HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Industrial Strategy: sector deals and productivity, HC 663

Tuesday 17 Jul 2018

Ordered by the House of Commons to be published on 17 Jul 2018.

Watch the meeting

Members present: Rachel Reeves (Chair); Vernon Coaker; Drew Hendry; Stephen Kerr; Peter Kyle; Sir Patrick McLoughlin; Mark Pawsey; Antoinette Sandbach.

Questions 72-159

Witnesses

I: Helen Dickinson, Chief Executive, British Retail Consortium and Kate Nicholls, CEO, UKHospitality.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

Examination of witnesses

Witnesses: Helen Dickinson, Chief Executive, British Retail Consortium and Kate Nicholls, CEO, UKHospitality.

Chair: Thank you very much to Helen Dickinson and Kate Nicholls for coming in to give evidence to our Select Committee today on industrial strategy: sector deals and productivity, on the retail sector and the hospitality sector. We are very keen to hear your evidence today. We will start with Drew.

Q72 **Drew Hendry:** Good morning. More than 22,000 jobs have been lost in the high street over the past year. Restaurant chains are closing branches and big brands are going out of business. Are there are parts of your sector that you feel have been worst hit?

Kate Nicholls: Undoubtedly, the eating out sector in hospitality has been the worst hit. That has been the most high-profile casualty that we have seen and heard. However, the contraction of margin across the sector as a whole has been pretty uniform. In restaurants, as a result of regulatory cost pressures, Brexit, lack of confidence and increased food price inflation, we have seen about a third wiped off the margin, which is what has resulted in quite a number of high-profile casualties. However, it has also affected hotels, pubs, coffee shops and the high street more generally to a greater or lesser extent, depending on their exposure.

Helen Dickinson: From a retail industry point of view, we are in the midst of a transformation of the very structure of the way that the industry works. Although retail sales are still growing, that growth is quite slow and what we are seeing, specifically in terms of job losses, is the more established and more traditional businesses going through that restructuring process in order to set their businesses to be fit for the future. That is really around looking at how they balance their physical store portfolios versus online. Lots of those older, more established businesses are closing stores. At the extreme end, we have a number of company voluntary arrangement processes, both in retail and the leisure industry. I think we are in a sort of flashpoint of lots of external pressures all coming together at the same time, which is causing what we have seen over the last six months to be particularly significant.

Q73 **Drew Hendry:** Kate listed some of those pressures very briefly. What do you think are the major challenges that are affecting the health of your sector?

Kate Nicholls: The major challenge that has triggered a number of the CVAs and caused the chaos on the high street with leases and those that have higher exposure to leases is undoubtedly significant increases in business rates. We had very large increases that fed through in the first two years. Unlike previous rounds, where the pain had been spread for those facing an increase over five years, it hit mainly in the first year and then, for a number of businesses who had the most significant increases, in the second year. Hospitality as a whole saw an increase in its rateable values and the rateable bill of about 25%, but some of our members have reported 400% or 500% increases in their rates bills. That is what triggers a business to go from being sustainable to unviable overnight.

Helen Dickinson: I think within retail there are probably a wider set of factors. Business rates would definitely feature, but across retail, we have the combination of a number of policy-related costs coming together, whether that is business rates, national living wage implementation, apprenticeship levies or the impact of the Brexit vote on the pound, which then made imports more expensive for people who are selling into the UK market. There is a whole cost bundle, of which business rates is a significant part; a slow market in terms of growth; and, back to what I was saying before, a need to really invest in digitisation and technology because that is what the customer is demanding in terms of the way that they shop. It is the combination of all of those things coming together that is the backdrop.

Q74 **Drew Hendry:** You both mentioned Brexit. Is the effect on the pound the main effect, or are there other issues?

Kate Nicholls: I think the effect on the pound had an immediate impact, because it had a direct feed through into food price inflation, which went up to about 12% immediately after the Brexit vote and is only now coming off the boil. It fluctuated. It certainly had a knock-on effect on investor confidence and business confidence, and then more latterly—probably last September—we saw a real downturn in consumer confidence as we have protracted uncertainty. Those are the main impacts of Brexit that were immediately felt.

The other factor for our sector, as a large labour-intensive business, has been the downturn in the number of EU migrant workers coming in and a number of people going home. Where you have almost full employment, labour-intensive businesses like retail and hospitality have found that they are facing labour shortages as a result of Brexit.

Q75 **Drew Hendry:** Talking about the positives, what do you feel are the strengths of your sector just now?

Kate Nicholls: It is highly entrepreneurial. One of the reasons we have seen a downturn in numbers is that we tend to measure net closures—openings less closures. Over the past few years we have been opening substantial numbers of new restaurants, pubs, bars and hotels. There is still investment going into the sector; it is just that the number of closures that are happening has overtaken the amount of openings. I think it is very vibrant—

Q76 **Chair:** What is the net number, Kate?

Kate Nicholls: The net number at the moment is two restaurants a week closing, net, and three pubs a week closing, net. You don't tend to capture the same statistics for hotels because they have a longer lead time and are a longer fixed asset, but on the high street, businesses that we are looking at, it is three pubs and two restaurants, which is a complete flip. A couple of years ago we were opening two restaurants—the net figure was positive. It has been quite a transformation over the past two years, and it is particularly over the last two years that we have seen that happening.

Q77 **Drew Hendry:** What do you feel are the biggest drivers of productivity in your sector? What do you think affects it most?

Helen Dickinson: It has really been interesting looking at productivity over the past few years. We have been tracking it as part of a focus on the need to upskill and change the skills of people who work in the industry, given the technology revolution that we are in the midst of.

The common narrative on productivity across the economy is real wages being static or falling, productivity being fairly flat and employment rising. In retail, it is completely the opposite. Employment is flat or beginning to fall for the reasons we talked about earlier, pay is rising much more quickly than inflation, and productivity in retail is growing more quickly than it is across the rest of the economy. The employment and the productivity statistics go together from the point of view of what we were talking about before.

We are seeing people investing more in automation and in warehousing capability. I had an example of a retailer I was talking to the other day. They built a new warehouse, which they have just opened. It was very similar to one that they had previously. The old one had 300 people in it; the new one had 150 people in it. The difference was in the trade-off between the cost of people and the cost of technology—that balance had shifted.

The most important thing, from a retail industry point of view, in terms of improving productivity is facilitating and enabling that investment in new technologies, and—this is where the relationship with Government comes in—making sure that the consequences of needing to retrain and reskill, and the impact on local communities, particularly perhaps those that are most vulnerable where retail becomes less of a significant force, are dealt with appropriately.

Q78 **Stephen Kerr:** Do you think sector deals are the best way to raise productivity and improve your sector, Helen?

Helen Dickinson: Do I think—?

Stephen Kerr: You smiled when I mentioned sector deals.

Helen Dickinson: I will smile when you mention sector deals. The rationale and the themes behind the industrial strategy are completely the right focus. Touching on what I was saying before around skills and the need to reskill and digitise many of the roles that we currently have in the industry, I am not sure that sector deals are the best way to do that. I think the industry itself is doing a lot. Most important from a productivity point of view is making sure that we have the relationship with Government that deals with some of the things that sit around the edge and stop investment in those new technologies.

