

Recognising social value

A better way for charities and commissioners to work together

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Executive summary

Charities, community groups, and social enterprises have huge potential to bring their local knowledge, experience, and relationships to delivering public services—services which are under growing pressure as inflation intensifies hardship and compels public services to do more with less.

Yet even as needs rise, the voluntary, community, and social enterprise sector (VCSE) is held back by unsustainable procurement frameworks which undermine its potential. Two thirds of charities in the UK aren't paid enough to cover the costs of delivering the 7,330 contracts they work on. With inflation pushing up costs, there is a very real risk of failure—with devastating consequences for the people who rely on these services.

We need a shift in how government, civil society and communities engage in commissioning services. With the cost of living set to dominate the political agenda, we need an approach which recognises wider social value and prices it accordingly, so that contracts are sustainable and communities enjoy the full benefits. With a [Procurement Bill](#) going through parliament, now is the right time to make this change.

Recommendations

1. The Procurement Bill's definition of 'value for money' should recognise social value (e.g. well-being) and cost savings from reducing demand on other services (e.g. healthcare or police time). Commissioners must be mandated to score contracts against this definition.
2. Detailed guidance and secondary legislation should explain why and how commissioners should approach social value and savings from reduced demand. The proposed 'Procurement Review Unit' should scrutinise commissioners on how far social value is being achieved and how commissioners evaluate contracts on wider cost-savings and other social benefits in the long term.
3. Local authorities should not wait for Westminster to legislate. They can and should act now to implement a definition of value for money which recognises social value and cost-savings. The best way to do this is by co-designing with charities, civil society and businesses in their area to reflect local needs.

Procurement and charities: The current context

The UK government spends around a third of its budget each year on procurement.¹ We all rely on this money being well spent, as it helps pay for our healthcare, social protection, education, defence, safety, housing, environment and culture. Among those providing services are charities, community groups, and social enterprises—two thirds of whom are not paid enough to cover their costs.

Full cost recovery

‘Full cost recovery’ means contractors being paid enough to cover the cost of their work. There is no set standard for full cost recovery for a service because commissioners and suppliers rarely agree on which overhead costs should or should not be included.

Full cost recovery involves a trade-off between price, volume, and quality. Definitions of quality in particular vary between what communities and the voluntary sector want and what commissioners score contracts on.

This friction is in addition to other issues charities face in contracting which we touch on in this briefing, such as inaccessibility of contracts and exploitative practices.

This paper builds upon NPC’s work with Kent County Council to work towards full cost recovery. For more on the tensions inherent in full cost recovery and how to overcome them see [our work on the topic in the context of Kent County Council](#).

Between 2016 and 2020, charities delivered £17 bn worth of public contracts, around 5% of the total.² This is not an insignificant number and has potential to grow. Charities have a unique value-add. They bring a local connection, deep expertise on a specific topic area, and a values-driven approach which can benefit a whole community.³ This can make charities vital partners in public service delivery.

This value is not always recognised in the laws and regulations which shape procurement, or in how they are applied. Systems and processes can constrain charities' potential, and charities often don't get paid enough to cover their costs. Our [State of the Sector](#) research revealed that two thirds of charities do not recover the full cost that it takes to deliver contracts, which puts many of the 7,330 contracts that charities deliver at risk.⁴

Some charities contribute to this problem. By agreeing to contracts below cost-price, they undercut their peers and distort the market. Similarly, some larger charities engage in poor practice when bidding for contracts, such as engaging in partnerships with smaller organisations which, inadvertently or not, exploit their peers.

What are the risks?

Commissioners underpaying charities has been going on for a long time, but inflation means the arrangement cannot go on. Charities who were already subsidising contracts from other sources of income are going to find it increasingly hard to keep doing so. This poses a risk to the services they deliver, the bodies who commission them, and the people who depend upon vital support:

1. **Financial risks to charities, and the people who rely on the services they deliver.**

Inflation means charities cannot go on subsidising the services they deliver indefinitely. Our [Full Cost Recovery in VCSE contracts research](#) found few contracts have the flexibility to adjust for inflation, so charities could see the gap between costs and income grow too wide to bridge.

This poses financial sustainability risks for charities, extra pressures on staff, and could undermine vital public services for people who need them in a time of crisis. Some charities will not be able to subsidise and could even fold, leaving people without support.

These risks will not be felt equally. We heard anecdotally in our interviews that smaller, minority-led organisations and certain subsectors more dependent on contracts (e.g. criminal justice charities) will be more affected.

2. **Opportunities to support communities are missed.** If a contract fails or a charity cannot bid for work below cost, the wider benefits that charities bring such as community cohesion, local links, and increased well-being will not be fully realised, an opportunity cost which is more stark given likely rising needs during the cost-of-living crisis.

