Perspective Economics

Department for Digital, Culture, Media, and Sport

The role of Voluntary, Community, and Social Enterprise (VCSE) organisations in public procurement

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Contents

Foreword by the VCSE Crown Representative

The Voluntary, Community and Social Enterprise (VCSE) sectors and the social value they create play a crucial role in our journey of transforming how the government delivers smarter, more thoughtful and effective public services that meet the needs of people across the country. Over 75 percent of VCSEs deliver public services where they are based, with strong links to that locality. Their place-based solutions can create a greater impact for those most in need, who are hard for the traditional public sector to reach. VCSEs contribute to economic growth, making the economy more innovative, resilient and productive. They can open up opportunities for people to engage with their community, foster belonging and enrich lives. Therefore the VCSE sector's unique role in public services is vital, more now than ever.

DCMS commissioned independent analysis to assist the government in targeting efforts first, to unlock public service spend for maximum social value and second, to support the sustainability of the VCSE sectors. This research explores the role which VCSEs can play in public services. It identifies how we can reduce barriers to increase VCSE participation in public service markets. A particular focus lies in areas such as health and social care, disability, employability, where tailored and bespoke support is often beneficial to best support vulnerable groups.

The research engaged with my VCSE Advisory Panel, the Diversity Task Forces and their members including BAME-, women- and disability led organisations. The researchers consulted with nearly 30 interviewees - relevant policymakers, civil society leaders and academics. They reviewed the existing literature, and systematically analysed data from three key data sources including the Charity Commission register. The evidence and insights generated are informing our steps ahead.

There is much to do to enable the VCSE sectors work even more closely with the government as part of government supply chains, and as the VCSE Crown Representative I would like to highlight the distance we have travelled. 2022 marks the ten year anniversary of the Public Services (Social Value) Act 2012, the first legislation of its kind anywhere in the world. The Act helped transform the debate on what we can achieve through public spending. The UK has established itself as a world leader in social value. We are committed to awarding contracts not just on price, but on the long-term benefits they deliver for our society. This is why last year, our Social Value Model came into force following a public consultation.

Our Social Value Model strengthens the use of the Act and is designed to enable VCSEs and SMEs to compete alongside larger organisations. This has been the biggest change in government procurement for our VCSE sectors in recent times, covering £49bn spent by central government. It is critical for the sustainability of our VCSE sectors to use the opportunities the Social Value Model opens up. This is why I published an updated 'Guide to working with government' for VCSEs. I also hosted a webinar series including bespoke engagement with VCSEs which typically do not enter the public procurement market, like BAME, Women and Disabled-person-led organisations.

We have taken further steps to enable VCSEs' participation, for example, the possibility of reserving below threshold procurement, increasing transparency by updating the requirements for the public sector to publish contracts on Contracts Finder, and increasing accountability by strengthening the Government Prompt Payment Policy. Indeed our public procurement reforms as a whole aim to open up public procurement to new entrants such as VCSEs and SMEs so that they can compete for and win more public contracts. In short, the government has stepped up the ambition to enable more VCSE participation in public procurement.

Whilst acknowledging efforts and progress over the last decade, I also want to challenge us to go further, and emphasise that the government cannot do this alone. This is why I welcome this research report. It shows that whilst much good work has been happening, much work remains ahead. This report offers a critical base on which to build our collective efforts going forward, harnessing £300 billion of government spend each year to truly benefit our VCSE sectors and the communities they serve.

Claire Dove CBE
Voluntary, Community and Social Enterprise (VCSE) Crown Representative

Executive Summary

Perspective Economics has been commissioned by the Department for Digital, Culture, Media, and Sport (DCMS) to assess the role and potential role of Voluntary, Community, and Social Enterprise (VCSE) organisations in delivering public sector contracts. The research contributes to an evidence base regarding the barriers and growth potential for VCSEs that engage in delivering public sector contracts, providing new in-depth analysis that explores four key areas:

- The current levels of participation in public procurement by VCSEs.
- The growth potential, and factors influencing growth potential for VCSEs.
- The barriers facing VCSEs, and how these might be addressed through policy or design initiatives.
- The implications for policy and commissioning, with particular focus on political, economic, social, technological, legal, and ethical and environmental (PESTLE) factors.

Current Levels of Participation by VCSEs in Public Procurement

- Data suggests that there are up to 250,000 active VCSEs in the UK. We estimate that between 9,200 and 12,500 VCSEs[1] engage in government contracting each year, i.e., up to 5% of active VCSEs.
- The ability and willingness of VCSE organisations[2] to participate in procurement can be impacted by a range of factors such as size and alignment of their purpose with procurement criteria.
- Local government is an important source of public contracts for the VCSE sector. Overall, 68% of contracts awarded to VCSEs come from a local government client. This is followed by central government (13%) and the NHS (11%).
- Section 4 explores the income from public contracts secured by charities using the Charity Commission Register. This is a rich dataset which provides insight into how much income registered charities are generating from procurement each year. The size of the charity is a major determinant for the level of engagement with procurement. In the most recent year (2020), two-thirds of income (£6.2bn) from government contracts was secured by charities earning in excess of £10m despite these charities only representing a group of just over 500 providers (6% of VCSEs currently engaging with procurement).
- Future supply-side initiatives that seek to increase the extent of VCSE involvement in public procurement should target larger VCSEs (e.g. c. £100k annual turnover[3]) as these organisations are more likely to have the capacity to scale up public contracting activity.
- Receipt of public grants by charities (approximately one in five) aligns strongly with the likelihood to participate in procurement. Grant participation may be linked with contract readiness in smaller charities and may influence future targeted capacity building exercises.

[1] Data approach and methodology set out in Section 4. This is a potentially conservative estimate as the analysis draws upon charitable organisation data and may therefore underestimate the level of procurement activity from social enterprises.

[2] Please note that across the diverse types of VCSEs, it is easier to identify charities and community interest companies at the individual level, given their unique legal structure. Social enterprises are harder to define and map across datasets – for example, a private limited company can be a social enterprise. As a result, this study draws upon a range of datasets to identify organisations, and match these to contract income and awards. In addition, the research team has consulted with c.30 VCSE representatives and organisations).

[3] Please note that organisations with an income of under £100,000 are responsible for less than 1% of total procurement award values.

- One in five (19%)[4] social enterprises report that their main source of income is from trading with the public sector, suggesting significant growth potential for social enterprises working with the public sector, either through procurement or other trading.
- Regional variation is an important consideration, e.g., VCSEs in the North West and West Midlands are twice as likely as their regional counterparts to win a contract from the NHS. Proximity to contracting organisations is another factor in shaping public procurement.

Growth Potential

Section 5 explores VCSE participation and growth potential within a number of key sectors (health and social care, disability, and employability). Growth potential is explored by factors such as size and scale, and the current data (derived from Tussell for VCSEs[5]) suggests that:

- Health and social care (HSC) is likely to be both a core market for VCSEs (driving the majority of spend with VCSEs in public procurement) as well as an opportunity for growth. This market is likely to grow substantially given wider demographics, and HSC pressures. HSC contracts could grow at up to 9% per annum (compound annual growth rate) and by the mid-2020s, the value of HSC awards to VCSEs could exceed c. £5bn – one quarter of the c. £20bn market.
- There is clear evidence of VCSEs being well engaged in the procurement of services relating to disability, employability, and vulnerable adults. The current high levels of VCSE participation in these markets may mean that growth potential (with respect to increasing share) may be limited, but policymakers should continue to track the coverage of VCSEs in these markets to ensure VCSEs can maintain market share and competitiveness.
- For most of the sectors explored, commissioning primarily occurs at a local government level. Growth is therefore most likely at the local commissioning level, but should be considered alongside grant income (e.g., whereby VCSEs are currently receiving grants from local authorities, but could feasibly be positioned to secure both grants and contracts in future).

Key barriers facing the VCSE sector

Section 6 explores a wide range of barriers[6] impacting VCSE participation in public procurement. We summarise the key barriers below.

- **Definition and understanding** of the sector can result in reduced practical engagement and understanding of the sector.
- While **sunk costs** are viewed as a necessary part of procurement, this investment of time should be proportional to a contract's scale and complexity.
- **Contract payment timelines**, receiving payment on time and managing cashflow on public contracts can be challenging for VCSEs.
- **Supply chain issues** can lead to smaller VCSE organisations feeling overburdened or to be within public contract supply chains.
- **Awareness of opportunities** and access to information regarding current and upcoming tenders was frequently cited by VCSEs as a key barrier.

[4] SEUK (2021) No Going Back: State of Social Enterprise Survey 2021

[5] This includes charities, non-profit organisations, CICs, and where available, social enterprises identified by Tussell.

[6] Please note that barriers have been identified based on the review of c.90 documents, and through c. 30 consultations with a diverse range of government and sector representatives.

- **Contracts marked as suitable for VCSEs** varies between central government and local government authorities, which may impact likelihood, or perception of VCSE's ability to engage.
- **Technological barriers** are important to consider. With the digitisation of contract notices, it can often become challenging for smaller VCSEs with less technological know-how to track contract opportunities across multiple sources. Recent literature highlights a digital skills gap, with less than half of the VCSE sector rating their digital skills as "good." Cyber security is also cited as an area in which VCSEs could be supported.
- **Skills and Capacity** issues should be considered. This can be affected by the size and scale of organisational structures. Smaller VCSEs can be disadvantaged when compared to larger organisations with greater structural capacity and experience of bidding for contracts.
- **Contract design** can act as a barrier to engagement for organisations with different geographic reach, human resource, or sector specialisms. VCSEs may be excluded based on the scope of the project's tender specification (i.e., whether the requirements are specialist or general), the scale (i.e., local or across regions), and the price (i.e., are budgets realistic enough to meet the needs of the VCSE's service users).

There are several actions that can be taken to practically reduce barriers faced during procurement. Consultees discussed the **role of tender criteria** and the scored use of Social Value to ensure that the benefits of the VCSE sector can be reflected within the bidding process. This should include increased involvement of the sector in the commissioning, decommissioning, and recommissioning of contracts, and the standardisation of procurement portals and tender questions where possible. Other options could include ring-fencing funding for the sector that can be awarded to smaller organisations with fewer resources. This funding could include a less resource-intensive process to encourage participation, and greater flexibility in requirements to ensure smaller VCSEs can continue to adjust their services to meet regional needs.

Implications for policy-makers and commissioners

Findings from the research suggest a series of potential implications:

- **Improving data quality:** There are several steps that can be taken to improve data quality for understanding VCSE participation in public procurement. Key considerations include:
    - **Availability of data for different types of VCSEs:** By improving the quality of data available for different types of VCSE, commissioners can be supported to engage relevant groups and to support delivery catering to the needs of specific service users.
    - **Data available at the local level:** Local government commissioning is important for the sector. Developing infrastructure to support collaboration could help stimulate procurement opportunities for specialist VCSEs at a local level.
    - **Supply-chain data enrichment:** There is limited data available regarding VCSE sub-contracting. Future research should enrich government's understanding of where sub-contracting spending is allocated to VCSEs.
    - **Potential survey to assess VCSE attitudes towards procurement:** Given the diversity that exists within the sector, a **survey approach** within future projects may be useful to explore representative views on procurement from the VCSE sector.
- **Addressing capacity concerns:** It is important to acknowledge and mitigate the capacity limitations that exist on both the supplier and commissioning side. This could include provision of resources to develop formal VCSE procurement strategies or the identification of 'sector

champions' within commissioning bodies to articulate the role of social value, and the potential impact of VCSEs.

- Limited capacity, particularly among local commissioners, has arguably resulted in poor levels of understanding, and an inadequate capacity to facilitate meaningful or consistent engagement with the VCSE sector. This has also led to fragmented policy and practice between regions and means that contracts are rarely designed with the VCSE sector in mind. It has also been noted that co-production and co-design are limited due to capacity issues.
- **Need to build strategic, long-term partnerships:** Engagement between commissioners and the sector is typically viewed by consultees as 'ad hoc'. This limits the ability of the sector to work effectively in partnership, both together, and with commissioners to address long-term regional need.
- **Awareness of user-led value-added and engagement:** Commissioner awareness of user-led engagement should be increased. These organisations can ensure that both culturally appropriate and tailored support services are available, and that the most marginalised members of a community can feel safe when being signposted to mainstream support.

With respect to further understanding the growth potential of VCSEs in public procurement:

- Government should **further explore VCSE intention to bid or scale using public procurement**, potentially through a representative survey. This would enable an assessment of the potential volume of VCSEs currently not engaging with procurement that wish to do so.
- Central and local government stakeholders should consider the **areas of strategic expertise and VCSE strengths within key markets**, and should **explore the potential for 'matching' skills against contracting opportunities** (at a scale which VCSEs can engage with). This could involve co-production or feedback sessions between commissioners and VCSE bidders.
- Growth potential should also account for both the risk of market displacement and the wider size of each core market. There may be opportunities to grow the market for VCSEs through either growing the aggregate market, encouraging sub-contracting of VCSEs by private teams, or by encouraging commercial entities to have more social focus.
- Growth potential could feasibly exist at a sub-contractor level; however, this area has limited data and has been underexplored in the past. We recommend that the use **of enhanced data within central and local government commissioning at a sub-contractor level,** shared where possible to further the understanding of the size of subcontracting opportunities available to VCSEs.
- Growth potential for VCSEs could also be enhanced through **practical interventions with respect to awareness of contracts**. For example, all contracts should be marked as suitable for VCSEs by default (unless suitable reasons are given) and proportionality should be adopted, i.e., using appropriate frameworks could be used to commission smaller lots of services where specialist VCSEs may be well placed to deliver services.

1 Introduction

1.1 Study Background

Perspective Economics has been commissioned by the Department for Digital, Culture, Media, and Sport (DCMS or "the Department") to assess the role, and potential role of Voluntary, Community, and Social Enterprise (VCSE) organisations in delivering public sector contracts.

DCMS is the government lead for VCSE policy and coordinates across government to ensure that VCSE organisations are fully represented in civil society policy and wider government strategies. The Department places strategic priority upon stewarding a strong, stable, and more sustainable VCSE sector, and unlocking public service spending to maximise social value.

When discussing the VCSE sector within this report, the research team refer to the wide range of organisations that exist **with a social or environmental purpose. VCSE organisations can include charities, public service mutuals, social enterprises, and many other non-profits.**

The Department believes that VCSE organisations can provide better, more effective public services, while also creating social value that benefits society more widely[7]. **Social value is the creation of additional social outcomes 'through the performance of a contract and includes the wider social, environmental, or economic benefits that can be delivered through government contracting.**

This research builds on previous analysis of procurement practices conducted on behalf of DCMS by Tussell[8], and provides a more in-depth view of how procurement practices vary between regions, different levels of Government, and between VCSEs of different sizes, and service provision. The research makes use of both quantitative and qualitative research methods (outlined in Section 2), while also consolidating wider literature relevant to public procurement within the VCSE sector.

1.2 Research Questions

This research explores the potential of VCSE organisations in public sector contracting and the barriers they face in entering and delivering within public markets. There are a number of research questions that this report considers, which are summarised below:

Growth Potential:

These questions are focused on understanding how VCSE participation (with respect to volume or value) can be increased within public markets, and where the opportunities exist. Key questions include:

- How many VCSEs are there currently in the UK, and of these how many are currently winning Government contracts?
- Which markets exist where non-VCSE organisations currently deliver contracts, that VCSE organisations could feasibly run? What are the implications for government policy?
- How does growth potential differ within health and social care, disability, and employability markets? How is this affected by factors such as:
    - **Government Level**: Where is the largest growth potential?

[7] As set out in Procurement Policy Note 06/20 (Taking Account of Social Value in the Award of Central Government Contracts' which states that 'applying social value requirements in procurement can have a significantly positive impact by broadening the benefits that are delivered.'
[8] Tussell is a procurement database and research practice based in the UK. The previous report commissioned by DCMS is available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1069635/UK_Public_Sector_Procurement_through_VCSEs.pdf

    - **Contract Level**: Is there potential for VCSEs to secure contracts further down the supply chain?
    - **Geography**: Where is VCSE participation in public procurement lower than in other areas?
    - **Size of Organisation**: What is the growth potential for VCSEs within the selected public markets depending on size?
    - **Type of Organisation**: To what extent is there room for new entrants within the markets of interest?
- How much does the growth potential change depending on whether a provider is a **specialist** in a particular type of service only, vs a **provider of a wider range** of services or engaged in multiple service markets?

Barriers

These questions focus on the key barriers facing VCSE organisations when bidding for or delivering government contracts, and potential mechanisms to address these. Key questions include:

- What are the barriers for VCSE organisations, and to what extent do these vary by sector, government level, contract level, geography, size, and type of organisation?
- Are any of these barriers specific or unique to one type of VCSE organisation?
- How has the Government and the VCSE sector tackled these barriers since 2007? What has worked well, or less well, and why?

PESTLE Analysis

It is also important to understand the context within which policy objectives are being delivered. Therefore, in addition, the research also includes a PESTLE analysis of the following factors for both growth potential and barriers:

- What are the key political, economic, social, technological, environmental, and legal factors influencing growth potential and barriers?
- Are there markets set to grow due to socio-economic factors like an aging population where a VCSE organisation within a market may grow their share of market income but not market size?
- How are these factors likely to affect change in the growth potential and barriers to entry in the future and how might they affect policy recommendations?

This report provides a summary of the key findings, and we also provide a full annex setting out relevant policies, literature, data, and consultation feedback.

2 Methodology

This research uses a mixed methods approach to identify barriers and opportunities for VCSEs in public procurement. Table 2.1 provides an overview of the three parallel research strands undertaken as part of this research. **Please note an in-depth methodology is set out in Appendix 2.**

Table 2:1 Methodology overview

Literature Review	The review of the existing literature, including policy papers relevant to the sector and procurement relating to areas such as empowering civil society, simplifying procurement practice, and addressing sectoral barriers. The literature review includes close to ninety reports, c.50 reports produced by government, and c.40 academic and grey literature sources relating to civil society.
Consultee engagement	Interviews with 29 strategically placed consultees. A purposive approach to sampling has been taken, and organisations engaged include: • Four representatives from government. • Four representatives working to support public health. • Three representatives from research institutes and universities. • Nine representatives of the sector (including umbrella organisations, smaller VCSEs); and • Nine disabled people's organisations (DPOs). Discussions centred on barriers experienced by VCSEs engaging in procurement, where growth opportunities exist, the identifications of current needs, examples of best practice, alongside wider considerations for the sector. Please note that the feedback provided by consultees offers a viewpoint of sector representatives, and while providing insight into the barriers faced, is qualitative in nature and does not carry statistical significance.
Data collection and analysis	The review and collation of data from three key data sources: • Charity Commission register: a combination of England and Wales, Scotland, and Northern Ireland Charity Registers detailing key metrics for analysis. • Bureau van Dijk's FAME: A supplementary dataset, used to identify social enterprise, charity, and community interest companies. • Tussell: Provides a rich dataset detailing procurement activity within identified VCSE organisations at both the local and central government level

Study limitations

While this report provides an assessment of the current level of VCSE procurement, it is important to acknowledge where limitations exist.

VCSE attitude and willingness to participate in procurement: While this analysis provides an insight into current levels of procurement in the UK, future market growth is dependent on existing ambition within the sector to participate. While consultations provide some insight in this area, future projects should assess VCSE ambition to scale and participate in procurement (beyond the qualitative feedback received through this study).

Varying levels of data quality available for different VCSE types: Although this analysis has identified up to 250,000 VCSE organisations there are varied levels of data available for different types of organisations across the sector. The organisation-level analysis included in this report therefore focuses on Charity Commission organisations only (i.e., this includes analysis of size, income and location as defined within the Charity Commission register) and is detailed in Section 4. Section 5 and 6 focus on the wider VCSE sector[9].

The study brings together data on VCSE organisations from a range of sources. Data sources are set out below, alongside the strengths and limitations relating to each:

Table 2:1 Data sources used within this report

Dataset	Description (incl. Level of Detail)	Strengths & Limitations	Use within Report
Charity Commission Register	Organisation-level data on over 170,000 charities in the UK, including data fields for registration date, organisation size, location and source(s) of income (e.g., voluntary income, activities generating funds, investment income, other income etc.)	☑ Robust source of data on charitable organisations ☑ Granular data on source of income, including income from government contracts ☒ Available for charitable organisations only ☒ Similar data not available for all voluntary, community or social enterprise organisations	Section 4: Granular analysis of charity engagement with public procurement in the UK, including analysis of income from government contracts by size and location etc.
Tussell Procurement Data	Proprietary dataset detailing procurement activity (e.g., government buyers, sectors, scale and type of contracts etc.) among VCSE organisations at both the local and central government level. This data	☑ Data on contracts awarded to a broader set of VCSE organisations (i.e., including Charitable Organisations and the wider VCSE sector) ☑ Provides useful insights into procurement of goods	Section 5: assessment of the key markets within which VCSEs (including charities and social enterprises) are engaged in, using Tussell data to identify market trends, key buyers, and

[9] Please note that there is more limited granular data available to the research team for some types of VCSE organisations (e.g., social enterprises, mutuals etc.) with respect to metrics such as income from contracting.

	draws on published contract notices and awards.	and services from VCSEs by different government buyers ☒ Requires some matching / classification to match VCSE organisations to contract awards ☒ Requires contract awards to be published on time and in the wider public domain / identified by Tussell. ☒ While the analysis of contract-level data with Tussell provides insight into the volume of contracts won directly by VCSEs, there is limited data available lower down the supply chain (e.g., subcontracting).	opportunities for growth
Bureau van Dijk FAME	Proprietary dataset containing data on more than 6m UK active companies and charitable organisations.	☑ Provides an additional data source to identify where organisations are registered with Charity Commission, or Companies House or similar. ☒ Provides a marker for charitable organisations, charitable incorporated organisations, companies limited by guarantee and community interest companies – but does not have a marker for social enterprises	Used in Section 4 and 5 to validate and test population findings (e.g., estimate of up to 250,000 active VCSEs in the UK)

3 Policy Context

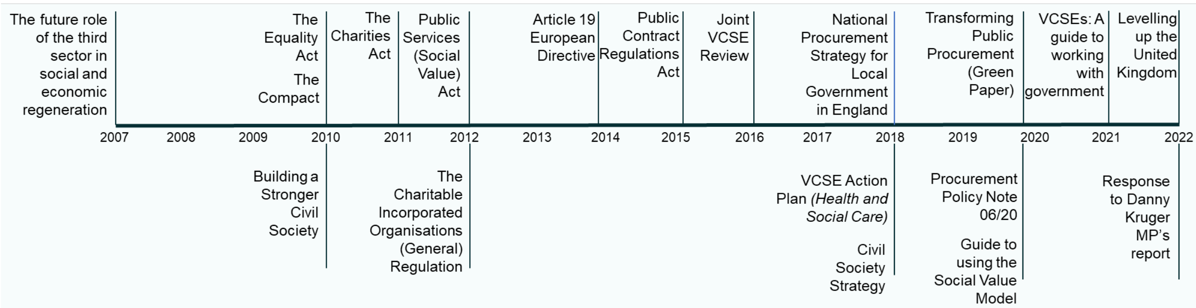
3.1 Introduction

This section sets out the key policies that are relevant to the VCSE sector and its role in public procurement. It also includes a brief timeline of VCSE-related policy since 2007 and highlights how HM Government's most recent policy commitments are intended to increase the level of VCSE participation in public procurement. **Please note that Appendix 3 provides a more in-depth view on policy alongside links to core documents.**

3.2 Policy timeline

Key policy documents included in this review are outlined in Figure 3.1 below:

Figure 3:1 Policy timeline (2007 – 2022)



Source: Perspective Economics

The policies included in Figure 3.1 are reflective of commitments to foster and sustain a collaborative relationship between the VCSE sector and government.

The Equality Act (2010), for example, sets out **anti-discrimination law** within the UK around key protected characteristics such as age, race, and disability. Other policies, such as the Public Services (Social Value) Act (2012) act as strategic levers and **encourage commissioners to engage with the VCSE sector and to better design services to incorporate social value.**

Wider policy provides **clarity to the sector.** The Charities Act (2011), for example, covers important rules, such as the definition of a charity, the requirement to register with the Charity Commission, and details how to prepare and submit annual accounts and reports. The Charitable Incorporated Organisations (General) Regulation (2012) also sets out what should be included in a governing document for a CIO. Other policy updates have **been designed to simplify the procurement process and to increase transparency** (e.g., Public Contract Regulations Act (2015)).

3.3 Recent policy commitments (2018 – 2022)

In more recent years, one of the most ambitious policy developments is the Cabinet Office's Transforming Public Procurement Green Paper (2018). This document outlines ambitions to simplify the procurement process and current legislation as far as possible into a single, uniform regulatory framework, while also increasing transparency within procurement.

Several guides to support the sector have also been produced. Cabinet Office's "Guide to working with Government" **aims to support sector understanding and engagement with Government by setting**

out how VCSEs can bid for and win government contracts. It also outlines Government's commitment to **diversifying the supply chain and to place increased emphasis on social value**.

This guidance highlights the steps taken by Government to encourage VCSE procurement, such as the **abolition of pre-qualification questionnaires for low-value public sector contracts; increasing transparency by requiring the public sector to publish contracts on Contracts Finder; and increasing accountability by requiring the public sector supply chain to be paid within 30 days.**

Further guidance on the Social Value Model also offers advice to commissioners around evaluating social value in tenders, and contract management, reporting, and case study development. The guide sets out **ambitions to increase supply chain resilience, ensuring that VCSEs, SMEs, and new businesses all have the same opportunity to bid for contracts.**

This guidance is part of wider ambitions to **further incorporate social value**. It expands on the original Social Value Act (2012), and complements Public Procurement Note 06/20, which further embeds social value within central Government procurement practices.

Levelling Up the United Kingdom also recognises the importance of voluntary and community groups in building skills and social capital, acknowledging **the need for strategic coordination, suggesting that a mission-oriented approach is most effective in addressing complex, systemic problems**. The document outlines the importance of shared leadership across key sectors at the community level.

Danny Kruger MP's response to Levelling Up, "Levelling Up Our Communities: Proposals for a New Social Covenant" also includes **recommendations relevant to the VCSE sector which focus on improving data quality, strengthening social value commitments, empowering communities, improving social infrastructure, and supporting the voluntary sector.**

PPN 11/20 can also be leveraged to support the sector. This note sets out options that may be considered by contracting authorities when procuring contracts for goods, services and works with a value below the applicable thresholds. This gives contract authorities the ability to run competitions specifically for SME and VCSE organisations.

4 Current participation in public procurement

4.1 Introduction

This section of the report explores how VCSEs are engaging with public procurement in the UK, based on analysis of Charity Commission data which provides granular detail on how charities source their income, including through government contracts.

It later explores how government buyers are engaging with the VCSE sector, through analysis of contract awards using Tussell data. A full methodology is set out in Appendix 2. Additional data tables are also set out in Appendix 4.

Methodology note:

Please note that due to data limitations, the majority of the analysis within this chapter (Section 4) relates to organisations registered with the Charity Commission only. The research team has undertaken data cleaning (across the Charity Commission data for England, Wales, Northern Ireland and Scotland), which results in a population of 170,560 charitable organisations for analysis. These organisations are explored in this chapter across a range of measures such as size, location, and sources of income.

The rationale for use of Charity Commission data is that this provides high quality granular data at an individual level regarding size, location, and income source. For example, it allows the research team to identify which charities (by size and location) have secured some income from a government contract in the past year.

However, it is recognised that this is likely to under-represent social enterprise participation in public procurement. This is due to limited firm-level data available to identify and match social enterprises to procurement data. Please note that we provide recommendations regarding data availability in Section 8.

Key insights:

Number of charities engaging in public procurement:

- We estimate that 9,180 charitable organisations[10] currently participate in public procurement (in 2020), generating an income of £9.2bn (5% of contract award value).

Size:

- Of the 9,180 charities that have won a contract, 80% (7,339) had an income above £100,000 per annum. This suggests that income can be considered as a significant determinant of participation with procurement.
- Two-thirds (68%, £6.2bn) of income from government contracts is received by super major and major charities, despite these charities only representing a group of just over 500 providers (i.e., 6% of the charities currently engaging with procurement). Larger organisations are therefore securing most of the procurement income received by charities.

Income:

- Approximately one in five charities (20%) receive income from grants, compared to one in twenty (5%) receiving income from government contracts. This illustrates a higher tendency within the sector to receive grant funding compared to contracting. This can be linked to several factors (such as restrictive tender requirements and resources to bid, explored in detail in Section 6).
- The 9,180 charities that participate in public procurement raised c. £3.8bn from grant funding in 2020. This is almost equal to grant funding raised by other charities (161,380 charities, £3.9bn in funding), despite being a significantly smaller group. This challenges the viewpoint that some VCSEs choose to opt for grants or procurement, and illustrates the importance of both as income sources, as well as suggesting that if an organisation received income from grants, there may be potential for this organisation to scale up and participate in procurement.

Regional income for charitable organisations

- Super major (income over £100m) and major (income over £10m) charities headquartered in Greater London and the South East perform particularly strongly in securing income from government contracts.
- Across the regions, super major, major, and large (income over £1m) charities drive most of the income from government contracts, receiving £8.5bn in 2020 (c. 92% of contract values).
- These contracts are typically large-scale contracts, with multidisciplinary components e.g., large work packages to support communities with particular social interventions at scale. This has potential implications for smaller charities, or organisations that deliver specialist services, and highlights the important role of contract design in facilitating participation in procurement.

Demand side factors

- 68% of contracts awarded to charities are issued by local government, compared to 13% of contracts through central government, and 11% by the NHS. The analysis of demand-side factors reiterates the importance of local government for engaging VCSEs in public procurement across the UK. Local authority buyers also represent 57% of relative spend in the last five years.
- There is some regional variation that could be explored further. For example, suppliers headquartered in the North West and West Midlands are approximately twice as likely as their regional counterparts to win a contract from the NHS.
- Further, proximity is a clear factor in shaping public procurement, with organisations headquartered in London and the South East (and devolved examples in Northern Ireland and Scotland) securing more central government contracts than the UK average.

[10] This is consistent with Tussell (2021) estimates that c. 12,500 VCSEs (including charities and CICs) have been named on a public contract between 2016 – 2020.

4.2 Current levels of participation in public procurement

We estimate that within the UK there are **up to 250,000 active VCSEs**. Those identifiable within the search strategy used include:

- 170,560 charities mapped against Charity Commission annual returns[11].; and
- Approximately 120,000 other VCSEs mapped using BvD FAME. These include c.26,000 community interest companies, c. 84,000 companies limited by guarantee (of which an estimated 20,000 are VCSEs)[12], and c. 8,500 mutuals. There is also a wider estimate that there are approximately 100,000 social enterprises[13,14] active in the UK, of which many will be included in these figures.

Please note that given the diversity in definition, and the limitations that exist within current data sources, this figure relating to VCSE sector size is an estimate only. Appendix 2 sets out the population and definitional work in detail.

Of identified VCSE organisations, we have been able to identify:

- Approximately 9,180 charities reported income from the delivery of government contracts in 2020 (identified through Charity Commission data). This is consistent with the Tussell estimates which suggest c.12,500 VCSEs appeared on a government contract (identified awards or spend data) between 2016 - 2020.

The subsequent section focuses on the organisational characteristics of the 170,560 charities flagged by the Charity Commission data for England and Wales, and Scotland and Northern Ireland[15,16] (unless specified). The 170,560 unique charities with an identifiable income (Charity Commission, Year End 2020) have been grouped together under six income size bands[17] as follows:

- Super Major (£100m + income)
- Major (£10m - £100m)
- Large (£1m - £10m)
- Medium (£100k - £1m)
- Small (£10k - £100k)
- Micro (<£10k)

Appendix 4 sets out the size, income, location, and service offering of these charity organisations in more detail.

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[11] NCVO (2021) *UK Civil Society Almanac*. Available at: https://beta.ncvo.org.uk/ncvo-publications/uk-civil-society-almanac-2021/executive-summary/

[12] We note that not all of these companies limited by guarantee will be VCSEs. Internal estimates and review of organisational data suggests approximately one quarter (c. 20k) of these may have characteristics commensurate with VCSE activity (e.g. limited by guarantee with a limited exemption from Companies House).

[13] DCMS, BEIS (2017) *Social Enterprise: Market Trends 2017*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf

[14] Social Enterprise UK (2021) *No Going Back, State of Social Enterprise Survey*. Available at: https://www.socialenterprise.org.uk/wp-content/uploads/2021/10/SEUK-SOSE-Report-DIGITAL-1.pdf

[15] Where organisations are included within the Charity Commission registers, there is typically greater information available with respect to the following data variables: Description of activities (what they do and offer to whom); Income and expenditure (to enable analysis of organisational size and capacity); Employment and volunteer estimates; Sources of income, including markers for income from government contracts, grants, fundraising or other sources; and Location (postcode-level). However, the use of BvD FAME also allows for matching against organisation IDs (e.g., matching names to both charity number and registered number with Companies House), and subsequent matching against procurement data (such as contract awards identified by Tussell).

[16] Key figures presented below may vary from NCVO Almanac, and the Tussell VCSE engagement in public procurement research. Note that this is due to differences in methodologies, period measured, definitions and geographies covered.

[17] Income bands are aligned to NCVO Civil Society Almanac taxonomy. Available at: https://beta.ncvo.org.uk/ncvo-publications/uk-civil-society-almanac-2021/executive-summary/

4.3 Factors influencing participation in procurement

This section explores charity participation with procurement, providing an overview of key organisational factors that influence an organisation's likelihood to participate in procurement. As above, please note that further data tables are provided in Appendix 4.

