

A review of not-for-profit mergers
for 2017/18

THE

GOOD
MERGER

INDEX

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1. FOREWORD

I am proud to introduce this fifth annual edition of the Good Merger Index, Eastside Primetimers' unique study shining a light on mergers amongst charities and social enterprises.

We do this primarily to shine a light on the scale of merger activity, how mergers are structured and why they seem to happen. This year, as well as looking at some of the largest mergers, types of mergers and the financial drivers for them in 2017/18, we also look at two sectors that saw notable merger activity - medical charities and infrastructure organisations.

Our main finding for this year is that 81 mergers occurred, involving 154 organisations. This is an increase on the previous year, it should be said, but it nonetheless comes in the context of a sector with over 168,000 registered charities facing significant financial headwinds and arguable duplication, and after years of increasing discussion about the potential benefits of merger and partnership in terms of making more strategic use of scarce resources to combat pressing social problems.



Moreover, we see in our figures that most charities involved in merger are smaller organisations approaching merger from a weak position of financial necessity, which leaves what are effectively takeovers as by far the default type of consolidation we see in this sector. These mergers can preserve vital services from outright loss, but the trends we see year-on-year nevertheless represent a huge missed opportunity. Charity managers and boards should be routinely considering merger as one potential tool to increase their capacity to help beneficiaries, through new partnerships with other like-minded organisations.

All this being said, it should not take away from some of the encouraging stories of change we do see amidst the data. We thank representatives from Mary Ward Settlement, Project 6, the METRO Charity, Versus Arthritis and others who have contributed to this study by sharing with us their experiences of bold mergers, which we hope offer learning to other charity leaders considering similar paths.

Richard Litchfield
CEO, Eastside Primetimers

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Executive Summary



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2. EXECUTIVE SUMMARY

This marks the fifth year of the Good Merger Index, our annual review of merger activity in the charity and social enterprise sector. Our aim continues to be to provide an up-to-date overview for the sector about the level of this activity and what drives it, compared with previous years, and highlight positive stories of change through interviews and case studies.

Key Findings

Based on our methodology, 2017/2018 saw 81 mergers take place. This represents a small increase on the 70 we saw in 2016/2017, but this was driven in part by continued consolidation amongst federated charities and comes in the context of a sector with 168,000 registered charities alone.

These mergers involved 154 organisations with a total income of £1.3bn. £266.6m of value was transferred from one organisation to another, either through an existing organisation being taken over or becoming a subsidiary, or through the formation of a roughly balanced organisation from two equal merger partners. 91% of this value was concentrated amongst the largest 20 mergers – a reminder that charity merger activity is top-heavy, with a few relatively large ones at the top and a proliferation of smaller organisations below.

59% of charities that were acting as the acquiring partner (transferees) were in position of financial surplus as they undertook their merger, with an average surplus (profit) margin of 3%. However

among organisations seeking to be taken over or engaging in merger with a similar-sized organisation, 57% were in deficit and the average operating margin was -17%. While there are anecdotal exceptions, these figures are a reminder that financial hardships are a significant driver of even the mergers that do occur.

Correlating with these financial difficulties, we also see an environment in which takeovers dominate to a greater degree than last year, as opposed to mergers of equals. Takeovers represented 69% of mergers in 2017/18, up from 56% in the previous Index, meaning proportionately more small organisations were involved in mergers where their autonomy or identity were sacrificed to become part of a larger stable parent. True mergers of equals - signified by the coming together of similar-sized organisations with shared governance structures, combined staff and trustee teams or neutral rebrands – represented only 21% of mergers in 2017/18, down from 29% the previous year.

Hotspots of activity

We also seek to highlight prominent “sector hotspots” of merger activity and the unique factors that weigh on the leaders of organisations in these specialist fields as they consider whether to consolidate their efforts with those of like-minded organisations.

For instance, infrastructure bodies that provide funding, support or representation for frontline charities represented 11% of mergers in 2017/18. However, despite their crucial role in assisting the sector to raise funds and innovate in trying times, these organisations themselves can face pressures, and this is particularly acute in the case of local Council for Voluntary Service (CVS) organisations.

We also look at medical charities that provide research or support for sufferers of particular conditions, where charities can find mergers may reduce competition for funding, pool research efforts or link research up with support. These accounted for 10% of 2017/18 mergers, including the merger that formed Versus Arthritis, the third largest deal of the year.

CONSOLIDATION SNAPSHOT – 2017/18

59%
of transferee (acquiring)
organisations were in
financial surplus

57%
of transferors
(merging or being
acquired) were
in deficit

The biggest deal was
the formation of the
Partnership Support Group
(PSG) from the merger of
Choice Support and mcch,
with a combined income of
£69.5m

The third
largest deal
was the formation
of Versus Arthritis,
with a combined
income of
£34m

The second
biggest deal was
the rescue of
£61.8m
charity Lifeline
Projects by CGL

**'Mergers of
equals'**
21%
(29% in 2016/17)

Takeovers
69%
(56% in 2016/17)