3. **Trust between charities and public sector erodes.** Relationships between charities and government will likely deteriorate. Charities may resent the financial pressures they are

under, whilst government may lose confidence in charities' ability to deliver due to these pressures. Over time this will likely affect the quality of service delivery in an area, making it harder to support communities in need.

4. **The procurement market is distorted.** Agreeing to contracts below cost can lead to a 'race-to-the-bottom' as contracts are increasingly subsidised with other forms of income. This would further shut out smaller local providers who are unable to keep up, which means we'd lose the vital benefits they bring.
5. **The government wastes money.** Poor procurement practices waste money, and there is some evidence that more collaborative approaches save it: both through cost-savings on better delivered contracts and through reduced demand for other government services thanks to improved health and well-being in the community. [Plymouth Alliance](#) is a good example of where improved commissioning practices can save a local authority money in the longer term.

What is causing these issues?

Charities not being paid for the full cost of a service is a symptom of wider issues with how procurement is designed and implemented. The government is not solely at fault, but could make some important changes to primary and secondary legislation, as well as guidance around practice, which could lay the foundations for a better relationship between charities and government. Charities must recognise that they too are contributing to this problem by agreeing to these contracts. By shifting their behaviour, charities can minimise risks to the whole sector.

Legislative barriers

Current procurement framework

There are several pieces of legislation which make up the current legal framework around procurement. These are based on EU treaty principles focused on achieving value for money through open competition. The rules apply to everyone who bids for public services (such as charities and private businesses) as well as the bodies who procure them such as local and national government, the NHS, and the police.⁵ These rules ensure open competition by mandating open adverts for all contracts, and a responsibility on government to ensure a supplier has all the necessary processes and risk management capabilities in place to effectively deliver the contract. Our [Times of Change](#) briefing gives a comprehensive overview of public sector commissioning.⁶

Charities and small businesses complain that the focus on risk management leads to complex, overlapping systems and processes which suppliers have to register for separately.⁷ The focus on open competition where all suppliers are treated exactly the same in terms of information provided, lead-in times allowed, and expectations around risk management can lead to smaller providers, including charities, being shut out of contracts by larger providers, better able to navigate the process. The government has said it recognises this as an issue and wants to work more with smaller organisations.⁸

The Social Value Act

The legislation behind procurement is underpinned by the 2012 Social Value Act which requires public bodies in England and Wales to consider how services they procure can improve social, economic, and environmental well-being.⁹ This mandates that national government must score all suppliers for social value when awarding a contract, whilst local government only has to ‘consider’ social value. Ways to consider social value include procuring from local organisations, supporting charities in supply chains, or choosing low carbon alternatives for goods. The ways in which procurers can consider social value as part of their scoring is deliberately kept broad to allow a range of approaches to meet local needs, including allowing local authorities to redefine social value as it applies to their area. As we argued when the act came into force, this gives charities and local authorities leeway to deliver on this definition of social value in a way that works for them.¹⁰

The Social Value Act has been criticised for having a definition of social value that focuses on additional value which best applies to private sector organisations (for example by hiring local employees) and overlooking the ‘inherent’ social value which charities deliver in all their work. It also does not require bodies to consider wider social benefits and savings as part of social value, such as the reduced demand for healthcare which comes from improving community well-being. This leads to missed opportunities to support communities and save money across government.

The act has had low uptake. A 2016 survey found that only a third of councils were routinely considering social value in their commissioning.¹¹ This led to criticism that there is not a requirement on local government bodies to score social value. Contrary to reports, if the Social Value Act was properly defined and applied it could support smaller organisations including VCSEs to bid for and win work, delivering value for local communities.¹²

The Procurement Bill

The Procurement Bill which is currently making its way through parliament is designed to replace EU legislation and tackle some of the issues with the existing procurement framework. It aims to simplify systems and reduce the number of times suppliers need to register—currently there are over 70 systems for central government alone.¹³ The legislation also aims to increase transparency and allow a wider range of organisations, including smaller providers, to bid for contracts. It will create a new oversight body to look at ‘systemic issues’ within procurement and make it easier for suppliers to challenge poor practice.

However, the bill does not in its current form include any encouragement for processes to maximise wider benefits for society and communities through procurement, such as by engaging early or co-designing contracts alongside them—though this could come through secondary legislation or guidance. It never mentions social value and does not attempt to challenge the issues raised with the current definition of ‘social value’. This is a missed opportunity to deliver real social value for communities around the country.

Implementation barriers

For the local and national government bodies who procure services, there are a series of drivers which contribute to charities not winning contracts that cover costs, and communities not benefiting from their work.