If I look back over the course of the last 12 months, I was very excited—if one can get excited as the chief executive of the Trade Association—by the concept of a sector deal. I thought, "This sounds like a great idea." We did an extensive engagement with our membership to come up with some idea of things that we wanted to look at. We were really clear that we wanted really specific things. I had the impression, rightly or wrongly, that perhaps some sector deals had been lovely, bow on, profile-raising—

Stephen Kerr: Headline-grabbing.

Helen Dickinson: Headline-grabbing—whatever words you want to use—whereas we wanted to find some very specific things that would make a difference. We had two ideas—which we can touch on if you are interested—that, after a period of 12 months, for various reasons, we are not particularly progressing.

Q79 **Stephen Kerr:** What were the two things?

Helen Dickinson: The first one was linking the challenge that the industry has with the apprenticeship levy. We have an apprenticeship levy that is not being fully utilised by the industry, which is a missed opportunity because conceptually it should be part of a solution to the transforming nature of jobs. We have a challenge across the economy with digital skills. We were talking about whether we could find a way to introduce more flexibility in the levy—the ask of Government—if the give from the industry is actually investing in basic digital skills for people across the workforce. Can we use the scale of retail across the economy in order to be able to make that investment? The flexibility in the levy—

Q80 **Stephen Kerr:** That is not an exclusive ask of your industry.

Helen Dickinson: No, it's not, but the reason that has taken a pause is that the Department for Education is not in the space of wanting to consider how to introduce more flexibility in the use of the apprenticeship levy.

Q81 **Stephen Kerr:** Thank you. Kate?

Kate Nicholls: We are actively negotiating with Government to see if we can get a tourism sector deal.

Q82 **Stephen Kerr:** Right. What would that look like?

Kate Nicholls: It has four pillars. Helen is absolutely right that in a sector deal there are constraints about how you can frame it, which means that you cannot take forward issues, such as the apprenticeship levy, that are general to everybody. In the sense of tourism, we felt it was worthwhile to do because we felt it would have a galvanising effect in Government. Tourism and hospitality tend to get overlooked as an important industrial sector and employer. We also wanted to look at four key planks that we wanted to work with Government on. One was about extending the season for a lot of tourism businesses, so that they could trade more profitably and improve productivity throughout the year. As part of that, we wanted to work with Government on a strategy for major business events to win more business competitively as UK plc when we go out for big conferences. There is a challenge there.

Another pillar is around connectivity, which is to do not only with how we get visas and tourism numbers coming in, but with how we ensure that they move around the country seamlessly and how we upgrade broadband and digital skills for small businesses. That would mean more visitors moving around to more parts of the country, having a better, broader experience and staying for longer. The third area was improving skills and getting backing for a campaign that the institute wanted to run about it being a career of choice, communicating out and improving the image of the industry as a career of choice and addressing some of the specific skills issues there. The final element was tourism zones, which would link in with local economic partnerships, which are not always in the right place for tourism businesses. Not all local economic partnerships recognise tourism as an engine of economic growth locally, but would play a similar kind of role to do some destination management, to promote and to work locally with small businesses to improve their productivity at a very local level.

Those were the four big tranches that we looked at with Government. The main area that I have focused on is improving skills and recruitment and the attraction of jobs in the sector. The Joseph Rowntree Foundation did a piece of research earlier this year that said that in labour-intensive, low-productivity sectors such as hospitality and retail, the biggest thing to improve productivity was to invest in leadership skills, to help people to make that step up to assistant manager or restaurant manager, as well as in digital skills. That is what we are putting together as a package.

Q83 **Stephen Kerr:** Very interesting. The skills thing is absolutely critical. You mentioned leadership skills; Helen mentioned digital. What are the other specific skills that are causing a logjam in terms of improving productivity?

Kate Nicholls: It’s both. You will get some very good people in our sector and you can rapidly rise from being entry-level to running your own restaurant or pub or being a hotel manager within two years. However, not all the businesses, particularly the small and medium-sized enterprises in the sector, are very good at training people to be a manager. That is something we fall down on: some targeted, specific interventions for those people who are ready to move up, to help them make that step.

Q84 **Stephen Kerr:** That is very good. I mentioned Travelodge. Travelodge just opened a new place in Stirling and the manager for this new Travelodge is 23 years old. He came into the business as a chef and has progressed very rapidly. So it does happen.

Kate Nicholls: Yes. And that is common across all the larger employers in the sector. They have structured programmes in place. That is the beauty of hospitality. In any constituency across the UK, you can come in with zero skills and we will invest and upskill you. As Helen said, what we need from Government is some headroom to be able to make that investment in physical capital and human capital and to be able to do that. We can take you very rapidly. In tourism, 90% of the sector is made up of SMEs, so it is about taking that good practice, drawing it down and expanding it and making it available to all.

Q85 **Stephen Kerr:** Business rates are often mentioned as a burden. Is that really the case? How much of an issue are business rates?

Helen Dickinson: I have been at the British Retail Consortium for five years and it was an issue before I started, so it has been around for a long time. It is the combination of all those factors that I mentioned earlier coming together, but business rates is always the one people point to. The reason why they often point to it is because it is completely out of line with what happens in other countries. In the UK, we have got a property-based tax, which is a bigger proportion of total tax than pretty much anywhere else in the developed world. From a retail point of view—and I am sure it is the same from a leisure point of view—it makes corporation tax and other taxes pale into insignificance. Retailers pay £2.30 in business rates for every £1 of corporation tax. From an economic point of view, the contribution the industry makes to the economy is about 5% net in GVA terms. It pays 10% of business taxes and 25% of business rates. The whole thing is out of sync.

Again, it is slightly different for a leisure operator; you can't go out for dinner online. For retail businesses, the customer is really looking for both a physical experience in a shop—probably in fewer shops than we have had in the past—and the ability to buy online. We need to remove the disincentive of investing in that physical property. I am not a proponent of suggesting that the answer to that is putting it online, because I come at it from an industry point of view. It is the way that business tax across the whole of the economy needs to change.

Stephen Kerr: It is a massive issue and we probably have run out of time.

Q86 **Chair:** To what extent do you think that unequal treatment of online and physical store presence has contributed to the closure of some of the big—sorry Mark, are you coming on to this issue? Maybe we will go straight to Mark. I'll tee it up for him.

Q87 **Mark Pawsey:** Chair's prerogative. I was very keen to raise with you the issues about online. Helen, your organisation has said that the market share of e-commerce in the UK is now as high as 24%.

Helen Dickinson: For non-food.

Mark Pawsey: For non-food.

Helen Dickinson: Yes.

Mark Pawsey: That is a pretty substantial chunk. One reason why the Committee is looking at this issue is that the industrial strategy speaks a lot about productivity. I think you mentioned an automated warehouse where 150 people are employed but where, in other circumstances, 300 were employed. Is the productivity gain that retail is experiencing arising a consequence of internet purchasing? In the internet environment, people don't sit around doing nothing. In the retail environment, lots of people stand behind counters waiting for a customer to come up and address them. Is that important to getting productivity up?

