Research on the Cost of Outsourcing

The Scottish TUC

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1. Executive Summary

1.1 From the 1980s onwards private companies have become more and more significant as providers of public services. From the compulsion of the Thatcher years, through the provider neutrality of the Blair government, to the short termism of modern administrations, contracting out has become a mainstream option for many of the UK's most important public services. For some services such as social care, private companies now dominate provision.

1.2 Early proponents of outsourcing may well have envisaged a network of small companies driving efficiencies through competition. The reality is somewhat different. Global investors see UK public services as an opportunity to generate risk free profits for private equity investors and have developed a range of methodologies for extracting an ever-growing portion of the money that goes to fund vital services from the public purse.

1.3 This report sets out to understand the scale of outsourcing in Scotland, its impact and whether insourcing should be a core element of developing strategy.

1.4 Published data estimates that the Scottish public sector external spend amounts to around £16bn per annum out of a total of £111bn of public expenditure. Attempts to break this down into goods, services and works through an FOI sent to all public sector bodies were unsuccessful as many do not differentiate between these different categories and different bodies keep data in different formats. The responses do however suggest that for local government, expenditure on services makes up at least half of the overall external spend and 80% of Scottish government procurement expenditure is on the NHS where a significant (and rising) proportion of spending is directed at outsourced provision.

1.5 On a conservative estimate, between £2bn and £3bn per annum goes to profit and other mechanisms that private companies use to extract money from the outsourced spend of the Scottish public sector. This is money that is lost from under pressure public sector budgets and the pay packets and pensions of vital public sector workers. The negative multiplier effect of this means that the real loss to local economies is much greater.

1.6 Outsourcing is often presented as the most affordable option, but this ignores the wider costs it creates to the Scottish economy, both in terms of loss of economic value and the consequences of low pay for front line public service workers. The impact on the in-work benefits bill is rarely, if ever, considered when procurement decisions are made and no regard is given to the cost to society of post-retirement poverty when outsourced public service workers are excluded from public service pension schemes.

1.7 Recent developments in the social policy of the Scottish Government chime with this analysis. The findings of the Christie Commission, the move towards a National Care Service, the focus on Community Wealth Building and the recently published, Scotland's Public Service Reform Strategy, all recognise the need to refocus on preventative provision. The Christie Commission also referenced the lag between the savings on demand for reactive services that this will deliver and the initial cost of investment in those preventative services that were eroded by austerity. Unfortunately, this is not reflected in Scotland's Public Service Reform Strategy which instead envisages short term savings of hundreds of millions and no end to the short termism that fuels outsourcing and frustrates the ambition for a whole system approach to public service planning and delivery.

1.8 Fifty years of outsourcing has not reduced the cost of public services and for most people has not reduced the amount of tax they pay. For the outsourced workforce it has suppressed pay and pensions, leaving many in post-retirement poverty.

1.9 The services that are most commonly outsourced, such as social care and soft facilities management, are overwhelmingly staffed by women. Women are therefore far more likely to be outsourced than men and are disproportionately impacted by it. Whether this amounts to unlawful discrimination is a matter for lawyers and the courts, but it is difficult not to conclude that the policy choice of sacrificing the pay and pensions of many thousands of low paid women, in pursuit of marginal (if any) savings to the public purse, is both unfair and ultimately, counterproductive.

1.10 The analysis in this report identifies the following as essential to the objectives set out in Scotland's Public Service Reform Strategy. Some of these are already present in the emerging strategy but without them all the strategy will be unlikely to succeed.

- Recognition of the critical importance of Scotland's public services and those who provide them to the social and economic wellbeing of Scotland
- Recognition of the vital part that preventative services play in managing demand for reactive provision
- An end to the leakage of public funds to private profit and other extractive business practices by making direct delivery the default option for core public services. This is the best way to recognise the value of public service workers and maximising the positive economic impact that spending on services has on local economies.
- Commitment to bringing forward future savings in reactive services in order to reinvest in local government and other preventative provision.

- Restoration of the pay and pensions of those public service workers who were adversely impacted firstly by austerity and then inflation.

2. Introduction

2.1 Money spent by public bodies is a major element of the UK economy. This is particularly true for Scotland where it makes up more than 50% of GDP and 'identifiable public spending' is around 20% higher per person than it is in England[1]. In 2023-24 total public expenditure in Scotland was £111.2bn. 40% of this is controlled by the UK government but that still leaves around £67bn of expenditure under the control of Scottish public bodies.

2.2 A significant proportion of public expenditure goes to purchase goods, services and works from the private sector. According to the Scottish Government, this is more than £16 billion a year[2] and accounts for over 130,000 jobs.

2.3 Healthcare and Social Care comprise the dominant share of outsourced services, alongside significant expenditure in education, cleaning, catering, and Facilities Management.

2.4 In so far as the Scottish Government itself is concerned, '£4 out of every £5 spent on procurement goes on the health service'[3]. While the majority of NHS services are delivered in-house by the public workforce, a significant (and rising) proportion of spending is directed at outsourced provision such as:

- Private and voluntary sector care home/residential places
- GP contract and primary care contractor payments
- NHS bank/agency staff (including clinical/medical locums)
- Cleaning, catering, and facilities management contracts
- Outsourced maintenance and capital projects
- Specialist and diagnostic services procured privately

2.5 The Institute for Fiscal Studies reports widespread use of temporary (bank and agency) staff in Scotland, where agency and bank spend for nurses and midwives more than doubled to £447m between 2019-2023, and agency spending for

[1] Public service spending in Scotland\: trends and key issues, Farquharson C, Phillips D and Zaranko B, IFS, April 2021

[2] https://www.gov.scot/policies/public-sector-procurement/#:~:text=The%20Scottish%20public%20sector%20spends%20more%20than%20%C2%A316,society.%20We%20provide%20procurement%20tools%2C%20support%20and%20guidance%3A

[3] Scotland's Budget Report Preview 2: How has Scottish health spending evolved over the last few years, Sousa J and Spowage M, Fraser of Allander Institute, University of Strathclyde, November 2024

medical and dental staff increased by 16%[4]. Expenditure on locum doctors and dentists added a further £119.6m to the bill.[5] These figures are direct proxies for outsourced service spend, representing private/third-party provision within core NHS operations.

2.6 Estimating the level of expenditure on outsourced services, as opposed to supplies and works is very difficult. To try and estimate the value of outsourced services, a Freedom of Information request seeking details of external expenditure categorised into supplies, services and works was sent to the Scottish government departments and local authorities.

2.7 Although public bodies are required to provide information about the contracts they let, they do so in different ways. In response to the FOI request many of them referred to the data they already publish. The value of this data is limited for the following reasons:

Only providing information about the total value of contracts

2.8 Contract lengths vary considerably and whilst it might be possible to divide total estimated value by the years that a contract is expected to run, this would be very difficult as the data is rarely presented in a format that facilitates this. Moreover, estimated contract values are often very different to actual contract spend and not usually profiled equally year on year. This is particularly true for framework contracts where the total value of a framework agreement is often a significant amount over assessment of the value of the contracts drawn down from it. To make this worse, in some cases each supplier on a framework has the full estimated value of the framework allocated against them in the contracts register.

