OXFORD ECONOMICS

The size of the UK outsourcing market – across the private and public sectors

Report prepared by Oxford Economics for the Business Services Association

April 2011

BSA

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Summary of Methodology

- This report aims to measure the value of 'outsourced activities' of all kinds in the UK. For the purposes of this exercise we define these as services that satisfy three criteria. They are provided by a private sector organisation to a client organisation, whether that client is in the public or private sector. They are provided under an agreement involving a degree of delegation of management responsibility. And they are of a kind more typically provided, or of a kind that would in the past have been more typically provided, by an in-house team of the customer themselves.
- Our primary measure of industry size is the turnover derived from activities defined as outsourced. There is no official measure of such a value, and nor can one be derived simply by adding together the turnover of select industrial sectors as set out in the Annual Business Survey or any other official dataset. Nor are we aware of any previous attempts to measure the turnover of the UK outsourced industry as a whole.
- Our estimates therefore rely on combining information available from the Annual Business Survey (ABS) with other official data, other research into specific types of outsourced activity, and a bespoke survey of BSA member company finance directors.
- More precisely, we first determined which industrial sectors – as defined for the purposes of official statistics – were likely to include at least some outsourced activity, based on publicly available information and the survey of BSA members. Where possible, we then took as our starting point the 2009 turnover of business units classified to those industries in the ABS.
- We then apportioned the turnover of each sector between outsourced and non-outsourced activities. That was done with the help of the National Accounts supply and use tables, which show transactions between broader-level industries as well as sales by those industries to final consumers. But we often needed to make further judgements here, guided by other evidence including the BSA member survey.
- For a few sectors the ABS does not even provide a good starting point for this exercise, and here we relied variously on official measures of sector output, survey-based estimates of turnover and public expenditure data. More generally, we also took into account the BIS SME Statistics dataset to help ensure that we were not including the turnover of public sector providers. The detail of our methodology is described, for each type of service separately, in Section 3.3 of this report.
- Having estimated industry turnover, we then sought to establish the gross value added (GVA) and employment directly attributable to outsourced activities, most typically using the GVA-to-turnover and employment-to-GVA ratios found in the ABS. Finally we estimated the tax contribution of the industry by estimating the breakdown of GVA into component parts such as profits and wages, and deriving the consequent likely payment of five major company and employee taxes, based on ratios found in the National Accounts.

Executive Summary

- Oxford Economics was asked by the BSA – The Business Services Association – to estimate the size of the 'outsourced' services sector in the UK, covering activities for both public and private sector clients. This report, which makes use of both broad-level economic data and a tailored survey of BSA member companies, is the result.

- There is no single standard definition of an 'outsourced' service, nor any particular consensus about the types of activity that could count as 'outsourced'. Consequently Oxford Economics worked up a definition in conjunction with the BSA. To qualify as 'outsourced' for the purposes of this exercise, an activity would to have to satisfy two criteria. It would have to be 'governed by an ongoing or time-specific agreement involving a degree of delegation of management responsibility'. And it would have to be a service 'more typically provided by an in-house team of the customer themselves' – or expected to have been more typically provided in that way in the past.

- Putting all of the evidence together, we find that turnover across all 'outsourced' sectors – including IT, catering, facilities management, employment services, office support, technical consultancy, public services and many more – to be in the region of £207 billion. That is equivalent to some 8% of total economy-wide output. A detailed breakdown of turnover by sector of provider is set out in the report. The split between customer type by institutional sector is almost exactly 60%-40% in favour of the private rather than public realm.

- We further estimate that these services contribute around £115 billion a year to the gross value added measure of UK output – output net of spending on bought-in supplies and goods and services, essentially equal to the sum of wages and profits. That is some 9% of the total. In the process these activities directly support around 3.1 million jobs, equivalent to 10% of all UK workforce jobs or 11¾% of the nation's employee jobs.

- Businesses in these sectors are likely to pay around £14 billion a year to the UK exchequer in the three major business taxes, i.e. corporation tax, employers' national insurance and business property rates (in relation to these outsourced activities alone). On top of this, their employees will pay something like £21 billion in income tax and employee NICs as a result of their earnings in connection with these activities. That makes for a total direct tax contribution, looking at these five major taxes only, of £35 billion – some 12% of all government revenues from these sources.

1 Introduction

Oxford Economics was asked in December 2010 by the BSA – The Business Services Association – to estimate the size of the outsourcing market in the UK.

This task involved estimating the turnover of firms operating in the various relevant markets based on available economic data, including the Annual Business Survey (detailing turnover by sector at a fairly refined level) and National Accounts supply and use tables (which set out transactions between the UK's various industries as well as sales to end-users, though using a somewhat less refined industry classification). We also looked at other recent research in the public domain.

On top of this, a survey of BSA member companies was carried out in February 2011, asking about company turnover in various UK outsourcing markets. This survey also sought finance directors' estimates of their company's share of the various markets, thereby ascertaining their view of the size of the markets in which they had a presence, to act as a cross-check on our 'top-down' turnover estimates.

Having finalised our estimates of turnover in the different outsourcing markets, we then derived estimates of the gross value added measure of output, sector employment and the industries' contribution to exchequer revenues.

1.1 Definitions

There is no single universally-accepted definition of 'outsourcing' so our first task was to determine, in conjunction with the BSA, a definition for these purposes. We settled on:

"The supply of services governed by an ongoing or time-specific agreement involving a degree of delegation of management responsibility, where that service would more typically be provided, or would in the past (UK 1950s-2000s) have been more typically provided, by an in-house team of the customer themselves."

The simple 'one-off' supply of a service would not, therefore, fall within this definition, and nor obviously would sales of private services to final household consumers. 'Traditional procurement' – business-to-business and business-to-government activities which have as a general rule always been provided by outside suppliers – would also fall outside of the definition even where a longstanding relationship exists.

Consequently, specialist business services such as legal and accounting work, and consultancy of a specialist or technical nature, would as a general rule fall outside of the definition. However, whether a service is counted as 'outsourced' will also depend in part on the nature of the client. Thus a specialist service that would not count as 'outsourced' where the typical customer is a small or medium-sized firm might qualify as 'outsourced' if typically provided to a large corporation – on the grounds that those customers would in the past have typically undertaken that activity in-house. A wide array of services provided by private entities to the government – or to final consumers as part of a 'public' service – would also qualify as 'outsourced' on the same grounds.

1.2 Report structure

The remainder of this report is set out as follows:

- Chapter 2 sets out our conclusions on the overall size of the outsourcing market in the UK, in terms of annual turnover, gross value added and employment, together with its contribution to tax revenues.
- Chapter 3 sets out the results for turnover and GVA by sector, with brief descriptions of how we arrived at those estimates.
- Some more detailed tables are included in an Annex.

