



The Business Services Association
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Rt. Hon. Sajid Javid M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
1 Horse Guards Road,
London. SW1A 2HQ

27 January 2020

Dear *Chancellor,*

I am writing to you to enclose the BSA's submission ahead of this year's Budget. The BSA - Business Services Association - is the industry body for all those are interested in delivering efficient, flexible and cost-effective service and infrastructure projects across the private and public sectors.

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 our business clients can focus on what they do best. Almost a third of the sector's activity is supplying services to government. Working in partnership with the public sector brings new thinking and investment to improve quality and deliver savings for taxpayers. The sector employs 3.3 million people across the UK; accounting for around 1 in 10 jobs and contributing 9.3% of GDP.

We welcome the government's commitment to level up the economy and unleash Britain's potential, including by investing across the country. We believe that the our industry has a vital role to play in ensuring that this investment is spent as efficiently as possible; delivering services and infrastructure of the highest quality to the British public as competition and innovation continue to drive the quality and effectiveness of our public services ever upwards. The following points are made with this in mind:

First, reforms to public procurement can lead to significant long-term government savings. Recent steps to increase the efficiency of public service delivery have been positive but there is much that can be done to improve upon this. We strongly support the work of the Cabinet Office in this regard, including the publication of the Outsourcing Playbook alongside a greater emphasis on value and a shift away from lowest cost, however we believe that the government can further drive market changes via investment in both people and systems in this area. We would urge ministers to publish a formal consultation into reform of public procurement following our departure from the European Union in order to further galvanise this crucial sector of the British economy.

Second, the BSA has long called for continued efforts to upgrade, extend and modernize the UK's physical and digital infrastructure. Supporting large-scale projects such as Northern Powerhouse Rail and Crossrail will be key to meeting the country's future infrastructure needs, providing stimulus to industry supply chains across the country's regions, and rebalancing the economy.

Finally, the UK must continue to be a place that encourages businesses of all sizes and across all sectors. This is particularly significant at a time when businesses are experiencing upwards pressures on costs including previously announced increases to statutory minimum wages. We would therefore caution against any increase to the burden of taxation on business and would welcome measures to support business such as reforms to the VAT regime that our departure from the European Union make possible.

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I would welcome the opportunity to discuss in greater detail how the business services sector and our members can help the government in delivering world-class public services, levelling up the whole country and unleashing Britain's potential.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Fox', is positioned to the right of the 'Yours sincerely,' text.

Mark Fox
Chief Executive, BSA - The Business Services Association



BSA - The Business Services Association

Submission to the Chancellor ahead of the March Budget 2020

1. Public Procurement Reform

Government spent £284bn on external suppliers in 2017/18 (not including academies)¹. The way it manages its supply chain is therefore very important to the efficiency and effectiveness of public services. Since the BSA published its Sturgess Review in 2017, the government has made good efforts to improve commissioning, for example, the publication of the Outsourcing Playbook and the establishment of the Government Commercial Function².

There is, however, still evidence of poor contracting behaviours including iniquitous risk transfer, inconsistency across departments, and excessive complexity in the tendering process. These behaviours not only impact upon the efficiency with which taxpayer money is spent but also distort the market by effectively prohibiting the wider engagement of VCSE and SME organisations within the procurement process.

The BSA has been involved in discussions with government on procurement reform since 2010 and over that time there have been several recurring issues to which we have made a number of suggestions. These include:

- greater investment in government professionals to oversee procurement and manage contracts;
- decreasing the emphasis on the lowest cost and greater focus on quality and value for money; and,
- greater government role in shaping markets so as to encourage a new diverse range of providers (including ending current practices such as excessively high turnover thresholds and prohibitive levels of risk transfer, both of which are particular barriers to greater SME and VCSE involvement in the procurement process).

In addition to the discussions conducted with officials from the Cabinet Office, we believe that HM Treasury has a valuable role in this process. Procurement processes and cultures are inconsistent across Whitehall. The Cabinet Office has the power to introduce reform centrally, but not enforce it across Whitehall. A significant policy initiative is needed to ensure all central government departments procure in the same way. This requires a policy, administrative, and cultural change across Whitehall.

