

THE FINANCE ROLE WITHIN TENDERING FOR A CONTRACT

This resource examines some key aspects related to finance with respect to undertaking tendering for and, if successful, then establishing and operating a community resource recovery centre (CRRC) from a community enterprise perspective.

The key point here is that you need to invest in getting your contract tender correct, which includes your pricing being sufficient and as accurate as possible when you submit your tender. If you are awarded the contract then you are required to deliver on the required services at the price you have tendered.

WHY GETTING THE FINANCE COMPONENT CORRECT IS CRITICAL

GETTING IT WRONG COULD RESULT IN....

If you get the pricing wrong during the tendering stage you are then relying on the good will and / or the ability of the contract principal to then alter the contract via a price variation during the contract. This should be considered an unlikely scenario.

If your initial tender pricing is wrong then you could be stuck with a period of losses until the contract period is finished. This could either lead to you running out of cash or you having to default on the contract - which could be expensive in terms of losses, defaults and bond clauses etc. This scenario could also lead to guarantees being called upon as well. These negative and extremely stressful scenarios are not recommended – especially as most not for profit organisations do not have large cash reserves or assets to call upon. You are definitely better off not being in this space under this scenario.

GETTING IT RIGHT COULD RESULT IN....

If you get the pricing right, then you will be making surpluses annually and be cash flow positive. This then allows you to operate and develop your organisation knowing that you can successfully deliver the contract services required, meet your monthly financial commitments, meet your loan payments and also have cash left over to develop your centre and / or invest in your enterprise. This should then continue to occur for the term of the contract.

This is the positive side of getting the financing side correct during the tendering process. Hence it pays to be prepared to resource well during the tendering process in order to get the contract writing and pricing sufficient so that it can deliver the required positive financial outcomes.

INVESTING IN THE TENDER PROCESS

The tendering process is generally expensive in terms of time and money and has no guarantee of a return. You must be prepared to resource this process sufficiently in terms of time and money to ensure you give yourself the best chance of a positive outcome. This includes paying for the right advice and support. Potentially you could come out of the process with a contract and seeing this investment as a cost of obtaining the contract or alternatively the process could end with no contract and the resultant loss of time and money.

STARTING POINT – ASSEMBLE YOUR TEAM

Assemble your team based around your response from the questions above – especially who you are going to work with on this project. This could include:

- Engaging external support to assist with managing the tendering process (writing, project managing, timelining etc)
 - Someone external to oversee the process can be very valuable
 - Also could be key personnel from similar organisations who are already involved in similar contracting situations
- Key personnel from your organisation
 - Helps with buy-in from the start as they are then involved from the beginning. Not just limited to staff, could be trustees, directors, volunteers etc.
- Key financial support personnel(s) (ideally need experience in the sector)
 - Could be other similar organisations financial staff and / or your accountant
- Key service suppliers and providers i.e. organisations that will you will be working with closely to deliver the contract i.e end markets for materials, transport providers etc.
 - These suppliers and providers are a key part of the team as they will provide pricing for their services but also will have relevant industry experience and expertise to assist with developing the methodology.

METHODOLOGY - PRACTICALLY WORK OUT WHAT AND HOW YOU ARE GOING TO DO IT

At this early stage you will need to develop some key methodologies on how you are going to undertake and deliver the contract (and potentially also assess which are the better options). Hence the make up of your tendering team

becomes critical as this initial process will set the course for the rest of the process.

Key areas to cover include:

- Staffing – numbers of staff, wage rate bands, hours, training required etc for each area
- Equipment required for each area – options for leasing, hiring, purchasing
- What your key service providers can provide in terms of equipment
- Contract and operational administration – key senior staff requirements, financial and contract reporting, office set up
- Logistics – how the customers and materials flow through your site and services, and how the materials flow to market etc
- Legal structure – who and what structure are you tendering under, if it doesn't exist who will set it up etc

Financially three key areas to discuss and start looking into at this stage are:

- Financial contract requirements i.e. what clauses within the contract will have financial implications such as bond and insurance requirements, financial reporting requirements etc
- Loans for cash flow and capital purchases - start exploring options
- Guarantees – do you or associates or contacts have any ability to cover required guarantees for finance / security

KEY INITIAL QUESTIONS

As soon as finance and contracts are mentioned, everyone jumps ahead and thinks of budgets and forecasts, but these should come at the end of the process and are a result of working out:

- What you are going to do?
- How you are going to do it?
- Who you are going to do it with (use on your team) i.e.:
 - Which suppliers of services are you going to use?
 - Which providers of end markets are you going to use?
 - Which suppliers of financial advice and services?
 - Which industry mentors are you going to use / employ?

PRICING AND BUDGET TEMPLATE

REQUEST WRITTEN PRICING FROM SUPPLIERS, SERVICE PROVIDERS, END MARKETS ETC

Once you have started to develop your methodology, you will then need to start requesting written pricing from your suppliers, service providers and end markets for your materials. Request that this pricing includes timeframes on how long these prices will be held for, and also discuss with them whether contracts would be required between the two parties (mainly for longer term relationships rather than one off capital purchases). It also pays to have a timeline in place for when this information needs to be provided to you in order to have sufficient time to develop (and rework) your budgets well before the contract tender closing date.