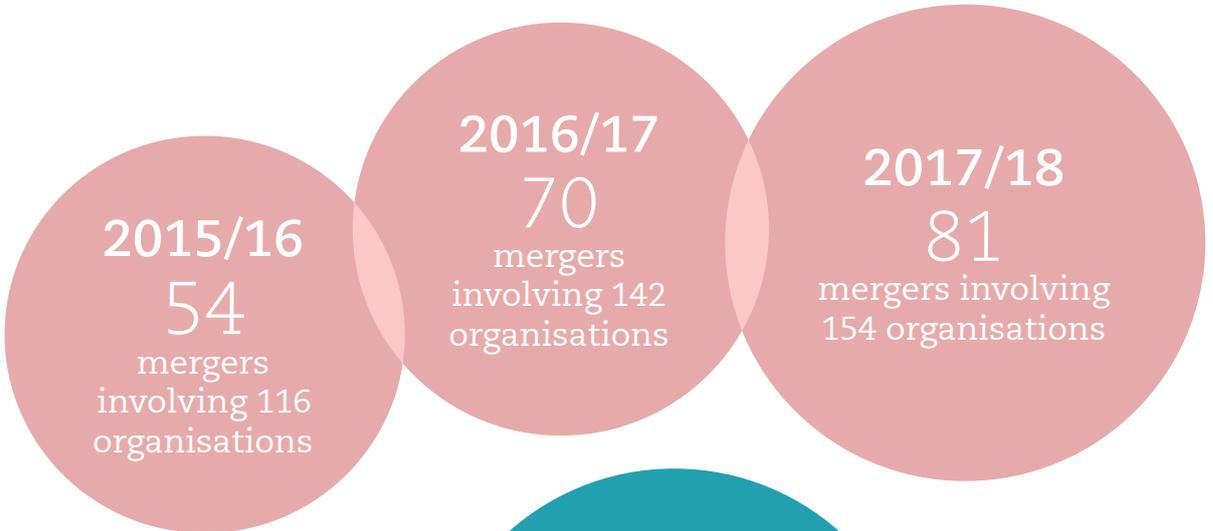
**Subsidiary
deals**
7%
(7% in 2016/17)

**Asset/
service swap**
1%
(7% in 2016/17)

**Group
Structure**
1%
(1% in 2016/17)

10%
of mergers
involved national
medical charities

**MERGER
TYPES IN
2017/18:**



11%
of mergers involved
sector infrastructure
bodies (local CVSs,
umbrella bodies
and fundraising
organisations)

These charity deals
involved the transfer of
£244.7m
of income – the top 20 largest
deals represented 91%
of this amount

**MERGER
HOTSPOTS**

Health & Social
Care broadly
53%

Education
10%

Community
7%

Justice
6%

**SIZE BY
INCOME OF
ORGANISATIONS**

£1m-£5m
34%

Under £1m
54%

£5m-£10m
8%

£10m+
4%

Methodology

A large, bold, white number '3' is centered on the page. The background consists of several overlapping, semi-transparent teal-colored geometric shapes, including triangles and polygons, creating a layered, abstract effect. The number '3' is the central focus, standing out against the darker teal areas.

3. METHODOLOGY

- ▶ This analysis follows on from the previous four years of this Index - our research objective was to identify and collect data on mergers that occurred in the year 2017/2018
- ▶ As many mergers are announced in early April, we use a 12-month period for this study running from May 1st 2017 to April 30th 2018. This is consistent with previous editions
- ▶ We have tried to count mergers only when they had been completed or when we were confident that they had been. The consequence was that some mergers, although announced, were not counted because they concluded after April 2018
- ▶ Our geographic focus is England and Wales. Most organisations were registered charities and Companies Limited by Guarantee, but our data can include Community Benefit Societies, Registered Providers and Community Interest Companies where relevant. We do not generally include pure housing association mergers, except when one party is a registered charity (e.g. Age UK Walsall leaving its federation to merge into Accord Housing Association in 2018 as “Accord Age Matters”)
- ▶ A key challenge is to identify mergers, as not all mergers require immediate registration. We use two main sources:
 - **Public registries.** The Charity Commission maintains a register of mergers, but this only covers situations where one organisation is dissolved. From a list of 123 registered within the 12 months, we removed cases where deals happened in the past but were only now being registered, internal reorganisations and tiny organisations with little publicly available information. This excludes some community groups, churches and benevolent funds
 - **Media and organisation websites.** We reviewed the charity and housing sector press to find deals at the point of announcement and also drew on local and specialist publications, social media and charity websites. Many of these transactions had not yet been recorded on the Charity Commission register
- ▶ For each deal we collected financial and non-financial information by referring to the Charity Commission website, Companies House, press releases, organisation websites and Eastside Primetimers’ own records. Figures were the most up to date available at the time of writing
- ▶ We use a non-legal framework to classify different types of merger (see ‘Types of Mergers’ on pages 15-17). This framework is based on Richard Gutch’s work in the 2012 Good Merger Guide and then was adapted through peer-review
- ▶ One of the challenges for understanding not-for-profit mergers is language. Terms like ‘merger’ and ‘acquisition’ are borrowed from the private sector and sometimes do not fit well with the sector. For the sake of this report, we use ‘merger’ or ‘deal’ in two ways: firstly, in a general sense to describe any strategic change that involves the exchange of assets and liabilities, and secondly, in a specific way to describe a genuine ‘merger of equals’ that is defined in detail in our framework

2017/18 Merger Trends



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4.1 TOP 20 MERGERS

By the amount of income notionally transferred, these were the largest 20 charity sector mergers in 2017/18. These mergers represent 92% of the total financial value transferred in mergers that year. This is similar to 2016/17, when it was 89%, demonstrating that the impact of mergers on the structure of the charity sector is top-heavy.

	Organisation 1	Organisation(s) 2	Type of deal	Size by income transferred ¹
1	Choice Support	mcch	4. Group Structure	£69,508,605
2	CGL	Lifeline Project	2. Asset/Service Transfer	£35,000,000²
3	Arthritis Research UK	Arthritis Care	1. Merger	£34,164,000
4	Shaw Trust	Ixon Holdings	3. Subsidiary Model	£19,686,916
5	YMCA Cambridgeshire & Peterborough	YMCA Suffolk	1. Merger	£8,686,409
6	YMCA St Paul's Group	YMCA West London	2. Takeover	£6,735,814
7	Street Child	Children in Crisis	1. Merger	£6,115,951
8	Mary Ward Centre	Blackfriars Settlement	1. Merger	£5,725,255
9	Bromley & Lewisham Mind	Greenwich Mind	1. Merger	£4,415,375
10	GLL	Finesse Leisure Partnership	2. Takeover	£4,000,000
11	Bowel Cancer UK	Beating Bowel Cancer	1. Merger	£3,986,341
12	Hope for Justice	Retrak	1. Merger	£3,957,846
13	Royal National Children's Foundation	SpringBoard Bursary Foundation	1. Merger	£3,049,971
14	Centre for Effective Altruism	Giving What We Can Trust	2. Takeover	£2,233,736
15	Project 6	Sheffield Alcohol Support Service (SASS)	1. Merger	£2,150,204
16	Blenheim	HAGA	2. Takeover	£1,700,103
17	Twelves Company	Skoodhya	1. Merger	£1,692,100
18	Wiltshire Creative	Salisbury International Arts Festival & Salisbury Arts Centre	2. Takeover	£1,522,498
19	Hospice UK	National Council for Palliative Care	2. Takeover	£1,444,230
20	Lilian Faithfull Homes	Resthaven Nursing Home	2. Takeover	£1,441,566

