

# **PILOT PROJECT: FINANCIAL ADMINISTRATION SUPPORT.**

## **An Introductory Statement for ARCH Members**

## **1. Background**

In 2001 ARCH conducted an assessment of the challenges facing housing cooperatives in NSW. In response to the 2001 assessment, OCH funded ARCH to develop a pilot project for establishing a secondary cooperative to assist cooperative members in meeting the challenges identified.

A secondary cooperative is a structure that provides support, training, and/or advocacy services to other cooperatives. A paper on the nature and functioning of secondary cooperatives internationally and in Australia accompanies this brief and interested tenderers are advised to read it before tendering.

Through consultation with its membership, ARCH identified maintaining requisite standards of financial administration and accountability as of particular concern and one which members were eager to have addressed through the pilot secondary cooperative.

Cooperatives, like other not for profit organizations, have come under increasing pressures in this area in recent years. Board members find they require higher levels of expertise and knowledge to meet the standards, levels they do not possess and which it would take them time to acquire through available training methods. The standards also require increasing investments of Board members time, time which takes them away from other important areas of management of their cooperative.

All cooperatives currently contract certified professionals to conduct their annual audits, as they are legally bound to do. Some cooperatives purchase book-keeping services, and others purchase some of the financial administrative services that are the subject of this pilot project.

This pilot project will build on and consolidate these current practises and extend these services to other cooperatives that are members of ARCH.

The pilot project will run for 12 months.

## **2. The Pilot Model**

### **2.1 The choice of a brokerage model**

In the review of secondary cooperatives operating overseas, two basic models emerged:

1. Where a body such as ARCH provides the secondary services directly through staff hired by the organisation. The main kinds of secondary services provided in this way in other countries are training and cooperative development, policy and regulations advice, advocacy on behalf of individual members and advocacy on behalf of the cooperative sector as a whole. These are the kinds of services ARCH already provides. Some also provided mediation services

and bulletin board/referral sites for people interested in being cooperative residents.

2. Where a body such as ARCH acts as a broker of the secondary services on behalf of its members. In this situation, the role of the body such as ARCH is to identify potential providers of the service, certify them in some way, inform members of the approved providers and sometimes assist members in contracting with the providers. The kinds of services provided through this model were financial administration, maintenance and repairs, legal services, bulk buying, and tenancy management.

On this basis, the model that was most appropriate for the proposed ARCH pilot project on financial administration is that of brokerage.

There are reasons other than precedent for choosing the brokerage model in this case:

1. For ARCH to provide its advisory and advocacy services on behalf of its members, it needs to maintain objectivity in its relationship with all members. This may be compromised if it is a staff person of ARCH who gains detailed knowledge of the financial affairs of one of its members, which would be the case if ARCH directly provided the financial administration service.
2. The situation is made more complex as ARCH is funded by a Government authority (OCH) who may exercise a right over ARCH to disclose financial information about a member if it is an OCH funded staff person in ARCH who provides financial services to that member.
3. If ARCH provides the financial administration ARCH also becomes legally liable for the financial advice and administration it provides. This will mean that ARCH will have to take up potentially expensive liability insurance which it can not afford.
4. ARCH will need to find additional funds for such a staff position. It is unlikely OCH would fund the position. The only other source of funds would be through member contribution. ARCH could raise this by a levy on all members, but this would disadvantage those who do not intend to use the service provided. If ARCH only sought a contribution from those who wanted to use the service, it is unlikely that sufficient funds would be raised consistently to maintain the position, unless members using the service were asked a high fee that would place them potentially in further financial straits.

## **2.2 The workload on members opting in to the pilot**

The extent to which the workload on members opting in to the pilot will be reduced will depend on the nature of the individual contract negotiated between the member cooperative and the approved service providers. Under the terms of the tender put to potential service providers, tenderers can offer the full range of services to a cooperative from the day-to-day handling of income and expenditure (rent, purchase orders, invoices, receipting, cash book entries etc.) to simply providing auditing services where the cooperative continues to maintain day-to-day financial operational control.

