Produced in association with Deloitte.

TRAVELWEEKLY

insight

Annual Report 2021-22

'The world has changed'

Living with Covid-19, facing up to climate change

Produced by Travel Weekly, with exclusive consumer research

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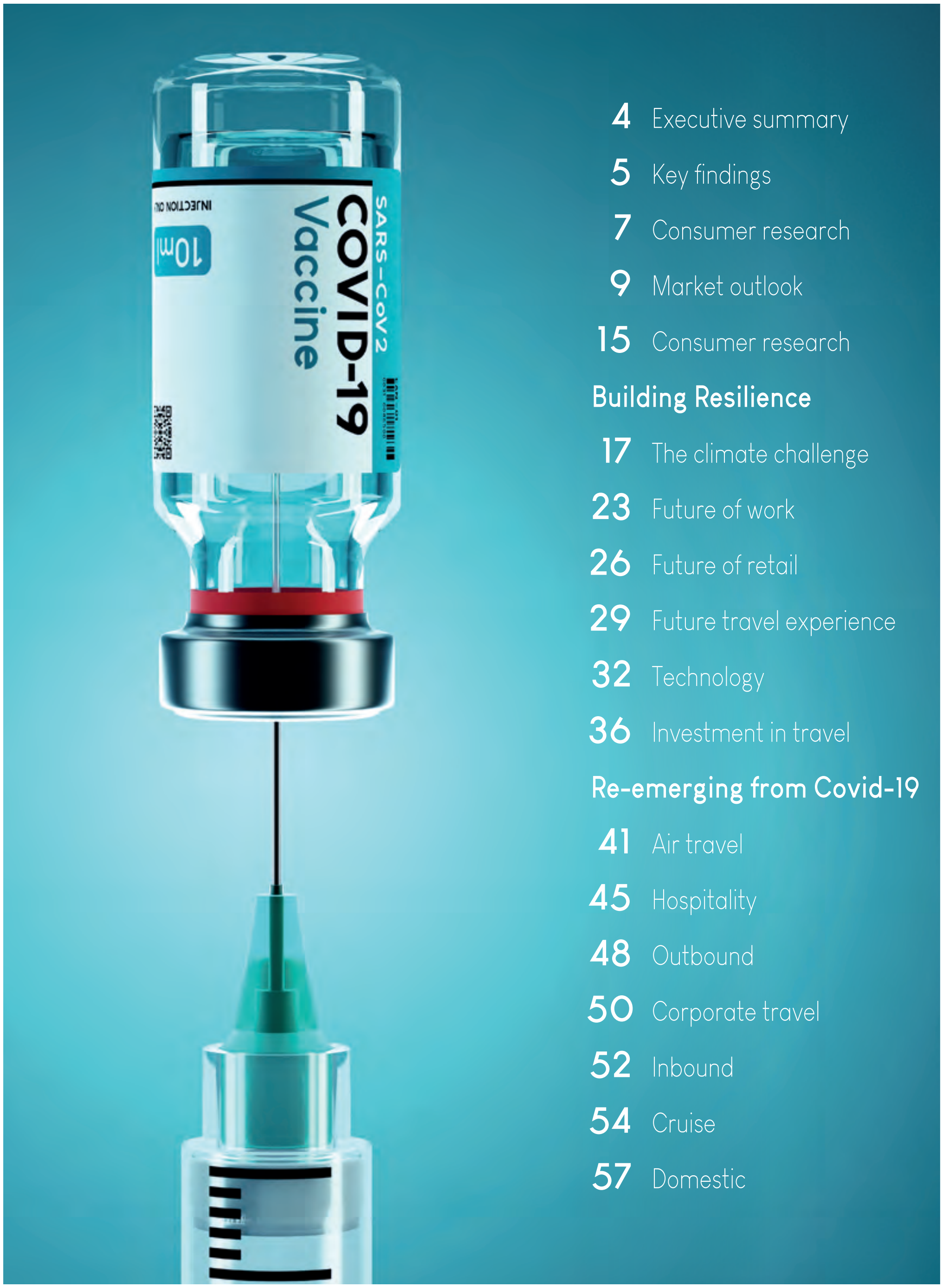

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EXECUTIVE SUMMARY

THERE IS A CLIMATE FOR CHANGE

There are promising signs of recovery for the UK travel sector following the uncertainty of 2020 and much of 2021.

This year, great medical advancements have enabled us to resume activities we've missed due to the pandemic and the travel sector was at the heart of the quest to return to 'normality', from reuniting families after the reopening of international borders to offering people their first post-lockdown holiday or work trip. The sector has shown great resilience and commitment to serving consumers.

Improving confidence, combined with the savings some consumers built up over lockdown, created strong pent-up demand for all leisure activities, including travel. Our Deloitte Consumer Trackers for Q2 and Q3 2021 showed net spending on short breaks and long holidays recovering to pre-pandemic levels. However, consumers showed a preference for domestic holidays amid fluctuating travel rules. This gave many UK-based travel companies the boost they needed to continue in business. The recovery in outbound travel was slower, although many businesses saw a notable upturn in bookings once travel rules were simplified this autumn. The hope now is that sentiment continues to improve.

There are still many risks to recovery. Some consumers may be wary of travelling. The pandemic could lead countries to impose stricter protocols or travel requirements, creating further complexities for travellers. The risk of fresh variants remains. However, the experience gained over the past two years gives reason to believe the sector can cope with new challenges and adapt.

The sector's desire for recovery is accompanied by a growing willingness to target net zero, argues Deloitte's Alistair Pritchard

CLIMATE OF CHANGE

Some things have changed for good, the focus on climate being one. Our research suggests 57% of consumers globally feel worried about climate change and 52% would support new climate regulation even if it made some goods or services dearer or unavailable. It suggests consumers increasingly want a collective change in behaviour and expect governments and businesses to join them in this.

Now is the time for bold strategic action to ensure a future for the sector. The travel industry has made some progress in reducing its impact on the environment but there is much to do. This is just the beginning. We see a need for greater collaboration across the travel ecosystem to improve our understanding of climate change, the impact it will have on businesses and the actions needed to reduce emissions.

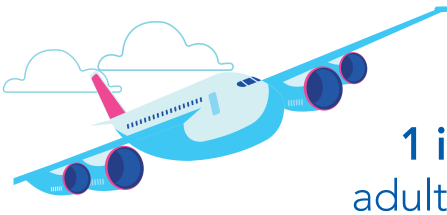
While climate action is partly about doing things differently or doing new things, much of it is about accelerating the transformation that has been on the sector's agenda for some time.

Technology is likely to be a key enabler for travel businesses to become more efficient and innovative in how they operate. However, it is equally important for businesses to invest in creating a workforce of the future. Many people left the sector during the pandemic and there is an urgent need to acquire new talent with different skills as well as upskill existing staff so that the sector can move forward to net zero.

Alistair Pritchard, lead partner, Travel and Aviation, Deloitte LLP

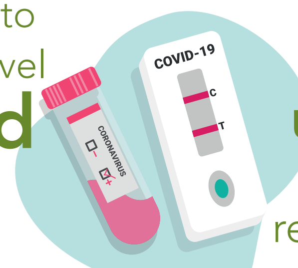
KEY FINDINGS

38% plan an **overseas holiday** in 2022, +7pts YoY, but -15pts on 2019
(22% of adults took a holiday abroad in 2021)



56% **unlikely** to holiday abroad while **Covid-19** a risk

1 in 3 **unhappy** to pay for travel **Covid** test



1 in 2 **uncertain** of travel requirements

1 in 2 adults with **children** plan an overseas holiday

42% planning a **holiday abroad** will spend more, 43% the same

2 in 3 support **Covid** travel **rules**, 12% oppose

2 in 3 concerned about **climate change,** 2 in 5 to change travel behaviour

1 in 10 strongly **agree** with **paying more** to **reduce CO2** when travelling, 30% would pay some more

1 in 3 UK adults have **more to spend** than pre-pandemic, 1 in 3 less

24% of holidaymakers **concerned** about **flying**, highest rate since survey began

55% plan a **domestic** holiday in 2022

47% say cancellation **refund** 'key' when booking

1 in 2 to book **all-inclusive**
62% of adults with children

13% of travellers **over 65** plan a **cruise**

35% plan a **beach** holiday, - 6pts on 2019; 22% plan a **city break**, +3 pts on 2019

Source: Service Science/Kantar Graphics: Shutterstock

FOREWORD
TWO BIG ISSUES TAKE CENTRE STAGE

Identification of a new coronavirus 'variant of concern', the Omicron variant described by the chief medical advisor to the UK Health Security Agency as "the most complex" and "most worrying we've seen", set countries racing to reintroduce travel restrictions as this report was finalised in late November.

In the UK, the reimposition of PCR tests for all arrivals, the requirement to quarantine while awaiting the result and the return of countries to the red list put the Christmas-New Year getaway at risk and threatened to cast a pall over the winter travel season and the January-February peak booking period.

The reaction was understandable if regrettable. We can be confident our understanding of the new threat and the necessary response will develop quickly, but short-term pressures on travel businesses' finances could be significantly ratcheted up.

It was a sharp reminder that however the pandemic now evolves, the Covid-19 crisis is not over. Rates of infection and hospitalisation were already rising across Europe before the variant appeared, leading to renewed restrictions.

Ryanair chief Michael O'Leary, normally the most bullish of chief executives, warned of a "fraught period", arguing: "It looks like Europe is going to get very nervous again at the worst time of year, when people are making Christmas travel plans." It could also hit hopes of a strong post-Christmas.

In the circumstances, industry demands for the removal of the UK's day-two rapid test on arrivals at the government's January review of its entry policy may prove premature.

Unfortunately, Covid-19 is not the only major concern for the sector or the world. Indeed, in the medium to long term it is not even the most pressing despite the immediate threat to some businesses' survival. The reality of the climate crisis must now be clear to all but the most determined to deny it, and the urgency of the crisis is increasingly obvious.

> "The industry should be prepared for a 'fraught' winter despite plenty of grounds for optimism, but it can't ignore the long term

ONE IN five UK adults (22%) took an overseas holiday in the 12 months to October, according to the Service Science/Kantar survey undertaken for this report, a surprisingly high proportion in the circumstances and indicative of the underlying demand (Figure 2). Younger adults predominated among those travelling, with half of 25-34-year-olds and two in five 16-24-year-olds, but just 14% of those aged 45-64 and 9% of adults 65 and over. Half of UK adults (52%) took a UK domestic holiday in the same period (Figure 4)

Whether that leads to the transformative action required and at the necessary scale remains to be seen. It is hard to be wholly optimistic. The *Financial Times* chief economics commentator Martin Wolf rightly noted following the COP26 conference: "If we compare the global discussion today with that of a decade ago, we have come a long way. But if we compare it with where we need to be, there is a frighteningly long way to go."

The consumer research which runs through this report suggests no shortage of demand for holidays while recognising the risks and requirements of travel during the pandemic and the need to address the sector's environmental footprint.

I'm indebted to Tom Costley of Service Science for facilitating the research and grateful to Deloitte and the many Deloitte contributors who gave their time and expertise. Any mistakes are mine.

Ian Taylor
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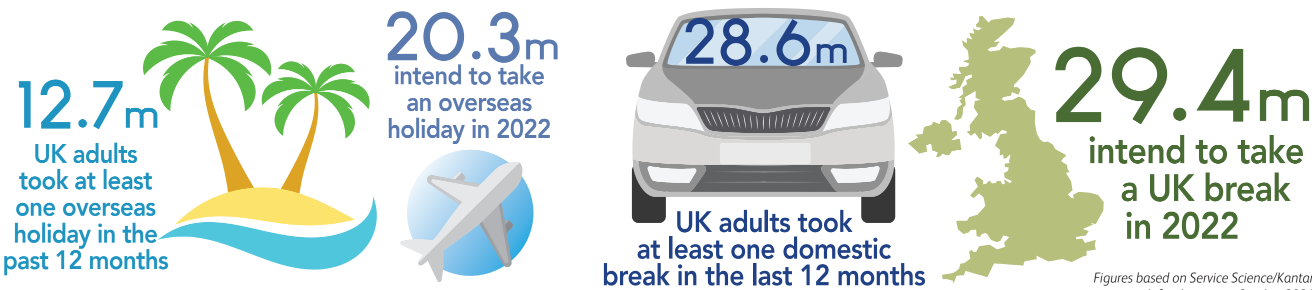
PICTURE: STEVE DUNLOP

UK CONSUMER RESEARCH

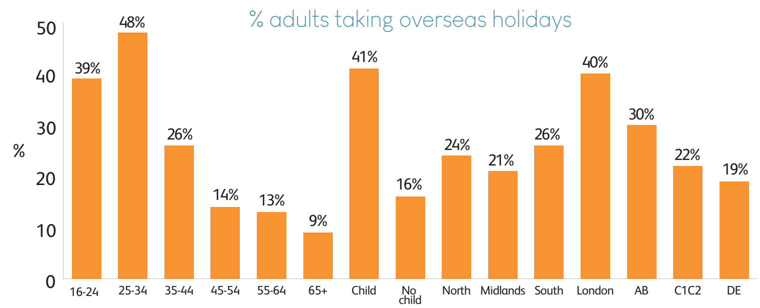
SERVICE SCIENCE/KANTAR SURVEY

FIGURE 1: UK HOLIDAY MARKET



Figures based on Service Science/Kantar consumer research for this report, October 2021

FIGURE 2: UK OUTBOUND HOLIDAYS, 2021



Base: 1,279 UK adults *Source: Service Science/Kantar, October 2021*

FIGURE 3: PRE-PANDEMIC UK HOLIDAY MARKET: 2019

Overseas holidays

24% of UK adults took two or more overseas holidays

58% of adults with children took at least one overseas holiday

26% of adults with children took two or more overseas holidays

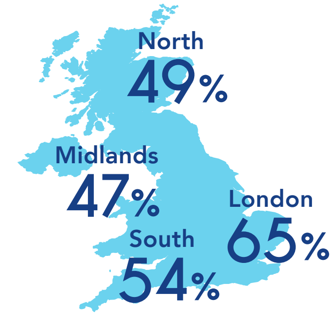
Domestic holidays

67% of UK adults took at least one domestic holiday

40% took two or more domestic holidays

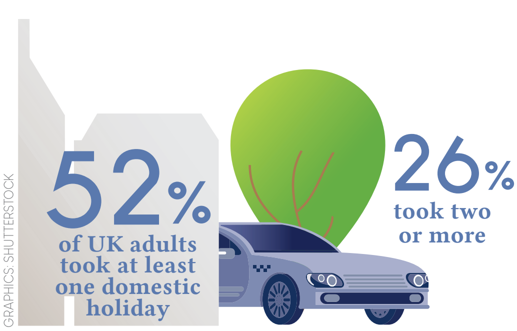
86% who took an overseas holiday also had a domestic break

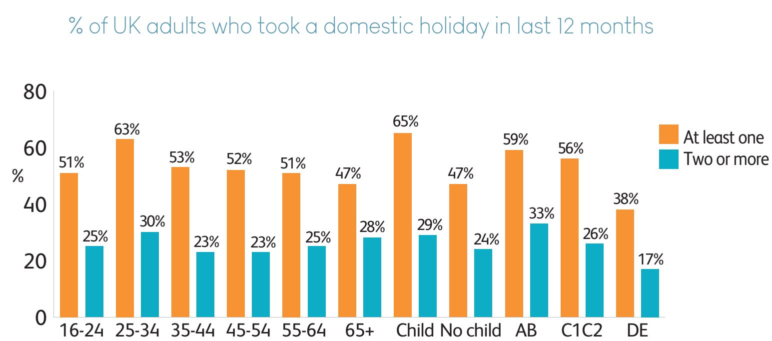
% UK adults who took at least one overseas holiday in 2019, by region



Based on Service Science/Kantar research for Insight 2019-20

FIGURE 4: UK DOMESTIC HOLIDAYS, 2021





Base: 1,279 UK adults *Source: Service Science/Kantar, October 2021*

aROSA
Cruising differently
THE ALL NEW A-ROSA SENA
LAUNCHING 2022
The year river cruising changed for good

MARKET OUTLOOK
PROSPECTS BRIGHTEN FOR FULLER RECOVERY

The rapid development of vaccines by late 2020 and rollout of vaccination programmes through 2021, both unprecedented in speed and scale, transformed the Covid-19 pandemic. It brought a semblance of normality to daily life in much of the developed world.

Yet the virus proved remarkably resilient, not least by throwing up the Omicron variant in late November 2021 leading to new restrictions and a race to deliver booster jabs.

The pressure on health systems, whether from Covid or from conditions exacerbated by or left untreated due to the pandemic, hardly abated. At the time of writing, much of Europe was in the grip of a new wave of infection despite significant rates of vaccination even before the Omicron variant was identified. As Karen Taylor, head of Deloitte's Centre for Health Solutions, warned following approval of the first vaccines a year ago: "We are far from out of the woods."

The UK's first relaxation of pandemic restrictions in summer 2020 proved to have been grossly premature and it was July 2021 before the government relaxed most domestic restrictions in England, with the devolved administrations following never entirely in lockstep.

Most EU governments acted earlier and went further, despite the UK's initial lead on vaccinations. International travel within the EU resumed at some volume from July, while the UK government hesitated to make meaningful changes to its traffic light regime until September. That left the UK lagging other European markets with the exception of Scandinavia, where caution also prevailed.

The situation changed from September as one relaxation followed another for fully-vaccinated travellers as the UK government abandoned its traffic light system, removed all red list countries, removed PCR tests and requirements for a pre-departure test to enter the UK and accepted all under-18s as fully vaccinated. These measures, allied to the opening of the US border from November, made travel at least an option again for those fully vaccinated although entry to the UK still required completion of a Passenger Locator Form and purchase of a day-two rapid Covid test, and there was a remarkable lack of consistency in the requirements of destinations even among EU member states. The obstacles for unvaccinated travellers remained daunting.

> The Covid vaccine rollout was transformational but the path to full recovery for the travel sector could be long

RECOVERY PATH

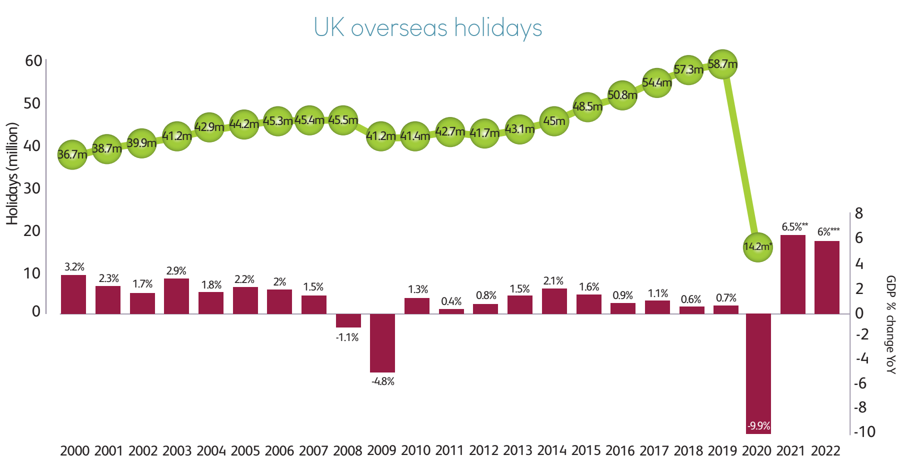
The Treasury resisted almost all pleas for sector-specific support other than providing some business rates relief for the retail and hospitality sectors and a VAT reduction for domestic tourism and hospitality businesses. There was also some provision for loans.

Furlough continued until the end of September 2021 amid considerable trepidation that ending the scheme would trigger a wave of redundancies across the economy. In the event, the most-pressing issue became not a shortage of jobs but a shortage of labour.

That did not prevent much of the

THE STRONG relationship between outbound holiday demand and the state of the economy, reflected in GDP growth, is clear (Figure 5). But the pandemic restrictions grossly distorted the downturn in travel in 2020-21. Note the almost negligible impact of 9/11 on UK outbound demand and, by contrast, the long recovery required following the 2008-09 financial crisis

FIGURE 5: OUTBOUND HOLIDAYS & GDP, 2000-21



ONS estimate **Treasury/OBR estimate * Treasury/OBR forecast*
ONS data revised 2019 and outbound figures for 2009-18 re-estimated
Source: ONS, Treasury/OBR

PROSPECTS BRIGHTEN FOR FULLER RECOVERY

travel sector feeling unsupported by the government despite aviation and maritime minister Robert Courts assuring an Airlines 2021 conference in London in November: "Let's be clear, the government has supported aviation to the tune of £7.8 billion."

Industry leaders urged the government to remove day-two Covid tests for vaccinated arrivals and simplify the PLF at the next review of international travel policy in January.

Courts insisted: "We want to remove testing and all restrictions, but it has to be done in a way that protects public health. I would push back on any suggestion the UK is lagging. It's a balance to retain public confidence and protect public health."

The economic outlook appeared mixed. Global economic growth was "approaching a post-pandemic peak" in November, according to the intergovernmental body the OECD.

> "The downturn caused by the pandemic has been far worse [than the financial crisis] but the recovery much quicker

The Bank of England noted in November that "higher energy and goods prices" had pushed inflation above its 2% target and inflation would "rise to around 5% in the spring". It reported "interest rates will need to rise modestly" as a result, although the Bank held the official rate at 0.1% in November.

It added: "The size of the UK economy is getting close to where it was before the pandemic. Unemployment has fallen, although it is higher than before the pandemic."

WORKPLACE TRENDS

The Bank's monthly survey of chief financial officers in October suggested the percentage of workers on premises had risen to 74% in October, up from 70% in September, and was expected to rise to 80% in 2022. But 83% of firms reported finding it harder to recruit employees, with 55% reporting it 'much harder' and "overall uncertainty continued to tick up" with 55% of businesses viewing the level of uncertainty as 'high' or 'very high'.

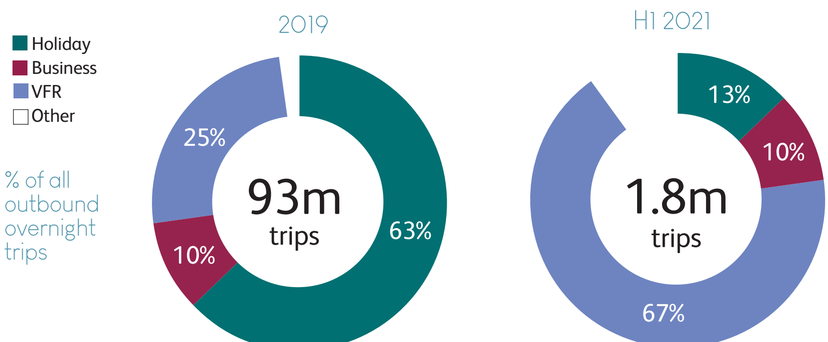
Deloitte senior economist Debapratim De noted: "This has been a crisis like no other, with a deep downturn followed by an extraordinary recovery. It took five years for the economy to recover output lost in the financial crisis.

"The downturn caused by the pandemic has been far worse but the recovery much quicker. The pace of the early summer rebound was unlikely to be sustained and the recovery lost momentum as supply and labour shortages blight parts of the economy.

"There are a number of reasons for the slowdown, but the key one is that Covid-19 has not gone away, slowing normalisation of activity in the West, with outbreaks in China and Southeast Asia feeding into supply shortages."

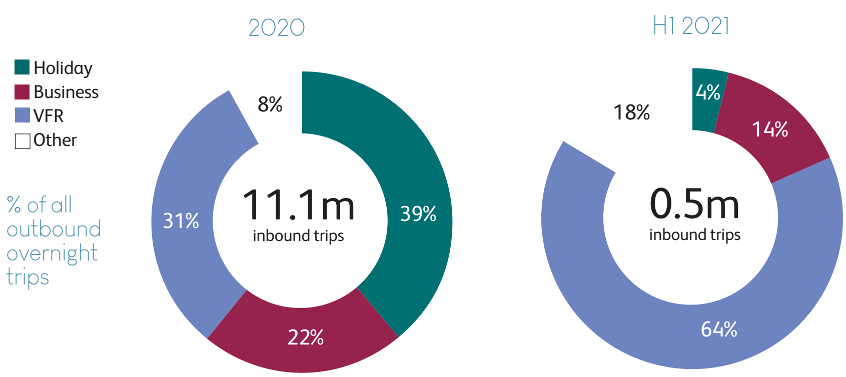
He explained: "The pandemic has also exposed acute labour shortages in certain sectors. This is not just a UK issue. It is happening across the developed world. In the UK, one could argue Brexit is a

FIGURE 6: UK OUTBOUND TRIPS BY PURPOSE, 2019–21



Source: ONS

FIGURE 7: INBOUND TRIPS TO UK BY PURPOSE



Source: ONS

factor but I'm not sure it's the primary explanation for what we are seeing. The once-in-a-generation transformations brought about by the pandemic – including a reassessment of work-life balance, greater demand for flexibility and a focus on wellbeing, decisions to retire early or stay in education and to move out of urban centres – have made matching workers to jobs a more complex task than before. The labour and supply shortages could become worse in the immediate future but should start to ease after summer 2022.

"On the supply of materials, consumers are likely to readjust spending back to services from goods as the pandemic wanes. Demand is also likely to stabilise after the supercharged recovery in 2021. Finally, supply chains are being bolstered, with production expanding for goods that we had acute shortages of earlier in the year. Labour market fundamentals should also normalise, with furloughed workers back in the workforce and as participating rates increase through immigration (to some extent) and the supply of graduates."

INFLATION RISE

Despite the Bank of England's decision not to raise interest rates in November, De said: "We expect the Bank to raise rates. Inflation remains well below its post-financial peak despite the much faster recovery this time. So there is scope for a further build-up of price pressures before these begin easing in the second half of 2022. At the moment, that seems likely to result in two to three rate rises over 12 months."

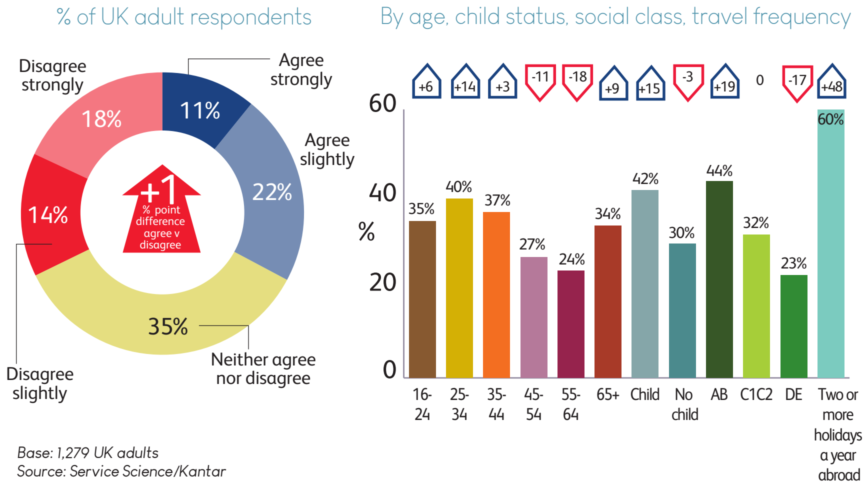
Yet De said: "People with high incomes seem to have weathered the pandemic much better. There is a proportion of the population which has accumulated significant savings over this period. That is driving strong consumer demand and we expect that to continue."

