

A review of not-for-profit  
mergers for 2020/21

THE

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**GOOD  
MERGER**

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# 1. FOREWORD

Having recently become Head of Partnerships & Mergers at Eastside Primetimers, I'm delighted to introduce this eighth edition of the Good Merger Index, our unique annual study which seeks to investigate and report on mergers amongst charities and social enterprises.

The year we examine in this report starts in April 2020, less than one month after the sudden lockdown imposed by the Covid pandemic, which has had such a devastating impact on our loved ones and our work.

Therefore, this GMI is of particular interest, and perhaps provides some insight into how the sector has been coping with and responding to the pandemic.

As with previous years, merger activity is relatively low, with just 77 mergers identified involving 166 organisations. However, in relative terms, we are seeing a year-on-year rise in the number of small organisations involved – to their highest level, and takeovers also at their highest level. At the same time, we have seen a marked fall in the number of larger, more complex mergers.

Whilst it is very difficult to examine or infer causality, it could be that the impact of the pandemic has had a differential effect on organisations of different sizes:

- ▶ Larger organisations have been able to weather the storm but, in focussing upon their response to the pandemic, have stopped or deferred more complex merger activity.
- ▶ Smaller organisations, with limited options for mitigating the effects of the pandemic, have resorted to being acquired by takeover to try to maintain their activities and beneficiary impact.

As with previous years, we have supplemented our report with some case studies. This year we look at three mergers that were undertaken after careful consideration for how the organisations involved could improve their sustainability and impact. These mergers were conceived well before the pandemic and completed despite its additional challenges. They demonstrate both the investment in time and energy required, but also the fantastic outcomes achieved.

It is concerning that the current economic and societal challenges may be limiting strategic approaches to merger and forcing smaller organisations to survive through takeover. However, we hope that where a merger may present an opportunity for growth and impact, it is something organisations are able to pursue.

In our interactions with hundreds of organisations, providing support in governance, strategy and business planning, we have learned that not just merger, but closer partnership working and collaboration may also provide valuable opportunities for charities and social enterprises to increase their impact, whilst driving efficiencies. I am delighted that the Douglas Macmillan case study included here also addresses partnership working and we will continue to develop this theme in future issues of the GMI.

We know that partnerships and mergers are not always considered as part of an ongoing strategic approach to development; and that there is relatively little awareness or knowledge about how to progress this. There are also natural concerns around mission and value synergies, more than financial drivers as might apply in the for-profit sector.

Therefore, I hope that the GMI helps to shine a light on the opportunities that merger, as part of a collaboration spectrum, can deliver, and contributes to a better understanding of a vital part of the strategic toolkit for our sector's leaders, as they continue to navigate the impact of the Covid pandemic and respond to the ever-growing need of those they serve.



**Tracey O'Keefe**  
**Head of Partnerships and Merger**  
**Eastside Primetimers**

## Acknowledgements

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# Summary

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## 2. SUMMARY

**The year 2020/21 has been marked by the impact of the Covid-19 pandemic, and our mergers research has uncovered some significant differences for the year.**

Using our methodology, we found 77 mergers, involving 166 organisations. This is an increase on recent years and is driven by an increase in activity amongst smaller organisations. There is an emerging trend over the past few years of smaller organisations being more active in the merger space and this may well be symptomatic of ongoing financial pressures.

Takeovers<sup>1</sup> are also at the highest level we've seen since the GMI started in 2014, at 58. Takeovers are often more straightforward and perhaps more often driven by financial necessity rather than by strategic choice.

Our data indicates that there has not been a significant shift in the combined income of organisations involved in mergers, but that there has been a significant drop in the value of income transferred. This is a product of the lower incomes of the organisations involved, and a fall in the number of more complex "mergers of equals", particularly between larger organisations.

It appears the role of larger organisations has been more focussed on the takeover of other organisations rather than on mergers of equals, which are typically more complex processes and require greater resources and attention.

There has been a fall in the proportion of organisations in surplus and an increase in the proportion in deficit in the year prior to merger. This may be an indicator of financial stress in the sector, and a factor in determining the other trends we have seen.

Mergers brought about by proactive and strategic efforts to improve effectiveness and impact are illustrated in our case studies, which demonstrate the value of this approach. Impacts include more sustainable financial models, increased influence and advocacy, greater reach, and increased leadership capacity.

<sup>1</sup> We use the term "takeover" in a specific way, as set out in our methodology on page 7.

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# Methodology



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## 3. METHODOLOGY

**Our research objective has been to identify and collect data on mergers that occurred in the year 2020/21<sup>2</sup>. We have analysed that data in the context of the previous seven years of this Index.**

Because many mergers are announced in early April each year, we use a 12-month period running from 1st May 2020 to 30th April 2021.

We have included mergers only where we are confident they have been completed. Therefore, some mergers, although announced, are not included because they concluded after April 2021.

Our geographic focus is England and Wales. Most organisations were registered charities and companies limited by guarantee. Our data can include community benefit societies, registered providers and community interest companies. We do not generally include pure housing association mergers<sup>3</sup>, except when one party is a registered charity.

A key challenge for this study is to identify mergers, as there is no definitive definition or list of mergers across the social sector, and many mergers that are listed are a result of internal reorganisations. For charities, not all mergers require immediate registration. Other organisations are not recorded in any formal register. Therefore, identifying relevant mergers requires careful investigation of a broad range of information. We use two main sources for our research:

### Public registries

The Charity Commission maintains a register of mergers, but this only covers situations where one organisation is dissolved. From the Charity Commission register for 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.

