



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

27 September, 2018

Dear

Philip,

I am writing to you to enclose the BSA's submission ahead of this year's Budget. The BSA - the Business Services Association - is the industry body for all those who are interested in delivering efficient, flexible and cost-effective service 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. 70% of such services are delivered business-to-business, underlying the vital importance the sector makes to the day to day running of UK plc across offices, supermarkets, airports, factories and stadiums.

Our industry has a crucial role to play in ensuring the UK 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, businesses require further clarity about what the implications will be for them from the government's proposed future trading relationship with the EU, and the level of preparation undertaken for a 'No Deal' Brexit scenario. We would caution against any increase to the burden of taxation on business at this time, particularly when important issues of public service reform and private sector productivity also remain to be addressed.

Second, while recent challenges have underlined the need for reform of public service markets, these remain a vital source of inward investment and private sector activity. We would like to see the government maintain its commitment to the use of independent providers in the delivery of public services where appropriate as the process of refreshing these markets continues.

Finally, ongoing investment in the UK's physical and digital infrastructure, including large-scale projects such as Crossrail and HS2, will remain important for long-term competitiveness and opportunities for the private sector. We are also keen to work with HM Treasury on a new public-private investment model to ensure we can meet the UK's future infrastructure needs.

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,

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BSA - The Business Services Association

Submission to the Chancellor ahead of the Autumn Budget 2018

1. *Supporting the business environment*

Employers are currently dealing with a number of upward pressures on the cost of doing business. A survey of business services companies conducted by Deloitte identified a continuing squeeze on margins as the biggest issue facing the sector.¹ Cost reduction remains the number one priority for clients, whether in the private or public sectors, and this makes for a challenging climate to operate in.

Business services providers are acutely sensitive to changes in the business environment and the cost of employment in particular, as labour costs account for the largest expense in outsourcing contracts. Recent increases in the National Minimum Wage, National Living Wage and statutory pension contributions (auto-enrolment) have had an impact on employment costs in the sector. In contracts where there is no change of law to account for uplifts in pay, services providers can be left to absorb these additional costs into their finances. Additional government-mandated reporting requirements have also come with administrative costs. We would therefore urge the Treasury to maintain a consistent approach to tax and employment and caution against any sudden uplifts that will further impact on businesses' bottom line.

Another new cost has been the Apprenticeship Levy which, without appropriate reform, will leave many employers unable to spend their allocated funding and effectively act as an additional tax. BSA members report a mixed picture in terms of new apprenticeship starts since the levy's introduction, with many reporting a substantial fall in numbers.² We urge the Treasury to work with DfE and BEIS to consider the following practical recommendations, which will improve the operation of the levy while not adding significant additional cost to either government or employers:

- Introduce greater flexibility to the 20% off-the-job training element of the levy, or set out more clearly in guidance how this can be improved (e.g. ESFA should produce a 'checklist' for employers which clearly sets out the generic activities which count as off the job training to build better understanding once employers are clear of the principles)
- Increase the 10% cap on levy funds that can be spent on a company's supply chain, as the current level is too low for businesses to use this meaningfully
- Maintain the funding levels for higher level apprenticeships - BSA members firmly believe the uptake of such degrees is a 'success story' of the reforms that has driven up quality and funding for these courses should not be cut further

With the introduction of various tax compliance measures over recent years, such as the Corporate Criminal Offence and BEPS lead legislation, the corporate environment around taxation is increasingly focused on compliance and governance. Due to the increased tax compliance burden on businesses it is forcing the focus towards alternative solutions to efficiently manage the tax risks of the business, which appears to align to HMRC's thinking with the introduction of Making Tax Digital. However, this is very difficult to plan for when no clear direction has been provided by HMRC about their own technology roadmap for widening the scope of MTD into Corporate Tax and further into VAT (as other European countries have done).

The future relationship with the European Union will also have a significant impact on our sector. The two overriding priorities for business services relate to people and supply chains. We outlined

¹ <https://www2.deloitte.com/uk/en/pages/business-and-professional-services/articles/business-services-outlook.html>

² <http://www.bsa-org.com/wp-content/uploads/2018/03/BSA-Apprenticeship-Levy-One-Year-On-1.pdf>



our priorities in terms of UK-EU migration policy in our submission to the Migration Advisory Committee earlier this year.³ Access to staff, both skilled and unskilled, is of vital importance to companies within business services and this should not be adversely disrupted after March 2019. While continuity is important, we recognise businesses and government must invest in the UK workforce to ensure we address skills gaps and productivity in future, and we would therefore welcome a strong emphasis on skills as well as infrastructure in the forthcoming UK Prosperity Fund.

A stable trading relationship that maintains as closely as possible the current supply chain set-up is also preferable. BSA members, particular those who provide contract catering and cleaning services, rely on the 'just in time' supply chain model which underpins the importing of goods and supplies that allow them to carry out their work, from toiletries to food. While many members operate globally and have immense expertise in responding to global fluctuations in demand and price for particular product lines, the 'across-the-board' nature of a supply chain disruption from No Deal would prove challenging. We therefore support the government's efforts to secure the best deal for the whole of the UK that minimises disruption for workers and business.

