Sustainable Hospitality Alliance

Reporting in line with the Taskforce for Climate-related Financial Disclosures (TCFD)

Recommendations for the hospitality industry

This guidance is designed to help hotel companies understand how to report on the financial implications of climate change, in line with TCFD recommendations.

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Sustainable Hospitality Alliance is a registered charity in England and Wales (1188731)
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1.0 Introduction

Climate change poses some of the greatest threats to humanity. The most recent WEF Global Risk Report 2021 ranks Climate Action Failure as the most significant risk on a global scale over the next 10 years[1]. It is important to understand the climate-related risks your hotel company might face in the future, and think about how you can manage these risks.

2.0 Background on the TCFD framework

What is TCFD?

The Taskforce for Climate-related Financial Disclosures (TCFD) was set up to develop recommendations for effective climate-related disclosure to help stakeholders (especially investors) understand the exposure of companies to climate-related risks. This helps to make informed investment, credit and insurance underwriting decisions.

The aim of the Taskforce is to set a universal standard for how companies report on climate-related financial risks and opportunities.

As well as providing information to investors etc. it ensures that companies are:

- assessing their climate-related risks
- putting more focus on how they can manage them
- incorporating risk management into key decision-making

The Taskforce is comprised of 32 global members spanning across a variety of business types, including financial and non-financial sectors.

Why report in-line with TCFD recommendations?

It is currently not mandatory for most hospitality companies to report in line with TCFD recommendations. However, many investment companies (such as Blackrock) require the companies they invest in to produce TCFD-aligned reporting.

In 2021, the G7 backed moves to force banks and companies to disclose exposure to climate-related risks[2]. Many countries are now implementing timelines for mandatory TCFD reporting. From April 2022, the UK's largest companies and financial institutions are now required to disclose their climate-related risks and opportunities[3]. This applies to any company which is required to submit an annual non-financial report, such as listed companies with more than 500 employees.

As investor awareness of climate-related risks increases, it's likely that provision of capital by banks and investors may increasingly become linked to compliance with TCFD reporting.

What is required?

If you decide the report in line with TCFD recommendations, you need to do the following:

- Disclose what the risks are and how this changes your overall business strategy.

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[1] https://www.weforum.org/reports/global-risks-report-2022/in-full/chapter-1-global-risks-2022-worlds-apart#chapter-1-global-risks-2022-worlds-apart
[2] https://www.reuters.com/business/environment/g7-backs-making-climate-risk-disclosure-mandatory-2021-06-05/
[3] https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law

- Disclose impacts on revenues (e.g. rental income), expenditures (including cost of development), assets and liabilities (e.g. insurance premiums, ability to access capital and funding).

There is no requirement to create a separate report. TCFD-aligned disclosures can be wrapped into a company's annual reporting. In fact, it can be better to integrate it into annual reporting to ensure that stakeholders have all the information in one place, and to avoid climate action being perceived as an add-on. The report does not need to be long; it can be just a few pages of information.

You do not need to have all the answers in your first report, it is about starting to understand the risks and showing that you are aware climate change poses a risk to your business. TCFD cuts right across the business, and it can take about 3 years to implement their recommended framework.

3.0 What is included in the TCFD framework?

The TCFD framework is structured around four key elements: Governance, Strategy, Risk Management, and Metrics and Targets:

1	**Governance**	What governance is in place around climate-related risks and opportunities.
2	**Strategy**	How an organisation accounts for actual and potential impacts of climate-related risks in their strategy and financial planning.
3	**Risk management**	How an organisation identifies, assesses and manages climate-related risks.
4	**Metrics and targets**	How an organisation measures and tracks climate-related risks.

Based on these four thematic areas, the TCFD outlines a series of *recommendations* and *guidance*.

- **Recommendations:**

  These provide a clear framework for organisations to better understand and ultimately disclose their exposure to risks, and how they plan to address that exposure.

  The *Recommendations* are split into four groups, to align with the core elements of Governance, Strategy, Risk Management, and Metrics and Targets. For each core element, there are 2-3 *Recommended Disclosures*. These are specific disclosures which any type of organisation should include in their financial filings.

- **Guidance:**

  The TCFD also features accompanying Guidance on how to implement the Recommendations. There are two types of Guidance:

  - *Guidance for All Sectors*: This guidance is applicable to all organisations, offering context and suggestions for implementing recommended disclosures.

- [Supplemental Guidance for Certain Sectors](): This is additional guidance for certain sectors such as the financial sector, and other sectors which are most vulnerable to the effects of climate change. **There is currently no supplemental guidance for the hospitality industry**.

4.0 Climate-related risks and opportunities

The TCFD requires companies to disclose the climate-related risks and opportunities which are relevant to their business. They categorise climate-related risks into two categories: Transitional, and Physical.