### Media and organisation websites

We reviewed the charity and housing sector press to find deals at the point of announcement and 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.

When assessing income and expenditure for each organisation, we use the most up to date figures available at the time of writing. Merger can significantly skew the income and expenditure of organisations, so we take information for the last available complete year before the year of merger. Occasionally, charities extend their financial year before merger so, where this happens, we take the previous 12-month year's figures.

<sup>2</sup> The 2019-20 GMI included a separate, preliminary analysis of mergers in the first six months of 2020/21. This report absorbs and updates that preliminary analysis.

<sup>3</sup> Housing Associations are subject to unique regulation and are also very large, which would unduly distort the data.

## Impact of the COVID-19 pandemic on finances and our methodology

It is widely understood that the Covid-19 pandemic has had a significant impact on the finances of organisations across the sector. However, this impact has been varied and may have included the following:

- ▶ Increased income due to increased levels of grant income or increased charitable activity.
- ▶ Reduced income due to a reduction in fundraising or charitable activity.
- ▶ Decreased expenditure due to a reduction in activity or change in delivery methods.
- ▶ Increased expenditure due to increased charitable activity.

For most organisations reviewed, the financial year we have used will have ended in March 2020, just as the pandemic was taking effect, with some ending as late as December 2020.

This means that the full impact of the pandemic will not be seen in the finances we have reported. We may see the financial impact of the pandemic in subsequent years, although it is likely this will remain complex, given the impact of substantial short-term financial support from the government and other grant makers. Due to the varied and complex ways in which the pandemic will be impacting organisations' finances, we have not chosen to adjust our methodology or carry out further analysis in this area.

We attempted to find evidence for the pandemic being a reason for merger by reading the accounts given by the organisations involved. However, finding clear explanations for merger is generally difficult, and we found only a few charities referenced this as a direct cause for merger. For this reason, we have chosen not to include this data.

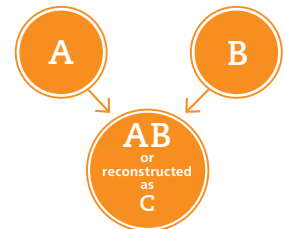
## Types of merger

As there is no definitive framework for defining mergers, we use a framework based on Richard Gutch's work in our Good Merger Guide<sup>4</sup> which has been adapted through peer-review.

We detail this framework in the appendix on page 25 of this report, but for quick reference, we include brief thumbnails here.

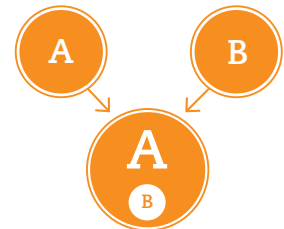
### 1 Merger

Two or more organisations join to form a new organisation



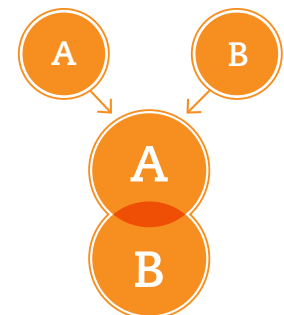
### 2 Takeover

One organisation transfers its assets and activities to become part of another



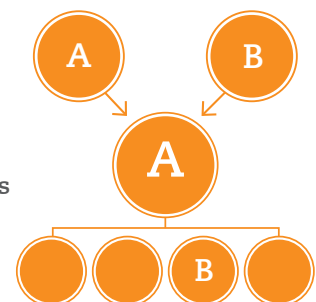
### 3 Subsidiary Model

One organisation becomes a 'wholly owned' subsidiary of another



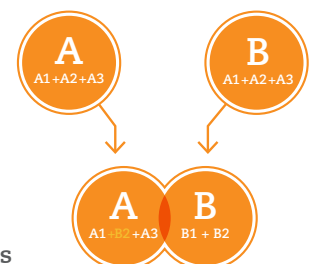
### 4 Group Structure

Two or more organisations transfer activities and assets to become part of a group



### 5 Swapping services or assets

Transfer or swapping of services, and in some cases assets



<sup>4</sup> Available for download at: <https://ep-uk.org/charity-insights/charity-mergers-good-merger-guide/>



