



The Business Services Association

130 Fleet Street,
London.
EC4A 2BH

T: 020 7822 7420 W: www.bsa-org.com @THEBSASSOC

Rt Hon Greg Clark, MP,
Secretary of State for Business, Energy and Industrial Strategy,
1 Victoria Street,
London.
SW1H 0ET

13 April 2017

Dear *Cery*

The BSA - Business Services Association - welcomes the opportunity to respond to this comprehensive consultation on the government's modern industrial strategy.

Business services are vital to the UK economy because they provide essential support for other industrial sectors. We invest in administrative services, facilities management, infrastructure and IT so other businesses can focus on what they do best. Helping businesses to work smarter means they are more productive and therefore more likely to export their goods and services. An increase in outsourcing of just 1 per cent adds £2 billion in productivity gains to the UK economy each year as businesses focus on delivering their core activities more efficiently.¹

The UK public service economy is the biggest and most sophisticated in the world. Working in partnership with public sector clients, the business services sector brings new thinking and investment which both improve efficiency for service users and deliver savings for taxpayers. Helping to commercialise assets also creates additional revenue for public sector clients.

The business services sector employs over 10% of the workforce - including in the North East, North West and Wales - and contributes 9.3% of all UK economic output. Our priority is our people. We need continued access to a motivated and willing workforce. The government must act to retain the skills of people who have already migrated here, to continue attracting talent into the UK, and, in tandem, work with industry to improve the skills of UK workers and become self-sufficient over the medium to long-term.

All services depend to some degree on labour mobility. All parts of the economy would benefit from better connectivity. Transformational improvements are needed in transport and digital infrastructure to enable cities outside London to act as economic hubs: pooling labour, opening up new opportunities and allowing us to offer better services to our clients.

The rest of this document makes recommendations under the ten pillars. I would welcome the opportunity to discuss in more detail how the business services sector can work with you on a sector deal and contribute to growth across the UK.

Yours sincerely,

Mark Fox
Chief Executive

¹ Oxford Economics, 2015, The use of business services by UK industries and the impact on economic performance



1. Investing in science, research and innovation

The government must do more to acknowledge that innovation is not just about flashy new kit but also applies to services. The UK economy is mostly service based so to not promote innovations in this area is a missed opportunity. Changes can be made in the management of large workforces, like better scheduling, or the running of an asset, like ventilation, air flow and office planning, that significantly impact productivity. Increased servitization - where companies integrate products and services to offer value in use, or 'power by the hour' - allows innovation to be created in new parts of the value chain. The growth of the internet of things means entire estates can be connected to a central control point, allowing building managers to tailor the environment to the client's needs.

In the public sector, the move to regional power bases is an opportunity to invest in transforming services through integration. This can be horizontal - geographic or organisational, for example, integrating health and social care; or vertical - to increase efficiencies by sharing standard services like HR and payroll. The benefits of this integration include better public policy outcomes, for example, reducing hospital admissions, or an increased focus on business needs and customer service rather than on processes and technology. Our sector is developing the innovations which underpin this integration, including better use of insight, analytics, automation and cognitive technologies.

2. Developing skills

Business services rely primarily on people for their success. As a sector that employs a lot of people in low-skilled roles, one of the things we notice is not necessarily a lack of job-specific skills (which employers can give people themselves) but a lack of readiness for work in general. We welcome the Industrial Strategy's mentions of careers advice and guidance and hope that will go some way to encouraging more young people to consider our sector as a good place to work, but we believe there is also a role for the system to play in helping to get young people ready for the world of work with soft skills like punctuality and time management. Employers are keen to do their bit (and they are doing a lot), but there is a role for the education system to play here too. Closer links between schools and employers would help.

The industry has a responsibility to promote training and apprenticeships. BSA members employ 17,000 apprentices, and the BSA is developing a 'trailblazer' apprenticeship scheme in cleaning. One BSA member alone employs 1,200 apprentices a year, covering a range of over 35 subjects, helping to transform the lives of individuals and families.

