



Economic Affairs Committee

Corrected oral evidence: UK labour supply

Tuesday 18 October 2022

3 pm

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Members present: Baroness Noakes (The acting Chair); Viscount Chandos; Lord Fox; Lord Griffiths of Fforestfach; Lord King of Lothbury; Baroness Kramer; Lord Layard; Lord Monks; Lord Rooker; Lord Skidelsky; Lord Stern of Brentford.

Evidence Session No. 6

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Questions 58 - 68

Witnesses

I: David Sheen, Public Affairs Director, UK Hospitality; Dr Kris Hamer, Director of Insight, British Retail Consortium.

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Examination of witnesses

David Sheen and Dr Kris Hamer.

Q58 **The Chair:** I welcome David Sheen and Kris Hamer to give us evidence this afternoon. Could each of you introduce yourselves before we get into questions?

Dr Kris Hamer: Certainly, I am the director of insight from the British Retail Consortium.

David Sheen: I am the public affairs director at UK Hospitality.

The Chair: I am going to kick off with the first question, which is a bit of background. Could you describe what labour market issues you were facing before the pandemic? Obviously, we are focusing on what is happening right now, but I think we just need to contextualise where we were before Covid hit us.

David Sheen: It is fair to say, pre-pandemic, we were facing a vacancy crisis. We thought it was very bad then; it is now considerably worse. Back at the end of 2019, we had what were then record vacancies, around 90,000, for our sector. That was around 3.4% of the workforce. That had doubled from about 2012 to 2019. To put that into some context, over that period, our sector had grown net jobs by 500,000, 22%. We had created those 500,000 jobs but the vacancy level was a reflection of the fact that we could not keep up with the demand.

That was where we were coming into the pandemic. Quite similar roles were vacant, particularly cheffing. It is fair to say that cheffing roles within hospitality have been at crisis levels. I have been working in the sector since around 2004 and it has been a constant issue. That was a real concern back in 2019, and certainly remains so.

Dr Kris Hamer: I have a similar story in many respects. Retailers have been reporting to us that they have had difficulty recruiting for some time, and part of that is a reflection of the changing state of retail. Traditionally, of course, we would be looking at shop floor, bricks-and-mortar stores but there is digitalisation and a change in the skills required in the skill sets of the workforce. That has meant that we are accessing labour from different pools and those pools are highly competitive. That is certainly an area that has been a challenge for retailers.

Of course, part of retail being a highly efficient sector, right now in terms of protecting consumers from high levels of inflation, has meant that businesses are particularly efficient. Labour is brought in and out of the organisations as demand requires. There has, I guess, been a reliance on flexible working, with the labour coming in and out. Changes such as us leaving the EU and other factors are having an effect on retailers being able to recruit the staff they need. That is the broader context before the pandemic.

The Chair: You mentioned digital skills. Does that affect a lot of the workforce or is that just at the margin?

Dr Kris Hamer: No. If we look at the level of expenditure online, it is a quarter of all retail sales today. Things have changed quite substantially and, of course, we all know from the pandemic that everybody was shopping online for a period. Things have settled down now but we are still looking at a seven percentage point increase in the level of trade that goes on online. Certainly, I think it is across the board that most retailers have a digital offer, all the way through the supply chain in terms of warehousing, through to the digital assets that are online. That is a key part of retail business today.

Q59 **Viscount Chandos:** I would like to ask about the over-50s. Where people in that age group have left the workforce, what do you think has been the balance of push factors, with respect to sickness versus retirement or other reasons?

David Sheen: In hospitality we have not seen this dramatic fall, which clearly is playing out in the ONS numbers. It is very clear. From our sector's perspective, we continue to employ more over-50s than we have done before. In a survey from Caterer.com, a specialist recruiter, 19% of hospitality businesses said that the number of over-50s have risen in the last year. I think that is just a reflection of the fact that we are still creating jobs. That macro level dropout rate has not really been seen in our sector. I confess we do not have any detailed data in our sector on long-term sickness, but the anecdotal experience we are getting from our sector is that we are not necessarily seeing that with over-50s.

In fact, the over-50s is an area that we, as a sector, are actively trying to recruit from, and are adjusting working practices to attract more over-50s. We very much see that as part of our future labour market mix.

