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HOTEL BRITAIN LITE 2021

# REVIVE AND THRIVE

LOOKING BACK TO MOVE FORWARD



## CONTENTS

<b>A WORD FROM ROBERT BARNARD</b>	1
<b>A LESSON IN OPERATIONAL AGILITY</b> FEATURING PAUL WATSON OF IHG HOTELS & RESORTS	3
<b>THE BUDGET FOR RECOVERY</b> WHAT DOES IT MEAN FOR YOUR HOTEL?	6
<b>A VIEW FROM THE EXPERT</b> PHILIP LASSMAN, VICE PRESIDENT, HEAD OF DEVELOPMENT – NORTHERN EUROPE, ACCOR	10
<b>RESTRUCTURING OPTIONS FOR HOTELS</b> ASKING FOR SUPPORT DOESN'T MEAN GIVING UP CONTROL	14
<b>A VIEW FROM THE EXPERT</b> JANE PENDLEBURY, CHIEF EXECUTIVE, HOSPA	18
<b>DISPUTES AND FINANCIAL IRREGULARITIES</b> HOW CAN YOU MAKE THE MOST OF THE OPPORTUNITIES?	22
<b>REVIVE AND THRIVE</b> OUR FIVE KEY TAKEAWAYS FOR 2021	26
<b>BDO LEISURE AND HOSPITALITY SERVICES</b>	28
<b>YOUR BDO CONTACTS</b>	29



# HOTEL BRITAIN LITE 2021

Hotel Britain Lite is a condensed version of Hotel Britain, BDO's annual analysis of the UK hotel industry.

While we usually provide an in-depth study of UK hotel performance, given the events of the last year, we have instead decided to share a collection of advisory articles and insights to help you navigate the pandemic, and to take advantage of the experience and support available at BDO.

Highlights from this report include our annual 'A view from the expert' articles. This year, we feature industry leaders Jane Pendlebury (HOSPA) and Philip Lassman (Accor), who give us their thoughts on the current opportunities for hoteliers in the face of COVID-19 and discuss what they expect to see in the hospitality industry moving forward. We also hear from Paul Watson (IHG) on how to achieve operational agility.

From our resident BDO experts, we offer insight into what the recent budget announcement means for your hotel business, restructuring options for hotels, and how you can make the most of available opportunities to ensure you get ahead of the game.

## A WORD FROM ROBERT BARNARD

**PARTNER**  
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Welcome to this year's edition of Hotel Britain. While we usually provide an in-depth numerical analysis of UK hotel performance based on our extensive database, given the unprecedented events of 2020, we have decided to do things a little differently this year. Instead, we hope you enjoy this collection of thought-provoking insights, interviews, and advisory articles from a range of our experts and industry leaders from across the hotel sector.

On the 23rd March 2020, the country's first lockdown was announced in an attempt to reduce the spread of COVID-19. Just like that, the hospitality industry and the world as we knew it changed overnight. One year later, and it seems there is now light on the horizon of the third, and hopefully final lockdown.

The hospitality industry is one of the UK's leading sectors in terms of employment, contributing £72 billion in Gross Value Added to the economy in 2017. However, as an industry reliant on social contact and with high fixed-costs, it has also been one of the worst affected by the pandemic - ravaged by trade restrictions and mounting debts. As a result, 2020 has brought record lows in UK occupancy and RevPar, a distressing wave of job losses, and even the total closure of beloved brands in some cases.

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# A WORD FROM ROBERT BARNARD

## CONTINUED

For hotels, the location, market positioning, and management's speed and agility in responding to the disruption were major influences in 2020 endurance. Those with a diverse demand-base or in more rural locations were better placed than those reliant on corporate, gateway, group travel, or those in city centres. Similarly, hotels who remained open during the first lockdown to accommodate key workers found themselves better prepared to welcome the staycation surge last summer.

That said, the survivors would have been far fewer had it not been for Government support. During 2020, besieged companies were grateful for the VAT reduction from 20% to 5%, the 'Eat Out to Help Out' promotion, and the business rates holiday, in addition to Job Support and Furlough schemes.

Hospitality businesses who remain afloat are now fatigued and befuddled as to the future. Nevertheless, they have been cheered by the Chancellor's recent announcement of extended budget support for an industry which will no doubt propel the UK's economic rebound. Included in the Chancellor's recovery package, we saw that hospitality firms will continue to see the reduced VAT rate of 5% until

September, followed by an interim rate of 12.5% until April 2022. The Coronavirus Job Retention Scheme will also be extended for a further five months into September of this year. Grants of up to £18,000 will be available to kick-start reopening after lockdown. Finally, funding for apprenticeships will help to alleviate concerns of a post-Brexit worker shortage and to ripen home-grown talent.

While these measures will provide a vital lifeline for many hospitality firms over the summer, and while there is undoubtedly strong pent-up demand, their tapering-off in September will be a critical juncture. The full reopening of the industry, the sustained success of the vaccination rollout, and the return of consumer confidence will all be key factors in the recovery of firstly domestic, followed by international travel.

However, here at BDO, we will continue to focus on the power of rethinking business models, on opportunities for growth, and on maximising positive and sustainable change in the sector in the face of this adversity. Once again, we send our best wishes to you during this challenging time, and we remain at your disposal should you require any support or guidance.



# A LESSON IN OPERATIONAL AGILITY

FEATURING PAUL WATSON  
OF IHG HOTELS & RESORTS

A year has now passed that hotels have been in hibernation. But spring has arrived, and once they awake, they have the opportunity to rethink, to reset, and to be stronger than ever.



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**PAUL WATSON**  
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Paul Watson, Director of Operations at IHG Hotels & Resorts (IHG), remains pragmatic and positive during the pandemic. While he is in no doubt that the last year has been painful for the industry and its people, he emphasises that *"in terms of operations, never before have we had the opportunity to reset our business and focus on what really matters: our guests."* Many hotels could have fallen into a permanent slumber this year, and sadly some have. However, there are more survivors. Thanks to sustaining Government support, businesses have used this period to adapt to the 'new normal', but also to restructure and refine their business models. Paul generously shares what this means in practice for IHG: the practicalities behind a client-focused recovery, and their operational priorities as they prepare to reopen.

