changes to UK GAAP will require communication to ensure that, among other changes, the boost to an EBITDA metric that has been under pressure over recent periods is well understood. It is a shame that this will not bring an equivalent increase in cash!

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The changes to UK GAAP are coming at the end of this year (periods beginning 1 January 2026). Whilst there are a raft of changes to FRS 102 the most significant impact on the sector will be the changes relating to lease accounting. This will broadly align with businesses who adopt IFRS and implemented IFRS 16 in 2019 and therefore, in some sense, this will be a welcome alignment in reporting across all operators from 2026 onwards.

The impact of the changes to leases will be to account for leases as asset financing bringing the full lease liability (discounted future contracted lease costs) and the related right-of-use asset onto the balance sheet. This will impact the following areas:

- **EBITDA will increase** - Rent costs will no longer be recognised in administrative expenses and the equivalent costs will instead be recognised as depreciation and interest (the timing of which will change)
- **Operating cash flows will increase** – Rent cash flows previously recognised in operating will instead be recognised as financing cashflows
- **Significant assets and liabilities will be recognised** – Balance sheets will change.

Many in the sector have already started planning for these changes as lease heavy operators will have a number of commercial and regulatory considerations including:

- Contractual arrangements such as covenants or incentive schemes - for example EBITDA or gearing metrics
- Company size thresholds – Where gross asset thresholds are crossed
- Distribution of dividends – As changes to the timing of lease cost recognition can lead to negative impacts to distributable reserves in the short term.

There are a number of transitional factors and practical expedients to digest and those familiar with the changes under IFRS 16 will note that, whilst in principle the changes are aligned to IFRS 16, there are differences under UK GAAP which require careful consideration. Planning well for this will ensure that stakeholder expectations are managed and administrative burdens (eg running two sets of books, completing ongoing reconciliations and related communications) are significantly reduced for both finance teams and advisers/partners.

Please do reach out to BDO contacts who can support with the following areas:

- Risk and impact assessment as you assess the required changes, systems, support and communications
- Feedback on your transition plans
- Guidance on technical accounting considerations, interpretation of the standard and assessing areas such as the estimation of Incremental Borrowing Rates used in lease calculations
- Tools to document key terms of your lease arrangements and calculate the accounting adjustments
- Ongoing support in future periods when dealing with lease modifications and other changes.

In addition to the lease changes there are other changes to UK GAAP including revenue recognition (similar to the implementation of IFRS 15) – click here for a link to our summary of FRS 102 changes.

# Five Strategic Priorities for Restaurants in 2025: Thriving in a New Era of Hospitality

As the restaurant and bar industry navigates 2025, operational agility, guest-centric innovation, and data-driven decisions are more vital than ever. Drawing from over two decades of global hospitality and education experience, Michelle Wells, course tutor for the HOSPA Commercial Restaurant Management Programme, outlines five key focus areas that will define success this year. From leveraging artificial intelligence to enhancing sustainability practices and refining menu engineering, this expert analysis offers actionable insights to help operators thrive in an increasingly competitive and complex market.

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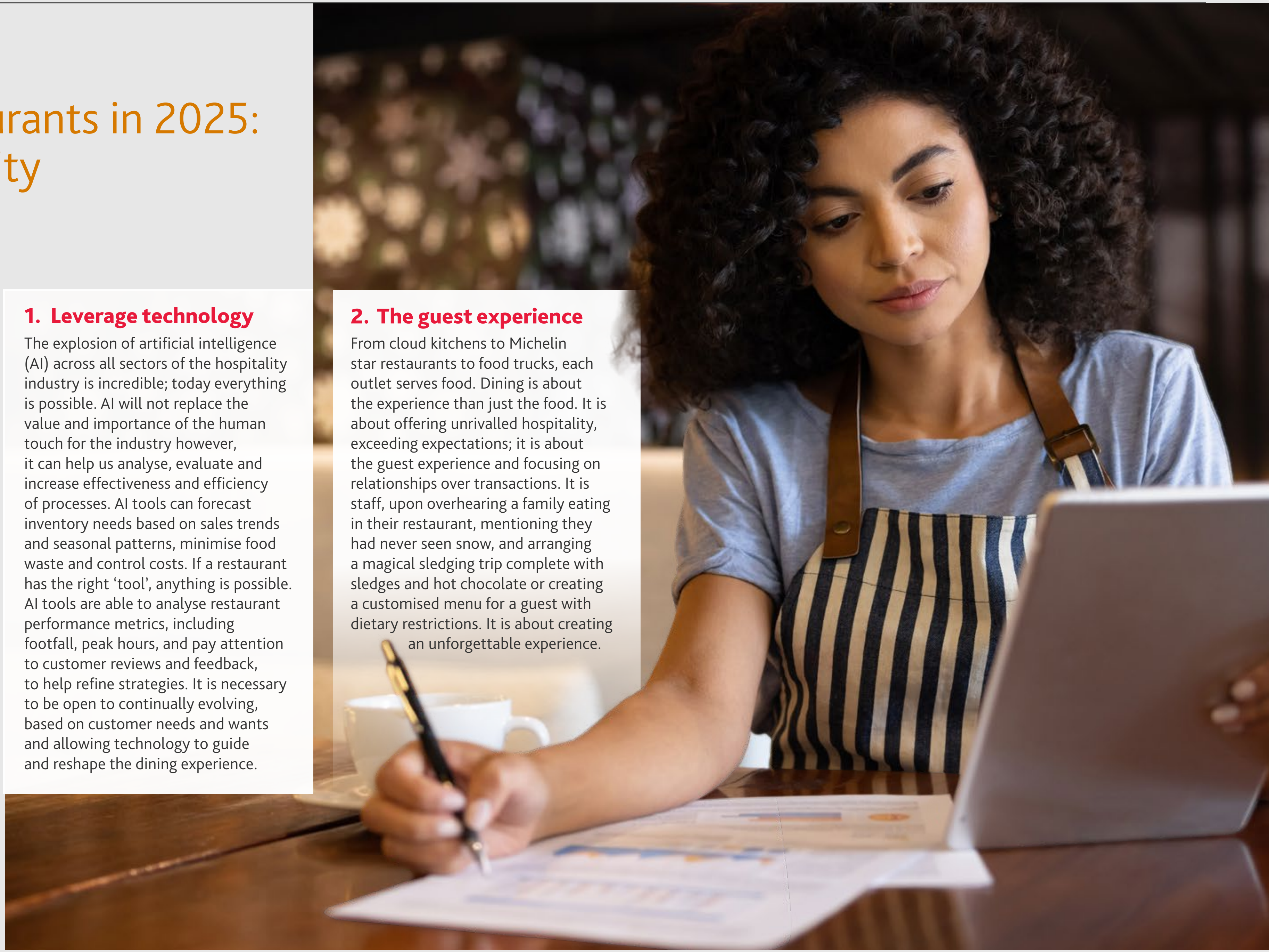

