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The Rt. Hon. Rachel Reeves, M.P.,
Chancellor of the Exchequer,
HM Treasury, 1 Horse Guards Road,
London. SW1A 2HQ

7th February, 2025

Dear Chancellor,

Attached is the Business Services Association's (BSA) submission ahead of the Spending Review.

As you know, the BSA is the national industry body for the UK business and outsourced service sector, and our members deliver projects and services across the private and public sectors.

You will recall that I wrote to you before Christmas highlighting the potential effects of the increase in National Insurance Contributions on existing government contracts. Now that further assessments have been carried out, it has become increasingly clear that the rise in NIC will impact the operation of some public sector contracts being delivered by the private and voluntary sectors.

The submission contains a variety of thoughts and suggestions, but given these new assessments I wanted to pick out just two themes in this short introductory letter. First of all, we welcome indications, in some service areas at least, of a contract-by-contract review of the rise in NIC. The imposition of increased employer NIC on areas of public sector work that is outsourced to the business and voluntary sectors has a significant effect on the commercial viability of existing government contracts. The partnership between the private and voluntary sectors and the public sector in delivering vital public services and projects must be at the heart of delivering the best possible service to the public, both in terms of quality and in terms of cost effectiveness. In this submission I would urge you to continue to address this.

Secondly, we welcome the improvement in the relations between business and the Government that have occurred since the General Election. You will know that business and investment confidence is fragile. Business services organisations are optimistic that the stability that the Government brings, and the long-term planning that it can implement, with its focus on deregulation, infrastructure investment and other good measures, will over time do much to rebuild confidence. The level of national debt, borrowing, and the implications for government spending are barriers to maintaining long-term confidence. Controlling the level of public expenditure is a prerequisite to tackling the levels of national debt and government borrowing. Challenging as this task undoubtedly is, the private and voluntary sectors have a crucial part to play in working with you and colleagues to help deliver the best possible value for the taxpayer's money.

I would very much welcome an opportunity to meet with you and your officials to discuss these issues further.

Yours sincerely,

Mark Fox
Chief Executive
BSA - The Business Services Association



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Submission ahead of the Spending Review

February 2025

Background

The business services sector is a key driver of growth, employment, innovation and productivity. It employs millions of people throughout every region of the country and is a significant contributor to our national economy. Our recent report, '[The Business Services Sector in the United Kingdom](#)', showed that even by the narrowest definition of 'business services' the sector accounted for at least 2.83m jobs throughout the UK in 2022, generated over £222.04bn in total turnover in 2021, and produced over £124.53bn in gross added value in 2021.

The business services sector has an active role to play in kickstarting economic growth as key providers of service and infrastructure projects across the public and private sectors. The work of BSA members improves the lives of tens of millions every day across every region of the country, from building and maintaining our roads, energy supply, and digital ecosystem, to feeding school children and keeping our hospitals clean and safe. Our members include large and small businesses, charities, and social enterprises.

We recognise the need to balance different political and economic considerations at this time. Spending must therefore be targeted to ensure that it is sustainable in the future, particularly in light of the difficult decisions that have been made in relation to National Insurance Contributions. It is crucial that government departments are allocated appropriate resources to invest in the projects and policies that will offer the best value for taxpayers whilst bolstering economic growth across all regions of our country. The focus of this investment in our economy should therefore be on the physical, social and digital infrastructure, including new and emerging forms of technology, that best support long-term economic growth.

In order to boost our economy, it is critical that private and voluntary sectors are supported, so that they can continue to deliver the services and infrastructure projects that are often key to building and maintaining our national infrastructure. A key component on this will be taking measures to strengthen business confidence such as committing to large multi-year programmes of work delivered in partnership with private and third sector suppliers.

Finally, we would also welcome the Government taking measures to address the current level of government borrowing. We have previously stated that the only level of national debt that is truly sustainable is a level that enables government to run a credible economic policy and does not undermine market confidence in the UK economy. As the indebtedness of the Government grows, market confidence becomes more tenuous. Moreover, what is perceived to be a sustainable level of public sector net debt is closely tied to the credibility of a government itself.

Balancing national debt, improving governmental economic policies and establishing targeted, sustainable spending are key processes the Government must prioritise in order to improve market stability and confidence, which are necessary preconditions for growth.

The following sections therefore include policy proposals for consideration ahead of the Spending Review, particularly for areas where government and industry can work in partnership to strengthen efficiency and productivity across public services, which in turn can deliver growth throughout the economy.



