

Written evidence submitted by Federation of Wholesale Distributors (FS0079)



Submission from the Federation of Wholesale Distributors – Food Security Consultation

Background to the Federation of Wholesale Distributors

The Federation of Wholesale Distributors (FWD), the member organisation for UK wholesalers. Pre Covid-19 our members made a vital contribution to the British economy and generated annual revenues of £29bn, employed 60,000 people and generated £3bn of gross value added to the UK economy annually.

Food and drink wholesale distributors, pre Covid-19 supplied up to 330,000 food service businesses and 72,000 retail grocery stores, supporting local high streets and independent businesses across the United Kingdom. Including the whole value chain, the food and drink wholesale distribution sector supported 1.4 million jobs.

FWD plays a leading role in representing businesses in the food and drink supply chain. Our members provide food to public sector institutions such as schools, prisons and care homes as well as supplying the hospitality and convenience store sectors all over the country.

We welcome the opportunity to respond to this consultation on food security.

Summary of key points:

- **The past few years have been extremely challenging for the food supply chain.** Despite the sector proving itself to be extremely resilient throughout the Covid-19 pandemic our members are continuing to recover from a challenging two years while the industry is currently under extreme pressure from a series of shocks to the industry. Food inflation has rapidly accelerated, August's food and drink prices rose at an annual pace of 13.1%, just shy of 13.2%, the highest rate since 1989. Ongoing labour shortages, rising energy and fuel costs and the squeeze on household budgets are having a major impact on the food supply chain and causing disruption.
- **The pricing of public sector food contracts is a serious concern for members, especially against the backdrop of rising inflation and the ongoing cost of living crisis.** Soaring costs are putting the public sector food catering industry under considerable strain, forcing conversations to be had about the realities of fulfilling public sector food contracts. While food prices have increased, contractual terms and agreed spend have remained the same or have not increased in line with inflation. The government has increased UFSM funding by a mere 7p per pupil which does not reflect the current climate. Members are therefore servicing public sector contracts at a loss which is impacting the quality and quantity of food to public service infrastructure such as schools, hospitals, and care homes.
- **As members are servicing public sector contracts at a loss and with rising costs, 100% of members FWD surveyed said the target for 50% of food to be locally sourced is unrealistic.** One member who is currently sourcing 60%+ food locally are reducing that target to remain competitive and source the cheapest options to ensure business viability. Following Brexit, several members have had to look outside the UK due to additional administration delays and paperwork costs as a result of the new customs regulations. Transport costs have also increased due to the delays at ports and increased paperwork with some hauliers refusing to lift product out of UK into NI.
- **Public sector caterers are struggling to meet food standards, being forced to reduce portion sizes, and use less UK grown and produced product.**

- **Current conditions are encouraging market consolidation and homogenisation** – driving standardisation, not localisation. This is because SMEs do not have the scale to push off increases from their supply base and do not have the revenues to absorb them either. The government's target for 25% of SMEs to service public sector contracts is therefore unrealistic, especially in the current climate.

Recommendations to shore up the food supply chain:

1. Quarterly price reviews to allow contract price increases more regularly than once a year or every six months if a threshold is met (e.g. inflation is over 5%)
2. Committing to a real inflationary increase in funding for public sector catering in the short term
3. Ring-fencing funding for catering costs, in order to meet inflation rates
4. Issue guidance to ask for service delivery requirements to be relaxed
5. Further measures to support increased public sector quality requirements:
 - a. Further energy support for wholesale after the initial six months
 - b. Cut fuel duty by 15p per litre
 - c. A rapid expansion in the labour pool and for Defra's review into Labour Shortages in the Food Supply Chain being Chaired by John Shropshire to consult industry
 - d. Freeze national living wage increases in 2023 or to ensure the rate is increased by no more than 6%

Question 1: What are the key factors affecting the resilience of food supply chains and causing disruption and rising food prices – including input costs, labour shortages and global events? What are the consequences for UK businesses and consumers?

Question 2: What is the outlook for UK food price inflation in the short and medium term? What policy interventions should the Government consider to manage these pressures?

Overview

The past few years have been extremely challenging for the food supply chain. Despite the sector proving itself to be extremely resilient throughout the Covid-19 pandemic our members are continuing to recover from a challenging two years while the sector is currently under extreme pressure from a series of shocks to the industry. Food inflation has rapidly accelerated, August's food and drink prices rose at an annual pace of 13.1%, just shy of 13.2%, the highest rate since 1989. On top of this the cost of living crisis has squeezed household budgets, demand has been hit and consumer confidence has fallen to another all-time low. All of these factors are having a major impact on the food supply chain and are causing disruption.

Other key factors affecting the resilience of the food supply chain and causing disruption and rising food prices:

a. Rising energy costs

Spiralling energy prices are affecting wholesalers especially as food and drink wholesale is a highly energy intensive industry requiring storage facilities for fresh and frozen foods. Whilst we welcome support from government to cap energy bills we need assurances that our sector will continue to be supported after the initial six months.