¹'Size by income transferred' figures are the most recent available annual figures for the transferor organisation(s) in the deal. For 'mergers of equals', we have combined the income figures of both/all organisations to reflect a new organisation is being formed

²CGL took on over 1,000 staff and 40 projects following the collapse of Lifeline in May-June 2017, along with 40 Lifeline headquarters staff - the remaining Lifeline projects and 300 staff were transferred to local authorities. CGL's March 2018 accounts subsequently made clear that they saw a 25% growth in their income from £156m to £196m, stating that "the acquisition of former Lifeline Project contracts with effect from 1 June 2017 accounts for the majority of the growth, together with winning new Change Grow Live services". Lifeline's last reported income in March 2016 was £61,812,600. We have used £35m as a very approximate figure for the value of the transfer to CGL
<https://www.thirdsector.co.uk/1300-jobs-threatened-lifeline-collapse-saved/finance/article/1435549>
http://apps.charitycommission.gov.uk/Accounts/Ends27/0001079327_AC_20180331_E_C.pdf

Top 20 case study

MARY WARD AND BLACKFRIARS

After a number of years of partnership followed by a period of discussions, 2018 saw the merger of two Settlements founded in the Victorian-era, Camden-based Mary Ward Settlement and Southwark's Blackfriars Settlement, to create a regional charity catering to a swathe of London. Mary Ward's mission is to provide innovative and wide-ranging adult education and community services, including specialist legal advice around housing, debt and welfare and activities to tackle social exclusion. Blackfriars promotes the wellbeing of people and families through learning services, specialist provision for older people and a mental health and wellbeing project.

The two organisations had shared a formal partnership for nearly a decade prior to the merger, and merger had been considered at board level on-and-off for five years. Initial conversations about sharing of services evolved into a discussion about full merger with Blackfriars as a wholly-owned subsidiary, as it became apparent that Blackfriars could benefit from financial stability and there were significant gains to be made for both sides from a structural merger. The synergies were clear. For example, both worked with older people, but Mary Ward's efforts focused on more active pensioners and Blackfriars' on those that were frailer, creating a benefit to combining their approaches. Between the two organisations they would also be able to provide an "end to end" holistic service for target groups of users. The growth of adult education services as a result of the merger has also been described as an "immediate success", and together the organisations are able to serve beneficiaries across east, south and north London.

To take the merger forward, a joint group with the chief executives, chairs and finance directors from both organisations was

established, and detailed communications and management of change plans were drawn up. One challenge was the need to alleviate the concerns of some trustees and other stakeholders on the Blackfriars side that as the smaller organisation (with a 2017 income of around £1m to Mary Ward's £4.6m), Blackfriars would be "subsumed" and lose some of its identity. It is in light of this that the Blackfriars name has been retained as a sub-brand, with the organisation described as "part of the Mary Ward Settlement Group", alongside the Mary Ward Centre and Mary Ward Legal Centre. Five trustees from Blackfriars also joined a unified board, with a vice-chair appointed from Blackfriars. Notionally separate boards for Mary Ward and Blackfriars still exist, but in practice the memberships of these three bodies substantially overlap and meetings are held jointly.

Funders were generally supportive of the merger, but Mary Ward chief executive Suzanna Jackson did meet with some of Blackfriars' local funders to reassure them. Mary Ward held an Annual General Meeting (AGM) in March 2018, which was used to ratify the deal with support from users and stakeholders.

Eastside Primetimers provided facilitation support, acting as a neutral broker between the two organisations. Suzanna Jackson and Mary Ward chair, Frances Bates, noted that this was particularly important in terms of providing assurances to Blackfriars as the smaller partner. While both sides managed to secure support for the more technical aspects of merger (Linklaters law firm provided pro bono legal support to Mary Ward and the Big Lottery's Power to Change programme funded accountancy support for Blackfriars, for example) they stressed the importance of facilitation in helping the charities find the right structure and navigate the "softer" cultural aspects of merger.

Top 20 case study

PROJECT 6 AND SASS

The 15th largest merger of 2017/2018 saw two substance misuse charities in Yorkshire, Project 6 and Sheffield Alcohol Support Service (SASS), come together. Project 6 had a 28-year history delivering drug and alcohol services in Keighley and had a turnover of just under £1.3m in 2017, while SASS had been working for nearly 40 years on alcohol services in their home city of Sheffield and had an income of £855k. Both charities had similar service offers but were also facing common challenges. Following the Health and Social Care Act 2012 and the shifting of public health to council control, local authorities in Yorkshire were increasingly bundling substance misuse services into much larger contracts and retendering them through highly competitive processes, favouring larger and more diversified providers.

SASS had already begun a process of income diversification some years before in response to this threat, moving towards a mix of grants and new contracts, while Project 6 had expertise in drug abuse and had built up healthy reserves, but had yet to seek new sources of income towards a more resilient financial position. This meant that from different financial positions, each organisation had something to bring to the table. Having “seen the writing on the wall early”, both charities were able to adapt to the environment faster than some other providers, Project 6 chief executive Vicki Beere noted.