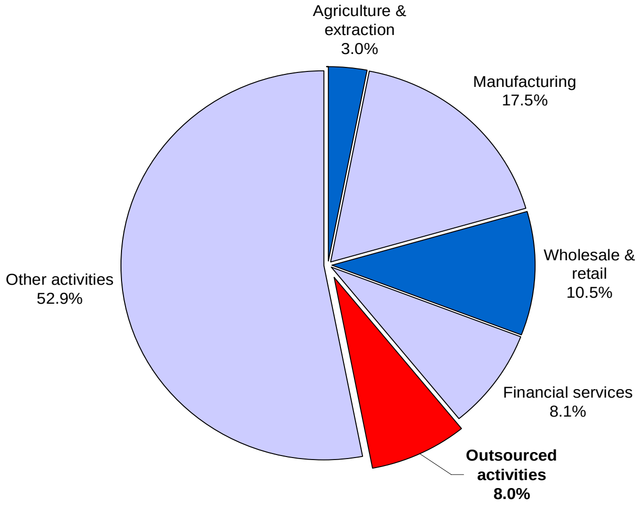
2 The overall size of the UK outsourcing market

In this Chapter we set out our key conclusions on the overall size of the outsourcing market in the UK, in terms of annual turnover and gross value added, together with the sector's contribution to UK employment and tax revenues. These results are based on a combination of official and other data, with additional help provided by a bespoke survey of BSA member companies' finance directors.

2.1 Estimates of total turnover

Based on a range of data sources as detailed in Chapter 3, we estimate that turnover across all 'outsourced' markets amounts to some £207 billion per annum, equivalent to some 8.0% of economy-wide output. Table 2.1 sets out some detail in terms of service provided and institutional sector of the client. In terms of the latter, the split is almost exactly 60%-40% in favour of work for the private rather than public sector.

Chart 2.1: Outsourced services' share in UK output, 2009



The £82 billion of provision to the public sector compares with total public sector procurement (of goods and services of all kinds) of £196.4 billion in 2009/10[1], and a recent Oxford Economics estimate[2] that public sector procurement of services (including non-outsourced services but excluding goods) accounted for some 51½% of total procurement across seven major public sector functions. The overall picture painted by these various estimates is one in which

[1] HM Treasury estimated out-turn, PESA 2010, table 5.5.

[2] Updated Oxford Economics estimates for the CBI, November 2010, following on from the January 2008 report 'The Market for Public Services in the UK'.

'outsourced' services for the public sector account for around four-fifths of all public procurement of services, or two-fifths of total public sector current procurement spending. But it should be noted that outsourced services for the private sector are more important still.

Table 2.1: The size of the UK 'outsourcing' market

	Turnover			Value added		
£ billion per annum based on 2009 data, excluding imports and net of product taxes	Public sector work	Private sector work	Total	Public sector work	Private sector work	Total
IT and data-related services	6.7	35.0	41.7	4.0	20.7	24.7
Catering (food services management)	1.6	1.5	3.1	0.7	0.6	1.3
Combined facilities management	1.1	6.2	7.3	0.6	3.6	4.3
Property services / maintenance / cleaning	17.3	21.7	39.0	7.7	11.0	18.7
Property portfolio / real estate management	0.1	2.1	2.2	0.1	1.1	1.1
Security services	4.6	2.7	7.3	3.3	2.0	5.3
Warehousing / storage	0.2	2.7	2.9	0.1	1.0	1.1
Employment placement / agency activities	3.4	19.2	22.6	2.2	12.7	15.0
Call centre operations / customer care	0.2	1.2	1.4	0.1	0.8	0.9
Other office / administrative support services	3.8	21.4	25.1	1.7	9.7	11.4
Business consultancy / advisory services	0.6	5.7	6.2	0.3	3.4	3.7
Technical / engineering / scientific services	3.0	5.7	8.7	1.7	3.2	4.9
Waste management	6.3	-	6.3	2.0	-	2.0
Services related to public transport	4.3	-	4.3	2.4	-	2.4
Educational services	1.5	-	1.5	0.6	-	0.6
Health-related services	11.9	-	11.9	6.7	-	6.7
Residential care and social work	15.4	-	15.4	10.8	-	10.8
Total	**82.0**	**125.0**	**207.0**	**45.0**	**69.9**	**114.9**
As % economy-wide output			***8.0***			
As % economy-wide value added						***9.1***

2.2 Contribution to UK gross value added

Table 2.1 also shows estimates of gross value added – output net of spending on bought-in supplies and goods and services, which is essentially equal to the sum of wages and profits. In most cases this has been estimated on the basis of turnover-to-GVA ratios for 2009 in the Annual Business Survey, although in a few cases where the relevant sectors are not covered there it is based on the output-to-GVA ratios for 2008 in the national accounts supply and use tables. Gross value added is equal to gross domestic product (GDP), but measured at 'basic prices' rather than 'market prices' (i.e. it is net of taxes on products).

It can be seen that, at £115 billion, outsourcing work accounts for some 9.1% of economy-wide gross value added. The sector's share of value added is, therefore, a little higher than its share of total output. Put another way, the ratio of bought-in goods and services to these companies' own labour and capital input is somewhat lower than for other producers across the UK. This seems logical given these companies' focus on tailored services as opposed to e.g. the manufacture and/or distribution of goods.

Chart 2.2: Outsourced activity for the public and private sectors

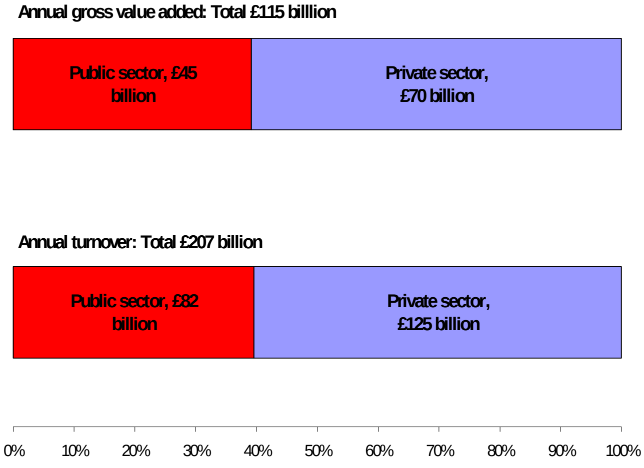


Chart 2.3: Outsourced activity by type of service provided

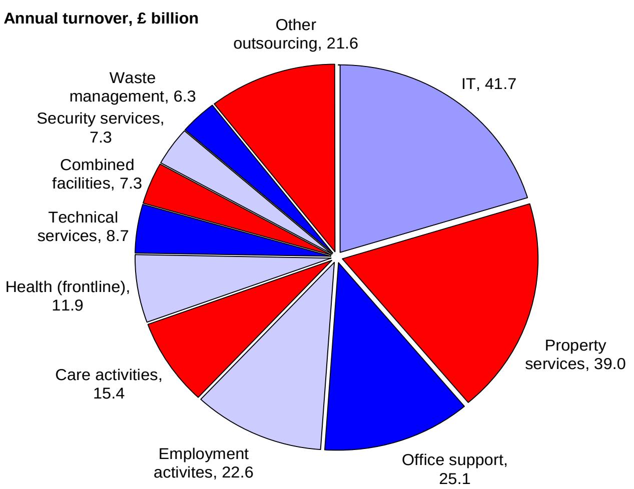
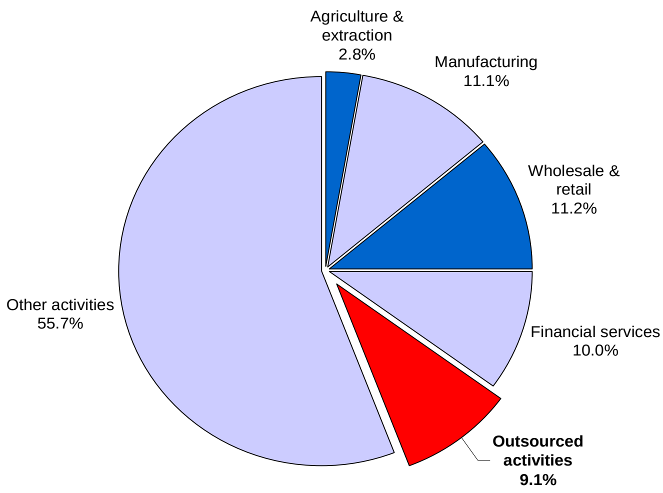