Most obviously in a pandemic, implementing and maintaining effective hygiene regulations will be a linchpin for many hotels. Yet this alone is not enough; to succeed, hotels must make these sanitisation protocols visible to guests if they wish to reassure them. What is more, it is the most conspicuous of protocols which will be the most comforting. IHG have evidence of increased consumer satisfaction after heightening their cleaning programmes: *"The safety and wellbeing of our guests has always been at the core of our business, but we've enhanced the customer experience further to ensure that colleagues and guests feel safe and comfortable through 'IHG Way of Clean' and 'IHG Clean Promise'. We've seen a 30% uplift in positive reviews on social media around cleaning, as well as improvements in guest satisfaction. This shows the effectiveness of what we're doing, and that safe, clean hotels are a top priority for consumers."*

Hygiene is not the only operational priority that has been bolstered by the pandemic. Ever-changing levels of Government restrictions have made consumers tentative to plan ahead, let alone book a non-refundable holiday. As a result, IHG, for example, are offering extra support for guests who book directly rather than through online travel agents: *"We introduced our 'Book Now, Pay Later' scheme last year: customers can reserve without a deposit and are entitled to full cancellation up to three days before their stay, meaning travel planning is commitment-free. We always advise guests to book directly for the most competitive deals and value-added options available, and to make the most of loyalty programmes such as IHG Rewards."*

Hotels who adapt to create generous, flexible booking policies during this time will not only assuage guests' concerns, but will capture vital pent-up demand in time for summer. Moreover, such offers may fuel more direct bookings, strengthening customer relations and spelling better margins.

Some hotels are going further than adjusting operational policies, and are either repurposing space, or developing new products to suit changing market requirements. Running virtual classes or concerts has allowed hotels to stay connected with their client base and been an alternative source of income while closed. Promoting the private hire of spa areas, for example, taps into the increased awareness of self-care as a result of COVID-19, and turns the hurdle of social distancing into a trendy and exclusive offer. Other hotels have used the lockdowns to adapt or build facilities which allow for social distancing whilst capitalising on the pandemic-boosted trends of outdoor and experiential tourism: ***"We believe that guests are looking to escape their connected and potentially stressful environments in favour of meaningful, out-of-the-ordinary experiences, whether that means fresh air, waking up to birdsong, pioneering wellness, home-grown food or immersing in the local culture and community."***

In particular, repurposing or rethinking corporate travel and events will be key in adapting to the 'new normal'. Paul explains that ***"planners are considering all options when it comes to bringing teams back together. In 2020, we introduced our 'Meet with Confidence' programme at IHG to support changing needs. Now the programme includes hybrid capabilities which connect multiple hotel locations to regional and global business and leisure events through live streaming, creating more shared experiences for virtual and in-person attendees."*** Initiatives such as these have revealed the sector's creativity and agility in the face of adversity, and demonstrated a tenacity to invest during what is an austere time.

As seen with IHG, many of these creative adaptations require technological solutions, which Paul believes ***"will be one of the legacies of the pandemic"***. Technology's inimitable capability is reducing human interaction – for example, with QR codes, digitalised check-in, or robots. If these tech solutions can also improve guest convenience and service, they will prove invaluable for hotel recovery and beyond: ***"Customers are more digitally savvy than ever before, and experiences must match this, focusing on***



***ensuring safety whilst also removing friction to provide seamless luxury service."*** As far as operational technology is concerned, the emphasis is slightly different; instead of fresh software built for the 'new normal', hotels are now fully leveraging current platforms to fulfil their potential: ***"Operationally, our main goal with technology-development has been to obtain and use data that enables our General Managers to make better decisions. In most of our hotels, we have many systems that promote good decision-making in rooms operations; we are now concentrating on enhancing the use of existing technology to develop customer experience, financial performance and holistic managed value proposition."***

To conclude this lesson in operational agility, Paul shares his top priorities for flexible recovery during a turbulent period: ***"Ensuring we have flexibility and scalability built into our model to reopen***



*viable and sustainable operations is of the utmost importance. Getting profit for our owners and for reinvestment back into the business, and especially into our people, is fundamental. Secondly, do the basics brilliantly; I don't think we've ever had so much clarity about what our guests really want, nor have we had the opportunity to rebuild our operations to reflect this."*

What is more, further to the refinement of hospitality business models, there is hope that the silver lining of this past year will be expediting the creation of a more sensitive and ethical sector. We have already observed this from hotels striving to make a social difference - sheltering victims of domestic violence, those without housing, or accommodating key workers at reduced rates. The recovery should rebuild an industry with a reduced carbon footprint, with uncompromising hygiene standards, with stronger links to local communities, and with more compassion

for employees and guests. *"At IHG, we call this our 'Journey to Tomorrow' programme. It means operating safe, clean hotels in a way that promotes diversity, equality and inclusion, human rights and responsible business decisions. Our ten-year programme reflects the passion we have for making a real difference to the world around us. We're looking forward to the next chapter at IHG, which is focused on building our brands, putting guests and owners at the heart of everything we do, creating a digital advantage, and ensuring that we have a positive impact on our people, planet and the communities around us."*

# THE BUDGET FOR RECOVERY

## WHAT DOES IT MEAN FOR YOUR HOTEL?

The announcement of the most recent Budget was eagerly anticipated by the hotel sector. After a year of original and significant fiscal policies to support the economy through COVID-19, there was immense pressure to see how the Government would repay the large debts incurred during the pandemic and help hospitality businesses during the post-Brexit transition, whilst still maintaining economic growth. In addition, there remains the need to help hospitality businesses through the post-Brexit transition period.



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The Chancellor announced his 'Budget for recovery' with a clear focus on continuing and enhancing the economic support for COVID-19 and the rebuilding of public finances to ensure a post-COVID-19 financial recovery and a stable economic future. However as always the devil is in the detail and it may not be as simple as it sounds. So we've taken a closer look at what the Budget means for your hotel business, what to look out for and how to prepare.

### **THE CJRS CONTINUES BUT WITH FAR MORE SCRUTINY OF CLAIMS PAST AND PRESENT**

Although the Government has announced that the Coronavirus Job Retention Scheme (CJRS) will be extended until 30 September 2021, the claim calculations are not getting any easier and the level of support is to be phased down. From July 2021, the level of grant available to employers will be decreasing to 70% of wages up to £2,500 per month, with further reductions to 60% in August and September.

When the scheme was initially launched, the focus of HMRC and the Government was to deliver financial support and get money to struggling employers quickly. However, since the November 2020 evolution of the CJRS scheme, HMRC have made it apparent that they will focus on inquiries into high-risk claims being made by employers and they estimated that the error and fraud rate in the furlough scheme could have been between five and ten per cent for all claims.



For claims relating to periods on or after 1 December 2020, HMRC have begun publishing details of employers' claims on the Government website: employees are also able to see whether they are included in furlough claims since December via their personal tax accounts. Both of these measures have been introduced to deter fraud through greater transparency with the furlough claims and to ensure employers are using them correctly.