Helen Dickinson: That is one driver. The other is the balance between the cost of people and the cost of technology. If the price of one goes up and the price of the other goes down, your desire to invest in automation increases.

Q88 **Mark Pawsey:** Are there ways that traditional, bricks and mortar retail can be made more productive? Can workers be made more efficient? Can we avoid their standing around and waiting for a customer to come and talk to them?

Helen Dickinson: Yes. Again, that is part of what we are seeing play out with some of the more established store-based businesses as they look to rationalise the way that their businesses across the different communities across the country actually work. If you have better data and an understanding of when your peak times are, you can manage your labour workforce more effectively. That obviously has to be done in the right way. Part of the challenge, from a retailer's point of view, is to make sure that that is done in a way that works for both the employer and the employee.

Q89 **Mark Pawsey:** Are retailers joining their online and their bricks and mortar businesses effectively? What is your view on the retail outlet as a showroom? The idea of some businesses, which seems to work, is that the consumer goes in and looks and chats to somebody about the product but doesn't actually make the purchase there. The order is fulfilled by a delivery that arrives the next day, or even the same day, using their logistics operation.

Helen Dickinson: We are in the middle of that transformation process at the moment. That is the ultimate goal of pretty much any business that operates both online and in stores. It sort of comes back to what Rachel was about to ask, in terms of online versus space. Customers don't think of them as two separate things, so most retailers are trying to make it seamless between the two. Whether you are buying online and collecting in store or doing that research and going home and deciding what to do and having it delivered, the line between the two is irrelevant from a customer's point of view.

I get more nervous about this every time we report our statistics on the proportion of sales that are online. I used to be an accountant in my old days, and the idea that you can easily measure whether a sale falls in one camp or the other is becoming less and less relevant.

Q90 **Mark Pawsey:** Is a retailer that does not have a good and effective online presence doomed to fail?

Helen Dickinson: It is interesting. There are examples of very successful retailers that don't sell online.

Q91 **Mark Pawsey:** Are their days limited?

Helen Dickinson: I don't normally name names, but it is quite high-profile: Primark is a very successful example. It continues to grow. It doesn't sell online, but that doesn't mean that its business isn't digitally connected to its customers. It is not necessarily about transactions; it is about engagement and connectivity.

Q92 **Mark Pawsey:** What is your view about the move online? What long-term impact will that have on our high streets?

Helen Dickinson: I think the challenge, from a country and a social point of view, is that there will be less physical retail on many high streets across the country, although there will still be lots of retail across many others. The biggest challenge will be that the places impacted the most are those least able to support that impact, because they are already the most vulnerable and, probably, the least economically viable anyway. That is the tale that we are seeing in lots of different parts of the country.

Mark Pawsey: Kate, turning back to the impact on hospitality, Helen said that you can't go to dinner online.

Helen Dickinson: You can't.

Q93 **Mark Pawsey:** True, but there are lots of online opportunities to purchase food produced in the hospitality sector and then delivered—we have heard from Deliveroo about the kind of service it offers. What impact will that have, and will it increase efficiency in hospitality?

Kate Nicholls: There are two impacts, really. The first is on hospitality businesses that choose to do some fulfilment online, but that impact is very small. Hospitality doesn't sell products; hospitality sells experiences, so customers still always want to come out for that experience.

Q94 **Mark Pawsey:** But they don't always want to come out. Food delivered into the home from a restaurant didn't exist five or 10 years ago, but it now makes up a fair proportion of sales.

Kate Nicholls: From a customer perspective, if you want the experience, you want to go out. You are choosing it from a different route. At the moment we are finding that Deliveroo—that is not throughout the country—and other services that do food delivery make up about 5% of total eating out sales.

Q95 **Mark Pawsey:** Has it plateaued, in your view, or will it get bigger?

Kate Nicholls: It will undoubtedly increase. At the moment it is incremental—it is additional sales. The things losing out are probably Marks & Spencer's meal deals as an alternative to buying in a Deliveroo. It does not seem to be eating into restaurant share for people going out on the high street.

Q96 **Mark Pawsey:** Helen is telling us that an internet presence is pretty important for a retailer, but is an internet presence equally important for someone in the hospitality sector—I do not mean the hotel trade, but restaurants?

Kate Nicholls: An internet presence for restaurants and hotels is particularly important for the brand—it is brand awareness; it's a marketing tool that gets the brand out there. Obviously, hotels are marketed through online travel agencies. The difference you have is that the retail sector in its online sales tends to be in control of its own retail sales. In the hospitality sector it is fulfilment through a third party, and that is something the operators are grappling with as they go forward. For a hotel, rooms are sold through Booking.com, Expedia, or one of the online travel agencies. For restaurants the fulfilment is through Deliveroo. It is a different kind of relationship.

Q97 **Mark Pawsey:** You are saying it is an information medium, rather than fulfilment?

Kate Nicholls: A lot of people are saying that they need to have that presence online in order to have brand awareness. The second impact with online sales is where online trading on the high street through retail impacts on hospitality because of what it does to the high street more generally. Business rates are a fixed amount that the Chancellor needs to bring in. If a smaller number of businesses are in those high-profile, high property-intensive areas, hospitality ends up paying in a greater share of the business rates burden. That is why it was probably hit harder this last time round. Hospitality, and tourism generally, is about 5% of GDP and pays a quarter of all business rates, so there is an overpayment by the sector.

Q98 **Mark Pawsey:** To go back to your earlier comments about closures currently overtaking openings, is that evidence of the sector having grown too fast in recent years?

Kate Nicholls: You undoubtedly get over-expansion when you have a market that grows significantly and the conditions for growth are right. If you look at what happened in 2008 when we had the first Portas inquiry into the high street, there was a general consensus that the high street needed to change and move away from retail towards leisure and experience operators. Therefore planners and local authorities welcomed eating and drinking out.

Q99 **Mark Pawsey:** Is that because it filled some of the gaps that were being vacated by the retailers?

Kate Nicholls: Yes, undoubtedly, and that is the big challenge that we face now as the high street goes into crisis again. Those operators who saved the high street in 2008-09 are not in a position to fill those empty spaces this time round. You would have had some degree of market correction, but would you have had such a severe market correction in such a rapid and short period of time if you had not had that toxic cocktail of headwinds that I outlined at the start? No, you would have had a smaller degree of closures and seen some people fail—you always get business failure—but you wouldn't have seen it being quite as dramatic.

Q100 **Mark Pawsey:** Given that landscape, should our town centres be smaller? Should they shrink in size?

Kate Nicholls: I think you need a local solution to those local problems, and the key is in planning effectively and for the long term, for the economic health of residents. That is what differentiates good town centres and high streets from those that are struggling. They plan ahead, work out what the mix will be, and they involve their neighbourhoods in planning.

Q101 **Chair:** Can I just follow up on a couple of things that Mark said? Kate Nicholls, you said that three pubs and two restaurants are closing a week, and that the hospitality sector will not be able to close that gap as it did last time we saw store closures. Helen, what is the situation for shops on the high street, in terms of net openings or closures per week? Do you have that number?

Helen Dickinson: I don't have an equivalent statistic that is directly comparable. The number I have is that over the past two years there are 2,500 fewer retail stores than there were.