The two charities sought a feasibility study, which was carried out by Eastside Primetimers – Beere credited this process with giving the boards reassurance about the basis for merger. The agreed aims of the merger were the formation of a merged entity with a stable, sustainable financial basis and a commitment to their communities and beneficiaries. Specifically, it is hoped the merger will provide opportunities to develop new and innovative services for people in recovery, families in crisis and those with multiple, complex needs. After feasibility,

next steps included the development of a merger implementation group (led by the chief executives and two trustees from each side), financial Due Diligence and the development of an employee and user communication plan.

In-depth staff and user engagement was led by Vicki Beere, while SASS’s outgoing chief executive Josie Soutar led on back-office processes, such as the merging of policies. Engagement included workshops where staff were encouraged to be open about their fears about the merger, what they hoped could be gained from it and about perceived cultural differences between teams. Beere, who now leads the merged organisation, stressed that visibility and openness were key to securing integration between the two teams (“you can’t communicate enough with people”, she suggests). More technical aspects of the merger were supported by their local solicitors and by existing HR advisers and ACAS, the latter of which eased the process of TUPEing staff between the organisations.

At the time of writing, the merged charity was still going through a branding exercise involving a specialist charity branding agency and workshops with users, with the aim of finding a combined name to overlay the other two brands. However, the two local brands are still being used in their respective areas, in order to retain the longstanding connections to these communities and continuity of service for users.

Vicki Beere noted that other charities she knew of in the local substance misuse sector had closed, diversified or sought merger due to the same commissioning dynamics that Project 6 and SASS faced, to the point where far fewer small organisations are now present at local community provider forums in Yorkshire. Leeds-based St Martins Healthcare CIC’s takeover by regional provider Humankind (formerly DISC) in 2017 was another example of a deal prompted by these pressures.

4.2 FINANCIAL DRIVERS

We provide here an overview of whether charities tended to be in surplus or deficit in the most recent available financial year before their merger.

For the purposes of this section, ‘transferee’ organisations are organisations making acquisitions, while ‘transferors’ are those either joining a larger structure (i.e. being taken over) or merging sideways with an equivalently-sized organisation in a ‘merger of equals’. This is to give us an approximate picture of whether mergers are undertaken strategically from a position of strength or as a matter of financial urgency.

Our findings this year (below) are in line with a trend we have seen in most previous years, in which transferees (acquirers) tend to be in a surplus position, while decisions by transferors to be taken over or merge with a similar organisation correlate with a majority of them being in deficit. The previous 2016/2017 Index had been an exception, where a majority (56%) of transferors had been in surplus, but the sector has in effect returned to form. Additionally, in 2017/2018 the average surplus margin for a transferee organisation was 3%, while for the average transferor this figure was -17%.

We see further examples of this in the explanations given for many mergers. For example when Hearing Dogs for Deaf People took over Hearing Links, the chief executive of Hearing Dogs explained that “the merger of our two organisations has secured the future of Hearing Link, which has found it increasingly difficult to maintain financial sustainability”.⁴

Most notably, the second biggest merger of the entire year was a rescue from financial collapse. £61m national substance abuse charity Lifeline Projects announced in May 2017 that it was to shut down and transfer “many” of its services to Change Grow Live. Lifeline had become a major player in public commissioning markets for substance abuse contracts, tripling in size from an income of £20m in 2012, but their 2016 trustees report had also noted this placed the charity at significant risk due to continuing public spending cuts. Lifeline also maintained only £6m of reserves, equivalent to five weeks of spending. CGL took on 1,000 of Lifeline’s staff and 40 projects, with other projects going to other providers.⁵

However, other organisations do undertake merger from better positions for strategic reasons. YMCA Teesdale joined YMCA North Tyneside while maintaining a fairly healthy surplus, with their chair Mike Way outlining their approach: “Putting people at the centre of our priorities, we could clearly see the positive gains of not only working in close partnership with another regional YMCA - North Tyneside - but in then formally amalgamating with them. We have done this from a position of strength and will gain added value from renewed vision, joined-up resources and shared expertise”.⁶ This is the kind of approach that could benefit more organisations in the sector.

2017/2018	Transferees	Transferors
Surplus	59%	43%
Losses	41%	57%

Sample Size: 142 organisations³

³ Figures were publicly available for 142 out of 152 organisations involved in mergers. Categories manually adjusted so that for merger deals both organisations are counted as transferors – 62% of all organisations are therefore transferors for these purposes

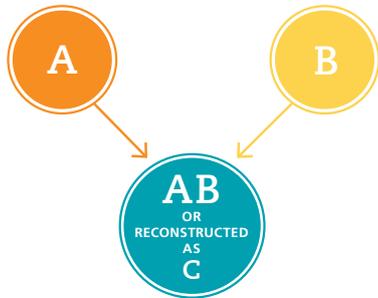
⁴ <https://www.civilsociety.co.uk/news/hearing-dogs-for-deaf-people-to-merge-with-hearing-link.html>

⁵ <https://www.civilsociety.co.uk/news/change-grow-live-to-take-on-a-significant-amount-lifeline-project-s-work.html>
<https://www.civilsociety.co.uk/news/most-of-lifeline-projects-transferred-to-change-grow-live-from-today.html>

⁶ <http://ymcateesdale.org.uk/wp-content/uploads/2018/03/PR-for-merge-announcement.pdf>

4.3 TYPES OF MERGER

1 Merger



SUMMARY

Two or more organisations join to form a new organisation either through:

- i) Organisation A transferring its assets and activities to Organisation B. Organisation B then establishes a new identity with a new leadership team; or
- ii) Organisation A and Organisation B transfer their assets and activities into a new Organisation C and then either dissolve or become dormant (or for housing associations, continuing trading as subsidiaries as part of a group structure)

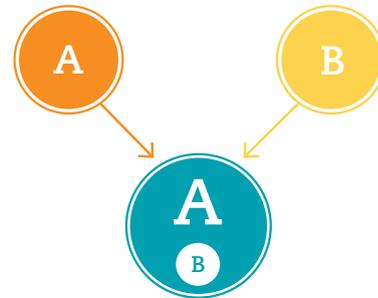
KEY FEATURES

- ▶ Often acknowledgement in the new brand identity of two organisations coming together, or a completely neutral new brand is created;
- ▶ Evidence that the top executive team for the newly enlarged organisation has a balanced representation from the legacy organisations;
- ▶ Governance of the new organisation must be representative of the two merging organisations

2017/18 DATA

21% of all mergers (down from 29% in 2016/17)

2 Takeover



SUMMARY

Organisation B transfers its assets and activities to become part of Organisation A.