The Outsourcing Playbook goes some way to address this, but its recommendations are not mandatory and take-up across departments has been patchy. We would therefore encourage HM Treasury to ensure that the current Playbook and any subsequent versions are adopted across all departments by integrating them into buying decisions.

To ensure that the above reforms are as effective as possible we would urge ministers to publish a formal consultation into reform of public procurement following our departure from the European Union. We believe that these reforms are key to galvanising this crucial sector of the British economy.

¹ *Government procurement: the scale and nature of contracting in the UK*, Institute for Government - December 2018 - <https://www.instituteforgovernment.org.uk/publications/government-procurement>

² *Just Another Paperclip? Rethinking the Market for Complex Business Services*, G Sturgess - March 2017 - <https://www.bsa-org.com/wp-content/uploads/2017/04/Just-Another-Paperclip-FINAL.pdf>



2. Infrastructure investment

Investment in our digital and physical infrastructure will be crucial to unlocking the country's potential over the course of the next decade and beyond. In particular, large-scale transformational infrastructure projects not only encourage investor confidence in our economy but also in turn stimulate investment, jobs and region growth that are felt throughout the country.

We therefore suggest that the government:

- remain committed to large-scale, transformational infrastructure projects as part of the National Infrastructure Project;
- increase investment in developing local transport networks and infrastructure in conjunction with permitting greater regional decision-making power over infrastructure;
- continue the roll-out of gigabit capable broadband across the country.

Commitment to large-scale infrastructure projects

The construction and infrastructure industry is of key strategic importance to the UK economy. Ensuring the UK has a resilient and competitive construction industry to meet future demand and deliver the full infrastructure pipeline for government should be considered as part of this Budget. The scale and flow of work that large projects such as HS2 and Crossrail bring provides greater certainty for industry to invest in other ventures and in modernisation.

The Farmer Review (2016) found current levels of investment in industry innovation to be very low³. This is something the industry as a whole is looking to address and to this end the construction sector deal has a strong focus on digital tools. Significant and sizeable projects committed to using modern methods of construction and digitisation give industry more confidence to invest and a platform through which to embed digital ways of working, bringing in a large number of organisations from across the sector and their supply chain partners. In turn, this helps to accelerate the modernisation of the industry.

Modernising the construction and infrastructure industry is also vital to addressing the skills shortage it faces. The size and demographics of the workforce are a real challenge, with the Farmer Review predicting a 20-25% decline in the available labour force within a decade⁴. If realised, this would significantly hinder the industry's ability to deliver both national and regional infrastructure projects.

Furthermore, we welcome the government's commitment to building new hospitals and we would also encourage it to continue to invest in other areas of the country's social infrastructure including the long-term funding of school buildings and ongoing investment in our criminal justice estate.

Investment in local infrastructure and supporting regional decision-making

It is only by encouraging a new level of collaboration and partnership working between stakeholders at a local level, including those in the business services sector, that genuinely inclusive growth which benefits all communities can be achieved.

The BSA therefore supports a widening and deepening of devolution across England, in areas with and without combined authorities, and the continued roll-out of City Region and Growth Deals across

³ *The Farmer Review of the UK Construction Labour Model*, M Farmer - October 2016 - <http://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2016/10/Farmer-Review.pdf>

⁴ *Ibid.*



Scotland, Wales and Northern Ireland. We strongly support greater regional decision-making power over infrastructure in particular, including through Transport for the North and over the development of Northern Powerhouse Rail. Skills development is another area where localised control has clear benefits.

To ensure efficient and effective spending at a local level, local authorities should continue to be granted sufficient scope to invest in the infrastructure and services that are key to supporting British businesses and should be supported by central government in this regard. In addition to ensuring sufficient funding is available for such projects, the continued proliferation of advice and best practice guidelines from central government will continue to be of use here.

In addition to the points above, we would further details as to the extent and form that the UK Shared Prosperity Fund will take in this Budget and hope to continue discussion to ensure that the fund can have the greatest impact on our communities throughout the United Kingdom.

Digital infrastructure

We welcomed the government's manifesto pledge to introduce full fibre and gigabit capable broadband to every home and business across the UK by 2025. The benefits of increased digital infrastructure such as this will be felt across the UK economy and the Treasury should continue to work with industries where the benefits of digital improvements could prove transformative, such as business services, to pilot particular technologies.

