

CHALLENGE ANALYSIS AND EMERGING THEMES

North East Economic Inactivity Trailblazer:
VCSE Sector System Reform



Phase three: Challenge Analysis and Emerging Themes Paper

Executive Summary

The North East Combined Authority (North East CA) commissioned VONNE to lead the VCSE sector system reform strand of the North East CA Economic Inactivity Trailblazer, laying strong foundations for reform and testing ambitious ways of working that maximise the skills, capacity, and resources of the VCSE sector.

This Challenge Analysis and Emerging Themes Paper represents Phase 3 of the Trailblazer work. It provides a system-level analysis of VCSE-led employment support across the North East CA area, drawing together evidence from Phase 1 mapping, Phase 2 stakeholder engagement, and a subsequent VCSE sector temperature check. Its purpose is to clearly identify the core structural challenges limiting impact and sustainability, and to establish a robust analytical foundation for the next phase: the development of a Roles and Responsibilities Framework and co-designed system solutions.

The analysis demonstrates that the VCSE sector is a significant and indispensable part of the region's employment, skills and inclusion ecosystem. VCSE organisations play a distinctive role in engaging people furthest from the labour market, particularly where economic inactivity intersects with poor health, caring responsibilities, trauma, disability, poverty and exclusion.

Importantly, the challenges identified in this paper are not unique to the North East. Evidence from national research, policy analysis and VCSE sector data demonstrates that many of the structural barriers affecting VCSE-led employment support are systemic features of the national funding and commissioning environment. While their impacts are experienced locally, their root causes often sit at a national level.

Systematic challenges

Engagement across all phases of the Trailblazer identified a small number of recurring, interconnected system challenges that consistently limit the effectiveness, sustainability and impact of VCSE-led employment support.

System challenge	What's happening now	Why this matters for outcomes
Fragmented pathways	Employment, skills, health and wider support operate in silos with unclear referral routes; VCSE organisations provide informal coordination that is unfunded and unrecognised	VCSE organisations and service users experience confusion, duplication and drop-off; VCSE capacity is used to system navigate rather than support
Short-term funding	Predominantly 6–12 month funding cycles, heavy reliance on time-limited funds such as UKSPF	Workforce instability, loss of trusted relationships, reduced employer engagement and limited long-term impact
Complex Commissioning	Complex procurement processes, short application windows, and uniform monitoring requirements place significant strain on limited capacity	Smaller, locally trusted VCSE organisations are excluded despite being best placed to support people furthest from work
Power imbalance	VCSE organisations have limited influence over system design; performance management is compliance-led and target-driven	Innovation is constrained, learning is lost, and provision prioritises measurable outputs over meaningful progress

Capacity & collaboration barriers	Competitive commissioning and unstable funding reduce time and resources for partnership working	Fragmentation persists and opportunities for coordinated place-based delivery are missed
Geographic inequity	Commissioning models prioritise scale over place; rural, coastal and urban barriers are not equally recognised	Access to support becomes a postcode lottery, reinforcing existing inequalities

Emerging Guiding Principles

In response, the paper identifies a small set of emerging guiding principles to support system reform. These principles are intended to guide decision-making rather than prescribe solutions:

- Prioritise clear, coordinated pathways that are easy to navigate for service users and provides alike.
- Advocate for longer-term, sustainable funding that reflects full delivery costs and supports workforce stability, recognising the role of national government in enabling this.
- Simplify commissioning and procurement processes to reduce disproportionate burden on smaller VCSE organisations.
- Foster equitable partnerships with fair resourcing, shared accountability, and ethical priming models.
- Align performance management with meaningful outcomes, recognising incremental progress as well as end results.
- Tailor delivery and funding to local contexts to address rural, coastal and urban inequities.
- Invest in VCSE capacity and system infrastructure to support sustainable collaboration and strategic engagement.

Next steps

The next phase of this work will translate these findings into a Roles and Responsibilities Framework. This will provide a clear system map of who does what, support more effective collaboration and commissioning, and establish a Theory of Change linking VCSE activity to system-level outcomes.

Together, this work positions the Economic Inactivity Trailblazer as an opportunity for the North East CA to demonstrate regional leadership in VCSE system reform, while contributing evidence and learning to national policy debates.

Background

The North East CA commissioned VONNE to lead the VCSE sector system reform strand of their Economic Inactivity Trailblazer, helping to lay strong foundations for system reform and ambitious new ways of working that maximise the skills, capacity and resources of the VCSE sector.

The third phase of this work focuses on the development of a *Challenge Analysis and Emerging Themes Paper*. The purpose of this paper is to:

- Identify the core systemic challenges limiting the effectiveness and sustainability of VCSE-led employment support across the North East CA.
- Draw out cross-cutting themes emerging across multiple evidence sources.
- Integrate lived experience and frontline insight through case studies to ground system analysis in real-world delivery.

- Provide a robust analytical foundation to inform the Roles and Responsibilities Framework and subsequent co-designed solutions.

