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

6 September, 2016

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 following the Brexit vote.

The Prime Minister, Chancellor and Bank of England have already provided invaluable stability and assurance to the economy following the referendum. Further information and guarantees are now required to create confidence in the economy and ensure investment, both domestic and foreign, continues to grow. Prompt and clear commitments in areas including the devolution agenda, projects in the National Infrastructure Pipeline and public service transformation will assure global partners that the UK remains open for business with a strong and diverse economy.

The Government must also grasp opportunities to reform and improve upon existing models. For example, should control over VAT return to Westminster, the Government must take this chance to remove one of the biggest barriers to a level playing field between public, private and voluntary sector providers. Similarly, where changes to taxation, procurement or pension policy could increase UK competitiveness and economic success, we urge the Government to engage with businesses and act boldly to forge a new path for the UK.

In light of the forthcoming Autumn Statement, please find enclosed our submission which highlights points which we believe would support the growth of the UK economy at this pivotal moment.

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

Yours sincerely,

Mark Fox *Bert Weetley*

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 Autumn Statement 2016

September 2016

In light of the forthcoming Autumn Statement 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 is submitting to government our response to Brexit. This covers the role the sector can play in making this period a success, the priorities for BSA members, and our call to government to act in crucial areas.

First and foremost, the Government must lay out its position, objectives and timeline for Brexit negotiations. Although we recognise that final arrangements will be subject to EU approval, a clearly defined direction of travel from the Government will provide surety to the markets and enable businesses to effectively plan, invest and grow.

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 from government regarding its 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 build HS2 and 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.

We call on the Government to improve engagement channels with business on significant policy changes affecting the business environment. This includes initiatives such as corporation tax cuts, auto-enrolment, the apprenticeship levy and the national living wage. Businesses are well placed to recognise barriers to growth in the economy and to identify the challenges that may prevent the successful implementation of policies. Over the coming years, business confidence will be more crucial than ever and we would therefore welcome a forum for businesses to feed directly into policy development and engage cooperatively with government to make Brexit a success.

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 welcomes the restructuring of the skills brief to the Department for Education which will enable continuity between education policy and work skills development. However, it is vital that engagement with the business community and employers is not diminished and that administrative changes do not have an adverse impact on the apprenticeship levy implementation. Delays to guidance on the apprenticeship levy have already severely impacted businesses' ability to plan their workforce and recruit apprentices. The Government must ensure further information reflects employers' feedback and concerns, provides adequate detail on the funding and digital systems, and is released on schedule.



BSA members are concerned by the perceived lack of communication and cooperation with the devolved governments regarding the levy funds. This has led to a deficit of information which again threatens cross-border businesses' ability to plan and deliver apprenticeships. As April 2017 approaches fast, we call on government to engage with and support the Scottish and Welsh Governments to ensure all areas of the UK can benefit from the levy.

7. Infrastructure

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

Following the Brexit vote, infrastructure investment is an important barometer of the country's stability and attractiveness. In light of this, we hope the review of the proposed new nuclear power station at Hinckley Point will not be a signal that other major infrastructure projects are made the subject of further review and/or prolonged delay. 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.



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