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

10 February, 2017

Dear *Philip,*

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 has a crucial role to play as the UK negotiates to leave the European Union (EU). It 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.¹ The sector also contributes significantly to the country's services trade surplus and attracts foreign direct investment into the UK. BSA members therefore stand ready to engage with the Government and support positive negotiations in the coming months.

Since the Autumn Statement was published in September 2016, the Government has provided welcome assurances and stability for the UK economy. The Prime Minister has set out the country's negotiating position ahead of leaving the EU in detail and the Government has been active with domestic policy announcements. In light of the forthcoming Spring Budget, we now urge the Government to focus its attention on three areas that will boost productivity and provide the economy with the foundations it needs to succeed in future.

First, we would encourage a flexible approach to fiscal policy which prioritises long-term capital investment to upgrade Britain's transport and infrastructure network. Second, there should be a strong focus on making Britain a truly digital economy by enabling connectivity across the whole of the UK through an expansion of full fibre broadband. Finally, investment should concentrate on our schools. Pupils should be taught within modern, high-quality facilities and also be equipped with the appropriate skills, especially in computing and technology, to prepare them for the new world of work.

Please find enclosed our submission ahead of the Budget which highlights points which we believe would support the growth of the UK economy at this crucial moment.

I would welcome the opportunity to discuss in more detail how the business services sector and our members can contribute to sustainable economic growth.

Yours sincerely,

Mark Fox
Chief Executive, BSA - The Business Services Association

¹ Economic contribution of the business services sector, Oxford Economics, January 2015



BSA - The Business Services Association

Submission to the Chancellor ahead of the Spring Budget 2017

In light of the forthcoming Spring Budget discussions we would like to highlight the following points.

1. *Brexit*

Following the UK's decision to leave the EU, the BSA believes the Government must be positive in its approach to meeting the challenges ahead. On behalf of the business services sector the BSA has submitted to Government our response to Brexit. This covered the role the sector can play in making this period a success, the priorities for BSA members, and our call to act in crucial areas. The Government has engaged well with business since the referendum and we hope the door continues to be open to discussion after Article 50 is triggered.

We welcome the clarity given by the Prime Minister on the Government's position and its twelve objectives for Brexit negotiations. Although we recognise that final arrangements will be subject to EU approval, a clearly defined direction of travel from the Government through the exit process will provide surety to the markets and enable businesses to effectively plan, invest and grow. Certainty should also be provided that the UK will not face a 'cliff edge' in the event that a deal is not concluded by 2019. It will also be vital to ensure that businesses' supply chains and workforces are not disrupted by abrupt changes in access to the EU's labour market.

A significant range of UK regulation may be affected by our exit from the European Union. This includes fundamental legislation for the business services industry such as TUPE, employment law, procurement regulations, and taxation and state aid restrictions. The Government must identify areas where it will seek to make changes to the current system and engage with businesses, citizens and stakeholders to discuss how this opportunity can be used to make positive reforms.

2. *Public services*

Assurance is also required regarding the ongoing programme of infrastructure projects and public service transformation. We urge the Government to lead by example, demonstrating that Brexit disruption will not derail planned investments and that the UK continues to be open for business. Swift decision-making and commitment to core policies, such as the pledge to spend 2% on defence, to expand airport capacity in the South East, and to the devolution agenda across the country, would send a message of confidence to UK businesses and to global investors.

The BSA welcomes the Government's decisive action to guarantee continued funding for structural and investment fund projects currently supported by the EU. Additional information on the future of European Social Funds is now vital to ensure that essential social programmes can continue to operate and deliver for the UK as it faces a period of uncertainty.

A potential economic downturn could have an impact on public service demand while reducing the scope for public sector spending. As the 'low hanging fruit' of efficiency savings have been made, the Government must take a new and more collaborative approach to service delivery. Business services companies are ideally positioned to inform innovation and transformation in the Government's programme of work across infrastructure and public service delivery. BSA members would welcome the opportunity to meet with Ministers to discuss how they can support the Government at this demanding time and work together to drive positive transformation.



3. VAT

The BSA has 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 urge 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, independent providers need to be at least 20 per cent cheaper to begin to be competitive. Removing this barrier would allow the benefits of competition to improve residents' experience.

