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Continuity Of Service Is Not Employment: Supreme Court On Contractor-Supplied Workers

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Introduction

The Supreme Court's decision dated 16 December 2025 in *Municipal Council, Nandyal Municipality v. K. Jayaram & Ors.*¹ carries significant implications for government bodies and public sector employers engaging manpower through outsourcing arrangements. The Court has unequivocally held that contractor-supplied workers are **not entitled to minimum time-scale pay or service benefits applicable to regular employees**, even where such workers have rendered uninterrupted service for several decades. The ruling reinforces the principle that public employment is governed by constitutional norms of transparency and equal opportunity, which cannot be bypassed through indirect engagements.

Table of contents

- [Introduction](#)
- [Factual Background](#)
- [Core Legal Issue](#)
- [Supreme Court's Analysis](#)
 - [1. Nature of Engagement and Absence of Direct Employment](#)
 - [2. Limits of the "Equal Pay for Equal Work" Doctrine](#)
 - [3. Public Employment and Constitutional Safeguards](#)
 - [4. Continuity of Service and Allegations of Camouflage](#)
 - [5. Distinction from Cases of Direct Contractual Engagement](#)
- [Decision of the Court](#)
- [Compassionate Observation \(Non-Precedential\)](#)
- [Key Takeaways](#)
- [Conclusion](#)

Factual Background

The dispute arose from the engagement of the respondents by the Nandyal Municipality, Andhra Pradesh, through successive third-party manpower contractors beginning in or around 1994. The respondents were not appointed directly by the Municipality; rather, their engagement was routed through contractors who were awarded contracts to supply manpower for various municipal functions. Payments were made by the Municipality to the contractors, who in turn paid wages to the respondents in accordance with the contractual terms.

Despite periodic changes in contractors, the respondents continued to perform the same or similar duties for the Municipality without interruption over several years. Relying on the continuity of their engagement and the nature of work performed, the respondents approached the Andhra Pradesh Administrative Tribunal seeking regularisation of their services and payment of the minimum of the time scale applicable to regular municipal employees holding corresponding posts.

The Administrative Tribunal rejected the respondents' claims, holding that no employer–employee relationship existed between the Municipality and the respondents. Aggrieved by this decision, the respondents challenged the Tribunal's order before the High Court of Judicature at Hyderabad. The High Court, by a common order dated 23 August 2018, reversed the Tribunal's findings and directed the Municipality to grant the respondents the minimum time-scale of pay along with annual grade increments, on the footing that they were performing duties similar to those discharged by regular employees.

It was this decision of the High Court that was assailed before the Supreme Court by the Municipal Council, Nandyal Municipality, leading to the present batch of civil appeals.

Core Legal Issue

The principal question before the Supreme Court was:

Whether workers engaged through third-party contractors can claim parity in pay and service benefits with regular employees of a State instrumentality, solely on the basis of long and continuous service.

Supreme Court's Analysis

The Supreme Court's determination turned on the nature of the legal relationship between the Municipality and the respondents. The Court identified the existence or absence of a direct employer–employee relationship as the decisive factor in adjudicating claims for pay parity and service benefits.

1. Nature of Engagement and Absence of Direct Employment

The Court noted that it was undisputed that the respondents were never directly appointed by the Nandyal Municipality. Their engagement, remuneration, and statutory benefits were governed by contracts executed between the Municipality and independent manpower contractors. Payments were made to the contractors, who alone bore responsibility for disbursing wages and complying with labour law obligations. On this basis, the Court held that the respondents were “faceless” vis-à-vis the Municipality, and any service-related claims could not be enforced against the municipal body.

2. Limits of the “Equal Pay for Equal Work” Doctrine

Addressing the High Court's reliance on functional similarity between the respondents and regular municipal employees, the Supreme Court clarified that the doctrine of *equal pay for equal work* is not automatically attracted in all cases of contractual engagement. The Court distinguished earlier precedents, including *State of Punjab v. Jagjit Singh*², observing that such decisions concerned situations where workers were directly engaged by the State on a contractual basis, and not through an intermediary contractor. In the absence of a direct contractual nexus, the respondents could not claim parity in pay or increments merely because they performed similar duties.