Q102 **Chair:** That is pretty big. We are talking about 260 a year. That is 520 restaurant and pub closures, and another 2,500 shop closures.

Going back to the point I made about business rates, it is up to customers to choose where to buy things, as Mark Pawsey suggested, but it is obviously harder to compete if you are burdened by additional taxes that your competitors do not have to pay. Many stores that you are talking about, Helen, have an online presence and a physical presence, but those that have only an online presence do not pay the taxes that the others pay. Is that an unfair burden? Should we try to shift business rates so that there is more of a level playing field?

Helen Dickinson: I think if you asked a number of retailers, they would say it was unfair. I would temper that. People pay different taxes depending on the structure of their business, so somebody who does not operate stores does not pay as much in business rates because they do not have as much physical property. That is how the tax system works. From a retail industry point of view—she says slightly parochially, but for a valid reason—what we need to consider is that the total industry, relative to other parts of the economy, is paying a larger proportion of taxes in total. It is the same for leisure. Retailer A can argue with retailer B about whether we rob Peter to pay Paul, but actually the bigger issue is the way that business tax works across the totality of the economy. That needs to be rebalanced in totality, rather than working out what to do within here, because all you are doing—particularly for many businesses that have both physical and digital presences—is just moving the cards around the table.

Q103 **Chair:** You are more relaxed than I thought you would be. Presumably you think that there needs to be some rebalancing of the tax system.

Helen Dickinson: Absolutely. I think that part of the reason why it is difficult is that it is a really hard question, because you have to look at the combination of how international tax works—when you are talking about moving intellectual property, transfer pricing and the international angle—the balance between all sorts of taxes, what the right answer should be and how to build a road map to get towards it. It is interesting. We talk often to the Treasury and other Departments, and I think that privately they would admit that business rates are not fit for purpose and need to change, but because the solution is quite a challenge and it would need some big brains to dedicate some serious time to it, it is all too hard.

Q104 **Sir Patrick McLoughlin:** Have you any figures for how many people have closed their business because of business rates? For how many businesses has that been the deciding factor in whether it failed or succeeded?

Helen Dickinson: I don't have a figure for that, because I think it sort of depends on who you ask as to whether it is the thing or one of a combination of things. I cannot sit here and say, "Every single one of those shops closed solely because of business rates." There will be fewer shops.

Kate Nicholls: If you look at when we have seen the big announcements and the CVAs, it is no coincidence that they coincide with when the quarters' rent and business rates are due. So business rates will often be the straw that breaks the camel's back, but it is what tips you into closure because you have got to pay it up front, and if you cannot pay it you have to cease trading.

Q105 **Sir Patrick McLoughlin:** Is there any figure for how much extra would be paid in business rates if those businesses were able to survive?

Helen Dickinson: The beauty of business rates is that it spreads the same tax, so even a vacant property would still have to pay business rates. What the Exchequer is not getting is national insurance, profits, local jobs—the knock-on consequences. All that the business rate system does is reallocate it back out.

Q106 **Antoinette Sandbach:** You spoke about headwinds or the perfect storm, and you both talked about the impacts of Brexit. What is the global comparison for your sectors? How are you performing compared to global comparators?

Kate Nicholls: Our tourism economy is the sixth largest in the world, and the fifth most competitive, so we are being quite productive as a sector and we are doing well. Tourism visitor numbers and visitor spend is on the increase, but we are not doing as well as our international competitors in attracting that share of spend and share of market. We could be doing an awful lot better.

Helen Dickinson: The US and some of the Asian markets are bigger markets, but we have a higher penetration of digital online business per person than pretty much any other country. We would say that the UK industry is at the forefront of a lot of the innovation driving that, because it is being demanded by us as customers. It is coming from the people in the country. But I am afraid I do not have a statistic similar to the one Kate just quoted.

Q107 **Antoinette Sandbach:** May I take you on to Brexit? You both spoke about the short-term impacts of currency fluctuations—one on imports and one on the cost of food. What are the longer term risks with regard to what you need from a Brexit outcome as we leave?

Kate Nicholls: What we need as business is certainty; we need to be able to plan with some certainty for the next 18 months or two years. It is probably a message that we have delivered to this Committee before and you have probably heard it from lots of other businesses. We just need to know where we are and what the plan is.

The biggest long-term risk for our sector is the labour supply. We have acute shortages in certain parts of the country and certain job roles, particularly skilled roles such as chefs, and a recent survey of our members said that 25% had hard-to-fill vacancies that had been vacant for six to 12 months. It is labour shortage, not skills shortage—it is simply bodies. That is our biggest risk: that we do not have a flexible labour supply. If we had a very tough migration regime that imposed a similar tier system to that for highly skilled workers, we know that about 90% of our jobs would not be covered by that. Our biggest fear is that we have something that is restricted to only highly skilled workers coming in.

Q108 **Antoinette Sandbach:** What kind of number would that be? You say you know that 90% would not be filled.

Kate Nicholls: We employ 3.1 million people, and 90% of those roles would not be covered by a skilled tier working. Despite the fact that two thirds of our workers are semi-skilled at NVQ level 3 or above, they do not fit the Government's criteria for highly skilled workers under the current migration regime. So you would need to have a separate migration regime for semi-skilled workers or change those existing tier skill barriers. If, however, we have the system envisaged under the Chequers plan that talks about flexibility and freedom of movement continuing for EU workers and youth workers, that would help to manage that process at the same time as we continue to recruit and upskill.

Q109 **Antoinette Sandbach:** What about the food and drink sector? Is there an impact there with just-in-time deliveries?

Kate Nicholls: There is undoubtedly an impact. As the recent CO_2 crisis showed, when we are looking at transporting goods across Europe, if we can't manage to fulfil our own needs domestically, we pretty soon run out of food, drink and products, so we need to have a system that does not involve significant delays at borders when we are looking at importing products.

Helen Dickinson: To build on that, I think the biggest risk is the no-deal risk, because if there is no deal, that is the consequence that will occur. If there needs to be infrastructure that sits at the borders in order for us to be able to import food and drink that is sold in our supermarkets or restaurants across the country, that infrastructure needs to be put in place now, and at the moment it is unclear exactly what trajectory we might be on. Let's hope that we are on a positive one, but I think the biggest theme that comes through is that businesses do not know whether they should be investing in some of that infrastructure from their own point of view—are there going to be those non-tariff barriers or not? There will come a point when it becomes too late for them to be able to do that.

Q110 **Antoinette Sandbach:** The cross-Whitehall briefing referred to the non-tariff barriers with the EU potentially amounting to between 5% and 20%, depending on the type of trading relationship, in the retail sector alone. What are the non-tariff barriers that you have identified as a particular risk? Infrastructure is clearly one.

Helen Dickinson: It is really all to do with the processes that would occur at the border. Take somewhere like Dover. There are 10,000 trucks a day coming through the port of Dover, and it has been a fairly widely quoted statistic that a delay of only minutes causes miles of tailbacks, so when you're talking about just-in-time fresh food coming into the country, that will obviously have a consequence for the availability of what people want and the prices that people would pay.

Q111 **Antoinette Sandbach:** What are the opportunities in your sector that come out of Brexit? What opportunities have both of you identified?

