



HOTEL BRITAIN 2022

GROWING MORE SUSTAINABLE

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Hotel Britain is BDO's annual report on the UK hotel sector: a comprehensive and analytical review of a year in the industry.

The hotel industry utilises the planet's natural resources to attract its guests. Yet, by continuing to operate with its current methods, it is endangering the very resources it relies upon. According to the United Nations World Tourism Organisation (UNWTO), the hotel industry accounts for 1% of all emissions globally. Other consequences can include the depletion of local natural resources, a loss of biodiversity, and the spoiling of natural and cultural heritage.

This year's Hotel Britain is therefore designed to raise awareness of the direct impact of hotels on climate change; and conversely, the influence of sustainability on the hotel industry. New government regulation for stakeholders and lenders means that capital will become harder to access unless firms can demonstrate a robust Environmental, Social, and Governance (ESG) policy. Sustainability is now an imperative investment as well as a strategic opportunity for businesses. The reciprocal relationship between sustainability and hospitality means that all fields of the industry are realising the need to grow more sustainable.

Our report will particularly celebrate those who have championed the growth of sustainability in the industry so far. Hoteliers and sustainability experts will be sharing their experience and advice, namely: the ESG team at Knight Frank, who discuss the intersect between hotels and sustainability; Robert Godwin, Managing Director of Lamington Group, who has pioneered the world's first whole life net zero hotel; Ufi Ibrahim, CEO of the Energy & Environment Alliance, who is creating universal sustainability standards and metrics for the hospitality industry; and a variety of Sustainability Success Stories from the UK's most eco-friendly hotels.

As ever, our report features insights from BDO's Leisure and Hospitality team, who share their guidance on the current commercial and financial issues affecting the hotel sector.

A WORD FROM ROBERT BARNARD

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2021 was another year of ferocious headwinds for the hotel industry.

Owing to the pandemic, hospitality was forced to shut for several months until May. Upon reopening, it was met with a fresh wave of issues: supply chain disruption, rising inflation, and a major labour crisis were just a few of the many obstacles in 2021 – obstacles which will no doubt continue into 2022. However, once again, businesses adjusted their strategy and product to suit the changing regulations and climate. The extreme adversity faced by hotels for a second year has only further proven their resilience.

As you will have observed, the focus of this year's report is sustainability. Hospitality is a huge consumer of the world's natural resources, and to achieve the goals of the Paris Climate Agreement, the industry must act now. For this reason, we are witnessing more and more hotels prioritising their sustainability credentials.

I am thrilled that the initiatives being made by the sector to reduce its carbon footprint will be showcased in this publication. It is uplifting to see the enthusiasm and success of the hotels and organisations featured, many of whom have challenged the status-quo and fostered positive change for the environment. They have proven that, by working together, we are growing more sustainable as an industry.

That said, this report is as much about reviewing the last year as it is about looking to the future. As the last Hotel Britain under my direction, we hope you enjoy reading it.



HOSPITALITY IN THE UK ECONOMY



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Annual hospitality sales peak at 98% of pre-pandemic levels, but the industry struggles to fill employee vacancies following the pandemic and Brexit.



GROSS DOMESTIC PRODUCT (GDP) GROWTH

Annual figures from the Office for National Statistics (ONS) estimate GDP to have increased by 7.5% in 2021, after a fall of 9.4% in 2020.

Having closed 2020 with the largest annual contraction on record (-9.9%), the first quarter of 2021 saw the economy decrease by a further 1.5%. With a full lockdown in place for most of the quarter, the closure of schools and retail services brought down GDP output. Further declines occurred in production output, household consumption, and business investment.

At the start of the second quarter, non-essential retail opened. Outdoor dining in hospitality venues also returned in conjunction with the 'Rule of Six'. In May, indoor hospitality was allowed to resume, in addition to smaller events, and international travel conditioned on a 'traffic light' system.

As a result of these lifted restrictions, GDP increased by 4.8% in Quarter 2. The largest advances came from greater output in wholesale, retail, food services, accommodation, and education. Expenditure rose by 4.8%, of which 4.1% came from household consumption.

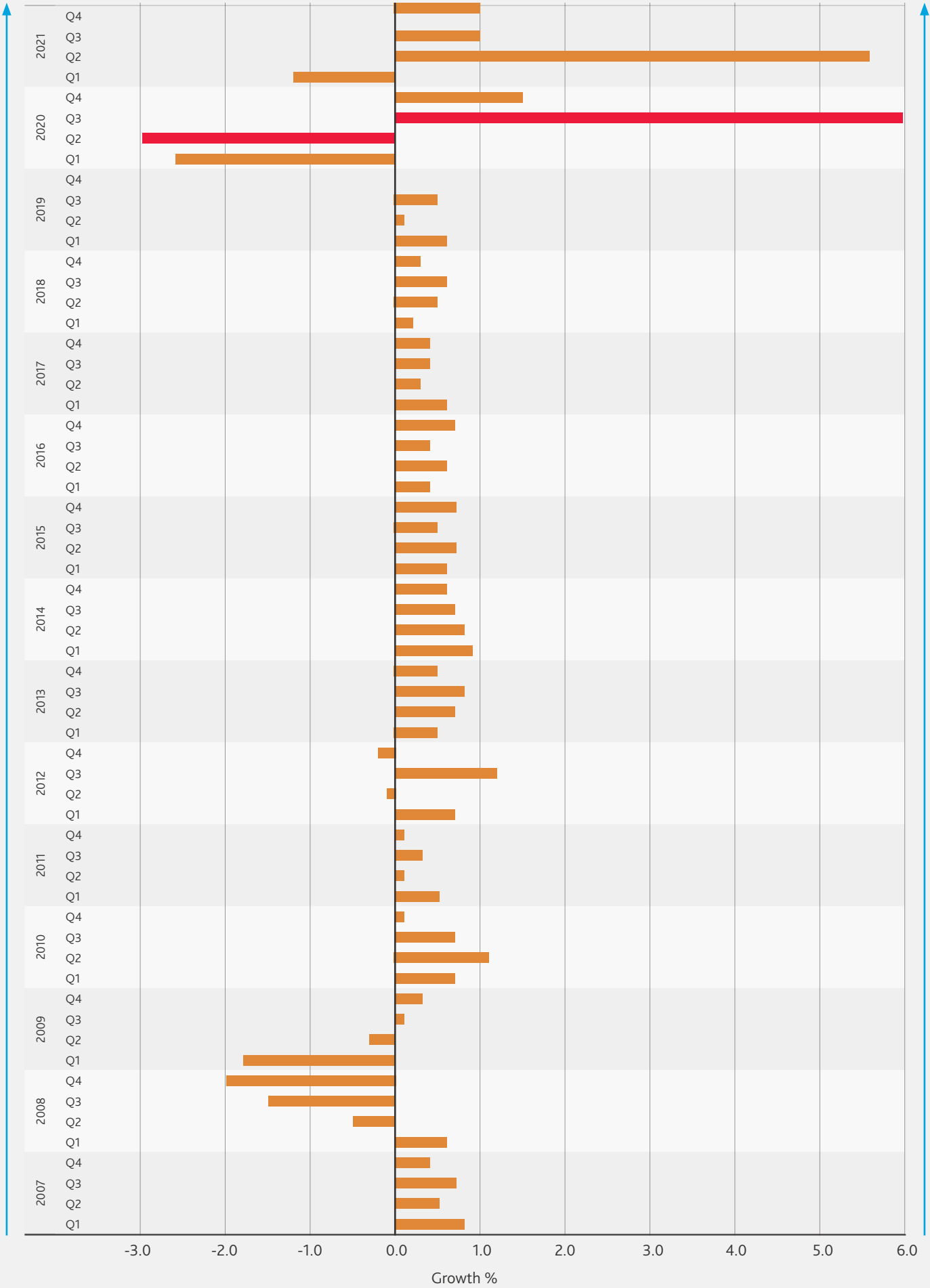
During Quarter 3, the lifting of all limits on social contact led GDP to increase by 1.0%. In output, hospitality, arts, recreation, and health contributed the most to this boost. As in Quarter 2, household consumption made up most of this rise in expenditure.

Quarter 4 saw GDP increase by another 1.0%. The start of the quarter was driven by increased GP visits and the extended roll-out of the COVID-19 vaccination programme. Again, household consumption contributed very positively to growth.

GDP fell by 0.2% in December as the Omicron variant was discovered in the UK. Isolation rules were reintroduced, Christmas sales in retail and hospitality dropped radically, and face coverings became mandatory once more. However, this drop of 0.2% left GDP at the same level as in February 2020, pre-pandemic.

GDP Growth Quarter-on-Quarter: 2007 - 2021
Source: Office for National Statistics (ONS)

N.B. The extremity of certain results means they are unable to be presented on this graph. Unseen results are as follows:
■ 2020 Q2 -19.4%; 2020 Q3 17.6%.





HOSPITALITY SPENDING

According to an ONS report published in May 2021, UK consumer spending on hospitality remained at circa 70% of pre-pandemic levels. Hospitality turnover in May was measured at 25% of pre-pandemic levels.

While hospitality sales were at 98% of pre-pandemic levels in the run-up to Christmas, according to UK Hospitality and CGA, Christmas Day sales fell by 60% and Boxing Day by a third. Instead, consumers chose to remain home amidst the rise of the Omicron variant.

HOSPITALITY EMPLOYMENT

The UK labour market showed some recovery in 2021 according to ONS data, with an increase in employment and a decrease in unemployment.

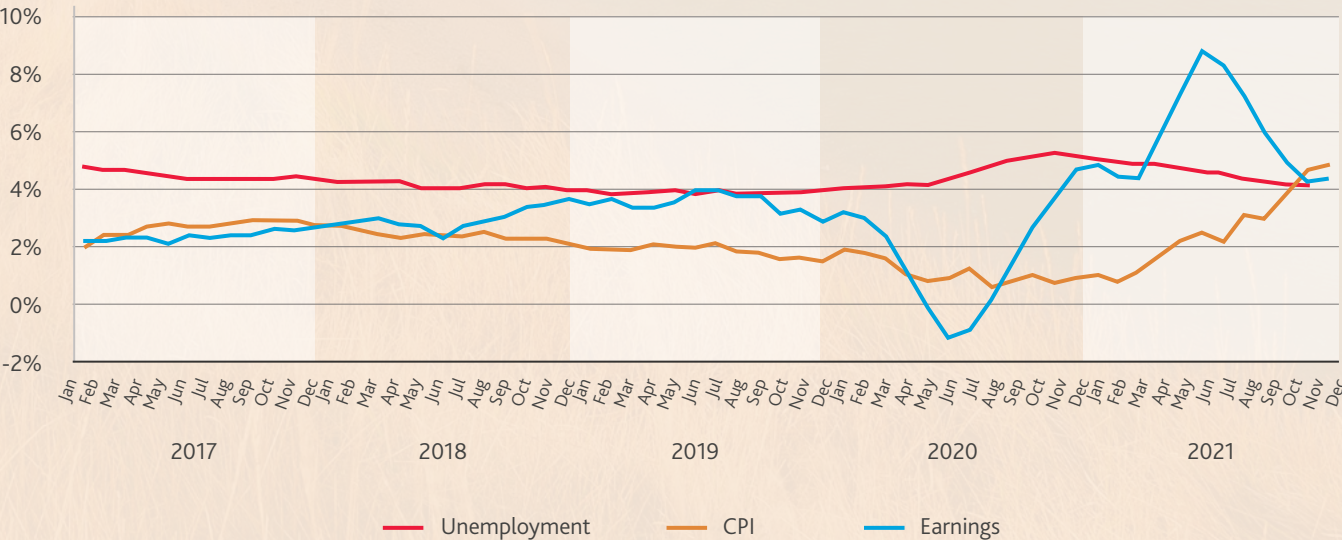
Overall, the employment rate moved from an average of 75.0% in Quarter 4 2020 to 75.5% in Quarter 4 2021; this is still lower than the pre-pandemic rate (December 2019 to February 2020) of 76.6%. Unemployment decreased consistently in each quarter of 2020, moving from 5.1% in Quarter 4 2020 to 4.1% in Quarter 4 2021, compared to 4.0% pre-pandemic.