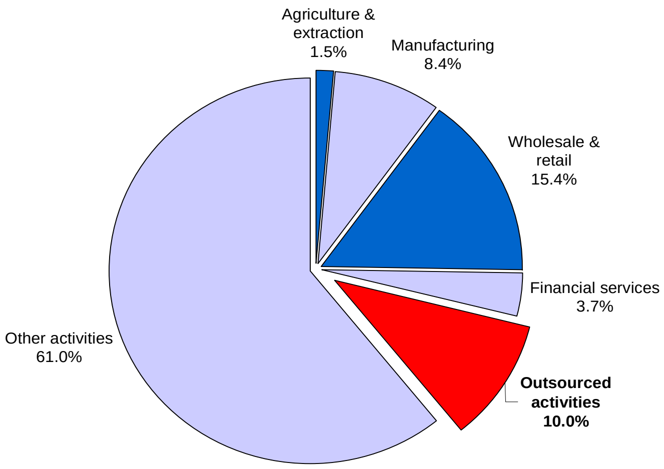
Chart 2.4: Outsourced services' share in UK gross value added, 2009



2.3 Contribution to UK employment

Estimates of employment in the UK outsourcing sector can be worked out by looking at the ratio of employment to gross value added in the nearest sectors available, where possible from the Annual Business Survey but otherwise using official data from the National Accounts and labour market statistics. On this basis we calculate that the UK 'outsourcing' sector, as defined in this report, employs some 3.1 million individuals. That is equivalent to 10% of all UK workforce jobs, or 11¾% of all employee jobs.

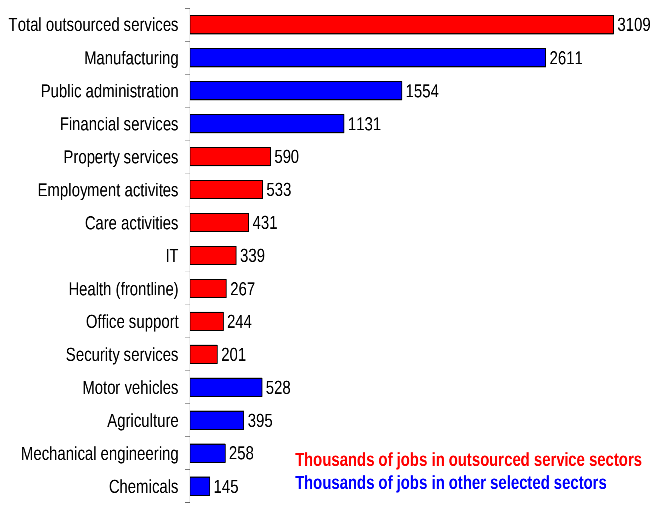
Chart 2.5: Outsourced services' share of UK workforce jobs, 2009



The number of jobs directly dependent on 'outsourcing' UK activities could be put at some 590,000 in property services including maintenance and cleaning, 530,000 in employment activities, 430,000 in residential and social care activities, 340,000 in IT-related activities, 270,000 in frontline healthcare services, 270,000 in office support activities (including call centres), 200,000 in security services, and 160,000 in catering and combined facilities maintenance. Table A1 in the Annex sets out more detail by sector and more information on how these estimates were arrived at.

As Chart 2.6 shows, the total outsourced services sector is estimated to employ more individuals than the whole of manufacturing, and also more than financial services and public administration put together. In addition, jobs supported by the largest outsourcing sub-sectors as we have defined them compare well with those provided in high-profile industrial sectors such as motor vehicles, mechanical engineering and chemicals, and with employment (including self-employment) across the whole of the agricultural sector.

Chart 2.6: Jobs in outsourced services and other selected sectors



2.4 Contribution to the exchequer

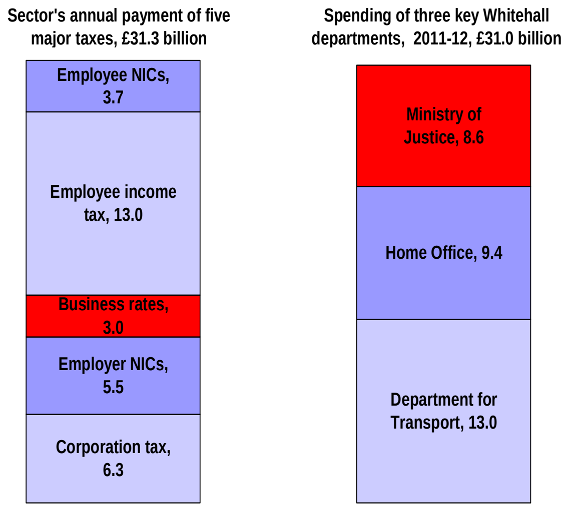
Given the sector's contribution to value added and employment, we would expect it to make a significant contribution to the UK exchequer. Details of our estimates are set out in Table A2 in the Annex. Looking at just three major business taxes – corporation tax, employers' national insurance contributions and business rates – we would expect companies in this sector to pay in the region of £14.7 billion per annum. On top of that, we estimate that the employees of these companies will pay some £16.7 billion per annum in income tax and employee national insurance relating to their earnings from the industry

– making a total of £31.3 billion per annum, equivalent to some 11% of all revenues from these five major taxes[3].

To put this in context, that is sufficient to cover the planned spending totals for 2011-12 for the Department for Transport, Home Office and Ministry of Justice combined.

This does not of course include other taxes that might be paid by these firms in the course of their operations, or other taxes generated as an indirect result of their activities, or other taxes paid by their employees. Taxes such as VAT, fuel duties, other excise duties and stamp duties also raise significant amounts, a proportion of which would relate directly or indirectly to firms operating in the outsourced services sector.

Chart 2.7: Sector tax contribution



[3] These figures are based on an estimated split in the sector-wide 2009 gross value added figure, and on total UK tax revenues in that same year.

3 Estimations of turnover by sector

Our starting point in arriving at estimates of the size of the outsourcing sector was to produce estimates based on official and other data, including the National Accounts supply and use (or input-output) tables, the Annual Business Survey (ABS, formerly the Annual Business Inquiry or ABI) detailing turnover by industry at a more detailed level, and other evidence already in the public domain including recent surveys of the various individual sectors. This analysis was supplemented by the findings from a bespoke survey of BSA member finance directors, concerned with their companies' turnover in relation to various outsourced markets, and their views on what that represented in terms of market share.

3.1 The sectors and transactions covered

Table 3.1 sets out the sectors that we initially regarded as potentially important contributors to the overall outsourcing market. The table also shows the broad categories of transaction by customer type, as classified in the National Accounts supply and use tables, potentially falling within our definition of the outsourcing market.

