



# Environment, Food and Rural Affairs Committee

## Oral evidence: Labour shortages in the food and farming sector, HC 713

Tuesday 9 November 2021

Ordered by the House of Commons to be published on 9 November 2021.

[Watch the meeting](#)

Members present: Neil Parish (Chair); Ian Byrne; Julian Sturdy; Derek Thomas.

Questions 102 - 168

### Witnesses

I: Kate Nicholls OBE, Chief Executive Officer, UKHospitality; Andrew Opie, Director of Food and Sustainability, British Retail Consortium; Tom Southall, Policy Director, Cold Chain Federation.

II: Dr Ben Broadbent, Deputy Governor, Bank of England; Madeleine Sumption MBE, Director, Migration Observatory; Professor Jo Swaffield, Professor of Economics, University of York.

Written evidence from witnesses:

[- UKHospitality](#)

[- British Retail Consortium](#)

[- Cold Chain Federation](#)



## Examination of witnesses

Witnesses: Kate Nicholls, Andrew Opie and Tom Southall.

Q102 **Chair:** Welcome to the EFRA Select Committee. We are looking into the labour situation in the farming and food sectors. It is very good to have our panel before us this afternoon. Starting ladies first, Kate, would you introduce yourself, please?

**Kate Nicholls:** I am Kate Nicholls. I am chief executive of UKHospitality, which is the national trade body representing hospitality businesses: pubs, bars, restaurants, hotels and holiday accommodation.

**Andrew Opie:** Good afternoon, everyone. I am Andrew Opie. I am the director of food and sustainability at the British Retail Consortium. We are the trade association for retailers, including all the major supermarkets.

**Chair:** You are quite a regular attendee for us. It is good to see you. Tom, this is your first venture. We will be quite kind to you; do not worry. Would you introduce yourself, please?

**Tom Southall:** I am Tom Southall. I am the policy director of the Cold Chain Federation. We are the trade association for temperature-controlled logistics in the UK, which is businesses that operate chilled or frozen warehouses or vehicles.

Q103 **Chair:** Welcome to all three of you. Naturally, we are gathering evidence for the inquiry and also evidence that we can put to the Secretary of State for Defra. We also have a Home Office Minister coming in December, so we are warming it up for him when he gets here.

First of all, can I ask you this question? How great a challenge are the current labour shortages for your members? Who wants to start with that? Andrew, I will throw you straight into the hot seat.

**Andrew Opie:** It has been a significant challenge for us. I would say it has been particularly acute since the economy began to reopen following Covid. In some ways, the problems were slightly masked there, because we had access to all the labour of Kate's members and various other people to use at that time. Certainly since the March-April period it has been very noticeable. Building on that, we were already aware of the problems in food production, which were highlighted in the report by Grant Thornton for the NFU and FDF. We were already concerned about our own production supply chain as well.

That is the issue that I would really like to emphasise. While we are seeing some short-term acute problems, HGV drivers being the most obvious one for our sector, this is a long-term issue that needs a proper solution around our whole food supply chain. We are not looking at this necessarily just as a short-term labour shortage issue; we are looking at this as a medium to long-term one. Within that, we need a real policy from the Government to help us solve that problem.



Q104 **Chair:** We have taken evidence from companies privately, and they are saying that the problem with a labour shortage is that an individual company can up its rates of pay, but all it is really doing is stealing those workers from somebody else. It seems to be a merry-go-round but without the fun, perhaps. Is that your situation?

**Andrew Opie:** Absolutely, all our members have reported that they have seen more movement between companies and within the supply chain than they have ever seen before. Companies might have retained drivers for a number of years, but the drivers who had been quite happy to stay with that company are now moving from one company to another. Some will move frequently enough to get the retention bonus and then move to another one. There is a circularity.

Supermarkets tend to pay pretty much the top, so lots of labour has gravitated towards supermarkets or within supermarkets, but that in itself has an impact on drivers through the whole economy and in the public sector. Our biggest problem with HGVs is that there is a limited pool of them, because you have to be qualified to do it. We are pulling on a limited pool. Your point about this merry-go-round is a really good way to describe it. It has been brilliant for those qualified drivers.

**Chair:** Yes, you cannot blame them, can you?

**Andrew Opie:** No, not at all. They are in a very strong position and they have been able to get the reward for that. It does mean, of course, that there is another added pressure in the food supply chain in terms of prices. We were already seeing pressure on commodity prices, oil prices and various other things; now you can add labour price increases to that as well.

Q105 **Chair:** Later on we have the deputy governor of the Bank of England, and of course naturally the Bank of England is very worried about inflation. Food, fuel and energy are very much part of that.

Kate, what is the position in the hospitality sector and what have you?

**Kate Nicholls:** I would echo a lot of what Andrew said. The merry-go-round is a point well made, because you are seeing a displacement of workers within a sector but also across different parts of a sector.

In our sector, we have faced a real double-whammy. There have been labour shortages on the frontline in the hospitality businesses themselves since they have reopened, particularly since June and July as we were staffing back up towards reopening. We suffered as a result of being the last sector of the economy to fully reopen. That has undoubtedly had an impact on our ability to attract workers. At the moment, we are seeing a 10% vacancy rate within hospitality. That has been sustained since we reopened in July. There have been marginal shifts as we have moved through the seasons, but that means we are short of about 200,000 workers since we have reopened.



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It is a double-whammy of our own businesses suffering from a labour shortage and the supply chain impact as well. Combined together, that means you have an impact on the ability to trade profitably and at full capacity, which is inhibiting our ability to recover, the pace of recovery and the level of jobs, growth and investment that we would be able to deliver and were anticipating delivering as we got to this stage in the reopening cycle. A quarter of our businesses have said that they have had to cut hours, close venues, refuse bookings and turn away events simply because they have insufficient labour in parts of the supply chain and their own businesses to operate at full capacity and full demand, which is suppressing revenues.

Q106 **Chair:** Yes, naturally the hospitality sector has had to suffer Covid and the fact you have opened, shut, opened and shut. You have not been able to have much capacity either, with social distancing and what have you. It must be a real menace for you, having got almost back to normal, then to not have enough labour to stay open or stay fully open.

**Kate Nicholls:** It is the cruellest of ironies that, at the point at which you are reopening and you have a desperate need to rebuild cash reserves and shattered balance sheets, and to trade your way out of this—and you could, because we have removed the restrictions—your ability to do that is constrained by the fact that you do not have access to sufficient labour. Revenues are suppressed by about 15% to 20% in the sector simply because of labour shortages in our businesses and in the supply chain.

Q107 **Chair:** Tom, when you are answering, what I am also interested in is that the Government have announced a cold storage scheme. The Government seem to think that there are lots of these cold storage warehouses full of equipment ready to freeze everything. Perhaps you can put us right on that one, can you?

**Tom Southall:** First, I would just emphasise what Andrew and Kate said. There are some real issues across the supply chain, particularly in logistics. I am principally talking about drivers as well as warehouse workers. Drivers have taken a lot of the headlines, and probably quite rightly so, because haulage and driving underpin every stage of the supply chain. The shortage numbers are pretty staggering: between 70,000 and 100,000 drivers, depending on what method you use to calculate that. That is out of a pool of about 300,000 HGV drivers pre-Covid.

It is particularly in warehousing where we are concerned at the moment. We have lots of reports from members that warehousing is becoming quite an acute issue as well in the run-up to Christmas. It is a bit trickier to understand shortage rates there, but shortage figures of 10% to 20% have been quoted, so there are quite big numbers there too.

It is also really important to point out that warehousing and driving are intrinsically linked. To give you an example, we are getting reports that at distribution centres there is considerable delay in processing drivers



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when they arrive to tip a load, because of a shortage of workers in the warehouse. That can mean you have a backlog of four, five or six drivers all sat in a rest area waiting for their trailers to be tipped, as we call it, to get back on the road. It is imperative that we tackle the shortages in all areas of the supply chain to get it back up and running.

You mentioned the pork storage scheme. That was announced about a month ago, perhaps longer. We have been supporting Defra to try to come up with a pricing model for that. We are quite keen to engage with them and make them understand how the commercial model for storage works.

Q108 **Chair:** As yet you have not signed any agreements with Defra, have you?

**Tom Southall:** No, those agreements will be between the pork producers and the cold stores themselves, our members. We have not had any firm detail on the system at all yet. I understand the middle of November is the latest. It was early November when I first read about the scheme.

**Chair:** It is the 13th today, is it not? In two days it will be the middle of November.

**Tom Southall:** Talking to some of our members, we have not found anyone who has been approached about providing that extra storage. At this time of year cold storage is very much in demand. As you can imagine, we often see cold storage becoming very full with Christmas produce at this time of year, but particularly so in the last couple of years, and particularly last year actually.

We are concerned about where the approximately 15,000 tonnes of frozen pork meat that they are aiming for is going to go. We have offered support, and we have offered the support of our members, but as it stands now we have no detail about that scheme or when it is going to be rolled out.

Q109 **Chair:** I suppose the storage must be pretty full generally.

**Tom Southall:** Absolutely, ever since last year in the run-up to the end of the transition period, where we saw quite a bit of stockpiling of products, we pretty much became full for food on the frozen side, to the extent that since then we have been providing a regular capacity survey of frozen storage to the Cabinet Office every month. We have been reporting on that, and it never drops below being 80% to 85% full no matter the time of year. This year, it is creeping up towards 90% to 95%. It never quite gets to 100%, because you always have space that is reserved for customers.

Essentially, yes, it is very difficult to find space. Almost perversely, a consequence of the shortage in warehouse workers—I had never heard of this until the last couple of weeks—is that we have members who are having to make difficult decisions about whether to take on new



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customers, because they do not have the warehouse workers to process the goods and put them on the shelf.

The pork storage scheme is looking at three to six months. As long-term storage, that is not generally very attractive for third-party logistics cold storage, because they like the rapid turnover. That is where the profit is. In a normal situation, that kind of business would be low down the priority list. Perversely, because of the lack of warehouse workers, you might find that they are willing to take that work on because they can put it in the store and leave it there, and it does not require much warehousing work. There are some interesting dynamics at play. Our members are ready to help out if required, but we are not aware of anyone who has actually been approached about that yet.

Q110 **Chair:** To keep sides of pork, you probably have to be—I do not know—at almost freezing or just about, do you?