As discussed above, local government does have the ability to shape how services are procured and delivered at a local level to better meet their definition of social value. Local authorities across the country, including in Plymouth, Birmingham, and Scotland, are already doing this. However, the paucity of local authorities who are taking this up reflects the barriers and lack of incentives to move to a better approach.

We have found from our interviews that many working in local authorities do not have a clear or shared understanding of the value which the charity sector can bring to contracts and the benefits of working more closely with them.¹⁴ Commissioning teams are small, with significant risk management pressures, which leads to incentives to push the burden of registration onto the supplier and disincentivises new or experimental approaches. In interviews, we heard that when changes have occurred, this has often been due to a specific financial or staffing crisis. This demonstrates the need for wider changes to encourage a better approach early on.

Co-designing contracts with the voluntary sector and communities could lead to more effective contracts which consider wider social value and longer-term savings. The danger is that pressures on commissioners instead lead to a ‘default to the norm’ of short lead-in times, convoluted processes, and larger contracts—all of which work against the voluntary sector and mean that wider benefits for a community are not realised. Wider political issues such as austerity have further exacerbated these issues, putting more strain on contracting teams and leading to larger contracts which are easier to administer.

Charity sector barriers

Finally, charities face a number of barriers which drive behaviours that exacerbate this issue. As explained above, charities who deliver contracts that do not fully cover their costs are exposing themselves to financial risks, as well as distorting the overall market for government services which will mean their peers are more likely to be short-changed in future.

Some of this is accidental, driven by charities not fully understanding the cost of their services or lacking a shared understanding with procurers about what overheads are reasonable to include. As we discussed in our work with Kent County Council, this is not going to be the same in every case. It therefore requires an open conversation on the value that the charity sector brings to a local area. Charities may need upskilling to track their own costs and impact better.

In contrast, some charities bid for contracts in the full knowledge that the price will not fully cover their costs, but are willing to subsidise with other income because they believe the contract is important for their mission. Many charities have other sources of income, such as grants or public fundraising, and may use those to supplement the contract. They may have good reasons for doing this related to their mission or to prevent a large private provider who can offer little social value taking the contract. Even so, this obviously poses large risks to other organisations also trying to achieve their mission, but who do not have the ability to cross-subsidise. It distorts the market and could lead to a race-to-the bottom, particularly over the longer term.

What would a better arrangement look like?

There are many changes which local authorities, government departments and other procurers can make right now to better work with charities and deliver value for communities. Below, we share principles on how procurers can approach these changes informed by best practice examples from around the UK.

These examples are the exception rather than the rule, so we also lay out some key changes that can be made to legislation and national policy to encourage more local authorities and government departments to work better with charities to deliver for their communities.

A policy framework based on social value

To ensure procurement is delivering what it needs to for people around the country, any definition of ‘value for money’ must include wider social value. If we recognise the wider social value of commissioning a service, including benefits to the community and savings to other government services, we can ensure that procurement better supports people in need, fully covers the costs of delivery, and is more cost-effective.

Although all contracts should consider this, some contracts may have more potential to achieve social value than others. More scrutiny should therefore be placed on contracts in areas such as health, social care, disability, reoffending prevention, employability, education and the early years for example.

We can achieve this social value focused approach through four routes:

1. **Recognise social value.** When defining ‘value for money’ in the new Procurement Bill, commissioners should have a mandatory responsibility to score the contract against its impact on wider social value (including their best estimates of the effect of the service on health, income inequality, employment and education) as well as longer-term cost savings elsewhere including: reduced healthcare costs, reduced absences due to stress, improved environmental and green spaces, improved skills and educational attainment, among other savings. Sources like the [Treasury Green Book](#) can be a good starting place for answering these questions.

2. **Help commissioners understand social value.** The government should produce secondary legislation, support, and training for socially-focused commissioning (such as health, employment, disability, and education) which encourages local authorities to use their autonomy to commission for social value and gives best practice examples of how to do it. This should include:
 - a. Outlining the benefits of this approach to social value commissioning and working with socially focused organisations like charities.
 - b. A fleshed-out explanation of the different aspects of social value commissioners need to consider and best practice ways that they can estimate the effects upon them when analysing different contracts. Again, the [Treasury Green Book](#) can be a starting place for answering these questions.
 - c. Guidance on co-designing contracts with charities and community groups.
 - d. Best practice examples on topics like early engagement.
3. **Make use of existing power.** Local authorities already have the autonomy to use this wider definition of value. They should redefine ‘value for money’ based on the wider social benefits they want to achieve in their area through conversation with the community, civil society, businesses, and faith groups. Once these benefits have been identified, it should be mandatory for commissioning teams to score suppliers against how far they will achieve these benefits.
4. **Expand the role of the Procurement Review Unit.** We were pleased to see the proposed Procurement Review Unit will have responsibility for looking at systemic breaches of procurement regulations. Its role should be expanded to look at how far commissioners are delivering wider social value across the country; coordinate between different regulatory bodies (such as the Charity Commission and the new Office for Local Government); highlight best practice by which central government can encourage better take-up and support cost-savings elsewhere; and, as a last resort, mandate authorities to change behaviour.