Income

For the charities that secured income from government contracts in 2020 (n = 9,180), the vast majority (7,339 providers, 80%) earn more than £100,000 per annum. This is outlined in table 4.1 below

Table 4:1 In Receipt of Contract Income for Charity Organisations

Size Band	Count	Count Receiving Income from Government Contracts	Percentage Engaging with Government Contracts
Super Major (£100m +)	116	57	49%
Major (£10m - £100m)	1,342	465	35%
Large (£1m - £10m)	6,856	2,266	33%
Medium (£100k - £1m)	30,225	4,551	15%
Small (£10k - £100k)	70,757	1,771	3%
Micro (<£10k)	61,264	70	0%
Grand Total	**170,560**	**9,180**	**5%**

Source: Perspective Economics analysis of Charity Commission data

Note, the average income for charities receiving income from government contracts is c.£4.3m and the average proportion of their total income received from the delivery of public contracts is 35%.[18]

We segment these organisations into four quadrants, **detailing total number of strategic suppliers, charities showing high levels of engagement, and charities with low levels of engagement. Figure 4.1 is based on the 7,339 non-small / non-micro charities that receive an income from procurement.**

- **High Income, High Engagement** (364 charities, 5% of current charities engaging in procurement): These are organisations with a greater-than-average income, and greater-than-average percentage of income from government contracts. These organisations are considered highly engaged within public procurement and can potentially be considered as strategic suppliers.
- **Low Income, High engagement** (2,662, 36%): These are organisations with a lower-than-average income, but a greater-than-average percentage of income from government contracts. These organisations are **more reliant upon delivery of contracts to sustain their services, and this may present an opportunity for growth,** as these organisations are highly engaged but smaller, typically earning less than £5m per annum.
- **High Income, Low Engagement** (618, 8%)**:** These organisations generate a higher-than-average income but are considered less reliant upon the delivery of government contracts (i.e., less than

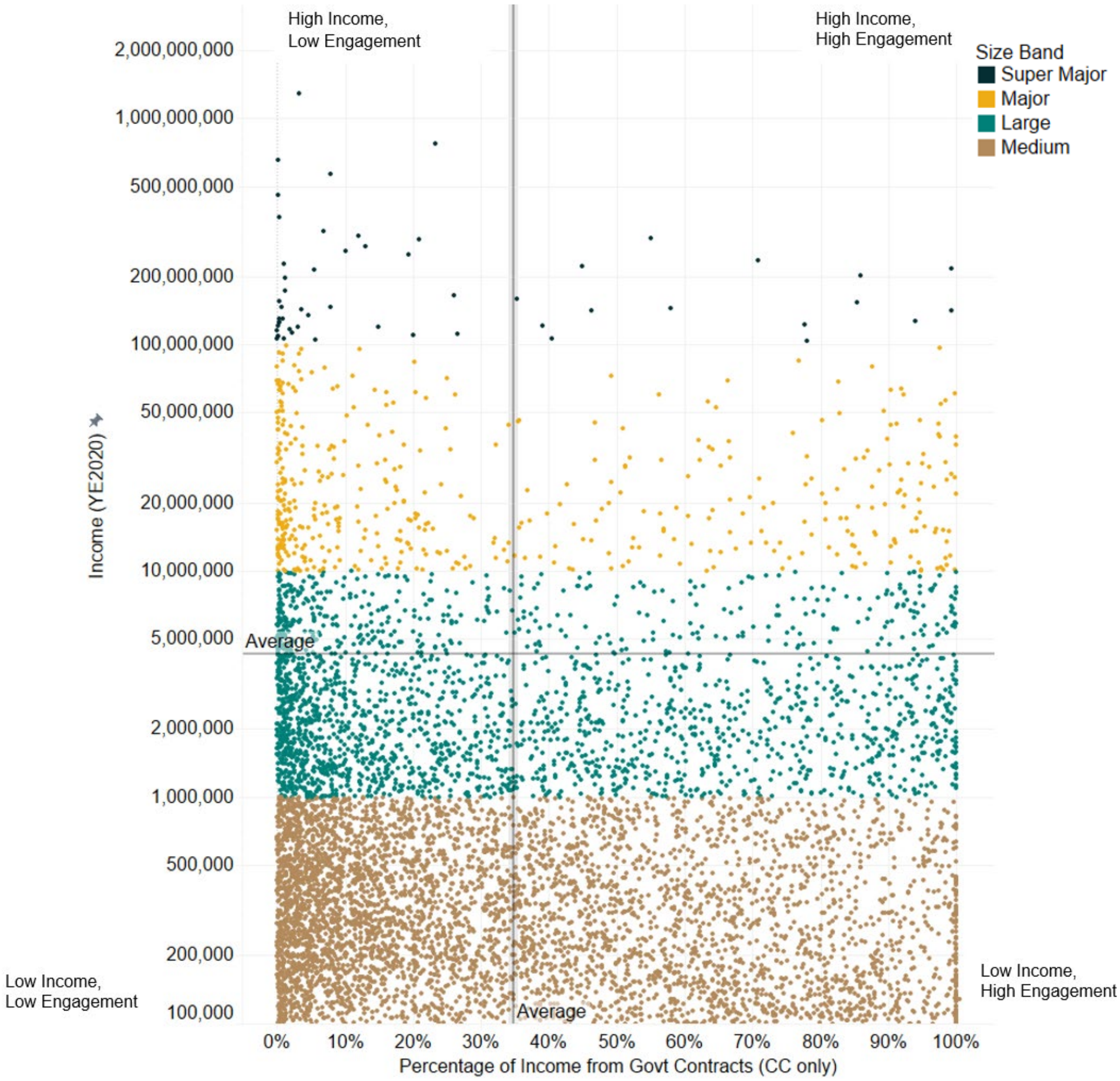
[18] Please note that these figures are an average for those firms reporting an income of at least £100,000 per annum and reporting at least £1 per annum from the receipt of government contracts.

average / <35% of income is generated through contracts). Each charity in this cohort should be explored on an individual basis, as very major providers may deliver significant contracts that may be a small part of their overall operations.

- **Low Income, Low Engagement** (3,695, 50%): These organisations have both a lower-than-average income and lower-than-average percentage of income from government contracts. These organisations may typically be delivering small volumes of contracts but have provided some indication of engagement with contracts. This population may therefore have scope to be supported to grow and scale the level of government contracting, or grant and contract readiness support.

Figure 4.1 overleaf visualises this relationship between charity income, and the percentage of this income that comes from government contracts.

Figure 4:1 Total income (£) and percentage of income from government contracts (charities)



Source: Perspective Economics analysis of Charity Commission data n = 7,339 non-small / non-micro organisations. The y-axis is income and is logarithmic.

Wider analysis of income data set out in Table 4.2 below and in **Appendix 4** suggests that:

- The 9,180 providers involved in the delivery of government contracts earned approximately £9.2bn in 2020 (27% of their total income).

- Smaller organisations place more importance on income from government contracts, which makes up 66% of their total income, and larger organisations have more diversified income sources.
- More than two-thirds (68%, £6.2bn) of income from government contracts is declared by super major and major charities, despite these charities only representing a group of just over 500 providers (i.e., 6% of charities currently engaging with procurement).

Table 4:2 In Receipt of Contract Income for Charity Organisations

Size Band	Count	Total Income	Income from Govt Contracts	Average Income from Govt Contracts	Median
Super Major (£100m +)	57	£12.6bn	£2.3bn (18%)	*£41m*	*£11m*
Major (£10m - £100m)	465	£12.4bn	£3.9bn (32%)	*£8.4m*	*£3.3m*
Large (£1m - £10m)	2,266	£7bn	£2.3bn (33%)	*£1m*	*£470k*
Medium (£100k - £1m)	4,551	£1.8bn	£560m (32%)	*£124k*	*£76k*
Small (£10k - £100k)	1,771	£97m	£64m (66%)	*£36k*	*£26k*
Micro (<£10k)	70	**	**	**	
Grand Total	**9,180**	**£33.8bn**	**£9.2bn (27%)**	***£1m***	***£1.3m***

Source: Perspective Economics analysis of Charity Commission data (2020)

Grant Income

Grant income secured by charity organisations is made available through the Charity Commission register dataset. Exploring grants as an alternative to contracts as well as grants as a potential precursor to contracts are two important considerations for policy-makers, as this may demonstrate **a)** the link between contract and grant readiness and **b)** it may flag where some commissioners are currently using grants as an alternative to contracts.

Charities in Receipt of Income from Government Contracts and Grants:

Table 4.3 provides an outline of the c. 170,000 charities, detailing income from procurement and grants by charity size, comparing charities that have previously received income from procurement to those that have not.

Table 4:3 Income from government summary

Marked as engaging with public procurement	Size Band	Count	Income (2020)	Income from Contracts	Income from Grants	Average Grant
	Super Major (£100m+)	57	£12.6bn	£2.3bn (18%)	£1.3bn (10%)	£23m
	Major (£10m - £100m)	465	£12.4bn	£3.9bn (32%)	£1.3bn (10%)	£2.7m
	Large (£1m - £10m)	2,266	£7bn	£2.3bn (33%)	£0.9bn (12%)	£400k
	Medium (£100k - £1m)	4,551	£1.8bn	£560m (32%)	£0.3bn (19%)	£74k
	Small (£10k - £100k)	1,771	£0.1bn	£64m (66%)	£25m (26%)	£14k
	Micro (<£10k)	70	**	**	**	**
	Subtotal	**9,180**	**£33.8bn**	**£9.2bn**	**£3.8bn**	**£414k**
No procurement activity identified	Super Major (£100m+)	59	£16.6bn	Nil	£1.5bn (9%)	£25m
	Major (£10m - £100m)	877	£21bn		£1bn (5%)	£1.1m
	Large (£1m - £10m)	4,590	£13.9bn		£0.7bn (5%)	£150k
	Medium (£100k - £1m)	25,674	£7.4bn		£0.4bn (6%)	£16k
	Small (£10k - £100k)	68,986	£2.3bn		£0.2bn (10%)	£3k
	Micro (<£10k)	61,194	£0.1bn		£0.04bn (6%)	<£1k
	Subtotal	**161,380**	**£61.2bn**	**£nil**	**£3.9bn**	**£24k**

Source: Perspective Economics analysis of Charity Commission data

Of the organisations included in Table 4.3:

- 9,180 charities receive income from government contracts (£9.2bn).
- Of these, 6,953 (76%) receive income from contracts and grants (£3.8bn in value).
- The remaining 161,380 charities that did not receive income from government contracts received a similar value in grants (£3.9bn overall).

This suggests that organisations that secure income from government contracts are more likely to secure proportionally higher levels of grant funding (securing £3.8bn in grants, an average of £400k per organisation) compared to those that are not marked as engaging with public procurement (securing £3.9bn, an average of £24k per organisation).

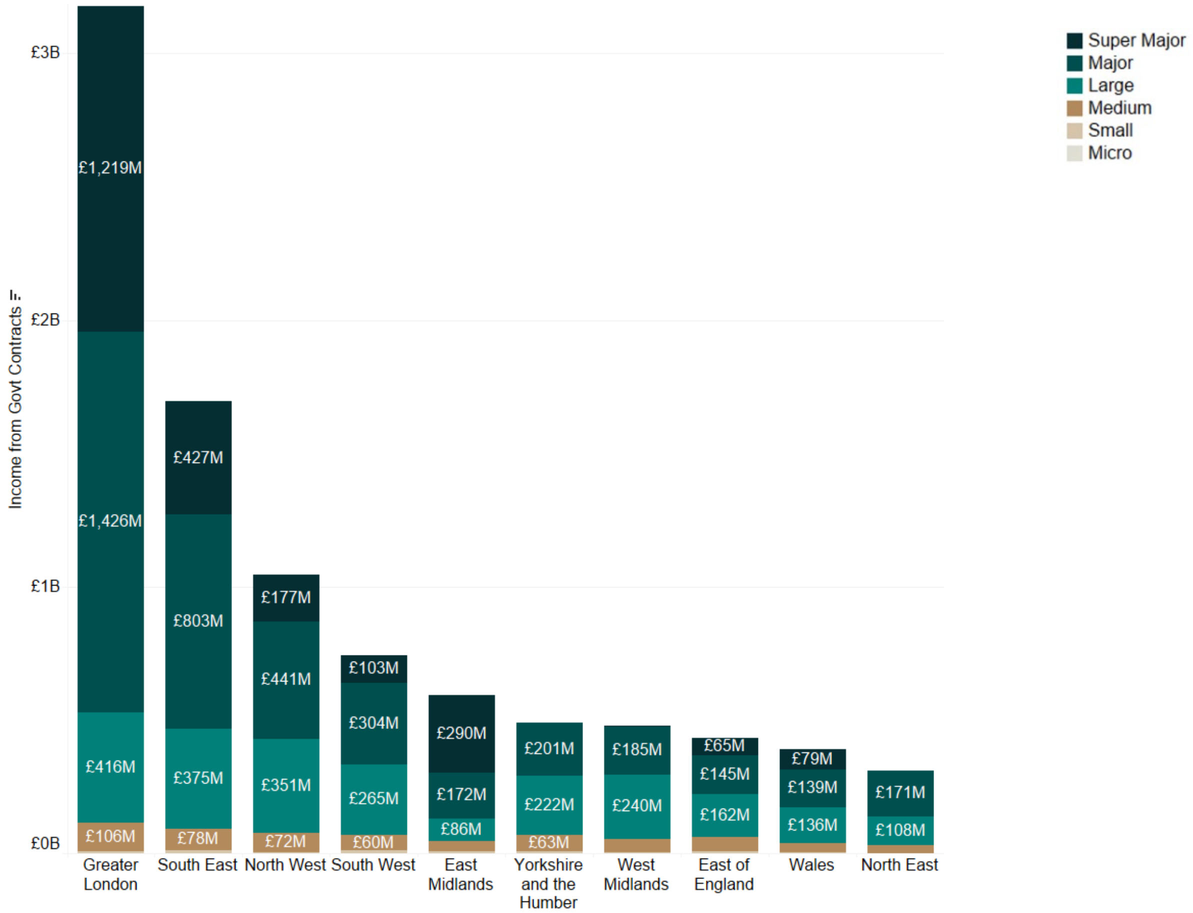
This data suggests that some organisations in receipt of grants could be able to move towards contracting opportunities; and that there may be potential to support targeted growth of VCSEs engaging in the procurement market by upskilling or supporting capacity building activities within VCSEs that currently acquire a proportion of their income capacity to acquire grant funding.

Regional income:

Figure 4.2 sets out the income from government contracts by supplier location[19]. This provides insight into value of contract across NUTS regions, and the size of charities winning contracts. It highlights how strongly super major and major organisations headquartered in Greater London and the South East perform with respect to securing income from government contracts. This is likely due to larger charities that operation nationally working from these regions.

Across the regions - super major, major, and large organisations drive most of the income from government contracts. These contracts are typically large-scale, with multidisciplinary components e.g., large work packages to support communities with particular social interventions at scale. Income among larger organisations is an important consideration as this seems to drive regional variance, compared to smaller charities, who earn a much more consistent income across regions.

Figure 4:2 Income from government contracts



Source: Perspective Economics analysis of Charity Commission data (£9bn in 2020)

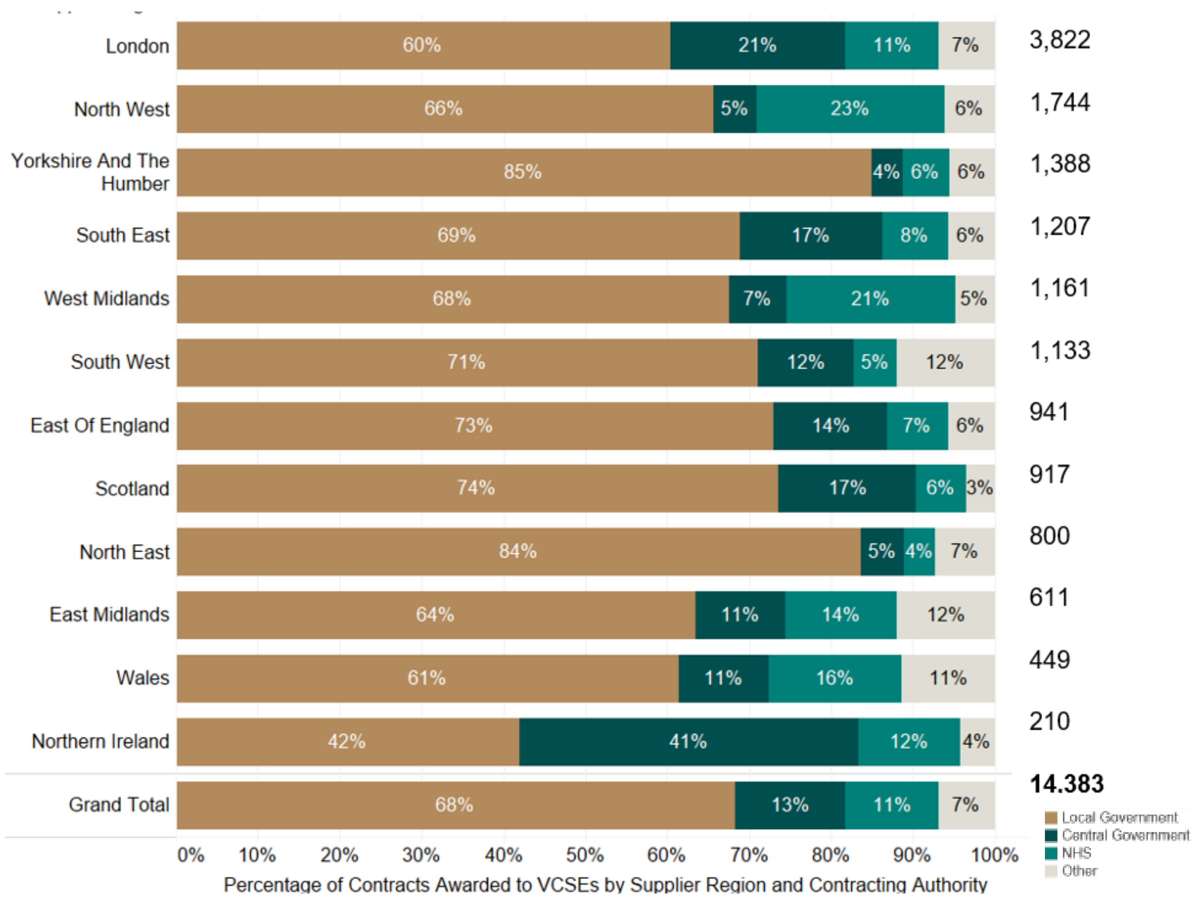
[19] Note that locations analysis has been completed at a high level (NUTS 1), which offers an indication of regional procurement. There is potential for future projects to assess procurement practices at the commissioner level. The location refers to the registered location of each organisation.
[20] The **compound annual growth rate** (**CAGR**) is the annualised rate of growth in the value of the market over a specified period of time.

Demand side factors:

Figure 4.3 outlines contracts awarded to VCSEs by supplier region and buyer type, matching all identified **VCSE organisations** against contracts available via Tussell. The figure explores the buyers and supplier location identified within contracts won by VCSEs between 2016 - 2021 (where available) by region.

The analysis reiterates the importance of local government for engaging VCSEs in public procurement across the UK. It also highlights where there is regional variation. For example, VCSEs in the North West and West Midlands are approximately twice as likely as their regional counterparts to win a contract from the NHS. Additionally, a region's proximity to central government also influences the extent to which VCSEs will engage therein.

Figure 4:3 Contracts Awarded to VCSEs by Supplier Region and Contracting Authority Type



Source: Perspective Economics (VCSEs - mapped against 14,383 contracts by region. Includes all contracts awarded to VCSEs between 2016-2020).

5 Growth Potential

5.1 Introduction

To develop policy and initiatives to further VCSE participation in public procurement, there is a need to explore growth potential across buyer and contract types, and segmentation by VCSE type. Growing VCSE involvement in government contracts is not simply about VCSEs winning more contracts compared to non-VCSEs, but rather includes:

- **Growing markets in which VCSEs participate** (demand-side) i.e., increased participation from the VCSE sector due to increased demand for services, whereby VCSEs win a larger volume of contracts (by number or value)
- **Growing the VCSE sector's share of the market** (supply-side), whereby VCSE organisations may merge or bid jointly to deliver services (reflecting a smaller number of providers, but increased market share)
- **Structural changes in the delivery of public services** (demand-side) e.g., where a government grant becomes a contractual provision of services, and is delivered by a VCSE
- **Increased subcontracting** (both supply and demand-side) of VCSE organisations in government contracts.

The importance of service quality and impact should also be included when considering the growth of the VCSE sector. This section assesses overall growth potential for VCSEs currently participating (or that could feasibly participate) in public procurement, **providing analysis that relates to all VCSEs identified that currently participate in public procurement using Tussell data**. This includes an analysis of growth potential in eight key sectors as defined in **Appendix 2**. These include:

- Health and Social Care
- Disability
- Employability
- Offender Rehabilitation
- Legal and Advocacy
- Domestic Violence and Sexual Abuse
- Homelessness, and
- Youth Services

This research builds on the original research completed by Tussell by assessing the key factors influencing VCSE market growth potential. Factors include whether contracts are marked suitable for VCSEs, organisation size, level of government, and regional activity.

Please note that this section uses data from Tussell, and includes analysis of all VCSE contracts, where they could be identified either using identification and matching of VCSE organisations against organisational data held by Tussell, or through Tussell firm-level identifiers for non-profit, charitable, and CIC organisations.

Key Insights:

- Health and social care is by far the largest market for VCSEs in absolute terms with £11.6bn awarded between 2016 and 2020. It is possible by the mid-2020s that the value of HSC awards to VCSEs could exceed c. £5bn per annum within the context of a c. £20bn market (based on current growth trends).

- The overall value of contracts within the disability market has remained consistent in recent years (approximately £1.3bn - £1.5bn per annum) but the number of contracts has steadily increased (e.g., over 1,000 contract awards to all suppliers in 2020). There may be opportunities for further growth where groups can work closely with beneficiaries to help design and provide personalised care and support.

- Employability services generated £1.1bn in awards for VCSEs (25% of the sector) between 2016 and 2020 but year on year, the volume and value of contracts awarded to VCSEs has remained static. Interestingly, a significant proportion of central government contracts within the employability market go to VCSEs in the West Midlands and the East of England.

- Homelessness support, and support for victims of domestic violence and sexual abuse are smaller sectors. However more than two-thirds of contract values were awarded to VCSEs, demonstrating specialism by VCSEs in these social areas. These markets could reflect areas of best practice of VCSE participation in procurement and are markets where growth can be sustained.

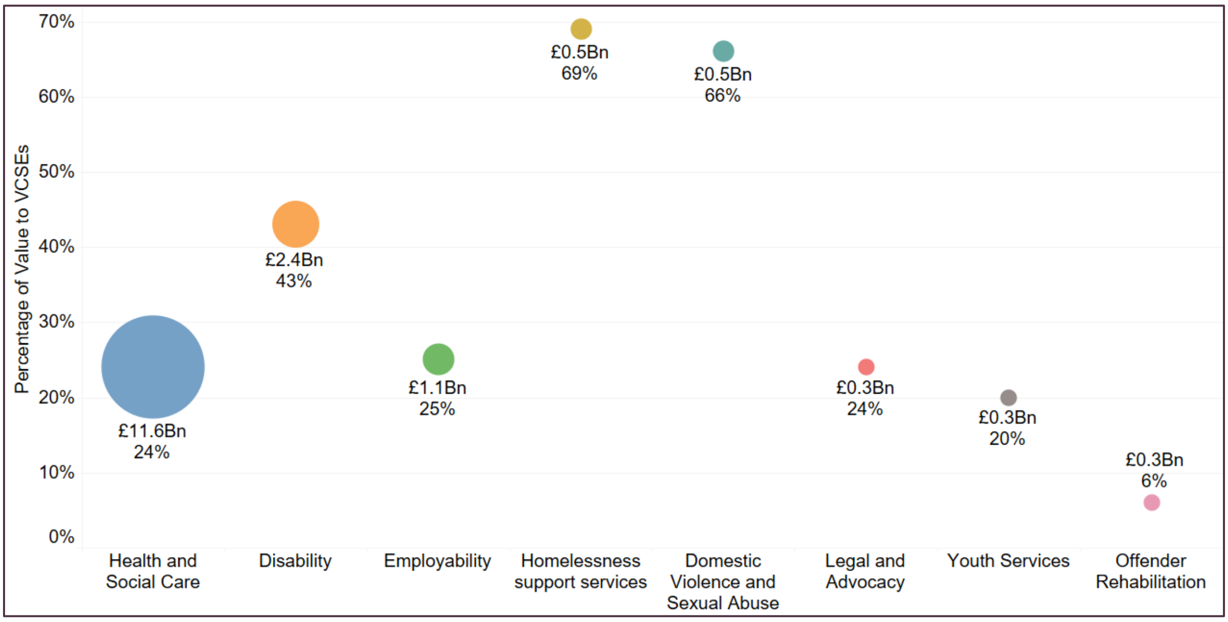
- There is clear evidence of specialisms offered by VCSEs being recognised in the procurement of services relating to disability, employability, and vulnerable adults. The existing coverage of VCSEs within these supply chains may mean that growth potential (with respect to increasing share) may be limited, but policy makers should continue to track the coverage of VCSEs in these markets to ensure VCSEs are able to maintain market share and competitiveness, whilst deploying high quality specialist services.

- For many of the sectors explored, commissioning is undertaken at a local government level, which is consistent with previous findings. This suggests that growth potential is most likely to occur at the local commissioning level, but should be considered alongside grant income (e.g., whereby VCSEs are currently receiving grants from local authorities, but could feasibly position to secure both grants and contracts in future). Local authorities should also explore opportunities for co-production of requirements alongside VCSEs (and other providers).

5.2 Market Overview

This section provides a high-level overview of the eight identified markets in which VCSEs typically service through public procurement. Figure 5.1 highlights how VCSEs engage with each these public markets by absolute and relative size (2016 - 2020).

Figure 5:1 Value of contracts awarded to VCSEs by sector:



Source: Tussell (2021) UK Public Procurement through VCSEs, 2016 - 2020

The following sub-sections set out the current levels of participation, estimated growth potential, and factors for policy consideration**. A fuller assessment of factors such as size, location, type, and growth (to date, and potential) is set out in Appendix 4 for the three largest markets (health and social care, disability, and employability).**

Health and Social Care:

Current: Health and social care is by far the largest market for VCSEs in absolute terms with £11.6bn awarded between 2016 and 2020. This represents just 24% of award value across the health and social care sector, with the remaining 76% awarded to private businesses.

Growth potential: There is an estimated CAGR (compound annual growth rate)[20] of 9% per annum for HSC contracts within the market, but a growth rate of 20% per annum for VCSE awards. It is possible therefore, by the mid-2020s, the value of HSC awards to VCSEs could exceed c. £5bn per annum within the context of a c. £20bn market (based on current growth trends). Wider literature suggests health and social care is particularly important for public service mutuals, with just under half of the mutuals included in Social Enterprise UK's State of the Sector (2019) report working in healthcare. [21]

Factors to consider: Approximately two thirds (66%) of VCSE income from health and social care contracts comes from local government contracts, the majority of which is awarded to super major (27%), major (25%) and large (21%) VCSE providers. However, there are also over 1,500 VCSEs with an income of less than £10m engaged with this market, and there may be potential to support these

[20] The **compound annual growth rate** (**CAGR**) is the annualised rate of growth in the value of the market over a specified period of time.
[21] Social Enterprise UK (2019) *Public Service Mutuals: The State of the Sector*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951811/Public_Service_Mutuals_-_The_State_of_the_Sector_2019_V2.pdf

organisations to scale to meet increased demand for HSC by local authorities, particularly among specialist providers who currently make up two thirds (67%) of the value HSC market.

Areas such as the West Midlands and the North West perform strongly with respect to VCSE values (compared to local non-VCSEs). There are opportunities to further stimulate the growth of local VCSEs within these regions. For example, buyers in the West Midlands procured approximately £1.5bn in health services between 2016 - 2020 with VCSEs – but VCSE suppliers in the West Midlands were only commissioned to deliver c. £750m of services in this period.

Disability

Current: Disability services are a key market for VCSEs, with £2.4bn awarded (43% of contract values). This highlights the relative strength of VCSEs in provision of such services.

Growth potential: The overall value of contracts within the disability market has remained consistent in recent years (approximately £1.3bn - £1.5bn per annum) but the number of contracts has steadily increased (e.g., over 1,000 contract awards to all suppliers in 2020). There may be opportunities for further growth where groups can work closely with beneficiaries to help design and provide personalised care and support. It is however important to note that there has been a disproportionate increase in the number of non-VCSEs winning contracts in this area which may suggest a rise in private organisations contracts.

Factors to consider: Local government is a significantly important market for VCSEs involved in disability service provision, as local government awards approximately 41% of its contracts to VCSEs. The majority of contract value within local government is awarded to super major (32%), major (17%) and large (40%) VCSE providers.

There is also some evidence of small and micro VCSEs securing contracts relating to disability services, particularly with local government. Whilst these contracts are a small proportion of the market size (£143m awarded to micro VCSEs between 2016-2020), they may offer insight into the relationships between very small but specialist VCSEs that can use procurement opportunities to scale and grow (57% of the total market value was awarded to specialist providers). This might include the provision of particularly specialist services, or the use of VCSEs within social policy pilot schemes.

Regionally, in the South East, the value awarded to VCSEs (£1.2bn) outstrips non-VCSEs (driven by contract awards to Communities First Wessex and Dimensions UK). Further, 90% of contract values relating to disability services in Wales were won by VCSEs.

Approximately 58% of contracting spend is awarded to VCSE suppliers within the same region. This reiterates the importance of local commissioning and buy-in when seeking to grow the VCSE sector through procurement.

Employability

Current: Employability services generated £1.1bn in awards for VCSEs (25% of the sector) between 2016 and 2020.

Growth potential: Year on year, the volume and value of contracts awarded to VCSEs has remained static (approximately £0.3bn per annum across c. 200 contracts). Data suggests that central government and local government award a similar value of contracts in this area, potentially suggesting a greater need to explore the role of central government (e.g., DfE, DWP) compared to other sectors.

Factors to consider: The majority of employability contracts awarded to VCSEs are to larger providers. Super major, major, and large VCSEs secured approximately three-fifths (60%) of income relating to employability contracts. However, the 40% of income to medium, small, and micro VCSEs highlights higher participation by smaller VCSEs in this market compared to others, and highlights scope to grow smaller VCSEs in this market through government contracts.

It is important to note that there is a relatively small proportion of supplier income awarded to VCSEs compared to non-VCSEs across regions. Given the size of the market, this may indicate some growth potential if VCSEs were to increase their relative market share. In terms of regions, the West Midlands appear to have relatively strong VCSE participation within employability markets.

Legal Advice and Advocacy

Current: Legal advice and advocacy provision aims to ensure fairness and representation within the legal process. This market is smaller than other sectors identified (approximately £1.4bn market in awards four years, 24% of which was awarded to VCSEs, i.e., £0.3bn).

Growth Potential: This market has remained broadly consistent in recent years (c. £300m - £400m per annum, with an average of 100 VCSEs being awarded contracts each year). Most contracts are awarded at a local government level, typically for advocacy provision. Legal advice more generally appears to be awarded more at a central government level to private firms, and therefore a focus on advocacy provision among VCSEs may be worth undertaking.

We do not expect this market to have significant growth potential for VCSEs based on historic performance; however, it would be worth engaging with existing providers to further identify their growth ambitions or scalability across different local government levels. This could also include understanding levels of subcontracting or VCSE engagement with private law practices.

Support for victims of domestic violence or sexual abuse

Current: This area of government contracting requires highly specialist and sensitive provision to fully support victims of violence and abuse. Of the £700m worth of contracts between 2016-2020, 66% (£455m) was awarded to VCSEs. This demonstrates the consistent strength of VCSE organisations in securing contracts for support services. These contracts are typically issued by local government.

Growth Potential: Given the strong proportional involvement of VCSEs currently within this market area, growth potential is likely to be determined by the absolute growth of support services across local government more generally, rather than targeted support or encouraging participation from VCSEs.

Spending within this sector has been broadly consistent over the last four years (c. £150m - £200m per annum), as has VCSE participation. Therefore, this market, and proportion of VCSEs therein, may not be expected to grow substantially in the years ahead.

However, there may be opportunities to work directly with VCSEs engaging with these contracts, as well as commissioners, to understand current delivery models and what could be undertaken to further enable providers in the delivery of high-quality support.

Homelessness support services

Current: Homelessness support services is another sector in which VCSE suppliers are highly prominent, winning contracts worth £500m between 2016-2020 (69% of the total value). However, there are only a relatively small number of VCSEs engaging in this market (c. 100), and contracts are typically awarded at a local government level.

Growth Potential: The historic data for contract awards suggests limited capacity for growth potential (given relatively low market size - c. £150m - £200m awarded per annum) and high VCSE participation currently as a proportion. However, this is a clear market for exploring VCSE expertise, engagement, and delivery models, particularly given the need for sensitive and impactful service provision.

Offender rehabilitation

Current: The public sector awarded contracts worth £6bn for offender rehabilitation between 2016 and 2020. However, despite the social focus of these contracts, VCSEs only won £300m over this period (c. 5% of the total). These contracts are typically awarded via central government, rather than at the local level. There is also a small number of providers (both private and VCSE) suggesting a relatively concentrated market. Current contracts delivered by VCSEs typically focus on areas such as drug and alcohol support, substance misuse, and victim referral.

Growth Potential: The low incidence of contract values being awarded to VCSEs does suggest there may be opportunities for VCSEs to either directly secure a greater volume of contracts or increase sub-contracting as part of these contracts. However, this may be a challenging market for VCSEs to scale within, given the role of many strategic suppliers (private) delivering support for offender rehabilitation.

Youth Services

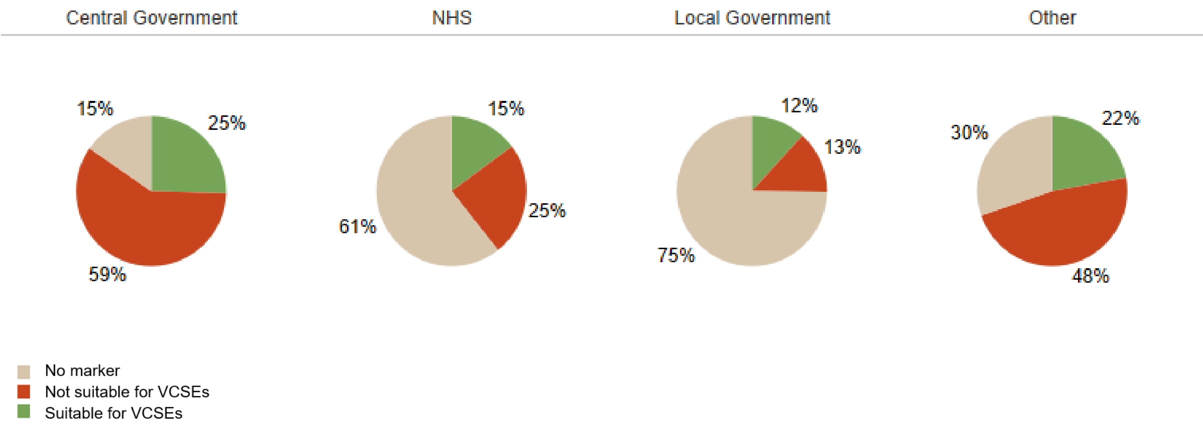
Current: Tussell identifies c. £1.6bn of 'youth services' awards between 2016 - 2020. However, £1.1bn relates to ad hoc National Citizen Service contracts awarded in 2019, and therefore this market typically awards a low annual value (c. £100m per annum). Of this, VCSEs typically win approximately 25% of the value, and 40% of the awards. This is a key market for a small number of specialist providers in youth work e.g., Groundwork, London Youth, and Catch 22.

Growth Potential: Given the nature of this market, many VCSEs that provide youth services may have greater focus on grants and co-delivery with local government than market size for contracting.

5.3 'Suitable for VCSE' Markers

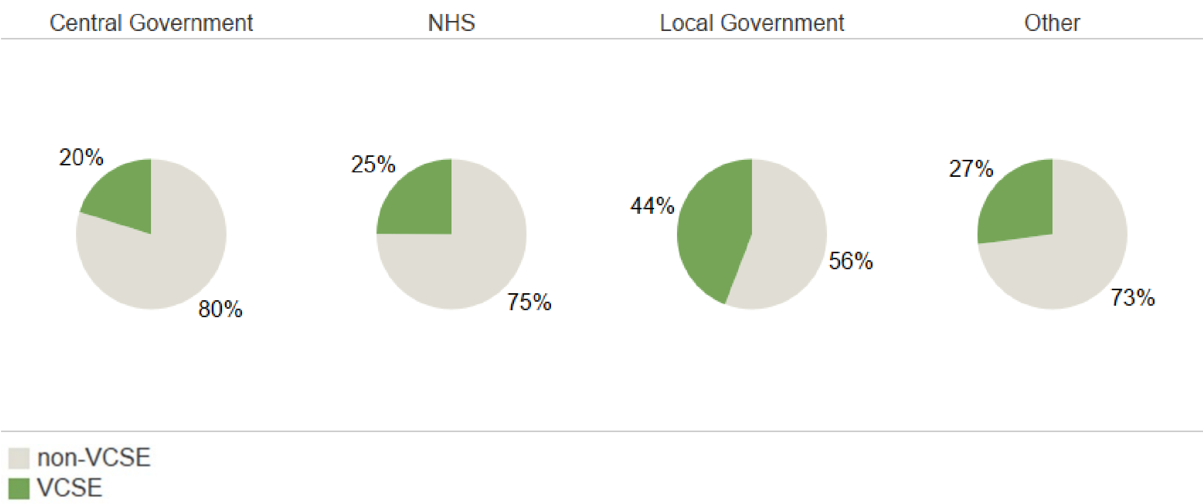
Within government contracts, there is often a marker (provided by the contracting authority) for whether the contract is suitable for VCSEs (or SMEs) to bid and deliver. Figure 5.2 demonstrates the proportion of contracts (across the eight contract sectors) that are considered suitable for VCSEs, and Figure 5.3 shows the proportion of contracts awarded to VCSEs which were marked as being suitable for VCSEs.