In the National Accounts, 'intermediate consumption' refers to purchases of goods and services that are used up in the production process, as opposed to being a component of final demand. Most business-to-business and business-to-government transactions – and most outsourced activities – would fall into this category. However, there are also a few cases where outsourced activity transactions fall within the 'final demand' categories in the National Accounts:

- Most notably, the provision by private entities of public services such as waste collection which can count in the expenditure side of the National Accounts as government final consumption rather than intermediate consumption.
- Some property-related services – most obviously building maintenance but also activities associated with the transfer of property ownership – that are counted as fixed investment.
- A few services, most obviously in the public transport field, that are classified in the National Accounts as private household consumption but which were once typically provided by public sector bodies.

However, it is not possible to simply take transaction values in the relevant categories straight from the National Accounts input-output tables. Further data sifting and analysis is therefore required:

- All of the sectors we are interested in are too refined to be found in the supply and use tables.
- Where the sector is reasonably well-specified in the Annual Business Survey, giving us a figure for total sector turnover, we still need at the very

least to estimate the split by customer type, so that (for example, as in the most typical case) business-to-business transactions are counted but sales to households are not.

- Even then, as set out in Chapter 1, there will be cases where only a proportion of business-to-business transactions would fall within our definition of 'outsourcing'.
- In many cases the sector we are interested does not sit very well with the sector classification used in the ABS.

Table 3.1: Sectors covered in initial estimates of market size

Purchasing sector:	Intermediate consumption		Final demand		
Output of private businesses within these sectors[1]:	By private industry customers	By public sector customers	Government consumption	Fixed investment	Household consumption
IT and data-related services	✓	✓			
Catering (food services management)	✓	✓			
Combined facilities management	✓	✓			
Property services / maintenance / cleaning	✓	✓		✓	
Property portfolio / real estate management	✓	✓		✓	
Security services	✓	✓			
Warehousing / storage	✓	✓			
Employment placement / agency activities	✓	✓			
Call centre operations / customer care	✓	✓			
Other office / administrative support services	✓	✓			
Business consultancy / advisory services	✓	✓			
Technical[2] / engineering / scientific services	✓	✓			
Waste management	*	✓	✓		
Services related to public transport		✓			✓
Educational services	*	✓	✓		
Health-related services	*	✓	✓		
Other welfare-related services[3]		✓	✓		

[1] Where falling within the definition of an outsourced service - i.e. in many cases only part of the sector's activity.
[2] Including architects' services listed separately in the questionnaire as 'building project development'.
[3] Including welfare-to-work and offender management services listed separately on the questionnaire.
* Some in principle but likely to be modest in value.

3.2 A survey of BSA member companies

To further help with our investigation, a survey questionnaire was sent to Finance Directors of BSA member companies. This asked companies about their own turnover in a range of sectors – the sectors specified in the survey being as set out in Table 3.1 above, although the survey also asked respondents to list any other outsourcing activities undertaken. Crucially, respondents were also asked about their views on their share of the markets in which they operated – potentially enabling us to get a better handle on market size.

In the event some 19 companies and subsidiaries responded, between them employing some 275,000 full-time and 155,000 part-time staff in the UK, and having a total turnover in the latest financial year of 24.4 billion[4], of which £20.2 billion related to the provision of services classified as 'outsourced' to customers based in the UK. Of these respondents, six companies felt able to give a view on market size, with these answers giving an indication of that size in 15 separate markets, with a public / private customer split in the case of 11.

Of the markets set out in Table 3.1, only in 'warehouse and storage', 'welfare to work' and 'call centre operations' were completely absent from the replies. Respondents also added a number of their own sectors, including 'road management', 'utilities', 'defence' and 'textile maintenance'. However, to avoid the possibility of double counting we do not consider these separately; rather we have sought to integrate them into the sectors set out in Table 3.1.

Some of these additional categories, such as 'road management' and 'textile maintenance', are comparatively narrow, while others – such as 'defence' and 'utilities' – appear to relate to the type of customer or market rather than the service provided. But in all cases the activity will be covered by the sectors set out above, most typically between the 'property-related services', 'other business support services' and 'technical services' categories.

3.3 Estimates of turnover by sector

Using IT services as an example, Table A3 in the Annex illustrates in some detail the numerical process by which we arrive at our top-down estimates of sector turnover in the most typical case. But the process can be described in relatively simple terms:

- Take the figures for total turnover of firms classified to the relevant industrial sector or sectors in the Annual Business Survey (ABS)[5].
- Estimate the split in sales total by customer group – use by public sector organisations as an input into their activities, use by private sector businesses as an input into their production processes, or use for a 'final' purpose (mostly household consumption, business investment or export).
- Decide on the proportion of each class of activity that should count as 'outsourced'. For example in the simplest case (as with IT services), we would take 100% of purchases for intermediate use, but none of the sales for final use, as being 'outsourced'.

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[4] These figures exclude a small minority of respondents unable to give a breakdown of turnover into market sectors.

[5] Formerly known as the Annual Business Inquiry (ABI).

IT and data-related services: Table A3 in the Annex sets out some numerical detail in the case of IT and data-related services. But put simply we know that in 2009 the combined turnover of relevant sectors – 'computer programming, consulting and related activities', and 'data processing, hosting and related activities; web portals' – was £67.0 billion. We also know from the National Accounts supply and use tables that, in 2008 (the latest year available), some 62% of sales by the slightly broader 'computer services' sector went to intermediate users rather than final consumers, with 10 percentage points of that accounted for by sales to users in public sector-type industries[6].

On this basis, if all supplies of IT and data-related services for intermediate consumption were counted as outsourced, and if these supplies were split between purchaser groups in the same proportion as the split for computer services products overall, then it follows that the size of the outsourced market for these products in 2009 was around £41.7 billion. Within that, some £6.7 billion was accounted for by services to the public sector, and £35.0 billion to the private sector[7].

This estimated market size is considerably higher than the indication given by respondents to the survey of BSA members, and is critically dependent on our view that all supplies of computer and data services, other than those classed as final demand, should be counted as 'outsourced'. But we believe that the vast majority would satisfy the criteria of being delivered under an ongoing or time-specific contract with a degree of delegation of control, as opposed to the simple purchase of 'one off' services as and when problems arise or an upgrade is required. Many of these services will be provided by smaller companies to other small businesses, and may not be seen by BSA members as being part of the market in which they operate.

We do however accept that the question of what should count as 'outsourced' is difficult in this case. The other key criterion is that 'outsourced' services are those which would 'traditionally' been typically provided in-house. And a key problem is that these services did not exist in today's form until relatively recently, so there is no way of knowing whether they would in fact have been 'traditionally' provided in-house as we implicitly assume here.

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[6] Unfortunately the supply and use tables split intermediate demand into industrial categories, but not strictly into public and private sectors. For these purposes we focus on the nearest possible split to public / private sector, i.e. 'public sector-type industries' versus the remainder. 'Public sector type industries' comprise public administration and defence, education, health and social work. They therefore include a few private providers of those services, while excluding public providers in e.g. the waste collection, transport and recreation fields.

[7] Market size in this report is measured by the turnover of UK-based suppliers. It excludes the small amount of imported services and is measured at 'basic prices', i.e. net of taxes on products.

