

## Tools for Procurement and Contracting

Funding and Finance Toolkit 3



## Tools for Procurement and Contracting

Funding and Finance Toolkit 3



# Contents

	<b>Page</b>
<b>About the Funding and Finance Toolkit Series</b>	<b>1</b>
<b>About the author</b>	<b>2</b>
<b>How to use this Toolkit</b>	<b>3</b>
<b>Procurement and contracting in a nutshell</b>	<b>5</b>
<b>Tools</b>	<b>7</b>
<b>3.1</b> Contract checklist	<b>7</b>
<b>3.2</b> Is Value Added Tax (VAT) applicable?	<b>9</b>
<b>3.3</b> Opportunity analysis	<b>11</b>
<b>3.4</b> Negotiating contracts	<b>19</b>
<b>3.5</b> Working with other VCOs	<b>23</b>
<b>Directory of Tools</b>	<b>27</b>



## About the Funding and Finance Toolkit Series

The *Funding and Finance Toolkit Series* has been designed to provide practical checklists, templates and exercises to help frontline Voluntary and Community Organisations (VCOs) improve their funding and finance for long-term sustainability. The exercises and templates can be completed by frontline VCOs independently or in conjunction with in-put from a Council for Voluntary Service (CVS) or other support-agency-based advisor who can help organisations consider their options and can signpost to further support where necessary.

The *Toolkits* are companion publications to the *Introductory Pack on Funding and Finance* and aim to complement it. The *Pack* provides information on key areas of voluntary sector funding and finance. The *Toolkits* provide supporting exercises and templates to help organisations put ideas into practice. There are four sections, each relating to an income generation topic covered in the *Introductory Pack*:

- Fundraising
- Trading
- Procurement and Contracting
- Loans and Other Forms of Finance

Two additional resources related to the *Toolkit Series* are the pocket guide, *Introducing Funding and Finance for Voluntary and Community Organisations* and the *Sustainable Sun Needs-Analysis Tool*. These are first-step awareness-raising tools designed to alert new, small and less-well-resourced VCOs to the funding environment and to highlight where development work may be needed to improve their place within it. They are appropriate for organisations not yet ready to engage with the exercises included in the *Toolkits* or the *Introductory Pack*.

The *Introductory Pack*, *Toolkit Series* and related resources were commissioned by the Finance Hub from NCVO's Sustainable Funding Project.

Copies of all these resources are available from both the Finance Hub and NCVO's Sustainable Funding Project. They can be downloaded from the Finance Hub website at [www.financehub.org.uk](http://www.financehub.org.uk) or NCVO's website at [www.ncvo-vol.org.uk/sfp/Introductory-Pack](http://www.ncvo-vol.org.uk/sfp/Introductory-Pack)

## About the author

Jim Brown works for Baker Brown Associates, a research and development co-operative based in Bristol, which specialises in the social economy and lifelong learning. Jim has worked in the social economy sector for over 25 years, during which time he has written numerous training manuals and books, the most recent being *Co-operative Capital*, a guide to equity finance for co-operatives and social enterprises. Baker Brown Associates was responsible for researching and writing the national occupational standards in social enterprise business support and development, and is currently working with Social Enterprise London to turn these standards into a series of nationally recognised qualifications in partnership with the Institute of Leadership and Management.

For more information see:  
[www.bakerbrown.co.uk](http://www.bakerbrown.co.uk)

## Toolkit authors, contributors and advisors

The *Toolkit Series* has been developed by experts in voluntary and community sector funding and finance with input on design and presentation from practitioners including an advisory group of front-line funding advisors.

### *Series editor and project manager*

Deborah Turton, Sustainable Funding Project, NCVO

### *Authors and contributors*

Jim Brown, Baker Brown Associates  
Sara Burns and Kate Graham, Triangle Consulting  
Sarah McGeehan, Community Development Finance Association  
Paul Palmer, Cass Business School  
Institute of Fundraising  
Deborah Turton, Sustainable Funding Project, NCVO  
Centre for Charity Effectiveness, Cass Business School, City University  
Institute of Public Finance  
Futurebuilders England

### *Advisors*

Lynette Grant, Black Training and Enterprise Group (BTEG)  
Tarn Lamb, Cornwall Neighbourhoods for Change  
Mary Boucher, Gloucester CVS  
Esther Jones, High Peak CVS  
Stephen Awre, Sandwell CVO  
Sue Wright, St Helens CVS  
Ann Hunter, Community Technical Aid Centre  
Katy Roberts, South Lincolnshire CVS

# How to use this Toolkit

## Who should use the Toolkit

These Tools have been designed with the aim of providing funding advisors (e.g. an advisor based within a CVS or other support agency) with a series of templates, checklists and exercises they can either work through with, or copy and hand out to, clients based on what support the advisor feel is needed.

VCOs can use the Toolkit independently, but best results will be achieved by working in tandem with an advisor who can provide additional support or advice where appropriate.

The Tools are best used by a group of stakeholders from within a VCO. Each Tool gives an indication of who should get involved for guidance, but this may vary between organisations.




## Structure of the Toolkit

Each *Toolkit* contains Tools of varying levels of complexity. These are designed to build upon and complement the Tools and information included in the associated guide from the *Introductory Pack on Funding and Finance*. Some Tools are equally relevant to a number of income generation areas (e.g. developing a business plan). It is therefore useful to be aware of all the Tools available and to mix and match where appropriate. A complete list of the Tools contained within the *Introductory Pack* and *Toolkit Series* is available at the end of this document for reference.

