LET'S TALK MISSION AND MERGER

How mergers and sharing models can help charities better achieve their mission

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CONTENTS

Acknowledgements

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EXECUTIVE SUMMARY

Mergers enhance and protect charities’ missions

Mergers are too often viewed as a consequence of failure. The concept has become unfairly tainted. It’s time to change the narrative and talk about mergers as a tool for achieving more for causes. Charities frequently collaborate at a project level and understand that causes can be better served by working together, but rarely extend this further.

Responsible charity trustees and leaders should think about merger regularly. Leaders bold enough to use mergers and other sharing models, such as ‘white labelling’—when a charity provides services under another charity’s banner—or back-office sharing, tell us that these have helped them do more, better, and resulted in:

- Stronger action to address the cause through increased reach, better beneficiary ‘offer’, and stronger voice;
- Greater sustainability and stronger finances of charities serving the cause;
- Efficiency gains recycled into action.

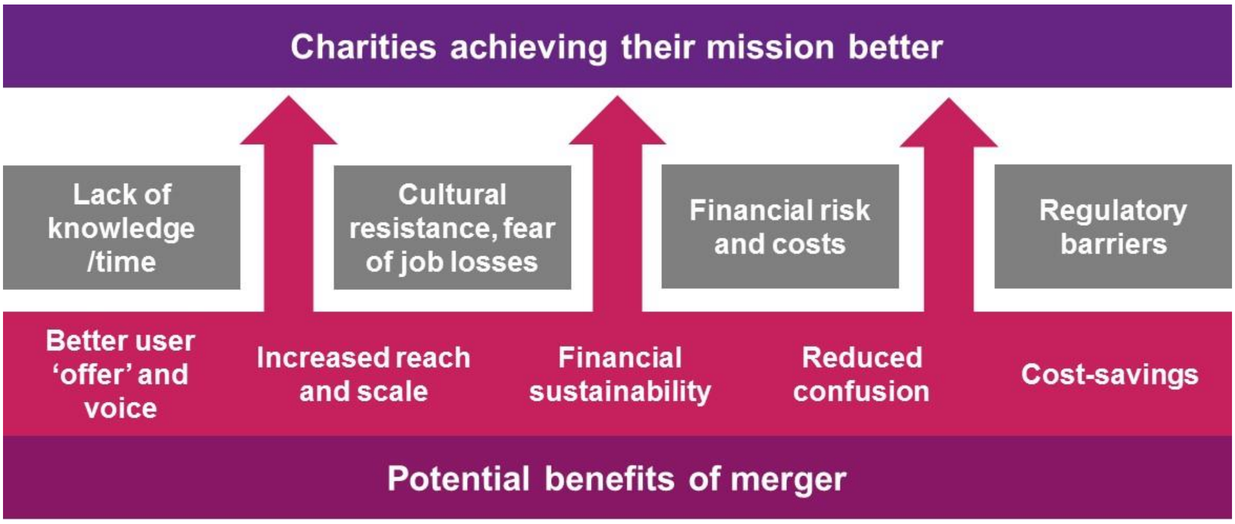
The boldest leaders understand they can go further, and use mergers and other sharing models to restructure their sectors and better respond to changing need and funding patterns. The merger to create Breast Cancer Now reenergised the charitable reaction to breast cancer in the UK. That which created the Mix has resulted in a holistic one-stop-shop service, reaching over two million young people through a range of media channels.

Merger thinking has been too binary: An enticing range of options awaits the brave

Many charities are put off merger by the perception of legal and financial hurdles, but don't look at the possibilities of the less formal models of sharing and merger. We have mapped a range of models, which can serve the various circumstances of charities. We have laid out these options in a digestible format, and hope that charities will see and embrace the opportunities.

For instance, the ‘white labelling’ model developed by Brain Tumour Research and The Brain Tumour Charity allows partner charities to retain identity and brand where it matters for contact with people affected and for fundraising. We have also found that back-office sharing is a growing and cost-effective trend.

Figure 1: Overcoming barriers to merger reaps benefits



Barriers exist, but can be overcome

There are barriers to merger and sharing models—and they should not be underestimated. But too often they are used to shut down discussion. It's time we honestly identified the barriers and how they can be overcome:

- **People:** attitudes of leadership, trustees including fear of job losses; attachment to organisational identity; lack of headspace, skills, time and knowledge; and cultural resistance to mergers;
- **Finance and risk:** costs of merger; and risks of merger, including liabilities;
- **Environment:** external barriers, eg, tax and legislative hurdles, may inhibit mergers; difficulty finding partners.

NPC and others are working to reduce fear and change mindsets by increasing knowledge and demonstrating the options and benefits. Charities' duty to do their best for the cause means they have to ask honestly whether the longer-term benefits of merger and sharing models do not outweigh these short-term costs and problems.

At the time of writing (2017-2018), a handful of regulatory changes were made which have implications for charity mergers. This includes the Department for Work and Pensions (DWP) amendments to pension regulations, and the inclusion of a merger clause in The Charity Governance Code. Recommendations relating to merger were also made in the House of Lords Select Committee on Charities report, Stronger Charities for a Stronger Society, and the Technical Issues in Charity Law report published by the Law Commission. If adopted, these regulatory changes and recommendations should help remove barriers and encourage more charities to consider the possibility of merger.

'It would be good to get the sector to a place where people are not scared of the idea of mergers and don't see it as taboo for discussion and exploration.'

Barbara Gelb, CEO, Together for Short Lives

Recommendations

Funders: should support mergers more actively through, for example, committing to support grantees through the merger process and not reducing total funding to charities that merge. Supporting mergers with grants would also be welcome.

Trustees: should act in accordance with the Charity Governance Code and prioritise charitable mission over organisational integrity/survival. Serious consideration of merger options should be a regular occurrence.

Charity leaders: should view merger and sharing models as a badge of honour, and a successful outcome of strategic thinking, rather than an admission of failure—and should be supported to implement opportunities.

The Charity Commission: should look at a small sample of charities each year to ensure their obligation to consider the benefits to their mission of partnership-working or merger is being taken seriously.

FOREWORDS

Foreword from sponsors

The three of us embarked on this project because we felt strongly that charities would increase their impact by working more closely together or even merging. Working together is not all about cost savings. The wider cause can benefit. Whether a charity is saved, becomes more efficient or rediscovers its purpose—beneficiaries win.

We are not suggesting merging is easy. Barriers to working together can arise from poor governance, not facing up to long-term strategic considerations, culture, inertia, lack of expertise, associated costs and a myriad of other practical challenges. Nor are we suggesting that small charities do not achieve impact—small charities can be nimble and innovative, and often stay close to their beneficiaries. However we do see opportunities to achieve more for beneficiaries via mergers and close collaboration.

The barriers to merger can be overcome. Examples abound in the charity sector and the wheel does not need to be reinvented every time. We have initiated this report in order to make these examples more widely known and to make the case for mergers.

We would like to thank whole-heartedly all donors who helped us raise the funds.

Brian Linden James Lupton Simon Prior-Palmer.

Foreword from Dan Corry, Chief Executive, NPC

NPC exists to try and improve the impact of the charity and non-profit sector. We do this by working with many charities and funders, to try to get them to focus on allocating their voluntary income and labour in the best way to achieve social good. Perhaps the hardest element of our efforts is to get charities to understand that mission should trump organisation, and that if their cause is what drives them, then sometimes the best solution is to work very closely with another charity—even to the extent of fully merging.

There are numerous reasons why this—or even less formal collaboration—is not much seen in the sector. Some are reasonable, if overplayed: a scepticism that the up-front costs of merger will really be offset by benefits further down the line, or issues around pensions, TUPE and legal costs. Charities compete for scarce resources, which makes it hard for them to trust each other well enough to see if closer working could be a cultural fit.

The primary reason for avoiding even thinking about mergers is the lack of will of trustees and charity leaders to consider such options because they value their own organisation's existence above their charity's declared mission. So when we were asked to explore the role of mergers and sharing models and why they happen so infrequently, we jumped at the opportunity to shed light on the topic, and to make the case for mergers.

In this report we try to eliminate the excuses—through showing where impact has been magnified through merger and sharing models, and by proposing new, stronger approaches from regulators to get us closer to 'forcing' boards to consider this issue seriously at least once a year. More thinking like this will help individual charities, and those they merge with, to do more good. The boldest thinking will lead to restructuring within sectors to maximise collective social good. Mergers are not the answer to solving all our social ills but they are a key tool that we need to take more seriously—and we hope this report helps achieve that.

WHY TALK ABOUT MERGERS AND SHARING MODELS?

Why we want to talk about mergers

The charity sector is under pressure to prove its worth. Duplication, wasted resources and 'too many charities' are held up as reasons to question the efficacy of the sector. NPC sees collective action as a means of achieving greater impact—and mergers are an extension of this. The governance of the sector is regularly debated, and the latest guidance and commentary makes frequent reference to mergers. It seemed the time was ripe to investigate the topic.

Some fundamental questions are, as yet, unanswered:

- What is the case for mergers or similar models? What might they achieve, and how?
- Which models of merger are the best route to impact?
- What is the role of merger and similar models, and when might they be applied in the life-cycle of charities and sectors?
- Why are mergers, or similar models, not considered more frequently? What barriers prevent mergers from happening, and how might these be overcome?

This report sets out the benefits of merger and sharing models to individual organisations and wider causes. We lay out the spectrum of options, which includes full merger, but goes much further—with a range of possibilities suitable for charities of virtually every scale. We cover the difficulties inherent in mergers and are not attempting to present them as a panacea. We include a section exploring the barriers to more mergers, with suggestions for how these might be overcome.

Our discussion of mergers includes a range of sharing models

We wanted to expand the narrative about mergers to include the wide range of sharing models available to charities. Full mergers are useful where brand clarity is most helpful to a cause. Group models and 'white labelling' models (explained later in the report) are useful when individual charity identities add value. We also spoke to charities successfully using back-office sharing models to increase efficiency.

However, we also need to be open to the idea that some models necessarily involve one organisation taking over another—where this course of action is in the best interests of beneficiaries.

How we did the research

We conducted a literature review of mergers in both the charity and private sectors, looking for evidence of impact. There was relatively little evaluative information available about efficiency savings, increased income or additional impact created for service-users, despite numerous merged charities telling us of the benefits. So our research was supplemented by over 30 interviews with UK-based charities, their leaders and trustees, along with funders and sector experts. NPC also held a roundtable with 23 participants in January 2018 to test findings.