A further study in September by ONS stated that hospitality firms were twice as likely as other sectors to have difficulty filling vacancies, compared to other industries’ respective normal levels. While 30% of hospitality firms stated that openings were harder to fill than usual, only 13% said the same across all industries on average. Hospitality had a record number of vacancies in June to August 2021: up by 59.1% compared to pre-pandemic.

Across all sectors with recruitment challenges, 25% quoted the reduced number of EU applicants as a factor: the number of EU nationals employed in the UK fell by 8.7% from pre-pandemic to June 2021.

Unemployment, CPI, and Earnings: 2017-2021

Source: Office for National Statistics (ONS)



HOTEL DEVELOPMENT TRENDS

There are currently 65,529 rooms in the UK's active pipeline (i.e. planning submitted, planning granted, or under construction). Of these, there are 17,948 rooms under construction in 110 hotels. 14,051 of these rooms, or 78%, in 91 hotels are due to open by the end of 2022.

London's pipeline accounts for 29% of the UK's active pipeline (over 19,000 rooms), and 27% of the UK's rooms under construction (or 4,854 rooms).

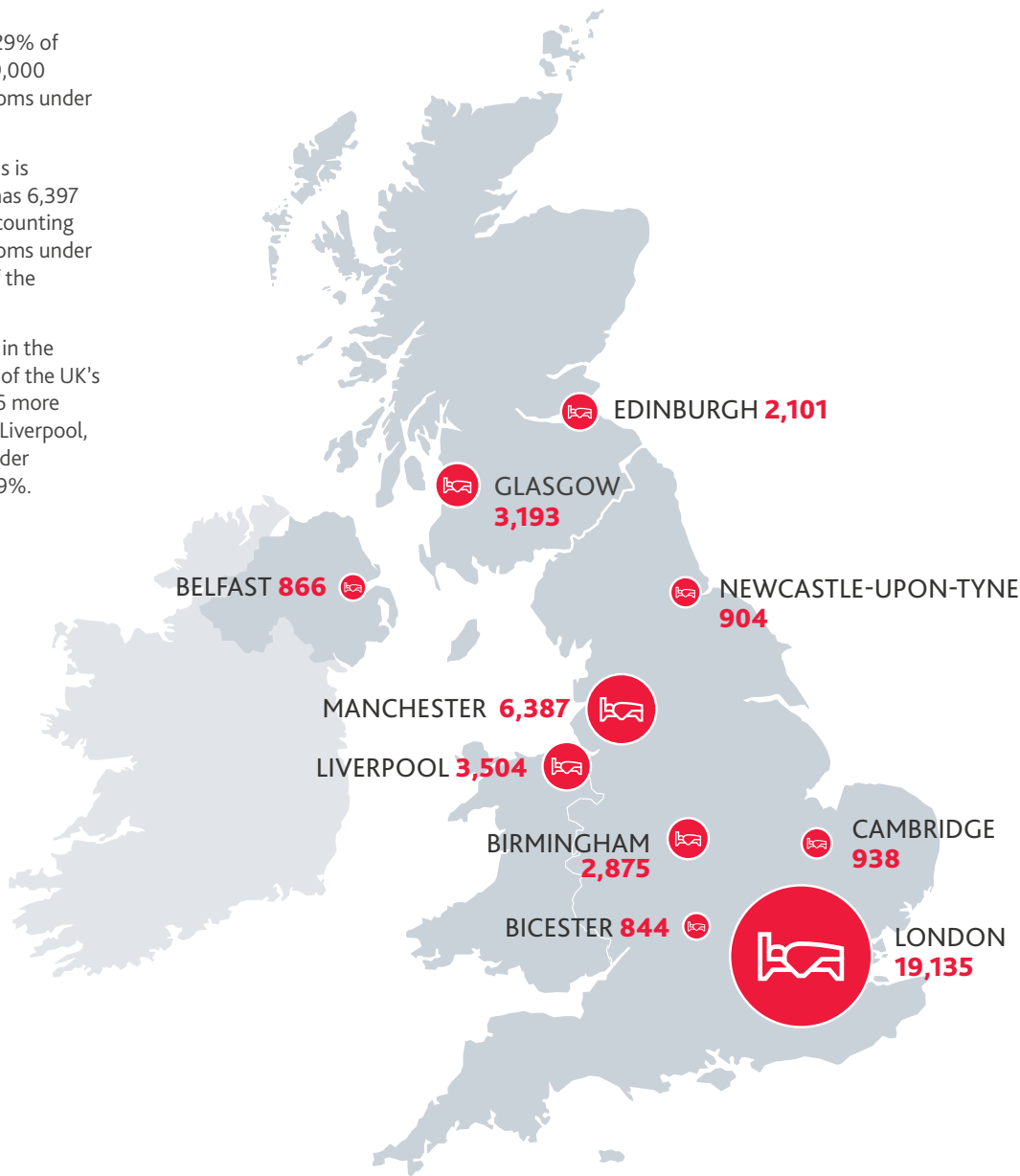
The densest of the regional areas is Manchester. The city currently has 6,397 rooms in the active pipeline, accounting for 10% of the UK, and 2,187 rooms under construction, making up 12% of the UK total.

Glasgow and Liverpool fall next in the rankings, both making up c. 5% of the UK's active pipeline. Glasgow has 166 more rooms under construction than Liverpool, making up 10% of UK rooms under construction versus Liverpool's 9%.



Volume of hotel rooms in the UK's active pipeline (planning submitted, planning granted, or under construction).

SOURCE: Hotel Data Ltd and BDO research.



Volume of hotel rooms under construction.

SOURCE: Hotel Data Ltd and BDO research.



HEADWINDS IN THE HOTEL SECTOR



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Despite significant pressures on the hotel sector as a result of the pandemic, there remain opportunities for businesses who adapt their operating models wisely.



WHAT ARE THE MAIN HEADWINDS?

The pandemic resulted in an extremely challenging period for the hospitality sector during 2020 and early 2021.

However, the lifting of restrictions in May 2021 coupled with the UK government's support measures presented opportunities for the hotel market to regain some traction and commence its recovery.

International travel restrictions resulted in a domestic demand boom in regional areas, which allowed operators to achieve rates above pre-pandemic levels. This resulted in trade returning to or even exceeding 2019 levels for some businesses. However, there has continued to be a clear contrast in occupancy levels between regional leisure destinations and city centre locations.

The delayed return to business travel has led to a slower recovery in occupancy levels for city centre locations. Corporate demand is now steadily increasing, with a rising demand for conference venues. The release of pent-up demand for weddings has also helped improve performance.

Notwithstanding the recent momentum in the sector, operators are still facing significant operational and environmental challenges created by the pandemic, changing working practices and behaviours, the wider global economy and, most recently, the conflict in Ukraine.

Many operators have taken advantage of government backed loans, HMRC support and rent forbearance. They now need to ensure that the debt burden on the balance sheet can be serviced. Now is the time for management teams to be looking at opportunities, efficiencies, and cash management strategies to improve trading performance and longevity.



Labour shortages caused by staff leaving the industry during the pandemic and post-Brexit continue to put pressure on businesses. The sector is struggling to recruit experienced employees into critical roles, which has an impact on the ability to reopen full services, and leads to wage inflation; this adds to the pressure on margin and profitability.

An increase in the National Living Wage of 6.6% and the National Insurance increase of 1.25% in April 2022 will considerably increase payroll costs.

Business energy costs have seen increases by as much as four times compared to the same time last year, with prices and inflation continuing to be affected by rapid changes seen in the global economy.

Ongoing supply chain disruptions, increases in wet and dry stock prices, and the VAT return to 20% in April 2022 will also all impact margins and increase cost pressures on businesses - unless passed onto customers.

In addition, from the end of March 2022, Landlords have been able to commence action for the recovery of rent arrears. This follows the end of the moratorium offering tenant protection from legal action.

Whilst the ongoing rise in business costs within the sector is clear and likely to continue, 2022 is also being heralded as the year of the squeeze for customers. Steep rises in household costs are eroding disposable incomes and are likely to affect discretionary spending habits. Against this backdrop, businesses will need to consider whether to pass increased costs onto customers and understand the resulting impact on margins and performance.

Staycations were popular amongst Brits in 2021 given the restrictions and uncertainty surrounding international travel. However, management teams will need to consider the increased competition in 2022 from foreign holidays.

Despite most government support schemes ending, a 50% business rates relief has been announced for 2022/23 - although this is a subject to a cap. Similarly, the Recovery Loan scheme has been extended to the end of 2022.

Whilst there are significant pressures and a potential risk of future operating restrictions, there remain opportunities for businesses who adapt their operating models to ride out the ongoing challenges facing the sector and be well positioned afterwards.

WHAT SHOULD MANAGEMENT BE DOING?

Many management teams have shown resilience and ingenuity to survive. Mindsets should now shift from survival to looking forward to the future.

As well as understanding the changing needs of their customer, operators need to fully understand the balance sheet unwind, working capital and CapEx requirements. CapEx will understandably have been put on the back burner, but many assets will require investment to remain relevant.