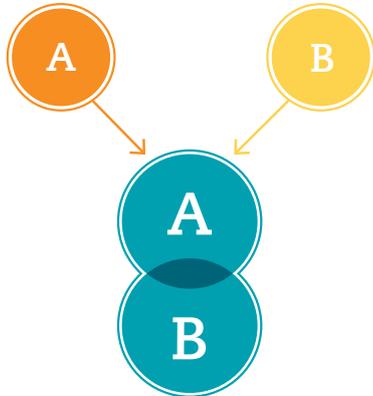
KEY FEATURES

- ▶ The transferring organisation is dissolved or exists but remains dormant;
- ▶ The identity of the acquired organisation is either lost after the takeover, or is retained but only as a service or project;
- ▶ Executives from the acquired organisation do not hold roles at the same level of seniority as they did before;
- ▶ The Trustee Board of the acquired organisation is disbanded and stood down

2017/18 DATA

69% of all mergers (up from 56% in 2016/17)

3 Subsidiary Model



SUMMARY

This type of takeover is achieved by Organisation B becoming a ‘wholly owned’ subsidiary of Organisation A.

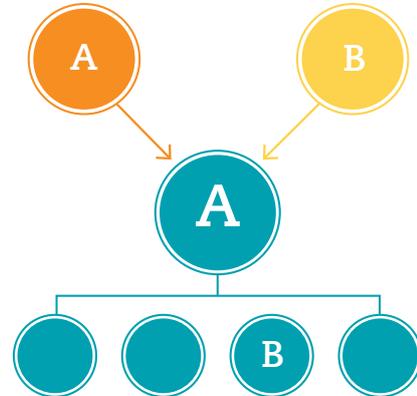
KEY FEATURES

- ▶ The transferring organisation retains a separate Board and identity within a group-wide strategy or business plan;
- ▶ Job losses at management level are minimised;
- ▶ Ultimate control is nevertheless retained by the acquiring organisation;
- ▶ Only a minority involvement, if any, of Trustees from Organisation B on the main board of Organisation A;
- ▶ Could be a step towards the formation of a group structure

2017/18 DATA

7% of all mergers (same as in 2016/17)

4 Group Structure



SUMMARY

Two or more organisations transfer activities and assets to become part of a group and operate as one of a number of wholly-owned subsidiaries. In more developed groups, particularly those in the housing association sector, front line services and accountability is largely pushed down to the subsidiaries and the group company has responsibility for overall management and central services. This is similar to a Conglomerate or Holding Company model in the private sector.

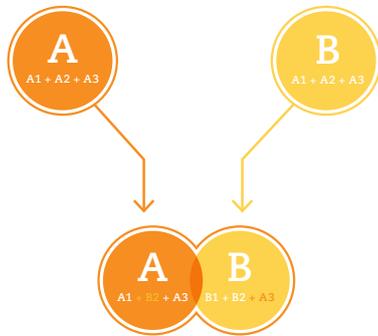
KEY FEATURES

- ▶ The parent group owns two or more subsidiaries each with their own governance;
- ▶ The identity and brand of the subsidiaries are retained, and distinct to the parent, but with a reference to being part of a larger group;
- ▶ There is a group CEO and Chair who have key leadership roles and they devolve executive powers to separate individuals who have responsibility for running the subsidiaries;
- ▶ Different models of governance can be created which means that it is possible for Trustees to continue to have a role at the subsidiary level;

2017/18 DATA

1% in 2017/18 (same as 1% in 2016/17)

5 Swapping services or assets



SUMMARY

The transfer or swapping of services, and in some cases assets, in order to help organisations to achieve a more balanced portfolio of activities, income and cost.

KEY FEATURES

- ▶ The identity of the service that is moving is absorbed into the branding of the acquiring organisation;
- ▶ Employees will be TUPE'd;
- ▶ No impact on legal structures or the Trustees of either organisation

2017/18 DATA

1% in 2017/18 (down from 7% in 2016/17)

2017/18 take aways

As we have seen consistently, arrangements that are in practice takeovers predominate, with genuine shared “mergers of equals” a comparative rarity. 69% of all mergers were takeovers in 2017/2018, up from 56% the previous year. This means it was more common to see significantly smaller organisations merge into larger organisations, and sacrifice more of their structural autonomy, branding or presence at board and senior management level.

This should not discourage organisations from seeking merger, however, as this finding correlates with the trend we saw in Financial Drivers of Mergers about the high proportion of smaller charities seeking merger from a position of financial difficulty. Organisations planning mergers from a position of strength are better able to secure a larger role or a firmer autonomous identity within the new organisation, in addition to safeguarding their services. This can include becoming a subsidiary body of a larger organisation, which we estimate at least 7% of deals involved in 2017/18.

Sector Hotspots



5

5.1 SECTOR HOTSPOT: INFRASTRUCTURE

The voluntary sector includes a variety of organisations which exist to support other organisations as their chosen beneficiary group, in order to strengthen frontline charities and pass on an ultimate benefit to society. Over 40,000 organisations registered with the Charity Commission list “other charities or voluntary bodies” as their beneficiaries including funders, fundraising platforms, umbrella and membership bodies and local Council for Voluntary Service (CVS) organisations. In 2017/2018, at least 11% of charity mergers were among infrastructure bodies.

Local CVS organisations in particular give voice to other charities and help them seek funding, strengthen their governance, recruit and manage volunteers, lobby and build up their connections. As the financial environment all charities operate in has become more austere, access to this kind of support has become all the more important to help charities innovate and do more with less.

