THE EQUALITY TRUST

Subsidising Unfairness

How outsourcing companies use of taxpayers' money increases inequality

Introduction

Since the late 1970s we have seen the growth of a new model of public service provision – public sector procurement, or 'outsourcing'. Services traditionally managed and delivered by public servants, employed directly by the government, have been increasingly contracted out to third-party – private and voluntary sector - organisations through procurement processes.

The value of government contracts handed to the private sector has increased dramatically over the last five years and is likely to continue growing at a rapid pace. Seymour Pierce, a City Stockbroker, has identified 1,789 outsourcing opportunities worth £84bn in the government pipeline and has estimated that total public sector outsourcing could reach £101bn by 2014-15.

This recent growth in outsourcing of government services to private providers has been widely criticised for poor transparency, poor management of government money and, in particular, excessive remuneration of top executives and pay inequality between employees.

There are positive examples of public sector outsourcing, however extreme pay inequality and a succession of scandals in the largest government suppliers suggests that, in its present form, government outsourcing is a poor use of tax payers' money and not fit for purpose. In addition to this, evidence makes clear that extreme pay inequality is socially and economically damaging and, therefore, the use of tax payers' money to further pay inequality is not in the public interest.

This briefing provides the facts on the current state of private service outsourcing. It sets out the size and cost of the public service outsourcing sector, looks in detail at the top suppliers and the pay in these organisations and presents recent public opinion research on government outsourcing. It concludes with The Equality Trust's policy recommendations.

[1]Gill Plimmer, Outsourcing Soars in Public Services, FT
http://www.ft.com/cms/s/0/13a4e68e-6610-11e2-bb67-00144feab49a.html#axzz3685ABOLF

Key points

- In 2013 the Government spent approximately £93.5bn on third party services, 13% of total government spending
- Pay inequality for those who work directly for government is considerably smaller than pay inequality in the private sector. While the highest paid civil servant has a pay ceiling of £334,999, directors in the top five supplying companies are paid in excess of £1m
- In 2013, the head of Hewlett Packard (HP) was paid over 30 times the pay of the top civil servant, or £10.2million
- There is widespread support for reforming how government selects its contractors: 88% of the public thinks that private companies running public services should be transparent about their performance and financial data

Public Services, Private Providers: How much are we paying?

The National Audit Office estimates that in 2013 the Government spent approximately £93.5bn on third party services. This is half the £187bn government spends on goods and services each year and is over 13% of total government spending.

More recent work by the Institute for Government has identified the top twenty suppliers to government. These twenty suppliers received over £10.2bn of government expenditure during 2013.

Figure 1: The top 20 suppliers were:

Supplier	Amount received from Government, 2013	Industry
1. Capgemini	£1,010,739,214	IT
2. Capita	£803,333,738	Outsourcing
3. BT	£753,976,060	Telecoms
4. Telereal Trillium	£628,068,375	Facilities
5. HP	£605,609,993	IT
6. Kier	£602,979,737	Construction
7. Serco	£445,193,324	Outsourcing
8. Atos IT	£401,200,020	IT
9. Carillion	£397,114,074	Construction
10. Balfour Beatty	£369,422,171	Construction
11. IBM	£365,915,278	IT
12. Interserve	£341,259,736	Facilities
13. Amey	£314,256,127	Construction

Supplier	Amount received from Government, 2013	Industry
14. CSC	£306,279,738	IT
15. Willmott Dixon	£301,813,720	Construction
16. Babcock	£293,170,856	Defence
17. Veolia	£293,010,554	Waste Management
18. EDF Energy	£281,556,791	Utilities
19. Fujitsu	£223,800,444	IT
20. BAM	£195,886,561	Construction

Lack of Transparency

The Institute for Government figures do not include the police, NHS and criminal justice system and so Serco and G4S are not represented to their true extent. NAO figures suggest that in 2012 Serco received £2.7 billion from the UK government. £1.8 billion of this was from public sector revenue and £1.2 billion from central government revenue. G4S received a slightly smaller but still very sizable amount. In 2012, their UK revenue was £1.9 billion (£0.7 billion public sector revenue and £0.6 billion central government revenue).