**Tom Southall:** Yes, deep freeze.

Q111 **Chair:** You talk about warehousing, but cold storage is a particular kind of warehousing. Can we get more cold storage done? Can we conjure it up? Can that be done quickly?

**Tom Southall:** There are temporary solutions. In cold stores, we have chilled and frozen. Chilled is kind of fridge temperature; frozen can be minus 20 or even colder, which is what we are talking about here. Those are very expensive facilities to build and operate. It is very difficult. It would take many months and years to build a new cold store, but there are temporary solutions. There are portable cold stores that you can implement and things like that.

Q112 **Chair:** The trouble is the pigs are growing bigger on the farms as we speak here today. It is a real problem. I have many pork farmers with real problems. The second part of my question is about how resilient the food chain is. You have probably answered that one between you.

How will pressures caused by labour shortages be felt by the consumer? Will it be Christmas as usual this year when they are buying their food? Andrew, I will come back to you first on this one.

**Andrew Opie:** The good news is that it will be Christmas as we know it. There will be the usual Christmas fare in the stores. You need to remember that you have a highly competitive retail sector, and this is the most important time of the year. Every retailer will have planned for Christmas and will be looking to deliver a good Christmas. There may be some intermittent issues around availability and choice, which is what we have seen. I am sure you have spoken to the food manufacturers, but we know, for example, that ranges have been reduced slightly. Customers may well not notice that there are only three versions of pickle rather than five or whatever.

Q113 **Chair:** My wife will notice immediately that there is not enough there, or



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that it is not there and it has been before. People do notice, actually.

**Andrew Opie:** If there is a particular type of pickle that your wife likes to buy, that might be an issue. Generally, everything that you are going to expect for your Christmas lunch is going to be in stores. We are not necessarily worried about that. Online is ready as well, because it has been booked further in advance than you would have normally done at Christmas.

Interestingly, we saw some stuff yesterday about consumers maybe starting their Christmas buying a little earlier. That might help spread out some of the peaks that we would normally anticipate. A food retailer will probably sell 25% to 30% more volume in the two weeks running up to Christmas than it would do normally, so that is when the real pressure is on in terms of fresh produce in particular into stores.

Q114 **Chair:** Like the delivery and all the rest of it, while it is tight you think you will be able to achieve it, do you?

**Andrew Opie:** Yes, I do. Every retailer will know that its customers will be expecting it to do it. There is a lot on the line at Christmas. It is such an important time of year. The investment has gone into it. I am sure we are going to come back to it, but issues around price and investment in that will definitely be taken account of. Yes, I can reassure the Committee that you will be able to get your Christmas lunch.

Q115 **Chair:** If we cannot, I will be straight on to you. Kate, as far as hospitality is concerned, again Christmas is very important to you, is it not? You are suffering from labour shortages now. Can you largely give the hospitality around Christmas that you would like to?

**Kate Nicholls:** We cannot give the hospitality that we would like to, because we would prefer to be operating at full strength and full capacity, and not turning away business, which we are having to do at the moment. We are closing parts of restaurants and opening for fewer hours. For those people who are booked in for their hospitality, we will give them the very best Christmas we can. As Andrew says, Christmas planning starts a long time in advance. Christmas is our golden quarter: 40% of hospitality profits are earned between Halloween and New Year's Eve. It is vital for the health, success and recovery of the sector that we deliver Christmas as fully as we can.

That said, our supply chain is nowhere near resilient. It has been buffeted on our supply side on a weekly or daily basis by continual shocks and price increases going through to our businesses and end users. We will deliver as good a Christmas as we are able to, but not as good a Christmas as we would want to.

There are a couple of observations to make there. In our supply chain, we are getting about 80% fulfilment, so 20% of all products in all deliveries are not being delivered, and we cannot really guarantee what it is. Our suppliers all the way up the supply chain—we have a very



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complex and multifaceted supply chain, and it is only as strong as the weakest link—cannot give us any guarantees at the moment about Christmas deliveries and that everything will be delivered in the right place at the right time at the right price.

The second point is that a lot of our Christmas activities are prebooked, and many of those will be sold and rolled over from last year, when we were closed. Therefore, the price is not as flexible as it could be; we cannot always put the price increases through to customers. You are going to see a really intense squeeze on margins in the run-up to Christmas and then the inevitable impact that will be felt by consumers and by us all—because it will have an inflationary effect—is significant cost-price inflation coming through the supply chain and being passed through to consumer prices probably after Christmas in all likelihood. Some of our businesses are anticipating three price increases to consumers going through before we get to April.

**Q116 Chair:** That is quite significant. Tom, are there any other points that you would like to add to that particular part of the question?

**Tom Southall:** I agree with Andrew. Logistics companies have stepped up over the last two years with the unprecedented changes in demand and upheaval. Whether it is Covid changes, Brexit-related issues or labour shortages, they have stepped up and delivered for the country, and I do not think Christmas will be any different.

To echo Kate's point, we have to make the point that we are operating at something like 80% capacity. That means it will probably not be Christmas as usual, but how that will manifest itself is that there may be gaps on the shelves. As we have seen over the last months, there may be intermittent gaps on the shelves with certain products, because the delivery window is longer than it would be in normal times. Consumers can expect to see gaps at certain times in the run-up to Christmas, but hopefully they can be reassured that the next time they visit that particular establishment the stock will have arrived.

There are no food shortages. I know you heard from people in the pork industry. Perhaps there are some small examples of where there might be, but generally there is enough food to go round. We can expect some disruption, but Christmas will go ahead as normal.

**Q117 Ian Byrne:** It is good to see you physically and not virtually. The Association of Labour Providers gives a number of factors that are driving labour shortages in the food supply chain. I will outline three of them: an exodus of EU workers, including those with pre-settled EUSS status who have left the UK as a consequence of Brexit and coronavirus, and decided not to return; the absence of a coherent post-Brexit domestic workforce and skills strategy; and the ineffectiveness of Government initiatives on returning to work and employment support schemes such as the apprenticeship levy, universal credit, the Kickstart scheme and the plan for jobs. Would you agree that these are some of the dominant reasons



for labour shortages in the sector?

**Kate Nicholls:** Yes, that gives a good overview of the main reasons we have labour shortages in our sector. Our vacancy rate is 50% higher than it was pre-Covid. There are longer-term structural issues that the industry has been grappling with, some of which you have outlined there around vocational training, skills, how much we invest in the hospitality sector overall and the attractiveness of it as a career, which is what the industry is working to overcome.

We do have specific acute issues that are more Covid-related than anything else in terms of the displacement of workers. In our sector in particular, foreign workers who went home before Christmas have not been able to travel back not just from the EU but from the rest of the world. We have had a displacement around students, with UK students not being in the right place at the right time and also exiting cities, but also foreign students not returning. That has had a big impact on us.

Then there is the talent pipeline. We invest heavily in apprenticeships, but we have been closed for nearly two years. Our catering colleges are closed; our vocational training is closed; we cannot train people on the job in hospitality degrees and diplomas. At all points we have therefore had a two-year hiatus in our talent pipeline. That is the only other factor that I would add to the list that has been identified there.

Q118 **Ian Byrne:** You would agree that there has been an absence of a coherent post-Brexit workforce and skills strategy.

**Kate Nicholls:** We have not yet had the full articulation of a strategy that looks at vocational training. We have only just seen some of the White Papers that came out more recently. Hospitality is not referenced in the way we would want to see it referenced in that strategy or reflected in the vocational training programme. The plan for jobs, the initial lifetime skills guarantee, missed out hospitality qualifications altogether. We would want to see that refreshed and reviewed.

It is time now for a Covid reset. We need to look at all the policies that we had pre-Covid, and then reset and review them. We need to look at immigration, training and skills to see what is fit for purpose for the labour market we have now. It is not necessarily that there is anything wrong, but we need to keep pace with the labour market as it is now post-Covid.

**Andrew Opie:** I would agree with much of that. I would take it up to the level that Kate suggested there. What we are short of is a labour strategy rather than a skills strategy. You probably need to look at it in three parts. First, how do we recruit better domestically? That is difficult at the moment. We have pretty much full employment, and there is a lot of competition for jobs at the moment. There is something there about recruitment. Secondly, there is definitely something around investment in skills, technology and innovation in the food supply chain as well.



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Thirdly, we have to have an honest conversation around what part migrant workers may play in the food supply chain. If we do not solve this conundrum in the next couple of years, we will start to see production being lost from the UK and being offshored, and then imported back into the UK. Surely that is not what anybody wants. You need to look at those three aspects and have a really serious conversation about what part all those issues play, and what part industry can play, certainly in supporting those two areas and in identifying where short-term targeted migration could help for the system. Then we can start to build a robust food supply chain.

We have the opportunity. We have the food White Paper next year, which is due to be published early 2022. The labour plan should be front and centre of that strategy. If we do not get that bit right, there are lots of other bits that we might want to do but will not be able to do.

**Tom Southall:** I cannot argue with anything that Kate and Andrew said there. When it comes to drivers, your list shows what a complex picture it is. Having looked at the numbers quite a lot as to where this shortage of drivers has suddenly come from, a big issue has been driver testing. Something like 25,000 fewer HGV driver tests were conducted in the financial year 2020-21. In the industry, we had quite a high number of tests, about 42,000 a year, but we had a similar number leaving the industry on an annual basis, so we were just propping up the numbers by seeing as many entering the industry as were leaving.

Clearly, that issue is deeper-rooted. We need to understand why workers leave the industry and look to retain them as much as possible. As we move forward, we need to keep a close eye on the DVLA, the licensing and what is happening there. There are some positive signs that testing has been streamlined, and we are trying to push through more tests, but we would like to see a bit more clarity and openness in terms of what is going on at the DVLA, how many tests are being processed and how that is affecting overall numbers.

Q119 **Chair:** I am sorry to interrupt, but are the examiners still being held back by Covid or are they actually going out there? That has been a lot of the problem, has it not? They have not wanted to come out and do the tests that we physically need done.

**Tom Southall:** I do not know the answer to that; I do not know if either of the other two do. I know there are still issues, and we have heard reports of strikes over the last couple of months and big delays in processing licences. There are clearly some issues there. There is a lack of clarity over what is happening with licensing. It looks potentially positive. It is going to take quite a long time for any of that to pick up and make a difference, but there are some positive signs.