3. Public Employment and Constitutional Safeguards

A central theme of the judgment is the characterisation of public employment as a public trust governed by Articles 14 and 16 of the Constitution. The Court emphasised that regular appointments to State entities are subject to transparent procedures designed to ensure equal opportunity and prevent arbitrariness. Extending regular pay scales and service benefits to contractor-supplied workers, the Court cautioned, would effectively legitimise a recruitment process that operates outside constitutional scrutiny, thereby undermining the integrity of public employment.

4. Continuity of Service and Allegations of Camouflage

The respondents argued that their uninterrupted service over decades, despite changes in contractors, indicated that the contractual arrangement was a mere camouflage to deny them lawful benefits. While acknowledging that such arguments may appear compelling at first glance, the Court declined to accept them in the absence of a direct challenge to the legality of the outsourcing arrangement. It observed that continuity of personnel is often a commercial decision taken by incoming contractors to ensure operational efficiency and does not, by itself, establish a sham contractual relationship.

5. Distinction from Cases of Direct Contractual Engagement

The Court further reiterated that precedents permitting regularisation or pay parity were factually distinguishable, as those cases involved direct contractual appointments by the principal employer. In contrast, engagement through a contractor introduces a legally valid and substantive distinction that cannot be ignored while adjudicating claims against a State instrumentality.

Decision of the Court

The Supreme Court allowed the appeals filed by the Municipal Council, Nandyal Municipality, and set aside the High Court's order dated 23 August 2018, which had directed the grant of minimum time-scale pay and annual increments to the respondents. The Court restored the orders of the Andhra Pradesh Administrative Tribunal, thereby rejecting the claims of pay parity and regularisation.

The Court held that workers engaged through third-party contractors do not have an enforceable right to claim service benefits applicable to regular employees of a State instrumentality, in the absence of a direct employer–employee relationship. Mere continuity of service or functional similarity with regular employees does not dilute this legal distinction.

While affirming the legality of outsourcing arrangements, the Court observed purely as a measure of compassion and without creating any precedent that the Municipality may consider regularising such workers against perennial posts, given their long and uninterrupted service. This observation was expressly confined to the special facts of the case and was not intended to have

general application.

Compassionate Observation (Non-Precedential)

Notably, the Court tempered its legal conclusion with a humanitarian observation, suggesting that the Municipality may consider regularising such workers against perennial posts, given their decades of uninterrupted service. However, the Court made it explicit that:

- This observation is case-specific, and
- It shall not operate as a precedent for future cases.

Key Takeaways

1. **No pay parity without direct employment:** Workers engaged through contractors cannot claim minimum time-scale pay applicable to regular employees.
2. **Equal pay doctrine is not universal:** Its applicability depends on the nature of engagement, not merely similarity of work.
3. **Public recruitment safeguards are critical:** Courts will resist outcomes that dilute constitutional requirements of transparency and equal opportunity.
4. **Compassion cannot override law:** While sympathetic considerations may guide administrative discretion, they do not create enforceable rights.

Conclusion

The Supreme Court's ruling in *Municipal Council, Nandyal Municipality v. K. Jayaram & Ors.* reinforces a clear and principled distinction between direct public employment and manpower engaged through third-party contractors. By setting aside the High Court's direction granting minimum time-scale pay to contractor-supplied workers, the Court has reaffirmed that constitutional doctrines such as *equal pay for equal work* cannot be invoked in isolation from the legal nature of the engagement.

The judgment highlights that public employment is governed by constitutional safeguards of transparency, merit, and equal opportunity, which cannot be diluted by extending regular service benefits to individuals engaged through indirect and discretionary hiring mechanisms. At the same time, the Court's limited and non-precedential observation encouraging a compassionate review of long-serving workers reflects a balanced approach that acknowledges human considerations without compromising settled principles of law.

For public authorities and contractors alike, the decision provides much-needed clarity on the legal boundaries of outsourcing arrangements and is a reminder that while policy-driven or compassionate measures may be explored administratively, enforceable service rights must ultimately rest on a legally recognised employer–employee relationship.

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1. Arising out of SPECIAL LEAVE PETITION (CIVIL) NOS. 17711-17713 OF 2019 ??
2. (2017) 1 SCC 148 ??

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