Not categorising contracts into services, works and goods

2.9 Many local authorities state that they are unable to separate contractual spend on services from expenditure on goods and supplies or works. This makes it difficult to estimate the value of service outs outsourcing.

2.10 Data supplied by those authorities that are able to separate contracts into services, goods and works show that services is the most significant category. City of Edinburgh Council, for example, let new regulated service contracts in the 2023/24 year with a total estimated value of £269m against works contracts valued at £138m and goods contracts at £31m[6].

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[4] Healthcare spending, staffing and activity. https://ifs.org.uk/sites/default/files/2024-02/Healthcare-spending-staffing-and-activity-IFS-Report-R298.pdf

[5] Spending on NHS temporary staff in Scotland reaches record high, BB, 6 June 2002, Spending on NHS temporary staff in Scotland reaches record high - BBC News

[6] Sustainable Procurement Strategy, Annual Report, Year ended 31 March 2024, City of Edinburgh Council, 2024

2.11 Scotland's biggest authority is able to separate its external spend into goods, service and works. This data shows that Glasgow City Council holds current contracts with a combined value of £2.2bn. Service contracts make up £1.4bn of this. In 2024/25 the authority spent £445m on external service provision. This has risen from £355m in 2021 – a 25% increase in the last four years.

2.12 According to its statutory Annual Procurement Report for 2023/24 Glasgow has an annual procurement spend of £754m. It completed procurements with a total award value of £809m during the period.

2.13 The report states that 65% of its total 597 suppliers were Small to Medium Companies. Of those awarded contracts in the year, 55% were SMEs, 56 were reported to be located in Glasgow and 78 in Scotland. On the face of it, this suggests a high level of local awards but this should not be taken as an indicator that money spent under the contract remains in the local, Scottish or even UK economy. For example, Jacobs UK Ltd is included in the list of contractors with a Glasgow address but is in fact domiciled in London and ultimately owned by a US registered company[7].

3. Background to Outsourcing

3.1 The private sector has always been involved in public service provision in the UK. No public authority makes its own photocopiers and very few are in a position to carry out major construction projects without using private companies. But whilst early social policy initiatives of the 18th and 19th centuries experimented with payment by results for privately provided education, for example, the post war welfare state was built firmly around an ethos of direct provision.

3.2 The nationalisation of thousands of hospitals was central to the creation of the NHS as the government moved to implement a post war social contract that promised to tackle what Beveridge[8] had called the 5 giants – want, disease, ignorance, squalor and idleness. These initiatives were not necessarily about taking on services that had previously been delivered by private companies; many were already provided on a municipal basis. In fact, the welfare state was as much about centralisation and standardisation as it was about direct delivery of services. To some extent, the role of local authorities was diminished and whilst they continued to be the main providers of public housing, social care and education, these services were increasingly delivered on what could almost be described as an agency basis as central government took control of funding, laid

[7] FOI responses provided by Councils and other Scottish public bodies are available on request
[8] Beveridge W., Social Insurance and Allied Services, 1942

down standards and legislated for compliance. The 1944 Education Act, for example, created a Ministry of Education to control funding and a framework within which local education authorities had to operate. The New Towns Act of 1946, the Town and Country Planning Act of 1947 and the 1948 Children's Act were all key pieces in a centralised jigsaw that facilitated the paternalist ambitions of the post war government.

3.3 The centralised, nationalised welfare state was an essential element of state directed social policy. It was also an essential element of economic policy. By controlling the public service purse strings, successive governments were able to increase or control public spending in accordance with the demand management theories of Keynesian economics. This interventionist approach, shaped by the Great Depression of the 1930s, was the basis of the broad cross-party consensus that persisted into the 1970s.

3.4 The abandonment of Keynesianism and the return to free market economics that followed the oil shock of the 1970s, drove a new social policy that saw public services as unaffordable and state provision as inefficient, wasteful and potentially tyrannical. Ironically for a party that, under new Prime Minister Margaret Thatcher, had (re)embraced the small state thinking of Hayek[9], the Conservatives were able to use the high degree of central state control associated with the welfare state and Keynesian demand management to implement a new doctrine of privatisation and marketisation when it came to power in 1979.

3.5 Implemented initially in the UK by the government of Margaret Thatcher, a global resurrection of free market thinking saw a move away from state involvement in industry, the replacement of provision by regulation in utilities and the opening up of public services to private contractors.

3.6 The sale of council houses to tenants at discounted prices and the heavily incentivised transfer of most of what remained to housing associations, left local authorities as bit players in the provision of social housing. An accompanying expansion of private renting, fuelled by the inevitable shortage these policies created, was funded through a huge increase in Housing Benefit and a dramatic shift away from the funding of bricks and mortar towards subsidising often low quality, often insecure, private tenancies at increasingly unaffordable rents. Recent research concludes that the 1.9m Right to Buy sales in England resulted in £200bn of England's public wealth being given away[10]. Although the scheme

[9] The social policies of both Thatcher and Reagan were heavily influenced by the work of Friedrich Hayek and his 1944 book The Road to Serfdom which asserts that state control of economic decision making and central planning inevitably leads to tyranny. Hayek's influence on the Conservative party had waned after the heavy defeat of 1945 but resurfaced during the 1970s.

[10] Wrong to Sell: How Right to Buy Gave Away Billions in Public Wealth, Chris Hayes, Common Wealth, 2025

ended in Scotland in 2016, this was not before nearly half a million social houses had been privatised. Extrapolating from the England data this suggests a transfer of £50bn of Scotland's public wealth to its former council tenants.

3.7 Whilst some of the compulsion that characterised the Thatcher era legislation was removed by its successors[11], outsourcing is now embedded in social policy practice throughout the UK. Contracting out has become a mainstream option for everything, from the maintenance of parks to the collection of refuse and whilst the NHS has largely retained direct provision, personal health and social care is now predominately delivered by private companies. Even where services are not subject to wholesale contracting out, they operate under 'market conditions' where they are fragmented into delivery units competing against one another, whilst a pseudo customer or commissioner makes pseudo purchasing decisions.

3.8 Outsourcing then, is just one element of an approach to public services that seeks to consciously recreate state provision in a form that apes the key principles of the market. The rationale for proponents of this approach is a belief that markets naturally drive down cost to its lowest possible level. In theory and in line with the Thatcher (and in the US, the Reagan) vision of a property-owning democracy, where people are free to spend their own money as they wish, the application of market rules to public services would allow for lower rates of taxation, boost economic growth and improve living standards for all.

3.9 It is impossible to fully isolate the impact of marketisation from other factors but there is nothing to suggest that it has had the desired effect. The 1950s and 60s are now seen by many as a golden era of economic growth, driven at least in part by interventionist economic policy, and the expansion of public services and welfare this growth paid for.