However at the very same time, these charities themselves have been vulnerable to the impact of cuts, particularly to local authority grants that many of them relied on. In 2015 the national umbrella body for CVSs, NAVCA, had estimated that 70 organisations had already either closed, merged or changed their operating models.⁷ This has sadly continued – for example in March 2017, Volunteer Centre Slough ceased trading due to lack of funding after their grants were cut. In their 2017 annual report, NAVCA both acknowledged these challenges as an area where their members needed additional support and listed the decline in their membership as a result of these pressures as one of NAVCA’s own organisational risks, prompting a “radical rethink of NAVCA’s operating model and the redesign of NAVCA’s staff structure”.⁸

It is in this context that we saw local infrastructure bodies in Norfolk, Greenwich, West Berkshire and Redbridge come together in 2017/2018, amongst other types of infrastructure merger.

	Organisation 1	Organisation(s) 2	Type of deal	Size by income transferred ⁹
1	Centre for Effective Altruism	Giving What We Can Trust	2. Takeover	£2,233,736
2	Hospice UK	National Council for Palliative Care	2. Takeover	£1,444,230
3	Voluntary Norfolk	Momentum Norfolk	3. Subsidiary Model	£366,359
4	METRO Charity	GAVS	2. Takeover	£273,181
5	Community360	Voluntary Sector Training	2. Takeover	£150,231
6	Clinks	Women’s Breakout	2. Takeover	£96,085
7	Volunteer Centre West Berkshire	Empowering West Berkshire	2. Takeover	£64,673
8	Tendring Community Voluntary Services	Age Concern Clacton	2. Takeover	£30,803
9	Redbridge CVS	Redbridge Children and Young People’s Network	2. Takeover	£23,223

⁷ <https://www.thirdsector.co.uk/changing-story-local-infrastructure/infrastructure/article/1356406>

⁸ http://apps.charitycommission.gov.uk/Accounts/Ends35/0001001635_AC_20170331_E_C.pdf

⁹ ‘Size by income transferred’ figures are the most recent available annual figures for the transferor organisation(s) in the deal. For ‘mergers of equals’, we have combined the income figures of both/all organisations involved in a deal

Infrastructure merger case study

METRO AND GAVS

In November 2017 a deal was finalised between METRO Charity and Greenwich Action for Voluntary Service (GAVS), with GAVS merging into METRO. GAVS was (and still remains) the main local voluntary infrastructure body in Greenwich, serving just under 400 member organisations including METRO itself.

METRO meanwhile had started life as an LGBT charity in Greenwich in 1983, but after 2008 underwent a change to become an organisation with a broader equalities and community mission. It expanded to set up additional offices in Vauxhall, Chelmsford and Medway and its staff grew to just under 100, working across five domains (sexual health, mental health, community, youth and HIV). METRO also had previous experience of mergers, having taken over Harbour Trust in 2010 and Positive Parenting and Children (PPC) in 2016.

GAVS was concerned that unless the funding climate for infrastructure changed, with relatively low reserves it faced closure in 2019 and began to explore merger. The process started in January 2017 with a productive meeting between METRO chief executive Greg Ussher and GAVS chief executive Naomi Goldberg, followed by a meeting between their two chairs.

A key question for GAVS as a local CVS body was around the potential conflicts of interest thrown up by merging into a frontline service-delivery organisation that was one of their own members. METRO were keen to find a solution that would enable GAVS to join its structure, and this was achieved by the establishment of an internal “firewall” preventing the GAVS team from sharing sensitive information with METRO (e.g. confidential information about other GAVS members or advanced knowledge of local authority recommissioning plans). Open consultations with staff and GAVS member organisations were also initiated early, including an FAQ on the case for merger, a

survey and a public meeting. Structurally GAVS also maintains a management committee (the former board) and there is a dedicated board member to manage potential conflicts of interest. GAVS is now known as “METRO GAVS” within its new home structure, maintaining some continuity of identity.

Greg Ussher noted that METRO’s experience with their two previous mergers helped with the process, but also found that the GAVS partnership was nevertheless different because the retention of the separate identity through the merger was more key, due to the unique sensitivities that had to be traversed with an infrastructure organisation. The organisations also made use of reciprocal “cultural awareness workshops”, to strengthen understanding in terms of both workplace culture and demographic factors such as sexual orientation and gender orientation (important due to METRO’s strong equalities background). The process of merger was gradual, taking 11 months in total, but Ussher stressed this was vital to ensure proper integration.

As a result of the merger, METRO GAVS has been able to benefit from METRO’s internal resources for bid writing and has secured some additional funding pots. At the time of writing GAVS were also still bidding for a renewal of their core infrastructure support contract from Greenwich, but this was going to include a 35% reduction in funds in any case - this makes the diversification, stability and back-office strength yielded by the merger all the more vital. This merger may yet showcase how this kind of innovative merger of a CVS organisation with a broader-based community and service delivery body can yield more benefits than the more common mergers between neighbouring CVSs with similar problems.

5.2 SECTOR HOTSPOT: MEDICAL CHARITIES

29,079 charities registered with the Charity Commission define their core aim as “the advancement of health or saving of lives”. In our previous 2016/17 Index we looked at mergers amongst the country’s 1,500 mental health organisations, an area of rising recognition in the health space, but more broadly, it has long been the case that some of the most visible and high-profile charities in the UK are those involved in research, campaigning or support for medical conditions. 140 organisations are subscribing members of the Association of Medical Research Charities.¹⁰ 10% of mergers in 2017/18 were among national charities focused on physical health conditions, ranging from the major £34m merger and rebrand of two of the UK’s main Arthritis charities, to merger amongst niche specialists for Alopecia and Myalgic Encephalomyelitis (Chronic Fatigue Syndrome).