Before the energy price cap, a poll of our members showed that their energy costs will have a significant impact on their ability to do business moving forward. For example:

- One smaller enterprise which currently pay £15,000 per year, is projected to be paying £50,000 in the next year
- One medium enterprise currently paying £860,000, will be required to pay £3,800,000 next year

- One of the largest wholesalers who pay £10,000,000 per year on energy will now be looking at paying £23,000,000 in the upcoming year.

These increases amount to a significant percentage of their total revenues, potentially threatening jobs, investment and public sector food viability.

Therefore, whilst we welcome the support from government to cap energy bills for 6 months for business the government must recognise that the wholesale sector is an energy intensive industry and needs continuous support after these initial stage. If the government's chosen support mechanism is business rates reductions, the wholesale sector must be included.

b. fuel duty

A move to cut fuel duty by 15p per litre would support our members and bring the UK in line with Germany, France, The Netherlands, Ireland, and others across Europe who have responded to spiralling petrol prices. This would result in a concrete, immediate reduction on the cost of living and contribute across the wider economy.

c. Labour shortages

Shortages in labour are causing major issues for wholesalers. Wholesalers are being forced to limit the number of deliveries they make to convenience stores and foodservice customers, giving priority to the public sector, which has led to availability issues. Whilst the situation is currently manageable, albeit with some degree of shortages in the short term, in the long term it is wholly unsustainable. A rapid expansion in the labour pool is required which can be delivered through making food processing and HGV driving more attractive as a profession, and/or using the shortage occupation list to utilise the international labour pool to fill gaps in the economy. We hope Defra's review into Labour Shortages in the Food Supply Chain being Chaired by John Shropshire will consult the industry to ensure the solutions are industry led.

d. National Living Wage rises

Whilst our members support the NMW and NLW in providing a minimum wage standard, the majority of our members are concerned about the projected increase during a period of major economic upheaval.

With food inflation at an all-time high and on top of this we are dealing with the aftermath of the Covid-19 pandemic where our members, cost of living crisis and supply chain challenges have seriously affected members' revenues and disrupted the forecasted growth of their businesses. Consequently, there are major concerns regarding the impact of heightened wage bills now and in the near future. Further increases will reduce profits and increase prices during a period when businesses need stability.

Another immediate measure to reduce the pressure on firms would be to either freeze national living wage increases in 2023 or to ensure the rate is increased by no more than 6%. The ambition to reach two-thirds of median earnings by 2024 must also be considered alongside the economic climate businesses are currently facing.

e. Public sector food contractual terms – leading to food supply chain disruption

Our members supply vital food and drink to the public sector including to schools, hospitals, care homes and prisons. However, the pricing of these public sector food contracts is a serious concern for our members, especially against the backdrop of rising inflation and the ongoing cost of living crisis. As wholesalers continue to recover from the pandemic, they now find themselves in a situation where they are struggling to fulfil their public sector food contracts, with some members servicing them at a loss.

The Government's recent announcement to increase the funding rate for Universal Infant Free School Meals by 7p per pupil is a welcome first step. However, this increase remains well behind the current rise in food inflation, which for wholesalers is running at 20%, and fails to consider any of the external factors the food and drink industry is currently facing.

Soaring costs are putting the public sector food industry under considerable strain, forcing conversations to be had about the realities of fulfilling public sector food contracts. While food prices have increased, contractual terms and agreed spend have remained the same or have not increased in line with inflation.

Unfortunately, without adequate government support, it will become increasingly unviable to maintain the current offering to the public sector including schools, hospitals, care homes and prisons. FWD's members have all renegotiated their public sector contracts at least once but have been told there is no room for further renegotiations, even though the cost of doing business is continuing to rise. The quality and quantity of food is also being impacted (See below) and government targets for 50% of food to be locally sourced are completely unrealistic during this time.

We surveyed members to find out the impact of not being able to secure contractual price increases in line with inflation. The wholesalers that responded to our survey employ more than 10,000 people across the UK and service nearly 2,000 contracts in the education, health, leisure sectors. Nearly all respondents to our survey mentioned that they are servicing some of their public sector contracts at a loss due to contractual stipulations that they have not been able to navigate around or because they have been unable to negotiate sufficient price increases as price reviews are either once or twice a year. Customers have in some cases refused to take on an increase in price which means members are not making a profit for the product and service they are providing their customers, impacting the viability of servicing these contracts in the long term.

On the other hand, a handful of wholesalers have seen a 5-20% increase on certain contracts, however, this is well below inflation and fails to consider any of the external factors driving up costs for business for the food and drink industry is currently facing.

On top of this, members are declining to bid for more contracts – which could impact the supply of food and drink to public service infrastructure. 95% of members said that the current climate and rising costs means that they are unlikely to bid for new contracts especially ones with unfavourable terms such as long pricing review dates. If a contract has a requirement for extended price holds (6 months or more) and caveats which limit increases in line with CPI indexes, members will likely decline to bid for these new contracts, this is because such clauses are not feasible in the current climate, we are in. This will impact the quality and choice of food contracts in the long term.