Dr Kris Hamer: The profile of the workforce in retail is young overall. So 16% of workers in retail are over 50 and that is about half of the rate in the broader working population. We have seen similar things happen in terms of early retirements and long-term sick leave. The numbers are quite stark in relation to the ONS data on the inactive workforce for long-term sick—2.5 million people. I think that 460,000 more people are long-term sick than in 2019. There is certainly an issue there. We do not know how that is profiled across the age categories but clearly, it is a big population of people that are no longer available to work.

Viscount Chandos: So you have reasonable data on that. Mr Sheen, I think you said that you do not have much data on that.

David Sheen: We do not have a lot on long-term sickness, no. We have reasonable data from ONS on the over-50s in the workforce, which I think stands at around—I am not going to give an answer because I cannot verify it, but I will follow up shortly afterwards.

Viscount Chandos: Thank you. What effect do you think the pensions deregulation in the middle of the last decade had? I recognise that many

people in your two sectors may not be substantially pensioned up, but there clearly would be some in management. Has that been a factor?

David Sheen: I have to say again, it is not something we have heard a lot from. I know from your session with the trade unions that there was quite significant conversation around that point. It is not something that has come up from the employers within our sector.

Dr Kris Hamer: From a retail perspective, the pensions deregulation has had an effect, certainly for higher earners, but that is a small pool across the broader workforce, so it is not a significant factor for our industry.

Q60 **Lord Fox:** Coming back to the sickness theme, do we have a sense of where in the league table of problems sickness comes? When you talk about retirement, is that masking, as we heard from the trade unions, people who are sick but choosing to retire because they can? Could you give us a sense of the significance of ill health when it comes to your search in a diminishing pool of workers?

Dr Kris Hamer: Your point about the diminishing pool of workers is the main one. Of course it is a multitude of factors. The fact that retail is cyclical and we need access to flexible working arrangements to make sure we can trade through the peaks means that there are a number of factors. Obviously sickness is bound to have an effect. We do not know the scale of the effect in terms of there being 450,000 people who are long-term sick now who were not long-term sick in 2019.

I think there is a whole heap of different reasons as to why it is a struggle for retailers to recruit, and one of those is in relation to making sure that we are investing in wages and making sure that the employer proposition is good, but there is more to do. We are looking quite closely at how we can try to make that proposition even more attractive to bring people in from that workforce.

David Sheen: I would agree on the macro level labour market. The key issue is that there is this diminished labour pool, and that is having a knock-on effect on the whole economy, which has an effect on every sector in possibly slightly different ways. As we have seen from the vacancy data across all sectors, there is a real problem. That comes down to that lack of people within the labour market, which is what your inquiry is about. Within that, you will then see displacement from sector to sector and people who would have been working in hospitality perhaps working in other sectors.

Similar to what Kris said, it is a battle for our sector. We need to make sure that we are seen as a sector that people want to work in, and particularly try to address some of those challenges that people who are on long-term sick are facing. How can we support those people back into work? Frankly, we cannot do it on our own. Working with organisations like Jobcentre Plus, there is an opportunity to make sure that we can offer those jobs, whether they are part-time, whether they are flexible and that they suit the needs of—

Lord Fox: How would one grasp that? You both represent very fragmented industries. How would that process be marshalled in terms of having the conversation about putting in place reasonable support mechanisms? How would you go about that?

David Sheen: We have undertaken a reasonably significant piece of work as part of the DWP 50Plus campaign. I appreciate that this is not just long-term sick; it is a 50s-plus piece of work. We have worked with that taskforce that is chaired by the Minister for Employment to look at specific measures that we can take. You are completely right, we are a fragmented sector, but our role as a trade association is to provide that best practice to business, to try to break down some of those barriers and to open people's eyes about the fact they can employ people.

Lord Fox: Both your sectors have a lot of flexible working. Is that an advantage when you are reaching out to those people?

David Sheen: I would say that it is a strength of our sector in being able to offer those roles. Clearly there are some disadvantages in that some people are not going to want to work a late-night shift, for example. That is the flexibility that we can offer within our business models. Within the breadth of the sector, there will be roles for pretty much anyone who wants to work in it.

Lord Fox: For retail, is that more or less the same answer?

Dr Kris Hamer: We are seeing a mix. There is a demand side from the retailers' perspective to make sure that they have efficient operations. The extent to which they need to do that is predicated on the cost of doing business. Retailers are facing tremendous headwinds around levels of inflation. There is a serious issue in relation to business rates, in so far as the multiplier will be determined tomorrow based on the CPI figures. We are looking at a £800 million additional cost burden on retailers if that goes ahead. We are asking the Government to freeze the multiplier for next year, otherwise that £800 million needs to go somewhere.