We also analysed the financial datasets of the brain tumour sector and armed services veterans grant-making sector, to determine the overall shape of these sectors and what this tells us about how sector structure affects their collective effectiveness in addressing a cause.

During the process it was hard to find people willing to talk publicly about mergers that had failed. Consequently our research may be somewhat biased towards success.

Avoiding duplication

We wanted to build on, rather than duplicate, the work of others. For instance, Eastside Primetimers’[1] annual ‘Good Merger Index’[2] (latest 2016/2017) and ‘Good Merger Guide’ are excellent publications that amply cover questions of how to do mergers, and give an overview of current merger activity. We have drawn on these reports extensively to provide additional evidence and to support our recommendations. We recommend these publications are read in conjunction with this report.

Who should read this report

The report is principally addressed to charity leaders—trustees, CEOs, senior staff—as these are the agents of change—and to funders. We want funders to learn from the findings so that they support these actors. We also want sector bodies, regulators, influencers, policy-makers and funders to learn from the findings, as such people can enable change by removing obstacles.

NPC’s outputs go beyond this report

This report is supplemented by seven detailed papers: two case studies of merged charities—Breast Cancer Now and St Mungo’s; two separate papers highlighting more detail on the advantages of different merger and efficiency models; two detailed analyses of the brain tumour sector and armed services veterans grant-making sector; one case study on grant-makers more generally.

In addition, we have published several blogs to encourage debate around themes of life-cycle, ecosystem and federation:

There’s more than one way to merge a charity, parts 1 and 2, by Oliver Carrington, NPC, January 2018

Talking about merger isn’t itself a risk, Lullaby Trust and Sands talk to Grace Wyld of NPC, January 2018

What role for mergers in federated charities? by Richard Litchfield, Eastside Primetimers, April 2018

[1] Eastside Primetimers is a specialist management consultancy for non-profit organisations. One of its areas of expertise is mergers and acquisitions, and every year it publishes a ‘Good Merger Index’, an annual survey of consolidation activity in the not-for-profit sector.

BENEFITS OF MERGERS TO CHARITIES AND THEIR CAUSES

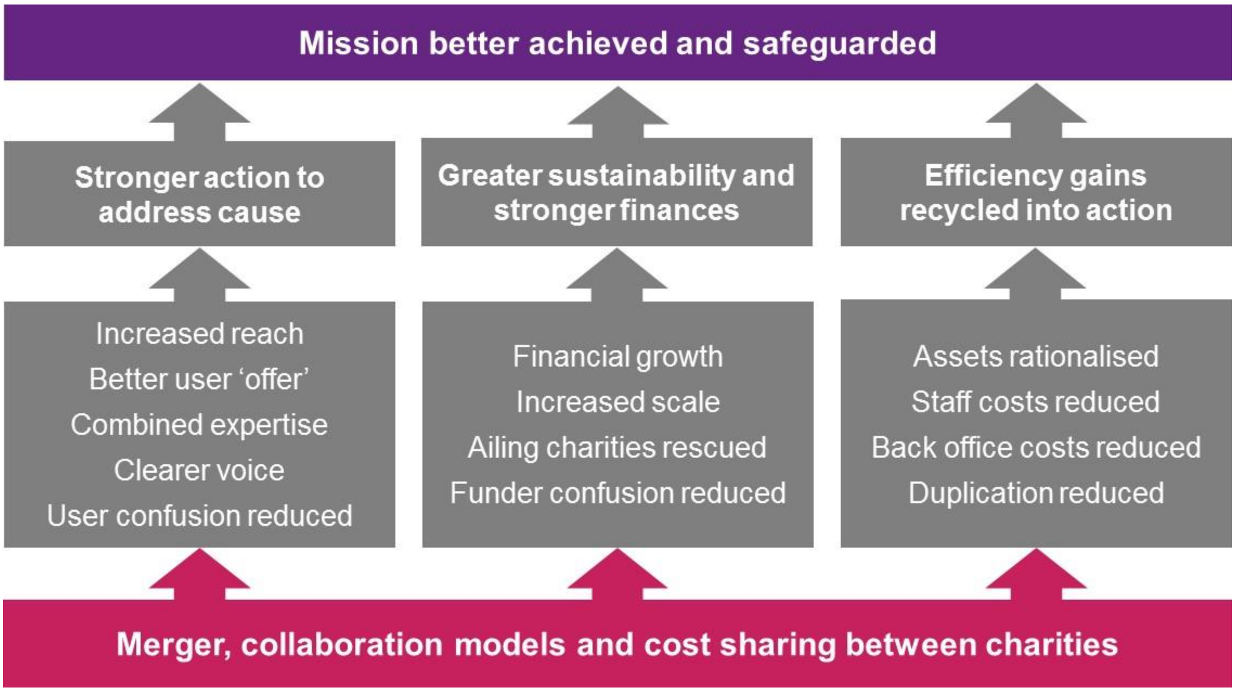
Leaders of charities we spoke to talked at length about the strategic impact of mergers, how services and even culture changed as a result. Half our interviewees cited the financial benefits of mergers generally, and a smaller sub-set noted financial benefits in their own merger experience.

Most interviewees talked about more than one type of benefit to charity mission, which we group into three areas:

- **Stronger action to address the cause:** could we achieve more through collaboration?
- **Greater sustainability and stronger finances of charities:** no merger may mean collapse of charity and termination of valued services…
- **Efficiency gains recycled into action:** are we always making the best use of our money?

One thing came up again and again: merger and sharing models made these charities better at serving their cause.

Figure 2: The benefits of mergers to a charity's mission



Putting beneficiaries and cause front and centre of any discussion about mergers focuses attention on what sort of merger works best in that situation. Considering the consequences *of no* merger—such as a charity folding or not achieving the social impact it could have—is as important as considering the consequences *of* a merger. Charity leaders are often so fixated on the risks *of* merging, they face too late the risks *of not* merging. Charity leaders’ and trustees’ resistance to the idea of their charity being ‘taken over’ can be an obstacle to exploring options in the best interests of beneficiaries.

'Every partnership is going to be different. What should be kept core to merger decisions is maximising beneficiary impact.'

Amanda Batten, CEO, Contact

Stronger action to address cause is the ultimate prize in a merger

We have found that mergers can result in charities being able to take stronger action on the cause they serve in a variety of ways:

A merger presents an opportunity for renewed strategic focus

Both Breakthrough Breast Cancer and Breast Cancer Campaign shared an aim of ensuring more women survived breast cancer and had very similar strategies for achieving this, namely through funding high-quality research. On merging to form Breast Cancer Now they were able to take their ambition to a new level, with a new strategy that by 2050 everyone with breast cancer should live.

A better ‘service offer’ to users arises from cross-fertilisation of best practice and expertise

An explicit objective of the St Mungo’s/Broadway homelessness charities merger was to spread the best practices within each organisation across the merged entity. Post-merger, the charity introduced procedures to ensure these became embedded, and it has seen an increase in every category of staff satisfaction and confidence, with an average increase of 24 percentage points.

‘The merger was an opportunity not only for a positive re-brand, but also to launch a new, more modern service that better reflected our beneficiaries’ needs. Merging was cheaper and more efficient than creating a new charity.’

Chris Martin, CEO, The Mix

Increased reach for effective models can multiply impact

Macmillan Cancer Relief (now Support) and Cancerbackup identified that a merger could lead to many more people affected by cancer receiving the help they needed. Cancerbackup’s high-quality cancer information resources, nurse helpline and website could be strengthened and complemented by Macmillan’s more extensive reach and growing information and support programme.

A single message to public, influencers and policy-makers amplifies a clearer charity voice

The key driver behind the 2011 merger which created Together for Short Lives was the creation of a unified voice for the children's palliative care sector and to reduce confusion amongst its audience and users. We have heard in other research assignments, such as our work with health charities on their relationship with commissioners, that government often wants the sector to speak with one voice on issues as it can struggle to hear and respond to the range of priorities from different parts of the charity sector[3]. Merged charities will be able to use their non-competing voice more effectively.

Confusion among users is reduced—'one-stop-shops' are preferred

Cases such as The Mix and Macmillan Cancer Support/Cancerbackup illustrate how a single point of contact for users helps vulnerable people to navigate complex systems.

The Mix: increased reach and wider service offering young people a one-stop-shop

The youth sector is dynamic with promising local innovations emerging. But it is also badly affected by austerity with local youth clubs and other services closing. These are confusing times for a young person trying to navigate the services on offer to support them with topics such as education and career choices, social and emotional pressures, and mental health. So merging Get Connected (a young people's helpline) and YouthNet (a young people's web-based information service) to form The Mix has resulted in a holistic one-stop-shop service reaching 2.3 million young people through the media channels young people turn to first—digital or personal. The Mix has alliances with youth charities across the UK to signpost to local and specialist responses. The enlarged organisation now has the resources to invest in systems to collect and analyse large quantities of data which tells them about young people's concerns, and which responses are effective. The Mix will use this insight to influence decision-makers. Such ambitions require scale.

Greater sustainability and stronger finances of charities arising from mergers ultimately help beneficiaries

Stability is crucial to ensure that charities can continue to serve a cause. We have found merger and sharing models can help in the following ways:

Mergers can promote financial growth

Evidence points to merger as a promising means of promoting income growth and increasing scale. Eastside Primetimers' data from 2012/2013 and 2014/2015 showed The Brain Tumour Charity achieved growth of 52% after its merger. This increase has primarily arisen from fundraising due to greater brand clarity, less confusion among donors, and greater capacity in fundraising.

NPC's analysis of St Mungo's post-merger with Broadway showed that the ability to bid for larger contracts has resulted in a 26% growth in contract income, from £69m combined income pre-merger in 2014, to £87m in 2017. As a result, the charity now reaches 37% more rough sleepers.

Mergers increase scale, making it easier to bid for contracts

Consolidation in the mental health sector is allowing charities to offer a broader service attractive to commissioners. It also reduces excessive competition and improves bargaining power with funders. Eikon and Windle Valley Youth Project said *'delivering as a larger charity enables greater influence and geographical reach….and the reduction of unnecessary competition for a diminishing pool of…statutory funding'.*[4] However these benefits must be balanced with concerns that commissioning practice can drive 'Tesco-isation'—with charities consolidating to compete more effectively for contracts, but in the process de-prioritising their mission and local connection.

[3] Bull, D,. Bagwell, S., Weston, A., Joy, I. (2016) *Untapped Potential.* New Philanthropy Capital.