#### How errors can occur?

Given the short time frame of introduction and the complex nature of the CJRS claim calculations, it is unsurprising that errors leading to over and underpayments have occurred. However, a year on, and given HMRC's increasing enforcement activity, businesses should be taking the time to review previously submitted claims. This is to ensure that these were correct, identify any potential errors and to take the correct remedial actions, as well as making good these amounts with HMRC.

The main area likely to result in errors is the reference pay used to calculate the CJRS claim. While regular salary forms part of the reference pay, discretionary pay such as tips or commission do not. Whether pay was discretionary or not could be a matter of interpretation leading to some employers taking a position which may conflict with HMRC's interpretation of the rules. Furthermore, for those whose pay varies by the number of hours worked (eg zero hours contracts), the calculation of reference pay was even more complex as it required a comparison with equivalent pay before furlough or the average pay since April 2020.

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. In the first stage of the CJRS, furloughed employees were not able to 'work' although there were some exemptions, for example in relation to training and directors performing statutory duties. A potential error could have resulted around misinterpretation of the guidance so that furloughed employees worked in addition to training or employers did not properly track which employees returned to work.

Following the introduction of flexi-furlough, changes were also made to the level of wage claim that could be made as the initial 80% (capped at £2,500 per month) decreased to 70% in September 2020, before rising again to 80% in November 2020. There were also further changes as the Government no longer covered the cost of employer NIC and pension contributions from August 2020, which has continued to be the case in 2021. Errors may have arisen in terms of claiming the incorrect rate of employer's NIC or by mistakenly claiming employer's pension contributions when in fact the employee had opted out.

#### What if my claim is incorrect?

Early on, HMRC recognised that it was inevitable that mistakes would occur and implemented a correction process. Even companies with large HR departments are expected to have made errors, due in no small part to the often complex calculations and definitions of what constitutes 'wages'.

HMRC has already begun trying to tackle incorrect and potentially fraudulent CJRS claims and, given the potential amounts involved, a significant number of HMRC's resources are expected to focus on this area. Where it identifies errors that have not been reported within the statutory 90 day period, HMRC will be seeking to charge tax penalties as well as recoup any overpaid CJRS payments.

#### What steps to take next?

It is important to look back at previous CJRS claims submitted during the last 12 months, particularly at the pay elements being used to calculate reference pay.

We at BDO have been helping many clients across a variety of sectors to review their CJRS claims, including those where HMRC have opened active enquiries into claims. It is therefore important to take proactive steps to review your own calculations, so that if an error is identified, any amounts can be made good with HMRC on a voluntary basis, to avoid any potential penalty or interest issues. The new CJRS legislation also includes powers to publicise defaulters online and to pursue company office holders where businesses become insolvent, with joint and several liability.

#### RESTART GRANTS

Local Authorities in England will provide new 'Restart Grants' to businesses required to close because of the latest national lockdown. The grants of up to £6,000 per premises will be based on the rateable value of their business premises and be available to 'non-essential retail businesses'. Hospitality, accommodation, leisure, personal care and gym businesses will be able to get more generous grants of up to £18,000 as they will reopen later with more restrictions. Businesses that continued to trade, those that chose to close and those that are in administration or insolvent will not qualify.

#### RECOVERY LOANS

A new scheme, available from 6 April 2021, will help businesses of all sizes fund the resumption of business after lockdown ends. Businesses can borrow between £25,000 and £10m. Any business (apart from banks and insurers) can apply before 31 December 2021, including those already borrowing under existing COVID-19 loan schemes. The Government will underwrite the new loans with an 80% guarantee.

The scheme will offer both overdrafts and invoice finance over a maximum of three years and term loans and asset finance over a maximum of six years. Personal guarantees will be required for loans over £250,000 and the business must be able to show it has been affected by the pandemic but remains viable and not insolvent.

### THREE-YEAR LOSS CARRY BACK

Unincorporated businesses and companies will welcome the increased flexibility to carry back losses arising during the period of the pandemic an extra two years. The extended relief will allow for a three year carry back of losses arising in 2020-21 and 2021-22 as follows:

- ▶ Unincorporated businesses and companies that are not members of a corporate group will be able to obtain relief for up to £2m of losses in each of 2020-21 and 2021-22
- ▶ Companies that are members of a corporate group will be able to obtain relief for up to £200,000 of losses in each of 2020-21 and 2021-22 without any group limitations
- ▶ Companies that are members of a corporate group will be able to obtain relief for up to £2m of losses in each of 2020-21 and 2021-22, but subject to a £2m cap across the group as a whole.

This will provide some additional cash flow by accessing a repayment of previous tax payments.

### R&D CONSULTATION

Research and development tax reliefs and cash credits are used to stimulate investment in innovation and technology across all sectors. The hotel sector as a whole has traditionally been slow to adopt new technologies, but we have seen an acceleration of spend in this area following COVID-19, meaning we expect more businesses to consider and use R&D reliefs.

The Government has now announced a review of R&D tax relief, which gives an opportunity for the sector to set out what would facilitate further investment in technology and innovation. The review covers:

- ▶ How the existing R&D relief schemes support R&D in the UK
- ▶ Whether the schemes should be amended to remain internationally competitive and keep the UK at the cutting edge of innovation
- ▶ Whether the definition of R&D and the scope of what qualifies for relief remain fit for purpose
- ▶ Whether current rates of relief, and the difference in rates between the two available R&D schemes, remain appropriate.

However R&D tax relief changes in the future, it is worth reviewing your spend on technology and innovation to see whether R&D tax reliefs could provide cash back into the business.

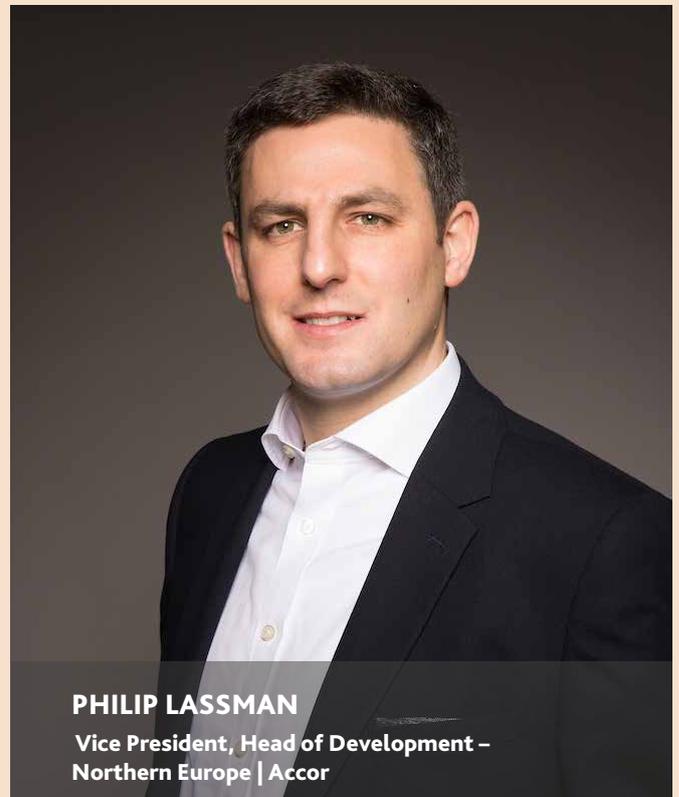
Have your say on the future of UK R&D relief [here](#).