On warehouse workers, workers in cold stores, there are no licensing issues there, but we are seeing intense competition. The rise of e-commerce and last-mile deliveries is putting great pressure on warehouse



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workers. If you take warehouse workers in the food industry, in a frozen cold store, it is a difficult environment. It is minus 25 degrees. If anybody has not been in one, we can arrange that. It is quite an experience. Within five or 10 minutes, you are ready to leave. It is a very challenging work environment. That is an area that we have to be aware of where the focus is perhaps on drivers in other areas.

**Q120 Ian Byrne:** Were you making the Government aware from an industry perspective that there would potentially be a shortage of HGV drivers and warehouse workers? Was that flagged up as a requirement post-Brexit? This ties in to the absence of a coherent strategy.

**Tom Southall:** Yes, particularly on warehouse workers, the EU worker exodus is more profound in that area.

**Q121 Ian Byrne:** The Government were aware of what was going to be coming down the line.

**Tom Southall:** Yes. Particularly on warehousing and drivers, the industry was quite clear that there was a growing shortage. It has been the case for a number of years that there has been concern over recruiting drivers. That was clearly only going to get worse with some of the changes. The pandemic created a seismic shift that added another layer of complexity to that.

**Q122 Ian Byrne:** I am going to stay with you for the second part of the question. Is the UK facing particular challenges or are other advanced economies having similar problems?

**Tom Southall:** Particularly on drivers, there are difficulties in other countries as well. It has been well publicised that other countries are having difficulties recruiting drivers and warehouse workers. Where we are a little different—you cannot necessarily compare the two—is that our workforce is very domestic-based, particularly haulage drivers. Most of our haulage companies only operate within the UK, so most of the food that comes over from Europe comes across on foreign lorries. When we talk about a shortage in our driving cohort, that really impacts us.

If you look at somewhere like Poland, which also has a driver shortage, its drivers support a wide range of countries across northern Europe. A shortage in those countries means something a bit different: it means they cannot service a much wider geographic area. The difficulties are much more profound here, because Poland can rely on other drivers coming in and we cannot quite so much.

**Kate Nicholls:** When we have looked across the rest of the world and talked to sister trade organisations across the rest of the world, everybody is facing this challenge. Global supply chains have been disrupted. When you press “control, alt, delete” on the global economy, you are going to have disruption.



We are seeing labour shortages in hospitality in Europe, in the States and in big competitor markets as well. That is partly due to the fact that our customer base has been so disrupted. That is one of the things that we need to work harder with Government to overcome. If you have had a level of disruption where your business is not open, not viable and not trading and you have been open and closed on a whim, it does not build stable careers. You do not become a career of choice for people who are looking for work. That is common across the whole of the global economy.

We have more red lines in the UK that stop us from having some levers to make it better and make it easier, because there is less freedom of movement, but in hospitality we are finding that there is less freedom of movement globally to move staff from one country to another. That is to do with Covid travel restrictions. It is marginally more acute in the UK. Abroad they do not have so much of the challenge with the double-whammy of their own staff and their supply chain.

**Andrew Opie:** Drivers aside, which Tom mentioned, our feedback from European retailers is that they have not experienced the same challenge. They have still had challenges, but not the same level of challenge in the supply chain that UK retailers have here in terms of availability, shortages and late deliveries into RDCs for distribution to stores. Yes, we can take the point about lorry drivers, but generally in terms of food production and food distribution it has been much less of a challenge in Europe than it has been in the UK.

Q123 **Derek Thomas:** Kate, can I start with you? You touched on this briefly. I was really interested to hear what you said about apprenticeships and how we look at the domestic market. That has not come across our radar up until now. In addition to what you have described, what is preventing your members meeting the labour needs from the domestic workforce?

**Kate Nicholls:** Simply, there is a shortfall of available people to do the jobs that are coming through. It is particularly acute and it is different in different parts of the country, but it is availability of labour. Down in the south-west, you have unemployment at about 3.3%. It is very difficult to recruit anybody. When they put job adverts out, they are lucky to get one or two people coming for them. In other parts of the country, you will get more people turning up, but the availability of the labour market as a number of bodies is too tight, and it is too hot in certain parts of the country to have it available.

As we come out of this, it is not just entry-level jobs that we are finding we have particular gaps in. We have really significant gaps in managers, assistant managers, restaurant managers, hotel heads of department and executive chefs. These are the specialist and highly skilled roles that are crucial to us training our young entry-level people. We are building in a further delay in the talent pipeline and the hiatus that we have at the moment, if we are unable to recruit those.



The reports are that it is simply down to people either choosing to work elsewhere or there not being an available pool of labour to them. They are looking at job redesign; they are looking at terms and conditions, hours and pay. Wage-rate inflation is currently running at 11% to 13%. They are trying all they can, but in the domestic workforce there is a perception of hospitality as entry level only, forgetting about the progression, lower skilled, lower value and a job or a part-time job, not a career. That inhibits recruitment. This is a longer-term issue that we need to address. That is common throughout the food supply chain. There are jobs that are lower skilled across all our industries that people do not see as an attractive career of choice.

**Q124 Derek Thomas:** This might drift into a question we have already had, but I am a west Cornwall MP. You have clocked that. I can exactly understand the acute difficulties we are facing. Early in the pandemic, we saw lots of supermarkets, Amazon and others advertising a massive number of new jobs. It would be fair to say that in the south-west we have seen a hospitality sector boom in certainly the last two years and maybe the last five or six years.

If you park to one side the workers who might have come to the UK, are we victims of our own success because the sector is so vibrant and so alive? Is that really what is driving some of this?

**Kate Nicholls:** There is a general lack of availability of workers even down in the south-west, where you have had a boom. People have not been operating at full capacity, because they have not been able to get the staff they need even in the busiest trading periods in Devon and Cornwall in the summer, as well as in the Lake District, North Yorkshire and other tourist destinations across the UK, although it was particularly acute in the south-west.

I had lots of members who were closing restaurants to the general public and restricting the hours of opening in order to protect hotel bedrooms. Although they are certainly getting the revenue and the footfall, they are not getting the profitability. They have taken a hit on margin, which is about a third less. We are building in problems for the future because that is your cushion for investment going forward.

In certain parts of the country, as I say, we had students who were in the wrong place at the wrong time. They would normally staff up. Young people who found that they were free after a period of Covid restrictions did not want to take a summer job. Some of that is starting to ease now, but that meant we had a particularly acute time when we were coming out of Covid. Fundamentally, when hospitality came out of Covid, 20% of our workers did not return from furlough. A significant proportion of those were non-UK nationals who were not in the country and could not return. I am not saying they will not, but they could not return or they were in different parts of the country. That is the biggest problem that we have had over the summer, and that will take time to play out.



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Q125 **Derek Thomas:** I suppose what I meant by “boom” was increased demand for these services. You are absolutely right: we have restaurants right across my patch that just have not opened at all. If I can come to you, Andrew, picking up on that, to respond to this growing demand or lack of workers, whichever way you look at it, what action have your members been able to take to attract British workers?

**Andrew Opie:** We have been trying everything. Kate is absolutely right. It is a small pool, and everybody is fighting for labour at the moment. It is no surprise that pay and conditions have definitely increased over the last year or so, particularly in the occupations that are most short of staff.

HGV drivers are the most obvious one for supermarkets, but across the board supermarkets continue to look at what would be more child-friendly hours and shift patterns to suit that, both in distribution and in the stores themselves; free transport to distribution centres; encouraging the training of warehouse operatives to become HGV drivers by paying for their testing and the training, so trying to upskill people to fill the vacancies they have; and working with their suppliers to see what they can share in terms of the load, particularly on distribution and logistics.

They have tried anything you can think of, basically, to plug the gap. Kate made the point that we talk a lot about HGV drivers, but from the reports we are getting we have shortages right across the supply chain. There is huge competition out there; Tom alluded to that. We have a big growth in online, for example, so more warehouse jobs are available. There is more competition for jobs and there are some really good salaries being offered out there, because everybody is short of labour. That is what is driving the labour market at the moment. It is tough. It is really tough to recruit people.

Q126 **Derek Thomas:** Tom, I want to pick up something that is more relevant to you now, but I am going to come to Kate and Andrew, so do not feel like you are being ignored. Have the Government done enough in terms of your sector with the introduction of additional temporary visas to deal with the immediate labour pressures? Have the Government responded quickly and been nimble-footed?

**Tom Southall:** When it comes to drivers, it has to be recognised that the Government have made quite a few short-term interventions. There is an argument that quite a lot of those came too late. There is a real mixture in there around which ones have made a difference and which ones may have had a detrimental impact on the overall situation.

You mentioned licensing. That is a positive, but we need to keep an eye on that. In some areas there are perhaps mixed messages, such as the recent announcements on extending cabotage rights for EU-based drivers to come over, bring a delivery over and spend 14 days in the country. That may have a short-term benefit; some companies will use that and there will be deliveries done under that system, but it goes against the



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overall Government direction: "Back British and use British workers". Our members cannot employ those people, but a French-employed haulier can come in and do the work. It seems quite strange, and that has caused some upset in the industry. In the consultation on that, 79% of respondents were against the move, but it happened anyway.

On drivers' hours, this was one that happened quite early on. That was quite unpopular. You have a workforce that is working absolutely flat out to do this for the country and you are providing the messaging, "You need to work a bit harder; you need to work for an extra hour". Certain elements of the supply chain have used that, but that is quite negative in the overall picture around the stress that we are putting on drivers and the long-term picture of them leaving the industry.

There were measures announced yesterday, including the review of CPC, which is quite unpopular with drivers. That is probably what needs to happen: we need to listen to what drivers are saying is making them leave the industry. Rest areas is one issue. We welcomed the announcement in the Budget for money to look at those. We hope to see that progress. The review of the CPC, which is very unpopular with drivers, cannot happen soon enough.

It is a mixed bag. The Government have done quite a bit for drivers in the short term. That might have some impact, but there is a risk that some of those measures have long-term consequences. They have not solved that long-term situation. Once we get beyond Christmas, what happens then? We still have a large driver shortage. We still have a reduced labour market across the supply chain. We are probably still back in the same position.

