

Business, Energy and Industrial Strategy Committee

Oral evidence: The impact of supply chain delays on UK businesses and consumers, HC 777

Tuesday 19 October 2021

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Members present: Darren Jones (Chair); Alan Brown; Richard Fuller; Ms Nusrat Ghani; Mark Pawsey; Alexander Stafford.

Questions 1 - 92

Witnesses

I: Duncan Buchanan, Director of Policy, England and Wales, Road Haulage Association; Neil Carberry, Chief Executive, Recruitment and Employment Confederation; Ian Wright CBE, Chief Executive, Food and Drink Federation.

II: William Bain, Head of Trade Policy, British Chambers of Commerce; Martin McTague, National Vice Chair, Federation of Small Businesses; Stephen Phipson CBE, Chief Executive, Make UK.



Examination of Witnesses

Witnesses: Duncan Buchanan, Neil Carberry and Ian Wright.

Q1 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee for our third one-off hearing on issues facing business, with a particular focus on supply chains. I am delighted to welcome for our first panel Duncan Buchanan from the Road Haulage Association, Neil Carberry from the Recruitment and Employment Confederation, and Ian Wright from the Food and Drink Federation. Good morning to all three of you.

Mr Buchanan, if I can come to you first, could you just give us the latest on the state of the supply chain and how things are across the UK?

Duncan Buchanan: Yes, certainly. Things are very challenged at the moment. There are widespread shortages of lorry drivers, which is leading to delays and frustrated trips. Among our members, we are still getting reports; the reports have not really eased at all. That is what is important to know. Things are not visibly getting better at this stage.

I know there have been a number of measures that have been put in place. The stepping up of training and the stepping up of tests have been put in place, but visually on the ground that is not having much of an effect. We are seeing a lot of what we would call poaching of drivers. That is bigger companies with deeper pockets securing labour at higher labour rates. During this year we have seen labour prices go up quite substantially. That is not in all areas or in all sectors, but we have certainly seen reports of 10%, 15% or 20% increases progressing through the year up until now. That has been what has been reported to us.

On the most recent thing to happen, which was the announcement last week about cabotage, we expect that to suppress the wage increases being offered at the moment. That is an immediate thing that we have no evidence for at the moment. Our belief is that the readjustment in wage levels, which has been generally welcomed in terms of attracting more drivers, is likely to be suppressed by the cabotage behaviour, because the very people who are going to take advantage of those new cabotage rules are the people who are offering the highest wages at the moment and who are doing the poaching. We are in a very uncertain place just now.

Q2 **Chair:** Many people watching would like to know how long we think this is going to last for. There was a lot of news reporting recently that people became very worried about. They saw some shortages in their supermarkets, for example, and delays on some deliveries. There was some suggestion that these issues were temporary or related to the reopening of the economy after Covid restrictions, but you are telling us that there is a certain level of a problem and it is maintaining at that level; it is not getting better.



Duncan Buchanan: It is at the moment, but you have to bear in mind that some of the Government measures have not been implemented yet. The ability to go direct to C+E, which is now a possibility, has not been implemented yet. There are new apprenticeships coming through but they have not been implemented yet. A lot of the actions that the Government have taken, which we very much welcome, are not having an immediate effect just yet, because they are coming in over a period of time.

Q3 **Chair:** How long will it take for those benefits to be felt?

Duncan Buchanan: We think it is going to be a year to recover from where we are at the moment. I would like to say something about the shortage generally and the impacts of the shortage. When it comes to the totality, yes, there are disruptions; there are interruptions. When it comes to the consumer, the consumer is really going to visualise this in terms of reduced choice, which we have seen. Occasionally broccoli is not there, so you buy cabbage or beans instead. We do not have a food shortage; we have supply chain disruption. That does not mean we are going to run out of food or that we are going to run out of anything in particular. There are challenges—and they are serious challenges—but, to be fair, most of those challenges and the burdens of them are falling on business rather than consumers.

When we are talking, as the RHA, about how bad things are, please remember that we are talking about how it is for businesses, about the disruptions and the wasted energy for businesses. Consumers will see less of that. We have heard about Felixstowe in the last week, but Felixstowe is running better this year than it was last year. To be fair, it was a bit of a nightmare last year. Some of the stuff that is in the press is so hysterical. I am not surprised that we ended up with a fuel crisis with the headlines that we had.

Q4 **Chair:** Mr Carberry, on the labour point, I have heard quite a lot anecdotally that some of the biggest and wealthiest companies are paying ever higher prices and that smaller businesses are really struggling to recruit. They are often being left without the one driver who they had previously. Are you seeing that come through the evidence as well?

Neil Carberry: For those of you who do not know the REC, we represent the UK's recruitment industry, which places a million people into new permanent jobs every year and a million temps into workplaces every day. Our surveys suggest possibly the most active labour market we have ever seen across the board. I want to emphasise that point. We have colleagues here from logistics and food. Those are two of the hardest-pressed sectors, but we are seeing demand right across the board. Every upper-tier local authority in the country had rising job ads two weeks ago.



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I did a roundtable with a group of one of our member's client businesses in Scotland yesterday, and every single one of them was struggling to hire in their local labour market. Some of that is about companies rushing back and about turning on the economy again, but we are definitely seeing that tightness feed through to pay. Starting rates and temp rates have spiked really markedly over the last three to four months in our surveys. Things are still accelerating. There may be a little bit of moderation in the last couple of weeks in the rate of acceleration, but companies are reporting that it is taking a lot longer to fill vacancies. 95% of our members, when surveyed, said that labour shortage was the single biggest issue across all sectors. 98% of them say that all vacancies are taking longer to fill, and about half of them are saying that most vacancies are taking at least a month longer to fill.

There is clearly a loss of productive capacity here as well, which is feeding through to companies doing different things with pay. We are also seeing some innovation in things like working conditions, but, yes, the theme is companies doing what they can, and clearly those with deeper pockets are positioned to do more.

Q5 Chair: How much of this is to do with us no longer having free movement with European workers? There is a debate about why this has happened, and I just wondered whether you had any view or evidence on that.

Neil Carberry: It would be remiss of me not to mention that this story of a labour market struggling to clear is pretty common in those economies that are in our kind of space: big developed economies with substantial vaccination programmes that are trying to return to normal. If you look at US or my colleagues in western Europe, they would say the same about what they are seeing.

Ours is uniquely sharp, and the unique sharpness is driven by a couple of things. First, we have had some long-term shortage issues that we have not addressed. Drivers is a classic example of something that collectively we have been talking to the Government about since well before the referendum. Clearly, we have both cut off an inflow of new workers to the UK and the number of workers with settled status will of course diminish over time. It will start to fall away over the next few years. There are sectors that have been particularly reliant on being able to fill their vacancies internationally. Some parts of the food chain would be a classic example of that, but I would also point to some parts of the labour market where the Government are the primary funder. For example, care is a critical sector for this. Increasingly over the last few weeks, waste is under huge pressure as well.

What we are seeing is a global issue caused by a misallocation of resources caused by the pandemic, which is being amplified by the new trading arrangements that we are working under, and it will probably take a little longer to work out in the UK than other countries because of that.



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Q6 **Chair:** Ian Wright, coming to you lastly from me, people have already experienced a shortage of choice in supermarkets and delays to some of their deliveries. This is ongoing. How long is it going to go on for and what does it mean for the Christmas period?

Ian Wright: Just before I answer that question, can I associate the Food and Drink Federation with all the remarks made about Sir David Amess yesterday? I am sure my colleagues would like to do that. Sir David was a very active member of our APPG and actually quite a good critic of the industry as well. He was pretty trenchant, actually. We would like to be associated with your colleagues' remarks.

In answer to your question, if I said it is going to go on forever, that would be ridiculous, but these issues are structural. I agree with much of what Neil has said. If you look at what has happened in the food industry, we have 4 million people who work from farm to fork, if you include logistics and packaging. 45% of logistics journeys are for food; 70% of packaging is for food. They are part of the industry. We have 4 million people; we are 500,000 short.

We have always been some hundred thousand short, because the work is temporary. There are quite a lot of temporary jobs; there is quite a lot of churn. Neil is an expert on this, so forgive me if I get these numbers completely wrong, but we think something like 1.4 million people have gone home to Europe, having registered for settled status. I will come back to that. 500,000 people have become economically inactive; that is to say they have given up work, basically. At the front end, people have gone back to university; at the back end, people have just retired. This has caused a particular issue amongst HGV drivers. About 400,000 people have transferred into the online economy over the last couple of years, attracted by really very attractive packages from people like Amazon and Tesco.

Then we have the added problem that over the last five years Britain's overseas students have changed in character. They have moved from being predominantly European to a lot of Chinese and other Asian origins. Those people do not traditionally work their way through college. Chinese students particularly are not encouraged by the Governments or the people sponsoring them to take part-time jobs. That is a big number; that is about 2.5 million people. That is for the whole economy. Those numbers are not for food.

I would come to one issue. We talk a lot about Brexit, and goodness knows nobody talked about it more than I did up to the point we left. The people who registered for settled status had presumably decided to stay here, so it cannot be completely a Brexit issue; it must be a social issue to do with this wish, which is worldwide, of people wanting to change their lives and go back to where they are from. That is a phenomenon we are seeing across America and largely in western Europe.



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My point about this is that, if it is structural, it will go on for quite a long time. We need apprenticeships, we need skills and we need some British solutions, and we can come to those. What we also need is to understand the numbers. I do not think the Government, or indeed any of us, understand the numbers. We do not have the demographics. I keep saying this: until we know what the numbers are—the numbers I just quoted are the ones we think, but we are not experts on this—we cannot come up with the solutions.