## Choosing Tools

The Tools that are most relevant to a particular organisation will depend on how familiar it is with the individual topic, the development stage it has reached, and the commitment it wishes to make in moving forward in that area.

The three Tool levels are:

Level/Symbol	Overview
<b>Introductory</b> 	Suitable for new organisations or for those getting to grips with a new area (e.g. contracting). Designed to help VCOs gain an understanding of the area (e.g. preliminary checklists or exercises to gauge whether an income stream is suitable).
<b>Intermediate</b> 	Suitable for organisations wanting to explore a topic further. Designed to help organisations get started in the topic area.
<b>Advanced</b> 	Suitable for organisations wishing to seriously explore a topic or income stream further. Activities requiring some time and resource commitment from an organisation. May be best used in conjunction with input from a funding advisor.

Each Tool level is indicated by the icon at the start of the Tool and highlighted in the reference list at the end of this document.

## Intermediate and advanced-level Tools

These Tools use a design based on the advice cycle: an action learning approach to advising VCO clients. The overall aim is to equip clients with the skills to achieve sustainable funding for their organisations.

Each Tool is designed to achieve a specific aim and set of objectives. These are stated at the beginning, to set the scene for the three main stages of the advice cycle: planning, action and review.

The **planning** stage focuses on models and methods that can be used to research and explore key issues associated with the highlighted aim and objectives. This leads to the **action** stage, where organisations are required to put their plans into practice, and learn through their experiences. This learning is reinforced in the final stage of the cycle, where the organisation and advisor **review** the outcomes of their actions. Advanced-level Tools also include a case study demonstrating the concept covered in practice.

By engaging in this cycle, organisations will learn from their own actions and experiences, and will develop sustainable funding skills.

## Procurement and contracting in a nutshell

Procurement is the purchase of goods and services from an external agency. Contracting follows a bid, or tender, to provide a piece of work or service and is the process of entering into a legal agreement with a purchaser to provide goods or services (e.g. child care, health provision).

Given the nature of voluntary and community sector work, it is purchasers within public sector organisations (e.g. local authorities, Primary Care Trusts) that are most likely to be encountered by organisations seeking contractual income and similarly, it is organisations working in social provision areas that may find contractual income a more natural fit. However, opportunities for contracting with private businesses or indeed other VCOs do exist and should be investigated if appropriate.

A standard route to contracting is that a public sector agency will put out an 'invitation to tender' specifying what service it needs. If a VCO wishes to offer its services it will need to prepare a formal offer known as a tender which describes how it will deliver those services and what it will charge. Some public sector agencies ask providers to complete a pre-qualification questionnaire before tendering. This is to assess technical and financial ability to provide the required services.

The decision to enter into contracts needs to be informed by a clear understanding of organisational mission and objectives, capacity and skills to tender a bid, and consideration of whether delivering a service under contract will help meet beneficiary needs.

Further detailed information on procurement and contracting is available in the *Introductory Pack Guide to Procurement and Contracting* which is the companion publication to this Toolkit. The guide is available at [www.financehub.org.uk](http://www.financehub.org.uk) and [www.ncvo-vol.org.uk/sfp/Introductory-Pack](http://www.ncvo-vol.org.uk/sfp/Introductory-Pack)

### Note on earning

Earning income (sometimes referred to as 'social enterprise' activity) is an important source of funding for the UK voluntary and community sector. Earning can come from 'trading' (selling on the open market) or 'contracting' (tendering to deliver goods and services under contract). This *Toolkit* relates to the specific requirements associated with procurement and contracting, however many of the more generic Tools contained in *Tools for Trading* will be equally relevant to VCOs considering delivering services under contract. *Tools for Trading* is also part of the *Toolkit Series* and is available at [www.financehub.org.uk](http://www.financehub.org.uk) and [www.ncvo-vol.org.uk/sfp/Introductory-Pack](http://www.ncvo-vol.org.uk/sfp/Introductory-Pack)





## Tool 3.1 – Contract Checklist

### Aim

VCOs learn to recognise and adapt to changes in the public service funding environment by distinguishing between grant and contractual income.

### Objectives

- VCOs understand how the types and sources of their income are changing.
- Liability to register for, and charge, Value Added Tax (VAT) is highlighted.

### When to use

Useful for VCOs involved in delivering services that have traditionally relied on grant funding that are considering pursuing contractual income or have been offered new funding agreements which differ significantly from previous versions.

### How to use

Many VCOs are already working with public bodies such as community, health, social care or education services where work is taken on by agreement. Such arrangements are often grant funded but are increasingly being replaced by contracts. Many VCOs are also now looking to contracts as a way of expanding the work they do or diversifying their sources of income. As such, it is important that VCOs recognise and understand the differences between grants and contracts. This is particularly important because, in some cases, wording of covering letters may suggest funds are being given as a grant when in fact the agreement is more of a contract. Understanding the nature of any funding agreement will ensure that any associated issues (e.g. potential need to register for VAT) can be dealt with before problems arise.

With reference to any new funding agreement documentation, use the checklist below to explore the terms offered. This will help establish whether the agreement relates to a grant or implies a contract.

### Contract checklist

		Yes	No
1	Has the VCO charged for goods or services or received money for such in the form of a payment?		
2	Have goods or services been received by anyone in return for the money?		
3	Is there an agreement specifying the scale or quantity of goods or services to be produced in return for the money?		

