

THE 2022 GOOD MERGER INDEX

This launch will take place via zoom on Tuesday 14th February 2023 0930-1100

Press Release

SLOW DOWN IN MERGER ACTIVITY CONTRADICTS COVID EXPECTATIONS

The Good Merger Index 2021-22, published today by Eastside People (formerly Eastside Primetimers), contradicts expectations that Covid would drive more consolidation in the social sector during the second year of the pandemic.

The report shows that, using our methodology, merger activity declines rather than increases in the period, with just 51 mergers involving 103 organisations – only 0.06% of the c170,000 registered charities – down from 77 mergers involving 166 organisations in the previous period - the lowest level of activity since Eastside People's records began in the year 2013-14.

This fall has been driven by a reduction in mergers involving smaller organisations, contradicting the trend of recent years. Most mergers involving smaller organisations are takeovers and frequently reflect their financial stress, and whilst takeovers remain the dominant form of merger and are at a higher proportion than previous years, they have reduced by 31% on the previous year.

Eastside People expects that transferor organisations, those being acquired, are for the most part generating deficits that are driving them to seek a takeover. However, this year, only 47% generated a deficit in the year prior to a merger. This is only the second time in eight years that the proportion has fallen below 50%.¹

There are even fewer mergers of equals, the more complex mergers between larger organisations, which tend to be more strategically driven for greater reach, scale, and voice, as illustrated by the GMI case studies.

There has been a rise in subsidiary-type models of merger. These models are more straightforward, often more palatable to boards and may prove to be a step along the way to full integration. However, retaining identity and brand, whilst creating efficiency through the parent structure, can also play well to place-based delivery whilst operating at scale – certainly something of interest in the new Integrated (health and social) Care Systems.

¹It is important to note that we take financial data from the year prior to merger which in this instance is, for most organisations, 2020-21 – the first year of Covid.

Overall, the fall in the number of all mergers and a reduction in the number of takeovers, combined with the improvement in the financial position of transferors, could indicate that

Covid did not impact the finances of organisations in the sector as negatively as was predicted or might be perceived. We know that the government's furlough scheme and changes in the behaviour of funders were generally very helpful to the sector. Despite immensely difficult operating conditions, it is possible that the data indicates that financial stress, at least during the 2020-21 financial year, was lower than usual.

Commenting, Tracey O'Keefe, Account Director Partnerships and Mergers at Eastside People, said:

"This year's report has surprised us, but with government support and funders stepping up to the plate during the pandemic it may be that charities were cushioned more than anticipated and the financial drivers for merger were muted. Certainly, merger is not an easy process and, with demand for services ever-increasing and organisations having to pivot to digital delivery and homeworking in this period, perhaps the focus has been elsewhere. It may even be that those in-person conversations between friendly Chief Executives or Trustees that often plant the seed of merger discussions just haven't been as easy over Zoom!

However, what our case studies clearly show is that, with clear strategic focus and commitment, merger and other strategic partnerships remain a successful route to improving sustainability and delivering impact. Indeed, in the health and social care sector, the creation of the ICSs is proving a significant driver of strategic partnerships in many forms. As such, considering strategic partnership and merger as a part of that collaboration spectrum, should be central to both executive and board thinking as we continue to navigate the challenging headwinds post pandemic, and now the cost-of-living crisis".

ENDS

Key Stats

- Using our methodology, we have found a significant fall in the number of smaller organisations (turnover of £1m or less) involved in merger, down to 50, from 115 in the previous year.
- The total value of the top three mergers is £42,900,000 up from £33,100,000 the previous year, although still well below typical levels, which averaged £97m over 2014-20.
- The total income transferred across all mergers was £466m. Where the highest on record was £1.3bn in 2017-18.
- By the amount of income transferred, the largest 20 charity sector mergers in 2021-22 represent £77m, up from £55,019,000 in the previous year.

- The top 20 mergers represent 97% of the total financial value transferred in mergers, an increase on previous years, reflecting the reduced number of smaller organisations involved in mergers.
- A rise in the proportion of organisations in surplus and fall in the proportion of those in deficit in the year prior to the merger may be an indicator of reduced financial stress in the sector.

Not only does our data bring unique insights into how the sector continues to navigate the challenges posed by the pandemic, but our panellists share their stories to give real depth and experience.

Join the discussion with sector leaders who share their view of merger and how it supports their beneficiaries and service strategy, joined by a funder keen to support effective collaboration: Graeme Hodge, Chief Executive of All We Can; Stewart Marks, Chief Executive of Rennie Grove Peace Hospice Care; and Duncan Shrubsole, Director of Policy, Partnerships and Communications at Lloyds Bank Foundation.

Please note, the GMI report will be available to download from the Eastside People website at 0900 on Tuesday 14 February here:

<https://eastsidepeople.org/resource/good-merger-index-21-22/>

Eastside People: A New Name for The Eastside Primetimers Community of Consultancy and Recruitment Professionals

Working alongside our clients in the not-for-profit sector for the last 20 years, our community of professionals has delivered over 2,200 consultancy and recruitment projects.

The overriding message during that time has been that it's the breadth and depth of the people which is most valued. Our new Eastside People brand focuses on providing access to the highest quality experts from diverse backgrounds.

Under our new name, we will continue to work in partnership with our clients to help build organisational capacity and impact.

Read CEO Richard Litchfield's [blog about the principles for capacity building](#).

Explore our new website: <https://eastsidepeople.org/>