BDO'S RECOMMENDED ACTIONS FOR MANAGEMENT:

- ▶ **Contingency plans should be developed** for further restrictions on trading and their financial impact forecast. It is important that the lessons learnt during the pandemic are used to develop a plan that can weather any further uncertainty
- ▶ **Operational reviews and benchmarking analysis**, including both short-term cash flow forecasts and robust longer-term financial projections, should be prepared to identify potential funding issues and ensure appropriate and adequate funding structures are in place. Businesses who have had a successful period of trading should look to these forecasts when assessing current and longer-term cash management strategies
- ▶ **Revisit your people proposition** to ensure it reflects the current market. The increase in the National Living Wage is unlikely to result in any improvements in staffing within the sector and therefore businesses should ensure that they remain competitive in terms of non-reward type benefits
- ▶ **Complete a review of your customer:** who they are and what their needs are now. Can you adapt your business model to cater for the change in demand? This may require investment in new technology in order to access the data to make the relevant assessment
- ▶ **Develop an Environmental, Social and Governance (ESG) policy.** ESG remains a challenge in the hospitality sector and is becoming increasingly more essential to investors, funders,

consumers and employees. Both investors and funders are progressively looking at ESG as part of their due diligence and credit approval processes, whilst the COVID-19 pandemic has increased awareness of ESG for both consumers and employees. Given the significant inflationary pressures and growing importance of ESG, businesses should consider the benefits of a strong policy

- ▶ **Deal with outstanding rent arrears.** For operators with rent arrears, the government has introduced an arbitration process which provides a six-month window for a landlord and tenant to reach an agreement on the rent arrears or apply for arbitration. Rent debts which have accrued during a period in which trading was restricted or the business closed as a result of the pandemic have so far been protected from legal action. It is our view that rent negotiations would be better dealt with outside of the arbitration process. There has been a move towards more hybrid leasing structures where both the tenant and landlord share risk
- ▶ **Engage with key stakeholders** along the journey, particularly lenders and equity providers. Even well capitalised businesses may struggle over the coming months, and by having an ongoing dialogue with these stakeholders, it should be easier to open discussions for requests for extension to facilities, waivers, or further capital.

HOW CAN BDO HELP?

We believe that with the right professional advice and by taking appropriate actions, management teams can face 2022 with optimism and make the most of the opportunities for growth. A proactive approach will be key to preserving and enhancing business value and meeting requirements.

With numerous headwinds and an overhang of pandemic debt, some businesses may need to restructure their debt to ensure they can move forward. Where appropriate, looking at the options available, both solvent and insolvent, will provide management teams with a better understanding as to what is achievable. The BDO team are experienced in the sector, and well placed to assist management teams, assess the options, and implement an agreed-upon strategy.

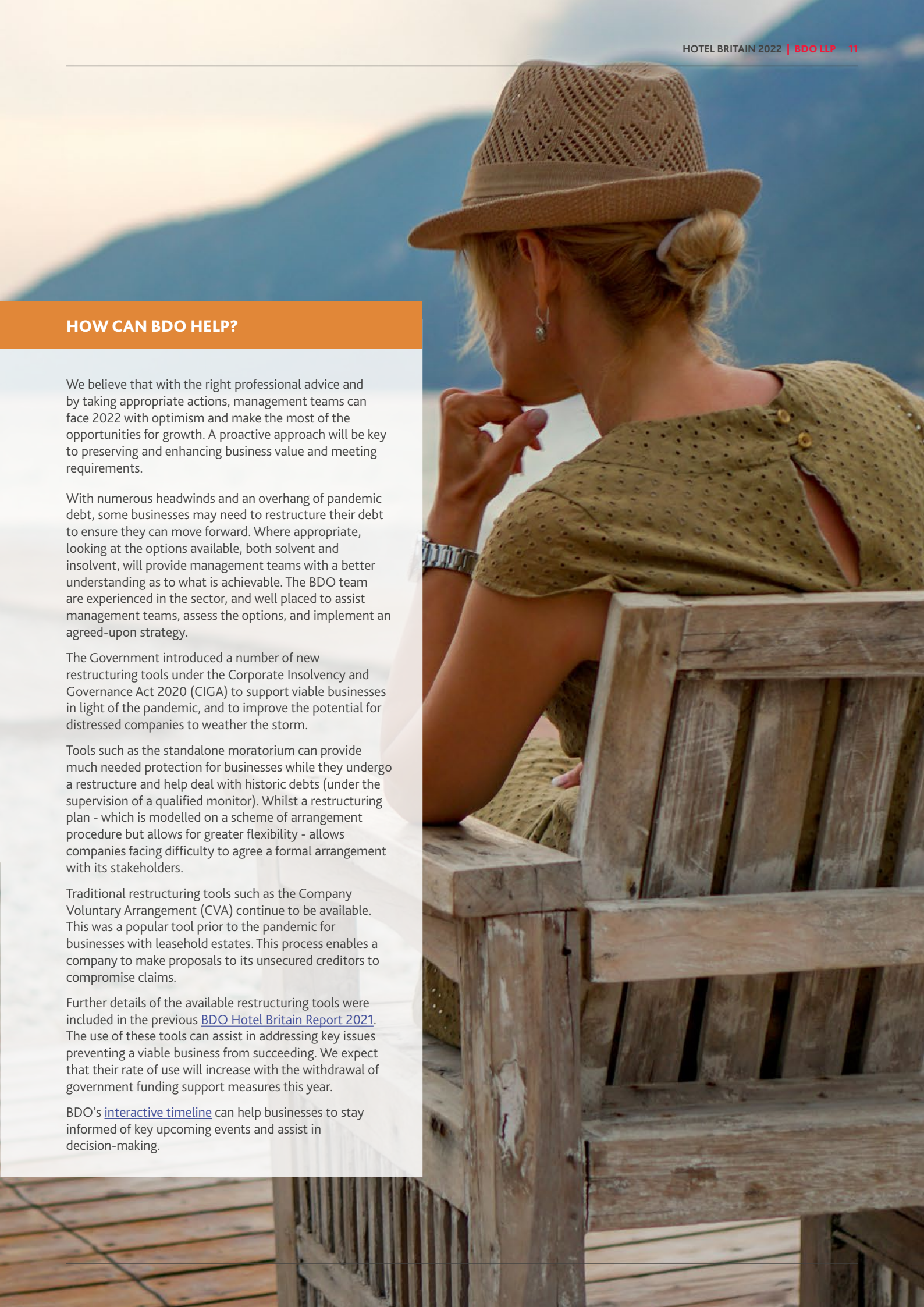
The Government introduced a number of new restructuring tools under the Corporate Insolvency and Governance Act 2020 (CIGA) to support viable businesses in light of the pandemic, and to improve the potential for distressed companies to weather the storm.

Tools such as the standalone moratorium can provide much needed protection for businesses while they undergo a restructure and help deal with historic debts (under the supervision of a qualified monitor). Whilst a restructuring plan - which is modelled on a scheme of arrangement procedure but allows for greater flexibility - allows companies facing difficulty to agree a formal arrangement with its stakeholders.

Traditional restructuring tools such as the Company Voluntary Arrangement (CVA) continue to be available. This was a popular tool prior to the pandemic for businesses with leasehold estates. This process enables a company to make proposals to its unsecured creditors to compromise claims.

Further details of the available restructuring tools were included in the previous [BDO Hotel Britain Report 2021](#). The use of these tools can assist in addressing key issues preventing a viable business from succeeding. We expect that their rate of use will increase with the withdrawal of government funding support measures this year.

BDO's [interactive timeline](#) can help businesses to stay informed of key upcoming events and assist in decision-making.



ESG IN THE HOTEL INDUSTRY



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The team at Knight Frank look at the relationship between hotels and ESG, current systems for measuring ESG, and the future of ESG in the hotel sector.



ESG is where the business and environmental landscape become deeply intertwined. It is where long-term goals, values and profits align with environmental, social and governance (ESG) concerns. The intersect between business and ESG is thereby a net positive symbiotic relationship. This connection is particularly important in the hotel sector, where business success is heavily dependent on a hotel's context within the community, culture, and local environment, and vice versa.

WHERE HOTELS AND ESG MEET

There are several trends within the hotel industry that strengthen this interdependence. Firstly, the customer continues to evolve into a more 'purpose-driven mindful traveller'; this is driven by the younger, more socially and environmentally conscious consumer, searching for authenticity in the brands they associate with. Secondly, ongoing staff shortages and difficulties in retaining accomplished staff. Third, the changing dynamic of business travel, with a greater focus on the sustainability of travel: prioritising domestic trips, less frequent long-haul travel with an increased length of stay, and greater flexibility and focus on well-being.

American Express Global Travel Report explained that the concept of 'Purpose-Driven Travel,' whilst not a novel concept, has evolved further post pandemic. Travellers will immerse themselves within their destination environment, sample the culture, eat local food and minimise their carbon footprint, whilst ensuring their chosen travel experience delivers a positive impact: connecting with nature and local communities. The 'Under 30 Experiences' organisation is one of many sources that have suggested customers are now demonstrating an increased interest in an authentic local experience.

The historic challenge of 'Overtourism' was explored in a paper commissioned by the European Parliament's Committee on Transport and Tourism. The paper recognised three main consequences, which are environmental, economic and socio-cultural damage. The latter saw locals forced to relocate, a weakening of cultural traditions and transformation of local businesses to favour tourists. A moratorium in Barcelona aimed to combat this by imposing a restriction on new hotel developments in the city centre. Other European cities have imposed tourist taxes which aim to reverse some of the environmental and cultural damage.

Hotels are now increasingly having a renewed focus on the community, with localisation at the core. For example, fostering relationships with local farmers by offering a 'Farm to Table' service is one such initiative. Hilton in partnership with American Express provided one million free room nights in the US for local medical staff during the pandemic, and have pledged to donate a further million room nights across Europe to refugees impacted by the crisis in Ukraine and to the first responders who are helping them.



Recruitment is another driver of ESG in firms. A LinkedIn survey found that staff are seeking workplaces where they can intertwine their beliefs with those of the company, and work together on a common vision of purpose and success. The survey found that 65% of people who responded would rather put up with lower pay than work for an organisation which offers a poor working environment.

Corporate travel agents, guided by their clients, increasingly employ stringent ESG targets, progressively enhancing the standards they set out in their RFPs. Global hotel brands are expected to operate under these terms if they are to successfully win these lucrative corporate contracts. The World Travel and Tourism Council have also published their guidance on how ESG should be within the industry. Reed and Mackey corporate travel company promote their bespoke Sustainable Business Travel Toolkit which publishes carbon emissions and other areas of sustainability for their clients, as well as publishing their own 50% carbon emissions reduction target.

In the private travel sector, TripAdvisor have launched a 'Green Leaders' rating system. This initially screens hotel applicants for minimum standards, and if successful, awards either Bronze, Silver, Gold or Platinum ratings to hotels on their booking website. Following short-term cuts to global carbon emissions at the height of the pandemic, hotels have sought to capture the shift in how often and why people travel, with increased demand for hybrid working and leisure travel, and the extension of the weekend. As such, the major hotel brands have adapted their approach and broadened their revenue streams, trialling various innovative revenue generating ideas. Accor for example have developed Workspitality® solutions to provide shared coworking & flexible workspaces, as well as private use or conversion of a guest room as a 'Hotel Office'. Meanwhile, Accor's partnership with Ennismore to become the leading lifestyle operator in the hospitality sector, operating brands such as Hoxton, underpins the growth potential of exceptional, guest-centric experiences in world-class brands.