These factors, I suppose, are interlinked. The extent to which we need flexible working within the industry is determined by the cost of doing business, on which there are significant burdens in other areas.

Lord Fox: I get that, but what I am trying to push at is whether the flexibility puts workers off in your case or attract them, or is it an entirely neutral thing?

Dr Kris Hamer: It is a mix. Some workers want flexibility. From the research that we have done, we see that workers want to work locally. They want to work flexibly, particularly around school and caring needs, while there are others who say, "I prefer to go and get an office job and work Monday to Friday".

Covid has caused people to take a step back and think about what they want from their lives and so retail has to react to that. Retailers have certainly done things like increased levels of pay and made the

proposition more attractive by offering discounts and providing more education around financial planning. I think that is quite important in relation to realising that it is a good industry to work within; it is a mix and it is the blend we get from that.

Q61 Lord King of Lothbury: You have talked about the difficulties of recruitment in rather general terms, a tight labour market. If we had someone representing the cab drivers in London, they would say, "Several thousand of our members have stopped driving". Are your members saying to you that people who did work for them prior to Covid have disappeared, or is it just a generally tight labour market?

David Sheen: It is a mix. I am sorry not to give a straight answer. Certainly, through the pandemic, we know that a lot of central and eastern European colleagues left the workforce. There was a big dip in the E8 nationals from the hospitality workforce. That certainly was a loss of a lot of people. We do not believe that those numbers have picked up substantially post pandemic or post reopening in 2021. There has been that real shift.

Going back, our sector has always been slightly cyclical. It has quite often been a first step on the ladder, which we are proud of. That is part of what we do. We offer a range of roles from entry level to those who can rapidly progress to management positions. We as a sector will always face that rolling pattern of employees who come and go.

I could not put a figure on it but I think there are substantially different people working in our sector now than pre-pandemic.

Dr Kris Hamer: From a retail perspective it is positive news in many respects. There are more vacancies than there were, so there are more jobs in respect of being able to bring more people into the industry. However, I think primarily for us, it is a tight labour market, so the operations are based around efficiency, flexibility and bringing people in for the peak, but it is also transforming around the digital side of things. The requirements of retail are not quite the same as they were 15 years ago, so that is also changing. We are look for more skills.

The Chair: Lord Layard, you were going to ask a question on labour shortages.

Q62 Lord Layard: This is a very important question, of course. What are the main causes of labour shortages in your sector? One obvious question: is it because you are trying to expand the sector, or is it because too many people are leaving the sector and there are not enough people replacing them? Could you expand on what is the nature of the shortage, or is it to do with more one skill than another?

Dr Kris Hamer: Yes, there is a skills issue in relation to the fact that the needs of retailers have changed over time. It is not all just shop floor working practices that you might see when you are out and about; there are more digital roles, more skilled roles. One issue that retailers relay to us is that the apprenticeship levy is not as flexible as we would like it to

be. Although we accept that the Government are doing the right thing with the apprenticeship levy, we are not able to deploy those funds in ways that allow us to adapt and train up the workforce more flexibly, such as shorter courses and in those skills that are required for us. That is an ask from our perspective to help solve the problem of the shortages of labour as well.

David Sheen: From the hospitality sector, we published a workforce strategy back in May that identified five areas that we needed to work on as a sector and collaboratively with government and third parties. One is recruitment practices; one is looking at the reputation of the sector, and one is very much looking at skills and training. I completely echo the comments of my colleague on the need for reform of the apprenticeship levy, how we help people in their working lives and, more broadly, around infrastructure, whether that is transport or housing.

We have examples from members in the Lake District, where there are so many second homes, nobody can afford to live and work within our sector. I know that is an issue that has been raised a number of times by parliamentarians. Those five areas are where we are focusing our attention, and are very proactively doing so.

Going back to the question, the pandemic clearly had a significant impact on us. It squeezed that pipeline of talent that normally comes into hospitality—those people who missed out on schools, particularly those vocational cheffing training courses. They were happening digitally to some extent, but you could not quite do the hands-on element of a cheffing course.

There is competition from other sectors, certainly. We feel that we are very flexible as a sector and—going back to the previous question—we think that is a strength. Other sectors are also very flexible. That is something that has changed the mix.

