Written evidence submitted by the Federation of Wholesale Distributors (CFSF0020)

EFRA Committee's inquiry into Covid-19 and the Food Supply chain

Introduction

FWD (the Federation of Wholesale Distributors) welcomes the opportunity to respond to the Environment, Food and Rural Affairs Committee's follow up call for evidence into Covid-19 and the food supply chain.

FWD is the member organisation for UK wholesalers, our members are vital suppliers to key public sector infrastructure including schools, care homes, hospitals, prisons as well as supplying the wider hospitality industry. 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.

Unfortunately , the situation has got extremely worse for wholesalers since the last call for evidence. While we welcome the Committee's recommendation in the last report calling on the government *to "plan for how it intends to support food and drink suppliers to the hospitality and foodservice sector during this turbulent time"*, no such support has been forthcoming. Furthermore, the industry has further suffered from last minute U-turns and a misunderstanding by key decision makers about the fragility of the food supply chain.

1. **How has the pandemic and the Government's response to it affected food supply since July 2020?**

The wholesale sector has largely been ignored by the government and consequently our members continue to burn through their financial reserves while their customers in the hospitality industry benefit from grants, business rates relief and other financial support.

Due to the sudden nature of the lockdown, the 24 hours' notice to close schools and the sudden U-turn switching to a school food voucher scheme means that for the **fourth time in ten months food and drink wholesalers have been left with food products in warehouses but no customers to sell them to**. wholesalers have found themselves with **£12.2m excess stock which will be wasted.**

Schools are calling in droves to cancel orders and switch to vouchers, which are valid and can be collected in supermarkets. Supermarkets have seen an exponential increase in sales during the pandemic while wholesalers have lost 80-95% of trade. Supermarkets have also been afforded financial support such as business rates relief while wholesalers have received nothing and continue to burn through their reserves.

Before Christmas, the government were adamant that schools would stay open on the basis that they were low risk. Schools placed orders for food and stock was ordered in accordingly by wholesalers ready for shipment in January. However, these suppliers were given a mere

24 hours' notice that schools would be closed leaving stock with nowhere to go. Even more stock will now be wasted due to the last minute U-turn by the government on school voucher meals. **The supply chain cannot turn off and on that quickly.**

Whilst some of this food can be re-packaged and sent to food banks, a significant proportion will be wasted as the stock is either specialised or too large for food banks to accept. While wholesalers work to shift fresh food to ensure it is not wasted, they are yet again expected to absorb these costs and suffer major financial losses while receiving no support from the government. This is not sustainable.

FWD estimate that <u>the whole industry is set to lose £12.2 million over the next 90 days as fresh food and stock meant for the hospitality industry and schools has nowhere to go.</u>

This BBC News *piece explains why wholesalers are being forced to waste stock.*

This BBC article also explains the perilous situation wholesalers are facing.

The last minute decision making on education means the upshot is that good honest people are on furlough. Unfortunately, redundancies and site closures are inevitable as **millions of pounds of food cannot be recovered by wholesalers**. Local family run businesses cannot survive these constant financial hits while not receiving any financial support from the government.

In addition to this, food and drink wholesalers were also asked to stockpile food for Brexit and stocked up on Christmas supplies which then was not purchased due to the Christmas restrictions and households not being allowed to celebrate together and hospitality venues being shut down. The food supply chain unfortunately cannot turn on and off that quickly and there are repercussions to these last-minute decisions that wholesalers are now having to deal with.

The Department of Education have informed FWD that they will shortly be issuing guidance advising schools to give their Free School Meal/ UIFSM funding to their food providers, e.g wholesalers, to compensate them for school closures and the move to the voucher scheme. It will be for the school to determine how to allocate these funds. We hope to see this guidance published soon and that wholesalers will benefit from this.

FWD wholesalers pride themselves on providing healthy nutritious school meals yet they are now being caught up in the unintended consequences of Marcus Rashford's good intentions.

Please see **Annex A** for pictures of the nutritious school food packages FWD members provide and for pictures of stock that will be wasted.

2. What impact the current lockdown is having on food supply; and what further actions the Government, public bodies and industry need to take.

The current lockdown is having a devastating impact on the food supply chain. As vital suppliers to the hospitality industry, foodservice wholesalers have seen their trade evaporate over-night as pubs, restaurants, hotels etc have all been forced to close their doors.

For many the commercial revenue from the 70% of turnover distributed to the private hospitality sector underwrites the 30% of business supplied to public sector contracts. This means that without the income from the commercial sector, the supply of food to institutions such as care homes, prisons, schools, and hospitals is at immediate risk.

Our members have lost almost 80-95% and in some cases 100% of their trade with the closure of the hospitality industry. For those wholesalers that service the public sector, they are unable to close their business and furlough their staff because they have a duty to continue supplying this fraction of remaining open customers and public services who rely on them. They continue to supply these institutions at a financial loss to ensure the most vulnerable in our society are able to access food, however, this cannot be sustained for long.

The last minute decision making by the government has dramatically impacted the supply chain and the government must not sit back and allow the sector to struggle through the crisis and burn through reserves while the rest of the industry is supported.

The government should therefore:

1. ***Make clear and timely decisions and communicate these to food and drink wholesalers ahead of decisions affecting the opening or closing of key institutions.***

It is currently impossible for wholesalers to plan ahead; the government must ensure that whoelsalers are given notice before key decisions are made to ensure additional stock is not wasted.