This paper seeks to understand why the identified challenges persist and how current system design shapes outcomes for VCSE organisations and the people they support. The analysis draws on evidence generated through earlier phases of work. The *Provision Map and Gap Analysis* identified around 120 VCSE organisations delivering support at different stages of the employment journey: from outreach and pre-employability to skills development, job brokerage, and in-work retention. The work confirmed the VCSE sector as a significant contributor to employment support across all local authority areas, while also highlighting system pressures that are considered in this paper.

The *Stakeholder Engagement Summary* captures insights from engagement undertaken to date, including discussions through the Skills, Inclusion & Employment Network, targeted one-to-one meetings with key stakeholders, thematic workshops (urban, rural, and coastal), and an online survey. Case studies and lived experience insights were gathered throughout this phase and are drawn on within this paper. In addition, a VCSE sector ‘temperature check’ was conducted to validate emerging findings and confirm alignment with sector experience.

Taken together, these activities provide a robust evidence base for this *Challenge Analysis and Emerging Themes paper*.

Methodology

This report builds on the findings of the previously produced *Stakeholder Engagement Summary*, and as such, the methodologies for both pieces of work are closely related. Given the qualitative nature of the engagement, this report does not present specific data to quantify the conclusions reached. Instead, the findings are drawn from consistent themes that emerged throughout the engagement process and were further validated by the responses to the *Temperature Check* document circulated to VCSE colleagues. Methods included discussions through the Skills, Inclusion & Employment Network, targeted one-to-one meetings with key stakeholders, thematic workshops, and an online survey.

Skills, Inclusion and Employment Network

The Skills, Inclusion & Employment (SIE) Network, hosted by VONNE, brings together VCSE organisations across the North East to provide a collective voice on skills, inclusion, and employment. Serving as an established channel for engagement between the VCSE sector and the North East CA, it is a suitable forum for exploring VCSE sector reform.

In July 2025, the network discussed the role and value of the VCSE sector across the employment, skills and health system, the opportunities available to influence change, and the barriers to realising these opportunities. These questions link directly to what North East CA is seeking to learn through the Trailblazer programme, and the insights gathered helped shape its initial design and focus. A further meeting in October 2025 provided additional feedback and perspectives that informed ongoing development. Specifically, a workshop discussion that focused on how the North East CA, and other commissioners, might better design and administer their investments in a way that recognises and responds to the needs of specific people and places as well as removing barriers to participation for VCSE sector organisations. The minutes from these meetings have been utilised and included in the findings of this paper.

Targeted meetings

To complement the broader engagement activities, a series of targeted one-to-one meetings were conducted with key stakeholders to gather deeper insights, ensuring that local intelligence and

organisational experience shape recommendations for system reform. These meetings were held with:

- Local Infrastructure Organisation (LIO) leaders.
- Employment Leads within Local Authorities.
- Senior leaders from VCSE organisations delivering employment support.
- VCSE organisations funded through the Economic Inactivity Trailblazer.

At this point in time, 26 targeted meetings have taken place. Conversations were guided by the same question framework used in the engagement workshops (discussed below). This ensured consistency across all engagement activities whilst allowing flexibility to explore local context and organisational priorities.

Delivery of Engagement Workshops

A series of roundtable discussions designed to strengthen the collective voice of the sector and identify shared themes and priorities were held to gather more in-depth insights into the roles and responsibilities of the VCSE sector in economic inactivity and employment support.

Three online workshops took place, each focused on a key geographic community within the North East CA area, namely coastal, rural, and urban, chosen based their usefulness in a previously commissioned VONNE project for the North East CA. Workshops were open to VCSE organisations identified as providing frontline delivery related to economic inactivity and employment support. Participation was not targeted; instead, the opportunity was shared across the VCSE sector through VONNE's existing networks.

Attendance was limited to one representative per organisation to ensure that perspectives from as many organisations and communities as possible were captured. The workshops were held online for the same capacity reasons, as well as to support accessibility, meet tight timescales, and enable engagement from across such a large geographic region.

In total, we engaged with 24 organisations involved in employment support. These represented a broad geographic spread, ranging from rural Northumberland to South Durham, and supported a variety of thematic communities, including people interested in self-employment, volunteering, young people, and migrant communities.

Across the workshops, participants explored three main themes; roles, responsibilities, and strengths; challenges and barriers; and opportunities for system reform. Each workshop worked independently, and the combined contributions were later analysed to identify key themes and recurring insights across the sector.

We are aware that, due to the tight timescales and limited capacity, not all organisations that wished to attend the workshops were able to do so. The workshops were intended to supplement the mapping, targeted 1:1 meetings, as well as external networking opportunities such as the North East Skills, Inclusion, and Employment Network.

Online Survey

To broaden participation and capture perspectives from organisations unable to attend workshops or meetings, an online survey was launched. The survey was designed around the same core themes as the workshops - roles and responsibilities, barriers and challenges, and opportunities for system reform - but questions were adapted to be shorter and more accessible for self-completion. An additional 23 responses were gathered from this survey and incorporated into this report.