DEVELOP YOUR BUDGET TEMPLATE TO MATCH THE CONTRACT PRICE SCHEDULE

Once you have sufficient information in to support your methodology you can then start setting up your budget template. Ideally you will develop your budget in line with the contract documents. So if the contract documents only has a pricing schedule required then you will need to develop your budget and then eventually allocate each budget line to a corresponding pricing schedule line. Alternatively, where a more detailed budget is required and this has been specified in the documents then develop your budget using this as the end template.

FLEXIBILITY AND VARIABLES

Within your budgets you will need to develop some key variables on a separate tab or section that the rest of your spreadsheet will read from. This then gives you the ability to easily alter these variables and see the effect on your budgets. These variables could include hourly wage rates, number of hours for specific jobs, loading for holiday and sick leave, market prices for different materials, interest rates, terms of loans, fuel prices, material tonnages etc.

It also pays to run a number of more detailed spreadsheet tabs for key areas i.e. wages is usually a large percentage of costs, so this can be set up in a more detail in one tab, and the wages summary results used within the main budget. Another one is usually material tonnages and market prices as these can fluctuate seasonally. You may also have to run some tabs specifically looking at comparing pricing provided

by different suppliers for some of the key sub contracted services.

Ideally you would run your budget over 12 monthly periods as this is then useful to upload to your accounting package for monthly comparisons. This monthly split is also required for a cashflow analysis. While you will generally need to be quite detailed for your first year budget, for the subsequent years it may be sufficient to just adjust the annual amount by a percentage rather than reworking the monthly figures.

BUDGET VS CASHFLOW

These are quite different in terms of outcomes, but are closely related and you will need to prepare both. Your cashflow will run from your budget – with your budget generally showing an accounting profit or loss, whereas the cashflow will show whether this budget is cash positive or negative and by how much. Your cashflow will generally include items such as loan repayments, GST, capital expenditure, taxation payments etc that are not included in your budget.



CAPITAL AND FINANCING OPTIONS

START EXPLORING CAPITAL AND FINANCING OPTIONS EARLY

If successful with the contract you will require contract financing. You will need Working Capital for your cash flow (as it will be at least seven weeks from the start of the contract until the first contract payment – and longer if there is a set up period required). You will also need capital for asset purchases for the required equipment to get established.

Generally not for profit organisations struggle with both working capital and capital for asset purchases – in that they usually will not have built up significant cash reserves that they could then invest as working capital or self-finance for the asset purchases, or sufficient asset backing that they could use as security. If this is the case then the solutions will require innovative thinking, networking and especially time as the solutions are usually relationship based.

This is a key area to address early as you may find that you have won the contract but are unable to start due to lack of access to capital. If this is the case then the principal can potentially hold you as defaulting under the contract. If this is going to be an issue you need to address this at the earliest possible point within the tender process with the Principal, even if this results in you not submitting a tender.

Business finance is a very different scenario to financing a house, and is a lot more difficult. Generally if banks or finance agencies were to provide capital for the contract, they would require both a sufficient input of cash from the contract holder plus security and personal guarantees to ensure they are sufficiently covered. Most agencies will not loan anywhere near 100% on capital equipment (unless brand new). So early discussion with these agencies is essential to establish terms and rates. It also pays to invest time looking at alternatives to purchasing if finance is an issue, such as leasing, renting or hiring. However there will always be the need for at least a working capital investment or loan at minimum.

OTHER POTENTIAL FINANCIAL IMPLICATIONS WITHIN THE TENDER PROCESS

Within tender documents some key requirements by the Principal could affect your ability to borrow or finance the contract. These items include insurance certificates, bond requirements etc. Generally your insurance certificate will be required to be in place at time of tender close, so you may have to prepay this insurance. In many cases the contract Principal requires that a bond (which is a percentage of the contract price) is provided. This will require a bank or a finance institution providing a certificate of bond which will only be provided if this bond is covered with some form of security by the contractor i.e. cash, asset or personal guarantee. This will usually result in limiting your organisations ability to borrow as some of your freehold assets maybe tied up until the end of the contract.

ONGOING FINANCIAL MANAGEMENT AND SUPPORT

It is important to include sufficient skilled resource within your tender budgets for ongoing administration and financial management both within your organisation and also externally where and when needed. Winning the tender is only a small part of the process. The establishment and ongoing maintenance of a sound financial system is essential. It is critical that your organisation and key stakeholders (and potentially the Principal if an open book process) know accurately how your organisation is financially performing against the contract. This requires a skilled financial person who is able to record and report accurately in a timely manner, as well as preparing and updating forecasts and looking after the other financial systems and filings. Please do not underestimate the importance of this role.

SUMMARY

If you are going to enter the tendering process then give yourself the best chance:

- Invest sufficient resources and money in the process
- Gather together a strong and experienced tendering project team
- Develop your methodology

Prepare your budgets and cashflows:

- Set up so you can alter key variables and methodology
- Ensure output matches with tender requirements
- Check you have met tender requirements ie bond and insurance

Review working capital and asset purchase requirements:

- Ensure you can obtain access to the capital required
- If not develop a plan and start working on it immediately

On-going Financial Management:

- Ensure you have required skill level employed internally
- Access outside expertise and mentoring