The Problem of Pay Inequality

Pay inequality between private sector employees is considerably higher than for those who work directly for government. This has led to concerns that private sector companies receiving public money to provide public services may have extremely unequal pay practices.

High Pay

Top pay for government employees is normally much lower than that found in the private sector. Whilst the highest paid civil servant has a pay ceiling of £334,999, directors in the top five companies supplying public services are paid in excess of £1m.

Discussions on government outsourcing normally involve G4S and Serco, organisations that have been involved in a range of high-profile scandals. However 2013 figures show that there are other government suppliers that are paying huge amounts in top pay.

Figure 2: Largest government suppliers, pay of the highest paid member of staff.

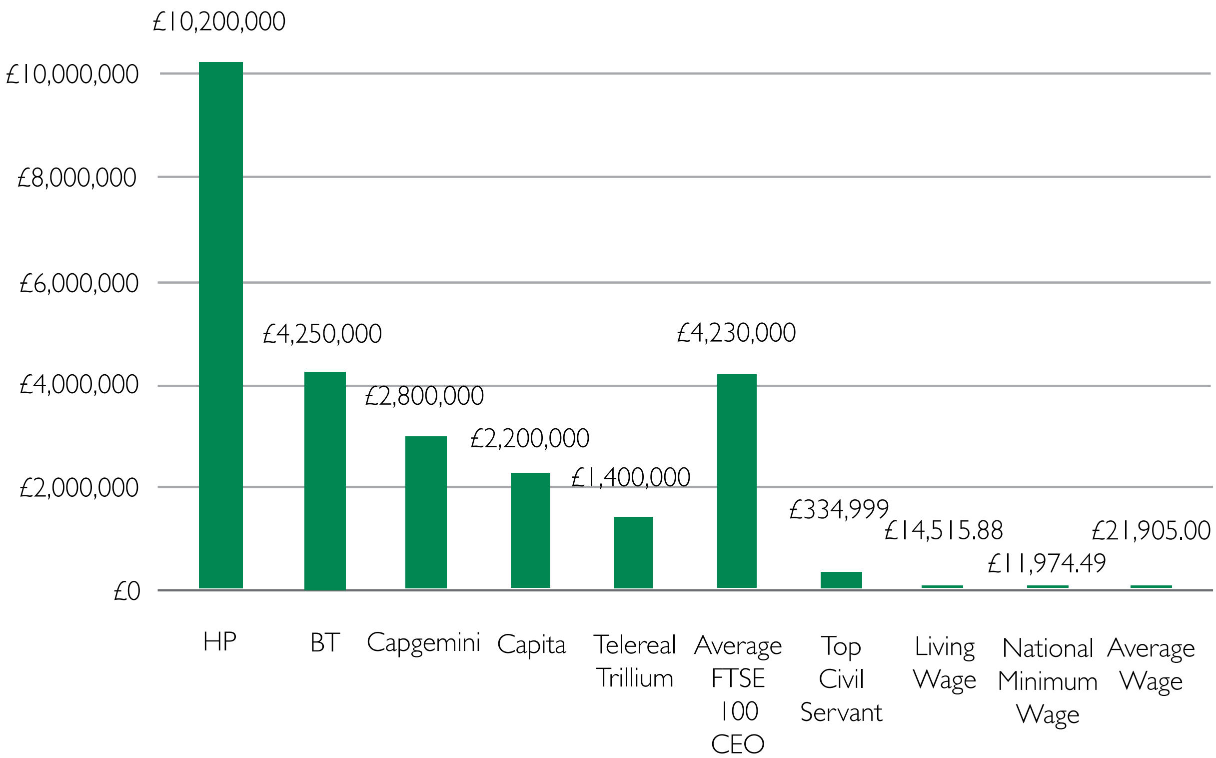
Supplier	Top Pay 2013
HP	£10.2m
BT	£4.25m
Capgemini	£2.8m
Capita	£2.2m
Telereal Trillium	£1.4m

The head of Hewlett Packard (HP) is paid over 30 times the pay of the top civil servant. Even the lowest paid private organisation on the list, Telereal Trillium, pays its top director over four times as much as the highest paid civil servant.