Delivering for communities at a local level

Setting the right conditions at a legislative and regulatory level can encourage best practice at a local level but cannot guarantee it. For real social value to be delivered, local authorities, charities and communities need to talk with each other about how the VCSE sector can deliver social outcomes and bring about wider cost savings through procurement. Priorities will be different in

every place, and solutions will be most effective if they are designed by and for people in that area. By following some broad principles, we can ensure the right voices are included and the right issues are considered:

- 1. Co-design.** What constitutes social value will be different in different communities. Therefore, local authorities must consult charities, businesses, and faith and community groups on what social outcomes are priorities for their area and how these can be achieved. This should also include talking with charities and businesses about how this wider definition of social value would affect the price of a contract.
- 2. Pre-procurement.** Before contracts are put out to tender, the voluntary sector and community groups should be made aware of upcoming contracts and services earlier so they can prepare their bid and have more opportunities to demonstrate their unique value-add to the delivery of a contract.
- 3. Bidding process.** When bidding for contracts, charities need to think about how their work impacts upon the wider system of services in an area. This should involve working closely with local authorities to communicate the value they bring to a community. Charities should also avoid bidding for contracts which will require cross-subsidising as it distorts the market.
- 4. Investment in training and staff.** These changes to how contracts are designed and delivered will require staff training. We understand budgets are tight for many local authorities, but it is essential that contracting teams have the tools and time to operate in this way. Central government can assist here by providing resources and training like it did in the implementation of the Social Value Act. Charities need to identify where they have skills gaps in bidding for contracts and either hire new staff or partner with other organisations. Independent funders have a role here in adding capacity and resources to support a better procurement regime.
- 5. Data on what is working.** Finally this new approach needs to be informed by a constant process of data collection and adaption based on what is working and what is not. For local authorities, this needs to involve social impact as well as cost-saving calculations which will be vital in making a continued case for this change. Charities also have a responsibility to share evidence of the wider impact that they bring about, and how this benefits their local area in ways the local authority may not be aware of.

We recommend local authorities look at guidance that organisations like the [Local Government Association](#) produces on doing this practically, and we recommend charities refer back to our [briefing on contracting in Kent County Council](#) as well as work produced by [NCVO](#). Finally, case studies

such as [Hammersmith and Fulham](#), [West Sussex](#), [Plymouth Alliance](#) and [Birmingham Anchor Institutions](#) can offer helpful lessons to inform practice.

Methodology

This policy briefing was built on the findings of [research](#) NPC conducted with Kent County Council on how they contract charities. This was based on 41 structured interviews with Kent County Council staff, charities and experts. This was then supplemented with six further conversations with sector bodies and national stakeholders to look at these issues in a wider context.

We would like to thank all those who spoke to us for this work. In particular Lydia Jackson and David Whittle, and other colleagues from Kent County Council, for their feedback, support and proactive commitment to tackling the national and systemic issues outlined in this briefing.

¹ UK Parliament (2021) [‘Procurement statistics: a short guide’](#)

² Tussell (2021) [‘VCSE Procurement Analysis 2021’](#)

³ NPC (2021) [‘How charities can build a better Britain’](#)

⁴ NPC (2020) [‘State of the Sector 2020’](#)

⁵ Crown Commercial Service (2021) [‘Public Procurement Policy’](#)

⁶ NPC (2015) [‘Times of change’](#)

⁷ NPC (2022) [‘Full Cost Recovery in VCSE contracts’](#)

⁸ Cabinet Office (2018) [‘Doing business with government: guide for SMEs’](#)

⁹ Cabinet Office (2021) [‘Social Value Act: Information and resources’](#)

¹⁰ NPC (2013) [‘Social Value Act: A worthy Act of defiance’](#)

¹¹ Social Enterprise UK (2016) [‘Procuring for Good’](#)

¹² Telegraph (2022) [‘Jacob Rees-Mogg to reduce government focus on ethical contracts’](#)

¹³ Institute for Government (2022) [‘The Procurement Bill: an expert briefing’](#)

¹⁴ NPC (2022) [‘Full Cost Recovery in VCSE contracts’](#)