[4] Eastside Primetimers (2017) 'Good Merger Index'.

Reduced donor confusion may improve fundraising

Charities competing for donations can put donors off. When Cancer Research UK was formed, from the merger of the two big cancer research charities, it feared that donations would drop. The opposite was true—donations were unlocked, as donors were released from their dilemma about which to fund. The charity looked bold and efficient, adding to its appeal. The case of The Brain Tumour Charity, which merged three of the largest brain tumour charities as well as offering a white labelling model to its supporter groups, is another solid example of this.

Rescue of ailing charities can safeguard services

Mergers can give financial stability to organisations which are struggling. Financial problems are often seen as a failing by the weaker charity but if its activities are effective, the impact of a charity folding will be felt keenly by beneficiaries. Money does not automatically follow social good—some causes are harder to fund than others. A charity collapse may also result in the loss of valuable knowledge and expertise, and mergers can prevent this. When 4Children went into administration in late 2016, Action4Children was able to prevent its highly valued nurseries from closure.

Observations from our consultancy work and wider conversations with the charity sector suggest that more charities are collapsing than necessary, and that early action could save services.

‘Leaders are thinking too little, too late about merger options. Thinking about merger options proactively, and getting support in starting these conversations will help facilitate action.’

Amanda Batten, CEO, Contact

Merger trends

Evidence from the ‘Good Merger Index’ in 2014/2015 and 2015/16 suggested that more than half of “transferor” organisations in mergers (those merging with a larger or similar-sized partner) were in deficit. This suggests that charities are often merging to ward off closure, or at least to ensure a more secure financial future.

However, evidence from the 2016/2017 ‘Good Merger Index’ points to an unexpected finding. Less than half of transferors in that period featured were in deficit, which suggests strategic drivers may have overtaken financial drivers for merging in the last year.

Cost savings and efficiency gains can be recycled into action

What savings can be achieved from merger?

There was general agreement that reduction in duplication was desirable in achieving greater efficiency, but that how this was achieved depended on the circumstances of individual charities.

Currently the data is not available to make claims about the potential for aggregated cost savings from mergers. However, we know from our qualitative research that cost savings are often the driver for charities feeling financial pressures: Community Ignite cited *‘financial pressures’* as the rationale behind its merger with Southern Brooks Community Partnership, adding: *‘economies of scale will mean that more funding can be used to deliver services rather than managerial and financial overheads’.*[5]

[5] Eastside Primetimers (2017) ‘Good Merger Index’.

Cost savings are not always achievable. Many charities have already cut costs to the bone. Often only a handful of top jobs can be cut, plus the (unpaid but valuable) time of the trustee board. The myriad of small and micro charities run almost entirely by volunteers have almost no costs to save. If charities have been operating at full capacity and want to keep the breadth and depth of their services, there may be little opportunity to cut activities except where services are directly duplicative.

But at what price?

Annual cost savings need to be set against the upfront cost of merger. The costs of merger include the obvious, such as legal and due diligence, and the hidden, such as high staff turnover and staff morale issues. A merger often requires a new brand, re-launched awareness campaigns, IT systems, CRM and so forth. These look like merger costs but are likely to have to be incurred at some point anyway. The risk of cannibalising joint income sources is often cited, but we found little evidence for this in the cases we studied.

That said, the hidden costs of merger—disruption to day-to-day running, management time required to implement a merger, effort required to bring cultures together, loss of institutional memory—should not be ignored. During the tough periods in a merger, ‘keeping your eye on the prize’ will be vital.

Rationalisation of staff and physical assets (eg, IT and property)

Breast Cancer Now has identified estimated cost savings of at least £3m since 2015. Money has been saved in various ways: the new charity is housed in one office not two, the number of senior staff has halved, and there is now one set of new fit-for-purpose IT and finance systems instead of the old ones that Breakthrough Breast Cancer and Breast Cancer Campaign were using. To get a flavour of how £3m could be spent, NPC found an example of a chair in medical research being endowed for £3.3m.[6]

In our detailed analysis we looked closely at the charity’s fundraising costs. At its nadir pre-merger, the combined fundraising multiplier had dipped below 2X—ie, for every pound donated, over half went to fundraising costs (including money spent on communications and other resources to support this). The multiplier is back above 2X post-merger, and is expected to improve over time as fundraised income grows. This improvement in efficiency will increase the funds available for research and support.

Back office and property savings don’t affect service delivery

Generally, property and back-office rationalisation are the most common sources of cost savings across the mergers we have looked at. St Mungo’s estimates that it saved £1.6m in the two years following its merger (1.5% of income), primarily through combining the two operational teams into a single team and location. The arrangement for Sense to host Contact’s back-office functions is expected to save about £132,000.

[6] https://www.campaign.ox.ac.uk/news/developmental-medicine

A SPECTRUM OF MERGER MODELS

Moving past 'merger' as a restrictive term

When NPC asked charity leaders what they thought about the term 'merger', it became clear that the way we talk about mergers is a problem and puts charities off exploring the options. The term is associated with unfriendly takeovers of small charities by larger ones, and the wider potential for collaboration is not well understood. A fixation on the most formal, unified models for mergers is killing opportunities to collaborate. The term 'merger' is also associated with the notion of charities being treated the same as private sector, profit-seeking, organisations. The social sector wants to be seen to be different, and this gets in the way of debate.

'Language is really important. You hear clichés such as 'there is no such thing as a merger'. This needs to be put aside and the focus should be on the impact the organisation is going to make on people.'

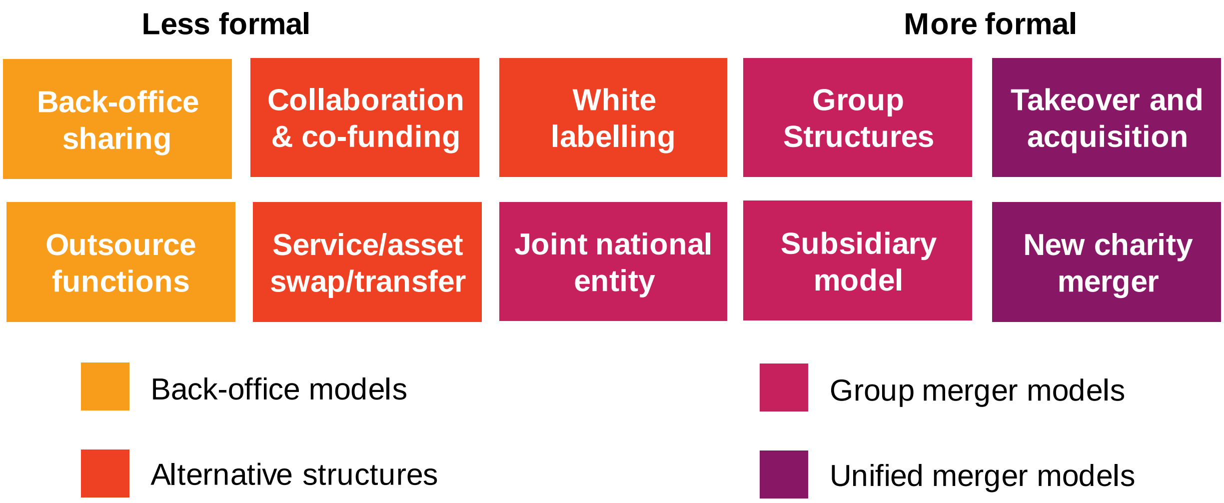
Chris Wright, CEO, Catch 22

We need to change the mindset on mergers, and the first step is helping people understand that there are a range of models and other forms of collaboration. A unified merger model (ie, where several organisations become just one entity) is just one option among many.

Diagram 2 sets out this spectrum. We examined four categories of model:

- Unified merger models
- Group merger models
- Alternative structures
- Back-office models

Figure 3: The merger and sharing model spectrum



We describe the options in more detail in Appendix 1, and focus on the utility and advantages to mission of these different merger and sharing models rather than the technical and legal detail. Eastside Primetimers' 'Good Merger Index'[7], is a useful resource for more technical descriptions. But below is a summary of examples of how different models have been used.

Merger and sharing models	Example	Impact
Unified merger model	Breast Cancer Now launched as a new charity in June 2015, following the merger of Breakthrough Breast Cancer and Breast Cancer Campaign.	Breast Cancer Now merger of two charities with similar objectives resulted in a clearer brand and stronger voice.
Group merger models	In 2017, Community Links became a subsidiary of Catch 22, however it retained its own identity, premises, and board of trustees.	For Community Links, the merger offered an opportunity for more financial stability, better back-office resources and peer support, as well as better breadth and reach in terms of its services. For Catch22, the merger enabled the group to realise a strategic goal by drawing in an organisation that was deeply rooted in communities.
Alternative structures	The Brain Tumour Charity used a white labelling model whereby around 300 local groups are housed under its brand. These 300 local groups operate independently, but channel all money raised to The Brain Tumour Charity.	The white labelling model allows the 300 local groups to maintain their identity and personal connection with their local supporter bases, but benefit from the advanced infrastructure and wider support of The Brain Tumour Charity.
Back-office models	In mid-2017, disability charities Contact and Sense entered into a partnership whereby Contact outsourced its finance, IT and payroll functions to Sense.	While still in the early stages of the partnership, Contact hopes for increased cost and functional efficiencies as a result of the partnership. Sense on the other hand plans to use this experience to expand its back-office services to other charities.

'There is a difference between a merger and a takeover and if the aspiration is for a true merger of equals, as was the case with ACT and Children's Hospices UK, it is complex and requires dogged commitment on both sides to make this happen'

Barbara Gelb, CEO, Together for Short Lives

[7] Eastside Primetimers (2017) *' Good Merger Index'*.