Figure 5:2 Percentage of contracts marked as suitable for VCSEs



Source: Perspective Economics analysis of Tussell data since 2016 (Central, n = 2,966 contracts, NHS = 1,987, Local = 21,689, Other = 1,650)

Figure 5:3 Percentage marked as suitable for VCSEs won by VCSEs



Source: Perspective Economics Analysis of Tussell since 2016 (Central, n = 770 contracts, NHS = 305, Local = 2,659, Other = 381)

Within central government, 85% of contracts have a marker, and 59% of all central government contracts are marked as not suitable for VCSEs. Note that at this level of government VCSEs win just 20% of all contracts marked as suitable. This suggests that at this level, the higher number of contracts marked as unsuitable creates a perception that central government is unwilling, or less likely to engage with VCSEs, resulting in less engagement from the sector

Conversely, a lower percentage (25%) of local government contracts have a marker, and just 13% are marked as not suitable for VCSEs. VCSEs however win 44% of contracts marked as suitable at this level.

To increase the perception that different levels of government are open to engaging with VCSEs future contracts should, where possible, be marked as suitable for VCSEs by default, unless a valid reason is otherwise given.

5.4 Other types of commissioning models with potential for VCSEs

As part of this research, it is important to consider the different funding mechanisms that can support VCSE engagement in delivering government contracts, beyond direct and traditional procurement channels.

The **social outcomes approach** is one such example, known more commonly as social outcomes contracts (SOCs), or social impact, or impact bonds in the UK. The impact bond is an outcomes-focused funding mechanism used to address social issues. Data made available through the INDIGO community project[22] suggests that there are 89 bonds in the UK, just over two-thirds of which are already complete.

UK projects stored on the INDIGO database have run from 2010 and have been used to support employment and training (27%), homelessness (25%), child and family welfare (24%), health (15%), education (8%), and criminal justice (2%). Across all SOCs included in this dataset, c.53% are involved at a local government level, 29% central, 13% at the regional level, and 5% “other”.

In a European context, several policies exist to increase the number of SOCs, such as InvestEU and the Council of Europe Development Bank’s HERO pilot. Currently, however there are still significant gaps in publicly available information and evidence of impact.[23] By encouraging buyers to develop tenders using the SOC approach, VCSEs may be better able to demonstrate their value and engage with procurement.

More recently in the UK, the **Low Value Purchase System** has been developed as a new route for public sector buyers to market their below threshold common goods and services. This system can be used to support Government’s SME policy, contributing to the Social Value outcome of increasing supply chain resilience and capacity, while acting as a lever to support smaller VCSE organisations to participate in procurement.[24] However, policy-makers should be mindful that low value contracts may be suitable for some VCSEs, but should not be a proxy for VCSE entry into public procurement if they are not able to deliver higher-value contracts.

The role of grants in supporting the sector is also an important consideration, with several consultees raising concerns around the diversity of scale and capacity that exists in the VCSE sector, and how this impacts willingness and ability to participate in procurement (this is outlined in more detail in Section 6 of the report). It is important that grants are still viewed as a feasible mechanism to support growth. This is due to several reasons, such as the flexibility they offer VCSEs as they address complex or changing regional needs.

[22] Government Outcomes Lab (2022) *Download INDIGO data*. Available at: https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/download-indigo-data/

[23] Government Outcomes Lab (2021) *Insights from the development of social outcomes contracts in Europe*. Available at: https://s3.eu-west-2.amazonaws.com/golab.prod/documents/SIBS_in_Europe_PDF.pdf

[24] HM Government (2022) *Low Value Purchase System*. Available at: https://supplierregistration.cabinetoffice.gov.uk/dps

Consultees have also noted how it is important to consider **international best practice**:

"In the US, federal government categorises businesses from historically underserved communities. For these businesses congress sets a target. The Small Business Administration focuses on this and builds capacity across government" – Academic organisation

This consultee notes the potential to adopt best practice from other countries, highlighting the importance of targets and ring-fenced funding as a mechanism to grow the sector.

The European Commission (2019)[25] provides a summary of good practice in relation to the inclusion of social considerations in public procurement procedures. The European Commission's document outlines good practice and several examples of capacity and relationship building exercises. Example activities include:

- **the development of capacity within government**, with responsibilities to inform public bodies of the existence of the social clause in government contracts and promote their use in procurement, to help contracting authorities select the most appropriate social clause, to analyse prospective contracts, to educate private and VCSE sector on the purpose of the social clause and provide various training opportunities, and to monitor tenders containing social clauses and support contracting authorities so that clauses can be used effectively;
- the development of flexible clauses within contracts which gives firms the ability to provide placements for trainees directly into their own workforce, or to subcontract specific workers from social enterprises which aim to integrate people with disabilities, or people from disadvantaged backgrounds. To support this, regional government **developed a network of public buyers, companies, social enterprises, and training organisations**, within which social clause facilitators were appointed, serving as a point of contact to support administration and collaboration; and
- The development of a **national network of social clause facilitators** which provides buyers access to an online resource centre containing a list of local facilitators, good practice examples, legal advice, publications, etc., and on-demand access to technical expertise to support local facilitators facing specific difficulties.

[25] European Commission (2019) *Buying for social impact good practice from around the EU*. Available at: https://op.europa.eu/en/publication-detail/-/publication/3498035f-5137-11ea-aece-01aa75ed71a1

6 Barriers to VCSE Procurement

6.1 Introduction

This section provides an overview of key barriers faced by the VCSE sector. Barriers outlined in the section below have been identified through both the systematic review of existing literature, as well as strategic engagement with 29 consultees. Note that findings are grouped under four themes, namely:

- **Supply-side barriers**: a review of the current capacity within the VCSE sector to bid for contracts, capacity to deliver, supply chain barriers, and the sector's digital skills gap.
- **Demand-side barriers**: a review of the commissioner's current understanding of the VCSE sector, the impact of contract design and commissioner approach, the data available to support procurement, and the current approach to sector partnerships.
- **The experience of disabled persons' organisations:** an overview of the unique perspective of organisations run by and working on behalf of disabled communities.
- **Government action to reduce barriers:** an overview of the current activity being undertaken to support the sector and to reduce barriers.

Key insights:

- **Capacity** is a key issue on both commissioner and supplier-side. This relates to VCSE capacity to bid and delivery contracts, and capacity to form meaningful relationships between the sector and local commissioners.
- **Governance** is a key barrier faced by smaller VCSEs. This often means they are excluded from contracts due to eligibility criteria.
- VCSE **willingness to bid** is a key consideration. Contracts can be seen as restrictive, or unconducive to the VCSE's unique mission.
- **Supply chain issues** are another concern for the sector. There are issues with transparency and fair treatment, and wider concerns around collaboration, and competition within the sector.
- **Digital skills** and ability to keep up with cyber security requirements is another issue, closely linked with governance and capacity.
- **Commissioner understanding** of the sector is highly varied, and typically understanding **and data on regional need, and the VCSE sector, its role and value is limited.** This is linked to fragmented commissioning culture and capacity issues.
- **Contract design** can be unconducive to the sector, with larger scale, more general, contracts excluding smaller VCSEs. Poor contract design can also introduce instability to the sector and limit the extent to which VCSEs can prepare for contracts, work collaboratively, or deliver within budget.

6.2 Supply-side barriers

This section provides an overview of the key barriers mentioned by consultees that exist on the supply side (i.e., the VCSE suppliers) with respect to procurement.

Capacity to bid for contracts: VCSE organisations can lack the appropriate capacity or capabilities to successfully bid for government contracts as there are varied levels of resource available at the organisational level. They can also lack capacity to upskill or to scale up to meet eligibility criteria.

"We had to be VAT registered… and we were asked all sorts of things by the system, like what is your supply chain management system… [It took] a considerable amount of time… [and] sometimes it feels like one size fits all… [It is] resource-intensive when getting on board… [and] the biggest thing in procurement is red tape" – Umbrella organisation

The complexity, and time required to produce an efficient bid can be a burden for small organisations. Awareness and ability to track contracts is another challenge relating to capacity. The barriers faced by smaller organisations is reflected in Social Enterprise UK's public service mutuals State of the Sector report (2019)[26], which also reflects the unlevel playing field faced by VCSE organisations in relation to public procurement.

Willingness to bid for contracts: It is important to consider the extent to which VCSEs want to be involved with procurement processes. Tightly managed contracts can pressure VCSEs to professionalise their services, and this can raise concerns in the sector around mission drift.

"A lot of VCSEs don't want to deliver against government contracts, especially if it's at the expense of grant funding going out the door… VCSEs feel the process is overly bureaucratic. [Organisations often view it as a choice between] unrestricted grants or tightly managed contracts." – Academic

Capacity to deliver contracts: Given the different sizes of organisations within the VCSE sector, this barrier will be faced by some organisations more acutely than others. Inability to deliver, or the perception that VCSEs are riskier alternatives to private sector businesses may limit the appeal of the sector. This can harm the sector's potential to grow proportionate to the total market.

Government buyers, and other interviewees have both highlighted several supply-side concerns:

"Some of the barriers are on their [the VCSE] side, and how they view themselves… we decided we are agnostic on who the provider is, we are focused on outcomes… the sector requires a paradigm shift." – Government department involved in commissioning services

"*There is a lack of supporting sector infrastructure… [and a] lack of organisations operating as an umbrella to support local entities"* – Academic

The capacity to deliver contracts has been considered in several research papers. The Third Sector Research Centre (2019)[27] highlights that the current commissioning landscape favours organisations with formally-structured and commercially-orientated outlooks, while also suggesting that there can sometimes be cashflow implications associated with delivering contracts, requiring VCSEs to subsidies

[26] Social Enterprise UK (2019) *Public Service Mutuals: The State of the Sector*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/951811/Public_Service_Mutuals_-_The_State_of_the_Sector_2019_V2.pdf

[27] Third Sector Research Centre (2019) *Telling tales of commissioning: insights from a qualitative longitudinal study of third sector organisations*. Available at: https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/tsrc/working-papers/working-paper-145.pdf

service delivery using their reserves. This is an important point to consider as the Covid-19 pandemic has detrimentally impacted the sector's revenue.[28]

Supply chain issues: The treatment and management of VCSEs within broader procurement supply chains (e.g., through sub-contracting or consortium bids) has been highlighted as a concern by VCSEs and sector consultees.

"[It is] easy for VCSE to be railroaded in the supply chain. Big charities going in to bid against local [providers]… [and] three years later when funding finishes the [larger] charity pulls out, and the local charity goes bust" – Umbrella organisation

"*[Prime contractors] may not be able to cover costs to deliver quality… charities subsidise themselves to ensure that quality doesn't drop."* – Umbrella organisation

These issues are well documented (for example, see NCVO's Rebalancing the Relationship[29]) and include limited engagement from the prime contractor upon contract award, altered project scope, and financing issues.

Digital skills gap: There are three notable barriers faced by VCSEs with respect to digital skills. Firstly, due to the digitisation of contract notices, it can often become challenging for smaller VCSEs to track the contract opportunities at scale which may be relevant for their organisation.

"The number of different portals… We don't know where to find them [contracts], or the [tender] criteria" – Community Interest Company

Secondly, a digital skills gap has been highlighted within recent literature, with less than half the sector rating their digital skills as "good.[30]" With increased digitisation of services, it is only likely that the demand for digital skills within the sector will rise. This is a barrier for VCSE organisations as they may not be able to upskill at the same pace as their competitors in the private sector.

Finally, cyber security risk is also noted as posing a significant threat to the VCSE sector in the UK[31] and is therefore included as a key supply-side barrier. The implications of this can be seen generally, (e.g., it has also been reported[32] that since the pandemic, 20% of charities have cancelled services because they don't have the skills or tech needed to deliver them), and within the procurement process (e.g., commissioners have in the past updated eligibility criteria to ensure VCSEs could engage in procurement)[33].

[28] Kent Public Health Observatory (2020) *Charity sector demand and impact: the effect of COVID-19*. Available at: https://www.kpho.org.uk/__data/assets/pdf_file/0007/118672/Charity-sector-offset-as-a-result-of-the-pandemic.pdf
[29] NCVO (2021) *Rebalancing the Relationship: Overcoming Barriers to Collaboration*. Available at: https://blogs.ncvo.org.uk/2021/02/01/rebalancing-the-relationship-overcoming-barriers-to-collaboration/
[30] Vonne (n.d.) *Read our key findings from our surveys into VCSE sector digital skills needs.* Available at: https://www.vonne.org.uk/news/read-our-key-findings-our-surveys-vcse-sector-digital-skills-needs
[31] National Cyber Security Centre (2018) *Cyber Threat Assessment: UK Charity Sector*. Available at: https://www.ncsc.gov.uk/collection/charity/cyber-threat-assessment-uk-charity-sector
[32] Skills Platform (2021) *Charity Digital Skills Report*. Available at: https://www.skillsplatform.org/uploads/charity_digital_skills_report_2021.pdf
[33] King's Fund (2018) *Commissioner perspectives on working with the voluntary, community and social enterprise sector*. Available at: https://www.kingsfund.org.uk/sites/default/files/2018-02/Commissioner_perspectives_on_working_with_the_voluntary_community_and_social_enterprise_sector_1.pdf

6.3 Demand-side barriers

Commissioner's understanding of the VCSE sector: Commissioning across the UK can be varied, and typically local authorities do not have a strategy or corporate framework in place. Communication with the VCSE sector can also be ad-hoc, uncoordinated, and vary from department to department. This can reduce VCSE willingness and capability to engage, alongside sector sustainability.

Consultees call for greater formal commitments (i.e., words to facilitate actions) when it comes to supporting VCSE participation. While consultees have reflected proactive engagement within central government, feedback suggests more can be done at the local level, suggesting that greater consideration should be given to the role of social value.

"Words on paper are important levers, they can help in areas where there is resistance, it gives those who want to do it the lever to do it." – Umbrella organisation

"[There needs to be] bigger policy imperatives." – Research organisation

Consultees suggest that barriers that result in reduced engagement and understanding of the sector are often practical and relate to capacity and knowledge of VCSE procurement among commissioners:

"*Capacity for VCSE engagement is limited… the time government can spend engaging with VCSEs and training them is limited… development of plans require capacity, explaining the market requires capacity, large frameworks… all require capacity."* – Academic

There are few people at the local authority level that have the skills to bring people together… [It is about] balancing service user voice and the reality of budget." – Umbrella organisation

Finally, there are also some concerns around social value. While some commissioners suggest it is making commissioners think more strategically, others have expressed reservations that it may not actually increase VCSE participation if support for the sector is not provided directly.

"[Social value is] an additional aspect that is potentially complicating what is already a challenging environment of VCSEs… If policy doesn't target VCSEs, it may benefit larger organisations with marketing people." – Academic

Inappropriate contract design and commissioner approach: The nature of contract design can limit VCSE capability to engage. For example, often too many resources are invested in the contracting-out phase of the procurement cycle at the expense of contract management. This results in an imbalanced procurement cycle and a lack of effective monitoring for outsourced services.

Wider concerns also exist relating to the size of contracts procured, their suitability for specialist providers, and the commissioner's focus on price criteria.

"Commissioners should split up contracts into smaller lots. While it may appear to run counter to best value and maximising income, commissioners need to think of the community benefits… these [smaller tenders] can be the lifeblood of small organisations… [and] automatically drive up the number of diverse businesses" – Community interest company

"Some of the large national contracts are too big for social enterprises to get involved, [which means] they are effectively pushed aside." – Umbrella organisation

"Larger contracts across a wider geographical spread impact delivery and is a barrier to engagement" – VCSE organisation

Other barriers can be more complex. For example, many of the consultees suggest that contracts are becoming increasingly large, but this is often a result of capacity concerns on the commissioner side of contracting. In contrast, shorter contract timeframes, or lack of information around pipeline have also been cited as increasing uncertainty in the sector, limiting potential to grow, or to plan.

Consultees note the pressures that exist for commissioners in relation to service efficiency and pricing, and the negative impact this has on the sector's ability to bid and win contracts. Several VCSEs have suggested that the weighting given to price criteria within contracts often results in unsustainable bids, which can create a "race to the bottom" effect, where VCSE organisations reduce costs to deliver contracts at a loss.

Note, while this feedback has been provided, there is ongoing engagement to reduce barriers for VCSEs related to contract size, e.g., policy updated including PPN 11/20 and Article 19.

Limited available data to support strategic commissioning: There is limited available data (or data sharing) on the sector. This can have implications on the extent to which commissioners engage with VCSEs, and the extent to which engagement can be strategic – i.e., ensuring that local commissioners understand which VCSEs in their region could feasibly deliver services, and which meet unique regional need.

Consultees have highlighted the limited data that exists with respect to mapping the VCSE sector (reflected and discussed within Section 4), suggesting that this can inhibit tracking engagement, outcomes. It can also impact the extent to which VCSEs are included within government contracts.

While both central and local government are working to increase contract management and the measurement of social value, there are concerns within the sector around the extent to which this occurs, and how this may affect policy impacts:

"Social Value is generally not tested, it needs to be ensured that it is delivered [or measured] properly… need to capture initiatives that buyers are using, and see what it does over time to diverse organisations… it is important that the government sets targets" – Community Interest Company

Consultees highlight the importance of local context, and the provision of context driven services, noting the importance of knowledge sharing and data gathering to ensure services can be user-led, and can address the complex, often intersectional need within a region, e.g., the provision of disability support for minority groups. Other organisations call for better integration of data sources into current systems:

"[There] needs to be a link with the Charity Commission [to allow commissioners to] do due diligence… [on] size and scale." – Academic

"[Commissioners should] have a bank of organisations ready… a local directory of services, whether large or small, but bespoke" – VCSE organisation

Existing partnerships: The lack of quality partnerships, and the extent to which commissioners engage meaningfully with the sector has been highlighted as a barrier despite the range of benefits that come with facilitating positive partnerships with the VCSE sector. These benefits were noted by several consultees and include a better understanding of regional need, and bespoke support that reaches the most marginalised groups. Consultees have noted that some commissioners may not wish to engage with the sector, noting how partnership working can be challenging, or ad-hoc depending on 'at-time' requirements.

"A difficult sell, but is needed to change dynamics locally" – Research organisation

"[Commissioners] keep talking about co-production and design, but don't really consult… others tell us what they are up to, and ask us what we think, but we never hear back… [Needs to be] room for what is proper collaboration" – VCSE organisation

6.4 Disabled persons' organisations

Within the VCSE sector, it is important to acknowledge the role of disabled persons organisations (DPOs), as well as wider user-led organisations, and the unique barriers that both organisation, and service users can face.

It is also important to acknowledge the value-added from supporting DPOs and wider user-led groups. This includes, for example, their ability to reach the most vulnerable members of society:

"If you're from a marginalised community… [there is a] lack of trust of mainstream service providers… [And that is the] role for specialist service providers, which is sometimes a direct role, or intermediary role to connect people to more trusted mainstream providers… [There are] complicated factors, some [service users] won't engage, or only go for certain issues." – Umbrella organisation

Disability Nottingham (2014)[34] notes how DPOs are run by marginalised people, and that by supporting their participation in procurement there is potential to improve the quality of work and career pathways available to marginalised groups, all while ensuring that service users are receiving high-quality, user-centric support. Greater inclusion of DPOs can also support wider benefits to the VCSE sector, encouraging the use of more inclusive language, improved service outcomes and more strategic decision making.[35]

Several barriers currently exist that prevent DPO engagement, and while it should be noted that this section primarily discusses DPOs, the barriers outlined below can be generalised to wider user-led organisations (i.e., organisations that are run and controlled by people who use support services which can focus on a wide breadth of service areas, such as disabled people, mental health service users, people with learning difficulties, older people, and their family and carers).[36]

One of the key concerns for DPOs is access to grants.[37] This may be due to the narrow scope that the most organisations sets out to address, and the limited funding available to support their unique ambitions. The historic deficit in skill development opportunities for DPOs has also been noted as a barrier.

Barriers identified by consultees include the gap in policy specific to user-led organisations and the communities they serve:

"Social value model is tough from a race perspective. One of the things the pandemic has done is highlight the inequality of BAME, [it is] underfunded." – Umbrella organisation

"A lot of the education packages on equality focus on employment, gender pay gap, etc. There is little service delivery to support disabled communities" – Umbrella organisation

Policy gaps can also be linked with gaps in data. Currently there are no markers within charity commission data, or Companies House to identify where a support service is user-led. Social Enterprise

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34 Ibid

35 NPC (2018) *Make it count: Why impact matters in user involvement*. Available at: https://www.thinknpc.org/resource-hub/make-it-count-why-impact-matters-in-user-involvement/

36 Disability Nottingham (2014) *A guide to user led organisations*. Available at: http://www.disabilitynottinghamshire.org.uk/wp-content/uploads/2014/01/A-guide-to-user-led-organisations-ULOs.pdf

37 Social Enterprise UK (2021) *No Going Back: State of Social Enterprise Survey 2021*. Available at: https://www.socialenterprise.org.uk/wp-content/uploads/2021/10/SEUK-SOSE-Report-DIGITAL-1.pdf

UK's State of the Sector report[38] does however offer some insight, suggesting that 83% of social enterprises have a woman on their leadership team, and 31% have a member of the BAME community.

This report also suggests that both female-led and BAME-led groups are not growing at the same rate as other social enterprises. This suggests that these organisations face additional barriers, which may go unnoticed due to limited quantitative data.

Consultees suggest that to increase involvement of DPOs within procurement, more should be done to evidence the role and value of user-led organisations. They suggest that steps should be taken to assess and report on the positive impacts that are attached to user-led services; and to assess and map the needs that user-led organisations set out to address. This will ensure that commissioners are aware of existing needs and will encourage them to see the value of engagement and support strategic conversations with user-led organisations to support intervention.

"The government hasn't looked at unmet needs… [We] only get proof of need by engaging… There is a gross unmet need, which needs to be picked apart." – Social enterprise organisation

Organisations also note how existing levers are underutilised.

"Article 19 can be used to restrict tenders to disabled persons organisations… not seen it happen for a long time… [This] misses a trick and shows a lack of understanding... There's a difference between doing "for" and doing "with" … [need to] build in [to policy] the distinction of lived experience" – Charity organisation

Organisations have suggested that there is a lack of understanding on the commissioner side distinguishing DPOs and other user-led organisations from other charities that support marginalised groups. Consultees have suggested that commissioners are not aware of the importance of user-led organisations in addressing regional need, and several consultees have noted problematic procurement practices.

"Charities go into competition and knock them [user-led organisations] out… [they are] increasingly behaving like businesses." – Charity organisation

"When commissioning is based on price, they [larger charities run by non-disabled people] undercut… Raise money from the public and don't reinvest it. They employ smart, non-disabled graduates to write tenders, take the top line from that" – Charity organisation

To address this, consultees have called for education and awareness training to support ethical commissioning. An example of the positive impacts of user-led engagement is outlined below:

"[User-led commissioning can] make the world accessible for disabled people, make it accessible for everyone… When buses were made accessible usage increased exponentially, way above the disabled people using it. Usage increased across the board because older people, pregnant people [were all] using the service as it was more accessible" – Umbrella organisation

Wider barriers facing the sector have been identified in literature. Some barriers reiterate the above, such as the lack of business acumen, and the tender process favouring larger organisations. Other identified barriers include the perception of user-led organisations by local authorities, which in turn can

[38] Ibid

result in a lack of training and a lack of representation in decision making; and inaccessibility of information and language, and a lack of clarity in the contracting process.[39]

A final consideration in relation to issues faced by DPOs and other user-led organisations is their role in the supply chain and instances of tokenism, or where appropriation of services occurs. This occurs when larger organisations subcontract user-led organisations but do not engage upon contract award, known colloquially as "bid candy." This once again highlights the importance of monitoring the supply chain and assessing outputs across prime and subcontracts.

It should be noted that there are currently ambitions within government to support disabled people and DPO organisations.[40] Current examples of top-down changes within government include the legal duty placed on public bodies to consider the impact of policies on people with protected characteristics that comes from the Equality Act's Public Sector Equality Duty (2010), as well as the reduced barriers within the supply chain that come with the Light Touch Regime. The government has also set up a new cross-government approach to disability which seeks to build a more inclusive approach to government. It has appointed 18 sector champions and is setting up a regional stakeholder network to ensure that DPO organisations, and disabled people more generally, receive appropriate representation within central government.

6.5 Government action to reduce barriers

While the sections above have focused on the barriers faced by VCSEs as they engage with public procurement, it is also worthwhile noting where positive change has occurred. For example, there have been several significant policies updated in recent years (e.g., NHS's Action Plan, Cabinet Office's Green Paper, procurement policy note 06/20, and the guides produced to support VCSE engagement, and engagement with social value) and the positive impact of this change is reflected in the increased volume of VCSE engagement in recent years (as outlined above), and as noted by consultees:

"There's a recognition that services are better if service users are engaged… been happening, but [we're] at different levels of understanding, of how to embed it. Some believe and do [engage with the sector]. Others do the bare minimum. But this bare minimum [standard of procurement] is being pushed up by regulatory bars" – Government department

"Different local authorities have different levels of risk. It's the culture of the local authority… we need a cultural shift." – Government department.

Some consultees have noted a shift in culture as a result of PPN 06/20, suggesting that it:

"Forces conversations on what social value is and allows the commissioner to make the link with strategy. Anecdotally, we have noticed social value used more strategically [since the introduction of PPN 06/20] We are focused on encouraging a more detailed understanding deliberately. [We are] supporting conversations with key clients… [There is] training in place, and e-learning since 2020… [and] departments are to introduce reporting systems" – Government department

Suppliers have reported similar claims. Having said that, suppliers also note the importance of ensuring that future assurances are made and incorporated into policy.

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[39] Social Care Institute for Excellence (2014) *A commissioner's guide to developing and sustaining local user-led organisations*. Available at: https://www.scie.org.uk/publications/guides/guide36/challenges/barriers.asp

[40] Department for Work and Pensions, Office for Disability Issues (2019) *2019 Progress report on the UK's vision to build a society which is fully inclusive of disabled people*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829904/uk-vision-to-build-a-society-inclusive-of-disabled-people-2019.pdf

"Key thing for us is that there have been some positive developments through the Social Value Act and Green Book. This has increased the focus on VCSE and equality, and how they come together. But what we're not seeing, because it's that minimum 10% of total score… [social value] will be squeezed in there and not exist in the main contract" – Charity organisation

"[It needs to be a] top-down thing… if it's not in the regulation, people will act the same" – Umbrella organisation

Overall, insight from the consultation stage suggests that the extent to which VCSEs engage with procurement, and the extent to which commissioners are thinking strategically about procurement has increased in light of recent policy. However, due to the high levels of variance between commissioners, the extent to which this is occurring between departments, and regionally is uncertain. Considering this future policy should highlight the benefits of VCSE engagement, incentivising engagement.

7 PESTLE Analysis

7.1 Introduction

The PESTLE analysis is a valuable tool in assessing key aspects within the external environment, and can be used to identify attractiveness, potential, performance, success factors, and trends for future growth within a given market.[41] A PESTLE tool can also be used to underpin policy options appraisals as per Green Book guidance.

The section below provides an overview of key project findings through the lens of a PESTLE framework, assessing the **p**olitical, **e**conomic, **s**ocial, **t**echnological, **l**egal, and **e**thical / **e**nvironmental factors shaping the role of VCSEs in public markets.

These are factors which policy-makers should use to consider where interventions may feasibly take place to support the sector and improve public service delivery outcomes, including which actors should be involved and to what extent. These factors are not exhaustive, and we recommend that DCMS and partners continue to develop and track these on an ongoing basis to understand varying challenges and policy responses across central and local government.

7.2 PESTLE Factors

The table below presents a summary of key findings and considerations through the lens of the PESTLE analysis.

Figure 7:1 PESTLE Framework

Factor	Consideration
Political	There are several considerations with respect to political and policy factors shaping VCSE participation in public procurement. As set out within the literature review, there have been several policy initiatives and investments made by government (both central and local) to either formally reduce barriers to participation, or through increasing access and awareness of procurement opportunities. Some of the factors we identify include: ● The extent to which **VCSE procurement is on the radar for policy-makers and commissioners** across various public bodies. This research does highlight that awareness of the need to engage with VCSEs in procurement has improved in recent years; however, the use of case studies and sharing good practice may help to enhance these steps made across a wider range of commissioning stakeholders. As VCSEs often bid for contracts within their locality, ensuring a level-playing field with respect to contract awareness and access may help support VCSEs successfully win and deliver contracts in their respective local authority area. ● The role of new **legislation and policy** to shape public procurement markets. Several consultees cited the potential for **social value** and

[41] Perera (2017) *The PESTLE Analysis*. Available at: https://books.google.co.uk/books?hl=en&lr=&id=ZWpLDwAAQBAJ&oi=fnd&pg=PA2&dq=why+pestle+analysis+is+important&ots=DucYoJ5wEv&sig=dBrpN7ZbpwXXawD9eWWPJEHDKlU#v=onepage&q=why%20pestle%20analysis%20is%20important&f=false

	exploration of **contract value thresholds** as factors that may support enhanced VCSE engagement directly within contracting, or as key partners within consortia bids. The implementation of considerate, place-based commissioning that draws the knowledge of user-led and social-orientated organisations can be used to support both pandemic recovery and levelling up and has been cited in previous reports.[42] ● **Definition and knowledge:** There are a clear diversity of providers across the VCSE sector (with respect to size, type, structural factors and more). This means that commissioners and policy-makers should undertake careful consideration of this diversity when undertaking further engagement with the sector and its partners. For example, the barriers faced by small charities may be different to those faced by larger social enterprises etc, and this may impact how services can be best commissioned. ● **Representation** is a key consideration within ensuring access and equity within government contracting for VCSEs. This means that initiatives to support the inclusion and feedback from a range of VCSE groups are particularly welcome, in order to reduce barriers among disadvantaged or marginalised groups. ● **Social investment:** Social investment and access to finance can play a role in ensuring VCSEs have capacity to deliver contracts. Note that there are pre-existing ambitions to use investment to support social enterprises in delivering public services, particularly in strategic areas such as healthcare and job training.[43] The Access Foundation, for example, work with charities and social enterprises to increase resilience and self-reliance, and to increase contract readiness. This work is undertaken to support enterprises in growing and diversifying incomes, and to improve access to social investment. The approach used by the Access Foundation is three-fold and includes (a) resourcing programmes that build organisations' capability and resilience (b) creating an ecosystem of small loans to support organisations' growing impact (c) intentionally learning and sharing the results as widely as possible, so that investment and resilience become the new normal in the market.[44]
Economic	There are a wide range of economic factors that can shape public procurement outcomes. The Tussell analysis demonstrates how public spending can rapidly change across sector types on an annual basis, depending on public needs, and contracting opportunities. As such, the following economic factors should be considered on both the demand-side (i.e., what does the buyer need?) and the supply-side (i.e., what can VCSEs provide as a supplier to public clients?):

[42] The All-Party Parliamentary Group for Social Enterprise (2022). *Rising to the Challenge. An independent inquiry into the impact of COVID-19 on the social enterprise sector and HM Government's response*. Available at: https://www.socialenterprise.org.uk/wp-content/uploads/2022/03/Rising-to-the-Challenge-An-independent-inquiry-into-the-impact-of-COVID19-on-the-social-enterprise-sector.pdf
[43] Civil Society News (2021) *Government will work with social enterprises on Covid-19 recovery, minister says*. Available at: https://www.civilsociety.co.uk/news/the-government-will-work-with-social-enterprises-on-covid-19-recovery-minister-says.html#sthash.9DOtgT25.dpuf
[44] Access Foundation (2017) *The Impact of Capacity Building*. Available at: https://access-socialinvestment.org.uk/wp-content/uploads/2017/08/Access_TI_Report-July-17-FINAL.pdf

	● **Government expenditure (through procurement):** There is a need to better align the relative strengths and capacities of VCSE suppliers to demand for services by public authorities. We recommend that further initiatives are undertaken to ensure VCSEs are aware of market opportunities, growth markets, and key clients in demand of their services (e.g., through meet-the-buyer or advanced notice of upcoming opportunities). This could also include longer-term strategic opportunities or horizon scanning, to help indicate the areas of procurement over the next number of years and to enable VCSEs to build capacity to meet this demand. ● **Value for Money**: Within the consultations, several commissioners and VCSE organisations noted that contracts could be delivered for good value for money by VCSEs, with efficient and effective service delivery, and a wide range of positive social externalities generated which help to create tangible social value. There has been little comparative research assessing the added value of VCSE engagement in comparison to other suppliers. Future research could assess where engagement is occurring, and where the most meaningful impacts are occurring. ● **Commerciality:** A common issue raised among VCSEs bidding for contracts related to tender criteria, with some noting the tension between high-quality delivery and capacity, and the need to bid competitively for pricing to meet scored criteria. Within the consultations, several VCSEs welcomed the move from 'Most Economically Advantageous Tender' (MEAT) to 'Most Advantageous Tender (MAT), as well as welcoming the potential for clearer thresholds for bidding, and increased scoring for social value and quality over cost. There is therefore a need to continually consider across commissioners whether current scoring methods allow for VCSE organisations to bid and deliver projects sustainably, or commercially, and indeed - whether this provides optimum delivery of public services. ● **Time, Planning and Capacity:** Within the barriers analysis, we explored whether current delivery models give VCSE organisations sufficient time or capacity to bid for contracts, receive appropriate feedback, or plan for delivery. ● VCSE organisations have highlighted the **capacity concerns that exist in relation to the procurement process, and consortium bidding for smaller VCSEs.** Commissioners should be aware of the limited resources available to VCSE organisations of different sizes and ensure they have an adequate timeframe to respond, and to promote bidding. ● **Payment:** Consultees have highlighted the concerns that exist within the supply chain and ensuring appropriate payment models and processes are in place. ● Future consideration should also be given to commercial VCSE organisations (e.g., some social enterprises), and how their support needs may differ from non-profit organisations. ● Wider literature also suggests that the sector also faces pressure with regards to its reserves, and consultees have noted several occurrences

	of VCSE organisations subsidising services or using existing cash flow to ensure quality of delivery. There is a need to ensure that contracts are appropriately costed with sufficient delivery flexibility, and that subcontracted organisations are paid appropriately and on-time.
Social	● **Social Value (measurement):** Within the consultations, the research explored the extent to which an increased focus on Social Value could benefit VCSEs in bidding for contracts, and what are some of the benefits for society and public value for money. ● Consultee feedback on social value was mixed. While some have welcomed it, suggesting that it is an important policy lever to support the sector and to be scored accordingly within tenders, others suggest that its success is linked with the capacity that exists at the VCSE-level, and the ability for smaller organisations to take advantage of it. These consultees suggest that social value may disproportionately benefit larger non-VCSE organisations with bid teams and business acumen. ● Social Value is in the process of being embedded into many government contracts, and as such, commissioners should consider how social value is being asked of bidders (and measured and scored), as well as how social value can be tracked throughout (and following) contract delivery. This would make social value more of an ongoing process in contracting, rather than a scored criteria prior to commencement. However, this will require training and support for commissioners to understand what Social Value is (and is not), how it can be identified, measured, and evaluated on an ongoing basis. This could include an exploration of the differences in commercial models between VCSEs and non-VCSEs, and the relevance of social value across organisational structures. ● **Protection within the supply chain (reporting, payment on time etc):** Various consultees have highlighted an often-challenging dynamic that exists within the sector, and particularly within the supply chain between contracting authorities, lead suppliers, and VCSE subcontractors. ● Consultees have also noted that contracts are generally larger than in previous years. It is therefore becoming increasingly likely that smaller organisations will have to participate in partnership with larger organisations, in order to grow and scale. ● To ensure the diversity of approach that exists within the VCSE sector is protected, policy-makers should be mindful of issues that exist within the supply chain and ensure that commissioning at all levels properly tracks relationships and prevent instances where smaller organisations are (or feel) mistreated.
Technological	As explored within the ‘Digital Skills Gap’ section of the barriers, there are some key questions relating to technological capacity of VCSEs and their ability to identify suitable opportunities. These include: ● *Do VCSEs have sufficient capacity or knowledge to identify new opportunities, or bid with third parties?*