On the risks to growth, he said: "The risk of vaccine-resistant mutations means we could go back to restrictions. But we saw industry adapt quite well to the lockdown during the second wave of infections over winter 2020-21. The hit to activity was weaker than during the first wave because the corporate sector was better prepared to work with restrictions.

"Vaccines should also give us some lead time to respond to new variants. If the right decisions are taken at the right time we could avoid the stricter restrictions imposed in 2020-21."

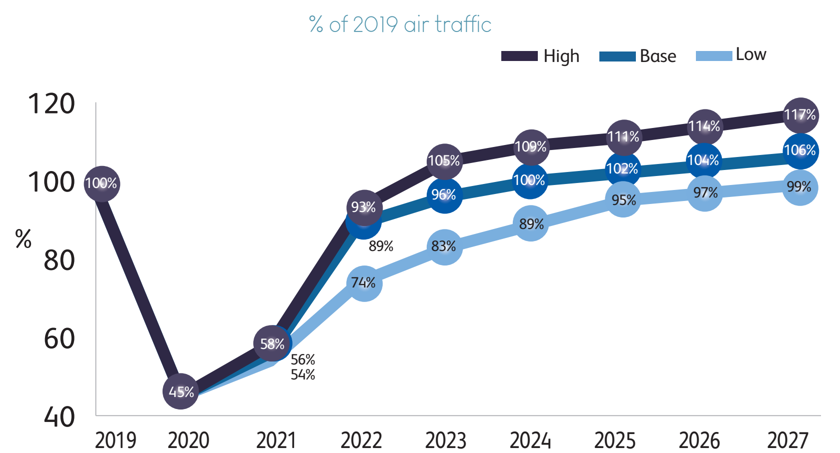
However, he noted: "The developing

FIGURE 8: 'I HAVE MORE MONEY TO SPEND ON HOLIDAYS DUE TO PANDEMIC SAVING'



Base: 1,279 UK adults
Source: Service Science/Kantar

FIGURE 9: FORECAST EUROPEAN AIR TRAFFIC

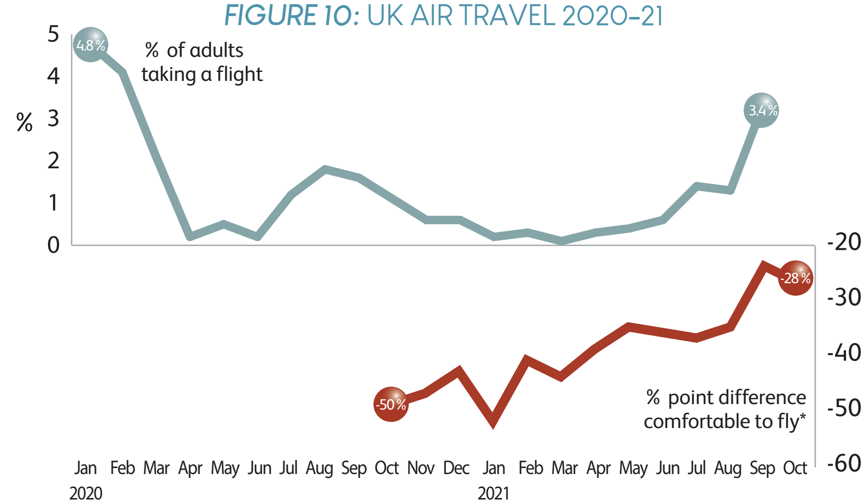


** 'Base' scenario assumes business travel returns to pre-Covid level in 2023; 'High' scenario based on faster business travel recovery: 'Low' scenario assumes need to update vaccines, restrictions reintroduced, growing environmental restraint*
Source: Eurocontrol

VFR traffic dominated travel in the first half of 2021 in contrast to 2019. Even in 2020 the effect was less exaggerated (Figures 6 & 7). One in three UK adults have more money to spend on holidays, according to research for this report, but just as many are less well off (Figure 8). European air traffic is likely to return to pre-Covid level by 2023 or 2024, according to Eurocontrol (Figure 9)

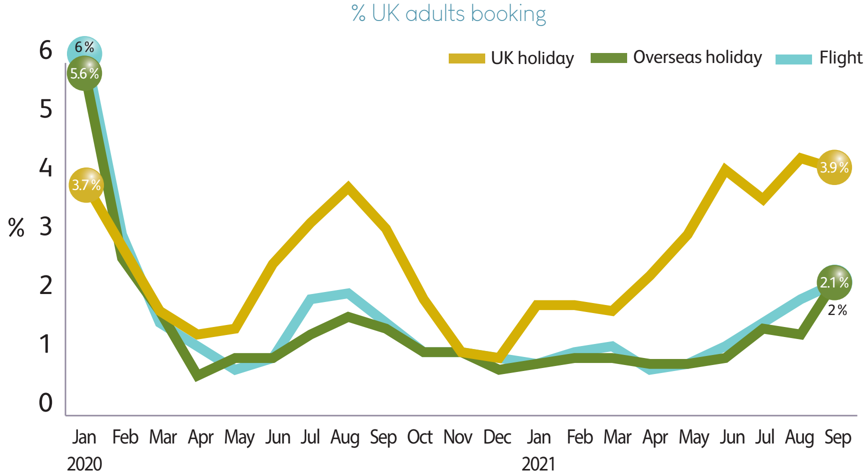
MARKET OUTLOOK
PROSPECTS BRIGHTEN FOR FULLER RECOVERY

FIGURE 10: UK AIR TRAVEL 2020–21



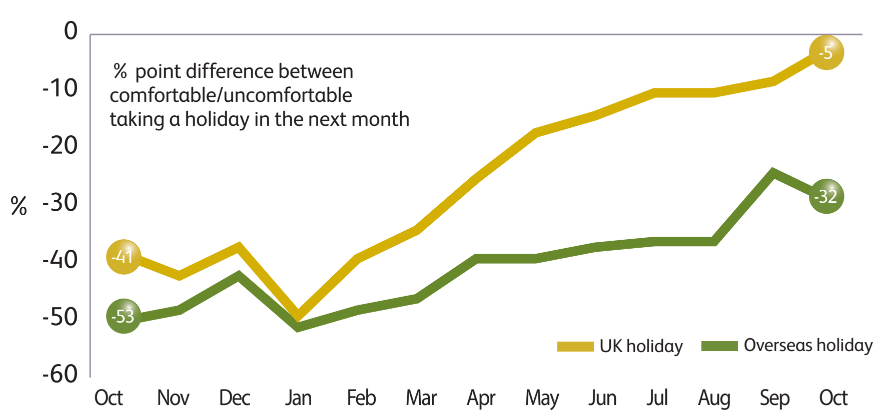
**% point difference between feeling comfortable/uncomfortable taking a flight in the next month*
Base: 1,508 UK adults. Source: BVA BDRC

FIGURE 11: HOLIDAY BOOKINGS BY MONTH, 2020–21
% UK adults booking



Base: 1,508 UK adults Source: BVA BDRC

FIGURE 12: % COMFORTABLE TAKING A HOLIDAY *



Base: 1,508 UK adults Source: BVA BDRC

world is nowhere near vaccinating the majority of the population and is much more susceptible to further waves of Covid-19, which could squeeze demand for exports and disrupt supply chains."

CONFIDENCE DIP

The Deloitte Q3 Consumer Tracker released in November recorded a quarter-on-quarter decline in confidence "driven by worries about personal finances" but noted the confidence index at -10% "is still significantly higher than the same period a year ago (+7 percentage points) and now at the same level as in Q3 2019".

Deloitte suggested the fall in overall confidence "was driven by deteriorating sentiment surrounding debt and disposable income. Consumers' confidence about their household levels of disposable income fell by nine percentage points to -21% [to] three percentage points lower than a year ago."

It noted the data "also points to the rising cost of living and winding down of government pandemic support schemes as reasons why consumers were more worried about their personal finances. More than one in three consumers (36%) said their overall personal expenditure went up in Q3 2021. . . One in eight consumers (12%) experienced a drop in wages in the last three months and one in four saw a decline in savings."

Alistair Pritchard, Deloitte lead partner for travel and aviation, insisted: "Broadly, people have more confidence. There have been times when a lot of people thought 'Is the business I work for going to survive?' Now those in work have more confidence of retaining their jobs and pay, knowing they could move to another. [For businesses], there is increased pressure to keep the people you have because there are opportunities to move to other roles. We see a race for talent."

The travel industry faces a long haul to recovery despite the fillip from the relaxation of UK government restrictions.

Pritchard noted: "The UK's removal of the pre-departure test had a significant positive impact. Thinking you may get stuck abroad was unnerving. The government has recognised the virus is not going away and businesses need to operate with protocols in place. It bodes well for the European short-haul market, with the caveat that a new variant does not derail things."

He argued: "There have been fewer failures than we expected, largely helped by furlough and the other support in place despite the lack of industry-specific support. The industry had to take a lot of difficult decisions – reducing the cost base, looking at the workforce, locations, restructuring. The end of furlough from October 1 added to the pressure.

"But most big companies are in a more secure place than 12 months ago. Most have other source markets than the UK where the restrictions were eased earlier to allow people to travel and they have done multiple refinancings. When they did the first round of fundraising there was a lot of optimism around the prospects for travel. By the time of the second or third round, businesses went with a much more cautious outlook."

The resulting debt will not be quickly paid down. Pritchard said: "Undoubtedly the sector will be much more leveraged than before.

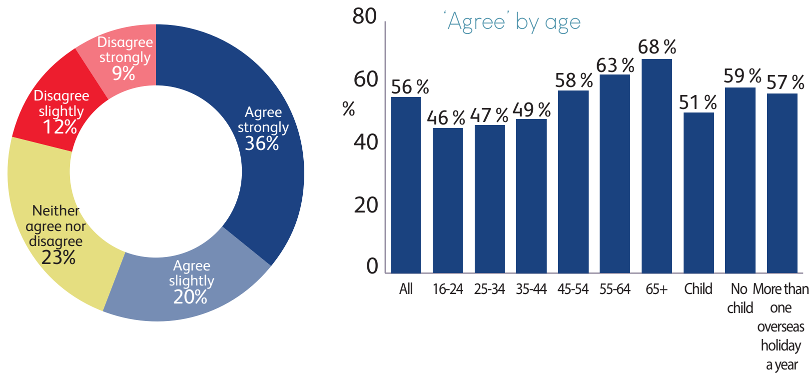
"Businesses in the tier below the largest face other challenges. Many are either UK-focused or have not been able to establish a robust cash position. Some may fail. What that looks like will be driven by how the market comes back, how they have set up their business and the patience of investors or shareholders.

"Businesses are much more highly leveraged in a sector that generally operates on low margins. It will either take a long time to pay down or you have to push up prices, and will the consumer pay for that? A certain category of consumer will be prepared to pay. But there is a category of consumer who found the pandemic challenging and would not be prepared to spend more."

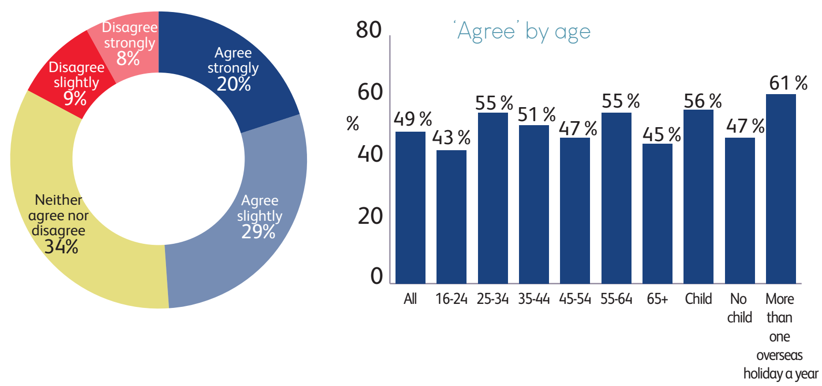
He added: "Businesses are going to need to invest in technology and sustainability and that is going to be hard

FIGURE 13: CONSUMER ATTITUDE TO COVID-19 & OVERSEAS TRAVEL

'I'm unlikely to take a holiday overseas while Covid-19 remains a threat globally'



'I'm unsure what I need to do to take an overseas holiday'



Base: 1,279 UK adults Source: Service Science/Kantar

ROLLING research through the pandemic by BVA BDRC indicates the proportion of UK adults feeling taking a flight month by month (Figure 10), the proportion booking domestic or overseas holidays or flights (Figure 11) and the proportion comfortable to take a holiday away from home in the UK or abroad (Figure 12). More than half of UK adults (56%) say they are unlikely to take a holiday overseas 'while Covid-19 remains a threat globally' (Figure 13). Half (49%) felt unsure about what they would need to do to travel overseas in October 2021

as they try to navigate the recovery. Many have already cut their cost base. Some reduced their workforce. Will they be able to deliver the same level of service?

"There is plenty of consumer demand. That is not an issue. [But] there will be fewer businesses. We expect consolidation among larger businesses and those in the middle tier. Businesses have to look at synergies. Some will see opportunities in M&A at a price that is appealing."

CRUISING AHEAD

One sector Pritchard previously envisaged having a struggle to recover, he now sees rebounding more strongly – cruise. He said: "Six months ago, I would have said cruise would be one of the slowest sectors to recover. But the UK allowing domestic

PROSPECTS BRIGHTEN FOR FULLER RECOVERY

cruises had a really positive effect. It gave a lot of people an opportunity to try cruises for the first time and it saw ships moved to the UK. Some lines were quoting new-to-cruise numbers north of 40%.

"The challenge for cruise is that there could be restrictions on visiting destinations for some time. If you go for two weeks to Spain, you have to comply with one country's restrictions. If you take a multi-destination cruise, recovery could be slower because of the different restrictions from country to country."

He is less optimistic about corporate travel, arguing: "Business travel probably won't come back to the same level as before. Twelve months ago I thought it would come back in time because globally there would be more people travelling as economies become more global, offsetting a reduction in Europe and the US.

"But my view has shifted. It will be slower to get back to pre-pandemic levels as more corporations revisit the amount spent travelling on business.

"The technology to allow meetings to happen online will make it more challenging for business travel. The implications for airlines are significant. Pre-pandemic only about 30 airlines in the world made money and a lot of the profits came from the front end of the aircraft. Airlines are probably going to carry smaller volumes of business travellers."

De echoed the point, noting: "We asked chief financial officers [CFOs] at large UK businesses to rate the biggest risks to their firms and climate ranked in the top three alongside the pandemic and inflation. It's a key priority."

> "We asked CFOs at large UK businesses to rate the biggest risks to their firms and climate ranked in the top three with the pandemic and inflation

Yet he added: "Despite foreseeing large-scale change to their businesses due to the transition to a low-carbon economy, 87% of CFOs see opportunities arising out of it. Businesses are acting on climate not just as part of their broader social contract, but increasingly as a key element of their corporate strategy."

HOLIDAY HOPES

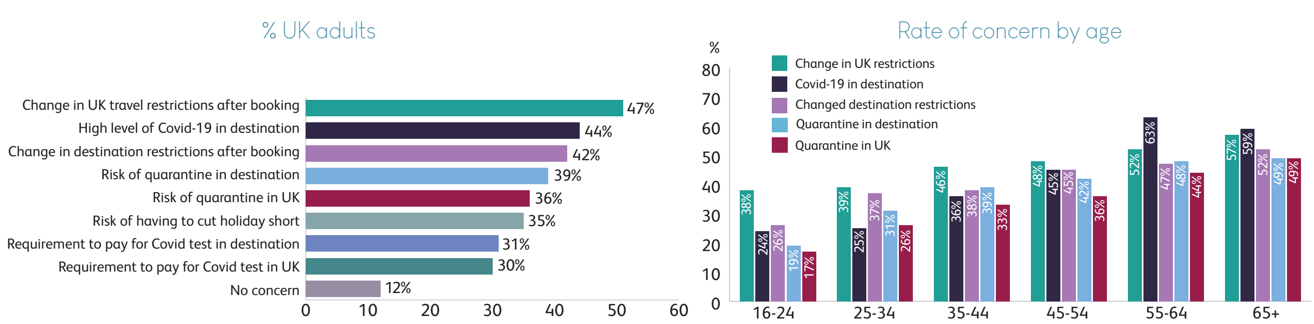
Consumer research for this report by Service Science and Kantar gives cause for optimism that 2022 will bring a recovery in international travel. It suggests two out five UK adults (38%) are likely to take an overseas holiday in 2022, not yet at the level of 2019 but considerably up on the 22% who in October 2021 said they had taken a holiday abroad in the past year.

Winter 2021-22 may prove challenging for many businesses with limited cashflow, especially as the pandemic continues to rage and restrictions continue to vary by destination. Parts of winter programmes may prove difficult to fulfil given the changing requirements in ski destinations such as Austria and Switzerland, and confidence to travel may yet be undermined.

But we can have greater confidence that spring and summer 2022 should be easier and that should feed into consumer willingness to plan and book holidays. The demand is certainly there.

CHANGING travel restrictions remain the biggest concern among consumers considering overseas holidays (Figure 14). The requirement to pay for a Covid test appears to trouble not quite one in three

FIGURE 14: COVID CONCERN WHEN CONSIDERING OVERSEAS HOLIDAYS



Base: 1,279 UK adults Source: Service Science/Kantar

UK CONSUMER RESEARCH

SERVICE SCIENCE/KANTAR SURVEY

FIGURE 15: DEMAND FOR OVERSEAS HOLIDAYS 2022

% UK ADULTS LIKELY TO TAKE OVERSEAS HOLIDAY

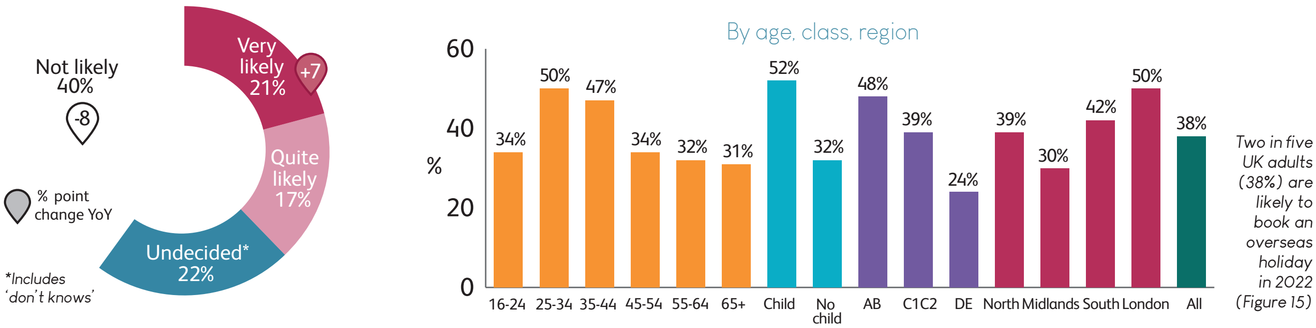


FIGURE 16: SUPPORT FOR UK COVID-19 TRAVEL REQUIREMENTS

% UK ADULTS

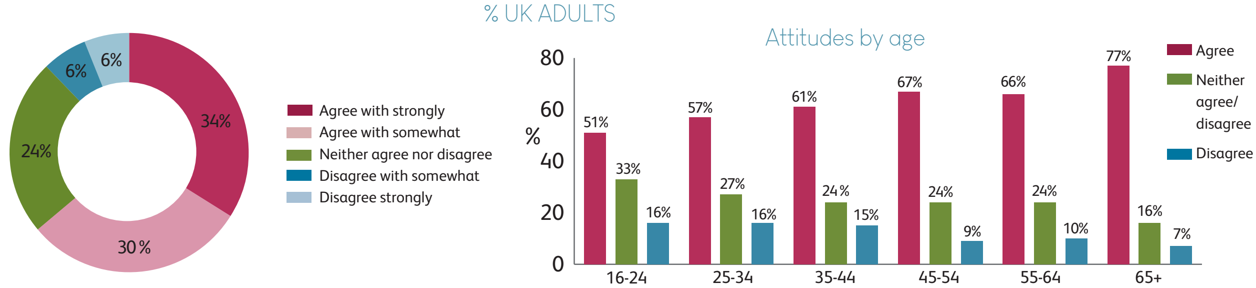


FIGURE 17: SPENDING ON OVERSEAS HOLIDAY, 2022

LIKELY SPEND OF UK ADULTS INTENDING TO TAKE HOLIDAY ABROAD

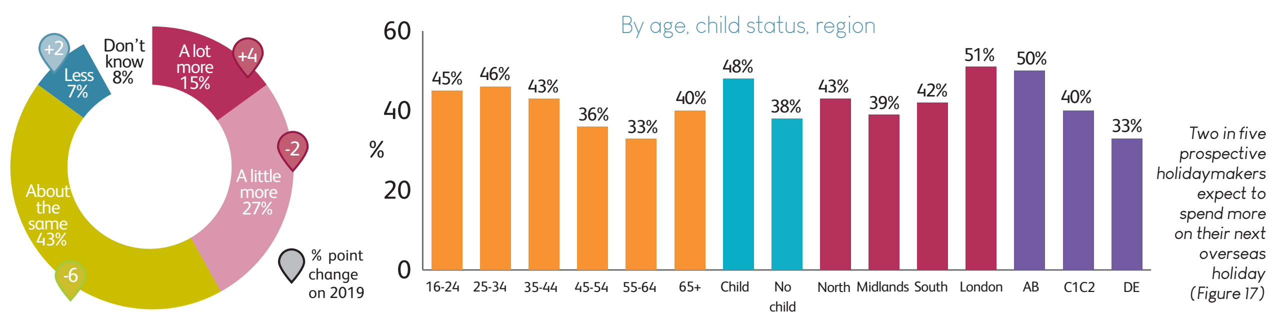
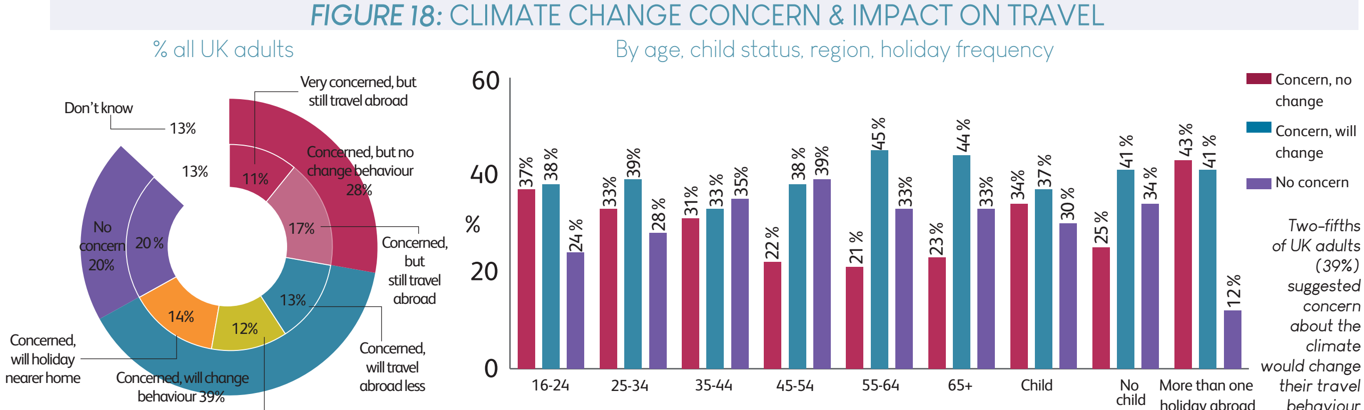


FIGURE 18: CLIMATE CHANGE CONCERN & IMPACT ON TRAVEL



Base: 1,279 UK adults *Source: Service Science/Kantar*

BUILDING RESILIENCE

THE CLIMATE CHALLENGE
A THREAT AND AN OPPORTUNITY

Climate change moved to the top of almost every agenda as the world struggled to emerge from the Covid-19 pandemic.

In Britain, discussion was shaped by the COP26 climate conference in Glasgow in November, with a host of commitments and ambitious new targets set for emissions reductions.

The first instalment of the Intergovernmental Panel on Climate Change's (IPCC) Sixth Assessment Report released in August made sobering if lengthy reading. In essence, it confirmed the extent of warming and its impacts "across the whole climate system" and provided detailed regional assessments.

It warned that without decisive action to slash emissions by 2030, the opportunity to keep the global rise in temperature close to 1.5C will be gone. Beyond 2030, the world needs to achieve 'net zero' – where all greenhouse gases (GHG) going into the atmosphere are balanced by those coming out – by 2050.

In that context, the assessment of COP26 by the *Financial Times* was brutal. The business newspaper noted: "Boris Johnson was the perfect host for COP26. The British PM specialises in groundless optimism and empty pledges. The Glasgow summit produced plenty of both…To have a good chance of limiting warming to 1.5C, global production of coal, oil and gas must start declining immediately and steeply. Nothing that came out of Glasgow suggests this will happen.

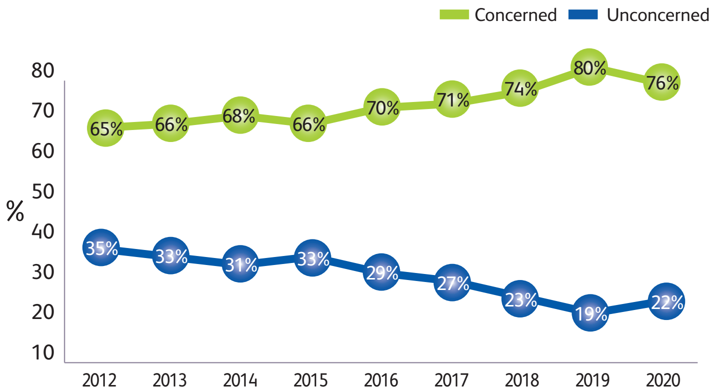
"The UN climate process has been running for almost 30 years and over that time CO2 emissions have continued to rise. There was no reason to expect COP26 to succeed where the previous 25 COPs failed."

UN secretary-general António Guterres was more diplomatic, but acknowledged: "The outcome of COP26 is a compromise. It reflects the interests, the contradictions and the state of political will in the world today. It is an important step, but it is not enough."

> The travel sector is at the centre of the world's greatest challenge – to halve emissions by the end of this decade

ONS data shows a steady rise in the proportion of the UK population concerned about climate change (Figure 19)

FIGURE 19: **CONCERN ABOUT CLIMATE CHANGE**
% of UK population



'Concerned' responded as 'very' or 'fairly' concerned.
Surveys in March each year expect 2012 (June)
Source: ONS

COP26 AND TRAVEL

It is not possible to summarise all the initiatives unveiled around COP26 here, but three are worth noting in relation to travel.