Lastly, we urge the Treasury to give greater recognition to the business services industry and take steps to further support its development. Understanding of the sector and its importance remains low, we therefore encourage the Treasury to improve data collection on this industry, both in its public and private sector components, and reflect this in future ONS publications and government reports.

Both employers and workers in the business services industry express a desire to 'digitalise' in the interests of improving productivity but barriers to technological adoption in the sector are high.⁴ Improving incentives for businesses to invest in new technologies and equip their workers with digital skills could lead in the long term to increases in the productivity and wages of thousands of service sector workers. We recommend that government reconsiders its current R&D corporate tax-relief scheme, which is too narrowly focused on the scientific and technological sectors, and expand this to the services sector so that businesses can trial new technologies in a cost-effective way. This 'innovation tax credit' could allow the sector to explore the potential for new technologies, such as the use of the Internet of Things within facilities management, at greater pace and scale.

2. The value of public service markets and procurement reform

While both sides of the contractor-customer relationship have lessons to learn from recent events, the government should continue to make clear its commitment to the continued use of independent providers - whether large contractors, SMEs or VCSE organisations - in the delivery of public services where appropriate. The costs of taking 'in house' those services and infrastructure projects that are being delivered either jointly or solely by independent contractors has been estimated as at least £176 billion.⁵ It is crucial, therefore, that this relationship is mended rather than ended for the benefit of the taxpayer.

However, the value of the public sector market place continues to decline as new first generation outsourced programmes fail to come to market. The risk/reward balance in UK public contracting has become a disincentive to participating in the market, particularly for FM services, reducing its economic value and global attractiveness to contractors and investment.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693323/Non_professional_services_TL_responses.pdf

⁴ <https://www2.deloitte.com/uk/en/pages/consumer-industrial-products/articles/the-connected-worker.html>

⁵ <https://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-to-reform>



The BSA have produced a number of reports in recent years highlighting areas for improvement in the procurement process, particularly within the public sector, in response to recently well-publicised challenges.⁶ We have been calling for greater professionalisation, less emphasis on the lowest price bid and greater focus on quality and value for money. The lowest-cost approach, combined with inappropriate levels of risk transfer, have distorted the market, enhanced the risk of failure and deterred many potential new entrants. Quality and innovation are not fully accounted for in such price competitions. We have also called for greater co-operation with the voluntary and private sectors to make delivering government services a more attractive activity for small and medium-sized businesses.⁷

We welcomed the recent speech by Cabinet Office minister David Lidington on placing greater emphasis on social value and improved commercial skills.⁸ We would appreciate further clarity on how the commitments on social value will be extended, including proper measurement and how this will be reflected in the costing of contracts, and when such changes might be made. A clear procurement pipeline in the public sector, linked with sensible reform of contract terms, will ensure that the UK remains an attractive place for the private sector to invest, and that companies do not look less favourably upon the UK compared to international markets. We are keen to see detail in the coming months on how the positive rhetoric from government can materialise into an effective programme or deliverables.

There is a renewed sense of commitment amongst BSA members and all those involved in this space to deliver improved and consistent service standards across the piece. Members are willing to engage with government to better define the ‘total value’ of services and products delivered by independent providers, and how government can ensure factors such as sustainability are taken into account during the tendering process. Another determinant of value should include how well-placed suppliers are to meet security standards, particularly regarding cyber threats, in their products and services.

Alongside our recommendations to Cabinet Office, we also believe the Treasury has a valuable role in this process. The department should lead on the creation of a new centre of 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. It would mean that any lessons learnt by current or subsequent reviews of outsourcing are retained as institutional memory. Alongside this, the Treasury must ensure more rigorous application of its Green Book guidance for the appraisal and evaluation of government projects across all departments. In light of the 2018 update of the Green Book, Treasury should also report how widely the guidance is being used and which departments are following its approach.

3. Infrastructure and new public-private investment models

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. This investment should be targeted in three ways:

- **Government must remain committed to large-scale, transformational infrastructure projects that will deliver long-term gains.** HS2, Crossrail, and airport expansion in the south-east are of vital importance to UK Plc. These projects will stimulate investment, jobs and regional growth for decades to come and government should continue to support their development. Alongside this, Treasury should undertake feasibility assessments of how new transport models such as Hyperloop and Maglev might operate in the UK.

