Research Report:

Purchasing from the Third Sector in Scotland

An analysis of public sector procurement spend by selected Scottish local authorities

July 2014

Section 1
Introduction

Each year local authorities in Scotland procure over £5.4bn of supplies, works, and services. Based on a sample of councils, this report examines the level and pattern of procurement from Third Sector suppliers.

1.1 The Context

Procurement is the process by which local authorities buy the goods and services they need to provide public services. Effective procurement is important in helping councils achieve public service outcomes, secure value for money, and achieve maximum community benefit.

In 2012/13, Scotland's 32 local authorities procured over £5.4bn of supplies, works and services (accounting for more than a quarter of their total spend). This represents over half of all public sector procurement spend in Scotland.

There is an increasing recognition that councils can use this substantial purchasing power to achieve even greater impacts on the local economy, communities, and the environment. The recently introduced Procurement Reform (Scotland) Act will further encourage business friendly, socially responsible procurement where public bodies are encouraged to look at outcomes (not just outputs) and maximise the social value they can secure through their spending.

The Third Sector (community groups, voluntary organisations and social enterprises) is an established partner and supplier to Scotland's local authorities. The sector provides everything from catering to social care services and is well placed to work with councils to achieve better service outcomes and a range of community benefits.

1.2 This Study

This study explores the extent to which councils in Scotland are doing business with Third Sector suppliers and how this purchasing relationship plays out in different parts of the country.

Based on data obtained from a cross-section of councils, the research aims to:

- Benchmark the scale, scope and characteristics of local authority procurement from the Third Sector.
- Provide a basis on which to track the spending on the Third Sector and the associated impacts arising from this.
- Use the evidence to inform discussion on how councils can grow the role of the Third Sector in public services.

This report breaks new ground. It is the first time that public sector procurement spend relating to the Third Sector has been comprehensively analysed at local level and the share of the sector in public service markets accurately gauged.

The study is based on a series of research and impact measurement assignments undertaken as part of the Developing Markets for Third Sector Providers Programme. This Scottish Government programme, being delivered by the Ready for Business partnership[1], is supporting the public sector in Scotland to unlock opportunities for the Third Sector in public service markets.

1.3 The Sample of Local Authorities

The research draws together the evidence relating to procurement spend[2] on the Third Sector by five of Scotland's 32 local authorities.

The sample includes local authorities that collectively cover a population of 797,200

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[1] Includes Ready for Business Procurement LLP, KPMG, Social Value Lab, and MacRoberts LLP – See www.readyforbusiness.org

[2] 'Procurement spend' throughout the report refers to payments made by the councils relating to the acquisition of supplies, works, or services from an external source.

(15% of Scotland's population). The sample comprises a cross-section of authorities, including one city authority, one with a largely urban population, one with an evenly mixed urban-rural population, one containing largely accessible rural settlements, and one in a remote rural setting. See Table 1.

Table 1: Urban-Rural Breakdown of the Five Councils Examined

Case	Largest population category*
Council A	Large Urban
Council B	Remote Rural
Council C	Large Urban
Council D	Accessible Rural
Council E	Other Urban

* Based on Scottish Government 6-fold Urban/Rural Classification

Taken together, the councils examined accounted for £1.02bn of procurement spend. This equates to 19% of all Scottish local authority spend on externally provided goods and services in 2012/13.

1.4 Study Method

The study involved a comprehensive analysis of council data for the financial year 2012/2013.

A full dataset of suppliers and associated procurement spend was obtained from each of the five councils. The data included a supplier and directorate-level breakdown of spend and included a range of standardised data fields.

The datasets were cleaned and a manual categorisation conducted to identify all third sector suppliers (comprising community groups, voluntary organisations, charities, social enterprises, and community co-operatives). This included a web check and verification of the status and structure of each organisation.

The data relating to third sector suppliers was analysed and individual reports prepared for each local authority. An aggregate analysis was then conducted and the findings set out in this report.

This was a major piece of research that included the analysis of records relating to over 20,000 individual suppliers (including 2,217 third sector suppliers) that accounted for council spending of over £1bn.

Section 2

Purchasing From the Third Sector

The evidence shows that the Third Sector is a major supplier of goods and services to Scotland's local authorities. The sector accounts for around £1 in every £5 of council procurement spend and one in every 10 council suppliers.

2.1 Procurement Spend

The purchasing power of local authorities in Scotland is substantial. Collectively the five councils examined procured £1.02bn of supplies, works, and services during 2012/13.

As shown in Table 2, the procurement spend varied markedly across the councils, from £110m annually to more than £450m.

Table 2: Procurement Spend by Council 2012/13

Case	Procurement Spend
Council A	£196m
Council B	£137m
Council C	£453m
Council D	£110m
Council E	£124m

Source: Social Value Lab analysis

The councils procured a mix of goods and services:

- Supplies that enabled them to fulfil their role as a direct provider of services.
- Services that were delivered on their behalf to people, groups and organisations locally.
- Services that supported the acquisition, construction, and improvement of Council assets.