Individual cooperatives will make these decisions based on a number of factors which would include:

- The size of the cooperative and the workload financial administration generates.
- The expertise within the cooperative for different levels of financial administration.
- The degree to which the cooperative views its decision-making autonomy as being compromised by contracting out different aspects of financial administration.

### **2.3 The operation of the pilot**

The full operation of the pilot is described in the Tender document which follows.

# **BRIEF FOR EXPRESSIONS OF INTEREST**

## **PILOT PROJECT: FINANCIAL ADMINISTRATION SUPPORT**

### **ASSOCIATION TO RESOURCE COOPERATIVE HOUSING**

July 2003

## 1. Introduction

The Association to Resource Cooperative Housing (ARCH) wishes to engage individuals or companies with expert skills in financial administration for small businesses in an exciting pilot program to provide these services to housing cooperatives in New South Wales.

This Brief contains the following:

- The background to the pilot project.
- A description of the client organizations.
- A description of the services to be provided.
- The nature of the contract relationship for the duration of the pilot.
- The essential and desirable criteria tenderers should address.

## 2. Background

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A secondary cooperative is a structure that provides support, training, and/or advocacy services to other cooperatives. A paper on the nature and functioning of secondary cooperatives internationally and in Australia accompanies this brief and interested tenderers are advised to read it before tendering.

Through consultation with its membership, ARCH identified maintaining requisite standards of financial administration and accountability as of particular concern and one which members were eager to have addressed through the pilot secondary cooperative.

Cooperatives, like other not for profit organizations, have come under increasing pressures in this area in recent years. Board members find they require higher levels of expertise and knowledge to meet the standards, levels they do not possess and which it would take them time to acquire through available training methods. The standards also require increasing investments of Board members time, time which takes them away from other important areas of management of their cooperative.

All cooperatives currently contract certified professionals to conduct their annual audits, as they are legally bound to do. Some cooperatives purchase book-keeping services, and others purchase some of the financial administrative services that are the subject of this pilot project.

This pilot project will build on and consolidate these current practises and extend these services to other cooperatives that are members of ARCH.

The pilot project will run for 12 months.

## **3. The client organizations**

### **3.1 ARCH**

ARCH is a resource and support body for housing cooperatives in NSW. Its members are housing cooperatives. ARCH provides training and advice to its members in a range of areas relating to the management of housing cooperatives. ARCH also acts as an advocate to the Federal and State governments on behalf of its members.

ARCH is the auspice for the pilot project and will enter into a Memorandum of Agreement with successful tenderers for the operation of the pilot project.

### **3.2 Housing cooperatives**

Housing cooperatives are not for profit organizations providing housing for between 8 and 55 households. Members of cooperatives rent their accommodation from the cooperative. Cooperatives are incorporated under the Registry of Cooperatives.

As required by the legislation, each cooperative is governed by a Board made up of tenant members of the cooperative. It is to this Board that the successful tenderers will provide the required assistance. Board members will have different degrees of skill and understanding of financial administration, and this will also vary from cooperative to cooperative.

Cooperatives will vary in their current computer hardware and software and members will also have varying levels of skill in operating these.

There are cooperatives of people from culturally and linguistically diverse backgrounds and also cooperatives of people with a disability. For some of these there may be particular challenges for their Boards in meeting the required standard of financial administration. They may require more specialised support from the successful tenderers.

Cooperative members of ARCH will be invited to be part of the pilot project. Contracts for specific services will be negotiated by the tenderer with each participating cooperative.

## 4. Services to be delivered

### 4.1 Scope of financial administration services

The following scope of services to be provided has been developed through a review of issues identified in selected audits of cooperatives that are members of ARCH and through a review of the kinds of financial services currently being purchased by cooperatives. The scope is not exclusive. Individual cooperatives participating in the pilot projects will negotiate with tenderers the specific range of services to be provided to the cooperative, and there may be services additional to those listed below.