	● *Are VCSEs able to keep up / invest in technological capacity and meet public sector expectations on issues such as cyber security and data management?* ● *Is VCSE engagement tracked consistently across different commissioners? How can data consistency be improved to allow for actionable insight to support the sector?* ● **Capacity to identify and respond to tenders:** Consultees have highlighted the difficulties that exist in navigating the existing procurement portals, highlighting the resource that is required to register on various procurement portals, and to look for tenders. VCSEs have suggested that a single system and updated eligibility criteria would support them in identifying and accessing tenders, and this is an area where work is underway by commissioning authorities to simplify contract notice systems. ● **Technological capacity e.g., cyber security, use of AI and cloud technologies:** Previous research has highlighted the cyber security risks that face the sector due to limited IT infrastructure, and outdated systems, and their limited capacity to update. This has implications for when VCSEs are in competition with private sector organisations with robust systems in place, and when VCSEs are responsible for sensitive data. Further, the nature of commissioning means that tenders often require responses regarding issues such as where data is stored and controlled, and the provision of cyber security and IT governance policies - which can be challenging, particularly for smaller VCSEs to provide. ● **Data held by commissioners:** While the Charity Commission dataset can be used to identify charities operating within a given region, the use of this data among commissioners is unknown. Literature suggests that current data held across regions is inconsistent and inadequate. It is recommended that commissioners make use of existing data sources (e.g., Charity Commission dataset, ONS statistics) to map needs within a region, and to identify VCSEs already active and supporting service users, where possible. However, this may require centralised support to ensure consistency of approach and sharing of best practice.
Legal	● **Compliance:** Similar to the previous technological challenges, a key consideration is whether VCSEs have sufficient capacity (by size or type) to ensure compliance with other legal requirements. For example, VCSEs can check their alignment to procurement T&Cs, or ability to implement appropriate insurances and provide compliance updates. ● VCSEs and commissioners have both highlighted the barriers that exist for VCSEs attempting to meet certain eligibility criteria for contracts. These are often linked to capacity, and commissioners should consider proportionately (particularly with respect to smaller contracts) regarding the required and desirable compliance criteria required (e.g., level of insurance). ● **Billing / Late Payments:** The literature suggests that late payments remain a concern for subcontracting organisations, **despite recent**

	efforts to encourage prompt payment and to further develop existing mechanisms (e.g., the Prompt Payment Code). This may sit alongside support for VCSEs to explore how sustainability and cash flow in the sector can be strengthened, e.g., by increasing the length of contract and ensuring that VCSEs are aware of the pipeline of upcoming tenders, and commissioner ambitions. ● **Risk:** The diverse scale at which the VCSE sector operates means that organisations of different levels of scale will have differing capacities in managing risk. This raises concerns, both for VCSE partnership working, and subcontracting as part of a larger supply chain. ● Existing guidance for the sector should be promoted,[45,46] and commissioners should be made aware of VCSE specific insurance options so that they can align risk management criteria where possible (e.g., the NCVO highlights that Zurich Insurance is designed for organisations with an income under £300,000 and it includes £5m public liability cover, £10m employers' liability cover, £25,000 contents cover, £100,000 trustee indemnity cover as well as personal accident and money cover).[47]
Ethical / Environmental	● A particular area of interest is to what extent are new focuses on issues such as **Net Zero and Social Value** impacting VCSE engagement with public procurement. ● PPN 06/20 provides a holistic account of social value, which includes consideration of factors such as COVID-19 recovery, tackling economic inequality, improving supply chain resilience, fighting climate change, and working towards net zero, providing equal opportunities and promoting wellbeing in the award of contracts. ● It remains early within this process (with PPN 06/20) becoming operational for central departments and NDPBs from January 2021; however, commissioners and VCSEs alike are interested in the emerging impacts this may have upon both award outcomes, and impacts from the delivery of government contracts by VCSEs and non-VCSEs. ● An interesting area for further consideration by commissioners could be to explore **i)** what proportion of award criteria is assigned to Social Value (i.e., 10% or higher) **ii)** whether VCSEs perform more or less strongly in the scoring awarded, and **iii)** whether the variance between bidder types is materially substantial enough to have resulted in a contract award. ● Consultees also noted that Social Value and other socially orientated policy can function as a lever to promote commissioners to engage strategically with the VCSE sector. An important consideration, however, is the extent to which this policy will support smaller VCSEs. ● Existing literature notes how smaller organisations, or user-led organisations are still finding it difficult to access funding, whereas larger

[45] NCVO (n.d.) *How to complete a risk assessmen*t. Available at: https://knowhow.ncvo.org.uk/how-to/how-to-complete-a-risk-assessment
[46] Charity Commission for England and Wales (2010) *Charities and risk management (CC26).* Available at: https://www.gov.uk/government/publications/charities-and-risk-management-cc26/charities-and-risk-management-cc26
[47] NCVO (n.d.) Zurich Insurance – Insurance Supplier. Available at: https://www.ncvo.org.uk/practical-support/trusted-suppliers/supplier-list/2171-zurich-insurance

	organisations may be better equipped, due to capacity reasons. To ensure a diverse range of VCSE organisations can participate in procurement, future policy and initiatives should recognise the role that exists for smaller organisations within the market and be positioned in a way that promotes commissioners to strategically engage with them. ● While consultees have noted the positive contribution of VCSE organisations, some concerns do exist around organisational governance and ability to deliver the best outcomes for commissioners. It is therefore important that the positive contribution of the VCSE sector is properly explored (through an economic and social lens), which could include highlighting the important role of smaller organisations in providing specialist knowledge, or the ability that user-led organisations have at reaching the most marginalised members of a community and addressing intersectional needs. ● It could also include the promotion of local commissioning and investing in local capacity to ensure funding is reinvested within the community. On the VCSE side, this could include professional training, or support to ensure systems are robust, or to ensure that the organisation has the governance in place to deliver and reports measurable impacts back to the commissioner to track the impact of VCSE procurement.

8 Key Findings and Recommendations

This section sets out the key considerations for policy-makers from this research. These are informed by both the quantitative strands of research, the literature and policy review, and through consultation with c. 30 strategic stakeholders. We have grouped these key recommendations into three core areas, relating to improving understanding and awareness of the sector, practical steps to reduce barriers, and mechanisms to improve growth potential.

Understanding the sector

- **Understanding the sector's perception of procurement:** Government should further explore VCSE intention to bid or scale using public procurement, potentially through a representative survey. This would enable an assessment of the potential volume of VCSEs currently not engaging with procurement that wish to do so, or the volume that are and want to scale further.
- **Building strategic, long-term partnerships:** Engagement between commissioners and the VCSE sector is typically viewed by consultees as 'ad hoc' and subject to requirements at a particular time. This limits the ability of the sector to work effectively in partnership, both together, and with commissioners to address long-term regional need.
- **Increasing collaboration with social enterprises:** One in five (19%)[48] social enterprises report that their main source of income is from trading with the public sector, suggesting significant growth potential for social enterprises working with the public sector, either through procurement or other trading.
- **Improving awareness of user-led organisations:** Commissioner awareness of user-led engagement should be increased. The role of the VCSE sector in knowing and addressing local needs should also be highlighted, particularly with regards to user-led support for marginalised community members. These organisations can ensure that both culturally appropriate and tailored support services are available, and that the most marginalised members of a community can feel safe when being signposted to mainstream support.
- **Improving data quality relating to the sector:** Improving data quality can provide suitable intelligence to improve the government's understanding of the sector, and its engagement with public markets. There are several steps that can be taken to improve data quality, as identified through this research:
    - **Availability of data for different types of VCSEs:** The quality of data relating to the different types of VCSEs can be varied. Further data enrichment should be undertaken by policy-makers to distinguish the VCSE sector (and sub-groups) from private sector, and to develop suitable metrics for future analysis and tracking. Further efforts should be made to differentiate user-led organisations from the wider VCSE market. This data could support commissioners in engaging with relevant groups, and support delivery catered to the needs of specific service users. It would also showcase the diversity that exists within the VCSE sector.
    - **Data available at the local level:** Local government commissioning is important for the sector. Therefore, supporting local commissioners' awareness and understanding of the (local) VCSE sector is likely to increase the number of VCSEs participating in procurement (feeding into more appropriate contract design and application of the

[48] SEUK (2021) No Going Back: State of Social Enterprise Survey 2021

services provided by the sector). Developing infrastructure to support collaboration could also help stimulate procurement opportunities for specialist VCSEs locally.

- **Supply-chain data enrichment:** There is limited data available (through public or proprietary sources) regarding VCSE sub-contracting activity. It may be worth exploring further internal work that could be undertaken to enrich government's understanding of where spending is allocated to VCSEs, e.g., growth potential could feasibly exist at a sub-contractor level; however, as explored within this research, this area has limited data and has been underexplored in the past. We recommend that the use of enhanced data within central and local government commissioning at a sub-contractor level is shared where possible, to further the understanding of the size of subcontracting opportunities available to VCSEs.

- **Potential survey to assess VCSE attitudes towards procurement:** There is an opportunity to assess VCSE attitudes towards procurement in more detail. Given the diversity that exists within the sector, this could potentially include a national survey, allowing VCSEs of different types to outline their current experience of procurement, and their willingness to engage. This would provide Government with an opportunity to better engage all forms of VCSEs, and to understand the nuanced challenges they face.

Practically reducing barriers

Section 6 explores a wide range of barriers[49] impacting VCSE participation in public procurement. There are several actions that can be taken to practically reduce barriers faced during procurement:

- **Assessing the role of tender criteria**: Consultees discussed the role of tender criteria and the scored use of Social Value to ensure that the benefits of the VCSE sector can be reflected within the bidding process. Government should increase involvement of the sector in the commissioning, decommissioning, and recommissioning of contracts, and continue in its work to standardise procurement portals and tender questions where possible.

- **Improving contract design**: Government should engage the sector to determine the role of contract design in limiting ability to participate in procurement. Contract design can act as a barrier to engagement for organisations with different geographic reach, human resource and / or sector specialisms. VCSEs may be excluded based on the scope of the project's tender specification (i.e., whether the requirements are specialist or general), the scale (i.e., local or across regions), and the price (i.e., are budgets realistic enough to meet the needs of the VCSE's service users).

- **Supporting smaller VCSEs:** Government should determine potential mechanisms to support smaller VCSEs seeking to participate in procurement, such as support with contract readiness, or the provision of ring-fenced contracts for smaller VCSEs. This could include ensuring proportionality and flexibility in the bidding process to encourage participation, and to ensure smaller VCSEs can continue to deliver services to meet regional needs.

- **Addressing technological barriers:** Government should consider the technological barriers faced by the sector. With the digitisation of contract notices, it can often become challenging for smaller VCSEs with less technological knowledge to track contract opportunities across multiple sources. Recent literature highlights a digital skills gap, with less than half of the VCSE sector rating their digital skills as "good." Cyber security is also cited as an area in which VCSEs

[49] Please note that barriers have been identified based on the review of c.90 documents, and through c. 30 consultations with a diverse range of government and sector representatives.

could be supported, to both improve digital resilience, and increase VCSE participation in contracting.

- **Improving VCSE capacity:** It is important to consider supply-side skills and capacity which can be affected by the size and scale of organisational structures. Smaller VCSEs can be disadvantaged when compared to larger organisations with greater structural capacity and experience of bidding for grants and contracts.

Supporting Growth Potential

- **Improving the VCSE sector's awareness of procurement:** Growth potential for VCSEs could be enhanced through practical interventions with respect to awareness of contracts. For example, all contracts should be marked as suitable for VCSEs by default (unless suitable reasons are given) and proportionality should be adopted, i.e., using appropriate frameworks could be used to commission smaller lots of services where specialist VCSEs may be well placed to deliver services.

- **Identifying growth potential among VCSEs:** Future supply-side initiatives that seek to increase the extent of VCSE involvement in public procurement could target VCSEs by a particular size bracket (e.g., c. £100k annual turnover[50]) as these organisations are more likely to have the capacity to scale up public contracting activity. Further, receipt of public grants by charities (approximately one in five) aligns strongly with the likelihood to participate in procurement. Grant participation may be linked with contract readiness in smaller charities and may influence future targeted capacity building exercises.

- **Addressing capacity concerns:** It is important to acknowledge and mitigate the capacity limitations that exist on both the supplier and commissioning side. Whilst many VCSEs are limited in their ability to engage with procurement, commissioners can also be supported to engage with the sector – potentially through resources for formal VCSE procurement strategies or 'sector champions' within commissioning bodies to articulate the role of social value, and the impact that VCSEs can generate in the delivery of contracts.

- **Support growth in key sectors for VCSE participation:** There is clear evidence of VCSEs being well engaged in the procurement of services relating **to health and social care, disability, employability, and vulnerable adults.** While growth potential (with respect to increasing share) may be limited, policymakers should continue to track the coverage of VCSEs in these markets to maintain VCSE market share and competitiveness.

- Growth potential should also account for both the risk of market displacement and the wider size of each core market. There may be opportunities to grow the market for VCSEs through either **growing the aggregate market, encouraging sub-contracting of VCSEs by private teams, or indeed, encouraging commercial entities to have more social focus**, and deploy and monitor social value within contracting.

- **Local engagement and co-production:** For most of the sectors explored, commissioning primarily occurs at a local government level. Growth is therefore most likely at the local commissioning level, but should be considered alongside grant income (e.g., whereby VCSEs are currently receiving grants from local authorities, but could feasibly be positioned to secure both grants and contracts in future). Local authorities should also explore opportunities for co-production of requirements alongside VCSEs (and other providers), and further integrate

[50] Please note that organisations with an income of under £100,000 are responsible for less than 1% of total procurement award values.

ongoing initiatives in place to support VCSEs in public sector procurement, e.g., ring-fencing of projects below a certain threshold.

- **Identifying areas of strategic value-added:** Central and local government stakeholders should consider the areas of strategic expertise (e.g., strengths in areas such as health and social care, disability, employability, and social interventions) offered by VCSEs, and explore the potential for ‘matching’ these skills against contracting opportunities (at a scale which VCSEs can engage with).

Appendices

All further findings are presented in the appendices below. This includes:

Appendix 1: Previous Tussell findings, a high-level overview of key findings from Tussell's UK Public Procurement through VCSEs, 2016 – 2020 report.

Appendix 2: Full methodology (for Future Analysis), sets out the core methodology, research questions and report structure used in more detail.

Appendix 3: Full policy review, provides further detail on the policies related to the sector, and how these have changed over time.

Appendix 4: Data Tables and Charts, details wider analysis of both Charity Commission and Tussell data, alongside sectoral deep-dives. This analysis corresponds to Sections 4 and 5 of the main report.

Appendix 5: Consultee Topic Guide, provides an overview of the topic guide used.

Appendix 1: Previous Tussell findings

The previous research conducted by Tussell has revealed a number of key findings, which have been used to inform this report. Key insights are outlined below:

- Between April 2016 and March 2020, 12,500 VCSEs were identified as public sector suppliers. This accounts for 5% of the value and volume of contracts awarded and suggests that VCSEs are underrepresented in public procurement. In the same period, more than half (56%) of the VCSEs named on a published public sector contract won only one contract. A further 41% were named on 2-10 published public sector contracts, and a small minority won more than ten.
- The average duration of contracts awarded to VCSEs has declined by one month per year since 2016/17. As of 2019/20, it has been 26 months.
- Procurement tends to be localised, and three-quarters of VCSE organisations work only with authorities based in a single region. A further 24% (2,831) supply to multiple regions, and only 1% (141) supply all nine English regions.
- 14% of VCSEs active in public procurement are large (turnover over £36m), but these organisations earned over a third (37%) of total public sector spending on VCSEs.
- The three largest markets that VCSE organisations engage with include health and social care, disability, and employability services. Wider markets also include legal and advocacy, support for victims of domestic violence/ sexual abuse, homelessness support, offender rehabilitation, and youth services

Appendix 2: Full Methodology (for Future Analysis)

Table A:1 Methodology overview

Literature review	The review of close to 90 reports from industry leaders and academia assessing the current state of procurement in key areas such as supply chain, regional variability, and commissioner practice. Literature reviewed included c.50 reports produced by government, and c.40 academic and grey literature sources. Example papers included as supporting evidence for this review include: *NCVO's Rebalancing the Relationship: Overcoming Barriers in Collaboration (2021), Social Enterprise UK's No Going Back: State of Social Enterprise Survey (2021),* and *Clifford's Disparities by deprivation: The geographical impact of unprecedented changes in local authority financing on the voluntary sector in England (2021)*
Consultee engagement	Interviews with 29 strategically placed consultees. A purposive approach to sampling has been taken, and organisations engaged include: ● Four representatives from government. ● Four representatives working to support public health. ● Three representatives from research institutes and universities. ● Nine representatives of the sector (including umbrella organisations, smaller VCSEs); and ● Nine disabled people's organisations (DPOs). Consultees were strategically engaged due to their: ● Understanding of the sector in relation to the delivery of public services. ● Understanding the role of the sector in delivering public health solutions. ● Understanding of internal sector relationships, and the influence of, and attitude towards procurement. ● Understanding of unique issues faced by specialist DPO providers; and ● Understanding of the current research landscape, and where gaps may exist. More general discussions centred on barriers experienced, where growth opportunities exist, the identifications of current needs, examples of best practice, alongside wider considerations for the sector. Please note that feedback provided by consultees offers a viewpoint of sector representatives, and while providing insight into barriers faced, it is qualitative in nature and does not carry statistical significance.
Data collection and analysis	The review and collation of data from three key data sources: ● Charity Commission register: a combination of England and Wales, Scotland, and Northern Ireland Charity Registers detailing key metrics for analysis. ● Bureau van Dijk's FAME: A supplementary dataset, used to identify a wider population of VCSEs ● Tussell: Provides a rich dataset detailing procurement activity within identified VCSE organisations at both the local and central government level.

Please note that while the mixed methodology used by the research team seeks to limit potential knowledge gaps there are a number of potential limitations within this research:

- **VCSE sector definition and quality of data:** The services offered, size, scale, and legal entity of organisations within the VCSE sector can vary greatly. With the exception to organisations on the Charity Commission register for England and Wales, it is difficult to accurately map and track participation with public procurement consistently.

- **Data availability relating to the supply chain:** This research paper notes that supply chain is an area of concern for the sector. There is however limited data available on supply chain activity, which therefore limits overall ability to comment on current supply chain practices, beyond previously collected and first-hand anecdotal evidence.
- **Data quality, specific to Disabled Person Organisations:** Within existing datasets there is no way to identify whether an organisation is run by a disabled person. This is also true for other user-led organisations (e.g., BAME, LGBTQIA, women-led etc.).
- **Data quality, regional level data:** Data at the regional level is limited, which impacts the extent to which the quality of commissioning can be assessed across geographies; and
- **Data quality, contract level data:** Metrics available at the contract level are limited, which means that at this time there is no way to assess the quality of contracts.

Number of VCSEs identified by data source

Table A.2. below provides an overview of total number of VCSEs identified in each of the core datasets. Note that there is potential for overlap across these datasets and figures presented below are not representative of total number of VCSEs within the sector. **Further detail on the total estimated number of VCSEs active in the sector and engaging with procurement is included in Section 4 of this report "Current VCSE engagement in procurement".**

Table A:2 Quantitative data sources

Data Type	In scope: Population (as of March 2022)
Charitable organisations: registered with the Charity Commission (in England and Wales), the Scottish Charity Regulator, the Charity Commission for Northern Ireland	**England and Wales**[51]**:** 169,116 **Scotland**[52]: 25,426 **Northern Ireland**[53]: 7,197 Please note that some of these organisations are currently inactive or may have multiple registered organisations under one parent organisation. Some organisations will also be included on each of the national registers. **Following deduplication, we have identified 170,560 unique charities (as of March 2022) that can be matched to a size-band and active status, for use within this research.**
Charitable organisations: registered with Companies House	The BvD FAME database[54] has a marker for charitable organisations in the UK. A total of 192,275 active charitable organisations were identified.
Charitable Incorporated Organisation (CIO)	A total of 29,279 CIOs were identified using Companies House data.
Community Interest Companies: registered with Companies House	The BvD FAME database has a marker for CIC organisations. **We identify 26,112 active CICs in the UK.**
Companies limited by guarantee	A total of c. 84,000 limited by guarantee companies were identified using Companies House data. Following exclusion of firms such as real estate

[51] Charity Commission Register, England, and Wales (2022). Available at: https://www.gov.uk/government/organisations/charity-commission
[52] Charity Commission Register, Scotland (2022). Available at: https://www.oscr.org.uk/about-charities/search-the-register/register-search/
[53] Charity Commission Register, Northern Ireland (2022). Available at: https://www.charitycommissionni.org.uk/charity-search?pageNumber=1
[54] Bureau van Dijk's FAME (2022). Available at: https://fame4.bvdinfo.com/

	and property management, this left 55,092 companies limited by guarantee of potential relevance to this study.
Mutuals: registered with the Financial Conduct Authority[55]	We have identified 8,499 active mutuals through the FCA.
Social Enterprises	There is no set legal definition for social enterprise organisations that supports delineation from wider VCSE organisations. Current estimates provided by DCMS[56] suggest c.100,000 social enterprises currently operate in the UK.
Tussell[57]	The research team has also re-run some of the searches used by Tussell to identify VCSEs that have won at least one government contract since 2016. This has allowed matching, where possible, between the contract awards (supplier level) and the wider dataset of suggested VCSEs. This is further scoped in Section 5.

Data Limitations and Caveats

Companies Limited by Guarantee: note that these figures will not only include not-for-profits or social enterprises but also profit-making firms without a social purpose.

Overall number of social enterprises/not-for-profits: note that DCMS and BEIS[58] and Social Enterprise UK estimates[59] (based on figures provided in their longitudinal business survey) suggest that there are close to 100,000 social enterprises currently in the UK with at least one employee, and 371,000 without any employees (471,000 total).

The social enterprise population estimates provided by DCMS/BEIS and SEUK are aligned to this study's estimated number of CICs, companies limited by guarantee, and mutuals. There are, however, likely to be some social enterprises excluded from this sample, and some overlap with the sample of charity organisations.

The social enterprise population estimate is derived from a wider business population estimate. We therefore do not have a full list (at the firm / organisational level) of social enterprises for matching against other datasets such as Tussell.

Number of charity organisations: Charity organisations identified in this sample are identified using regional Charity Commission datasets (i.e., England and Wales, Northern Ireland, and Scotland). These have been matched to BvD FAME using registered charity numbers. This project identified 170,560 unique charities in the UK (deduplicating where possible). This aligns with previous estimates provided

[55] Financial Conduct Authority (2022). Available at: https://www.charitycommissionni.org.uk/charity-search?pageNumber=1
[56] UK Government: Social Enterprise Market Trends https://www.gov.uk/government/publications/social-enterprise-market-trends-2017
[57] Tussell (2022). Available at: https://www.tussell.com/
[58] DCMS, BEIS (2017) *Social Enterprise Market Trends 2017*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf
[59] Social Enterprise UK (2021*) No Going Back, State of Social Enterprise Survey*. Available at: https://www.socialenterprise.org.uk/wp-content/uploads/2021/10/SEUK-SOSE-Report-DIGITAL-1.pdf

by the NCVO through their Civil Society Almanac[60] which estimated that there were 163,150 charities in the UK in 2018/19.

Please note that the sample generated as part of this study is used to identify VCSE organisations participating in public procurement. It does not reflect a full VCSE sectoral analysis. However, we do recommend that there is scope for further data enrichment, particularly to identify VCSE organisations that are harder to define using existing sources.

VCSE definitions

Table A:3 Organisational definitions

Key term	Definitions
Charitable organisation[61]	The Charity Act (2011) outlines how charities are "established for charitable purposes only". Charitable purposes can include the prevention or relief of poverty; the advancement of education; the advancement of religion; the advancement of health or the saving of lives; the advancement of citizenship or community development; the advancement of the arts, culture, heritage or science; the advancement of amateur sport; the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity; the advancement of environmental protection or improvement; the relief of those in need because of youth, age, ill-health, disability, financial hardship or other disadvantage; the advancement of animal welfare; and the promotion of the efficiency of the armed forces of the Crown or of the efficiency of the police, fire and rescue services or ambulance services.
Social Enterprise[62]	Social enterprise describes the purpose of a business and not its legal form. It is defined by the government as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners." Legal forms taken by social enterprises are varied and can include Limited company, Community Interest Company (CIC), and Industrial and Provident Society. Social Enterprise UK estimates that there are up to c. 100,000 social enterprises within the UK.[63]
Public Service Mutual[64]	A public service mutual is an organisation that has left the public sector (also known as 'spinning out') which continues to deliver public services and aims to have a positive social impact and has a significant degree of staff influence or control in the way it is run. Public service mutuals make up a small percentage of total VCSEs (c. 8,500 identified in this sample).

[60] NCVO (2021) *Civil Society Almanac*. Available at: https://beta.ncvo.org.uk/ncvo-publications/uk-civil-society-almanac-2021/executive-summary/
[61] *Charities Act* (2011) Available at: https://www.legislation.gov.uk/ukpga/2011/25#:~:text=(1)For%20the%20purposes%20of,jurisdiction%20with%20respect%20to%20charities.
[62] Department for Business Innovation and Skills (2011) *A Guide to Legal Forms for Social Enterprise*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31677/11-1400-guide-legal-forms-for-social-enterprise.pdf
[63] Social Enterprise UK (2021) *No Going Back: State of Social Enterprise Survey*. Available at: https://www.socialenterprise.org.uk/wp-content/uploads/2021/10/SEUK-SOSE-Report-DIGITAL-1.pdf
[64] HM Government (2017) *Introduction of Public Service Mutuals*. Available:https://www.gov.uk/guidance/introduction-to-public-service-mutuals

Charitable Incorporated Organisation (CIO)[65]	A CIO is an alternative legal form for a charity. CIOs are solely registered with the Charity Commission and only regulated by charity law. This can reduce up-front paperwork and on-going filing obligations leading to cost savings and is advantageous to trustees with no previous knowledge of running a company.[66]
Community Interest Company[67]	A CIC is a special type of limited company which exists to benefit the community rather than private shareholders. CIC companies can also come under the social enterprise umbrella term.
Industrial Provident Society[68]	An IPS is an organisation set up to carry out a trade or business for community benefit. It is incorporated, which means that it has gone through the registration process that converts a new or existing business into a corporate body, making it a legal entity.
Co-operative[69]	A co-operative is a business or organisation that's owned and controlled by its members, to meet their shared needs. The members can be its customers, employees, residents, or suppliers, who have a say in how the co-op is run.
User-led organisation[70]	User-led Organisations (ULOs) are organisations that are run by and controlled by people who use support services, including disabled people of any impairment, older people, and families and carers. They were set up to promote giving people more choice and control over how their support needs are met.
Disabled Person Organisation (DPO)[71]	A DPO is a representative organization or group of persons with disabilities, where persons with disabilities constitute a majority of the overall staff, board, and volunteers in all levels of the organization.
Inclusive entrepreneurship[72]	Enterprise created by people who have protected characteristics and those who support the sector to increase inclusive economic growth.

[65] HM Government (2019) *Practice guide 14A: charitable incorporated organisations.* https://www.gov.uk/government/publications/charitable-incorporated-organisations/practice-guide-14a-charitable-incorporated-organisations
[66] IBB Law (n.d.) *Charitable Incorporated Organisation (CIO): Is it a Suitable Structure for Your Charity?* Available at: https://www.ibblaw.co.uk/insights/blog/charitable-incorporated-organisation-cio-it-suitable-structure-your-charity
[67] HM Government (n.d.) *Setting up a Social Enterprise.* Available at: https://www.gov.uk/set-up-a-social-enterprise
[68] DIY Committee Guide (n.d.) *Info Sheet: Industrial and Provident Society.* Available at: https://www.diycommitteeguide.org/download/info-sheet-industrial-provident-society#:~:text=An%20industrial%20and%20provident%20society,entity%20in%20its%20own%20right.
[69] Co-operatives UK (n.d.) *What is a Co-op.* Available at: https://www.uk.coop/understanding-co-ops/what-co-op#:~:text=A%20co%2Dop%20is%20a,Remote%20video%20URL
[70] Social Care Institute for Excellence (n.d.) *Personalisation for user-led organisations*. Available at: https://www.scie.org.uk/personalisation/practice/user-led-organisations-ulo#:~:text=User%2Dled%20Organisations%20(ULOs)%20are%20organisations%20that%20are%20run,their%20support%20needs%20are%20met.
[71] Disability Rights Fund (n.d.) *What is an "OPD"?* Available at: https://disabilityrightsfund.org/faq/what-is-a-dpo/#:~:text=An%20organization%20of%20persons%20with,all%20levels%20of%20the%20organization
[72] Universal Inclusion (n.d.) *Inclusive Entrepreneurship.* Available at: https://www.universalinclusion.co.uk/inclusive-entrepreneurship

Tussell Definitions

Table A:4 Tussell (2021) Definitions

Sector	Definition
Health and Social Care	All contracts marked with the Common Procurement Value (CPV) sector 'Health and social services' or 'Community and social services,' except those marked with 'hospital' or 'medical equipment' CPV codes
Legal and Advocacy	All contracts with legal services CPVs, or that mention advocacy or legal aid in the title / description of the contract
Disability	All contracts mentioning a list of disability keywords, including policies relating to support for people with disabilities (e.g., PIP, Work and Health Programme) excluding those with irrelevant CPV sectors
Support for victims of domestic violence / sexual abuse	All contracts mentioning a list of keywords relating to DV
Employability	All contracts mentioning a list of keywords relating to job support, skills development, and employability, in relevant CPV sectors (e.g., business, education and training)
Homelessness support services	All contracts mentioning keywords related to homelessness and / or rough sleeping
Offender Rehabilitation	All contracts mentioning any of a list of keywords relating to custody, detention, and rehabilitation of offenders, excluding those with irrelevant CPV codes
Youth Services	All contracts mentioning a list of keywords relating to youth clubs and after school support.

Research questions

Table A:5 Research question | Research strand

	Quantitative Data (Tussell dataset)	Quantitative Data (Charity Commission dataset)	Literature Review	Qualitative Feedback
Where do non-VCSE organisations run public services…	✓			✓
… **that VCSE organisations could feasibly run…**		✓		✓
… **and the resulting implications for government policy making?**	✓	✓		✓
How does growth potential differ within health and social care, disability, and employability markets	✓	✓		✓
Government Level: Where does the greatest growth potential exist?	✓		✓	✓
Contract Level: Is there potential for VCSEs securing contracts further down the supply chain?				✓
Geography: How does VCSE participation in public procurement differ between regions?	✓	✓	✓	✓
Size of Organisation: What is the growth potential for VCSEs within the selected public markets depending on size?	✓	✓		✓
Type of Organisation: To what extent is there room for new entrants within the markets of interest?	✓			✓
How much does the growth potential change depending on whether a provider is a **specialist** in a particular type of service only, vs a **provider of a wider range** of services or engaged in multiple service markets?	✓			✓

Report Structure

This report consists of eight sections. Topics addressed in each of the subsequent sections, and the analysis related to each are outlined in Table A.5 below:

Table A:6 Report structure

Research Discussion	Key analysis	Literature review	Consultations	Data collection and analysis
3. Policy Context				
This section explores policy that relates to the VCSE sector and public procurement. Current Government commitments are also assessed, alongside potential gaps in support.	• Analysis and discussion of policy developments between 2007 and 2022. • Assessment of activity 2018 – 2022, and potential implications going forward.	✓		
4. Current engagement in procurement				
This section identifies the number of charities (and wider VCSEs where possible) that are receiving income from government contracts or grants. **This provides a baseline for where organisations are currently or might be expected to participate in public procurement.**	• Estimation of the total population (including charities, social enterprise, CIC, etc.). • Profile of the charity sector based on key characteristics (income, location, and services offered) • Potential implication of charity sector characteristics on current and future procurement capabilities.			✓
5. Growth potential				

This section explores how VCSEs might be able to maximise opportunities from government contracting. This explores contracts that have previously been awarded to VCSEs within ‘priority markets’ including health and social care, disability, and employability, and considers the factors shaping growth potential.	● Analysis of current procurement data (total value awarded to VCSEs, and proportion of total market) ● Analysis key markets (deep dives included within the appendix for Health and Social Care, Employability, and Disability) ● Scope for and potential implications for growing VCSE participation within key markets.			✓
6. Barriers				
This section explores a range of supply-side and demand-side barriers to VCSE participation in public procurement. It also considers potential approaches which have worked well to help mitigate or counter barriers faced by VCSEs.	● Analysis of supply-side and demand-side barriers as identified by consultees. ● Potential measures identified by consultees, and in literature, which may support more VCSEs in participating in public procurement.	✓	✓	
7. PESTLE analysis				
This section provides a summary of the political, economic, social, technological, legal, and environmental and ethical factors that may shape public procurement participation or opportunities for VCSEs.	● The synthesis of and assessment of key findings within PESTLE categories.	✓	✓	✓

Methodology for future analysis

In order to develop the quantitative approach to identifying VCSEs and their participation within public procurement, the research team undertook the following steps.

1. Identification of VCSEs

This included:

- Downloading an extract of the Charity Commission for England and Wales
- Downloading an extract of the Scottish Charity Register
- Downloading an extract of the Charity Commission for Northern Ireland
- Downloading an extract of the FCA Mutuals Public Register (excluding credit unions and building societies)
- A bespoke search using Bureau van Dijk FAME for Community Interest Companies, companies limited by guarantee, charitable organisations, charitable incorporated organisations (CIO) and social enterprises (BvD FAME has a marker for limited companies with a 'charitable organisation' purpose. This process identified 208,393 organisations. Some of these overlap with the Charity Commission data; however, a review of this data does include a number of registered social enterprises.)
- Extracting organisations with markers for 'charitable organisation,' 'non-profit organisation, 'Community Interest Company,' 'housing association' and similar flags in Tussell award and spend data

This data included measures such as registered name, charity number, registered (company) number, location, size (income and employment via Charity Commission returns and / or BvD FAME), and description.

2. Data Cleaning

The use of several datasets meant that there can be some duplication and variance across entities. For example, it is possible that a charitable organisation could have all of the following registration markers:

- A registered charity number in England and Wales
- A registered charity number in Scotland (or Northern Ireland)
- Multiple registered charities within a broader corporate structure (e.g., a registered head office, and registered regional locations)
- A registered company number with Companies House

This can make identification and classification of VCSEs challenging. The research team therefore joined the relevant datasets, and deduplicated entities where possible using identifier metrics such as companies number, charity number, and name.