We need to come together and understand what we want from our supply chain and what we can provide from our labour market. If we are not going to tap into the immigration market, what can we actually deliver? Our businesses cannot continue to operate under the stress that they are. Either we need to provide reinforcements to them or we need to accept that, in the future, we have less of a demand and we expect less from our supply chain. Perhaps that means we cannot shop for 24 hours, six and half days a week, or whatever it is. We need to make a sacrifice or support our workforce.

**Q127 Derek Thomas:** I do not want to speak for the rest of the Committee, but I have found that parts of the Government have come kicking and screaming when we have dragged them down the route of needing more visas, temporary or otherwise, to try to address this challenge. I am not going to suggest that we can provide you with any silver bullet, but, Kate and Andrew, what aspects of the temporary visa schemes would you take from what is available to other sectors and bring into yours? Would they be effective? How would you like to see the Government develop them?

**Kate Nicholls:** In answer to the question you asked Tom about whether the Government have done enough or responded quickly enough, I would



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say no. You have some sticking plasters to deal with acute sector-specific issues, but what we are talking about here is 500,000 vacancies across the food supply chain. We have a labour problem; we have a labour challenge. We have gaps in the labour market that are acute across the economy.

Have the Government responded quickly enough? We were flagging this to them in May and June as we were starting to reopen. The signs that the system was under strain were already there. You get a fixation on poultry, pork or drivers. It does not help to address the fact that you potentially need more people in the country.

Andrew is right: you need a long-term labour strategy. I very much welcome the Cabinet Office's decision to do a deep dive into what the labour market now looks like post-Covid. We have lost a lot of people to a variety of situations.

**Chair:** They have retired, have they not?

**Kate Nicholls:** We cannot plan positively because we do not have an evidence base. We have been asking Government for this for some time. You do need longer-term solutions. You need to look at this in order to allow us to develop and pick up the pieces from domestic training and domestic investment. I would not want additional sticking plasters.

There could be a couple of things that could be really useful to do. Pre the election in 2019, the Home Office paper did talk about a short-term visa for unskilled or lower-skilled level 1 and level 2 people to come in. That was looked at as part of the immigration system. That could be a temporary solution in order to look at this. You are not picking off one part of the economy versus an economy or playing favourites; all that does is displace workers from one section to another.

The other thing that could be done is around the language around settled status and pre-settled status—people returning to the UK where they have been out of the UK through no fault of their own due to travel restrictions. The language is unhelpful and unclear. It gives the impression that, if they have been out for more than six months, they cannot come back in and they have lost their right to work. That is not actually true, but it took me three phone calls with an immigration lawyer to work it out. I try to think of myself as a skilled worker. If it takes me three times, somebody whose first language is not English may feel that they cannot come back in.

You could do that quite easily. Some 6 million people were granted settled status and have a right to work within the existing immigration system. That is not opening it up; that is just reminding people that they can come back.

Thirdly, the approach that has been adopted in the Australia trade deal is really helpful. There are short-term temporary working visas for young



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people to come over. If we could extend that youth mobility scheme to the Commonwealth and the EU 27, that would undoubtedly help.

**Andrew Opie:** You need to go back to first principles and have an honest conversation about where the deficiencies and shortages are in the supply chain and how you plug them. We cannot assume that it is a one-size-fits-all solution. For example, the three-month visa for poultry processing workers will work pretty well, because there is a pool of workers. They are identified; they come over traditionally at this time of year. They could be identified quickly and come over. The three-month visa for HGV drivers was too little, too late.

**Chair:** It was too short a time, I suppose.

**Andrew Opie:** It was too short a time. It does not work. We were never going to get those skilled workers to come. Frankly, the opportunity was missed because the Government took too long to get to that issue. We need to break it down and have a real honest conversation about where we are getting our workers, how we recruit them, where the deficiencies are and how you solve this for particular parts of the supply chain. It is not just one solution; we need a complete cross-Whitehall solution to this.

Kate is right: we have had very honest conversations with Defra, for example, but, frankly, Defra is not making these decisions.

**Chair:** The Home Office is making the decision.

**Andrew Opie:** Absolutely, yes.

**Chair:** We will put it to Home Office Ministers.

**Derek Thomas:** You are absolutely right. I will come back to you, Tom.

**Chair:** Derek, we are very conscious of time. Please make this your last question.

**Derek Thomas:** It was just that point. It takes a long time to develop those strategies, but we need some urgent intervention now.

**Tom Southall:** It was completely remiss of me not to answer your question around the HGV visa, which was one of the main things that I wanted to bring up. Andrew got it totally right: it was too late, too short and too difficult. We are not aware of any members who have gone for that. If we are pushed for time, I will not go into the reasons for that, but it was extremely difficult for them to make use of that for a variety of reasons.

Q128 **Derek Thomas:** We have taken evidence on that.

**Tom Southall:** We would support the finding of the Grant Thornton report, which is for a longer-term visa. Given lots of those negative things around the three-month visa, if you extend that to 12 months it



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makes the investment in those workers a bit more investable, if that makes sense.

**Chair:** That is very good for the record. We can ask these questions to Home Office Ministers. We have had really good questions and answers, but please keep them a little shorter, if you can, because of time.

Q129 **Julian Sturdy:** Just building on the labour shortages, given the impact that they are having on the supply chain, as has been discussed, were the Government right to delay the introduction of controls and checks on EU food imports? Has that added further pressure?

**Andrew Opie:** Yes, they were, in our opinion. The supply chain was already under so much stress, as we have already heard about. There are two real reasons. First, from our experience talking to our suppliers in Europe, not all of the suppliers and certainly not all of the member states were ready to support those exporters to the UK. Secondly, not all of the UK ports were ready to accommodate the checks that we were proposing. We risked not only seeing people turning up with the wrong paperwork but the ports being unable to process them, leading to disruption.

Just to finish, July is probably the best time for our imports to introduce the physical checks that were due. We got pre-notification in January, of course. In July, we are importing a lot less fresh produce. With the risks around getting things ready, changed or amended over the next couple of months, that will work really well. It was the right decision.

Q130 **Chair:** Yes, provided it happens next July, not the July after or the July after that one.

**Andrew Opie:** That is a very good point. You have two issues. First, you will be well aware, Chair, that we export as well. Our exporters have faced those challenges since January, so that is true. Secondly, EU exporters and member states need to know that it is a real deadline so they are encouraging their exporters and suppliers to get ready.

**Julian Sturdy:** It has to be a real deadline, yes.

**Chair:** Yes, it is basically so they will negotiate, is it not? That is what we have said in our previous reports.

**Kate Nicholls:** I have nothing to add. In the interests of time, I will just echo Andrew's comments.

**Tom Southall:** Likewise, I completely agree. We would hope it is not moved again, but we need to make use of this extra time that we have to get the ports ready and make sure the EU is ready to trade with us.

Q131 **Julian Sturdy:** Building on what you said, does the continued lack of checks on food imports from the EU mean there is an easier substitute for British food that is currently unavailable? Is that not a concern going forward, if we do not have that hard deadline in place?



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**Andrew Opie:** It is a concern more generally for the country, not for our supply chains, because we operate standard auditing. Whether it is a UK company or a European supplier that is coming into our supply chain, the same rules apply in terms of whether it is food safety, provenance, quality or production. Those checks are still happening. There is a general issue that is for the Food Standards Agency. They are monitoring imports, as I understand it. On the risk around those imports coming into the country, they would be able to answer.

For mainstream supply chains into supermarkets, it certainly should not make any difference. We were applying the same regulation in this country, because we adopted the food regulation from the EU rules. Our European suppliers and our British suppliers are applying exactly the same regulations and being audited against those at the moment.

**Julian Sturdy:** Does anyone else want to add to that?

**Tom Southall:** No, I agree with that.

Q132 **Ian Byrne:** The BRC said the Government need to play their role to ensure the continuing resilience and security of our food supply chain. What steps do they need to take?

**Andrew Opie:** It comes back to the point that I was making earlier: they need a proper food policy, frankly. As an independent trading country, in order to have a resilient supply chain, it is important to have our own domestic production supported, back to the points I was making about whether it is labour or regulation that we have here. It is also about the trade deals that we do across the world and how we enforce those. We just heard about the checks as imports come into the country. That is why that food White Paper next year should be—it at least should be—pivotal to how we run our food supply chains over the next two or three decades.

For me, the Government need to go back to first principles in terms of what they want from the food supply chain and how consumers are going to get the products they want on the shelves.

**Ian Byrne:** That is a good answer. Does anyone want to add to that?

**Kate Nicholls:** I would reiterate the point about the need for a long-term labour strategy as we come out of this. We need to understand, in exactly the same way as we have with food, what we are looking for in terms of skills, training, development, jobs, the economy, how we get from here to there and what short, medium and long-term interventions we need to help support that.

Otherwise, the hard choice that we have is that we are either artificially constraining our economic activity or limiting the number of jobs we are creating, because people are having to make choices, since they cannot get access to labour, to replace people with process and to cut jobs as a result of that. That is the only bit that I would add to that.



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Then we need to look again at the longer-term careers strategy and go right back down into the curriculum as well, which comes out of the food strategy. Where do we place food in our national curriculum? How do we upskill people? How do we make sure people are aware of careers?

**Q133 Ian Byrne:** I am going to outline a vision here. Could we have a learning society? In 1998, the Union Learning Fund was created. For every £1 invested, it gave a return of £12.30, including an economic return of £7.60 to the individual and £4.70 to the employer. A quarter of a million employees were supported into training. Can I say to the Minister that this sort of training fund, which tragically was lost to us this year, is something that business wants back in place?

**Tom Southall:** Training is good. Quite a lot has already been announced specifically around drivers. We need to look at other areas of the supply chain such as warehouse workers.

We need to be frank. If we are not going to tap into any kind of labour from outside our borders, do we have enough people to do what we want? We need to go back to that fundamental question. The unemployment rate is very low. We have holes absolutely everywhere. From the Grant Thornton report, there are 500,000 just in the food sector. In areas like drivers, it is an extremely difficult job. Not everybody is cut out to be a driver. It is a very skilled job. It is difficult; there are long hours. It suits a certain person. If we need 70,000 drivers, do we have that out there in the unemployed workforce?

**Q134 Ian Byrne:** If you had the ability to reskill and retrain, people might look at that as an option. It is good for business, is it not?