As an illustration of the impact of the significance of this top pay, in 2013 the director at Telereal Trillium was paid:

- Over 116 times the amount someone on the national minimum wage gets from working full time for a year;
- Over 96 times the amount someone on the living wage gets for working full time for a year and;
- Over 63 times the average wage

Figure 3: CEO pay in government suppliers and comparisons



Low pay

Although extremely high pay for directors of outsourcing companies is well known, there is a lack of transparency around pay of staff at the lower end of the pay scale in these companies. It is therefore not possible to establish whether, and how many, members of staff are paid the Minimum Wage or the Living Wage, or to determine the level of the median wage in any government contractor.

However, it is clear that no government contractors are Living Wage accredited employers in contrast to at least 30 Local Authorities.

Concerns over Private Sector Provision of Public Services

There is widespread public support for greater transparency about the performance and financial data of private companies running public services, and for reform of the process of selecting contractors. This includes:

88% of the UK population thinks that private companies running public services should be as transparent about their performance and financial data as the public sector are required to be.

57% of the UK population thinks that organisations with a 'social purpose' (public sector and not-for-profit sector) should be prioritized above private companies in the tendering process for public services. Only 8% of people in the UK think that the cheapest offer is the most important when awarding contracts.

Further concerns

The Public Accounts Committee has echoed public opinion in calling for greater transparency around public outsourcing contracts. It has called for extension of Freedom of Information to contracts with private providers, access rights for the National Audit Office and a requirement for contractors to open their books to officials[2]. Although, according to Margaret Hodge, Chair of the Public Accounts Committee, G4S, Atos, Serco and Capita are prepared to accept the measures, government has shown little appetite for change.

Pay Inequality as Selection Criteria for Government Suppliers

The Social Value Act 2012 allows public authorities to judge outsourcing contracts partly on the basis of the social value that they bring in. This should allow government to use pay inequality as one of the criteria in selecting which company to select when contracting out a service.

However, currently the government cannot ask about the level of pay inequality at a supplier. The Equality Trust believes that companies bidding for government contracts should be obliged to publish pay inequality information and that this should be considered by government.

[2]http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/public-services-private-contractors-report/

Policy Recommendations

The Equality Trust has three main recommendations for reforming public sector contracting:

A. Organisations that provide public services (including private and third sector providers of public services, free schools and universities) should be required to publish their top-to-UK-median pay ratio, the number of their staff in the UK paid below the Living Wage, and the reasons for any changes in these figures. Public sector bodies should consider this data in their procurement decisions.

B. Government should establish and enforce a standard form of reporting top to median pay ratios in public services, specifying which elements of remuneration must be included in the top pay figure. Government should collate and report these figures on a public website specifying the period which the figure covers, alongside figures for the number of employees paid below the Living Wage.

C. Public services which are moved from public sector to private or voluntary sector provision should have codes of pay practice requirements placed upon the new provider to ensure compliance with the above recommendations.

This briefing note is part of the Fairer Pay strand of The Equality Trust's Fairer Stronger Economy project anticipating the 2015 general election. More information on this project and further policy recommendations are available on our website: http://goo.gl/hlzkuB

About The Equality Trust

The Equality Trust is an independent organisation that works to improve the quality of life in the UK through reduced economic inequality.

We conduct robust research and analysis of the scale, drivers and effects of economic inequality in order to increase understanding of economic inequality among policy-makers, business and the public.

The Equality Trust was launched in 2009 by Bill Kerry, Richard Wilkinson and Kate Pickett. It is primarily funded by the Network for Social Change and the Joseph Rowntree Charitable Trust with additional support from many generous individuals, organisations and groups.

This briefing note is part of The Equality Trust's One Society programme of work.

For more information about our work, please visit our website at http://www.equalitytrust.org.uk/

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The Equality Trust

18 Victoria Park Square

London E2 9PF

020 3637 0324 | info@equalitytrust.org.uk | www.equalitytrust.org.uk