MEASURING ESG IN THE HOTEL INDUSTRY

Within the hotel industry, there is currently no uniform or centralised ESG measurement scheme, as discussed by Ufi Ibrahim in this report. Many certification tools are in use such as BREEAM, LEED and WELL, all attempting to quantify and capture a hotel's impact over the whole building lifecycle. There is also lack of visibility around the energy efficiency of hotels in general, as energy performance certificates (EPCs) across hotels are lacking. Knight Frank research reveals some 9% of the UK's hotel bedroom stock has opened within the last 5 years, whilst 63% of the UK's bedroom supply has been operating since before the year 2000. Whilst the consensus within the hotel sector is that the industry has a remarkably long way to go in their ESG journey and more specifically long journey to Net Zero, certain hotel companies have actively engaged in carrying out ESG initiatives and commit to identifying net zero interventions for deployment. ESG is simply the practice of collating, reporting and benchmarking these measures and interventions, with a view to setting further targets to continuously improve resilience across the hotel's life cycle.

No longer is the focus of the UK hotel sector on ESG one dimensional in capturing simple operational carbon emissions data and striving for a high EPC (theoretical) energy rating. Over the years, related steps towards introducing energy efficiency measures and sustainability best practice have no doubt lead to effective and environmentally cost-conscious management and environmental impact minimisation. These steps have included the switch to LED lighting, onsite renewable generation, low carbon heat sources, heat recovery and key activated power to guest rooms. Other operational responsible environmental interventions have included low water use showers, a reduced laundry service and a move towards the removal of single use plastic.

It has become widely accepted that climate change risk equates to financial risk, as demonstrated by the emergence of the Task Force on Climate Related Financial Disclosures (TCFD), which provides information to investors about how companies are mitigating the risks of climate change. This is particularly relevant in site selection and development to ensure these assets will be protected from the effects of climate change such as flooding, coastal erosion, desertification or somewhere in between these extremes. The Intergovernmental Panel on Climate Change's (IPCC) working report highlights hot spots for climate related risks in human settlements in the UK with a focus on coastal cities. Whilst adaptation strategies may exist for retrofitting, upgrading and planning and designing urban spaces to account for these climate related risks, they have not been widely implemented particularly in rural and coastal small towns and villages.

Hotels in an urban setting have recently faced more stringent planning and design regulations compared to those located in a rural setting. For example, Westminster City Council has stipulated that hotels located in prominent urban residential areas may not be preserved where there is a perceived negative impact on residential amenity. Written into many London boroughs core strategies is the need for hotels to demonstrate tangible improvements to ESG, energy and sustainability benchmarks, which they require before receiving planning approval for any proposed construction works. Planning requirements in London will also consider embodied carbon in new developments, encompassing the carbon associated with the production, transport, assembly, use and disposal of materials.

The British Standard on embodied carbon works with the methodology of establishing a benchmark for hotels and measuring each stage of a material's life cycle against this benchmark to produce a score. The embodied carbon of a typical new build accounts for about 40% of the overall emissions. A 30% carbon reduction can be achieved through strategies such as the use of natural materials for cladding or insulation, higher recycled content for specified metal components and plasterboard, or changing the type of aggregate in the concrete (such as regraded aggregates from demolition sites).

BREEAM Refurbishment and Fit Out and New Construction require credits to 'design for durability' and 'design for adaptability and future use'. Boundary House, for example, is an office block located within the city of London, which has plans to be repurposed as a hotel; part of the planning consent includes a rooftop garden which will aim to reduce noise and air pollution. Given that tree choice can lead to varying carbon sequestration rates, both tree selection and tree quantity will no doubt be a matter for consideration in order to enhance biodiversity and introduce native species. The adjacent table ranks the carbon sequestering potential related to land types in CO₂ emissions per hectare annually.

Carbon sequestering potential per land type

LAND TYPE	CO ₂ EMISSIONS PER HECTARE ANNUALLY
Coniferous Woodland	13
Broadleaf Woodland	5
Saltmarsh	5
Peatland	4
Hedgerow	0.7
Grassland	0.4
Urban green areas	0.4
Arable land	0.1
Urban	0



THE FUTURE

Akin to all sources of carbon emissions driven by real estate, the hotel industry is an ever-evolving sector that must continue to take a responsible stance on its emissions contribution and reduce both embodied and operational carbon. Sustainable Hospitality Alliance research identified that the hotel industry needs to reduce its carbon emissions by 66% per room by 2030 and 90% per room by 2050 to ensure that the predicted growth does not lead to a corresponding increase in carbon emissions. Hotel business models are highly complex, and assets are often built and owned by different businesses or individuals to the brands and companies that operate them; this can delay the deployment of sustainable solutions or hinder the ability to operate more sustainably. Collaboration across the hotels sector value chain requires engagement from owners and investors to brands, operators and franchisees, to encourage a more joined up approach to development, refurbishment and operation of a hotel.

With green financing having witnessed large increases in backing over the large couple of years, it is anticipated that we will see strong growth in their popularity, and an increase in low risk sustainable returns featuring highly in green bond issuances. In 2019, the London hotel group Edwardian Hotels London secured £175 million in Green Loans from HSBC for a new boutique hotel concept. In February 2021, Whitbread issued £300 million worth of Green bonds to support low carbon initiatives. In May 2021, Qatari Diar secured a £450m green loan to fund the development of the luxury 139-bedroom Chancery Rosewood hotel in London. HSBC will lead a lending consortium including Credit Suisse, Qatar National Bank, Intesa Sanpaolo and United Overseas Bank, supporting the redevelopment of the former US embassy, a Grade II listed building due to open in 2024 and will aim to reduce energy and water consumption and include green roofs.

We are all now a part of a purpose-driven world, and we must all play a role. The greater the collaboration, the more detailed the ESG measurement, and the bigger the growth in green finance to support: a net zero sectoral shift, the electrification of transport, the rise of smart-tech, the inclusion of the community, the enhancement of biodiversity, and the adoption of the circular economy model. This gives us all something to look forward to.

SUSTAINABILITY SUCCESS STORIES

BDO asked the UK's most sustainable hotels to share their key initiatives.



FAIRMONT HOTELS & RESORTS

Fairmont Hotels & Resorts was the world's first luxury hotel brand to embrace environmental stewardship, and the first to develop comprehensive on-site bee programming. It was also one of the first luxury hotel brands to achieve emission reduction targets.

"At Fairmont, we have identified six key pillars to make up a holistic sustainability programme for our hotels. These ensure environmentally friendly practices across the business, from hotel guests to staff, partners, communities, buildings, and food."

For example, of our UK hotels, The Savoy was the first five-star hotel in London to recycle food waste in a way that generates renewable energy. By partnering with the UK's largest food waste recycler, PDM Group, our food waste is processed at the company's biomass-to-energy renewable power plant.

At Fairmont St Andrews we have welcomed 150,000 honey bees to promote sustainability on the property. We have also rewilded a large portion of manicured lawns to natural, native grasses in order to foster a new habitat for the bee population. Our combined Heat and Power unit generates over 70% of the hotels power, and the bi-product heat from the engine heats the entire hotel and its water systems for almost an entire year.

Some of our projects involve substantial investment and long-term gains - such as our commitment to eliminate all guest-related single-use plastics by 2022. However, we have found our smaller, colleague-led projects with immediate benefits to be really effective for keeping teams engaged in sustainability. For example, at Fairmont St Andrews we have committed to conserving the Fife coast, and the team organise and run regular beach clear-up days throughout the year."



Beekeeping at Fairmont Hotels & Resorts.

WHATLEY MANOR, COTSWOLDS

Whatley Manor has pledged to reach Net Zero emissions by 2028. For their work so far, the Whatley team have won several industry awards, including Bronze accreditation by Earthcheck, and accolades from Cateys (Sustainable Business Award 2021), Condé Nast Johansens (Most Sustainable Hotel 2021), and Good Spa Awards (Best Eco-Conscious Spa 2021). Whatley is amongst the first UK properties to earn a Green Michelin Star for sustainable gastronomy.

"Our ambition at the beginning of our journey in 2019 was really very low, and our knowledge limited - but we now have a strong handle on the work needed to decarbonize the business."

We found that the best place to start was to gather an Environmental Taskforce. Head this up with your General Manager, and invite your Engineer, Head Chef and all senior members of the business. Only then will you have the required gravitas to get the project underway. With your leaders fully on board, you need to work hard to fully embed the sustainability culture into your business.

Get some software that keeps track of research and ongoing projects - we use Trello for this. Critically, you need to measure your Carbon Footprint at the start of your journey to get a benchmark. You can then create your strategy to reduce this number, and evidence your progress.

We have found that our sustainability credentials and awards have brought strong engagement from guests. Make them an integral part of your marketing, and use them to generate content for digital marketing and PR. We have also re-formatted our website to keep up with Google's search criteria, which has seen a huge increase in users searching for 'sustainability'."



The bird hide at Whatley Manor, upcycled from materials on the property.



Recycled aluminium Velosophy Cycles at Whatley Manor.

THE ZETTER HOTEL CLERKENWELL, LONDON

The Zetter Hotel Clerkenwell was London's first boutique hotel to be designed and built using environmental principles. Accolades for sustainability include the Green Tourism 'Gold' award, the Good Hotel Guide 'Green Hotel 2017' award, 'Recycler of the Year 2017' and 'Gold Recycling Standard 2021' by First Mile Recycling.

"We have our own 1500-foot borehole beneath the building at The Zetter Hotel, providing a ground source heat pump. To add to this, the borehole provides us with our own spring water, which we serve in refillable glass bottles in the bar and rooms.

Another sustainable part of our hotel's structure is all the timber used in our building's construction which was bought from sustainable sources.

The paints used in our interiors are environmentally-friendly, and all furniture is either recycled or upcycled. Occupancy detection systems in the bedrooms mean that when the guest is out, minimal energy is used.

We consider five key areas to enhance both our business and the environment:

- ▶ **Energy Management:** we have reduced our CO₂ footprint every year
- ▶ **Waste Management:** we have reduced our overall volume of waste while increasing the proportion of waste recycled
- ▶ **Supplier Management:** we work with local sustainable suppliers to reduce supply chain CO₂ emissions
- ▶ **Staff:** we raise environmental awareness and have made sustainability part of our company culture
- ▶ **Guests:** we raise awareness and actively promote and encourage green tourism initiatives.

At Zetter, our sustainability can be seen at conception, building and development, and it continues throughout hotel operations."



Upcycled furniture at The Zetter Hotel Clerkenwell.



SCARLET, CORNWALL

Scarlet is an eco-hotel, purpose-built to live in a balanced relationship with the coastal ecosystem. The team has so far implemented over 100 environmental initiatives.

"Sustainability is the foundation of the experience that we provide at Scarlet, and is built intrinsically into the hotel rooms, spa and restaurant.

Scarlet was designed to synchronise with the surrounding environment, and so it purposefully blends into the coastal landscape. Our hotel has roofing made of sea thrift: a Cornish plant which blankets the top of the building. This not only helps to regulate heating and cooling of the hotel, but attracts insects and butterflies. The gardens complement the clifftop and encourage biodiversity, through everything from bee-friendly planting and bat-holes to landscaped sand dunes designed for flora, fauna and animals to thrive.