Catering: In 2009, the ABS shows that total turnover in the catering sector as a whole was some £48.3 billion. Had this been split in line with demand for total services provided by 'hotels, catering, pubs etc' then some 3% would have been provided to public sector bodies, 9% to private industry and 88% to final users – mostly private UK households but with a few exports. Total intermediate consumption on this basis – most but perhaps not all of which could count as 'outsourced' – would therefore be in the region of £5.6 billion.

However, this potential estimate would be skewed by two factors. Firstly, the inclusion of public houses and hotels in the broad sector used for the purposes of determining customer type would tend to depress measured outsourced market size – and especially sales to the public sector – artificially, by boosting the share taken by private demand including by household consumers. On the other hand, by including catering sales of all kinds to the public sector and businesses, when the outsourced market would only cover a sub-sector of that – the sector often referred to as food and service management – the resulting estimate could be an over-statement.

Consequently, we base our own estimate on a recent survey by the British Hospitality Association[8]. This showed total turnover of companies in the food and service management sector to be some £4.2 billion in 2009. Of that, we exclude £0.75 billion of non-catering services as described in the BHA report (including e.g. facilities management services). We then break down the remaining total in proportion to customer type, based on the number of meals and also reported in the BHA survey, as follows: non-outsourced 9½%; public sector outsourced 47½%; private sector outsourced 43%[9]. That gives a total outsourced market size of £3.1 billion, split £1.6 / £1.5 billion in favour of activity for the public sector.

The survey of BSA members, meanwhile, indicated a somewhat larger market than this. But due to the comparatively low response rate here our preference is for the figure derived from the BHA survey focused purely on this sector. However, there is no doubt that the sector is expanding and the *potential* market size would be considerably greater than the actual amount of outsourced work at present.

Combined facilities management: These activities have recently been given their own coding in the Standard Industrial Classification, and for 2009 turnover was put at some £7.3 billion. On the basis that all of this should be counted as 'outsourced', we can simply take this to be the size of the market. And on the

[8] British Hospitality Association, Food and Service Management Survey 2010.

[9] We take as 'public sector' sales classified in the survey as being provision to or in: prisons and prison shops; NHS, Trust hospitals, nursing homes and welfare; state education and higher education; local authorities; and the Ministry of Defence. The remaining categories which we count as 'private sector' are: business, industry and department stores; private hospitals; independent schools; and oil rigs, training centres and construction sites. The catering for public / leisure category is counted as non-outsourced for these purposes, being essentially private household consumption.

grounds that intermediate consumption by public sector-type industries accounts for 17½% of total intermediate demand in the broader ‘other business services’ sector in the national accounts, we estimate that £1.1 billion of this is accounted for by sales to the public sector and £6.2 billion by sales to the private sector.

This top-down estimate is broadly supported by the survey-derived estimate which would be in the region of £6¼ billion.

Property services including maintenance and cleaning: These activities comprise some that are classified to ‘business support services’ in the ABS and some to ‘construction’. From the business support activities sector, we have chosen to include all turnover[10] of firms classified to ‘general cleaning of buildings’, ‘other building and industrial cleaning’ and ‘landscape service activities’, while excluding the ‘other cleaning activities’ category. Those industries had a total turnover of £9.1 billion in 2009. This would have split £1.4 billion / £7.8 billion between the public and private sectors respectively based on the split in intermediate demand for the broader ‘other business services’ sector.

Repair and maintenance of buildings and structures, meanwhile, forms a major part of the construction sector. Although turnover in this sector is not separated out in the way we require in the ABS, such a breakdown does exist for the value of output, which should be very similar. Nowadays these figures cover only output of private contractors classified to the construction sector, thus excluding work undertaken public sector direct labour organisations as well as that undertaken by other firms (such as, crucially, maintenance work undertaken by firms’ own in-house teams).

Work undertaken by utilities companies is also excluded from this series. Consequently we feel confident in classifying everything that is included in the series with the exception of repairs to private housing – that is, all non-housing repair and maintenance work, plus all housing repair and maintenance work for the public sector.

In 2009 the value of that output amounted to £29.9 billion, of which some £16.0 billion was classed as work for the public sector and £13.9 billion for the private sector. On the reasonable assumption that turnover is in line with the value of output, this means that turnover across the ‘outsourced property services’ sector as a whole will be in the region of £39.0 billion – some £17.3 billion relating to work for the public sector and £21.7 billion to that for the private sector.

This top-down estimate is somewhat larger than the survey-derived estimate, even with the allocation of a few specialised services – meter reading, pest control and asbestos management – to this sector, together with half of the turnover allocated by survey respondents to ‘building project development’, ‘access’, ‘defence’ and ‘utilities’. It is critically dependent on our assumption that all property maintenance undertaken by contractors classified to the construction

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[10] Final demand accounts for around a quarter of total demand for ‘other business services’ as a whole, most of this being exports. But we assume that intermediate demand accounts for all sales in the case of these buildings-related services.

sector, other than in the private residential field, should count as 'outsourced' work, in addition to some other types of property service and cleaning activities. It seems reasonable to assume that the total size of the market looked at on this broad basis would indeed be somewhat larger than the market in which BSA members regard themselves as operating.

Property portfolio and real estate management: In the ABS the 'real estate activities on a fee or contract basis' sector is split into two sub-sectors: 'real estate agencies' and 'management of real estate on a fee or contract basis'. For these purposes we have assumed that only activities of the latter industry should be counted as potentially 'outsourced' and also worked on the assumption that only transactions classified as 'intermediate demand' rather than 'final demand' should be included – even though most of the latter is classified as fixed investment[11] and so could include some activities in which businesses rather than households are the customers. Note that we also exclude a separate category, 'owning and dealing in real estate', altogether.

In 2009, total turnover of the 'management of real estate' sector amounted to £8.3 billion. On the assumption that this is split between customer groups and demand types in line with total demand for the 'real estate activities' sector as a whole, we estimate the size of the 'outsourced' segment of this market to be £2.2 billion, of which £2.1 billion is in the private sector and £0.1 billion in the public sector.

The market for outsourced work in this field would also be put in the region of £2¼ billion per annum on the basis of indications by respondents to the survey of BSA members.

Security services: Two industries measured in the Annual Business Survey are relevant here: private security activities and security systems service activities. In 2009, turnover in these industries totalled £6.5 billion. However, in this case we believe that the available demand split in the broader 'other business services category' – 11% for intermediate demand by public sector-type industries, 63% for intermediate demand by other industries and 26% for final demand – is likely to overstate final demand and understate demand by the public sector in this case, especially as we would include specialised public sector-facing services (including offender management) in this category.

Consequently, we believe that the findings of the survey of BSA members provide the best estimate of size in this case – that survey suggesting a value of £4.6 billion on provision to the public sector if 'offender management' is included in this category, and £2.7 billion to the private sector.

[11] In national accounts systems the costs associated with the transfer of land and buildings are treated as 'fixed investment' rather than intermediate or final consumption of a service. This means that, in effect, we are only counting as 'outsourced' those aspects of estate agent management services that do not involve land transfers.

Warehousing and storage: In 2009 the turnover of this sector was put at £10.1 billion. Meanwhile in the previous year demand for products from the wider 'ancillary transport services' sector was split in the following ratio:

- Intermediate demand by public sector-type industries: 2%.
- Intermediate demand by other industries: 89%.
- Final demand: 9%.