Medical research charities are an area that can be particularly ripe for mergers, as charities with similar missions in this space have to compete directly for donors and may be duplicating

research efforts if they work separately, rather than collaborating for better use of resources. In 2016/17, we noted how children’s medical research charity Sparks merged into Great Ormond Street Hospital Children’s Charity in a move GOSHCC’s chief executive called a “no brainer”. They argued that their move would concentrate research and funding and was in line with Charity Commission guidelines for trustees to consider merger if joining forces would enable greater gains for beneficiaries.¹¹

In January 2018, Bowel Cancer UK and Beating Bowel Cancer came together in a £4m charity with the goal to prevent the 16,000 Bowel Cancer deaths in the UK each year, stating that “by integrating our activity, teams, networks and support bases we will create a strong, confident charity that will drive positive change to save more lives in the future”. Spokespeople for the charities said that this was prompted by the existing similarities of the organisations, and there would now be a unified focus on research, support, awareness and campaigning for early diagnosis.¹²

	Organisation 1	Organisation(s) 2	Type of deal	Size by income transferred ¹³
1	Arthritis Research UK	Arthritis Care	1. Merger	£34,164,000
2	Bowel Cancer UK	Beating Bowel Cancer	1. Merger	£3,986,341
3	Kidney Research UK	Kids Kidney Research	2. Takeover	£400,000
4	Sue Ryder	The Wokingham District Cancer Care Trust	2. Takeover	£200,000
5	Action for ME	Association of Young People with ME	2. Takeover	£193,115
6	Children’s Cancer and Leukaemia Group	Teenagers and Young Adults with Cancer	2. Takeover	£129,470
7	Bloodwise	Derbyshire Leukaemia Research Fund	2. Takeover	£82,623
8	Alopecia UK	Autoimmune Alopecia Research UK	2. Takeover	£21,523

¹⁰ <https://www.amrc.org.uk/>

¹¹ <https://www.thirdsector.co.uk/sparks-will-become-part-great-ormond-street-charity-february/management/article/1421687>

¹² <https://www.bowelcanceruk.org.uk/news-and-blogs/news/bowel-cancer-uk-and-beating-bowel-cancer-are-joining-together-to-become-the-uk%E2%80%99s-leading-bowel-cancer-charity/>

¹³ ‘Size by income transferred’ figures are the most recent available annual figures for the transferor organisation(s) in the deal. For ‘mergers of equals’, we have combined the income figures of both/all organisations involved in a deal

Medical charities merger case study

VERSUS ARTHRITIS

In November 2017, a months-long effort brought together Arthritis Research UK and arthritis Care. This was a transformational merger driven by a compelling vision to be “bigger, better and different”, do more for the core beneficiaries of both predecessor organisations, and raise general public awareness of the 17.8m people affected by arthritis and related conditions. In September 2018 this was followed by a new name and major marketing campaign for the new combined organisation, Versus Arthritis.

Arthritis Research UK was the larger charity (with a turnover of £28.8m) and had a strong reputation for ground-breaking clinical research. However, through market research they had concluded they wanted to be closer to their beneficiaries and that arthritis was not well understood by the public or policymakers. Meanwhile Arthritis Care (£5.3m turnover) supported sufferers, provided peer-to-peer support and operated local branches, but their chief executive Judi Rhys had a vision to strengthen the organisation and scale up their activities. Additionally, policymakers and beneficiaries sometimes found the distinction between the two organisations confusing, and when the two organisations sought to collaborate, sharing of research and intellectual property could be encumbered. Versus Arthritis' new director of transformation Olivia Belle reported this often led to questions about whether they could merge.

Discussions and research around a potential merger began in February 2017, with conversations between ARUK chief executive Liam O'Toole and Judi Rhys. Both organisations had recently taken on new chairs, which brought a fresh dimension to the discussions, and a working group was formed including the CEOs, chairs and one additional trustee from each side. Belle also worked closely with the director of strategy at Care. The group initially considered a full range of options, including forms of partnership and collaboration short

of full merger, but moved towards testing the potential benefits of full merger.

In April the full trustee boards of both organisations were consulted, with a provisional agreement to merge reached in May. This led to deeper due diligence, which found that both organisations were largely financially stable, and a final agreement to merge followed in July.

A consultation campaign was mounted by O'Toole and Rhys to explain the merger, before the new structure was announced in November 2017. This effort included visits to Care's local branches, whole-team “floor meetings” in the offices of both organisations and senior staff members from both sides working in the other's offices on certain days of the week. Care's stakeholders approved the merger at an AGM, which they ran without ARUK's involvement. This was all to bring both sides together, and in particular to ensure that Care's staff, trustees and volunteer networks could feel the merger was an opportunity to increase their reach in a new organisation, rather than something they should see as a takeover. A survey launched during the process received 10,000 responses and was central to a decision to focus the new organisation more on pain as a day-to-day problem for arthritis sufferers.

The rebrand was delayed until nearly a year after the initial merger. This was to allow the new organisation more time to properly consider their new profile and the shift in approach that would accompany a name change. The charity spent £278,000 on the rebrand, which O'Toole said is only about 0.5% of the organisation's annual spending. “Versus Arthritis” was selected from three possible names and was intended to be flexible, practical and adaptable to a variety of activities and campaigns mounted by supporters (e.g. “Research Versus Arthritis” or “Scotland Versus Arthritis”).

CONTINUED

Versus Arthritis has a 10-strong Transformational Leadership Team, which will serve as the senior management team until 2020 to see through integration and the new approach. The charity also has an enlarged trustee board for the time being, with one of the trustees from Care leading a governance review. The working practices of the new organisation aim to be flexible and they have carried out a major refit of their office and practices, towards an aspiration to be “an exemplar employer for people with arthritis and other musculoskeletal conditions” (a “flex team” comprised of staff from the Care side have been central to this process). As in any merger, integration of culture and procedures was not always seamless, but O’Toole said that setbacks were resolved through rapid meetings and used as “learning moments” for improved understanding.

Specific targets were not set during the merger, and the charity is now undergoing post-merger mapping of its current state and activities. It is hoped this will allow Versus Arthritis to set targets and model their future finances, through a collaborative rather than top-down process. Elements of the mapping exercise include strategy, operations, organisational design, culture and people.