Inside, Scarlet is adorned with locally sourced furniture, recyclable carpets, and locally created artwork. A biomass boiler provides all heating and hot water, and waste water from showers and baths is recycled to flush loos.

The spa boasts a natural swimming pool, which uses a living reed bed as a filtration system; this eradicates the need for chemicals and creates an invigorating, freshwater experience. Accompanying this are two bubble-free outdoor hot tubs, minimising the use of energy; here our guests can look out to the horizon with the sound of waves crashing below.

Our team believe that for sustainability to be impactful, we must be an integral part of the community; hence, the hotel is a member of the Cornwall Sustainable Tourism project (CoaST). We also offer guests the opportunity to support charities such as Surfers Against Sewage with a £5 donation per booking."



The bubble-free outdoor hot tub at Scarlet, minimising energy usage.



Scarlet is built into the landscape to encourage biodiversity.

EXCLUSIVE COLLECTION

Exclusive Collection are the first hotel group in the UK to receive B Corp accreditation. Accreditation involved changing the company's Articles of Association to ensure that people and planet sat on a level playing field with profit for all the stakeholders within the business.

"Our other initiatives include the expansion of hyperlocal restaurants, such as The Wellhouse at Lainston House. We have woodfired ovens at the heart of the offering and take produce from the newly expanded kitchen garden. We also partner with Hampshire Fare to use the very best of Hampshire produce. At Pennyhill Park, we partner with Surrey Hills to source some outstanding Surrey produce. South Lodge has taken our hyperlocal drinks philosophy to the next level, planting 5.4 hectares of vines in partnership with Ridgeview to eventually produce our own English sparkling wine. Both Lainston House and The Manor have both expanded their orchards to produce and bottle our own apple juice.

We work hard to instil sustainability into the company culture. The Graduate Managers within the properties have been tasked with two projects: the first is to reduce food waste. Exclusive have also partnered with Olio to distribute leftover but high-quality food from all of the hotels to local families in need. The second graduate cohort are eliminating the purchase of single use plastic from the Collection by 2023. Initiatives include working with Molton Brown on large format dispense pumps for bathroom amenities eliminating single use bottles.

A huge project is underway to reduce energy consumption. We are changing our energy mix to increase the 51% of supply that is already bought from renewable energy sources. Other initiatives include the installation of induction at several properties to eliminate gas. We are also working with the Land App to have a replanting and land management plan that helps us sequester more carbon."



Picking hyperlocal produce in the gardens of the Exclusive Collection.

IN CONVERSATION
WITH UFI IBRAHIM

CREATING UNIVERSAL SUSTAINABILITY
STANDARDS FOR THE INDUSTRY

Ufi Ibrahim is the former CEO of the British Hospitality Association. Under the auspices of the World Travel & Tourism Council (WTTC) and United Nations Framework Convention on Climate Change (UNFCCC) in 2009, she led the industry's original global commitment to cut carbon emissions. Ufi has now founded the Energy and Environment Alliance (EEA), which is pioneering the first universal, scientifically robust standards and metrics for the sustainable construction and management of hospitality assets. BDO's Lucy Cole speaks to Ufi about the EEA's framework: how it will help to transition the industry to net zero; give transparency and consistency for investors; and comply with new government legislation.



UFI IBRAHIM
FOUNDER AND CEO OF THE ENERGY
AND ENVIRONMENT ALLIANCE

Ufi, what was your reason for creating the EEA?

Recently there has been an explosion of sustainability initiatives with ambitious declarations and targets, mostly involving a lot of self-reporting. The reality is that this explosion has created a cacophony, and in this cacophony it's not easy to distinguish between good practice and poor practice, and between evidence-based reporting and greenwashing. There is a lack of robust and universally common standards, which makes it impossible for industries such as hospitality to determine how sustainable a business truly is. We established the EEA to address the gap in universal standards, to create a framework and to give consistency to sustainability data in the industry.

“ It's crucial to create standards
FOR the industry BY the industry. ”

“ We established the EEA to address
the gap in universal standards, to create
a framework and to give consistency to
sustainability data in the industry. ”

What differentiates the EEA from other sustainability reporting companies?

I think that what really differentiates us is our scientific rigour. Our intent is to ensure that the standards are both commercially viable and scientifically robust. We're doing this by bringing together all sorts of parties from both the hotel industry and the scientific community. For example, we work with STR so we can align our standards with their reputed classification of hotels and so we're not reinventing the wheel, but we also work with Building Research Establishment Environmental Assessment Method (BREEAM) for their scientific technical expertise around infrastructure. As a result, there are a lot of moving parts to pull together.

Do you think it's important that the industry sets its own standards?

I think it's crucial to create standards for the industry by the industry, rather than waiting for an external body to do it. Our asset use is much more complicated than most, which is probably why we're lagging behind other industries, such as commercial real estate. There are huge variations between hotels, not just in geographies but also service levels and functions (such as banqueting or meetings). As a result, there is a lot of discussion around how to measure efficiency; is it per square meter? What about guest nights? What about the day use, such as conferencing? I fundamentally believe that the only group to be able to decide this and set common standards is the industry itself. That's why we need an alliance like the EEA.

What are the main metrics the EEA uses to measure sustainability?

Carbon is important because there is mounting pressure from governments on achieving their net zero carbon targets as an economy; these are big targets which have absolutely focussed the attention of world leaders on CO₂ emission. While prioritisation is good, I also think it's much broader than just carbon, and businesses need to make informed decisions so as to not miss an opportunity to do more. To be able to identify your CO₂ emissions in a rigorous way, you have to look at many other aspects, all of which are linked. There are numerous KPIs required if you want to give a transparent, comprehensive, and scientific measurement of what your CO₂ emission really is as an entity. That's why we are working with BREEAM, who have over 600 KPIs - of which energy and carbon is just one set.

“ There will definitely be an evolution in sustainability reporting... the non-financial disclosure agreements for investors are going to be become much more onerous. ”

How will the EEA's framework be used towards valuing an asset in practice?

There are some organisations out there who are beginning to touch on this. They have been actively educating members of their team, setting out their own asset-valuation metrics based on BREEAM accreditation, and revaluing the assets that they have in their portfolios. Through this method, we have already seen that assets command much higher rental premiums when they are more sustainable, up to 12% in some cases. And equally, assets with few sustainability credentials are being revalued at a lower rate. This indicates that our EEA framework will become commercially very valuable in the hotel industry.

Can you explain why it's so crucial for hospitality businesses to invest in sustainability now?

Compliance isn't coming; it's already here, and it will affect every asset owner, asset manager, and operator in our industry. Regulators in the EU and UK have adapted a very clever pyramid approach when it comes to sustainability. They've started by putting pressure and demands on the big institutional investors, pension funds and insurance companies, which trickles down to investors and lenders, and at the bottom reaches hotel owners and asset managers. Investors are now having to look at the sustainability of assets on their books and understand the level of risk, identify stranded assets, or evaluate the CapEx and OpEx required to make those assets compliant. Ultimately, with this trickle-down effect, regulation affects the channels to capital, so hotels must meet the stringent audits being undertaken by big institutional investors.

Who do you think will be the biggest drivers of sustainable change in the hotel industry: regulators and investors, or consumers?

There is a small group of consumers who are making travel decisions based on environmental sustainability; but it will take the mass market to make the industry move if they are focused on demand. So far there is very little evidence to suggest that most consumers' travel decisions are linked to sustainability, or that they are willing to pay more to stay at a sustainable property. The exception to this is corporate travel, where we're seeing firms now making genuinely sustainable decisions. Huge corporations such as Microsoft are clamping down on their own ESG and corporate travel, but also looking at the ESG performance of the hotels that their employees will stay in. However, more-so than corporate travel, the trickle-down effect from regulators and investors will be the biggest driver in my opinion, and unusually, consumer demand will play catch-up.

Do you think sustainability reporting will change over time?

There will definitely be an evolution in sustainability reporting. The evolution will move in regulatory phases, of which we are only in the first phase, and each will require a more detailed level of KPI reporting. This is because it's not just us doing this technical deep-dive, but regulators too. For this reason, we're working closely with the regulators to make sure that what we're doing at the EEA actually meets their compliance requirements. In short, the non-financial disclosure agreements for investors are going to be become much more onerous. That said, this should lead to a much healthier financial state, because there will be a comprehensive set of data with which to value an asset and its operations. In my opinion, this evolution is much needed anyway – it's just that the driver is climate change in this case.

Do you have any advice for companies transitioning to become more sustainable?

I tend to think that that most important thing is not really what you do, but how you go about doing it. For example, there is an argument that electric vehicles are going to have a huge impact on reducing carbon emissions around the world because you're not using fossils fuels, but when you look at the manufacturing of those vehicles, there can be a terrible impact on the local environment where they are being built, and terrible conditions for the workforce building them, all to assuage EU guilt. Equally, if a hotel undertakes carbon off-setting, has it taken the time to really understand the off-setting process of the company it is partnering with? As an industry, I believe the most important thing is to really understand the whole life cycle of what we're doing, in order to make impactful changes rather than taking initiatives that superficially look good but in practice achieve little.

What frustrates you and excites you about the journey to net zero carbon?

What frustrates me is probably what frustrates everyone: that while we have the questions, we just don't have all the answers yet. It's a very steep curve. But to flip this, I think that's also the exciting part. It's motivating to be learning all the time, and to meet creative and technical innovators with fascinating solutions. For example, one of our partners is a company called City Air Technologies. They have taken a simple idea and built a relatively cheap technology linked to soil, which accelerates a plant's natural ability to sequester carbon and purify the air. It makes you wonder why every single plant pot on the planet isn't fitted with this! It's exhilarating to wonder what we'll discover each day.

“ Compliance isn't coming; it's already here, and it will affect every asset owner, asset manager, and operator in our industry. ”



THE WORLD'S FIRST WHOLE LIFE NET ZERO HOTEL

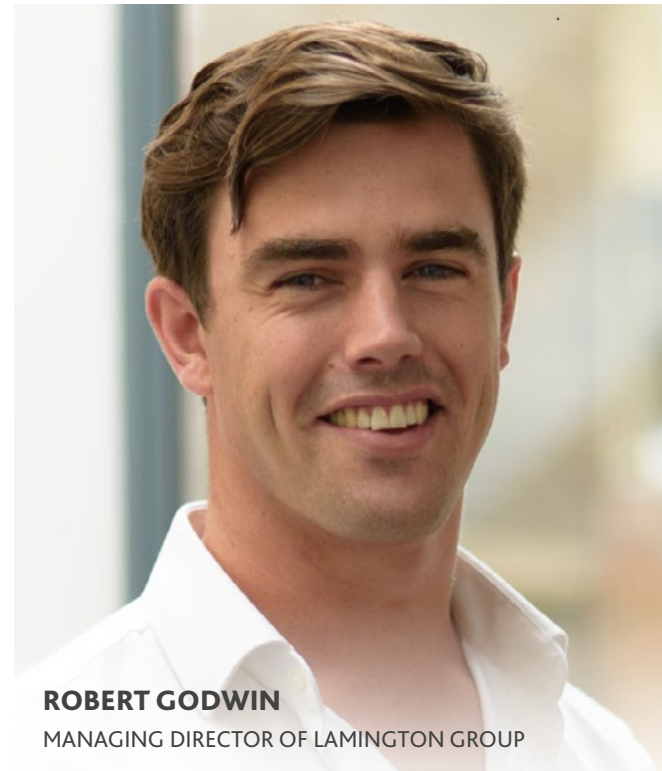
MEET THE PIONEER



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The Lamington Group recently opened its latest venture: a design-rich room2 homotel in West London. Lucy Cole interviewed Robert Godwin, the man behind the innovation.