If all intermediate demand for these services could reasonably be counted as 'outsourced', this would put the size of the market at some £9.2 billion, of which £9.0 billion would be sales to the private sector and £0.2 billion to the public sector. However, only a proportion of supplies to the private sector could reasonably be regarded as 'outsourced' on the definition set out in Chapter 1. Taking that proportion to be 30% (a very broad estimate based on what we know about business sizes and the use of ancillary transport services by sector), then the private sector market for 'outsourced warehousing and storage' activities would be some £2.7 billion.

No survey respondents indicated that they operated in this area, but we are happy to accept the comparatively modest estimate above as reasonable, given that many of these services could in principle be undertaken in-house.

Employment placement and agency activities: In 2009, turnover of 'employment activities' amounted to £30.6 billion. Splitting this on the basis of 2008 demand for 'other business services' sector shows 'outsourcing' activities of employment agencies to amount to £22.6 billion a year – £3.4 billion for the public sector and £19.2 billion for the private sector.

This top-down estimate is considerably higher than the survey-based estimate, and is critically dependent on our view that all employment placement activities for UK-based businesses and public sector bodies can be classed as 'outsourced'.

Call centre and customer care operations: In 2009, turnover of 'activities of call centres' amounted to £1.8 billion, while in 2008 demand for activities classified to 'other business services' (of which call centre operations form a part) was split as follows:

- Intermediate demand by public sector-type industries: 11%.
- Intermediate demand by other industries: 63%.
- Final demand: 26%.

On the reasonable assumption that all intermediate demand for call centre activities can count as 'outsourced work', we estimate on this basis that the size of the 'outsourced' call centre market was around £1.4 billion – £0.2 billion for the public sector and £1.2 billion for the private sector.

No respondents to the survey indicated activity in this area, but we believe the above turnover estimate – based on the assumption that all call centre operations by specialist firms on behalf of UK-based businesses and government bodies can be considered 'outsourced' – to be reasonable.

Other office and administrative support activities: This sector covers a wide range of work, all of which could be reasonably described as ‘outsourced’ where the supply is made to UK businesses or government. In 2009, turnover of these activities amounted to £34.0 billion. Splitting this on the basis of 2008 demand for ‘other business services’ would show the market for ‘outsourced’ services in this case to be £25.1 billion a year – £3.8 billion for the public sector and £21.4 billion for the private sector.

This estimate is somewhat higher than the survey-derived finding would be, even if we allocated a few miscellaneous survey categories – textile services, parcel delivery and unspecified other – to this sector. But we believe the top-down estimate to be reasonable on the grounds that all turnover in this area (other than exported services) should almost by definition be counted as ‘outsourced’. The top-down estimate will cover the services of many smaller outfits including self-employed or freelance activity, which BSA members may see as outside of their own market.

Business consultancy and advisory services: The likelihood of a particular service being an example of ‘outsourcing’, as opposed to ‘traditional procurement’, will depend in part on the nature of the customer rather than solely on the broad type of service provided. Business consultancy and advisory services provide a good illustration of that fact.

In principle, based on our definition:

- Basic standardised services provided by firms in the business consultancy field (such as subscription services and one-off project work), to customers of all types, should be excluded on the grounds that these are akin to the simple purchases of a service rather than being provided under a contract involving ‘a degree of delegation of management responsibility’.
- At the other end of the scale, highly specialised services should also be excluded on the grounds that it has never been the norm for such services to be provided in-house in the case of the private sector. (This would also be true of a range of professional services including accountancy and the majority of legal services.) But it would make sense to include these services where provision is made to the public sector, as in the past this sector would have sought to carry out virtually all service activities itself.
- In between will be a range of consultancy and advisory functions which might always have been provided by outside organisations in the case of small and medium-sized business customers, but which have only more recently been moved out-of-house in the case of larger business customers as well as public bodies. The value of these services should in principle also be counted as part of the ‘outsourced’ market.

In 2009, the total turnover of firms classified to the ‘management consultancy activities’ sector was some £40.5 billion. Of this, £1.8 billion was earned in the ‘public relations and communications activities’ sub-sector which we believe can all be classified as ‘outsourced’ work. Of the remainder (‘business and other management consultancy activities’), we have had to make assumptions about the split in total sector turnover between the categories above. Guided by the fact that our survey showed BSA members to believe that only a very small amount of activity in their markets was of a 'business consultancy' type, we took the view that only 20% of this type of work should be regarded as anything other than 'basic' provision, with a 50-50 split in that work between 'specialist' provision (which would count as 'outsourced' only in the case of provision to the public sector) and 'general consultancy of an outsourced kind'.

Meanwhile we also know from the national accounts supply and use tables that, in 2008, total demand for 'market research and management consultancy' services was split as follows:

- Intermediate demand by public sector-type industries: 5%.
- Intermediate demand by other industries: 87%.
- Final demand (mostly exports): 8%.

Putting this together gives us estimates of turnover from 'outsourced' consultancy activities of some £6.2 billion, of which £5.7 billion comes from sales to the private sector and £0.6 billion from those to the public sector. The latter compares with total spending on management consultancy, by central government departments, of just under £0.8 billion in fiscal year 2009/10.

While the survey of BSA members revealed only a very small amount of 'business consultancy' activity indeed, with no respondent taking a view on market size, Oxford Economics takes the view that a small but not insignificant share of these services could be classed as 'outsourced' on the definition we have set out.

Engineering, architectural and other technical services: For these specialist services we have decided to include the provision of technical services to companies in most parts of the utility, construction, telecommunications, extraction and transportation fields, on the grounds that these were likely in the past to have been undertaken in-house in these instances. That is also true of provision to the public sector, where we include all such provision. We do however exclude all remaining business-to-business transactions, on the grounds that this work would only have previously been carried out in-house in only a few highly specific instances[12].

On this basis, knowing that turnover in the 'engineering, architectural and other technical services' sector was £49.4 billion in 2009, and that in 2008 intermediate demand by public sector, construction and utility-type industries accounted for 18% of total demand for these services, we estimate the value of this 'outsourced' market to be some £8.7 billion. Of this, some £3.0 billion is with today's public sector-type industries and £5.7 billion with the private sector.

The survey-derived estimates would be consistent with a figure in this region, assuming that around half of activity classified to the 'building project

[12] For example, the provision of services by specialist architectural companies to large retail chains.

development'[13], 'access', 'defence' and 'utility' categories could be classified to this sector.

Waste management activities: Traditionally, a majority of waste management activities were carried out by the government sector. However, the usual situation today is for private sector companies to carry out these functions on behalf of local authorities, and indeed as far as we can tell from the data the role of the government sector as the actual deliverer of these services is not significant[14]. Consequently we count all public sector use of waste collection and recycling services – both final government consumption and intermediate consumption by public sector-type industries – as 'outsourced' work.

On the other hand we exclude all purchases of private waste collection services by private sector bodies, whether in the form of intermediate use by business or final private consumption by households, on the grounds that for the most part these services were never traditionally been provided in-house in the private sector. However, it is possible that a few such services would fall within our definition. (Also, advisory services on efficient waste disposal and recycling, etc, probably could be counted as 'outsourced' in some cases, but these would be covered by 'specialist consultancy services' – dealt with above – rather than as 'waste management activity' itself.)