Temperature Check Document

To ensure that findings at this stage of the project accurately reflected VCSE opinion, a short summary document was produced and circulated across the sector, including to all contributors to the methodology outlined above. The document set out emerging themes relating to effective VCSE-led employment support, key challenges and barriers to delivery, and opportunities for system reform. It was intended to test whether the analysis aligned with the experience of VCSE organisations working in employment and skills.

Stakeholders were invited to confirm the accuracy of the findings and to identify any areas of inconsistency, and their feedback has been incorporated into this paper. VCSE-led employment support, key challenges and barriers to delivery, and opportunities for system reform. It was intended to test whether the analysis aligned with the experience of VCSE organisations working in employment and skills. Stakeholders were invited to confirm the accuracy of the findings and to identify any areas of inconsistency, and their feedback has been incorporated into this paper.

Systematic Challenges and Emerging Themes

The following challenges emerged consistently across the mapping, engagement activities and temperature check. While presented separately, they are interconnected and mutually reinforcing. System reform requires cross-sector change, wider than isolated barriers to effective involvement. Only by tackling these issues collectively will true system reform occur and lead to more effective, beneficial outcomes for communities.

Where applicable, this report includes direct quotes from VCSE contributors to strengthen the analysis and illustrate the practical challenges faced by delivery organisations. This report also draws on national and regional reports and data to assess how local experience reflects wider systemic challenges.

Fragmented Pathways and Unclear Navigation

VCSE organisations consistently described operating within fragmented employment, skills, health and wider support pathways. Misaligned funding streams, eligibility criteria and referral mechanisms create duplication in some areas, whilst leaving gaps in others. For both providers and beneficiaries, this results in uncertainty around referral routes, responsibilities and progression pathways.

“It’s confusing for a resident where to go to get support – there’s so much. If it’s hard for VCSE organisations to know what everyone is delivering, how can potential service users access support?”

National research into cross-sector funding partnerships reinforces these experiences, with NAVCA’s 2023 Snowballs and Eels review highlighting that “the funding landscape is complex, fragmented and opaque”.¹ Our findings suggest that little has changed in the past two years, fragmentation persists, making it challenging for funders to identify where investment would have the greatest impact, and for organisations to coordinate effectively to ensure the best experience for service users. The cited report emphasises that while funding is critical, it is insufficient on its own: trusted relationships, shared visions, and coordination are essential to make services work.

On a regional level, the North East CA *New Deal for North East Workers* report similarly notes that “current provision of employment and skills is complex and fragmented. Many residents and employers find it difficult to understand what support is available to them and how they can access it. The availability of support services is uneven and inconsistent.”² This indicates that these challenges are systemic, impacting both commissioners and service providers. Therefore, coordinated system-wide reform is essential to establish a clearer, more coherent funding landscape for all partners. Encouragingly, the North East CA proposes that a coordinated and collaborative regional response can ensure equitable

¹ Cole, A. (2023). *Snowballs and Eels: A rapid review of national funding for cross-sector partnership building in health and care in England from 2019 to 2022*. National Association for Voluntary and Community Action (NAVCA).

² North East Combined Authority (2025). *New Deal for North East Workers*, North East Combined Authority.

access to high-quality support, enabling residents to build skills, address barriers, and secure meaningful employment.

VCSE organisations continue to compensate for system fragmentation through informal coordination, relationship-based referrals and practical ‘workarounds’ to help service users navigate complex pathways. These approaches are often critical to maintaining engagement for people with multiple or fluctuating needs.

“We see a lot of hopping around provision. There’s no tracking of people through the system, so we don’t know what’s worked, what hasn’t, or where people drop off.”

Although these efforts provide vital frontline support, they are largely invisible within commissioning and performance frameworks. This means that it is not always funded properly, measured as a successful programme outcome or recognised as a core system function. Consequently, the responsibility for integration and navigation support is shifted onto VCSE organisations, without the adequate resourcing, including access to data, required to make this role sustainable and advantageous.

Short-term Funding and Systematic Instability

Short-term funding cycles emerged as a consistent barrier, limiting the stability, effectiveness, and sustainability of VCSE-led employment support across the region. Previous VONNE engagement found that this challenge is neither unique nor limited to employment support but instead reflects broader structural issues. For example, the *Change NHS* consultation, that informed the governments recently published 10-Year Health Plan, identified that short-term commissioning cycles inhibit the VCSE sector’s ability to embed preventative approaches effectively.³

National evidence confirms that funding instability is now a defining feature of the VCSE operating environment. The VCSE Barometer identifies income generation as the most frequently cited concern for voluntary organisations for the past three consecutive years, with more than eight in ten organisations reporting it as a key challenge.⁴ These pressures stem from short-term grants and contracts, rising delivery costs, and declining real-terms public funding.

VCSE organisations delivering employment support reported that contracts are often limited to 6–12 months, requiring rapid mobilisation alongside strict output targets. This approach mismatches the realities of supporting people facing entrenched disadvantage, including poor mental health, insecure housing, caring responsibilities, and long-term unemployment. By the time trust is established and progress begins to emerge, funding is often nearing its end, disrupting support and undermining outcomes.