**Tom Southall:** Yes.

**Q135 Chair:** Before we leave this question, without leading you too much as witnesses, is it the case that, while we are training up our homegrown workers, we need to have enough imported labour in the meantime to keep our businesses going? I have quoted before that, if we do not import our labour, we export our business. Andrew, you said precisely that. Without leading you too much, can you say for the record what your position is on that? We can put it to the Home Office later.

**Andrew Opie:** I would absolutely concur with that approach. We are not looking for long-term support from an open migration policy. We understand the situation we have here. We are looking for short-term focused access to migrant workers. That is all we are looking for, for exactly the reason you gave there. We want to put our own supply chain in the strongest possible state. Our preference is always to source here in the UK and use UK workers, and that will always be the case, but it is unrealistic to see that at the moment. I absolutely concur. We need short-term and focused measures.

**Q136 Chair:** Kate, in the hospitality sector, you also need to have a fair bite at having some labour.



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**Kate Nicholls:** Absolutely, I would agree with your analysis. We are looking at putting back in place all of the really good training that we did. We were the largest provider of apprenticeships—not just entry level but also all the way through to management and leadership—before the pandemic. We were investing really heavily in our training.

We have had a two-year hiatus. We need a two-year bridge just to get it right before we can restart, and then there are the longer-term issues around food in the curriculum and languages in the curriculum that we need for tourism. It is not just about hospitality. Tourism is our third largest exporter, and it is a huge piece of economic activity for many parts of the country and for the country as a whole. If we do not have that bridge to get us over this short-term hiatus towards this longer-term domestic workforce that is fully upskilled, we are going to have an artificial constraint on our ability to deliver that and to operate at full capacity.

It is not just hospitality that will suffer; it is jobs and investment in lots of parts of the country. Some of the most deprived parts of the country are the most heavily dependent on tourism and hospitality. Our recovery as an economy will be that much slower. This is an anchor on our growth that is self-inflicted.

Q137 **Chair:** That is a good question for the deputy governor of the Bank of England in a moment. Tom, do you have any points on this?

**Tom Southall:** I would agree with that. That short-term relief needs to be for a minimum of one year. It takes time to train people up. As I mentioned, we need to do a thorough review of what we can deliver with a domestic workforce. For example, drivers take six to 12 months to train from scratch on average. It has to be a minimum of a year to give us time to train up the next generation and to look at some of those other areas as well.

Q138 **Chair:** Again, in the food processing industry we are asking for a very high level of English for someone who can perhaps carve up a pig. I suggest that they can carve up the pig whether they can speak particularly good English or not. This is the other trouble, but I suppose I am probably leading you far too much there.

**Kate Nicholls:** Could I make one additional observation, if you are having the Home Office Minister in front of you? For those businesses that are looking at using the skilled worker route in the current immigration system, there are significant delays in processing sponsor licences and renewals that have lapsed. Nobody has been able to renew them. We are seeing for the first time in hospitality that there are significant delays in Home Office processing. It is taking 20 to 30 weeks for sponsorship licences to come through. It is not just about DVLA licensing; the same thing is happening in the Home Office.

Q139 **Chair:** You make a good point. I have a local poultry producer that, even



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on the poultry side, is having quite a job to get these visas. A few more weeks and it will be too late to get them, will it not? But 30 weeks is just outrageous, really. Thank you for that evidence.

I probably know the answer to this, but you must say it for us. What impacts are labour shortages and other cost pressures in the food chain having on prices? Andrew, are you all suffering dreadfully? Are you absorbing all the costs or are you handing them on to the consumer? What are you doing?

**Andrew Opie:** You always have so much sympathy for our members, Chair.

**Chair:** I do, yes. I cannot sleep at night for worry. That is right.

**Andrew Opie:** You are absolutely right to frame it in that way. The Bank of England can talk about the general inflation figures. Our own figures are showing rising food prices at the moment. It is still small: it is about 0.5% inflation last month from our figures, which are an accurate reflection of sales in all the supermarkets.

They are rising, and it is the biggest rise since November 2020. We are anticipating further pressures on prices going right into 2022. The issue you raise is how to pass those prices on in such a competitive market. It is a fierce market where price comparison is strong and consumers are very price-focused. The concern is how retailers and suppliers can try to insulate consumers from those prices. No one is under any misunderstanding that you can simply pass that inflation on to consumers.

Q140 **Chair:** You are talking about 0.5% in a month. That is 6% in a year.

**Andrew Opie:** It is 0.5% since last year.

Q141 **Chair:** I see, okay. The trouble is that it then puts pressure on wages and people's cost of living. It puts pressure on people on benefits and whatever. They are all struggling. At the moment you think that you can absorb quite a bit of it, do you?

**Andrew Opie:** I am not sure that it is as easy as saying it can be absorbed. The problem is that you have to look at the market. Where you have consumers who are pretty much 100% price-focused, it is very difficult to pass that on. That is probably the reason why inflation is at 0.5% and not any higher, because that is about the maximum the market will bear. The challenge, then, is how retailers and suppliers can get even more efficient when we have probably the most efficient food production system in the world. How do you prevent that?

You will know from my previous evidence that we source the vast majority of our food from here in the UK, and we intend to carry on doing that. If we look across the water, slightly worryingly, the gap between some of the production prices of British produce and European produce is growing. The premium of selling British produce here, for whatever



reason, is getting bigger than if you were to import and sell that food. I am not suggesting for a minute that we are going down that route, but we are not the only food seller in the UK, of course. There are other parts and other food businesses. If you can absorb some of the prices by imports, the temptation is that maybe that is a route out.

Q142 **Chair:** We took some evidence privately from some Northern Irish companies, and they are very worried that the Northern Irish produce will go across the border, be processed in the Republic and then be bought back again by the UK, with them having made a mark-up on it while farms and others have lost money on the whole process. What you say is exactly right, so we have to be mindful. British retailers like to stock British food, because British consumers like to buy it. In the end, the consumers are also very competitive. Eventually they will not pay massively over the odds for British product, will they?

**Andrew Opie:** No. We have commitments on selling British. In some ways the retail sector is in a difficult situation, because it needs to continue sourcing here. There is an elastic—you are absolutely right, Chair—which can snap at some point if that differential is too high. It is not mass market. About three-quarters of the produce we sell is produced here, so the bulk of produce is always going to come to our stores from the UK. Around the edges of some of those areas, if it does get too expensive and there are alternatives, you can see which way it could go.

Q143 **Chair:** The hospitality sector is one that is very, very competitive. Sometimes, dare I say it, some of the imported meat and others could come through that sector. It must be even more difficult for your sector sometimes necessarily to buy British. Is that the case?

**Kate Nicholls:** It is. It is easier for some of the small independent operators to buy locally, and that is what they are doing to secure and make their supply more resilient. If you are a national chain, it is not necessarily price that drives the decision to buy abroad; it is consistency of size and scale when you buy in bulk. That drives the purchasing decisions more than anything else.

Yes, we try to buy British where we can, if we can source it and if Andrew's members allow us access to the market. The supermarkets snap up an awful lot of British produce and the hospitality sector plays catch-up. We are not going to be able to insulate our consumers from price increases, although it is a very highly priced and competitive marketplace. We have cost-price inflation at 13% in hospitality at the moment, and that is going to feed through to consumer price increases. At the moment, consumer price increases are about 5%. We are ahead of the rest of the economy. We cannot sustain 13%. It is a worsening situation.

We will have that to pass on, and, at the same time, it will be a double effect. You will have price increases going through to consumers—as I



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said before, there will probably be two to three before April—and a margin squeeze. We have lost a third of our margin. You get to the margins of viability, then, because these are low net profit margin businesses. We then have the situation where it will get worse for consumers in our sector, because the VAT rate will go back up to 20% at the end of March. The lower VAT rate is the thing that is helping hospitality navigate—

**Chair:** It is helping to absorb some of the price increases, yes.

**Kate Nicholls:** It is helping us to navigate the price increases and price inflation, and it is also helping us to navigate a very uncertain labour market. The biggest thing the Government could do to help the hospitality sector, short term, is to retain the 12.5% rate of VAT. Then we can invest in our product and our people, and grow our way out of this.

Q144 **Chair:** We will pass your message on to the Chancellor. Tom, to what extent are you able to pass on your costs to these very generous retailers who buy from you?

**Tom Southall:** I challenge you to find a logistics business that does not tell you that margins are very tight. That is the first thing you hear. The opportunity to absorb cost is very small and there are significant other costs involved here. We have talked about pay increases. Cold stores in particular are extremely high-energy-usage warehouses. It is something like 3.5 billion kilowatt hours. Some of our members are reporting 100% to 200% increases, the ones that are not lucky enough to be fixed. It comes down to a bit of a lottery when you are fixed. That is a huge cost they are dealing with at the moment.

Temperature-controlled vehicles are currently able to use red diesel in transport refrigeration units. The Treasury is ending that entitlement from April. That is about £100 million in extra cost to the sector. Diesel itself is at very high levels at the moment. Then there is the cost of materials when it comes to investing in automation, new cold stores and things like that. There is an extreme amount of cost pressure on logistics businesses at the moment. Yes, some of that can be absorbed, but certainly not all of it. It will have to be pushed either way: either up to production and processing or downstream to retailers. Some of those issues, particularly around energy and fuel, are growing concerns as well.

**Chair:** They are largely out of your control as well. That is the trouble.

**Tom Southall:** Absolutely, yes.

Q145 **Julian Sturdy:** There has been some really interesting stuff here. Andrew, I wanted to come back to what you were saying for clarification, really, more than anything else. You were talking about the 0.5% monthly rise in food prices and the growing gap with the continent. Do you have any figures for what is happening on the continent? Is the



continent staying level and we are getting the inflationary rises? Is that what is driving the gap? Is there a different reason?

**Andrew Opie:** I do not know the reason for it. I have only seen some figures around the difference. I just know that in some of the protein areas, for example, the price differential per kilo, if you were to look at it that way, where you could buy those products, is starting to rise. Rather, the gap is increasing. I do not know the reason why.

Q146 **Julian Sturdy:** The rise is based on UK prices going up and the continent prices staying level, then. Is that what you are saying?

**Andrew Opie:** Yes. Well, they are probably going up but not as quickly, if that makes sense.

**Chair:** That will be particularly relevant in Ireland as well. I will not call it the island of Ireland, because otherwise I shall get in trouble with the DUP and others, but there is some processing that does go across the border and is treated the same.

