Torfaen Voluntary Alliance

Your local county voluntary council

7. Finding and getting money

7.7.3 Costing your tender

Overview

Third sector organisations are increasingly seeking to diversify their income sources by incorporating strategies and techniques to achieve a sustainable funding base. Tendering for the delivery of goods or services under the terms of a contract is one of many options that can be considered to generate income.

There are several things to think about when costing a tender. This information sheet is intended to provide an overview of the key issues to consider.

Key stages of costing

There are two distinct stages to costing your tender.

Stage 1: Understand the full costs of service delivery
First, you need to be clear about the full costs of delivering your service. It is essential that you include all relevant overheads in your calculations and do not just count the direct or marginal costs involved.

Stage 2: Decide how to price your service for the bid
You may decide to subsidise a service initially to be more competitive (known as a 'loss leader') or you may decide to go for a higher profit margin so you can put money into your reserves.
Alternatively, you may decide to price your tender on a **full cost recovery basis**. Whatever you decide to do, you should know why you are doing it and should make an assessment of the competition and the commissioner's priorities. For example, you may feel the higher quality and added value you are offering justifies a higher price.

Costing models

It is important to note that the document you submit is likely to become the basis for a contract. You may not have the option to change anything at a later date should your organisation be successful. Your costings, staffing levels, and details of what you will deliver must be thought through carefully, conservatively and with the proper approval.

Commissioner's model - The Commissioner is likely to specify how you should break down your finances. This may be very simplistic, for example:

- Front line staff costs
- Management costs
- Overheads

Work through your own process of costing the contract before completing the Commissioner's model. That way you will know that you have factored in all your costs.

Full Cost Recovery - This model costs each service fully, including the relevant portion of overhead costs. It ensures that overhead costs are covered, and that each project or service
is costed fully.

If you do not achieve full cost recovery then this will mean your organisation is subsidising the cost of the contract from other sources.

If you do choose to subsidise a service initially to help you to appear more competitive, then you should know why you are doing it, what it is actually costing, and how you will cover costs in the long-term.

Introducing a full cost recovery approach can be a time-consuming process yet it is fundamental that you have this type of financial management system in place if your organisation is going to regularly tender for contracts.

Working out a surplus on the contract

The common areas that you will need a surplus for are:

- **Social purpose** – It may be that you channel part of your surplus towards the furtherance of the social purpose of your organisation.

- **Future development** – Your organisation should be thinking strategically. Planning future strategy costs time and money.

- **Sustainability** – Ensuring that you operate profitable contracts will increase the sustainability of your organisation.

- **Building up 'reserves'** – You need to be building up reserves to cover your operational costs and improve your liquidity.

It is impossible to be prescriptive about the amount of surplus that you should aim for on a contract. At the planning stage you should consider each of the above areas in terms of the tender.

Some organisations add a percentage of the costs to cover the profit they wish to make. This is the quickest approach but the crucial element is to ensure that you are pricing the contract at a level the customer will pay.

Remember to review each contract to look at the planned surplus and whether this was achieved. Look closely at any factors that reduced your surplus. This will help you to plan more effectively the next time.

VAT

One of the issues you will have to consider is the VAT implications of entering into contracts. You may be required to charge VAT for the goods and services that you are supplying. Also, you may be paying VAT that you will want to recover.

Basic information on VAT issues is available from Her Majesty's Revenue & Customs (HMRC) website www.hmrc.gov.uk/charities. Where you are charging VAT on the goods and services you supply remember to include this in the invoicing. Also, remember to detail VAT in the tender. If you are uncertain about the VAT implications of any contract you are tendering for then consult a VAT accountant.

TUPE

TUPE standards for Transfer of Undertakings (Protection of Employment) Regulations 2006.

TUPE often applies when a service is tendered and an existing provider is replaced by a new one. It means that the employees in the original services often have the right to be transferred to the new organisation. They then have all their previous rights protected, such as hours of work, pay, holiday and pension entitlement.

Organisations tendering for services will need to examine whether TUPE will apply if they win a tender and consider what this will mean in the future.

It is really important that providers consider the risk of TUPE when bidding for contracts, and receive all the necessary information to be able to properly assess their liabilities and costs. Sometimes the provider will be asked to complete a Confidentiality Agreement before the Procurement Department will release such information.

Check whether the submission should include TUPE costs. The tender pack may be silent on the matter. Consider whether the TUPE costs lead to an uncompetitive price. Assess the likely impact on the organisation and the time and investment required to deal with culture change and changes in working practices.

Take into account the numbers of staff transferring. Assess the number of staff required to deliver the contract against the number of staff eligible for transfer, and properly cost into the bid any redundancy costs that result.