“Six months is too short. By the time trust is built, the funding is ending – and the people’s issues don’t disappear when the contract does.”

“Barriers include short and inconsistent funding cycles, which make it difficult to provide long-term support for people who are NEET or economically inactive. Commissioning arrangements often change, causing gaps in provision and uncertainty for both partners and participants.”

Short-term funding also limits VCSE organisations’ capacity to test, refine, and adapt delivery models in response to learning and local need. Without funding continuity, opportunities for reflective practice, iterative improvement, and longer-term impact evaluation are reduced, reinforcing a system focused on short-term outputs rather than sustained progression into and within work.

“Short-term funding – [a] waste of money if you want to see long-term results”

“Impossible to generate long-term impact through short-term contracts”

³ Voluntary Organisations’ Network North East (2025) *Change NHS VCSE consultation report*, VONNE.

⁴ Evans, B. (2025). *Financial Pressures and the Funding Landscape: Evidence from Wave 12 of the VCSE Barometer*. VCSE Data & Insights Observatory, Nottingham Trent University.

Workforce instability is a key consequence of short-term funding. Despite two thirds of VCSE organisations routinely requesting full cost recovery, fewer than one in three report that their full costs are mostly or always covered when funding is awarded.⁵ North East specific evidence from Third Sector Trends shows that organisations have receded from contracted income sources due to contract values being insufficient to meet delivery costs, a situation exacerbated by rising wages, National Insurance increases, and ongoing recruitment and retention challenges.⁶ NCVO similarly finds that underfunded contracts undermine workforce stability and are forcing charities to withdraw from public service delivery.⁷

VCSE organisations described the emotional and financial strain associated with losing experienced staff when contracts ended:

“We lost a whole team last year because of funding gaps. When funding restarts, so much time and money is wasted rebuilding capacity that already existed.”

“When funding cycles end we lose key staff members, and when we need to start again it can be hard to get the right people back – so much time is lost and wasted due to funding gaps.”

Short-term funding also undermines VCSE organisations’ ability to build and sustain meaningful partnerships with employers. Employers value continuity, predictable referral flows, and relationship-based engagement, which are poorly supported by fragmented commissioning cycles.

Uncertainty surrounding the end of the UK Shared Prosperity Fund in March 2026 is already affecting workforce planning and service continuity. Where funders were explicitly identified on organisational websites, UKSPF was cited on numerous occasions as a critical source of support enabling the delivery of VCSE-led activity of this kind. During the coastal communities engagement workshop, half of participants reported that the withdrawal of UKSPF funding would directly impact their ability to continue delivery. VCSE organisations currently supported by UKSPF expressed hesitancy to commit to further recruitment or longer-term delivery in the absence of clarity about future funding. Nationally, the picture is similarly concerning, with emerging evidence indicating a reduction in delivery capacity and challenges in retaining staff within local business support services.

Commissioning Complexity and Disproportionate Burden of Risk

North East VCSE organisations identified commissioning complexity and administrative burden as a systematic barrier limiting their ability to effectively deliver employment support. Smaller and grassroots VCSEs, often the most accessible point for people facing multiple, intersecting barriers to work, are disproportionately disadvantaged by current system structures that favour scale, standardised processes, and providers with established contractual relationships. Smaller organisations are not only more accessible but also more trusted.⁸

The 2024 Centre for Social Justice (CSJ) report *Underfunded and Overlooked* notes that despite the dominance of larger charities, ‘only 20 per cent of UK adults trust larger national charities over small, grassroots, charities’.⁹ Government analysis reinforces this, a November 2025 UK government report found that two-thirds (68%) of all income from government contracts secured by charities goes to “major” and “super-major” organisations with annual incomes over £10 million, even though these larger charities represent 6% of VCSE providers engaging in procurement.¹⁰ This concentration reflects commissioning systems that prioritise organisational scale, balance sheet strength, and established compliance infrastructure.

⁵ Ibid.

⁶ Chapman, T. (2026). *Income sources, assets and financial wellbeing: Third Sector Trends in England and Wales 2025*. Community Foundation North East / St Chad’s College, Durham University.

⁷ National Council for Voluntary Organisations. (n.d.). *The True Cost of Delivering Public Services*. NCVO.

⁸ Charity Commission. (2022). *Charity transparency data research report*. UK Government.

⁹ Centre for Social Justice. (2024). *Overlooked and Underfunded*. Centre for Social Justice.

¹⁰ Department for Culture, Media & Sport. (2022). *The role of Voluntary, Community, and Social Enterprise (VCSE) organisations in public procurement*. UK Government.

“Funding is tailored towards top-level, larger organisations that could be instead used on direct provision.”