The World Travel & Tourism Council (WTTC) launched a 'Net Zero Roadmap' warning of the impacts of climate change and offering guidelines on reaching net zero by 2050 for hospitality, tour operators, airlines, cruise and travel intermediaries.

The roadmap, produced with the UN Environment Programme and UN Framework Convention on Climate Change, called on governments to give the industry "the same level of support offered to other sectors". WTTC director of sustainability Christopher Imbsen noted "there are insufficient budgets for climate action".

A separate initiative launched at COP26, the Glasgow Declaration, sought organisations in travel and tourism to commit "to halve emissions by 2030 and reach net zero as soon as possible before 2050". Launching the declaration, Intrepid Travel chairman Darrell Wade urged the industry to "sign now", warning: "If we don't fix climate change, we don't have an industry."

A third initiative saw the UK join 18 other governments, including the US, Canada, Japan, France and Spain, in an International Aviation Climate Ambition Coalition committing to "ambitious actions to reduce aviation CO2 emissions" ahead of the International Civil Aviation Organisation (ICAO) summit in September 2022 which it is hoped will agree a global net zero pathway for aviation.

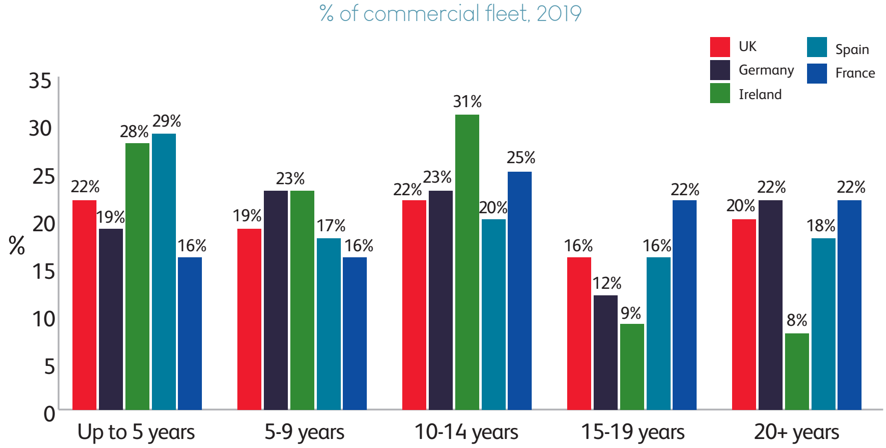
FIGURE 20: UK AVIATION CO2 EMISSIONS

CO2 in tonnes (m)

THERE has been a steady rise in CO2 emissions from international flights to and from the UK despite substantial improvements in the fuel efficiency of aircraft (Figure 20). The age of the aircraft fleet is a drag on reducing emissions (Figure 21). More than half the UK fleet (58%) was more than 10 years old in 2019

FIGURE 21: AGE OF AIRCRAFT: MAIN EUROPEAN MARKETS

% of commercial fleet, 2019



Figures rounded, may not total 100%
Source: Eurostat

CLIMATE TARGETS

Deloitte sustainability director Emily Cromwell noted: "We have until the end of this decade to halve emissions and that is not going to happen without major interventions. Glasgow was a key step in identifying policy mechanisms and galvanising business to help achieve what is an existential goal."

But she argued: "It's one thing to set targets and make agreements, and it's entirely another thing to implement them.

"We can't stop at Glasgow. It has to be the beginning point of everything that comes next.

"We're seeing a shift to companies making more aspirational targets and in some cases more needs to be known about how they will be met.

"There is not a clear innovation pipeline that is 100% proven. However, with the right preparation and estimates, companies setting bigger and better targets could accelerate that pipeline of innovation and investment.

"Aspirational targets are what we need right now. If countries and businesses all stick to conservative targets, we're not going to have a planet able to support us."

Cromwell described the recent IPCC report as "a sad, distressing confirmation" of the extent of the crisis, but said: "Hopefully, it can act as a catalyst by putting the scope and urgency of the crisis in stark terms."

The implications for the travel sector are equally stark. She argued: "The travel industry is closely tied to natural capital and biodiversity, be it mountains and ski resorts or weather at the beach. Even slight disruptions in the global ecosystem, let alone the major disruptions outlined in the report, could change the nature of these places. Travel is intrinsically tied with places being as they are today."

Asked how feasible the Glasgow Declaration's commitment to a 50% reduction in emissions by 2030 is, Cromwell admitted: "I don't know the answer. I want to say it's realistic, but so much is going to depend on the leadership of the sector and of companies.

To reach that target would be no mean feat. Businesses are going to have to shift the way they act and do it immediately to reach those targets.

"It will involve a massive body of work. This is about so much more than just capturing the impact you have on the environment and reporting that. It's going to need changed business models and strategies.

"Parts of the sector have to take long-term decisions about investment. Those that are asset-heavy like airlines and cruise lines have to take decisions that will play out over a 10-year cycle. Other parts of the sector have the ability to be more agile."

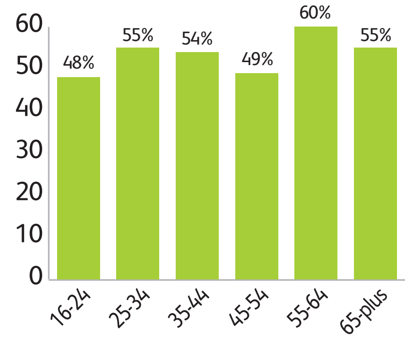
Alistair Pritchard, Deloitte lead partner for travel and aviation, highlighted a significant force behind the prioritisation of climate, insisting: "There has been a shift in the expectations of financial markets [and] regulators around reporting. Companies are going to be required to report on the impact they have on the environment and the changes they're making. Those requirements are already coming in – in the UK, the EU, the US – and the fact that lenders and investors have expectations in this area is going to drive companies to make changes to their businesses and business models and to report the progress they're making.

> **It's one thing to set targets and make agreements, and it's entirely another thing to implement them**

HALF the UK population try to avoid wasting food, according to ONS data, with older adults more concerned to minimise waste than the youngest (Figure 22). Almost one in three prospective overseas travellers (30%) say they would be prepared to pay more to travel with a company that minimises CO2 emissions (Figure 23). One in 10 'strongly' agree with paying more

FIGURE 22: UK ATTITUDE TO FOOD WASTE, BY AGE

% UK population who avoid/ minimise food waste



Source: ONS, 2020

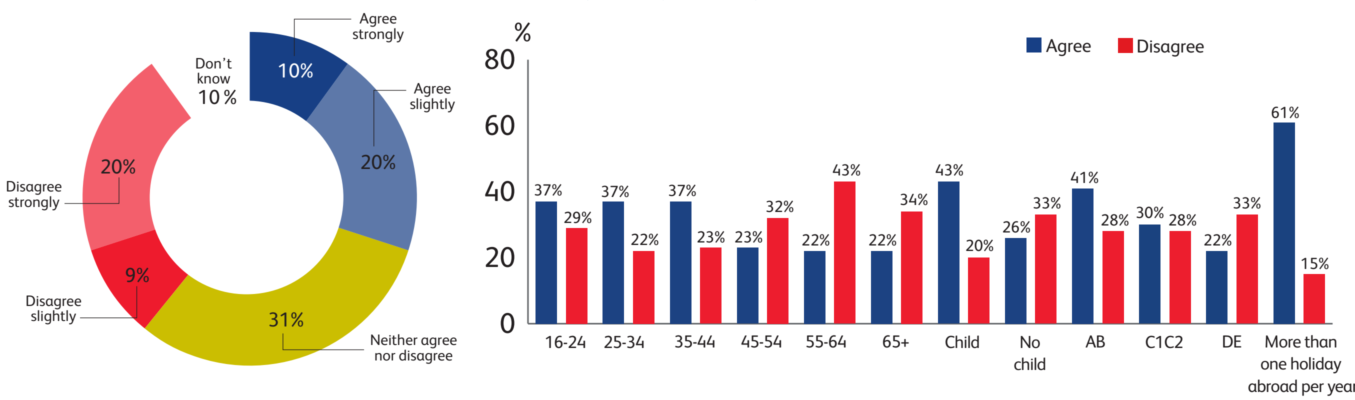
"When they want to secure new funding or new bank debt, they're going to need to demonstrate the impact they're having on the climate."

Cromwell agreed: "A lot of businesses are setting targets because it's the right thing to do or because consumers demand that. But the push from investors is most often decisive. Clients come to us because an investor has reached out to the CEO or the company understands the landscape is such that they will not have the same access to capital they would otherwise.

"Climate is especially important, but

FIGURE 23: 'I'M PREPARED TO PAY MORE TO TRAVEL OVERSEAS WITH A COMPANY THAT MINIMISES CO2 EMISSIONS'

% of those planning a holiday abroad in 2022



Source: Service Science/Kantar

ESG [environmental, social and corporate governance] broadly is viewed as a sign of long-term resilience."

She added: "TCFD [Task Force on Climate-Related Financial Disclosures] is a really powerful tool."

The TCFD was set up by the international Financial Stability Board of the G20 economies and the European Commission in 2015. Ahead of COP26, the UK government made it mandatory for Britain's largest businesses to disclose their climate-related risks in line with TCFD recommendations from April 2022.

Cromwell argued: "When you take an outside view of travel companies and the cost climate change might have on their operations or on consumer tastes, or you factor in the possibility of a carbon tax, you see the industry is going to face big disrupting forces.

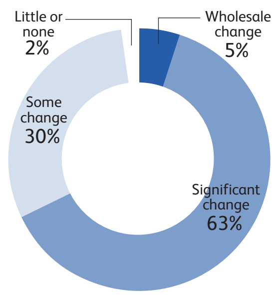
"Businesses need to start planning for compliance with more climate-related reporting both in the UK and overseas. Carbon pricing mechanisms discussed at OECD and G20 level will also have an impact. Companies will need to account for their carbon footprint holistically and look at their whole supply chain to determine the impact of regulations and legislation. Transparency on climate change will create new opportunities to clarify, focus and accelerate innovation and investment in alternative technologies."

She believes the travel industry could play an important role, arguing: "Industry leaders need to be setting more-ambitious targets to have a seat at the table.

"Aligning with the Glasgow Declaration is a terrific first step. But beyond ambitious target setting, travel is inspirational. People go on trips they dream about. So the industry has the power to spark people's imaginations. The industry could be a poster child for reducing greenhouse gases."

FIGURE 24:
SCALE OF CHANGE REQUIRED ON CLIMATE

% CFOs expecting change in business in next 10 years



Source: Deloitte CFO Survey, Oct 2021

TWO-THIRDS of chief financial officers (68%) expect 'significant' or 'wholesale' changes to their business in the next 10 years due to the climate crisis (Figure 24). A majority of UK air passengers travel to and from the airport by private car or taxi, increasing the carbon footprint of their trip (Figure 25)

'REAL OPPORTUNITY'

Pritchard said: "There is a risk it all sounds like there is a mountain to climb and it's going to be a really difficult period for the sector. Some things won't be easy, particularly where technologies don't exist yet. But there is a real opportunity for the sector to be at the forefront, demonstrating to the world how to make a positive impact in a way that doesn't harm the environment.

"Undoubtedly, there will be additional priorities as businesses look to recover. But this will be a top priority. Investors, stakeholders, lenders and governments won't let actors in the market operate unless they do something. Saying 'We're not going to worry about this for the next five years because we have to recover from Covid' is not going to work because we don't have five or 10 years. Also there are too many other drivers – regulations, reporting requirements, stakeholders' and lenders' requirements – which mean it has to be woven into how businesses recover. Consumers are going to have an expectation that businesses they buy from are acting on this."

Cromwell agreed: "If companies don't give this the weight it needs now, they will be outflanked by those who embedded this in their recovery. We exist in a different world to 20 months ago. Investors see this as an absolute mandate."

Decarbonisation is going to be more straightforward for those parts of the sector light on assets than for the asset-heavy.

FIGURE 25:
MODE OF TRAVEL TO/FROM MAIN UK AIRPORTS

% of passengers 2019

Figures rounded, may not total 100%. Source: CAA

Cromwell said: "Obviously, aviation is a huge challenge. Success there is going to rely on innovation and investment. However, a lot can be done with current technology by other businesses in the tourism ecosystem."

Pritchard noted: "The government is forcing changes on the car industry so, despite the fact that new diesel and petrol cars aren't banned till 2030 in the UK, you already see massive growth in electric vehicles."

Cromwell agreed: "We're seeing a shift in consumer behaviour driven by regulatory change and there is more coming that will drive businesses and consumers to change. Whether we like it or not, business models and consumer behaviour are going to change over a lengthy period."

She acknowledges sustainably produced products are frequently more costly, but said: "Should they be? No. Cost is certainly an issue. But where you have two destinations or two hotels or two operators or airlines that compete in the same sphere but one has really excelled on sustainability, that would be a clear advantage. And that is what you will end up seeing. Companies that invest in this will be dominant. Peers that have not made that investment will suffer a backlash from consumers and potentially from regulators."

Some customer expectations when they go on holiday may have to change, but Cromwell argued "a lot of things we enjoy today might be significantly the same. There are a lot of options that are still luxurious but also sustainable.

"There are some baseline assumptions we need to let go of. Conspicuous consumption and wasteful habits don't align with a sustainable world. It might mean a different approach to tourism, so rather than lots of short breaks you do

CUSTOMERS, pressure groups, investors, employees and regulators are the biggest drivers of carbon reduction, say chief financial officers (Figure 26). Brand reputation and recruitment/retention are the greatest benefits (Figure 27). Inadequate infrastructure and policymaking are the greatest challenges (Figure 28)

FIGURE 26:
DRIVERS OF CARBON REDUCTION

CFOs' average ratings on scale 0–100

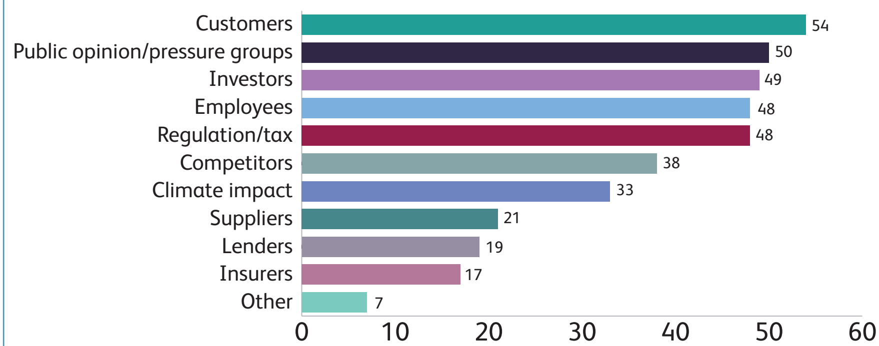


FIGURE 27:
BENEFITS OF CARBON REDUCTION

CFOs' average ratings on scale 0–100

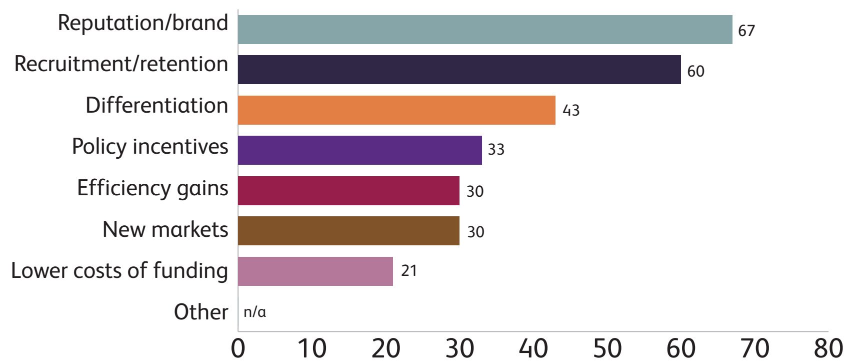
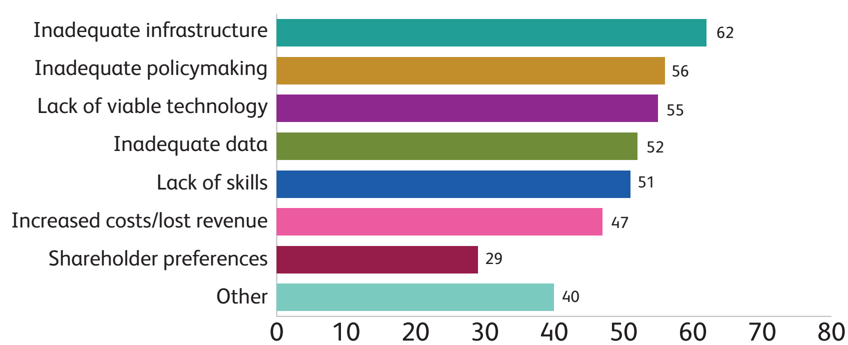


FIGURE 28:
CHALLENGES OF CARBON REDUCTION

CFOs' average ratings on scale 0–100



Source: Deloitte CFO Survey, Oct 2021

something longer term. You settle into a place. A lot of it comes down to how you define luxury."

The consequences of simply carrying on as now are "dire", she warned: "Drought, water shortages, uninhabitable spaces. If we want to avoid that we have to change as a global economy and society."

A warming world will inevitably mean adaptation. What is the balance of investment required between efforts to reduce an organisation's footprint and adapt to the consequences of climate change?

Cromwell explained: "Adaptation is in its infancy. First you need to understand the risks to your business. That takes a lot of analysis. Businesses are just reaching a point where they can articulate the impact climate will have on them. The next step is to embed that in corporate decision-making.

"That means looking at sea level rise, drought or flooding in the geographies in your portfolio. Is your season going to be shorter? Are you at risk of losing a compelling draw? Do you rely on natural capital or something special in the area that draws tourists?

"You would also look at transition risks. We see discussions around carbon tax, but what this might look like in specific countries and regions over time remains unclear. Businesses will need to adapt quickly. Understanding your transition risks can help provide a roadmap."

Obviously, that is easier for a large company than for SMEs. Where should they start?

Cromwell acknowledged: "Small businesses don't necessarily have the resources and internal expertise to help them through this, but they can look to industry associations and consortia that are building approaches and guidance. Being part of a group looking at these challenges would be useful.

"There is a lot of information available about specific geographies. Arm yourself with as much information as you can about the places critical to your business. If you can understand what you might face there are lots of resources available. Just don't put your head in the sand."

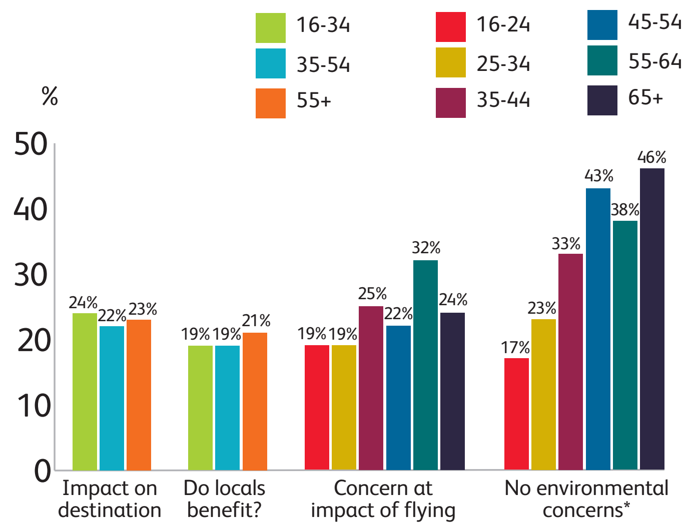
She argued: "This is a global problem and we're relying on so many different parties to arrive at a consensus. That diversity of opinion presents a real challenge. That is why companies need to act decisively alongside policymakers.

"Companies big and small have a huge role to play in this."

THE IMPACT of flying was the biggest sustainability concern identified by prospective holidaymakers for the first time in research for this report which extends back to 2012 (Figures 29 & 30). Perhaps surprisingly the rate of concern was higher among older adults than those aged 16-34. The proportion of holidaymakers professing no concern also appears surprising, perhaps partially reflecting a desire to escape concerns when on holiday

FIGURE 29: SUSTAINABILITY CONCERNS, BY AGE

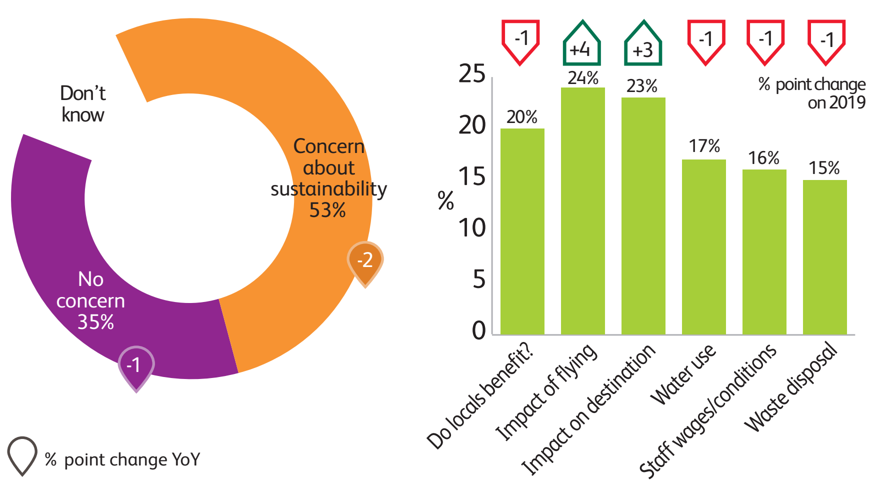
% of those planning overseas holiday in 2022



*Excludes 'don't knows'
Source: Service Science/Kantar

FIGURE 30: HOLIDAYMAKERS' SUSTAINABILITY CONCERNS

% UK adults planning overseas holiday in 2022



Source: Service Science/Kantar

FUTURE OF WORK
NEW REGIMES ARE HERE TO STAY

The explosion in remote or 'hybrid' working during the Covid-19 pandemic has transformed the working week for much of the population. Commuter trains are often busier on Saturdays than on a normal Monday and busier from Tuesdays to Thursdays than on other weekdays.

Oliver Graves, Deloitte director for organisation and design analytics, said: "Tuesday, Wednesday, Thursday seems to be the new peak and focus for many people, when a majority attend the office. Getting a restaurant booking on a Wednesday can be difficult now, as though it's the start of the weekend, and if you travel away for work Thursday is now the day to return home."

In response, "employers have generally been very flexible", said Graves. "Some are saying 'You have to be in the office'. If your role requires attendance that is clear. But 'Be in the office because I want to see you working' is a thing of the past.

"There are different requirements of transport providers, with a business focus on Tuesday to Thursday and a leisure focus for the remainder."

HYBRID WORKING

He argued: "The two-hour commute is not working for many people any more. Unless organisations stop hybrid working, it will be a long-term trend with implications on costs, on managing teams and on work-life balance.

"The world of work has changed and it's unlikely we will go back to everyone being in the office five days a week when we've proved productivity can be maintained or even improved working in a different way. But hybrid working brings new issues and challenges. For example, with broadband infrastructure – when 5,000 people are all on video calls.

"If you have 10,000 employees and everyone is in work Tuesday to Thursday there are also implications on the workplace estate. In central London as well as other UK city centres, institutions are reconsidering workplace use."

He noted lunchtime food retailers "have downsized as they don't see the same volume of foot traffic in city centres". But he does not see the changes in working leading to the demise of major urban areas, arguing: "Cities have adapted and changed in the past. How we use space changes; a vacant space becomes someone else's space.

"We're at a point of evolution. We don't know exactly what is next and we have to think how to encourage people back into cities. But it could be a better experience for tourists."

The change means the demise of what Graves calls "presenteeism", with people "questioning 'Does everyone need to be here?'" He asked: "Can you attract the best talent if you say people have to be in the office?

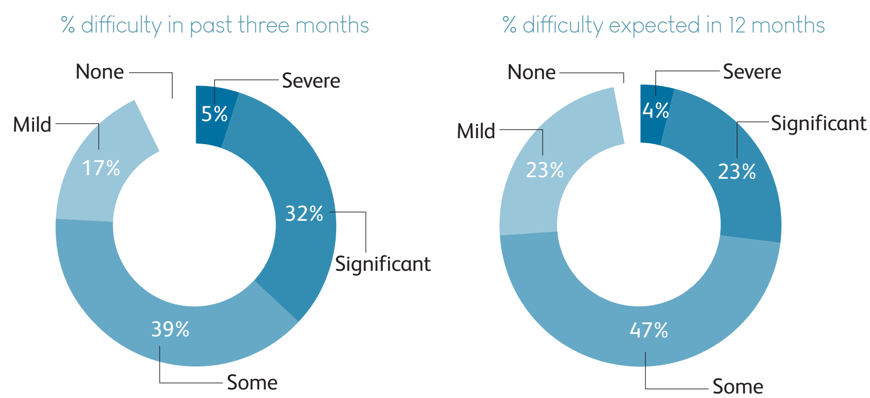
"It's an equality thing as well. Most 'presenteeism' is generated by the type of work. A delivery driver can't work from home. A health worker can't work from home. So there is a two-tier system at work that may require a rebalancing of pay structures."

One of the challenges of large numbers working remotely is

The flexible working brought by Covid-19 is likely to prove long term

THREE out of four UK businesses (76%) reported at least some difficulty recruiting in October 2021, and 74% expected difficulties to continue for 12 months (Figure 31)

FIGURE 31:
UK FIRMS REPORTING DIFFICULTY RECRUITING, OCT 2021



Source: Deloitte CFO Survey, Oct 2021

integrating new starters at work. Graves acknowledged those new to the workforce "are missing out on social interaction" and said: "It is challenging to onboard people, to say 'Here we all are' and there is nobody there.

"But the tipping point will be if there is proof we are more productive in the office than at home. There are lots of studies going on into that."

He added a rider, pointing out: "Everybody wants as much flexibility as they can, but you have to prove you can be flexible. How do you identify when someone is taking liberties?"

PRODUCTIVITY MEASURES

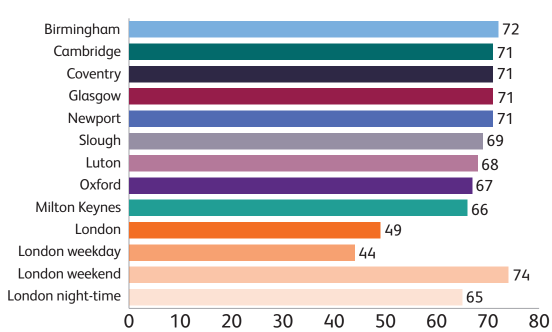
Graves forecasts a more active use of performance management objectives, such as a "15-minute check-in every day to say 'This is what we need by the end of the day'."

Another challenge is the pressure to be "always on" when working from home. Graves noted: "There is a lot of noise in government and elsewhere regarding protocols and wellbeing. Some EU countries now restrict the sending of emails after certain times.