- **Transitional risks** are those which arise during, or as a result of, the transition to a low-carbon economy.
- **Physical risks** are those which arise from changes in the weather and the climate, which impact the economy.

The tables below outline key risks and opportunities which hotels might face, and the potential associated financial impacts.

Common risks for hotels

	Climate-related risks	Potential financial impacts
Transition risks	Legal requirements to report emissions	→ potential fines for failure to report
	Increased regulations set by national/local authorities (e.g. minimum standards required in order to lease out space)	→ costs associated with accommodating changing regulations
		→ potential stranded assets (i.e. if a hotel is more carbon intensive it will become less attractive to potential buyers over time and could become a liability)
	Switching existing technologies to lower emission options (e.g. switching from fossil fuels to on-site renewables)	→ installation costs
		→ failure of new technology
		→ costs to adopt new practices and processes
	Changing customer behaviour (e.g. avoiding certain countries due to conflict/natural disaster)	→ reduced revenue due to fewer guests
	Market uncertainty	→ unexpected and drastic changes in costs of energy
	Increased cost of purchased items and services	→ increased purchasing and operating costs (e.g. F&B, outsourced laundry)
	Stigmatisation of travel and tourism sector causing shifts in consumer preferences (e.g. reduction in international travel)	→ reduced revenue due to fewer guests
		→ increased costs due to inability to attract and retain staff
	Increased concern and negative sentiment from investors	→ reduction in ability to access investment/capital
	Litigation caused by failure to mitigate or adapt to effects of climate change	→ associated legal costs and possible fines
		→ reduced revenue due to reputational damage resulting in fewer guests
Physical risks	Increased prevalence and severity of extreme weather events (e.g. floods, hurricanes)	→ reduced revenue due to disruption (e.g. transportation, supply chains, or damage to surrounding areas reducing desirability of a destination)
		→ costs incurred to address impacts on workforce (e.g. health, safety, absenteeism)

		→ costs to repair damages to hotel property
	Longer-term changes in climate and weather patterns (e.g. increased rainfall, rising average temperatures, rising sea levels)	→ early retirement of existing buildings due to being in "high risk" locations
		→ increased operating costs (e.g. water shortages reducing efficacy of cooling systems)
		→ reduced revenues due to fewer guests
		→ increased insurance premiums, or inability to secure insurance in "high risk" areas

Common opportunities for hotels

	Climate-related opportunities	Potential financial impacts
Resource efficiency	Increased efficiency of hotel buildings and operational practices (e.g. installing more efficient boilers, chillers, etc.)	→ increased value of fixed assets (e.g. through achieving a high energy efficiency rating)
		→ increased revenues from more guests due to reputational gains
		→ lower costs to address impacts on workforce (e.g. due to increased employee satisfaction)
	Reduced water usage and consumption	→ reduced operating costs
		→ lower costs to address impacts on workforce (e.g. due to increased employee satisfaction)
	Use of more efficient modes of transport (e.g. company vehicles, guest transportation)	→ reduced operating costs
Energy source	Use of energy from lower-emission sources (e.g. installing solar panels or ground-source heat pumps)	→ reduced exposure to future fossil fuel price increases
		→ reduced exposure to GHG emissions, so less sensitivity to changes in cost of carbon
		→ increased capital availability due to investors favouring companies with lower emissions
	Use of new technologies (e.g. a heat recovery system)	→ returns on investment in low-emission technology
	Shift towards decentralised energy generation (e.g. on-site solar panels)	→ reduced exposure market variation in energy prices
Products and services	Develop and/or expand low emission services (e.g. home-growing fruit and vegetables to serve in on-site restaurants, offering low-carbon packages or experiences to guests).	→ increased revenue due to demand for lower emission services
	Shift in consumer preferences	→ increased revenues due to having adapted to shifting consumer preferences
	Align with employee values	→ increased attraction and retention of talent resulting in improved service, and reduced costs of recruitment
Markets	Access to new markets (e.g. through partnerships with governments, community groups, and development banks)	→ increased revenue from new and emerging markets
	Use of public-sector incentives (e.g. funding from governments, development banks)	→ increased revenue

Resilience	Participation in renewable energy programs and adopt energy efficiency measures	→ increased market valuation through resilience planning
	Resource substitutes/diversification (e.g. installing a water recycling plant, adapting menus based on locally available produce)	→ increased reliability of supply chain and ability to operate under various conditions
		→ increased revenue through new products and services related to ensuring resilience

5.0 Tips for best practice

Scenario analysis

The TCFD recommends that companies use scenario analysis to help determine the consequences of various climate-related risks and opportunities. These help an organisation to devise strategic plans which are robust to a variety of potential outcomes. They are a useful tool for companies to show investors that they have strong plans in place and are resilient to future risk.

