

## Joint Contracting

### What is joint contracting?

Joint contracting involves two or more nonprofit organizations that collaborate to:

- Identify areas of shared needs and contracted services
- Determine shared expectations for the scope of work, timeline and budget
- Jointly issue a request for services
- Evaluate potential service providers
- Jointly contract with a service provider to receive services for set fees

Alternatively, one organization may convene a cohort of organizations with similar service needs to establish a joint contract with a service provider. For example:

- The Nonprofit Centers Network (NCN) and a partner organization jointly determined a need and budget for marketing services, identified a service provider and contracted with the provider to receive up to 20 hours per month of services.
- The Metropolitan Alliance of Connected Communities (MACC) convenes 50 human service organizations to offer joint contracting in a variety of service areas including human resources, finance services with a specialization in government contract management, behavioral health billing and client data and evaluation services that include a robust case management system.<sup>1</sup>

Service providers may be individual consultants or staff members of private sector firms, public agencies or nonprofit organizations with a mission related to offering shared services.

A nonprofit organization with a mission unrelated to shared services may offer the services of their administrative employees to other organizations. However, these organizations must follow strict accounting, tax and legal regulations.<sup>2</sup> If the subcontracted service is considered to be a trade or business that is regularly conducted and not substantially related to organizational mission, the US Internal Revenue Service (IRS) will treat revenue earned as unrelated business income, subject to tax obligations or Unrelated Business Income Tax (UBIT). Organizations seeking to subcontract their administrative employees should work with an attorney who specializes in nonprofit tax law to understand the ramifications.

All joint contracting arrangements require the development of a written agreement such as a memorandum of understanding (MOU) or contract to describe the scope of work, timeline for completion, compensation and benefits, staffing model and other details that define how the work will be completed.

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<sup>1</sup> Read more about Metropolitan Alliance of Connected Communities in the Rethinking Overhead case study available at <https://rethinkingoverhead.org/wp-content/uploads/2019/04/MACC-Case-Study-Rethinking-Overhead-1.pdf>.

<sup>2</sup> Read more about US tax law and Unrelated Business Income Tax for exempt organizations at <https://www.irs.gov/pub/irs-pdf/p598.pdf>

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These agreements have a minimum of three parties (two nonprofit participating organizations and one service provider. As with any binding agreement, shared services' MOUs and contracts should be vetted by a legal advisor.

The joint contracting agreement lists the legal rights and responsibilities of participating organizations and service providers. This formal document clearly defines the professional relationship among all parties involved and how one the service provider will work with multiple participating organizations. The service provider also sets its rate and frequency of pay. The document further specifies which services will be provided, delivery methods, anticipated results, ownership of processes or materials produced, communications, confidentiality, insurance and termination procedures.

Joint contracting involves overcoming several specific challenges.<sup>3</sup> Participating organizations must have funds available to pay for services. Participating organizations also must be willing to invest a significant amount of time and effort upfront. Upfront tasks include cataloging organizational needs, identifying and engaging the other participating organizations, developing and issuing a request for services, evaluating prospective service providers and vetting and signing a contract agreement.

Once a service provider is contracted, participating organizations need to continue to invest time to adopt the new processes, systems and technologies of their service provider. MACC's budget allocation process requires that members spend time and effort to track and accurately code expenses. When organizations with less formal accounting and reporting procedures contract with MACC, its staff and MACC's staff have to spend more time and effort upfront to bring the organization into compliance with MACC's systems. To recover the costs of this upfront investment, MACC structures three-year service agreements with new members who can then access higher quality services and achieve longer-term efficiencies.

An additional challenge to joint contracting is identifying qualified service providers that are affordable, accessible and willing to accommodate the needs of multiple organizations. Service providers must also be able to manage multiple projects and communicate effectively with all participating organizations to support the collaboration, especially when one organization's priorities might delay the execution of another organization's priorities.

Understanding these potential challenges, organizations that participate in joint contracting are able to develop economies of scale and purchasing power, operating efficiencies and other benefits including:

- Access to specific job function expertise
- Flexibility to set part-time or project-based contracts that are job specific, enabling more efficient use of resources
- Service platforms that standardize data collection and reporting

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<sup>3</sup> See the Rethinking Overhead Discussion Questions to facilitate discussions related to these challenges available at <https://rethinkingoverhead.org/wp-content/uploads/2019/04/Discussion-Questions-Joint-Contracting-Rethinking-Overhead.pdf>.

