Back In—House:

The Case for Ending Outsourcing

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Key Points

- Despite growing criticisms of outsourcing in recent years, for every £10 the public sector spends, £1 is on outsourced services. In 2024/25, the public sector spent an estimated £129 billion on outsourcing of public services, 11 per cent of all public spending.
- Outsourcing was sold as a way to introduce competition, improve service quality and reduce costs, but, in reality, it has produced concentrated markets where outsourcing conglomerates focus more on extracting profits than serving public needs. Between 2019/20 and 2023/24, the six largest outsourcing companies — G4S, Serco, Mitie, OCS, Sodexo and ISS — made £34 billion in revenue and £1.5 billion in operating profits from public contracts.
- Using the operating profit margins of the Big Six, we estimate that the total operating profits private companies made from public service contracts in 2024/25 was £6 billion.
- Where outsourcing has allowed services to be delivered more cheaply, reductions should be understood as a false economy in which private companies offer workers worse pay and conditions to cut their own costs. We estimate that there are between 1.12 and 1.32 million people who are employed in publicly funded but privately run services. Outsourced workers tend to have lower wages and more insecure working arrangements than those directly employed in the public sector. This means that the government is complicit in trends towards in-work poverty that have seen the proportion of non-retired people living in households that receive more in benefits than they pay in taxes increase from 30 per cent in 1977 to 46 per cent in 2024.
- Labour's talk of ending the era of "outsourcing by default" needs to be backed by action. Insourcing can improve coordination, provide better security for workers delivering vital services and offer better value for money when public funds are not siphoned off as profits for outsourcing companies. The government should reform procurement legislation to drive insourcing across the public sector and instruct public bodies to work with their recognised unions to develop insourcing strategies.

Introduction

What is outsourcing?

In its manifesto for the 2024 election, Labour committed to "the biggest wave of insourcing of public services in a generation."[1] Andy Burnham has echoed these ambitions,[2] but if his government is to deliver on this commitment, it will mean reversing decades of private companies profiting from cutting costs and corners when running our public services.

Outsourcing — when the public sector contracts with external suppliers to deliver services — gained momentum in the 1980s and continued apace through the New Labour and Coalition years. Often attributed to the pro-market ideology of the Thatcher government, outsourcing was also pursued in the context of an international turn to the "liberalisation" of the public sector and expose services to more competition, the terms of which were set by the World Trade Organization's predecessor.[3] This turn opened UK services up to multinational firms who could tender for their delivery.

Typically beginning with back-office functions (those not in direct interaction with service users like IT) and soft facilities management (aspects of building care and maintenance that go beyond legal compliance, such as cleaning and security), outsourcing soon came to a wide range of services. Private companies are now involved in:

- Collecting bins on behalf of local authorities.
- Running prisons, prisoner escorting services and rehabilitation programmes.
- Running work programmes for jobseekers.
- Providing early-years childcare.
- Providing school meals.
- Building and renewing rail infrastructure.

[1] "Labour's Plan To Make Work Pay: Delivering A New Deal for Working People", Labour, 2024. Available here.

[2] George Parker, "Andy Burnham tells Labour MPs he will rein in Britain's outsourcing industry", *Financial Times*, 13 July 2026. Available here.

[3] Janet Morphet, *Outsourcing in the UK: Policies, Practices and Outcomes*, Bristol University Press, 2021, pp.1–2.

- Performing ancillary services like cleaning and catering on trains and in stations.
- Inspecting, repairing and replacing rail infrastructure like tracks and signals.
- Providing social care and running care homes.
- Providing cleaning, portering and laundry services in hospitals.
- Providing accommodation for asylum seekers.
- Developing and running IT systems across central and local government and the NHS.

As this non-exhaustive list of examples shows, organisations across the public sector, including central government departments, local authorities, NHS trusts, non-departmental public bodies like Network Rail and publicly owned companies like some of the train operating companies, routinely contract with external suppliers to deliver services.

While the role of the private sector has attracted greatest attention, outsourcing can also involve third sector suppliers, as well as more ambiguous arrangements like wholly owned subsidiaries, where public sector bodies outsource to legal entities that are whole or partially publicly owned. An example of the latter is local authority trading companies (LATCs), which many councils use to deliver services, including providing social care or running leisure centres, but whose staff are not direct public sector employees.[4] There are also wholly owned subsidiaries across the wider public sector, including the NHS.

How extensive is outsourcing?

After 2015 and especially following the collapse of high-profile private contracting firm Carillion in 2018, some public sector bodies began to show less appetite for further expanding the role of private providers and greater interest in "insourcing" and bringing services back in-house.[5] For example, between 2014 and 2017, the DVLA brought the majority of its IT functions, many of which had been outsourced for more than 20 years, back in-house.[6]

[4] See "Trading Places: Local authority trading companies and their impact on staff", Labour Research Department for UNISON, January 2025. Available here.

[5] Nick Davies, Tom Sasse, Sarah Nickson and Colm Britchfield, "Government outsourcing: when and how to bring public services back into government hands", Institute for Government, June 2020, pp.11–2. Available here.

[6] Ibid, p.23.

However, with limited data available to assess the extent of outsourcing at a granular level, it is hard to say whether changed rhetoric around insourcing and prominent examples have translated to a significant shift away from contracting with private suppliers in recent years.[7] In 2024/5 the public sector spent £395 billion, or 35 per cent of total public sector spending, on the procurement of goods and services.[8] Procurement of services will only be part of this spending, but analysis of Tussell UK public contract data suggests that it is a significant share.[9] We estimate that £129 billion of the £395 billion total was spent on outsourcing public services — roughly one third of total procurement. This means that around 11 per cent of total public expenditure goes to private outsourcing firms.

The reality is that, even with more talk of insourcing, private companies continue to profit from the running of our public services. If Labour is serious about a break with the status quo, there must be a concerted effort to bring services back in-house and support for public sector organisations to do so. This briefing sets out why insourcing is an urgent task, by showing how outsourcing has damaged the quality of vital services and worsened the wages and conditions for those that work in them. We conclude with recommendations which would usher in a new era of public services, to serve public good rather than private gain.

[7] Ibid, p.16.

[8] Lorna Booth, "Procurement statistics: a short guide", House of Commons Library, 20 July 2026. Available here.

[9] Tussell Spend Data, 2026. Available here.

What's Wrong with Outsourcing?

Outsourcing was sold as a way to introduce competition into what were seen as inefficient state monopolies that controlled public services. This competition was supposed to improve quality and drive down prices, but evidence for these benefits is lacking despite decades of policymakers actively pursuing outsourcing as a goal.[10] This is, perhaps, unsurprising given the influence private companies were able to have over the terrain of policymaking itself, such as when the 2008 Julius Review of the Public Services Industry was spearheaded by a former non-executive director of the outsourcing firm Serco.[11]

Rather than accepting the presentation of outsourcing as an evidence-based, value-free matter of finding whatever delivery model achieves the "best" service, we should see it for what it really is: part of the ideological project of privatisation. And, like the privatisation of utilities and other essential parts of the public realm,[12] privatisation's promised benefits have failed to materialise, leaving us — the public — poorer and the shareholders of the privatised utility companies and outsourcing conglomerates richer. Below, we outline the evidence on the real effects of outsourcing on competition, cost, service quality and accountability.