3. Identification of all contracts within the eight market areas

The research team recreated the eight market searches used by Tussell (e.g., using common procurement codes and keywords for areas such as health and social care, disability, and employability.

This yielded a dataset of contract awards since 2016 within the key areas, to which 'VCSE' and 'non-VCSE' markers were applied using the previous dataset. This is broadly in line with the previous Tussell research.

4. Data Matching & Enrichment

Using organisation IDs (e.g., charity numbers, company numbers, or fuzzy matching by name), the research team merged the data to identify charities involved in government contracts and pulled through data regarding measures such as size (mapped to the NCVO Almanac bands), location (geocoded postcodes to regional levels), specialism (where the organisation had participated in one area of procurement only), type of supplier and buyer.

5. Data Analysis and Visualisation

Section 4 and 5 include data analysis and visualisation of key datapoints (e.g., size, scale, income from government contracts and grants).

Defining growth potential: A Framework for Growth

It is important to determine how growth within the sector is defined. Growing VCSE involvement in government contracts is not simply about VCSEs winning more contracts compared to non-VCSEs, instead 'growth potential' should encompass:

- **Growing markets in which VCSEs participate** (demand-side) i.e., increased participation from the VCSE sector due to increased demand for services, whereby VCSEs win a larger volume of contracts (by number or value)
- **Growing the VCSE sector's share of the market** (supply-side), whereby VCSE organisations may merge or bid jointly to deliver services (reflecting a smaller number of providers, but increased market share)
- **Structural changes in the delivery of public services** (demand-side) e.g., where a government grant becomes a contractual provision of services, and is delivered by a VCSE
- **Increased subcontracting** (both supply and demand-side) of VCSE organisations in government contracts.

The importance of service quality and impact should also be noted when considering the growth of the VCSE sector. Growth of the sector must align well with improved contract outcomes.

Defining growth potential: Procurement Opportunities for VCSEs

In order to consider procurement and growth opportunities for VCSEs in public markets, the research team has:

- Identified the number of VCSEs currently engaging with public markets, and identified relevant contracts
- Identified the eight key markets within which VCSEs are currently providing goods or services (by value and volume) to the public sector
- Identified the historic growth trends within each of these markets for VCSEs and non-VCSEs
- Considered the underlying growth potential within each market, and explored factors underpinning growth potential such as contract level, government level, size, geography, type, and specialisms

Appendix 3: Full Policy Review

Definition of VCSE organisations in policy:

There is no single formal definition for the Voluntary, Community and Social Enterprise (VCSE) sector within UK policy, and the definition has been subject to debate. However, within policy and wider literature, existing definitions include:

- The VCSE's Guide to Working with Government which outlines that the sector is made up of "*charities, public service mutuals, and social enterprises*."[73] The sector make-up has also been noted as including "*charities, social enterprises, and voluntary organisations*."[74]
- The UK's Civil Society Strategy[75] uses the term "*social sector*" as an umbrella term for charities and social enterprises, whereas Home Office's "Have you got what it takes? Working with the voluntary, community and social enterprise sector (VCSE)"[76] document presents a more definitive definition of the sector, outlining how it "*includes local community and voluntary groups, registered charities, foundations, trusts and social enterprises and co-operatives*." This document also notes that the term VCSE is often interchangeable with both "third sector" and "civil society."
- Working with the third sector definition, the Local Government Association sets out a list of characteristics of organisations in the sector[77], notably: being self-governing and independent of both formal structures of government and the profit sector; and the potential use of volunteers to carry out work.

Given that there is no single formal definition of a VCSE organisation adopted within Government, the study adopts a working definition that describes VCSE organisations as those *'with a social or environmental purpose, including charities, public service mutuals, social enterprises, and other non-profits.'*

The breadth of the VCSE sector and the challenge that this presents for policy development is notable. Therefore, differentiating between types of VCSE organisations is important, albeit difficult (as noted above and throughout this report)

It is important to distinguish between VCSE types as while many of the barriers faced by the sector will be similar, those faced by certain organisations will be unique.

VCSE Policy Timeline

Since 2007, there have been several fundamental policies introduced that acknowledge the strategic value of the VCSE sector, and the role of social value within procurement. There have also been several capacity-building initiatives that set out to improve VCSE readiness and participation in procurement.

Table A.7, below, outlines some of the key policies relevant to the VCSE sector with respect to increasing participation in public procurement.

[73] DCMS, Cabinet Office. (2021). *VCSEs: A guide to working with government*. Available at: https://www.gov.uk/guidance/vcses-a-guide-to-working-with-government.
[74] Cabinet Office. (2015). *2010 to 2015 government policy: social enterprise*. Available at: https://www.gov.uk/government/publications/2010-to-2015-government-policy-social-enterprise/2010-to-2015-government-policy-social-enterprise#bills-and-legislation.
[75] HM Government. (2018) *Civil Society Strategy: Building a future that works for everyone*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732764/Executive_summary_-_Civil_Society_Strategy.pdf
[76] Home Office (n.d.) *Have you got what it takes? Working with the voluntary, community and social enterprise sector (VCSE)*
[77] Local Government Association. (2008). *Working with the third sector*. Available at: https://www.local.gov.uk/sites/default/files/documents/working-third-sector-pdf--1ab.pdf

Table A:7 VCSE Policy timeline

Key Policy
2007 - 2009
Cabinet Office's "The future role of the third sector in social and economic regeneration" government strategy sets out a ten-year vision for the VCSE sector. This includes four goals: enabling voice and campaigning; strengthening communities; transforming public services; encouraging social enterprise; and building partnerships. **Key policies:** Cabinet Office: 'The future role of the third sector in social and economic regeneration (2007)'
2010 - 2014
There were several important policy milestones between 2010 and 2014, which encouraged the use of wider policy levers to encourage commissioners to better engage with VCSEs. For example: ● the Equality Act (2010) sets out anti-discrimination law in the UK around protected characteristics (age, disability, race, etc.). ● the Charities Act (2011) sets out charity definition, and the need to register charities with the Charity Commission. ● the Public Services (Social Value) Act (2012) acts as a tool to help commissioners to take better account of social value in the award of contracts; and ● Commissioners could use Article 19 of the European Procurement Directive to reserve contracts, or funds, to be awarded to disabled person organisations. During this period, a Compact between government and the VCSE sector was also renewed, detailing joint aims to ensure effectiveness between government and the VCSE sector. Wider action during this period included the Civil Society Red Tape Challenge consultation in 2012, as well as engagement to grow skills and leadership in the sector. This was supported by Dame Mary Marsh's review of VCSE skills and leadership and a commercial skills master class in 2013. The Cabinet Office also funded the Investment and Contract Readiness Fund between 2012-2015, which helped charities and social enterprises to acquire the skills to raise investment and compete for government contracts. This provided over £13m in grants, which helped to unlock £233m in contracts and investment. **Key policies:** The Equality Act (2010); Building a Stronger Civil Society (2010); The Compact (2010) Unshackling Good Neighbours (2011); Charities Act (2011); Public Services (Social Value) Act (2012); The Charitable Incorporated Organisations (General) Regulation (2012); Third sector engagement and participation in the learning and skills sector (2013); Article 19 of the European Directive (2014).

2015 - 2018
There were several practical actions taken between 2015 and 2018 to increase VCSE engagement, e.g., The Government contracts Regulations Act (2015) ensured that all contracts over a certain value are published publicly on Contracts Finder to help increase supplier awareness and diversity. There was also greater recognition of the value-added from VCSE organisations. The Joint VCSE Review and subsequent Action Plan (2016), led by the Department of Health, Public Health England, and NHS England sets out the role of VCSEs in improving well-being and care outcomes within public health. The action plan sets out the importance of defining and measuring wellbeing, co-design healthcare systems, and the need to develop and test ways for commissioners to invest in and reward wellbeing and resilience. The National Procurement Strategy for Local Government (2018) outlines how procurement activity should align across three themes: community benefits; leadership through engagement; and commerciality. This strategy is important as it acknowledges the varied levels of collaboration and engagement with VCSE procurement at a local level. **Key policies:** Government contract Regulations Act (2015), Joint VCSE Review (2016), National Procurement Strategy for Local Government in England (2018), Civil Society Strategy: building a future that works for everyone (2018), VCSE Action Plan (2018).
2019 - 2022
Since 2019, there has been increased emphasis on promoting VCSE engagement within procurement. The Transforming Public Procurement (Green Paper) (2020) highlights improvement areas in the procurement process, alongside commitments to reduce barriers to entry and to streamline the procurement process. The Green Paper highlights how public good, value for money, transparency, integrity, fair treatment of suppliers, and non-discrimination should be built into legislation. Procurement Policy Note (PPN 06/20) further highlights the importance of social value, stating that it should be explicitly evaluated in all central government procurement, where the requirements are related and proportionate to the subject matter of the contract, rather than just ‘considered’ as required under the Public Services (Social Value) Act 2012. Both the Guide to using the Social Value Model and the VCSE guide to working with government highlight the government's commitment to supporting VCSEs and providing clear guidance. The government's renewed commitment to social value is central to both documents, which include a range of measures to facilitate engagement, such as abolishing pre-qualification questionnaires for low-value contracts and increasing transparency on Contracts Finder. Levelling Up the United Kingdom recognises the importance of voluntary and community groups in building skills and social capital. It also acknowledges the need for strategic coordination, suggesting that a mission-oriented approach is most effective in addressing complex, systemic problems. The document outlines the importance of shared leadership across key sectors at the community level. In 2022, the Government published their response to Danny Kruger MP's "Levelling Up Our Communities: Proposals for a New Social Covenant" report and recommendations. Kruger's report outlines 20 principal recommendations across three main themes (Power, People, and Places). Generally, recommendations focus on improving data quality around Civil Society, strengthening social value commitments, empowering communities, improving social infrastructure, and supporting

the voluntary sector. These suggestions have been echoed by consultees and are outlined later in this report.

Procurement Policy Note 11/20 can also be leveraged to support the sector. This note sets out options that may be considered by Contracting Authorities when procuring contracts for goods, services and works with a value below the applicable thresholds. This gives contract authorities the ability to run competitions specifically for SME and VCSE organisations, and to reserve contracts.

Key policies: Transforming Public Procurement (Green Paper) (2020), Procurement Policy Note 06/20 (2020), Procurement Policy Note 11/20 (2020) Guide to using the Social Value Model (2020), VCSEs: A guide to working with government (2021), Levelling up the United Kingdom (2022), Response to Danny Kruger MP's report (2022).

Recent VCSE Policy Commitments

This section explores some of the most recent initiatives in greater depth, providing a context to the ongoing engagement that the government has with the VCSE sector, focusing on activity undertaken from 2018 onwards following the appointment of the new VCSE Crown Representative, who is tasked with encouraging VCSE participation with procurement, identifying and addressing barriers facing the VCSE sector, and raising awareness of the value and impact of the sector.

One of the most ambitious documents published since 2018 is Cabinet Office's Transforming Public Procurement Green Paper[78] which, as noted, includes ambitions to simplify the procurement process.

This includes the simplification of current legislation as far as possible into a single, uniform regulatory framework. The Green Paper also highlights ambitions to increase transparency within the sector, while also being cognisant that any additional measures do not add additional burden to suppliers.

It also acknowledges the supply chain, and the commissioner's role in tackling payment delays, as well as the Light Touch Regime which it suggests keeping and updating. Note that the Light Touch Regime stems from the Government contracts Regulation (2015) and allows for greater flexibility during the procurement of certain service contracts within areas such as social, health, and education.[79]

The VCSE Crown Representative has also worked in collaboration with Cabinet Office and DCMS to develop guidance to support VCSE engagement with procurement.[80] This guidance sets out how VCSEs can bid for and win government contracts, while also highlighting government's commitment to diversifying the supply chain while placing increased emphasis on social value.

This guidance highlights the steps government has already taken to encourage VCSE procurement, such as the abolition of pre-qualification questionnaires for low-value public sector contracts; increasing transparency by requiring the public sector to publish contracts on Contracts Finder; and increasing accountability by requiring the entire public sector supply chain to be paid within 30 days.

The government has also taken several steps to promote social value, expanding on 2012's Social Value Act in 2020 with further commitments to incorporate social value into major central government contracts with PPN 06/20 and the Social Value Model. To support this, the government is training

[78] Cabinet Office. (2020). *Green Paper: Transforming public procurement*. Available at: https://www.gov.uk/government/consultations/green-paper-transforming-public-procurement.

[79] Crown Commercial Services. (2016) *The Government contracts Regulations 2015 & The Utilities Contracts Regulations 2016 Guidance on The New Light Touch Regime for Health, Social, Education and Certain Other Service Contracts*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/560272/Guidance_on_Light_Touch_Regime_-_Oct_16.pdf.

[80] DCMS, Cabinet Office. (2021). *VCSEs: A guide to working with government.* Available at: https://www.gov.uk/guidance/vcses-a-guide-to-working-with-government.

c.4,000 commercial buyers across central government and will expect departments to report social value returns in the future.

The government has also introduced the Social Value Model[81]. This document sets out ambitions to increase supply chain resilience, ensuring that VCSEs, SMEs, and new businesses all have the same opportunity to bid for government contracts. The Social Value Model notes requirements should be proportionate, acknowledging the scale at which some VCSEs operate.

The Social Value Model is accompanied by a guide[82] which provides a list of standard reporting metrics to support centralised tracking at the department level.

Overall, since the appointment of the most recent VCSE Crown Representative there have been a range of initiatives developed to reduce barriers and increase total levels of VCSE procurement, many of which are ongoing.

Despite the range of interventions at a policy level, it is not clear that these have been able to effectively address barriers and increase VCSE engagement in procurement. This is in part due to the wide range of factors that impact VCSE capabilities to procure. These factors are varied and exist at the government, contract, and organisational level.

We assess these factors in greater detail in Section 6 of the report, further detailing the state of the sector, and the impact of policy and commissioner activity.

In-depth policy overview

The future role of the third sector in social and economic regeneration, 2007[83]

The future role of the third sector in social and economic regeneration sets out the government's ten-year vision and identifies four major areas of common interest between the sector and government, identifying four common goals for the sector's future. These include enabling voice and campaigning; strengthening communities; transforming public services; encouraging social enterprise; and building partnerships. Key measures within the document include a better mechanism to drive best practice funding support, a new programme to build the third sector evidence base, the development of a sector skills strategy, an £85m investment in infrastructure development, alongside a range of additional investment measures.

The Equality Act, 2010[84]

The Equality Act sets out anti-discrimination law in the UK, identifying protected characters such as age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, pregnancy and maternity and marriage and civil partnerships.

The Act's public sector equality duty requires public authorities to eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act; advance equality of opportunity

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[81] Government Commercial Function. (2020). *The Social Value Model*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940826/Social-Value-Model-Edn-1.1-3-Dec-20.pdf.

[82] Government Commercial Function (2020*). Guide to using the Social Value Model*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940827/Guide-to-using-the-Social-Value-Model-Edn-1.1-3-Dec-20.pdf

[83] HM Treasury, Cabinet Office (2007) *The future role of the third sector in social and economic regeneration: final report*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/228900/7189.pdf

[84] Equality and Human Rights Commission (n.d.) *Buying Better Outcomes: Mainstreaming equality considerations in procurement.* Available at: https://www.equalityhumanrights.com/sites/default/files/buying_better_outcomes_final.pdf

between people who share a protected characteristic and those who do not; and to foster good relations between people who share a protected characteristic and those who do not.

As part of the Act, public authorities also have a responsibility to remove or minimise disadvantages suffered by people due to their protected characteristics; take steps to meet the needs of people with certain protected characteristics where these are different from the needs of other people; and encourage people with certain protected characteristics to participate in public life or in other activities where their participation is disproportionately low.

Building a Stronger Civil Society, 2010[85]

This document sets out the scale and nature of opportunities available to civil society organisations as part of the Government's reform agenda, through empowering communities, opening up public services, and promoting social action. It also sets out the practical measures the Government is taking to support the sector. The document highlights the importance of transparent data, and the new opportunities that come with increased devolution across the UK, such as access to grants. To reduce barriers to access, the document sets out: short-medium support measures, which include support reducing 'red tape' for small organisations, mobilising civil society (i.e., supporting small-scale local organisations); and long-term support measures, which include improving access to finance, modernising commissioning and procurement, and support in modernising and restructuring the sector.

The Compact, 2010[86]

The Compact is an agreement between the Coalition Government and their associated Non-Departmental Public Bodies, Arm's Length Bodies and Executive Agencies, and civil society organisations (CSOs) in England. The most relevant commitments from Government included in the Compact focus on:

- **A strong, diverse, and independent civil society:** ensuring the VCSE sector remains independent, that the sector is supported and resourced in a fair manner, that the need to resource the sector is acknowledged, that data is transparent and available.
- **Effective and transparent design and development of policies, programmes and public services**: ensure that social, environment and economic value is central to the design and development of policies, programmes and services, assessing social impact of policy and initiatives, working with CSOs to design policies, programmes and services, giving early notice of consultations, providing feedback to civil society, and assessing implications for the sector of new policies, legislation and guidance, with aims of reducing bureaucratic burden, particularly for smaller organisations;
- **Responsive and high-quality programmes and services:** Ensuring the CSOs have a greater role and more opportunities to deliver public services, considering different ways to fund CSOs, ensuring funding decisions have a clear rationale, consider multi-year funding where applicable, ensuring that tender processes and applications are well managed and proportionate to the desired outcomes of the programme, that risk is appropriately managed and allocated, and that the widest range of organisations are capable of providing services through appropriate funding and financial models, ensuring that all bodies distributing funds on

[85] HM Government (2010) *Building a Stronger Civil Society: A strategy for VCSEs.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/78927/building-stronger-civil-society.pdf
[86] HM Government (2010) *The Compact' The Coalition Government and civil society organisations working effectively in partnership for the benefit of communities and citizens* in England. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/61169/The_20Compact.pdf

behalf of the Government adhere to Compact commitments, and ensuring feedback from a wide range of sources regards the effectiveness of Government partnerships.

- **Clear arrangements for managing changes to programmes and services:** Assess the impact on beneficiaries before deciding to end or reduce funding, discuss restrictions or changes to future funding as soon as possible, and give three months minimum notice before changing or ending a funding relationship.

Unshackling Good Neighbours, 2011[87]

The Unshackling Good Neighbours report sets out 6 key recommendations to Government to help reduce bureaucracy and 'red tape' within the VCSE sector and to increase volunteer activity. Recommendations within this report focus on increasing clarity within law and to relationships between the insurance industry and civil society organisations.

Charities Act, 2011[88]

The Charities Act 2011 provides the legal and regulatory framework for charities in England and Wales and combines previous charity legislation. The act covers important rules, such as the definition of a charity, the requirement of charities to register with the Charity Commission, and how to prepare and submit annual accounts and reports.

Civil Society Red Tape Challenge, 2012[89,90]

The Civil Society Red Tape Challenge poses three questions to VCSE organisations:

- Is there red tape that stops you giving your time or money?
- If you run a civil society organisation, are there rules and regulations that stop you making it more successful?
- Should it be easier to invest in social ventures?

This work supported wider engagement to support Civil Society across three strands:

- **Making it easier to run a charity, social enterprise, or voluntary organisation:** improving regulation and stripping out frustrating bureaucracy, improving the support that front line charities and social enterprises receive, and developing the sector skills and leadership needed to manage new opportunities and risks.
- **Getting more resources into the sector**: encouraging more grassroot social action with £40m funding over three years, encouraging giving as a social norm and encouraging closer connections between businesses and charities, and continuing to support the providers of opportunities by helping them embrace innovation and to demonstrate their impacts; and
- **Making it easier for civil society organisations to participate in public service delivery:** presenting new opportunities to civil society, working with commissioners to ensure new contract opportunities are as open as possible, and helping the sector become more competitive in an emerging landscape.

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[87] HM Government (2011) *Unshackling Good Neighbours.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/62643/unshackling-good-neighbours.pdf

[88] *Charities Act* (2011) https://www.legislation.gov.uk/ukpga/2011/25/contents

[89] Cabinet Office (2012) *Civil Society Red Tape Challenge.* Available at: https://www.gov.uk/government/news/last-chance-to-submit-bureaucracy-busting-ideas-to-civil-society-red-tape-challenge

[90] Cabinet Office (2013) *Civil Society Update Series*. Available at: https://www.gov.uk/government/collections/civil-society-update-series

Public Services (Social Value) Act, 2012[91]

The Public Services Act requires public authorities to have regard to economic, social and environmental well-being in connection with public services contracts, and for connected purposes.

The primary purpose of the Act is to act as a tool to help commissioners to get more value for money out of procurement and to encourage commissioners to engage with local provider markets or communities to design better services, with the aim of finding new or innovative solutions to difficult problems.

Thee Social Value Act 2012 "requires the public sector to ensure that the money it spends on services creates the greatest economic, social and environmental value for local communities."

While the Act applies to all public procurement organisations, implementation, and action on social value, varies by sector and organisation. Implementing and embedding social value means that wider benefits are considered throughout the commissioning cycle, these could include, e.g., paying a living wage, employing target groups such as disabled people, protecting the environment, or encouraging local supply chains.

Dame Mary March Review of Skills and Leadership in the VCSE Sector, 2013[92]

This review examines the social sector's most vital needs around attracting and developing workforce and leadership, grouped across eight themes: strengthening governance, attracting, and strengthening leaders, routes into and through the social sector, skills sharing, digital fluency, data-informed social change, enterprise capability, and collaboration in the sector.

Third sector engagement and participation in the learning and skills sector, 2013[93]

This report acknowledges the wide-ranging role of third sector organisations as employers, partners, and promoters of learning and as advocates of those who are excluded and disadvantaged. This report was the largest study into third sector involvement in learning and skills, outlining core strengths within the sector, and supporting the development of a Strategic Framework. Recommendations included within the report include:

- **Demonstrating the benefits of working with the Third sector:** improve the evidence base supporting the sector, utilising the unique expertise and strengths within the sector, and demonstrating the sector's contribution to social value and impact.
- **Further develop the capability and capacity of the Third sector to deliver learning and skills:** enhance the diversity of learning and skills, influencing the development of the supply chain to take better account of, and to support the third sector involvement, and developing third sector capacity to lead, manage, deliver learning, provide skills, and support activity; and
- **Improving Third sector learning and skills delivery:** Improving participation within the sector, enhancing hard to reach learners, and enhancing the quality of provision.
- **Developing effective collaboration within and with the Third sector:** Fostering effective engagement between Third sector and government, encourage more collaboration between

[91] Cabinet Office (2021) *Social Value Act: information and resources.* Available at: https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources
[92] HM Government (2013) *Marsh Review of Skills and Leadership in the VCSE sector.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/461614/Skills__Leadership_Review.pdf
[93] Department for Business Innovation and Skills (2013) *Third Sector Engagement and Participation in the Learning and Skills Sector*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/185724/bis-13-586-third-sector-engagement-and-participation-in-the-learning-and-skills-sector-executive-summary.pdf

the Third sector and education providers, and supporting the Third sector to collaborate and pool resources.

Article 19 of the European Procurement Directive, 2014[94]

Article 19 can be used to reserve some contracts for disabled persons organisations, where more than 50% of the organisation are disabled persons.

Joint VCSE Review, 2016[95]

The Joint VCSE Review is a review initiated in 2014 by the Department of Health, Public Health England, and NHS England to describe the role of VCSEs in improving health, well-being, and care outcomes, and to identify challenges and opportunities within this engagement.

The review notes the gap between national vision and local reality, and how this is a key challenge for VCSE organisations.

National Procurement Strategy for Local Government in England, 2018[96]

This strategy builds on a previous edition produced in 2014 and involves engagement across three key themes: achieving community benefits (through obtaining social value, and engaging small, micro, and VCSE organisations), showing leadership (through engagement with councillors, senior management, strategic suppliers, and partners), and behaving commercially (creating commercial opportunities, managing contracts and relationships, and managing strategic risk).

Additional enablers identified to deliver the strategy include the development of talent, the exploitation of digital technology, embedding of change and innovation.

The strategy acknowledges the integral role of VCSE engagement within health and social care, and as service providers, advocates, and representatives for service users, patients, and carers.

It also acknowledges how VCSE engagement can occur on multiple levels, which include:

- Minimum: Organisation does not see any benefits to be gained from VCSE engagement.
- Developing: VCSE organisations are engaged in a few key contracts only.
- Mature: Taking a proactive approach to integrating VCSE organisations into procurement and commissioning.
- Leader: VCSE engagement is embedded into corporate strategy.
- Innovator: VCSE engagement is a core operational way of doing business, integrated into all directorates/ departments and activities with regular reporting against targets.

[94] OJEU (2014) *Directive 2014/24/EU on Public Procurement*. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0024
[95] VCSE Review (2019) *The conclusions of the Joint Voluntary Community & Social Enterprise Review*. Available at: https://vcsereview.org.uk/2019/06/26/the-conclusions-of-the-joint-voluntary-community-social-enterprise-review/#:~:text=The%20Joint%20VCSE%20Review%20was%20initiated%20in%20November,for%20national%20government%2C%20local%20government%20and%20the%20NHS.
[96] Local Government Association (2018) *National Procurement Strategy for Local Government in England.* Available at: https://www.local.gov.uk/sites/default/files/documents/11.122%20-%20National%20Procurement%20Strategy%202018_main%20report_V7.pdf

Civil Society Strategy: building a future that works for everyone, 2018[97]

This strategy sets out how the government will work with and for civil society on a long-term basis and includes several commitments relevant to the VCSE sector. These include to:

- Build a society where people have a sense of control over their future and that of their community.
- Support the public sector in focusing more on the needs of places through a collaborative approach, working with service providers, private sector, individuals, and communities.
- Work alongside the social sector to build a future in which the sector can adapt, thrive, strengthen public trust, and find new ways to resource and deliver work; and
- Support collaborative commissioning, working with local players in an equal and meaningful way to change how services are created and delivered, ensuring that all the resources of a community will be deployed to tackle community challenges.

VCSE Action Plan, 2018[98]

The Action Plan that is the result of the Joint VCSE review highlights steps to be taken in order to create a more productive relationship between VCSE, central and local government, and the NHS that are co-designed with individual community needs in mind. Through these steps VCSEs can demonstrate their capability in providing services which are focused on the whole-person, whole-family, and whole-community.

Key actions included within the review to promote VCSE engagement include:

- Define and measure wellbeing, embedding it as a core outcome across health and social care systems and demonstrating the links between achieving wellbeing, and improving the bottom line of local public service economies.
- Co-design health, care, and public health systems with local people: particularly with those who make most use of health and care services, and with those groups and communities who are most excluded from those services.
- Develop and test ways for commissioners to invest in and reward the successful creation of wellbeing and resilience. These include models like social prescribing which attempt to bring statutory resources into small community organisations, in ways which work for statutory budget holders, and for civil society.

While specific to healthcare, the recommendations provide insight into how future procurement could be considered at all levels of government, that is, developed with community in mind, acknowledging the different levels of need across society.

[97] DCMS, Office for Civil Society (2018) *Civil Society Strategy.* Available at: https://www.gov.uk/government/publications/civil-society-strategy-building-a-future-that-works-for-everyone

[98] VCSE Review (2018) *Sustainable and effective voluntary, community and social enterprise organisations in health and care: an action plan.* Available at: https://vcsereview.org.uk/2018-action-plan/

Transforming Public Procurement (Green Paper), 2020[99]

Produced by the Cabinet Office in December 2020, the Transforming Public Procurement paper further highlights improvement areas within the procurement process, outlining commitments to reduce barriers to entry, to streamline the procurement process, and to ensure the best services are procured as a result.

While the Green Paper addresses procurement more generally it does highlight priorities to be published within the National Procurement Policy, which include:

- Delivering social value including economic, social, and environmental outcomes.
- Commercial delivery including publishing pipelines of future procurement; and
- Commercial capability including benchmarking performance.

The Green Paper also highlights how the below interdependent principles should be included in new legislation:

- Public good: procurement should support the delivery of strategic national priorities including economic, social, ethical, environmental, and public safety.
- Value for money: procurement should enable the optimal whole-life blend of economy, efficiency and effectiveness that achieves the intended outcome of the business case.
- Transparency: openness that underpins accountability for public money, anti-corruption, and the effectiveness of procurements.
- Integrity - good management, prevention of misconduct, and control in order to prevent fraud and corruption.
- Fair treatment of suppliers: decision-making by contracting authorities should be impartial and without conflict of interest.
- Non-discrimination: decision-making by contracting authorities should not be discriminatory.

The Green Paper is reflective of the direction of travel within Government, and clearly sets out its ambitions to improve the procurement process.

Procurement Policy Note 06/20, 2020[100]

Procurement Policy Note 06/20, published in September 2020, sets out how the Government can take account of social value in the award of central government contracts.

The note states that social value should be explicitly evaluated in all central government procurement, where the requirements are related and proportionate to the subject-matter of the contract, rather than just 'considered' as currently required under the Public Services (Social Value) Act 2012.

This Procurement Policy Note (PPN) applies to procurements covered by the Public Contracts Regulations 2015, and applies to all Central Government Departments, their Executive Agencies and

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[99] Cabinet Office (2021) *Transforming Public Procurement: Government response to consultation*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1038516/Transforming_Public_Procurement-_Government_response_to_consultation.v3_.pdf

[100] HM Government (2020) *Procurement Policy Note 06/20 – taking account of social value in the award of central government contracts*. Available at: https://www.gov.uk/government/publications/procurement-policy-note-0620-taking-account-of-social-value-in-the-award-of-central-government-contracts

Non-Departmental Public Bodies. Together these are referred to in this PPN as 'In-Scope Organisations'.

Social Value is central to PPN 06/20. For procuring the provision of services, or the provision of services together with the purchase or hire of goods or the carrying out of works, the Public Services (Social Value) Act 2012 ('the Act') requires English and Welsh public authorities to consider the below at the pre-procurement (preparation and planning) stage:

- how what is proposed to be procured might improve the economic, social, and environmental wellbeing of the relevant area.
- how, in conducting the process of procurement, it might act with a view to securing that improvement and
- whether to undertake any consultation on the above.

Guide to using the Social Value Model, 2020[101]

Procurement Policy Note 06/20 refers to a new Social Value Model designed by a joint team from Cabinet Office, DCMS, and the Crown Representative for VCSEs, and based on input from industry, practitioners, specialists, including existing best practices from local and central government. This guidance is a comprehensive standardised information source and includes detail on model questions and model award criteria, delivery objectives that describe 'what good looks like,' and standard reporting metrics for contract management and reporting. Further e-learning support and regular detailed interactive seminars and supplier engagement events were offered, run with industry bodies including NCVO and made available via the Cabinet Office. The guide published in conjunction with PPN 06/20 highlights three specific aspects of social value to evaluate across 5 core themes. Areas to evaluate, and themes are presented below:

- economic (e.g., employment or apprenticeship/training opportunities),
- social (e.g., activities that promote cohesive communities) and
- environmental (e.g., efforts in reducing carbon emissions)

Table A:8 Policy outcomes

Themes		Policy Outcome
Theme 1	COVID-19 recovery	Help local communities to manage and recover from the impact of COVID-19
Theme 2	Tackling economic inequality	Create new businesses, new jobs, and skills
		Increase supply chain resilience and capacity
Theme 3	Fighting climate change	Effective stewardship of the environment

[101] Government Commercial Function (2020) *Guide to Using the Social Value Model.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940827/Guide-to-using-the-Social-Value-Model-Edn-1.1-3-Dec-20.pdf

Theme 4	Equal opportunities	Reduce the disability employment gap
		Tackle workforce inequality
Theme 5	Wellbeing	Improve health and wellbeing
		Improve community cohesion

VCSEs: A guide to working with government, 2021[102]

This guide, produced by the VCSE Crown Representative highlights aims to support charities and social enterprises to engage within public sector supply chains, highlighting several reasons why this would benefit VCSEs (e.g., increased credibility, sustainability, or diversity of income).

The guide highlights Central Government's commitment to diversify supply chains, and to ensure that contracts are awarded on criteria that extend to social impact, alongside value for money. It also highlights existing commitments made by government, which include:

- building on the Social Value Act to mandate all central government departments to explicitly include social value in all major new procurements.
- buying in a simpler and quicker way by abolishing pre-qualification questionnaires for low value public sector contracts.
- requiring the public sector to publish its contracts on Contracts Finder; and
- requiring the entire public sector supply chain to be paid within 30 days.

Other information included within the guide outlines the various avenues of engagement for VCSEs, such as engagement with frameworks, dynamic purchasing systems.

Levelling up in the United Kingdom[103]

Levelling up the United Kingdom recognises the importance of voluntary and community groups in building skills and social capital. Levelling up also acknowledges the need for strategic coordination between sectors, suggesting that a mission-oriented approach is most effective in addressing complex, systemic problems. The document outlines the importance of shared leadership across key sectors at the community level.