HOW MERGERS CAN IMPROVE THE IMPACT OF ENTIRE SECTORS

A sector better structured to achieve maximum benefit for users

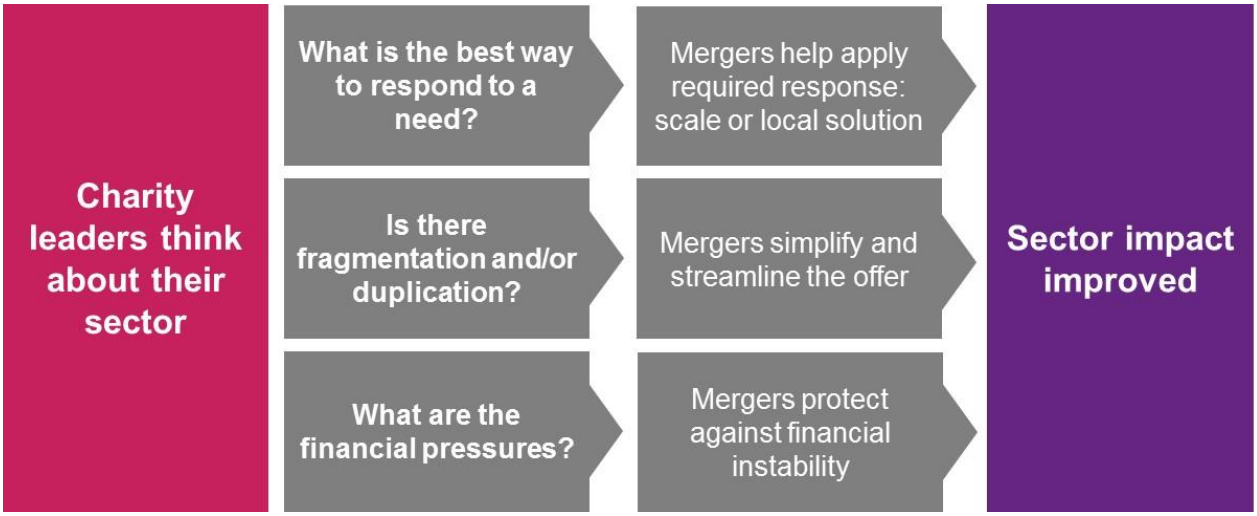
The structure of a sector has a profound effect on charities and users. Yet sector structure emerges not from the drive for impact, but from factors such as funding and commissioning practices, charismatic leadership, or political priorities of governments. Rarely do these structures provide the best delivery mechanism or benefit for users.

Mergers and similar models are an opportunity to address structural inadequacies in a sector. That is not to say we want sectors to be homogenous. Variety can add value, offering choice and representing different causes and methods, and new charities are often welcome disrupters to mature sectors that may have become tired.

Ultimately, we want more sector leaders to ask themselves whether their sector is structured appropriately, and whether mergers could improve delivery and drive greater impact. So how can charity leaders identify the right circumstances for a merger or consolidation? In the next section we explain how leaders might analyse their own sector to identify ripeness for consolidation. In this, we highlight three factors that stand out as common findings when such analysis is applied:

- **Response to need:** some causes need scale, others localised or specialised responses
- **Fragmentation and duplication:** certain sectors are splintered and risk duplication
- **Financial instability:** some sectors have specific funding pressures

Figure 4: Merger benefits to a charity sector



What is the best way to respond to a need? Response at scale? Local or specialist solution?

Some problems require response at scale. In these cases, a fragmented sector of small charities may find making progress hard. For example, health-related causes which require research and public awareness campaigns often require hundreds of thousands or millions of pounds each year to have an impact.

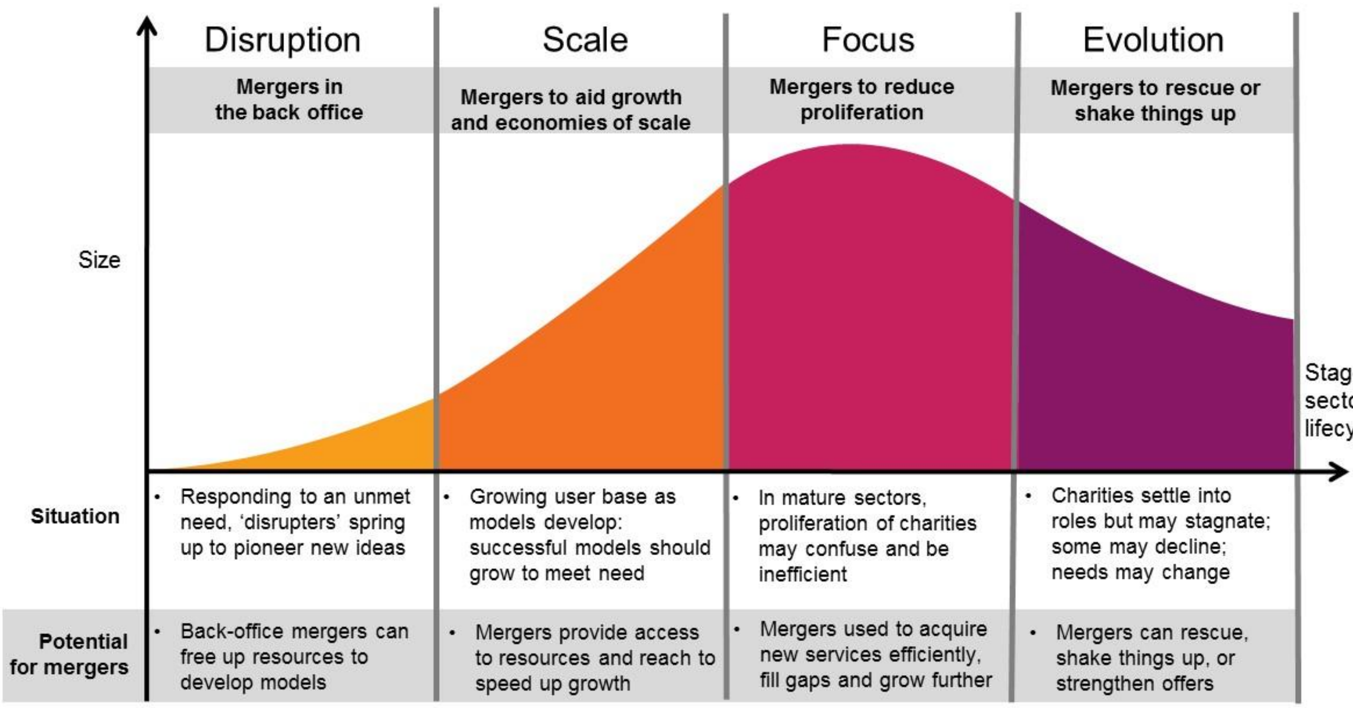
ChildLine was created in 1986 because no other child counselling helpline was available. It is unlikely that any of the large charities would have developed an equivalent service without a plucky small charity taking a gamble and demonstrating that it was needed. However, it was unable to meet national demand, and in 2006 its trustees decided to find the service a larger home within the NSPCC to use its scale and resources to reach more children. The service continues today as a distinct service for 50,000 young callers.

Other causes have a local or specialist flavour. Localised organisations which work within some sort of national framework or brand, such as The Wildlife Trusts, can benefit from sharing models to help save costs as local identity may be part of their 'offer' and support base. Similarly, specialist charities, with a tight group of beneficiaries and supporters, will seek to retain their identity but could benefit from some of the sharing models on offer.

When is it the right time to merge?

Mergers will not suit all sectors and all situations—putting options within the context of the sector will help to determine the best course of action. Rapidly changing requirements demand innovative responses, so we would expect to see charities and sectors have a 'life cycle' in which mergers play an important role. It is not an either/or: there is room for both variety and more mergers. One approach might be to think of charities and sectors in terms of their life cycle—see diagram below.[8] The Breast Cancer Now merger took place when a sector needed to focus its efforts. The Mix merger enabled the scale up of support models pioneered by YouthNet and Get Connected. Leaders commented that as it takes time to find partners and form mergers, understanding where you are and starting the quest for the best solution needs to start early.

Figure 5: Mergers in the life-cycle of a sector or charity



[8] '*There is more than one way to merge a charity part 1*: blog by Oliver Carrington 12th January 2018 https://www.thinknpc.org/blog/more-than-one-merge-a-charity-1/

Collaboration at scale: The Brain Tumour Charity*

Brain tumours arise in all demographics of people. It is wonderful that so often the agony and grief associated with losing loved ones to brain tumours engenders a generous philanthropic response. We should not lose the benefit and hope that this brings.

But NPC has in the past questioned whether 74 different brain tumour charities offer the best solution to the urgent problem of finding effective treatments, and campaigning to make those treatments available. Progress on brain cancer research lags behind other site-specific cancers such as blood or breast cancers. Some of the difference can be accounted for by scientific complexity, but the scale of investment offered by leading blood and breast cancer charities is likely to be part of the explanation for this progress.

In 2014 three brain tumour charities, the Samantha Dickson Brain Tumour Trust, Brain Tumour UK and Joseph Foote Trust merged to form The Brain Tumour Charity, now turning over £9m. Since the merger, the charity says its campaign team has tripled in size from 30 to 100 staff and contributed to a successful campaign, with others, to reduce diagnosis times by half. The charity adds that it could not have achieved this result without having the scale to run such a campaign.

White labelling—best of both worlds raising and channelling funds: Brain Tumour Research and The Brain Tumour Charity*

Brain cancer research is complex, expensive, and difficult. Good research funding needs large-scale investment, expensive expertise and major campaigns to be effective. A myriad of small grants from small charities could not meet these criteria. Through operating a **white labelling model**, which allows small charities with individual connections to raise funds and then channel them to a charity with research spending expertise and infrastructure.

The Brain Tumour Charity brings the scarce resources of its supporter groups together and directs them to where they can generate most impact. Brain Tumour Research, another brain tumour charity, has 18 local charity members, plus a further 36 fundraising groups, that funnel research funding through Brain Tumour Research without losing the valuable personal contact, and fundraising appeal, of these smaller charities. Brain Tumour Research provides PR and fundraising support to these local charities and groups to help bring in more funds. The Brain Tumour Charity also brings the scarce resources of its many supporter groups together and directs them to where they can generate most impact.

*Information taken from interviews with the two charities

Fragmentation and duplication serves beneficiaries ill and annoys donors

We often see a defined group, experiencing common problems, being served by a confusing proliferation of charities competing for attention. People want a joined-up, 'one-stop-shop' that they can easily identify, in the place (real or virtual) where they spend their time. Where services are not joined-up, there is a clear risk of duplication or gaps.

The merger of Get Connected and YouthNet to form The Mix has resulted in a holistic service reaching 2.3 million young people through any media channel they are likely to use.

The 2014 merger between the two breast cancer research charities, Breakthrough Breast Cancer and Breast Cancer Campaign, to form Breast Cancer Now, has brought clarity to people affected by breast cancer and who wanted to contribute to research.

Independent is sometimes best, while taking advantage of cost-saving models

Some needs—social isolation, desire 'to belong', accessible activities—are location-specific, and best addressed by local charities, such as local village halls, community centres, local youth projects. These do not lend themselves to homogenisation, so cost-saving options such as back-office sharing might be a better option than full merger.