⁶ <http://www.bsa-org.com/wp-content/uploads/2017/04/Just-Another-Paperclip-FINAL.pdf>

⁷ <http://www.bsa-org.com/wp-content/uploads/2018/03/David-Lidington-Cabinet-Office-26.1.18.pdf>

⁸ <https://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-to-reform>



- **Increase investment to develop local transport networks and infrastructure.** For regions outside of London to achieve their full potential there needs to be significant 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. 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.
- **Digital infrastructure should be a top priority to ensure the UK's global competitiveness.** Despite important strides in recent years, digital connectivity remains too patchy for many businesses across the UK. We strongly support the UK's first large-scale 5G test-bed in the West Midlands and hope to see this rolled out to other areas of the country in future. Treasury should work with particular industries where the benefits of digital improvements could prove transformative, such as business services, to pilot particular technologies.

The Treasury, via the Infrastructure & Projects Authority, should also establish a national infrastructure pipeline 'dashboard' that communicates this in a detail-rich but accessible format to stakeholders. A useful precedent to follow would be the Australia and New Zealand Infrastructure Pipeline (ANZIP) site, which provides an interactive map of current and forthcoming projects broken down by value and type.⁹

Private finance will continue to be an important funding element for the UK's infrastructure needs in future. We are therefore pleased to hear that the Treasury will be reviewing and leading work on the next era of private-public investment and we believe there is a need for a new model. There are important lessons to be learned from past experience, not least the value of building maintenance specifications into the design phase of these projects. However PF2 has failed to deliver a sustainable pipeline across government and the form of contract disincentives service providers from participation; it is unlikely to deliver sustainable improvements to public services beyond the replacement of infrastructure. The economic risks outweigh any economic upside.

A new investment model could differ from the PFI approach of the past in an important way. Separate competitions could be run for both lenders and infrastructure providers. Only responsible businesses would need to be selected, those that share the values of the public service being delivered and who can demonstrate that they would contribute to local economic growth. The BSA and its members are well-placed to assist in this project, having a good understanding of both physical infrastructure and the ongoing facilities services required, and we look forward to working further with the Treasury as government's thinking develops.

⁹ <https://infrastructurepipeline.org/>



The BSA and Our Industry

The BSA - Business Services Association - the industry body for the business and outsourced services sector, supporting enterprise across the private and public sectors. As of September 2018, the BSA has 76 members spanning large businesses, SMEs, charities and social enterprises. 'Business services' in this context comprises ICT and digital services, business process outsourcing, facilities management, managed public services and construction and infrastructure services. A full list of BSA members is available to view on our website.

The UK business services sector is internationally renowned. The majority of such services, approximately 70 per cent, are business-to-business, with some 30 per cent private-to-public. It is estimated that 1.2 million people work for private and voluntary sector providers delivering public services specifically.

Business services are vital to the UK economy because they provide essential support for other industrial sectors. Research by Oxford Economics, commissioned by the BSA, has shown that the sector¹⁰:

- employs 3 million people, 1 in 10 of the workforce across all UK regions, and accounts for 8.75 per cent of economic output and contributes 9.3% of GDP
- is the second-largest contributor to the trade surplus in services and attracts significant foreign direct investment
- raises productivity as clients can focus on delivering their core activities more efficiently - an increase in outsourcing of just 1 per cent adds £2 billion in productivity gains to the UK economy each year

¹⁰ <http://www.bsa-org.com/wp-content/uploads/2017/04/OE-BSA-report.pdf>; <http://www.bsa-org.com/wp-content/uploads/2017/10/OE-report-for-BSA-Productivity-report-Sept2015.pdf>



List of BSA Members

Accenture Plc
AECOM
Amey Plc
ARAMARK Ltd
Atos
Baachu
Balfour Beatty Plc
BAM Construct UK
Barclays Corporate
Bellrock Ltd
Bevan Brittan LLP
Bouygues Energies and Services
Build Africa
BT Group Plc
Capita Plc
Carlton
CBRE Ltd
Clyde & Co LLP
CMS Cameron McKenna Nabarro Olswang LLP
Community Models
Compass Group Plc
Corndel Ltd
David Macbrayne Ltd
Deloitte
DWF LLP
Elior UK Ltd
ENGIE UK & Ireland
EY LLP
Freidman FM
Fujitsu UK
G3 Systems Ltd
G4S Plc
HP
Incentive FM
Ingeus UK Ltd
Interim Partners
Interserve Plc
Intraining
ISS UK Ltd
KBR
Kier Group Plc
KPMG LLP
Maximus UK Ltd
Mears Group
Metzger Ltd
Mitie
NatWest
New Street Executive Search
OCS Group UK Ltd
Optum Health Solutions UK Ltd
Pinnacle Power
Pinsent Masons LLP
PricewaterhouseCoopers UK
Prospects Services Ltd
Quantum Plus
Rathbone Training
Reynolds Porter Chamberlain
Robertson FM
Salisbury Group
Seetec Group Ltd
Sequation Ltd
Serco Group Plc
Sharpe Pritchard LLP
Sodexo Ltd
Sopra Steria Ltd
Space Solutions
Spend Network
Strictly Education
TerraQuest Solutions Ltd
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Trowers & Hamlins LLP
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Wates Group