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# Trends

# 4

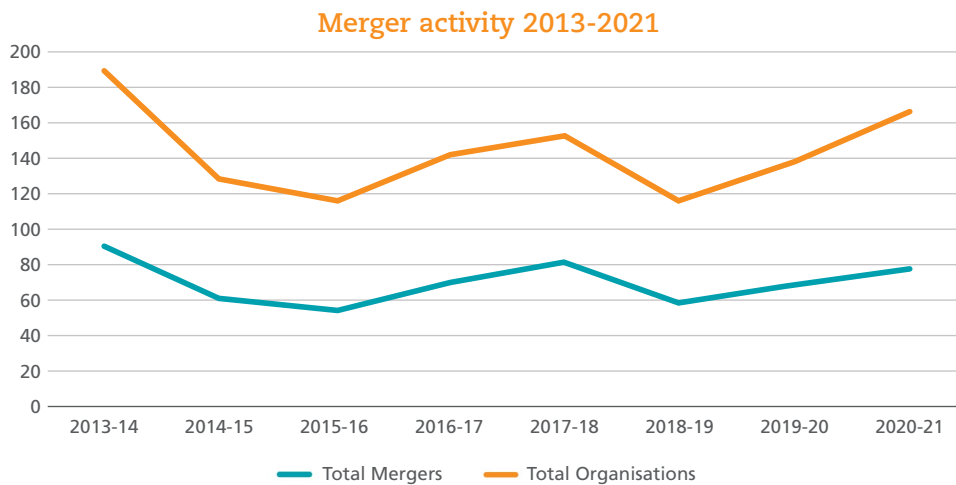
## 4. TRENDS

For the year 2020/21, we have taken the data found and placed it in the context of the previous seven GMI years to help us understand the degree to which the Covid pandemic may be impacting merger. Certainly, there appears to be a unique, marked change to some factors, whereas others appear to be part of an emerging year-on-year trend.

### Increasing activity driven by smaller organisations

The number of mergers recorded (77) is the third highest since we started the Good Merger Index and the highest since 2017/18. We have found more organisations involved in merger (166) than in the previous six years.

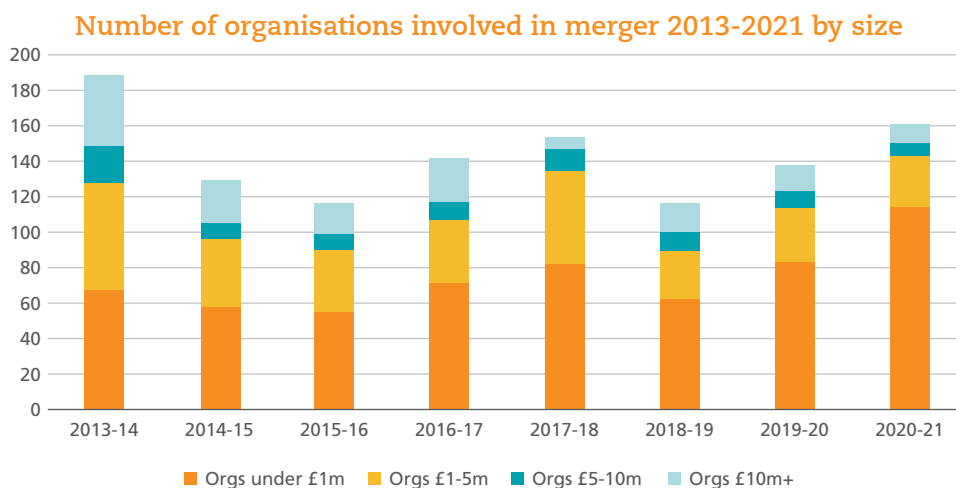
Nevertheless, 166 organisations represent just 0.1% of the 169,862 charities in the UK at the end of the 2020/21 financial year<sup>5</sup>.



Some mergers involve more than two organisations, hence the total number of organisations is more than double the number of mergers.

The breakdown of mergers by size of organisations involved emphasises a more significant trend behind the headline activity.

Growth in the number of smaller organisations (turnover of less than £1m) involved in merger appears to be an increasingly dominant factor. 2020/21 has seen the number of smaller organisations involved higher than ever, and 67% higher than the average of all previous years:



Size of 161 organisations in 2020/21, based upon income in the year prior to merger.

Income data not available for 5 organisations.

<sup>5</sup> <https://committees.parliament.uk/writtenevidence/39041/pdf/>

The relatively high number of smaller organisations involved in merger is typical and reflective of the overall makeup of the sector, but the trend in growing dominance may be important.

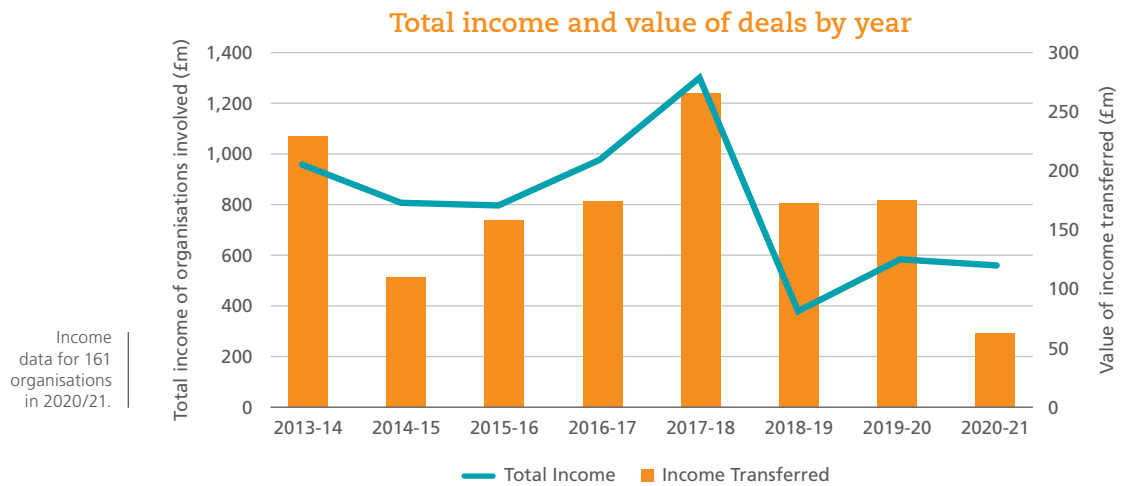
Whilst the number of organisations with income over £1million has reduced by just eight, it should be noted that this will have a disproportionate impact on the total value for the combined incomes of all the organisations involved in merger each year<sup>6</sup> and may also further depress the total value transferred, as discussed below.