		Yes	No
4	Did the funder specify the purposes for which the money should be used?		
5	Were the goods or services to which the funding relates developed in response to a request for such from the funder?		
6	Did the VCO have to submit a business plan and written proposal outlining how they would deliver the goods or services (the contents of which may have been defined by the funder)?		
7	Did the VCO have to attend one or more interviews to 'pitch' the idea for their goods or services to the funder before being awarded the money?		
8	Are payments clearly linked to specified deliverables laid out in a delivery plan?		
9	Does the agreement cover ownership of information such as 'intellectual property rights'?		

If the VCO answers 'yes' to all the questions then the agreement probably is a contract and if this is new territory it is advisable to have a legal expert read the document before signing. Depending on the size of the contract offered and how many such agreements the VCO has, they may need to consider registering for VAT. See:

– ***Tool 3.2 – Is Value Added Tax (VAT) applicable?***

If the VCO answers mainly 'yes' then it may be appropriate for them to re-read the document and check with the funder to establish the basis of their funding agreement.

If the VCO answers 'no' or mainly 'no' to all the questions then the agreement probably relates to a grant.

Ongoing, the VCO should bear these questions in mind whenever they receive a new funding agreement.

## Further Resources

The **Charity Commission** issues publications providing guidance on a wide variety of topics. *CC37 Charities and contracts* is a guide for smaller charities entering into contracts to provide public services. It can be downloaded free from [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

***Before Signing on the Dotted Line*** is a resource manual produced by NCVO's Sustainable Funding Project, containing all you need to know about procuring public sector contracts. *The Introductory Pack Guide to Procurement and Contracting* is a shorter version of this. Both resources can be downloaded from [www.ncvo-vol.org.uk/publications](http://www.ncvo-vol.org.uk/publications)



## Tool 3.2 – Is Value Added Tax (VAT) applicable?

### Aim

VCOs understand the liability to register for, and charge, Value Added Tax (VAT) where appropriate.

### Objectives

- VCOs understand when they need to consider registering for VAT.

### When to use

Useful for VCOs involved in, or considering, delivering services under contract. Particularly useful for VCOs intending to expand the scope and size of income generated in this area.

### How to use

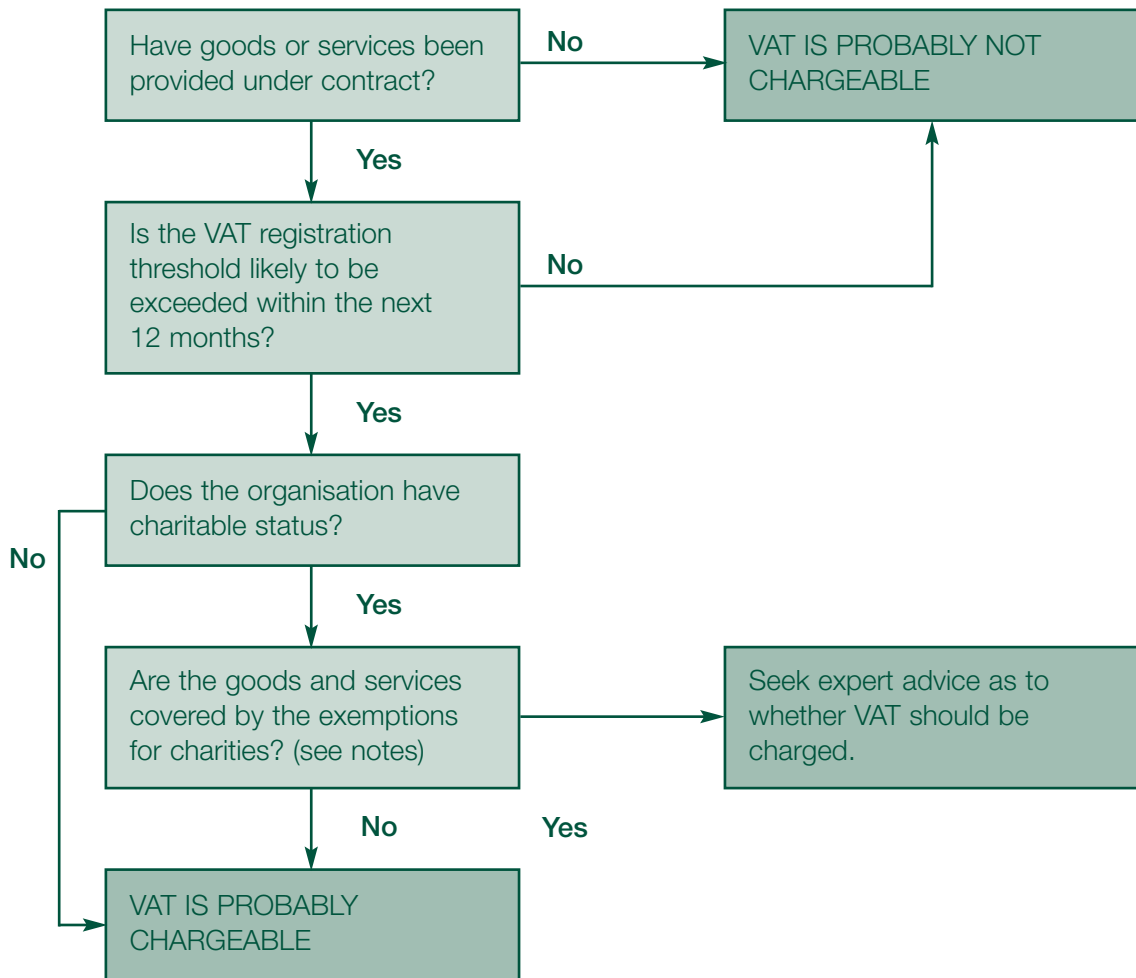
Organisations supplying goods or services in return for payment may be obliged to charge VAT if their annual turnover is likely to exceed the registration threshold. The VAT threshold stands at £61,000 in March 2007. It is however reviewed annually. VCOs earning income around this amount are therefore advised to check with HM Revenue and Customs each year to establish the current threshold. This information together with further details and fact sheets relating to VAT are available on their website (see [www.hmrc.gov.uk](http://www.hmrc.gov.uk)).