Smaller VCSE organisations are often excluded from bidding or required to absorb a level of administrative and financial risk that is disproportionate to contract value. Application processes are complex and jargon-heavy, with short windows and limited lead-in times restricting the ability to form partnerships, secure match funding, or assess delivery risk. Many commissioning processes involve high levels of personal data capture and evidence not routinely collected, potentially undermining trust with service users. Reporting expectations are often uniform regardless of contract size, meaning organisations delivering small-scale activity face the same monitoring burden as larger providers. A UK government review of VCSE involvement in procurement identified barriers affecting smaller organisations, such as eligibility criteria, capacity challenges, and contract design that can disadvantage smaller providers.¹¹ Many small VCSEs lack CRM or other digital systems, so detailed evidence requirements disproportionately strain their capacity.¹²

The Department for Culture, Media and Sport’s analysis report *The Role of VCSE Organisations in Public Procurement* highlights that charitable organisations increasingly rely on regional income derived from large-scale public contracts. These contracts are “typically large-scale contracts, with multidisciplinary components, e.g., large work packages to support communities with particular social interventions at scale.” The report notes that this model has significant implications for smaller charities or organisations delivering specialist services, demonstrating the critical importance of contract design in enabling their meaningful participation in procurement.¹³ North East organisations report that compliance demands frequently divert senior staff time from frontline delivery, reduce capacity to innovate or collaborate, and discourage future participation.

“Data monitoring - small teams having to use up resource on monitoring rather than delivery”

“Short application windows and heavy monitoring put smaller organisations off completely – not because they can’t deliver, but because they can’t absorb the risk.”

These dynamics, combined with short-term contracts and ongoing systemic instability, favour organisations with the capacity to absorb uncertainty, financial risk and administrative burden. When challenges continue beyond procurement, it tends to produce prime-led delivery models in which smaller VCSE organisations operate as subcontractors or informal, unfunded delivery partners.

Stakeholders described how these models can marginalise smaller organisations:

“If given to Primes or larger providers make sure they can deliver what they say they can. So many of them get the funding and then refer to smaller local VCSEs with no funding.”

“real co-design, one organisation holding all the targets so people deliver the work not the numbers, equal remuneration for all partners and joint authority and responsibility in delivery.”

“Partnerships on funding bids actually being acted on are not just used to get the bid over the line, better partnerships between primes and smaller organisations.”

“Large funding pots exclude smaller charities and rely on already existing partnerships.”

There is a desire for ethical priming models where prime contractors actively support, and fairly resource delivery partners. This highlights the importance of commissioning practice and contract management in fostering fair and collaborative delivery ecosystems:

“Is there an ethical priming model that could be created by and for the sector?”

¹¹ Department for Culture, Media & Sport. (2022). *The role of Voluntary, Community, and Social Enterprise (VCSE) organisations in public procurement*. UK Government.

¹² VCSE National Data & Insights Observatory (2025). *Data in Practice: Exploring how the VCSE sector collects, uses, and shares data and evidence*. Nottingham Trent University.

¹³ Department for Culture, Media & Sport. (2022). *The role of Voluntary, Community, and Social Enterprise (VCSE) organisations in public procurement*. UK Government.

“Ethical primes would support organisations in our area”

Despite these challenges there is a recognition that a blend of large and small providers is essential to provide effective support: larger organisations bring financial resilience and capacity, while smaller, locally rooted organisations provide agility, close community connections, and sustained, relationship-based support that people facing multiple barriers need. A diverse provider mix helps ensure services are both stable and responsive.

Power Imbalance and Compliance-Led Performance Management

VCSE organisations described a power imbalance within commissioning and contract management relationships, reinforced by compliance-led performance management approaches. These dynamics limit trust, constrain honest dialogue, and reduce opportunities for shared learning and service improvement. Research supports this: one NIHR study participant observed that “there is sort of a slight pressure for the commissioned organisation to change its practice in order to be able to fit the targets of the commissioning organisation,” highlighting how commissioning arrangements influence service delivery and reinforce unequal power dynamics.¹⁴

This challenge intersects with issues outlined earlier. Short-term funding, commissioning complexity and disproportionate administrative burden combine to place risk and responsibility primarily on delivery organisations, regardless of size. Whilst strategic control, decision-making authority and performance definitions remain largely centralised. In this context, performance management is often experienced not as a tool for learning or improvement, but as a mechanism that focuses on compliance.

VCSE organisations delivering employment support reported that performance frameworks can be narrow, rigid and poorly aligned with the realities of supporting people who are economically inactive due to complex and intersecting barriers. Participants highlighted a strong emphasis on end-point outcomes such as job entry within short timescales, with limited recognition of incremental progress such as improved mental health, confidence, stability or engagement with wider support. For example, narrow definitions of economic inactivity and restrictive eligibility criteria can exclude individuals who would benefit from early intervention, create unintended incentives, and limit innovation needed to respond effectively to real-world complexity. A more flexible approach would recognise the essential contribution of organisations that help individuals move closer to the labour market by building confidence, developing pre-employability and soft skills, and improving overall wellbeing.

“Using statutory language can put people off – people are more likely to talk to us and trust us, if we start using statutory language it can put people off”

“KPIs - sometimes too focussed on longer-term objectives (getting a job) and not measuring all the benefits derived from the support along the way (improvements in mental health etc).”