How do we avoid cashflow problems?

When planning the contract you should consider the payment schedule that the contractor will offer. Alongside your budget it is useful to carry out a cashflow projection. This will help you to analyse where cashflow problems might arise. The questions to review when you are carrying out your cashflow projection are:

- When do we get paid?
- How does this payment schedule affect our ability to deliver the contract?
- How will it affect wage payments for staff?
- How will it impact on our ability to pay our suppliers (or sub-contractors)?

If you believe that you will experience cashflow problems it may be worth negotiating for a different payment schedule or building into your tender that you get paid a proportion of the costs in advance.

It could be the case that at the end of the contract you will not receive the balance of the contract cost until the contractor is satisfied with delivery or supply. This will means that if you do not have sufficient reserves to cover the cashflow then you will have to negotiate an overdraft or loan to cover costs. Remember to build the costs of financing an overdraft or repaying a loan into the contract cost.

Clawback

Clawback is a condition of grant that gives a funder a charge over an asset acquired using the grant funding. Such a condition could require the funded body to refund the grant or, more commonly, to return the proceeds of the sale of the asset to the funder i.e. for the funder to 'clawback' the proceeds. Clawback has also been used by some funders to recover unspent grant monies.

Clawback is however not applicable to the procurement of goods and services.

HM Treasury guidance states that:

'Clawback is not applicable to procurement of goods and services because any liability would have been adequately discharged once the goods / services have been provided, and price negotiation and evaluation are an integral part of the procurement process. Once a contract has been awarded, performance should be judged on outputs and outcomes. Whether or not these can be met within the agreed price is the provider's own affair. If they happen to make a surplus, they are free to use this surplus as they wish'.

Top tips

- If the tender is for more than one year remember to cost in any inflation in the costs of staff and suppliers.

- Explain any assumptions that you have made. That way, if the commissioner does not agree with the assumption, they can challenge that, rather than the price.

- Remember, if your staff or office are funded by more than one project allocate the costings fairly across the different funders.

- Find out what the payment terms will be for the contract. Four weekly in advance or quarterly in arrears will make a major difference to your organisations cash flow.

- Be wary of using round numbers, for example saying that the pension contributions will be £3,000. Round numbers suggest that you have guessed rather than actually worked it out!

- It is useful to know what your competitors are charging. This can help you with pricing strategy. You can then benchmark the quality of your goods and services against your competitors.

- Remember to review each tender and contract. Look back at what happened to see what has been learned. This will help you to improve your future costing.

- If you have previous tenders or contracts use the information from this to help you prepare your costing.

Further information

Information sheets
3.7 Commissioning
3.8 Contracts
7.7 Introduction to procurement
7.7.1 Introduction to tendering
7.7.2 Developing a successful tender

Legalities
- CC37 *Charities and public service delivery,* produced by the Charity Commission, sets out the considerations for charities when entering into a contract. It is available to download from
www.charity-commission.gov.uk
- Queries on the tax implications should be directed to HM Revenue and Customs.
0845 302 0203
www.hmrc.gov.uk/charities/vat/intro.htm
- Full Cost Recovery - a guide and toolkit on cost allocation - download from ACEVO's website www.acevo.org.uk

Support
- County Voluntary Councils (CVCs) in Wales provide information on a wide range of funding and financial issues including tendering. See information sheet '1.7 Where to go for help' for details of your local CVC.
- Sustainable Funding Cymru's Third Sector Funding Portal is a one-stop shop for funding advice and opportunities
www.sustainablefundingcymru.org.uk

- WCVA’s 3-SET team provides guidance on tendering for European funded opportunities.
  0800 2888 329
  3SET@wcva.org.uk
- The Welsh Government’s Suppler Development Service aims to give businesses from all sectors a better chance of winning public sector contracts.
  www.business-support-wales.gov.uk

Training

- *Introduction to tendering* – details of a one-day introductory course available at www.coursesforcommunities.org.uk
- *How to tender* – details of a two-day practical course following the stages involved in writing and submitting a tender available at www.sustainablefundingcymru.org.uk

Disclaimer

The information provided in this sheet is intended for guidance only. It is not a substitute for professional advice and we cannot accept any responsibility for loss occasioned as a result of any person acting or refraining from acting upon it.

For further information contact

Torfaen Voluntary Alliance
Portland Buildings, Commercial Street, Pontypool, Torfaen, NP4 6JS
Registered Charity: *1097079*

Tel: 01495 742420 info@TVAWales.org.uk
Fax: 01495 742419 www.torfaenvoluntaryalliance.org.uk

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Tel: 0300 111 0124
www.wcva.org.uk