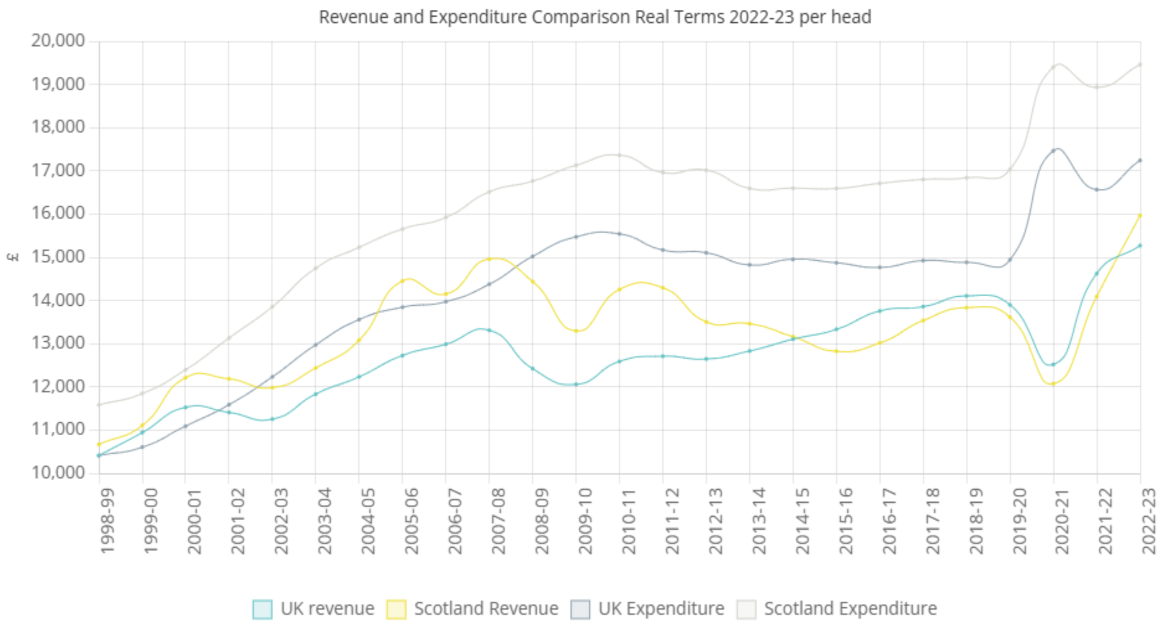
3.10 Despite 50 years of contracting out and privatisation, the UK state spends more, as a proportion of GDP now than it did in the 1970s, with the only category of expenditure to have fallen being that of defence. Public revenue (taxation) is currently around 39% of GDP, having been 40% in 1950 and 33% in 1973.

3.11 Marketisation through contracting out and the introduction of internal competition has not reduced the cost of public services and there is little evidence to suggest that it has made them better or more efficient.

3.12 Decades of public spending pressure, including the period of austerity that followed the financial crisis of 2008, have had little impact on the overall level of public expenditure or the size of the state, and for most people promised

[11] Compulsory Competitive Tendering was repealed by the Local Government in Scotland Act 2003

reductions in taxation have not materialised. Scottish government revenue per head of population is higher now than it was in 2008. Spend per head is proportionately even higher, reflecting an increased fiscal deficit[12].



3.13 For many people, the property-owning part of the Thatcher dream is a reality, but this has come at a price - borne primarily by the less well off. The proportion of housing stock that is owner occupied has increased[13] but so has the proportion of income spent on housing. For the poorest in society, housing costs took up less than 10% of income when Local Authority house building was at its peak in 1968. By 1984 this had risen to over 25%, before falling to a little over 20% by 2020. In contrast, housing costs for the richest quartile rose far less dramatically, from 5% of income in 1968 to 6 % in 2020[14].

3.14 The central significance of housing policy to social and economic wellbeing is illustrated by a comparison between post devolution trends in Scotland and those in England. In Scotland where policy choices have kept rent levels comparatively low across all sectors and maintained a higher proportion of social housing, levels of child poverty after housing costs were six percentage points lower than in England where rents have been allowed to rise in line with overall housing cost inflation.[15]

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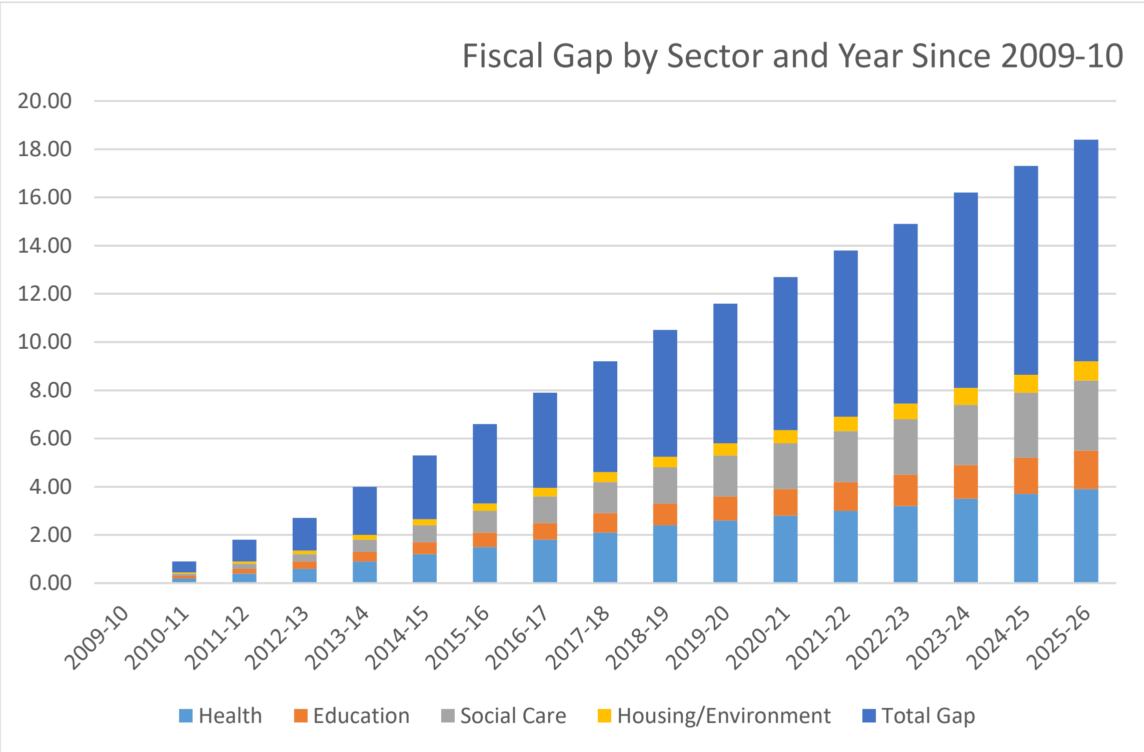
[12] https://www.scotfact.com/RevenueAndExpenditureCompRealHead
[13] 24-017
[14] Housing costs and income inequality in the UK
15 Housing to 2040: Fairer Scotland Duty, Fairer Scotland duty assessment (FSDA) For Housing to 20240, Scottish Government, 2021

3.15 Around 20% of public sector spending in Scotland is spent by Local Authorities, second only to the NHS which accounts for 36%[16]. 80% of council expenditure is on just two service areas – schools and social work/social care. Schools account for around half of council expenditure and social care/social work a further 30%.

