



power to  
change

business in  
community  
hands



# The community business success guide to contracted and commissioned services

OCTOBER 2019



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# Contents:

Introduction – who is this guide for?	3
Community business and contracting	5
What’s the difference between earning income from contracted services and grants?	9
How do I decide what’s right for my community business?	14
What can we learn from organisations which are non-profit but not community businesses?	24
Community-oriented growth strategies	31
Top tips for all community businesses	35

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# 1. Introduction – who is this guide for?

This guide is for you if you are starting to think about tendering to provide services under contract, or want to grow the income you already earn from providing services through contracts and commissions.

Our *Success guide* to providing contracted and commissioned services explores how community businesses can develop income streams through winning contracts to provide services for their community.

This is the fifth in our series of guides providing facts, figures and guidance to help you plan for a more sustainable future.

As a community business there are many services you can provide under contract. But what will suit your business and the community it serves? There are different benefits and risks associated with this type of income compared to grants or service level agreements. This guide will help you decide what is right for you.

We've looked at the activity of 60 community businesses across England who are commissioned to provide services through tendering for contracts, to provide some benchmarks to help you with your own business development. We've drawn up some guidelines, hints and tips from what we've learned,

although these can never replace the peer advice, local knowledge and community engagement that really help community businesses flourish.

We've identified examples of several business models and approaches for you to consider – these are the different approaches being used by community businesses that have already successfully introduced or enhanced their contracting activity as an income stream. We've also included insight and observations from larger organisations from other parts of the non-profit sector that aren't community businesses.

Learning from what others have done can give you a sense of what is achievable, but it's not only important to compare your business with others that operate in the same way but also with those that share other key characteristics – like scale, location and facilities. You might find it useful to gather a list of similar organisations to see what you can learn from comparing their performance to yours and the benchmarks we have presented.

We also look at the contribution made by other revenue streams like grants, donations and sponsorship. If you're considering what else might bring you additional income other guides in the popular 'Success' series can help you explore things like retailing, lettings, room hire or running a café. You can find these at [www.powertochange.org.uk/research-type/guides](http://www.powertochange.org.uk/research-type/guides).

## A note on our research and the findings

Our study focuses in on the activity of 60 community businesses who are commissioned to provide services, as well as a comparative analysis of the financial performance of more than 280 community businesses across England. All community businesses included in this comparative sample have received or applied for grant funding from Power to Change, the independent trust supporting community businesses in England. As well as using data from the Charity Commission, the Mutuals Register and Companies House, we interviewed organisations that were already contracting.

The benchmarking data is presented as percentages of total turnover – a simple way to compare yourself with other organisations. The income and expenditure figures do not always add up to 100 per cent as not every organisation draws income from every stream or faces the same range of costs. We've rounded the percentage figures where that makes things simpler, or where more detail was unnecessary.

You'll notice we often use 'median' values, as they represent the mid-point of any range of income or expenditure figures and provide a better sense of what's 'typical' across the range of community businesses we studied.

## 1.1. How this guide can help you

If you're a community business that's considering taking on contracts to cover the costs of supplying a service to your community, or are already delivering services under contract and want to make your community business more sustainable, you'll have questions. We hope this guide will help you get started, with some of the answers you're looking for:

- What are the differences between grants and contracts and what difference does it make to what we do?
- What are the different ways we can earn income from commissions and contracts?
- What are the costs involved?
- What skills and experience do we need?
- How do I decide what approach is right for us?
- What lessons can we learn from other kinds of organisations?

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## 2. Community business and contracting

As a community business, there are many services that you might like to provide for your community and a wide variety of ways to cover the costs of delivering them. Although many community businesses successfully rely on volunteers or grants to enable them to continue serving their community, others have found that providing services under contracts offers a reliable, sustainable way to generate income and cover costs.

Contracts are typically awarded to community businesses that have competitively tendered to supply services on behalf of larger public sector organisations like local authorities, NHS trusts and central government departments such as the Ministry of Justice or the Department for Work and Pensions. But smaller local providers like schools and care homes also commission some of their services from the community business sector. The kind of services provided in this way are usually free at the point of use, and the community business will therefore not be taking payment from the user. We use ‘contracted services’ throughout this guide to refer to all these kinds of arrangements.

We’ve gathered information and insight from numerous community businesses, of various size and business model, looked at characteristics of successful approaches, identified trends and opportunities, to help you decide whether contracting would work for you.

### 2.1. What kinds of community businesses provide contracted services?

Community businesses operate in very different ways and this guide uses the terms used by Power to Change to identify the primary focus of the various common types of business in the sector – ‘community space, hub or centre’, ‘employment support or training’, ‘mental health and wellbeing’, for example.

Among the 282 community businesses we researched who had applied for or received grants from Power to Change, the 60 we identified as delivering contracted services typically fell into one of three distinctive groups, regardless of their main focus of activity:

- **Contracted services (60)** – applicants and grantees where contracted services are worth over 3.5 per cent of turnover, including those social enterprises where contracted services are a major focus of activity:
  - **Multiple contracted services (12)** are winning contracts in more than one area of service provision – such as *Fair Ways*, which delivers a comprehensive range of services to children and young people, including social care, support, training and education services. These services can include contracts for childcare for individual children and residential, community-based parenting assessments for local authorities and HM Court Services.
  - **Larger organisations (17)** delivering contracted services with an annual turnover of at least £1.5 million.

Around a third of businesses in each of the three groups had received grants from Power to Change.

Although the numbers in the sub groups are small, it's still possible to learn from comparisons between the various types of business.