4. Taxation and the cost of doing business

Brexit offers a once in a lifetime opportunity to simplify a tax system which has evolved through iteration and tinkering. A new tax system must signal international openness and drive competitiveness that benefits the whole of the UK. The Government needs to create an environment that is conducive to business growth and investment. This means intelligent targeting of incentives and awareness of the broader cost of doing business in the UK.

Business is currently absorbing a number of policies which have increased costs, for example, uplifts in the auto-enrolment rate, the apprenticeship levy and the national living wage. We urge the government to let these policies bed down before introducing new ones, to stabilise the costs of doing business.

5. Pensions

The growing deficits in the UK's defined benefit pension funds are a serious threat to the stability and growth of the UK economy. Additionally, high-profile cases of pension fund failures have led to piecemeal and reactionary proposals for change, causing concern and uncertainty for businesses and scheme members. This issue must be tackled head-on to avoid unacceptable collapses for scheme members, to prevent pension deficits undermining companies' growth and viability, and to bolster the UK's resilience to market volatility.

We urge the Government to open discussions with the Bank of England and a wide range of stakeholders to explore options that will ensure a fair deal for pension members and employees, while allowing businesses to grow and contribute to the UK economy. This should include a reassessment of the remit and role of the Pension Protection Fund and of the viability of pension promises made through final salary pension schemes. Government should also consider emergency legislation to protect pension funds from mass outflows which could further destabilise the economy.

6. Apprenticeship levy

The BSA has made frequent contributions to the Government regarding the Apprenticeship Levy. While supportive of measures to boost the number of apprenticeships, we have raised concerns about the level of detail and guidance provided to help businesses plan ahead. A key tenet of the policy was to put employers in control of shaping apprenticeship provision, as such the BSA would welcome further discussions with relevant officials once the levy is up and running to guarantee it is operating effectively.

As the policy moves into the implementation phase, the Government must ensure that funds raised by the levy are targeted towards improving skills and increasing the number of apprenticeships. At a time when the costs of doing businesses are already substantial, it should not be used as an



additional revenue-raising tax. It is vital that those contributing are able to see how the additional costs to their business are feeding back to them in some measure.

BSA members have also previously raised concerns over a perceived lack of communication and cooperation with the devolved governments regarding the levy funds. Indeed, the funds generated by the policy will be applied in markedly different ways across the UK. As April 2017 draws near, we call on the Government to ensure there is as cohesive an approach as possible to the implementation of this policy, in order to aid cross-border businesses' ability to plan and deliver apprenticeships.

7. Infrastructure

Infrastructure investment is an important barometer of the country's stability and attractiveness, particularly as the UK prepares to leave the EU. A long-term pipeline of infrastructure projects is an important way of encouraging investor confidence and the Government should act now to issue infrastructure bonds. This would allow pension funds to invest in higher-quality assets, while allowing the Government to borrow cheaply for longer-term needs.

The BSA strongly supported the focus on infrastructure spending in the 2016 Autumn Statement. We particularly welcomed the new National Productivity Investment Fund which will provide £23 billion of additional spending in areas that are key to boosting productivity. Above all we would urge the government to invest in upgrading the UK's digital infrastructure. Enabling greater digital connectivity across the UK, encompassing both rural and urban areas, would lead to significant productivity gains.

The BSA calls on the National Infrastructure Commission to prioritise the following five areas when assessing the UK's infrastructure pipeline:

- Skills - Building a diverse skills base aimed at meeting infrastructure needs
- Connectivity - Ensuring the UK's large cities and small towns are better connected to improve productivity
- Devolution - Clarifying how combined authorities and local government fit into national infrastructure planning
- Funding - Maintaining and improving the flow of infrastructure investment and building comprehensive business cases
- Technology - Understanding how technology influences construction, skills, and how people interact with infrastructure

8. Education

As part of the Government's long-term infrastructure and productivity aims, we would also urge a focus on spending on the UK's schools. Demand for spaces has increased, particularly in the secondary estate, and with plans to expand the number of academies it is vital that projects are in place to upgrade and refurbish the existing infrastructure.

Investing early in repairs and facilities management (FM) at schools which are ready to progress quickly with new 'shovel ready' projects will provide a significant boost for local economies. Investing in buildings can improve educational outcomes and investing in FM and energy in schools can reduce bills over the longer term.



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