ROBERT GODWIN
MANAGING DIRECTOR OF LAMINGTON GROUP

The Lamington Group's new room2 may be nestled in the tranquil suburbs of Chiswick, but the project is making quite the noise in the hotel industry – and it's shouting out for sustainability. This exciting new build is the world's first whole life net zero hotel.

While the trendy interiors and cosy furnishings are responsibly sourced, the project's sustainability permeates much deeper than the wallpaper. Being eco-friendly is at the very heart of it, quite literally, for the hotel is built on ground source heat pumps. These provide 100% of the energy for heating and cooling the building and its water. All embodied carbon has been measured and reduced where possible; the unavoidable remainder is offset through verified projects, such as a bamboo afforestation estate in Nicaragua which yields carbon from the atmosphere.

Robert Godwin, Managing Director of Lamington Group, had an environmental epiphany during a holiday to South Africa in 2019: *"In the UK, the environment is temperate and it's harder to see the effects of climate change; but in South Africa, there are intense droughts and collapsing food chains, and permanent damage has already been done. Locals say they've seen huge changes in the last decade and now have to pump water into huge natural watering holes. It became clear to me during my trip that climate change has dramatically modified and distorted the whole environment, and that we need to do more to reduce our carbon footprint."*



Suite room with vegan lamps and recycled materials.

When Robert returned from South Africa, he resolved to strengthen the hotel's sustainability credentials. *"We already had some technologies in place to make energy usage more efficient, such as ground source heat pumps and solar panels; but after my trip, my next question was how close could we get to operational net zero? We looked at getting rid of any energy inefficiencies and offsetting carbon usage. With this lined up, going operationally net zero was forecast to make up only 10% of the hotel's whole life carbon footprint; I decided this wasn't enough. From then on, we worked out how to minimise the hotel's embodied carbon by using technology, sourcing locally, and upcycling materials. Looking at each detail of the construction phase meant we covered the whole life cycle of the hotel."*

Robert knew that in order to turn a hotel fully net zero, he would have to pave the way himself. This was even more difficult than he envisaged: *"There proved to be only a small market of specialist advisors who had the right knowledge. Our options seemed limited at first because there was no one setting an example in the hotel industry and so little information available; but I knew there were net zero builders in the residential and office sectors, so the technology should be available if I looked hard enough. So I read a lot and created a sustainability team to help build a road map."*

Robert's biggest challenge was working out exactly what to focus on in this road map. The breadth and scale of environmental issues in our society means that numerous frameworks have been created, all applying to different areas of sustainability. *"One of the most difficult things was figuring out how all the sustainability frameworks interlink. However, I realised that the one thing that all governing bodies align on is carbon reduction. After this, I tried to stay focused on a main goal of net zero carbon. Sustainability is like an iceberg: once you start looking*



The bathroom with handmade mirrors and tiles, vegan toiletries, and low flow water fixtures.

at the tip, you discover just how much there is beneath the surface. As the project progressed, sustainability considerations would continue to float up. Tackling everything would have been impossible, so we made sure to concentrate on carbon reduction so as not to get bogged down."

As a result of Robert's drive and attention to detail, he has set a precedent for the industry. Each room in the Chiswick homotel is predicted to be 89% more energy efficient than the average UK hotel room. While it is clear that Robert's main motivation is the environment, he emphasises that sustainability makes good business sense: *"Take our energy usage around hot water, for example. Usually, domestic hot water is heated to 65°C to kill legionella bacteria. Instead, we heat to 45°C and use a safe chemical to disinfect the water. This means we use less energy, which is a cost saving for the business. Similarly, in normal showers the hot water is mixed with cold water to achieve the right temperature: a waste of more energy. Our water is cooler to start with, so we save energy and money here too."*

“ Going operationally net zero was forecast to make up only 10% of the hotel's whole life carbon footprint; I decided this wasn't enough. ”



The exterior of room2 Chiswick.

If these cost savings are not enough to inspire every hotelier to 'go green', Robert believes that changing government policies will sweep up those dragging their feet. These regulations will force new buildings to adhere to a particular standard of sustainability, while taxes will provide an incentive for hotels to become more energy efficient. As a product of this, property and hotel investors are now leaning heavily into sustainability, compelled to put funds into buildings which meet certain criteria. Nonetheless, Robert regrets that while the interest is there, and firms are creating smaller-unit sustainable buildings, no one is pushing the agenda hard enough to do what the world requires on a larger scale.

For existing hotels who can't build from scratch, what's the easiest and most effective way to become more sustainable? *"Buying renewable energy over fossil fuels to tackle carbon should be the priority. Even historic buildings, which are really energy inefficient, might have a lot of land which they can use to generate renewable energy onsite. Where it's unavoidable to cut carbon, partnering with organisations like Climate Partner and off-setting is a great way to optimise the environment. Secondly, shifting the internal culture of your organisation to be sustainability-focussed makes a huge difference. This might be in the form of a dedicated sustainability team, or rewarding individual members of staff for submitting initiatives."*

Lamington Group have now fully committed to whole life net zero new builds, and are the first hotel company in the UK to launch a road map to net zero. Pleasingly, their third-party developers are keen to help them achieve this, showing the increasing level of engagement with sustainability in the industry.

Robert's main hope for the room2 Chiswick homotel is that it inspires others to follow in his footsteps and create hotels to the same standard of sustainability. In this vein, he parts on a provocative message: *"The word sustainability is interesting, because to sustain is actually to continue in the same way. But given the damage humans have already done to the planet, to sustain the planet in its current state, and to continue with our present behaviour is a pretty low benchmark. We need to build a better world, not just sustain the current one."*

“ While it is clear that Robert's main motivation is the environment, he emphasises that sustainability makes good business sense. ”

SUSTAINABLE HIGHLIGHTS OF ROOM2 CHISWICK:

EMBODIED CARBON REDUCED WHERE POSSIBLE, WITH THE REMAINDER OFFSET.

OPERATIONAL CARBON REDUCED AS MUCH AS POSSIBLE, WITH THE REMAINDER OFFSET.

GROUND SOURCE HEAT PUMPS CONVERT 100% OF ENERGY NEEDED FOR HEATING, COOLING, AND THE HOT WATER.

100% RENEWABLE ENERGY BOUGHT, SUPPLIED BY A GREEN TARIFF.

100% ELECTRIC - NO FOSSIL FUELS AND NO GAS.

SOLAR PANELS ON THE ROOF MEET 5% OF THE BUILDING'S ENERGY NEEDS.

GREEN ROOF PROMOTES BIODIVERSITY AND ACTS AS A HEAT INSULATOR.

BLUE ROOF SITS UNDER THE GREEN ROOF AND CATCHES RAINWATER, SLOWLY RELEASING INTO A DRAINAGE SYSTEM TO REDUCE THE CHANCES OF LOCAL FLOODING.

SUSTAINABLE LOW ENERGY FOOD MENUS.

75,000 BEES ON THE ROOF TO IMPROVE BIODIVERSITY, INCREASE POLLINATION, AND SUPPORT THE LOCAL ECONOMY THROUGH HONEY SALES.

ZERO WASTE TO LANDFILL POLICY: WASTE REDUCTION; RECYCLING; ANAEROBIC DIGESTION TO MAKE RENEWABLE ENERGY AND FERTILISER; GENERAL WASTE IS BURNT AND MADE INTO ENERGY.

LOW HEAT HOT WATER SYSTEM USING IN CONJUNCTION WITH CHLORINE DIOXIDE TO MITIGATE LEGIONELLA AND A WATER QUALITY SURVEILLANCE SCHEME.

OCCUPANCY ENABLED LIGHTING AND HEATING IN ROOMS.

OWN-BRAND 3-IN-1 RECYCLING BINS IN ROOMS - THE FIRST HOTEL TO OFFER GUESTS FOOD WASTE BINS.

ALL FURNISHINGS MANUFACTURED LOCALLY WHERE POSSIBLE AND MADE FROM RECYCLED MATERIALS. FOR EXAMPLE, 100% OF LOOSE BESPOKE FURNITURE IS MANUFACTURED 10 MILES FROM SITE USING FSC CERTIFIED TIMBER, AND WALLPAPERS ARE DESIGNED LOCALLY AND MADE IN FACTORIES RUNNING ON RENEWABLE ENERGY.

AIR IS USED IN SHOWER HEADS TO CREATE THE SAME POWER USING LESS WATER.



“ No one is pushing the agenda hard enough to do what the world requires on a larger scale. ”

“ To sustain is actually to continue in the same way... but we need to build a better world, not just sustain the current one. ”

REVIEW YOUR FURLOUGH CLAIMS



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The Government's furlough scheme is over. Unfortunately, HMRC's attention is now shifting to the detail of the claims made, with many businesses being challenged and expected to repay large sums.

Given the speed of introduction and the complex nature of the Coronavirus Job Retention Scheme (CJRS) claim calculations, it is unsurprising that errors, both over- and under-payments, have occurred. We have seen evidence that even large restaurant and bars chains with substantial HR resources have made errors due, in no small part, to the many changes to the rules.

WHAT ARE THE PROBLEMATIC AREAS OF CJRS?

There were 4 different versions of the scheme, which was first implemented in March 2020. Problems have been caused by changes to the contribution percentages and elements of the pay subsidised, the difficulties of weekly versus monthly pay periods, and pay periods overlapping different calendar months, to name a few. The main errors fall under three headings:

1. The reference pay used to calculate the CJRS claim;
2. The calculation of hours worked by staff before furlough (used as the reference for calculating time on furlough);
3. The calculation of hours worked/on furlough while on flexi-furlough.

While regular salary forms part of the reference pay, discretionary pay (such as tips or commission) does not. Furthermore, the use of zero-hours contracts increased the complexity of calculating reference pay, requiring a comparison with equivalent pay before furlough or the average pay since April 2019.

The number of hours worked for the purpose of calculating the claim also presented an issue, and whether the employee worked during the furlough period added further complexity. Also, in the first version of the CJRS, furloughed employees were not able to work although there were some exemptions - for example, in relation to training or directors performing statutory duties. Collecting post or handling deliveries were not exempt.

Businesses with a younger workforce demographic needed to be careful in making claims up to and including July 2020. Whilst an employer's NIC could be claimed under CJRS, this was only the case if the employer's NIC was due for the particular employees - for example, where there are exemptions from paying employer NIC for employees aged under 21 or apprentices aged under 25. Similarly, claims could be made for employer pension contributions, but only where the employee had not opted out of the pension scheme.