Spending on externally provided goods and services represents a growing part of budgets, as councils have shifted from a direct provider of services to a purchaser. On average procurement spend accounted for 47% of all capital and revenue spending of the councils examined. A full breakdown is provided in Table 3.

Table 3: Procurement as a % of all Spend by Council 2012/13

Case	Procurement as % of all expenditure
Council A	45%
Council B	55%
Council C	41%
Council D	41%
Council E	51%

Source: Social Value Lab analysis

2.2 Third Sector Suppliers

In most cases the councils examined had streamlined their base of suppliers over previous years in the search for efficiencies. Nonetheless, the Third Sector has remained an important source of supply.

Collectively the sample of five councils purchased goods and services from 2,217 Third Sector organisations during the year[3].

[3] This aggregate figure conceals some double counting where large Third Sector organisations were supplying goods and services to more than one of the councils examined.

To put this in context, the entire Third Sector in Scotland comprises around 45,000 organisations.

On average each council purchased services from 443 Third Sector suppliers. However, as Table 4 shows, the number of suppliers varied somewhat across the five areas examined.

Table 4: Third Sector Suppliers to by Council 2012/13

Case	No. of Third Sector suppliers
Council A	327
Council B	812
Council C	516
Council D	456
Council E	106

Source: Social Value Lab analysis

The above reflects variations in the base of Third Sector suppliers across Scotland as well as differing patterns of provision and levels of engagement with the sector in each area.

The Third Sector is a major component of the supplier base. In the cases examined, **the Third Sector accounted for 7-15% of all council suppliers; on average of 10% of suppliers**. Two of the three councils with the largest concentrations Third Sector suppliers were located in rural Scotland.

Table 5: Third Sector as a % of all Suppliers by Council 2012/13

Case	Third Sector as a % of all suppliers
Council A	9%
Council B	15%
Council C	9%
Council D	11%
Council E	7%

Source: Social Value Lab analysis

2.3 Spend on Third Sector Suppliers

Local authorities in Scotland are therefore wielding an increasing purchasing power, and directing much of this spending towards Third Sector suppliers.

Collectively the five councils purchased £164m of goods and services from Third Sector organisations during 2012/13. **On average each council purchased £33m from the sector**, with the largest council spending as much as £57m with the sector. Table 6 provides the details.

Table 6: Spend with the Third Sector by Council 2012/13

Case	Procurement spend on the Third Sector
Council A	£39m
Council B	£21m
Council C	£57m
Council D	£25m
Council E	£23m

Source: Social Value Lab analysis

This means that, **on average, almost £1 in every £5 of procurement spent by the councils (or 18%) was directed to the Third Sector**. As shown in Table 7, this level of spending on the sector varied between 13% and 23% of this external spend in the cases examined.

Table 7: Procurement Spend on Third Sector by Council 2012/13

Case	% of all procurement spend on the Third Sector
Council A	20%
Council B	15%
Council C	13%
Council D	23%
Council E	18%

Source: Social Value Lab analysis

The evidence also suggests that **local authorities are conducting an increasing amount of business with the Third Sector**. For example, one council had increased the value of purchasing from the sector by 25% over the preceding six years, compared with an overall uplift in its purchasing of 16% over the same period.

2.4 Value of Transactions

While Third Sector suppliers are often perceived as small and local, this is not always the case.

Across the councils examined almost half of Third Sector suppliers (46%) have been categorised by procurement teams as either medium or large suppliers (see Table 8).

Table 8: Size of Third Sector Suppliers 2012/13

Case	% of Third Sector suppliers
Small	54%
Medium	26%
Large	20%

Source: Social Value Lab analysis
Nb: Based on analysis of common data for three councils

The research identified **no significant difference in size between Third Sector and other types of council supplier**.

Third Sector organisations were found to be delivering substantial packages of work in each of the five cases examined. The data show that **the average Third Sector supplier received payment of £104,395 for work delivered during 2012/13**. Despite some variation between councils (see Table 9), this is almost twice the value of contracts fulfilled by the general population of suppliers to the councils (£53,673).

Table 9: Average Size of Payment Third Sector Suppliers 2012/13

Case	Average payment to Third Sector Suppliers
Council A	£118,676
Council B	£25,334
Council C	£109,487
Council D	£54,943
Council E	£213,537

Source: Social Value Lab analysis

Also, some Third Sector suppliers hold very large contracts. Across the five councils, the research identified 41 Third Sector suppliers delivered more than £1m in goods and services to their purchasing authority. These suppliers were typically large national suppliers of social care or housing management services.

Table 10: Third Sector Suppliers Delivering More than £1m in Council contracts 2012/13

Case	Third Sector Suppliers where transactions >£1m
Council A	15
Council B	3
Council C	13
Council D	4
Council E	6

Source: Social Value Lab analysis

Councils are reliant on Third Sector organisations to deliver key services. In one area, five of the Council's 20 largest suppliers were Third Sector organisations.