Competition

In 2014, a report from the House of Commons Public Accounts Committee concluded that, "[s]o far, the contracting out of services has led to the evolution of privately-owned public monopolies, who largely, or in some cases wholly, rely on taxpayers' money for their income."[13]

In other words, rather than creating competition, outsourcing often led to highly concentrated markets, with contracts that were too large or complex to be won by any but the largest suppliers,[14] and by 2018, nearly a quarter of government contracts

[10] "Outsourcing Public Services", Trades Union Congress and New Economics Foundation, 2015, p.22.

[11] Ibid, p.24.

[12] Mathew Lawrence, Chris Hayes, Amelia Horgan, "The Privatisation Premium and the Case for Public Provision", Common Wealth, March 2026. Available here.

[13] "Contracting out public services to the private sector", House of Commons Committee of Public Accounts, February 2014. Available here.

[14] "Outsourcing Public Services", Trades Union Congress and New Economics Foundation, 2015, p.23.

went to the sole bidder, up from 15 per cent in 2016.[15] In concentrated markets, the risks include that suppliers can charge excessive prices and that they grow "too big to fail",[16] all of which undermines the ability to secure value for money and penalise poor performance.

Cost

Delivering services at cheaper costs was one of the main arguments in favour of outsourcing but the true cost of outsourcing is not always reflected in the amount contracting bodies pay their suppliers. The "hidden" costs of outsourcing include the administrative costs of managing outsourcing and the profits taken out by private companies. Even where outsourcing is, at face value, cheaper than running services in-house, cost savings are made in ways that are unsustainable, squeezing wages and working conditions, as well as underbidding on contracts in ways that increases outsourcing companies' fragility.

Hidden costs: administrative costs and profits

Outsourcing requires public sector bodies to fund additional legal and compliance infrastructure to manage contracts with the private sector, to design targets and measure performance and to enforce any contract breaches. These are costs that are often overlooked when measuring the value for money of outsourcing.[17] When these are taken into account they may reduce or eliminate the difference in cost compared to running services in-house.

Another hidden cost is the money extracted by private companies in the form of profits. When public sector bodies pay external suppliers, some of that money goes not towards the provision of the service, but towards profits for the owners of outsourcing firms.

To understand the scale of profiteering, we examine the outsourcing Big Six — OCS, G4S, Mitie, Serco, Sodexo and ISS. These six corporate groups have thousands of government contracts between them.

At the group level these companies typically do not report revenues and operating profits from UK government contracts. International accounting standards

[15] Gill Plimmer and Max Harlow, "Sole outsource bidders win more public sector contracts", *Financial Times*, 14 January 2019. Available here.

[16] "Outsourcing Public Services", Trades Union Congress and New Economics Foundation, p.23.

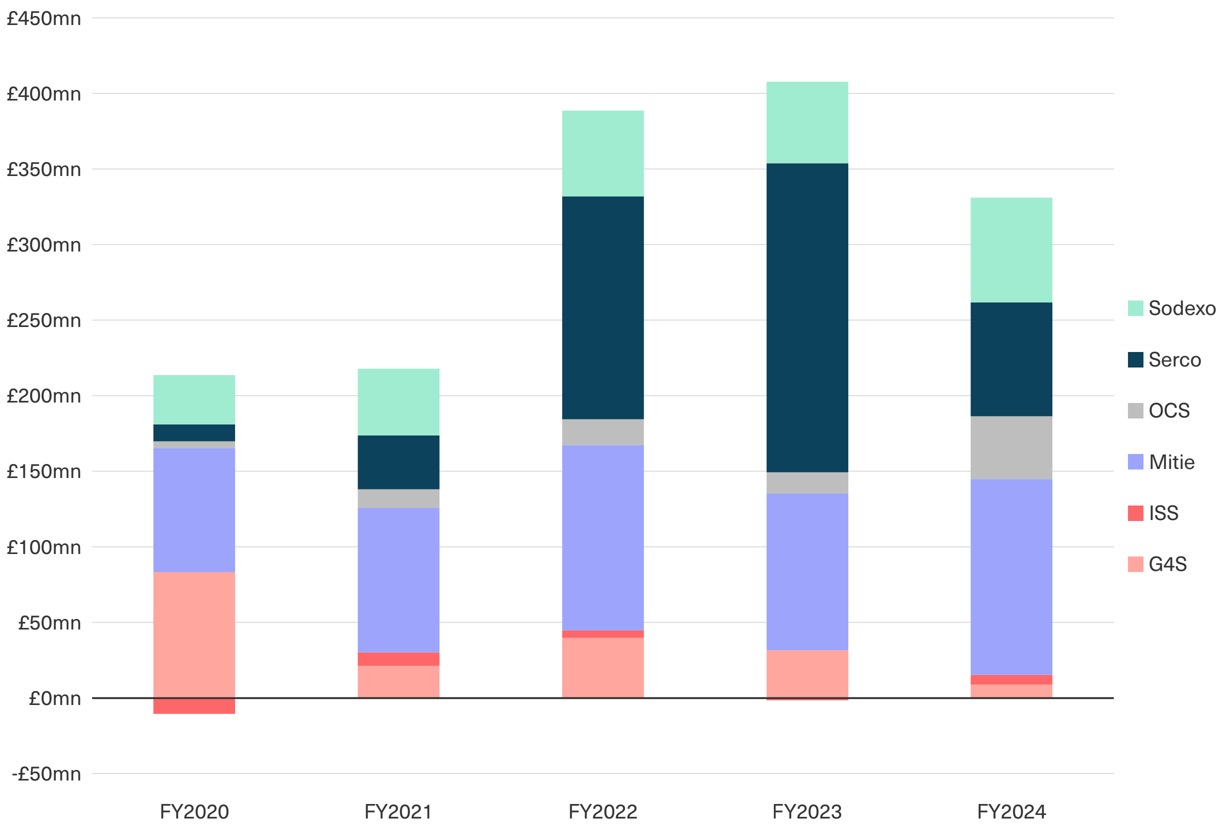
[17] Ibid, p.21.

require businesses to break down revenue and profits by geographical location and business segment, but each company gets to decide what falls under each category. In the absence of clear and comparable high-level data, we have estimated how much money is extracted as profit by analysing the accounts of the Big Six's UK subsidiaries.

We only include subsidiaries whose stated business activities relate to public sector outsourcing contracts. Using this approach, we estimate that the Big Six made £1.5 billion in operating profits between 2019/20 and 2023/24. (See Appendix 2 for detail.)

Figure 1: The Big Six's Operating Profits from Public Contracts

Total operating profits of UK subsidiaries, financial year ending 2020 to financial year ending 2024



Source: Common Wealth analysis of LSEG company account data for UK subsidiaries of G4S, Mitie, Serco, ISS, Sodexo and OCS that specialise in public service contracts for the financial years ending 2020 to 2024. See appendix 2 for methodology.

