

# Costing your tender

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Voluntary 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 costings

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 form part of the contract. You may not have the option to change anything at a later date should your organisation be successful. Therefore, your costings, staffing levels, and details of what you will deliver must be thought through carefully, conservatively and with the proper approval. Use of volunteers can form an

important aspect of your delivery model and help make you financially competitive. However make sure you factor in the costs of managing, training and supervising them.

**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 (Which may include your volunteer costs)

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. They may give maximum levels for overheads and management 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. This is a more accurate way of identifying overhead costs than using a set level such as 10 or 15%. But be aware that some contracts may ask for copies of the calculations.

## 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. If the delivery of a tender requires taking staff from another project, you need to consider the cost implications of this and ensure they are covered in any surplus made. Also consider any contingencies in case there are unforeseen costs to delivery.



**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.

## Partnership delivery

In an ever-increasing market, there are many benefits to delivering a tender in partnership with another organisation(s). This can play to each organisation's individual strengths and ensure you fully meet/exceed the commissioners' expectations. This can also increase your chances of success by working with organisations who could otherwise be competitors. However this this does also mean there will be less opportunity to make a surplus (or as much surplus) from the delivery.

When calculating costs, and what surplus will be made, try to ensure this is equitable across all partners. It will harm future partnership and possibly the contract delivery if only one partner is making a surplus and seen to be benefiting from the work of other partners.

# 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 [His Majesty's Revenue & Customs \(HMRC\) website](#).

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 expert.

# TUPE

TUPE stands 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 tender 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 mean 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 primarily associated with grant funding. It allows the funder to recover a portion of the grant if certain conditions are not met, such as when an asset bought with grant funds is sold, or unspent funds remain at the end of the project. However, clawback does not apply to procurement contracts because, once the service or goods have been



provided and the agreed terms met, the obligation to the funder is fully discharged.

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'

*HM Treasury guidance*

## Top tips

- If the contract duration 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!

- 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

## Cash flow projections

We have talked about cash flow projections, and for many organisations this can be a new financial tool. Below is a short introduction to how to prepare them along with an example template.

### **What are cash flow projections?**

Cash flow projections estimate the amount of money expected to flow in and out of your charity over a specific period (usually monthly or quarterly). They help you anticipate potential surpluses or shortfalls and ensure you have enough funds to cover your activities.

### **Steps to create cash flow projections**

- **Identify income sources:**
  - Include all outgoing payments, such as salaries, rent, utilities, programme costs, and fundraising expenses.
  - Note the timing of when income will be received (e.g., a grant might arrive in instalments).
- **List expenses:**

- Include all outgoing payments, such as salaries, rent, utilities, programme costs, and fundraising expenses.
- Account for irregular or seasonal costs (e.g. annual insurance premiums or event expenses).
- **Set a timeframe:**
  - Use a monthly breakdown to provide a clear picture of cash flow across the year.
- **Calculate net cash flow:**
  - Subtract expenses from income for each period to determine your net cash flow.
  - Highlight months with deficits or surpluses.
- **Monitor and update regularly**
  - Compare projections against actual figures monthly and adjust for unexpected changes.

Month	<u>Income</u> (Donations/Grants)	<u>Income</u> (Fundraising Events)	<u>Other</u> <u>Income</u>	<b><u>Total</u></b> <b><u>Income</u></b>	<u>Expenses</u> (Salaries)	<u>Expenses</u> (Rent/ Utilities)	<u>Project</u> <u>Costs</u>	<u>Fundraising</u> <u>Costs</u>
January	<u>£3,000</u>	<u>£1,000</u>	<u>£500</u>	<b><u>£4,500</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£600</u>	<u>£200</u>
February	<u>£2,500</u>	<u>£1,500</u>	<u>£400</u>	<b><u>£4,400</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£500</u>	<u>£200</u>
March	<u>£5,000</u>	<u>£2,000</u>	<u>£1,000</u>	<b><u>£8,000</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£1,500</u>	<u>£300</u>
April	<u>£2,000</u>	<u>£1,000</u>	<u>£500</u>	<b><u>£3,500</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£600</u>	<u>£200</u>
May	<u>£4,000</u>	<u>£2,000</u>	<u>£500</u>	<b><u>£6,500</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£800</u>	<u>£300</u>
June	<u>£3,500</u>	<u>£1,500</u>	<u>£400</u>	<b><u>£5,400</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£700</u>	<u>£300</u>

Month	<u>Income</u> (Donations/Grants)	<u>Income</u> (Fundraising Events)	<u>Other</u> <u>Income</u>	<b><u>Total</u></b> <b><u>Income</u></b>	<u>Expenses</u> (Salaries)	<u>Expenses</u> (Rent/ Utilities)	<u>Project</u> <u>Costs</u>	<u>Fundraising</u> <u>Costs</u>
July	<u>£2,000</u>	<u>£1,000</u>	<u>£300</u>	<b><u>£3,300</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£600</u>	<u>£200</u>
August	<u>£6,000</u>	<u>£1,000</u>	<u>£500</u>	<b><u>£7,500</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£1,000</u>	<u>£300</u>
September	<u>£3,500</u>	<u>£2,000</u>	<u>£400</u>	<b><u>£5,900</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£600</u>	<u>£200</u>
October	<u>£4,000</u>	<u>£1,500</u>	<u>£500</u>	<b><u>£6,000</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£700</u>	<u>£200</u>
November	<u>£2,500</u>	<u>£1,000</u>	<u>£400</u>	<b><u>£3,900</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£600</u>	<u>£200</u>
December	<u>£7,000</u>	<u>£3,000</u>	<u>£1,000</u>	<b><u>£11,000</u></b>	<u>£2,500</u>	<u>£800</u>	<u>£1,500</u>	<u>£300</u>

## Further information

### Legalities

#### [CC37: Charities and public service delivery](#)

The Charity Commission

CC37 Charities and public service delivery, produced by the Charity

Commission, sets out the considerations for charities when entering into a contract.

#### [VAT for Charities](#)

HMRC

Queries on the tax implications should be directed to HM Revenue and Customs.

0845 302 0203

## **Full Cost Recovery**

NCVO

## **Support**

### **County Voluntary Councils (CVCs) in Wales Third Sector Support Wales**

County Voluntary Councils (CVCs) in Wales provide information on a wide range of funding and financial issues including tendering.