Helen Dickinson: We did a piece of work early in the process where we looked at where the imports of what is sold actually come from, and what you can see is that the downside risk is mainly what we have been talking about, because more of our food comes from Europe. The other side of the equation is from a non-food point of view, so things such as clothing from Asia and electrical goods from other parts of the Asian economy, and what does or doesn't happen in terms of those relationships with third countries as a base level replicating what we have already got. But then potentially there may be other opportunities, on the upside.

Kate Nicholls: The biggest opportunity is our largest export, which is inbound tourism numbers. That has been growing by 26%. Tourism is often not seen as an export industry, but it is worth about £26 billion in inbound visitor spend. There is an opportunity, if we get that right and we address our visa regimes, that we could significantly increase the inbound tourism spend.

Q112 **Antoinette Sandbach:** What are the barriers created by the EU at the moment that are preventing that?

Kate Nicholls: I don't think any barriers are necessarily created by the EU at the moment. I think there is an opportunity for us to set our own rules and to look again, afresh, at all our visa requirements for foreign visitors coming in, whether they are coming in on a temporary basis or for long-term—

Q113 **Antoinette Sandbach:** You are talking about a relaxation of requirements, in effect.

Kate Nicholls: It may or may not be a relaxation. I think it is just the ability to look at this again, afresh, and decide what we want to do for those people coming in.

Q114 **Antoinette Sandbach:** I think that is slightly disingenuous, if I may say so, because—

Kate Nicholls: I am not trying to be.

Q115 **Antoinette Sandbach:** No, but presumably, by looking at our own rules, you are suggesting that we ought to make it easier for people to come and stay.

Kate Nicholls: I think you undoubtedly want to make it—you don't want to put any barriers in the way of tourists coming into the UK and spending. Those from China are the high-spending tourists who come for a long period of time. We want to ensure that they come to the UK first, rather than going to continental Europe and spending a day trip in the UK, which is what we see at the moment. There are obviously other opportunities. If the Government, of whichever complexion, took those opportunities, we would be free to look at VAT regimes and excise duty regimes, and to support our local pubs, bars and restaurants through different taxes than we presently have at the EU level.

Sir Patrick McLoughlin: It is very expensive to get a visa to come to Britain from China.

Q116 **Peter Kyle:** Do you have wholly online retailers in your membership?

Kate Nicholls: Yes.

Q117 **Peter Kyle:** Does that make it difficult for you or compromise you in any way when talking about tax reform and shifting from bricks and mortar on the high street—

Helen Dickinson: I love this question; it is my favourite question. No—well, yes and no. It makes it difficult because people will have different views, but I see our purpose as an industry purpose, so we have to look at the industry as a whole. Whether you are purely online, purely in stores or, as the majority are these days, somewhere in between, our job is to look across the totality of the industry and take the perspective that will benefit the industry and the customers it serves.

Q118 **Peter Kyle:** It surprised me a bit, because I have a lot of independent local retailers who talk to me constantly about the disparity between business rates and the impact it has on them. A business went bust on my patch that did outdoor equipment—I went through the books with them. They simply cannot compete with wholly online retailers and it is the business rates that make the different. I do not want to re-open a conversation, but I suspect it is something that we will come back to.

Helen Dickinson: Yes. For those businesses, it again comes back to the connectivity between digital and physical. Thinking about them as two things in competition with each other is perhaps not the way to think about it. From a customer point of view, people do not think about it like that. For every one of those businesses there is probably a digital business that is selling globally to China from—

Q119 **Peter Kyle:** I suspect that there is not a global online retailer for every one of those high street shops, but I take your point. When you look at the sector as a whole, SMEs account for about 95% of retailers and the vast majority of the employment coming from that sector. How is the SME sector being incorporated into the thinking about the sector deal?

Kate Nicholls: The vast majority of our members are SMEs. We are working with a very broad alliance of industry bodies, such as VisitBritain, the Tourism Alliance, the British Beer and Pub Association and the British Institute of Innkeeping, to ensure that when we develop the sector deal, their thinking is inputted into it. We rely on the trade bodies, which cascade down to their membership, to ensure that we are touching the grassroots, finding out the issues that matter to them and bringing them back up. That is why we have put tourism zones at the heart of the sector deal, because that would allow that to happen on a localised basis and put in place the solutions that are needed to respond to those SMEs and help them on a practical level.

Q120 **Peter Kyle:** Just to be clear, you are relying on the other sector bodies to—

Kate Nicholls: And ourselves.

Peter Kyle: So you are gathering from the frontline directly.

Kate Nicholls: We are, absolutely. I have just spent the best part of three months going around all our regional councils to ensure that we are talking to the independent, single-site businesses. I was in the north yesterday and I am down in Wales this afternoon to be able to pick up on those issues of concern. Those are independent, single-site hotels, restaurants, bars and pubs.

Q121 **Peter Kyle:** Thank you. Helen, there is a very complex supply chain in the retail sector. Is the sector deal looking at the supply chain, or just at retailers?

Helen Dickinson: The second sector deal that we touched on earlier was about looking particularly at clothing and fashion, where there is an issue, from a manufacturing perspective. The University of Leicester has done some research that suggests that between 75% and 95% of factories in this country are not paying the national minimum wage and are not operating proper contracts with the people who work in them. A number of retailers want to source more in this country, so the second idea was about how we could rebuild and put in more scale, innovation and ability to respond to the need for fast turnaround by manufacturing more in the UK.

Q122 **Peter Kyle:** Has late payment been raised as an issue?

Helen Dickinson: From the suppliers' point of view?

Peter Kyle: Yes.

Helen Dickinson: Yes. It became apparent that, if you listen to the supplier side and the retailer side, they will have different perspectives. Even putting those people in the same room to have the conversation enabled some quite productive challenge in both directions. That is where something such as a sector deal can bring the right people together, but it needs some support in how it is taken forward from a Government point of view, to facilitate making it happen.

Q123 **Peter Kyle:** Kate, do you think that micro and very small operators can become more productive without expanding?

Kate Nicholls: In our sector that is quite challenging, because in increasing your productivity you usually hit a ceiling; you can no longer serve that many dishes to that many people and you have to go into physical premises. It is a huge step up to move from a pop-up to a fixed site and take on all those overheads. It is quite challenging to improve your productivity beyond that, because that is usually the physical cap.

Q124 **Peter Kyle:** Helen, do you believe it is possible for small and micro retailers to become more productive without expanding?

Helen Dickinson: Without expanding, it is much more difficult. When you are talking about people in a small store, productivity is the measure of your sales and people, but the choices about one person more or less can have quite a significant impact. At the margins, there are possibilities. Again, it comes back to how you can digitise some of your processes. Does that business understand where the peaks of its trading are, so it knows when to schedule particular people coming in? That comes back to the focus from a Government point of view, which is on marginal differences on large-scale industries versus bigger differences on a small number of companies. Perhaps we need to think about how you can make those tiny differences in lots of little places, because that adds up to a significant amount.