Using the operating profit margins of the Big Six, we estimate that the total operating profits private companies made from public service contracts in 2024/25 was £6 billion.

Box 1: Market Concentration in the Outsourcing of Public Services

In the course of decades of outsourcing, some companies have been able to secure positions for themselves as outsourcing giants. Their growth has come from their ability to win contracts across the public sector and their acquisition of rival, smaller outsourcing businesses.

Serco, Mitie, G4S, Sodexo ISS are designated by the Cabinet Office as UK Government Strategic Suppliers for outsourcing and facilities management. This means they have a direct relationship with the Cabinet Office and win a higher volume of recurring outsourcing contracts than other outsourcing companies.

In July 2026, facilities management and services company OCS Group made a £3.1 billion cash offer to acquire Mitie Group plc. OCS group is owned by American private equity firm Clayton, Dubilier & Rice. If this merger takes place, it will create one of the UK's largest outsourced services groups. OCS's acquisition of Mitie would remove it from the London Stock Exchange, making it the second outsourcing firm to be delisted from the stock exchange in five years. G4S was publicly listed before it was bought by the American private equity owned security services company Allied Universal in 2021.

Estimates of how much each of the five strategic suppliers plus OCS Group make from government contracts is presented below.

Mitie (Mitie Group PLC)	In 2024, 96% of Mitie's revenue came from business in the UK and 52% came from government contracts.
Serco (Serco Group PLC)	Serco specialises in government contracts globally; public sector contracts make up 90% of Serco's revenue. In 2024, they reported that 51% of their revenue came from the UK & Europe. Serco is listed on the London Stock Exchange.
G4S (G4S Limited)	G4S was one of the publicly listed UK outsourcing companies until it was bought by American private equity group Allied Universal in 2021. According to G4S Limited's 2024 accounts, their UK & Ireland business accounted for 30% of global revenue.
ISS (ISS A/S)	The Danish outsourcing firm ISS makes more money in the UK than anywhere else in the world. In 2024, UK & Ireland constituted 8% of global revenue, in 2025, this rose to 15%.

OCS Group	OCS Group is one of the largest outsourcing companies in the UK. In 2024, they declared the 76% of their revenue came from business in the UK & Ireland.
Sodexo (Sodexo SA)	Sodexo is a French outsourcing and facilities management company that has contracts with government and businesses internationally. In 2024, 35% of their global revenue came from Europe. Sodexo did not state their UK share of revenues in their group accounts.

The total estimated revenue and operating profits from UK public contracts is summarised in the tables below:

Table 1: Estimated revenues from public service contracts

	Financial Year Ending:					
Group	**2020**	**2021**	**2022**	**2023**	**2024**	**Group total 2020-2024**
G4S	£728mn	£959mn	£733mn	£719mn	£746mn	**£3,885mn**
ISS	£414mn	£455mn	£464mn	£476mn	£554mn	**£2,363mn**
Mitie	£1,504mn	£1,068mn	£2,239mn	£2,198mn	£2,258mn	**£9,266mn**
OCS	£518mn	£553mn	£291mn	£280mn	£745mn	**£2,387mn**
Serco	£1,252mn	£1,463mn	£2,947mn	£3,191mn	£1,449mn	**£10,301mn**
Sodexo	£965mn	£1,120mn	£1,208mn	£1,195mn	£1,293mn	**£5,780mn**
Year total	**£5,380mn**	**£5,618mn**	**£7,881mn**	**£8,057mn**	**£7,045mn**	**£33,982mn**

Table 2: Estimated operating profits (or loss) from public service contracts

	Financial Year Ending:					
Group	**2020**	**2021**	**2022**	**2023**	**2024**	**Group total 2020-2024**
G4S	£83mn	£21mn	£40mn	£32mn	£9mn	**£185mn**
ISS	-£11mn	£9mn	£5mn	-£2mn	£6mn	**£8mn**
Mitie	£82mn	£95mn	£122mn	£104mn	£130mn	**£533mn**
OCS	£5mn	£12mn	£17mn	£14mn	£42mn	**£90mn**
Serco	£11mn	£36mn	£147mn	£205mn	£75mn	**£474mn**
Sodexo	£33mn	£44mn	£57mn	£54mn	£69mn	**£257mn**
Year total	**£203mn**	**£218mn**	**£389mn**	**£406mn**	**£331mn**	**£1,547mn**

Note: See the appendix for methodology.

False economies: low wages and under-bidding

Even where headline costs for an outsourced contract may be lower than when the service was publicly run, these savings often come at a price. One study comparing in-house and outsourced provision of services across 19 OECD countries between 1985 and 2010 found that outsourcing reduced the share of income going to labour in favour of capital. This differs from other forms of public spending, like public sector employment and unemployment benefits, that help enhance the bargaining position of labour.[18]

Such a finding is unsurprising given the way outsourcing companies seek profits. Labour is usually the most significant source of spending in services: RMT analysis of six of the outsourcing companies providing cleaning, security, careering and gateline services in the rail sector, for example, found between 80 and 90 per cent of their costs were wages and salaries for their workers.[19] As a result, companies seek "efficiencies" by driving down wages and working conditions. Research from the New Economics Foundation and the Trades Union Congress used Labour Force Survey data to compare conditions for workers like cleaners, security guards and healthcare aides in the public and private sectors. They found that private sector workers did more excessive overtime (measured as those working more than 48 hours per week), had lower median hourly wages and had shorter job tenure and more insecure working arrangements.[20]

Local authority trading companies (LATCs) do not extract profits from outsourcing in the same way as private firms. Though some are run as commercial, profit-seeking entities which bid for contracts from councils, public sector bodies, and even in some instances private sector clients, their profits are ultimately retained partly or wholly by the LATC. However, UNISON research has documented that the spread of LATCs is based on a similar logic to outsourcing, where local authorities look to make cost savings, often at the expense of the workers who are moved from direct public sector employment to companies that can offer them less robust terms and protections. LATCs sit outside the main bargaining agreements followed

[18] Nicola Pensiero, "In-house or outsourced public services? A social and economic analysis of the impact of spending policy on the private wage share in OECD countries", *International Journal of Comparative Sociology*, 2017, 58(4), pp. 333–351. Available here.

[19] "Parasites on exploitation: The outsourcing firms sweating the rail sector", RMT, 2025. Available here.