I do know that all of those factors that I mentioned are long-term, not short-term. They manifest themselves in two ways. First, they manifest themselves in some very odd shortages on shelves. We are not going to run out of food. Put that in big red letters, double underlined. We are not going to run out of food, but there are some shortages. We have had some problems around pigs and poultry, though some of those are being solved.

We also see it manifest in some quite extraordinary things. When you walk into a supermarket, normally you would have a seasonal thing on the end of the gondola when you walk in. Now you can walk in and see a massive display of Lynx, the deodorant. That is not because the nation has suddenly got itself really smelly; it is because that is what they have in profusion, so they are sticking it on the shelves to make it look good.

Those shortages are the first thing; the second thing is inflation. The Committee really needs to think seriously about inflation. In hospitality, which is a precursor of retail, inflation is currently running somewhere between 14% and 18%. That is terrifying. I am probably the oldest person in the room. I was at university in 1977. I do not why you laughed there.

Ms Ghani: I was just looking at my colleague. I agree with you, Mr Wright.

Ian Wright: I thought you were laughing at my age. I remember inflation going to 27% under the Callaghan Government, and I remember the lady going around in Sainsbury's with stickers twice in the same hour to change the prices again and again. We really cannot go back to that. It took us 15 years to recover from that. It is terrifying for us.

If the Prime Minister is serious, as I know he is, about levelling up, inflation is a bigger scourge than almost anything else, because it discriminates against the poor.

Q7 **Alexander Stafford:** Most of these questions initially are to Mr Buchanan. You talked about the shortage of HGV drivers. What has your organisation done to try to alleviate that? How have you been working with the Government to alleviate the shortages?

Duncan Buchanan: We have worked on this for many years. As has already been said, this is not a short-term problem; this is not something



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that has come out of nowhere. We have had a driver shortage for many years. We have worked for years on improving the apprenticeship scheme. We have been running a programme that was originally called Love the Lorry Week and is now called National Lorry Week, which is about improving the status of lorry drivers and the sector as a whole.

We have worked on trying to improve training, trying to improve access and trying to improve respect for the industry. They are things we have worked on ourselves and with Government and with officials over many years. Lorry parking is another issue. Lorry parking has been a bugbear for the industry over many years.

Last night, I took the opportunity to look at some of the things that have been happening with Government over the last number of years. I looked back at reports from 2008 and 2009. That is a long time before I joined the RHA. I know that the RHA was instrumental in having that work done back in those days. We have failed, structurally, to deal with some of the problems that have become barriers and are impediments to retaining and recruiting drivers. We have been working with Government and with officialdom quite thoroughly, including the Department for Education and the Department for Transport.

Q8 **Alexander Stafford:** You mentioned barriers. Could you talk a bit more about those barriers? You said you failed, and clearly you have. Why have you failed?

Duncan Buchanan: One of the things here is a little bit of institutional complacency, I believe, in the Department for Transport about freight. It is somewhat, "It is nothing to do with us. We do not fund it; therefore, we do not need to do anything with it". It is very difficult to get cohesive action.

One of the problems with lorry parking, for example, is the planning problems that we get, the inability to ensure that lorry parking is provided when we get a big distribution centre built somewhere. It just does not happen, and it does not happen because it is the first thing that gets cut off. Highways England or National Highways, as it is now called, starts with plans that include lorry parking in some of its things. The Lower Thames Crossing is a perfect example. They had lorry parking in there; it was the first thing to get cut. Lorry parking was literally the first thing that was cut out of that project in terms of value management. That is the access to Kent; it is right where we need lorry parking. We need a step change in attitude on some of the things that are fundamental to the dignity of the people who are employed.

Q9 **Alexander Stafford:** This ties in to the shortage of lorry drivers. What actions has the industry taken to address the shortfall in drivers? What concrete things have you guys done to get more people in cabs?

Duncan Buchanan: I mentioned the apprenticeships and pushing the apprenticeships. It is important to recognise that about 10% of the



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apprenticeship levy has ended up back in the industry. 90% of it has just disappeared. We pay into an apprenticeship levy, and we get virtually nothing out. It took us four years—and it is still not implemented yet—to get the right structure for apprenticeships.

There is a fundamental thing that people need to understand about road haulage, and it does not just relate to the UK. There is a problem worldwide in training lorry drivers, and that is because very often educational-based training systems do not seem to marry up very well with what the industry needs, how the industry is structured and the disaggregated small business nature of it.

We should have done better and that is accepted by everyone, but part of the reason is that this is an industry dominated by SMEs. If it is the third time they have trained someone and they immediately go off and join someone else, they find that a little disappointing.

Q10 Alexander Stafford: In your earlier evidence, you talked about the increase in wages. What has been the increase roughly, over the last year or couple of years?

Duncan Buchanan: This is not in the last year; it is in the last six months.

Q11 Alexander Stafford: How big has it been? Is it really making a step-change difference?

Duncan Buchanan: It is making a step-change difference. It will attract some drivers back, but we have frictions that prevent drivers coming back. We have something called the Driver CPC, which is a barrier for returning drivers. If you are retired from driving and you have allowed your certificate of professional competence to lapse, you have to do five days of classroom training just to get back in the cab again. There are impediments and barriers that we need to address.

One of the things that we have been arguing about with the Government and pushing the Government for is reform of driver certificates of professional competence to make it easier to get back in the cab. One of the suggestions we put forward was one day's CPC training for one year's driving licence entitlement, because at the moment it is five years' entitlement, but you have to do five days' training. There are things we can do to improve things, but it is still challenging.

Q12 Alexander Stafford: To go back to this, how much would you say, roughly, the average increase of drivers' wages is?

Duncan Buchanan: It is somewhere between 10% and 20%, depending on where you are and what you are doing.

Q13 Alexander Stafford: What you are saying about how the Government probably need to reform the drivers' certificates of professional competence is true, but if you are getting a 20% increase, you can take



five days to get your certificate back; you will get the money back quite a lot. Is it more an issue with low-paid wages or is it the Government? I am trying to work out where the actual fault is.

Duncan Buchanan: It is not simple in that there are multiple things going on. You have drivers whose attitude to the Driver CPC is, "This is a waste of my time. I am already working somewhere else. I have already found something else to do. I am retired. I am working part-time. I am driving vans". It is not done in isolation. These qualified drivers are not sitting around doing nothing. They are either retired or they are doing something. You are competing for those drivers against other tasks, and you are putting a barrier in place.

There are plenty of companies out there that would volunteer to pay for the five days of training, but they really loathe five days of classroom training, because the structure of the training itself does not feel valuable to many of the drivers doing it. Reforming Driver CPC is something we need to do as a matter of urgency anyway.

Q14 **Alexander Stafford:** You are saying that reforming Driver CPC would be quite a big positive change. You have talked about cutting it down to one day. Are there any other changes to the style or how it is given that you would want? Is it just the time?

Duncan Buchanan: We need to have more focus in in-cab skills and practical skills and we need to have less in the classroom. It is dominated by this idea that you need to teach people in a classroom. There are ways of doing it whereby you can be a bit more creative, but the educational establishment tends to impede those types of things. What we need is something that really fits for the driver and that they feel they get value from as well as the employer.

Q15 **Alexander Stafford:** Moving on to the visa scheme that the Government introduced, will this make a difference to the potential supply chain shortages in the run-up to Christmas?

Duncan Buchanan: No.

Q16 **Alexander Stafford:** Why?

Duncan Buchanan: It is too short. Again, people are not sitting around doing nothing and waiting for visas to turn up to come to a different country, work for three months, disrupt their lives and get stuck in the UK over Christmas. If you were designing a visa system to fail, you would design it something like this.

Q17 **Alexander Stafford:** How would you design it, then?

Duncan Buchanan: I would have probably made it for a year. Yes, as a temporary one, I would have made it for a year, but we also have a problem with the shortage occupation list being based on snobbery. What I mean by that is that you have to be level 3. It is a level 3 qualification. The shortage occupation list should be based on what the economy



needs, not random academic levels. Lorry driving is considered level 2 in the educational scheme of things. We should really be thinking in terms of what level 2 skills we need. We also need to look at how we train people at level 2, because an awful lot of our training effort goes into people at level 3 and degree level. We need people trained well at level 2 to do a proper job, be that plumbers, lorry drivers or, as was mentioned earlier on, refuse collection. We need it all. We need good-quality training at all levels.

Q18 Alexander Stafford: I just have one last question. I mentioned Christmas. Are we going to have enough turkeys for Christmas?

Duncan Buchanan: You need to think in terms of, "You can have whatever you like". You can have turkeys; you can have pork; you can have ham. I am sure you will be able to find almost all of it. You might not get Brussel sprouts. I will rephrase that; I do not want to create a shortage of Brussel sports.

Neil Carberry: That would cause a revolution in my household; sprouts are the best bit of it. I wanted to come in on a couple of things that Duncan picked up. First, this point about attitude is really important. I recall in a previous life working on the national retraining scheme in the Department for Education. In my CBI days, when we put HGV driving on to a list for what we should target the NRS on, the answer was, "Well, self-driving trucks are coming, are they not?" There is a little bit of that snobbery that had fed through to some of the policy decisions.