VAT is chargeable on most goods and services but not all; some goods and services are zero-rated, and some activities fall outside the scope of VAT. Charities are exempted from charging VAT on the following categories of goods and services under certain conditions; but expert advice should always be obtained before deciding whether an activity is exempt. The exempt categories include:

- Admission charges for museums, galleries and cultural or fundraising events.
- Certain types of advertising in fundraising publications.
- Supply of transport services for sick or injured persons.
- Catering for a fundraising event.
- Education, vocational training and research.
- Certain types of commercial sponsorship and fundraising events.
- Hiring out of buildings.
- Some types of membership fees.
- Welfare services.

VCOs planning to move into or increase income from contracts should consider whether they will need to charge and register for VAT. Use the **Should VAT be charged?** flowchart below to determine whether a VCO should be considering VAT.

### Should VAT be charged?



### Further resources

**HM Revenue and Customs Notices** explain how VAT works. Notice 701/1 *Charities* explains how VAT affects charities and can be downloaded free of charge from [www.hmrc.gov.uk](http://www.hmrc.gov.uk)



## Tool 3.3 – Opportunity analysis

### Aim

VCOs are able to identify promising contract opportunities which are suitable for their organisation's size and the type of work they do.

### Objectives

- VCOs can distinguish between target and peripheral market opportunities.
- VCOs understand the factors affecting their contract opportunities.
- VCOs know the appropriate contract size for their organisation.

### When to use

For VCOs that have already thought about their approach to earning income, understand what goods or services they have to offer a potential purchaser, and are developing plans for delivering work under contract.

### How to use

#### 1. Planning

- This tool will help VCOs develop contracting and procurement strategies.
- Funding advisors working with VCOs should check that clients have already thought about their approach to earning and are comfortable with it. If VCOs are at an early stage, then establishing organisational readiness may be a first step. See:
  - **Tools for Trading: Tool 2.1 – Exploring attitudes to enterprise.**
  - **Introductory Pack Guide to Trading: Tool – Developing an entrepreneurial culture.**
- VCOs and advisors using this tool should also be familiar with the concept of competitive advantage. See:
  - **Introductory Pack Guide to Trading: Tool – Developing a competitive advantage.**

#### 2. Action

- The VCO should read the **Opportunity analysis overview** overleaf to understand the three main factors determining the type of contract opportunities VCOs will be searching for.
- Working with a funding advisor, the VCO should complete the **Opportunity profile sheet**. This identifies their target market and their peripheral market.
- The VCO should then estimate how many potential customers it has, based on the target and peripheral markets. Customers are defined as the agencies or organisations likely to purchase their services (e.g. Primary Care Trust, local social services etc.). The answer may range from very few (if the client is a small VCO serving a specific neighbourhood) to very many (if the client is a large VCO operating in a national market). Advisor and VCO

can discuss the implications of this estimate for the VCO's marketing strategy. For additional support advisors may wish to direct the VCO to:

– ***Introductory Pack Guide to Procurement and Contracting: Tool – Identifying likely customers checklist.***

- Based on the information gained above, the VCO should be able to use the **Contract opportunities score sheet** to assess any contracting opportunities it is considering.

### 3. Review

- Advisors should encourage clients to keep records of all their assessments of potential contracting opportunities – these will provide valuable learning for the future and useful reference if the VCO decides to pursue one of the assessed opportunities. A further meeting between advisor and VCO to review these assessments can be beneficial.
- It will be useful for both VCO and advisor to identify which opportunities were taken forward to the point of bidding for, or even winning, a contract. With the benefit of hindsight, what has been learnt about contracting and procurement? Reviewing how these opportunities were assessed in the first place and how well this assessment tallied with the subsequent tender will help improve future opportunity assessments both for the VCO and the advisor when working with other groups.

## Materials

### Opportunity analysis overview

Knowing how to decide which contracts are worth bidding for is vitally important. Opportunity analysis involves identifying:

- An organisation's **target market** – where the most promising opportunities are.
- Its **peripheral market** – where the opportunities are less promising but still worth considering.

There are three main factors that determine the range of contracting opportunities open to a VCO: the type of services it offers, the geographic locations it serves, and the size of contracts it can deliver.

**Service areas** – Some VCOs build a reputation based on their high levels of expertise in a specific service area. There are a number of reasons why a VCO should be cautious about looking for contract opportunities outside the range of its existing service activities. Does the new service fall within the primary purpose of the VCO? Will the new service require new skills, new equipment, or even new premises? How credible will the VCO be to potential customers if it lacks experience in the service area?

**Geographic location** – Other VCOs specialise in serving a geographic community or a community of interest. The more highly specialised a VCO is, the bigger the geographic area it will have to cover to find sufficient work. There are some very small VCOs working at a national level, but in highly specialised fields. Conversely, if a VCO aims to serve a small geographic area, such as a local community or neighbourhood, it will probably need to be quite broad in the range of services it offers. Most public service organisations (e.g. Primary Care Trusts, social services etc.) serve a defined geographic area, which might range from a

neighbourhood or ward, up to a local authority area, sub-regional, regional or even national population. VCOs seeking to deliver services under contract on behalf of such agencies need to ensure they can serve the area likely to be specified by the agency.