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- More staff time to focus on mission-related tasks and projects
- Potentially lower operating costs
- Potentially stronger collaborations with other participating organizations
- Higher quality services, for example, technology solutions that would not be accessible without a larger scale of purchase<sup>4</sup>

As described by Roxanne Hill, Executive Director of Wonderscope Children's Museum and a Support KC client, "When we first started with Support KC, we were a very small organization... Being able to [contract] was more cost effective than hiring someone and it gives a depth of expertise that there was just no way we could have had or been able to pay for."<sup>5</sup>

## Joint Contracting as a Shared Service

NCN considers joint contracting to be an effective shared service option for nonprofit organizations because:

1. Joint contracting supports participating organizations that share a common social purpose or community.
  - Jointly contracted service providers often hold specific expertise and experience to serve a segment of the nonprofit sector, for example, human services or the arts.
  - With the cohort model of joint contracting, prospective organizations may be rejected if their missions or service areas do not align. This is a critical difference from an outsourcing model.<sup>6</sup>
2. Joint contracting involves trust, sharing and collaboration.
  - Participating organizations and service providers must coordinate and communicate their expectations with a high level of transparency. MACC found it difficult but important to set appropriate expectations with members about the services to be provided. MACC members are required to engage in real collaboration and, at the same time, accept limits around what MACC's service providers do and don't do. Building collaboration in the context of a defined scope of services has caused tension.

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<sup>4</sup> For more on this concept, download *Shared Services that Work: Surprise Findings from Charlotte-Mecklenburg* from [www.nonprofitcenters.org](http://www.nonprofitcenters.org)

<sup>5</sup> Read more about Support KC in the Rethinking Overhead case study and watch Roxanne Hill's video interview for more information about her experiences as a Support KC client, available at <https://youtu.be/LNJNHfBkJ8>.

<sup>6</sup> For more information about outsourcing, see the Rethinking Overhead Introduction to Shared Services module.

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Described by Ann Gaasch, Executive Director of FamilyWise Services and a MACC member, “We choose MACC, because it’s not just a vendor organization, it’s really a collaboration... with much more of a back and forth. There are a set of shared expectations and shared responsibilities which make us better in the end than we would be alone.”<sup>7</sup>

3. Service providers may offer more holistic support to participating organizations including organizational assessment, training or advocacy activities.
  - MACC’s mission is to build the connections, collective expertise and collaborative solutions that strengthen member organizations and maximize collective impact for the individuals, families, and communities served. To fulfill this mission, services have evolved and expanded over time to provide more comprehensive solutions to members’ most pressing operational issues.
4. Joint contracting may reduce risks to participating nonprofits.
  - By shifting services to an expert service provider, participating organizations gain access to new and improved processes and systems and reduce the risk of errors, for example, with data collection or reporting.

## The Latest from the Field

NCN works with multiple organizations to explore the feasibility of joint contracting strategies and identify:

- Participating organizations’ desire to jointly contract out services
- The estimated time spent by staff, board and volunteers to provide the service in house
- The estimated costs associated with staff, contracts and resources (i.e. software, subscriptions, equipment) for the service area
- Potential participating organizations with similar interest areas and contract budgets
- The market rates for potential service providers that hold the expertise and are willing to contract with multiple nonprofit organizations

In practice, NCN frequently sees nonprofit organizations exploring information technology (IT) and accounting as the first service areas for joint contracting. These functions are commonly outsourced by many nonprofit organizations, so it may be easier to find interested participating organizations and service providers to develop a joint contract. Additionally, these functions are not usually closely tied to an organization’s mission, so the collaboration and transparency required for joint contracting may be perceived as less of a threat to autonomy or operational control. From the service provider’s point of view, it is possible that IT and accounting services may be somewhat standardized to be implemented in a similar way across multiple organizations.

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<sup>7</sup> Watch Ann Gaasch’s video interview for more information about their experiences as a MACC member, available at <https://youtu.be/TgzOdpNl8Ts>.

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This said, demand for joint contracting appears to be increasing and expanding into new service areas, such as fundraising and marketing. In several feasibility studies conducted by NCN in urban and rural communities across the US, cohorts of organizations reported strong interest in jointly contracting public relations, graphic design, social media and grant writing.

## **Joint Contracting in Action: MACC**

The Metropolitan Alliance of Connected Communities (MACC) offers the opportunity for its members to opt into joint contracting cohorts to use their collective buying power to access higher quality services.

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