Q125 **Mark Pawsey:** Until now we have talked about the UK as one whole. Of course, the UK is made up of lots of regions and they behave very differently. We know that there has been a different impact in recent years: store numbers have declined far less in London than they have in the north and Wales, for example. What is your sense of regional variation, and do you have regional components of your own organisation that enable you to engage at a local level? How disparate is the situation we face? Perhaps Helen could start on retail.

Helen Dickinson: There were a number of questions there. As you rightly say, there is wide variation across different parts of the country. Take something such as vacancy rates of shops. In London and some places it is less than 5%, and in other parts of the country it could be well over 20%, so we have gigantic variation. Parts of our teams are in the devolved nations; we do it from a connectivity with Government point of view, so I have people in Scotland, Wales and Northern Ireland. The head offices of the retailers themselves are not particularly south-east-centric, so I often spend my time in Leeds, Manchester, Nottingham, Leicester or wherever else I have been.

Peter Kyle: You have done your research.

Q126 **Stephen Kerr:** And Stirling?

Helen Dickinson: No, I am afraid I have not been to Stirling.

Stephen Kerr: That is the Scottish Retail Consortium.

Helen Dickinson: Yes, that is the team in Scotland.

Stephen Kerr: Mr David Lonsdale.

Helen Dickinson: Mr Lonsdale, indeed, who does it perfectly.

Stephen Kerr: Indeed, he does.

Q127 **Mark Pawsey:** Kate, on hospitality, often the opportunities for tourism are in those areas that have perhaps done less well from the growth of industry.

Kate Nicholls: Indeed. If you look at our coastal communities, tourism is the only industry of any size and scale that will provide employment and good-quality jobs to young people. I was talking to one of the operators at our conference last week, who said that the biggest export from some of those communities is talented young people. We are one of the few industries that encourages them to stay and gives them the real investment, and invests in the town centres and communities in those areas.

Like Helen, we work with the devolved Administrations. We have Hospitality Cymru and Hospitality Scotland, and we work with our sister organisation, Hospitality Ulster. We also have a regional structure, which I alluded to a moment ago, which has regional committees to allow us to meet with those independent businesses, so we go to them. We find that there is a very different picture, not just across the country, but within a region. If you go somewhere like the north-west, you will have a very different conversation with the hotel associations and hospitality associations in Manchester or Liverpool—which are talking about high occupancy rates, high demand and business tourism—than if you go and talk to some of the operators in the south Lakes, North Yorkshire or some of those areas. If you are in a tourism area, business has been better since May, but we had a very poor start to the year. The weather affects it a lot. That is affecting the business in the UK. It is sub-regional.

Q128 **Mark Pawsey:** The Government's vehicle for economic growth is local enterprise partnerships, which vary tremendously in size and, perhaps, in effectiveness. What is your experience of liaising with local enterprise partnerships?

Kate Nicholls: It is a bit like the curate's egg—it is good in parts. Some of them are excellent.

Q129 **Mark Pawsey:** Can you tell us some of the good areas?

Kate Nicholls: Sorry, I am not very good at listing areas, but we have some very good local enterprise partnerships that really understand that hospitality and tourism can drive their economic growth, and have tourism represented. We have others for whom tourism is just not on their radar—they don't see the connection between hospitality businesses.

Q130 **Mark Pawsey:** That might be because they are in an area where there are not tourism opportunities.

Kate Nicholls: That is largely the case, but then they fail to make the connection between everyday hospitality that touches the lives of all of the people living in the region. Uniquely, everybody will experience hospitality. People forget that that everyday cup of coffee or sandwich at Pret is part of a broader tourism offer, as part of a broader hospitality sector.

Q131 **Mark Pawsey:** Helen, is your experience the same?

Helen Dickinson: Yes. It is a completely mixed picture. I would highlight Gloucestershire. The LEP there is defined as a retail pathfinder. There is a really interesting initiative going on in Cheltenham, Gloucester and Stroud around this connectivity of digital and physical. There is a social media initiative called "What do you mean?"—#WDYM—which is all about people sharing ideas about things that they are seeing and that are happening. That is really driving footfall and people are coming in to connect back to the local community. The local enterprise partnership has been involved in pushing that initiative.

Q132 **Mark Pawsey:** Okay. In their industrial strategy, the Government envisage setting up local industrial strategies, which should be in place by March 2019. Have either of you had any involvement in the establishment of these bodies? Will they duplicate the LEPs?

Helen Dickinson: I haven't.

Kate Nicholls: No, we haven't. From what I understand, they will be larger. Local enterprise partnerships will be localised and the regional industrial strategies or local industrial strategies will be at a higher tier level. But no, I haven't had any direct involvement.

Q133 **Mark Pawsey:** Both of your sectors employ small businesses. One of the issues that the Committee has been looking at is where small businesses can go for help, support and advice. If somebody was running a small restaurant or a small independent retail outlet and they wanted some business advice about getting their business to grow a little bit faster, where would they go?

Helen Dickinson: I think they would go to their local chamber. We were talking before about other trade organisations. The British Independent Retailers Association is itself a member of the BRC. It offers a number of services that help independent businesses, such as banking arrangements, so that you can get that more cheaply than would be possible as an individual company. It is a combination of local support.

Q134 **Mark Pawsey:** Kate, is there enough advice available in your section? Do small business owners know where to go? Do they know to go to the places Helen has just referred to?

Kate Nicholls: I think they do. Because a large proportion of our membership is independent, they would come to the trade association for help, support and advice. We deal with all those kinds of queries and provide those services, as well as the local chamber of commerce. That would be variable in certain parts of the country. The local enterprise partnership would also be a source or information.

Q135 **Vernon Coaker:** I want to look a little more at the interaction between you and the Government, and to roll things together. Who do you speak to in Government about all of this? What discussions have you had about sector deals? Who leads on it? Do they all co-operate and work together seamlessly, and how is it all working?

Kate Nicholls: I think that is one of the benefits of working through a sector deal and trying to get one: it has brought Government together more closely. We liaise with the Department for Business, Energy and Industrial Strategy as well as the Department for Digital, Culture, Media and Sport, and we talk closely with the Department for Environment, Food and Rural Affairs since there is the Food and Drink Sector Council, and hospitality is part of that. That has been bringing together cross-Governmental discussions. One of our biggest problems as a sector is that virtually every Department will touch on the issue. I do not go into the Foreign and Commonwealth Office or the Ministry of Defence, but I go into everywhere else. We have been asking for that co-ordination.

Q136 **Vernon Coaker:** Who holds the ring on that?

Kate Nicholls: On the sector deals?

Q137 **Vernon Coaker:** Who is the go-to?

Kate Nicholls: That is the big challenge. We would love to have a single go-to Minister for hospitality who would enable us to talk about all these issues, and who would be able to do the cross-cutting work we are discussing when looking to co-ordinate policy across a wide variety of Departments. At the moment, the Department for Business, Energy and Industrial Strategy holds the policy for sector deals. We have a good team at the Department for Digital, Culture, Media and Sport and a Minister there who supports us in tourism, but at the moment it does not have that cross-Departmental coverage.

Helen Dickinson: Just to build on that, until the weekend we had a retail Minister, and hopefully we will get a new one. The Department for

Business, Energy and Industrial Strategy is our main Department, and the situation is as Kate has suggested. We talk to almost every other Department, and the role of the Department for Business, Energy and Industrial Strategy in that co-ordination and support provided as a go-to is really important.