Nevertheless, the data outlined above does not indicate any clear impact of the Covid pandemic.

### A dramatic shift in the value of income transferred

The total income of the 166 organisations involved in mergers was £559 million<sup>7</sup>. This is broadly consistent with the previous two years – a product of a small reduction in the number of larger organisations and a large increase in the number of smaller organisations.

However, the value of income transferred shows a very dramatic shift: £62million of income was transferred<sup>8</sup>, down from £176million in 2019/20, and lower than any previous GMI year:



The value of income transferred is 34% of the average of all previous years, and 35% of the previous years' value.

Whilst the total income of all organisations has been relatively low for the past three years, it appears that income transferred will have held up because of several mergers of equals amongst larger organisations.

In 2020/21, a marked reduction in these higher value, more complex mergers of equals has significantly reduced the total value of all transfers.

<sup>6</sup> A further illustration of how the spread of organisation size skews income may be seen at <https://register-of-charities.charitycommission.gov.uk/sector-data/charities-by-income-band>

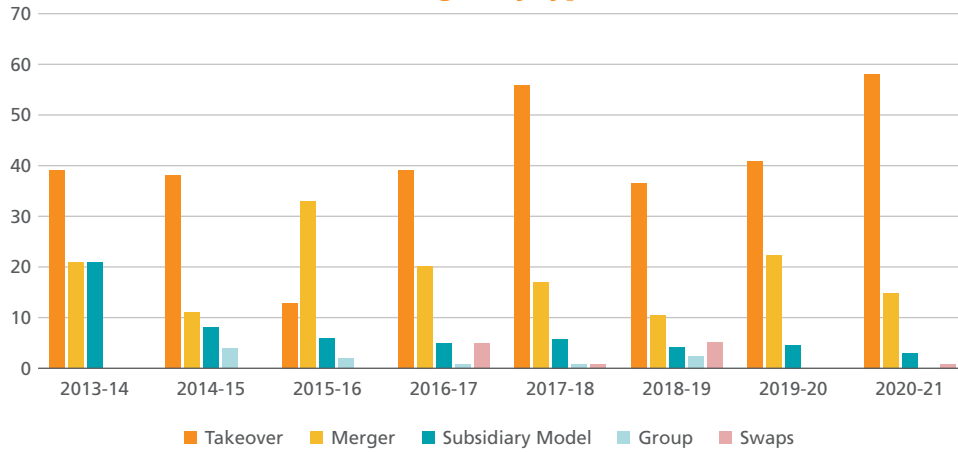
<sup>7</sup> This is the total income of the 161 organisations for which data was available.

<sup>8</sup> We calculate transfer value based upon organisational income. Where a merger of equals takes place, the combined income of both organisations is used. For a takeover or similar, only the income of the transferor is used.

## A dominance of takeovers versus more complex deals

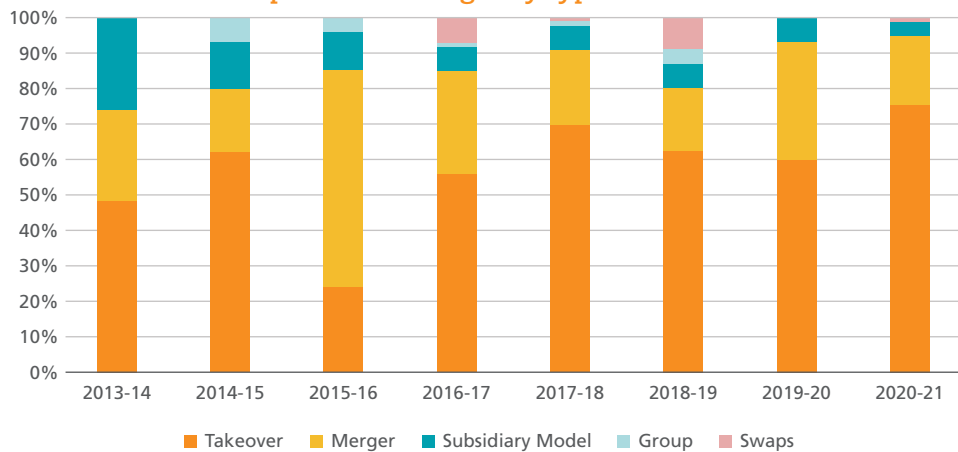
2020/21 has seen the third year of growth in the number of takeovers to 58, the highest we have recorded in eight years. This year also sees a reduction in the number of “mergers of equals” (as defined by our model for merger types).