**Contract size** – When searching for new contracts it is important to be realistic about the organisation’s ability to deliver additional services, and to look for contract opportunities of an appropriate size and scale. Most organisations can cope with changes in turnover of up to 20% without having to make major changes, but above this level the impact is likely to be significant.

Contract value	Impact on organisation	Risk level
Less than 20% of current turnover	Fairly small, unlikely to require much change in personnel, or physical or financial resources. Some additional resources may be needed.	Low
Between 20% and 50% of current turnover	Significant changes required to personnel and resource levels.	Medium
Between 50% and 100% of current turnover	Very large changes, not only in personnel and resources, but also in management requirements and organisation structure.	High
Above 100% of current turnover	Extremely large impact which could create instabilities that threaten longer-term sustainability.	Very high

## Opportunity profile sheet

Draw up a blank version of this sheet and use the prompts in the boxes to complete (or write up on flip-chart paper) and identify a VCO's target and peripheral markets. VCOs may find it useful to brainstorm responses internally (e.g. at a staff or Board meeting) before discussing with an advisor.

	<b>Target market</b>	<b>Peripheral market</b>
<b>Service areas</b>	Service areas where the VCO already has established skills and capacity:	New service areas where the VCO could extend or adapt its current skills and capacity:
<b>Geographic location</b>	Current geographic range of service provision e.g. neighbourhood/ward/ community/local authority/ sub-region/region/nation:	Potential extensions to current geographic range:
<b>Contract size</b>	What contract size in monetary terms would be suitable? Remember, ideally a new contract should not exceed 20% of current turnover:	Both here and adjacent it may be useful to consider what would be suitable minimum and maximum sizes (£s) of contracts:

## Contract opportunities score sheet

Based on the answers given in the opportunities profile sheet, the following weighted scoring system can be used to analyse individual contract opportunities.

	Potential score	Score
<b>Service area</b>	5 = Fits target market profile 3 = Fits peripheral market profile 0 = Beyond peripheral market profile	
<b>Geographic location</b>	5 = Fits target market profile 3 = Fits peripheral market profile 0 = Beyond peripheral market profile	
<b>Contract size</b>	5 = Fits target market profile 3 = Fits peripheral market profile 0 = Beyond peripheral market profile	
<b>Competitive advantage</b> <i>See Introductory Pack Guide to Trading: Tool – Developing a competitive advantage</i>	5 = Will improve service beyond specification 3 = Will be able to meet specification 0 = No distinct competitive advantages	
<b>Relationship with potential purchaser</b>	5 = Existing satisfied customer 4 = Previous satisfied customer 3 = Existing or previous work relationship, but not as a contractor 2 = Part of existing (extended) network 1 = Direct marketing contact already made with potential customer 0 = No previous contact with potential customer	
<b>Total</b>		

### Interpreting scores

- 20+** Strong position to bid for contract
- 15-19** Worth bidding for, but may be difficult to win contract
- Less than 15** Unlikely to be successful in competitive tender

#### *Example:*

Imagine a VCO provides crèche facilities, including enhanced educational activities beyond those offered by other local providers, to one ward within a local authority area.

Current turnover is £500k. It assesses a contract opportunity worth £100k to provide crèche facilities for three wards within the same local authority.

The VCO's opportunity profile has identified:

- Service area – crèche facilities = target market.
- Geographic area – multiple wards = peripheral market.
- Contract size – up to 20% of turnover = target market.

Using the opportunities score sheet it would score the potential contact:

- Service area – target market = 5.
- Geographic area – peripheral market = 3.
- Contract size – target market = 5.
- Competitive advantage – already offering enhanced service = 5.
- Customer relationship – already working with local authority = 5.
- Total score = 23.
- Assessment = Contract definitely worth pursuing.

## Case study – Opportunity analysis

### Sound Base Studios Trust

Sound Base Studios Trust is an independent charity, established in 1996, based in Hitchin, Hertfordshire. It offers innovative education and vocational training opportunities in music and arts to disaffected young people, including young offenders and pupils who have been excluded from school, and those at risk of offending or exclusion. They also work with young people with learning disabilities.

In 2005 Sound Base moved to new premises in Hitchin, offering a greater range of facilities with disabled access. The new facilities include three recording studios, a live drum room, and a computing suite equipped with music industry-standard technology, as well as multimedia facilities for video production, web design, digital photography and graphic design. Sound Base currently employs five full-time and two part-time staff. Annual turnover is in the region of £250k.

For the last two years Sound Base has been successfully delivering a Learning and Skills Council (LSC) Entry to Employment contract for 16 to 18 year olds, as well as providing services aimed at 11 to 16 year olds through an LSC ESF Co-financing contract.

The location of Sound Base is a major factor shaping the profile of its contract opportunities. Because its services are largely studio based, it can only win contracts for learners living within travelling distance of Hitchin. Sound Base is aiming to expand its delivery of Hertfordshire LSC contracts. It has also begun the planning process towards winning Local Education Authority contracts to deliver education for children with educational and behaviour difficulties in schools and on Youth Offending Schemes.

Sound Base is also investigating how it might extend its service range into a peripheral market area to include sports coaching and drama classes. It has recruited a basic skills trainer to work with learners on issues of employability, and it has established a drop-in service for ex-learners to use its job search and music recording facilities.