The Joseph Rowntree Foundation’s 2025 report *Unlocking the potential of young people furthest from the labour market* calls for flexible success measures, including ‘measuring progress towards meaningful engagement and sustained good-quality employment’.¹⁵ The report highlights the need for policymakers to consider the complex, varying barriers that individuals out of work face and that binary job outcomes (employed/not employed) are insufficient.

VCSE organisations also reported limited scope to challenge assumptions or influence system design, even when invited into consultation spaces. Power imbalances linked to funding dependency mean challenge is often perceived as resistance rather than as informed insight grounded in lived experience and frontline delivery.

¹⁴ Sheaff, R., Ellis Paine, A., Exworthy, M., et al. (2024). *Consequences of how third sector organisations are commissioned in the NHS and local authorities in England: a mixed-methods study*. Health and Social Care Delivery Research, No. 12.39. National Institute for Health and Care Research (NIHR)

¹⁵ Casey, R. & Elliott, J. (2025). *Unlocking the potential of young people furthest from the labour market*. Joseph Rowntree Foundation.

“We’re not pushing back to be difficult. We’re pushing back because we know the people we work with, and our voice represents them.”

“Co-design doesn’t mean asking us what we think and then doing what you planned anyway – that’s tokenism.”

A lack of transparency around assessment criteria and performance data further compounds these dynamics. Delays in funding decisions, limited feedback and unclear accountability erode trust and exacerbate workforce and delivery instability, reinforcing the short-termism described earlier. This is reinforced on a national level in the *Home Office voluntary, community and social enterprises action plan (2025 to 2026)* where one of three key supply side barriers identified was ‘There are some concerns around lack of accountability, payment, and transparency within the supply chain’.¹⁶

Many of these barriers stem from constraints imposed by central UK government rather than from regional decision-making, but their effects are felt across services. There is an aspiration for devolved authorities to advocate more strongly and collaborate with national government to demonstrate the value of sustainable, long-term funding. As emphasised by the Civil Society Group, these bodies “must commit to working collaboratively as part of the budgetary process”.¹⁷

The cumulative impact is a system that undervalues VCSE strengths and discourages participation from organisations best placed to support people furthest from work. As the *Purposeful Collaboration* guidance notes, councils and the VCSE sector share a public-benefit purpose, yet ‘trust has been supplanted by transactional relationships’ in commissioning practice.¹⁸ Compliance-led performance management diverts capacity away from frontline delivery, limits innovation, and reinforces delivery models that prioritise what is measurable over what is meaningful. Without a shift towards more balanced power relationships and learning-oriented performance management, these challenges are likely to persist, constraining both the sustainability of VCSE-led employment support and the effectiveness of the wider system in achieving inclusive labour market outcomes.

Capacity and collaboration barriers

Another recurring theme was that capacity constraints and collaboration barriers impact the VCSE sector’s ability to engage with new opportunities to deliver support and sustain delivery of their existing services. These barriers manifest in multiple ways, from procurement-related resource pressures, time required to create meaningful, long-term partnerships, to the uneven relationship between smaller VCSE organisations and larger providers.

As previously noted, smaller VCSE organisations face structural disadvantages in engaging with complex commissioning processes, including limited capacity to respond to funding opportunities and to collaborate effectively. National research confirms this pattern, showing that smaller organisations are disproportionately excluded from public procurement opportunities.¹⁹ Resource-intensive tender processes and compliance requirements mean that even organisations with strong local knowledge and service expertise may be unable to compete for contracts, restricting their participation in local employment support provision.

¹⁶ Home Office. (2025). *Home Office voluntary, community and social enterprises action plan 2025–2026*. UK Government.

¹⁷ Civil Society (2025). *Charity sector bodies urge government to prioritise multi-year funding*. Civil Society.

¹⁸ Local Government Association, NCVO & Lloyds Bank Foundation for England and Wales. (2025). *Purposeful collaboration: Commissioning from the VCFSE sector — a practical guide to using the Procurement Act 2023*. Local Government Association.

¹⁹ Local Government Association, NCVO & Lloyds Bank Foundation for England and Wales. (2025). *Purposeful collaboration: Commissioning from the VCFSE sector — a practical guide to using the Procurement Act 2023*. Local Government Association.

These capacity challenges are compounded by short-term funding cycles and stop-start commissioning practices, which both increase operation risk and reduce continuity for service users. As one VCSE colleague explained:

“Projects are short lived and the re-procurement of funding gives a stop-start approach to support available.”

As discussed earlier in the report, funding instability frequently results in the loss of experienced staff, bringing with it the loss of valuable knowledge and relationships but also, capacity. As another participant stated:

“Funding is usually short term, meaning funded staff with expertise leave when project is finished. This impacts the stability of projects with client’s built-up rapport gone.”

Capacity pressures also have wider system implications. In a system that relies heavily on referrals and organisational networks, limited capacity can isolate services, reduce awareness of existing provision, and create gaps or duplication across the system. This fragmentation increases the risk of individuals falling through cracks, receiving inconsistent or fragmented support, or disengaging from services entirely.