Number of mergers by type 2013-2021



As a proportion of all mergers, takeovers have been more dominant than ever:

Proportion of merger by type 2013-2021



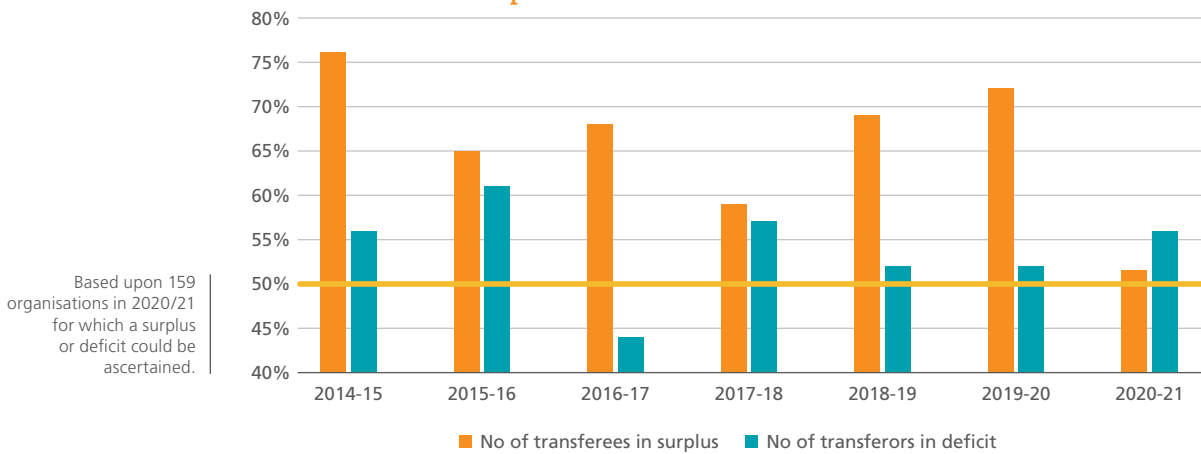
## Financial drivers for merger

For this section, ‘transferee’ organisations are organisations making acquisitions, while ‘transferors’ are those either being taken over or taking part in a “merger of equals”. This is consistent with how we classify income transferred by merger.

By looking at the surplus/deficit of transferees and transferors, we may gain an indication of whether mergers are of “financial necessity” or driven more by a strategic desire for growth and impact.

Typically, most transferees tend to be in surplus whilst most transferors tend to be in deficit, and this remains unchanged for 2020/21.

### Financial performance of transferees and transferors



The proportion of transferors in deficit is increased relative to the previous two years, and there has been a dramatic drop in the overall proportion of transferees in surplus.

It is important to note that financial information is taken for the last full year before the year of merger, and that in most cases this will be the financial year ending March 2020; pre-Covid. However, some organisations’ financial years do end after March 2020. This has implications for our understanding of the impact of the pandemic upon financial performance, making the situation less clear.

What these figures do show is that overall, a greater proportion of organisations involved in merger are in deficit. It may be that adverse financial conditions are driving an increase in the number of organisations seeking a new home, whilst larger transferees may be able to carry out a takeover even if under temporary financial stress.

## Top 20 Mergers

By the amount of income transferred, these were the largest 20 charity sector mergers in 2020/21. These mergers represent £55,019,000 of income transferred. This is significantly lower than 2019/20 (£161,460,000).

The top 20 mergers represent 89% of the total financial value transferred in mergers that year, which is similar to all years. This is because small organisations make up the greater part of the sector, and most mergers are consequently of relatively low value.

	Organisation 1	Organisation(s) 2	Merger Type	Income transferred
1	Adferiad Recovery (Ein Cyfle)	CAIS Hafal Welsh Centre for Action on Dependency and Addiction	Merger	<b>£21,442,000</b>
2	Douglas Macmillan	Donna Louise Trust	Takeover	<b>£7,420,000</b>
3	Mill Hill School Foundation	Cobham Hall School In Kent	Takeover	<b>£4,250,000</b>
4	UK Kidney Association (was Renal Association)	British Renal Society	Merger	<b>£3,906,000</b>
5	Change Grow Live	Bounce Back	Subsidiary	<b>£2,110,000</b>
5	The Godolphin and Latymer School Foundation	Redcliffe School Trust	Takeover	<b>£2,020,000</b>
7	Bowel Research UK	Bowel Disease Research Foundation Bowel & Cancer Research	Merger	<b>£1,591,000</b>
8	Social Interest Group	Pathways to Independence	Subsidiary	<b>£1,518,000</b>
9	Northamptonshire Mind (was Northampton & District Mind)	Corby Mind Rushden Mind Wellingborough Mind	Merger	<b>£1,331,000</b>
10	Mind in Enfield & Barnet (was Mind in Enfield)	Mind In Barnet	Merger	<b>£1,305,000</b>
11	Helen Bamber Foundation	Consonant/Asylum Aid	Subsidiary	<b>£1,181,000</b>
12	International Agency for the Prevention of Blindness	Clearly	Takeover	<b>£1,115,000</b>
13	Age UK South Kent Coast	Age Concern Deal Age UK Folkestone	Merger	<b>£1,019,000</b>
14	Haven's Hospices	J's Hospice	Takeover	<b>£842,000</b>
15	Brandon Trust	Thomas More Project	Takeover	<b>£834,000</b>
16	Eastside Community Trust (was Up Our Street)	Easton Community Centre Felix Road Adventure Playground	Merger	<b>£693,000</b>
17	Age UK West Sussex, Brighton & Hove	Age UK Horsham District	Takeover	<b>£673,000</b>
18	Keychange	Overdale The Charity Of Edith Mary Younge for the Sheffield Branch Of The Christian Alliance	Takeover	<b>£633,000</b>
19	Salto Gymnastics Charitable Foundation (was Salto Foundation)	Salto Gymnastics Club	Merger	<b>£604,000</b>
20	Crossways Community	Mental Health Residential Limited	Takeover	<b>£534,000</b>

The trends identified by the data for all mergers is reflected in this top 20 list: The total value of the top 3 mergers is £33,112,000, down from £88,236,000 the previous year. The value of deals is significantly reduced, indicating a shift away from more complex deals involving larger organisations.