It is particularly sharp in driving. Ian mentioned demographics. One of the demographic things that is less well picked up in the debate around this is that, as we lose the baby-boomers from the labour market, we are losing scale of UK-born labour input. It is really quite substantial. That has been amplified by the pandemic. There is emerging academic evidence of people in their early 60s saying, "This is a good time to step back", and a little spike in retirements going on. All of that just amplifies the need to get the training right.

On that, I want to be really clear: we need a revolution in how we offer training for work in England. I will restrict myself to England because the systems are devolved. We will all tell you we love apprenticeships, and we do; they are fantastic. A levy is just a way of paying for apprenticeships or any skills funding. There is not fundamentally business opposition to either of those things. There is opposition to this levy, which funds some qualifications that the Government want rather than some skills that the economy needs. We need to start having an open-table discussion with the Government. The design of the levy needs to be put on the table; we need to do short courses; the million temps that we place every day need to have access to the levy that my members pay on their earnings. Currently, the levy—this is snobbery again—goes up the supply chain to pay for graduate apprenticeships for people who have been hired to full-time jobs. That does not feel right to me; it does not feel like we are levelling up.



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On the point about really addressing how we fund skills and how we tailor it, there is some good stuff happening. The metro mayors, such as Andy Street and Andy Burnham, are doing good work. While it is too small, the flexible workforce development fund in Scotland is a really interesting model that could be scaled in other parts of the UK, and it could get better and bigger in Scotland as well. Those kinds of things work more from the local labour market back to what the design should be. We have to cross the threshold on that. Businesses need confidence to invest on the skills side. We have had about 30 changes in skills systems in England in the last 30 years. That is one of the reasons why businesses have held back on it.

Q19 Alan Brown: If I can come back to you, Duncan, you gave evidence to this Committee last December and pretty much predicted the scenario that we are in. Why were your warnings not heeded by the Government?

Duncan Buchanan: To some extent, there was complacency. People did not necessarily believe it. The toxicity around saying anything that could be seen as related to Brexit colours people's actions. The RHA has never been pro-Brexit or anti-Brexit. Sometimes people hear what we say and they think it is from a particular perspective. Brexit is like a mountain. We have to deal with it: you either go over it, around it or through it. That is what we have tried to do as a trade body. There has been some element of not really believing that this is going to happen.

Covid has caught everyone a little bit by surprise in some senses. People retiring has just been mentioned. People have really looked at their lives and gone, "Do I really need to be doing this anymore?" If you are doing a job that you are no longer in love with, you start thinking about other things. The going home thing was a really important point. I am from Australia. I am very well aware of, "Geez, I would like to go and see the family. My brother is a lot older than me and might not be there in 10 years' time". The instinct to go home in a crisis is really strong.

There are a lot of factors that we did not know about in December or we did not really appreciate how they would interface together with the other things going on.

Q20 Alan Brown: Are Government properly listening now? Earlier on, in response to my colleague Alex, you said that, if you were setting up a visa system to fail, that is how you would design it. Are they still complacent? Are they still not listening?

Duncan Buchanan: No. That is a straightforward case of not wanting a visa scheme at all anyway. That is about the rhetoric around the purity of Brexit. That is what that is about.

Q21 Alan Brown: Was it set up to prove that Brexit is not the problem?

Duncan Buchanan: Maybe that is how they think. I would not want to go and speculate how special advisers and Government Ministers make



their decisions for political reasons, but it is clearly an ineffective visa scheme.

Q22 Alan Brown: It is well reported, as you touched on, that there is, effectively, a worldwide shortage of HGV drivers. Certainly, there are massive vacancies right across Europe. It also seems to be reported that the rest of Europe is not seeing the same supply chain disruption as the UK. Is that correct? If so, why?

Duncan Buchanan: That is correct. They are in a shortage but it is more the traditional shortage that we have always had: vacancies, reliance on agency labour and so on. One of the things to bear in mind is that in parts of Europe they import labour, such as in Poland from Ukraine, for example. There is importing of labour there. The impacts we are seeing in Europe are nowhere near the sort of thing that we have, because we have that suspension of the ability to move labour around a bit.

Q23 Alan Brown: In the UK, who is to blame for that reliance on agency workers?

Duncan Buchanan: Blame is the wrong way of looking at it. Markets develop and evolve over time. There is too much blame around at the moment in terms of a lot of things. It is not about blame. We have got into a situation where Covid and the inability to import labour have combined together to exacerbate a problem that we already had. This is supply-side as well as demand-side. A few weeks ago we had the absurdity of the fuel shortage. It was not a lack of supply; it was an absolutely amazing spike in demand from consumers.

The only thing as stupid as that was the toilet paper shortage at the beginning of Covid. It was an absolutely unnecessary panic. We have to understand that supply chains can only do so much. If there are spikes like that, it is almost impossible to deal with. It will recover within a few days.

Q24 Alan Brown: To just jump about slightly, earlier on you said that Felixstowe is working better this year than last year, but this year we are hearing about the problems at Felixstowe. How bad was it previously? What is it going to be like going forward? Can you explain how Rotterdam is able to pick up the slack as well?

Duncan Buchanan: Rotterdam will not pick up the slack. If I can go back to where Felixstowe was last year, there were internal and operational problems that were being very badly managed at Felixstowe. That necessitated improvements in the management and the operation at the port. Those improvements have been put in place. It is not perfect—do not get me wrong—but the port is in a much better and healthier state to deal with even more demand this year than it did last year.

Last week I was hearing reports about a vessel being diverted to another port. To be honest, last week was probably the peak of the peak for that port. If that is all it is going to be, then it is going to be tight, it is going



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to be difficult and they have a lot of challenges, but, essentially, goods are going to get through.

Q25 **Alan Brown:** Ian, you spoke about inflation. We heard Duncan speak earlier about driver wages going up, and the Government say that we want to move to a highly skilled and highly paid economy. Nobody would argue about the concept of that and the concept of fair wages. If wages continue to go up in the HGV sector, what further inflationary pressures does that put on the supply of food and goods?

Ian Wright: We already have a significant amount of inflation coming into the system from commodity prices, which are going up, such as the gas price. Most food factories run on gas, for better or worse, at the moment. It is the highest it has ever been. Wage inflation is very significant across the supply chain because of the shortage of workers. That is absolutely the law of supply and demand. As I say, you are looking at significant wage inflation already in hospitality.

That is happening alongside a real constriction of choice. Anyone who has been to a restaurant, particularly in tourist areas, in the last three or four months will have noticed that the amount of choice has been restricted. You have five items on most menus rather than 10. I was in a restaurant in Kirkby Lonsdale last Monday where there were 80 covers. I actually, sadly, went around and counted them. There were 80 covers being served by three people. It was quite a long meal. It was very nice, I should just say.

Those pressures are as dangerous for the industry as inflation, and of course they fuel inflation. What happens is you get into a contest. I can give you an example that was in the *Sunday Times* on Sunday. In Bristol, a major well-known online retailer is paying its workers £22 an hour for Christmas casual workers and also offering £3,000 sign-on bonuses. That is great for those people, but it completely denudes the labour market for everyone else. I have a member who wants 40 people to do his Christmas rush, and there is not a single person to be had.

That is also going to fuel inflation. If he gets into the contest, he is going to have to pay that. You are dead right about fair wages, but if he gets into that contest he has to recover his costs. If he is going to recover his costs, up go the prices. You have a shortage of labour. Essentially, my contention is that there are not enough people. It is not that there are British workers who will not do the jobs; there are just not enough. That is why we need the labour market study on the demographics. If that is true, everything else flows from that and the inflationary pressures are inevitable as a consequence. I do not know whether Neil agrees with that.

Neil Carberry: There are a couple of things here. There are sources of labour that we can tap, but that requires business and Government working together to reach into new pools. Youth unemployment is still too high pretty much everywhere in the country. There is a really interesting



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trend. We have a helpline for REC members, and the number of inquiries about youth unemployment have gone through the roof in the last few weeks, as you would expect recruiters to be doing at this point.

There is a lot of work to do together on that. Nationally, youth unemployment is about 12.2%, but there is about the same number again who are not in education, training or employment who are not looking for jobs. There is a reasonably chunky group of 16 to 24 year olds to whom we need to be working with Government to reach out.

The truth of the matter is that this is a cake and there are lots of different slices of it. One of the slices is a mobility policy that is effective for all of our economy. One of the slices is better activation policies and better skills policies. In all of this, if we want, as the Prime Minister set out a couple of weeks ago, a high-skill and high-pay economy, pay growth is only sustainable where productivity is growing.

My big worry at the moment—it does feed Ian’s inflation narrative—is, if you are a small business, you are seeing tax going up in two ways. CT is perhaps a long-range problem. It is a nice problem to have, because you have made some money. National insurance is a tax on your operations whether you are making money or not. You have wages going up; you are having to move, because otherwise you are not getting people, and you have your input costs going up. If the Chancellor was sitting here, I would say, “There is money out, money out and money out. Over here we have business investment. That is the thing that delivers real change”.

Yes, I agree that for lots of sectors we need mobility as part of the solution. We need to do more activation, particularly focused on reaching out to underrepresented communities in the business world. We also need to acknowledge that businesses have to have the space and confidence to invest. What I am really worried about, which I know, Ian, your members will be worried about, goes back to the question of the turkey earlier. It actually matters to me that the turkey comes from the farm that is just down the road from my house and that it does not come from Poland, France or whatever. We are facing both high inflation and a real problem with import substitution. That is despite the change in our trading arrangements, because businesses will struggle to do it here.