Can I thank all three of you for a great session? You have given us lots of good stuff. Andrew, I appreciate that the retailers do stock a lot of British food. I tease you, but I always want you to do more, of course. We will have you back in, I expect, at some stage.

I thank all three of you for some really good stuff. We can put it to Home Office Ministers. We have the Secretary of State for Defra coming in, which is great, but on a lot of it he is probably quite sympathetic to where we all are. He cannot necessarily get a Home Office decision. We are not getting enough cross-Government priority into how we access labour, keep our businesses going and do not export our businesses. We need to import labour to keep our businesses going and then train up more homegrown labour. If we can, we will take Ian up on his offer of this training scheme.

Like I say, we will put the evidence that you have given us this afternoon to Ministers. You may wait and listen to the next panel or you may go, whichever you feel you want to do. Thank you very much for a very good session this afternoon.

## Examination of witnesses

Witnesses: Dr Ben Broadbent, Madeleine Sumption and Professor Jo Swaffield.

Q147 **Chair:** Would you like to come in, please, with a few words?

**Madeleine Sumption:** I am Madeleine Sumption. I am the director of the Migration Observatory at the University of Oxford.

**Professor Swaffield:** Hi. I am Jo Swaffield. I am a professor of economics and head of the Department of Economics at the University of York and a member of the Migration Advisory Committee.



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**Dr Broadbent:** Good afternoon. I am Ben Broadbent, deputy governor for monetary policy at the Bank of England.

Q148 **Chair:** It is really lovely for you to join us. We are not exactly on time, but we are nearly there, so we will try to get on with this next panel. It is really great to have you all with us. How big a shock for the labour market and the economy was the Government's new immigration policy? I will come to you, Ben, on the Bank's view of this, please. That would be really useful to start us off.

**Dr Broadbent:** You ask how big. We are hampered by a lack of very good data on it. We have not been conducting, thanks to Covid, the international passenger survey, so the ONS has not been able to publish detailed numbers. The ONS provided an update on the population based on HMRC payroll numbers and looking at the nationality of people submitting taxes and tax returns. That suggests something of the order of 250,000 reduction in the number of nationals, at least relative to earlier ONS projections. Perhaps it might be of that order of magnitude.

I could speak a little, if you want, about how we view, in general, the impact of swings in migration.

Q149 **Chair:** I am old enough to remember us always talking about the balance of payments deficit. I am concerned that, if we do not get enough labour in, we will produce less and import more. Is the Bank still interested in what we import compared to what we produce here and what we export?

**Dr Broadbent:** We are more interested in the overall balance of demand relative to supply, but certainly that is closely related. We are interested in that balance because we think it has an important bearing on inflation. Having said that, our starting point at least is that swings in migration do not have a first-order impact on that balance. One has to remember that migrants spend as well as work. Maybe that is less visible.

As a simplifying assumption, if you imagine that all non-UK-born people are pretty much the same as the indigenous population in their economic habits, in the sense that they spend and save roughly the same proportions of their income, or that similar numbers are in work, removing some proportion of those identical people would not have a bearing on the balance between demand and supply. It is not right necessarily to say that all we lose when we lose people is the supply of workers. In principle, we lose their spending as well.

Having said that, if you look at the details, it is likely that non-UK-born people, particularly those from the EU, are not identical. Probably more of them are in work than the indigenous population. They are also slightly younger on average, so there are fewer retired people, for example. It may be that their saving rates are slightly higher. More importantly, they are concentrated more in some sectors than in others. You heard in your first session from people where the share of migrant labour has always been higher than in the rest of the economy.



It is a reasonable starting point, certainly from the level of the macroeconomy, to say that these swings do not have first-order impacts on inflationary pressure. By the way, we have looked for evidence and found that that is borne out. If you have a sizeable change, you would expect to find sectors where that was felt more acutely.

Not only that but this also gets us into territory that I will just touch on briefly. One of the things that Covid has done, locally within this country, but also globally, is lead to huge shifts in spending, away from services towards goods during the lockdowns. There have been geographical shifts as well, and those have exacerbated these strains. It is a fact that the economy is still smaller than it was prior to Covid. It is a fact that employment is still smaller. Within that, there will be some areas where there is excess supply and other areas where there is acute excess demand.

Q150 **Chair:** Of course, the tax take is also less if you have fewer people employed, so the whole thing has a knock-on effect.

**Dr Broadbent:** That is true. One would not want to say that, therefore, countries that have smaller populations are poorer in some sense, because I do not think they are necessarily. One cares ultimately about per capita income. The important thing is that, even underlying that aggregate picture, there will be particular areas that employed more migrant labour, disproportionately, before Covid and will have therefore felt the effects of reduced numbers more acutely.

Q151 **Chair:** Madeleine and Jo, when looking at the amount of people we need, there is no doubt that in the food sector, the food processing sector in particular—I have a poultry farm processing a million birds a week in my constituency—a lot of that labour, 70% to 80% of it, is central and eastern European. Is that being taken into consideration as figures are looked at for the amount of migration we need? Politically, bluntly, let us make sure we have all British workers and keep out all others. Of course, in practice it does not quite work like that. What sort of advice has been given to the Home Office?

**Madeleine Sumption:** One of the real challenges is that there is not really a way of establishing exactly the number of people that the UK economy needs or the different sectors need, for some of the reasons that Ben has just laid out. There are exceptionally few cases where you can make a credible calculation and say, “Therefore we need 20,000 people”, or whatever it is. Maybe in some public services, like if you have social care or nursing, you can make calculations that assume a certain ratio of workers to customers, as it were. In most other cases, these are private sector labour markets that will adjust in different ways.

If you take the meat industry, for example, you can have a certain number of people processing animal carcasses. Some of that work can also be done with machines. The machines cost money and they also can involve more waste. That costs money and may also have environmental



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consequences. There is no fixed law that says that the work needs to be done in a certain way, or indeed that we need to be producing a certain amount as well.

You had a lot of conversation in your previous panel about competition with exports from abroad. Understandably, it is very difficult for businesses that are under so much pressure that they would have to stop operating or significantly scale back production. At the end of the day, I am assuming that even the clever people at the Bank of England are not going to tell you, "This is the ideal size of the meat processing industry".

Q152 **Chair:** Sorry to interrupt, but do you not go into the level of detail where, historically and right up to the time we left the European Union, we had this level of workers in particular sections of industry and the food processing industry across the piece is probably 60% to 70%, I expect, overall? If you are going to look at the number of people that we need to have as imported labour, surely that is relevant. Do you not go into that level of detail?

**Madeleine Sumption:** I prefer not to think about these things in terms of need, because it encourages you to go down a path of thinking about labour as a fixed lump of people. In some ways, it is easier to think about it as consequences. If we either maintain or reduce the labour supply, what will be the consequences of that? Obviously, this will vary a lot across sectors because of the different reliance of different sectors.

There are also different short-term and long-run effects. If, for example, we talk about significantly restricting the supply of labour, that will be disruptive in the short run for employers who are heavily reliant on migrant workers, because some employers have business models that effectively depend on those workers being available. In the long run, the impacts are expected to be smaller.

Without wanting to simplify too much, there are basically three main ways that employers can adjust to restricted supply of labour that they have been reliant on. They can attempt to hire British workers, maybe offering higher wages. There is obviously quite a lot of anecdotal evidence, for example from the HGV case, that wages are going up. In other sectors, profit margins are pretty low and it is difficult for employers to do that.

It is often talked about as if Brits versus migrants is the only choice that is being made. You also have automation, which many people will regard as a good thing. There is some evidence that employers are already automating some tasks as a result of restricted supply of labour. There is evidence from other countries that immigration can act as a disincentive to automate. Then, of course, you can import it from abroad.

Q153 **Chair:** Jo, from the economic point of view, we have been hearing evidence that, if we do not have the workers to process and others to drive, we may not have the business in the future. What is your take on



the economics of it?

**Professor Swaffield:** In terms of the economics of it, we have to be aware that workers can change their productivity levels. I do not agree with the idea that we have a certain number of workers and therefore we have a certain amount of output and that is fixed and cannot be changed. The pressure on trying to recruit can actually create an incentive to invest in a different capital-labour ratio, by which I mean an investment, as Madeleine has already said, in terms of automation. Where that is helpful in terms of productivity, we can have fewer workers and higher aggregate output because of increases in productivity by worker. In principle, from an economic point of view, we do not have to be necessarily frightened of the idea of fewer workers if more of our workers are more productive. That is not problematic.

In terms of moving the economy in a positive way and, as Ben has already discussed, in terms of per capita, that is a positive thing. We should not be worried about having a workforce that is highly productive. From an economic point of view, as a labour economist, that would be something I would welcome. That would be a positive position for the UK.

More broadly, in terms of your question about how much of a shock the new immigration policy is, like Ben, I would say that the data is not there for us to make a really clear, accurate assessment. We have some data and information on maybe numbers of EU citizens who have left, but those numbers are not entirely clear. There have been issues around the collection of that data with the labour force survey, which cast some question over the actual numbers. We do not have a definitive answer there.

If you are asking me, as an economist, how I would view this current situation, I would caution against trying to take some broad-brush picture at the macroeconomy level. That is because different parts of our economy and different occupations present different risk of issues to do with migrant labour. As a result, if you look in the aggregate, that aggregate picture can actually mask some quite acute difficulties in certain occupations. It is more helpful, as we heard from your previous speaker, Andrew Opie, rather than thinking about one size fits all, to actually think about those particular occupations and, as such, how to build appropriate tools across a range of different approaches, of which migration might be one.

Q154 **Chair:** Sorry to interrupt, but to what extent do you take evidence, if you like, or make your assumptions, on talking to business? If you talk to the business sector, you will find that, certainly in the processing and farming industry, it is quite often difficult to match the level of production with homebred workers with many imported workers, especially if it is manual labour. Also, your assumption that everything is going to be mechanised is fine, but it is not going to be done in five minutes.

Surely there must be a method of getting from A to B, because otherwise



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we just run out of workers, like we appear to have done at the moment. I do not quite understand exactly your logic of saying, “Is there a problem? We are not quite sure what it is”. It is no wonder the Home Office, putting it bluntly, does not come to the right decision, in my view, because it is not getting any clear advice. That may be a bit harsh. I do not know.

**Professor Swaffield:** Just to confirm, I was invited to come and speak in a personal capacity. I clearly identified that I am a member of the Migration Advisory Committee but I am not speaking on behalf of the committee.