Income figures represent the information available for the last year before merger.

Income for Age UK West Sussex, Brighton & Hove includes assets taken in as part of a previous merger in the year prior to 2020/21.

This list includes mergers for which income figures could be identified and used to determine a value for the income transferred.

Donna Louise income was for the year ending March 2019 and included an exceptionally large legacy.

## The Kingdom Hall Trust

**Not included in our figures is a substantial amount of merger activity by the Kingdom Hall Trust. The Trust aims to provide and administer places of public worship for congregations of Jehovah’s Witnesses (Kingdom Halls) and to administer the financial affairs of the congregations<sup>9</sup>.**

There are 1,611 Jehovah’s Witnesses congregations in the UK<sup>10</sup>, a significant but unknown number of which are or were independent charities. In the year to August 2020, “1,269 congregations merged with the Trust”<sup>9</sup>, although it is not clear how many of these were unincorporated or incorporated bodies, or what the value of income transferred was.

The Trust was registered in 2016. In the first few years, income was less than £2m. In the year to August 2020, income increased by £97m to £104m. This is largely due to the donation of £93m of tangible fixed assets by congregations.

<sup>9</sup> <https://bit.ly/CC-JW-TAR-2020> (Link to 2020 trustees annual report on Charity Commission website)

<sup>10</sup> <https://www.jw.org/en/jehovahs-witnesses/worldwide/GB/>

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# Case studies

# 5



## 5. CASE STUDIES

These case studies illustrate the stories of mergers undertaken with strategic considerations at the forefront of decision-making. Timescales for mergers such as these are measured in years and not months. In all three cases, the positive impact of merger is also considerable.

### EASTSIDE COMMUNITY TRUST

**Eastside Community Trust was formed in 2020 by the merger of three organisations in Bristol: Up Our Street (UOS); Felix Road Adventure Playground (FRAP) and Easton Community Centre (ECC).**

UOS was formed as Community at Heart in 2000 with a £50m, ten-year government regeneration grant (New Deal for Communities). With high reserves for its size, the organisation was focused upon spending these down. However, in 2016 the trustees decided to seek a sustainable future for the organisation, rather than closing once the reserves had been spent. So, in 2017, the Director of Up Our Street, Stacy Yelland, started reviewing the future of the organisation.

Stacy started talking to a wide range of stakeholders and funders. A key consideration emerged; UOS was a place-based community organisation without a physical presence. Stacy led a mapping exercise, looking at all the organisations operating in the locality and identified FRAP and ECC as potential partners. Both were well established with local facilities, and Stacy felt both might benefit from the financial assets of UOS.

By now, it was 2018. At this stage initial conversations had been about close partnerships, rather than merger. It was clear the organisations shared similar values and therefore the relationship with FRAP moved quickly, and the two boards held a joint meeting to explore the potential of the relationship. As the idea of a full merger grew out of these conversations, the board of UOS initiated conversations with ECC. All three organisations invested a considerable amount of time exploring the potential for merger. At first, not everyone was convinced but, over

time, a shared commitment emerged. By the end of 2018, all three organisations had committed to move forward.

The due diligence process took most of 2019. During this time several issues were identified, including historical issues relating to land registry. The assets of FRAP and ECC were transferred to UOS on 5th May 2020, followed by a name change to Eastside Community Trust. Most of the trustees of FRAP and ECC joined the board of Eastside Community Trust, and a new chair was appointed.

As is typical with a merger that creates a new organisation, the journey does not end at the point of formal merger. The whole process can involve a lot of bureaucracy, and winding down the closing organisations takes time, notwithstanding the need to manage the personal and cultural changes involved. Stacy notes that 18 months on, she is still tidying up the loose ends of winding down the original companies.

Stacy drew upon Eastside Primetimers' Good Merger Guide<sup>4</sup>, and also the work of John Kotter in leading change. The process was supported by financial due diligence from UOS's accountants and pro bono legal work from lawyers as part of TrustLaw.

Eastside Community Trust is now a significant community leader in one of Bristol most deprived areas. Now with physical assets including a community centre, retail and office units, and an adventure playground, it has been able to invest in diversifying its income streams and creating a sustainable business model which will see it leading positive change for years to come.

Learn about the Eastside Community Trust merger in this video <https://bit.ly/ECT-merger>

## NORTHAMPTONSHIRE MIND

**Northamptonshire Mind was formed in 2020 by the merger of four independent Mind charities: Northampton & District Mind; Corby Mind; Rushden Mind; and Wellingborough Mind.**

In late 2018, National Mind initiated merger discussions between the Minds in the region, including the four above and Kettering Mind. As the largest, with a different delivery model, Kettering Mind dropped out of discussions at an early stage.

The remaining trustee boards agreed to set up a steering group composed of the chair, plus one trustee and the CEOs of each of the four organisations.

Improved efficiency and effectiveness were key drivers for this merger: strengthened capacity, joined-up services, and a single point of contact with commissioners and other stakeholders. Nevertheless, it was agreed that local contact points for service users would remain in place, no redundancies would be required, and that this would be a merger of equals.