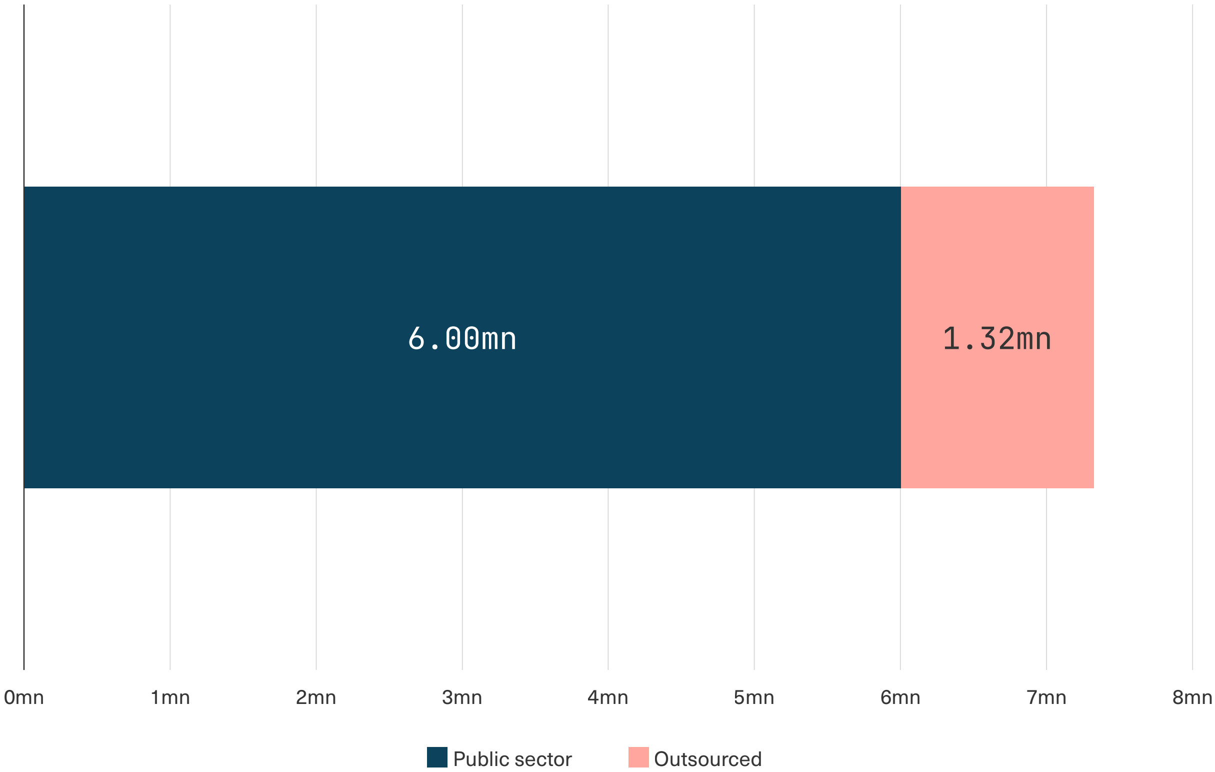
[20] "Outsourcing Public Services", Trades Union Congress and New Economics Foundation, pp.79–80.

by councils which help protect against pay erosion and many do not use the Local Government Pension Scheme.[21]

The pursuit of outsourcing has, therefore, driven millions of workers into worse conditions with lower pay. We estimate that there are currently between 1.12 and 1.32 million workers employed in the "para-state" (the private businesses who deliver outsourced services and receive the majority of their funding from the public sector).[22] Meanwhile, UNISON has estimated that a further 91,000 workers (or nearly five per cent of the total local authority workforce) are employed within LATCs. [23]

Figure 2: Outsourced Workforce Reaches 1.3 million in 2023

Publicly funded employees by employer type, 2023



Source: EMP03 — public sector employment, BRES — Business Register and Employment Survey, UK input-output analytical tables: industry by industry. See Appendix 1 for methodology.

Reducing costs by underpaying these workers this is a false economy for the public sector. Even if public sector organisations can save on the delivery of a particular service, costs get displaced onto the in-work benefits system as the

[21] Ibid, p.14.
[22] See Appendix 1 for methodology.
[23] Ibid, p.9.

state tops up low wages. A saving in one area just becomes additional spending to subsidise the poor employment practices of outsourcing firms. In the UK, the proportion of non-retired people living in households that receive more in benefits than they pay in taxes has increased from 30 per cent in 1977 to 46 per cent in 2024, and outsourcing has made the public sector complicit in this trend towards in-work poverty.[24] There is also a double cost: as the state loses out on revenues from payroll taxes and social security contributions when more of the workforce are in low-paid and insecure work.

Outsourcing increases inequality by keeping parts of the labour force, particularly racial and ethnic minorities and women, in low-paid work with little change of progression. RMT research on outsourcing in rail has shown how much it has driven racial and skill-level segregations in the workforce of train operating companies. 25 per cent of RMT members employed directly by the English train operating companies are Black and minority ethnic, but this rises to 58 per cent of members working as cleaning and catering staff in outsourced contracts.[25] These outsourced workers end up locked in low paid jobs with little opportunity for progression, with one third having worked in their current role for more than ten years. Nearly 80 per cent said they have never had a conversation with their manager about career progression and almost half said they had no confidence their manager would support them in trying to progress.[26] UNISON have found similar issues with the workforce within LATCs, with some councils transferring workforces that are predominantly female or Black and minority ethnic, which makes it harder to enforce equal pay liabilities.[27]

Labour has made welcome commitments to end the "two-tier" system between those directly employed in the public sector and those employed by contractors. We discuss in our recommendations below how to deepen these commitments to ensure they offer proper protections for all staff. If the two-tier system were to come to an end, this would ultimately undercut the very logic of outsourcing in the first place, by limiting the cost savings between privately and publicly delivered services driven by poor wages and conditions.

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[24] Benefits are counted as the sum of total cash benefits and total benefits in kind. The latter includes access to the National Health Service, education, free childcare and travel subsidies. Taxes are counted as the sum of total direct taxes and total indirect taxes. See "Effects of taxes and benefits on UK household income: financial year ending 2024", Office for National Statistics, 25 September 2025. Available here.

[25] "How outsourcing embeds systematic racism on the railway", RMT, 2025. Available here.

[26] Ibid.

[27] "Trading Places", Labour Research Unit for UNISON, p.6. Available here.

The other tactic that outsourcing companies use to increase their profits, in addition to squeezing labour costs, is under-bidding to win more contracts. In a House of Commons Public Accounts Select Committee Inquiry following the collapse of major outsourcing firm Carillion, one expert called this "the hamster wheel effect", where companies respond to low margins on contracts by constantly expanding.[28] Although each individual contract with the public sector might promise stable returns with low capital investment requirements, many large suppliers are pressured by investors to report more dramatic growth. As a result, they end up expanding into unfamiliar sectors where their lack of expertise may lead them to judge the profitability of a contract and therefore bid at a lower rate than they can sustainably deliver.[29] Carillion is a cautionary tale of the risks of this approach, but other outsourcing giants like Serco and G4S have also experienced crises of profitability by pursuing similar strategies.[30] This has often led to retrenchments and rapid exits from certain markets, which, given the aforementioned issues with market concentration, could leave the public sector struggling to find suppliers for essential services.

[28] "After Carillion: Public sector outsourcing and contracting", House of Commons Public Accounts Select Committee, July 2018. Available here.

[29] Andrew Bowman et al, *What A Waste: Outsourcing and How It Goes Wrong*, Manchester University Press, 2015.

[30] Ibid.