In terms of questioning my logic of automation, I do not think I suggested that all jobs would be automated. I said that, as the relative prices of labour that are faced by employers change, that makes the investment into more automated methods or innovation in production in farming—that does not necessarily have to mean automation; it may be how one farms—more attractive, because of the relative changes in labour. That is logic. That is what we observe.

In a personal capacity, I can confirm that I do not speak to employers. As part of the Migration Advisory Committee, I take part in quite extensive engagement with stakeholders. That is in meetings with people representing groups. Also, we take evidence from those sectors that we are considering for the shortage occupation list. Where those are appropriate in relation to the skill thresholds, we speak with those people and take their evidence.

Q155 **Ian Byrne:** Madeleine, how has Brexit and the pandemic changed the labour market in the food and farming sector and the UK economy more broadly? Are these changes permanent?

**Madeleine Sumption:** We have briefly touched already on the issue of the number of EU citizens. There is a fair amount of misunderstanding about how many people left during the pandemic. That is reasonable, because there is a huge amount of uncertainty statistically. The initial reports of a very large exodus of people are now recognised to have been almost certainly wrong. The decline in the number of EU citizens in particular was smaller than initially estimated.

The latest ONS position, based on the information it has, is that the number of employed EU-born people fell by around 230,000 in the year up to the end of 2020, but not all of those people left. Many of them remained in the UK, unemployed, and have re-entered employment. The total number of EU-born people in the most recent figures is not that far off the summer 2019 level. The overall picture is that outflow has not been that dramatic, but that is of course overall. Some industries are going to be much more affected by that than others.

We also have this pool of people with EU settlement status who are not living in the UK. We do not know how many of them there are, but it is



potentially quite a large number of people who may have never even lived long term in the UK, who were just here temporarily when they applied. There is basically no way of knowing whether any of those people will come back to the UK.

The one thing we can know, when thinking about people who have left, is that this pool is going to dwindle over time. As I think one of your previous witnesses pointed out, there is a lot of confusion about who is allowed to come back. Regardless, if we are talking long term, people will eventually lose their status if they do not spend a long enough time in the UK. That pool of potential returnees may be a thing in the short run, but in the long run it is going to become much less important.

**Professor Swaffield:** I agree with what Madeleine has just said about the numbers of EU citizens. In terms of the issue about the extent of the effect of Brexit on the labour market, this is an issue that is evolving. We are only 11 months into the new immigration rules and changes. It is worth thinking about how the new immigration rules compare with the previous free movement.

There was the end of free movement, the end of the movement of all EU migration, potentially across all skills. Instead, now we have the skilled worker route, where jobs at RQF 3 and above are available for migrants to come through on those. Of course, those are visas available across the whole world, not just the EU. In addition to that, there is then the SOL, which prioritises certain occupations. As long as those occupations are at RQF 3 or above, there is access through the skilled worker route. Then, of course, we have the seasonal worker pilot for those occupations in agriculture that were flagged as being particularly dependent on foreign-born labour. They have access through that scheme.

In terms of what the future might look like, there will be a change in the EU labour supply. As Madeleine said, we have a stock, and there is an extent to which that stock of EU citizens wish to come back; I think there are about 5.55 million who applied for the EU settlement scheme. There is a stock there, but if there is obviously not the flow of free movement of labour into the UK, that lack of flow will obviously result in a reduction in that stock over time.

What we might want or expect to see is a change in, if you like, the composition of those inflows of migrant workers, which is at the higher level, which is that medium and higher level of training needed for roles that are RQF 3 and above. We would expect to see the changes to be evolving over time. At this point, it is too early to make any decisive comments about what that is necessarily going to look like, because we are still in a period of change.

Q156 **Ian Byrne:** That was a really comprehensive answer. Ben, would you like to add anything?



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**Dr Broadbent:** I do not think so, not on that. I agree with the other witnesses that it will take time to tell.

I thought I might say something about the economic effects, in particular in those industries where migrant labour has been heavily used, of restricting supply and what the response might be. Madeleine is absolutely right that there are various things that would change. It is better to think about the consequences than some fixed number of need.

It is true that they withdraw that supply and, as a consequence, labour costs and wages go up in a particular sector. Then it would increase the incentive to automate. What you said, Chair, that it would take time, is also true. Indeed, in some places there is no alternative technology that you can suddenly leap to. The consequences in the meantime for those sectors where there is no investment available to substitute for the labour would be higher prices and, to the extent that higher prices reduce demand, a smaller sector.

That is another way out. It is not inevitable that you either can find or indeed cannot find these investments to replace people. There will certainly be some sectors where it is just not possible and where the consequences are, ultimately, a smaller sector.

Q157 **Ian Byrne:** I will stay with you for the second part of the question. How do recent changes in other competitors' labour markets compare to ours?

**Dr Broadbent:** That is a very good question. It is quite important and worth highlighting this as an indicator, at least, of the importance of the new restrictions on immigration, whether those are from Covid or Brexit, thus far. As the others have said, it will take time for those effects to come through. It is important to note that a lot of what we are seeing here is also being felt abroad. Even in the sectors that you are most interested in, as we heard in the previous session, that is the case.

We at the Bank and on the MPC are obviously interested in more macroeconomic and more aggregated measures of labour shortages. Those are pretty acute, whether you look at labour market surveys, either the formal ones or what we hear from our own agents, wage growth, particularly in some areas, and the overall level of vacancies in the economy. We are seeing very similar things abroad. Maybe they are not quite as acute in continental Europe, but they are more so in the United States. All those indicators look even more stretched in the US than they do here.

I would mention a couple of things that have happened that are certainly not to do with Brexit. One is that the pandemic seems to have resulted, in all these jurisdictions, in lower labour market participation. In this country, the active workforce, which is the number of people either in work or actively looking for work, so the employed plus the unemployed, has fallen by about 450,000 since just before the pandemic.



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There are probably several contributors to the HGV driver shortage, but it may be, for example, that one of the reasons is that a number of the older drivers have just retired earlier than they might have done. We know in the younger age groups—this might have contributed as well to shortages in restaurants—more have chosen, during the lockdown and during 2020, to go into full-time education.

There are things that are common to many countries. Thus far at least, those things seem to be the dominant influence on labour supply and labour shortages, which is not to say that Brexit has not already had an effect. It is just that it is difficult to identify precisely what it is. Whatever it is, it looks to have been smaller thus far than these other huge impacts of the pandemic.

Q158 **Ian Byrne:** That is a good answer. What we are seeing is not unique to the UK.

**Dr Broadbent:** No, it is not. As you heard in the last session, there may be things that are more acute here. Directionally, if you set your graph of vacancy rates or reported labour shortages, they look pretty similar in many countries. They have all gone up very significantly.

Q159 **Ian Byrne:** Jo, do you have anything to add?

**Professor Swaffield:** I have nothing, really. I agree with what Ben said on the experience of other countries. If I might, I will raise a point that I think is worth considering with that. Where other countries are experiencing the same challenges that we are, that suggests that there might be more than one country that is looking to invite workers to come here to do the jobs that we are not able to find workers for.

That point is worth considering when we talk a lot, understandably, about this discussion in relation to both producers and suppliers, in terms of profit margins, ability to absorb price changes, the effect for consumers and keeping in mind a little bit the fact that, for workers to want to come to the UK, we need to be offering jobs and positions that are attractive. That is not just in terms of wage rates. That can be in terms of the immigration framework, to allow people to come and work in a way that they may wish.

We are competing against other countries that might be offering more favourable immigration frameworks for them to do that. It is worth keeping that in mind when we are starting, particularly as you have, with a question to ask about ourselves in a competitive global environment for workers from outside our borders.

**Ian Byrne:** That is an excellent point to finish. Well said.

Q160 **Chair:** Jo, on that point, the market has got quite competitive in this country as well. We have individual companies competing with each other to get workers. Is that borne in mind as well?



**Professor Swaffield:** Is it borne in mind in what sense?

Q161 **Chair:** I know it is not always easy to get imported labour, but when looking at the amount of imported labour we mean. We have talked to a lot of individual companies that are saying that the problem is that they offer higher rates and take workers from other companies, but it does not overall cure the shortage.

**Professor Swaffield:** No. In a very simple sense, if you have jobs that require skill and there is only a certain number of people who currently have those skills, what will happen is that, as you have heard described, that limited number of people will move around. At the moment, the HGV drivers are a good example of that. I guess one's feelings about the change in wages for HGV drivers will depend on whether you are an HGV driver or not. You may feel that this is finally the point that your salary has been adjusted to the point that is more appropriate for the difficulty or challenge that you feel doing those jobs.

In terms of how you fix the problem of labour shortage, where we are talking about individuals who are skilled, obviously you need to skill more people. The HGV drivers are quite interesting to look at, because, when you look at some of the challenges in that sector, it is not immediately obvious that Brexit is necessarily a problem for that sector.

If you look at that sector over time, there has been a very interesting short, very detailed and helpful summary from ONS just recently produced about HGV drivers, the numbers of people working in the sector, the changes and the UK nationals versus EU. When you look at that, you can see a pattern of change that has been coming for quite some time. It may have been exacerbated by Covid and Brexit, but it is not something that has surprised the sector.

There is the idea of the comment just made about bringing inactive people back into the labour force. If you are looking at the number of relatively young workers that are leaving the HGV drivers, so the 46-to-55, which is not a particularly old age group, and the fact that it is not encouraging younger drivers coming into it, that is the problem, in some sense, with that sector, or the shape of the problem. It is not necessarily a question of immigration in the way that, if you look at seasonal agricultural workers, the vast majority of workers in that sector are foreign born. It is a different question. That is worth considering.

**Chair:** I think we are going to go on to the seasonal and agricultural workers now, so thank you for that answer.

Q162 **Derek Thomas:** Thank you, witnesses, for sparing the time. I am going to target individual questions at individual experts, if that is okay. Jo, with the current unemployment rate, is it realistic to expect food and farming businesses to turn to domestic workers to replace the foreign workers they would have previously had?



**Professor Swaffield:** In some sense, at this precise point, they do not have a choice about that, because there is no other labour to recruit, other than through the recent visas, for example with the poultry and the butchery. They do not have an option, in terms of another route, because the skilled worker route is for RQF 3 and above.