There are over 100 charities involved with arthritis and related conditions registered with the Charity Commission for England and Wales alone. However, Versus Arthritis are not actively considering further mergers, and O’Toole stressed that any such moves should be guided by what is the “right thing for our beneficiaries”. Instead, their present aim is to utilise their new platform and brand to build a “movement” for better support for those they exist to help, including by partnering and campaigning with smaller organisations in the same field.

Conclusions

A large, white, stylized number '6' is centered in the lower half of the page. The background is a solid teal color, overlaid with several overlapping geometric shapes in various shades of teal and white, creating a modern, abstract design. The shapes include a large white triangle pointing towards the top right, and several overlapping teal triangles and polygons that create a sense of depth and movement.

6. CONCLUSIONS

This edition of the Good Merger Index marks the fifth year that we have sought to measure and explain merger activity in the charity and social enterprise sector. When we started in 2014, our motivation was to illuminate a much-discussed topic in the charity sector on which there was little concrete data, and provide empirical answers to a few core questions: how many organisations were merging and in what sectors, how were these deals structured, and what drove them.

A starting hypothesis of ours was also that in an austere financial environment for the sector where the prospect of collaboration and consolidation was increasingly being discussed, an annualised Index might show substantial year-on-year increases in the number of mergers. There has been some truth in this – in 2014/15 we saw 61 mergers, in 2016/17 we saw 70 and now in 2017/2018, we see 81. However, this is still a modest increase, as it comes in the context of a sector with tens of thousands of organised charities and 168,000 registered in total, and against a backdrop of continuing limits on some of the sector's traditional public funding streams and rising demand from beneficiaries.

Moreover, social sector mergers are a matter of quality as well as quantity. At Eastside Primetimers we have argued for some time that mergers should at least be considered regularly by charity managers and boards, in terms of whether an organisation's mission and its founding duty to its beneficiaries could be better met through collaboration or merger with another entity with shared aims. However, in the charity sector mergers continue to be seen as a sign of failure rather than a legitimate

tool for improving organisational capacity and social impact, and are often only sought from a position of weakness or last-resort. This is confirmed in our 2017/2018 figures, which show 57% of transferor organisations (those merging “sideways” or being taken over outright) are in deficit and that these organisations had an average operating margin of -17%.

We also found that at 69%, takeovers were far and away the most common type of merger (up from 56% in 2016/17). This may be the side-effect of the preponderance of distress mergers we see in the financial drivers, with organisations less able to secure as much of a distinct position within a parent charity when they are negotiating from a position of urgency and weakness.

It should be stressed that even these mergers may well still be effective in preserving essential frontline services that would otherwise be lost – for example, CGL's takeover of much of Lifeline's substance misuse contracts when the latter collapsed in June 2017 will have saved many of Lifeline's beneficiaries and staff from uncertainty. But mergers sought from a position of strength for strategic reasons can be much more productive, allowing the value of smaller organisations to be fully realised, expertise to be shared and built on, and worthwhile services to be scaled up rather than simply rescued. Some of the mergers we see amongst medical sector charities, combining research efforts or bringing research and support expertise together in one organisation, are great examples of this approach to merger.

RECOMMENDATIONS FOR THE SECTOR

In this context, we reiterate our core recommendations to the sector from previous years:

- ▶ Charity managers and boards should take on regular (e.g. annual) examination of merger and collaboration as a duty, taking a proactive approach from positions of strength to potential opportunities or to risks several years ahead of time
- ▶ The Charity Commission should consider stronger guidance and taking on a role in actively tracking and shaping merger activity. While the voluntary Governance Code published in 2017 was in the right spirit and was very much welcome, it caveats merger as an obligation to be considered “if other organisations are fulfilling similar charitable purposes more effectively and/ or if the charity’s viability is uncertain” – a broader obligation to consider it whenever it could be in the best interests of beneficiaries would be stronger, including when a potential partner organisation has a different but complementary purpose
- ▶ The voluntary sector should introduce a Merger Code sponsored by sector infrastructure bodies and voluntarily adopted by charity boards, to help charities assess potential mergers within a framework – this could be inspired by the National Housing Federation’s merger code
- ▶ More guidance, diagnostic tools, workshops and grants should be available for charities exploring merger and pioneering new collaborations.
- ▶ Sources of funding and practical support for merger are currently patchy. Sector infrastructure bodies and funders should make more funding and support available, potentially incorporating a social finance element. A “merger fund” could provide both capital and expertise to support potentially impactful mergers, unlock savings and strengthen charities in the commissioning market. Eastside Primetimers explored this possibility in 2018 with Social Investment Business¹⁴
- ▶ The social impact of mergers should be more effectively researched and measured - wider use of impact measurement would focus charities on outcomes for beneficiaries and clarify the case for merger. Greater availability of data would be invaluable for others setting about the task

¹⁴ <https://www.sibgroup.org.uk/sites/default/files/files/Match%20Points%20-%20Mergers%20report%20-%20FINAL%202022-06-18.pdf>

THE GOOD MERGER INDEX

This annual survey has been prepared to understand more about the consolidation activity that charities and social enterprises undertake. A framework is included which describes five different types of not-for-profit deal: Mergers, Takeovers, Subsidiary Models, Group Structures and Asset or Service Swaps. We report on top deals for 2017/18 and give our impressions of an emerging charity merger market based on the four years of data we now have.

ABOUT EASTSIDE PRIMETIMERS

Eastside Primetimers is a management consultancy working exclusively for charities and social enterprises. We advise on mergers, acquisitions, partnerships, investment, contract readiness, social impact, business planning, board recruitment and good governance.

Through our Foundation we support senior professionals who are seeking to work with the voluntary sector. We carefully select individuals for their commercial know-how and their passion to make a difference. We call them our 'members' because they are committed to supporting not-for-profits as consultants, interim managers or Board members.

Our mission is to help charities and social enterprises play an even greater role in society. We have a particular interest in mergers and strategic partnerships because we think they could be more widely used by organisations to preserve and grow what they are doing.

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