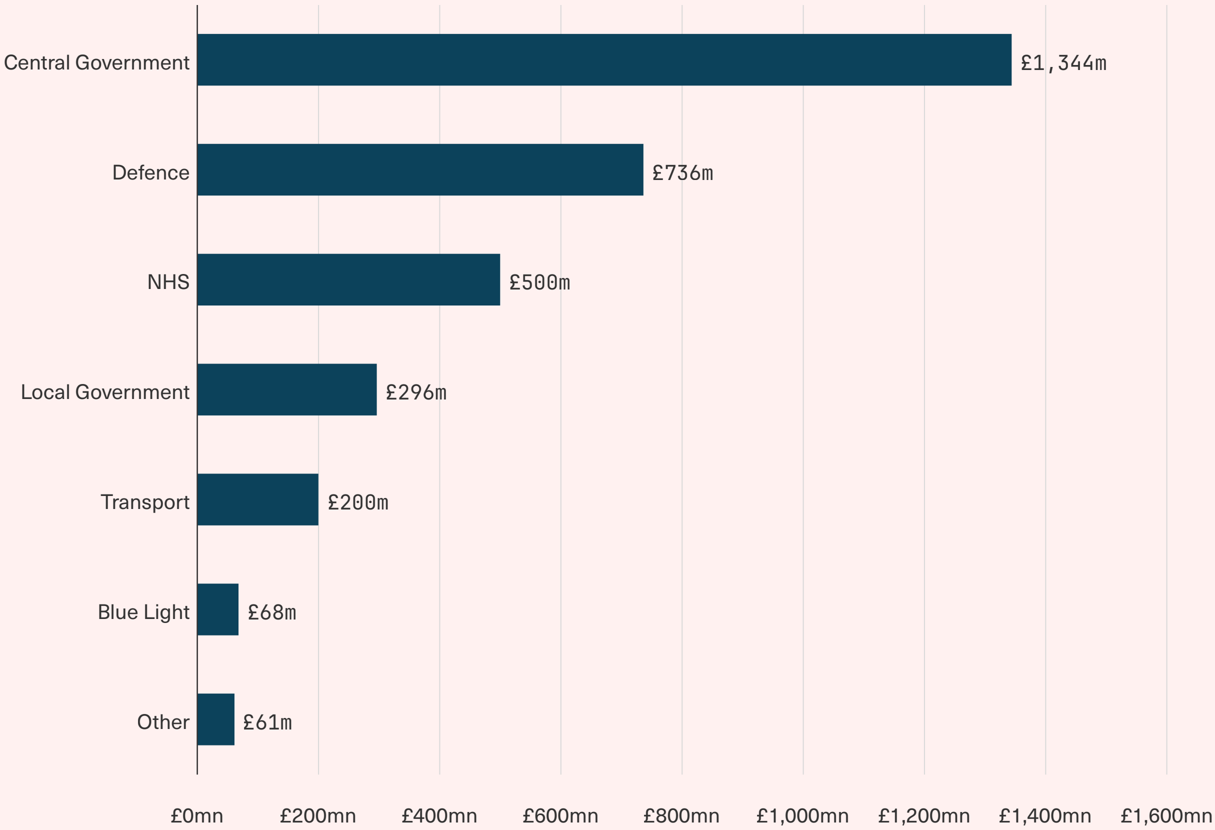
Box 2: Which Parts of the Public Sector Spend the Most on the Strategic Suppliers?

UK public procurement data platform Tussell estimates that the five outsourcing Strategic Suppliers received £3.2 billion in direct public spending in 2024/25.[31] This figure is a fraction of the total; the public sector's overall spending outsourcing is far higher.

Central government spent £1.3 billion on the Strategic Suppliers, the highest amount out of any public body and 42% of total public sector spending. Defence is second with 23% of the total spend, while the NHS is third with half a billion spent on just five outsourcing companies.

Figure 3: Outsourcing Strategic Suppliers Received £3.2 billion in Direct Public Spending in 2024/5

Direct public expenditure on G4S, Serco, Mitie, ISS and Sodexo, 2024/25



Source: Tussell, UK Strategic Supplies 2025 Report.

[31] "UK Strategic Suppliers Report", Tussell, 2025. Available here.

Quality

Outsourced services have not delivered promised quality improvements. Services have either not improved or have worsened. This is partly because public sector bodies have lacked the capacity needed to commission effectively, measure the right performance outcomes and monitor and enforce contracts, all of which lets suppliers get away with poor performance.[32]

This capacity, particularly at local government level, has only been further hollowed out by austerity. In most councils, cuts have disproportionately affected back-office functions (in order to protect frontline services), including administration and other roles pertinent to the planning and management of service delivery. As a result, it is harder for officials to take strategic decisions about which delivery option (insourcing or outsourcing) would be preferable, and harder for them to monitor supplier performance.[33]

The Institute for Government has also argued that outsourcing has led to a fragmentation of services, with a detrimental effect on quality.[34] Rather than being able to coordinate different objectives across the public sector, each department or body or council ends up managing external contracts according to a narrow set of outcomes. Bringing services in-house does not automatically break down these siloes but can be a way to support more joined-up service delivery.

Quality also suffers because outsourcing companies chase profit in ways that undermine the sustainability of services. For example, rather than investing in quality improvements, suppliers often try to "game" performance targets, for example by offloading service users with more complex needs.[35] Low pay and poor working conditions also detrimentally impact the quality of services. RMT research on the outsourcing of cleaning services across trains and stations found that quality benchmarks set by the Department for Transport were consistently missed (despite being lower than for other quality measures like those for customer service or provision of information within stations).[36] This is unsurprising when of outsourced cleaners RMT surveyed, 75 per cent reported that their workload has increased since

[32] Sam Sims, Nehal Davison, Tom Gash, "Making Public Service Markets Work: Professionalising government's approach to commissioning and market stewardship", Institute for Government, July 2013, p.33. Available here.

[33] Peter Eckersley and Laurence Ferry, "Public service outsourcing: the implications of 'known unknowns' and 'unknown unknowns' for accountability and policymaking", *Public Money & Management*, July 2019, p.11. Available here.

[34] Sims, Davison and Gash, "Making Public Services Markets Work", Institute for Government, p.29. Available here.

[35] Ibid, p.27.

[36] "Parasites on exploitation: The outsourcing firms sweating the rail sector", RMT, 2025. Available here.

they started in their job, and 80 per cent reported they felt under pressure to cut corners in their work.[37]

Finally, public services decline in quality when suppliers are too slow to exit markets, Poor performers do not always fail to win repeat contracts, especially where government is concerned about disruptive transitions between suppliers.[38] The dynamic, innovative, efficient market promised from Thatcher onwards in the outsourcing revolution was always a mirage. Instead, the public has ended up footing the bill even as private companies run services into the ground.