On that recent call with businesses in Glasgow that I mentioned earlier, we had a couple of firms that were definitely looking at, “What could we do in Europe and push back into the United Kingdom rather than doing it here?”

Q26 Mark Pawsey: I will start with Mr Buchanan, please, and ask about recruitment into the industry to try to improve driver shortages. The sector has a pretty poor record in terms of diversity of workforce. There are very few women. I think 1% of drivers are women. One of the reasons for that is the poor overnight facilities that are available. You have referred to that.



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In many instances, I would say the sector perhaps has not helped itself by drivers retaining their overnight allowance that is intended to enable them to stay somewhere; they are actually staying in their cabs. That has given rise to litter and other materials left where wagons have been parked overnight. I had a particular problem in my constituency with that. There is some good news, which is that there are some excellent facilities being delivered. At the Moto services at junction 1 of the M6 in Rugby, which has just opened, there are absolutely brilliant facilities for drivers to shower, change and stay overnight.

Why have you not been putting more pressure on hospitality providers to give a better service to HGV drivers and thereby attract more women into the role?

Duncan Buchanan: First, the role of lorry driving is in fact very diverse. Not everyone stays in cabs overnight. One of the things I would criticise ourselves for is for not focusing enough on the diverse range of employment opportunities that there are within lorry driving. It can be as diverse as local deliveries around a city or a town in tail-lift lorries; it can be fuel; it can be refuse collection; it can be long-distance overnight tramping-type operations. There is a huge diversity of roles, and perhaps we have tended to focus on the big artic-type operations and not really done enough ourselves in other areas. That is a first thing that we could do better ourselves.

The second thing is that facilities need to be everywhere. You cannot just have something on the M6. You need to be able to go and use the toilet where you need to be. That can be absolutely anywhere. The difficulty we have is that anyone who has ever tried to build a lorry stop, a truck park, a café-type facility has got mired in planning problems that have been absolutely horrific. The misinformation and hostility towards lorry drivers and lorries has been part of this.

Q27 **Mark Pawsey:** Will what we have gone through over the past few months perhaps make planning authorities a little more sympathetic when they are making these kinds of applications?

Duncan Buchanan: It will not last. People will pay lip service and then we will go straight back to the hostility we get from local authorities about planning. We need reform in terms of planning. When you are building a big distribution centre, when you are building a new road or when you are building new things, we need to make it conditional that you have to take into account how much demand for lorry parking there is in an area and facilitate it.

We are not asking the Government to pay for it. This is, again, where people have a bit of a misunderstanding. This should be pretty much a commercial operation itself. It should be a case that I can have the confidence to invest in a lorry park, go through the planning process and have a reasonable idea of whether I am going to be successful or not. I



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should not have a couple of local councillors getting on their high horse and accusing lorry parks of being dirty, unclean or unsanitary.

Lorry parking is not like that at all. These can be good. Again, the quality of the facilities once they are in place and the maintenance of them is important. It is also not just the resting lorry parking; it is how people are treated at facilities that they visit, so at a distribution centre.

Q28 Mark Pawsey: Could I ask you about the very welcome increase in wage rates that are occurring in the sector now? Those costs have to go somewhere. They are either going to be absorbed within the margin of the haulier or they are going to be passed on to the haulier's customer. We know road haulage has traditionally been a very tight-margin business. It is very competitive. There are lots of small operators. What is happening right now? Are businesses having to absorb that additional cost?

Duncan Buchanan: They cannot.

Q29 Mark Pawsey: Is the nature of the contracts that they have with their customers such that they are able to pass those on? If they are not able to pass those on, are we likely to see business failures?

Duncan Buchanan: Businesses are passing on. People are going back and renegotiating contracts. Ian's members will be being subject to this quite regularly. I know some of our members who have renegotiated contracts and have gone back six weeks later to say, "It is not enough. We have to do some more". This is happening right now across large parts of the supply chain.

Q30 Mark Pawsey: If I might, I will turn to Ian. The big retailers have massive purchasing power: Tesco, Sainsbury's, Morrisons, Asda, et cetera. They are not well known for taking on the kind of increases that Duncan's members want to pass on. What are they doing?

Ian Wright: There is inflation, as I said. When I was last here, I made the point that the retailers' position has been entrenched by Covid. We started with a 70/30 retail/hospitality and the rest, and we are now maybe at 85/15. It is not just the supermarkets; it is convenience as well. Retailers are passing on some of this.

Q31 Mark Pawsey: Are they accepting Duncan's members' price increases?

Ian Wright: I genuinely cannot answer that, because I do not represent retail. What I know is that when we get those price increases—

Q32 Mark Pawsey: I am sorry. Duncan is passing on the costs to your members. Your members are then trying to pass it on to—

Ian Wright: Yes, and there is a right old barney going on. There really is. At this stage, the relationships are extremely fractious. They are probably not worse, but everybody understands the difficulties. Everybody is trying to keep their margins. It is a battle.



Q33 **Mark Pawsey:** Who is winning the battle, Ian?

Ian Wright: That is a good question. It is probably different in different places. I would say that the retailers are not being obdurate, but of course I would say that because they are our customers and I would get into trouble if I did say they were obdurate. In the end, what you just said about the retailers is absolutely correct. Let me put it that way.

There is an interesting point here. You were just asking whether they will pay. If you are not going to get your thing delivered, you will pay anything to get it to your customer. That is the key point here.

Q34 **Mark Pawsey:** That is working its way through to inflation.

Ian Wright: Yes, and that is why inflation is going up.

Q35 **Mark Pawsey:** You told us particularly about the pressures on hospitality, and the *Times* has a story today about the average price of a pint being £6. If the hospitality sector puts up their prices significantly, some of them are going to fail, are they not, because demand will fall away?

Ian Wright: The problem for hospitality is that it is in a much more fragile state than everybody else. The truth is that they have not been open for a lot of the lockdown. If you walk down any street right now in central London or any central metropolitan district, you will see pubs that have not reopened; you will see restaurants that have not reopened. They are hit all the way around in hospitality, because they all have labour shortages. Going back to Kirkby Lonsdale, every food outlet had three or four job ads in the window. They are all fishing in a very small pool there. Those sorts of pressures are going to end up with some people failing.

Q36 **Mark Pawsey:** There are lots of businesses where a higher wage rate will translate into more automation or mechanisation. Hospitality cannot do that, can it?

Ian Wright: No. We can do that more. One consequence of this will be that you will see a lot more automation, initially in the easy areas, for example packaging, by which I mean boxing stuff up. You do not need people to box up your product.

Q37 **Mark Pawsey:** Is that trend starting to happen?

Ian Wright: Yes. Again, you have to find the space in the balance sheet to do it. Government could come forward with some really interesting ideas here. That is not necessarily simply giving us money. The Government will never do that. Tax concessions for investment in automation would be fantastic.

There are some real opportunities to use AI as well in the production process. Long-term, this will be the solution for the more manual jobs. Indeed, in some areas of butchery or fishmongering—I am not sure



whether that is a word—AI is a great way of doing it, because it will learn. The machines learn how to cut stuff. That is quite exciting but it is very expensive.

Mark Pawsey: It is long-term.

Ian Wright: It is long-term. Right now, many businesses are looking one or two years hence. Just to go back to the Chair's question about how long this is going to last, six months ago our businesses almost all thought it was transitory. Now, every single business I know is expecting this to last to 2023 and into 2024.

Q38 **Mark Pawsey:** Is it a permanent change, then?

Ian Wright: Forever is a long time, is it not? It is a long-term change. Absent some other intervention—there could be interventions: there could be policy interventions and there could be, as Neil said, some interesting things done in particular locales with individual pools of people—it is a very long-term thing.

What is really interesting to me is there has not been mass public discontent. The shopper has not got too cross about the fact there are only three choices of pigs in blankets or devils on horseback or whatever they are. They have kind of accepted it.

Q39 **Mark Pawsey:** They might be a bit bothered if their household budget is not going as far. That is a separate issue from having a choice of three different types of pigs in blankets.

Ian Wright: Yes, that is a really first-world problem. I have spoken about this to this Committee before. In 1955, the average household spent over half its budget on food. In the 1960s, it was 35%. Now it is 8%. That is a function of a whole series of social things. It is not just about the price of food. That figure as a percentage of people's income has gone down a long way. This is the first time for 30 years that we have had food price inflation. There is going to be a crunch here. It may be that inflation is the thing that activates shoppers and diners. It may be that they just say, "Actually, do you know what? We are okay with this. We will find a way through".

During the petrol shortage, the behaviour of consumers in my part of the country was absolutely rational. There is no public transport. What else are you going to do if you want to get to work? To take issue with Duncan, if there is no toilet paper, it is particularly rational to go out, to try to find it and to hoard it. Nobody wants to live in that world. Those sorts of iconic or idiosyncratic products are where consumers and shoppers get quite cross. What it is can be rather random. If there are no toilet rolls, shoppers will get really cross. That is not food, but it is one or two specifics, not the general.

Q40 **Ms Ghani:** Mr Buchanan, you may recall us spending a bit of time together a few years ago dealing with cabotage rules. It is lovely to see



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you back here today. As you know, the Government are trying to change cabotage regulations to allow European drivers to make multiple journeys within the UK. They are hoping that will increase the number of journeys for freight that can take place. Will that further damage the domestic haulier employer-employee relationship?

Duncan Buchanan: Yes.

Q41 **Ms Ghani:** Could you, for the record, for those who may not know, explain cabotage? Please explain the situation prior Brexit, what we were proposing, which was just two movements by European drivers, what we are now proposing, which is multiple movements by European drivers, and how that is going to challenge or change the economics of the model.