"However, a longer working day might be a chance for someone to take a two-hour lunch or a half-day off. If someone is at work at 7pm it does not necessarily

FIGURE 32: PANDEMIC DROP IN CITY CENTRE FOOTFALL: UK BOTTOM 10

Average, last week Sept 2021: pre-lockdown baseline 100



Source: Centre for Cities, Oct 2021

> Everybody wants as much flexibility as they can, but you have to prove you can be flexible. How do you identify when someone is taking liberties?

THE DROP in footfall in major UK cities is clear, with London still only half as busy as pre-Covid in October 2021 (Figure 32)

mean they have too much work."

He suggested those working outside normal hours might add a note to emails such as: "I'm sending this email now because it suits me, it doesn't mean it has to be actioned right away."

Workplace leadership will change "for sure", he said. "Good leaders have to understand the challenges and be sympathetic to them. A lot of leaders are worn out by all the change and by just keeping the lights on during the pandemic. People are saying 'The old ways no longer fit'. Leaders need to embrace different ways of working."

At the time of the *Insight Report 2020-21*, Graves noted the pandemic had accelerated adoption of workplace technology "but in most cases people continue working in the same way using these technologies".

A year on the situation has barely changed, he said: "The technology is still not being used to its full extent. We see more utilisation of technology but it's still only for the simpler tasks – used for calls, meetings and sharing documents. Why not use interactive whiteboards rather than capturing things in a notebook or a white board, for example? It's down to individual 'change champions' to do more."

Digital meetings technology will eat into corporate travel, he believes. Graves noted "a zero-basing of expenses and tightening of purse strings" during the pandemic and said: "That absolutely will continue. It is going to be tighter to get things approved. Why do you need to fly when you could use this technology?

"Some business leaders are still flying, but it's often just them now rather than a whole team. There will be moments that matter – a launch or a merger that requires someone's presence, or staff training. But there is a mentality now that 'We can do it remotely'. Justifying travel will be harder."

LABOUR SHORTAGE

The key issue he sees in travel, tourism and hospitality is the shortage of labour. Graves said: "A lot of people left hospitality and travel and took another role during the pandemic. There are shortages everywhere in hospitality and retail. One of the ways to address that is wages, which means increased costs which means inflation."

He added: "We're seeing some critical operational issues. Only a willingness to pay more will address that. Maybe a new generation of students will fill roles. We're seeing that at university campuses already – employers saying 'We'll give you eight hours a week'." He warned: "These shortages will be long-lasting without any form of intervention.

Graves foresees the shortage of labour proving a challenge for the 'gig economy', saying: "When there are vacancies everywhere, offering zero-hour contracts when there are other options, it won't succeed. We'll see flexible work options increasing, but the pandemic has made people want guarantees.

"Workers in the gig economy were fully exposed during the pandemic whereas those in full employment had furlough. It made people think 'How secure am I?'"

However, Graves insisted: "The number-one issue is the labour shortage in an industry that generally pays at the lower end of rates.

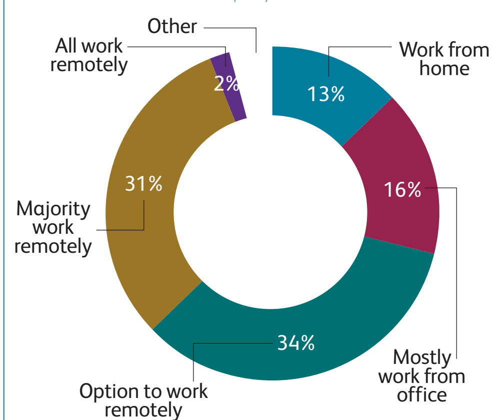
"A lot of people have left hospitality because there is other employment available with more regular hours. If all the tourists came back to London tomorrow, the capital could not cope.

"There is a mismatch of demand and supply. I can't see people applying for an £8-an-hour job on a zero-hour contract when some organisations are desperate and will pay considerably more."

> "A lot of people left hospitality and travel – there are shortages everywhere. One of the ways to address that is wages, which means increased costs and inflation

FIGURE 33: LOCATION OF WORK

% of employees



Source: Global Business Travel Association members, October 2021

ONLY about one in six (16%) of corporate travel respondents reported working "mostly from the office" in a survey by the Global Business Travel Association in October 2021 (Figure 33)

The Deloitte view on resilience

The travel industry spent 18 months fighting to survive as the Covid-19 pandemic saw summer and winter seasons throughout 2020 and 2021 lost to lockdowns and complex travel requirements.

However, resilience appears to be in the industry's DNA. The sector has survived and prospered through ash clouds, acts of terrorism and natural disasters.

The Covid-19 crisis has lasted far longer than any of us could have imagined and pushed even the strongest, most resilient organisations and leaders to their limit, yet businesses continue to dig in and keep going. Survival mode has become a daily reality for many organisations as they prioritise their people, cash preservation and protecting their business to be ready to emerge in the recovery phase.

Financial resilience remains a principal area of focus for many organisations, which must balance the investment required for growth with the need to retain sufficient headroom in light of the lessons learned from the pandemic to date.

Operational resilience also remains key, not least as regards the attraction and retention of staff necessary to secure current and future success.

Finally, climate change requires sustained attention and will remain a key area of focus in ensuring the medium and long-term resilience of the industry.

James Meadowcroft, director, Risk Advisory

Bethany Hawkins, manager, Risk Advisory

FUTURE OF RETAIL

TRAVEL SECTOR CAN TAP NEW WAYS OF SELLING

The pandemic brought profound changes in retail, from the boom in online purchasing and emptying of city centres to the resurgence on local high streets.

Gillian Simpson, Deloitte digital director and retail consultant highlighted the shift online and said: "We see a lot of digital behaviours and new services introduced during the pandemic staying.

"There are a number of trends converging around social media and commerce. These types of things were on roadmaps already but have been accelerated by the pandemic."

Examples include live shopping, "where you have live streaming by a store associate demonstrating things and consumers able to shop directly" and virtual appointments.

Simpson said: "Obviously, we've seen the number of stores contract. By offering virtual services, you keep the catchment area of customers as broad as possible.

"There is a growing trend for people not wanting to make a trip into town if they don't know a product is there, so we see consumers purchasing online to pick up in store or viewing in-store stock online and reserving a product so a trip won't be wasted.

"There is another trend around people not wanting to touch devices in store that aren't their own. So we see a lot more use of shopping apps – people using their own devices for browsing or purchasing in store.

"All retailers want to bring the digital and physical together and get the omni-channel experience right. Obviously, there are some foundation steps in terms of having Wi-Fi enabled stores. But customers able to use devices in store can access so much more information and an experience beyond the physical store.

"For example, being able to scan a product while in store allows me to see customer review information. You can book a fitting room through an app or scan your items through and not have to join a line at the checkout. And because you're logged into an app, the retailer can understand a lot more about who is visiting and their behaviour in store."

Rather than 'dying' many high streets could be about to become more 'interesting'

Simpson argued: "So many organisations have great store colleagues with significant knowledge and experience. Virtual services enable retailers to use that more. We're starting to see it across every kind of retail. It doesn't necessarily mean there isn't a person in store you can contact. You just don't have to go to a store to speak to them."

She said: "Retailers with a physical presence need to work hard to put a proposition together for why someone would come into their store. It could be convenience, fulfilment, inspiration or enjoyment.

"Before the pandemic, a lot of outlets were investing in providing an experience for people to see or do, and that is going to increase because if you can buy online and have products delivered at your convenience, why go into a store? Giving people an experience they won't get online is essential."

LOCAL RETAILERS

Simpson sees city centres remaining "a beacon for larger stores" but forecast a reduction in "copycat high streets".

She said: "As some retailers shrink their footprints, you'll find fewer cities with a good grouping of retailers.

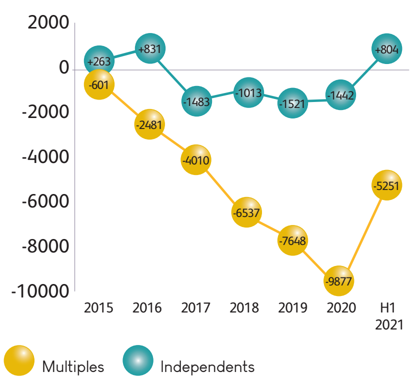
"We see a trend towards [consumer] affinity with local retailers, and some larger retailers partnering with smaller independent organisations on the back of that. People feel local businesses were there for them during the pandemic and want to continue that sense of community."

The Deloitte Retail Trends 2021 report

"Retailers with a physical presence need to work hard to put a proposition together for why someone would come into their store

FIGURE 34: UK RETAIL AND LEISURE OUTLETS, 2015–21

Net loss/gain in outlets



Source: Local Data Company

noted a polarisation between experiential 'destination' stores in city centres and a local shopping experience centred on local traders.

Simpson envisages independent travel agents among those local traders, arguing: "It helps with customer loyalty to have a known person a customer can book with. That has always been a feature of smaller traders. Understanding the demographics of those who book through agents and where there is a higher proportion of that demographic, and being able to tailor your offering would be important."

PRICE PIPS SUSTAINABILITY

Decarbonisation and sustainability will be increasingly important in retail as everywhere else.

Simpson said: "Almost every retailer now has a substantial sustainability offering, providing more of a circular economy involving buy-backs or rental as well as measures around reducing the carbon footprint through their supply chain."

Yet she noted: "There is a hard trade-off between the convenience customers demand and the environmental impact. All consumers are asking for next day or same day delivery. The carbon impact of providing that is greater than it would be otherwise and you only have to order a few things online to see how much packaging comes with it."

Simpson does foresee a reaction against the volume of home deliveries. But at present she said: "For many consumers their demand for convenience is stronger than their appetite for sustainability.

"Consumer attitudes have changed significantly towards sustainability. It's about offering customers the choice and allowing them to choose a more eco-friendly option. But where is the tipping point where someone is going to spend more? Sometimes there is a difference between customers' values and their transaction actions."

Asked to identify the greatest driver of sustainability, Simpson said: "I don't think it is just consumer demand. However, a third of consumers now look for brands with strong sustainability credentials, so organisations need to show these to stay in the market.

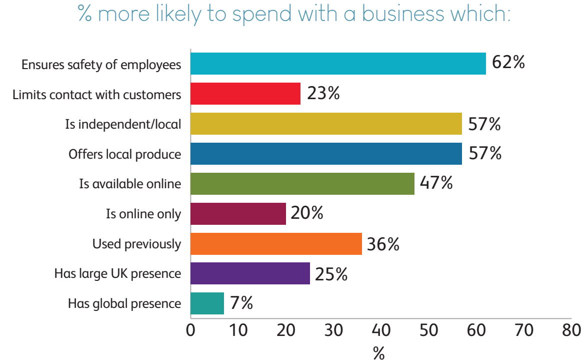
"Being able to provide transparency on what people are buying – so if they're choosing between two holidays they can see the carbon impact of one versus another – will drive behaviour in the future."

> "A third of consumers now look for brands with strong sustainability credentials, so organisations need to show these to stay in the market

INDEPENDENT retailers have seen fewer closures overall than multiples (Figure 34). Consumers appear to have valued employee safety, local retailers and local produce more than other factors during the pandemic (Figure 35)

FIGURE 35: CONSUMER ATTITUDES TO RETAIL DURING PANDEMIC

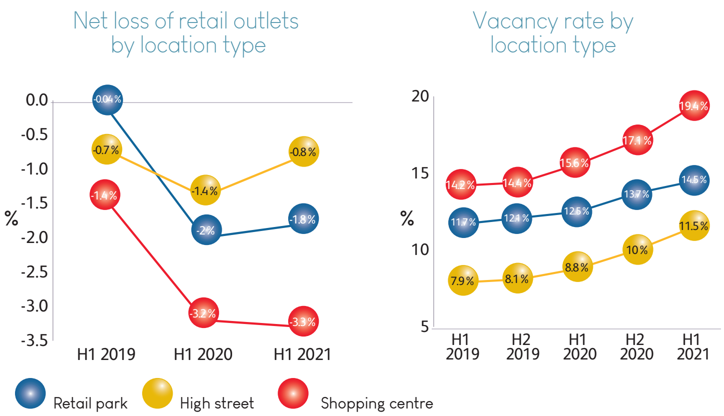
% more likely to spend with a business which:



Source: Deloitte, 'What next for the high street?'

FUTURE OF RETAIL
TRAVEL SECTOR CAN TAP NEW WAYS OF SELLING

FIGURE 36:
OUTLET CHANGES BY LOCATION, 2019–21



Source: Local Data Company

HIGH STREET retail outlets have seen fewer overall losses than retail parks and shopping centres and high streets show a lower rate of vacancies (Figure 36)

We can expect further changes on the high street. Simpson said: "We'll see more new entrants and different types of companies than in the past because of lower rents, more places that blend entertainment and shopping. There is also a trend around 'competitive socialising' offering games and competitions.

"Generally, high streets will become more interesting, more curated. We see local councils putting a lot of effort into creating a brand around a local high street to differentiate it from the cookie-cutter high streets of old."

HIGH STREET EVOLUTION

The high street becoming "more interesting" flies in the face of concerns that 'the high street is dying'. So is that nonsense? Simpson said: "We've seen a lot of store closures, but the stats show the fall has plateaued or at least isn't accelerating."

The well-publicised closure of major department stores "will have a big impact on middle high streets which relied on an anchor tenant", she said. "But we're seeing creative uses of these spaces. Different types of organisations are going into them."

She insisted: "Retailers see stores as assets over and above pure-play digital retailers. They're trying to cement physical locations as brand beacons in a way a digital presence can't be. Over time, you'll see retailers invest a lot more in stores, making them places people want to go to. They just need to be in harmony with the digital offering and offer an omni-channel experience."

Simpson certainly sees a future for travel retailers. She said: "The days of having stacks of paper catalogues in a travel agency and that being the only place you can get them may be in the past, but the knowledge of travel agents will last. How do you expose that expertise in a digital way, maximise the value of that knowledge to as many customers as possible and provide human contact?

"Maybe it's about partnerships. Can travel agents partner with other brands that might be at a similar level in terms of their target demographic or positioning? Can they keep customers engaged throughout the year?"

She cautions that "people rely overly on email communications" and advocates "content curation and making sure you offer content that is of value, that people want to engage with. If someone has booked a holiday, can you offer advice on what they could purchase three months before they go and have a longer engagement as opposed to just that purchase moment?

"It comes back to having a compelling proposition. Why would people come into a store? Can you offer a virtual reality experience in store to bring a holiday to life? If a customer is choosing between two hotels, maybe have a video walk-through of each so they can decide."

She suggests travel businesses should consider virtual appointments if they aren't already, arguing: "You could explore whether that could be a virtual appointment with a UK advisor or with a local rep in a destination.

"If you think about the holiday booking experience from end to end, you have the opportunity between the booking and the holiday where you could do more to build anticipation and offer virtual appointments with people who can advise or share local information."

> "The days of having stacks of paper catalogues in a travel agency are in the past, but the knowledge of travel agents will last

FUTURE TRAVEL EXPERIENCE

COVID AND CLIMATE TO SHAPE HOW WE TRAVEL

The travel experience has changed enormously due to Covid-19, but could requirements such as face masks and Passenger Locator Forms (PLFs) prove longer lasting?

Danielle Rawson, Deloitte head of travel, believes so, suggesting: "Passenger Locator Forms and masks will likely remain in play certainly throughout the winter and possibly into next summer if not longer.

"Part of the reason is you have multiple rules in place, from departure location to destination, neither of which can control the movement of a passenger and what they do and, if they catch the virus, how far they spread it.

"Certainly at the moment the PLF is useful. If there is a new variant it is going to be the method by which its spread can be tracked."

Deloitte associate director Ed Knight agreed, saying: "I'd be surprised to see countries willingly give up the data on visitors if they can obtain it in a straightforward manner."

However, he noted: "The burden seems to be on the airlines to collect this information. Governments have to do relatively little. I'm not sure the airlines would be happy about retaining this long into the future."

What about all the additional cleaning and disinfecting? Knight said: "It's difficult to roll back on additional levels of hygiene, though you might not see quite such a visible display of cleaning before you sit down at a restaurant table."

Rawson agreed, pointing out: "Pre-Covid, how often were the handles of a supermarket trolley cleaned? Now there is an expectation they're cleaned. To get rid of these protocols will be difficult."

In last year's *Insight Report*, Rawson suggested the pandemic would act as a catalyst for digital transformation. She acknowledges this hasn't happened to the extent expected, arguing: "Businesses are coming out of the pandemic with cash-strapped balance sheets. Has a transformation to the 'enabled traveller', being able to travel almost with just a mobile, happened? No. But it will happen. We'll see a digital, seamless travel journey emerge in the next few years.

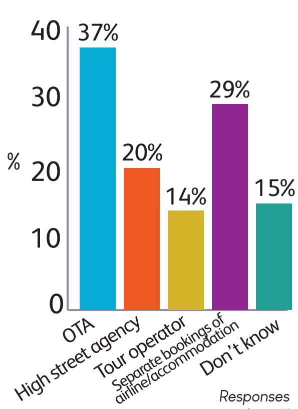
"It will be technology firms that aren't in the travel space which develop the technology. I don't see travel firms investing heavily in technology at the moment."

Knight added: "We tend to focus

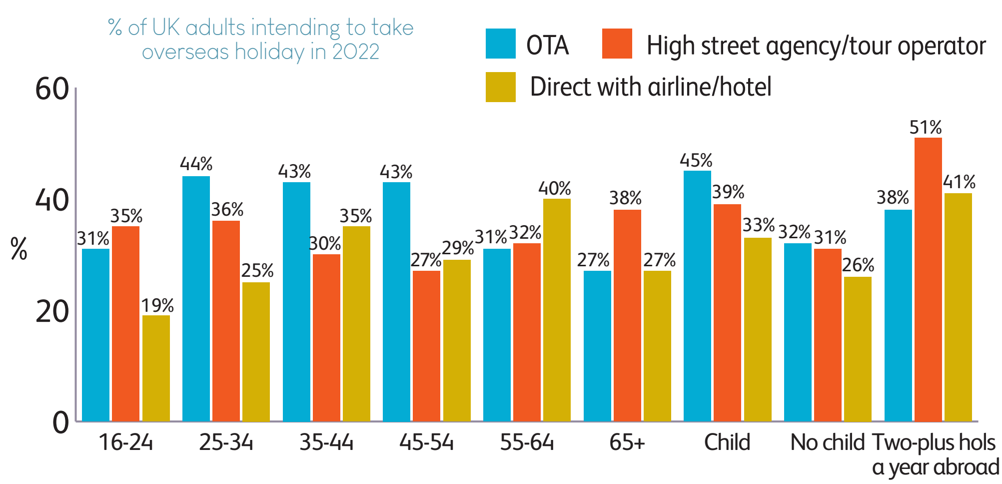
> Pandemic safety measures may be here for a while yet but climate change factors are likely to have a longer-lasting impact on travel

ONE IN three UK adults (34%) intending to take an overseas holiday in the next year will book through a travel agent or tour operator and 37% through an OTA, suggesting two-thirds will use intermediaries (Figure 37)

FIGURE 37: LIKELY WAY TO BOOK NEXT OVERSEAS HOLIDAY



Responses exceed 100%



Source: Service Science/Kantar

on consumer-facing technology. But transformation will need to happen in the back office. For example, we might need to change the way a tour operator connects with multiple destinations to change bookings at short notice. There is a whole host of data and technology issues that need to be solved to help businesses deal with greater uncertainty in travel."

He sees flexibility remaining key to attracting customers, saying: "Once you've had the benefit of changing your mind and knowing your money hasn't gone, it's difficult to change that flexibility. I see that being a key factor in who consumers choose to book with. I don't see how it's going to be possible to restrict that once you've offered it.

"That feeds back into the way contracts are made between operators and hotels, the way guarantees and deposits are structured, and the way in which business is done. It's going to need to be reviewed at a pretty fundamental level."

CONSUMER ADVICE

The complexity of travel requirements could see a greater proportion of consumers seeking advice when considering a booking.

Rawson suggested: "We're going to see a large number of people wanting to speak to someone in person, not on chatbots, in the short term. The demand to speak to someone in person will increase, particularly as we return to pre-pandemic levels of travel."

Knight argued: "Chatbots are here to stay. It is quite a nascent technology and has a lot of room to improve, but there are technology products out there that are getting smarter. Demographics are important. The expectations of the typical cruise client are quite different to those of people in their 20s buying a package holiday, who are comfortable dealing with everything on their phone while doing something else. There is not a single answer for the industry."

He added: "Customer care is going to be more important than at any time in recent history and businesses able to field more calls with a person are probably going to benefit."

> "Operators and others are going to have more consumer data than ever, which should increase the sophistication of personalised offers

Rawson said: "The added demographic will be those with young families who will want the security that what they've booked and where they're going to is safe and that they can get back without complications. The only way you'll get that security before travel is by speaking to somebody in person."

Both see the trend towards personalised offerings being less important, at least for now. Rawson said: "In the short term, many people just want to go on holiday. Businesses only have a finite amount of cash and they're going to have to prioritise what they spend on. Will it be on the technology for personalised marketing or on customer service? Some businesses won't have the ability to spend like before. But I do see personalisation growing."

Knight argued: "Efforts by businesses to understand their client data will continue. If a personalised offer is truly sophisticated it bothers me less than something that has my name at the top but isn't more sophisticated than 'You travelled to this country, have you been to this place?'

"Potentially, operators and others are going to have more consumer data than ever, which should increase the sophistication of personalised offers. But in the short term, comfort that a holiday will go ahead will be the most important thing."

CLIMATE CHANGE IMPACT

The increasing focus on sustainability will inevitably impact on the future travel experience and almost certainly the cost.

Knight said: "I'm a tax specialist and we're already seeing the impact in the form of environmental taxes and incentives. We have environmental taxes increasingly popping up all over the world. So we have both an additional cost and a driver for changing business models.

"The question is whether this translates to a more expensive purchase such as a holiday, and are we talking an additional 2%-3% or 10%-20%? We don't know the answer at this stage."

Rawson argued: "Carbon reporting

has been introduced for all companies above a certain size and consumers have an expectation now of companies across every industry – the younger the demographic, the greater the expectation."

However, she is not convinced holidaymakers will take fewer trips in response to climate change concerns, arguing: "People don't like to give up a holiday. Might they go short haul twice a year instead of long haul once and short haul once? Possibly, but they probably aren't going to give up the number of trips."

Knight agreed, saying: "Can I see people consolidating annual leave into a single longer holiday? I don't think so. There are pressures around annual leave and work patterns. But it will be interesting to see the retention rate for staycations. The phenomenon is not just in the UK."

The effects of climate changing will impact behaviour regardless. Knight said: "There are going to be impacts on specific areas. The ski season is likely to become shorter and you have to question the profitability for businesses in an area that might lose two or three weeks of a 15-week season. That can't be overcome by planning and investment in technology alone.

"Longer term, I would expect climate change to inform the destinations people travel to and potentially put additional pressure on capacity during the limited periods when families can travel."

For now, he sees popular resorts and city breaks being the focus of holidaymakers' attention, suggesting: "It comes back to comfort and knowing the infrastructure is in place if something goes wrong.

"In the short term, knowing a holiday is tried and trusted is going to be paramount. For a lot of people, summer 2022 might be the first time they've travelled in three years. I'm not convinced that families, in particular, are going to opt for off the beaten track. People want something they feel comfortable with and that tends to be popular tourist resorts."

But he added: "Business travel is likely to come back at a much different pace. Videoconferencing makes you ask 'Do I need to travel for meetings?' That feeds through to airline capacity but also to hotels that cater to business travellers. A huge segment of the sector is going to be impacted.

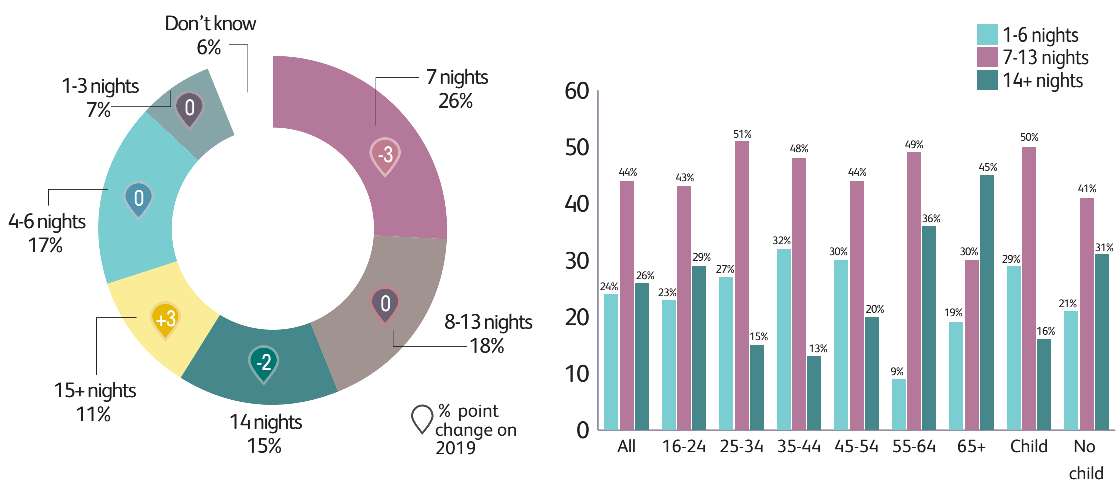
"There is a need to adapt. Airlines either need to reduce the capacity in higher classes, which is unattractive because those seats are profitable, or market them to consumers. Hotels that cater to business travellers face a challenge to repurpose."

RESEARCH for this report suggests a small shift from seven-night holidays to longer durations among those intending to book an overseas holiday, but no wholesale move towards longer breaks in particular among those with children (Figure 38)

FIGURE 38: DURATION OF NEXT OVERSEAS HOLIDAY

% of UK adults planning holiday abroad in 2022

By age, child status



Excludes 'don't knows'

Source: Service Science/Kantar

TECHNOLOGY
FUNDING IS KEY TO NEW SOLUTIONS

Covid brought a need for continuous technological innovation and Deloitte aviation assets director Martin Bowman suggested: "That is not at an end. We'll continue to see it for the foreseeable future."

He argued: "Pre-pandemic, one of the things that brought surety to the aviation network was the schedule and scheduling process. Airport slot rules were suspended mid-pandemic and even now airlines only need to fly 50% of their slots under the EU's use-it-or-lose-it rules.

"For as long as there is that level of variability around the schedule and countries continue to apply border restrictions, we're going to see a degree of volatility. From a technology point of view, having the ability to dynamically manage your operation, and the tools to predict demand and manage rostering and deployment, will be important."

Bowman has previously talked about Covid being a catalyst for digitalisation (*Insight Report 2020-21*) and he said: "That will continue in certain areas. One area in which Covid has been an accelerator is at the interface between the airline and airport, in passenger flow and the systems that support passenger flow – self-service baggage, check-in, boarding etc. That is positive because passengers like self-service and it makes life easier for organisations in the ecosystem.