There were also complexities around which employees could be furloughed as this changed over the course of CJRS's 18-month lifespan. For example, the third version of CJRS was restricted to employees who had been on the payroll on or before 30th October 2020 and could not be serving their notice period. The final version

had further restrictions as furloughed employees needed to be on the payroll between 20th March 2020 and 2nd March 2021 and required claims to cover at least a seven-day period and (ordinarily) could only cover days within the same calendar month.

As a result of the above, our experience shows that the majority of businesses made mistakes with their claims.

WHAT IF YOUR CJRS CLAIM IS INCORRECT?

Any over-claims must be notified to HMRC directly, and arrangements made to make direct repayment to HMRC. Failure to notify errors could lead to significant penalties.

It is important to remember that the last CJRS claim is far from the end of the matter and at the very least, businesses must ensure that the CJRS payments received and any amount over-claimed are declared accurately on the organisation's corporate tax return. Therefore, any CJRS errors that remain uncorrected by the time a business comes to submit its tax returns means that it may end up submitting an incorrect return. Valid CJRS receipts are taxable business income and excess claims are liable at 100% clawback; but errors in your return can lead to interest and penalty charges on top of any penalties directly attributable to the CJRS error itself.

In addition to ensuring any errors are corrected, hospitality businesses must also remember that if they have underpaid a member of staff, the employee has a legal entitlement to be paid their full cash entitlement for the furlough period, irrespective of the fact that they can no longer claim this amount from HMRC.

WHAT ARE YOUR NEXT STEPS?

It is more important now than ever to review your own calculations, so that if an error is identified, any amounts can be made good with HMRC on a voluntary basis - usually the cheapest and least time-consuming option. Penalties for over-claims can range from 30%, where disclosure is entirely voluntary and unprompted, right up to 100%, where HMRC has identified the non-disclosure and has treated it as "deliberate and concealed". Voluntary disclosures should be handled more sympathetically by HMRC than if they discover the error themselves; therefore, it makes sense to take the pro-active steps of reviewing your claims.

CASE STUDIES FOR REVIEWED CLAIMS



1 A hotel chain with over 1000 employees claimed over £1m of CJRS

per month. Managers at each hotel were separately responsible for making their respective hotel's CJRS claims. Fortunately, an external review of the processes identified significant amounts overclaimed. This meant these sums could be repaid, and an agreement struck with HMRC that no penalties would be sought as the errors were voluntarily disclosed.

2 To prevent the risk of overclaiming CJRS, a restaurant

chain decided it would be easiest to calculate furlough pay using the lower of the three tests for calculating relevant pay. This resulted in an underpayment of furlough pay to employees. This error would have invalidated all their CJRS claims. Fortunately, an external review identified the mistake so that payments to employees could be rectified before HMRC raised an enquiry into their claims



CHANGES TO TIPS



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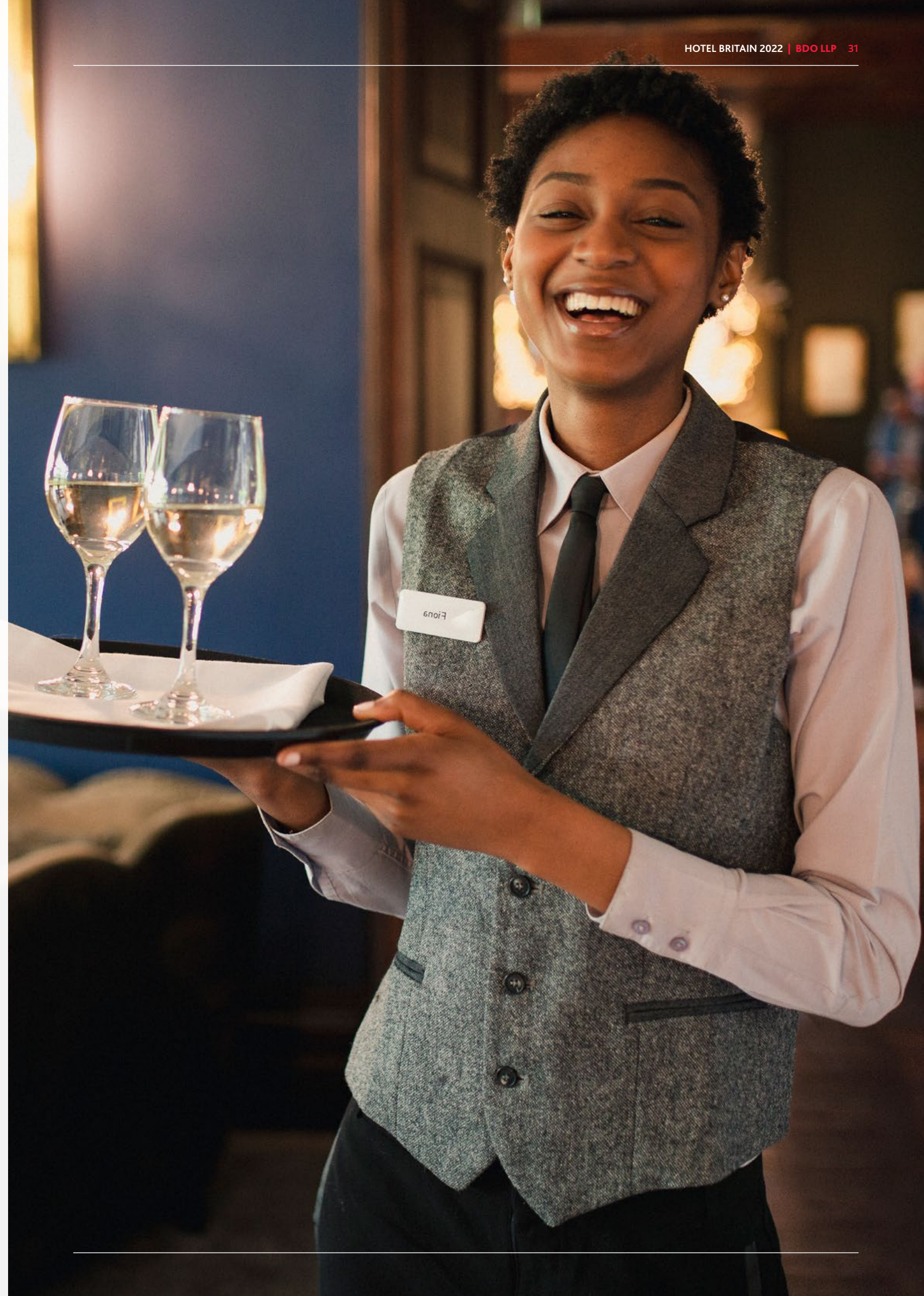
Changes to the Employment Bill announced in October 2021 may impact businesses next year.

Changes to tips are expected to include:

- ▶ Employers will not be able to make deductions from tips for anything other than tax
- ▶ Distribution of tips must be fair and transparent for employees
- ▶ A written policy on tips will need to be put in place by employers and they will need to retain a record of how tips have been dealt with
- ▶ Enforcement will be through the Employment Tribunal
- ▶ Tronc schemes/systems can remain where they comply with the legislation.

Notwithstanding the potential changes, now is the time to make sure that current arrangements for gratuities are robust. As we know, cash tips distributed to employees must be processed via the payroll; however, where Tronc schemes are used, NIC is not accounted for. Tronc schemes usually set their basis of distribution by reference to the role the employee performs, and/or the length of their shift(s), as well as the collection period for those tips.

It may also be possible to use the Tronc scheme to set parameters, including incentivising certain behaviours: for example, promoting particular products or services to drive revenue growth, or aligning with the company's ESG agenda. The company cannot impose these conditions or set these parameters as there needs to be suitable separation from the running of the Tronc scheme and the company's owners and directors. However, the Troncmaster running the scheme will usually be someone with sufficient standing within the business to understand and support the company's values and, therefore, will be able to implement a scheme that supports the company's plans.



FRAUD RISK MANAGEMENT FOR HOSPITALITY



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Fraudsters are extremely active in the hospitality industry at the moment. For this reason, a proactive fraud management programme is vital for businesses.

The UK hospitality industry was severely hit by the restrictions that arose from the COVID-19 lockdowns and social distancing measures. Signs of recovery were seen from May 2021, with increased consumer spending on hospitality according to the Office of National Statistics. This return of business and consequent boom in spending presents an inherent fraud risk to the industry, and sophisticated, well-resourced fraudsters are seizing their opportunities.

BDO's analytical tracker of reported fraud in the UK, [FraudTrack 2022](#), has recorded the highest total monetary value of fraud since it was first published in 2003. Specifically, this analysis found that the accommodation and food service industry recorded an average monetary fraud loss of just under £250,000 for each incident reported in 2021.

It is notable that most of these substantial frauds were perpetrated by employees of the business. These findings are, perhaps, unsurprising based on our findings in the BDO [2021 Fraud Survey](#); this found that almost a third of frauds were committed against companies by their own employees. Alarming, the majority involved collusion between internal and external individuals.

The increased fraud risk in the hospitality sector is underscored by the fact that last year's [FraudTrack 2021](#) recorded no reported cases of fraud in the industry in 2020.

These findings highlight the importance of a proactive approach to fraud prevention, detection and response - because fraudsters are extremely active at the moment.

OBSERVATIONS

It has never been more important for hospitality businesses to monitor the emerging areas of fraud risk that are particularly relevant to them. We have seen exponential increases in Environmental, Social, and Governance (ESG) frauds, cybercrime, and supply chain frauds. These types of fraud are not sector agnostic but form a growing part of the fraud threat landscape that is increasingly becoming more worrisome for hospitality firms.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE FRAUD

ESG is a fast-emerging area in which frauds are committed. As ESG considerations become more important for businesses, this fraud risk will have a significant impact on investment decisions. As more disclosure is required to ensure compliance, ESG should be firmly on the radar of businesses now. ESG frauds are prevalent in fields such as business reporting, which is required to show compliance with regulations and legislations. These might sit within the ambit of health and safety laws, working practice regulations or tax compliance frameworks.

The impact of ESG frauds on these areas of operations are therefore key considerations for sustainability strategies. These can include monitoring, assessing, and analysing ESG risks. You should check:

1. That your management team or representatives are making accurate statements when reporting ESG standards;
2. That you have identified areas which make your business susceptible to ESG fraudulent misrepresentations; and
3. How non-compliance with ESG regulations and legislations may affect investment due diligence, and ultimately, your bottom-line.

CYBERCRIME

Cybercrime is a key area of weakness for all businesses. Research by Payback and the National Fraud Intelligence Bureau showed that the UK economy lost £2.5bn through cybercrime in 2021. BDO's [2021 Fraud Survey](#) found that almost a third of businesses have noticed an increase in cyber-attacks or attempted cyber-attacks. More businesses are opting to use cryptocurrency for commercial transactions, and the emergence of hybrid working arrangements and increasing reliance on information technology will increase the inherent risks of cyber-attacks and cybercrime within businesses.