It should also be stressed that the tenderer will be expected to work closely with the Treasurer and other members of the Board on all the activities.

#### (a) Rent record keeping

- Issuing tenant receipts weekly or as required.
- Preparing weekly statements showing rent received (reconciled with the bank statements); rent in advance and in arrears.
- Issuing rent statements to all tenants on a quarterly basis or as requested.
- Conducting regular rent reviews.
- Maintaining of any other payments made to the cooperative by tenants eg. phone, internet, fax charges.

#### (b) Basic book-keeping

- Developing basic recording systems of income and expenditure.
- Maintaining ledgers of income and expenditure and cash books.
- Bank reconciliations.

#### (c) Financial reporting

- Prepare monthly income and expenditure statements.
- Prepare monthly statements of cheque activity.
- Overseeing agreed quotation and other processes for maintenance and purchases.
- Complete annual cooperative financial returns.

#### (d) Goods and Services Tax

- Get cooperatives registered for GST.
- Record all relevant income and expenditure in relation to GST.
- Completing and submitting quarterly Business Activity Statements.

#### (e) Audits

- Prepare books for audit according to National Accounting Framework.
- Conduct audits if required.
- Prepare and present audit reports for Annual General Meetings if required.

#### (f) Budgeting

- Assist with development of Annual Budgets.
- Prepare monthly reports on income and expenditure against Budget.

- (g) Asset management
  - Develop and maintain Assets Register.
  - Develop and implement cyclical maintenance plan.
- (h) Investments
  - Advice on and management of investments.
- (i) Computerised financial administration
  - Develop and maintain computerised financial recording systems on-site at the cooperative premises.
  - Advise on up-dates on systems as developed.
  - Develop and maintain systems of access to on-site information for purposes of off-site administration at the tenderers premises as appropriate.
- (j) Training and on-going support
  - Provision of training to Board members in day to day management of financial record keeping systems developed.
  - Provision of training to Board members in analysing financial reports and in appropriate decision making based on them.
  - On-call support to the Treasurer and other Board or cooperative members responsible for the day to day management of the financial systems on site.

#### **4.2 Standards of financial administration service**

There are three sets of guidelines which provide the framework within which the services will be provided and the standards they must meet.

1. NSW Cooperative Housing Program Operational Guidelines 1998 (Office of Community Housing).
2. National Community Housing Standards 1999 (National Community Housing Forum).
3. National Accounting Framework.

Relevant parts of these guidelines are attached to this brief.

## 5. Implementation of the Pilot Project

This is an unusual project, and tenderers should carefully read the following section which outlines the steps for implementation of the pilot and the relationships of the various parties in the Pilot.

### 5.1 Management of the pilot project

The pilot project will be managed by a Working Party of ARCH. The members of the Working Party will be drawn from representatives of the cooperatives participating and the ARCH staff.

The Working Party will be responsible for the following:

- Development of the final policies and procedures for managing the project.
- Invitation and selection of tenderers.
- Entering into Memoranda of Agreements with successful tenderers for engagement in the pilot.
- Support of participating cooperatives in negotiating individual contracts with tenderers.
- Monitoring the implementation of the pilot.
- Resolving issues that arise over the course of the pilot, with specific reference to matters covered under the Memorandum of Agreement.
- Evaluation of the pilot and developing the policies and procedures for the on-going program should the pilot be successful.

### 5.2 Implementation Steps

#### Step 1

ARCH calls for Expressions of Interest from financial services providers via this present Brief.

#### Step 2

Interested providers forward a tender to ARCH using this Brief as the guide for the information required in the tender.

#### Step 3

The Working Party of ARCH for this pilot project selects successful financial service providers for the pilot.