Table 1: Proportions of community business types that provide contracted services (%)

Sector	Community businesses	Contracted services	Multiple contracted services	Larger organisations
Arts centre	4			
Business support	1	2		
Community café	4	3	8	
Community shop	2	2		
Community hub or centre	40	20	34	18
Conservation of the environment	5	2		
Education support	10	2		
Employment training or support	10	28	34	6
Energy generation	1	2	8	5
Food catering or production	2			
Mental health or wellbeing	2	5		12
Physical health or wellbeing	8	12	8	29
Provision of housing	4	5	8	18
Sports facility or activities	4	3		6
Transport	2	14		6
Visitor attraction	1			
<b>Sample size</b>	<b>282</b>	<b>60</b>	<b>12</b>	<b>17</b>

Community hubs and centres are the most common type of community business, with many earning from contracted services across several sectors, e.g. employment advice and mental health. Notably, a third of the *multiple contracted services* group are based in a community hub. Those providing employment training and support also tend to provide multiple contracted services.

Housing, mental and physical health and wellbeing tend to be delivered by *larger organisations*, while single service providers with lower turnover are those that tend to be contracted to provide employment training or support and transport.

The near absence of arts centres, food producers and visitor attractions does not mean that contracting is either incompatible with or unattractive to these businesses but rather reflects a lack of evidence of them contracting at a scale that would make them visible in our analysis.

Although we focus on community businesses delivering services under contract with a commissioning organisation, we also included other typical non-profit organisations in our *contracted services* group that don't strictly meet the Power to Change definition of 'community business' (locally-rooted, with broad community impact, accountable to and trading for the benefit of the community), but from whose experiences we can still learn a great deal.

These businesses tend to be much larger, with an average annual revenue (at £804,000) that is more than three times greater than the average for community businesses as a whole (£230,000).

The contribution that contracted services makes to revenue also varies greatly from almost nothing to 100 per cent of community business income. We chose 3.5 per cent of revenue from contracted services as a lower cut-off for inclusion in this guide.

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# 3. What's the difference between earning income from contracted services and grants?

While many community businesses successfully rely on grants, others clearly prefer contractual arrangements, and the variety of both these income sources mean that others also, particularly smaller businesses, draw on a mix.

Individual local authorities, central government departments, trusts and foundations and commissioning organisations operate in such different

ways that it's only really possible to suggest broad characteristics. Figure 1 indicates broad trends so that when you are looking at sources of income you can work out where you think they sit on these criteria.

Figure 2 illustrates set of pros and cons to these two different types of income for you to consider and adjust as you see fit.

Figure 1



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## Grants

Discretionary spend

No VAT

Local provider preference

Shared risk and willingness to accommodate changes vs. plan



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## Contracted services

Statutory responsibilities

VAT-able

Large provider preference

Risk devolved to service provider, limited accommodation of change vs contract

Figure 2: Pros and cons of grants and contracts

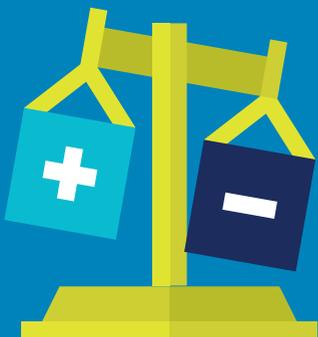
# Pros

## Grants

1. early stage testing of ideas
2. pump-priming
3. early growth
4. ongoing service costs (from limited grant funders only)
5. reduces/removes need for ongoing volunteer-delivered services/debt finance/donations to cover cost of provision

## Contracts

1. statutory services – longer-term commitment from the commissioner
2. longer notice period for cuts
3. may offer longer-term contract than usually seen with grants
4. contribution to overheads is expected in budgets
5. opportunities to bid for contracts beyond your 'home' territory – may suit those organisations who wish to increase their total turnover and achieve economies of scale



## Cons

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### Grants

1. discretionary spend – means cuts likely to come harder and sooner than to statutory services
2. funds may disappear with little notice
3. can be hard to recover overheads at a realistic level
4. more grant-funders are setting the strategy for the areas they want to fund – this can mean fitting in with their plans which may not be a good fit for your community
5. limited opportunity to shape grants to fit the vision and needs of your community

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### Contracts

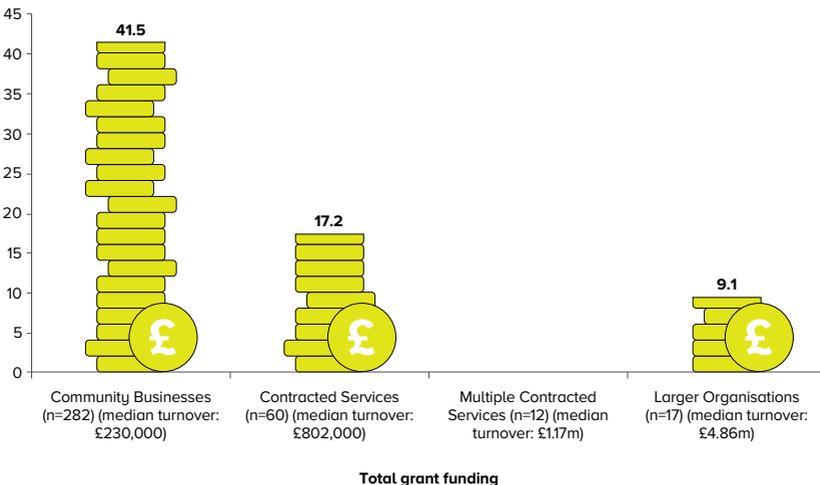
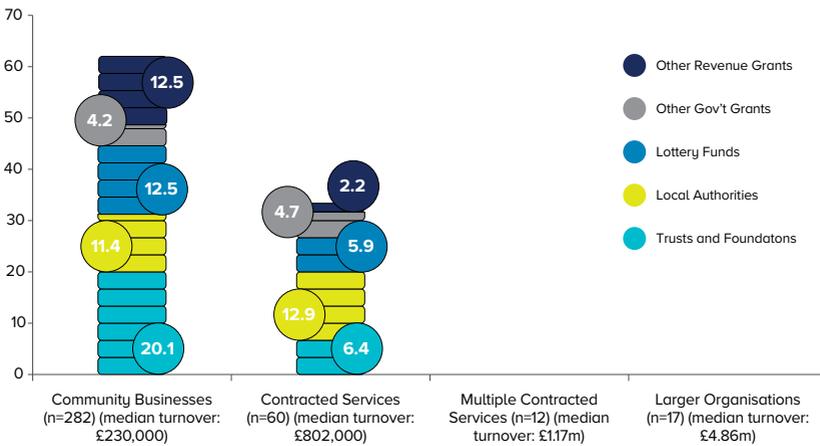
1. actual level of delivery in subsequent years may be higher or lower than originally budgeted and you may not be able to renegotiate terms
2. it is entirely the responsibility of the contracted organisation to ensure the sustainability of the finances of the contract (including the responsibility for TUPE'd staff and their pension commitments)
3. much less flexibility if outputs deviate from what has been contracted, are not what is actually needed in a community, or if payment is linked to results
4. funder less likely to be committed to helping drive demand, and will expect supplier to generate users