Duncan Buchanan: I will explain what cabotage is first. Cabotage is a haulier from outside the UK undertaking domestic work in the UK. A French haulier picking up goods from London and taking them to Manchester is a cabotage journey. Under EU rules, when we were in the EU, that was limited to three cabotage journeys within seven days of an international arrival here in the UK.

The way the system worked for many people was that they would come over here with a load, and they would organise themselves so they could do two or three journeys quickly while they were here before returning back to the EU with other shipments.

Q42 **Ms Ghani:** They would be going back with a full load, not going back empty. That was the plan.

Duncan Buchanan: They would go back full, empty or however they go back. It does not really matter. They go back not to their home country, by the way; they go back to another country. That is another point. If you think about a Romanian truck or a Latvian truck, they do not have to go back to Romania or Latvia; they only have to go to Belgium or Ireland. That is how the system worked.

Under the TCA, that was changed so that the maximum was two journeys within seven days. With the fall-off in the number of European lorries coming here and that reduction there, we would have expected cabotage to more or less have halved since Brexit was applied, roughly speaking. This is back-of-the-envelope; I calculated it the other day.

The Government proposal is to give unfettered access to the UK market by non-UK haulage companies for a period of two weeks at a time. They go; they come back. What that will do is it will mean that some of those lorries will be based here, semi-based here. They will do a compliance run into France and back. Our minimum wage will not be applied; there will be no taxes paid here; there will be no contribution to enforcement. We will find that UK companies will be competing against companies from other parts of Europe with far lower cost bases and will be making zero contribution to the UK in terms of tax, national insurance or anything.



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Worse, from our point of view—we are really against this—is that it undermines some of the things that had been happening and encouraging drivers to come back. Following this wage increase that we have been seeing, some UK workers are being attracted back into the occupation. In one fell swoop, this will destroy the confidence of many of those people.

Q43 **Ms Ghani:** Mr Buchanan, if we did not allow the lorry drivers to make multiple journeys, they would not come over and do their freight journeys in the first place. Does this not help ease some of the supply chain issues?

Duncan Buchanan: No, it will make zero difference to the international journeys. The international journeys will happen by themselves. The demand is there; the price is attractive enough. International transport is not a price issue. People will pay what they need to in order to move the goods. We do not have a shortage of international road haulage at all at the moment.

Q44 **Ms Ghani:** We import more than we export.

Duncan Buchanan: Yes.

Q45 **Ms Ghani:** You are still saying that drivers having the ability to deliver more than twice is going to damage the model.

Duncan Buchanan: It is going to damage the UK domestic model. It has zero difference to the international model.

Q46 **Ms Ghani:** What could be done to the cabotage rules to help the situation we have at the moment?

Duncan Buchanan: Do nothing to the cabotage rules. Instead of importing drivers and their lorries—they come visa-free; they pay no tax and make no contribution to the enforcement in this country—what we need to do, if we need to import that labour, is to import the labour properly. Employ them here; have them pay tax here; have them pay national insurance here; have UK businesses make the profit and pay the taxes here.

What you are doing with cabotage is you are offshoring everything overseas to low-wage markets with zero enforcement of minimum wage rules. Not once have I heard of anyone doing enforcement of the minimum wage in the UK over the last 10 years. The proposal for cabotage is shockingly damaging. It undermines medium and long-term improvements.

Q47 **Ms Ghani:** At the moment, we have companies being represented here today that are unable to secure the drivers they need. By pushing back on the new cabotage rules that the Government are proposing, how are we going to overcome the shortages at the moment?

Duncan Buchanan: It is the wrong tool for the job. That is what I am saying. We have done nothing on Driver CPC. We have done nothing to



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get those drivers back. The impediments were still there. We should be fixing and reforming the Driver CPC. That is number one.

The second thing is that we should have proper visa rules that allow UK companies that pay UK taxes and UK national insurance to import labour appropriately under a visa scheme. The numbers can be controlled. There is zero control on cabotage numbers. This does not even control the numbers. You talked about the parking problem. This is going to make the parking problem in Kent and Essex even worse, because these guys will be over here and they will park up waiting for a job.

Q48 **Ms Ghani:** Mr Buchanan, I thought one of the things we wanted to land today was that lorry drivers are not a nuisance and that parking is something we will need to embrace. If I could just move on to the—

Duncan Buchanan: Absolutely, yes. I could not agree with you more. They are lovely.

Q49 **Ms Ghani:** We spent quite a bit of time talking about planning over a couple of years ago and it is really positive to hear that today. People do not understand how interconnected all these decisions are. I have seen how you have pushed back on the short-term visa. What can be done or what can you propose to Government to ensure that planning decisions, when it comes to drivers and parking, can be somehow pushed down to local decision-makers, but also be measured as well, because unless we deal with the planning and make sure that our drivers are treated with dignity and have the support that they want, we are not going to attract the new drivers, whether they are students or returning to the sector. What can Government do to ensure that they are measured on this?

Duncan Buchanan: That is a fantastic question. I really appreciate that question. It is a good one. We need to put an obligation on local planning authorities. When they are confronted with a planning application, they need to do a proper assessment on whether the demand for lorry parking is being properly met.

We have rules around how Travellers' parking and facilities for Travellers are assessed. If someone does not have enough facilities, they then have to go out and try to attract more facilities. We need something along those lines to improve the dignity for drivers and improve how they feel about themselves and how they feel society values them, because one of the problems is that there are an awful lot of drivers out here who think society does not value them, and it is wrong. There are plenty of people, like yourself, myself and people who use lorry drivers, who understand what not just lorry drivers but van drivers and coach drivers do.

We have a shortage of coach drivers. We have not even mentioned that here today because it is not really on topic, but there is a shortage of labour in all sorts of areas, including warehouses as well. We need to treat all of these occupations with dignity and they need to have the facilities to be able to work. For lorry drivers, that is certainly very key with parking.



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Q50 **Ms Ghani:** Could you give me the average salary of a UK long-distance driver? What is the bandwidth?

Duncan Buchanan: I do not know off the top of my head. I really do not.

Q51 **Ms Ghani:** Maybe you could send in written evidence.

Duncan Buchanan: Yes, I can come back with a range. I would rather not misinform you.

Q52 **Richard Fuller:** Just on that, Mr Buchanan, perhaps you could provide that information for class 1 average wages for each of the last six years, please.

Mr Carberry, you very appositely said that this issue is a cake with many slices, and a couple of them you mentioned were about skills and the need for skills changes. You hinted at but did not go deeply on what investment incentives there might be to encourage. You said if the Chancellor was here, you would be banging the drum for that. Could you perhaps elaborate on what you think is needed to encourage that capital replacement of labour?

Neil Carberry: There are a number of things here. We deal with labour and capital separately, mostly because human beings react to different stimuli. Our members are finding that if you clean the toilets and the cafeterias are nice, you usually have more hope of getting people in right now.

There are a few bits. First and foremost, a lot of the capital incentives that we have seen, if you look at the super-deduction that was announced in the Budget, are relatively limited in the scope of the types of firms that can use them. At this moment we need a productivity boost for all sorts of reasons, but we also have big transitions coming up. We see the Government's big announcements around net zero today, and there is a real risk that we get behind on that because of some of these issues.

I am aware that my colleague from Make UK is joining you next and is key on all this. It is a combination of tax incentives for capital investment and freeing up what firms can do with what is their own money in terms of skills investment.

Q53 **Richard Fuller:** It would be very helpful if Mr Carberry would be able to provide some very specific suggestions. I also liked what you were saying earlier on about young people in the workforce and encouraging them. Investigating this particular topic further would be helpful.

Neil Carberry: I am happy to write to the Committee. I will make a point about this briefly. We are oscillating between two things here. Colleagues have said earlier things like immigration policies are stuck in a bit of a Brexit time warp. If you are a business, it is done. We are thinking about next year, the year after and the year after that. Some of



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the policy that we are dealing with from Government at the moment is still quite politically framed, as you were saying, Duncan, by the Brexit debate. As businesses, we are beyond that now.

At the other end—cabotage is a great example but you see a number of them—there is a little bit of Whitehall deciding which lever to pull. I would not want to speak for colleagues, but a lot of us in the business community are looking at Government at the moment and saying, “Could we not just work out what the plan is here together and then all get behind it?” I would be misrepresenting my members and others who I talk to in the business community if I did not say that sometimes at the moment the business community feels a little done to on these policy decisions.

Q54 Richard Fuller: Perhaps one of the reasons, Mr Carberry, is that many companies for the last five years have complained about the people’s decision to leave the European Union rather than preparing for it. There has been plenty of opportunity for companies to increase wages over the last five years. That is why I am interested to see Mr Buchanan’s information. There has been plenty of opportunity to replace employees with capital investments. If you go to McDonald’s, for example, you now order by pressing on a machine. If you go to Costa, you still have to meet someone. There have been plenty of opportunities in the sector to have made change in the last five years and very little taken.

Mr Buchanan, if we look at the information for vehicle drivers, I have the annual population survey for HGV drivers. I am not sure if it is perfect data or not. It is provided by the Office for National Statistics and it gives the numbers for the last six years. It basically says there were 290,000 approximately in the year to March 2016 and then, for subsequent years to March, 321,000, 311,000, 304,000, 304,000 and then, for the year to March 2021, it goes to 275,000. Does that fit with your view that this shift is really something that has occurred in the last 12 months for whatever reason it may be, whether it is people want to go home or other reasons?