The government should implement the following recommendations to address these pressures:

- 1. Quarterly price reviews to allow contract price increases more regularly than once a year or every six months if a threshold is met (e.g. inflation is over 5%).**
 - This would give members the ability to re-negotiate their contract terms quarterly. The overall length of the contract would remain the same and volume would continue to be reviewed bi-annually to provide the certainty members need.
 - This would allow members to improve the quality of food and source more local products, rather than seeking the cheapest option.

- 2. The UIFSM allowance must be ring-fenced purely for school meals and this should be delegated to the caterers for this use only.**
 - Following the publication of the School Food Plan in July 2013, the then Coalition Government introduced UIFSM to all Primary Schools in England. The Government originally set the value of a meal at £2.30, which was delegated directly to the schools. Following the industry campaigning in October 2020, the allowance was increased to £2.34.
 - In June 2022, government announced an increase in the funding rate for Universal Infant Free School Meals by 7p per pupil. This increased the amount from £2.34 to £2.41 a meal.
 - Most caterers, however, do not receive all the £2.41 as it is not currently ring-fenced to be used for the meals. The market for school meal contracts is very competitive and there is an expectation from Local Authorities, Head Teachers, and Governors that the contract price will be lower than the allowance. This enables them to retain some of these funds to spend on other

areas within the school budget and we are aware that some caterers are only receiving as little as £2.00 for a UIFSM allowance.

- This is why servicing these contracts is becoming more unattainable – the sector is facing a wall of inflationary costs, rising energy prices, fuel prices yet their contracts have not been updated to consider these external factors. Public sector food and catering targets are therefore unlikely to be met in this current climate.

3. Asking the cabinet office to issue guidance to ask for service delivery requirements to be relaxed

- There is little flexibility on the number of deliveries members are asked to make each day. This means that delivery services are inflexible, inefficient, and costly. This is why members are calling for flexibility on a number of deliveries to enable more efficient processes.

Question 3: How are the rising cost of living and increasing food prices affecting access to healthy and nutritious food?

Public sector caterers are struggling to meet food standards, being forced to reduce portion sizes, and use less UK grown and produced product.

It will become unviable for wholesalers to fulfil these contracts without increasing contract prices, and if wholesale businesses reluctantly take the decision to no longer supply public sector food, an unacceptable risk will be created as there are no other sectors who could fulfil this role.

The quality of the food used to service public sector contracts will continue to decline in order to mitigate the rising costs if the government does not step in to support the industry. A number of members are unfortunately relying on profitable contracts subsidising loss making ones currently. However, with an ever decreasing level of profitable contracts – the balance is tipping towards overall loss making which is unsustainable in the long term.

The impact of food inflation has already resulted in pupils being forced to accept smaller lunches, with a lower nutritional value, and in some cases, schools have opted to only offer cold packed lunches because of the cost of energy. Several members who supply school contracts mentioned that they are reducing portion sizes, by for example offering less protein, less frequently, thinner sliced ham in baguettes, reduced meat content in sausages etc. We are heading towards a situation whereby the most vulnerable in society will go hungry as a result of the continued lack of funding and the government's targets to improve menu choices and nutrition will not be achieved.

1. Is the current level and target of food self-sufficiency in England still appropriate?

As mentioned above, we surveyed members to find out the impact of not being able to secure contractual price increases in line with inflation. The wholesalers that responded to our survey employ more than 10,000 people across the UK and service nearly 2,000 contracts in the education, health, leisure sectors.

100% of the members we surveyed said the government's target for **50% of food to be locally sourced** will not be reached as locally produced products are generally more expensive. As most public sector contracts are cost driven wholesalers are looking to source the most cost-effective options.

One member which employs nearly 200 people and services more than 15 public sector contracts mentioned that while 60% of the food they currently supply is produced within the UK, they will be reducing this figure following consultation with the customer to keep prices down. Customers who also operate the Food For Life Mark, which demonstrates that you source locally produced food, are also starting to consider the worthiness of this against the backdrop of rising costs.

Following Brexit wholesalers have had to look outside of the UK due to additional administration, delays, and paperwork costs as a result of the new customs regulations. Transport costs have also increased due to the delays at ports and increased paperwork with some hauliers refusing to lift product out of UK into NI.

The lack of cash flow and with profits eroding also makes it extremely difficult for members to not only maintain excellent availability but it impacts their ability to modernise their fleet and infrastructure. It also restricts their **drive for carbon reduction** and the ability to support social benefits.

Government targets will not be reached in the current climate

According to members, the current conditions are encourage market consolidation and homogenisation – driving standardisation, not localisation. This is because SMEs are more acutely affected by increases; they are smaller scale and less resilient and need to pass increases on in real time. They don't have the capacity to absorb these increases and as such are more vulnerable to these pressures if price increases are not passed on. SMEs are therefore either closing down or being sold to larger nationals encouraging market consolidation and homogenisation. The government's target for **25% of SMEs to service public sector contracts** is therefore unrealistic especially in the current climate.

Due to the current climate, larger wholesalers are also moving away from purchasing product from SMEs as cost mitigation and continuation of supply have taken precedence. This will impact the quality and quantity of food.

2. How could the Government's proposed land use strategy for England improve food security? What balance should be struck between land use for food production and other goals – such as environmental benefit?

N/A



ENDS.