Those providing contracted services are less dependent on grants than other types of community business – typically just under half the level of grant funding (17 per cent) than is received by the wider community business sector (41 per cent). *Larger organisations* receive

fewer, proportionally smaller grants – just a quarter of what’s granted to *community businesses*. Less than half of *multiple contracted services* receive any grant funding, but when they do it’s near equivalent to levels for *community businesses* in general.

Chart 1: Grant income as an average percentage of total turnover (2015)



Further analysis of the data shows:

- *Community businesses* and *contracted services* enjoy similar levels of support from local authorities, as they also do from other government sources.
- *Contracted services* infrequently receive grants from sources other than local authorities.
- The larger the organisation the less likely they are to be receiving frequent grants of any scale, and the relative importance of these income sources decreases with the size of their business.

As our analysis draws on information from 2014–15, it won't reflect the impact of subsequent austerity measures and budget cuts on many areas of local authority spending.

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## 4. How do I decide what's right for my community business?

You might already see how you can generate income from securing contracts for services you already provide, or you might want to explore developing new services to deliver in this way. But it doesn't suit all community businesses, and the decision about whether or not to explore contracting depends on the needs and wants of the community you serve, the facilities, human resources and experience you have available and an assessment of the potential benefits and risks involved.

Larger organisations with higher turnover are inevitably very different from smaller operations and there are even two distinct groups within that larger business sector. Some have chosen to specialise in a single area of operation, like employment advice for schools, hospice care or re-training for those within the prison system – while others contract to provide multiple kinds of services to their community. Although large, these organisations may well continue to have strong connections with a particular community with the aim of providing as joined-up a range of services as possible within the limits of what commissioning organisations put out to tender in their contracts.

It's worth noting that even the larger organisations we surveyed are relatively small by comparison to some of the organisations who deliver contracted services across multiple locations in sectors such as drug and alcohol services. There's fewer things that many community businesses can learn from organisations whose annual turnovers regularly top £100 million.

While growing total turnover is not necessarily an appropriate goal for all community businesses, there are some areas in the sector where the economies and efficiencies achieved through scaling up do start to matter. If that sounds like your business, it's not so much a matter of whether to grow your service, but how.

Igor Ansoff's celebrated ideas on developing business strategy from the 1960s continue to provide a simple way to consider the main options for sustainably expanding your market and whether it's your services or the community you provide them to that might drive your development.

Figure 3: Ansoff matrix

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# Same services



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## Same community

### *Market penetration*

deliver our services to an increased proportion of our community

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## New community

### *Market development*

take our core service offer and expand the reach so that we connect to other communities locally

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# Different services



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## Same community

### *Service development*

provide new/additional services to our core community

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## New community

### *Diversification Strategy*

add new services to our offer in response to the needs of other communities locally

If you are already running a contracted service, there are several ways to expand – to other client groups that your service might be suitable for within your existing geographical reach, for example, or there may be other schools that you could provide services for or other care homes that might also have a need. When you have identified potential partners, you'll need to consider whether you'll be delivering the same service or adjusting it to make it suitable for a new funder or group of customers. Existing frontline staff can help in the design and review of new services as they not

only know the existing community well but will also have ideas about how services can best meet the needs of new clients. Extending the reach of your service can bring other opportunities to your organisation, staff and volunteers as well as your new potential clients.

You might look outside your immediate neighbourhood, and see whether the same or similar services could be offered in nearby locations or for other boroughs.



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## Adviza

Adviza was originally established in 2001 as Connexions Berkshire, delivering careers guidance as part of the national Connexions service under a direct contract with central government. When Connexions budgets were devolved to local authorities in 2006, it successfully bid for Connexions contracts for Buckinghamshire and Oxfordshire in 2008. Connexions Thames Valley, as it had been renamed, became a registered charity that year.

In July 2012 the charity's name was changed to Adviza and it rebranded. From October 2014 to October 2018 it was the prime contractor for the National Careers Service in the Thames Valley region and since October 2018 they have been prime contractor for the South West and Oxfordshire region, providing free, impartial advice to everyone in the area aged 19 and over.

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You might consider providing additional services to your existing clients, such as hair appointments for an older persons' lunch club, signposting other facilities and events you provide in your community centre or follow-on services not part of your client's contract.