## A VIEW FROM THE EXPERT

The UK hotel industry is at a pivotal junction this year: awaiting the sector's reopening, while closely monitoring the success of the vaccine rollout, the changes in consumer requirements, and the strong pent-up demand this summer. As a result, we at BDO are interested in speaking to sector experts, hotel owners, and operators who can cast light on some of the industry's current challenges, who are championing change, or who have developed an original concept that works for today's travel-consumer.

This year in 'A view from the experts', we are pleased to bring you two pieces of insight - one from a hotel operator and the second from a trade association body. Our interviewees reveal the major opportunities of the moment for hoteliers in the face of COVID-19, and share what they expect to see in the hospitality industry moving forward.



Accor is Europe's largest hotel company, operating more than 4,800 hotels across 100 countries. As hotel operators around the world prepare to reopen, we speak to Philip about how Accor is preparing to make the most of the pent-up demand, his priorities at Accor, and which current trends could be here to stay.

**Philip, the hotel industry has struggled through many difficult months. With the vaccination rollout and the roadmap out of lockdown now in place, how are you preparing to reopen at Accor, and what do you see happening over the next year?**

The pandemic has had an undeniable impact on the entire hospitality industry, and as such, Accor has taken every measure to ensure that we are able to operate effectively and safely in these circumstances. The health and safety of our guests and colleagues has and always will be our top priority. With that in mind, very early in the pandemic we introduced a cleanliness and prevention programme to UK hotels as part of our 'ALLSAFE' initiative. In the face of the pandemic, 'ALLSAFE' was introduced in partnership with Bureau Veritas to enhance our already high cleaning standards, and ensure compliance and maintenance of its rigorous standards. We see the programme as testament to our commitment to ensuring our guests are provided with the very best hygiene, cleanliness and safety measures in the industry as well as ensuring that our hotels can continue to run smoothly once reopened.

We also recognise that the way in which people travel will have evolved as a result of the pandemic, and in order to ensure we maximise business opportunities for all our Accor brands, our offer will move with it. For example, one area we have been looking at closely is business travel. We appreciate there will be a shift in how often and why people will be travelling in the future, which is why we have adapted our approach to broaden our revenue streams, including plans to offer co-working spaces on a subscription basis to corporate customers.

With initiatives such as these, we feel that we are putting ourselves in a strong position to return to pre-pandemic levels of business as quickly as possible. While the past year has taught us not to be surprised by anything, we believe that the actions we have taken and continue to take will put us in a good position to reopen.

**As we come out of lockdown, will you be approaching different hotel segments (ie budget, mid-market, and luxury) in different ways, and what will be your priorities for each?**

We recognise that our hotels are connected to the life experience of all guests, as such our priority is to maintain our high standards across the Accor brands. We are proud to offer the largest range of brands in the hotel industry, comprised of internationally acclaimed luxury and premium as well as popular midscale and economy brands, in-demand lifestyle smart concepts, and awe-inspiring resorts.

One way we have strived to maintain these high standards and continue to provide a premium service across our brands is through the introduction of our Astore Shop service in the UK. The platform provides comprehensive offers and services for procurement in the hotel and hospitality industry. Our franchises and boutique brands are therefore easily able to manage their entire procurement and operational needs via a central platform.

We only need to look to the summer and the impact of 'staycations' to see how quickly individual hotels and even brands can bounce back. That is why our priority continues to be making sure that every element of the Accor family is able to maintain our high standards, and in doing so we will be in a strong position when we are able to reopen.

**During the pandemic, we've seen the development of new trends such as remote working. Many hoteliers are now taking the opportunity to harness these trends, for example by creating new technologies or repurposing hotel space. In your opinion, what are the key trends hotels should be capitalising on as we move out of lockdown?**

The impact the pandemic has had on businesses such as Accor is that we have had to adapt to these unique operating circumstances, conceiving innovative solutions for how our hotels can play a role to help in this pandemic. The emergence of remote working as the new normal has brought about challenges for those looking to work in a quiet and professional space.

In answer to this, Accor launched the initiative 'Hotel Office', offering a solution by enabling people to book their own hotel room for an uninterrupted, premium remote working experience. Once the hotel industry is able to operate again, the 'Hotel Office' will once again become available in 250 hotels in the UK and a further 70 hotels across Northern Europe.

Accor has also engaged in new technologies in an effort to adapt and find solutions during the pandemic. One such technology the Accor brand has introduced is the 'Accor Key' – a keyless door entry solution where customers will receive their room key virtually upon downloading Accor's digital key app. The solution will help protect our guests and make sure that our hotels continue to be safe environments.

**Accor recently announced a new hybrid meeting platform called 'All Connect' in collaboration with Microsoft. Tell us more about this creation, and do you expect virtual meetings to become the 'new normal'?**

We are extremely proud and excited to introduce the 'All Connect' hybrid meeting platform. This new concept will enable guests around the world to adapt to the new ways of working that are expected to be an enduring legacy of the COVID-19 pandemic.

A key element of our hotels in the past has been the meeting rooms we offer. 55% of Accor hotels with meeting rooms are already providing hybrid meetings solutions to their clients. Looking forward our target is for 100% of our hotels with meeting rooms to comply with the new hybrid meetings standard by 2022 across all brands. The 'All Connect' concept, launching in April this year, will enable corporate customers and meeting planners to combine physical in-hotel meetings with virtual interactions across multiple locations simultaneously.

While we are enthusiastic to be able to offer the 'All Connect' experience, we recognise that the situation for which we have brought about this concept is far from ideal. Nonetheless, we strongly believe that, while there is a value to face to face meetings that can never be replaced, virtual meetings will continue to play a role post-pandemic, and the capacity for our meeting rooms to offer this service will continue to be beneficial to our guests in years to come.

**Which customer demographics will be the key targets for hotels post-lockdown, in a world where vaccine passports are being debated and where some remain anxious about travel?**

The picture for global travel continues to look unclear, with governmental travel policies changing on a daily basis. However, looking to the future we must be optimistic, and one area where we might see travel return in the near future is business travel. At Accor we realise that face to face interactions with clients and business partners are vital in many industries, and we know there is significant demand from businesses wanting to get their executives back engaging directly with key contacts.