Do I think that they could recruit people who are unemployed? The answer, is, in principle, if there are workers looking for posts and employers looking for those, if there is a skill match between the two, of course they could recruit them. Whether that will happen will be a function of the degree of match between the unemployed, the vacancies and the jobs. It is not just a question of skill, but it might also be a question of location. It may well be that, as we have heard from your previous witnesses, there is a mismatch between where there are unemployed workers and, for example, maybe in hospitality, where there is a demand.

Will it automatically be the case that, because we have unemployed workers and firms wanting to recruit to their vacancies, that will clear? The answer is no. It depends on the degree of match between the two.

Q163 **Derek Thomas:** That is really helpful. Ben, are higher wages the solution, given the state of the current labour market? Is that the way we address the labour shortages in the domestic market?

**Dr Broadbent:** I would not call it a solution. I would call it an outcome, unless some combination of weaker demand and greater supply of labour changed the picture. I think that this will happen, to a degree. Participation, for example, will go up. We have had the puzzle of there being a million jobs, although not necessarily a million people, still furloughed right at the end of the scheme. Many of those people were working. Many of those that were on furlough were on part-time furlough, but something like 150,000, even within the restaurant sector, were still furloughed in September, which is quite something.

The answer may be, as Jo said, that you have geographical, not just skills, mismatch, where the demand has grown much more steeply outside city centres. Again, we would not be the only country where people have moved away from city centres and into suburbs and the countryside during the pandemic. Those strains will lessen over time. Maybe demand is being boosted by the savings that people accumulated and the influences on participation may go away. Ultimately, yes, part of this, certainly in certain sectors, it is very clear, is resulting in higher wages.

I would not call it a solution. I would call it an inevitable outcome in some places. The question is then the one we talked about earlier: if labour does not come back, to what extent will those higher wages prompt labour-saving technologies and investments in those things? To what extent—and this is likely to be the response sooner, if not the only response ultimately—will prices go up? Higher prices might, in some



cases, reduce the size of the sector. In the end, these markets clear. If you do not have any more people and they are very specialised, in the end, short of some labour-saving technology, the output in that sector will be limited and the means by which it will be limited will be higher wages and prices.

Q164 **Derek Thomas:** That is great. Madeleine, I want to flip the question that I asked Jo on its head. Given Jo's response to the domestic market, does the current Government's immigration policy work for food and farming? How effective is the shortage occupation list as a tool to support sectors that have specific labour challenges?

**Madeleine Sumption:** The first thing to say is that the current immigration policy is not really designed to work for food and farming, in the sense that most of the jobs we have been discussing are not eligible for visas at all because they do not meet the skill criteria or, in some cases, they do not meet the salary criteria. That was not an oversight. That was a deliberate decision to have an immigration policy that was very much slanted towards high skilled.

On the issue of the shortage occupation list, there is often an assumption that the shortage occupation list can be a solution to everyone's problems. It is worth recognising that it is quite a narrow tool. You are basically talking about reducing the required wages for workers. For example, if butchers had been put on the shortage occupation list, they would have been able to come on a lower salary. They still would have needed to meet the English language requirement. My understanding is that, at least according to employers, that has been one of the main barriers.

In general on the shortage occupation list, there are difficulties in expecting this tool to respond really quickly. There is always going to be impreciseness. There is no single methodology to decide what we need. Equally defensible options will produce different results. There is a lot of subjective judgment. The real implication for me is do not build a policy that relies on this list being correct, because there is no absolute truth here.

It is also inherently slow-moving. One of the challenges in a debate like this is that immigration policy is not the scalpel where you can say, "We need an extra 300 people here, so we will quickly introduce it tomorrow. They will all come flooding in and it will all fix the problem". Immigration policy is an unwieldy machine and it is sometimes easier to think about what a sustainable policy that makes sense for the long term is. Do we want to have workers coming into lower-waged jobs in the food and farming industries or not? We should stick with a policy for the longer term, rather than trying to switch, change and keep up with the latest changes in the labour market. Probably, by the time you have done that, things will have moved on anyway.

**Derek Thomas:** That was largely what the first panel was trying to get



across to us.

Q165 **Ian Byrne:** Jo, how important is migrant labour for the seasonal agricultural sector?

**Professor Swaffield:** The answer to that, in the simplest way, would be very. On the SAWS, the seasonal worker pilot, the Migration Advisory Committee advised, as one of our recommendations to the Government in 2018, after the ending of free movement, to have a seasonal workers scheme. The actual recommendation we made was that it should be at a level with wage rates above that of the national minimums, as a way to ensure that the sector was aware of the fact it had been given preferential treatment to access labour in this way. That would hopefully help encourage some degree of innovation in those areas to reduce the need of such workers.

How important is it? The answer is very. It is an important scheme. One point I tried to make, probably not very clearly, at the start was about the importance of different areas and occupations. For example, when we talk about HGV drivers, that is different from butchers, and butchers are different from seasonal agricultural workers. When we look at, for example, at the moment, the seasonal agricultural workers scheme, I understand that Defra and Home Office have evaluated that pilot. I have understood that that evaluation will be shortly released to Parliament and will be of interest to people. I have not seen it myself on MAC. We have not seen that on the Migration Advisory Committee.

That pilot is really important for understanding how effective this tool of allowing immigrant labour to come in to work on the seasonal workers pilot has been. That is not just effective in terms of how many people came in, but the working conditions and the experiences those workers had while being here in the UK, working in agriculture.

Also, on the seasonal workers scheme, I will just note that my understanding is that it is just for edible horticulture. It does not need to be. My understanding is that Defra and the Home Office could have decided that it was appropriate to recruit workers into both edible and ornamental, which is flowers, for example. There is absolutely no reason why, within that existing scheme, it could not potentially meet what I have understood is a demand for workers in what is, by definition, seasonal work in areas that are often remote and do not have appropriate labour force available to work in those posts in that timescale. Understanding that specific nature of seasonal, which is not that it is continuous, is important for understanding special routes into the UK with skill levels that are below RQF 3.

Q166 **Ian Byrne:** That was a brilliant answer. It has answered a), b) and c). Madeleine, would you like to add anything to that?

**Madeleine Sumption:** On the seasonal agricultural workers, one big issue is the numbers that come in under the scheme. There has been a



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lot of discussion. I know from previous sessions you have had as well that there has been a debate about what those numbers should be.

One thing that is worth considering when thinking about the numbers is that obviously it makes sense to announce them in advance. Planning is helping for employers and reduces the inefficiencies and losses from not knowing what policy is going to be in advance. There is a question that is worth asking: what is the point of having a cap on the scheme and what are you trying to achieve with it? From an economic perspective, caps generally are not seen as a terribly efficient policy tool, because they introduce some arbitrariness. This employer gets some visas, but then they run out, so the other one does not, even though the circumstances are basically similar. Economists will often say, "If you want to restrict numbers, think about other ways of doing it", so maybe requiring guaranteed hours above the minimum wage or something like that.

This may be something worth exploring with the Home Office. What is the purpose of the cap? Are there concerns about the programme? For example, is the concern that too many people might come in on the minimum wage? Is the concern about exploitation of workers? Is the goal to drive automation in the sector? There may be other ways of achieving that, rather than having a cap, which can be quite a blunt instrument to manage the programme and creates a bit of unpredictability.

**Ian Byrne:** That is a really good point. I have just seen the Chair noting that down, so I am sure that will be asked, so thanks for that.

Q167 **Chair:** The last question is mainly to you, Ben. Are increasing wages in the food and farming sector and the risk of a broader wage-price spiral due to labour shortages the biggest concern to you arising from various cost pressures facing the sector? What is the Bank's view of it? We were asking the previous witnesses to what extent this is going to be inflationary.

**Dr Broadbent:** I will speak mainly, as I have done before, about the aggregate economy, which is what concerns us. Our remit asks us to target the CPI inflation overall. There are some things in this sector that are illustrative of wider things going on in the labour market. The answer to your question of whether it affects inflation is, certainly in the short run, yes.

Let me step back a bit and try to give you a broad description of where the inflation we are getting now is coming from. There is a whole chunk of it, and probably the significant majority of it right now, that is not really to do with the domestic labour market at all. I mentioned earlier that one of the things that happened during the pandemic was that spending by consumers certainly had seen this huge shift, broadly speaking away from services and towards goods. That was clear within our own numbers. Even at the end of last year, we saw very strong growth in retail sales, even as spending on services, restaurants for example, fell very sharply.



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That shift in spending, coupled with acute problems, particular supply problems in bits of the supply chain, notably in Asia, has led to big increases in prices of traded goods globally. The most dramatic example recently is gas. Oil is in there too. Agricultural commodities, which were mentioned in the last session, and computer chips and all the things they feed into are all examples. It is particular supply problems but also this huge shift in demand, which was exacerbated by the very significant easing in fiscal policy in the United States.

To give you one example, the spending by American consumers on consumer durables, even allowing for the fact that they could not get hold of cars, was over 30% higher in the second quarter of this year than it had been before the pandemic. It was a massive increase. That inflation, those strains in global traded goods prices, are the main reasons for the inflation we are getting now and indeed will have contributed to what we expect to see in food prices.

You asked the questions earlier. Within our forecast, which mainly because of big increases in gas prices has overall CPI inflation getting as high as 5% in the second quarter of next year, we expect food price inflation to rise to around the same rate at around the same point. It has been pretty low for a number of years. It has certainly been higher than 5% in the past. It was more than twice that just after the financial crisis. These pressures, which, as I say, are not restricted to the domestic labour market, certainly will, we think, result in a higher food price inflation.

**Q168 Chair:** Sorry to interrupt you, but I want to ask you the million dollar question. If we see inflation around 5%, how long can you leave interest rates where there are at the moment. If you start putting interest rates up too much, we will have to spend billions extra in paying off our huge debt.

**Dr Broadbent:** There is a lot, so let me try to answer. We had our inflation report, now called the monetary policy report, and our latest set of forecasts last week, so it is a reasonable time to try to restate today what we said then. One of the benefits of dividing the sources of inflation into two—on the one hand, the global stuff, predominantly goods, and, on the other hand, the strains in the domestic labour market—is that it is reasonable to expect them to play out differently over time.

**Chair:** Sorry to interrupt you again, Ben. We can still take it as evidence, but we have lost a member so we need to go into private session now.