2. ***Introduce an Excess Stock Grant to cover the £12.2 million of fresh food that wholesalers will not be paid for.***

As mentioned, due to the sudden nature of the third lockdown, the 24 hours' notice to close schools and the sudden U-turn switching to a school food voucher scheme means that for the **fourth time in ten months food and drink wholesalers have been left with food products in warehouses but no customers to sell them to**. wholesalers have found themselves with **£12m excess stock which will be wasted.**

Whilst some of this food can be re-packaged and sent to food banks and we are doing everything we can to ensure this is the case, a significant proportion will be wasted as the stock is either specialised or too large for food banks to accept. **<u>FWD estimate that the whole industry is set to lose £12.2 million over the next 90 days as fresh food and stock meant for the hospitality industry and schools has nowhere to go</u>.** This is a financial loss that wholesalers cannot absorb for the third time. **The Government urgently need to help wholesalers recover these loses by setting up an Excess Stock Grant or they will see mass business closures.**

1. **Extend Business Rates Relief to foodservice wholesalers**

Wholesalers are calling on the Government to extend business rates relief to foodservice wholesalers to help them during this unprecedented time. Currently, wholesalers are not eligible for any coronavirus business rates funding because they do not fall within the "retail" category. Business rates relief has been extended to the hospitality and leisure sector which our members supply too as well as to supermarkets, which have done extremely well during this pandemic. Whist a number of the supermarkets have now returned this funding, **wholesalers are still not eligible for the support despite foodservice businesses being completely shut down and loosing 100% of their trade due to government restrictions.**

We understand that the government is financially constrained and that not all businesses can be saved. This is why we are asking for targeted support to help those most in need, most notably business rates relief for foodservice wholesalers that supply the hospitality industry. We estimate that this would cost the Treasury a mere

<u>£48 million if this relief were backdated from March 2020.</u>

Business Rates Relief would provide significant relief to foodservice businesses in the sector and provide many with the breathing space to find ways to continue to operate and would provide local employment and support the restart of the British economy. It would also ensure wholesalers who are already extremely financially strained by money owed to them by hospitality customers have more resources to re-start their operations.

2. **Replicate the £5m Scottish wholesale fund**

Wholesalers are not eligible for any financial support in England. Wholesalers have not received the opening grants, the rates relief, and are being rejected for the Local Authority discretionary grants despite being eligible. Only a handful have received the very small £3k additional restrictions grant in England while most have been rejected.

The Scottish Government has now rectified this anomaly and has introduced a specific £5m wholesale fund for Scottish wholesalers (in the affected sectors only i.e. foodservice, public sector, hospitality). Whilst this in no way compensates for the prolonged losses and is managed through a stringent application process, it is working and keeping supply of food and drink sustainable.

Whist we understand this is a devolved issue, the Scottish Government have recognised the difficulties that wholesalers are currently facing and have subsequently afforded the sector a lifeline. We urge the English Government to show the same support for food and drink wholesale and recognise its critical importance in the food and drink supply chain.

3. **Local Authority Discretionary grants should apply to the supply chains at risk of collapse**

The Government previously announced discretionary grants for those impacted by additional restrictions. Clause 23 of the guidance stated that the grants should be given to "businesses which supply the retail, hospitality, and leisure sectors, or businesses in the events sector." However, nearly all of our members have bene rejected from these grants.

Ahead of the third national lockdown, the Government also announced a £1.1 billion further discretionary grant funding for Local Authorities, Local Restriction Support Grants. The Government must now ensure that local authorities prioritise foodservice wholesalers who are in urgent need of financial support.

The Government's response to the EFRA Committee's first report into the Covid-19 and food supply

Whilst we appreciate the EFRA Committee raising our concerns regarding the impact of Covid-19 on the food supply chain, we have been largely been ignored by the government.

The government's response to the report was disappointing and the current support packages they mention such as CBIL loans and Bounce Back loans do not work for this sector.

Wholesalers are currently not in a position to take loans. The sector is unlike retail with cash coming through its tills. It is built on credit both from customers and suppliers.

Wholesalers typically give their customers 4-5 weeks' credit and get roughly the same terms from their product suppliers. Customer businesses, such as those in the hospitality industry, owe huge sums of money to their wholesale distributors for massive amounts of stock ordered before the lockdown. A significant proportion of this food, meant for the hospitality industry, has been thrown away and while some has been re-packaged or frozen, wholesalers cannot re-purpose 80-95% of their markets.

As a result, the industry is now facing enormous bad debt because 80-95% of their markets have disappeared, their customers in the hospitality industry remain closed and some will not reopen and are not paying bills, yet suppliers still require payment.

Furthermore, delivered wholesalers operate on 15-25% gross margin but only 1% EBIT (earnings before interest and taxes). It is all about fast goods one-way, fast cash the other. This is not a supply chain that can pause, let alone come to a sudden catastrophic stop since wholesale distributors hold vast amounts of stock, they pay for warehouses, vehicles, and refrigeration etc. Therefore, while the Chancellor has announced loans for the industry, additional borrowing on their slim margins is impossible.

Conclusion

Wholesalers urgently need financial support to survive this crisis. We have worked hard as an industry to support the hospitality industry and also to support key public sector institutions at a financial loss. We now need the government to support us and help save the wholesale sector.