For further information see [www.soundbase.org.uk](http://www.soundbase.org.uk)

### Further resources

**Social issues in purchasing** is a guidance document published by the Office of Government Commerce, focusing on the different stages of the public procurement process, and the way social issues can legitimately be incorporated into the purchasing cycle. A free copy can be downloaded from [www.ogc.gov.uk/sustainability\\_social\\_issues\\_in\\_purchasing.asp](http://www.ogc.gov.uk/sustainability_social_issues_in_purchasing.asp)





## Tool 3.4 – Negotiating Contracts

### Aim

VCOs feel equipped to negotiate fair, comprehensive and effective contracts.

### Objectives

- VCOs can identify the principal terms and conditions of contracts.
- VCOs can ensure that the terms and conditions of any contract are transparent.
- VCOs feel able to negotiate contracts with terms that are proportional to their size and value.

### When to use

For VCOs who are negotiating a written contract agreement with customers. Designed principally for VCOs contracting with public sector agencies, but it can be adapted for use with other types of organisation.

### How to use

#### 1. Planning

- One outcome of using this tool might be to seek expert legal advice before signing a contract. An advisor should be able to signpost organisations to local legal firms.
- Obtain copies of the national and local Compact Codes on Funding and Procurement from either the Compact website (**see Further resources below**) or local CVS office to help with understanding of what VCOs should be able to expect from contracts with public sector agencies.

#### 2. Action

- Use the **Negotiating contract terms and conditions preparation sheet** to highlight the range of terms and conditions included in many written public service contracts, and the government's policy ambitions in this area as expressed in the (national and local) Compact Code on funding and procurement.
- Working together, a VCO and advisor should examine the draft contract. Start by identifying which terms and conditions the contract does and does not contain. Advisors should encourage clients to assess these terms and conditions (or omissions) and to use the sheet as a template to record their assessment. Identify whether there are any clauses that are unclear, overly complex or onerous, and so might require an expert legal opinion.
- If necessary, work to identify proposals for improving the draft contract, which the VCO thinks might be acceptable to the other party. VCOs should make a note of their proposals on the sheet. In some cases the VCO may need to make a strategic decision about whether slightly less favourable terms are balanced out by the opportunity to provide services directly linked to their mission that will greatly benefit users – however, caution should be applied here.

- For tips to assist with preparations for negotiating improvements to the contract see:  
– **Tools for Loans and Other Forms of Finance: Tool 4.4 – Negotiating finance**

### 3. Review

- Advisor and VCO should arrange to meet after the VCO has negotiated the final contract agreement with their customer. Establish what, if any, improvements were achieved in the terms and conditions.
- Establish what lessons have been learned for future contract negotiations.

## Materials

### Negotiating contract terms and conditions preparation sheet

	Assessment of draft contract	Potential improvements
<b>Terms of delivery</b>		
<b>Contract period</b>	How long is the contract for? What are the agreed timescales?	Longer contract periods can be better value for money – the Government is committed to three-year settlements for local authorities.
<b>Outputs</b>	What services are to be provided? By when? What specific outputs must be delivered?	Outputs should be quantifiable and easily measurable.
<b>Sub-contractors</b>	Are there powers to employ sub-contractors?	
<b>Responsibilities and risks</b>	Who is responsible for what (e.g. liaison between parties, insurance and indemnity requirements)? What happens if things don't go according to plan?	Risks should be clearly assigned and fair to both parties.
<b>Rights</b>	Does the contract cover confidentiality, publicity, data-sharing, data protection? Who owns intellectual property rights?	Try to retain intellectual property rights. Even if they go to purchaser negotiating user rights (e.g. licencing) can ensure greater outreach.
<b>Variations to contract</b>	Related to outputs? Who has powers to vary contract terms?	
<b>Payment terms</b>		
<b>Contract value</b>	What is the value of the contract? Is it output related? Any performance bonuses?	The Government is committed to the principle of full-cost recovery for VCOs.

	<b>Assessment of draft contract</b>	<b>Potential improvements</b>
<b>Payment schedule</b>	How often will payments be made? In advance or in arrears? Is evidence needed to release payments?	The Government has undertaken to pay VCOs in advance of their expenditure, rather than in arrears.
<b>Monitoring and reporting requirements</b>		
<b>Methods</b>	What methods will be used? What information should be kept? Who will access the information? Who will do the monitoring? Who will pay for it?	Monitoring methods should be proportionate to the scale of the contract.
<b>Frequency</b>	How often? Linked to payment schedule?	
<b>Unsatisfactory performance</b>	What conditions will constitute breach of contract? Are there rights to reschedule outputs? What are the dispute procedures and Contract termination rights? Are Notice periods included?	Unilateral powers can be unfair on contractors.
<b>Other contract terms and conditions</b>		
	Are equal opportunities, health and safety and Force majeure (events beyond the reasonable control of the parties) covered?	

## Case study – Negotiating Contracts

### Community Campus '87

Community Campus '87 provides supported accommodation for homeless young people and creates opportunities for personal development through the provision of learning and training. It is based in Middlesbrough and was established in 1987 by a group of individuals concerned about the worsening youth housing crisis in the area.

It is funded through a range of contracts with local authorities to provide supported housing and homeless services for young people. It also runs training courses in general construction skills, with trainees developing their skills by working on accommodation for other young people.

Community Campus '87 is strongly focused on winning public procurement contracts. Contracts involving construction work can be particularly demanding. Staff from Community Campus '87 arranged to visit IMBY, a development agency in South Yorkshire that works with disadvantaged people, to add to their know-how in procurement and contracting. They learnt about the importance of building solid relationships with local government, and focusing on the mutual benefits that can be achieved through contracts. The meeting helped to demystify some aspects of the procurement process, and underlined the importance of getting a firm footing in procurement networks in order to extend beyond existing clients.