Collaboration dynamics further compound these challenges. The latest report on relationships, influencing and collaborative working from Third Sector Trends, Community Foundation North East, 2025, found that formal partnership arrangements remain the least common form of collaboration within the VCSE sector, with far fewer organisations engaging in these compared to informal or complementary working relationships.²⁰ Additionally, more than half of surveyed organisations reported having no interest in developing formal partnerships. Overall, all forms of partnership working across the sector have declined since the pandemic and have yet to recover, with levels of collaboration now lower than they were in 2022.

Factors driving this decline include limited capacity to engage in activity outside core organisational purposes, low trust between smaller VCSEs and prime organisations, and the transactional nature of short-term funding. Even organisations willing to collaborate may struggle to commit time and resources, entrenching inequalities in access to funding and delivery opportunities.

National evidence supports these observations. NCVO’s *Rebalancing the Relationship* report notes that competitive commissioning can disadvantage smaller VCSE organisations, with many reporting exclusions from meaningful roles, unfair subcontracting, or being treated as “bid candy” by larger partners²¹. These experiences undermine trust and make organisations reluctant to engage in future collaboration. The report notes that such pressures can push charities to prioritise survival over mission, reinforcing cycles of mistrust and strategic withdrawal. Putting further pressure on intra-sector trust is the opinion that partnership commitments proposed by prime organisations during the grant applications are not always found to be upheld in practice. Overall, it highlights how competition and poor collaborative practices systematically disadvantage smaller, locally rooted organisations and hinder effective cooperation.

There is, however, scope to address these barriers. Government guidance notes that ‘Developing infrastructure to support collaboration could help stimulate procurement opportunities for specialist VCSEs at a local level’.²² Strong partnership frameworks can foster more equitable engagement and support smaller VCSEs in public procurement opportunities. While strong partnership frameworks may not be widespread, that doesn’t mean that they aren’t present in the North East, [Enterprising North](#) is a collaborative programme bringing together twelve not-for-profit business support organisations, led by North East Enterprise Agency Ltd, to help individuals start their own businesses. Its effectiveness is

²⁰ Chapman, T. (2025). Relationships, influencing and collaborative working: Third Sector Trends in England and Wales 2025. Community Foundation North East / St Chad’s College, Durham University.

²¹ National Council for Voluntary Organisations. (n.d.). *Rebalancing Relationship: Experiences of Competition and Collaboration*. NCVO.

²² Department for Culture, Media & Sport. (2022). *The role of Voluntary, Community, and Social Enterprise (VCSE) organisations in public procurement*. UK Government.

rooted in strong partnership working, with mutual trust, shared purpose, and a clear sense among partners that they are treated equitably and with respect. This example demonstrates that building strong partnership frameworks can create long-term benefits for the VCSE sector by fostering trust, improving access to opportunities and supporting sustainable collaboration.

The cumulative effect of capacity and collaboration barriers is clear: many VCSE organisations lack the resources to provide consistent support or engage in strategic partnership funding opportunities. Short-term funding cycles stretch organisational resources, and competitive commissioning cultures combined with weak partnership frameworks increase the risk of service fragmentation, ultimately affecting service users' ability to access consistent, high-quality support.

Geographic Inequity

Stakeholder engagement surfaced a range of place-specific barriers for VCSE organisations delivering employment support across the North East CA. While systemic challenges such as fragmented commissioning and short-term funding affect the region broadly, their impact varies between urban, rural, and coastal communities, creating inequity in service access and outcomes. Several partners described this as a “postcode lottery,” where opportunities depend on location.

“Someone living in County Durham can access support that someone in South Tyneside simply can’t – that inequality is built into the system.”

“It is a postcode lottery and this is wrong on so many levels”

Place shapes the nature and intensity of barriers to employment. In rural communities, geographic isolation is a distinct challenge, contributing to poor mental health and digital exclusion. Coastal stakeholders reported a limited local market, with fewer jobs and those available tending to be lower-skilled rather than offering sustainable career pathways. These pre-employability barriers highlight the need for tailored projects and commissioning frameworks that respond to local, place-based challenges.

“Need for ringfenced rural funding to support rural projects, rather than relying on projects with a county wide / region wide focus to provide support in the more expensive rural areas.”

National evidence supports this picture. UK Parliamentary Commons Library research shows that economic inactivity was highest in predominantly rural and coastal constituencies between October 2022 and September 2023.²³ This is particularly significant for the North East, which has a distinctive mix of coastal, rural and urban communities, meaning that these challenges often intersect and are prevalent across the region. In these areas, less concentrated infrastructure, limited public transport and greater travel distances compound existing disadvantage, creating additional barriers to engagement that are not as present in urban settings and requiring more tailored support.

The same briefing notes limitations in the Levelling Up agenda and associated funds, including the UKSPF, stating a lack of targeted consideration for rural or coastal areas, despite the Levelling Up White Paper explicitly recognising the existence of place-based disparities. As a result, structural inequalities in these communities have persisted rather than being systematically addressed.

