



Unite submission to the HM Treasury policy paper Public Sector: Reform to VAT refund rules

This submission is sent on behalf of Unite, Britain and Ireland's largest union with over 1.3 million members across all sectors of the economy including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, information technology, service industries, health, local government and the not for profit sector.

While Unite welcomes the recognition within this paper of the many flaws within current Section 41 VAT refund rules for public sector procurement, the conclusions of this paper are deeply concerning.

Unite believes that the Full Refund Model (FRM) poses significant risks to public services in the future and it is unclear why the option to scrap Section 41 has not been given proper consideration.

While FRM potentially reduces bureaucracy, the need for private consultants and the bogus incentives to make wholly owned subsidiary companies in the NHS, the move is also likely to create significant new artificial incentives to outsource and privatise a broad range of public services. The disruption to public financial systems will also be substantial.

Contrary to assertions within the paper that Section 41 was introduced "to prevent VAT from being a distortive factor", in reality it was explicitly introduced to support an ideological commitment to promote outsourcing of services that would otherwise have been kept inside the public sector. Unite is clear that such an approach is not more "cost effective", it is an artificial subsidy.

Unite has been a vocal opponent of the use of wholly owned subsidiary companies in the NHS. As the paper recognises, these companies resulted from distorted tax incentives placed on NHS Trusts to outsource NHS staff and services following years of underfunding. Hard pressed NHS Trusts, local authorities and other public bodies have sought to use commercial subsidiary companies to attempt to generate additional commercial income and avoid precisely these artificial pressures to outsource to privately owned providers. Removing Section 41 and properly funding our public services would be a far better way to resolve these concerns.

For decades unions have been citing concerns about privatisation and how it drives service fragmentation, increased and costly bureaucracy, attacks on service quality and a race to the bottom in terms and conditions of staff. From Unite's bitter experience those concerns have been largely vindicated by over three decades of outsourcing policies and nothing about the government's recent approach to procurement during the pandemic has disproved this.

In Unite's experience privatisation of public services is rarely about anything other than reducing costs, dismantling collective bargaining and reducing accountability. At worst it is about gifting public assets and resources to private individuals or companies that make huge profits, much of which is funnelled offshore as a double loss to the taxpayer. Such experiences can be found across the board in our rail franchises¹ and buses², our public utilities like water³ and electricity generation⁴, Royal Mail⁵, our health⁶ and social care services⁷ and major public works and PFI contracts⁸, even with the lucrative consultancy contracts that shape our public discourse⁹.

The proposals in this paper will reduce the amount of VAT collected, while amounting to a big new subsidy to all public sector contractors but with no guarantee that the public sector will share the benefit. Unite believes that the result will be akin to duty-free shops at airports – i.e. the government won't get the VAT but the companies continue to charge prices close to where VAT had to be paid. This is neither cost effective, nor in the public interest.

Unite is urging the Treasury to reconsider.

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¹ <https://www.mirror.co.uk/news/uk-news/board-gravy-train-rail-firms-9553889>

² <https://www.standard.co.uk/news/transport/arriva-gets-330m-to-run-london-buses-but-pays-no-corporation-tax-8608941.html>

³ <https://www.ft.com/content/6c166cd4-d41f-11e7-a303-9060cb1e5f44>

⁴ <https://www.theguardian.com/business/2013/apr/16/big-six-energy-suppliers-tax>

⁵ <http://www.telegraph.co.uk/finance/newsbysector/supportservices/10960087/Botched-Royal-Mail-sale-cost-taxpayers-1bn-say-MPs.html>

⁶ <https://inews.co.uk/news/health/virgin-care-no-corporation-tax-paid-profits-nhs-contracts-rise-8m-200m-turnover/>

⁷ <http://hummedia.manchester.ac.uk/institutes/cresc/research/WDTMG%20FINAL%2001-3-2016.pdf>

⁸ <http://www.bbc.co.uk/news/business-41778609>

⁹ <https://www.consultancy.uk/news/14069/uk-consulting-industry-grows-by-5-to-9-billion-but-faces-challenges>