Q138 **Vernon Coaker:** Does that work?

Helen Dickinson: I think it works at times. We have a new Retail Sector Council that was set up earlier this year.

Vernon Coaker: I was going to ask about that.

Helen Dickinson: It is early days and it is a great opportunity. It gives us a proper formal forum for that engagement between industry and Government. We have had a couple of meetings and discussed the future of the industry to try and align behind a view on how it might look. We had skills on the agenda at the last meeting. It was a little disappointing that we did not get the Department for Education into that meeting.

Q139 **Vernon Coaker:** Are they on the Council?

Helen Dickinson: No, they are not.

Vernon Coaker: That is a weakness, is it?

Helen Dickinson: Well, it comes back to the criticality of the role of the Department for Business, Energy and Industrial Strategy in helping us bring together the right people in the room. Many of the things we discuss do not sit within the control of that Department. We might refer to taxation, which is the responsibility of the Treasury, or to skills and apprenticeships, which are the responsibility of the Department for Education.

Q140 **Vernon Coaker:** The Retail Sector Council was presumably set up to bring all this together. It was set up in March by the Government. Do you think it is a good thing? Or will the proof of the pudding be in the eating?

Helen Dickinson: It is early days. We want it to work. Our chairman—Richard Pennycook, who is co-chair—has invested a lot of time in getting the right people involved. He was really forceful about us making sure that the industry had something to give as well as something to ask for. If a criticism was levelled at us by the Government, it would probably be that we are always asking for something—what is the give? We have done a big piece of work about responsible business and an initiative called Better Retail, which we launched in the House back in March. It is early days. The proof will be in the pudding—you are right—but we are going to give it our best shot.

Q141 **Vernon Coaker:** Would it help, Kate, if UKHospitality had one?

Kate Nicholls: We have the Tourism Industry Council, which has been going for a couple of years and works effectively at pulling together those initiatives and getting other Departments in to talk about the issues of the day and the challenges facing the sector. The other one, which is putative and has probably been set up at the same time as the retail one, is the Food and Drink Sector Council, which again brings together for the first time everybody involved in the food chain from farm to fork. That has the potential to galvanise cross-departmental—

Q142 **Vernon Coaker:** Would an overall one for the whole—

Kate Nicholls: Undoubtedly.

Q143 **Vernon Coaker:** So if possible, a hospitality sector council that brought all of it together would be a good thing.

Kate Nicholls: A hospitality sector council and a hospitality Minister to co-ordinate all the cross-departmental issues we face would be immeasurably helpful and would increase productivity.

Q144 **Vernon Coaker:** Now here's the big question: what difference does a sector deal make? The Government says there is no money, it says, "Don't come to us about legislation or significant policy changes," and it says it is about reprioritisation and greater focus.

Kate Nicholls: From our point of view, it is about the catalytic effect—the galvanising effect—that a sector deal can have. It recognises that the service sector and sectors like hospitality are equally important and deserving of Government support as the shiny, bright sectors—aerospace, pharmaceuticals and so on—that tend to attract sector deals. Hospitality is a bit of a Cinderella industry. It is the third largest private sector employer, it is a £130 billion industry and it generates £40 billion of tax for the Exchequer, but because it is 90% SMEs it tends to get overlooked as a major industrial sector. It is one of the areas that is growing and is forecast to continue to grow and deliver jobs through the fourth industrial revolution. For us, having a sector deal and having the backing of Government behind it would put us on the map and show that we are recognised nationally and locally as a significant engine of economic growth.

Helen Dickinson: What a passionate case! Wow, I've got to beat that—right, how many people do we employ? I would say the same from a retail point of view. We often sit here and go, "Did you see the news about manufacturing?" The sexy sectors, such as automotive and aerospace, are always in the headlines, and we think, "What about retail or leisure?" I would make the same plea. Almost our biggest strength—the size of the industries we represent and the touch across the economy—is often not forgotten about but under-represented, perhaps.

Coming back to your specific question, is a sector deal the answer? I do not know. It is the outcome that is important. Whether the route to achieving it is through a sector deal or through any other mechanism for working with the Government, it is vital not only that channels are open for engagement but that there is a real desire to work together. Some of the things we have been talking about are pretty significant in terms of their consequences.

Vernon Coaker: From my perspective, this is about what the

Government's top three asks are. It is about making all that practical policy a reality for the thousands of businesses, shops and retailers, isn't it? I was just saying to Patrick as an aside that in my own area we had all these plans and all these great discussions, but the thing that had the biggest impact on an out-of-town shopping centre was free car parking for two hours. Do you see what I mean? That is not very PC—some people thought it was outrageous—but in terms of the out-of-town centre and small town centre retailers, free car parking for two hours did more than all the policy papers that had been written for five years. It was politically helpful as well.

We have to finish because we are short of time. What are the two or three asks that all of your members would go, "Thank God for that—that takes that burden off us and allows us to do x, y and z"? If all of the thousands of pages of policy description were cut through, what are the two or three real policy things that make a huge difference? That often comes across in the Committee. We get to the point where we say, "Okay, what are the concrete asks?" It was in your evidence—I can't remember if it was in Helen's or Kate's. What are the concrete asks and what are the concrete deliverables?

Chair: Very good, Vernon. Top two or three. That is what he is saying. No pressure.

Vernon Coaker: The top two asks. We will leave that on the table, Chair.

Helen Dickinson: Do you want me to answer that?

Chair: Yes. Helen.

Helen Dickinson: We have talked a lot about skills. We need to make the apprenticeship levy work for the retail industry. The specific ask in respect of that is that there needs to be more flexibility in the use of the levy, particularly in respect of the 20% off-the-job training, so that the levy should be able to be used for the off-the-job role that is replacing the person who is doing the training. I have explained that very poorly—that is not very specific. Does that make sense?

Vernon Coaker: Yes.

Helen Dickinson: Okay, so that is No. 1.

No. 2 comes back to business rates. There is a need to really dedicate some serious time to what the future of business tax looks like. In order to do that, which will take some time, the short-term specific ask is to freeze business rates in the autumn Budget.

The third thing, which comes back to the point you were making about local communities, is really to ensure that the resource is available at local level to understand the things that would make a difference, like your car parking example, in a particular community. That answer might be car parking here or something else somewhere else, but the knowledge needs to be there to be able to generate that.

Kate Nicholls: I support those three bits that Helen has just identified, because they all relate to the same issues that we face in terms of business rates and employment costs that are being put on. They are not necessarily going to be taken forward through a sector deal.

In terms of the specifics that we had in a sector deal, we made a pledge to work towards a 1% increase in productivity, which would give a £660 million boost to the sector as whole. That is tourism zones—making sure that you have a replication of what is going on with the local economic partnerships from a tourism point of view, to support at a local level what would make the biggest difference, and how you could increase the shoulder period for those tourism destinations to make sure you have more visitors.