3.16 Despite the increase in government revenue and the increase in expenditure public service providers have experienced severe spending pressures. For some this means real term cuts to budgets. Spending pressures persist across all of the major public service areas. This can be seen in the table below which shows how the fiscal gap impacts public bodies, creating pressure to bear down on labour costs through outsourcing[17].



- A "gap" of £3.5 bn in health in 2023-24 means spending would need to be £3.5 bn higher to meet demand at 2009-10 service levels.
- Education and social care gaps have grown steadily, with social care accelerating fastest due to ageing and complex needs.

[16] Scotland's Budget Report Preview 2: How has Scottish health spending evolved over the last few years, Sousa J and Spowage M, Fraser of Allander Institute, University of Strathclyde, November 2024

[17] Sourced from Scottish Government Expenditure and Revenue Scotland (GERS) data, HM Treasury's Country and Regional Analysis, and demand growth estimates from the Scottish Fiscal Commission and Public Health Scotland. All figures are in 2023–24 prices

- Housing/environment gaps are smaller in cash terms but significant in impact (e.g. homelessness services, climate adaptation).

4. Public Private Partnerships

4.1 Public Private Partnership (PPP) is an umbrella term for a number of schemes beginning with the Private Finance Initiative (PFI) that became possible after the UK government relaxed the so-called Ryrie rules which, until 1989, had specifically prevented Ministers from bypassing public spending constraints by allowing private finance to be used in addition to public capital. Prior to this it had been accepted that there was no real difference in macro-economic terms between government borrowing to fund public sector projects and private sector borrowing for the same purpose.

4.2 Under PFI, private firms were contracted to build and operate public sector assets such as schools and hospitals. It was initially introduced in 1992 under then Prime Minister John Major as a mechanism for keeping capital cost off the public sector balance sheet to avoid contravening European controls on government debt established by the Maastricht Treaty. The idea was that the private sector would do the borrowing, in return for a guaranteed 25-to-30-year revenue stream.

4.3 PFI was not just a mechanism for capital funding though; most of the schemes were agreed on a design, build, finance and operate basis. These schemes put hospitals, schools, prisons and other buildings-based public services into private hands for contractual terms well in excess of the relatively short-term contracts typical of previous outsourcing arrangements. This meant that whilst jobs relating to the public service purpose of the building often remained in the public sector, those related to the fabric of the building were outsourced.

4.4 Despite Labour criticism of PFI as a 'backdoor form of privatisation', its use was expanded considerably under the government of Tony Blair. It was presented as the only way that public sector renewal could be funded; it was also an element of the Blairite 'third way' which echoed the private good, public bad thinking of the Thatcher/Reagan era whilst rejecting the small state arguments that characterised their Hayek inspired brand of Conservatism[18]. The new Labour government was comfortable with private companies profiting from the delivery of public services, believing that they would be more efficient than direct

[18] Both Thatcher and Reagan were heavily influenced by the work of Friedrich Hayek and his 1944 book The Road to Serfdom. The book was dedicated to 'Socialists of all Parties' and was a rebuke to Conservatives and Liberals and the way they had, as Hayek saw it compromised with socialism and state interventionism

providers, but it sought to involve them on an outsourced basis, rather than leaving provision to the market – marketisation rather than privatisation.

4.5 By 2007 the total capital value of PFI projects across the UK was £68bn but the liability this created was £267bn. In 2005, the Scottish government took action to limit the ability of PFI contractors to profit from PFI but not before £9bn of PFI investment had created a public sector liability of £27bn.

4.6 Under the PFI, hospitals, nurses and doctors continued to be employed by the NHS, but cleaners and maintenance staff transferred to the private sector operator or a sub-contractor thereof. Unlike finance for service provision, payments to contractors were legally guaranteed.

4.7 The financial crisis of 2008 marked the beginning of the end for the original PFI, but the UK government carried on using it in modified form until 2018 when the National Audit Office finally concluded that it offered little benefit whilst costing the taxpayer billions.

4.8 Some early PFI schemes incorporated clauses requiring the public sector to a pay a final fee before they would be able to take control of the PFI funded asset. In 2023 BBC Scotland identified 11 such schemes in Scotland for schools, hospitals, water treatment plants and a police training facility. These include the complex deal for the Royal Infirmary of Edinburgh where the operator, Consort, will have been paid about £1.1bn by 2027 when the contract expires. At this point the arrangement will enter into a secondary contract period that could last until 2053. During this period the NHS will continue to pay a management charge unless it makes a payment equivalent to the 'net present value' of that fee over the full term of the secondary contract[19].

4.9 Despite the difficulties created by legacy PFI arrangements, evidence driven campaigns by public service worker unions have had some success. The success of a UNISON campaign for NHS Lanarkshire to take over the contract for cleaning, catering, portering and security services at University Hospital, Wishaw saw the jobs of 400 workers transfer from Serco to the NHS with no job losses. The transfer ended a two-tier workforce by bringing the incoming workers onto NHS terms and conditions and into the NHS pensions scheme[20].

[19] https://www.bbc.co.uk/news/uk-scotland-66543735
[20] UNISON wins major insourcing battle in Lanarkshire, UNISON.org.uk, June 2022

5. Social Care

5.1 Social care is the second biggest area of expenditure for local government after education. Total expenditure on care in Scotland amounted to £5bn with residential care accounting for £4bn of that total. Total public expenditure on care runs at around £4.7bn. It is predominantly provided by private companies, many of whom are owned by big chain operators like HC-One, the UKs biggest residential care provider. HC-One in common with other big care companies is ultimately owned by a global private investment company. According to UNISON as at 31 March 2023 79% of registered places in care homes were in the private sector up from 74% in 2013.

5.2 Domiciliary care is also heavily outsourced (45% of providers are private, 40% voluntary, 14% council-run). The biggest provider is Cera Healthcare. Cera is a rapidly growing European company headquartered in London, which describes itself as a 'digital first' healthcare at home provider with interests in care, nursing, telehealth and repeat prescriptions through its app. It claims to provide healthcare services to over 15,000 patients a day across the UK and Germany which it says is the equivalent to 40 NHS hospitals or 1,000 care homes. 'By 2025, Cera aims to serve 100,000 patients every day'. Its rapid growth (100 fold in three years) is funded through private equity investors, including Schroders Capital, a British multinational with global interests in a wide range of industries.