Therefore, it is encouraging to see that recent research from Accor reveals that a third of corporate travel managers across Northern Europe believe their business travel programmes will recover within six months, driven primarily by domestic travel with a longer return to travel anticipated from international travellers.

Nevertheless, it is crucial to remain aware of safety concerns when reintroducing guests into hotels. We will be able to provide reassurance to business travellers through programmes such as the previously discussed 'ALLSAFE' measures. Furthermore, guests across the 5,000 Accor hotels worldwide can now access free telemedicine consultations, via the expert medical solutions of AXA Partners.

**UK hotel, restaurant, leisure and entertainment businesses employ over 400,000 EU nationals, and the average five-star hotel in London is made up of staff from as many as 50 different countries. With this in mind, how will the post-Brexit deal impact staffing, and do you think apprenticeship schemes will become more prevalent?**

The impact the pandemic has had on businesses such as Accor is that we have had to adapt to these unique operating circumstances, conceiving innovative solutions for how our hotels can play a role to help in this pandemic. This is because we see many people in the UK looking for the jobs offered at our hotels. Apprenticeship schemes are key to our business so we don't see Brexit as a large concern in terms of staffing.

We take pride in taking on young people with little or no post school education, hiring them into roles such as doormen, waiters, etc and training them. With four or five years' experience under their belts at the hotel they are trained professionals.



# RESTRUCTURING OPTIONS FOR HOTELS

## ASKING FOR SUPPORT DOESN'T MEAN GIVING UP CONTROL

Hotels in England will be able to reopen for leisure stays from 17 May. However, many of the owners of these businesses will be facing an uncertain future due to the lack of available working capital and balance sheets laden with debt. Whilst the Government has provided much needed support since the outbreak of the pandemic, as the life support measures are slowly withdrawn it will be a case of survival of the fittest.



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Businesses need cash to reopen. The tapering off of furlough will lead to the reabsorption of payroll costs. In addition, business rates will become payable in full for many businesses. Directors are likely to have undertaken top to bottom reviews of operations and streamlined as much as possible. On reopening, there will be the need to ensure that the business meets consumer expectation in terms of social distancing and hygiene measures as well as product offering.

Before looking at the possible available restructuring solutions it is perhaps worth reviewing the balance sheet:

### ASSET VALUES

These are likely to have been impacted, particularly in those asset classes that could be permanently affected by changes in consumer habits such as in the conference and airport markets. It remains to be seen how these will recover. Property agents however, do predict that trophy assets and key staycation markets will remain strong.

### CASH

A recent survey by the ONS found that more than half of businesses in the accommodation and food service sectors had three months or fewer of cash reserves. Although there is also anecdotal evidence that suggests some businesses in the sector have reasonably strong cash reserves due to HMRC deferrals and COVID-19 lending. Businesses without sufficient reserves or access to cash are likely to encounter issues, particularly if they open early, and should ensure they have appropriate staffing and safety measures in place.

### LEASE LIABILITIES

Whilst the hotel sector does not have the same exposure to lease liabilities outside the larger branded chains, it is worth noting that the temporary prohibition on landlords forfeiting leases has been extended to 30 June and the restrictions on landlords exercising CRAR are also extended. Whilst these measures are welcome they do not deal with the issues facing tenants which is how they will repay lease arrears. Some landlords are recognising the need for flexibility, without which businesses with significant rent arrears may struggle to bounce back.

### HMRC DEBT

Businesses could defer VAT liabilities due between 20 March 2020 and 30 June 2020 to 31 March 2021. This can now be extended further by opting into a payment plan by 21 June 2021. This will assist cash flow but again requires the liability to be settled in full. It should be noted that with effect from 1 December 2020 HMRC were given preferential status ranking ahead of secured lenders with floating charges and unsecured creditors in respect of unpaid VAT, PAYE and employees national insurance contributions. This change in status will have an impact on recoveries to lenders in enforcement scenarios and is likely to impact on future lending decisions and lender negotiations in restructurings, although fixed charge lender security is not affected.

### SECURED DEBT

Many businesses will have taken out additional secured facilities by way of 'a bounce back,' CBILS or CLBILS loans depending on the size of the business in order to fund working capital in the absence of any or limited revenue. These loans are partially backed by Government guarantees. Debt repayment holidays or deferrals are at the discretion of the lender. There is currently limited data available as to how lenders will approach restructuring of debt which has a partial Government guarantee. The HMRC preferential status as discussed above will also have a bearing on lenders attitudes to restructuring. To date there have been unprecedented levels of forbearance by lenders.

In the event that directors conclude that consensual agreements with key stakeholders cannot be reached, there are a number of formal restructuring options available to them. A popular tool prior to the COVID-19 pandemic for restructuring a business with a leasehold estate was a Company Voluntary Arrangement (CVA), which enables a company to make proposals to its unsecured creditors to compromise their claims. This was used successfully by Travelodge in June 2020 for a restructure of the leasing liabilities of the group. Another well-known process is that of a Pre-pack Administration sale, whereby the company is marketed via an accelerated M&A process with the business sold immediately upon appointment of administrators .



Newer options for the sector can be found in the new The Corporate Insolvency and Governance Act (known as CIGA for short) which came into effect on 26 June 2020. This legislation was fast-tracked as a result of the pressing need to support UK businesses in light of extensive COVID-19 disruption. CIGA introduces a number of powerful measures to improve the potential for distressed companies to survive, stabilise and prosper:

**1. Protection from creditors for viable companies**

A standalone moratorium that leaves the directors in charge of delivering a solution (overseen by a qualified 'monitor') while providing a standstill from a wide range of historical obligations. The key issue for moratoria in the hospitality sector is that certain liabilities including rents need to be paid as they fall due during the period of the moratorium.

**2. A new debtor-led compromise procedure**

The 'restructuring plan', modelled on a scheme of arrangement with scope for greater flexibility, including the power to prevent dissenting creditors from obstructing a viable restructuring if certain circumstances are met. We expect to see these plans being used more frequently as it becomes more established within the restructuring market.

**3. Protection from supplier disruption**

A prohibition on termination clauses being triggered by the new moratorium, restructuring plan or other formal insolvency proceedings.

These reforms represent the biggest change to the UK's restructuring and insolvency legislation since the Enterprise Act which came into force in 2003. The measures go to the heart of many of the components of a successful turnaround, including encouraging early engagement with stakeholders, and an acknowledgement that **reaching out for support should not mean having to give up control**. The new moratorium allows strong boards with credible plans to act early and drive company rescue, supported by turnaround professionals with valuable situational experience. The greatest barrier to an optimal outcome is often 'runway'. The new measures afford companies enhanced scope to develop and deliver structured turnaround plans with an increased opportunity to drive operational and financial restructuring.