Community Campus '87 operates in a commercial environment where performance is judged against commercial contract standards of quality, price and time. Since the visit to IMBY, Community Campus '87 has gone on to win a new contract for housing resettlement services with Middlesbrough Borough Council, building on its strengths in delivering supported housing contracts. It has been working on securing approved contractor status with registered social landlords and local authorities across Teesside. This can make winning and negotiating new contracts far more straightforward.

For further information see [www.communitycampus87.co.uk](http://www.communitycampus87.co.uk)

### Further resources

**The Compact** is the agreement between government and the voluntary and community sector in England to improve their relationship for mutual advantage. It does this in a number of ways, including through the publication of Codes of Good Practice at national and local levels. One of the subject areas covered by these codes is funding and procurement. For further information about national and local Compacts visit [www.thecompact.org.uk](http://www.thecompact.org.uk)



## Tool 3.5 – Working with other VCOs

### Aim

VCOs are able to achieve economies of scale when competing for contracts without having to grow any larger.

### Objectives

- VCOs develop capacity building plans using alternatives to growth.
- Potential for relationships with other VCOs are assessed.
- Any previous experience of alternatives to growth is reviewed.

### When to use

For smaller VCOs considering contract income but which feel excluded from the procurement market due to lower resources. Also suitable for VCOs working in areas similar to other organisations where a consortia bid for contract work might be an option.

### How to use

#### 1. Planning

- This tool is ideal for smaller VCOs operating in service areas where economies of scale will be a significant factor in the awarding of contracts.
- An alternative is for a VCO to expand. This tool is for organisations wanting to explore alternatives to growth.
- To establish appropriateness, an advisor and VCO should discuss the options outlined in the **Alternatives to growth sheet**. Ensure each of the five options listed are understood. The VCO should identify any of the options that they have practical experience of and assess their experiences of these options.
- The VCO also needs to identify specific contract opportunities they would like to explore in greater detail.

#### 2. Action

- Working together, advisors and VCO should complete the **Capacity building plan**. Use this sheet to analyse a specific opportunity and to prepare a plan of action. In going through each step of the plan the VCO needs to be specific and to use measurable outputs.
- If a VCO thinks that more than one alternative to growth is feasible for the service area in question, an outline should be drawn up for each of them. Compare the alternatives and choose the best one.

### 3. Review

- The VCO should review their capacity building plan three-six months later. Which of the actions have been implemented? How successful or unsuccessful have these actions been? What lessons can be learned from these experiences?

## Materials

### Alternatives to growth sheet

Use this sheet to assess a VCO's previous experience and/or assessment of the options listed.

	Experiences of this approach	Assessment (strengths and weaknesses)
<p><b>Partnerships</b> between two or more VCOs. One partner is recognised as the lead contractor, sub-contracting work to the other partner(s). It is essential to have the support of the customer for this type of arrangement.</p>		
<p><b>Consortia</b> of smaller VCOs coming together to bid for large contracts. There are different ways of organising and managing consortia, ranging from informal partnership approaches where the contract is managed by a lead member, to more formal arrangements where the consortium is established as a separate legal entity.</p>		
<p><b>Supply chain management</b> by the customer or lead supplier can enable smaller VCOs to participate in much larger markets. A number of VCOs, each with specialist skills, could be organised into a supply chain, with each organisation providing a service in the chain.</p>		
<p><b>Joint ventures</b> between two or more VCOs, are where a jointly owned trading company is established to deliver the contract. Less risky for the partners than forming a partnership because the joint venture is responsible for the contract, rather than the lead partner.</p>		
<p><b>Hub and spoke structures</b>, where a 'hub' VCO bids for contracts in its own name and sub-contracts work to its 'spokes', which might be a range of smaller VCOs or freelance workers and which may have to bid for the work.</p>		

## Capacity building plan

Use this sheet to analyse a specific opportunity and to prepare a plan of action.

Describe the service area under investigation.	
Outline the contract opportunities in this service area.	
Estimate the size of contracts involved.	
Identify preferred alternative to growth.	
List potential partners, members or sub-contractors.	
Highlight issues that need to be tackled in order to develop this alternative.	
List what actions need to be taken to move partnership, or other arrangement, forward (and by whom)	

## Case study – Working with other VCOs

### Milton Keynes Christian Foundation

Milton Keynes Christian Foundation was established in 1985 by the Milton Keynes Church Council to address the need for community and economic development to tackle unemployment and deprivation. It currently employs approximately 35 people and has an annual income of about £1m. The Foundation has a strong commitment to the local community of Wolverton, where it is based.

The Foundation has turned down opportunities to expand, and deliver its services elsewhere, because it felt this might undermine its local focus. Instead of growing ever larger it prefers to form partnerships with others, in the belief that this leads to the most exciting and creative solutions to the problems faced by local communities. In 1996 it helped to create the Wolverton Partnership and assisted this Partnership in winning two rounds of Single Regeneration Budget funding for a variety of projects to improve the physical environment of the town, provide childcare facilities, create training opportunities and improve town centre security.

More recently, the Foundation created the Foundation Foyer as a joint project with Midsummer Housing Association. The Foundation Foyer provides accommodation and training for 16 young homeless people. Midsummer Housing Association manages the accommodation, whilst the Foundation provides training and support for the young people.