Ever more sophisticated telephone technology offers the prospect of helpline charities sharing telephonic infrastructure across the whole of the UK. Such initiatives should improve operational efficiency, saving time and money that can then be recycled into mission.

Financial instability within whole sectors can be mitigated by judicious merging

The recent Eastside Primetimers' 'Good Merger Index'[9] identified three sectors which are merger hotspots:

- Supported housing (13 mergers in 2016/2017 representing 19% of deals)
- Mental health (nine mergers, 13% of deals)
- Federated charities (nine mergers between local organisations, 13% of deals)

There are a multitude of reasons for why each sector has become a hotspot, but one thing they all share is a challenging funding environment, and many within these sectors cite this a reason for merger.

In supported housing, pressures of funding reductions, welfare reforms and government policies have resulted in the sector struggling to cover its costs. Charities such as Evolve and YMCA Croydon have been consolidating with nearby organisations to achieve economies of scale, to reduce competition for scarce tenders, and to rescue ailing partners.

The mental health sector is experiencing similar pressures on costs, but there is an additional factor at play—commissioning trends where contracts tendered by the NHS and local authorities are bigger and demand a full range of services. Commissioners want to manage fewer contracts covering a wider range of need and response. So small specialist providers are losing out. Joining up with others to form large, regional, multidisciplinary groups

[9] Eastside Primetimers (2017) 'Good Merger Index'.

puts charities in a better position to bid for contracts. Consortia bidding is an option, but many have found that longer term it may be easier to grow through merger, and at the same time broaden the service offer.

The federated charity sector has encountered similar issues, and well-known federations such as Mind and YMCA have witnessed recent merger activity with adjacent local branches merging. Many federated charities find greater regionalisation helps to raise the profile with commissioners, whilst rationalising some costs.[10]

The overall impression is that charities are merging for long-term survival, and that these examples are mainly focused on the two financial issues of cost containment and income generation—ie, ability to attract commissioning income. However, at the launch of the 2016/2017 the Good Merger Index in early 2018, two supported housing chief executives talked positively about how their merger experiences could also drive service improvements for the people supported.

‘There’s a need for mergers/collaborations but not enough interest. This is the case especially with health-based organisations, which are driven by unitary authorities' commissioning approach and are facing the brunt of turmoil in the NHS. Delivery charities are struggling so there is a financial need to merge as well.’

Peter Jefferson, CEO, Cornwall Rural Community Charity

[10] what role for mergers in federated charities?, blog by Richard Litchfeld, Chief Executive of Eastside Primetimers https://www.thinknpc.org/blog/what-role-for-mergers-in-federated-charities/

Reducing confusion: grant-making case studies

The veterans grant-making sector is complex, encompassing 147 charities ranging from four major charities (£10m-£23m income), to 32 charities too small to file accounts. Twenty-four charities are newly registered, inspired by recent conflicts. Sixty charities report income under £100,000—many giving multiple small grants. These 60 have about £7m between them in accumulated surpluses, representing about three times their annual expenditure. This suggests there are funds available to disburse but are not being disbursed quickly, despite a Case Management System developed by the services charities' umbrella body, the Confederation of Service Charities or 'Cobseo', to help with individual grant applications. It will be interesting to see how this helps with the disbursement of grants, or whether more rationalising on the service delivery side would be appropriate.

The Masonic Charitable Foundation is an example of a merger being used to simplify a grant-making process for the charities and disadvantaged individuals seeking grant funding. Comprising four similar grant-makers, supporting almost identical groups of beneficiaries, and using slightly different but overlapping application procedures—the previous picture had confused charities and individuals alike. Having a single organisation, with clear criteria and contact details, has increased grant applications and enabled the Foundation to speed up its response. Should the veterans grant-making sector heed these lessons to speed up disbursement even further?

Cobseo has more work ahead to help bring charities together to constantly a) re-evaluate the nature of the need and b) consider what opportunities exist for further collaboration to meet need. In 2007, the Royal Navy and Royal Marines Charity brought together 70 funds, charities and trusts into a single federated structure, which disbursed £9.5m of grants in 2017. This strategic decision was aimed at creating a beneficiary-focused, efficient and effective organisation, which created a unified voice, reduced costs, provided a quicker reaction to need and improved governance. It also enables the charity to fundraise effectively to meet clearly identified need.

Could an even more consolidated veterans sector help to redefine a collective strategy to meet the needs of veterans and serving military personnel?

SPOTTING THE POTENTIAL FOR MERGER AND OTHER TYPES OF SHARING MODELS

If sector leaders want to ask themselves whether their own sector could be improved through merger, we recommend an analytical process that looks at a sector from two angles:

- **Charity response:** what activities are likely to be most effective for the people served? At what scale? Local or national? Specialist or generalist?
- **Finances and costs:** where does the funding come from? Is it sensitive to scale/costs? Does brand clarity matter to fundraising? Potential for cost savings?

We'd also suggest leaders think about their sector's structure more generally, and think whether it is working for or against impact. Does it allow charities to serve their beneficiaries well? We would advise asking stakeholders what they think. Are users confused by options or do they prefer choice and specialist advice? Are donors irritated by duplication?

The two-page table that follows shows examples of the thinking that leaders could apply to their own sector. It is intended to give some examples of the effective thinking we have found in our research, and serve as a spur for charity leaders to start asking questions about their situation, and that of others. It analyses different causes and contexts to give ideas on merger suitability.

'Look at all the options. Sharing models are attractive for local organisations of similar size, say between £1-10m. You could share a really top FD, HR support, Communications and Marketing between several charities.

Charity trustees and leaders should look in the mirror NOW to assess the next three years and get a real sense of their organisation's resilience. Honesty must trump wishful thinking as must the need to continue with the valuable support and services if charities were to close. Allow plenty of time to find and negotiate the dream partnership. Remember your first option may not work out.'

Arvinda Gohil, CEO Community Links

Figure 6: Example of considerations when analysing sectors

CAUSE	CONTEXT			MERGER OPPORTUNITY	
About the causes, people and needs	**Response required**	**Funding, finances and cost**	**Sector structure**	**Implications for mergers**	**Merger example**
Groups of people with social care needs eg, disabilities, autism and mental health.	Social care delivered locally. For those with severe needs, support required is intensive and expensive.	Largely state-funded—with a fragile funding environment, some charities are struggling. Commissioning practices favour bigger contracts at lower cost.	Local charities are historically sub-scale, despite the sector having been 'mature' for some time.	Merging to form larger regional providers would achieve economies of scale and win contracts. However, the retention of local presence is vital.	Consolidation of supported housing in London and South East by Evolve and YMCA—both careful to retain local focus while improving scale. Consolidation activity among federated charities such as Age UK, Carers Trust, and Mind.
Large numbers of people needing support and information about a condition or their situation, eg, people affected by cancer; young people worried by life.	Navigable information in various formats eg, digital, telephone and face-to-face which is easily accessed regardless of location. Digital platforms offer much potential in this area.	Fundraising from the public; some statutory funding. Brand vital for fundraising and service awareness. Investment is required for digital/telephony infrastructure.	Some sectors are fragmented and confuse users. Smaller operators don't reach the people they want to. Exciting digital innovations need mainstreaming to leverage impact.	Combining a range of communication options to form national brand helps users. Small helplines/digital services benefit from being absorbed by large organisations to allow national rollout.	Get Connected and YouthNet forming The Mix to reach more people with comprehensive offer. Macmillan Cancer Support and Cancerbacup merger to enhance helpline and information services. NSPCC takeover of ChildLine to ensure investment to scale.
Local communities, including the deprived and divided.	Organisations strengthening community social capital and local activism such as community organisations and village halls.	Frequently fragile and unpredictable—communities with few resources struggle to fundraise. State funding is also scarce.	Fragmented, as charities are rooted in local area—their missions are often closely associated with local problems. Charities are often locally passionate and focused on place. Mix of innovative approaches and maturity.	'Safe haven' within stable charities, while retaining local identity (which is vital to preserve). Cross-boundary mergers don't have obvious advantages.	Catch 22's absorption of Community Links as a subsidiary with own identity has ensured long-term survival of vital Community Links presence. Alternatively back-office/cost-sharing of community organisations could be an option, but we found no examples actively pursued.

CAUSE	CONTEXT			MERGER OPPORTUNITY	
About the causes, people and needs	**Response required**	**Funding, finances and cost**	**Sector structure**	**Implications for mergers**	**Merger example**
People who are socially isolated—closely related to the category above.	Local groups offering friendship and activities eg, community organisations, social and special interest clubs and local support groups. Special interest groups formed virtually offer much potential.	Frequently fragile—state funding febrile and public fundraising is below scale and meagre.	Sector fragmented, often locally focused and volunteer driven. Some local specialist groups are part of federated charities.	Federations increasingly using federated networks to increase efficiencies and deepen reach. There is a need to protect localism but cost savings could be generated through outsourcing, back-office sharing.	Consolidation activity among federated charities such as Age UK, Carers Trust, and Mind. Many local activities too small to lend themselves to formal mergers.
People with specialist issues eg, rare health conditions; minorities.	A strong issue-based community and representative voice.	Public fundraising—personal connection is a key driver. Brand is also important Commissioners prefer comprehensive offer and there is diminishing state funding for specialist contracted services.	Duplicative single-condition/issue charities. Some alternatives and 'disrupters' are healthy for the sector, but too many is confusing.	Consolidate single-condition/issue charities to strengthen brand and voice. Partnerships with generalist organisations to subcontract specialist services.	Breast Cancer Now merger of two major charities with similar objectives has clearer brand and stronger voice. Brain Tumour Charity's post-merger campaigning team has quadrupled in size and the campaign halved diagnosis times.
People with medical conditions where medical research is needed.	Better treatments found through excellent medical research—requires expertise, global outlook, and powerful influencing skills on a big scale.	Public fundraising vital; personal connection to death and creation of in memoriam funds is a key driver of fundraising, brand is also important. High-quality medical research is expensive.	Fragmented sector in many conditions. Research risks being less effective if sub-scale.	Harness personal connection by adopting white label model to spend funds effectively. Consolidate mature organisations to strengthen brand and remove donor confusion.	The Brain Tumour Charity and Brain Tumour Research both help personal 'In memoriam' fundraising campaigns to disburse funds effectively. Breast Cancer Now merger from two major charities with similar objectives has developed a broad and powerful research strategy. Cancer Research UK saw increase in donations after it was formed from two dominant research organisations.