I know that we will come on to migration policy, but that has had an impact.

Lord Layard: Going back to the question, these are unprecedented levels of vacancies, especially in the hospitality sector. Many of the things you said probably have applied in any year that you can remember. What is special at the moment? Is it that you have shrunk during the lockdown and so on and you are still trying to expand, or is it that people are leaving? Are you having more people than you are used to retiring at earlier ages? How could you identify the unique features of the present situation?

David Sheen: It is very complex. Over the last 12 months we have created 133,000 new jobs within our sector. We continue to grow but as we grow the number of vacancies grow, which is the real challenge.

Looking at it specifically, I think that we do have challenges with retention in our sector. It is an area we are looking at to make sure that

we do not have that really high churn rate, so that those people who come into the sector—and they clearly are coming into the sector in large numbers—are kept on. That will start to bear down on the vacancy numbers. Beyond that, what else is causing it? We do not know, if I am being perfectly frank.

I do not think that retirement is a major issue within our sector. We have not had a lot of feedback to suggest that that is the case. I think it is that, while we have grown, the recruitment has not kept up with the number of jobs. Competition with other sectors is part of that mix, as is the overall tighter labour market, frankly.

Lord Layard: Are you now back to your pre-pandemic level of employment?

David Sheen: All but, yes. If you combined employment level plus vacancy level we would be slightly higher than pre-pandemic.

Q63 **Lord Skidelsky:** I would like to press you on the question of a mismatch between work and skills. I can understand how that problem arises in many other sectors where automation eats into so-called cognitive types of jobs, accountancy and legal profession, but what are the technological changes going on in the hospitality sector that would make older people not able to keep up? You mentioned chefs earlier on. I am asking this in order to find out; it is not that I have preconceived view. It troubles me, because I would have thought that this sector is less vulnerable to technical unemployment than some of the others.

David Sheen: I would agree. Our sector can provide jobs for everyone. There are some highly skilled, highly technical roles and some of the higher-level cheffing roles certainly meet that. However, we think we can pretty much get anyone to that level with the right attitude, so we should not be leaving any over-50s behind—or anyone behind, frankly. We passionately believe that we have job roles for everyone. There have been technological advances in terms of app ordering and internal processes around how orders are made and processed internally. None of them are insurmountable. With the right framework, we can provide the skills for anyone to work within the hospitality sector. No, we do not see any barriers, frankly.

Lord Skidelsky: Why might there be a mismatch in the hospitality sector?

David Sheen: It probably comes back to the point that Kris raised around the apprenticeship levy, and maybe some more flexibility. It is people that come into our sector who may not have some of the basic digital skills or some of the more advanced culinary skills that are needed. Most of the people we are talking about do not want to be stuck on a 12-month apprentice course, which is where the apprenticeship levy sends them.

We, and from what Kris says it is probably similar in the retail industry, want more flexibility so that we can offer those short courses where you

can get your digital training, you can work out how the app ordering works, and you can get up to a given level in your culinary skills or front-of-house and customer service skills. It those slightly softer skills. Those skills can be taught quite quickly, but at the moment the funding is being diverted towards the apprenticeship levy and that is probably not suitable for quite a lot of the people who are currently outside of the labour market.

Q64 Lord Griffiths of Fforestfach: Can you tell us about the age structure of the workforce, particularly in the hospitality sector? If you divided your workforce into, say, over-50s, under-30s and then the group in between, how does it roughly break down?

David Sheen: We are predominantly a younger age group. I know that you have had CIPD at a previous evidence session. It has done a lot of work on this by sector. Some of the analysis it did showed that the average age for our sector is 35, which is a full five years below any other sector in the economy. Off the top of my head, I think around 50% of the workforce is under the age of 35. As I said earlier, I am going to have to come back to you on the over-50s because I did look this up and it has completely gone out of my mind. I will definitely come back to you on that, I am sorry.

Lord Griffiths of Fforestfach: Do you find difficulties in recruiting people under 35?

David Sheen: There are challenges across the board. Historically we have had more focus in recruitment practices on the under-35s. That has just been the way that the sector has worked. I think it is more natural to employ people at that age, and under-35s probably are slightly more attracted to our sector than the older age groups, if I am being totally honest. Yes, in short, we do find it easier to recruit from the younger age brackets, but, as I said earlier, we are looking to change our perceptions as a sector and the perceptions of older-age groups about working in hospitality.