The apprenticeship levy could be an opportunity to increase productivity, but employers need flexibility over how to use it, for example, for older recruits and, if providing genuine apprenticeship training, existing employees. Otherwise the risk is that the number of apprenticeships decreases.

An immediate concern for skills is in the infrastructure industry. The number of projects in the pipeline means that demand for skills could outstrip supply. This would push up prices and cause delays. Both the National Infrastructure Commission and the National Productivity Investment Fund must recognise the need to match infrastructure ambitions with ambitions on skills. Initiatives like the National College for High Speed Rail are one way in which training needs in particular sectors can be addressed.



The whole of the business services sector suffers from a shortage of digital skills. Digital skills make people more productive, employable, and able to access on-line public services. Digital skills taught in schools, like coding, should emphasise the underlying cognitive abilities, such as problem solving, reasoning and information ordering. Businesses can then play their part by training people on specific programmes.

3. Upgrading infrastructure

For regions outside of London to achieve their full potential there needs to be transformational improvements to local transport infrastructure. This will enable key cities to function as interlinked economies, pooling labour and expertise and opening up opportunities. 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.

We 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. We know 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 we believe the multiplier for IT connectivity would be much more.

4. Supporting businesses to start and grow

The business services sector depends on complex supply chains. Creating a supply chain centred on local SMEs can have a positive economic, social and environmental impact on an area. It ensures that money spent is reinvested in the area and brings the providers closer to their end customers, enabling better feedback, commissioning and delivery of services.

The UK has key tech clusters but these centres of excellence are not translating to their wider regions and across all areas of business. Business service companies can help by providing a link between government, research and businesses. For example, one member has recently led the delivery of 7 superfast broadband exploitation and inclusion projects providing information to over 85,000 businesses, through over 780 workshops and providing one-to-one support to over 2,000 businesses.

5. Improving procurement

The UK public service market is the most sophisticated in the world. The government spends more on external suppliers (£242bn) than it does on its own staff (£194bn in 2014/15). The way it manages its supply chain is very important to the efficiency and effectiveness of public services. Although the government has made good progress in improving procurement skills, contractors are concerned about low-price tenders and aggressive risk transfer. The BSA recently commissioned a report from Professor Gary Sturgess which includes detailed analysis of how to improve the sustainability of public service commissioning.³ Here are a selection of recommendations from the report:

- 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. Complex services have become commoditised before they are ready to be and this has led to a breakdown in trust between government and contractor.

² LEK Consulting, 2010, Construction in the UK Economy

³ Professor Gary L Sturgess, 2017, *Just Another Paperclip? Rethinking the Market for Complex Public 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 for the applied study of public service contracting, and the design and operation of public service markets. This would work best if jointly funded by industry and government with a commitment to the centre's longevity and independence.

6. Encouraging trade and inward investment

The business services sector attracts inward investment and helps its clients to become export ready. The UK leads Europe in attracting corporate headquarters, software companies, financial services, and the manufacturing sector, all of which rely on the availability of state-of-the-art offices and commercial outlets as well as services such as facilities management, business process outsourcing, and ICT outsourcing to support their core work.⁴ A strong business services sector helps the UK remain one of the easiest places in the world to do business.

Sectors that invest a higher proportion of their output in business services have seen faster growth in the value of their exports (as well as enjoying higher productivity growth than the UK average).⁵ The business services sector is important not only in contributing to the UK's trade balance in itself, but in helping other UK companies do so as well (see table below).

Spending on business services and growth in productivity and export value⁶

| | Spending on business services in 2013 | Annual productivity growth | Annual export value growth |
|-------------------------------|---------------------------------------|----------------------------|----------------------------|
| Professional services | 14.6% | 2.3% | 11.8% |
| Support services | 14.6% | 2.2% | 6.8% |
| Information and communication | 11.2% | 3.2% | 11.4% |
| Financial services | 10.7% | 3.0% | 12.8% |
| Average across sectors | 7.7% | 1.6% | 5.3% |

7. Delivering affordable energy and clean growth

As one of their biggest costs, business services companies rely on a steady supply of affordable energy to keep projects viable. Low carbon technologies such as biomass, wind, hydroelectric, solar and nuclear power require further investment and research to increase their distribution and effectiveness as providers of energy.