"The bit that hasn't advanced to the extent it could have is digital identity. When we started looking at the concept of the digital health passport, many in the industry who are plugged into initiatives on seamless travel thought 'If I've got my credential in relation to health, it's not a massive extension to apply that to other biometric uses such as biometric boarding, immigration etc'. But digital enablement of that area hasn't progressed to the extent we hoped.

"The economics just kicked in. Few would disagree with the concept of linking a digital health credential with digital identity. It's just that the sector has suffered so much. Airlines are still losing money. They haven't had the flexibility to invest in this type of thing."

> Climate is now a top priority alongside recovery, but spending constraints could limit innovation elsewhere

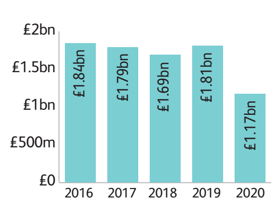
CLIMATE CHALLENGE

Bowman noted: "Recovery is a priority. But there is a new entry on the priority list and that is climate. The conversation has fundamentally shifted in the last 18 months and the sector has largely woken up to its responsibilities on sustainable aviation.

"If you had asked me pre-pandemic the top-three priorities for most aviation organisations, I wouldn't have put climate in there. Now it's right up there along with recovery and passenger confidence.

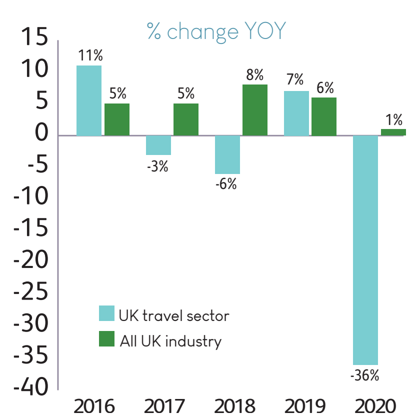
"From a climate perspective, most of the technologies that will have the biggest benefit will come into use in the next five to 10 years. I don't see big spend [on these] now. The dust hasn't settled yet on the various technologies coming along, whether it is sustainable aviation fuel [SAF] or electric aircraft. So it would be wrong to be spending big now. Where the priority should be is mobilising the ecosystem, scaling SAF infrastructure and getting collaborative agreements in place. What you will see is 'innovation-function' teams deprioritise previous innovations and look at climate-related projects."

FIGURE 39:
UK TRAVEL IT SPENDING, 2016–20



Source: ONS / Travolution

FIGURE 40:
CHANGE IN IT SPENDING, TRAVEL v ALL UK INDUSTRY



Source: ONS / Travolution

Climate will also add "a new dimension and new consideration" to existing processes, he said. "For example, one of the common languages in aviation is around delay and on-time performance. Talk to any airline or airport and they may argue around the cause of a delay, but they don't argue about the measurement. The language of delay is common across the world.

"One challenge on climate is to codify and operationalise efficiency and sustainability and embed it in the core way we do things. Does that mean new systems? No, but it does mean your technology will have to allow you to prioritise flight efficiency at the same level as delay. So it's a new viewpoint on the way we do things."

INDUSTRY COLLABORATION

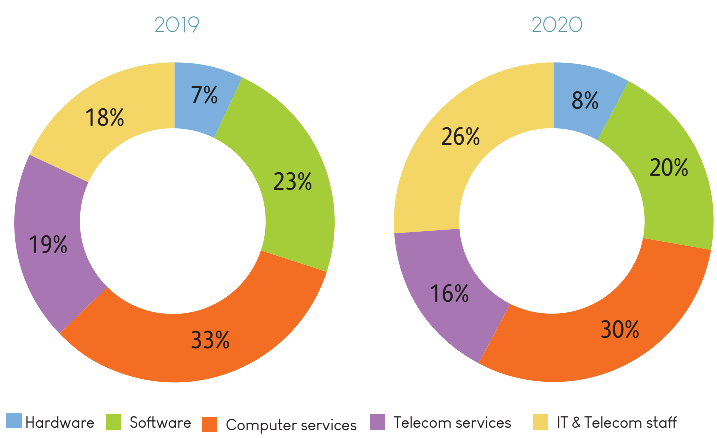
Collaboration between industry players remains vital, according to Bowman who highlighted a new sense of cooperation and openness in the sector at the time of the *Insight Report 2020-21*.

He insisted: "By and large, the collaboration across the industry has been excellent and continues to be excellent in certain areas, in particular on the climate challenge. Airlines and airports have been sharing passenger and load information which historically would have been more commercially sensitive.

"There have been changes to agreements and increased collaboration and I would hope these changes are there for the long term. Anything that enables a common, passenger-centric view to operate across the various stakeholders is an improvement."

But the rapprochement between airlines and major airports broke down as soon as the prospect of increased landing charges raised its head, given that leading airports are permitted by regulators to

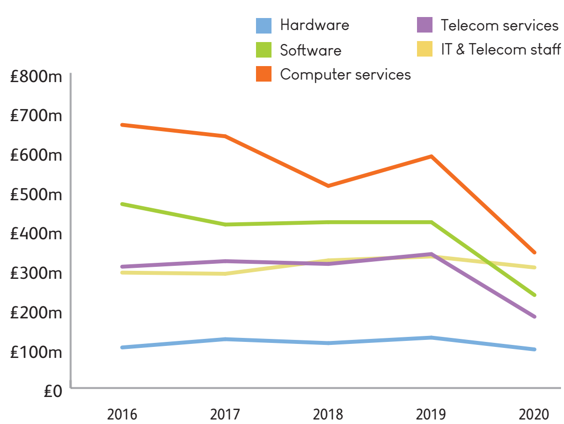
FIGURE 41: UK TRAVEL SPEND BY PURPOSE



Source: ONS / Travolution

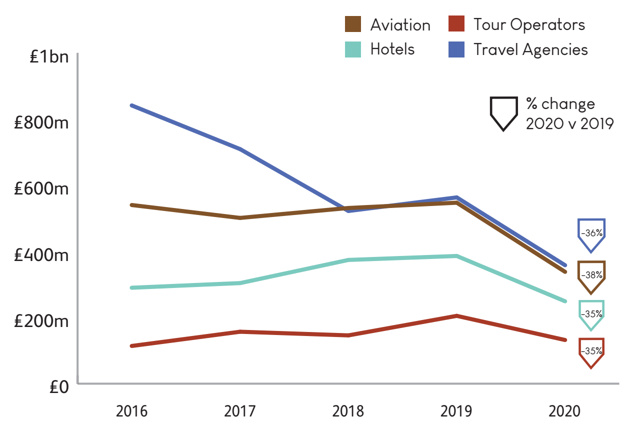
UK TRAVEL IT spending fell sharply in 2020 (Figures 39 & 40). Spending on travel IT staff expanded proportionally in 2020 as other IT spending was reduced (Figure 41). Indeed, spending on IT staff was barely reduced (Figure 42). Travel agencies appear to show the biggest contraction in IT spending over a five-year period, but airlines showed the sharpest contraction during the pandemic (Figure 43)

FIGURE 42: TRAVEL IT SPENDING BY TECHNOLOGY CATEGORY



Source: ONS / Travolution

FIGURE 43: UK TRAVEL IT SPEND BY SECTOR



Source: ONS / Travolution

FUNDING IS KEY TO NEW SOLUTIONS

recoup aeronautical losses from airline customers. Air navigation service providers (ANSPs) can do the same, leading to sharp exchanges between them and Willie Walsh, director general of airline association Iata, in the autumn of 2021. Bowman said: "Where cold, hard, commercial realities exist, collaboration will remain challenging."

He also fears international harmonisation of Covid-related digital credentials "is a pipe dream at the inter-government level. If it is to happen, it would take one of the big platforms to make it happen."

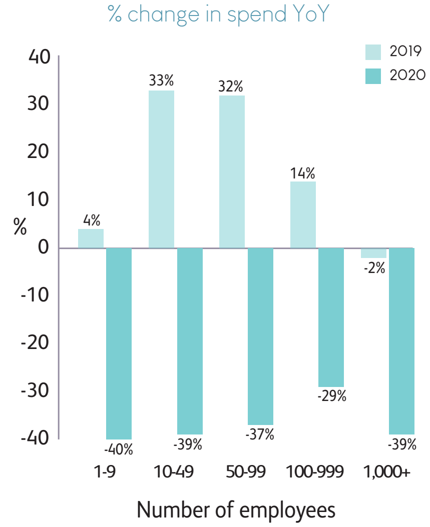
Bowman is full of praise for solutions developed for sharing digital health credentials such as Iata's Travel Pass, noting: "All these solutions use self-sovereign identity technology which is essentially where an individual is accountable for management of their information. Linking these solutions to existing document verification services such as Timatic has made a more rounded solution."

The Timatic (Travel Information Manual Automatic) database, managed by Iata, facilitates automatic document checks and verification.

But Bowman argued: "I'm not convinced there is going to be the commitment [from governments] to the level of integrity these systems have been designed with. If a country is able to get by with a paper document, it will accept that. These systems are complex. The core technology is complex, but the level of integration that goes with it is even more complex. These are fairly leading-edge

> "From a climate perspective, most of the technologies that will have the biggest benefit will come into use in the next five to 10 years. I don't see big spend [on these] now

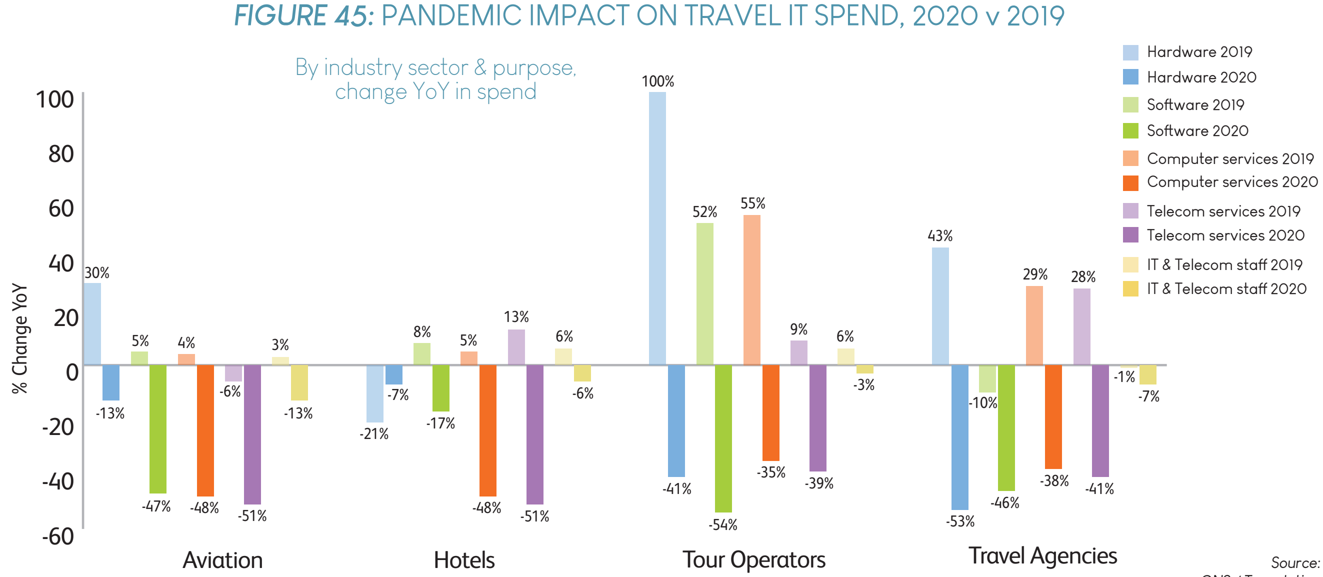
FIGURE 44: PANDEMIC IMPACT ON TRAVEL IT SPEND BY SIZE OF BUSINESS



Source: ONS / Travolution

THE CONTRACTION in travel IT spending in 2020 appears fairly uniform regardless of the size of business (Figure 44). The extent of reductions in IT spending varied by purpose and industry sector (Figure 45)

FIGURE 45: PANDEMIC IMPACT ON TRAVEL IT SPEND, 2020 v 2019



Source: ONS / Travolution

technologies. Why would you go to all that expense if you're thinking 'Am I really going to need this in six to 12 months' time?'"

He added: "I recently travelled to Dubai with an airline that offered a digital health credential service. I'm an aviation technologist, but despite that I printed out my Covid certificate because I thought 'This is too much hassle'."

NEW FUNDING PRIORITIES

Bowman foresees fresh developments in existing technologies but a reordering of priorities and much greater focus on the return on investment in technology.

He noted: "When it comes to technology, it's almost never the case that we go backwards. So the opportunities that, for example, chatbots present are only going to get greater. I certainly wouldn't advocate switching off investment in these tools – they are only going to get better. We'll continue to see contactless develop.

"Real-time information is important, but what is more important is the ability to simulate, to be able to apply 'what if?' queries to real-time data. You need to be able to challenge assumptions dynamically and be able to quickly react to a changing environment. Just doing analysis based on real-time data is not going to give you that type of insight.

"For example, say I have a flight schedule between country A and country B. What happens if country B locks down? What happens if it eases restrictions and there is increased demand? The ability to take the data and simulate on top of it, to scenario-play different options is more important than the real-time information.

"I've been surprised that providers of this type of information did not move into that predictive space sooner.

"AI [artificial intelligence] and machine learning will continue. Look outside aviation – technology adoption and capability development has continued at pace throughout the pandemic. Digital skills and these enabling capabilities have never been more in demand. We're in a digitally accelerating environment.

"The challenge we have in aviation is when it comes to investment. The sector has obviously had to shore up its finances significantly to get through the pandemic. There has also been a massive number of people depart the sector. The knowledge that has left is huge.

"These two things – increased debt and fewer people – combine with a third element here in the UK which is that commercial organisations make up the vast majority of the aviation ecosystem and all have an interest in return. There will be a requirement over time for investment to be returned. So this is a triple whammy in terms of future investment.

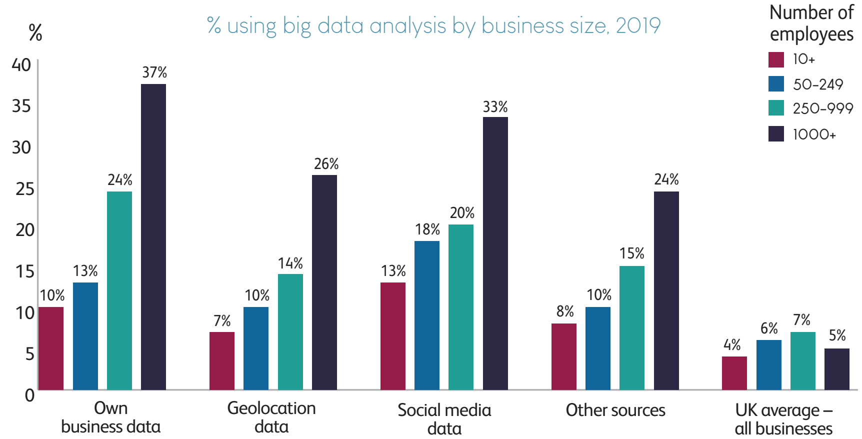
"I'm not saying aviation will stop funding initiatives, but the justification for funding is going to be so much harder.

"The scrutiny is going to be so much more. Technologists in aviation are going to be acutely aware of the business value [of anything they are working on]."

Technology innovation in the sector could slow as a result, he suggests, saying: "It will be harder. It will continue in certain areas, for example, on climate. There will be certain strategic buckets that will be more open. But elsewhere forget about it unless it means cost out. Recovery and climate are going to be the two big conversations."

FIGURE 46: UK BUSINESS USE OF BIG DATA

% using big data analysis by business size, 2019



Figures rounded
Source ONS, Feb 2021

UNSURPRISINGLY, the larger a business, the more likely it is to utilise big data analysis (Figure 46). The lack of big data use among small businesses brings the national average down to single digits in every category

INVESTMENT IN TRAVEL

INVESTORS LIKELY TO AWAIT GREATER CERTAINTY

It is remarkable that so long a period of lockdown and uncertainty, from March 2020 to September 2021, saw so relatively few travel businesses fail.

Alistair Pritchard, Deloitte lead partner for travel and aviation, suggested businesses "are in two camps", saying: "Some weathered the storm reasonably well or raised funding to do so. But a chunk of businesses either haven't secured funding or have but maybe need more.

"Everybody is grateful to have bookings coming in, but deposits aren't the same as final balances coming in and the cost base has gone up.

"The reality is it will probably be well into 2022 before a lot of businesses see meaningful numbers of people travelling."

Jamie Avni, Deloitte financial advisory transaction services director, agreed. He pointed out: "The CAA's September licence renewals saw the number of renewals come down a significant amount because of concerns about the financial position of some travel companies.

"Businesses have had a year of refunds and refund credit notes that are yet to unwind. So when renewing their licences, companies are asked to put up a significant amount as a bond or to set up trust accounts. That is in addition to merchant acquirers asking for longer deferrals on payments or rolling reserves or even for bonds or trust accounts.

"The requirements of merchant acquirers and the CAA are putting a strain on working capital for some travel companies. Even as they see an increased level of bookings, their cash is potentially going to be tied up in trust accounts or bonding, potentially creating some distress."

The appetite for travel remains strong but the sector faces a challenging period

BUSINESS FUNDING

Avni suggested businesses "may struggle" to access additional funding, arguing: "High street lenders have been hit by this sector already."

Pritchard agreed: "There will be pockets where a bank chooses to support a customer because they can see bookings coming through. It might not be new funding – a bank might extend existing funding or provide covenant waivers [allowing a breach of loan conditions]. But many businesses have covenants attached to lending and, in many cases, these were already waived.

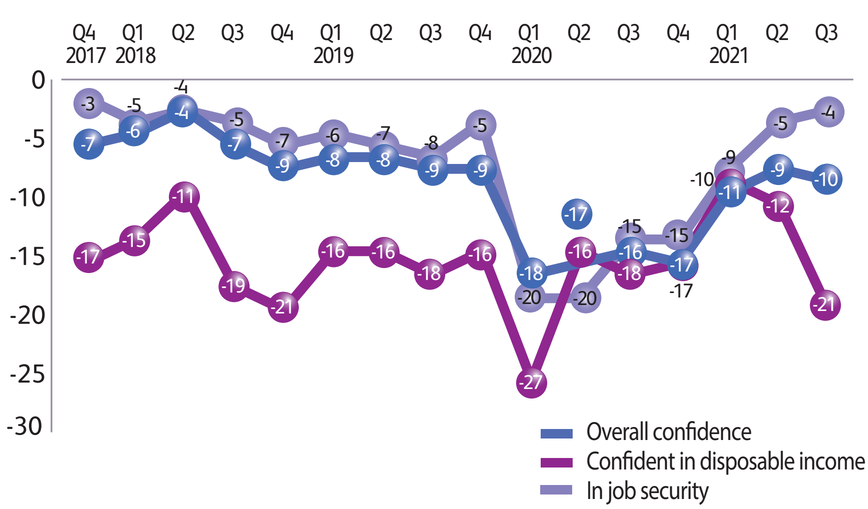
"So there are two issues – where a business needs new funding and where a business needs continuing support with existing lending. Some banks will extend waivers or covenants on the basis of confidence around future bookings, but that is by no means guaranteed.

"There is also the extent to which shareholders choose to provide additional funding. Some private equity [PE] houses have been supportive and provided additional funding. Others have not been able to provide support. Whether they extend funding will depend on the backers, how much they've already provided and how confident they are in the performance of a business."

Pritchard said: "If they let a business fail, their return on investment is nil. The

FIGURE 47: UK CONSUMER CONFIDENCE, 2017–21

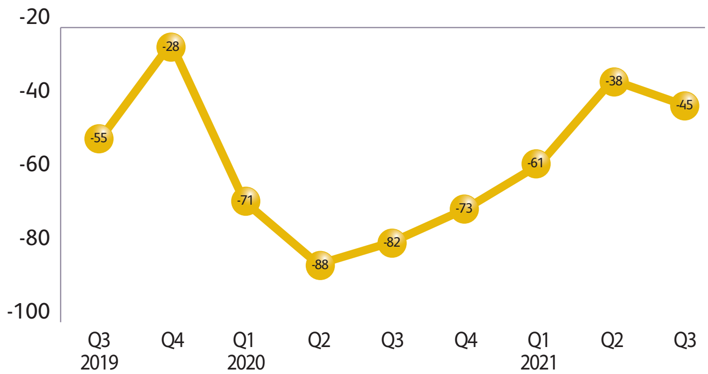
% point difference between 'confident' and 'not confident'



Source: Deloitte Consumer Tracker

FIGURE 48: CONSUMER CONFIDENCE IN UK ECONOMY

% point difference between 'confident'/'not confident'



Source: Deloitte Consumer Tracker

question PE houses ask is 'If I provide further support, will I realise some value on my investment?' Those situations are nuanced."

He and Avni see no change in the underlying attitude of investors towards travel. Avni said: "Pre-pandemic a lot of PE houses loved travel. There are strong dynamics to it that are just on hold. Everyone knows it's going to come back.

"I don't think the pandemic has turned off the appetite for investment in the sector. Once it comes back and there is greater certainty, we'll probably see a wave of PE houses selling to other PE houses."

Pritchard agreed, but added: "The one caveat would be consideration of any new regulations. PE has supported this industry a lot over recent years, not only because of the generally strong growth in the sector, but also where there hasn't been a requirement to tie up additional capital in bonds or trust accounts.

"If the regulatory landscape changes and impacts on the amount of cash that needs to be ringfenced, it will be interesting when private equity houses are assessing whether and when to sell and other investors assessing whether and when to invest."

OVERALL consumer confidence had broadly recovered to pre-Covid levels by Q3 2021, but consumers' confidence in their disposable income had dropped sharply (Figure 47). Consumer confidence in the UK economy had also improved (Figure 48). Corporate priorities in Q3 2021 reflected those of an economy in recovery (Figure 49)

Avni warned: "It could potentially reduce the overall price on a sale. If you're having to tie up additional cash in bonds or trust accounts, travel may become less attractive from an investor standpoint."

However, Pritchard did not express concern about companies' ability to restructure their debt, saying: "Those businesses that have restructured debt so far have been relatively successful. There has been strong shareholder support, indicating confidence about the recovery."

M&A OUTLOOK

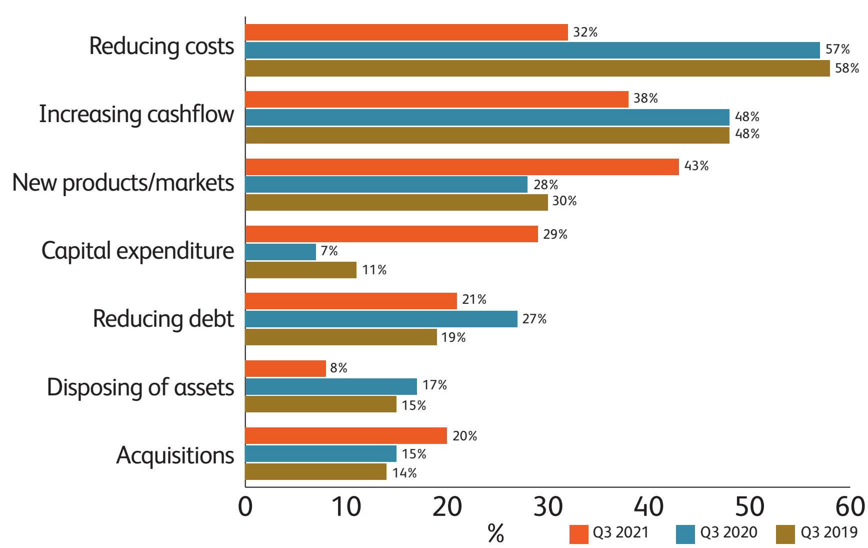
Beyond the world of travel there has been a surge of mergers and acquisitions (M&A) globally, fuelled according to Avni by "a lot of dry powder chasing limited opportunities" as well as "access to cheap debt".

He pointed out: "A lot of the activity is focused on particular sectors — in healthcare and technology, for example – which have not been impacted or have seen a positive impact from the pandemic."

Pritchard said: "As well as the

FIGURE 49: CORPORATE PRIORITIES

% CFOs rate as priority in next 12 months



Source: Deloitte CFO Survey

INVESTORS LIKELY TO AWAIT GREATER CERTAINTY

availability of capital, people can see prices are depressed in certain sectors and there is an opportunity to acquire assets at a lower value."

The few M&A deals in travel in 2021 came in the corporate travel sector. US expense management platform TripActions acquired UK-based travel management company (TMC) Reed & Mackay in May. US corporate travel tech platform TravelPerk purchased UK TMC Click Travel in July, and American Express Global Business Travel (GBT) completed the takeover of Egencia, the corporate travel arm of Expedia, in November having announced it in May. Together, the acquisitions brought rapid consolidation at the upper end of the sector.

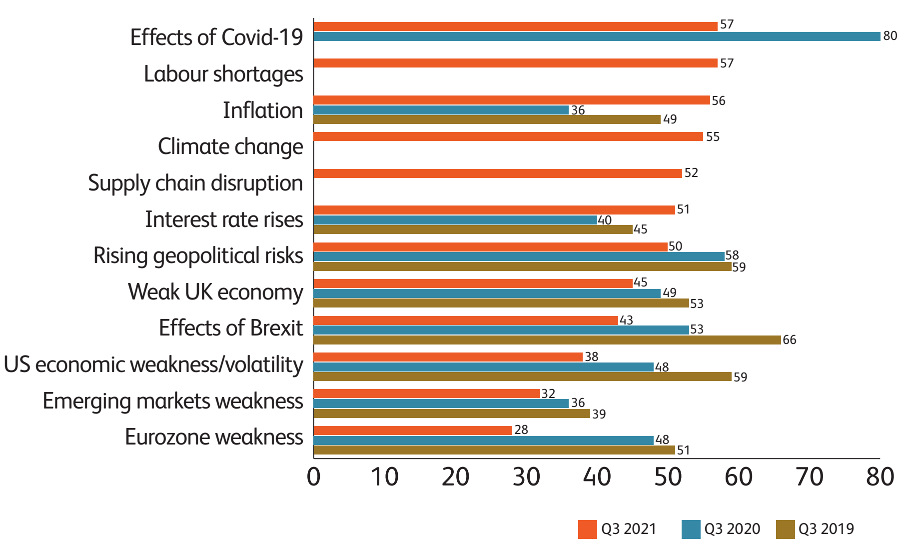
Avni argued: "We're going to see more consolidation among business travel companies. But from a PE perspective the difficulty is forecasting how much business travel will come back. The consensus is it will come back but not fully.

"Will it be 60% or 70% or something lower? If all of a TMC's clients come back at a lower level [of travel] it would lower the revenue but you would have a fixed cost base. That would drive consolidation in the near term."

> "I don't think the pandemic has turned off the appetite for investment in the sector. Once it comes back, we'll probably see a wave of PE houses selling to other PE houses"

FIGURE 50: RISKS TO BUSINESS

Average ratings by CFOs on scale of 0-100



Source: Deloitte CFO Survey

Pritchard pointed out the uncertainty about the extent of business travel's return is caused not only by Covid-19 but also by climate change.