Accountability

Lack of transparency makes it harder to hold outsourcing companies to account. The ownership and governance structures of these suppliers are often hard to ascertain,[39] and the size of conglomerates like G4S or Serco makes it harder to scrutinise their performance when they manage hundreds of contracts at a time.[40]

The transfer of services to the private sector also produces a democratic deficit. Especially at the local government level, new administrations find their budgets already mostly committed to fixed, multi-year contracts, making it hard to deliver change. The outsourcing of services can also produce an outsourcing of accountability — one that suits governments who want to avoid taking the blame for underperforming services. When scandals and failures make the news, a particular company or at most a particular contract with a particular department or public body is blamed, rather than the entire system that has eroded democratic control of our services. These failures of accountability ultimately leave all of us, the public, the worse off, when failure routinely goes unpunished and service quality is allowed to decline.

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[37] Ibid.

[38] Sims, Davison and Gash, "Making Public Services Markets Work", Institute for Government, p.27. Available here.

[39] "Outsourcing Public Services", Trades Union Congress and New Economics Foundation, pp.26–7.

[40] Bowman et al, *What a Waste*.

Box 3: Who Owns the Outsourcing Giants?

Serco, Mitie, G4S, Sodexo, OCS and ISS are multinational companies that bid for public service contracts with the government as well as the private sector.

Serco Group PLC, Mitie Group PLC are both listed on the London Stock Exchange. Their top shareholders are a mix of asset managers like BlackRock and Fidelity and investment banks like JPMorgan Chase. If OCS is successful in their acquisition of Mitie, then Mitie will be delisted.

While the French outsourcing multinational Sodexo is listed on the Paris Stock Exchange, their largest shareholder is the family office of the billionaire founder Pierre Bellon. The Bellon family hold 44% of Sodexo's shares.

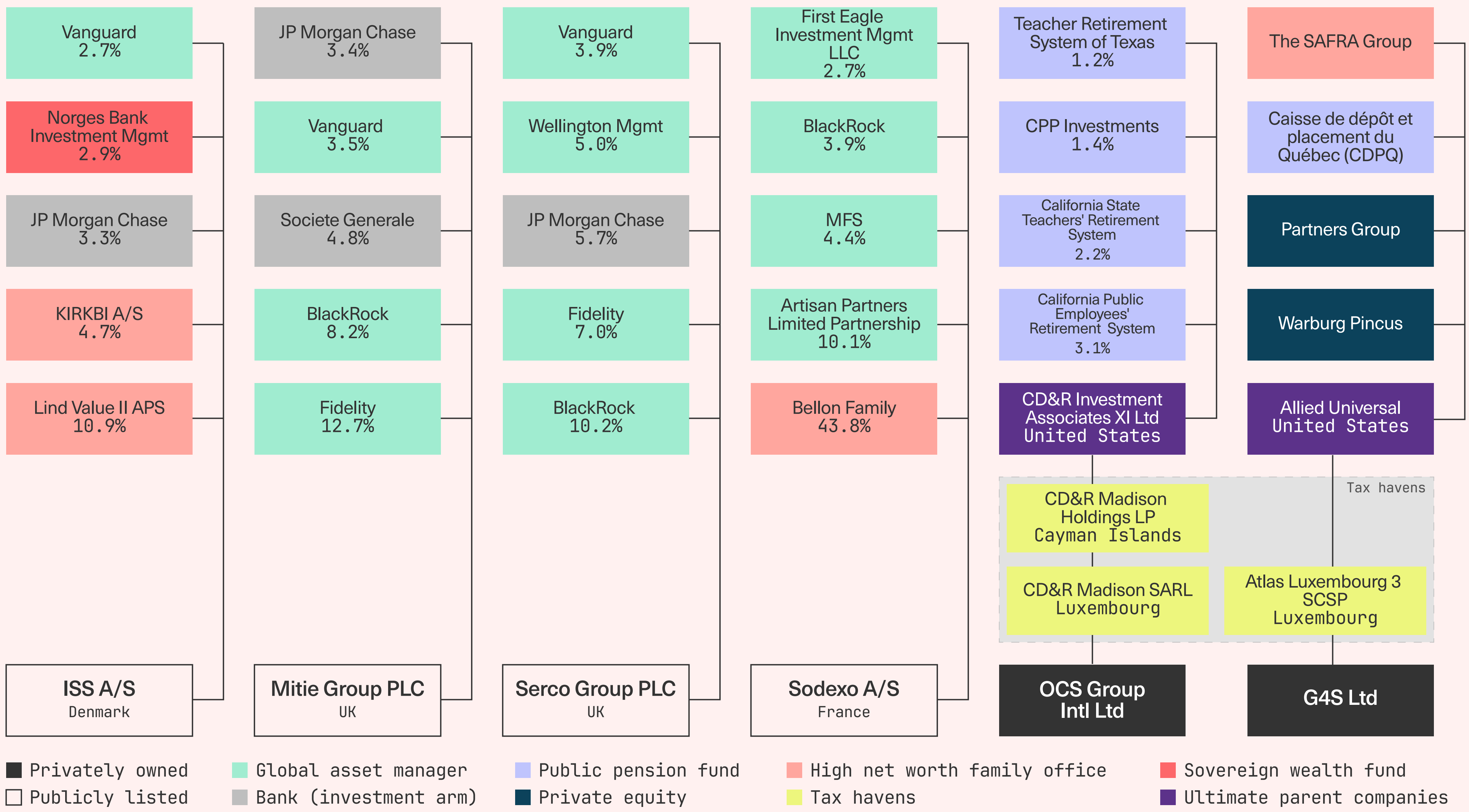
ISS A/S is listed on the Danish Stock Exchange. Their top investor is Lind Invest ApS which holds 11% of its shares through its fund Lind Value II ApS. Lind Invest is the family office for Danish billionaire Henrik Lind. KIRKBI is the second largest investor with a 4.7% stake in ISS. KIRKBI is the Kirk Kristiansen family office. Ole Kirk Kristiansen founded what would later become the Lego Group in 1932.

The remaining two companies, G4S and OCS group, are privately held, meaning that their shares are bought and sold through private agreements instead of through public stock exchanges. According to the financial database LSEG, G4S limited is ultimately owned by Atlas Ontario LP, a fund set up by Alliance Universal. OCS Group is ultimately owned by private equity firm Clayton, Dubilier and Rice through their fund CD&R Investment Associates XI Limited. Before reaching their ultimate parent companies, the corporate structure of these entities passes through a shell companies domiciled in corporate tax havens Luxembourg and the Cayman Islands. Corporate groups often set up elaborate corporate structures that pass through low corporation tax countries to minimise taxes.

See Figure 4 for a diagram of top owners.

Figure 4: Who Owns the Outsourcing Giants?

Top 4-5 shareholders of ISS, Mitie, Serco, Sodexo, G4S and OCS



Source: LSEG, Pitchbook and company press releases.
Notes: Ownership shares not disclosed for G4S.

Outsourcing: what value for whose money?

To summarise, outsourcing has failed to deliver promised benefits, and, moreover, the evidence is clear that it has, in fact, produced myriad problems in the running of public services. Rather than well-functioning markets, public sector organisations often have only a sole supplier or a small handful of bids to choose from. Large conglomerates may be quick to enter new markets to try to boost returns but equally as quick to abandon those sectors when retrenchment is required.