The hospitality industry is especially susceptible to the cyber threats such as DarkHotel hacking, which uses: hotel Wi-Fi to target guests; phishing attacks if there is inadequate network security that could result in data privacy breaches; and brand cloning/impersonation which can damage a business's reputation and leave potential customers out of pocket. To counter these cyber threats, you should ensure that your business regularly assesses possible cybercrime risks which can pose an existential threat and mitigate them before it affects your business's viability.

EMERGING AREAS OF FRAUD RISK



ESG



CYBERCRIME



SUPPLY CHAIN



SUPPLY CHAIN FRAUD

Supply chain frauds have been around for a long time, even though they have become more prevalent during the pandemic. They have been an area of focus for HMRC since well before the pandemic, in respect of the Corporate Criminal Offence (CCO) and the construction industry - which has an impact on the hospitality sector.

Hospitality businesses cannot afford to ignore these supply chain fraud risks; they could become targets for fraudsters or be indirectly affected by the fraudulent activities perpetrated by suppliers. For example, under CCO legislation, a business could be prosecuted for failing to prevent business associates from facilitating tax fraud. The identification and assessment of possible fraud red flags in the supply chain is key in ensuring that the business does not become a victim or appear to be complicit. Has your business undertaken a supply chain integrity risk analysis recently? Have you assessed and identified the possibility of threats from within your business in - for example, in your procurement functions? [Read more about employee fraud here.](#)

ACT NOW: DEVELOP YOUR FRAUD RISK MANAGEMENT PROGRAMME

Becoming a victim of fraud will not only result in direct losses in revenue: it can also damage your organisation's reputation, staff morale and threaten your business. It is imperative to stay up-to-date with current fraud trends in the hospitality industry and implement a fraud risk management programme.

It is unrealistic to expect your internal audit and compliance assurance to be sufficient defences against fraud. Over-reliance on these general procedures as opposed to specific anti-fraud considerations leaves your business open to becoming a victim of fraud.

There is a world of difference between internal controls, compliance, and fraud risk management. The overarching objectives of a fraud risk management programme are to address fraud before it happens (prevention), when it happens (detection) and after it happens (response). Figure 2 shows four steps in developing an effective fraud risk management programme.

DEVELOPING YOUR FRAUD RISK MANAGEMENT PROGRAMME



Developing and implementing a fraud risk management programme helps to minimise threats from frauds. Your business objectives should include a strategic approach to fighting fraud to ensure sustainability well into the future. Moving your business from crisis management to a proactive business defence mechanism requires rethinking your current business strategies and how fraud can impact them.



BDO AND ESG

HOW BDO IS EMBRACING ESG ACROSS ITS BUSINESS

Environmental, Social and Governance (ESG) issues matter – to our people, our clients, our regulators and to wider society.

As a large UK firm, we firmly believe that we have an ethical responsibility to do what we can to ensure a thriving, sustainable world. We want to play our part to address the challenges facing people and planet without adding to them.

While ESG might have its origins in risk management, we don't consider it as simply a reporting requirement. Instead, it is an ideology that we are embedding into our entire strategic framework to guide how we act and make decisions.

Here are some examples of how we are addressing each of the **E**, **S** and **G** agendas:

E FOR ENVIRONMENT

We have been monitoring and reporting our environmental impact for many years, and in 2019/20, the firm became carbon neutral across its GB office network – committing to continually reduce our carbon footprint and offset any residual emissions.

We are now planning for the next step and have committed to going Net Zero – to reduce greenhouse gas emissions in line with the 1.5C Paris Agreement and to remove any residual carbon through high quality offsetting. We are currently creating our Transition to Net Zero plan, using external carbon experts to guide us.

Achieving Net Zero will be a multi-year effort requiring input from right across our business. One of our key areas of focus will be on business travel – particularly flying – which accounts for the lion's share of our carbon footprint.

In addition to reducing our carbon emissions, we are also taking other steps to improve our environmental impact. For example, we have introduced a new, real-time sustainability reporting platform to improve performance management. We have also delivered a number of energy efficiency measures across our estate as well as introduced schemes to reduce waste to landfill and plastic packaging.



S FOR SOCIAL

As a large employer with 6,500 people working across the UK, we believe the Social element of ESG is where we can have a particularly positive impact.

This starts with fostering a culture within BDO in which people are encouraged to feel they can truly be themselves at work. We want our people to work in an environment in which they are inspired and challenged, collaborative and successful. And we want to provide support to all our people so that they can give something back to their local communities in a way that is meaningful to and motivating for them.

To ensure we nurture what is special about BDO's culture, we have three cultural priorities: Wellbeing, Be Yourself and Citizenship.

Wellbeing - we have a long-standing commitment to wellbeing, which includes having 80 Wellbeing Champions organising local activities and support to people across our network. We are a signatory to the Mental Health at Work Commitment, and we actively promote a range of wellbeing tools such as our 24/7 employee assistance helpline. As we emerge from the COVID-19 pandemic, we have switched to an agile way of working for all, meaning people work from the place that best suits the task at hand which gives teams and individuals more flexibility and choice in their working patterns.

Be Yourself - 'Be Yourself' is how we describe our Equality, Diversity and Inclusion strategy. As well as encouraging people to bring their true selves to work, we support a number of programmes designed to increase diversity and improve our gender and ethnicity pay gaps. We have an ambition to have 30% female partners by 2030 and to increase the percentage of our partners who identify as BAME from 4% to 10% by 2026, with 10% of those partners identifying as being of black heritage.

Citizenship - We have offered ten citizenship days a year to our employees for the last 15 years and continue to encourage more of our colleagues to use them. These citizenship days give our people the opportunity to take part in fundraising or local volunteering, or alternatively use their professional skillsets to help schools, charities or other organisations.

We also focus on promoting social mobility. We are founder members of both RISE, a social mobility initiative that aims to help young people develop the essential skills that businesses need, and Access Accountancy, an organisation that exists to ensure that everyone has an equal chance of accessing the accountancy profession based on merit, not background.

G FOR GOVERNANCE

Good governance is crucial for making sure there are the right checks and balances in the way that we run our business. We have recently undertaken a comprehensive Governance Review to evaluate the governance requirements of our growing firm, and to make the changes necessary to strengthen our governance model so that it is fit for the future. This has led to the creation of new oversight bodies and an expanded role for our Independent Non-Executives.

Taken together, these governance reforms should ensure the firm benefits from more rigorous oversight and greater accountability. They also underline and reinforce the firm's commitment to High Quality, Independence and Ethics.

OUR SUPPORT FOR OUR CLIENTS

While we progress our own ESG strategy and performance, we are also committed to helping clients with their own ESG ambitions. As the ESG reporting landscape becomes more harmonised and demand for robust, reliable, and credible information grows, we aim to play a greater role in providing advice and assurance to help our clients succeed.

WORK IN PROGRESS

Like many businesses, our approach to ESG will be a 'work in progress'. We recognise that fully embedding ESG into our decision making and delivering sustained improvements over the longer term will take years of concerted effort.

But, importantly, we have made strong progress to date and are fully committed to continuous improvement, being bold and genuine as we go.



BDO LEISURE AND HOSPITALITY SERVICES

Our team works with international businesses across the leisure industries, including restaurants and bars, betting and gaming, hotels, professional sports and fitness, and travel and tourism. We provide assurance, tax, and advisory services to our clients, who range from small owner-managed businesses to large corporations in both the private and public sectors, many of whom are market leaders.



HOTELS

BDO's hotel industry experience goes back nearly a century. Today, we are at the forefront of the field, working with the industry's market leaders. Our experienced and passionate partners and staff find and help implement actionable insights that make a difference to our clients' businesses. We take the time to understand the business and the people behind the numbers so that we can use our expertise to maximum effect.



HOTELS SERVICES CONSULTANCY

Whether you are thinking about opening a new hotel, researching a new site, enhancing your competitive position, expanding overseas or seeking independent accountancy advice, BDO offers you a reliable and professional service. Our hotel industry consultants deliver actionable insights and proposals on all aspects of developing, buying, selling, owning and operating properties in the leisure industry. The expertise of our specialist accountancy team ranges from the annual requirement for audits, financial statements, and tax compliance to more specialist advisory work. We also help our clients with taxation planning and structuring, international operations, VAT and employment taxes, business valuations, and other transactional support. Our people sit on the HOSPA Council and Technical Committee.



HOTEL INDUSTRY KNOWLEDGE

We keep our clients up to speed with the latest issues and movements of the market, both nationally and internationally, presenting our findings through our comprehensive publications, Hotel Britain, Hotel Quarters, and a monthly report. We also maintain research and monthly benchmarking databases. In an industry which can be volatile and heavily affected by world events, we can give our clients vital insights into what they can do to improve their relative performance and market position. In short, if you are active in the hotel industry then you should be talking to BDO.



BDO LEISURE AND HOSPITALITY SERVICES

Our Leisure and Hospitality Team provides specialist accountancy and business advisory expertise to a wide variety of leisure and hospitality businesses. Our sector experts use their experience and knowledge to deliver valuable and actionable advice to clients.



REGULATORY ADVICE FOR LEISURE AND HOSPITALITY BUSINESSES

The leisure and hospitality sector is faced with an ever-changing burden of regulation, ranging from accounting standards to the Apprenticeship Levy and National Living Wage to Brexit. We can provide practical guidance and help you navigate the challenges your business is facing. We can help you whether you are thinking of tackling the transition to IFRS accounting, wondering where you currently stand on trons, trying to establish how the national living wage may affect your business or debating whether you should be converting to a REIT.



DRIVING GROWTH

Driving the growth of your business is always a priority. This is a challenge in the very competitive leisure and hospitality sector. We will work with you to develop or adjust your strategy, fine tune your business model and overcome the barriers to growth. Our focus is to provide the actionable ideas and insights that will make a tangible difference to your business. Whether it is improving working capital management or improving tax efficiency, we will use our experience and expertise to deliver value to you. We always invest the time to understand you and your business so that we can help you achieve your goals.



OUR HOTELS TEAM:



REGULATORY ADVICE FOR LEISURE AND HOSPITALITY BUSINESSES

You may be ready to expand your leisure and hospitality business overseas. You may not be ready for the challenges of succeeding internationally. Local regulations and tax regimes, local labour markets and any number of other issues will have to be navigated. We will help you from the first step by identifying the best options for expansion. We can advise on the markets that are easier to break into. We can help you to work through the options available to you whether that be a joint venture, opening a branch, franchise or an acquisition. When you do make the leap, we will ensure you have the most efficient tax structures and all the necessary local knowledge. As part of the BDO international network, we draw on the leisure and hospitality expertise of colleagues across the globe. We have a presence and local leisure and hospitality expertise in every market you might want to expand into.



LEISURE AND HOSPITALITY SECTOR EXPERTISE

We understand that each area of leisure and hospitality faces its unique challenges and opportunities. We have specialists working in and with experience of each area and sub-sectors.

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