In addition to this, 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.

3. Supporting businesses

Following our departure from the European Union the UK must continue to be a place that encourages businesses of all sizes and across all sectors. Business services providers are currently dealing with several upward pressures that are impacting on margins 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).

Proposed increases in the National Minimum Wage, National Living Wage and reforms to pension regimes will impact on employment costs in the sector at a time when businesses are preparing for changes for our migration system. We would therefore caution against any additional taxation or administrative burdens being imposed on businesses during this transitional period.

Upskilling workers

The ability to attract, retain, and upskill workers will be central to the success of British businesses over the coming decade. We therefore urge the Treasury to work with DfE and BEIS to consider practical reforms to current skills programmes including the Apprenticeship Levy. This includes maintaining 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.



Pensions reform and reporting requirements

The proposed changes to pensions regimes should also be considered in respect of the range of pressures businesses are currently facing. As we have written elsewhere, there exists a concern that some of the proposed reforms may inadvertently impact on productivity if they are seen as an effective 'tax' on higher earners in professional fees⁵. This in turn may disincentivise more flexible working, which is the desired outcome. Similarly, the costs of taking professional advice is likely to deter any lower paid staff should the flexibilities be available more widely. The BSA is submitting a supplementary letter which sets out our views on proposed pensions reforms in greater detail.

Further to this, 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 including reforms to off-payroll working (IR35).

VAT

VAT is another longstanding area of concern for businesses, and we have outlined several suggestions for how this could be addressed in previous submissions⁶. Following our departure from the European Union we would urge the government to consider whether the VAT regime could be amended to address the concerns of business and simplify the taxation process.

For example, the government may wish to consider removing the exempt rate or restricting it to financial services only. This would immediately simplify the VAT regime, and where there are concerns about the financial impact on the consumer, the zero-rate could be used instead, which is much more straightforward for businesses to operate. This immediately removes many of the issues and complexities of VAT - partial exemption, the capital goods scheme and land and property/option to tax would all be simplified. Many businesses incur considerable costs to ensure that they are compliant with these regimes.

⁵ *NHS Pension Scheme: increased flexibility*, BSA consultation response - November 2019 - <https://www.bsa-org.com/wp-content/uploads/2019/12/BSA-Response-NHS-Pension-Scheme-increased-flexibility-consultation-November-2019.pdf>

⁶ *Office of Tax Simplification (OTS) Review of Value Added Tax (VAT)*, BSA Response - September 2017 - <https://www.bsa-org.com/wp-content/uploads/2017/09/BSA-Response-OTS-Review-of-VAT.pdf>



List of BSA Members, January 2020

3C3 Ltd	IBM
3SC	Ingeus
Amey Plc	Interserve
Aramark	ISS UK Ltd
Atkins	KBR
Atos	KPMG (Scotland)
Baachu	Kier Group Plc
Balfour Beatty Plc	Maximus UK Ltd
BAE Systems	Mears Group
Barclays Corporate	Mitie
Bellrock Ltd	MTC
Bevan Brittan LLP	NatWest
Bouygues Energies and Services	NCG
Browne Jacobson LLP	OCS Group UK Ltd
BT Group Plc	P3
Capita Plc	Pinsent Masons LLP
Catch 22	PricewaterhouseCoopers UK
CBRE Ltd	Robertson FM
CGI	Salisbury Group
CH & Co Group	Seotec Group Ltd
Clyde & Co LLP	Serco Group Plc
CMS Cameron McKenna Nabarro Olswang LLP	Sharpe Pritchard LLP
Community Models	Shaw Trust
Compass Group Plc	Sodexo Ltd
Connect Assist	Sopra Steria Ltd
Corndel Ltd	Space Solutions
CSG	Spend Network
David Macbrayne Ltd	Strictly Education
Deloitte	TerraQuest Solutions Ltd
DWF LLP	The Gap Partnership
Elior UK Ltd	The Grichan Partnership
ENGIE UK & Ireland	Trowers & Hamlins LLP
Eric Wright FM	VINCI Facilities
Extentia Group	VPS Group
Fujitsu UK	Wand Consulting
G3 Systems Ltd	Wates Group
G4S Plc	Willmott Dixon
GoodPeople	
HP	