Duncan Buchanan: That change of number does chime. That fall seems excessive to me.

Richard Fuller: In the last 12 months.

Duncan Buchanan: Yes. It does still feel excessive, but the problem with those statistical numbers that you have is that they are people who define themselves as lorry drivers. There is a lot of lorry driving that is not defined by the people doing the lorry driving as lorry driving. It may sound a bit mad, but it is someone who is a scaffolder or someone who is a refuse collection person. The numbers statistically are quite misleading. They seriously underrepresent the number of lorry drivers, but there will have been a change, to be fair, and some of that will have been people reacting to Covid and returning home. Some of that will be people deciding to re-evaluate their lives. This re-evaluation of people’s lives



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that they have done as a result of Covid has a long way to play out yet, particularly among older work groups, as has been described.

Q55 Richard Fuller: What interested me in the same statistics is, if you look at the numbers who define themselves, as you would say, in this way, those who are aged over 50 constitute consistently between 45% and 50%. Why over so many years has the sector been so poor at attracting young people in? This has been going on every single one of these last six years.

Duncan Buchanan: There is a churn. You train people, you encourage them to join the industry and people often leave the industry within a few years, because they feel that it is not for them and you have some that become lifers. They stay in the industry for the entirety of their professional career. They love being on the road. They love not having a boss looking over their shoulder necessarily every day. They like being out and about. You will have a natural turnover and, in terms of the people who stay, it is very sticky.

Q56 Richard Fuller: You are probably better at this than me. If that was the case, I would have thought there would be an even larger intake for young workers coming in; the industry would be saying, "We have to because we know we are going to have churn". It does not seem that the statistics support that. Maybe you could help me with this. Is the Road Haulage Association still in discussions with the Government regarding this crisis?

Duncan Buchanan: Yes, we still have discussions with the Government, although they have decided to not engage with us at certain levels temporarily.

Q57 Richard Fuller: Why is that?

Duncan Buchanan: They believe that we leaked information from a meeting.

Q58 Richard Fuller: Has the Road Haulage Association leaked information from meetings with Government?

Duncan Buchanan: No.

Q59 Richard Fuller: It has not at all.

Duncan Buchanan: Not that I am aware of.

Q60 Richard Fuller: Why did one of your member organisations last week quit the RHA, saying that the RHA has been "substantially responsible" for the chaos at petrol stations, and further that the RHA had repeatedly been leaking confidential information.

Duncan Buchanan: That is untrue.

Q61 Richard Fuller: Has the RHA conducted any inquiry on leaking?



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Duncan Buchanan: Let me just answer something about the fuel crisis and the meeting that happened with Cabinet Office that was reported by ITN. I was the policy official from the RHA who attended that meeting. There was an accusation made that my boss, Rod McKenzie, personally leaked information from that meeting. I can guarantee you unequivocally, 100%, that he did not, because he did not even have the information from that meeting. I did, but I was there and I did not leak it.

There is some serious misinformation and game-playing going on that we are really narked about, to be honest. We are not politicians. We are not Brexiteers. The whole thing about Rod McKenzie being a Brexiteer is a complete character assassination. He used to work for the BBC. It is nothing to do with it whatsoever.

Q62 **Richard Fuller:** I was not referring to that. I was referring to the voicemail recording of the transport—

Duncan Buchanan: That was not a confidential message.

Q63 **Richard Fuller:** That may or may not have been passed on the RHA to “Panorama” because it was in the public domain.

Duncan Buchanan: It was known about. I know the chief executive at the time did play it—this was some time later—to a journalist. The message was about trying to intimidate the RHA and stop us from talking about issues that were important to us, our members and everyone else.

Richard Fuller: Finally, Mr Buchanan, it is helpful for everyone that the RHA is back in the room with the Government.

Duncan Buchanan: Yes, absolutely.

Q64 **Richard Fuller:** What do you think yourselves and the Government could do to heal some of the concerns that have been raised?

Duncan Buchanan: One of the problems is that there has been a misunderstanding and a misperception that somehow we are anti-Brexit. That is part of it: that we are somehow hostile to Government; we are not. We did a survey of our members before Brexit. About 65% of them were in favour of Brexit. They were quite in favour of Brexit. We did not take a position as an organisation there.

Something that was really important that Neil just said was there is a Brexit time warp. We are so over it. We just want to fix things. We just want our economy and the haulage industry to work effectively. This is not about remain and leave. That is gone. That went five years ago. We have been trying to work through the problems and create solutions that work for our members and for society more broadly.

Chair: Let us draw the line under that historic time warp, because we are quickly running out of time. Thank you to Duncan Buchanan, Neil Carberry and Ian Wright for our first panel.



Examination of Witnesses

Witnesses: William Bain, Martin McTague and Stephen Phipson.

Q65 **Chair:** We are welcoming on the screen now William Bain from the British Chambers of Commerce, formerly of this institution. Welcome to you, William. It is nice to see you. Physically on the panel we are welcoming Martin McTague from the Federation of Small Businesses and Stephen Phipson from Make UK. Good morning to the three of you. I am sorry that we are going to have to be tight on time because of the statement that we have only just heard about in the first session.

We have heard in the first panel about the ongoing pressures in the supply chain, pressures and inflation in the labour market and the impact this is having on businesses, especially smaller businesses, which are being priced out from some of the bigger players in certain sectors. From each of you to kick us off, I am just keen to hear from you about how your members specifically are dealing with these multiple pressures right now and what it means for them.

Martin McTague: It is not a uniform picture. It depends which sectors you are talking about, but small businesses generally do not have the resources to cope with the kind of shock that Covid imposed on a lot of them. The areas that are struggling the most are retail, hospitality and leisure. Because they have not been able to trade, they are in a position where they are really struggling to get through these next few months. Christmas for them will be crucial. If they can get a reasonable Christmas some of them will be able to trade on, but they are literally hanging on by their fingernails.

What is really unhelpful, frankly, is a big increase in the cost of labour, which is partly Government-imposed, because the national insurance contributions are a major cost to employers. Many small businesses resent this characterisation that they are somehow recklessly encouraging mass immigration. Every small business I have ever spoken to is completely blind to where they are recruiting from. They are generally recruiting from their local communities, and they do not know whether the builder is from Bratislava or Birmingham. They just know they need a builder. For them, being characterised in this way is very hurtful at a time when they are struggling to cope with the pressures.

Q66 **Chair:** We heard just now that these pressures are not temporary. They are going to go on for possibly many years. Are you expecting to see some of your members go bust?

Martin McTague: Yes. There has been a massive increase in borrowing, and that hides a lot of personal borrowing as well, so people borrowing from family and friends to try to get through this crisis. There is a real sense that, when you invest your life in your business and you are hanging on trying to nurture your baby through these difficult times, you do not want to give up easily, but there are a lot of businesses that are in a very fragile position now.



Q67 **Chair:** Stephen Phipson, how about your businesses?

Stephen Phipson: Generally, looking across the broad manufacturing sector, the first thing to note is that we have seen a remarkable increase in orders and demand. In our quarterly statistics, which we have been doing now for 40 years, we have been noting a really historic level of increase in demand. A lot of companies are full of orders, and that goes right across the piece, from automotive manufacturers all the way through, with big demand recovery there, but there are those headwinds you heard about this morning, particularly on material costs, where many manufacturers are looking at 30% to 40% average material costs at the moment.

What we have seen in the last quarter is companies now passing those costs on. We have seen a recovery in margins in the sector as well, so when people are able to get hold of materials, they are passing those cost increases on, which implies to us that inflation is more or less baked in at this stage now. This is not a transitional inflationary demand we are seeing. We are seeing some really serious issues now in terms of price increases.

Something to note is that there is quite a lot of thought going into supply chain resilience right now, particularly in the larger companies. There are a lot of plans. Are there opportunities for onshoring part of the supply chain we had before? There is a lot of thought going into some of the really hard nuts to crack. You have heard a lot about semiconductors, for example, affecting the automotive industry, but that is right across the piece, and that is because of our reliance on Asian large-scale semiconductor fabs, sometimes through third parties. The second-order knock-on effect of that at the top of the supply chain is smaller companies are having their orders delayed and they cannot get into those production cycles. We are seeing those sorts of effects, but there is a lot of thought at the moment about supply chain resilience.

One of the most surprising things, though, in the last six months is the sheer increase in freight costs. You have heard all about the delays in truck drivers and things, but we are examining where we are with things like sea freight, where we are now seeing \$20,000 a container from Asia, when it was \$1,500 in December last year. We are seeing a 10-times increase in airfreight costs, where people are trying to emergency-airfreight in materials to get their production going. We have great examples from members real-time now. Such increases are not sustainable. That worries quite a few people at the moment in terms of those freight costs.

Q68 **Chair:** We heard in the first panel about productivity driving economic growth. Exports are another important way of doing that. I heard anecdotally this week a company needed a ship to export some goods it was making; Amazon paid more for the ship because it needed to get cardboard in, and they could not ship their goods out. What impact is it going to have on British exports if this continues for many months or



years?

Stephen Hipson: It will have a negative effect. There is an expectation generally among the larger manufacturers that we have a good six months of these kinds of disruptions. That is what they are being told by their primary material providers. If you go back to the semiconductor problem, that probably is six to nine months, so probably a bit longer. We need to keep them in place. A lot of people are spending a lot of money on things like emergency shipping. You mentioned the Amazon example. It is the same with the airfreight example and those sorts of things.