In the early stages of discussions, CEO positions became vacant at Corby and Northampton & District Minds. Conscious that they wanted to pursue a potential merger, the trustees of both charities invited Eastside Primetimers to fill interim CEO positions for both, and these were taken up by an experienced CEO, Jo Munns.

Under the guidance of National Mind, it was determined that the success of the merger would be assisted by independent support. Following a tender process, Eastside Primetimers' consultant Jim Brookes took on the role of facilitator and project manager, working closely with the steering group.

The experience and independence of this facilitator, empowered to ask difficult questions and tackle complex issues, proved to be invaluable to due diligence, and to exploring and negotiating the practical steps needed to effect the merger.

It was agreed that the three smaller organisations would merge into the larger Northampton & District Mind. Merging into the larger partner reduces the complexity and administrative burden of TUPE arrangements, banking and other infrastructure changes.

To preserve the trust, equity and insight of each organisation, the board of the merged organisation was to be made up of representatives from all four Minds and a new, independent Chair was recruited.

All the values, principles and practical arrangements for merger were documented in a memorandum of understanding before the practical process of merger commenced.

This started with the three smaller organisations becoming subsidiaries of Northampton & District Mind, at which point it changed its name to Northamptonshire Mind and re-launched under a unified brand. Starting with a subsidiary structure meant that the organisation could begin to function "as one", with a single board and CEO. Subsequently, the issues of TUPE and the transfer of assets were addressed in a staged process with each organisation fully merging one by one over 12 months.

A new chair, Tony Bates took up his post in May 2020. The board agreed on governance arrangements and appointed an interim CEO and the new CEO of Northamptonshire Mind, Sarah Hillier, took up her post in October 2020.

This complex merger was supported by National Mind throughout and given well-resourced independent project management assistance until senior staff could be recruited to support the merger process.

Merging four organisations, creating new leadership and establishing the culture and ways of working of a new organisation takes time and resources. From the point of formal merger, it is estimated that some benefits will have taken up to two years to realise.

Northamptonshire Mind is now the largest third sector mental health service provider in the county, which has helped to foster cultural change. Its role within the locality has already changed, with the development of a greater public profile, and consultation and collaboration at a higher level in NHS commissioning discussions. With a greater footprint, it has a stronger evidence base for demonstrating impact, in negotiating contracts with commissioners, and developing partnership arrangements with other stakeholders.

**In 2021 it was announced that Stoke-on-Trent's two hospices had formally merged to safeguard the future of services for thousands of families in need.**

Adult hospice, The Douglas Macmillan – or Dougie Mac, as it is commonly known – initially announced plans to take over The Donna Louise children's hospice in 2020. At the time, the children's hospice was struggling to raise enough money to maintain its vital provision for the 240 young people it cared for; and the Covid pandemic further affected fundraising, including the running of charity shops and major events.

Now operating as one hospice, Dougie Mac offers a broad spectrum of palliative and end of life care services for children and adults across Stoke-on-Trent and North Staffordshire.

Both sites have retained their distinctive identities and names, with families seeing no change in the way their care is delivered. Together, they will care for more than 3,000 patients a year offering a dynamic 21st-century hospice for children, young adults and adults, across two sites: returning children's services to 24/7 care, which will remain free of charge to all patients and their families.

Clinical staff will continue to work in the same roles at The Donna Louise site, but they have become employees of the Dougie Mac, whilst efficiencies have been gained through amalgamating some non-clinical teams. In March 2021 the trustee board of The Donna Louise was dissolved with the Trust itself.

Meanwhile, Dougie Mac supporters are being reassured that their pledged fundraising and donations will not be diverted from adult services. People can also choose to continue donating to dedicated children's services in future.

David Webster, Chief Executive of Dougie Mac, who led the merger, is very clear that it could only take place and be successful if it was part of a clear growth strategy for the adult hospice – not a mercy mission. For Dougie Mac, there was a clear belief in wanting to retain the children's provision in the area and in creating a single, powerful voice for North Staffordshire in palliative and end of life care.

He cites some clear reasons for the merger, which include:

- ▶ Belief in the service and clinical delivery of the Donna Louise.
- ▶ Ambition – a single hospice, running across two sites with a thriving children's hospice.
- ▶ Moral commitment and social responsibility.
- ▶ A desire to fulfil the health requirements of the locality.
- ▶ The fulfilment of the growth ambitions of Dougie Mac as it celebrates its 50th anniversary in 2023.
- ▶ Securing the support of a local benefactor of the Donna Louise.

Of the challenges, David speaks of the need for lengthy financial due diligence and the potential for brand toxicity, together with the management stretch to go through the merger itself; but is clear that the journey was worth it. For the Donna Louise, is now a blooming children's hospice and a young adult unit is opening. Clinical leaders are empowered and supported, despite their early concerns; and 60 staff have been integrated into the 180 at Dougie Mac.

David is also clear that in delivering a service strategy, merger is not always the right option. Partnership comes in many flavours, some about control and some about alignment of purpose, and Dougie Mac's work with Approach Dementia Services has taken the form of a strategic alliance, rather than a merger. This alliance is based on a shared ethos of supporting people with dementia; shared expertise; co-siting of staff and a seconded leader from Dougie Mac to Approach which enables the synergy of service delivery.