Key Points

Boosting economic growth

Commitments to boosting economic growth are crucial to giving markets and business the confidence to invest in our economy. It is therefore important that the Government has credible taxation and spending plans in place, based on the reform and strengthening of public services, and cognizant of the impact to industry partners who help to deliver these services. Such reform will ensure that the infrastructure and services necessary to sustain the economy is built, maintained and developed upon, and that the country is able to attract investment that leads to job creation, wealth creation, and the virtuous cycle of a growing economy.

The increase to NIC announced in the Autumn Budget raises concerns about the wider impact on industry and the business services sector. This increase could have a significant effect on the commercial viability of existing government contracts with private and voluntary sector suppliers, which includes many SMEs, charities, and social enterprises. Many of these contracts deliver services and infrastructure projects which are instrumental to the Government's mission-led approach, alongside key ambitions such as achieving an employment rate of 80%.¹ We would therefore ask the Government to consider carefully the impact of increasing NIC inside those contracts which are currently delivering public services and projects.

We recognise the difficulty in making decisions relating to departmental spending plans, and spending going forward must therefore be targeted to ensure that it is sustainable in the future. Business confidence must also be underpinned by government commitment to both our key national infrastructure and our wider economy.

Reform to public procurement

Proposed reforms to public procurement, including the imminent commencement of a new regime under the Procurement Act 2023, present further opportunities to drive innovative solutions throughout our public services. This will necessitate overcoming longstanding challenges or reservations in areas such as risk tolerance and funding allocations. In particular, these reforms should include transitioning from prescriptive, input-based specifications to outcome-focused procurement, which has scope to encourage innovation by allowing organisations to submit innovative bids rather than meeting predefined specifications.

The effective implementation of these proposed changes will require the upskilling of both public and private procurement teams. We would therefore urge the Government to adequately resource and upskill commercial functions across the public sector, in order to realise the benefits that proposed changes would offer. This includes funding for both procurement and contract management teams. These teams will be crucial both in delivering the maximum value for taxpayers' money and also in allowing greater SME and VCSE participation in delivering public procurement as contracting authorities are able to conduct increased levels of pre-market engagement and other practices which encourage diversification of the public sector's supply chains.

Investing in our digital, social and physical infrastructure

By investing in infrastructure such as digital connectivity, businesses can operate more efficiently and effectively, leading to increased productivity and growth.

As projects and services continue to be devolved, it will be important to attract local investment, alongside investment into national infrastructure projects and service provision.

Delivering this investment also necessitates investment in training and upskilling workers throughout the UK. We therefore welcome the proposed reforms to existing skills policy in this area. In particular, we would welcome further insights into opportunities to reinvigorate the apprenticeships scheme, including the proposed Growth and Skills Levy.

¹<https://www.gov.uk/government/news/biggest-employment-reforms-in-a-generation-unveiled-to-get-britain-working-again>



As key providers of service and infrastructure projects across central, devolved and local government, BSA members are well placed to support the delivery of efficient public services. Further proposals relating to specific policy areas, such as reducing reoffending, supporting people to enter and remain in work, and bolstering skills, are set out in our [Manifesto](#).

Investment and Commitment to the UK's Infrastructure

Our physical, digital and social infrastructure is vital for economic growth and prosperity. The economy benefits from investment in our infrastructure, both in terms of the infrastructure assets themselves but also through the employment of people engaged in the projects and the additional value these projects can generate for surrounding communities.

In particular, large projects bring a scale and flow of work which, in turn, provides greater certainty for industry to invest in other ventures. Investment in large projects supports jobs and local businesses through supply chains that cover all regions across the UK, and can therefore support the Government's ambition to address regional differences in relation to employment and skills.

Large projects committed to using modern methods of construction and digitalisation give industry more confidence to invest and a platform through which to embed digital ways of working. This then helps to accelerate the modernisation of the industry, drives further productivity gains, and supports smaller organisations operating within larger contractors' supply chains. Furthermore, there are vast opportunities to upskill and reskill individuals in green and digital skills through significant and sizeable projects.

We therefore encourage the Government to consider the positive impact that commitment to large-scale infrastructure projects has in boosting business and market confidence, which in turn supports the development of further infrastructure projects, and thereby facilitates economic growth and prosperity.

Attracting Investment

In addition to directly investing in our economy, it is also crucial that government unlocks further investment from the private sector. Market certainty and business confidence are key precursors to unlocking this investment. Attracting investment into national infrastructure projects and encouraging innovation to support future service offerings provides opportunities for economic growth. By supporting areas of the economy that offer innovative solutions and address productivity challenges, such as the business services sector, the UK government and industry can drive targeted investment, leading to sustainable growth and both domestic and overseas success.

