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Rt. Hon. Philip Hammond, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
1 Horse Guards Road,
London.
SW1A 2HQ

September, 2017

Dear

The BSA - The Business Services Association - is a policy and research organisation. It brings together all those who are interested in delivering efficient, flexible and cost-effective services and infrastructure projects across the private and public sectors.

The business services sector employs over 10% of the workforce and contributes 9.3% of all UK economic output, supporting every region and community as a driver of economic growth and productivity. The sector also contributes significantly to the country's services trade surplus and attracts foreign direct investment into the UK.

Our industry has a crucial role to play in ensuring Britain maintains its status as a world-leading economy and place to do business. This BSA submission ahead of the Budget highlights several points which we believe would support the growth of the UK economy at this crucial moment.

First, employers are currently dealing with a number of rising cost pressures and the government must ensure that the business environment does not become more onerous. It is important that business input is sought on issues like the Apprenticeship Levy, to avoid adding unnecessary cost. Second, the UK must do all it can to ensure a smooth transition to exiting the EU. Third, a clear procurement pipeline in the public sector will ensure that the UK remains an attractive place for the private sector to invest. This will also enable savings for the public purse in the long-term. Business services, 70% of which are delivered for private companies, should also be recognised as a distinct sector within the Industrial Strategy.

Since the start of Brexit negotiations the government has provided position papers on issues such as customs and citizens' rights that have helped to provide an outline of the future UK-EU relationship. However swifter progress is required for businesses to make appropriate transitional arrangements in advance of March 2019. New migration or trading arrangements need to involve as little bureaucracy as possible, at a time when the economy is in a fragile state and labour costs have risen.

I would welcome the opportunity to discuss in more detail how the business services sector and our members can contribute to sustainable growth that supports an economy that works for everyone.

Yours sincerely,

Mark Fox
Chief Executive
BSA - The Business Services Association



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Submission to the Chancellor ahead of the Autumn Budget 2017

1. *The Cost of Doing Business*

Employers are currently dealing with a number of upward pressures on the cost of doing business. Namely, increases in the National Living Wage, the introduction of the Apprenticeship Levy in April, and the uprates in employer contributions for pension auto-enrolment. The BSA welcomed the publication of the Taylor Review and is keen to work with government to ensure the UK's employment framework is fit for purpose however this should not incur additional business costs. In an uncertain environment, the government should commit to restraining these costs in the short to mid-term to avoid any unintended consequences and a reduction in employment.

The BSA has been supportive of measures to boost the number of apprenticeships and has engaged with the government on the Apprenticeship Levy. The sector invests significantly in skills and training, with BSA full members employing over 17,000 apprentices and providing around 845,000 days of training each year. A key tenet of the policy was to put employers in control of shaping apprenticeship provision, so that is not simply used as an additional revenue-raising tax.

As such we would welcome further engagement on key aspects of the levy as it is implemented, such as the requirement for an apprentice to spend at least 20% of their time on off-the-job training and that this must be evidenced by the training provider. We believe this rule could set a benchmark that may prove difficult to achieve for many apprenticeships in practice and that rather than increasing bureaucracy around the inputs, the policy should focus on ensuring apprentices are qualified at the end of the process. This could be delivered through more innovative programmes focusing on core and technical skills in the workplace.

2. *Brexit*

Business service providers span several areas of the economy, from cleaning and catering to IT and infrastructure, across the whole of the UK. For many companies, changes to existing trade patterns may mean hiring and training new staff or implementing new IT systems. To be prepared for the outcome of Brexit, businesses will have to be ready to implement such transitional arrangements far in advance of the UK's formal leaving date. Clarity is therefore of vital importance and progress must be made quickly on a number of negotiation areas, particularly migration and the trade of goods, so that businesses' supply chains and workforces are not disrupted.

In addition, borrowing through the European Investment Bank has played a role in a wide variety of large scale infrastructure projects, as well as supporting some non-infrastructure projects especially in the north of England. The Bank, which financed some £7 billion of public infrastructure projects in Britain last year, has already reportedly imposed a moratorium on new long-term loans to the UK. This is likely to affect offshore energy turbines and capital projects to fund schools, university buildings and hospitals. The bank is also the largest source of funding for housing association building programmes. These projects affect both public service delivery and inclusive growth, and it is vital the government provides mechanisms for replacement lending capacity at the earliest opportunity.

Another area of importance to the business services sector are European Structural and Investment Funds (ESI), particularly European Social Funding (ESF). Additional information on the future of this funding, where £2.4 billion was due to be spent in England in the six years to 2020, is vital. Leaving the EU presents an opportunity through the new UK Shared Prosperity Fund to tailor a new approach to education, training and employment support services. Businesses and private providers of leading employment support programmes must have input into the shape of these new services. BSA members



want as much flexibility as possible so that funds can be used for a range of programmes that balances the need for investment in both physical and social infrastructure (including education and skills) to help maximise improvements in U.K. productivity

3. VAT Reform

In light of Brexit, where there is significant demand for legislative change the government must engage with businesses, citizens and stakeholders to discuss how those opportunities can be used to make positive reforms. One area of potential reform of interest to the business services sector relates to VAT where there is an opportunity to create growth through competition.