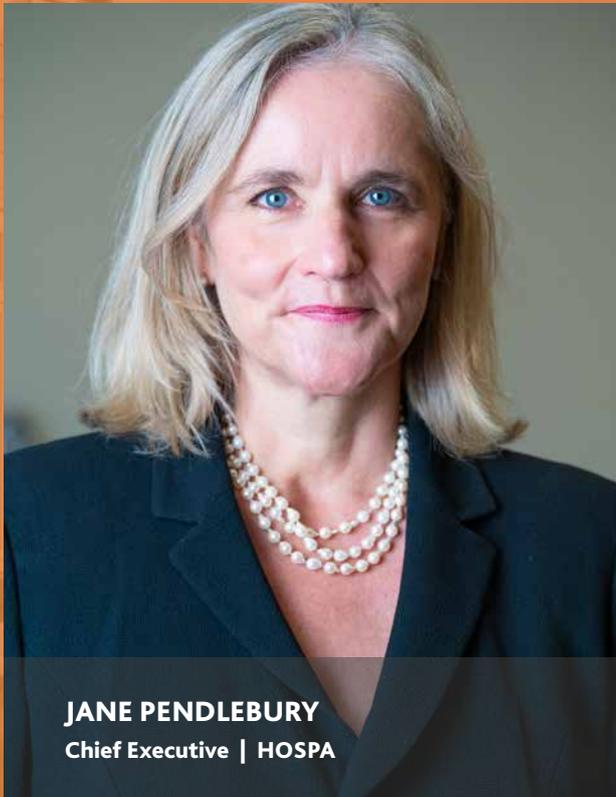
The most high profile use of the new legislation case in the hospitality sector is that of Pizza Express. Here a restructuring plan effected a major financial recapitalisation and de-leveraging, together with a CVA to effect an operational restructuring of its leasehold liabilities. Also, the first example of a cross class cram down, where dissenting creditors were prevented from obstructing a viable restructuring plan, has been seen in the Deep Ocean.

Virgin Active have also put forward a restructuring plan. The outcome for this will take a number of weeks. The Court has approved the convening of plan meetings on 16 April with a Court Sanction hearing on 29 April. A number of landlords were represented at the convening hearing and it will be interesting to see whether a cross class cram down is the outcome in this case.

More widespread use of the new legislation has been delayed as a result of the Government's continued support measures, particularly with regard to the restrictions on actions by landlords and the issuing of winding up petitions, which has been further extended to 30 June 2021 and may yet be further extended. However, as we exit lockdown more business owners will need to explore all options available to them which will likely vary dependant on the specific circumstances of each business but may well include one of the tools introduced by CIGA.



## A VIEW FROM THE EXPERT



**JANE PENDLEBURY**  
Chief Executive | HOSPA

HOSPA is the association helping hospitality's Finance, Revenue Management, Technology, Marketing and Asset Management professionals develop their careers, network and keep up-to-date with industry trends and developments. They offer a wide and growing range of opportunities for members, from meetings addressing specific topics to webinars; from extensive professional resources to the latest industry data through HOSPA's monthly magazine. Here, Jane talks to us about their Recovery Package, trends which hoteliers can take advantage of to create new revenue streams and the impact of the post-Brexit deal which hoteliers need to be aware of.

**Jane, one way HOSPA is helping hotels to survive and reopen is through the official HOSPA Recovery Package, a platform which offers advice to hoteliers and hospitality businesses about maximising their recovery. Tell us more about this initiative and what's to come?**

The pandemic and its devastating effects on hospitality empowered the HOSPA team to do what we are best at. We supported individuals, sometimes just by listening but usually by imparting key snippets of information that we had gleaned through both official channels and anecdotal reports. We helped businesses make sense of the situation as best we could, we shared information and advice and where possible connected members with each other or with relevant professionals.

I often retell the story of answering the phone just as we were all beginning to understand the enormity of what the first shut down was likely to mean. The call was from one of our members who is a hotel commercial director in London. He talked through exactly what he had done to prepare to close the hotel and asked me if I thought he had forgotten anything. His list was comprehensive and, with his permission, we used his checklist as the starting point of an informal guide for all the subsequent calls HOSPA then received on the same topic. To become that hub of knowledge was rewarding for us internally and invaluable for our members.

That 'accidental' start set us on our path of imparting best practice throughout the pandemic. We shared positive news stories where hoteliers took in the homeless, housed NHS staff and military personnel, fed key workers as well as local residents. We shared news of innovation and inspiring ways income had been generated while continuing to delight future guests with promises of better days ahead.

**The measures announced by the Chancellor in the Spring Budget earlier this month were eagerly awaited by the hospitality sector. How do you think these measures will tangibly impact the sector as we recover, and is there anything more that the Government should be doing in your opinion?**

Over the year of the pandemic, the Government offered some good support to hospitality and at times seemed to truly understand the industry. However, the more recent developments seem to have ignored the diversity of hospitality. Watching the television news, one could be forgiven for thinking that hospitality is all about a packed pub in a student town where not all the visitors care about social distancing – particularly as the evening progresses! Compare that with a hotel or a restaurant, especially a fine dining one, where cleanliness and hygiene is a top priority and social distancing is strictly (and, quite frankly much more easily) adhered to.

A minister for hospitality would be incredibly useful in helping explain the far-reaching range of businesses within the sector. It was so hard for HOSPA members who invested significantly into making their premises COVID-19 safe only to be forbidden from operating in ways they had established were secure. The 'Eat Out To Help Out' scheme was utterly brilliant, but it saddens me to read some of the negative press that came about following the success of that programme.

Christmas was another hard blow to many venues who were hoping to accommodate or host family meals and I still stand by my words at the time – which were that families would be safer in a hotel restaurant than in someone's private residence. Perishable stock had already been purchased in many instances, staff had been pulled back in and plans had been forging ahead, only to have Christmas activities abruptly stopped.

**With staycation numbers expected to surge later this year as lockdown eases, how can hotels take full advantage of and prepare properly for this heightened demand?**

Certainly the coastal and rural hotels are already anticipating a bumper summer! The demand is far exceeding supply and those who have their revenue management strategy finely tuned can be sure of a profitable season. The key for these destinations is to ensure they maximise the opportunity, to make sure they have length of stay controls to cover notoriously quieter Sunday evenings. Staff should be trained to upsell every conceivable experience to make the most of the extra funds that the majority of guests will have, given they have not invested in flights to reach their chosen destination and had little opportunity to indulge over the last year.