We know from the ABS that some £14.2 billion of turnover was classified to 'waste collection, treatment and disposal activities; materials recovery', which we take to be the relevant sub-sector of interest here. We also know from the supply and use tables that public sector demand in total accounted for some 45% of all demand across the broader 'sanitary services' sector in 2009.

Putting all of this information together we estimate the size of the waste management outsourcing sector – in this case, essentially private sector provision to or for the public sector – to be around £6.3 billion. The survey respondents included only a small amount of work in this area with no indication of market size given.

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[13] 'Building project development' was included as a separate category in the survey but the label is confusing. In thinking about outsourced services we had in mind architectural and similar services for industry and government clients looking to develop their own premises. However, in the Annual Business Survey this category essentially covers the development of buildings by the construction sector with a view to selling them on.

[14] In principle it should be possible to elicit the contribution of government (and non-profit-making bodies) to sector turnover by comparing data in the ABS, which relates to all providers, with data in the BIS 'SME Statistics' dataset, which gives details for the private sector only. However, this is made more difficult for the most recent year by significant changes in industry classification in this area, and the fact that the SME Statistics dataset is based on the old 2003 SIC codes rather than the 2007 codes used in the latest ABS. But as far as we can tell from the information available, private sector turnover in the new 'waste collection, treatment and disposal activities; materials recovery' sector – combining most but not all of the old 'sanitary services' sector with the 'recycling' sector – is barely any different to the total turnover for that sector.

Services related to public transport: In the national accounts, the provision of transport services to final users is treated as 'private' rather than 'public' consumption, on the quite rational grounds that individuals pay for the service at the point of use (albeit with varying degrees of taxpayer-funded subsidy). The majority of such provision today is, therefore, provision by private companies to private households – provision which in all other cases we would simply exclude altogether from the definition of 'outsourcing'. However, while demand is clearly private rather than public, in the past the provision of these services was usually undertaken by organisations classified to the public sector. And even today, public sector authorities can be said to organise and oversee transport provision even where that provision is by private companies, in a way that is very untypical for business-to-household transactions.

Consequently, there is a strong justification for classifying all private sector provision of public transport services as 'outsourced work', even where this could be viewed as business-to-household rather than business-to-government provision. We also believe it logical, on the same grounds, to classify all such services to the 'public' rather than 'private' sector for the purposes of this report (while still excluding transport service providers themselves from the definition of 'public sector-type' users in our analysis of outsourced services more generally).

Turning to estimates of the size of this market, we know form the ABS that in 2009 turnover in the 'urban and suburban passenger land transport sector' – which we will take to be 'public transport;' for these purposes, i.e. excluding interurban rail services – amounted to some £8.0 billion. Unfortunately in the supply and use tables land transport is split into just two sub-sectors, 'rail' and 'other', with the latter dominated by the road freight industry with its very different pattern of demand.

However, on the fairly reasonable assumption that the pattern of demand for public transport as we've defined it is similar to that for total rail transport (in 2008), use of those services would break down as follows:

- Intermediate demand by public sector-type industries: 14%.
- Intermediate demand by other industries: 20%.
- Final demand by UK households: 61%
- Other final demand (exports): 5%.

On this basis total turnover of the 'urban and suburban passenger land transport sector' would include £4.9 billion relating to service provision to the general public and £1.1 billion for provision used by public sector-type industries. However, these figures include some provision by the public sector itself, which would not count as part of the 'outsourced' market. By comparing whole economy data in the ABS with private sector data in BIS SME Statistics, it appears that the turnover of these public sector providers would be in the region of £1.8 billion, leaving the value of the 'outsourced' market in 2009 at around £4.3 billion.

Respondents to the survey did not give an indication of size, but the total turnover of respondents undertaking these activities would be broadly consistent with the above figure, if scaled up in a reasonable way to allow for other market participants.

Educational services

Here we are seeking to measure not the total amount of outsourced provision to the education sector – which would include services related to e.g. catering, property maintenance and business process support – but the outsourced provision of educational services themselves. (The same is true of health and welfare-related services considered below.)

In this case of education, the ABS turnover figures (unusually, but fortunately for these purposes) exclude the public sector, such turnover amounting to £29.2 billion in 2009. This still includes the significant role of the universities (which are classified to the non-profit sector), with figures from BIS SME Statistics showing turnover of private education providers in that same year, excluding the non-profit sector, to be just over half that amount at £15.3 billion.

Together with data on output and demand from the National Accounts, this implies a split in the value of provision in terms of user and provider sectors along the lines shown in Table 3.2. On the reasonable assumption that private sector demand tends to be largely met by private rather than public sector providers, then it appears unlikely that any more than a comparatively modest fraction of the £15.3 billion of commercial provision would be accounted for by public sector use – provision which would, in principle, be counted as ‘outsourced’ on our definition.

Meanwhile, of those supplies made by commercial outfits to private sector customers, a portion of business-to-business provision (worth perhaps £8 billion in total) could in principle be counted as ‘outsourced’ – i.e. cases where employers would previously have provided work-related training in-house but now bring in training providers from outside. However, this is also likely to be relatively small: the vast majority of provision to business of services classified to ‘education’ would have been provided by outside agencies even in the ‘pre-outsourcing’ era.

We nevertheless know from the responses of BSA finance directors to our questionnaire, and indeed from our work on other projects, that private sector organisations do provide select educational services falling within our definition of ‘outsourcing’ – mostly to the public sector. Based on the BSA survey results in terms of respondents’ own activity in this area, but scaled up to allow for other providers, we would take a figure of £1.5 billion as a broad indication of market size in this field.

Table 3.2: Provision of education by user and provider category

£ billion, 2009			
By user category:		**By type of provider:**	
Exported services	2.2	Imported services	0.6
Final household consumption (private schooling etc)	11.3	Private commercial providers	15.3
Intermediate consumption (job training etc): private sector	8.9		
Final consumption: non-profit (university study etc)	20.8	Not-for-profit providers (universities etc)	13.9
Final government consumption (state schooling etc)	53.0	Bodies classified to the public sector (local authorities etc)	80.6
Intermediate consumption (job training etc): public sector	14.1		
Total	**110.4**	**Total**	**110.4**

Source: Oxford Economics estimates based on ONS National Accounts, ONS Annual Business Survey and BIS SME Statistics.

Healthcare services

In the healthcare sector, we would be inclined in principle to count all private-to-public provision as 'outsourced' activity, while excluding all private-to-private provision. However, in the national accounts, some local medical and dental surgeries that are essentially part of the NHS can be classified to the private sector, and we would wish to exclude these. Consequently, not only are the ABS figures not suitable for these purposes (they exclude medical and dental practices altogether) but use of the BIS SME Statistics could also be misleading.

We can however fall back on estimates derived from the detail of public expenditure. Estimates previously made by Oxford Economics[15] pointed to procurement by public sector healthcare functions of *front-line* services from other sectors – i.e. medical services themselves, excluding property-related, IT and administrative support functions etc – to have been around £8.8 billion in 2005/06. Over the four years since then, total current procurement by public sector health functions (spending on bought-in goods and services of all types excluding these organisations' own staffing costs) has increased by 35.7%, from £52.9 billion to an estimated £71.7 billion for fiscal year 2009/10.

Based on the reasonable assumption that the value of 'frontline' services increased in line with the sector's total current procurement, we would therefore put a value of £11.9 billion on the market for 'outsourced' healthcare services.