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## Glamis Hall

Glamis Hall offers VIP treatments such as hairdressing or assisted bathing to the over-50s after their three-course meal at lunch club. This enables the organisation to help the older members of its community benefit from the services on offer at the hall, without requiring additional transport on a separate occasion, which some would find difficult.

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### 4.1. Generating revenue from your venue

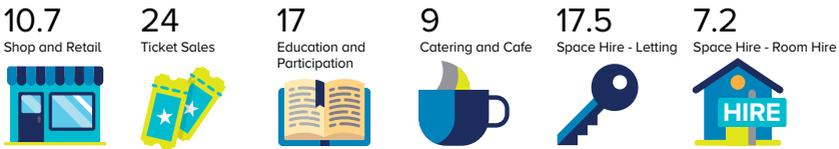
If you operate from or manage facilities at a venue, there are a wide variety of ways to enhance your income, and contracts can play a part. It is little surprise that it's venue-based community businesses that draw the greatest proportion of their revenue from their activities on site – like retailing, ticket sales and room hire. Venue-based activity can provide a significant proportion of income for those businesses that deliver contracted services (17 per cent for *multiple contracted services* and 24 per cent in *larger organisations*) but it's difficult to generalise about what's typical as no single type of venue-based income is common to businesses that provide services under contract.

But what is clear is that as an organisation increases in turnover, its venue-based income will increase as a proportion of total turnover. Given that *larger organisations* have

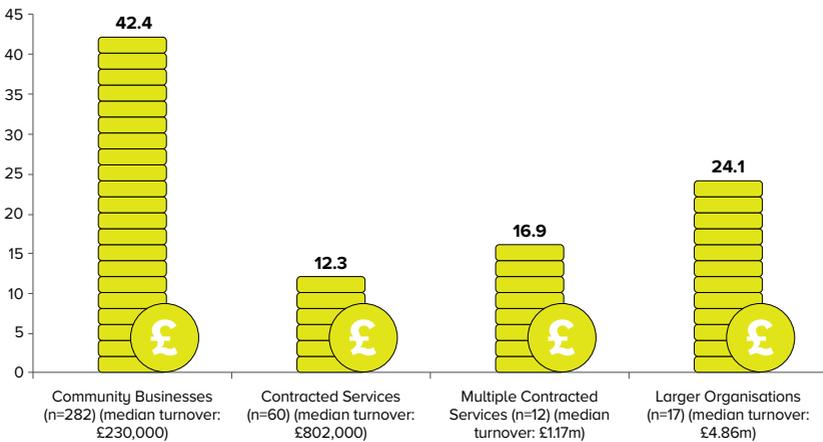
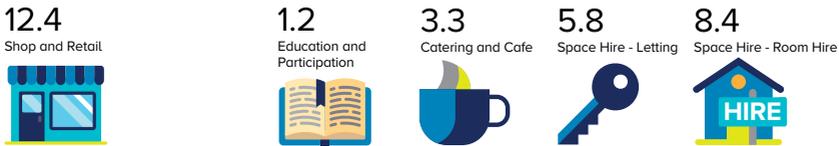
a higher median average turnover (£4.86 million) this means they can also generate considerably more income from their venue in cash terms.

Chart 2: Venue-based income sources, as a percentage of total turnover

Community Businesses (n=282) (median turnover: £230,000)



Contracted Services (n=60) (median turnover: £802,000)



Total venue based income

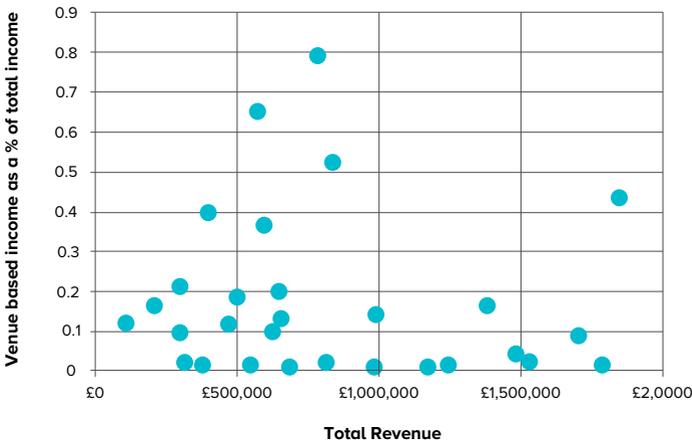
Further analysis of this data shows:

- Across the Community Business dataset, organisations receive an average of 42% of their revenue from venue-based sources. By contrast organisations in Contracted Services achieve an average of around 12% from their venue-based activities.
- Multiple Contracted Services achieve a higher venue-based income than the general Contracted Services Group (17% vs. 12%).

- Larger Organisations generate roughly double the percentage of revenue from their venues (24%) as the Contracted Services group (12%) of which it is a subset i.e. as an organisation increases in turnover, its venue-based income increases as a proportion of total turnover. Given Larger Organisations have a higher average turnover (£4.86m vs. £802,000) they also generate a higher level of income from their venue in absolute cash terms.

