

The time to redraw the boundaries of the state has arri...

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The Guardian [has reported that:](#)

Nearly £1bn has been wiped off the value of the government contractor Capita after the company issued a shock profit warning, axed its dividend payout to shareholders and said it needed to raise £700m to put its finances back on track.

The grim state of Capita's financial position emerged just two weeks after the collapse of the construction firm Carillion.

In the latest blow to the outsourcing sector, Capita's new boss unveiled a radical overhaul of the group's finances, and gave a damning assessment of the company, which he said had become "too complex" and lacking in discipline.

The government is already anxiously saying that this does not make it the next Carillion, but the balance sheet hole that exists is not much smaller than that Carillion announced last year, and whether or not £700 million of new money can be raised and at what price is open to question when it is very obvious that the business model is not working.

This, take note, is also no minor business model. Like Carillion, Capita is on the frontline of outsourcing, in particular. And what is being said is firstly that this creates a situation too complex for a business to manage with, secondly, margins that are clearly not sufficient to sustain the company in business as it is. That's not a micro issue: this is about whether or not the whole frontier between the state and private sectors has been appropriately drawn for a couple of decades or more.

The compelling evidence of these two failures (and it is clear Capita has failed as it has been, even if it survives in another form) is that the boundary in question is in the wrong place.

What is more, the whole logic of outsourcing that works only if those working to supply services are squeezed on pay and conditions to the point where their working conditions are intolerable is also no longer viable.

This means three things. Firstly what the state does, and does not do, itself needs to be reappraised and much more needs to move in house.

Second, the pretence that good public services can be supplied cheaply on the basis of abusing the staff supplying them has to be consigned to history and drawn to a close as rapidly as possible.

Third, the questions on the relationships between government, tax, borrowing and money creation that I raise on this blog now need to move centre stage in discussion.

Carillion and Capita may not have intended to signal the end of a particularly nasty and inappropriate form of capitalism, but if that's what they might inadvertently do I will not be sorry. However, and as ever, the opportunity for change must be grabbed. I recommend my recent posts on the [social economy](#) and [paying for it](#).