What does Brexit mean for the hospitality industry?
WHAT DOES BREXIT MEAN FOR THE HOSPITALITY INDUSTRY?

Key Dates

1. **21 January 2019**
   - Final deadline for the Meaningful Vote
   - UK Parliament will vote on the Withdrawal Agreement.

2. **29 March 2019**
   - Final deadline
   - Brexit day at 11pm GMT unless two-year period extended.

3. **30 March 2019**
   - Either:
     - Transition period begins: all EU rules affecting the hospitality and leisure sector will apply; or
     - UK leaves without a deal: few rules, if any will continue to apply to cross-border and commercial operations.

Headline Points

UK hospitality and leisure companies rely on easy access to a pool of workers from the EU-27, particularly on casual zero-hours contracts. This access may be restricted by new immigration rules after Brexit (and after a transition period).

If no trade deal is secured between the UK and the EU, there will be a reversion to trading on World Trade Organisation (WTO) terms. The imposition of tariffs would affect the cost of materials (such as food) imported into the UK.

There are a number of generic Brexit issues that all exposed businesses face. These include changes in VAT legislation and procedures; changes in dividend taxation; changes in data protection legislation; changes in employment legislation; enforceability of contracts; changes to UK legislation through the EU Withdrawal Act; and other draft Brexit legislation.

People and Movement

The hospitality industry is heavily reliant on EU-migrant workers. Indeed, 15 percent of the UK sector’s workforce is currently made up of EU migrants; and the percentage is higher in London – nearly 40 percent.

Brexit poses a threat to the ease of access to EU-migrant low-skilled labor in the UK. It will not be clear for some time what immigration restrictions the UK will impose post-Brexit, and there are many reports that low-skilled workers are already feeling deterred from working in the UK.

Recruiting workers in the future may require an increase in payroll costs as the sector turns increasingly to the UK market to access a pool of talent, with consequent adverse implications for profitability. The referendum result in itself has already started this effect.

For hospitality developers, labor costs in the construction industry are also increasing. Many hospitality organizations are taking active steps in talent retention to ensure current employees are not lost, and they are also needing to intensify their recruitment methods for the lowest paid roles.

The EU Settlement Scheme is a generous deal for EU citizens, but the UK government has done little marketing and PR due to the focus on uncontrolled immigration. Theresa May has commented that, even if there is no deal, EU citizens can stay on exactly the same terms. If employees are in the UK at the Brexit cut-off point without having completed the required five years’ residency, they will enter pre-settled status, which will qualify to settled status on completion of the term.

The Scheme is not enacted, and is currently being piloted with NHS employees and a number of universities, but it is sensible for employers to explain to their EU workforce exactly what this is. The Home Office has published the EU Settlement Scheme: Employer Toolkit to provide employers with the information to support their employees.
Imports and Goods

We are likely to see the greatest operational impact from the effect on trade. If no trade deal is agreed between the UK and the EU, the terms regulating UK-EU trade will revert to WTO commitments. Companies in the UK importing from the EU will face tariffs on imports and customs clearance procedures. Such companies will also need to develop a corporate customs infrastructure and software in addition to updating their processes to cater for new customs declarations. This is a large administrative burden that will take time and money to implement.

Increases in import costs will have an impact on all UK hospitality and leisure companies that import products (such as food) from abroad. Increases in such costs will have a significant impact on certain operators in the sector. For example, purchases currently account for the largest costs for most full-service restaurant operators, at 38.9 percent of revenue.

If there is no deal made, ports and wider infrastructure will need to have millions of pounds spent on them to cope with the new custom demands, inevitably causing significant delay. The most common contingency measure that businesses are taking to mitigate against the risk of disruption to their supply chain is the stockpiling of goods. Furniture, fixtures and equipment procurement will also be a challenge for hospitality developers as much manufacturing takes place in Europe.

It would be prudent for organizations with UK operations that rely on a supply chain existing in whole or in part outside of the UK to carry out impact assessments that address the scenario of a no-deal Brexit, so that potential problems can be identified. Maybe other ports can be considered, rather than roll-on/roll-off through Dover, for example, and logistics providers can provide an estimate on what the delay is expected to be in such an outcome.

Investment

As with all sectors, those investing in hospitality are uncertain and it is difficult to make a prognosis on what will happen. Although the UK market is hesitant, there are still good levels of investment activity in UK hospitality and leisure without a marked change in pattern. The weakening of the pound is an obvious draw for international investors looking to enter the UK or increase their footprint. Foncière des Régions’ acquisition of The Principal Portfolio from Starwood Capital earlier in 2018 evidences that some investors are still comfortable completing deals of a significant size. On the lending side, banks are still active in the UK and many of their customers are taking a long-term view.

With the UK experiencing political instability, it follows that investors will be considering other markets. Over the past few years, Germany has become more attractive, but it would be short-sighted to attribute this entirely to Brexit as a number of factors have been responsible. One may be able to get debt that is cheaper than in the UK, but it is currently difficult to purchase at a good price.

Those looking to expand in Europe are considering gateway cities, including London. Dublin was attractive before Brexit, but there is no doubt that it is even more so now, with hospitality and residential development struggling to keep up with demand. A lot of business heads are relocating to Dublin and it is developing a significant strength in the tech sector, evidenced by Facebook and Google recently acquiring offices there.

Government Support

The UK government should assess the degree of investment in promoting the hospitality industry as one that rewards accomplished talent in order to combat this. Thirty years ago there was a sharper focus on hospitality, where it was one of the few sectors in which you could build a successful career with zero experience. A hospitality coaching and training body once took responsibility for ensuring the industry was viewed as a favorable choice of career path, and gave people the opportunity to train as general managers and operations managers. Since its abolition, however, there has been little government support and political lobbying in this area. We may see a more urgent requirement for a similar association to emerge.
Conclusion

Though headlines are dominated by Brexit, it is important to account for relativity and perspective. At this stage, businesses are generally taking a balanced approach to their exposure to Brexit and putting in place contingency plans. The key to navigating Brexit successfully is informed analysis, accurate forecasting and practical contingency planning. DLA Piper has the combination of political, policy and legal know-how, as well as global coverage, to provide this level of Brexit advice.

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