5.3 The recruitment to Cera's leadership team of Executives from Deliveroo, Just Eat and Amazon may indicate the direction of travel towards a care future where profits are maximised through the minimising of human contact, all managed through an app-based system.

5.4 The dominant financing model in the private social care economy sees something in excess of 20% of income leak from the care system itself to the owners and financiers of the operators. Most, if not all of these, are located outside the areas of the councils providing funding and, in many cases, outside Scotland.

5.5 In Scotland there are over 5,000 regulated services with an estimated direct economic value of £3.4bn and a gross value added (GVA) of over £5bn[21]. The loss of value associated with the investment model is therefore significant and will persist whilst care establishments continue to be owned by property speculators. Bringing a greater proportion of them into public ownership would directly impact on the proportion of expenditure on care that leaves the economy and further add to the significance of the industry to the Scottish economy.

[21] Scotland's Care Sector: an Economic Driver, Biggar Economics, Enable Scotland, 2021

5.6 Following the findings of the Feeley Review, the Scottish Government has committed to creating a National Care Service. Despite a 'wealth of evidence that privatised care is not working, neither the Feeley Review nor the Scottish Government conducted any new research into the link between ownership and outcomes in Scottish social care'[22].

6. Quantifying the Economic Impact of Outsourcing

6.1 The Scottish Government estimates that the public sector spends £16bn per annum on the purchase of goods, services and works from the private sector. It is very difficult to establish how much of this expenditure leaves the Scottish economy via non-Scottish supply chains. As the example of US owned Jacobs being categorised by Glasgow Council as a local company illustrates, attempts to track this through statutory procurement reporting are of dubious efficacy. Even genuinely local companies can be owned or part owned by remote investors.

6.2 Profit margins vary significantly. 5 to 10% is often regarded as reasonable on the basis that it is in line with the average operating margin of 8.8% across UK businesses as whole[23]. Recent research however shows that for some service areas profits can be much higher.

6.3 Excessive profits on residential childcare have been identified as an issue across all nations of the UK with margins as high as 50%. According to the Competition and Markets Authority Scotland is less exposed to the more extreme levels of profiteering identified across the other nations. Profit per child still averages £28,000 per annum[24] but is much lower than the £44,000 profit per child that is generated in England and Wales. The main reason for the difference is that Scotland has a lower proportion of private provision (48%) than England (83%) or Wales (83%).

6.4 Even on a conservative estimate of 10% average margin, an external spend of £16bn represents a transfer of £1.6bn of public funds to the owners of private providers each year. However, profit is just one way that private owners and investors extract money from their involvement in public services. The actual level of leakage through outsourcing is much higher than this – maybe as high as £3bn or more per annum.

[22] Profiting from Care: Why Scotland Cant Afford Privatised Social Care, STUC, June 2022
[23] Firm-level profit margins, intermediate consumption markups and labour markups from the Annual Business Survey: summary statistics, UK, ONS, December 2024
[24] Children (Care, Care Experience and Services Planning) (Scotland) Bill – Financial Transparency and Profit Limitation – Partial Business and Regulatory Impact Assessment, Scottish Government, August 2025

6.5 The mechanisms through which this happens are described below.

7. Extraction

7.1 Extraction is the term used to describe the various ways that private companies take money from their subsidiaries and, in the context of this paper, from public sector budgets. The most obvious is profit on equity investment, but there are a number of other less transparent mechanisms that can be used to ensure that a reasonable looking headline return on equity of 5% - 10% is inflated to 20% or more.

Debt incurred as a result of leveraged acquisition

Leveraged acquisition is a strategy used by Private Equity investors to boost the value of their investment. Under this model investors fund buyouts using debt as well as equity. By minimising the amount of their own money that goes into the acquisition, PE firms can achieve a higher rate of return and minimise the capital cost to themselves. The debt appears on the balance sheet of the acquired company so that, as it is repaid over time, the value of equity held by the PE firm increases. This value is extracted when the business is sold on, typically after a period of five to six years

Leveraged buyout is a highly effective way to increase yield to PE investors but, by saddling the acquired company with a high level of debt, it also increases risk. Investors therefore target companies with a relatively predictable cash flow. This is why companies delivering essential public services are an attractive proposition. With very low demand risk and an effectively guaranteed, taxpayer funded, income stream they offer good, stable returns, particularly in times of economic uncertainty. Social care companies are often the target of this sort of investment strategy.

Sale and lease back arrangements

The practice of the sale and lease back of residential care homes is another mechanism by which revenue is extracted from care businesses by investors. Despite the part this played in the 2011 collapse of the UK's then biggest care provider Southern Cross, social care market analyst Laing Buisson estimates that 'approaching half of capacity among medium-to-large for-profit groups… may be subject to leasing arrangements'.

Recent research by the Centre for International Corporate Tax Accountability and Research (CICTAR) explores how companies, such as Belgian based Aedifca S.A., seek to profit from buying up social care real estate. According to its website, the company owns 113 care homes in the UK, with a value of 1,020m euros. This includes homes operated by Maria Malaband and Care UK in Scotland. The complex nature of its triple net rental contracts ensure that the tenant takes the risk of empty spaces and any increase in buildings related costs. Rents are also index linked so that they rise with inflation, placing further pressure on care home operator tenants to keep staff costs as low as possible and to maintain high occupancy levels.

CICTAR estimates that Aedifca recovers rental income of £6,748 per annum per bed space with an EBIT profit margin of £5,635 per resident per year or £108 per week, which is 12% of the weighted average weekly fee paid and an 83% EBIT margin. The report quotes the company's 2022 annual report as saying 'We consider that the group EBIT margin is applicable to the UK, which has the highest gross yields of all countries'.

Refinancing

Although risk transfer was often cited as a key benefit of PFI, debt was priced accordingly. One of the ways that PFI contractors were able to maximise returns was to refinance once the initially risky build stage of a project was completed. This allowed them to reduce the cost of debt and thus increase profitability as revenue was based on the original cost of borrowing.

Attempts by the Scottish government to limit the ability of PFI firms to make excessive profits, firstly by replacing it with a non–profit distributing scheme (NPD) in 2005 and then in 2008 by the creation of its own private 'hub companies' to run the schemes. Following a decision by the EU that these schemes could not be off balance sheet they were replaced by a Mutual Investment Model (MIM) in 2019.

One analysis of PFI found that companies registered in Scotland accounted for just 17% of the capital cost or 16% of the total unitary charge.

Goodwill payments

This is a charge to the balance sheet of an acquired company that reflects the estimated added value of being a part of the parent company, including for example the reputational boost that comes from being associated with the parent company brand.

Franchising arrangements

Franchising is mechanism for extracting income without taking ownership of delivery companies. The global homecare giant, Home Instead, operates on this basis, with its many UK branches paying a fee to operate under the brand name.

Head office payments

Parent undertakings often provide back office or management services to subsidiaries on a charged for basis.