UNDERSTANDING THE BARRIERS

If mergers offer the benefits our research suggests, why have they got such a negative reputation in the sector? In this section we review the barriers to mergers, to better understand them and explain how they can be overcome.

We find these barriers fit broadly into three groups;

- **People:** attitudes of leadership, trustees, including fear of job losses; attachment to organisational identity; lack of headspace, skills, time and knowledge; and cultural resistance to mergers;
- **Finance and risk:** costs of merger, and risks of merger, including liabilities;
- **Environment:** external barriers, eg, tax and legislative hurdles; difficulty of finding partners.

People are central to whether mergers happen or not

Everyone involved with a charity—CEOs, trustees, staff, volunteers, service users and members—needs to be brought along the merger journey, informed, and when appropriate consulted. This is because mergers can involve very personal sentiments. This attachment to organisations and their brands can apply to more than just the staff. Trustees and even service users can be reluctant to let go of an organisational identity they have invested in long term. There may be a cultural preference for independence. Operationally, a drastic change in the way an organisation functions risks losing dedicated staff and volunteers, as well as loyal members and users.

'Having conversations with beneficiaries and staff and asking them what merger means to you is incredibly helpful. Merger conversations usually revolve around finance and efficiency and those terms do not resonate [clearly and transparently] with beneficiaries.'

Clea Harmer, CEO, Sands

Other people-centred barriers include:

- CEOs and trustees who are stretched for time and 'headspace'—merger conversations do not make it onto the agenda.
- Lack of knowledge and skills of trustees can restrict board ability to even consider options for sustainability and merger decisions effectively.
- The potential for job losses and up-front costs in a merger are clear, but the benefits can be less so.
- In an increasingly competitive funding environment, if charities have poor relationships with their peers, merger conversations are difficult to start.
- Cultural differences exposed during due diligence and negotiations may scupper merger talks.

'More mergers are not happening for two main reasons: so-called founder syndrome and technical knowledge. Sometime founders can struggle to envisage an organisation beyond their own tenure, sometimes at the risk of its very survival and importantly, its impact. Organisations can also lack the knowledge needed about mergers and how to prospect and engage in opportunities. Ultimately any decision about a merger should be about growing impact.'

Kate Markey, Divisional Director Employment Services, Forward Trust

Finances, funding and risk can scupper mergers

Most mergers involve fairly certain short-term costs—legal, due diligence, accounting—and less certain future benefits which can deter resource-strapped organisations. Funders are reluctant to pay for mergers and so organisations usually pay for them out of their own pockets. Funders who fund both of the organisations party to a merger sometimes 'rationalise' their grants post-merger. Other funders may withdraw support because the merged organisation is now considered to be too big. Such funder behaviour does little to encourage mergers.

Uncertainly about financial liabilities also inhibits mergers. Pension liabilities are particularly troublesome. Eastside Primetimers' 2015/2016 'Good Merger Index highlighted how pension liabilities can thwart mergers, causing some charities to close as a result. Long-term contractual agreements, or organisations with a key contract known to be coming up for renewal or open tender, may prevent merger discussions from happening.

So starting conversations early is all the more important, given your potential partner may well have an aversion to financial risk. Charities in acute financial difficulty will be less attractive than those who approach potential future sustainability issues in good time. A safer cushion of reserves—not yet run down to the wire—will help to cover merger costs. If the charity's financial problems are intractable, it may be that a merger holds no solution, and that liquidation is the best option for the salvage of services without accompanying liabilities.

External environment can inhibit mergers

Even when charities want to merge they may find it tricky due to external factors. Some charity and financial regulation creates uncertainty which holds people back. Examples include VAT treatment between subsidiaries, transfer of pension liabilities, and TUPE rules. In many cases these belie deeper issues which will require a coordinated response, but we have made some initial recommendations for changes we think could help in the final section of this report.

Simply finding a partner with a compatible mission, strategy, or culture is often extremely difficult. This may be beyond an organisation's control—there is no point merging with an incompatible organisation or where there is no benefit. Or an organisation may identify an attractive partner, only to find that the organisation it wants to court is not in a position to reciprocate. Its desired organisation may not be ready, or have difficulties of its own, or feel its own strategy does not fit.

Another inhibiting factor is the lack of information available to charities on the impact of mergers, or case studies of mergers which have occurred. Charities like to learn from each other about what has worked and what happens—we think greater openness will help get charities comfortable with the notion.

Despite the best efforts of organisations like Eastside Primetimers, there remains poor understanding of the variety of forms mergers can take. The same applies to the guidance on the logistics of mergers which already exist. As a sector we need to make a collective effort to disseminate such valuable information, and NPC hopes over time it will be more widely accessed by charities. What is missing is good data, and regular stories, about the benefits mergers and other collaborative models can offer.

More broadly, the term 'merger' has negative connotations, partly because people think it is an attempt to import City/private sector approaches into the non-profit world, partly because it has become associated with financial failure.

'The term 'merger' is a barrier – the key is to encourage strategic thinking, impact assessment and evaluation that lead the discussion towards options for doing things differently, and maybe even merger.'

John Williams, Vice Chair, Association of Chairs

WAYS FORWARD

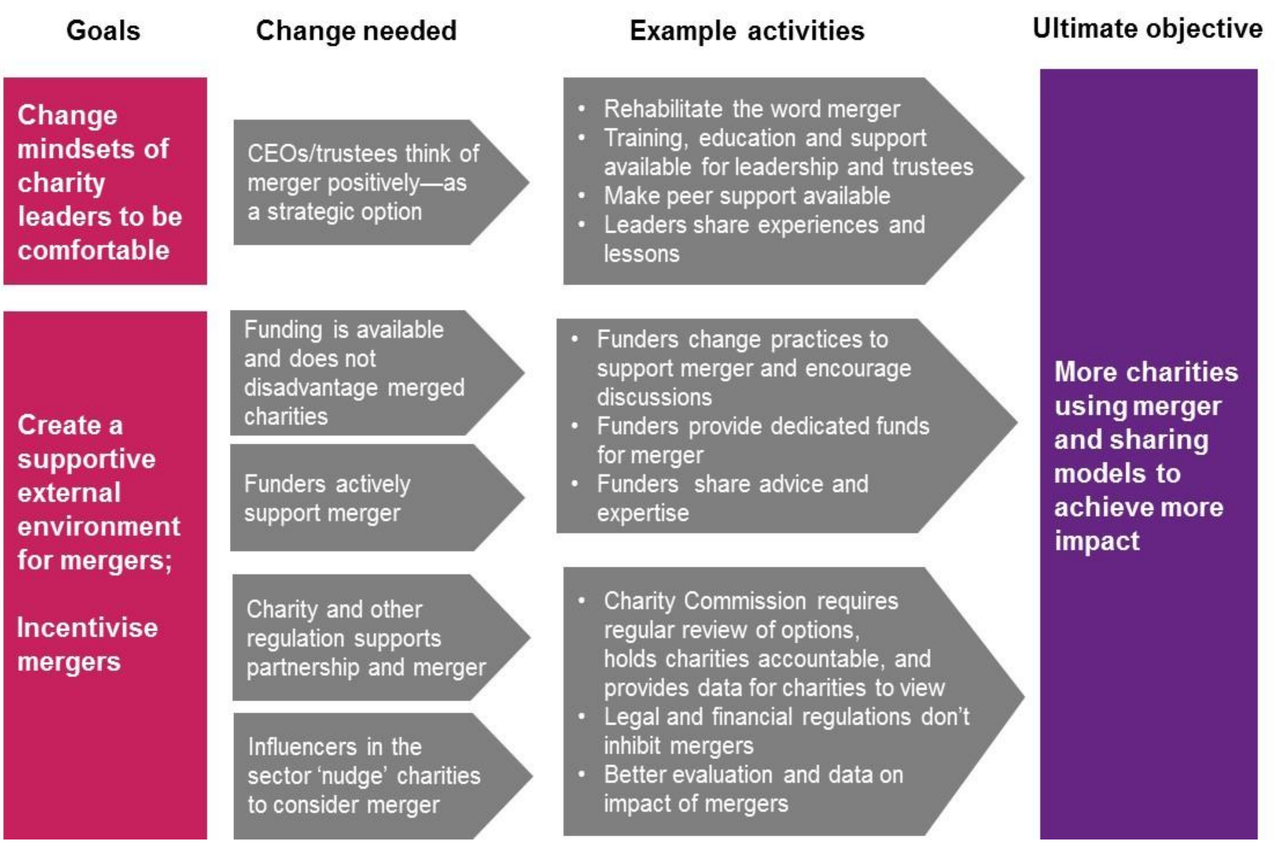
Breaking down barriers

We have argued the case that mergers and sharing models can offer major benefits to charities and should be looked at more strategically and rationally in the sector. However, we have not shied away from acknowledging the significant barriers charities face to doing this. To achieve change, a coordinated plan of action is needed, one that acknowledges the barriers around people, finance and the external environmental, while tackling the root causes of inaction such as mindsets of leaders.

We know that there is no single, or simple, answer, but to achieve change we need to:

- **Change the mindset of charity leaders**: CEOs and trustees must start to feel comfortable in considering merger and sharing models, armed and empowered to overcome barriers where they face them
- **Create a supportive external environment:** funders and regulators must support efforts to merge where it can add value, rather than throwing up barriers—again with funders this may require a change of mindset
- **Create incentives to consider mergers seriously:** changes in regulation and policies should encourage serious consideration of mergers

Figure 7: Achieving the goal of more charities using mergers as a tool for impact



Changing the mindset of charity leaders so they are more comfortable with mergers

We need charity leaders to see merger and sharing models as a badge of honour, a successful outcome of strategic thinking, rather than an admission of failure. We will only get there by emphasising the benefits mergers bring, and pushing more nuanced thinking about mission in the context of the structure of different sectors.

'It takes real courage and commitment to achieve it [merger]. But is it worth it? Absolutely.'

Carol Homden, CEO, Coram

To do this we need more open discussion about merger, so it is no longer a taboo topic. It should be a strategic option, like diversifying funding streams. The sharing of stories and experiences[11] will help to make the narrative about mergers more positive—without being naïve—and create a peer culture that sees mergers as a tool to achieving mission.

Training, education and support for trustees, through charity lawyers, accountants, and established training providers, would help remove fear and encourage thinking of merger as a positive, strategic option. To adhere to the Charity Governance Code, trustees should include the consideration of collaboration opportunities as a regular standing agenda item to ensure that they are discharging their duties.