[102] HM Government (2021) *VCSEs: A guide to working with government.* Available at: https://www.gov.uk/guidance/vcses-a-guide-to-working-with-government
[103] HM Government (2021) *Levelling up the United Kingdom.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052708/Levelling_up_the_UK_white_paper.pdf

Appendix 4: Data Tables and Charts

Size of VCSE organisations:

Table A:9 Size bands of VCSE organisations

Size Band	Count	Percentage
Super Major (£100m + income)	116	0.1%
Major (£10m - £100m)	1,342	0.8%
Large (£1m - £10m)	6,856	4%
Medium (£100k - £1m)	30,225	17.7%
Small (£10k - £100k)	70,757	41.5%
Micro (<£10k)	61,264	35.9%
Grand Total	**170,560**	

Source: Perspective Economics analysis of Charity Commission data (UK-wide, YE2020)

Income for charity organisations:

Table A:10 Income by Size Bands

Size Band	Count	Total Income	Percentage	Average Income	Median Income
Super Major (£100m +)	116	£29.2bn	30.7%	*£251.5m*	*£152m*
Major (£10m - £100m)	1,342	£33.4bn	35.1%	*£24.9m*	*£18m*
Large (£1m - £10m)	6,856	£20.9bn	22%	*£3m*	*£2.2m*
Medium (£100k - £1m)	30,225	£9.2bn	9.7%	*£300k*	*£220k*
Small (£10k - £100k)	70,757	£2.4bn	2.5%	*£33k*	*£24k*
Micro (<£10k)	61,264	£0.1bn	0.1%	*£1k*	*£Nil*
Grand Total	**170,560**	**£95bn**	**100%**	***£557k***	***£17k***

Source: Perspective Economics analysis of Charity Commission data (UK-wide, 2020)

Table A:11 In Receipt of Contract Income for VCSE Organisations

Size Band	Count	Count Receiving Income from Government Contracts	Percentage Engaging with Government Contracts
Super Major (£100m +)	116	57	49%
Major (£10m - £100m)	1,342	465	35%
Large (£1m - £10m)	6,856	2,266	33%
Medium (£100k - £1m)	30,225	4,551	15%
Small (£10k - £100k)	70,757	1,771	3%
Micro (<£10k)	61,264	70	0%
Grand Total	**170,560**	**9,180**	**5%**

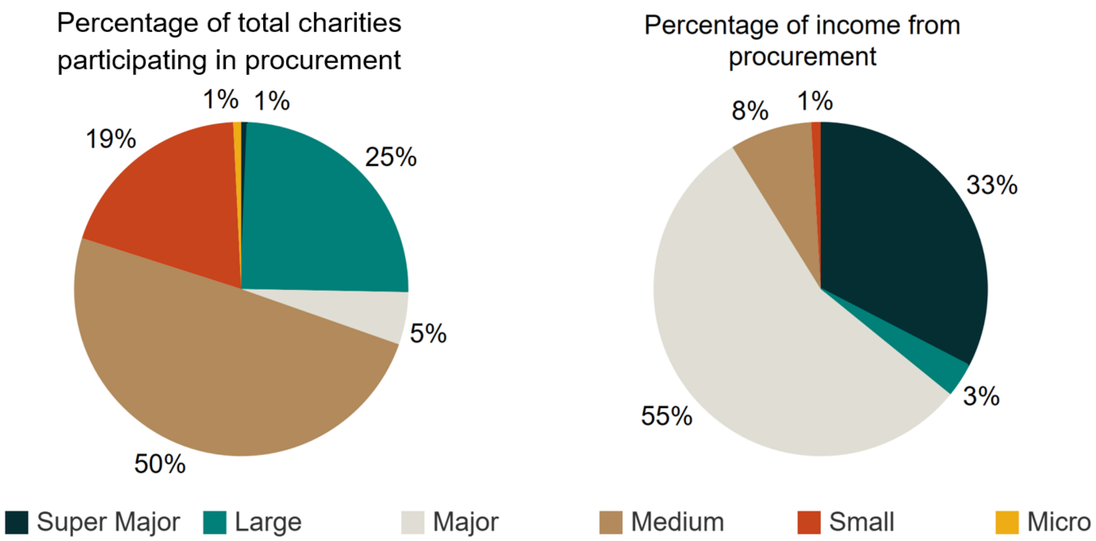
Source: Perspective Economics analysis of Charity Commission data

Table A:12 In Receipt of Contract Income for VCSE Organisations

Size Band	Count	Total Income	Income from Govt Contracts	Average Income from Govt Contracts	Median
Super Major (£100m +)	57	£12.6bn	£2.3bn (18%)	*£41m*	*£11m*
Major (£10m - £100m)	465	£12.4bn	£3.9bn (32%)	*£8.4m*	*£3.3m*
Large (£1m - £10m)	2,266	£7bn	£2.3bn (33%)	*£1m*	*£470k*
Medium (£100k - £1m)	4,551	£1.8bn	£560m (32%)	*£124k*	*£76k*
Small (£10k - £100k)	1,771	£97m	£64m (66%)	*£36k*	*£26k*
Micro (<£10k)	70	**	**	**	
Grand Total	**9,180**	**£33.8bn**	**£9.2bn (27%)**	***£1m***	***£1.3m***

Source: Perspective Economics analysis of Charity Commission data (2020)

Figure A:1 Size and income (£m) - Charities currently engaging with government contracts



Source: Perspective Economics analysis of Charity Commission data (n=9180)

Income from grants

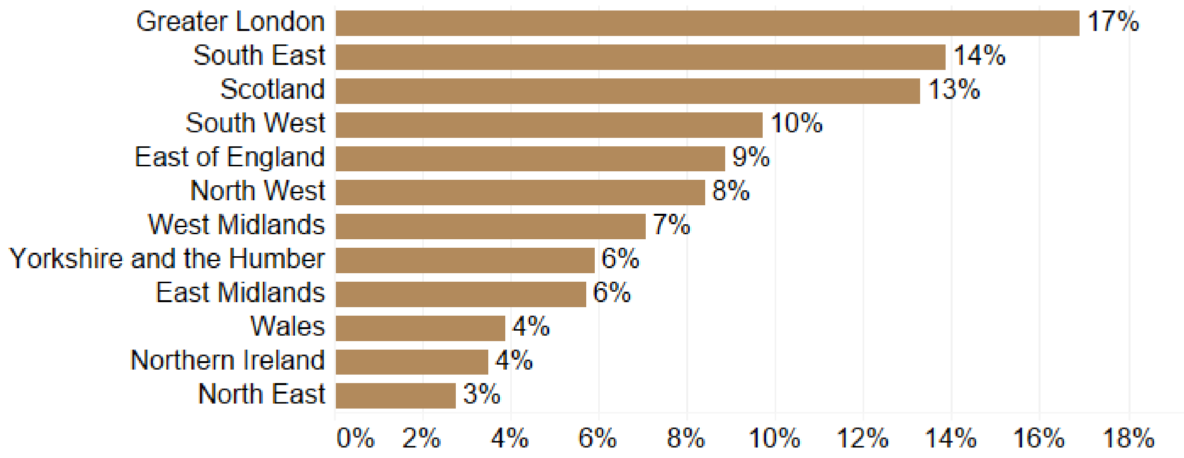
Table A:13 In Receipt of Contract Income for Charity Organisations

Size Band	Count	Total Income	Income from Grants	Average Income from Grants	Median
Super Major (£100m +)	74 (64%)	£19.6bn	£2.8bn (14%)	£38m	£5m
Major (£10m - £100m)	748 (56%)	£18.8bn	£2.3bn (12%)	£3m	£750k
Large (£1m - £10m)	3,361 (49%)	£10.4bn	£1.6bn (15%)	£470k	£170k
Medium (£100k - £1m)	11,071 (37%)	£3.7bn	£0.8bn (22%)	£70k	£30k
Small (£10k - £100k)	17,240 (24%)	£0.6bn	£0.25bn (42%)	£14k	£10k
Micro (<£10k)	874 (1%)	**	**	**	
Grand Total	**33,368 (20%)**	**£53bn**	**£7.8bn (15%)**	**£230k**	**£13k**

Source: Perspective Economics analysis of Charity Commission data

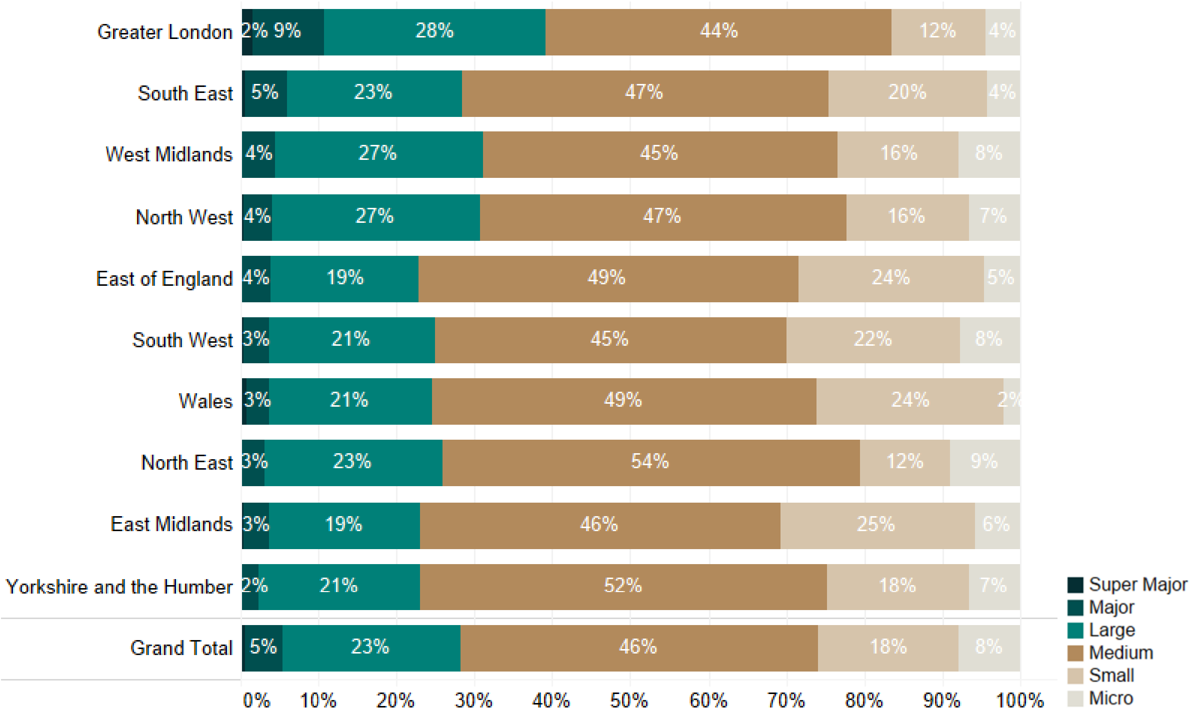
Location of charity organisation

Figure A:2 Location of charity organisations



Source: Perspective Economics (n = 197,495 with a postcode linked to a region)

Figure A:3 Size of charity organisations by region



Source: Perspective Economics (n = 197,495 with a postcode linked to a region. Scotland and Northern Ireland excluded due to more limited size data)

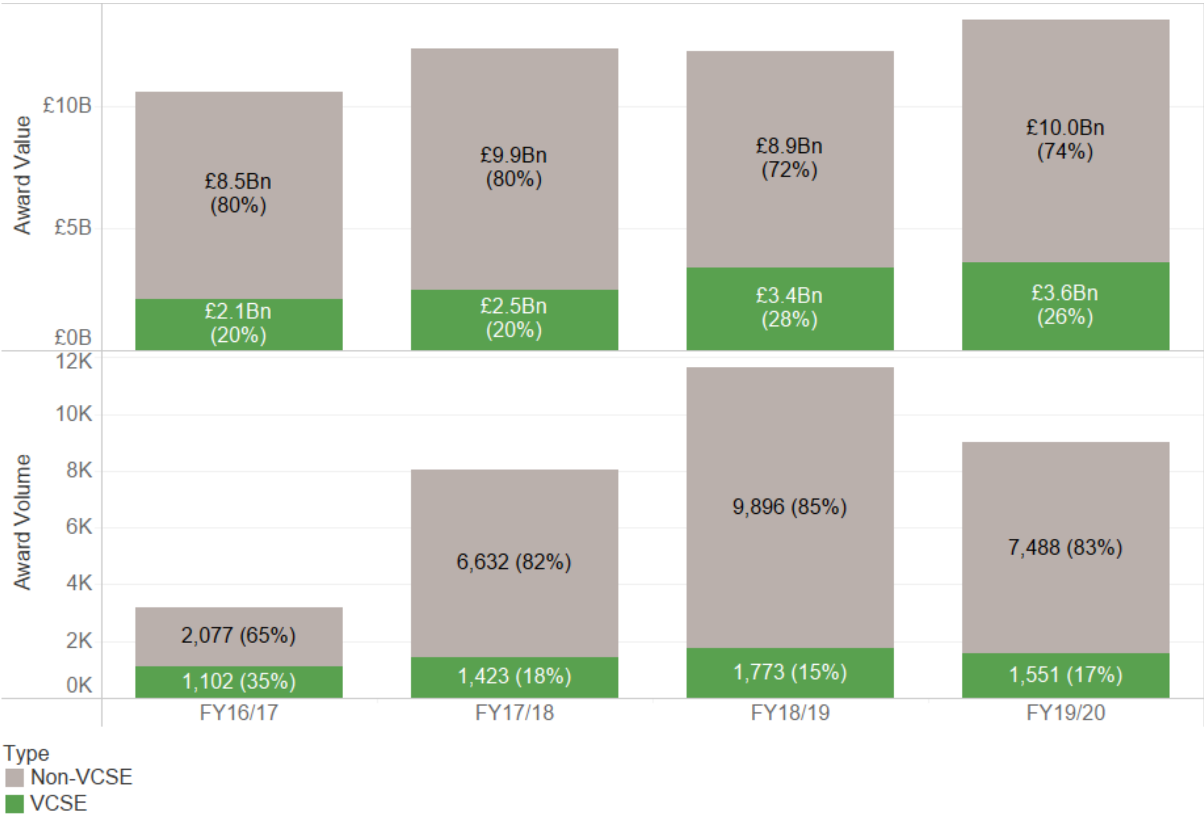
Key sectors

Health and Social Care: Current Levels of Procurement:

According to Tussell, the majority of VCSE income from procurement is driven by health and social care provision, with £11.6bn in contracts won by VCSEs between 2016-2020.

This means VCSEs have won an estimated 24% of the total value of this market. Approximately one in six health and social care awards (17%) are to VCSEs, suggesting that VCSEs perform strongly with respect to average contract values.

Figure A:4 Health and Social Care – Total Value and Volume of Contracts Awarded (2016-2020) and VCSE proportion



Source: Tussell (2021) UK Public Procurement through VCSEs, 2016 - 2020

Health and Social Care: Demand and Growth Potential:

As shown within the Tussell data, there has consistently been approximately 1,500 VCSEs winning at least one health contract each year, and contract values for VCSEs have risen steadily within the last five years (from c. £2.1bn out of a £10.6bn market in 2016/17 to £3.6bn out of £13.6bn in 2019/20).

- This time period suggests a CAGR (compound annual growth rate) of 9% per annum for HSC contracts within the market, but a growth rate of 20% per annum for VCSE awards).
- This suggests that aggregate market growth, and performance of VCSEs within this market has helped, and may continue to help further VCSE growth in this market.

- It is possible therefore, by the mid-2020s, the value of HSC awards to VCSEs could exceed c. £5bn per annum within the context of a c. £20bn market (based on current growth trends).

This is confounded by health and social care spending expected to increase in the coming years following demographic and COVID-19 pressures, as reflected by the recent Health and Social Care Levy coming into effect.

This suggests growth potential within the HSC sector may be most significant (in an absolute and relative scale) of each of the key sectors identified. This is particularly true given the overlap this sector has with the other seven market areas identified (e.g., providing social care support for those with disabilities, or employability requirements).

Health and Social Care: Factors influencing growth potential:

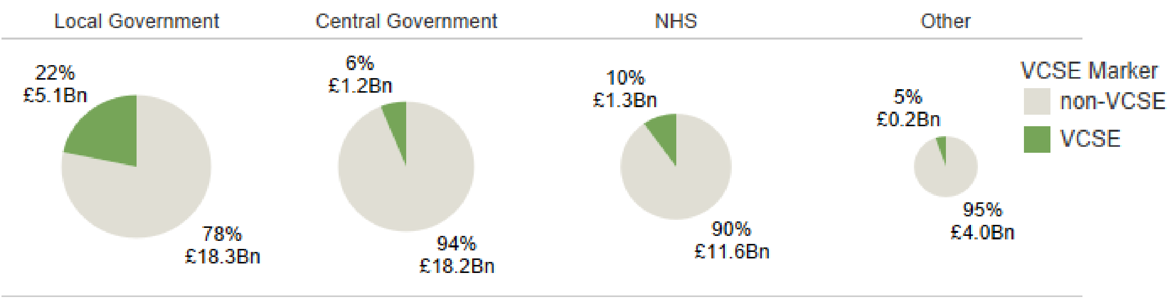
The following factors influencing growth potential are explored below, using quantitative data[104] and feedback from consultations:

Government Level:

As discussed, local government is a significantly important market for VCSEs involved in health and social care provision, and local government awarding approximately 22% of its contracts to VCSEs. This is followed by the NHS (10%) and central government (6%).

It is likely therefore, that most of the growth potential (based on size and scale of VCSE providers, and the explored relationship between VCSEs and local government) will continue to take place at the local government level, particularly as approximately two thirds (66%) of VCSE income from health and social care contracts comes from local government contracts.

Figure A:5 Value of HSC contracts awarded to VCSEs by government level



Source: Tussell (c. £8bn[105] of Health and Social Care awards between 2016-2020 matched to authority level)

Within local government, some of the key awards included provision of services relating to social care support, often in relation to vulnerable groups. For example, some of the largest awards relate to:

- Vulnerable Adults Housing and Wellbeing Support Services
- Supported Living Services for individuals with learning disabilities and / or mental health requirements

[104] Please note these figures may not fully sum due to the nature of a blended dataset (e.g., different dates of contract extraction, VCSE identification, and matching). Some suppliers or contracting authorities may not be matchable against categories.
[105] Please note that the data matching exercise between VCSEs identified and Tussell data provides coverage of c. £8bn of health and social care in this period. However, this is considered representative.

- Children's Public Health (e.g., health visiting, breastfeeding peer support, nutrition)
- Early intervention support and treatment for drug and alcohol problems

Many of these contracts can be large-scale and multi-disciplinary in nature, and therefore the majority of contract value within local government are awarded to super major (27%), major (25%) and large (21%) VCSE providers (as highlighted in Figure A.6).

This also suggests a relatively small number of super major and major providers (approximately 200 VCSEs) involved within larger health and social contracts awarded by local government. However, there are also over 1,500 VCSEs with an income of less than £10m engaged with this market, and there may be potential to support these organisations to further scale through further delivery to meet increased demand for health and social care by local authorities.

Figure A:6 Value of HSC contracts awarded to VCSEs by government level by size

Source: Perspective Economics analysis of Tussell data (2016-2020)

In summary, this diagram highlights how:

- **Local Government** has awarded £5.2bn within 3,964 contracts to 1,690 unique VCSEs (2016-2020). The average contract value is £1.3m and median value is £0.2m.
- Approximately 74% of the contract values were awarded to super major, major, or large VCSEs. However, smaller VCSEs (medium and below) do work with local government, with 325 micro VCSEs generating £538m in contract income in this period.
- **Central Government** has awarded £1.2bn within 288 contracts to 172 unique VCSEs (2016-2020). The average contract value is £4.3m and median value is £0.3m (i.e., central government contracts (on average) are typically three times larger than local government contracts).
- This reflects is a much smaller pool of VCSEs, and 94% of contract values were awarded to super major, major, or large VCSEs. There were very few smaller VCSEs (57) that have engaged with government contracts from central government in this time period.
- The **NHS** has awarded £1.3bn within 311 contracts to 182 unique VCSEs (2016-2020). The average contract value is £4.3m and median value is £0.2m.

Contract Level:

The procurement data often shows where organisations are directly involved in leading a bid (or have been assigned to a contract award). However, a key question for VCSEs is whether there is potential to secure contracts further down the supply chain i.e., becoming involved in sub-contracting opportunities.

There is limited data available to this research on this area within public or proprietary datasets (i.e., subcontracting and consortium bids) as contract awards data typically only shows the lead bidder when published. It may be possible for government departments and local authorities to track this spending in the future (but requires lead bidder transparency on budget allocations and spend and is currently subject to thresholds within PPN 01/18 (Supply Chain Visibility).

Further, our initial analysis suggests that whilst supply chain opportunities do offer growth potential, they appear relatively limited in the public domain currently. Existing data also suggests limited take-up. For example, we have looked at supply chain notices suitable for VCSEs on Contracts Finder (point in time, March 2022). Of the c. 2,500 live opportunities, only three notices are supply chain notices (i.e., further down the supply chain). There are only 38 awards identifiable through Contracts Finder since the PPN was introduced in May 2018 (with limited VCSE engagement).

However, within the health and social care data, some of the largest non-VCSEs involved in delivering contracts such as Serco and Capita have sought to involve VCSEs in sub-contracting opportunities in the past. For example, Clinks (which focused on criminal justice, but involves health and social care provision) has a Partnership Finder tool which mentions Serco's involvement: "*Serco sees Clinks' Partnership Finder as a useful tool to aid us in identifying VCS organisations for our bids and delivery work.*"[106]

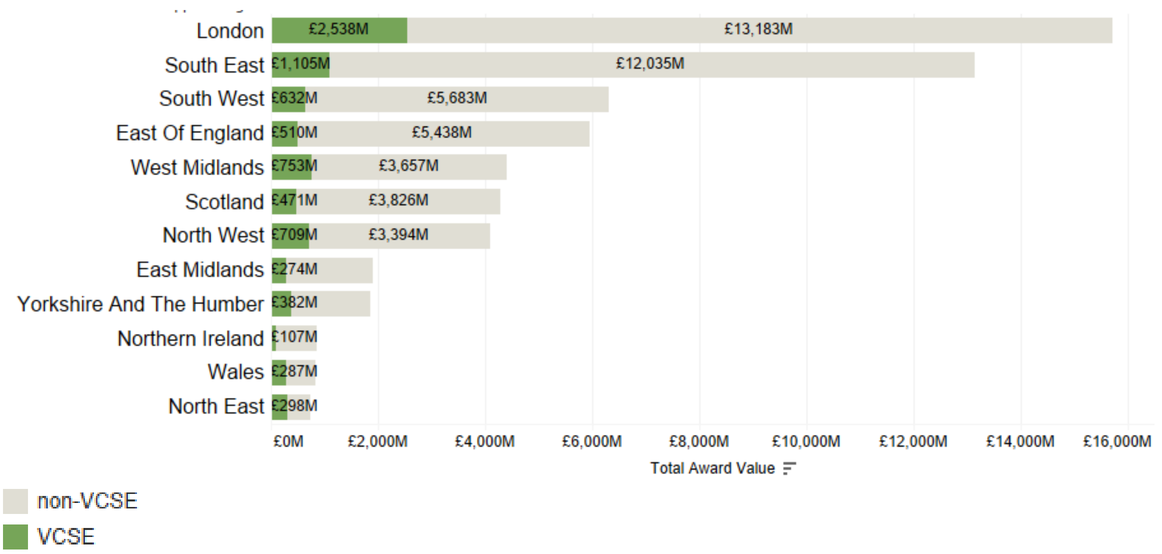
Geography:

The location of VCSEs is important with respect to participation in public procurement. The Tussell research identifies that 75% of VCSEs typically deliver within their own region, and that local government contracting is one of the major routes to delivering government contracts for VCSEs. The

[106] Clinks (n.d.) *Looking for contract and partnership opportunities?* Available at: https://www.clinks.org/clinks-newsflash-last-chance-register-partnership-finder-it-launches

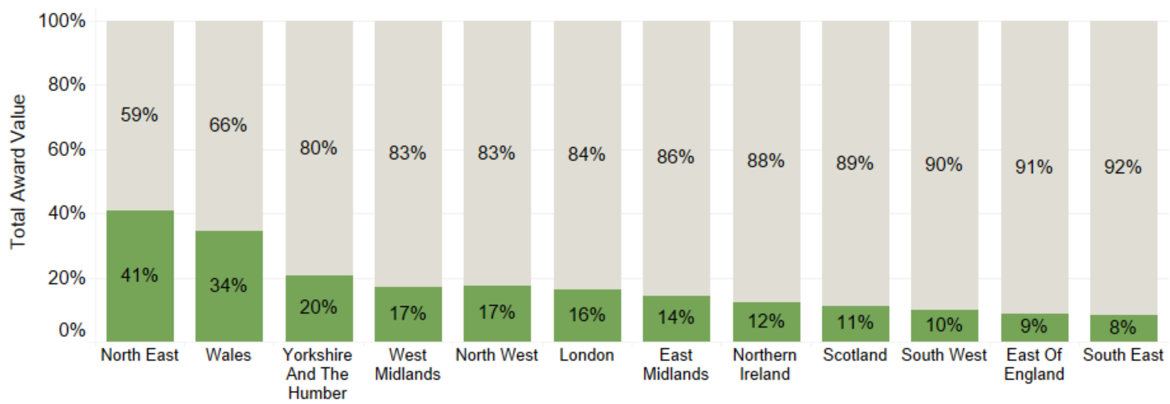
following charts explore the value of contracts awarded in health and social care to VCSEs and non-VCSEs from a supplier level[107] (i.e., where the supplier is located) and the buyer level (where the contracting authority is based). Figure A.7 highlights the value of health and social care contracts by supplier region and type. Whilst London and the Southeast have the highest absolute values, areas such as the West Midlands and the North West perform strongly with respect to VCSE values (compared to local non-VCSEs). The relative strength of VCSEs is further explored in Figure A.8, which highlights how VCSE suppliers in regions such as the North East, Wales, and Yorkshire and the Humber are proportionately significant compared to others.

Figure A:7 Values awarded to VCSEs and non-VCSEs by supplier region



Source: Perspective Economics analysis of Tussell data (2016-2020)

Figure A:8 Proportion of awarded values to VCSEs and non-VCSEs by supplier region

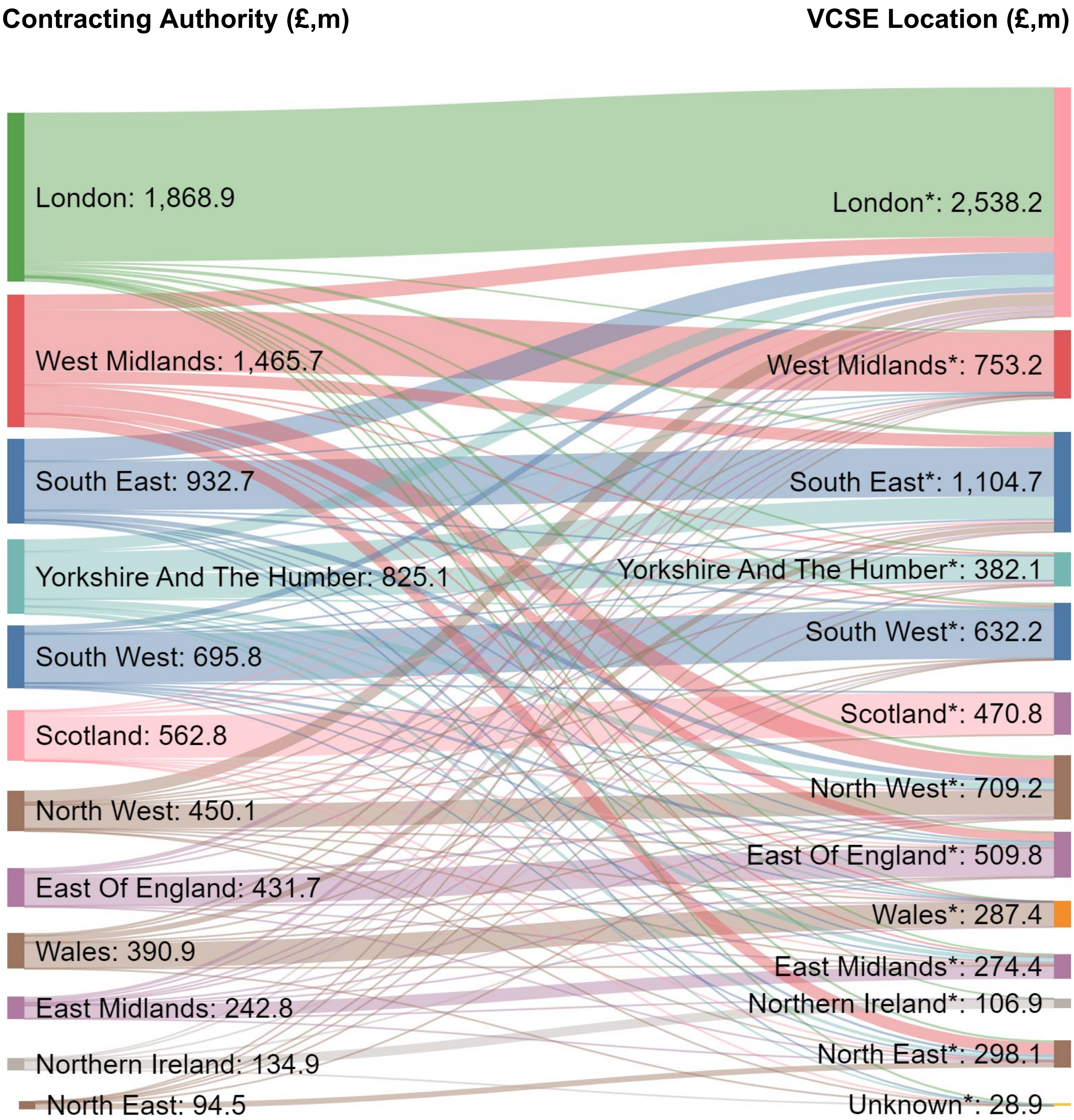


Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Figure 5.9 also explores how contract values flow from the region where the contracting authority is based to the location of the VCSE. This confirms that whilst most VCSEs participate within contracting linked to their own region, there are opportunities to further stimulate the growth of VCSE participation with contracting authorities in their own region. For example, buyers in the West Midlands procured approximately £1.5bn in health services in this time period with VCSEs – but VCSE suppliers in the West Midlands only were commissioned to deliver c. £750m of services in this period.

[107] Please note that often organisations can be 'UK-wide' but registered within a given region. The figures may therefore potentially skew towards registrations in London and the South East; however, this does provide a useful overview of income by region.

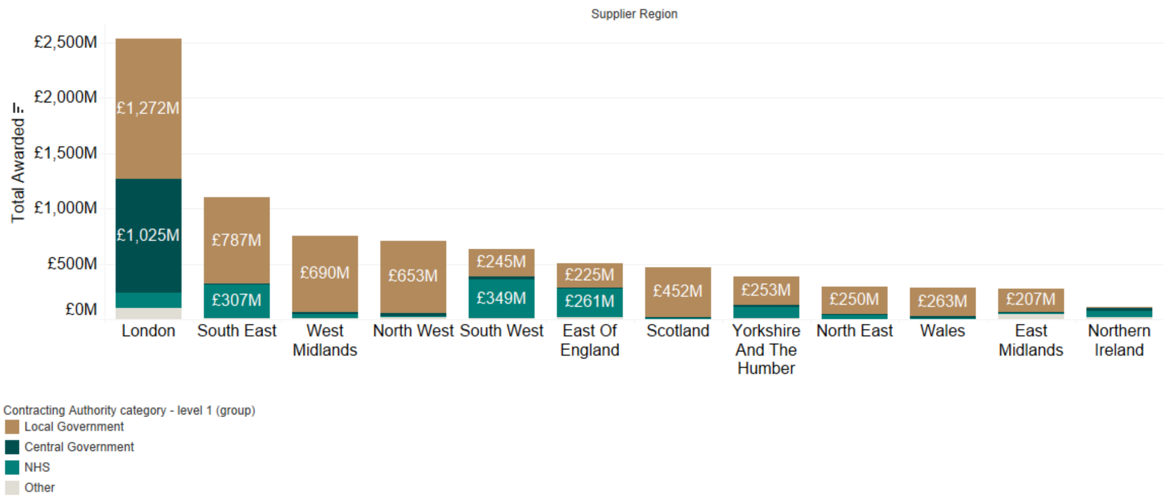
Figure A:9 Flow between authority region and VCSE location



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Figure A.10 also highlights the values awarded to VCSEs within health and social care contracts by **supplier location and contracting authority.** This highlights some of the regional variations where VCSEs are securing and delivering contracts with central and local government and NHS buyers.

Figure A:10 Values awarded to VCSEs by supplier region and contracting type

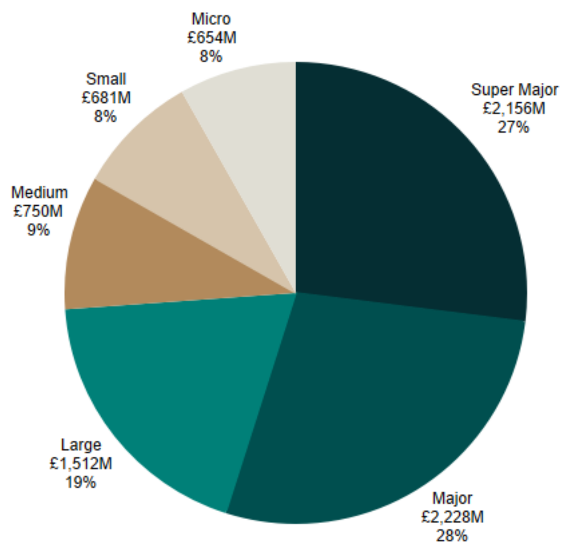


Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Size and Type of Organisation

The size and type of VCSE are also key variables in exploring current and future growth potential. Figure A.11 highlights how super major, major, and large VCSEs secured almost three-quarters (74%) of income relating to health and social care contracts.

Figure A:11 Values Awarded by VCSE Size (Health and Social Care)

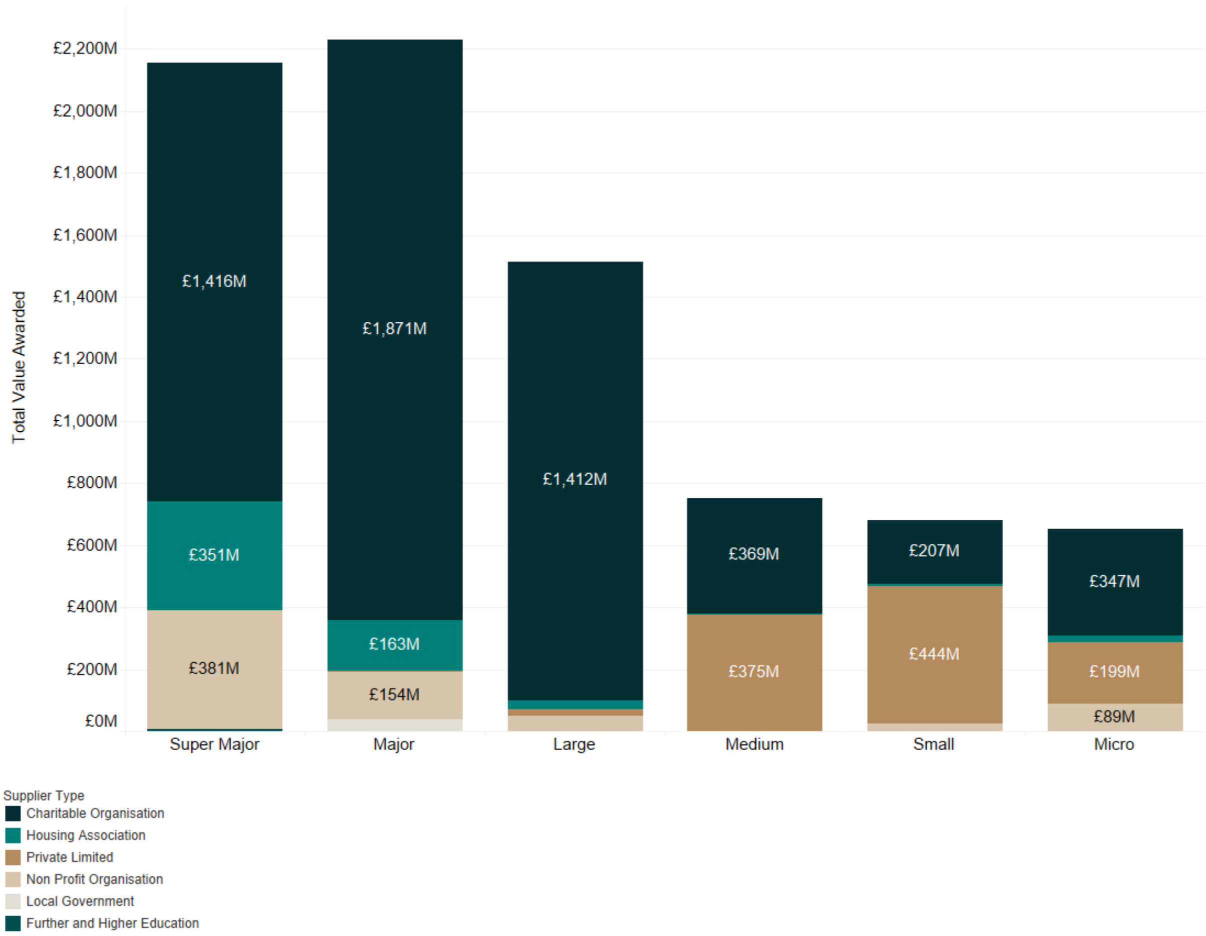


Source: Perspective Economics analysis of Tussell data (2016 – 2020)

This becomes more significant when explored by supplier type (as in Figure 5.12 below). This highlights that whilst charitable organisations are the major group in receipt of income from public procurement, policy-makers should consider the role of very large suppliers in relation to Housing Associations (often involved in providing wrap-around services relating to health and social care to tenants on behalf of local authorities), and non-profit organisations.

Further, Figure A.12 also highlights almost £1bn in contracts awarded to private limited organisations among the medium, small, and micro providers. This is likely to relate to contracts awarded to social enterprises and highlights the importance of contracting as a sustainable business model for smaller organisations seeking to scale and grow.