The other thing is that this is during a time when we are coping with additional burdens of exporting to Europe, which is fine. Everyone prepared for that. We are in that place, but a lot of that is around products going backwards and forwards across the border multiple times, so when you have a truck driver issue and you cannot do it, sometimes these things are moving a dozen times across the border, backwards and forwards, before you end with a completed product. Those non-tariff barriers are also a contributory factor but they were there anyway, so this is just compounding it, effectively.

Q69 **Chair:** William Bain, the British Chambers of Commerce always surveys many of its businesses across the country, and you also help new businesses get up and running. How is this being felt in local communities across the country, especially for smaller businesses?

William Bain: In terms of our most recent quarterly economic survey, which covers the third quarter of this year, the good news is that domestic demand is beginning to return. 91% of respondents to our survey are SMEs, and 47% of our companies are reporting an increase in domestic sales. That is a clearly rising indicator compared with the fourth quarter of last year.

However, we are still seeing problems in terms of exports. Only 30% of our respondents are reporting increased export sales, and that is a historically low number for this period of time. You can see the effects that we are having in terms of the global supply chains. We have members who have reported between seven and eightfold rises in shipping costs over the last year. We have recently written, along with Make UK, to the Competition and Markets Authority to explore an investigation on some anti-competitive practices that may be present in these markets, as they are affecting UK companies.

We are seeing big rises in raw material costs. We are seeing a lack of availability of raw materials. Nine in 10 manufacturers are citing raw material costs as the main driver of increased costs that they are having to levy to their customers.

Q70 **Chair:** You also through the Chambers of Commerce often help businesses that want to export for the first time. Are you seeing a drop off in demand for businesses looking to grow by exports, because it is



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just too difficult right now?

William Bain: It is too early to say on that. We have set up our own company, ChamberCustoms, to deal with this. It is doing great guns at the moment, but what we are seeing is a mixed picture on exports. There are clearly some adjustments in terms of exports to the EU, but we are also seeing customers looking to export into new markets. It is a mixed picture and rather early to draw clear conclusions so far.

Q71 **Ms Ghani:** Mr Phipson, thank you so much for covering supply chain resilience and freight. I do bore the Committee rigid on that, but that is a sector we all should have been in. I thought it had gone up to \$17,000 a container.

Stephen Phipson: We saw a spot price of \$24,000 two days ago.

Q72 **Ms Ghani:** We should have been in a different career completely. That has a huge impact on the businesses that you are representing, because their business models are thrown completely out of sync. In the United States they are at the moment conducting a huge piece of work to ensure that the country can be resilient, especially looking at semiconductors and chips, trying to ensure that they are not reliant on Asia in particular. Do you think the time has come for the UK Government to do a similar sort of analysis to ensure that we can be more resilient here at home, especially at our ports?

Stephen Phipson: Yes. There is work going on in BEIS around the supply chain in the UK. There are a couple of things that have really come into sharp focus. Foundation industries are critical, such as steelmaking and chemicals. Everything we manufacture is either made from or made with steel. Those things are critical. To have those local supplies that are not subject to these kinds of international vagaries is more important than ever. For the first time for many years, I have heard many manufacturers talking about that and making sure they are able to access that on a domestic basis. Making sure we have the right conditions for investment in those sectors is important.

I know in the previous meeting you were talking about automation. This is another area where there is quite a lot of activity going on, particularly in food and drink manufacturing, to Ian's point, where we are seeing quite a lot of labour being converted to automated projects, which is quite interesting now. It takes an event like this to push those economics to the point where you cannot get labour so you are actually now going down the road of automation. That is important.

I am old enough to remember when we did have semiconductor fabs in this country. Will we ever go back to doing that again? Look at the scale of the investments that the Asian countries have made in this. It is a bit like South Korea when it created the LCD screen market, where the Government were putting tens of billions of dollars a year into that to get two companies to be the dominant world leaders in that technology. Similar has happened in places like Taiwan. Whether we can get to that



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scale or not is another issue. I know the Europeans are talking about a collaborative effort to have their own, similar to the American approach to independent semiconductor fabs.

We have to figure out how to deal with it, I agree with you, but remember that many of the semiconductors that we are using in manufacturing are not being bought directly by the UK manufacturers. Very often, if you are an auto company, you may well buy your electronic systems from a German company, and it is that German company that is buying the semiconductors, not the direct UK company. We are suffering from a second-order effect in the supply chain.

Q73 Ms Ghani: At NATO I sit on the Parliamentary Assembly and I sit on the Science and Technology Committee, and we have just published a report on the very issue, looking at South Korea, Taiwan and Japan. I will not bore the Committee on this.

Mr Phipson, you said you like statistics, so I want you to give me some numbers. How many businesses have gone out of business because of the supply chain issues that they are facing? Just give me a percentage point to understand.

Stephen Phipson: “Not many yet” is the answer to that. There have been a lot of people who have built up quite a bit of resilience through the pandemic. Manufacturing continued through that and were able to sustain themselves. What we had seen is a very big short-term shock. My worry, if I am very honest at this stage, is about those supply chain companies beneath the major primes, which are now starting to see—some of it has only happened in the last few weeks—delays to their orders because the primes cannot get hold of the semiconductors or whatever other material it is, and then saying, “For the next four months we are going to be on zero orders or very much cut back orders”. It is those supply chain companies we have to be very careful about.

Q74 Ms Ghani: You know how Government works. Unless they have numbers, it is hard to make a decision.

Stephen Phipson: I know. Small are the number but, looking at it, the risk is there. What number that is going to be, I do not know.

Q75 Ms Ghani: You do not know at the moment what the projections might be.

Stephen Phipson: No, I do not know. It would be misleading for me to give you a number.

Q76 Ms Ghani: You do not know how many jobs are on the line, for example.

Stephen Phipson: We know that in total we have 2.7 million people in manufacturing. We know that, if you look at the SME community, that represents about 95% of that labour figure, so we have a lot of small companies and a lot of people in those supply chains. It is by far the majority, but what number it is I could not say accurately.



Q77 **Ms Ghani:** Mr McTague, can you give us a very short example of what the supply chain delays and staff shortages are doing to, for example, a firm that you are dealing with at the moment, which may end up having to fold if things are not resolved?

Martin McTague: The Chair's example was quite a good one and one that repeats a lot. In other words, if you have the clout to be able to secure access to a scarce resource, in that particular case a ship, but also labour and a shortage of materials, you can dominate your market at the moment. That is now having the effect on small businesses that their margins are getting squeezed. They are getting into a lot of problems with cashflow issues and, to add insult to injury, these big companies at the top of the supply chain are now not paying them on time. In fact, they are delaying payments even further.

If there was a perfect storm of them squeezing their supply chain in a way that could damage the economy permanently, it is right now. For me, it is a question of big companies and manufacturers in Stephen's group that should recognise that they are only as strong as their supply chain; if they damage their supply chain permanently, their whole brand will get damaged.

Q78 **Ms Ghani:** Mr McTague, what do you mean by "damage the economy permanently"?

Martin McTague: If we get to a situation where small businesses—remember that in the last recession they generated 90% of the new jobs—are seriously damaged by the steps that are being taken right now and cannot innovate, provide new products and services and cannot supply, that will permanently damage the economy. I have been in business 30 years, but if I was looking at the current climate, I would be thinking twice about investing my life savings in starting a new business. That is bad for the UK economy.

Q79 **Ms Ghani:** Mr Phipson, you talked about demand for orders being high, which normally would be welcome news, but obviously those orders being met is very complicated. What is the extra cost that firms are incurring just to keep themselves afloat and at some point in the future meet those demands of those orders?

Stephen Phipson: Again, it is back to those issues of the 30% to 40% increases that we are seeing on average across the piece on material cost increases, which is something that is of great concern. You talked a lot about labour shortage and wage inflation. There is a bit of wage inflation, but, generally speaking, the shortages in manufacturing are at level 2. That is where we have big problems at the moment, and the people are not there. You can offer whatever you want; they are just not there. That is the issue, so it is not so much labour inflation.

There is this freight issue. Every single company I speak to always says, "My goodness me; where is that going to end up?" That is the big



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question, hence the call to have an investigation into whether that is anti-competitive behaviour by a lot of these shipping companies.

Q80 **Ms Ghani:** They are businesses. There is only a limited amount of freight ships out of the water, so at the moment they are enjoying their time. Businesses tend to be nimble and can be quite resilient.

Stephen Phipson: They are resilient.

Q81 **Ms Ghani:** How long do you think they can cope with this disruption? Are there particular pinch-points that we need to be aware of?

Stephen Phipson: It is a long-term game in manufacturing, with seven-year investment cycles on average, so people are looking to the future. People have taken on debt through the pandemic. That will see them through for a while longer.

They are passing on these costs, because we have seen some of the recovery in the margins in the last quarterly results for the national manufacturing results, but to the extent we are seeing now they are not passing on all of it, that can only persist for a matter of months—probably six months would be my best guess—before we start to see real failures in terms of businesses. We have a while longer to address the issues, but we are going to need to see particularly those large primes that we spoke about getting back on track again.

Automotive employs 800,000 people in this country in total, if you look at the supply chain as well as those direct in car factories. That is a big manufacturing segment. In fact, if we are not producing cars because we cannot get semiconductors at the moment or the electronics that go into them, that affects all those supply chain companies. We need to protect that. That is something that is really important.