High executive salaries

Private sector executives typically get paid significantly more than senior public sector employees. The highest paid Director of £225m turnover Cera Care for example was paid £550,000 for the year ending December 2023[25]. The highest paid Scottish council Chief Executive in the same year earned £198,000[26] for leading an organisation with a budget of £1.4bn[27].

8. Scotland's Public Service Reform Strategy

8.1 The Scottish Government recently published a strategy document setting out its commitment to 'change the system of public services – to be preventative, to better join up and to be efficient – in order to better deliver for people'[28].

8.2 Reiterating the conclusions of the 2011 Christie Commission[29], the strategy emphasises the significance of effective public services to the delivery of economic growth objectives as well as to the social well-being of the people of Scotland. It recognises that progress since the commission reported has not been as fast as the government would have wished.

8.3 The Christie Commission foresaw that 'a shift towards preventative public spending is likely to be controversial'. The report is clear however 'that there is no alternative: if we do not manage to affect a shift to preventative action, increasing 'failure demand' will swamp our public services' capacity to achieve outcomes. Unfortunately, whilst Scotland's Public Service Reform Strategy does not demur from this, it does not provide a mechanism for bringing future savings from reactive services forward to fund the investment in prevention that will be essential to its success.

8.4 Neither the Report of the Christie Commission nor Scotland's Public Service Reform Strategy address the issue of outsourcing directly. It is however difficult

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[25] Cera Care Limited, Annual Report and Financial Statements for the Year Ended 31 December 2023, Companies House
[26] Scotland council rich list: The top 10 highest paid local authority employees - including the UK's biggest bonus. The Scotsman, 10 April 2024
[27] Glasgow City Council, Report to Council, 17 February 2022
[28] Scotland's Public Service Reform Strategy: Delivering for Scotland, June 2025
[29] Christy Commission on the future delivery of public services, APD Group Scotland, June 2011

to see how the contracting out of core services can be consistent with some of the key aims of both documents:

- The leakage of public funds that for profit provision creates flies in the face of the local economic objectives that underpin the strategy
- Outsourcing fragments service delivery so is inconsistent with the systems thinking approach, set out in detail in the report of the Christy Commission, that underpins the Scottish Government's strategy
- Outsourcing reduces workforce empowerment and deprives public service workers of a collective voice. This it at odds with the very clear commitment in the strategy to treat the workforce and its trade union representatives as partners in the strategy
- Outsourcing is associated with low pay and in particular inferior pension provision which can only undermine efforts to check the 'whole system cost of poverty', This is stated to be an essential element of the government's ambition for public services
- As discussed elsewhere in this report, outsourcing perpetuates and worsens inequality. Combatting inequality is also a central element of the reform strategy

8.5 Unfortunately, Scotland's Public Service Reform Strategy fails to recognise the central role of direct service provision in delivering its key objectives. Instead, it envisages further outsourcing to the third sector. Whilst this would reduce the leakage of public funds in the form of profit it would not address low pay and pension provision. Nor would it further the essential aim of defragmenting service delivery.

8.6 Rather than recognising the need for investment in prevention to generate savings in reactive provision over the longer term, the strategy sets itself up for failure by establishing short run savings targets of 'hundreds of millions of pounds'.

8.7 The strategy states that 'Trade unions are our key social partners and securing their views and input on reform is critical both in terms of their members' working arrangements and the wider social implications'. This is clearly positive but unless the strategy moves away from the fiction that its laudable aims can be met whilst simultaneously cutting public sector jobs, it will be little more than a slogan.

9. Community Wealth Building

9.1 There has been a lot of interest recently in the concept of community wealth building in Scotland. At its heart, community wealth building is concerned with the creation and retention of wealth within local communities and local economies.

9.2 The Scottish Government has identified 5 pillars through which community wealth can be generated.

- **Spending** – Maximising community and business benefits through procurement and commissioning, developing good enterprises, Fair Work and shorter supply chains.
- **Workforce** – Increasing Fair Work and developing local labour markets that support the prosperity and wellbeing of communities
- **Land and property** – Growing social, ecological, financial and economic value that local communities gain from land and property assets
- **Inclusive ownership** – Developing more local and inclusive enterprises which generate community wealth, including social enterprises, employee-owned firms and co-operatives.
- **Finance** – Ensuring that flows of investment and financial institutions work for local people, communities and businesses.

9.3 Each of these elements is undermined by the outsourcing of public services. Smaller economic delivery units are most likely to re-spend money earned from providing services at a local level; the smallest economic unit of delivery is directly employed staff, and the shortest supply chain is direct provision.

9.4 Even small businesses are likely to export at least a proportion of their revenue in the form of profit and debt repayments. Moreover, small business that are successful rarely remain small. Merger and acquisition is commonplace in the public service economy, with investors constantly on the lookout for opportunities to profit from growing the equity value of small businesses or the revenues of larger ones.

9.5 Social care is a sector that on the face of it delivers through a network of small businesses, but these are frequently owned by much larger businesses or operate as franchises of sometimes global brands. Home Instead, for example, is a national provider of home care services with several branches in Scotland. This company is part of a very complex structure, headed up in the UK by HI Global Holdings Ltd., which, through its subsidiary Home Instead Ltd., acts as a franchiser to 250 UK franchisees operating under the Home Instead brand. HI Global

Holdings is ultimately controlled by Honor Technology Inc., a US Corporation that has been described as the world's largest senior care network and technology platform. When it acquired the US based Home Instead Inc. in 2021 it created a $2.1bn global home care service and 'affirmed itself as the largest player in the projected $500 billion homecare industry'.

9.6 The workforce pillar of community wealth building is the one that is most directly undermined by outsourcing. Public services are labour intensive with upwards of 80% of expenditure going to pay wages and make pension provision. Front line workers are more likely than senior managers to live in the area where they work and to spend the money they earn in local shops or on locally provided services. When private companies prioritise yield over wages, they divert cash from local economies as well as from employees. In many cases this cash leaves the country as well.

9.7 Under outsourced arrangements land and property is often owned and controlled by private companies. Its value to local communities becomes secondary to its value to investors who often have no interest in how assets are used and seek to extract as much value as they can.

10. Is Outsourcing Discriminatory?

10.1 The public sector workforce is disproportionately female. 74% of Scottish council workers[30] and 57% of Scottish government employees are women, compared to 52% of the Scottish population. Outsourcing public services therefore affects women more than it does men but it is also the case that the services that are most likely to be provided through contracts with private companies have even greater proportions of female front-line staff. The social care workforce for example is thought to be 83% female[31].

10.2 Front line care workers and those in soft Facilities Management roles, such as cleaning, are far more likely to be employed by a private contractor than their better paid public service colleagues, particularly those in senior or professional positions. Across the UK women make up 85% of the cleaning workforce and 75-78% of the catering workforce. These members of the workforce are also disproportionately likely to be drawn from black and ethnic minority groups.