We also explored patterns in the data regarding the role of venue-based income:

Chart 3: Venue-based income as a percentage of total income



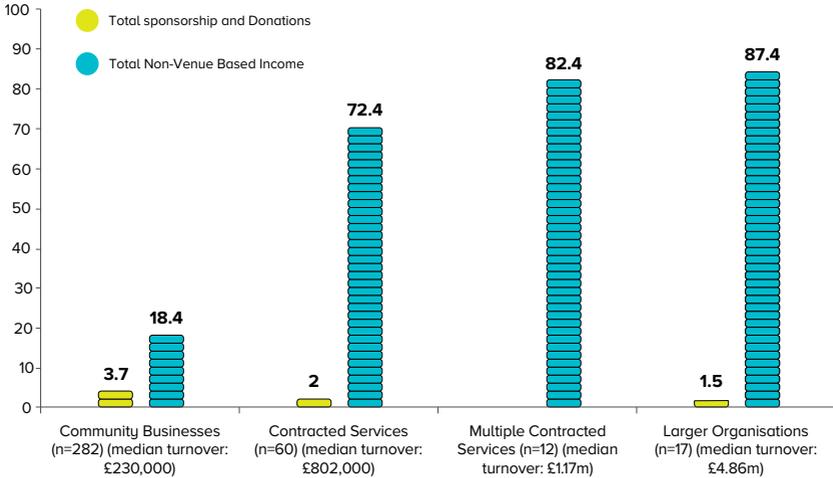
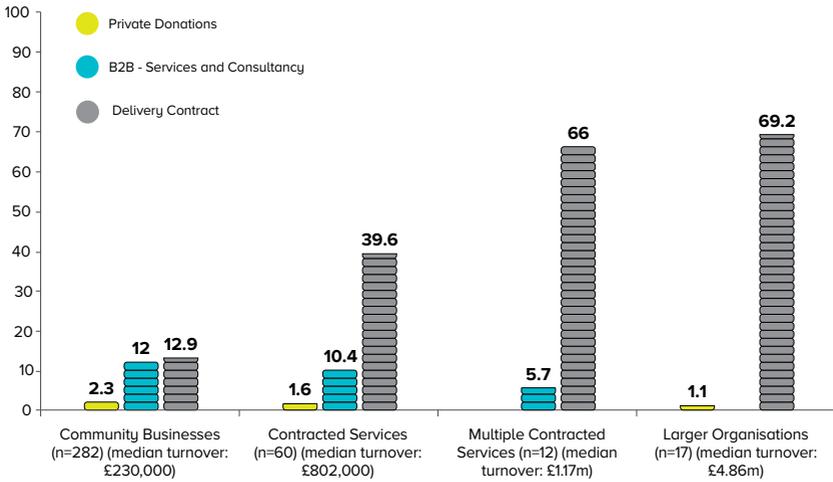
Further analysis of this data shows:

- There are more smaller organisations (<£750,000) enjoying between 10 and 20 per cent of revenue from their venue – together with a few where venue-based income accounts for more than 30 per cent.
- Although *contracted services* are typical of community businesses where room hire is a regular source of income, letting space commonly generates a smaller proportion of their revenue.
- The fact that letting in cash terms is similar for community business (£40,000) and contracted services (£46,000) suggests that letting revenue may reach a plateau unless a community business focuses more exclusively on earning from lettings.
- Half of larger organisations with venue-based income achieve over 35 per cent of their total income from their venues, for example. We can't say whether the larger size of organisation is the cause of the higher proportion of venue-based revenue, just that it exists.

## 4.2. What about other sources of income like donations and sponsorship?

Grants and venue-based income are not the only sources of additional income for community businesses. Our analysis also explored other sources of income, not necessarily derived from venue-based activities. These include for instance delivering contracts, services and consultancy. For simplicity, we refer to these as 'non-venue based' income sources, as they do not specifically require an organisation to maintain a publicly accessible venue. You will want to explore what else you might do to bring in extra money to help make your business plans sustainable.

Chart 4: Non-venue based income as a proportion of total turnover (%)



**Total Non-Venue Based Income**

Unsurprisingly, given the focus on services and specifically contracted services, this is the section where you can see the greatest difference between the three groups of contracted services and community businesses in general.

- *Larger organisations* receive a higher proportion of non-venue specific income (87%) than the community businesses (18%), and mostly through contracted services.
- Those contracting multiple services also tend to have larger overall revenues.
- *Contracted services* derive three-times the proportion of their income through delivery contracts (40%) than community businesses as a whole (13%).
- *Community businesses* and *contracted services* derive similar proportions of their incomes (12% and 10%) from business-to-business services and consultancy. Yet this income source does figure at all for larger organisations in this sector.
- Although *larger organisations* are less dependent on sponsorship and donations, the cash amounts they receive are still notable.

In recent years the value and coverage of services being commissioned have fallen in line with significant cuts in local authority budgets, but you might feel able to regard this as an opportunity. If your organisation can generate ideas for delivering contracted services in ways that offer a lower cost per head, this might be newly attractive for commissioners. Alternatively, you may feel your plans are under threat if you've been relying on contracts where the quality and reach of your services to the community are no longer sustainable as budgets dwindle.

### 4.3. Where does the money go?

The approach you take to developing your business income through expanding the work you deliver through contracts will of course depend on what you need the money for.

We've split expenditure into two areas – direct and indirect costs. For the majority of services you'd consider delivering through contracts, the outgoings will mostly cover staff costs rather than other raw materials, as it's less likely you're making tangible products like furniture or running a shop or café.

*Larger organisations* typically have a higher proportion of their costs going into providing services.

Table 2: Expenditure by type, 2015 (%)<sup>1</sup>

Expenditure Type	Community Businesses	Contracted Services.	Multiple Contracted Services	Larger Organisations
Retail & Shop Stock	9.7	*	*	*
Cost of Goods/ Services	4.1	3.8	*	*
Workshops, Education & Participation activities	7.6	8.3	*	*
Café & Catering (ingredients)	3.2	*	*	*
Total Direct Costs	15.8	18.5	12.8	36.5
Total Salaries Costs (ex NIC & Pensions)	47.3	52.9	57.2	56.0
Rent & Rates	4.5	4.2	4.2	2.7
Utilities	3.2	1.8	*	*
Buildings maintenance	3.2	2.0	*	*
Total Indirect Costs	80.0	80.2	87.8	74.3
Total Expenditure	96.7	98.8	97.6	100.8
Sample size	282	60	12	17
<b>Median turnover (all incomes sources)</b>	<b>£230,000</b>	<b>£802,000</b>	<b>£1.17m</b>	<b>£4.86m</b>

<sup>1</sup> It was not possible to retrieve complete 'expenditure by type' data for multiple contracted services and larger organisations.