#### Step 4

Financial service providers who wish to proceed with their involvement in the pilot enter into a MOA with ARCH. **This is not a contract of employment with ARCH.** It is only a MOA to cover participation in a pilot project within the terms of this Brief. The MOA is described below.

#### Step 5

Housing cooperative members of ARCH who are participating in the pilot project will be sent information on the successful financial services providers. Each member cooperative will select which services provider they wish to contract with to provide the financial services they need.

**Step 6**

A member of the staff of ARCH will facilitate a meeting between the member cooperative and their selected service provider at which a formal contract of services will be drawn up for a range of financial services agreed between the cooperative and the tenderer. **The formal purchaser – provider relationship is therefore between the cooperative and the financial service provider.**

ARCH will play the facilitator role for two purposes:

- To support participating members who are less skilled in developing these kinds of contractual relationships.
- As part of the on-going monitoring of the pilot project.

Should the pilot project be successful, ARCH will only play the facilitator role at the request of a member cooperative.

**Step 7**

The financial service provider proceeds to service the housing cooperative's needs as contracted.

**Step 8**

The Working Party managing the pilot will receive reports on the progress of the contracts from the participating housing cooperatives and the financial service providers at 3 months, 6 months, and 9 months after the commencement of the pilot.

**Step 9**

At the end of 12 months, the pilot will be fully evaluated. Participating members may choose to continue their contract with the service provider.

If the evaluation indicates the project is successful, ARCH will move to formally establishing this secondary cooperative active long-term.

The diagram below sets out the relationships during the pilot period.

*(Karine – this is where someone with more skill than me needs to draw pickies)*

**5.3 Memorandum of Agreement**

All successful tenderers will be expected to enter into a MOA with ARCH for the duration of the pilot program. The MOA will identify the respective roles and responsibilities of the tender and ARCH in relation to implementing the pilot. The MOA will identify the methods of resolving and issues that arise between the parties to the MOA and the conditions under which either party can withdraw from the pilot.

**5.4 Contracts between tenderer and clients**

Participating cooperatives will be able to choose which among the successful tenderers they wish to purchase specific services from for the duration of the pilot. Cooperatives will then enter into individual contracts with their preferred tenderer. These contracts will specify the agreed scope of services, fees, methods of resolving issues arising between the parties, and the conditions under which either party can withdraw from the pilot. ARCH will develop a flexible standard contract format

which will be used by all participating cooperatives and tenderers. ARCH will assist participating member cooperatives in drafting their individual contracts.

## 6. Fees for financial services provided

Tenderers are required to provide a proposed fees schedule with their tender. The schedule of fees will be an important factor in the selection of tenderers for the pilot project.

The schedule must address the **Scope of financial administration services** listed above. Tenderers may choose to tender for all or only some of the services.

It is expected that tenderers will provide a schedule that is competitive, and acknowledges the financial rewards that will accrue to the tenderer from having bulk servicing and from a long term guaranteed client base should the pilot project be successful as anticipated. Fee schedules should also take into consideration that housing cooperatives are not for profit organizations and so have limited finances to purchase services.

ARCH is not responsible for the payment of fees to the financial services participating in the pilot. **Participating services will be paid for service as negotiated with individual cooperatives** (See Step 6 above).

## 7. Criteria for Tenderers

In responding to this brief, tenderers are required to indicate their capabilities in relation to the essential and desirable criteria listed below.

### Essential criteria

- Relevant professional qualifications and certifications.
- Experience in the preparation of financial reports and returns for small businesses.
- Experience in preparing Business Activity Statements for small businesses.
- Knowledge of cooperative structures and processes.
- Training and day to day support capabilities.

### Desirable criteria

- Understanding of not for profit organisations.
- Understanding of service issues for people from Culturally and Linguistically Diverse backgrounds and people with a disability.
- Experience in provision of financial administration and support services to housing cooperatives.
- Experience in developing budgets for small businesses.
- Experience in financial investment advice.