Lord Griffiths of Fforestfach: I have one final question. You have mentioned a number of times the whole business of public sector money to help you. What would you want the Government to do around subsidising the sector for training and so on?

David Sheen: I am not sure that we have any big fiscal asks to be honest. With the apprenticeship levy, we want more flexibility.

Lord Griffiths of Fforestfach: Precisely what flexibility would you want?

David Sheen: We put in a proposal for 25% of the apprenticeship levy to be able to be used for non-apprenticeship training. That possibly leads towards apprenticeship training, but it is up to the business to work out how they do that in a structured way that works for their business and that supports some of those entry-level roles for people who just do not want to do a 12-month apprenticeship. That is one element, which would be at no cost to government.

Then equally, another element is around how the training is delivered within an apprenticeship. Could you frontload, backload or have a more modular approach? We are not asking for a huge pot of money from government; we are asking for more flexibility in the current regulations.

Dr Kris Hamer: I would add that the apprenticeship levy is a levy on the payroll. It is the retailers' money in the first place and they then have access, under certain rules, to use it. We are looking at ways that we can use that money to reflect the needs of the businesses. That includes shorter courses, for sure. In the devolved nations at the moment when a retailer pays the levy it gets sent back to the devolved nations under the Barnett formula, and it is not possible for the retailers to access it directly from the funds that they have paid. We are looking for more flexibility around how we can use that so that we can evolve the workforce to current needs.

Lord Layard: On what you just said, when the apprenticeship levy was introduced, most people thought that it was to deal with the problem of getting young people off to a proper start in life, with sufficient mentoring and sufficient back-up for their basic skills in numeracy and literacy and so on as relevant to the job. That is why there is the one-year requirement. The kinds of short courses that are also very important, were they not always funded by the company before? Is it not quite reasonable for the people who designed the apprenticeship levy to expect that to continue?

Dr Kris Hamer: That is a fair challenge. Retailers of all different sizes will pay this levy. Yes, of course, there will have been some investment in training and development of people; it is core to retail's business. However, we need to be honest about the fact that if this levy is not accessible in ways that are reasonable for the retailer, then it is not funds that they can access. Therefore, it is literally a payroll tax.

I agree that there are long apprenticeships that make sense, and they definitely have a role to play, but the nature of our workforce is largely part time. The apprenticeship levy, as I understand it in relation to how you can access those funds, is around a full-time apprenticeship and does not necessarily reflect the workforce profile that we have.

Q65 **Lord Griffiths of Fforestfach:** Was there a problem of long-term sickness before Covid started?

Dr Kris Hamer: Yes, there was. Based on the ONS figures, yes, it has gone up substantially, but it was still very high before. There were 2 million people who were long-term sick beforehand, but it has clearly become a lot worse.

Lord Griffiths of Fforestfach: Given we are post-Covid and Covid was a key form of sickness, what was the major form previously?

Dr Kris Hamer: The insights that we have in relation to long-term sickness are that it is a combination of Covid, but also workers report stress, anxiety and depression as another major factor as to why they are

not able to work. It is incumbent on all employers to do everything that they can to support workers whom they are directly employing, and to create a workplace that encourages people back into the workforce. I do not have the insights into what the profile of sickness was before that, but that is what we are seeing now in the make-up of the long-term sick.

The other thing to mention is that a lot of the workers that are on long-term sick are awaiting operations and treatment in hospital. It is connected to whether there is a way that we can expedite these things, so that workers are able to come back into the workforce. That is key.

David Sheen: I do not have a huge amount to add, but I would be interested to understand what the drivers are of that base level of long-term sickness. The point that Kris makes around waiting lists and delays in the health service are critical. Yes, it is not just those with long Covid; it is those who are facing the consequences of health service-related issues.

Q66 Lord King of Lothbury: We have talked about sickness and older workers. Can we turn to migration now? What impact have changes in migration had on the availability of people to your industries in respect specifically of fewer EU nationals coming into the UK? Have your members replaced them with non-EU overseas nationals or with UK nationals?

Dr Kris Hamer: Part of the answer to that is that they are struggling to fill the vacancies. When we talk to members, they tell us that there is not the people there applying for the roles. That is causing real problems in terms of time to hire, despite all the efforts around increasing levels of pay. Certainly within retail, the ebb and flow of trade meant that we needed a flexible workforce, and workers from the EEA would come into the UK, perform those tasks for the peak and then go home. In many respects what we have done is prevented that flexibility within the labour force, to the extent that we keep advertising and we keep trying to get people on board, but our members are saying that people are not applying and are not there.