Q82 **Ms Ghani:** You represent companies that deal with just basic infrastructure in the UK. If I could just throw you a curveball question, we have a massive levelling-up agenda. We want to build infrastructure for new railways. We want to build homes. We want to build sites, as we saw, for lorry parks as well. Do you think the Prime Minister's levelling-up agenda will become vulnerable or fragile if we do not get the supply chain moving, because we just will not have the materials in place to get any infrastructure up and running?

Stephen Phipson: There are two points really on levelling up, and I said this yesterday to the Chancellor. Manufacturers welcome the Prime Minister's comments about levelling up, because it is all about higher wages, higher skills and higher productivity. That is exactly what manufacturers do. 40% above the average salaries come out of manufacturers. We are also in those areas where levelling up is required. Factories are not in the middle of cities. They are in areas where we need levelling up. Most people in my sector have interpreted the Prime Minister's comments as supporting manufacturing in this country. That is what this is about. That is a big contributor to it and very important.



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In terms of infrastructure, which is vital to what we are going to do here, we are talking about cement, chemicals and steel. These are foundation industries. What we must do is protect those foundation industries in this country if we are going to have a successful infrastructure programme. We cannot end up importing all the steel from China and all the chemicals from Germany. This is not the way that we should be building our country. We should be doing it with domestic production. It is absolutely vital.

Q83 Ms Ghani: Do you think we can reach any of our goals on infrastructure and levelling up if we are going to have this supply chain continue, or do you think that the Prime Minister's agenda for levelling up is now vulnerable?

Stephen Phipson: The timing is the vulnerability. As we said, manufacturing is a long-term game. These are resilient companies. We will see failures if this continues much longer into the next six months, but it will come back again. It will just mean the whole programme will take longer than we want it to.

Q84 Richard Fuller: Mr McTague, small and medium-sized businesses have come through a very torrid time of Covid and now face these supply chain issues. They are vital to employment and the growth of the economy. What would you say is the priority for the Chancellor as he looks to prepare his statement in a month's time that could have the biggest impact to help our small businesses?

Martin McTague: We have submitted a proposal to the Chancellor for the upcoming Budget and comprehensive spending review. The focus has been largely on tax and how we can minimise the impact of that increase in national insurance on the smallest businesses. What we are suggesting to him is the employment allowance could go up, which would shelter a lot of businesses. We are also saying to him that the threshold of VAT is an obstacle for a lot of businesses. They treat that as a ceiling where they stop operating, at £85,000, and it is for very good reasons, because £1 over £85,000 and you get charged VAT on the whole lot. You suddenly become very uncompetitive.

They are two simple things you could do, but if you think about the points that were being made earlier about what is in the future, you are going off to a net zero discussion soon, and that is going to be vital to the future of a lot of small businesses. The investment in providing real opportunities for businesses in net zero or the pivot towards net zero provision is going to be the most important thing this Government can do in the next few years.

Q85 Richard Fuller: Forgive me if I am wrong, but it sounds like your encouragement to the Chancellor would be, "Focus on those medium and long-term issues and do not try to firefight the immediate pressures, because the Government cannot really have much impact in the near term". Is that a fair summary of what you were asking?



Martin McTague: I would not put it quite that way.

Q86 **Richard Fuller:** How would you put it?

Martin McTague: The Government have injected a lot of liquidity into small businesses with the Covid loans. It is very important that you do not pull the rug from under them in the short term, that you allow them to repay those loans at a reasonable pace and that you do everything you can in the short term to stop those businesses at the top of the supply chain from abusing their suppliers, so make sure they pay on time. If there was one thing I could emphasise, it would be that.

Q87 **Richard Fuller:** Mr Bain, from your perspective, looking across a wide range of companies, are there any specific issues that you have noticed that the small and medium-sized enterprises are facing right now? What would your recommendations to the Chancellor be? Should he be focusing on trying to tackle these immediate problems, or should he be looking at the long term?

William Bain: You would not be surprised that one of the key areas with SMEs is around business rates. That is still a huge concern and, if further action can be taken in the Budget, that would be greatly welcomed.

Some of the picture in terms of the SME community that is emerging is cashflow. SMEs are most likely to report a decrease in cashflow over the last three months. Business investment is fairly flat. In the third quarter, 73% of companies reported no increase in business investment and 47% are expecting their prices to rise over the next three months. Policies that can raise business investment and, with that, rates of productivity are the policies that are best placed to produce that high-skill, high-productivity and high-investment economy that we all want to see, with high wages too.

Q88 **Richard Fuller:** Is there anything, Mr Bain, that you think we have not raised today or the Government have not focused on in these supply chain issues? Is there something that is there on the horizon that is perhaps not a central focus now but could have quite a significant effect on the recovery of the British economy post Covid, or do you think the Government have pretty much got their arms around it and companies can be relied on to make the changes needed, albeit it will be a little bit of a bumpy ride?

William Bain: Building on Mr McTague's point, we have companies that are importing granite from India. We are big users of steel, both domestically and from China. We need to look at what is happening in terms of not just price but the availability of supply of these. One of the biggest constraints that our manufacturing members have mentioned in terms of expansion over the next year is the availability of steel when they need it. That is one of the areas where we could look to do some more work and reach a collective approach between Government and business.



Q89 Richard Fuller: Mr Phipson, a Government looking at Covid will be looking to see what lessons can be learned from that, just in case there is another similar event in the future. When it comes to this experience and how it has affected the supply chain, are some of your members going to be changing their business model in the long term to be more precautionary in the future? Does that mean we should anticipate higher stockpiling of raw materials or other aspects? Can you give us some hint about the long-term view?

Stephen Phipson: It is very interesting. There is a lot of work going on at the moment about this issue of supply chain resilience and a lot of rethinking just-in-time manufacturing, because they were reliant on very accurately timed deliveries from overseas coming into plants without holding inventory. Some people are thinking about building inventory again and going back to those models, but predominantly about shortening supply chains.

I have some very good examples—they probably do not wish me to name them today—of sportscar manufacturers that could have carried on production except for one item worth a few pence that came from Wuhan, which in the middle of the pandemic they could not get, which stopped production completely of the cars. Their lesson is not to rely on that in the future, bring that part of it onshore again and try to examine their whole supply chain.

We are going to see a change from what has been historically for the last few years around just-in-time delivery and cost, to having just-in-time delivery, cost and making sure we have reliability of supply or at least another source for it going forward. This resilience point is going to be very important.

I have also seen, just to make a second point, that the Government in particular really did change their attitude a little bit more towards being favourable about manufacturing in this country during the pandemic, when we saw manufacturers step up in things like the ventilator challenge, producing test kits, producing PPE and converting factories' production to doing that. Hundreds of manufacturers were involved in that programme, and certainly the Prime Minister recognised and acknowledged that you need a resilient manufacturing sector to survive these kinds of shocks to the system. There is a real recognition that we need to make sure we have a good, strong manufacturing sector in this country.

Q90 Chair: My last question to all three of you is about your relationship with Government. There is clearly a whole host of pressures facing businesses right now, which is very hard for them. Government can help with some of them and probably cannot help with others. Government could maybe try to stop problems arising in the first place and sometimes they cannot prevent that. Are you all happy with the level of engagement you have with Government, or does something new or different need to happen over the months and years ahead, given the pressures on the British



economy?

Martin McTague: In fairness to BEIS, the relationship and the regular contacts we have with them are very good. They are open and frank discussions. We were very unhappy about the national insurance rise and we did not hold back in expressing that unhappiness. I felt like the Government were listening at that point. The real test is about what will happen as a consequence of that unhappiness.

Generally speaking, the thing that is damaging the relationship between business and the Government at the moment is this characterisation that we are somehow in favour of mass immigration and we are reaching for that like some junky for a fix when things are bad. That is really upsetting for the average small business owner who is struggling to get through this crisis.

Q91 **Chair:** Stephen Phipson, your organisation was on the front page of the business section over the weekend, highlighting the fact that you feel like business is being battered around the head a bit at the moment by Government, so presumably you would like a shift in tone.

Stephen Phipson: There is that matter. That is what Martin just touched on, in terms of tone. A lot of members are concerned about that. Having said that, on the other side of that equation, we do have a very strong relationship, particularly with BEIS. We have weekly meetings with the Secretary of State. I met yesterday with the Chancellor. That is good.

The point we were trying to get across in some of the press is that we need to see stronger action on planning. We need plans. We were very grumpy about the cancellation of the industrial strategy. I understand that. We have debated that at length with the Secretary of State and with the officials, but we need, for some of these shorter-term points particularly, clear plans, which we need to work on together. We are there to work very closely with Government to make sure those plans can be put in place. That was the main point we were trying to get across.

Q92 **Chair:** William, what about you?

William Bain: The relationship is good. Like the others, we meet weekly with the Secretary of State. We have good engagement with the Chancellor. I spoke with him yesterday. Where we need to see a step change is that business can be a real partner for Government in not just helping to deliver levelling up but getting a plan to build this transition to this higher-productivity and higher-skill economy that we all want to see. The chambers network was the original levelling-up set of institutions in this country, working with SMEs at grassroots level to upskill people.

We have some short-term problems with supply chains. We have some structural issues. We need to work through them together and come up with pragmatic solutions. That is going to be the best outcome, rather than conducting any blame games.



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Chair: Thank you, all three of you. I am sorry we had to bring the session to an end slightly earlier than planned because of the heat and buildings strategy, but I am grateful, as ever, to all of you. We will no doubt continue this conversation with you over the months ahead. Thank you to Martin McTague, Stephen Phipson and William Bain.