Attracting investment into local service and infrastructure projects is crucial for driving regional economic growth. Local investment can create jobs, improve infrastructure, and enhance public services, thereby providing vast opportunities to deliver social value in the community. We welcome the multi-year financial settlements for local government. It will be important to continuously ensure that local authorities are adequately funded to deliver service and infrastructure projects in the community.

This focus on local investment is particularly vital under a Labour Government that emphasises a mission-led approach, where economic activities are harnessed to fulfil social and economic missions and can help to address regional disparities. Mayors and local government are well placed to align local investments with the Government's overarching goals, ensuring that the economic and social benefits of investment are widely distributed in the community.

A more proactive approach to attracting foreign investment is also crucial. By promoting the UK as a great place to invest and do business through international relations channels, government and industry can attract foreign investors and partners who can bring expertise, capital, and market opportunities to the economy.

The Department for Business and Trade must be given sufficient tools and resources to spearhead a more proactive approach to attracting foreign investment. This is crucial to achieve the maximum benefit of attracting investment into our national infrastructure projects and services.



Finally, it must be stressed that businesses are considering the impact of the increase to NIC announced in last year's Autumn Budget, alongside mitigating additional economic pressures that they are currently facing, including labour shortages and longstanding inflationary pressures. Whilst this is not the focus of this Spending Review we would therefore caution against any further increase to the burden of taxation on business in any future fiscal event.

Investment in Digital Infrastructure

The key to the success of the UK's digital transformation lies in investment in the country's digital infrastructure. This includes the roll-out of high-speed broadband, the development of 5G networks, and the adoption of cloud computing. These developments will enable government and businesses to access the latest technologies and services, and will help to reduce headline operational costs for both the public sector and industry. We recognise the recent measures taken to introduce high-speed broadband to several regions of the country and would welcome further plans to develop upon this.

Government should also support the adoption of new technologies, such as Cloud Computing, machine learning, and the Internet of Things across the public sector and ensure that adequate levels of funding are provided to enable this. These technologies will enable public sector bodies to automate processes, improve services, and gain insights into user behaviour. This will help contracting authorities capitalise on the innovations of a rapidly changing market, and to efficiently deliver public services.

In addition to this, technology can help to overcome regional inequalities by enabling businesses to leverage big data to address local challenges and restrictions, and by widening access to services in a variety of regions. The Government's active support for the adoption and development of these technologies is therefore crucial to ensuring business growth and efficiency, thereby promoting economy-wide digital transformation.

Procurement Reform

Ensuring that money is spent sensibly, fairly, and transparently is key to increasing public sector productivity, growth, and efficiency.

The UK is currently undergoing a period of significant procurement reform, with the Procurement Act set to go live later this month. This new regime is expected to bring about a number of changes to the way in which public procurement is conducted in the UK, with the aim of increasing efficiency, reducing costs, and improving the quality of services and goods procured.

In order to ensure that this new regime is successful, procurement professionals across both the public and private sector will need to be upskilled in order to best capitalise on the benefits of the new regime. This is particularly pertinent as several Playbooks, including the Sourcing and DDaT Playbooks, are currently undergoing revision.

There remain longstanding challenges for organisations who work with clients in the public sector, including delays to the procurement process, a lack of information on upcoming procurement opportunities through pipeline publications, risk aversion, and uncertainty about future funding arrangements and contract terms. These challenges make it difficult for business services organisations to accurately plan and make long-term investments, including preparing for new opportunities and offering innovative solutions.

Upskilling procurement officials, embracing innovation, and appropriate funding levels

There will be several changes in the procurement process throughout the coming years. In order to ensure that the new regime is successful, it is imperative for procurement officials in both the public and private sector to undergo upskilling, in order to acquire the knowledge and skills necessary to capitalise on the benefits offered by the reforms.



In particular, procurement officials will need to be trained in advance of the new Sourcing Playbook, that is currently in draft stage. This training will enable officials to understand and navigate the changes, ensuring that contracts are well-managed and adhere to the new regulations and requirements. This includes skills in drafting contracts, negotiating terms, and monitoring contract performance.

Procurement officials will also need to be trained in supplier relationship management. This will enable officials to build and maintain effective relationships with suppliers, ensuring that they can secure the best value for money and maintain a reliable supply chain. Important skills include supplier evaluation, performance monitoring, and dispute resolution.

In addition, procurement colleagues will need to be trained in the utilisation of the new central digital platform. Training will enable officials to streamline their procurement activities, improve transparency, and enhance overall efficiency in the procurement process.