Lord King of Lothbury: What about non-EU nationals? In the aggregate figures, there has been an increase in that, partly off-setting the fall in EU immigrants.

Dr Kris Hamer: We have not seen non-EU nationals coming to apply for temporary contracts. We are not seeing that non-EU nationals are providing that flexibility.

David Sheen: It is an interesting area, particularly the non-EU nationals. It is an area that our sector has looked at increasingly in the last 12 months, due to vacancies, looking at non-EU recruitment from abroad, particularly for cheffing roles, using the skilled worker visa route. The problem is that we find it so costly, so bureaucratic and so time consuming that it is very difficult. I appreciate that there are a lot of non-EU nationals already in the country, and there is work to be done to try

to integrate them within the labour market overall and from our perspective within our sector. That is something that we will continue to look at.

In terms of the trends, I puzzle over the ONS data on migration. It seems to show that, even post-referendum, there was a growth in workers from EU nations up until the pandemic and then it fell off a cliff edge. That is the complete opposite of what our member businesses told us. They told us that there was an absolute exodus of staff. I do not know what the answer is, but I was looking at both datasets and trying to work out where that fits. There is certainly more government can do to add flexibility to the current immigration system.

Lord Fox: On the hospitality side, the question is answered, but for retail, do the jobs you are looking for qualify for the thresholds for non-EU nationals anyway?

Dr Kris Hamer: There is a mix. Certainly for some of the roles, absolutely not. Front-line workers would not fall in the skills shortage category.

Lord Fox: Is that not what where the majority of the vacancies are?

Dr Kris Hamer: No. It is majority because there are many people employed on the front line, but we are finding shortages in skilled professions as well—pharmacists, optometrists. We hear that in those sectors it is very difficult to get people. It is almost becoming “name your price” in relation to the bargaining power.

Lord Fox: That will get them over the threshold, then, will it not?

Dr Kris Hamer: No, not quite. If there are not enough people, there are not enough people and therefore it will just drive wage inflation, which is a positive thing in some respects, but there is also an affordability question as well.

Q67 **Lord Monks:** I want to focus on the wages question that we have just touched on. Normally you would expect under the law of supply and demand that if there is a shortage somewhere, the people who are already there or the people whom you are trying to attract will get higher pay and maybe other conditions as well—hours and so on. There have been some quite well-publicised recent hikes, particularly among some of the big retailers, in terms of pay. I saw John Allan of Tesco on the television at the weekend saying it has put wages up twice in the most recent period.

However, generally speaking, wages have been pretty flat in Britain for a long time. Real wages have been flat. There are no appreciable changes that I can perceive generally in your two sectors, big sectors that they are, where there have been significant improvements in real pay. You tell us about the labour shortages but what are you doing to make the jobs more attractive by some significant movements in pay?

Dr Kris Hamer: I take the challenge. It is true that in terms of real wages there has been a fall, not just flat. In 2021, the data tells us that wages in retail increased 5.5% compared to a national average of 2.1%. Clearly retailers would want to pay more if they can pay more. I agree completely with you in terms of supply and demand and that is what is happening. Many of our members have increased pay across the board for front-line workers, providing bonuses or other incentives to make it more attractive.

On the flipside, there are limits to what retailers can do. We know that the war in Ukraine has led to massive increases in commodity prices. Retailers are doing their best to try to protect consumers from the cost of goods and are facing the same challenges around energy like all of us. If there is more that government could do, particularly around business rates, to try to reduce the level of burden on retail, then there is more money to invest in wages, for example. There is a limit to what is feasible. Some of the data on insolvencies is quite informing, in so far as retail insolvencies have been rising. I am sure that we will see more retail insolvencies coming down the track. It is not that retailers are holding the money back; they are just trying to balance all the parts of the jigsaw in the cost of doing business.

Viscount Chandos: What are those limits on what retailers, particularly large retailers, can do? What determines the limits of what they feel they can pay their employees?

Dr Kris Hamer: The starting point of how retailers will generally budget will be to estimate revenue. The limits will be the extent to which consumers can afford to buy the goods that retailers are selling. We have seen the inflation figures, particularly on food, coming through. It is a highly competitive industry.