## 1. Leverage technology

The explosion of artificial intelligence (AI) across all sectors of the hospitality industry is incredible; today everything is possible. AI will not replace the value and importance of the human touch for the industry however, it can help us analyse, evaluate and increase effectiveness and efficiency of processes. AI tools can forecast inventory needs based on sales trends and seasonal patterns, minimise food waste and control costs. If a restaurant has the right 'tool', anything is possible. AI tools are able to analyse restaurant performance metrics, including footfall, peak hours, and pay attention to customer reviews and feedback, to help refine strategies. It is necessary to be open to continually evolving, based on customer needs and wants and allowing technology to guide and reshape the dining experience.

## 2. The guest experience

From cloud kitchens to Michelin star restaurants to food trucks, each outlet serves food. Dining is about the experience than just the food. It is about offering unrivalled hospitality, exceeding expectations; it is about the guest experience and focusing on relationships over transactions. It is staff, upon overhearing a family eating in their restaurant, mentioning they had never seen snow, and arranging a magical sledging trip complete with sledges and hot chocolate or creating a customised menu for a guest with dietary restrictions. It is about creating an unforgettable experience.

# Five Strategic Priorities for Restaurants in 2025: Thriving in a New Era of Hospitality

## 3. Sustainability

Sustainability – is now essential. In England, the 'Simpler Recycling' initiative requires businesses from 1st April 2025 [with 10 or more employees] to separate food waste from other rubbish streams and arrange collection licenced waste carriers. Forcing businesses to search for ways to reduce and operate more sustainably. Whether that is optimising inventory management, flexible portion sizes, conducting audits or repurpose and donating surplus food. Consumers are acutely aware of their environmental impact and quick to notice restaurants adapting greener practices which makes long-term business sense for a commercial restaurant. A simple act of sourcing ingredients locally can reap loyalty and a create a connection with the community.

## 4. Monitor and control costs

This has to be one of the most frequently spoken about topics in the industry; it always comes back to the numbers. Rising food costs means restaurants will need to be even more vigilant in tracking and monitoring costs. Supply chain disruptions and changing consumer preferences are shaping the industry to consider future proofing measures. Exploring strategies such as keeping food waste low, relationship building with suppliers, variable pricing and ensuring menu pricing accounts for both expenses and profitability will be advantageous.

## 5. Optimise the menu

A well optimised menu is the secret ingredient to minimising food waste, reducing costs and enhancing the dining experience. With menu engineering we can calculate which dishes are bringing in footfall, those dishes that are profitable, and hopefully those dishes that are both, popular and profitable. It will also highlight those dishes that are neither [and not worth keeping] and then, armed with data we can do battle! Highlight the bestsellers and profitable dishes while avoiding overwhelming customers with too many options. A menu that is concise, focused and appealing will intrigue and tantalise tastebuds. Serving seasonal ingredients will serve a business two-fold; enhancing flavours and freshness, and reducing costs.

In 2025, success in the restaurant and bar sector will depend on a proactive approach to technology, sustainability, and guest experience. Operators who embrace innovation, stay attuned to evolving customer expectations, and make data-informed decisions will not only overcome current challenges but also position themselves for long-term growth. These five focus areas provide a clear framework to help businesses stay competitive and deliver meaningful, memorable hospitality.

To learn more about the Commercial Restaurant Management Programme and other HOSPA Professional Development courses click here.

# Contacts

We hope that you enjoyed this report.

For more information on our sector credentials, or to receive our thought-leadership reports in any of our other Leisure and Hospitality sectors, please get in touch.

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