He said: "A lot of corporates have made public commitments on decarbonisation. Corporate policies are being set to ensure business travel only takes place when necessary."

The amount of uncertainty "makes it difficult to see how PE might invest at this juncture", he said. "You could see some consolidation in corporate travel driven by necessity, by the need to restructure and take out cost. Fresh investment in the sector from outside will be more challenging. It's likely we'll see investment recover more quickly in leisure rather than business travel. But there are lots of different parts to leisure and quite a different dynamic between a European operator and a long-haul escorted tours operator, for example."

DIGITAL IMPERATIVE

The businesses likely to attract interest will be "those that have progressed well in digital transformation", Pritchard said.

"Every business has to transform digitally not only to improve operational processes but the customer journey. Resetting the cost base is also important. So PE might look at a business that is already a long way on that journey, and those further on the journey towards sustainability would be more appealing."

He added: "One of the things an investor is always thinking about is how attractive is an asset going to be when they look to sell it. They look for assets that are going to be of value in a few years and those are businesses addressing digital transformation and sustainability."

There continues to be "a lot of interest" in the UK domestic travel sector, he noted, parts of which enjoyed a successful summer 2021 amid the restrictions on outbound travel.

But Pritchard pointed out: "When you talk about the domestic market, there is not one group of businesses. Accommodation sites have been strong and there is a lot of interest in that market. But I haven't seen so much interest in the coach sector."

Avni agreed: "Holiday parks are clearly attractive and it's an opportunistic time to sell given they had such a strong summer domestically. But a lot of holiday parks have already been sold. There are probably only a couple likely to come up for sale in the near future.

"We'll continue to see activity in the holiday parks sector. There is more clarity around [their] business plans and forecasts. When you look at international travel the level of uncertainty around new variants or booster vaccines is too much."

CHALLENGING TIME

Any business owner looking to sell at the moment would be wise to wait until there is greater certainty and probably a successful summer 2022 season under the sector's belt.

Avni said: "It is a very challenging time to sell a travel business right now. Without longer-term bookings and greater certainty around what is to come, it's hard to sell at a good price. Where there is a seller who has to sell and accept a lower valuation, there are potential opportunities for a buyer."

Pritchard agreed, saying: "Even where businesses have good pipelines of bookings, many of those have been made with some sort of Covid reassurance. So from an investor's point of view there is a risk that some of those bookings are cancelled. An investor will want to wait to see that isn't happening and see people start to travel in volume."

However, they see private equity interest returning at scale once a true recovery kicks in.

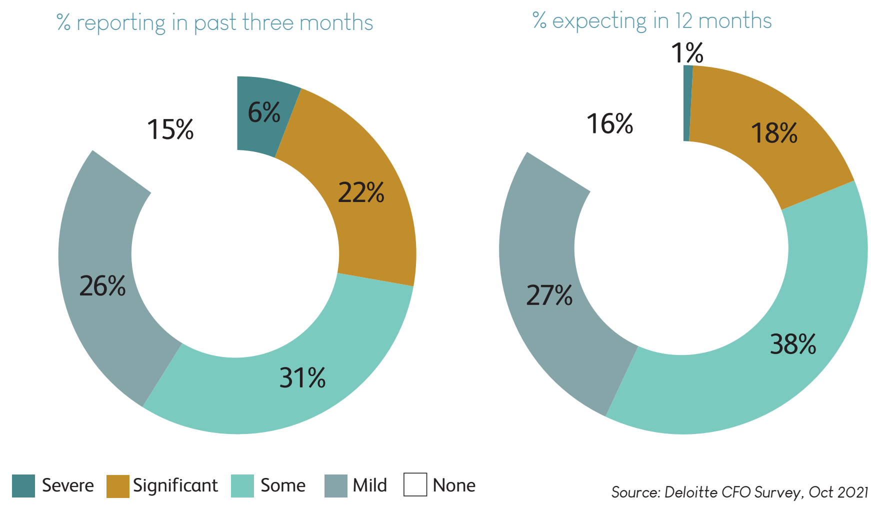
Avni argued: "The last time a lot of PE funds transacted in the travel sector was several years ago and those funds will need to exit in the next year or two. So once there is more certainty and better forecasting we're probably going to see a wave of PE-backed businesses coming up for sale."

Pritchard warned: "We're going to see some challenges in the next six months, but I'm confident travel will come back at volumes that bring businesses back to the levels of profitability and cash generation they had before, and there will be transactions when PE funds need to realise the value on investments."

Looking beyond travel, he noted: "We've seen quite a few companies come to the markets during the pandemic. It will be interesting to see whether that becomes an appealing route for some travel businesses.

"It's difficult to predict – travel businesses are perhaps more suited to a different type of ownership. But we're seeing quite a few IPOs [initial public offerings of shares] in other sectors. It's not beyond the realms of possibility that there may be some IPOs in travel in the next 12 months."

FIGURE 51: SUPPLY CHAIN DISRUPTION



Source: Deloitte CFO Survey, Oct 2021

COVID-19 remained a major risk to business in the latest Deloitte CFO survey, but on a par with labour shortages and inflation and only just ahead of climate change (Figure 50). A majority of businesses report at least some disruption to supply chains and more than half expect the disruption to continue (Figure 51)

> Without longer-term bookings and greater certainty around what is to come, it's hard to sell [a travel business] at a good price

AIR TRAVEL
HEADWINDS GIVE WAY TO FRESH CHALLENGES

The worst of a torrid 20-month period for European aviation had appeared to be ending as this report was finalised.

Then the Omicron variant appeared, bringing a return of red list countries and PCR tests on arrivals after first the EU and then the UK had stripped away most barriers to flying for fully vaccinated passengers through the summer and autumn. It threatened to severely disrupt plans for the winter.

Ryanair had reported an "impressive post-Covid recovery" in November and pledged to expand rapidly at the expense of rivals. Group chief executive Michael O'Leary claimed the airline was already "operating 91% of pre-Covid flights when most European flag-carriers are operating at 50%-60%" and insisted: "We have far more growth opportunities than we can cope with."

Jozsef Varadi, chief executive of budget carrier Wizz Air, likewise hailed a "return towards 2019 traffic" over the summer, reporting capacity "peaked at 98%" of 2019's level in August, admitting: "We're stimulating demand with pricing."

EasyJet took a more cautious approach but reported it was "looking to operate up to 70%" of its 2019 capacity in the final three months of 2021 after operating 58% in the three months to September. Chief executive Johan Lundgren forecast "a very good summer 2022".

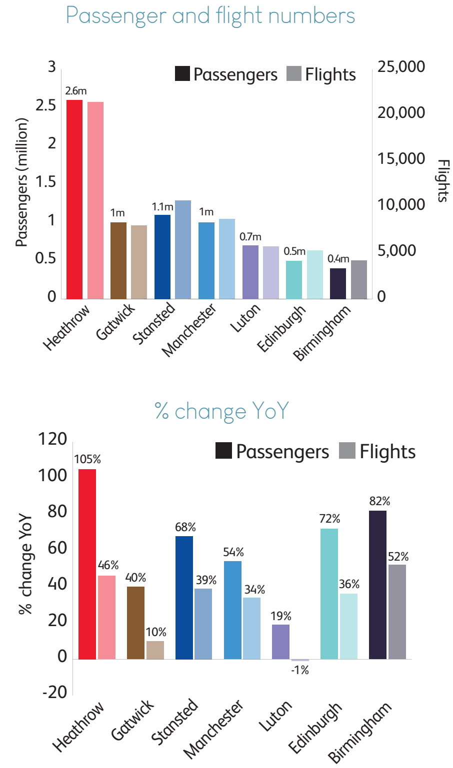
Among Europe's full-service carriers, International Airlines Group (IAG) reported premium leisure "performing strongly" at British Airways and Iberia in November and "early signs of a recovery in business travel" despite an operating loss of €452 million for peak summer.

IAG chief executive Luis Gallego hailed the reopening of the US border from November 8 as "a pivotal moment", noting: "Long-haul traffic has been a significant driver of revenue, with

The pandemic has brought more change to airlines and airports than 9/11

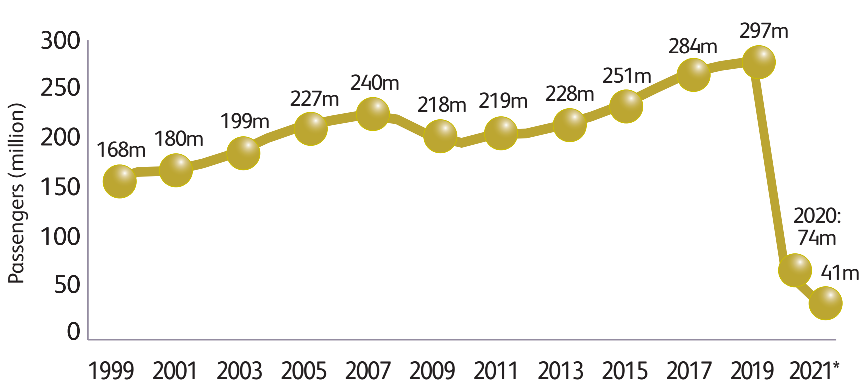
HEATHROW showed the strongest recovery in air traffic among major UK airports in September (Figure 52). The decline in air passengers due to Covid-19 was spectacular (Figure 53)

FIGURE 52: BUSIEST UK AIRPORTS, SEPTEMBER 2021



Figures rounded. Source: CAA

FIGURE 53: UK AIRPORT PASSENGER NUMBERS, 1999-2021



**12 months to Sept 2021*
UK & international passengers, outbound, inbound & domestic, to nearest million Source: CAA

AIR TRAVEL
HEADWINDS GIVE WAY TO FRESH CHALLENGES

bookings recovering faster than short-haul." He forecast a full-year operating loss of €3 billion for 2021, but a return to profit in 2022.

BA also moved closer to re-establishing a short-haul operation at Gatwick, telling staff: "It looks likely we'll be up and running to fly the summer [2022] schedule."

Lufthansa Group reported new bookings "back at 80% of the pre-crisis level" after the US reopening as chief executive Carsten Spohr hailed a "milestone on our way out of the crisis", and Lufthansa paid off the 'stabilisation funds' it owed the German government in November. The government had made available €9 billion at the height of the crisis, of which Lufthansa had drawn €3.8 billion.

Air France-KLM reported a loss of €3.2 billion for the nine months to September despite posting a summer operating profit but forecast capacity for the final quarter of 2021 could reach 75% of 2019 levels.

GLOBAL OUTLOOK

Iata figures showed only "a moderate rebound" in global air travel and Iata director general Willie Walsh warned of "pressure on the cost base" from high oil prices and increased airport charges.

Iata reported international air traffic remained 69% down on 2019 in September, but 57% down in Europe compared with 93% in Asia-Pacific, 67% in the Middle East and 61% in North America.

Speaking in November, Walsh said of the Asia-Pacific region: "We see very little willingness of governments to move away from a zero Covid approach. There are airlines in the region on the brink."

Eamonn Brennan, director general of European air traffic management body Eurocontrol, noted Europe's air traffic was at 78% of the 2019 level at the end of the first week of November, rising to 89% within Europe. But he noted traffic to and from China had "collapsed".

The UK was "still 33% down" compared with Germany 25% down and Spain "only 15% down", according to Brennan, who forecast European traffic would increase "to around 85%" of 2019's level by March 2022 [and] see a full recovery by the end of 2023".

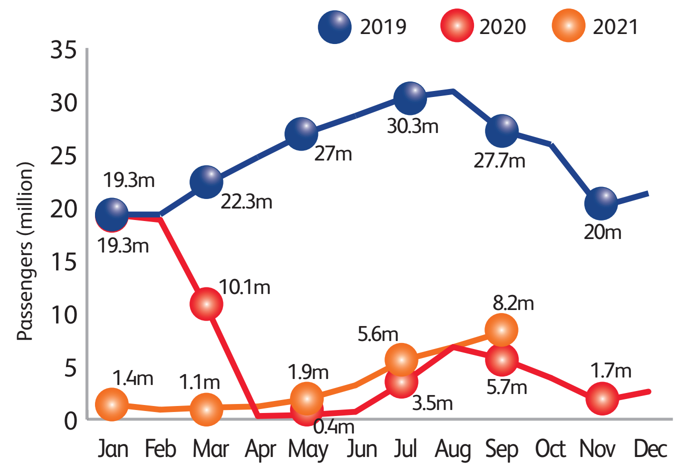
However, Brennan noted: "Airports are suffering [and] large airports with heavy capital investments are suffering the most."

The extent of the difficulties facing airports was confirmed by European airports association ACI Europe which warned in November of a second year of "massive losses".

ACI Europe director general Olivier Jankovic reported airport debt "has ballooned" and warned a recovery in

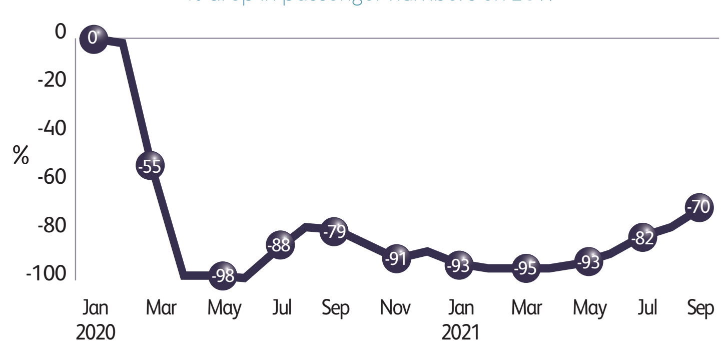
FIGURES 54 & 55 showing UK airport passenger numbers month by month through the pandemic and the decline on 2019 reveal the limits of the recovery to September 2021

FIGURE 54: UK AIRPORT PASSENGER NUMBERS BY MONTH



Source: CAA

FIGURE 55:
UK AIR PASSENGERS BYMONTH, 2020–21
% drop in passenger numbers on 2019



Source: CAA

earnings "is a long way off", saying: "This is not just about the slow recovery in traffic volumes, but about increasing pressure from airlines on airport charges."

He described the financial support available as "limited" and "cost-cutting opportunities almost exhausted" and told the association's conference: "Europe's airports face an investment crunch which will hit their ability to finance decarbonisation and digitalisation as well as capacity. Airport revenues will remain insufficient to meet investment costs at least until 2032."

LEISURE FOCUS

Leisure travellers will be the focus of airlines' attention in 2022, according to Deloitte head of aviation Andy Gauld.

He argued: "There is a softness in demand for corporate travel. A lot of organisations are not fully back to the office and are going through what the new ways of working will look like."

The implications for full-service carriers remain unclear although airlines will undoubtedly hope to attract more leisure passengers into premium cabins. Gauld suggested: "Airlines might get into offering a different experience to holiday travellers and reclassifying business class. The question is still open. Most are waiting to understand what the new model [of travel] will look like."

In the meantime, he believes the consequences of Covid-19 for the sector will be more far-reaching than the September 11 attacks.

Gauld argued: "The amount of change is far greater than after 9/11 because of the level of uncertainty. The 'hangover' will depend on how long countries require you to show a health credential. We don't know if we'll have to top up vaccines every year. Until we're at a point of certainty on the path of the pandemic, we're going to have a requirement to show a health credential to travel."

There remains "a level of ambiguity around what is needed to travel" he said, adding: "There is a need for consistency. We've introduced a number of manual checks into a digital process when the aviation workforce has been used to non-manual processes for 15 years.

"We've been relatively good at digitising processes, but there are inconsistencies. Each country is focused on its own internal requirements, trying to convince more people to take up vaccination. Until we get more certainty, and we're probably a year to 18 months from that, there are going to be a lot of manual checks in the process. It's a case of getting a better understanding at both ends of a route and as much commonality as we can. It will become easier as things become more certain."

> "The biggest challenge, as well as the biggest area of opportunity, is fuel and the carbon footprint of airlines and airports

DIGITISATION DILEMMA

Gauld does not foresee wholesale digitisation of the air travel process, saying: "A number of aviation organisations are looking to continue the digitisation of processes where they can, but there are two trains of thought.

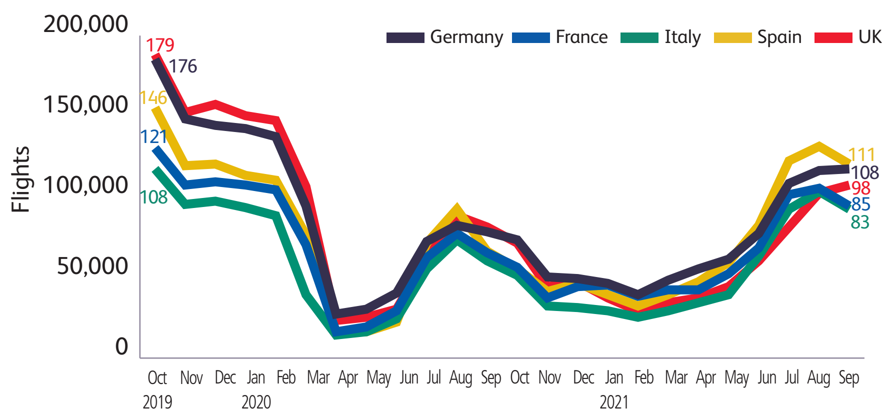
"One is 'Let's try to improve the experience and negate the bumps in the road where we can'. But a second is 'Let's wait. Why continue now when the process could change? The sector has probably erred on the side of wait and see."

Gauld added: "I would wait. If there

Spain and Germany operated more commercial flights than the UK in September 2021 as the UK aviation recovery lagged (Figure 56)

FIGURE 56: EUROPE'S MAJOR AIR TRAVEL MARKETS, 2019-21

Commercial flights



Figures rounded Source: Eurocontrol / Eurostat is a normal pattern of leisure travel in 2022 and not another variant, travel will become more manageable and that will give confidence to the sector to invest. Leisure will be key. I don't expect corporate travel to look like it did in 2019.

"The sustainability agenda will have an impact. A lot of corporates have sustainability goals and cutting travel is a way of cutting your carbon footprint."

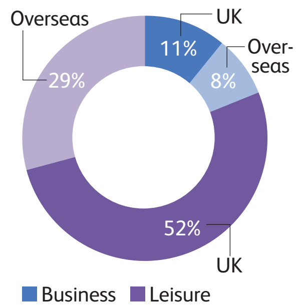
Yet he highlighted two areas where airlines will be keen to invest, arguing: "If money permits, a big area will be transformation of the back office and moving digital data centres to the cloud. There will be a focus on the user experience in the short term."

Against this background, Gauld suggested carriers' development of New Distribution Capability (NDC), which aims to personalise flight offers through third-party distributors, was somewhat out of synch with the needs of the leisure market. He said: "It feels like organisations are trying to rebrand NDC. They need a new ethos for NDC. The old model wasn't working. They're trying to pump life into it. The technology is not where it needs to be.

"The pandemic may have caused a resurgence in the need for a concierge service to take the uncertainty out of the [travel] process rather than the traditional model focused on selling flights.

FIGURE 57: UK AIR PASSENGERS, 2019

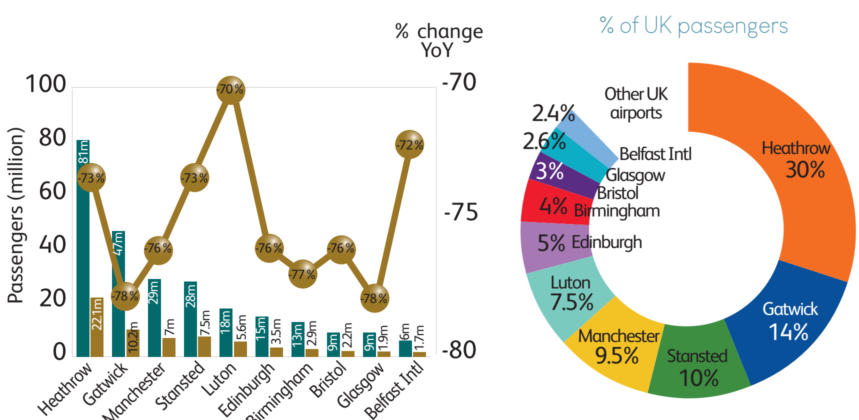
% of airport terminal passengers



Source: CAA

ALMOST one in five air passengers in the UK are business travellers (Figure 57). Heathrow remained the largest UK airport by a considerable margin in 2020 despite the slump in air traffic (Figure 58)

FIGURE 58: UK TOP-10 PASSENGER AIRPORTS, 2020



Source: CAA

"Consumers less informed about what to do may want help through the process. That is where there is an opportunity and it's not addressed by NDC, which is more set up for the corporate sector than for the leisure market.

"What the leisure market is going to want is a level of certainty. For example, my parents are in their 70s. The focus needs to be on what makes the process easier for the likes of them."

GREATER COLLABORATION

Interviewed for the *Insight Report 2020-21*, Gauld highlighted an increase in collaboration across the sector which saw "players sharing the pain and trying to work together".

Now he said: "The willingness to collaborate in the sector is as strong as I've ever seen it. We've seen a lot more communication between airlines, airports and air navigation service providers and a lot of work to understand what is required in detail.

"The challenge is whether that level of collaboration will remain. The sector has not become less competitive. If collaboration wains we could see a reversion to former ways of working."

However, "the biggest challenge" as well as "the biggest area of opportunity" is "fuel and the carbon footprint of airlines and airports".

Gauld identifies the priorities for the sector as "developing a path to net zero that is understandable to consumers, negating the loss of corporate travel by appealing to leisure travellers, and evolving the customer experience in light of the pandemic".

That leads to a fresh challenge, he said: "If an organisation had a five-year plan last year, they need a 15-year plan now."

Despite these challenges, Gauld argued the past 20 months brought "a lot of opportunity to think things through. That has been an upside and major organisations have taken that opportunity. It depends now whether they develop or revert to traditional ways of doing things."

HOSPITALITY

‘DEMAND MAY CHANGE BUT IT WILL COME BACK’

The outlook for hospitality appears strong despite the challenges of the past two years and the mixed nature of the recovery through to autumn 2021.

Robin Rossmann, managing director of hospitality data analyst STR, reported in October: “Things have by and large returned to normal. Not many hotels remain closed. In the US, 99% have reopened, in the UK 98%, in Europe as a whole 94%. But a lot of high-end hotels in London have only just reopened.”

Rossmann said the sector had shown “massive resilience”, noting completion rates on new hotels “fell across the board in 2020” but there had been no increase in ‘deferrals’ – when construction halts for 12 months – or ‘abandonments’ when developers walk away.

He added: “Already in 2021 we’ve had more rooms open than in 2020. We forecast a record number of openings in 2021 in Europe and 2022 will be not far off that.”

Rossmann described the resurgence in average daily rates (ADRs) as “the big surprise” saying: “The US ADR was above 2019 for the whole of July and August. Europe also exceeded 2019’s ADR for a few weeks. There is massive pent-up leisure demand.”

Rising inflation partly explains the rebound in rates, but it’s not the sole explanation. Rossmann reported: “In Europe, [summer] occupancy varied between 50% and 85% by country.

The UK definitely led the way. For northern Europe it wasn’t a lost summer. There were strong performances across the UK, Germany and Poland driven by staycations. The Italian islands also benefited.

“In southern Europe it was another lost summer. It didn’t match the expectations of most hoteliers and the reason was government restrictions. France, Portugal and Spain struggled. Nine out of 10 of the top regional markets in Europe were in the UK.”

The UK regions continued to perform ahead of London although “the gap is weakening”, Rossmann reported, noting 40% of London hotels were above 75% occupancy in the last week of August compared with almost 70% of hotels in the UK regions.

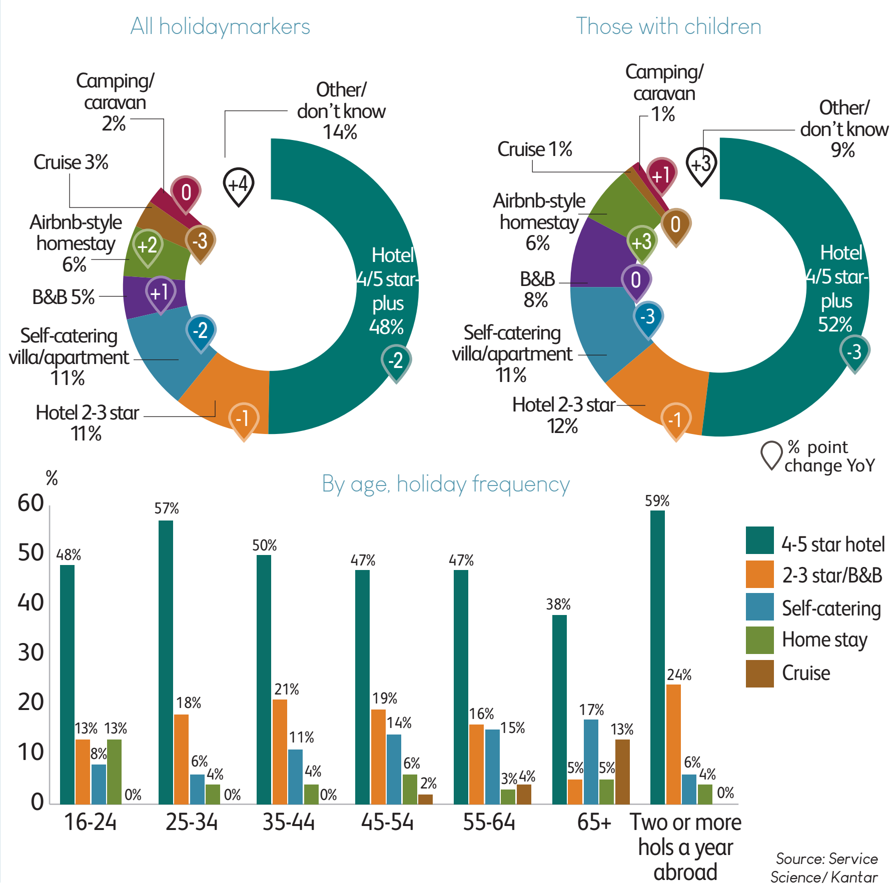
He said: “In London, 40% of hotels achieved a higher ADR than in 2019, rising to 80% in the regions where 30% achieved a rate of 150% or higher. Inflationary pressures are pushing rates harder. [But] hotels are capping occupancy and raising rates.”

These caps are not solely due to Covid-19 measures. Rossmann explained: “Staffing shortages are creating caps on capacity. It’s not the same everywhere, [but] London hotels are operating at 50%-60% of normal capacity because of

UK hospitality led the recovery in Europe this summer and investor confidence in the sector remains strong

Four and five-star hotels remain by far the leading accommodation choice of holidaymakers (Figure 59). The pandemic appears to have had little significant impact on accommodation choice, but there appears a marginal rise in interest in home stays (selected by 6%), principally among young adults (13%)

FIGURE 59:
LIKELY ACCOMMODATION: NEXT OVERSEAS HOLIDAY



Source: Service Science/ Kantar

'DEMAND MAY CHANGE BUT IT WILL COME BACK'

staff shortages. They can't serve more."