Viscount Chandos: But the balancing item is profit. We have seen over 30 or more years a marked increase in the share of GDP that corporate profits take. I realise that it may vary sector to sector but I am not convinced that there are limits. Are retailers having to protect profits at last year's level or five years ago?

Dr Kris Hamer: If you read the news in relation to some of the announcements around retailers' profits, it is not rosy by any stretch. I would say that the question is to what extent they can do it and I think that they are doing as much as they can. Retailers want to attract customers in and want to be able to provide great service at a cost that they can afford. If they cannot afford it, we see some of those insolvencies come through. The worrying thing is that there are lots of other cost factors coming into the retailers and how they square that. They are doing the best that they can to make sure that they stay in business, and that they are providing income for their employees. It is arguably a worse situation to squeeze even harder and end up with an insolvency where lots of people are unemployed altogether.

Viscount Chandos: Yes, but it is not binary, is it, either no change or

insolvency? Does there not need to be a change of mindset across companies generally about who pays for increased resilience? If the consumers cannot or will not, maybe that increased resilience—a better trained and better paid workforce—has to be at the expense of some reduction in long-term profitability. The shareholders in those companies have to recognise that too.

Dr Kris Hamer: I have not seen the very latest figures. It is something that I will be doing shortly around the net profit figures. From the figures that I have seen, they are not particularly healthy in relation to the net profit percentages that retailers do achieve. You are right that retailers will want to invest more, and this sort of economic environment undoubtedly results in business failures and businesses taking over other businesses. I am sure that there will be a period of change, which is quite natural, that will lead to more efficient businesses that can pay more.

Lord Fox: It is worth noting, and perhaps you can confirm it, that pressure on margins from wages will also be sent down to the suppliers, so your suppliers are being squeezed by your squeeze. It is not just your own business that is getting squeezed; it is your own suppliers as well. How is the wage crisis among your suppliers affecting you and how is it affecting the margins as a whole? Speaking as a farmworker's son, I know that it is usually the farmers who take the pain in the food industry because they are at the bottom of the chain and retail is at the top. Are you seeing this squeeze going right through your supply chain?

Dr Kris Hamer: Yes, it is an area where everybody is struggling to recruit. There is a labour market issue, which is why we are here today, and the cost prices coming in, particularly on fuel and energy, are affecting all businesses throughout the supply chain. As part of the routine business of purchasing, it is part and parcel of who shares the cost to make sure that it is successful.

Lord Fox: Where in the chain, in your estimation, is it worse? Is it worse at your end or the primary suppliers' end?

Dr Kris Hamer: Coming from a trade association for retail, I would say that it is worse at our end, but I am not sure about that, I am sorry. We can come back to you.

Q68 **Lord Rooker:** I want to raise the issue of people who might be re-joining the workforce due to cost of living pressures. As a preliminary, I see the difference between your two sectors—they are obviously not the same—and one of the big differences has to be, in hospitality, the use of split shifts. They do not get that in retail. David, earlier you mentioned the effect of accommodation and that is the issue I want to raise. If you have split shifts, you either need accommodation or very easy travel to and from work. I have been visiting the same place in the Lake District for 35 years. This year, we had reports of places closed down in August because of lack of staff. The reason given was, "We have nowhere for them to live". You mentioned the issue earlier about accommodation. Does the same issue arise in the south-west? Is it regional?

David Sheen: Yes, there are a few hotspots—the highlands of Scotland, the south-west, parts of the Welsh coast, the Lake District—British tourist hotspots, generally, where people want second homes. They tend to be victims of this. The people who have second homes there want a great hospitality offer, but the businesses struggle to provide that level of service, as you experienced in August. That is a real problem and one that is not easy to solve as a macro, economy-wide issue.

Lord Rooker: Does this in effect make it more difficult for people, because of cost of living, who might want to go back into the workforce? There are plenty of jobs there, but it is access to them, is it not?

David Sheen: Yes, a big part of the mix is the location of the jobs, and the location of those who are either unemployed or economically inactive and want to return to the workforce. That is a significant issue. Going back to the Lake District, I know hotels that have bought buses and coaches and they transport staff from cities an hour's drive away and bring them in—which comes at a significant cost. It is something that we want to work on and that we have started to look at with DWP. There are no easy solutions to this.

The Chair: Are your members reporting that they are seeing people coming back to the workforce because of cost of living pressures?

