



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

4 March, 2019

Dear *Chancellor,*

I am writing to you following ongoing engagement with your officials on the main priorities of the BSA ahead of this year's Spring Statement. 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.

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 letter highlights several points which we believe would support the UK economy at this crucial moment.

First, in an uncertain business environment government must continue to seek an orderly departure from the EU and, where possible, reassure industry about the level of preparation undertaken for a 'No Deal' Brexit scenario. Government needs to ensure it is encouraging businesses of all sizes and across all sectors. It must build a positive and constructive engagement with the business community and avoid adding ill-considered or unnecessary new taxation or administrative burdens at this time.

Second, there is significant scope for long-term government savings in the continued improvement of public sector procurement practices. We strongly support the approach taken by Cabinet Office in developing an Outsourcing Playbook alongside more emphasis on value over cost. The BSA would encourage HM Treasury ensure the Playbook is adopted across all departments by integrating it into government buying decisions alongside the recently updated Green Book, as this will ensure UK public services markets remain attractive as a source of inward investment.

Finally, the UK must continue to upgrade and extend its physical and digital infrastructure. This means supporting large-scale projects such as Crossrail and HS2, both for the transport connectivity they provide across the country and the stimulus they give to industry supply chains. We are also keen to work with HM Treasury on new public-private investment models 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,

Mark Fox
Chief Executive
BSA - The Business Services Association



1. Supporting the business environment after Brexit

With the UK scheduled to leave the EU on March 29, we support the government in its efforts to secure a Withdrawal Agreement and avoid a ‘no deal’ scenario.

The overriding priorities for business services relate to people and supply chains. We outlined our priorities in terms of UK-EU migration policy in our submission to the Migration Advisory Committee earlier this year.¹ 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 we emphasise continuity, we also recognise businesses must invest in the UK workforce to ensure the UK addresses shortages and productivity gaps in future. 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, particularly 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. While many members operate globally and have expertise in responding to global fluctuations in demand and price for particular product lines, the ‘across-the-board’ nature of supply chain disruption from no deal would prove challenging. This has implications for the quality of meals served via outsourced providers of private and public sector contracts, including in offices, schools, prisons, hospitals and defence bases.

For public procurement itself, leaving without a deal would have several implications. For instance:

- UK public bodies will no longer be legally obliged to advertise in the Official Journal of the European Union (OJEU) but will instead be required to advertise tender opportunities on a new UK e-notification service. Given this service has not gone live yet, the market has no information about how to access or register on this site, or indeed how to bid for tenders when they are published.
- As a recent briefing note pointed out, UK public bodies will also “no longer be required to reject an abnormally low tender on the basis that the tenderer has obtained State Aid and is unable to prove that the aid in question was compatible with the internal market”². This has serious implications for the functioning of fair and open markets.
- Until the UK has re-joined the WTO’s Government Procurement Agreement, in a No Deal scenario UK companies tendering in Ireland and throughout the EU will have the same status as companies based in third countries with whom the EU does not have any reciprocal procurement agreement. This may result UK businesses losing out on opportunities they would previously have had more chance to access.

At a time of uncertainty, we would caution against any additional taxation or administrative burdens being imposed on businesses. 70% of outsourcing activity is business-to-businesses. It is therefore vital that the economy is buoyant and companies are willing to invest in outsourcing providers.

Business services providers are currently dealing with several upward pressures that are impacting on margins³, and they 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

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693323/Non_professional_services_TL_-_responses.pdf

² <https://www.lexology.com/library/detail.aspx?g=50c400fa-b1b0-4262-ba91-89a213d7ff44>

³ <https://www2.deloitte.com/uk/en/pages/business-and-professional-services/articles/business-services-outlook.html>



these additional costs into their finances. In the health service, for instance, the BSA has worked closely with trade unions to advocate for an uplift in pay for staff affected by such changes as a result of Agenda for Change.

Additional government-mandated reporting requirements have also come with administrative costs, and it is worth bearing these in mind as the government considers introducing new measures for businesses to address as part of its response to the Taylor Review on modern working practices. VAT is another longstanding area of concern for businesses, and we have outlined several suggestions for how this could be addressed in previous submissions.⁴ 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.

Lastly, we urge the Treasury to work with DfE and BEIS to consider practical reforms to the Apprenticeship Levy. 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.⁵ To improve the operation of the levy, while avoiding significant additional cost to either government or employers, government should:

- 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

2. The value of public service markets and procurement reform

The BSA have consistently called for greater professionalisation, less emphasis on the lowest price bid and greater focus on quality and value for money when it comes to the outsourcing of public services. 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, as well as charities and social enterprises.⁶

We have worked constructively with Cabinet Office, Treasury and government departments on practical reforms to public procurement over the last decade on these points and recently in response to the collapse of Carillion. We were pleased to see many of our recommendations taken forward by the Cabinet Office Minister in his speech at the BSA Annual Dinner last year⁷ and the recently published Outsourcing Playbook⁸, and we are keen to continue this dialogue to rebuild trust between the public sector and independent providers. In addition to engaging with providers on how social value can best be achieved in public service delivery, the government could also look at how the public sector can improve their cybersecurity by including security criteria when looking at procurement of hardware and services.

⁴ <http://www.bsa-org.com/wp-content/uploads/2017/09/BSA-Response-OTS-Review-of-VAT.pdf>

⁵ <http://www.bsa-org.com/wp-content/uploads/2018/03/BSA-Apprenticeship-Levy-One-Year-On-1.pdf>

⁶ <http://www.bsa-org.com/wp-content/uploads/2018/03/David-Lidington-Cabinet-Office-26.1.18.pdf>; <http://www.bsa-org.com/wp-content/uploads/2017/04/Just-Another-Paperclip-FINAL.pdf>

⁷ <https://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-at-bsa-annual-chairmans-dinner>

⁸ <https://www.gov.uk/government/publications/the-outsourcing-playbook>



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.⁹ It is crucial, therefore, that this relationship is mended rather than ended for the benefit of the taxpayer. We believe the Treasury has a valuable role in this process in ensuring that departments make use of the Playbook in their purchasing and procurement decisions, and would recommend that this is taken into consideration alongside the recently updated Green Book on purchasing decisions.

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.
- **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. Treasury should work with industries where the benefits of digital improvements could prove transformative, such as business services, to pilot particular technologies.

Lastly, the Infrastructure and Projects Authority’s latest pipeline of projects suggests over £600billion is set to be invested in the construction of infrastructure over the next 10 years, with government expecting around half of planned investment to come from the private sector.

With the retirement of PFI, Treasury should be engaging with industry on what the next era of private-public investment should look like. Private finance will continue to be an important funding element for the UK’s infrastructure needs in future 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://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-to-reform>