He added: "It's not a Brexit thing. Everywhere in the world is struggling to get staff back."

The area of greatest doubt remains corporate travel, with Rossmann reporting there is "not much business travel on the books."

He noted: "There is confidence in the recovery of hospitality overall, but business travel will lag. By the end of 2021 we expect occupancy to be at 70% of normal and we forecast a meaningful recovery for Europe's cities by 2022. But business demand will take time to come back."

VOLATILE MARKET

Andreas Scriven, Deloitte lead partner for hospitality and leisure, said: "The market is better than it was but still volatile. Some Mediterranean markets have not been as strong as hoped. Big box hotels are still not as full as in 2019. Few can say how they will fill their hotel in January and February."

Yet he noted: "Everyone was more upbeat than 12 months ago at the International Hospitality Investment Forum (IHIF) in Berlin in September.

"China and the US really came back. Both have big domestic markets and China has a strong approach to any outbreaks of Covid-19.

"The US domestic market never fully shut and, as a result, didn't have the complexity of 'can I travel?' that we had in Europe.

"The Middle East has been more of a mixed picture. Dubai opened early before seeing a significant rise in infections."

Scriven said: "We've been expecting distress in the sector for a while. It has not happened for a variety of reasons, the main one being government support. Tenants in leasehold properties won rent deferrals which mitigated some of the pressure. But eventually they're going to have to pay double for a period.

"A huge amount of debt will need to be refinanced and it's unclear where the refinancing is going to come from. I would be surprised if we get through without more distress."

> "There will be winners and losers in the recovery. But every leading pre-pandemic indicator was positive. Has the pandemic undermined that? No

Scriven characterised the recovery in UK hospitality in summer 2021 as "domestic and leisure" driven, noting: "People felt comfortable travelling in cars. It wasn't easy to travel around Europe – it was confusing and there was a risk of losing your money. The testing requirements and cost of testing were significant." So the high domestic occupancy "wasn't surprising".

He agrees the prospects for business travel appear less promising, saying: "The jury is out on whether corporate travellers will travel as frequently. Do I want to get up at 4.30am to catch a flight to Frankfurt for a 90-minute meeting and then fly home when I can do it remotely? Hoteliers say they are going to replace that business with other demand, but no one can say what that is.

"There is also the race to net zero. Businesses are saying 'We need to get on the front foot on this'. Corporate travel is going to change. I don't believe only a fraction will come back, but I see a scenario where 10%-20% is not there.

"How that will be replaced is hard to say. The hospitality sector can be flexible with space. The industry has adapted before. There is talk of travelling less frequently but taking longer trips combined with some leisure.

"We have a team looking at footfall in London and can see huge shifts in where people spend at lunchtime. My view is it will lead to permanent change."

He sees the conference and events market changing too, arguing: "Hybrid events are here to stay.

"Conferences are always slowest to recover from a downturn because of the cost. People have missed in-person meetings and events, so there is a place for them.

"The question is will events get back to 80% or 90% and it's too soon to say. Hotels are concerned about it but are more concerned about corporate travel."

He warned: "We could see overoptimism about the demand for events once pent-up demand dissipates."

STAFFING AND INVESTMENT

For the moment, the sector is preoccupied with recruiting and retaining labour. Scriven said: "The labour shortage is top of everyone's mind.

"We forecast in 2019 that 80% of hospitality markets would face recruitment issues by 2024 because of the ageing population. The issue has massively accelerated. Put Brexit to one side, many people have gone home during the pandemic to support their families and for job security, especially in London. Some have gone to supermarkets or jobs as delivery drivers. That is permanent leakage. These people are not coming back.

"It has become hugely competitive for junior staff. Employers are offering signing-on bonuses and paying people to attend interviews. It's getting more difficult to attract people. That is not unique to hospitality, but some of it is sector-specific."

Beyond recruitment, the biggest challenge is environmental. Scriven said: "We've been discussing the environment for years but now it has become a priority.

"The question is how do we move the dial and will customers pay for it? There have been campaigns such as around single-use plastics, which are positive, but they don't make a huge difference.

"In the US there is a focus on the trade-off with economic growth and that is a valid debate. What is happening is institutional investors are driving change more than consumers. A lot of consumers say they care about the environment, but the driving factors around hotel choice are still location and price. The real pressure is going to come from investors and government regulation."

However, investor confidence in the sector is undiminished. Scriven insisted: "There is a significant amount of capital looking to buy into hospitality and there is a lack of opportunities, which has underpinned values.

"A lot of investors viewed this as the next sector in which to buy low and sell high, but that won't happen. When things come to market, people are surprised by the price they achieve. The sharing economy and hostels have been harder hit and have a harder story to tell investors.

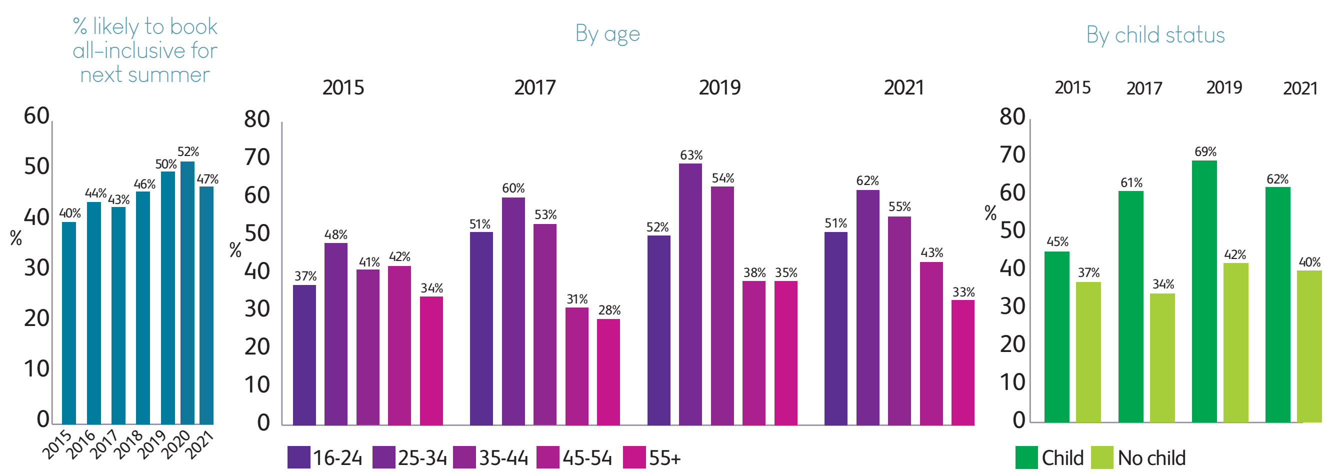
"We've seen a shift by investors who previously looked at big conference or city centre hotels looking instead at resorts or regional hotels. But a lot of investors are looking beyond the next 12 months. We've not seen the same level of disruption as after the 2008-09 recession.

"There will be winners and losers in the recovery. But every leading pre-pandemic indicator was positive.

"Has the pandemic undermined that? No, demand is going to come back."

DEMAND for all-inclusive holiday accommodation remains remarkably high, with almost one-in-two prospective travellers and 62% of adults with children choosing it for their next holiday (Figure 60). The research does suggest a year-on-year decline, which may reflect pandemic concerns in 2020, but demand remains higher than in any year prior to 2019

FIGURE 60: ALL-INCLUSIVE DEMAND, 2015-21



Source: Service Science/ Kantar

OUTBOUND

DEMAND TEMPERED ONLY BY UNCERTAINTIES

The government is "well aware" of the importance of outbound travel and "has no strategy" to boost the domestic sector at its expense, tourism minister Nigel Huddleston insisted at one point in the summer of 2021.

His reassurance came after Abta chief executive Mark Tanzer hit out at a reference in the government's Tourism Recovery Plan in June to "embracing the opportunity" of restrictions on overseas travel, describing it as "a dagger in the heart of travel agents and tour operators".

Huddleston told *Travel Weekly*: "My job is to get people to spend money in the UK. But I have great concern for what's happening with outbound travel. I'm not blind to the fact that outbound travel employs over 100,000 people in the UK. There is no strategy to play off one part of tourism against another. It's important we get all three strands of tourism going robustly – domestic, inbound and outbound."

He argued: "I don't control the levers for outbound. The levers sit primarily with BEIS [the Department for Business] and Department for Transport. [But] I work closely with ministers who do control the levers because we want international travel to happen again. I'm constantly talking to aviation minister Rob Courts about international travel."

Research by the Office for National Statistics in July confirmed the high level of pent-up demand for overseas travel. A survey of more than 2,000 UK adults just ahead of the July 19 removal of 'amber list' quarantine restrictions for those fully vaccinated found "going on holiday abroad" was the activity respondents were most looking forward to.

Almost three out of five adults (57%) rated an overseas holiday "without coronavirus rules" the thing they most looked forward to and it was the number-one choice of every age group bar the over-70s, beating "hugging people I don't live with", "attending events such as weddings" and "going to a sports event".

> There is no doubting the demand for outbound leisure travel, but Covid-19 and related restrictions will remain crucial to the outlook

THREE out of five UK adults intending to take an overseas holiday will make it a beach or city-break trip, suggesting no great change in type of holiday for the majority (Figure 61). But a seven-point fall in intention to take a beach holiday is surprising. The balance may have shifted towards city breaks and there is a higher percentage of 'don't knows'. The pandemic saw a substantial shift in the destination region of those who did travel (Figure 62). The guarantee of a refund is the single most-important concern of consumers expecting to book a holiday, but much more of a concern among older adults – as are Covid requirements (Figure 63)

HOLIDAY INTENTIONS

Research for this report suggested two in five UK adults (38%) are likely to take an overseas holiday in 2022 and half (52%) of adults with children, with 42% of those planning to travel expecting to spend more on their holiday. Half of these prospective holidaymakers plan to book

The Deloitte view

Outbound tourism saw even lower levels of traffic in 2021 than 2020. Health and safety concerns, combined with new testing requirements and form filling, prevented many travellers having the confidence to travel abroad even as restrictions eased to some countries.

However, consumer confidence showed signs of returning through the summer. One in four consumers (24%) surveyed in August 2021 for a Deloitte Global State of the Consumer tracker said they intended to take an international flight in the next three months compared with 17% in August 2020. Additionally, 55% felt safe staying in a hotel in contrast with 38% in August 2020.

The fundamentals for outbound travel in 2022 appeared positive following removal of the traffic light system and some test requirements.

As travel companies emerge from the pandemic and reshape their businesses, they should focus on three areas. First, redesign products and services to meet new consumer expectations, with flexibility to enhance operational resilience and withstand future shocks. Regular 'touchpoints' with consumers will be key and will help sustain sentiment.

Second, focus on using data and technology. Build a technical infrastructure that allows you to interpret available data on customer behaviours and grow your business while being aware of data protection and cybersecurity requirements. Collaboration and data sharing between operators, travel agents, airlines, airports and border agencies could streamline borders and facilitate other opportunities.

Third, businesses should not neglect the rise of the socially and more environmentally conscious traveller and the impact this will have on the outbound travel market. Responsible travel is increasing in importance and companies should recognise the importance of environmental, social and governance (ESG) topics and understand how their response to these could impact the future of their business, their brand reputation, shareholder value and supply chain resilience.

■ *Danielle Rawson, head of Travel*

all-inclusive accommodation, with almost two-thirds (62%) of adults with children seeking an all-inclusive holiday.

The intention to travel abroad appears weighted significantly towards younger adults, with half of 25-44-year-olds saying they are likely to take a holiday abroad, compared with about one in three of those aged 45 and over *(Figures 15 & 17, page 15)*.

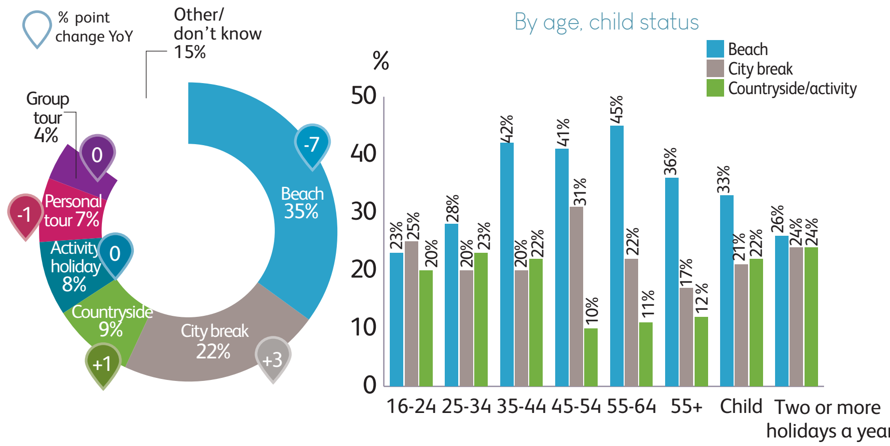
The level of support for the government's Covid-19 travel requirements *(Figure 16)* may surprise some in the sector, with more than half of respondents in every age group expressing agreement with the requirements and fewer than one in eight opposed. Significantly, more than half the respondents (56%) said they were unlikely to book a holiday abroad while Covid-19 remains a risk.

The findings suggest the assurance of a refund will be a key requirement when booking, with half of respondents identifying this as a principal concern.

But the most striking findings relate to climate change, with two out of five respondents (39%) saying they are sufficiently concerned by global warming to modify their travel behaviour *(Figure 18)*.

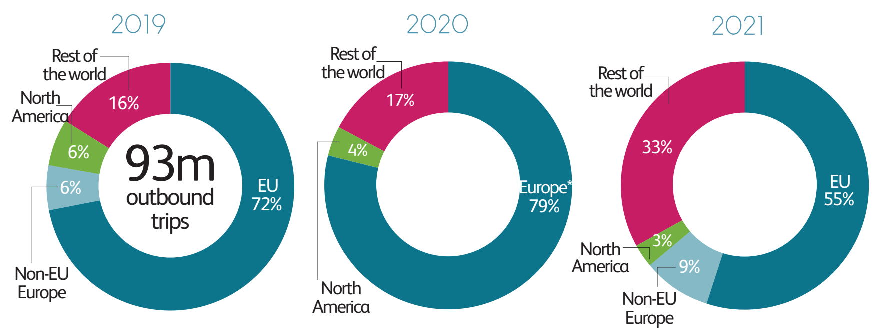
FIGURE 61: TYPE OF OVERSEAS HOLIDAY, 2022

% UK adults planning an overseas holiday



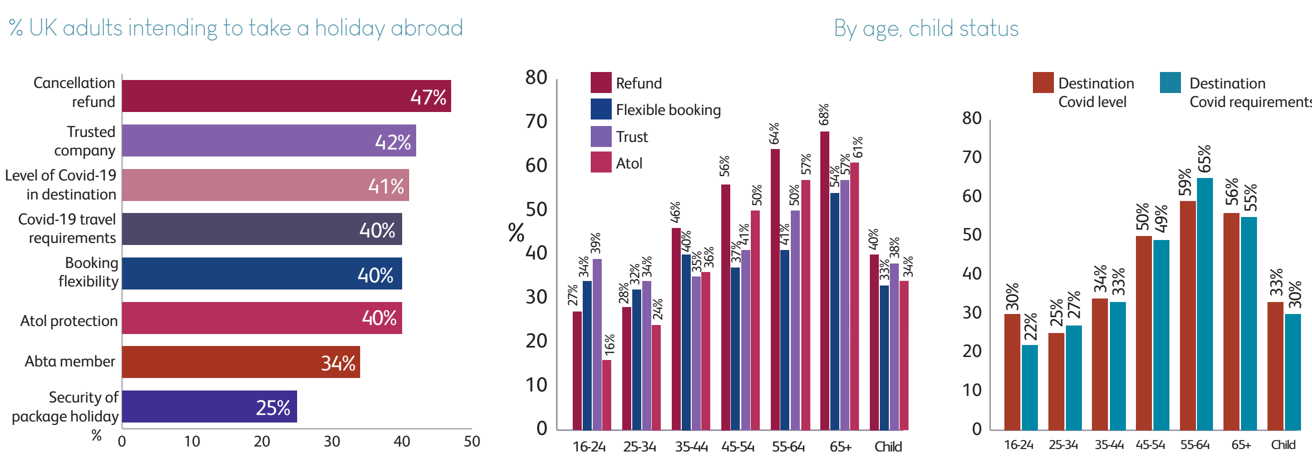
Source: Service Science/Kantar

FIGURE 62: UK OUTBOUND TRIPS BY REGION



**EU/other Europe data not available*
Source: ONS

FIGURE 63: KEY FACTORS WHEN BOOKING OVERSEAS HOLIDAY, 2022



Source: Service Science/Kantar

CORPORATE TRAVEL

SECTOR BRACES FOR STRUCTURAL CHANGE

The corporate travel sector has been among the hardest hit by Covid. So it was no surprise that members of the Business Travel Association (BTA) greeted news of the US reopening to UK travellers at their conference in Liverpool in September with cheers.

BTA chief executive Clive Wratten hailed confirmation of the border opening from November as "light at the end of a very dark tunnel". Earlier, Wratten had acknowledged the pandemic's impact on the mental health of many in the sector, confessing: "I had periods when I felt I couldn't find a way through."

Wratten told the conference: "We can't lose momentum." He highlighted the need to "prove the value of meeting in person and the importance of using a travel management company [TMC]". But he also insisted: "We have to get on the front foot on sustainability. We need to get beyond Covid impacts."

INDUSTRY FRICTION

He appealed for the industry "to stop the civil wars that were going on" without referring to the tensions over distribution between airlines, GDSs and TMCs. Suzanne Horner, chair of the BTA, took up the same theme comparing the sector to a relay team "which must pass the baton seamlessly to one another". She insisted: "We must make sure no one gets ahead by making life difficult for others. We must accept none of us owns the customer."

> The jury is out on the extent to which business travel will return

In June, Wratten had warned corporate travel was in a "catastrophic" state, reporting half the jobs in the sector had been lost and "75% of remaining staff are on furlough". He insisted: "There is a desire to travel but what is needed is confidence and we have a government which changes its mind like the weather. I'm surprised we've seen so few failures."

Yet Wratten forecast TMCs "will be more important" as travel returns because of the complexity of Covid-19 requirements, arguing: "We've seen a real shift from online bookings. Some corporates have even shut online booking portals. Complexity has gone up a couple of levels and people want to speak to someone."

Leading BTA members argued the pandemic had brought a new emphasis on risk management. American Express Global Business Travel senior vice-president Jason Geall said: "We've

The Deloitte view

Will corporate travel start to recover in 2022 following the reopening of the critical US routes in November? Forecasting demand in the first full year of travel since 2019 will be difficult. However, some important themes emerged in 2021 that will shape corporate demand.

Confidence: for corporate travel to recover, it is crucial confidence to travel is restored. This is not just confidence in reaching a destination safely but confidence that travel rules won't change while travelling.

Travel restrictions: being double-vaccinated is a key entry requirement for many destinations and is likely to remain in place for some time, along with mask wearing on flights. As the world opens up, consistency around testing for entry is crucial for business travel, although as vaccine take-up increases there is likely to be pressure for testing to be removed to facilitate business travel required at short notice.

Sustainability: many organisations have survived and even thrived with remote working. As corporate travel costs have disappeared and emissions been reduced, it's likely that views around business travel are changing. The challenge is whether and how businesses can continue to reduce emissions while collaborating and developing and maintaining relationships internally and with clients. The solution is likely to require smart choices around when and how to travel and the need to distinguish between required and habitual business travel.

The three Ps – people, planet, profit – can act as a simple checklist to evaluate choices. Flying less frequently but maximising time away on business is one option. This could impact demand for accommodation, as longer trips could mean longer average stays.

Hybrid working will also shape demand for travel, with many offices busy midweek and hotels developing a 'shoulder night' strategy.

■ *Jon Bolger, head of Business Travel, Deloitte* found it much easier for people to understand why they should work in a managed travel environment [and] we're seeing a lot less 'leakage'."

Clarity Travel chief executive Pat McDonagh agreed: "Clients are more than ever prepared to discuss risk management. At times before there was a tendency to tick a box."

'SMALLER SECTOR'

However, the head of Scottish regional carrier Loganair warned UK business travel would not return to its pre-Covid-19 level, echoing the forecasts of most industry analysts.

Loganair chief executive Jonathan Hinkles told the Airlines 2021 conference in November: "We're looking at a much lower level of business travel. We've all moved on to Zoom or Teams and a proportion of that is going to stick.

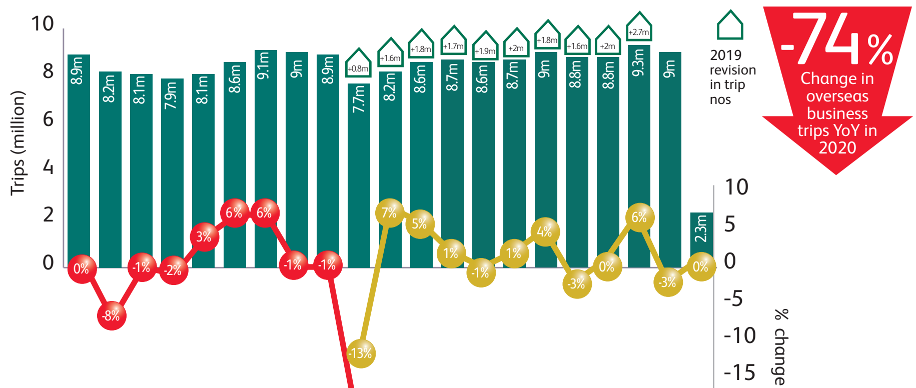
"Some business travel will still have to be done in person, but a proportion of the services sector is not going to come back. You're looking at a smaller sector."

EasyJet chief commercial officer Sophie Dekkers argued: "Our business passenger levels in September were as high as in February 2020." But Hinkles insisted: "The market is changing rapidly. We see very different travel patterns. We're not going to replace the volume of business trips that have gone."

In a mark of the difficulties facing the sector, corporate travel giant CWT filed for bankruptcy protection and a court-supervised recapitalisation process in the US in November. The 'pre-pack' insolvency followed agreement with shareholders and creditors on a plan to eliminate about half the company's $1.5 billion debt.

The pandemic brought corporate travel to a halt from March 2020 (Figure 64). The extent to which it will return remains unclear. A survey of corporate travellers in October 2021 found 85% expect to travel less (Figure 66) and international travel remains severely restricted by companies (Figure 66). A majority of corporates had resumed domestic travel by the end of 2021, but only one in four international travel (Figure 67)

FIGURE 64: OVERSEAS BUSINESS TRAVEL FROM UK, 2000–20



ONS data for 2009–18 revised by amounts in arrows
Source: ONS

FIGURE 65: AMOUNT OF BUSINESS TRAVEL

% of corporate passengers

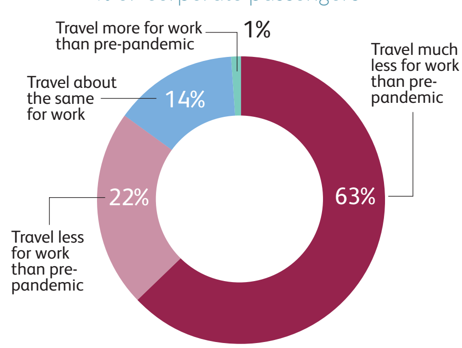
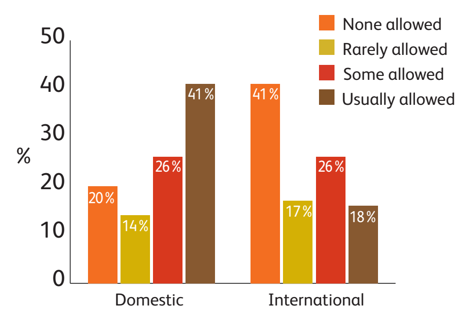


FIGURE 66: CORPORATE TRAVEL POLICY ON NON-ESSENTIAL TRIPS

% of corporates

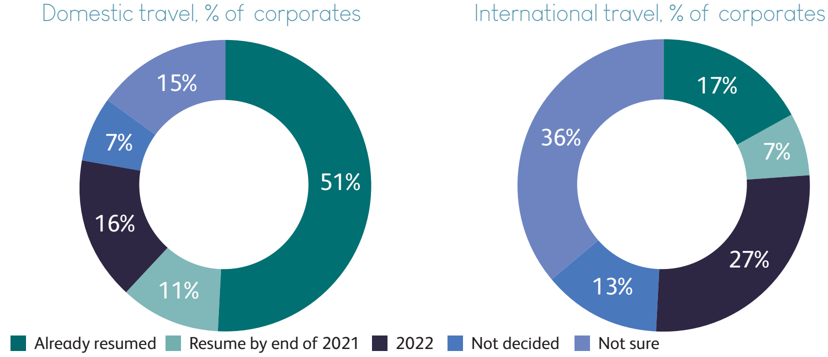


Figures rounded, may not total 100%
Source: GBTA, October 2021

FIGURE 67: CORPORATE TRAVEL RESUMPTION

Domestic travel, % of corporates

International travel, % of corporates



Source: Global Business Travel Association members, October 2021

INBOUND

LATE-YEAR UPTURN IS SMALL COMFORT

Inbound visitors returned to the UK with the relaxation of entry restrictions from late summer, but it was too late to salvage the year.

There was scant data available from the Office for National Statistics or VisitBritain to assess the extent of any recovery, but it's reasonable to assume visitor numbers in 2021 will be lower than in 2020 when they plunged by 73% on 2019, which had been a record year.

Inbound trade association UKinbound fought doggedly for government support through the winter, with chief executive Joss croft insisting: "We need to hold the government to account. It's about survivability through to next spring."

Croft reported: "A lot of hotels and attractions had a good domestic year, particularly in coastal and rural areas. The issue for them is staff. London picked up over the last couple of months [to September], but people are very worried. The removal of recognition of EU ID cards for Schengen area visitors [from October] won't help."

He reported a UKinbound round-table with 35 of the largest DMCs in September found "one in three saw a trickle of business in August and 43% saw September and October bookings confirmed, but a lot postponed".

The UK's relaxation of travel restrictions came too late for the inbound sector

Croft added: "We expect some business in the first quarter of 2022 and hope to see more in Q2 and Q3 but nothing like 2019."

The association rallied its 300 members in September urging they call on MPs to demand sector-specific support. Croft warned of "a hugely challenging" autumn and expressed the fear that half of all inbound tour operators could cease trading by Christmas.

UKinbound calculated that just £47 million "would be enough to secure the future of 230 destination management companies (DMCs) through to next year".

Croft noted: "We've seen much more support in Scotland." He suggested a lack of understanding of the industry was to blame for the situation in England, arguing: "The Department for Culture makes a strong case for the sector but doesn't hold the levers of power. Those lie with the Treasury, Number 10 and the Cabinet Office. There is a reticence on the part of government to be seen to support one sector over another and concerns about how any money might be distributed, but some of it is due to a lack of understanding.