Further analysis of the data shows:

- Staff costs account for the largest proportion of expenditure across all categories of community business – from a little under half of all costs for the community business sector in general (47 per cent), up to 56 per cent in *larger organisations*.
- *Larger organisations* face the proportionally highest direct costs across the groups (37 per cent) – double that for *contracted services* (19 per cent).
- *Larger organisations* tend to build flexibility into their direct staff costs as they need to respond more swiftly to the volume of contracts they are delivering – many tend to use staff contracts which are time-limited or associated with specific contract terms, to minimise the burden of direct costs during leaner periods.
- While *larger organisations* make lower contributions to reserves as a proportion of total turnover, they still tend to hold proportionally much higher levels of reserves on their balance sheets than smaller organisations.

When you put together the budget in tenders for contracted services you will need to consider the margin you can make. At a minimum this needs to offer a contingency to cushion the impact of changes in the project during the term of the contract. Ideally it should deliver a ‘profit’ or contribute to ‘reserves’. You don’t only need to meet immediate costs, but build a budget over the medium to long term to cover the costs of innovation and developing your services. As no single contract is likely to cover this, you need to build it into your price for all the contracts you bid for.

Whether you are bidding to commissioners or applying for grants, it helps to track the costs and value of your volunteers. At a minimum you need to understand the cost of managing a volunteer workforce and work that into your budgets. If you are applying for grants there may be an opportunity to put an ‘in-kind’ value to the volunteer time and some grant funders even provide tools to help you calculate it.

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## 5. What can we learn from organisations which are non-profit but not community businesses?

What's clear from our survey is that all community businesses that delivered services through contracts and commissions continued to focus on their communities – of volunteers and staff, of visitors and service-users. And, from the other social businesses we surveyed and the managers we interviewed we picked up some key insight into how you might successfully expand the work you do with those communities through contracting.

### 5.1. Is piloting a service a way to start?

Start small, plan to provide a small-scale service for your community and apply for grant funding for a pilot. Charitable trust funding is useful for innovative ideas and services.

**'Grant funding provides both time and expertise in order to build the business case.'**

**Graeme Williams**  
– Partnership Director, Centre-West

Is there a particular and specific problem for the local authority or health trust that you could tackle in the short term? Perhaps show your expertise or innovative approach by writing a white paper on the subject, or provide a demonstration of your abilities.

When selecting an initial project, remember to have a clear line-of-sight between this new project and your organisation's central purpose and mission. Do not be distracted by solving other organisations' problems, unless they are within the scope of your organisation.

Aim to learn from this project by working closely with your initial clients and community members. Learn about how to deliver the service, look for ways to make it more effective for your clients, perhaps signposting other follow-on services that you offer.

### 5.1.1. Measuring impact

Measure the impact of the service from the start. This should include measuring the status of clients before they encounter your service and their experience during delivery – remember to measure the status at the end of the service and at regular intervals throughout.

While there are specialist consultancies that can help you with setting up impact measurement systems and processes, there are also free resources, such as:

- From the Big Lottery Fund - a guide to measuring social impact: <https://bit.ly/2FtNhmw>
- From The Guardian - a guide to resources and tools to measure impact: <https://bit.ly/2AKyPmc>

As well as measuring hard outputs from your service (such as how many people attended sessions, how many received assistance or the exam grades they achieved), you should also measure soft outputs, such as changes in attitude like becoming more confident. These measurements enable you to show the ‘distance travelled’ by your clients. You can use this information to show to service commissioners and funders that the service has delivered results, and you will understand the extent to which your efforts are effective and appreciated.

Remember your multiple audiences for these measurements – funders, community members, service-users and people within your organisations as well as the wider community.



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## Highfields Community Centre

Since it opened in 1974, Highfields Centre has been the cornerstone of the local community in Highfields, Leicester. It is located in a richly diverse area of Leicester – behind it is a large public housing estate and only two miles away is Narborough Road, frequently referred by the media as ‘the most diverse road in Britain’. The centre is an invaluable resource to all members of the community, and since its independence from the local authority in 2010 it has served more than 500,000 users. In a half-mile radius alone, there are a total of nine state primary schools, making the centre’s space even more important for local young people.

Highfields put in place a framework to measure impact, and are now used to responding to tenders in the language expected. They have also hired staff for specific fund-raising and bid-writing projects.

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### 5.1.2. Proving the business model

Consider it a task within a starter project to prove that the business model associated with your service works. This might be as simple as understanding the costs associated with setting up and running the service and identifying the current budget holder, contracts commissioner or relevant grant process. Understanding the business model for the new service offering may also include the effects on the rest of your existing business model – using a room for a service rather than hiring it out, for example, or additional custom at the café from service users. These effects may cost money, generate income or both.

Flexibility is key when starting a new service, and flexibility of employment contracts tends to benefit the employer more than the employee. So, remember that you can provide additional staff benefits, such as training courses or continuing professional development to compensate for a lack of permanent contracts.

## 5.2. Delivering as a sub-contractor

Many service commissioning organisations set stringent conditions on the providers of contracted services. These often include conditions about the size of organisations that are allowed to be 'prime contractors'. Providing the services as a sub-contractor to a prime contractor may be the way to start. Talk to the community and the commissioners about the client need and provision, and talk to larger partners about the potential to sub-contract and particularly what issues you might resolve for them as part of a contract.