10.3 Equal pay legislation does not allow comparison across un-associated companies. This means that the pay and pensions of privately employed, predominantly

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[30] Scotland's Local Government Workforce Report 2024, Society of Personnel & Development Scotland, Solace Scotland and Improvement Service, 2024

[31] The Independent Review of Adult Social Care in Scotland, Scottish Government, February 2021

female care and soft facilities management workers can and does fall behind that of male workers delivering work of equal value directly for public bodies.

10.4 The Scottish government has taken action to protect and improve the pay of care workers in recent years, but this does not address the disparity in pension provision between them and comparable directly employed public service providers. Poor pension provision not only leaves private sector care staff facing poverty in old age, it also creates additional costs to the benefit system which in this context is effectively a state subsidy to support the profitability of social care companies.

10.5 There is a clear correlation between the cash that private companies extract from public service budgets and the difference between the pay and pension costs of public and private sector workers. Including pension costs, front line staff employed by a local authority typically cost around 20% more than those employed by private sector care companies. But this 20% difference in cost does not translate into 20% lower costs to the taxpayer; it goes to profit and the other extractive mechanisms firms use to divert public money into private coffers. In this sense outsourcing can be seen as a transfer of wealth from low paid women, many of whom are delivering highly valued public services such as social care, to wealthy, mostly male, owners or investors in private companies.

10.6 Research for UNISON by the Smith Institute illustrates how outsourcing undermines the pay and pensions of public service workers and how the 'staggering array of different terms and conditions' and lack of transparency 'makes it much more difficult for trade unions to monitor equal pay issues'. The report found that 'in the private sector, market rates for jobs predominantly performed by female, part time workers are much lower than in those in the public sector'[32].

10.7 Equal pay legislation creates a broad duty to pay men and women equally for the same work or work of equal value. Cases brought under the Act have seen care workers compared to refuse collection workers, cleaners compared to street sweepers and other broadly based comparators being recognised as valid. The duty does not extend to comparisons between different employers unless it can be shown that the two are 'associated'[33] which has been interpreted as one being under the control of the other or both being under the control of a third party.

10.8 Whilst the equal pay legislation clearly does not allow women whose jobs have been outsourced to private companies to mount a challenge, the case law does

[32] Outsourcing the cuts: pay and employment effects of contracting out, The Smith Institute, UNISON, 2014

[33] The case of Glasgow City Council v Unison and others established that the term 'associated' includes wholly owned subsidiaries, in this case of Glasgow City Council

confirm the validity of comparing the pay of care workers and cleaners to that of refuse collectors and street cleaners for example. Whether legally challengeable or not, the discrepancy between the pay and pensions between these groups of workers is objectively, if not legally, unfair, whoever the respective employers are.

10.9 It is at least arguable that in a situation where an outsourcing option is likely to result in unfair pay, this should be taken into account when options are appraised. In fact, Local Authorities are under a specific obligation to do so. The duty of best value[34] requires a balance to be struck between the quality of services, the cost to the authority and the cost to anybody who is recharged any or all of that cost. In maintaining this balance an authority must have regard to efficiency, effectiveness and economy but it must also have regard to 'the need to meet the equal opportunity requirements' incorporated into the Scotland Act 1998[35]. This suggests that a decision to outsource a service primarily to reduce cost could be unlawful if it does this by disproportionately impacting on the pay and pensions of women.

10.10 It is important to be clear that the disadvantage that women and those from BAME groups experience arising from outsourcing is not an inevitable result of the pursuit of efficiency – outsourcing in general is a policy choice, as is the decision about which services to outsource. This has now been recognised to some extent in Scotland and a new framework seeks to ensure that such decisions do not ignore the impact they have on particular groups within the population.

10.11 As of 2018, Scottish public bodies have been subject to the Fairer Scotland Duty which is set out in the Equality Act 2010. This creates a legal obligation to 'actively consider (pay due regard to) how they can reduce inequalities of outcome caused by socio-economic disadvantage when making strategic decisions'[36]. Statutory guidance under the Procurement Reform (Scotland) Act 2014 directly addresses Fair Work Practices, the criteria of which are set out as:

- Appropriate channels for effective voice, such as trade union recognition
- Investment in workforce development
- No inappropriate use of zero hours contracts
- Action to tackle the gender pay gap and create a more diverse and inclusive workplace

[34] Local Government in Scotland Act 2003
[35] Section L2 of Part II of Schedule 5 to the Scotland Act 1998
[36] Fairer Scotland Duty: guidance for public bodies, Scottish Government, August 2022

- Providing fair pay for workers (for example, payment of the real Living Wage)
- Offer flexible and family friendly working practices for all
- Oppose the use of fire and rehire practices

10.12 The guidance makes it clear that 'it is possible to require the Real Living Wage to be paid to workers delivering public contracts where: it is relevant to how the contract will be delivered; it does not discriminate amongst potential bidders under international treaty obligations; it is proportionate to do so; and, where the contract will be delivered by workers based in the UK.' A public body that does not have 'due regard' to this could be challenged by way of judicial review.

10.13 On the face of it, the Fair Work First policy is a commendable attempt to use public sector levers to reform private sector employment practices. It is not clear how successful it has been however, and significant challenges remain around the consistency and extent of enforcement. The sheer complexity of a system that involves thousands of contracts with private companies as well a third sector comprising over 46,000 organisations[37], makes effective enforcement very difficult when the resources to do so are themselves squeezed.

10.14 In some respects, the policy defeats one of the main reasons for outsourcing which is to cut labour costs. The first report of the Fair Work Convention found that the commissioning and funding system makes it 'almost impossible' for many providers to offer fair work conditions'[38] which perhaps illustrates the fundamental contradiction between fair work and for-profit public service provision. It is difficult not to conclude that direct provision is a far more certain route to both fair work and value for taxpayer money than contracting out.

10.15 In a sense, the Fair Work framework is a framework for action by organised workers as much as it is a framework for procurement for public bodies. It creates a check list by which procurement policies and processes can be judged. It also gives rise to a reasonable expectation that public bodies will effectively monitor the performance of contractors in terms of Fair Work criteria. As the Smith Institute found, a lack of transparency, coupled with multiple different sets of terms and conditions, has been seen as a major obstacle in monitoring equal pay issues in contracted out services[39].

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[37] Fair Work in the Third Sector in Scotland, a report for Glasgow Council for the Voluntary Sector, Findlay P and McQuarrie J, Scottish Centre for Employment Research, Strathclyde Business School, July 2023
[38] Fair Work in Scotland's Social Care Sector 2019, SCVO, 2019
[39] Outsourcing the cuts: pay and employment effects of contracting out, Op Cit

10.16 Public bodies have conflicting objectives when it comes to outsourcing. In most cases they do it because they believe it will reduce costs but the extent to which it will do this is impacted by any requirements they impose on bidders with regard to fair work practices. There is in effect a built-in disincentive to stipulate and enforce fair work criteria where this will defeat the cost saving objective. This suggests that effective monitoring of outsourced contracts by public bodies themselves is important but trade union recognition and the requirement to share data with them is even more important.