2.5 Local Purchasing

Purchasing from local suppliers can have a positive effect on the local economy and generate a variety of community benefits.

To varying degrees the councils examined were 'buying local'. On average, 27% of procurement spend was with local suppliers in 2012/13.

Table 11: Local* Procurement Spend by Council 2012/13

Case	% of procurement spend on local suppliers
Council A	-
Council B	27%
Council C	31%
Council D	30%
Council E	20%

Source: Social Value Lab analysis
* 'Local' = Spend on suppliers with their main base within the same local authority area

Third Sector suppliers were more likely than the general population of suppliers to be locally based. Indeed, all of the councils had a variety of initiatives in place to build the capacity and contract-readiness of the indigenous Third Sector. Across the councils examined, an average 38% of spend directed towards the Third Sector was accounted for by local suppliers. Again some variation is noted in Table 12.

Table 12: Share of Third Sector Spend on Local Suppliers 2012/13

Case	Local Third Sector suppliers as a % of all Third Sector
Council A	-
Council B	31%
Council C	53%
Council D	33%
Council E	27%

Source: Social Value Lab analysis

It is important to note that corporate governance arrangements in the sector mean that where local Third Sector suppliers are used any profits usually must remain in local communities or are used to deliver additional services, jobs, and other community benefits.

2.6 Market Share

Third Sector suppliers provide a diverse range of goods and services to public authorities. It is a stated ambition of the Scottish Government to grow the share of the Third Sector in these public service markets.

As indicated previously the Third Sector secured an average share of 18% of procurement spend across the councils examined.

This **market share varies significantly across procurement categories**. Table 13 provides a breakdown of the average Third Sector market share in selected categories. The data show **highest levels of market penetration by the Third Sector in housing management, social care, clothing, human resources (including employment and training services), arts and leisure, and education**. These are fields in which the Third Sector has become a firmly established player.

Table 13: Third Sector Market Share by Category 2012/13

Category*	% of spend
Housing Management	67%
Social Community Care	43%
Clothing	32%
Human Resources	31%
Arts & Leisure Services	28%
Education	24%
Horticultural	17%
Consultancy	17%
Financial Services	14%
Catering	14%
Facilities Management	11%
Legal Services	8%
Construction Materials	8%
ICT	6%
Furniture & Furnishings	5%
Vehicle Management	5%
Construction	5%
Environmental Services	5%

Source: Social Value Lab analysis
NB: Includes only categories where the Third Sector has secured more than 5% of all procurement spend

Turning to the total value of purchasing (i.e. procurement spend on the Third Sector), the five main local authority markets for the sector were:

1. Social Care
2. Housing Management
3. Human Resources
4. Education
5. Facilities & Management

By total value, social care remains the largest category of purchasing from the sector by some margin. For example, the largest of the five councils examined purchased 74% of commissioned social care services from the Third Sector in 2012/13 to a value of £41.2m.

Section 3
Conclusions

The Third Sector has now become an established partner and supplier to local authorities in Scotland. While the research has taken a first step to explore the role and contribution of the sector as a supplier there is now more to do.

This study has explored the extent to which councils in Scotland are doing business with the Third Sector and how this purchasing relationship is playing out in different parts of the country.

The research has shown that:

- The purchasing power of local authorities in Scotland is substantial; between £110m and £453m annually in the councils examined.
- The Third Sector is now a key supplier to councils. It was found to account for on average 10% of all suppliers in 2012/13 and almost £1 in every £5 spent externally by councils.
- Third Sector suppliers are well positioned to help councils deliver on their needs. They are more likely than other suppliers to be locally based (and therefore generate local impacts) and more likely to fulfil larger service requirements.
- While the Third Sector is now a well-established supplier in a number of categories (most notably social care and housing management), there is the opportunity to increase its share of business across a number of fields.

These findings are consistent with our research elsewhere which shows that public sector purchasers in Scotland are increasingly aware of the role of the Third Sector, increasingly value its contribution, and are increasingly doing business with the sector.[4]

Scotland's Average Council

Based on the sample examined, this research has pointed to the following characteristics of the average council in Scotland:

- £169m procurement spend.
- 27% of all procurement spend with local suppliers.
- 18% of all procurement spend accounted for by the sector.
- 10% of suppliers from the Third Sector.
- 38% of procurement spend on the Third Sector accounted for by local suppliers.
- 43% of commissioned social care services delivered by the Third Sector.

As the first major analysis of local authority purchasing from the Third Sector this study has produced a helpful benchmark for councils and baseline against which to track procurement spending. Nonetheless, it is important to clarify the picture further. This means building a fuller picture (and monitoring trends) across local government in Scotland as well as extending the analysis to other public bodies, including NHS Boards.

It is our hope that the evidence presented, and proposed, will lead to a more informed debate about how to grow the role of the Third Sector in public service markets.

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[4] See Ready for Business, *Sustainable Procurement, Social Value and the Third Sector in Scotland*, April 2014 - http://readyforbusiness.org/wp-content/uploads/2014/06/lib-Commissioners_Survey_2014.pdf

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