Figure A:12 Values awarded to VCSEs by supplier type



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Specialism

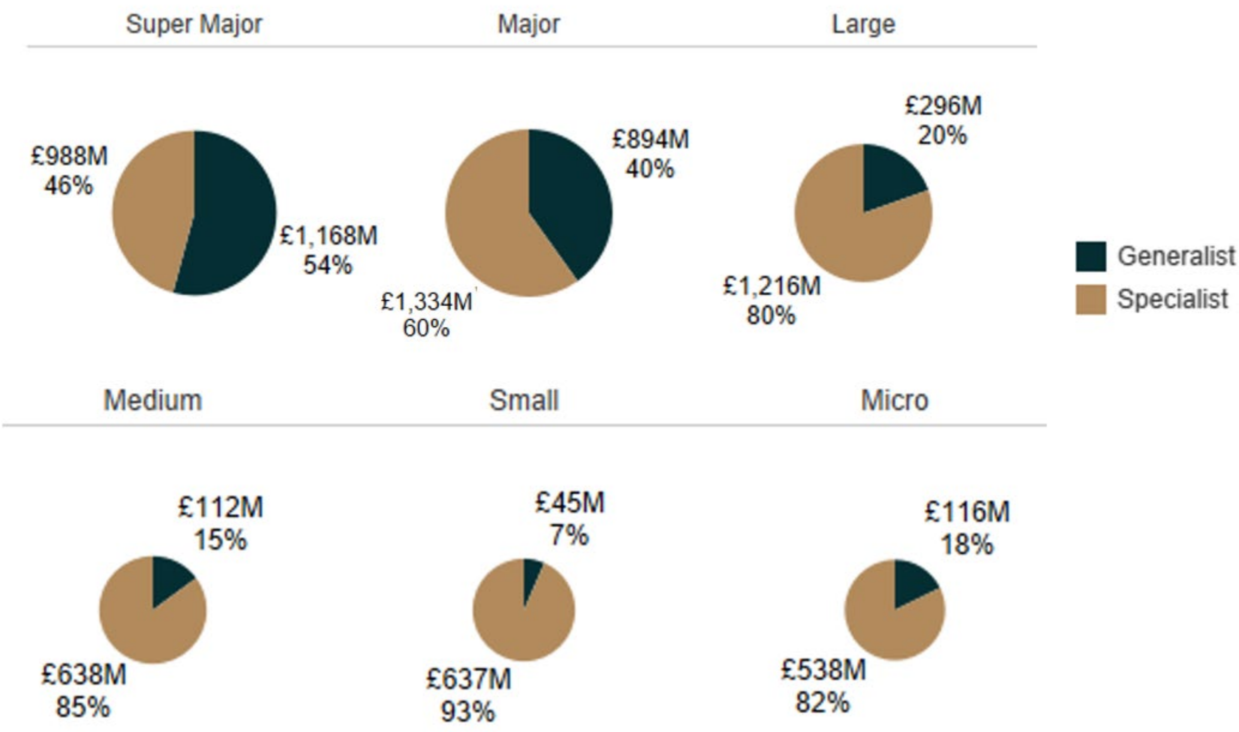
One hypothesis explored within this research is how current levels of engagement, and growth potential may vary between specialist organisations (i.e., those which provide a particular type of service only) or generalist organisations (i.e., those which provide a wider range of services or are engaged in multiple service markets).

Figure A.13 explores the proportion of awarded values to specialist and generalist VCSEs involved in the health and social care market. VCSEs have been assigned with a specialist status if they **only** deliver within this market, and generalist if they have delivered contracts across **multiple** areas.

Within health and social care contracts, two thirds (67%) of the value was awarded to specialist providers between 2016 – 2020.

Figure A.13 highlights how smaller VCSEs are more likely to be specialist in scope, and this may offer potential with respect to how contracting authorities can design smaller, or suitable contract opportunities for specialist provision in the future.

Figure A:13 Proportion of award values to specialist / generalist VCSEs



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

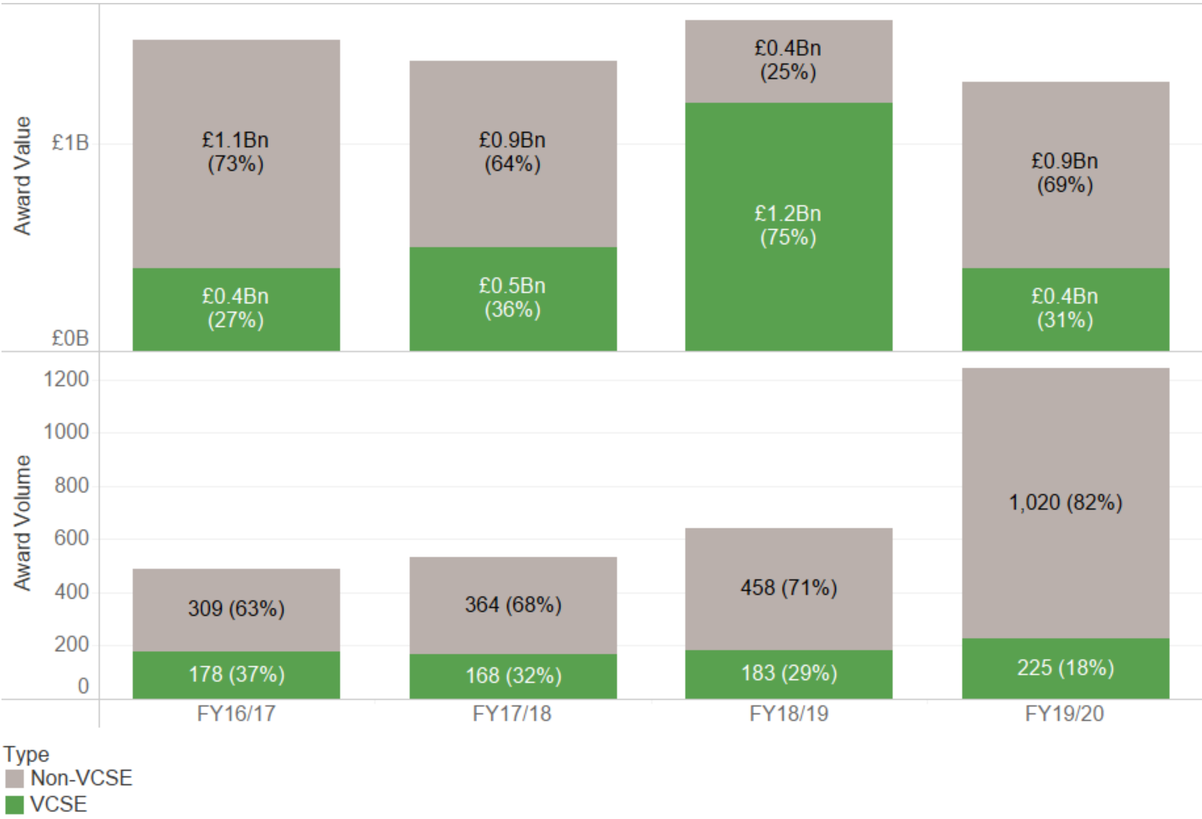
Disability: Current Levels of Procurement:

Disability services are a major contracting area for VCSEs, with £2.4bn won between 2016-2020. This means VCSEs have won approximately 43% of the total value of this market, and approximately one in five contracts are awarded to VCSEs (indicating an average high-value for VCSEs relative to the broader market.)

The Tussell research does highlight some variation in the last five years with respect to a disproportionate increase in the number of non-VCSEs winning contracts in this area. This may suggest a rise in private organisations winning contracts. This could therefore have an impact upon VCSE delivery models e.g., partnership bidding or sub-contracting.

Figure A.14 provides an annual breakdown of the total value and volume of contracts awarded, and the proportions awarded to VCSEs and non-VCSEs. This highlights that VCSEs typically secure c. £500m in contract awards, with c. 200 awards per annum.

Figure A:14 Total Value and Volume of Contracts Awarded (2016-2020) and VCSE proportion (Disability)



Source: Tussell (2021) UK Public Procurement through VCSEs, 2016 - 2020

Disability: Demand and Growth Potential:

The Tussell research suggests that the overall value of contracts within the disability market has remained consistent in recent years (approximately £1.3bn - £1.5bn per annum) but that the number of contracts has steadily increased (e.g., over 1,000 contract awards to all suppliers in 2020).

This suggests there may be some opportunity to attract new VCSEs to deliver services where the contract thresholds align with the capacity to deliver.

However, the number of VCSE awards in this area has remained at approximately c. 200 awards per annum (awarded in any given year) suggesting a need to preserve specialisms and experience of VCSE delivery in delivering disability services. Further, the nature of this time-series data means it is not possible to explore any substantive growth trends.

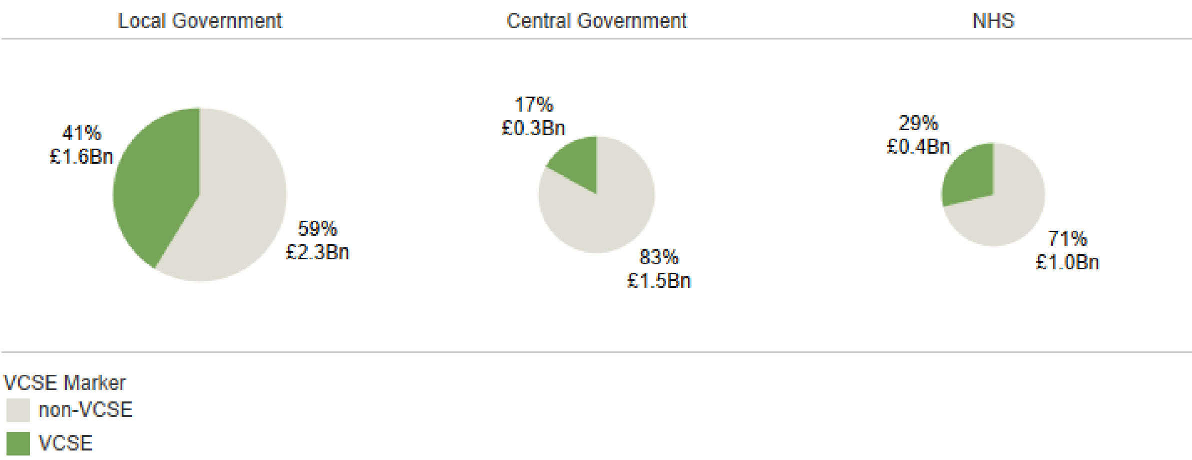
As such, growth potential considerations should therefore be explored in a sustainable way, ensuring protection of high-quality services provided by VCSEs with fair and appropriate contracting models. This includes working closely with these providers to understand their experience of securing and delivering contracts in this area.

Disability: Factors influencing growth potential:

Government Level

As with health and social care, local government is a significantly important market for VCSEs involved in disability service provision, as local government awards approximately 41% of its contracts to VCSEs. This is followed by the NHS and central government authorities. This demonstrates a strong relationship between VCSEs and local government in the provision of disability services, and that most of the growth potential will continue to take place at the local government level.

Figure A:15 Values awarded to VCSEs by government level since 2016



Source: Tussell (c. £7bn of Disability awards between 2016-2020 matched to authority level) (2016 – 2020)

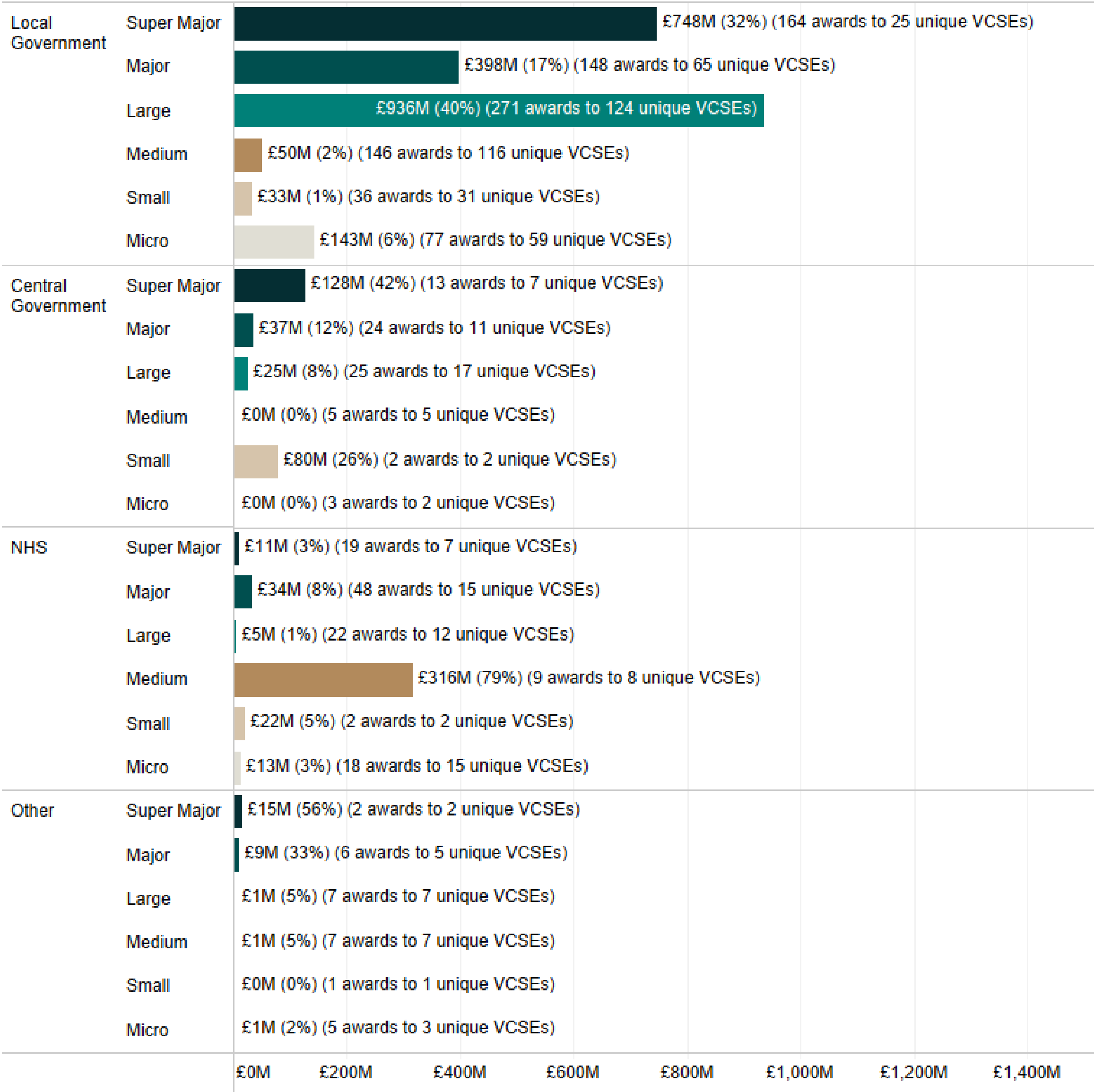
Within this sector, some of the key awards included provision of services relating to social care support, often in relation to vulnerable groups. For example, some of the largest awards relate to:

- Supported Living Services for individuals with learning or physical disabilities and / or mental health requirements
- Work and Health Programmes for those with disabilities
- Post-16 special education provision (SEN)

Similar to health and social care, many of these contracts can be large and multi-disciplinary in scale, and therefore the majority of contract value within local government is awarded to super major (32%), major (17%) and large (40%) VCSE providers (as highlighted in Figure A.16).

However, there is also some evidence of small and micro VCSEs securing contracts relating to disability services, particularly with local government. Whilst these contracts are a small proportion of the market size (£143m awarded to micro VCSEs between 2016-2020), they may offer insight into the relationships between very small but specialist VCSEs which can use procurement opportunities to scale and grow. This might include the provision of particularly specialist services, or the use of VCSEs within social policy pilot schemes – but offers potential for policy-makers to work with smaller VCSEs to increase their involvement providing such services to local government in future.

Figure A:16 Values awarded to VCSEs by government level by size



Source: Perspective Economics analysis of Tussell data (2016-2020)

In summary, this diagram highlights how (of the contracts we can match to VCSEs):

- **Local Government** has awarded £2.3bn within 842 contracts to 420 unique VCSEs (2016-2020). The average contract value is £2.7m and median value is £0.2m. Approximately 89% of the contract values were awarded to super major, major, or large VCSEs.
- **Central Government** has awarded £269m within 72 contracts to 44 unique VCSEs (2016-2020). The average contract value is £3.9m and median value is £0.3m.
- The **NHS** has awarded £401m within 118 contracts to 59 unique VCSEs (2016-2020). The average contract value is £3.4m and median value is £0.01m.

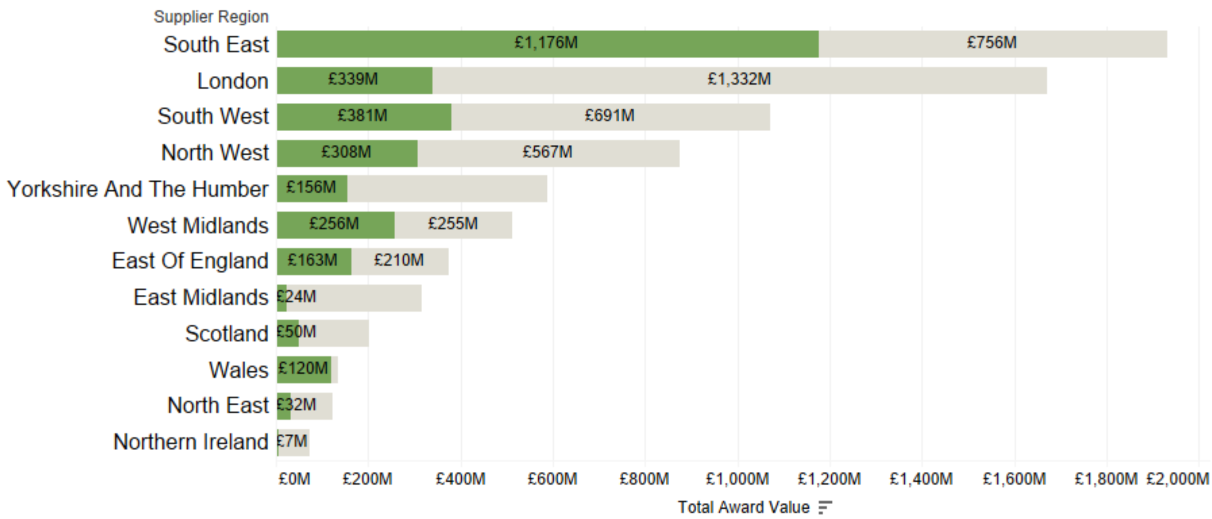
Geography

The following charts explore the value of contracts awarded to VCSEs (and non-VCSEs) related to disability services from a supplier level (i.e., where the supplier is located) and the buyer level (where the contracting authority is based).

Figure A.17 highlights the value of disability contracts by supplier region and type. Interestingly, within the South East, the value awarded to VCSEs (£1.2bn) outstrips non-VCSEs in the region (driven by contract awards to Communities First Wessex and Dimensions UK).

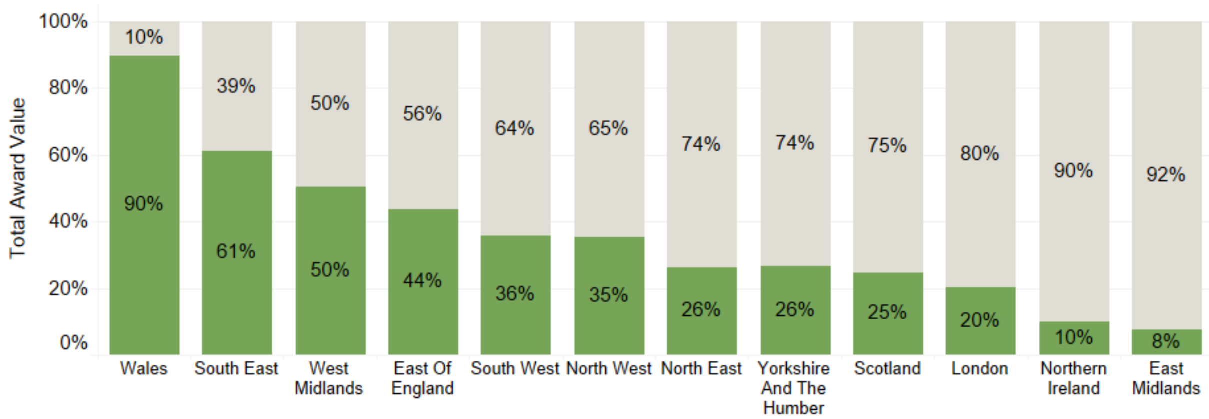
Figure A.18 also demonstrates the importance of VCSEs in providing disability services in some regions of the UK. For example, 90% of contract values relating to disability services in Wales were won by VCSEs.

Figure A:17 Values awarded to VCSEs and non-VCSEs by supplier region



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

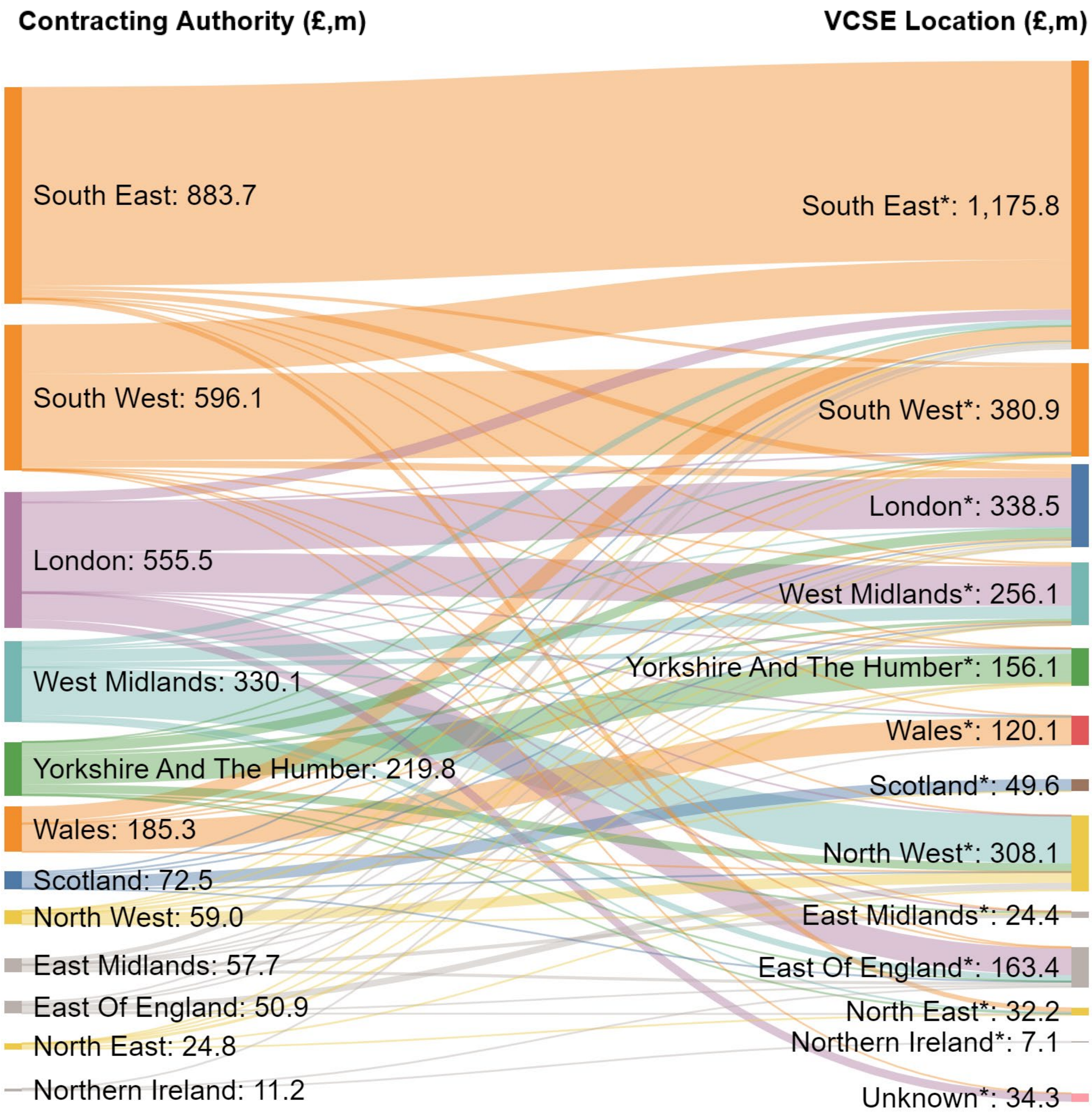
Figure A:18 Proportion of awarded value to VCSEs and non-VCSEs by supplier region



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Approximately 58% of contracting spend is awarded to VCSE suppliers within the same region. This highlights the importance of focus upon local commissioning and buy-in when seeking to grow the VCSE sector through procurement.

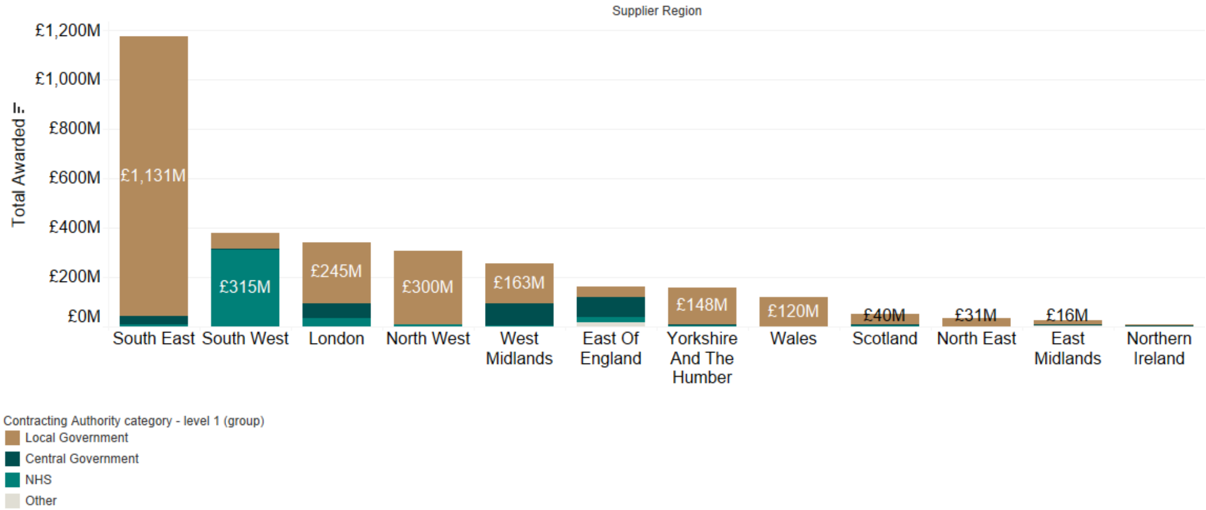
Figure A:19 Flow between authority region and VCSE location



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Figure A.20 also highlights the values awarded to VCSEs within disability contracts by **supplier location and contracting authority.** This highlights some of the regional variations where VCSEs are securing and delivering contracts with central and local government and NHS buyers. This reiterates the importance of local commissioning for this market.

Figure A:20 Values awarded to VCSEs by supplier region and contracting type

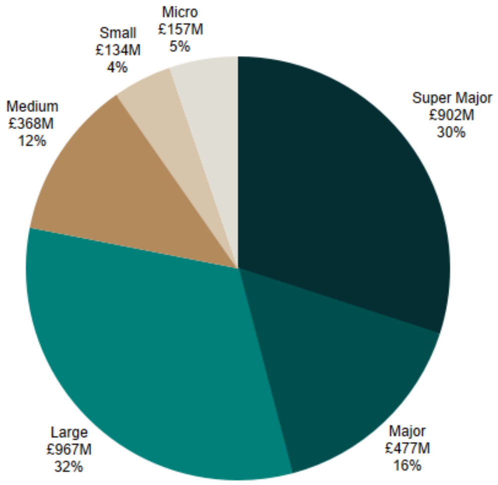


Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Size and Type of Organisation

The size and type of VCSE are also key variables in exploring current and future growth potential. Figure A.21 highlights how super major, major, and large VCSEs secured just over three-quarters (78%) of income relating to Disability contracts.

Figure A:21 Value Awarded by VCSE Size (Disability)



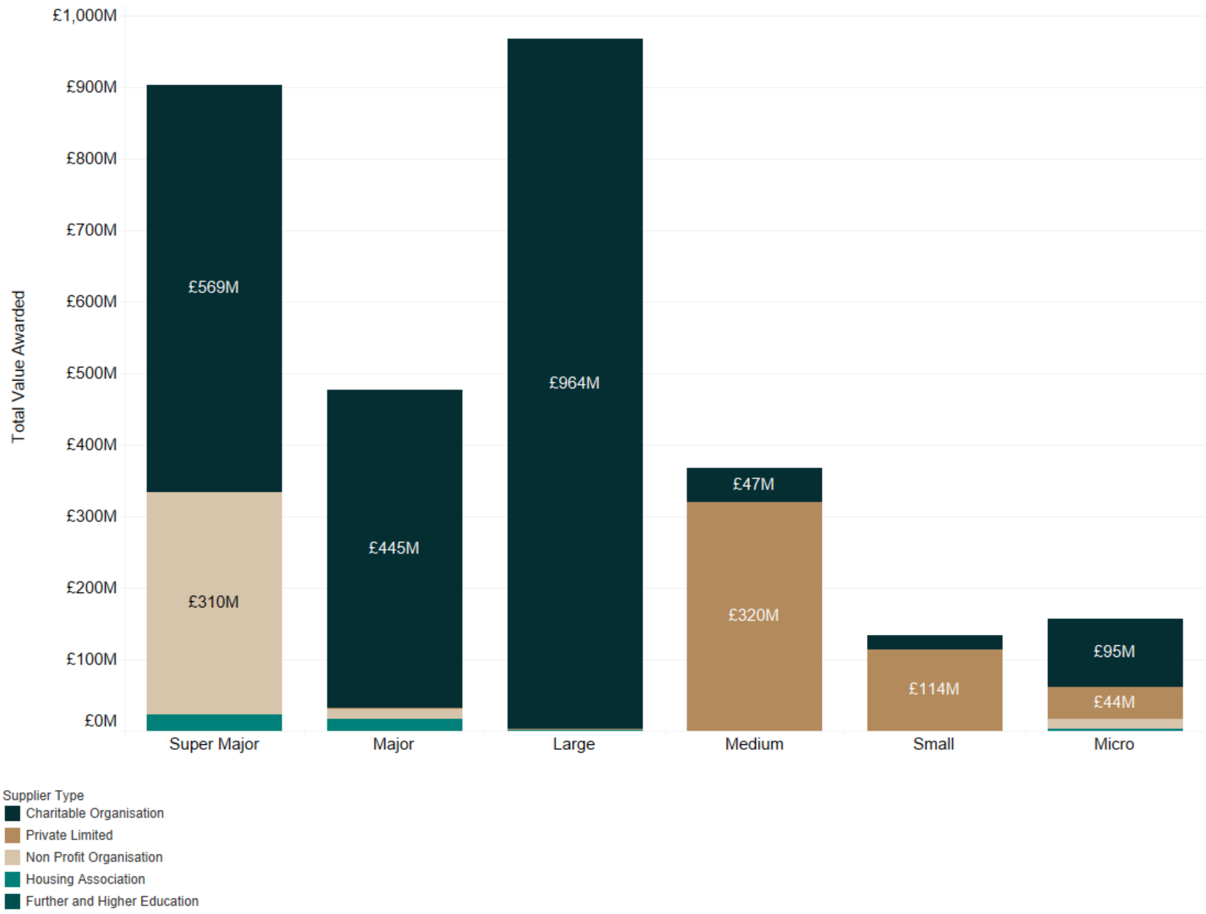
Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Type of Organisation

The majority of disability contracts (by value) are won by charitable and non-profit organisations, typically with a super major, major, or large size.

However, Figure A.22 also highlights almost £0.5bn in contracts awarded to private limited organisations among the medium, small, and micro providers. Similar to health and social care, this is likely to relate to contracts awarded to social enterprises and highlights the importance of supporting smaller VCSE organisations seeking to scale and grow through procurement.

Figure A:22 Values awarded to VCSEs by supplier type



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

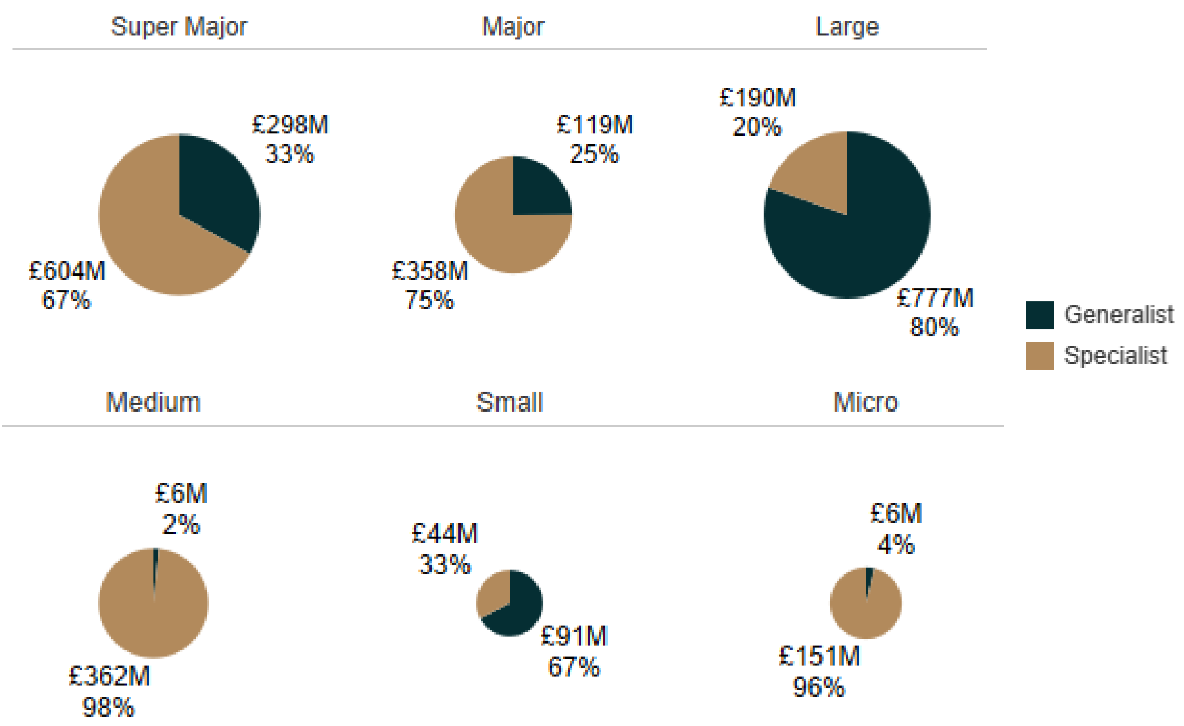
Specialism

Figure A.23 explores the proportion of awarded values to specialist and generalist VCSEs involved in the disability market. VCSEs have been assigned with a specialist status if they **only** deliver within this market, and generalist if they have delivered contracts across **multiple** areas.

Within Disability contracts, 57% of the value was awarded to specialist providers between 2016 – 2020.

Figure A.23 highlights how smaller VCSEs are more likely to be specialist in scope, and again, this highlights how local contracting authorities may be able to design smaller, or suitable contract opportunities for specialist provision in the future.