8. Cultivating world-leading sectors

A number of fast-growing, world-class business services companies have been able to take their experience working with both the public and private sector as they expand their operations across the globe. For instance, BSA members provide taxi information services in Singapore, offer business process outsourcing and facilities management services in Kenya, and install ICT systems for the US Navy. Their global footprint is an integral part of the UK's trade network and their growth and success

⁴ EY - The UK Attractiveness Survey 2015

⁵ Oxford Economics, 2015, The use of business services by UK industries and the impact on economic performance

⁶ Oxford Economics, 2015, The use of business services by UK industries and the impact on economic performance



feeds directly into the UK economy. However, the sector would benefit greatly if the UK government recognised it officially as a unique and distinct part of our economy.

Driving growth across the whole country

The whole of the UK benefits from business services growth. Unlike the financial services or manufacturing sectors which cluster by region, business services employment is dispersed evenly across the UK, meaning economic success and the benefits of a strong business services sector reach every region.⁷ Business services companies - including larger national and international companies with substantial resource and national and international experience - contribute to growth across every region. As well as improving productivity in the companies they work for, they

- bring inward investment into an area;
- employ local workers and offer them career development opportunities across the business which might not otherwise be available;
- develop people capacity, amongst employees and the wider community, through training, employment support and related services;
- build up local business capacity by working in partnership with smaller companies in the supply chain. BSA members have supply chains which include over a quarter of a million SMEs; and
- scale and replicate innovation and change in service delivery which has taken place elsewhere, thus spreading best practice.

'Place leadership' is central to driving growth across the country. The process by which public services are commissioned is an important part of this place leadership role, especially when budgets are tight.

More integrated public services can help. 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. So service integration and improvement should not be seen as an alternative to policies which achieve inclusive economic growth, but as part of them. The aim should be to produce a virtuous circle of local service delivery which will help generate inclusive growth - which, in turn, generates the income for services to be provided.

9. Creating the right local institutions

Government needs local knowledge to be able to make local investments. Local Enterprise Partnerships (LEPs) have become increasingly important in terms of helping to deliver economic growth and job creation. However, they face significant challenges in developing business engagement, mainly because of limited resources. LEPs should establish specialised business networks to bring together experienced large companies and growing SMEs. Contractors should use these networks to host strategic workshops and engage with local business communities.

⁷ Office of National Statistics, September 2014, Annual estimates of employees from the Business Register and Employment Survey



ANNEXE

List of BSA Members

Full Members:

Accenture Plc
AECOM
Amey Plc
ARAMARK Ltd
Atos
Balfour Beatty Plc
BAM Construct UK
Bellrock Ltd
Berendsen Plc
Bouygues Energies and Services
Capita Plc
Carillion Plc
Compass Group Plc
Corndel Ltd
Costain Group Plc
Elior UK Ltd
ENGIE UK & Ireland
Freidman FM
Fujitsu UK
G3 Systems Ltd
G4S Plc
Ingeus UK Ltd
Interserve Plc
ISS UK Ltd
Kier Group Plc
Maximus UK Ltd
Mitie
NSL
OCS Group UK Ltd
Optum Health Solutions UK Ltd
Pinnacle Group
Prospects Services Ltd
Robertson FM
Seetec Group Ltd
Serco Group Plc
Sodexo Ltd
Sopra Steria Ltd
TerraQuest Solutions Ltd
VINCI Facilities

Associate Members:

Baachu
Barclays Corporate
Bevan Brittan LLP
Clyde & Co LLP
Deloitte
DWF LLP
ECI Partners
EY LLP
Grant Thornton LLP
Interim Partners
KPMG LLP
Metzger Ltd
Nabarro LLP
NatWest
New Street Executive Search
PA Consulting Ltd
Pinsent Masons LLP
PricewaterhouseCoopers UK
Reynolds Porter Chamberlain
Satori Executive Search
Sharpe Pritchard LLP
Trowers & Hamblins LLP