Under such conditions, outsourcing neither delivers value for money nor quality improvements in services. Private companies are able to reap profits from publicly funded services, skimming off public money that might otherwise be spent on service improvements or on raising wages and improving working conditions. "Savings" from outsourcing have driven millions into insecure and low-paid work and have often come at the cost of the financial sustainability of the outsourcing firms themselves, as they chase additional contracts without a proper appraisal of the margins on those contracts.

All of this affects the quality of services. Workers under pressure to do more with less struggle to deliver expected targets. Public sector organisations, under budgetary pressures, have hollowed out their capabilities to effectively measure performance, giving suppliers more leeway to "game" targets. Poor performance by external suppliers goes unpunished, especially where there is little choice of alternative.

Where public money is spent, the public deserve a say in whether it has been spent wisely. The lack of transparency and accountability in the outsourcing sector has meant that for decades, this has been all but impossible. In some cases, the government even benefits from this erosion of democracy, allowing private contractors to take the fall for scandals rather than recognising these as symptoms of an entire system in need of overhaul. Like the broader privatisation experiment of which it was part, outsourcing has manifestly failed. In the rest of this paper, we set out an alternative.

What Needs to Change?

Drive insourcing across the public sector

For some years, parts of the public sector have turned to insourcing to improve services. In 2020, research from the Institute for Government found that where services had been moved in-house, councillors, local government officials and civil servants cited cost reductions (through more integrated services, reduced management costs and supply chain efficiencies), quality improvements and better conditions for staff as factors behind these decisions.[41] Examples of where such benefits did materialise include:

- Average waiting times for housing benefit applications in Hackney fell from 117 to 13 days in 2017/8 after the service was insourced by the council.[42]
- Immediate savings of £1.4 million in Liverpool when the city council insourced refuse collection and street scene services in 2015. One source of reduced costs was no longer having to pay management fees of between 12 per cent and 19 per cent across different contracts.[43]

Labour has already committed to a new public interest test to end the era of "outsourcing by default",[44] a policy initiative initially developed by UNISON.[45] This guidance, which covers central government departments, states that as current contracts of over £1 million come to an end, officials should evaluate how long-term service quality and public value would be affected by continuing to outsource compared with insourcing.[46] Bodies with larger procurement budgets will also have to draw up five-year plans for rebuilding in-house capacity.[47] This is a good first step, offering a route for some services to be insourced, but it falls far short of both

[41] Davies, Sasse, Nickson and Britchfield, "Government outsourcing", Institute for Government, pp.25–6. Available here.

[42] Ibid, p.28.

[43] "Rebuilding Capacity: The case for insourcing public contracts", Association for Public Service Excellence, May 2019, pp.46–7. Available here.

[44] "Ambition to end era of 'outsourcing by default' as government looks to bring cleaners and security staff staff in-house", Cabinet Office and HM Treasury, 18 June 2026. Available here.

[45] See John Tizard, "Securing the public interest through insourcing and better procurement", UNISON, 2023.

[46] "Ambition to end era of 'outsourcing by default' as government looks to bring cleaners and security staff in-house", Cabinet Office and HM Treasury, 18 June 2026. Available here.

[47] Tom Belger, "Labour's quiet in-sourcing revolution — and where Burnham could take it", LabourList, 8 July 2026. Available here.

UNISON's original proposal and Labour's 2024 manifesto commitment, as it does not apply to most public bodies.

Insourcing should become the default not just in central government but across the public sector, and this should be backed up by more than just guidance. A new procurement act would enshrine public interest tests in legislation, mandating public bodies to look at costs and wider economic impacts holistically.

Preparing this legislation will take time. There are services that can and should be insourced more quickly in the meantime. The government should direct all public sector organisations to engage with their recognised unions and develop insourcing strategies now. Achieving insourcing at scale will involve longer-term procurement reforms and funding uplifts (see below), but some contracts will be easier and cheaper to insource now or should be prioritised for other strategic reasons. Co-designed insourcing plans will help identify these "quick wins".

Defend public sector employment pay and conditions

Providing good quality jobs in the public sector is a significant lever government can pull to improve terms and conditions for workers everywhere. Rather than retreating from this, as has happened during decades of outsourcing, the government should use its position as an employer more robustly to defend quality work.

Pushing insourcing should help improve terms and conditions for millions of workers, but where contracts remain outsourced, there are still steps the government can take to protect against the creation of a (typically highly gendered and racialised) two-tier workforce. As part of the implementation of the Employment Rights Act, Labour has pledged to equalise standards in outsourced services and those provided in-house, but this approach is currently limited in scope. Existing plans do not cover wholly owned subsidiary arrangements which allow public sector bodies to employ new staff on inferior terms and conditions (including reducing pension entitlement). The new commitments also offer no protections to workers who have already been outsourced.

Closing these loopholes would help provide better protections for workers across the public sector. Another step would be to reintroduce a fair wages resolution, a policy that was historically used to ensure that the terms of public contracts reflected collective agreements negotiated between employers and trade unions. These were scrapped under Thatcher's premiership. Bringing back a fair wages resolution could define national rates of pay for different types of work and ensure that suppliers of services, goods and works to the government provide comparable conditions to those in public sector employment.[48]

Give services the funding they need

Local authorities in particular have seen their budgets squeezed by years of austerity which capped off decades during which their balance sheets were weakened and their fiscal and political power wrested from them and centralised in Whitehall. (Right To Buy exemplified this approach, enforcing council housing sales at steep discounts without municipal discretion and then placing onerous restrictions on the use of the meagre proceeds.[49]) These budgetary pressures have been a significant driver of outsourcing.[50] Although switching delivery models can, in some circumstances, produce efficiencies, it cannot alone make up for inadequate funding. As the Institute for Government put it in their 2013 review of outsourcing: "[t]ight budgets can encourage efficiency but it is clear that market mechanisms do not change the general rule that 'you get what you pay for'."[51] Insourcing needs to be accompanied by a true end to austerity if public services are going to improve.

Rebuild public sector commissioning and management capacities

Decades of funding pressures on public sector organisations have often left them without the budget, processes or personnel to either manage in-house services or contract with private or third sector suppliers in instances where services are still run externally. These capabilities must be rebuilt, including training and hiring staff with the right management skills to oversee complex services and redesigning procurement frameworks so they are less narrowly focused on value for money.

[48] "Two-tier workforce", UNISON, 3 June 2026. Available here.

[49] Chris Hayes, "Wrong to Sell: How Right to Buy Gave Away Billions in Public Wealth", Common Wealth, August 2025. Available here. For more on the larger process of centralisation, see Tom Crewe, "The Strange Death of Municipal England", *London Review of Books*, 15 December 2016. Available here.

[50] Peter Eckersley, Anthony Flynn, Laurence Ferry and Katarzyna Lakoma, "Austerity, political control and supplier selection in English local government: implications for autonomy in multi-level systems", *Public Management Review*, 2023, 25(1), pp.1–21. Available here.