Commissioning and performance frameworks often exacerbate these disparities by prioritising scale over place-based need. Local authorities covering both rural and urban areas may disproportionately direct funding toward urban areas, where higher population density and larger service-user numbers make conventional performance metrics easier to achieve. To address this imbalance, funding should be devolved to the most appropriate local level, enabling resources to reflect place-based needs rather than scale alone.

²³ Buchanan, I., et al. (2024). Employment of people living in rural and coastal communities. House of Commons Library.

“If contracts cover rural and urban areas with the same targets, the temptation is always to go for the low-hanging fruit.” (Rural VCSE organisation)

With UKSPF investment due to end in March 2026, there is a clear opportunity for system reform. This moment presents the potential to move towards a more mission-focused, place-responsive approach that better reflects the specific needs of rural, coastal and urban communities, and supports more effective long-term responses to economic inactivity.

Cross-cutting insights

Engagement findings consistently highlight that charities face systemic, inter-connected challenges, particularly short-term funding and complex commissioning, which undermine consistent and equitable service provision and weaken long-term outcomes for individuals and therefore the wider labour market.

VCSE organisations bring clear strengths through trusted relationships, lived experience and holistic, person-centred support that helps individuals navigate a fragmented system, yet these contributions are often not recognised or sufficiently resourced.

While challenges are structural rather than organisational, place-based variations require locally responsive system design. Alongside improved commissioning practice, sustainable funding and proportionate, realistic measurement frameworks are essential to enable effective VCSE delivery of employment support.

Emerging Guiding Principles

Building on the challenges identified across engagement activities, a set of principles is emerging to support and guide commissioners, policy makers and the VCSE sector. These principles aim to be practical, actionable and testable, supporting more effective, equitable, and sustainable employment and support pathways.

- Prioritise clear, coordinated pathways that are easy to navigate for service users and provides alike.
- Advocate for longer-term, sustainable funding that reflects full delivery costs and supports workforce stability, recognising the role of national government in enabling this.
- Simplify commissioning and procurement processes to reduce disproportionate burden on smaller VCSE organisations.
- Foster equitable partnerships with fair resourcing, shared accountability, and ethical priming models.
- Align performance management with meaningful outcomes, recognising incremental progress as well as end results.
- Tailor delivery and funding to local contexts to address rural, coastal and urban inequities.
- Invest in VCSE capacity and system infrastructure to support sustainable collaboration and strategic engagement.

These principles offer a foundation for a more coherent, equitable, and sustainable system. They will be explored and refined further in future phases of this work to ensure practical applicability.

Conclusion

This paper outlines the system pressures and challenges affecting VCSE-led employment support, drawing on extensive engagement with the sector and insights from earlier phases of work. It

communicates the distinct need for comprehensive system reform, presenting a series of interconnected challenges supported by overarching insights.

While this paper focuses on the North East CA area, the evidence indicates that many of the challenges facing VCSE-led employment support are systemic and national in nature. Short-term funding cycles, complex and risk-heavy commissioning models, compliance-led performance management and unequal power dynamics are largely shaped by national policy, funding regimes and procurement frameworks. These issues are experienced locally but cannot be fully resolved at a regional level alone.

Stakeholders described a fragmented landscape in which unclear and overlapping pathways lead to confusion and duplication. Essential informal sector collaboration is insufficiently recognised or resourced. Short-term funding was widely regarded as a core source of instability, threatening organisational sustainability, particularly for smaller organisations. These pressures are compounded by complex commissioning and procurement processes, which place significant demands on organisational capacity.

Participants also reported pronounced power imbalances between commissioners and applicants, fostering a culture of compliance and control. These dynamics hinder meaningful collaboration within the sector and contribute to mistrust. Additionally, geographic inequities and the unique barriers experienced by different communities highlight the need for tailored, locally responsive approaches.

Within these constraints, the Economic Inactivity Trailblazer presents a significant opportunity for the North East CA to demonstrate regional leadership: strengthening commissioning practice where possible, modelling more equitable relationships, and influencing national policy through evidence, learning and collaboration.

To support this, a set of emerging guiding principles has been developed. These will be further shaped in the next phase of work through the creation of a *Roles and Responsibilities Framework*, which will translate key themes into a clear system map of roles, offer a shared structure for collaboration, commissioning, and policy design, and introduce a Theory of Change that connects VCSE activity to system-level outcomes.

This framework represents an important first step toward enabling regional system change and has the potential to set a national precedent, particularly in the context of the government's Civil Society Covenant, which signals a clear commitment to strengthening relationships between civil society and the state.²⁴ It is understood that these challenges are not limited to the North East CA region but reflect national systemic challenges impacting the VCSE sector. The North East is already demonstrating leadership in this area through the existing Memorandum of Understanding between the North East and North Cumbria Integrated Care Board and the VCSE sector. This agreement establishes principles that ensure the sector is effectively integrated and embedded within system-level structures and decision-making processes.²⁵

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VOLUNTARY ORGANISATIONS' NETWORK NORTH EAST



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