Leadership programmes for senior executives should encourage a collaborative approach to strategy development—including thinking about their sectors overall. Programmes could address difficult themes related to merger—eg, uncomfortable topics about transitioning to new roles, downsizing organisations and redundancies. Exploring how to be creative about finding resources to do mergers, such as seeking advice from peers, and pro bono support, would help leaders to think about how to overcome practical barriers.

'If charities were encouraged to consider on an annual basis the full range of 'merger' options, report publicly on their conclusions and why action was, or was not, being taken, that might focus boards on these opportunities more often and on how 'effective' or 'impactful' they are.'

Howard Sharman, Consultant, Eastside Primetimers

More broadly, regulatory and sector bodies, and funders, should speak positively about mergers and promote good examples. Data on the benefits, costs and risks of mergers, will help dispel uncertainty. Readily available technical advice and diagnostic tools will also help to overcome barriers. Some of this is already provided by Eastside Primetimers, accountants and lawyers. However, additional pro bono support in this area may help those charities who cannot afford fees.

'Trustees who do not seriously consider merging their charity with another to better serve their cause are failing in their duties and failing people who need them.'

Simon Prior-Palmer, former trustee, Macmillan Cancer Support

[11] Talking about merging isn't a risk: blog about Lullaby Trust and Sands merger talks by Grace Wylde, NPC, 29th January 2018 https://www.thinknpc.org/blog/talking-merging-isnt-a-risk/

Creating a supportive external environment

Funders play a central role in supporting mergers

Financial distress is often the driver for merger, a fact which has helped create the negative attitudes we believe are holding the sector back. Providing dedicated funds for mergers would incentivise starting merger conversations and implementation. More and better designed funds that support merger activity could help with this.[12] Pro bono support or secondments would provide support to charities during the process.

'The boards of Children's Hospices UK and ACT had engaged in intermittent conversations about possible merger over a period of many years, but for a range of reasons the time was never felt to be right. The turning point was when a key funder initiated the offer to the two Boards of a small grant to enable an independent feasibility study to focus on merger. This study quickly revealed that much more could be achieved through the creation of one voice in the sector, and the findings were subsequently accepted by both Boards.'

Barbara Gelb, CEO, Together for Short Lives

We also want to see funders support mergers more actively, through their commitment to grantees going through the merger process and in the period of integration post-merger. Independent funders could help by:

- Providing core and unrestricted funding to help give leaders headspace to think and act strategically;
- Encouraging networks for grantees in similar spaces;
- Being flexible and having open dialogue with grantees—a policy not to have two grants become one, with a reduced amount, when charities merge;
- Ask grantees to consider mergers as part of their work.

Organisations such as the Association of Charitable Foundations (ACF) should also push the agenda by encouraging supportive funding practices. The large, well-known foundations whose policies are often emulated by other smaller trusts should lead by example. Foundations, as charities themselves, should not see themselves as immune to the advantages of furthering their mission through merger.

'We need to make it easier to discuss mergers, and easier to do. Transition funding from funders and funding for consultants to assess and add capacity seem good ideas and essential to nudge charities along.'

John Williams, Vice Chair, Association of Chairs

Incentivising mergers through policy change

At the time of writing (2017-2018), a handful of regulatory changes are in process which have implications for charity mergers. This includes the Department for Work and Pensions (DWP) amendments to pension regulations, and the inclusion of a merger clause in The Charity Governance Code[13]. Recommendations relating to merger were also made in the House of Lords Select Committee on Charities report, Stronger Charities for a Stronger Society,[14] and the Technical Issues in Charity Law report[15] published by the Law Commission.

[12] For example, Social Investment Business and Eastside Primetimers are currently exploring options for what such a fund could look like

[13] https://www.charitygovernancecode.org/en

[14] https://publications.parliament.uk/pa/ld201617/ldselect/ldchar/133/133.pdf

[15] https://www.lawcom.gov.uk/project/charity-law-technical-issues-in-charity-law/

If adopted, these regulatory changes and recommendations should help remove barriers and encourage more charities to consider the possibility of merger.

While groups like the House of Lords Select Committee and the Law Commission have been calling for regulatory changes, and this would be helpful, it may be difficult given the current political climate and legislative preoccupation with Brexit.

The Charity Commission has adopted the 2017 Charity Governance Code as its principal charity guidance. Mergers are mentioned in the Code, and although it takes a somewhat narrow view of why mergers are useful, we support the line that:

'Trustees must at least annually seriously consider the benefits to their mission of partnership working, merger or dissolution. This would include cases where other organisations are fulfilling similar charitable purposes more effectively and/or if the charity's viability is uncertain.'

The Charity Governance Code

The wider movement—summary

Our work on mergers is part of a wider movement and we acknowledge and applaud the work already done in this area. At the time of writing (between 2017-2018), a handful of regulatory changes were made which have implications for charity mergers:

- The Department for Work and Pensions (DWP) announced in March 2018 that it plans to introduce an amendment to pension regulations, which should reduce potential barriers that the previous draft regulations could have created for mergers between charities with multi-employer pension scheme debts.
- The Charity Commission accepted a recommendation in January 2018 relating to improving advice to charities looking to merge highlighted by The House of Lords Select Committee on Charities report, Stronger Charities for a Stronger Society
- The Technical Issues in Charity Law report, published by the Law Commission in September 2017, makes a number of recommendations to 'remove legal barriers to charities merging, when a merger is in their best interests'.
- The Charity Governance Code, published in July 2017, included a clause for trustees in which they should 'consider the benefits and risks of partnership-working, merger or dissolution if other organisations are fulfilling similar charitable purposes more effectively and/or if the charity's viability is uncertain.' While all trustees are encouraged to meet the principles of the Code, it is not mandatory.

But we would like to see things taken further

First, we believe that the Charity Governance Code should go beyond warning against duplication, as it does above, but integrate our findings on the many benefits that mergers and collaborative models can bring to charities and their causes. While the Code is not mandatory, it will create useful pressure on charities to 'apply and explain' where they are in implementing it, and we would like to see this emphasised.

Second, we would like to see regulation go a step further and ask charities, (proportionally to their size and activity) to comment in their annual report on whether they have followed the above guidance and if not, why not? To ensure the sector is taking this seriously, the Charity Commission should look at a small sample of cases each year and test how the requirements are being fulfilled with a view to further action if this proves that it is not working as desired. We have advised charity leaders to think about the structure of their sector, perhaps involving specialist funders in discussions, to determine whether a sector would collectively achieve more for a cause by using one of the merger or sharing models more actively.

Our third recommendation is for the Charity Commission to support this by publishing factual analysis of the structure of sectors to enable others to assess where consolidation could be effective.

Mergers will always be difficult. People who set up and/or work/volunteer/donate for their organisation feel deep warmth to it and positive effects come from that. But we must be more open to collaboration even where it might see the merger of the charity into another one. Our proposals here are designed to go with the grain of the way the sector works, but to push it towards thinking about uncomfortable topics. We hope the paper leads to a good debate and to more collaboration in the name of social good. The paper is just one step in the wider movement to get mergers and sharing models more widely used—and we expect to do more on this in the future.

How we are taking this forward

Changing the mindset of charities and creating a supportive external environment will take time. As a first step, the philanthropists driving this report plan to seek meetings with CEOs and trustees and chairs of charities to raise awareness and push the agenda forward on mergers.

Discussions with major funders are also on our agenda.

Meetings with other external stakeholders, such as the Charity Commission, will also take place.

'There is a danger that organisations exist just to exist. They need to be clear why they exist, and the value they add to the sector'

Chris Wright, CEO, Catch 22

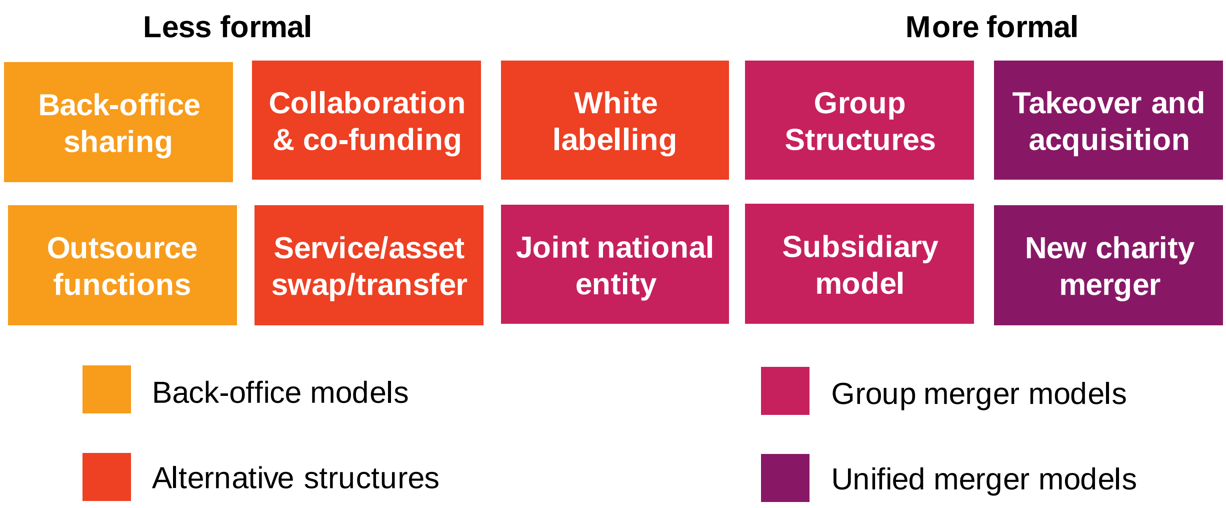
APPENDIX 1: MERGER MODELS SPECTRUM IN DETAIL

We examined four (approximate) categories of models, below, although sometimes we found examples that were somewhat ambiguous as to which category they fell into. We found you can tweak the model—eg, degrees of control of top charities over subsidiary charities via varying governance and management team structures—to suit circumstances and negotiations.

- Unified merger models
- Group merger models
- Alternative structures
- Back-office models

In this appendix we describe the options, utility and advantages to mission of these different merger models rather than the technical and legal detail. Eastside Primetimers' 'Good Merger Index'[16], is a useful resource for more technical descriptions.

Figure 8: Merger and sharing model spectrum



[16] Eastside Primetimers (2017) '*Good Merger Index*'.