It is about improving skills and upskilling the population and having the headroom and the capacity to invest in your people. The business rates one is also interesting—freezing business rates and reforming business rates to look at the barriers to investment. It penalises success in hospitality—if you invest in your premises, your business rates bills go up. If business rates took account of investment, that would help to address that. It would help to make sure that we unlocked investment at the moment that would help people to reinvest in their product. You really need to reinvest every three to five years in pubs, bars and restaurants, or every nine years for hotels. Then it is about the connectivity.

Q145 **Chair:** That is definitely more than two or three. Neither of you have got sector deals for your sectors yet. Do you think you will get one, and if so, when might that be? Helen?

Helen Dickinson: I think you might get more of an answer out of Kate. I am not sure we will get a sector deal. We have invested quite a lot of time in the two that I have highlighted. Coming back to Vernon Coaker's question, I am not sure whether that is the route to finding the things that we can actively engage with Government on.

Q146 **Chair:** And is that because the criteria that the Government have set for sector deals is not realistic for the retail sector, or for another reason?

Helen Dickinson: We just haven't got the traction on them that we have needed. We have had many, many official discussions, but we haven't spoken to a Minister on either of them in the course of however many months it is since the idea was first tabled.

Q147 **Chair:** You haven't had a conversation with the Minister?

Helen Dickinson: No.

Q148 **Chair:** Kate, have you had a conversation—?

Helen Dickinson: We were due to have one, but that obviously won't—

Kate Nicholls: Several. That has been one of the big impacts of having a tourism industry council set up and established before we went into the sector-deal process. We have had great support from DCMS Ministers, both the Secretary of State and the Tourism Minister, and we have met several BEIS Ministers to try to pursue it, to work out what we need to do to improve it. It is an iterative process. Obviously you can put together proposals, and you need to have that feedback from Government that says, "No, this isn't right," or, "Yes, it is." We have had tremendous support.

Chair: Are you confident, Kate, that you will get one?

Kate Nicholls: I hope we do, because it would be significant in driving forward the agenda of the industry.

Q149 **Chair:** Is there a timeline?

Kate Nicholls: We have been hopeful to hear before recess.

Chair: Whenever that may be. We are hoping to hear when that might be as well.

Helen Dickinson: But I think it comes back to the council conversation. I think that the council does provide a platform to enable that cross-working. Whether it ends up being called a sector deal or not is a much more open question.

Q150 **Chair:** Can I just end with a question about good work? Both of you have said that your sectors of the economy are high employment, based across the whole country, and part of the everyday economy that all of us experience, but you are also in some ways notorious for low pay, low skill, zero-hours, short shifts and unpredictable hours. Could a sector deal, or other reforms, help to build, for both your sectors, higher productivity and higher-paid, better-quality jobs for the people who work in those sectors? You are so important for our economy, but one of the reasons you have high turnover is because of the types of jobs that still operate in too much of the sector.

Kate Nicholls: I think it is a fair challenge back to the industry. I know that the industry is working very hard to address those issues. We tend to have a focus on the entry-level jobs, which inevitably are lower paid and lower skilled. I think the sector deal gives us an opportunity to explore, expound and develop our messages about job progression, upskilling and the investment that we make in our people. I think that is where we can have a transformation in the media depiction of our sector as being low pay and low skill, and it gives us an opportunity to change those brand values.

Q151 **Chair:** Is it changing at all?

Kate Nicholls: It is dramatically changing. I don't think it was anywhere near as bad as probably we were castigated as being, but turnover rates are down and declining. We will always have high turnover because people come to us for summer jobs, part-time jobs, et cetera, but the industry has put in place good practice standards around contract terms, unpaid trial shifts, tips and troncs, and pay and progression.

The industry is also working hard to come together to develop career progression and skills charters. All those things mean that we are making big improvements. We just need to work harder at explaining to people, "Yes, the entry level might be this, but you rapidly expand to rise very quickly through the ranks." That is the bit that does not get heard.

Q152 **Chair:** We, too, have had a focus on equality of work as part of our strategy. About two years ago we launched a better jobs vision, which was all about, again, making the transformation to more productive, higher-paid, more digital, more customer-facing roles within the industry. We have particularly engaged with the work that the RSA are doing and Matthew Taylor. One of the sector labs that they are looking to do, I think early next year, will look particularly at retail—what does good work in retail look like? We are really keen to get involved with that.

We have also done a couple of other things. First, coming back to apprenticeships, rather than sitting here saying, "The system's not working," we have launched, over the last few weeks, with Leeds University, a BRC-connected apprenticeship on leadership skills, which comes back to what we were talking about before. On progression, which is one of the other issues that is perhaps not as good as it could be for getting more people to be able to progress, one of the challenges around being able to do that is about losing part-time status within the role that you have. We have got a partnership with a social enterprise called Timewise, which is doing great work on thinking about how you introduce more flexibility into more senior roles. That will hopefully enable more people to progress within the industry.

Q153 **Chair:** Kate, you mentioned the issue of tips and best practice in industry. Unite the Union has been campaigning against the practice of TGI Fridays, among other businesses, where the tip does not always go to the people who work in the restaurant. What is the industry standard and what pressure, if any, is UK Hospitality putting on businesses who do not meet standards?

Kate Nicholls: Two years ago when this issue first emerged, we worked with Unite to develop an industry code of practice on tips and tronc systems in particular.

Q154 **Peter Kyle:** What is tronc?

Kate Nicholls: Tronc is where the cash and credit card tips get collected in a pot that is independent of the employer, so the employer has no say over how it is distributed. The staff determine how it is distributed, whether that is to front of house, back of house, or the individual server, and then it is reallocated out, often through the payroll to make sure that the correct tax is paid on it. It is quite tax-efficient for HMRC and makes sure everybody is legal. The staff are in control of it and it is totally transparent as to how it is delivered back. Often it can cause confusion as to who is getting that piece of the tip that has been given, but it goes through a process to be redistributed to the staff and the controllers in their hands. We have been promoting that throughout the sector and working with Unite to make sure that those best-practice principles are abided by. We have been successful in ensuring that the tips reach the frontline staff in the way that they are supposed to in a transparent manner.

Q155 **Chair:** But it is still not happening in many restaurants; isn't that true, Kate?

Kate Nicholls: I think there is more work to be done and we would always want to make sure that that is happening. The clear thing is about transparency and making sure that the customer and the staff know what is happening to it. All too often the problems that arise are not because anybody is doing anything wrong or taking anything away from the staff; it is that the staff do not understand the process being used. We are seeing that there has been a total collapse in the number of businesses that keep any proportion of the tronc pool to cover their costs. All of the money goes to the staff. It might not go to the person who individually served you, but it always goes to the staff.

Q156 **Chair:** But there are still restaurants that keep a proportion to administer the process, for example. Is that right?

Kate Nicholls: A very small number might still be doing that, but the vast majority are not.

Q157 **Chair:** Do you have a list of the ones that do that?

Kate Nicholls: We don't have a list at the present moment. There is probably a large number of independent businesses that we are not surveying, but all of the main managed chains are not doing that.

Q158 **Chair:** Is TGI Fridays?

Kate Nicholls: They are not keeping a proportion of the tip to cover admin costs.

Q159 **Chair:** Okay. Thanks very much to the two of you for coming to give evidence today. It's very helpful.