Learn from providing these services – what reporting do you need to put in place and do you need to introduce staff qualifications or training? Are there procedures or policies that will be required for the sub-contract?

Sub-contracting has its own risks and the level of service provision may be reduced or changed within the term of the contract, for example. This may fundamentally alter your ability to recover your costs – especially if the contract is weighted so that you incur a greater level of cost at the start which is offset by income later on.



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### Bounce Back

Bounce Back is a training organisation with three training centres within HMP Brixton, with a focus on getting people into paid employment in construction.

The prison training centres follow the success of the community training centres, improving their ability to work inside and out. The centre gives inmates a rare opportunity to learn skills and gain qualifications so they are better prepared for employment on release, and resist re-offending. The community centre also recruits ex-offenders after their release.

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#### 5.2.1. Using volunteers

Individual volunteers may bring special qualities and experiences to their role within a service contract. They might have been a service-user themselves, or have a specialist skills such as guitar playing which would not be realistic to hire for. Few organisations used volunteers to deliver the primary service, but many felt that the services that they delivered were enriched by the volunteers playing a part in the organisation.

If volunteers and volunteering remain at the core of your purpose and vision, think imaginatively about where volunteers can enrich the service provision as well as their own lives. Think about where volunteers can assist with the running of the organisation or its buildings and facilities.

### **5.2.2. Divestment of services and staff**

If a local authority, NHS trust or other commissioning organisation is contracting out services which have a pre-existing staff team under the Transfer of Undertaking (Protection of Employment) Regulations 2006 (TUPE), then this may lead to staff being TUPE'd over to the organisation running the contract. While this handover of qualified staff to deliver the contract is important, the staff may come with a pension liability from their time as employees of the NHS or local authority, alongside the requirement to maintain their existing salary and pension contributions. There is the potential for considerable complexity in such cases, and we'd advise you to take specialist advice to prepare for any negotiations with the commissioner.

Even without responsibility for pre-existing pension funds, the contract must be profitable enough over its lifetime to cover any other redundancy costs, should the contract not be extended beyond the initial term.

## **5.3. Managing risks**

Risks may grow as organisations grow their turnover or increase the proportion of their total revenue from contracted services.

### **5.3.1. Keep in touch**

Most successful contracted service community businesses keep in contact with contract holders on a regular basis, even as often as weekly. Contacts range across the whole of the organisation – from frontline staff working alongside colleagues from other organisations, finance departments, to commissioners, elected officials and organisation leaders. Build a culture to deal with problems quickly and share the learnings with and from these contacts.

Support the flow of information, which may be as simple as asking if anyone has anything to report at the regular monthly staff meeting, or involve messaging technology such as emails or business messaging systems in larger organisations. Some organisations will hire specialist staff to manage the contracts and may look for people who bring experience of working for commissioning organisations as an efficient way to build the skills in their organisation.

Forging strong relationships across the funding/delivery divide will enable you not only to understand how well your organisation is fulfilling expectations, but also acts as an early warning system when the tone of the relationship, expectations

or circumstances change. This is not just a defensive policy, it can also highlight opportunities for the organisation.

### **5.3.2. Partnerships are for the long term**

Working collaboratively can combine skills and manpower, highlighting joint strengths or overcoming weaknesses in your own organisation or your partners’.

Be prepared to partner with larger as well as smaller organisations. Offering flexibility, such as your delivery capability, for larger partners can also provide you with valuable experience in new areas. An existing relationship means you will be in mind if the larger partner has opportunities that it can’t immediately exploit or may not be part of its remit, but may be within yours. When you develop partnerships, consider the extent to which your values align not just what services you can provide.

### **5.3.3. Don’t put all your eggs in one basket**

When organisations that provide contracted services grow, they tend to specialise and pursue a higher proportion of their total revenue from the provision of one type of service. However, organisations that provide specialised contracted services can be vulnerable to changes in policy or environment outside their own control.

Community transport providers that have relied on contracts for transporting patients to health appointments, for example, can face urgent and insurmountable problems if the nature and pricing of their service is changed centrally. Care home providers have also argued they are being paid insufficiently for the quality of service that they wish to provide.

Contracts can provide longer-term income for innovation than grants – Wellspring Healthy Living Centre’s service delivery, for example, is paid for via contracts with the NHS for social prescribing. And while public sector contracts are not without uncertainty, having a balance of long-term contracts like those with the NHS or a local authority, grants for innovation and trading income can help manage the risks associated with any one source.

### **5.3.4. Look at each contract separately**

It is important to consider the profitability of each contract you take on. It should pay for the costs of delivering the service, and for its contribution to overheads such as rent and other staff. Some degree of ‘contingency’ will also cover costs which cannot be foreseen at the point of winning the contract, or offset the risks of contracts being reduced in subsequent years where the contract terms allow for annual renegotiation.

Continuing to deliver an unprofitable contract must be a strategic decision taken by your trustees, as they are responsible for financial solvency and resilience and may choose to use reserves to support an otherwise loss-making contract. Clearly this is not sustainable over the long term and some larger organisations specialising in contracted services would argue that each contract must break-even at a minimum. Other business models might deliver regular surplus to pay for loss-making service provision. But no-one would advocate costing contracts at prices which are expected to make a loss.

#### 5.4. What are the benefits of being a larger organisation?

Economies of scale mean that, as organisations increase their total turnover, the overheads like rent, rates, insurance, utilities and governance form a smaller proportion of the overall costs for the organisation. In large contracted services specialist non-profits (over £10 million turnover) this can mean that overheads drop as low as 15 per cent of total turnover. In smaller organisations 25 per cent would be typical.

Larger organisations are usually also able to negotiate better interest rates on debt and become adept at actively negotiating many of their indirect costs from services like insurance or telephony.