[15] The Market for Public Services in the UK, Oxford Economics report for the CBI, January 2008

Welfare-type services

Outsourced companies undertake a wide range of services that could be described as 'welfare-related'. The questionnaire for ABS members included the categories 'welfare-to-work services' and 'offender management and similar' services, while respondents also identified work in the field of 'asylum – accommodation and support'. In the national accounts industrial framework, activities in these fields could be thought of as falling between three rather diverse 'industry' categories: 'employment activities' and 'security services' covered above, and 'residential care and social work' which we consider here[16].

The 'residential care' activities and 'social work without accommodation' industries identified in the latest ABS exclude public sector activities and provide quite a refined breakdown in terms of the type of provision, allowing us to distinguish between categories that probably should be regarded as part of the public sector's responsibilities (e.g. residential nursing care activities) and other activities (e.g. child day care).

In 2009, the total value of turnover in all of these areas amounted to £22.9 billion, excluding public sector bodies but including activities of the not-for-profit sector. Of these, turnover in areas dealing essentially with help for the incapacitated, and therefore falling within a reasonable definition of the public sector's responsibilities, was around of £15.4 billion. (This includes provision by non-profit bodies which we believe should be seen as part of the outsourcing sector in this case.)

Aside from the specialised 'asylum support and accommodation' sector, no respondents to the survey reported activities in this field, but we believe that activities in the broader care sector should be classed as 'outsourced' when undertaken by private sector organisations on behalf of the public sector.

[16] Some service providers in these fields could also conceivably be classified to other industries, such as property services.

Annex: Detailed tables

Table A.1: Estimation of sector employment

Outsourcing sector	GVA, £ billion	Proxy sector in Annual Business Survey	Employment per £1 million of GVA, 2008)	Estimated employment, millions
IT and data-related services	24.7	Computer programming, consultancy and related activities	13.7	0.34
Catering	1.3	Food and beverage service activities	69.5	0.09
Combined facilities management	4.3	Combined facilities support activities	17.1	0.07
Property services / maintenance / cleaning	18.7	Weighted average of building completion and finishing and services to buildings and landscapes activities	31.6	0.59
Security services	5.3	Security and investigation activities	38.2	0.20
Property portfolio / real estate management	1.1	Management of real estate on a fee or contract basis	18.4	0.02
Warehousing / storage	1.1	Warehousing and storage	22.0	0.02
Waste management	2.0	Waste collection, treatment and disposal activities; materials recovery	16.5	0.03
Employment placement / agency activities	15.0	Employment activities	35.6	0.53
Call centre operations / customer care	0.9	Activities of call centres	34.7	0.03
Other office / administrative support services	11.4	Office administrative, office support and other business support activities	21.4	0.24
Business consultancy / advisory services	3.7	Management consultancy activities	15.8	0.06
Technical / engineering / scientific services	4.9	Architectural and engineering activities; technical testing and analysis	16.7	0.08
Services related to public transport	2.4	Urban and suburban passenger land transport	28.3	0.07
Educational services	0.6	Education[2]	34.0	0.02
Health-related services	6.7	Health and social work[2]	40.1	0.27
Residential care and social work	10.8	Health and social work[2]	40.1	0.43
Total	**114.9**			**3.11**

[1] 'Building completion and finishing' includes activities of the type most relevant to property maintenance. The weights are in line with our estimates of GVA for the 'maintenance' and remaining 'property services' categories. [2] From UK National Accounts and 'Economic and Labour Market Review'.

Table A.2: Estimation of sector tax contribution

	£ billion pa
Gross value added	114.9
Assumed split in GVA[1]*:*	
Wage bill	62.2
Taxes on production net of subsidies	3.0
Employer contributions (NICs plus pensions)	9.7
Gross operating surplus	40.0
Estimated payment of three major business taxes	
Corporation tax[2]	6.3
Employers' national insurance[3]	5.5
Business rates[4]	3.0
Total	**14.7**
Payment by employees of two further main taxes	
Income tax[5]	13.0
Employee national insurance contributions[3]	3.7
Total of five major taxes	**31.3**
As % total government receipts of these taxes	*10.9*

[1] Based on split for the total non-financial corporate sector in Blue Book 2010 (for latest year, 2008). [2] Based on the same ratio of corporation tax to gross operating surplus as across the private non-financial corporate sector. [3] Based on the same ratio of NICs to wages as across the whole economy. [4] Business rates are essentially equal to net taxes on production other than on products. (Across the economy as a whole other such taxes, e.g. business vehicle duties, are comparatively modest and broadly balanced by subsidies.) [5] Based on the share of wages being equal to the share of household income tax in total net household income (wages plus net self-employment income etc) in the national accounts.

Table A.3: Estimating the value of outsourced IT and data-related services

From the Annual Business Survey, turnover, £ billion	**2008**	**2009**
Computer programming, consultancy and related activities (SIC code 62[1])	67.5	60.8
Data processing, hosting and related activities; web portals (SIC code 63.1[1])	5.4	6.3
Total of above industry groups	72.9	67.0

From National Accounts Supply and Use tables, output and demand, £ billion, 2008

Domestic output[2] of computer services at basic prices[3]		Plus:		Total demand and supply of computer services products at purchasers' prices	Of which:		
'Industry group' 107[4]	'Product group' 107[5]	Imports	Taxes on products		Intermediate use by public administration, education, health and social work industries	Intermediate use by other industries	Final demand
63.4	72.3	4.0	3.0	79.3	7.9	41.4	29.9

Oxford Economics' estimate of the value of 2009 sales by user group

Industry turnover, 2009, £ billion	67.0		
Scale up to allow for 'product' and 'industry' difference?	No[6]		
	Intermediate - public sector	Intermediate - private sector	Final demand
Demand at purchasers' prices by customer group, 2008	7.9	41.4	29.9
Assumed allocation of imports[7]	0.4	2.1	1.5
Assumed allocation of taxes on products[8]	0.3	1.6	1.1
Approximate product output by customer group, 2008	7.2	37.7	27.3
Assumed industry turnover by customer group, 2009[9]	6.7	35.0	25.3
Percentage of each market counted as 'outsourced'	100	100	0
Size of outsourced market, 2009, £ billion	**6.7**	**35.0**	-

[1] Industries in the latest Annual Business Survey are classified under Standard Industrial Classification (SIC) 2007. [2] Output is essentially equal to sales plus changes in the value of stocks; it is the National Accounts concept closest to turnover. [3] Values are measured net of taxes on products (such as VAT), but no deduction is made in respect of income needed to cover other taxes on production (such as business rates). [4] Industries in the latest Supply and Use tables are classified under SIC 2003. [5] In the National Accounts total domestic output is broken down both by 'industry groups' and by 'product groups'. It can be seen that output classified as computer services products is somewhat greater than the output of business units classified to the computer services industry. [6] In principle this could be an issue. However for the purposes of measuring the size of the 'outsourcing' sector our judgement is that the 'industry' classification will provide a better starting point than the 'product' classification. [7] In proportion to total demand. [8] In proportion to total demand. In practice, a disproportionate amount of taxes on products will fall on final as opposed to intermediate demand in cases where final demand is dominated by household consumption (which is essentially the target of VAT). However in this case, as in the case of most other business service activities, fixed investment and exports are the key components of final demand. [9] The £67.0 million turnover for 2009 split in proportion to product output in 2008.

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