Some public service contracts are far larger than the Foundation would want, and would mean working in other communities, which would compromise its commitment to its own community and to the advantages of local knowledge and connections. So when the opportunity came up to bid for the Connexions delivery contract for the whole of Milton Keynes, the Foundation was involved in establishing a consortium called MK Connect, along with ten other VCOs. Milton Keynes YMCA has taken on the role of lead body for the consortium. Now in its third year of operations the consortium has expanded, and is bidding for other public service contracts.

For further information see [www.mkchristianfoundation.co.uk](http://www.mkchristianfoundation.co.uk)

## Directory of Tools

Further Tools in addition to those contained in this document are available in the other Toolkits in the series and in the accompanying *Introductory Pack on Funding and Finance*. Details of available Tools and their location are given below.

The Tools contained in this document are highlighted. Tools included elsewhere which are *directly* relevant to procurement and contracting are also highlighted for guidance. Those highlighted do not form an exhaustive selection, however, and others may also be relevant depending on a VCO's individual circumstances.

Topic	Tool	Level	Location
<b>Sustainable funding</b>	Summary overview of funding environment with first-step assessment exercises	Introductory	<i>Introducing Funding and Finance for Voluntary and Community Organisations</i> pocket guide
	Self-assessment needs-analysis tool		<i>The Sustainable Sun Needs-Analysis Tool for Voluntary and Community Organisations</i>
	SWOT and PEST environmental analyses		<i>Introductory Pack Guide to Sustainable Funding</i>
	Risk analysis		
	Business plan		
	Income diversification diagnostic tool		
	Organisational capacity and capability assessment grid	Intermediate	
Skills/knowledge audit			
<b>Financial management</b>	Developing a financial strategy	Introductory	<i>Introductory Pack Guide to Financial Management</i>
	Example revenue budget		
	Example cash-flow budget		
	Example monthly budget report		
	Example of fixed and variable costs		
	Example cash-book summary		
	How to do a bank reconciliation statement	Intermediate	
	Example receipts and payments management account		
	Example of how accrual accounting works		
	Example contents of an annual report		
	SORP information required in the annual report		

Topic	Tool	Level	Location
Fundraising	How to prepare and use a Case for Support	Introductory	<i>Introductory Pack Guide to Fundraising</i>
	Fundraising from individuals jargon buster		
	Legacy fundraising jargon buster		
	Deciding who should fundraise		
	Applying to grant-making Trusts and Foundations	Intermediate	<i>Tools for Fundraising</i>
	Raffles and Lotteries		
	Charitable events		
	Hiring a fundraising consultant	Advanced	
Trading	Exploring attitudes to Enterprise	Introductory	<i>Tools for Trading</i>
	Developing an entrepreneurial culture		<i>Introductory Pack Guide to Trading</i>
	Developing a competitive advantage	Intermediate	<i>Tools for Trading</i>
	Deciding where to start		
	Peer-learning for trading activities		
	Establishing an enterprise team		
	Cultural shift	Advanced	<i>Introductory Pack Guide to Trading</i>
	Feasibility studies		
	Business plan test		
	Trading activity development framework		
	Trading subsidiaries checklist		
Procurement and contracting	Contract checklist	Introductory	<i>Tools for Procurement and Contracting</i>
	Is Value Added Tax (VAT) applicable?		
	Identifying likely customers checklist	Intermediate	<i>Introductory Pack Guide to Procurement and Contracting</i>
	Marketing to potential purchasers checklist		
	Making direct contact with purchasers checklist		
	Meeting potential purchasers checklist		
	Deciding whether to bid and what for		
	Checklist for tender preparation	Advanced	<i>Tools for Procurement and Contracting</i>
	Negotiating contracts		
	Working with other VCOs		

Topic	Tool	Level	Location	
<b>Loans and other forms of finance</b>	Checklist for loan finance decision-making	Introductory	<i>Tools for Loans and Other Forms of Finance</i>	
	Comparison table of grants, debt and equity		<i>Introductory Pack Guide to Loans and Other Forms of Finance</i>	
	Preparing a proposal for finance	Intermediate		
	Checklist of information required by finance providers			
	Checklist of investment decision criteria			
	Assessing finance needs	Advanced		<i>Tools for Loans and Other Forms of Finance</i>
	Finance options planning			
	Negotiating finance			
Demonstrating the social value of investment				





The Finance Hub is delivering to the Government's ChangeUp programme to create voluntary and community organisations which are effective and independent because they are financially sustainable.

**The Finance Hub**  
**Charities Aid Foundation**  
St Andrew's House  
18-20 St Andrew Street  
London  
EC4A 3AY  
info@financehub.org.uk  
www.financehub.org.uk  
Tel (020) 7832 3014  
Fax (020) 7832 3001



NCVO's Sustainable Funding Project encourages and enables voluntary and community organisations to explore and exploit a full range of funding and financing options to develop a sustainable funding mix.

The Sustainable Funding Project  
*funding in the round*  
Website: [www.ncvo-vol.org.uk/sfp](http://www.ncvo-vol.org.uk/sfp)  
Tel: 020 7520 2519  
Email: [sfp@ncvo-vol.org.uk](mailto:sfp@ncvo-vol.org.uk)

**National Council for**  
**Voluntary Organisations**  
Regent's Wharf  
8 All Saints Street  
London N1 9RL  
Tel: 020 7713 6161  
Fax: 020 7713 6300  
Textphone: 0800 01 88 111  
HelpDesk: 0800 2 798 798  
Email: [ncvo@ncvo-vol.org.uk](mailto:ncvo@ncvo-vol.org.uk)  
Websites: [www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)  
[www.askncvo-vol.org.uk](http://www.askncvo-vol.org.uk)

March 2007

Charity registration: 225922