"There is an idea within government that if businesses fail someone else will

The Deloitte view

The volume of inbound travel into the UK continued to be suppressed in 2021, lagging other European markets.

VisitBritain reported a mere 471,000 inbound visits to the UK in the first half of 2021 – down 97% on the same period in 2019. Total visitor spending lagged 2019 by 94%, but average visitor spend in the first half of 2021 was £1,345, significantly up from £706 in 2019.

However, there was hope increased vaccination rates and improving consumer confidence would result in a Christmas and New Year booking period fuelled by pent-up demand. VisitBritain reported a pickup in both arrivals and bookings from the autumn.

European inbound markets are expected to recover quicker than long-haul markets. European visitor numbers were forecast to reach 5.6 million in 2021, 20% of the 2019 level, and long-haul markets 1.8 million or 13% of the 2019 figure.

The simplified travel system for visitors coming into the UK was a positive development, but it remained to be seen whether the changes were implemented soon enough to encourage bookings during the last quarter of 2021.

The Deloitte Global Consumer Tracker suggested consumers were feeling more positive again, with leisure travel intentions well above pandemic lows. A strong recovery in 2022 will be contingent upon this sentiment continuing and resulting in bookings.

Business travel into the UK and across Europe remained subdued. The focus on climate change means business travel may have reduced for the long term and the UK inbound sector will need to consider how best to adapt to this.

Consumers continue to expect flexible booking options, protection against disruption and support with entry documentation and testing requirements. It is unlikely these expectations will fall away in the short term and continued investment will be required to keep pace and maintain consumer confidence.

■ *Ed Knight, associate director, Tax*

jump into their place. But with [travel] intermediaries that is not necessarily the case. Suppliers might not shift to other DMCs but to other destinations."

He added: "People use tour operators to reduce complexity and worry. Politicians don't understand the supply chain or when people get paid."

RECOVERY PLAN

The government launched a Tourism Recovery Plan in June setting ambitious targets for restoring both inbound and domestic tourism.

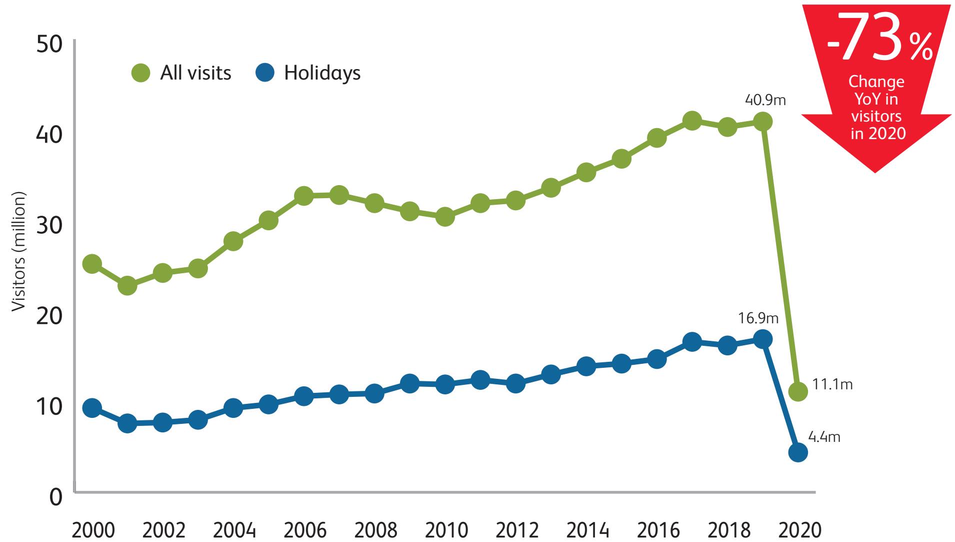
Tourism minister Nigel Huddleston pointed to increased coordination across government in dealing with travel, insisting: "We've seen better cooperation between departments during Covid than before."

The government-commissioned de Bois review of Destination Management Organisations in England, published in September, included a recommendation "to elevate the tourism minister to a minister of state position" and "either reallocate responsibilities from other departments to sit under that minister" or "make the minister responsible for the activities of teams within multiple departments".

Croft highlighted the cooperation during the pandemic between different sections of the travel industry through the Future for Travel group, saying: "The group has been hugely useful and beneficial on many levels. We need a successful inbound sector to have a successful outbound sector and a successful domestic sector to have successful inbound. I would like to see the group continue."

INBOUND visitor numbers to the UK had steadily climbed for a decade until the pandemic (Figure 68). Holidays other than VFR account for about two in five inbound trips (Figure 69). Two-thirds of visitors are from Europe (Figure 70), but two-in-five holidaymakers (38%) travel from outside Europe (Figure 71)

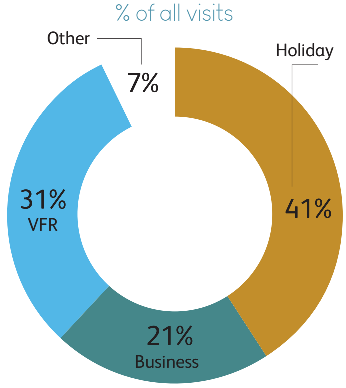
FIGURE 68: OVERSEAS VISITORS TO UK, 2000-20



All visits includes business and visiting friends & relations (VFR)
Source: ONS

FIGURE 69: INBOUND VISITS TO UK BY PURPOSE, 2019

% of all visits



Source: ONS

FIGURE 70: INBOUND VISITS TO UK BY SOURCE REGION, 2019

% of all trips

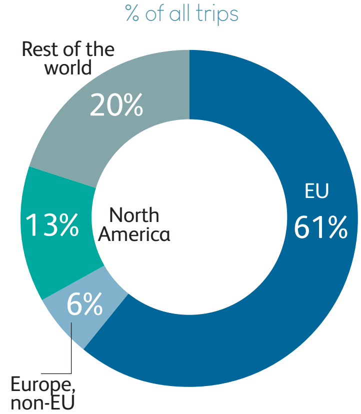
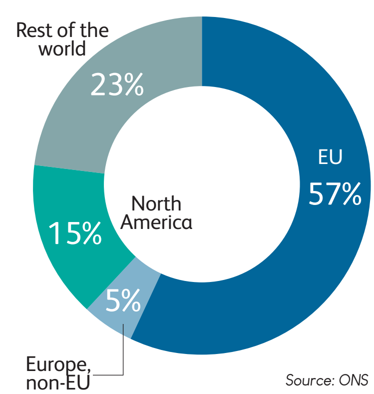


FIGURE 71: INBOUND HOLIDAYS TO UK, 2019

By source region, % of all holidays



Source: ONS

CRUISE
LINES CHART COURSE FOR CALMER WATERS

Cruise lines have suffered as difficult a period as any sector of travel and tourism with the costs of laying up fleets and crews, maintaining ships and preparing them to resume sailing swelling the industry's debt by tens of billions of dollars.

UK domestic cruises resumed in May 2021 in the first step of a phased return to operations. International cruises from UK ports resumed in early August after the domestic cruises were judged to have operated successfully with the protocols in place.

Cruise lines association Clia welcomed the resumption with managing director for the UK and Ireland Andy Harmer declaring: "The success of this summer's round-Britain cruises led the way."

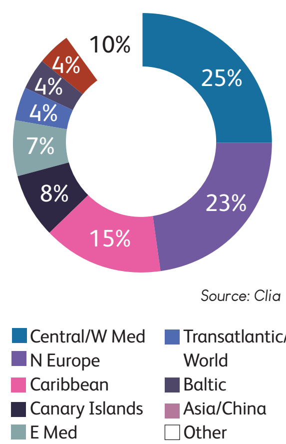
Clia noted in late July that "around 800,000 people have sailed on cruises around the world, demonstrating the effectiveness of the industry-wide protocols". These included 100% testing of guests at embarkation and on board.

The cruise resumption in the US gained momentum at the end of April following an apparent change of stance by the US Centers for Disease Control (CDC) which led Royal Caribbean Group chairman and chief executive Richard Fain to hail "a significant improvement in the extent and quality of our dialogue with the CDC".

> Operators expect to return to pre-Covid levels of operation in 2022, but decarbonising remains a daunting challenge

FIGURE 72:
UK CRUISE DESTINATIONS, 2019

% of passengers



Source: Clia

This allowed ships to bypass a requirement for trial voyages and move straight to sailing with paying passengers from mid-July if 98% of crew and 95% of passengers were fully vaccinated.

The updated CDC guidance followed sharp industry criticism of a Framework for Conditional Sailing order issued on April 1 which Clia described as "unduly burdensome [and] largely unworkable".

Carnival Corporation subsequently reported that eight of the company's nine brands had resumed cruise operations by the end of August and the group planned to have 50 ships or 61% of capacity sailing by November 30, rising to 71 ships or 75% of capacity by June 2022.

Arnold Donald, Carnival Corporation president and chief executive, forecast a return to full operations "by next spring".

Royal Caribbean Group similarly reported "demand has come surging back" in October, with 40 ships or 65% of capacity having resumed sailing and 50 due to return by the end of the year. The group expected to have carried

The Deloitte view

The pandemic proved highly challenging for the cruise industry as it bore the brunt of some difficult media reports in the early stages. There was a widespread view in early 2021 that the cruise sector would be the slowest part of the travel ecosystem to recover.

However, with cross-sector collaboration and strict health and safety protocols, cruise lines were able to restart over the summer.

The UK government go-ahead for round-UK cruises gave cruise lines an opportunity to bring ships to the UK and start generating revenues. Many reported a good proportion of customers as 'new to cruise', which may be beneficial in the longer term.

While the sector has yet to see the return of pre-pandemic passenger numbers, the outlook for 2022 and beyond is more positive than at the beginning of 2021.

However, the sector continues to face several headwinds. While some ships left the market during the pandemic, capacity is set to increase and it's likely that cabin supply will exceed demand in the near term. Cruise lines will need to differentiate their product and demonstrate the sector's compelling offering to drive the occupancy needed to operate profitably.

Different recovery dynamics are likely to play out across ocean, river and expedition cruising depending on customer demographics and geographies.

Sustainability has increased in importance significantly during the pandemic. Governments, regulators, lenders and other stakeholders have raised expectations in this area. It is likely sustainability will become an absolute necessity for cruise lines to attract investment and to comply with regulatory requirements.

The importance of sustainability has also been elevated in the minds of consumers and could have a bearing on spending decisions.

Alistair Pritchard, lead partner, Travel and Aviation one million passengers since the restart by the end of 2021.

The third of the cruise line big three, Norwegian Cruise Line Holdings, forecast a full recovery by the second half of 2022, with president and chief executive Frank Del Rio insisting in November: “We’re not willing to sacrifice pricing. Rather than chase bookings, we choose to wait for consumer demand to return.”

Del Rio hailed the relaunch of 11 of the group’s 28 ships in the summer and said: “We’ll have 17 in the water by the end of the year and…expect the full fleet to be back by April 1.”

But he argued: “We’re not in a race to raise volume. We want to maintain price discipline. We are better booked than at any time in the past.”

EMISSIONS TARGET

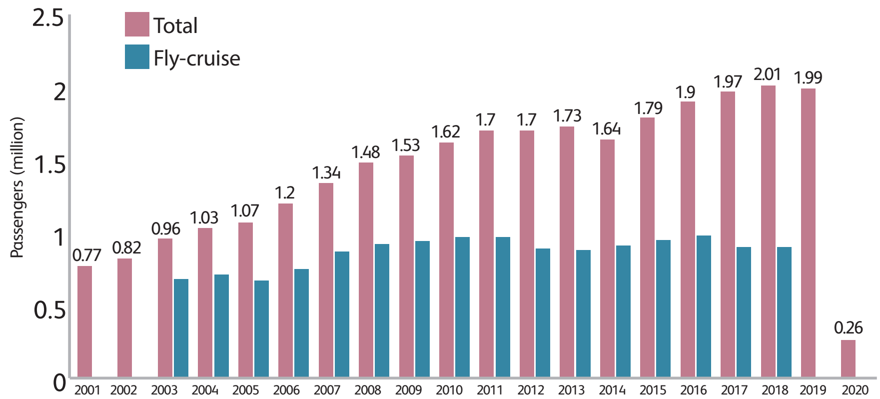
In an important step, Clia members announced an agreement in November to pursue ‘net carbon neutral’ cruising by 2050 and committed to a 40% reduction in carbon emissions across the global fleet by 2030 compared with 2008.

Clia Europe director general Ukko Metsola expressed confidence in attaining the 2030 goal. But the 2050 target remains an aspiration, with Metsola suggesting shipping remains “the hardest mode of transport” to decarbonise.

The scale of the challenge is suggested by the shortfall in shoreside power facilities which, though desirable, offer only a partial improvement. Just 35% of the existing fleet have shoreside power capability, with 22% of existing ships scheduled to be retrofitted. Most incoming ships will have the capability, but only 14 ports worldwide, most in Europe, have shoreside power facilities.

THREE out of five UK cruise passengers choose a Mediterranean or northern European itinerary (Figure 72), and the UK cruise sector has grown steadily (Figure 73), but the Caribbean continues to dominate global cruise line deployment (Figure 74). Germany is now some way ahead of the UK as the world’s second-largest cruise market (Figure 75). The sector expanded globally up until the pandemic (Figure 76)

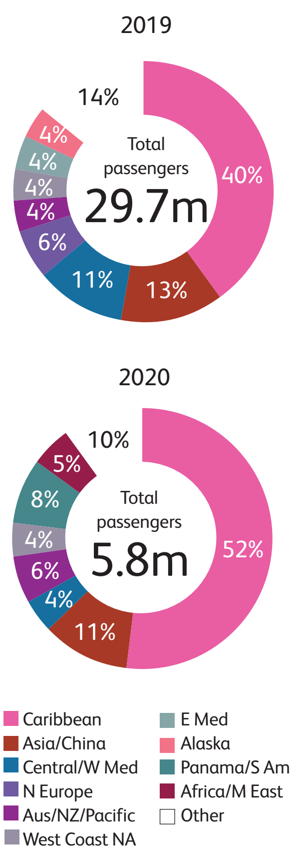
FIGURE 73: UK & IRISH OCEAN CRUISE PASSENGERS, 2001-20



Source: Clia

FIGURE 74: CRUISE DESTINATION REGIONS

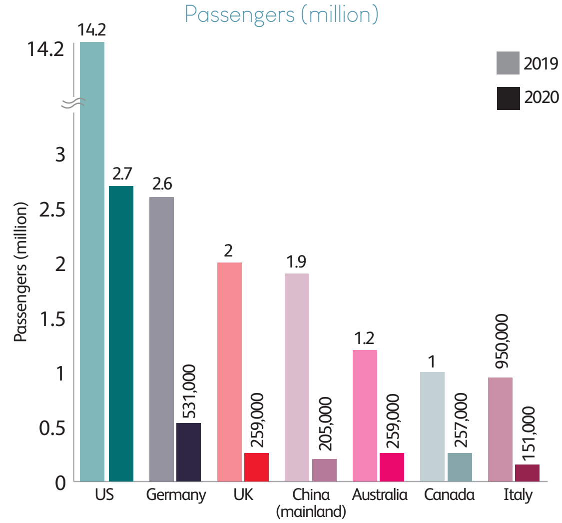
% of global passengers



Source: Clia

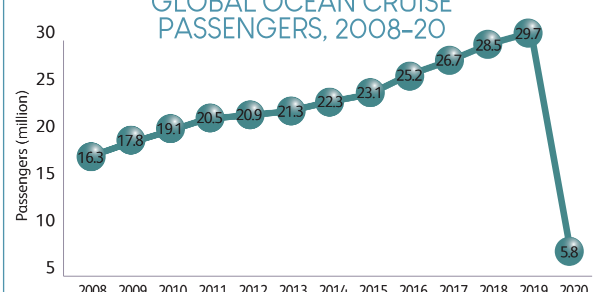
FIGURE 75: LEADING CRUISE SOURCE MARKETS

Passengers (million)



**Figures rounded Source: Clia*

FIGURE 76: GLOBAL OCEAN CRUISE PASSENGERS, 2008-20



Source: Clia

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Service Science brings insight and expertise together

Service Science is a market research agency specialising in the hospitality, leisure, tourism and travel sectors. We work with clients to bring actionable findings, from their customers, people and supply chain, to help improve the customer experience.

We have four practice areas:

- Think Like Your Customers: using behavioural science techniques, qualitative and quantitative, we provide insight to help understand and influence customer behaviour.
- Online Reputation Management: through the monitoring and management of online reputation we provide the means to increase loyalty and maintain clients' competitive edge.
- Strategic Online Data Intelligence: using multiple sources we unlock the power of online data to provide insights and travel intelligence tools to destination managers, tourist organisations and operators.
- Service Quality Measurement: through mystery shopping, brand standards audits and survey tools we ensure clients deliver exceptional service.

Clive Nicolaou

Service Science was founded in 2010 by Clive Nicolaou, a market researcher with 28 years' experience in the hospitality, leisure and tourism sectors. Prior to that Clive was head of hospitality and leisure at Kantar TNS having previously been a successful operator in the hospitality sector. He is a fellow of the Institute of Hospitality and a member of the Market Research Society.

Tom Costley

Tom is the most experienced researcher in the team with almost 40 years' experience in market research from both a client and agency perspective. He has wide-ranging experience but especially in travel, transport and tourism research. Prior to joining Service Science in 2018, Tom headed the travel and tourism team for Kantar TNS, the UK market leader in travel, transport and tourism. His client portfolio included national tourism organisations, leading operators, airlines, hotel groups and travel firms. He is a fellow of the Tourism Society.

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DOMESTIC
SECTOR FARES WELL ONCE RESTRICTIONS LIFTED

The UK domestic tourism sector did not have a bad second half to 2021 following the government's removal of most domestic Covid-19 restrictions, at least in England, from July 19.

Indeed, the peak summer weeks were probably among the best – or busiest – in memory for some coastal areas, bringing overtourism back into focus in Cornwall. The bigger cities and London in particular continued to suffer.

We must wait to assess the real extent and limits of the summer domestic revival due to the absence of even preliminary official data, courtesy of the GB Tourism Survey, until the end of 2021. Covid-19 restrictions led to data collection being suspended in 2020 and it only resumed in April 2021 following a planned update to the survey methodology, meaning a delay in publication of figures for the second and third quarters of 2021.

Research for this report suggested half the adult population (52%) took at least one domestic holiday in 2021, or 28.6 million, and one in four (26%) took two or more domestic breaks. While not on a par with 2019, the year certainly saw a substantial recovery.

The government Tourism Recovery Plan launched in June aimed to boost both the domestic and inbound sectors and speed up their recovery. It targeted a return to pre-pandemic levels of domestic tourism by 2022 and of international arrivals by 2023 – both a year in advance of previous forecasts. The domestic target may be easier hit than the inbound.

Initiatives included a £10 million National Lottery voucher scheme to support attractions and a new rail pass to spur domestic breaks. The voucher scheme launched in the autumn offering lottery players vouchers for use at attractions between September and March 2022.

The plan also promised "a new focus" on technology and data, through increased use of data collected at the border and creation of a tourism data hub.

A Sustainable Tourism Plan can also be expected to examine ways to reduce the sector's environmental impact, and the government will consult on establishing a Tourist Accommodation Registration Scheme for England – when it will review "the benefits of short-term holiday rentals" and their "impacts on local economies and communities".

Unveiling the plan, tourism minister Nigel Huddleston described the sector

The domestic tourism sector rebounded faster than might have been expected from July

HALF OF all domestic holiday nights are spent in caravans, campsites and self-catering accommodation (Figure 77) and two out of five are at the sea (Figure 78). More than half of UK adults (55%) intend to take a domestic holiday in the next 12 months, up 10 percentage points on the same time a year ago but 13 points down on 2019 (Figure 79)

The Deloitte view

The UK domestic travel and tourism sector reopened in the second quarter of 2021 following a lockdown which left many businesses in a precarious situation. While furlough provided some assistance, the uncertainty made it hard to plan.

The industry welcomed the government's tourism recovery plan, launched in June, which offered support for domestic marketing as well as reduced VAT and a continuation of business rates relief for those eligible.

The Deloitte Consumer Tracker showed demand for holidays rebounded quickly with a mix of accumulated savings and pent-up demand boosting spending. The domestic accommodation sector grew by 23% in August 2021.

Labour shortages challenged many businesses, but the strong leisure demand brought hope of recovery. Oxford Economics forecast domestic spending on day visits would recover to its pre-pandemic level by the end of 2021 and overnight spending hit 87% of 2019 levels. However, Resolution Foundation data suggested the recovery was uneven, focused on coastal and rural areas and not major cities.

How domestic travel fares in 2022 will depend on consumers' confidence to travel – whether they perceive the UK to have left the pandemic behind and their financial circumstances. There were signs in the autumn that consumers continue to worry about the risk of Covid-19 infection and, with climbing case numbers, the decision to take a domestic break could become tougher to make.

VisitBritain research suggested people's personal finances where the main reason for not feeling confident to take an overnight trip, followed by concerns about Covid-19 infection. The Deloitte Consumer Tracker for the third quarter of 2021 found that while consumers were still spending, they were also increasingly aware of inflation, particularly in essential categories such as utilities and food, and this was likely to impact on discretionary spending, including domestic holidays.

■ ***Alistair Pritchard, lead partner, Travel and Aviation***

DOMESTIC
SECTOR FARES WELL ONCE RESTRICTIONS LIFTED

as “one of our country’s greatest assets” and the plan as “our blueprint for how the sector can build back better from the pandemic, faster than forecasts predict”.

Allied to the Tourism Recovery Plan, the government-commissioned de Bois review of Destination Management Organisations (DMOs) in England, published in September, assessed how the regional DMOs are funded, structured and perform.

The review made three key recommendations, one with implications extending beyond domestic tourism. First, it proposed a tiered accreditation scheme for DMOs overseen by national tourist board VisitEngland and the allocation of funds and resources to do this. Second, the review urged the establishment of the proposed Tourism Data Hub as “a matter of urgency”. Third, it recommended “elevating the tourism minister to a minister of state position”.

Tourism leaders have long called for the tourism minister’s role to be enhanced. Launching the Tourism Recovery Plan in June, Huddleston promised “regular cross-departmental meetings” led by the culture secretary and told *Travel Weekly*: “We’ve had a lot of informal connectivity within government, but a more formal structure is an important signal of the government’s commitment.”

FIGURE 77:
DOMESTIC ACCOMMODATION, 2019

Includes VFR holidays

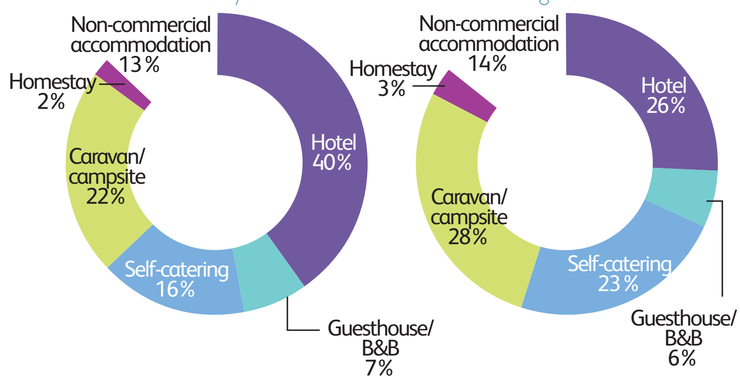
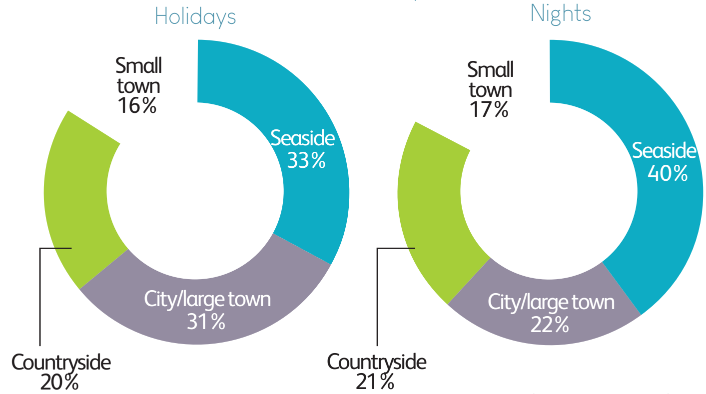


FIGURE 78:
DOMESTIC DESTINATIONS, 2019 HOLIDAYS

Excludes VFR holidays

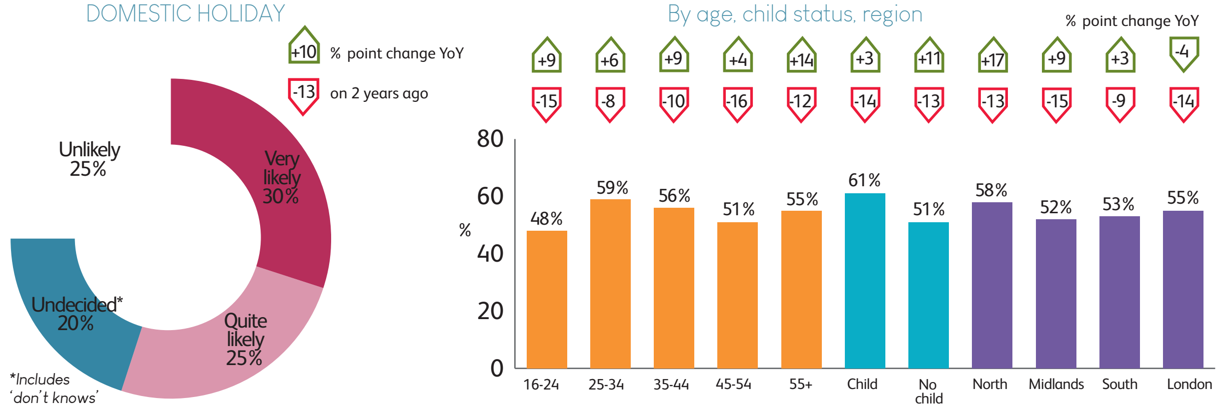


Source: GB Tourism Survey

FIGURE 79: **UK DOMESTIC HOLIDAY DEMAND, 2022**

LIKELIHOOD OF DOMESTIC HOLIDAY

ADULTS LIKELY TO TAKE DOMESTIC HOLIDAY
By age, child status, region



Base: 1,279 UK adults *Source: Service Science/Kantar*

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Deloitte is an industry leader in the travel and aviation sector. The team works across the globe on complex, major programmes and projects for some of the industry's largest companies. Our dedicated team offers a range of integrated services ranging from audit and tax advice to more specialised advisory, corporate finance, strategy, technology and operations excellence, blending deep industry knowledge with core methods and techniques.

Our team provides insight and understanding of the challenges of today's environment and the ever-changing travel and aviation landscape. We work with most of the world's leading companies and provide an outstanding service – with a focus on maximising value for our clients and enabling them to make informed decisions.

If you would like to discuss any of the topics in this report, or our services, please contact one of our travel and aviation specialists.

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