Unified merger models

The most common type of merger, the unified merger, results in the creation of one merged organisation, with one identity. When charities are duplicating services and there is service user or donor confusion, this model is useful because it creates one clear identity. While the trigger is often financial distress, unified mergers are useful when organisations need a major transformation, such as a strategy or brand revamp. The newly-merged organisation often can reach more beneficiaries, increase the range of services offered, have greater heft in policy influencing and contract negotiations and in the long term can achieve cost-savings.

Figure 9: Unified models

Smaller Organisation B transfers its assets to larger Organisation A. Organisation A operationally takes over Organisation B. The identity of Organisation B is often lost or retained only as a service or project.

All assets, activities and responsibilities of Organisation A and Organisation B are transferred to newly created Organisation AB. Organisations A and B are then dissolved.

Takeover: The merger between St Mungo’s Community Housing Association and Broadway Homelessness and Support in 2014 saw Broadway transfer all service, property and employment contracts to St Mungo’s.[17] Fifty-six per cent of charity merger deals in 2016/2017 were takeovers.[18]

New charity merger: Breast Cancer Now launched as a new charity in June 2015, following the strategic merger of Breakthrough Breast Cancer (Breakthrough) and Breast Cancer Campaign (Campaign).[19] Twenty-nine per cent of charity merger deals in 2016/2017 were new charity mergers.[20]

[17] Further details on the St Mungo’s merger can be found in its case study

[18] Eastside Primetimers (2017) ‘Good Merger Index’.

[19] Further details on the Breast Cancer Now merger can be found in its case study

[20] Eastside Primetimers (2017) ‘Good Merger Index’.

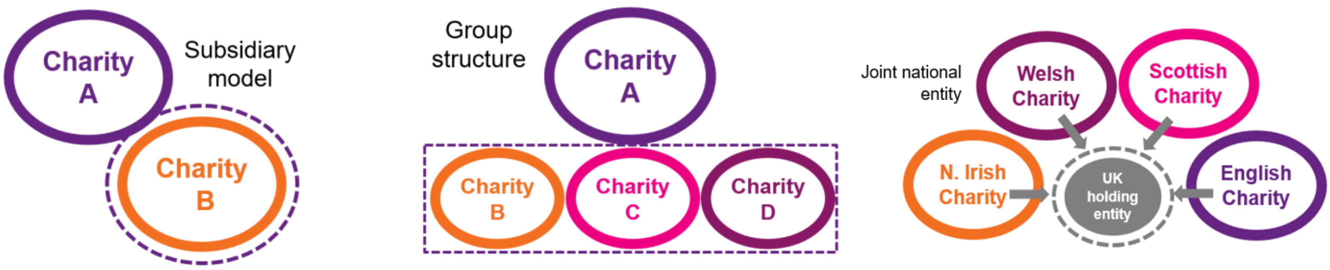
Group merger models

In Group merger models[21] more than one organisation exists post-merger. Unlike unified models, the organisations are not all subsumed into one. This enables the identity and brand of the original organisations to be retained, when needed, for brand, fundraising, local presence and specialist beneficiary offer. A charity should consider group merger models if it will benefit from shared functionality but wishes to keep its identity.

‘One of the most precious attributes a charity has is brand and identity - lose that and the charity is at risk of losing support and donors.’

Sir Stephen Bubb, CEO, Charity Futures

Figure 10: Group models



Organisation B becomes a wholly owned subsidiary of Organisation A. Organisation B retains its own identity and brand, however Organisation A retains varying degrees of operational control.

Two or more organisations transfer activities and assets to become part of a group and operate as a wholly-owned subsidiary. The identities and brand of the subsidiaries are retained and can be referenced as part of the group.

Two or more organisations from different nations in the U.K come together to work on common cause. The identities and brands are retained and can be referenced as part of the group.

Subsidiary model: In 2017, Catch 22 and Community Links engaged in a subsidiary merger model deal. Community Links became a subsidiary of Catch 22 however it retained its own identity, premises, and board of trustees. Seven per cent of charity merger deals in 2016/2017 used a subsidiary model.[22]

Group structures: Coram Group operates as a ‘family’ group of charities, and has integrated four children’s charities over the last eight years. Smaller charities joined the group and gained a physical home, access to a robust impact and evaluation function, and processes and functions which they may not have been previously able to resource themselves. In this instance, the charities are managerially controlled by Coram, so although names have been kept, the charities have limited independence. In other examples there is possibly greater independence. One per cent of charity merger deals in 2016/2017 were group structures.[23]

Joint national entity: Mental Health UK was created by four national mental health charities working across the UK: in England, Rethink Mental Illness; in Scotland, Support in Mind Scotland; in Wales, Hafal; and in Northern Ireland, MindWise.

[21] Further details on the group merger model can be found in the ‘Group merger model’ case study

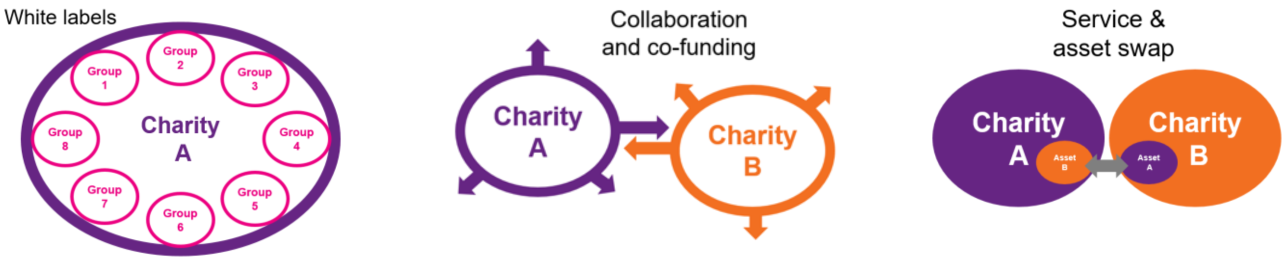
[22] Eastside Primetimers (2017) ‘Good Merger Index’.

[23] Eastside Primetimers (2017) ‘Good Merger Index’.

Alternative structures

Alternative structures are useful for organisations which want to retain identity but also gain advantages such an enhanced beneficiary offer, increased efficiencies, cost-savings and influence. These models are less formal and more flexible than group merger models.

Figure 11: Alternative structures



Larger Organisation A acts as a host and provides support to a group of smaller group of organisations which retain their identity and brand.

Two or more charities share working practices while remaining as separate organisations. In the case of co-funding, organisations will partner to bid for funding.

Two or more organisations swap or transfer services or assets. The organisation making the transfer stays intact and unmerged in all respects.

White labelling: The Brain Tumour Charity used a white labelling model whereby around 300 local groups are housed under The Brain Tumour Charity. These 300 operate independently, maintaining identity and personal connection with their local supporter base, but benefit from the advanced infrastructure and wider support of The Brain Tumour Charity, and channel all money raised to The Brain Tumour Charity.[24] Brain Tumour Research uses a similar model for its 18 member charities.

Service or asset swap / transfer: Changing Lives, a supported-housing provider in the north-east, acquired accommodation services from Thirteen Group's Care and Support arm. Seven per cent of charity merger deals in 2016/2017 involved an asset swap.[25]

Collaboration and co-funding: There are numerous examples of collaboration and co-funding in the charity sector. NPC's report, *Collaborating for Impact*, details more information about the benefits of collaboration.

[24] Further details on The Brain Tumour Charity can be found in the 'Brain tumour sector analysis' case study

[25] Eastside Primetimers (2017) 'Good Merger Index'.

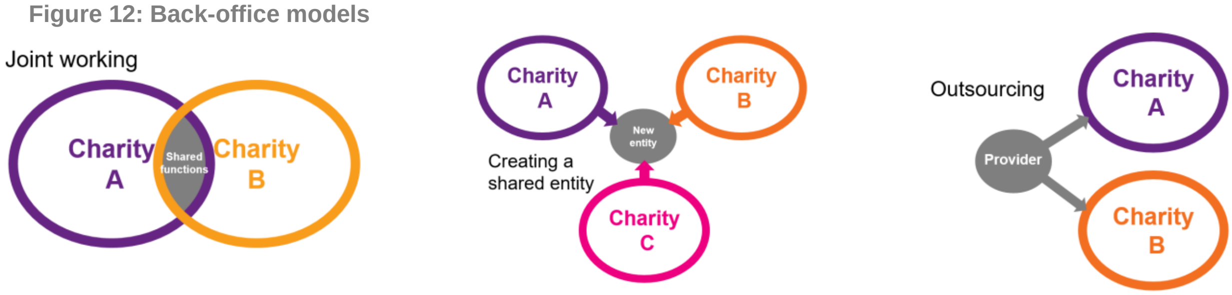
Back-office models

Back-office models[26] allow organisations to focus on mission-related activities through improving efficiency. They are often appropriate for smaller, community-based organisations, which lack resources or are led by volunteers. Similarly, if an organisation has spare back-office capacity or expertise, sharing this will maximise efficiency on both sides.

'If funders started thinking seriously about back-office we'd make huge progress but they are not prepared to support infrastructure. The sector gets fixated with full mergers which is not always the right option.'

Sir Stephen Bubb, CEO, Charity Futures

Figure 12: Back-office models



Back-office services are either pooled or provided by one organisation to a group.	Two or more organisations create a separate organisation to provide all the partners with services.	An organisation contracts/ outsources out a specific service from an outside supplier.

Sharing back-office—joint working or **creating a shared entity.** Disability charity Sense shares its finance, IT and payroll services with Contact, another disability charity. Charityshare Ltd is a certified joint venture which provides IT services to three UK charities: The Children's Society, Age UK and Alzheimer's Society.

Outsource functions: Charity Backroom is a social enterprise which provides back-office support functions such as HR, recruitment, payroll and insurance.

[26] Further details on the back-office merger model can be found in the 'Back-office model' case study

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Brian Linden

Founder of 2nd Chance (charity merged with Unlocking Potential) now Deputy Chair; trustee of Resources for Autism; Director of Cinven (former founder partner).

Simon Prior-Palmer

Former trustee and member of Finance and Legal Committee and Chair of Audit Committee of Macmillan Cancer Support; former Managing Director and Senior Advisor of Credit Suisse First Boston; former Vice President and Director of Morgan Guaranty Ltd (later J.P Morgan); former Board Commissioner of Postcomm (now Ofcom); former Senior Adviser for the Financial Services Authority.

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TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy. Over the past 15 years we have worked with charities, funders, philanthropists and others, supporting them to deliver the greatest possible impact for the causes and beneficiaries they exist to serve.

NPC occupies a unique position at the nexus between charities and funders. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

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