They are likely to have specialists in evaluating impact and managing contracts, whose experience is invaluable in bid-writing and they often use specialist software to manage projects and track contracts. Smaller organisations will not always have the resources to hire specialists, but might consider relevant experience when hiring for other roles or hiring staff for particular contracts.

Trustees are a great source of specialist knowledge and expertise and you shouldn't be shy of advertising for trustees with specific expertise – perhaps in commissioning or tendering.

Larger organisations do not tend to deliver all their services from their own building. You can resolve the challenge of having insufficient space in the right locations in a community by delivering services from others' premises, or taking on more suitable, even purpose-built premises.

## 5.5. Community-oriented growth strategies

We've taken some of the key things we've learned from our research to create two fictional businesses to help guide you through some of the choices you might face when building your business through contracting.

	Educate to Earn	Joined-up Hub
Grants	£1,500,000	£300,000
Sub-letting and room hire		£50,000
Services and commercial activities	£1,000,000	
Contracted services	£4,500,000	£3,000,000
<b>Total income</b>	<b>£7,000,000</b>	<b>£3,350,000</b>



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## Educate to Earn

Educate to Earn started up delivering careers advice and guidance across a large rural community in Northern England. When payment for this work shifted to a contracting model, the team at Educate to Earn decided they needed to grow if they were to continue serving the diverse rural communities within their region. This meant growing to a point where they could serve multiple local authorities, not just the one where they'd started.

The challenge was competing for Connexions contracts to help people into employment against a variety of experienced commercial as well as non-profit businesses. Drawing on their experience of similar work in their local authority area, they built new partnerships with local schools and colleges and worked with youngsters in their community facing multiple disadvantages, to develop new support services to help individuals with learning difficulties or physical impairments overcome barriers to employment and developed a distinctive new offer for the new territories they were pursuing.

While the depth and variety of their engagement proved so successful in expanding their service offering in line with their existing core vision, they also pursued additional income streams.

Winning European social project grant funds has helped make their business more sustainable, as it allows them to deliver services not covered by local authority contracts and start developing innovative programmes and services which wouldn't otherwise have been possible. This work has grown to a point where it contributes 20 per cent of turnover. The staff writing and managing these large grant programmes are part of the wider business development team that develops tenders for contracts and manages the reporting of outputs, outcomes and impacts.

Educate to Earn has also started earning from providing psychometric testing services to a number of large commercial businesses in their region. This has enabled them to generate profit that helps fill any shortfalls from less fruitful contracts.

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## Joined-up Hub

Like many other community businesses, Joined-up Hub started small twenty years ago. The core focus of the organisation has been providing services for poorer families facing a complex range of challenges – disability, drug and alcohol dependency, special educational needs – exacerbated by a lack of affordable housing and employment options.

The team at Joined-up Hub understood that they needed to adapt to policy shifts that changed how their services would be paid for. They decided that growing would enable them to meet the eligibility criteria for bids to supply services in their core service area – counselling, advice and support to families within five miles of the building housing their hub.

This changed their business model, shaping new partnerships and inspiring a merger with a hub seven miles away. They needed to scale up, as lead organisations tendering were required to be turning over more than £1 million – at the time, their turnover was half that.

To make this kind of significant change they needed to work in partnership with other organisations, jointly delivering in areas where previously they lacked the appropriately-trained staff. Having researched the community's requirements and identified gaps in the existing provision, they were in a much stronger position to select suitable partners and develop appropriate new services for commissioners. They were now more able to offer the right quality and reach of services, that met both commissioners' requirements and community needs more effectively and, for Joined-up Hub, more profitably.

Where there remain gaps in their capacity or capability, grants have helped. As a lead contractor focusing services on one half of a city, they are ideally placed to help identify gaps in provision elsewhere, and how those might be filled effectively with grants they're likely to secure. They have become almost uniquely capable of tracking how contracted and grant-funded services are working in their area, with the impact-measurement framework they're already successfully using across the services they deliver under multiple contracts and grants. They're now able to demonstrate the effectiveness, impact and value-for-money of their delivery more persuasively in reports for clients and applications for further funds or contracts.

Running their bid and grant-writing team and its associated software and staff is costly, but as they are such a reliable large-scale customer for other services and suppliers they've managed to free-up funds to help over these overheads by renegotiating the cost of some of their contracts for everything from insurance to accountancy and telephony.

Although they've grown, their non-staff overheads have remained fairly static at around 15 per cent of turnover and, while they find it difficult to put more than one or two per cent of their income into reserves each year, they do hold sufficient reserves to cover six months of running costs and, to date, each contract has covered all of its related costs.

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## 6. Top tips for all community businesses

From our work with organisations already successfully providing contracted services, we picked up some valuable tips for community businesses looking to grow their income from contracts and commissions:

- Be imaginative with staff benefits if you cannot offer permanent contracts – provide training or ongoing professional development, flexibility in hours or a reference/referral system.
- Expect your contracted service revenue to dwarf and replace your grant-based income as you grow.
- It is important to consider the profits for each contract. Any un-profitable contracts must be supported by your trustees.
- Collaborate and co-operate with others.
- Consider the effects of any new contract on other elements of your organisation.
- Measure the impact of your service, from the start – soft impacts on peoples' lives as well as hard impacts on their circumstances.
- *Larger organisations* tend to be more financially resilient, with capital reserves and lower overheads (as a proportion of their total income).
- Letting revenue is common in contracted services, but tends to plateau at £40,000–45,000 as service provision competes for space with letting tenants and the income they represent.
- Organisations working in housing provision or providing physical health and wellbeing services show higher capacity to scale.
- Find and learn from community businesses that are in the same position as you. Share your experience with others.

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