The BSA has previously discussed with HM Treasury the difficulty of VAT recovery faced by VAT exempt organisations when they outsource services. Depending on the agreement reached with the EU, the Government may gain discretion to decide what goods and services are eligible for VAT reduced rates and exemptions. We have urged the Government to address the VAT rule which restricts a level playing field from operating in certain areas of public sector delivery, including social housing and further education colleges. As social housing organisations are exempt from VAT, for example, independent providers need to be at least 20 per cent cheaper to begin to be competitive. Further recommendations on VAT reform were made in the BSA's submission to the Office of Tax Simplification's (OTS) review earlier this year.¹

4. Connectivity, Infrastructure and Skills

We urge the government to invest in upgrading the UK's digital infrastructure. Better Wi-Fi and high-speed broadband coverage would lead to immediate economic gains for UK plc. Research shows the multiplier for every £1 spent on construction - that it generates £2.84 in total economic activity, at least 90% of which stays in the UK² - but the multiplier for IT connectivity could be much more.

Alongside this, a long-term pipeline of major infrastructure projects, such as Heathrow expansion and HS3, would be an important way of encouraging investor confidence. For regions outside of London to achieve their full potential there needs to be transformational improvements to local transport infrastructure, as increasingly called for by regional bodies. This will enable key cities to function as interlinked economies, pooling labour and expertise and opening up opportunities.

The service sector thrives in areas where people can move about easily and interact. Often the biggest differences can be made by improvements involving journeys of 30 minutes or less. These are often the schemes that will be prioritised if decision-making is in the hands of local residents, businesses and their representatives. New types of public private partnerships should be developed whereby the private sector can make the initial investment necessary and then be repaid over the course of a contract.

Helping more people into the labour market and providing rewarding careers will address feelings of being 'left behind' and drive inclusive growth across the country. There are various mechanisms that could be trialled. For example, using apprenticeship levy money as salaries in specific areas and allowing mayors to spend the mayoral precept on skills could incentivise businesses to relocate. Employers must be encouraged to use the apprenticeship levy to create a culture of life-long learning for older recruits and existing staff.

¹ BSA Response - OTS Review of VAT, July 2017, <http://www.bsa-org.com/wp-content/uploads/2017/09/BSA-Response-OTS-Review-of-VAT.pdf>

² LEK Consulting, 2010, Construction in the UK Economy



5. Place, Industrial Strategy and Public Service Reform

The services sector - and in particular business services within this - is vitally important in delivering the objective of an economy that works for everyone. The Industrial Strategy Green Paper recognises the importance of Place and sets out the mechanisms introduced across England which emphasise Place: City Deals, Local Growth Fund, LEPs, combined authorities and transport authorities.

It is important that this emphasis on Place runs through all the ‘pillars’ of the Industrial Strategy. Places themselves are best able to determine their strengths and weaknesses; the limiting factors to inclusive growth in their area; and how these can best be addressed. Devolution deals can be used to help break down the barriers which have existed between economic and social infrastructure. Services such as employment support, skills provision, and health and social care provision not only improve people’s quality of life but help provide a healthier, more skilled and more productive workforce. Government should continue to work with the new metro mayors to identify the most appropriate level for where these powers should sit in order to enable truly inclusive growth.

Service integration involves the public, private and VCSE sectors working together, with each playing to its strengths. At the heart of this is the commissioning process, and public procurement within this. It is important that government continues to emphasise the role of the Social Value Act and of full stakeholder consultation in informing public sector procurement strategies.

Finally, the BSA believe public service reform should not be seen as an isolated strand of government activity but should instead be placed at the heart of the effort to address the UK’s regional imbalances and productivity challenges. As the Government’s Industrial Strategy Green Paper and independent bodies such as the Industrial Strategy Commission have recognised, public procurement can be used as a ‘tool’ to achieve inclusive growth. Investing in public service commissioning to improve market competitiveness is a key way to achieving this.

Government spent £194bn on external suppliers in 2014/15. The way it manages its supply chain is very important to the efficiency and effectiveness of public services. Although there has been good progress in improving procurement skills, contractors are concerned about low-price tenders and aggressive risk transfer. This has led to a breakdown in trust between government and the industry. We are increasingly seeing tenders where there are no bidders, which signals the long-term competitiveness of the market is at risk. We recommend the following³:

- Government must make clear at the highest level that procurement and contract management tools that are appropriate for buying ‘paperclips’ - easily commoditised, specified goods and services - are not appropriate for commissioning complex support services and front-line human services.
- Government must understand why procurements often favour the lowest price over value-for-money and introduce systems and processes to compensate for the bias.
- Consideration should be given to establishing a centre for excellence, jointly funded with industry, for the applied study of public service contracting, and the design and operation of public service markets.

While public sector procurement is vital, it should also be noted that 70 percent of outsourced activity is delivered ‘business to business’ for the private sector. In the private sector the outsourcing of non-core functions allows businesses to focus on their core activities and reduce their expenditure. It also enables them to reinvest money back into the type of initiatives that can drive growth and

³ Professor Gary L Sturges, 2017, *Just Another Paperclip? Rethinking the Market for Complex Public Services*



productivity - from investment in skills and training, to expenditure on plant hire and machinery. The government has engaged well on its Industrial Strategy and the BSA is pleased that BEIS has indicated business services are recognised as a distinct entity; the sector should be given due prominence within the Industrial Strategy.



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