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Rt. Hon. Philip Hammond, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
1 Horse Guards Road,
London.
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7 March, 2018

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 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 Spring Statement highlights several areas of pressing concern for the sector.

First, procurement reform that places an emphasis on value rather than lowest cost should be considered as a means of providing better public services with less risk to the taxpayer where the provider is not government itself. Second, business services providers have a key role to play in improving UK productivity and therefore government should seek to create a stable business environment to encourage their use. Finally, we urge the government to look at pension policy and work with industry to ensure this is on a sustainable footing for the long term. The BSA will produce further work in this particular area in the coming months which we will share with officials.

The business services sector operates in a challenging environment but there will be significant benefits to the UK economy if its potential is maximised.

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,

Best wishes,
Mark

Mark Fox
Chief Executive
BSA - The Business Services Association



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Submission to the Chancellor ahead of the Spring Statement 2018

1. Procurement

The BSA believes 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 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 following¹:

- 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.

2. Productivity

70 percent of outsourced services 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.

Productivity gaps in UK cities and regions have been identified as important factors that hold back particular places - business services can play a key role in addressing this. The sector invests in providing high-quality administrative services, facilities management, infrastructure and IT so other businesses can do what they do best, whether that is manufacturing, retail or internet-based companies. Helping businesses to work smarter means they are more productive and innovative.

Research commissioned by the BSA shows the link between the use of business services and productivity. An increase in outsourcing of 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. This also enables them to reinvest money back into the type of initiatives that can then drive growth and efficiencies, from investment in skills and training to expenditure on plant hire and machinery. Analysis of those sectors which use outsourced services also shows this resulting productivity growth is not coming at the expense of jobs. In addition, the most intensive users of outsourcing have also experienced more than double the average annual export growth.

¹ Professor Gary L Sturgess, 2017, *Just Another Paperclip? Rethinking the Market for Complex Public Services*



Enabling companies to focus their investment on skills and training for their workforce, in particular, is a vital part of tackling the wider productivity challenge. UK employers spend less on training than other major EU economies and less than the EU average, a gap which has widened since 2005. While government measures such as the Apprenticeship Levy are designed to address this discrepancy, the role of outsourced services should also be considered as freeing up private sector resource to concentrate on skills provision.

Business services can also address many of the issues in the workplace which hold back productivity. The Stoddart Review found that smarter use of Britain's office space could improve productivity by 1 to 3.5 per cent and deliver a boost of up to £70 billion to the economy. Providers of facilities management services are increasingly finding ways to be innovative in order to enable savings and improve the workplace environment.

To maximise the impact of the business services sector in unlocking these productivity gains, providers need a stable environment, investment in skills and training to ensure a sustainable workforce, and a long-term infrastructure pipeline that generates business activity.

3. Pensions

The growing deficits in the UK's defined benefit pension funds are a serious risk 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 look forward to the Government publishing its response to the consultation on defined benefit pension schemes, which the BSA provided a response to last year. In our submission we suggested there was sufficient flexibility in the system at present, that the Pensions Regulator did not need extensive new powers, and that asset pooling, where appropriate, would enable schemes to access better investment opportunities.

However business and government cannot be complacent and as such the BSA are more open to measures that could provide enhanced flexibilities for "stressed" sponsors and schemes. It should be for the Pensions Regulator to appropriately determine "stressed" schemes, otherwise there is a clear moral hazard whereby companies may look to reduce their DB liabilities and effectively offload them onto the Pension Protection Fund (PPF). A statutory override to allow a change in the index - likely to be from RPI to CPI - used for pension increases could also be worthwhile, provided it is reserved for instances where there is a stressed sponsor or an underfunded scheme. There is merit in using indexation as a 'safety valve' where there is a genuine and immediate concern about insolvency to reduce an employer's liabilities. Setting clear guidelines in this way would reduce the possibility of sponsoring employers from taking advantage of the system by only funding a scheme to a lower level. It would also limit the potential for indexation to be reversed again once circumstances change. Pension scheme members need consistency and there is no benefit in a situation where the index is changing on an annual basis, which would inevitably impact on costs and be counter-productive.

We would also encourage Government to consider this issue within the wider context of the business environment. The single best guarantor of sustainable pension schemes are strong underlying companies. Government must ensure it provides a supportive environment for the private sector to prosper so that businesses can fund their liabilities in the long-term, particularly as the UK prepares to leave the EU. Maintaining a consistent regulatory framework will help to ensure that a stable proportion of private funding goes on pensions while also enabling businesses to invest in vital R&D, training and capital spending.