We recognise the cost and time considerations involved in upskilling public sector commercial teams. However, ensuring that procurement colleagues are adequately funded is essential not only for successful procurement processes, as it allows for the implementation of best practice and the adoption of innovative solutions, but also for ensuring the best possible public services for UK citizens. Increased funding can also help to streamline the procurement process and reduce delays. It is also important for government contracts to have fair margins and risk-sharing provisions that are proportionate to the size and complexity of the project. This can help prevent cost overruns, delays, and potential disputes. Overall, then, upskilling procurement colleagues can be seen as an investment to boost efficiency and reduce costs and disputes in the long-term.

Digital Transformation and Encouraging Innovation

Digital transformation is set to have a significant impact on the business services sector in the coming years. This will include the deployment of AI and the adoption of other nascent technologies such as cloud computing. The UK has a strong tech ecosystem with a focus on innovation in areas such as AI, blockchain, and cybersecurity. Ongoing investment in AI therefore provides significant opportunities for economic growth.

It is crucial that government continues to engage with and support industry as digital solutions, including AI, are further embedded throughout our economy. Continued government investment in areas such as research and development, infrastructure, and data can help to propel the adoption of new and emerging technologies.

Supporting the development and deployment of AI

In addition to the wider impact of digital transformation, AI and automation in particular provide vast opportunities for economic growth. We welcome the Government's recognition of the opportunities that AI can bring to the public sector. Ongoing collaboration with industry will be instrumental to realising these opportunities, including delivering efficiency savings through AI and automation.

The BSA Manifesto sets out a number of policies to ensure that the UK is well-placed to take advantage of the opportunities presented by AI and automation. This will involve investing in research and development, providing incentives for businesses to invest in these technologies, providing training and support for businesses, and investing in the necessary infrastructure and data. Industry and government must continue to explore how best to harness the key drivers of rapid technological change, including optimising the benefits, whilst remaining mindful of the challenges these may create.

It is important that advances in digital transformation are accompanied by sufficient policy and guidance around digital ethics, which will necessitate ensuring that AI and other new technologies are subject to appropriate safeguards and regulations. It is vital that advances in digital transformation are accompanied by sufficient policy and guidance around digital ethics, which includes improving the general literacy of stakeholders regarding automated decision-making.



Cyber Security

Cyberattacks remain a very real threat to government and critical national infrastructure. Implementing appropriate cyber resilience policies, backed by adequate funding, is integral in ensuring the security of our national infrastructure. Attaining a balance between proactive security measures and the development of early warning systems for imminent attacks is crucial.

Government should ensure that the software and IT equipment connecting to the 5G network is equally secure through assessing cyber security requirements in public procurement. This will be key to ensuring the security of key national infrastructure.

With the increasing digital transformation of services across different platforms, the amount of data being collected and stored by business services organisations is growing, making data security a crucial concern. Tackling cyber threats will necessitate a collaborative approach between government and industry.

Government should continue to provide support for small and micro-organisations to bolster their cyber resilience, whilst also investing in effective systems and response plans to ensure that our critical national infrastructure is able to defend itself against and respond to large-scale attacks.

The Transition to Net Zero

There is an opportunity for government to lead by example as one of the largest occupiers of commercial buildings in the UK by investing in its own property portfolio. Ensuring that government departments have sufficient resources to invest in energy efficiency across the commercial property estate, scaled up across the UK, would result in a huge reduction in carbon emissions.

These initiatives would also create jobs across the UK, often in STEM areas, and would be well-suited to apprenticeships. Combining this with reforms to skills policy such as the proposed Growth and Skills Levy would encourage more people into the green collar jobs of the future.

The transition to net zero can be accelerated through partnerships and collaboration with industry. Business services organisations have been, and will continue to be, actively involved in developing energy and utilities strategies for private and public sector clients. By analysing their energy consumption patterns and identifying areas for improvement, BSA members have already helped numerous clients reduce their carbon footprint and increase energy efficiency. In addition to this, many organisations have been working with SMEs in their supply chains to help them to transition towards Net Zero. This has not only resulted in cost savings for the clients but has also contributed to the overall goal of achieving Net Zero emissions.

As with the other proposals in this submission, combining private sector initiatives with public policy action and targeted investment from both industry and government will enable both the sector and the wider economy to reap the full benefits this opportunity presents.

A collection of [case studies](#) demonstrate the vital role that the business services sector has to play in ensuring that the UK meets its Net Zero commitments through unlocking innovation, offering its expertise and resources and resources in partnership with central, devolved and local government alongside business and VCSE organisations, and driving investment in green skills and industries.