11. Room to Manoeuvre

11.1 Although public bodies such as councils have large budgets, they often have little scope for manoeuvre when it comes to tackling spending pressures. Contractual commitments can extend over many years, effectively reducing the controllable element of the budget to half or less of overall spend. Edinburgh council for example set a budget of £1.2bn for the 2023/24 year but £1bn of that was spent with third parties.

11.2 Long term contracts, such as those associated with PPP, effectively ringfence a significant element of public expenditure. This means that when public expenditure comes under pressure, direct provision suffers disproportionately. The impact of this on PPP hospitals led Guardian columnist George Monbiot to state that 'beds, doctors, nurses and managers could be sacrificed, but not the annual donation to the Fat Cats Protection League'[40] .

11.3 Research into the impact of austerity shows that some public services were impacted more heavily than others. The factors driving this were multifaceted but the extent to which costs were contractually committed was one of them. Those services that are concerned with the quality of the neighbourhoods in which people live were affected most severely with health and social care being far less likely to face cuts[41], although the degree to which they were outsourced accelerated during the period and service reductions were imposed.

11.4 The positive impact of neighbourhood services such as the provision and maintenance of open spaces is widely recognised. Recent research into the benefits of NHS Scotland Open Space valued visits to Hospital green spaces at

[40] Monbiot, George (4 September 2007), "This Great Free-Market Experiment Is More Like A Corporate Welfare Scheme", The Guardian, London

[41] Holden J and Kenway P, Spending on parks and neighbourhood services in Scotland, NPI, APSE, 2020

£82m a year in terms of what it would cost the NHS to provide the same benefit through healthcare services[42].

11.5 Parks and opens spaces along with other provision that is preventative in nature such as sports and recreation along with low level or early support are more likely to be casualties of spending pressure than reactive services such as the NHS. Yet they are lower cost and can save money by reducing the number of GP visits and long term illness. APSE estimate this saving as £9m a year whilst noting that Scotland's parks contribute £2.8bn per year to community health and well-being[43].

11.6 Across the UK the well-being value of parks has been put at £34.2bn a year[44]. Their significance, alongside that of other core council services has been widely recognised for many years[45] but those public bodies charged with maintaining them are unable to give them an appropriate level of priority because they have no choice but to protect contractual budgets for more expensive, outsourced reactive services or the management of buildings built and operated under PPP contracts. In this way, outsourcing prevents public bodies from making balanced decisions that optimise public expenditure in the interest of the Scottish public in favour of the narrow interest of private companies many of which are based outside of Scotland.

12. Conclusions

12.1 The UK has been outsourcing large chunks of its public services for nearly fifty years. As a policy choice it has delivered little. The small state ambitions of the Thatcher era were never realised; there is no evidence to show that it has saved cost or led to improvements in the quality of provision and the tax paid by Scottish people as a proportion of income is more or less the same as it was in 1980. There is however a huge and growing gap between the money raised and that needed to keep up with demand. Outsourcing makes this worse by ensuring that a significant portion of public expenditure is lost in the form of profit and the various methods of extraction used by private providers of public services.

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[42] Loria-Rebolledo, L.E., Boyers, D., Watson, V., Antunes, M., & Chalmers, N. (2025). Valuing the health and wellbeing value of NHS Scotland's outdoor estate: How are NHS Scotland open spaces used and what is their value to the Scottish population. SEFARI Gateway Research Report.
[43] Holden J and Kenway P. Op Cit
[44] Revaluing Parks and Green Spaces, measuring their economic wellbeing value to individuals, Jump X SIMETRICA, Fields in Trust, 2018
[45] The Marmot Review in England overtly recognised the need for strong council services to combat health inequality and in improving health outcomes; 'Fair Society, Healthy Lives, February 2010

12.2 The biggest cost of outsourcing is pushed on to some of the lowest paid, but most highly valued, public service workers in the economy. The Scottish government has taken direct steps to address low pay amongst care workers, but this does not affect pension arrangements which are typically far inferior for privately employed public service workers compared to those working in the public sector. Poor pension arrangements lead to poverty in older age and create additional costs for the benefit system.

12.3 The fair work elements of the Fairer Scotland Duty are commendable but because of conflicting public sector priorities, difficulties in monitoring and patchy enforcement have not tackled the discriminatory impact of outsourcing. Jobs that are predominately carried out by women are most likely to be outsourced, meaning that female public servants are more likely to be impacted by the lower rates of pay, poor working conditions and minimum pension provision associated with the for-profit provision of public services. Insourcing would be a far more effective way of tackling these issues than regulation of the private sector labour market.

12.4 The active involvement of unions and the provision of information to them along with proactive monitoring of both procurement practice and contractor behaviour is a core requirement of the fair work initiative. If it is to be effective it is vital that these aspects of it are promoted and enforced.

12.5 Government policy in the 1980s and 1990s may have favoured outsourcing for ideological reasons but for many public authorities now it is primarily a way of reducing cost in response to spending pressures. These pressures were particularly acute during the period of austerity that prevailed between 2009 and 2014, but Scotland continues to experience a fiscal gap that leaves public bodies under constant pressure to cut costs.

12.6 Private providers often do have lower costs. These can be due partly to economies of scale or other efficiencies but relate far more closely to lower labour costs. But lower costs do not translate into lower prices. Profit, debt repayment and other extractive mechanisms ensure that the primary beneficiaries of outsourcing are global investors, business owners and private sector executives. This is why outsourcing can be seen as direct transfer of wealth from low paid public service workers to some of the wealthiest investors and business owners in the world.

12.7 One of the main consequences of the UK Government's attempts to cut public expenditure after the financial crash of 2008 has been a huge reduction in funding to local government. This has fuelled further outsourcing as well as deep cuts to council services. In Scotland, as in the rest of the UK, these cuts have fallen disproportionately on non-statutory services.

12.8 The conclusions of this report are consistent with some key aspects of recent developments in Scottish Government social policy. The Christie Commission emphasised the need to refocus spending on prevention and to adopt a whole system approach to public service provision, but progress has been slow. The reason for this is that the core issue of how to bring future savings forward to reverse decades of underfunding for preventative services has not been addressed. Even now Scotland's Public Services Reform Strategy envisages short run savings rather than investment to deliver the rebalancing that is needed to drive savings in the future.

12.9 Contracting core public services out to for profit providers creates unnecessary cost and transfers wealth from valued front-line public-sector workers to the faceless shareholders and financers of an increasingly global outsourcing industry. Without measures to reverse it, scarce public funds will continue to be diverted from where they are needed most, public service pay and conditions will continue to be suppressed, and the beneficial economic impact of local employment will continue to be undermined. For these reasons, if it is to meet the undeniably laudable objectives underpinning the Scottish Government Public Services Reform Strategy, direct provision as the default delivery option should be a core element of the strategy.

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