Figure A:23 Proportion of award values to specialist / generalist VCSEs



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

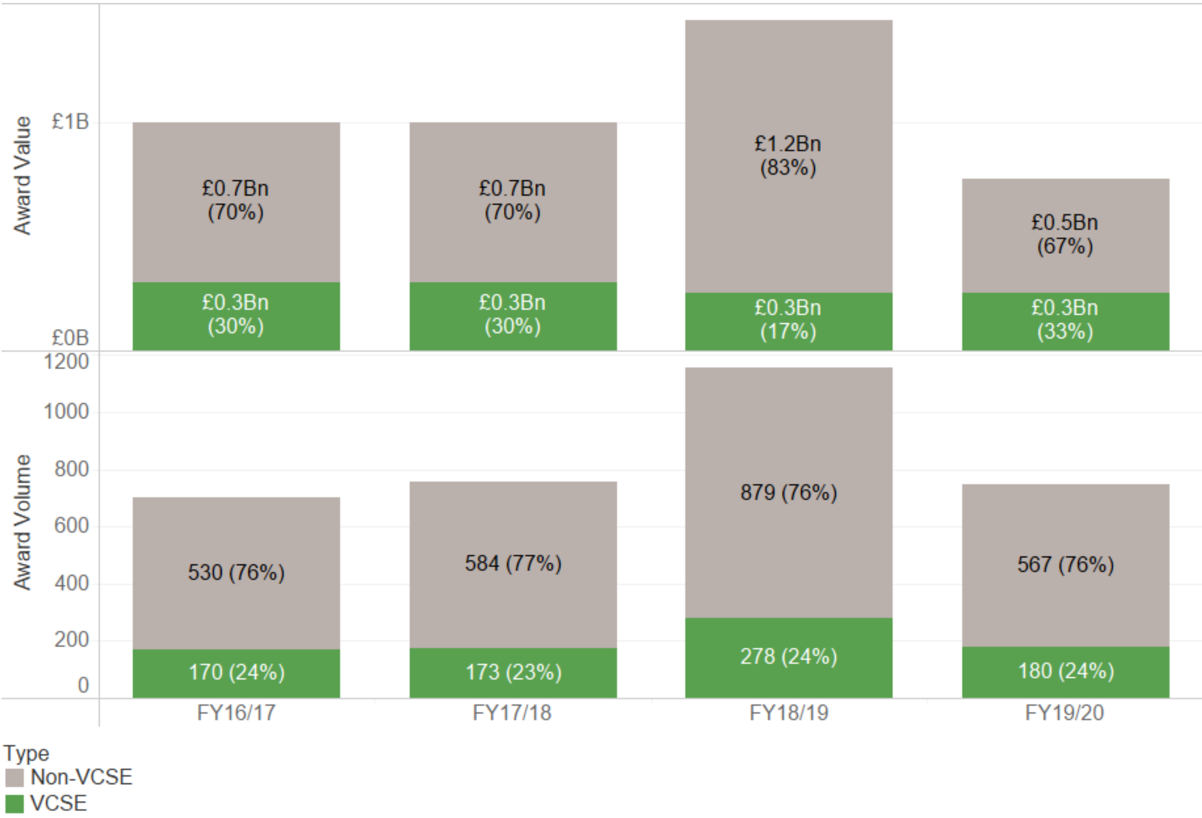
Employability: Current Levels of Procurement:

Employability services are an important market for VCSEs, with a quarter of the value of employability contracts awarded between 2016-2020 being awarded to VCSEs (£1.1bn).

Year on year, the volume and value of contracts awarded to VCSEs has remained fairly static (approximately £0.3bn per annum across c. 200 contracts).

The Tussell data suggests that central government and local government award a similar value of contracts in this area, potentially suggesting a greater need to explore the role of central government (e.g., DfE, DWP) compared to other sectors.

Figure A:24 Total Value and Volume of Contracts Awarded (2016-2020) and VCSE proportion (Employability)



Source: Tussell (2021) UK Public Procurement through VCSEs, 2016 - 2020

Employability: Demand and Growth Potential:

Similar to some of the other sectors, there is a small volume of awards to VCSEs (c. 200 per annum) engaging with this market, suggesting a need for enhanced focus on these providers, exploring their capacity to deliver social outcomes in employability (e.g., if they are able to scale regionally, or provide more support through contracting).

This sector will also be highly shaped in the future by broader labour market trends, but there may be some specialised provision e.g., supporting those with autism or disabilities into work pathways, whereby the role and involvement of VCSEs is crucial for positive outcomes.

Employability Factors influencing growth potential:

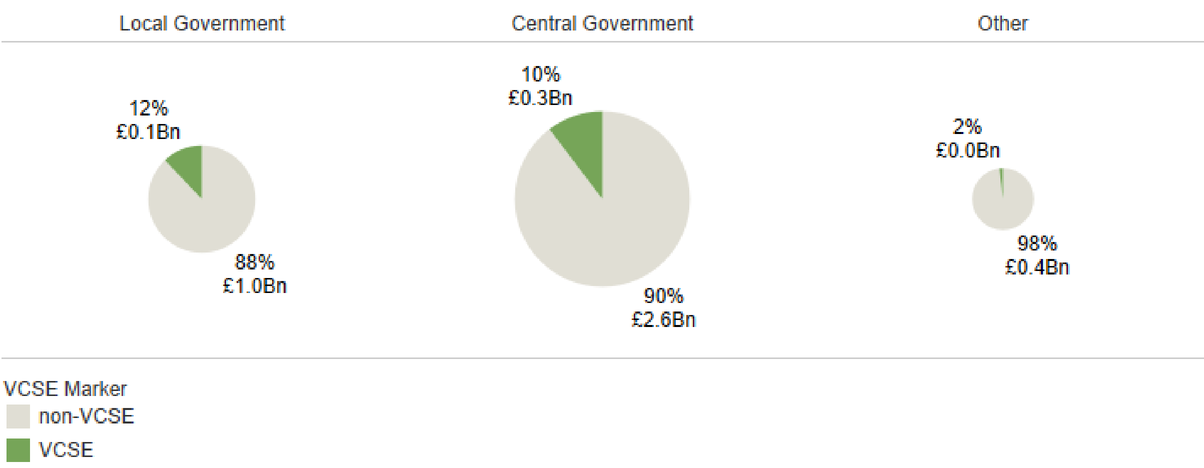
Government Level

We have matched contract awards and VCSE data against the relevant employability CPV codes and keywords.

Within the employability market, this data highlights the relative importance of both local and central government buyers. Across this market, there will be an increased focus on the provision of skills and training, which can be funded centrally, but issued locally. As such, we perceive that growth potential is likely to take place at both central and government levels.

Based on current trends, it is unlikely that the market size will grow substantially year by year; however, this may be impacted by economic conditions.

Figure A:25 Values awarded to VCSEs by government level



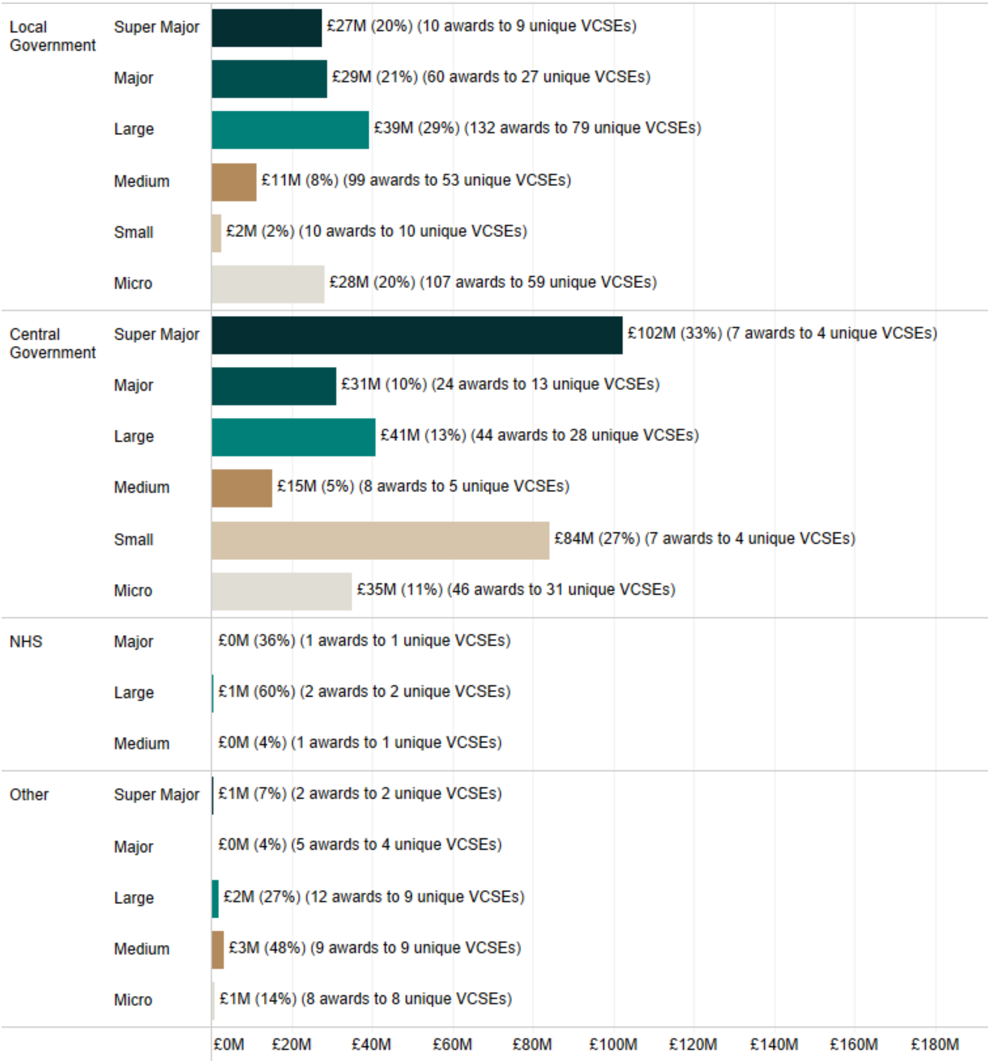
Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Within this sector, some of the key awards included provision of services relating to social care support, often in relation to vulnerable groups. For example, some of the largest awards relate to:

- Work and Health Programmes (support for those at risk of long-term unemployment)
- Provision of intensive support for ‘harder to help’ groups with respect to employability
- Delivery of Education and Vocational training

Figure A.26 sets out the values awarded to VCSEs by government level and by size. This highlights that while the majority of the value of employability contracts are awarded to larger providers, small and micro VCSEs are also involved at the central and local levels. This highlights that these smaller providers could be supported to grow and expand through continued participation in employability contracts.

Figure A:26 Values awarded to VCSEs by government level by size



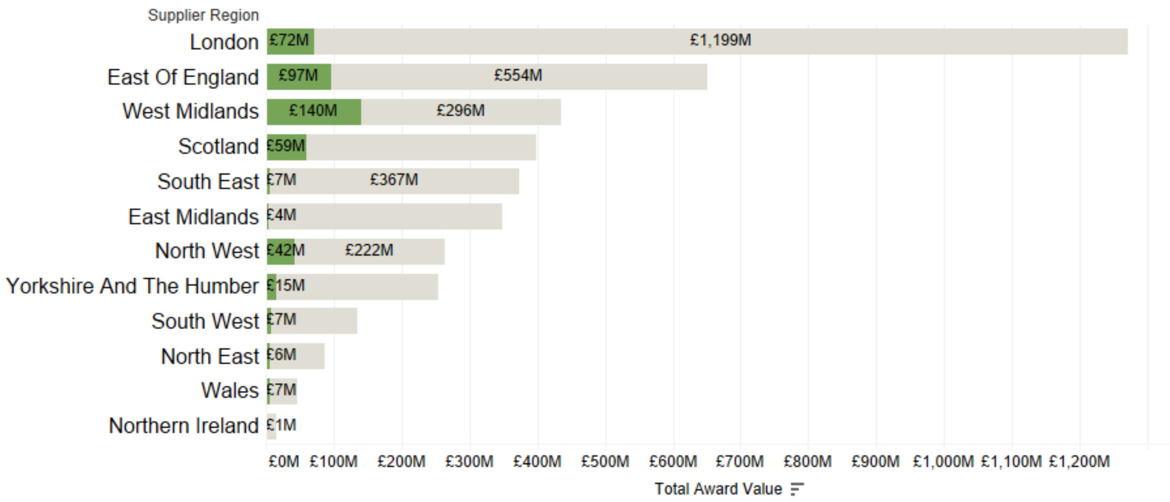
Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Geography

The following charts explore the value of contracts awarded to VCSEs (and non-VCSEs) related to employability services from a supplier level (i.e., where the supplier is located) and the buyer level (where the contracting authority is based).

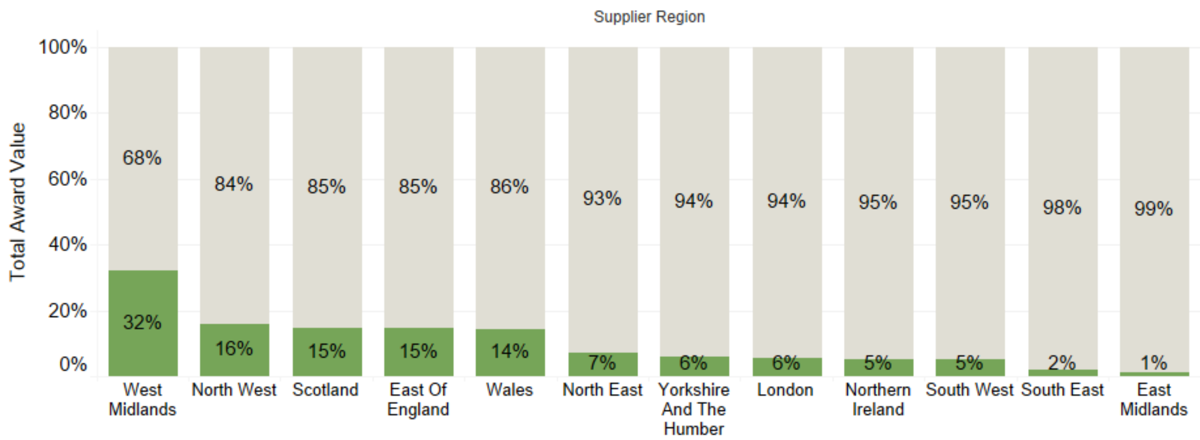
Figure A.27 highlights the relatively small proportion of supplier income taken by VCSEs compared to non-VCSEs across the regions and may indicate some growth potential if VCSEs were to increase their relative market share. However, areas such as the West Midlands appear to have relatively strong VCSE participation within employability markets, as shown in Figure A.28.

Figure A:27 Values awarded to VCSEs and non-VCSEs by supplier region



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

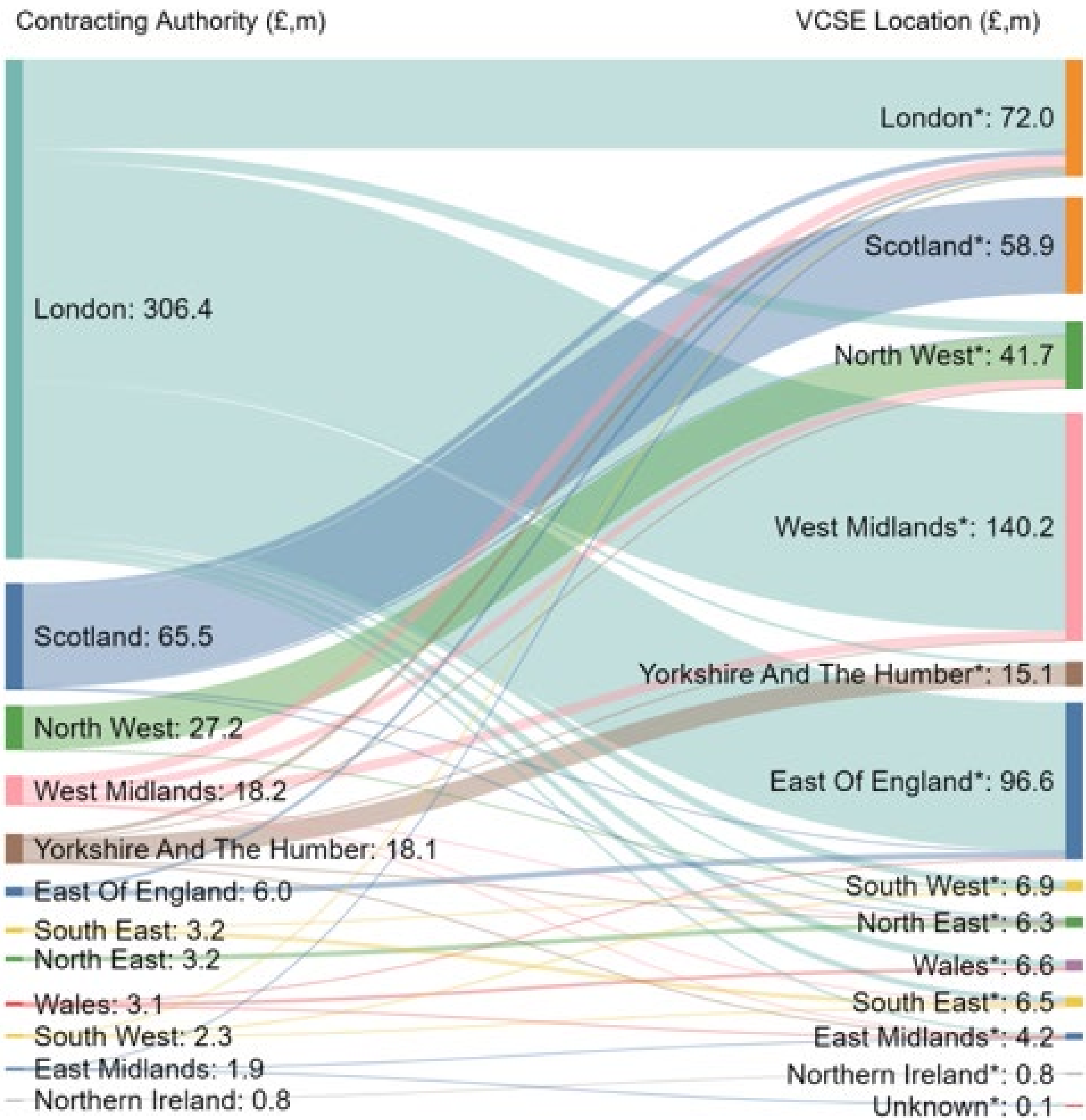
Figure A:28 Proportion of awarded value to VCSEs and non-VCSEs by supplier region



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Figure A.29 highlights the flow of contract values between the contracting authority and VCSE location. This highlights how some central government contracts have been secured by VCSEs across the regions (further explored in Figure A.30)

Figure A:29 Flow between authority region and VCSE location



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

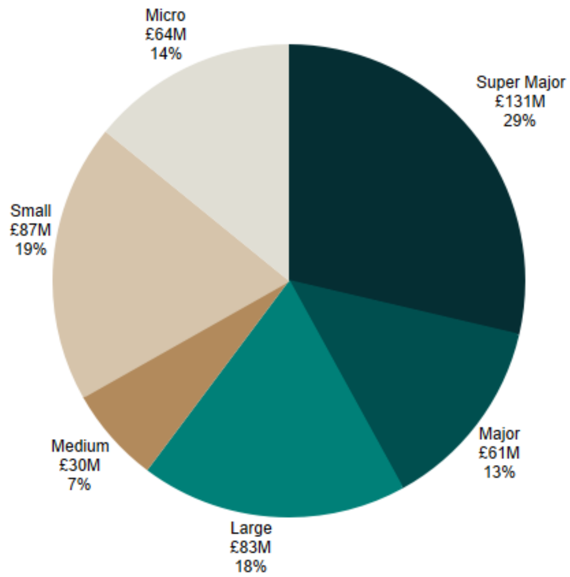
Figure A:30 Values awarded to VCSEs by supplier region and contracting type

Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Size and Type of Organisation

The size and type of VCSE are also key variables in exploring current and future growth potential. Figure A.31 highlights how super major, major, and large VCSEs secured approximately three-fifths (60%) of income relating to employability contracts. However, the 40% of income to medium, small, and micro VCSEs highlights higher participation by smaller VCSEs in this market compared to others, and highlights scope to grow smaller VCSEs in this market through government contracts.

Figure A:31 Value Awarded by VCSE Size (Employability)



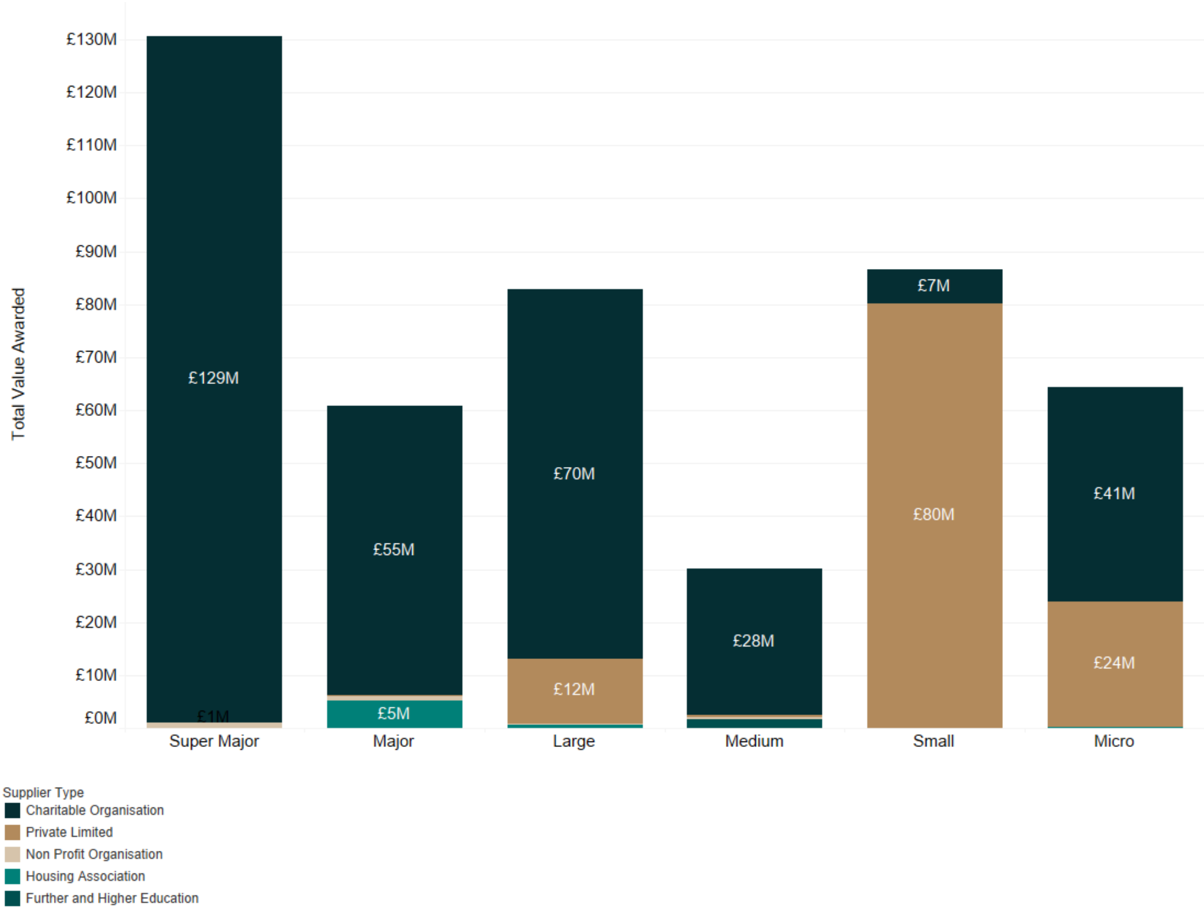
Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Type of Organisation

The majority of employability contracts (by value) are won by charitable and non-profit organisations, typically with a super major, major, or large size.

However, Figure A.32 also highlights over £100m in contracts awarded to private limited organisations[108] among the medium, small, and micro providers.

Figure A:32 Values awarded to VCSEs by supplier type



Source: Perspective Economics analysis of Tussell data (2016 – 2020)

[108] It is important to reiterate, once again, that current data quality means we are unable to differentiate Social Enterprises among the private and non-profit organisations.

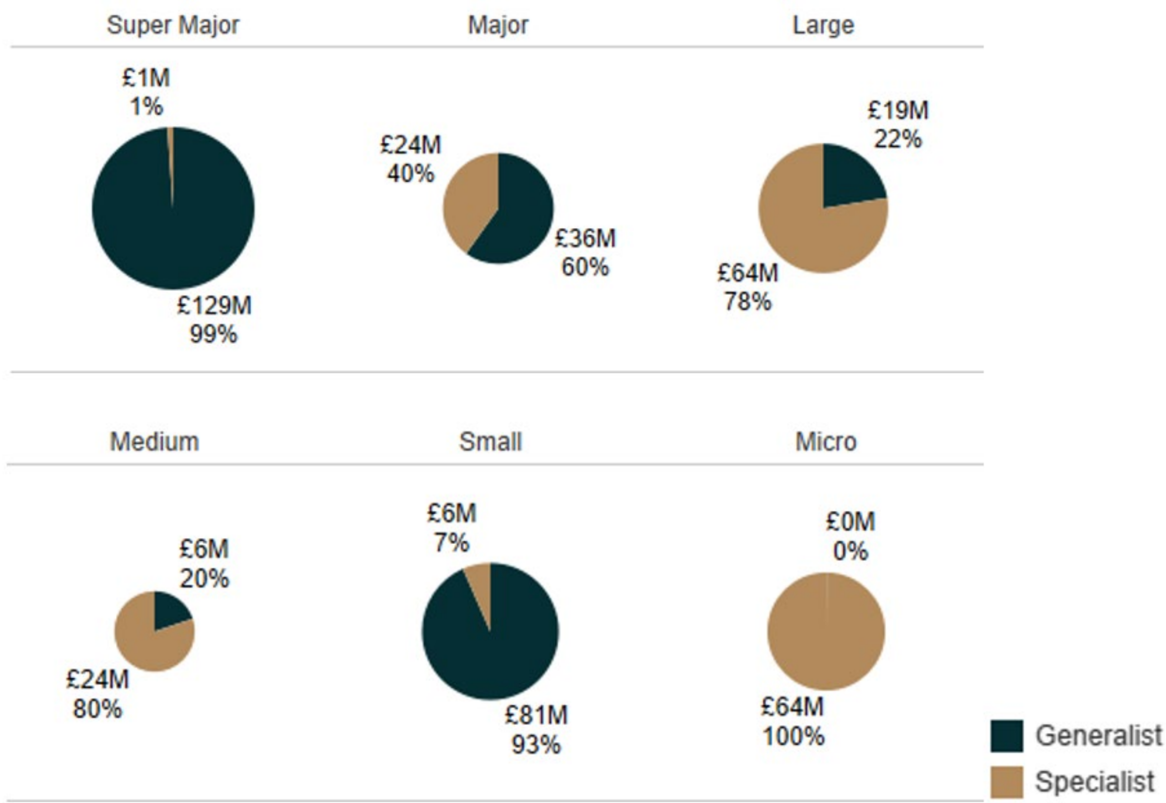
Specialism

Figure A.33 explores the proportion of awarded values to specialist and generalist VCSEs involved in the employability market. VCSEs have been assigned with a specialist status if they **only** deliver within this market, and generalist if they have delivered contracts across **multiple** areas.

Within employability contracts, 40% of the value was awarded to specialist providers between 2016 – 2020, indicating that some of the larger diversified VCSEs are offering employability provision as one service mong many.

Figure A.33 highlights how smaller VCSEs are more likely to be specialist in scope; however, super major and major VCSEs are more generalist in this market.

Figure A:33 Proportion of award values to specialist / generalist VCSEs

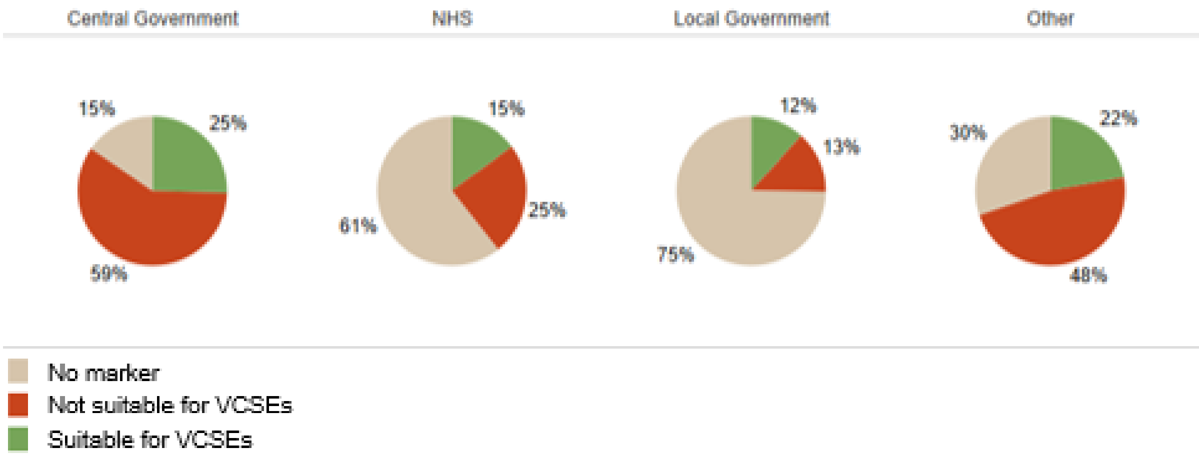


Source: Perspective Economics analysis of Tussell data (2016 – 2020)

Suitable for VCSE Marker: Analysis

Within government contracts, there is often a marker (provided by the contracting authority) for whether the contract is suitable for VCSEs (or SMEs) to bid and deliver. Figure A.34 demonstrates the proportion of contracts (across the eight contract sectors) that were considered suitable for VCSEs by commissioners between 2016 – 2020.

Figure A:34 Percentage of contracts marked as suitable for VCSEs



Source: Perspective Economics analysis of Tussell data since 2016 (Central, n = 2,966 contracts, NHS = 1,987, Local = 21,689, Other = 1,650)

This provides an interesting breakdown by contracting authority type. **Central Government provides the clearest indication for potential bidders whether a contract is deemed suitable, with 85% of contracts providing this marker**. However, 59% of contracts from central government are not marked as suitable for VCSEs, which may provide a path dependency effect (i.e., where VCSEs do not bid for central government contracts because they do not perceive they are able to secure the contracts). In the future, where possible, if a contract is deemed unsuitable for VCSEs, this should have a rationale as to why this is the case.

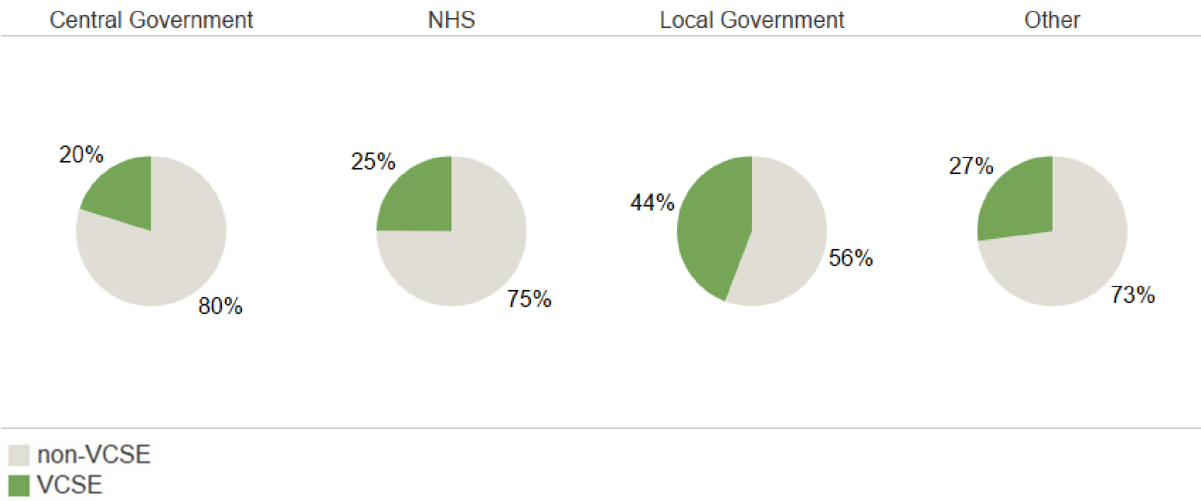
Local Government is a strong market for VCSEs; however, only a quarter (25%) of contracts provide an indication of being suitable or not for VCSEs. This may also vary between local authorities which are better aware than others of adding this marker to tender opportunities.

Of these, 12% of local government contracts are marked as suitable for VCSEs; however, based on VCSE relationships with local government, it is likely that if local authorities better demonstrated that certain contracts were open to VCSEs, this may help support growth potential and improved engagement.

Figure A.35 shows the proportion of contracts awarded to VCSEs which were marked as being suitable for VCSEs. **This highlights that where contracts are marked as suitable for VCSEs, these drive a significant proportion of engagement with public procurement. As such, we would recommend that further emphasis is placed upon ensuring government contracts provide this marker for VCSEs.**

For example, 44% of contracts marked as suitable for VCSEs were awarded to VCSEs by local government, despite only consisting of 12% of all contracts issued by local government. This compares to 20% of contracts marked as suitable for VCSEs awarded to VCSEs by central government, consisting of 25% of all contracts issued by central government, and 25% of contracts marked as suitable for VCSEs awarded to VCSEs by the NHS, consisting of 15% of all contracts issued by the NHS.

Figure A:35 Percentage marked as suitable for VCSEs won by VCSEs



Source: Perspective Economics Analysis of Tussell since 2016 (Central, n = 770 contracts, NHS = 305, Local = 2,659, Other = 381)

This data highlights the importance of identifying VCSE participation in public procurement through both the supply and demand side.

The following sections explore the three largest sectors in detail, in addition to the other sectors identified. They explore each with respect to current levels of procurement (using the previous Tussell research definitions), and demand forecasting (where possible).

The analysis below expands on previous Tussell research by also assessing how growth potential may be impacted by government level, contract level, location, size, and type of organisation.

Type of organisation is of particular interest, as it distinguishes the different types of organisations that exist within the VCSE sector (e.g., charitable organisation, housing association, private limited, non-profit, local government, of further and higher education), each of which may face their own barriers to procurement.

Appendix 5: Consultee Topic Guide

Background to interviewee - VCSE /community

Experience of public procurement (e.g., tendering process, awards, delivery of projects) - probe on budgets / timing / contract types

The current state of VCSE engagement in public procurement

[Interviewers note: open question on which subsequent discussion will be based. Ensure to probe regarding particular sector of interest and / or area of expertise].

Barriers to VCSE procurement (scale / budget / competition / legal / capacity / tech). Any reasons for not engaging?

Practical steps to support VCSEs competitiveness in awareness of / bidding for contracts? Levers (policy, legislative or regulatory directives) for engaging VCSEs in public procurement that are currently underutilised? What should government be doing?

New or planned levers for increasing VCSE engagement in public procurement and their potential impact

[Interviewers note: ask for specific initiatives / changes to procurement processes] [Follow-on: are these initiatives specific to a particular sector? How could these initiatives deliver a step change]? [Follow-on: what steps can be taken to fill these gaps now]?

Any other important factors regarding VCSE involvement in public procurement

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