Once the guests are in-house then creating and maintaining loyalty has never been more important. While it may have been relatively easy to sell bedrooms this year, next year we can expect the desire to travel overseas to become a challenge for home-grown holidays. To ensure that guests want to return next year is a critical part of ongoing success.

It's not the same for city centres though, which are not benefitting as much from the local demand. London and other cities have often heavily relied on international business travel. All is not lost however, as there will be visitors who want to take advantage of the quieter venues and fewer people on the streets. Attractions and experiences will be the key to success. Create some packages for guests to choose from; an inclusive visit to a restaurant or a local tourist venue might just be what encourages a booking into your property. It is imperative to have marketing teams working on the hotel's public image and, likewise, revenue managers should be fully geared up to convert every enquiry. Websites must be up to date with opening dates and the availability of facilities. Shouting about cleaning procedures and flexible cancellation options are also crucial when encouraging guests to visit your hotel rather than the one next door.

**During the pandemic, we've seen the development of new trends such as remote working. Many hoteliers are now taking the opportunity to harness these trends, for example by creating new technologies or repurposing hotel space. What are the best examples you've seen of this, and which key trends should hotels be capitalising on as we move out of lockdown?**

Isn't the entrepreneurial attitude of hoteliers brilliant?

Turning bedrooms into small meeting rooms is perfect, either for those who cannot easily work from home or for get-togethers for teams who no longer have the facility in their corporate office.

We held our annual conference at The Royal Lancaster Hotel in 2020 – they made it so easy for us to take the decision to proceed as they had installed a studio into one of their main conference spaces. We were able to broadcast our event across the world in a TV style broadcast which was a welcome break from Zoom calls and meetings on Teams!

Room service became the fastest growing and one of the most profitable hotel departments, partly through lack of options, but again visionary hoteliers were able to really take advantage of the demand and increase their offerings. And for those guests not in-house, the dining experience was extended to deliveries of complete meals or prepared food to finish off at home. The same with cocktails – a whole new industry emerged around offering the dining out experience in the comfort of our own homes. So many people were searching for alternatives to their now rather less eventful lives, living and working at home - hoteliers tried in earnest to bring the hotel dining experience into family life.

There has been much investment into new technologies to enable remote check-in and check-out, while QR codes have staged a come back, partly because it is so easy to read a QR code with a smartphone's camera but also allowing diners to view menus and even place orders and pay through an app. Suppliers of mobile keys (allowing the guest's mobile phone to open hotel bedroom doors) have seen existing deals accelerate, with the rollouts becoming suddenly urgent.

A lot of new companies also popped up, offering some quick-wins for hoteliers finding their way during the pandemic. My advice remained the same throughout: keep thinking long-term – will this solution be of benefit in the future? If not, is it essential to operate effectively and efficiently right now? Any short-term needs met by new technology have to be cost-effective. The general lack of ready cash prevented most chancers from exploiting vulnerable hoteliers, and hoteliers benefited from some immediate solutions to immediate (new) issues.

Once we are clear of the pandemic, adoption of these new technologies will come down to choice. In time, the guest will choose whether they would prefer to select their wine from an app, or if they would appreciate the theatre of a leather-bound wine list presented by a highly knowledgeable sommelier keen to share their recommendations.

**UK hotel, restaurant, leisure and entertainment businesses employ over 400,000 EU nationals, and the average five-star hotel in London is made up of staff from as many as 50 different countries. With this in mind, how will the post-Brexit deal impact industry staffing, and do you think apprenticeship schemes will become more prevalent?**

The Brexit effect is a pain point that has not yet reached anywhere near its peak. Many hotels are opening with fewer staff but with demands on those staff to offer more. The pain will become more apparent as the path to normality progresses.

It's not impossible to employ staff from the EU, but it's a lot harder than it once was. The skills of our friends in the EU and their willingness to work in some of the less glamorous positions will be sorely missed.

Apprentice schemes may well see increases, but I think a lot of this comes back to perception of the industry. The image of working in hospitality has to improve. The recently launched hoteliers' charter <https://hotelierscharter.com/> is designed to promote hospitality as a career rather than being seen simply as a holiday job.

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Those of us who have found careers and enjoyed working within hospitality have a duty to spread the word to friends and family far and wide. It is an industry packed full of opportunity to quickly climb the career ladder. It is all about attitude, desire to succeed and a willingness to develop skills along the way.

**Environmental, Social and Governance (ESG) is arguably one of the key issues of our time, and will be on the agenda of many boards over the coming years. How can the hospitality industry lead the way in the ongoing efforts to promote ESG?**

ESG is certainly a key issue for investors and has its roots in Corporate Social Responsibility (CSR). CSR – with fear of making a sweeping generalisation – has been important in hospitality for a long time, not least because the majority of hospitality employees are aged between 16 and 24. In years gone by, choosing a job was led by salary and long-term career goals, but now the employer displaying the right ethics is as important, if not more so than financial reward. There is a long way to go and something that will become increasingly front of mind with COP26 in the UK later this year. As that finishes, our annual conference commences, so we are leading with an environmental theme for the first time ever. Watch this space!



# DISPUTES AND FINANCIAL IRREGULARITIES

HOW CAN YOU MAKE THE MOST OF THE OPPORTUNITIES?

Over the course of 2020 and the more recent months of this year, we have found that COVID-19 and the financial consequences of the lockdowns for the hotel sector has presented a whole new range of issues. There might not be a quick fix for the industry, but there are some key opportunities for those who look out for them. Here we outline a few of these and how to make the most of them.



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### REVISIT AN INSURANCE CLAIM FOR BUSINESS INTERRUPTION LOSS OF PROFIT

Now might be a good time to initiate or revisit an insurance claim for business interruption loss of profit. Initial resistance from insurers has been mitigated by the recent success of a test case in the Supreme Court, and successful claims for fortunate policyholders with the right coverage can be made, but the devil is in the detail. Discussing with your broker/legal advisers whether there is a valid claim under policy wording will be essential, as some policies will still not provide cover.

There are some issues which are highly relevant to the hotel industry that remain to be clarified and tested, including whether the number of occurrences of loss might give rise to multiple limits of loss, ie limits for each hotel rather than the umbrella organisation holding the policy. It will be interesting to see how this plays out.

Hoteliers should be aware that most policies are prescriptive in the formulation of the claim, with income and costs to be defined in the policy and which may not be the same as those used to report gross profit. Thorny issues include the treatment of Government aid such as furlough payments and business rates relief.