- Scenario analysis can be qualitative if no data is available, or quantitative and based on numerical models.
- You should select a series of set scenarios to analyse (ideally 3-4), covering a variety of future outcomes.
- For each scenario, state how resilient your strategy is.
- Choose scenarios which cover relevant risks for you. The following are commonly used:
    - A '2.0°C or lower' scenario, where decarbonisation follows a level of transition which caps global warming at 2.0°C above pre-industrial levels.
    - A scenario where there is no significant transition from current emission levels[4].
- You may find it helpful to seek external support to when carrying out your scenario analysis.

General tips for good disclosure[5]

- Show how you measured the risks that you have found and explain how you will manage them. You don't have to have all the answers straight away, but you need to demonstrate that you're at least working towards managing them.
- Avoid generalisations such as 'climate change will affect our business'. Explain exactly how it will and what aspects are at risk.
- Consider materiality – it's not about showing every single risk, it's about understanding which are the most material risks that have the most impact. You can explore which risks are most relevant to you using the following resources:
    - Alliance Water Risk Assessment
    - WRI Aqueduct tools
    - Verisk Maplecroft's Climate Change Vulnerability Index
    - WWF Water Risk Filter
- Be clear and balanced in what you share (ensure to recognise where you have gaps in your knowledge). If possible, ensure you include quantitative information about risks, as well as qualitative scenario analysis.
- Make it easy for stakeholder to find the information they seek – it can be best to follow the structure of the TCFD recommendations to ensure you include everything and it can be easily found by stakeholders.

[4] https://www.pwc.co.uk/sustainability-climate-change/assets/pdf/getting-started-with-climate-scenario-analysis.pdf
[5] Adapted and elaborated from p18 FINAL-2017-TCFD-Report-11052018.pdf

Consider which metrics make sense to your business (e.g. per occupied room, per guest night).

Tips for disclosure on *governance*

- Show what your governance structures are, and how/when climate-related risks and opportunities are considered. But do go into the details of exactly what is done to manage the risks as part of the governance process.
- Show how the governance at the top flows through the rest of your organisation and is embedded across.
- It can help to have a team of people who contribute to TCFD reporting, including Sustainability, Engineering, Risk and Finance representatives.

Tips for disclosure on *strategy*

- Acknowledge if you are undertaking a review but try to include as much information as possible.
- Consider how the structure of your business impacts on the risks you may face. Hospitality is a very fragmented industry with owners, management companies and hotel chains, which might be all the same stakeholder or could each be a different stakeholder.
- You may choose to break down descriptions of risks and opportunities by geography or sector.

Tips for disclosure on *risk management*

- It is useful to state clear definitions for terminology used relating to risk, as well any existing risk classification frameworks you have used.

  Consider how risks affect you across your value chain, not just in your own operations. E.g. How do different scenarios affect the availability of produce you buy to feed guests?

Tips for disclosure on *metrics and targets*

- If possible, provide metrics for water, energy, land use, and waste management.
- If you are not able to calculate your own metrics, you can use methodologies to estimate these. If doing so, be clear about which methodology you have used.
- Where possible, provide metrics collected over time to allow for a trend analysis.

  Include short-term targets as well as long-term (to 2030 or 2050) to show how you are focused on this on an ongoing basis.

6.0 Disclosure checklist

	Topic		Included?
Governance	Disclose the organisation's governance around climate-related risks and opportunities.	Describe the board's oversight of climate-related risks and opportunities.	
		Describe management's role in assessing and managing climate-related risks and opportunities.	
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	
		Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	
		Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	
Risk management	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Describe the organisation's processes for identifying and assessing climate-related risks.	
		Describe the organisation's processes for managing climate-related risks.	
		Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	
Metrics and targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	
		Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	
		Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	

7.0 Example reports

Companies who have produced separate TCFD reports:

- Whitbread
  https://cdn.whitbread.co.uk/media/2022/04/23577_Whitbread_TCFD_Report_220429.pdf

Companies who have integrated TCFD reporting into wider annual/ESG reports:

  - Marriott (p79) http://serve360.marriott.com/wp-content/uploads/2021/09/2021_Serve_360_Report.pdf

- Wyndham (p71)
  https://d1io3yog0oux5.cloudfront.net/_f6171548726c77a186da08775c6de170/wyndhamhotels/db/2300/20907/document/2022-WHR-ESG-Report+Suzy+Falcicchio.pdf

- IHG (p32-35) https://www.ihgplc.com/en/-/media/FBC3B4884AB449A4975A4302F38F1F7D.ashx

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8.0 Further reading and resources

TCFD guidance

- TCFD site https://www.fsb-tcfd.org/about/
- TCFD hub online courses https://www.tcfdhub.org/online-courses/
- TCFD guidance on implementing TCFD recommendations https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf
- How to use scenario analysis in TCFD reporting https://assets.bbhub.io/company/sites/60/2021/03/FINAL-TCFD-Technical-Supplement-062917.pdf