[51] Sims, Davison and Gash, "Making Public Services Markets Work", Institute for Government, p.24. Available here.

For example, the UCL Institute of Innovation for Public Purpose has done work with Camden Council to redesign its procurement systems to favour a mission-oriented approach. This included supporting more collaborative forms of commissioning involving multiple service leads, helping prevent the kind of fragmentation outsourcing usually promotes and designing contracts with more rigorous conditions for suppliers to ensure they support a range of public benefit outcomes.[52]

Improve accountability and transparency requirements for suppliers

Where services are still run by private or third sector suppliers, these need to be subject to better scrutiny. In order to better understand the state of outsourcing, penalise underperforming suppliers and build further evidence for insourcing where appropriate, the government should instruct all public contracting bodies to:

- Produce accountability maps of where responsibility for oversight of particular services sits.[53]
- Report regularly on the full costs of procurement (including the costs of using external advisors and the costs of managing contracts).[54]
- Independently audit all existing public sector contracts annually.[55]

Any new contracts should have greater flexibility to penalise poor performance, including a "right to recall" services when suppliers fail to deliver them adequately.[56]

There also should be enhanced transparency requirements for contractors, including making them subject to the Freedom of Information Act.[57]

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[52] Mariana Mazzucato and Daniel Wainwright, "Mission-led procurement and market-shaping: Lessons from Camden Council", UCL Institute for Innovation and Public Purpose, April 2024. Available here.

[53] Ibid, p.35.

[54] "Outsourcing Public Services", Trades Union Congress and New Economics Foundation, pp.94–6.

[55] Ibid.

[56] Ibid, pp.94–6; Sims, Davison and Gash, "Making Public Services Markets Work", Institute for Government, p.37. Available here.

[57] "Outsourcing Public Services", Trades Union Congress and New Economics Foundation, pp.94–6.

Appendices

Appendix 1: Calculating Para-State Employment

Our methodology is adapted from Erturk et al.[58] As of 2023, direct public sector employment excluding construction and "other" was 5.416 million.[59] Total employment in the largely publicly funded industries of public administration, education, and health and social care respectively were 1.48 million, 2.68 million and 4.36 million.[60] (Jobs in these three sectors were considerably greater — owing to the incidence of people working multiple jobs — at 1.68 million, 3.04 million and 4.81 million respectively.[61]) These industries also include activities like private schooling and healthcare that is not publicly funded (beyond perhaps tax privileges). With this in mind, if we assume that the government's share of final consumption from these industries is a reliable proxy for the share of publicly funded employment, this would suggest 1.12 million employees outside of direct public sector employment that are nonetheless government funded.[62] Extending this principle to other industries, such as waste collection or museums, would suggest around 1.32 million UK employees who are funded by the government but not in direct public employment.[63]

[58] Ismail Erturk, Julie Froud, Sukhdev Johal, Adam Leaver and Karel Williams, "Accounting for national success and failure: Rethinking the UK case", *Accounting Forum*, March 2012, pp.5–17. Available here.

[59] "EMP03: Public sector employment by industry", Office for National Statistics, 15 September 2026. Available here.

[60] "Business Register and Employment Survey: Open Access", Nomis. Available here.

[61] "JOBS02: Workforce jobs by industry", Office for National Statistics, 15 September 2026. Available here.

[62] Different datasets rely on different surveys — such as the Labour Force Survey and the Business Register and Employment Survey — and use different techniques to estimate industry-level employment and workforce size, which complicates attempts to estimate the scale of outsourced work at this level of granularity. Our aggregate estimate is intended to gauge the order of magnitude. "UK input-output analytical tables: industry by industry", Office for National Statistics, 11 December 2025. Available here.

[63] In the case of "H52: Warehousing and support services for transportation", we remove workers employed in warehousing, rail freight, water and air travel from the H52 total and increase the government weighting to 90%.

Appendix 2: Profits Made by the Big Six

Big Six operating profits attributable to public sector contracts were estimated though analysing the accounts of the UK subsidiaries of OCS, Mitie, Serco, G4S, Sodexo and ISS whose business activities relate to public sector contracts. We found 349 UK subsidiaries in total. Of these, 23 clearly stated their business activities related to public sector contracts. A further 34 subsidiaries activities included both public and private sector contracts; for these only 60% of revenue and operating profit was attributed to their group's total.

We built a PDF scraper tool to read the principal business activity of each subsidiary and selected only those whose principal business activity clearly states its role, or part of its role, is to manage UK public service contracts. Using the financial databases LSEG and FAME, we pulled financial information for each subsidiary going back to 2020.

NB. the reporting periods for each group are presented below.

Company	Financial Year End Date
Mitie Group PLC	March 31st
G4S Limited	December 31st
Serco Group PLC	December 31st
Sodexo SA	August 31st
ISS A/S	December 31st
OCS Group	December 31st

Appendix 3: Calculating Total Outsourcing Expenditure

Total spending on outsourced service contracts was estimated using UK public procurement data from Tussell, filtered for suppliers belonging to thirteen service sectors: Accommodation and Catering Services, Administration and Support Services, Construction, Education, Employability and Skills Training, Facilities Management, Food, Beverage and Tobacco Products, Healthcare and Social Work, Other Service Activities, Professional Services, Waste Management, Transportation and Storage and Telecommunications.[64] These suppliers were further filtered by five-digit SIC code to service providers only, eliminating goods providers.

Net payments by all public bodies to these suppliers totalled £128.8 billion in 2024/25. 36 per cent of this was paid to health and social care providers. Providers of transport and storage, professional services, and facilities management accounted for 22 per cent, 13 per cent, and 9 per cent respectively. These amounts are net of payments made by the suppliers to the public bodies.

Extrapolating from the aggregate operating profit margins of the Big Six's government-facing UK subsidiaries identified in Appendix 2, we estimate that operating profits accounted for 4.7 per cent, or £6.1 billion, of this £128.8 billion in 2024/25. While profitability varies considerably from contract to contract, these aggregate margins are consistent with consolidated margins of these corporate group's European or UK-based business segments. Less certain is to what extent these companies' margins are representative of the sectors such as health and social care or professional services, which comprise a significant portion of public outsourcing spend. However, the literature suggests that smaller, specialist providers of more differentiated services often earn higher margins than these large generalist contractors.

	2022/23	**2023/24**	**2024/25**
Total spending (£bn)	1,133.6	1,076.3	1,140.1
Procurement from the private sector (£bn)	325.6	340.9	394.8
Outsourcing spend (Tussell) (£bn)	118.3	117.4	128.8
Outsourcing expressed as a % of procurement from private sector	36%	34%	33%
Outsourcing expressed as % of total public spending	10%	11%	11%
Big Six aggregated operating profit margins	4.8%	5.2%	4.7%
Overall outsourcing operating profits (£bn)	5.7	6.1	6.1

Total spending and procurement from the private sector figures were taken from the House of Commons Library research briefing "Procurement statistics: a short guide", 2026.

[64] Tussell, 2026. Available here.

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