David Sheen: It is very anecdotal at the moment. Caterer.com, the specialist recruiter, did some surveys. They said that 70% of businesses say that the cost of living is driving more over-50s to boost their income in hospitality. That is focused on over-50s, but it gives some indication. Within our membership, it seems like there is a little bit more demand for jobs. We saw a bit of a drop in the vacancy level in the latest data, which is possibly more people coming into the workforce but could equally be a drop in demand, which is a negative in terms of the economy overall.

Lord Rooker: Kris, do you see the same effect in retail or not?

Dr Kris Hamer: No, we do not see a significant increase in the number of people who are coming back due to the cost of living crisis. The evidence is that what is more likely is that people will increase their hours, because most of the workforce in retail are part-time, so they may increase their hours. There are hours available because we have vacancies that are unrecruited.

The other aspect that we have seen from the labour force survey from the ONS is that 1.2 million people have second jobs. We anticipate that more unfortunately will need to do the same. We see that there might be a prospect of that in the future, but we do not see it right now.

Baroness Kramer: Sorry I came in late; I had to join into an Urgent Question on the Floor of the House. The increase in the cost of living has not been something marginal or minimal or something that most people have not yet recognised. It would seem to be a huge pressure. What are the barriers that you have in your head to explain why people are not

making that decision to restore their economic position by going back to work?

Dr Kris Hamer: It is a very good question. I suppose it could have been: what were the reasons why people left the workforce in the first place? We spoke earlier about the fact that many of the people who are long-term sick, for example, are awaiting operations, maybe a hip operation, and are not able to move. I think that once backlogs in the NHS start to clear we will see more people coming back into the workforce.

We have also seen increases in the number of students who do not work as well. Back when I was a student, I worked through the summer and through university, but fewer students are doing that now. We also have early retirees: people who are pretty well off who have realised, "At the end of everything that happened in the pandemic, I prefer to be retired; I've got the money to do it, so I will". Those are the main factors as to the inactive workforce. With some of those, you might be able to attract people back in, but it depends on their level of disposable income in the first place.

Baroness Kramer: I wonder if that all adds up. I can understand those factors applying to some people, but given the size of the shift and the number of vacancies, is there anything in the way that you structure your jobs and the offer that you are putting forward that you are changing that might make the opportunity to return more attractive?

Dr Kris Hamer: We have the opportunity to increase wages and to make sure that it is more of an attractive proposition. I said earlier that businesses are trying to grapple with all these different cost pressures. When you look into Scandinavian countries, there is a lot more permanent, full-time work available than we have in the UK. To some extent, it is a symptom of the fact that there is such a high cost of doing business that we require to be so efficient in relation to labour. For a retailer, after the cost of goods, labour is the second-highest cost that they have to manage. Undoubtedly, there is to some degree a tension between an attractive work proposition and the need for efficiency to make those things add up, but we also see that there are workers who want flexible working to meet the needs of caring for their family and being able to work locally. It is quite a complex picture.

David Sheen: I do think that we will see more people coming into the market. We have seen that anecdotally. We will see more people wanting to work in hospitality. There are some structural barriers—which are not new—around benefit systems being a bit of a put-off to some people in terms of the number of hours you can work, and what level of benefit is taken away beyond those hours. That is something that we have had from DWP work coaches and our HR directors as a barrier to more people coming into the market. That needs to be looked at. As Kris says, there are other issues, but I am reasonably hopeful that more people will come in as a result of the cost of living crisis—I know that that sounds terrible—but from a labour market perspective, I think there will be more people coming into the market.

Lord Stern of Brentford: We have been hearing quite a bit about the possibility of pubs and restaurants closing down in January and February, so-called hibernation. Would that make the industry much less attractive to people if there were months when they would be on short time?

David Sheen: It is a situation that we are desperate to avoid, but we are being forced down that route, given cost pressures. Going back to the pandemic, the closures during it were negative for our sector. It gave a negative perception of working in our sector and we lost people for good because they lost that stability within our roles. We will be doing everything we can, including working with government, to try to find some of the solutions to stop that happening. It is a risk.

The Chair: That has been a very useful session. Thank you, both, for coming in. One thing that we sometimes struggle with is getting good data points. If, on reflection, you know of any data from your surveys—we have access to the ONS data, but you may have other sources of information—that would be useful. I know, Mr Sheen, you were going to look up data on the over-50s for us. Thank you very much for coming in.