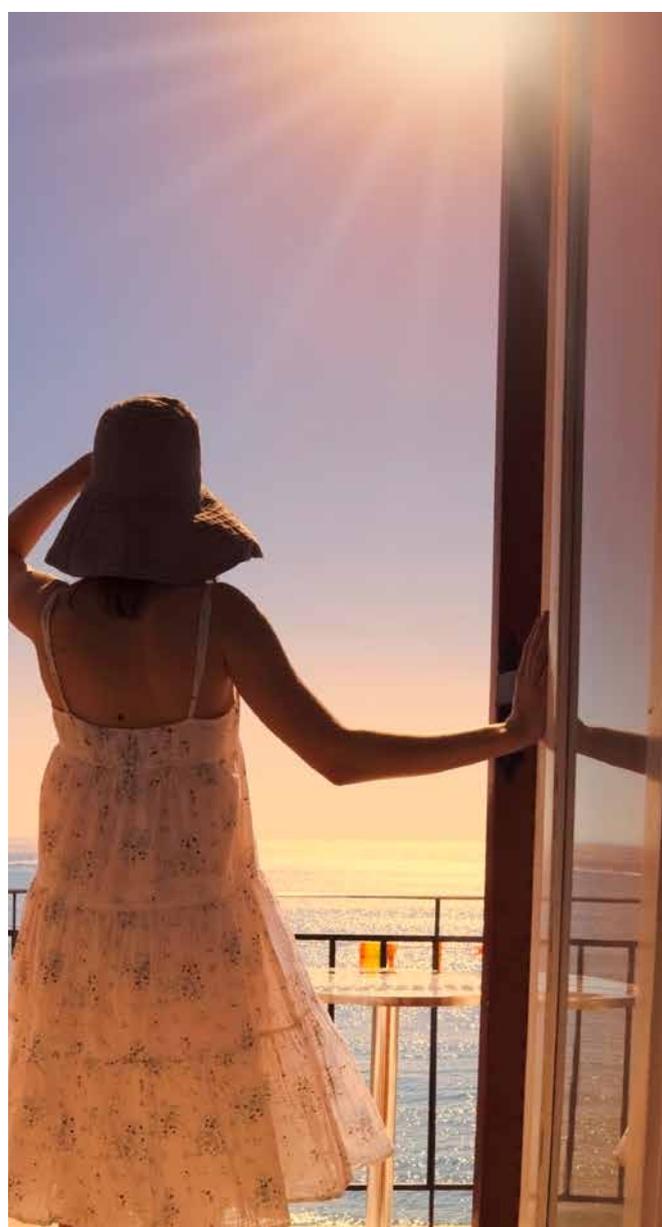
A robust claim will be supported by relevant historical data, which is even more important with the welcome news that the Supreme Court has enabled policy holders to challenge insurers' attempts to focus on profit in the periods immediately prior to closure where demand may have already been impacted and profits depressed.

Finally, don't assume that insurers will get the calculation right, or even in accordance with the policy when they respond to a claim.

### ACQUIRE QUALITY ASSETS FOR YOUR HOTEL PORTFOLIO

Some hotel businesses simply won't have the resources to continue to trade and might exit the market altogether which, as the sector comes out of lockdown, means there will be new opportunities for buyers/investors with a war chest to acquire quality assets for their portfolio.

It should be noted that rushing into a deal without the right protection in the sale and purchase agreement (SPA) might mean the deal you were expecting is not what you get.



Key accounting clauses which can impact the transaction include accounting definitions, consideration terms, warranties and indemnities, and deal mechanisms such as completion accounts, earn out accounts and 'locked box' arrangements. A forensic review of the SPA will help address some of the risks and protect your interests. Completion accounts or earn-out account disputes are common because the final figures are not as expected and warranty disputes are most common in uncertain market conditions. In a market where a boom in bookings post-lockdown could have unforeseen consequences for a buyer in an earn-out deal, getting the mechanism and the wording right could make a big difference to the price.

#### **CARRY OUT FRAUD RISK ASSESSMENTS**

Of course, exceptional times also create the wrong type of opportunities, fraud being one. As it emerges from the restrictions, the British hotel sector is expected to experience, at least in the short term, a surge in demand, and chaotic trading conditions often create opportunities for fraud. Employee proximity to the hotel's financial and operating systems and possibly their interaction with guests and suppliers makes the hotel sector especially vulnerable.

The financial and reputational risks are high and can be catastrophic if not addressed head on. We recommend that owners and operators carry out a fraud risk assessment to identify and address any vulnerabilities in preparation for reopening operations. It will not only mitigate the risk of fraud, but having a fraud risk management framework that aligns with an organisation's culture and strategic objectives also forms a crucial part of a recovery plan if an organisation does become a victim.

To start a proactive risk assessment process you may want to consider whether **COVID-19 has made your business more vulnerable to corporate fraud.**





# REVIVE AND THRIVE

## OUR FIVE KEY TAKEAWAYS FOR 2021

We hope that this year's edition of Hotel Britain Lite has encouraged you in some small way to rethink and to move forward. Looking to the past, we at BDO remain heartened that the hospitality industry has always demonstrated incredible resilience in the face of prior geopolitical crises. This knowledge, combined with Government support measures, the success of the vaccine rollout thus far, the pent-up demand exhibited last summer, and the innate human desire to travel and reconnect, fills us with optimism for a full revival. We wish you a sociable and successful summer, and we leave you with our top takeaways from this year's report.



### 1. HEIGHTENED HYGIENE

Hotels must not only implement new hygiene regulations during the pandemic, but must package and publicise them to reassure guests: see IHG Hotels & Resorts hospital-grade 'Way of Clean' programme, or Accor's 'ALLSAFE' initiative.



### 2. REFINING STAYCATION STRATEGIES

There's more to a successful summer than simply taking bookings: HOSPA recommend upselling, experiential travel packages, and length-of-stay controls to capitalise on home-grown holidays and ramp up revenue.



### 3. BUILDING A SUSTAINABLE SECTOR FOR THE FUTURE

Hotels are using this period to advance their sustainable strategy; using ESG to attract investors, consumers and employees, but also to make a real difference. Expect to see the industry finding new ways to go green and strengthening links with local communities.



#### 4. CREATING SOLUTIONS FOR THE CHANGED CORPORATE DEMAND

How will the UK 'do business' in future, and how will hotels cater for this revised corporate demand? As a solid start, hotels are developing new, innovative software to offer premium remote-working solutions, such as Accor's 'Hotel Office' or IHG's live-streaming events programme.



#### 5. LOOKING BACK TO MOVE FORWARD

Now is the time to rethink your business model for the better. Our restructuring options for hotels and forensic opportunities have revealed how businesses can revive and thrive in this new reality.



# 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, as well as a monthly report. We also maintain one of the world's best 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.

### TAKING LEISURE AND HOSPITALITY INTERNATIONAL

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.

If you or anyone in your organisation would like to receive our hotel reports, which include key data and statistics for the industry, please contact Lucy Cole.



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