David's view is that the key is a robust strategic plan, based on population need and a clear vision, supported by financial sustainability. Then be open-minded about partnerships – don't be closed off to cross-sector mergers or partnerships - and make the right alliances at the right time for the right outcomes.

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# Discussion

6

## 6. DISCUSSION

### The Covid pandemic

The year of 2020/21 will be remembered as the first year of the pandemic. Even as organisations were closing their doors, questions were being raised as to how the social sector would adapt to a dramatic and uncertain change of circumstances.

One of the earliest pieces of research to be published highlighted the fact that one-fifth of UK charities held reserves equating to only one month of expenditure, and one-tenth held only a few days' reserves.<sup>11</sup> There was widely held concern for the impact of the pandemic on the sector and the communities it supports. In December 2020, Ecclesiastical's Charity Risk Barometer reported, "a fifth of charities think they may not be around in 12 months"<sup>12</sup>.

Thanks to a combination of many factors, it appears our worst fears have not been realised. A quantitative study by Diarmuid McDonnell and John Mohan published in mid-2021<sup>13</sup> found that there had not been a significant change in the number of charity dissolutions in the year 2020/21, although, at the same time, they noted a small increase in the number of charitable companies that became insolvent. This paints a complex picture, and it is important to note that the quantum is low. But clearly, there has been no collapse.

However, in September 2021 the Charity Commission reported that, of charities with an income of more than £500,000, the number with negative or no free reserves has more than tripled during the pandemic<sup>14</sup>. A Charity Commission poll of 2,000 trustees also found that one-quarter of charities had been forced to use reserves during the pandemic<sup>15</sup>. As an indication of the financial stress upon the wider sector, this must be significant.

### Key findings in the data

**The increase in the number of takeovers and the increase in the number of smaller charities (income below £1m) involved overall is now a three-year trend.**

Smaller charities are now significantly more active in merger than we have ever found, whilst takeovers are also significantly high.

Takeovers, as a form of merger, are likely to be sought by organisations under financial stress. It is perhaps the last chance for a failing charity to see its activities continue and its beneficiaries remain supported.

The data may reflect the year-on-year impact of an ongoing, challenging climate for small charities.

At the same time, we should not be too surprised that there has not been a more stark and immediate impact from the Covid pandemic. The short-term impacts of the pandemic appear to have been ameliorated by government support, and many social sector organisations may take considerable time to fully adjust. For many, this may mean scaling back. If we are to see takeovers or other mergers increase because of the pandemic, this may take longer to come through.

In the meantime, we appear to have seen a sudden fall in the value of mergers of equals, and this is created by the marked absence of consolidation by what would typically be a small number of larger organisations.

Mergers of equals are generally more complex and take longer to negotiate and complete than takeovers. We have seen a few larger mergers completed during the pandemic year we have examined, but these were at advanced stages at the beginning of the year.

It is very difficult to evidence what has not happened, but we might conclude that the initial impact of the pandemic has been to delay or put complex deals on hold. Perhaps larger charities, with greater financial capacity have been able to prioritise their pandemic response. We may see, as they look at the medium- and long-term impacts of the pandemic, that they adjust their strategies and merger becomes a higher priority.

<sup>11</sup> David Clifford & John Mohan: <https://www.birmingham.ac.uk/documents/college-social-sciences/social-policy/publications/assessing-financial-reserves.pdf>

<sup>12</sup> <https://www.ecclesiastical.com/documents/charity-risk-barometer-2020.pdf>

<sup>13</sup> <https://www.birmingham.ac.uk/documents/college-social-sciences/social-policy/tsrc/the-impact-of-covid-19-on-the-foundation.pdf>

<sup>14</sup> <https://committees.parliament.uk/writtenevidence/39041/pdf/>

<sup>15</sup> <https://www.civilsociety.co.uk/news/one-in-four-charities-forced-to-use-reserves-during-pandemic-polling-shows.html>

## Organisational drivers

**The case studies provided all indicate the huge benefits that may arise from a merger identified as a strategic option, that will then multiply the positive outcomes for the organisation and its beneficiaries.**

If organisations enter merger conversations from a position of strength, with opportunity front of mind, then the potential for positive outcomes is at its greatest. These merger deals are more likely to conclude as a merger of equals, although a takeover or other form of merger may still be the best route.

Mergers of this type require leaders – both Board and Executive – who see merger as part of their strategic toolkit; who are focussed on the future, willing to take risks, and thinking always of the best outcomes for their current and future beneficiaries.

Organisations that are under stress may also consider merger as an option. However, this is a more reactive approach, and the likelihood is that these organisations may enter negotiations less able to advocate for their organisation and its work. In these conditions, a takeover is a more likely conclusion.

## Advocating for merger

**The number of mergers is very low as a proportion of all organisations in the sector.**

In the private sector, merger (including acquisition by a larger organisation) is seen as a positive approach to growth and increased impact. With shareholders being key stakeholders, there is an expectation that merger remains a viable option for improved performance.

In the social sector, merger may also be an equally valuable tool for growth and increased impact, but, likely, it is often seen as too risky, too resource-intensive, and a distraction from immediate challenges. A sense of ownership, and cultural concerns, may be the hidden but largest barriers to engagement. Under difficult circumstances, trustees may have the option to scale back to survive and fight another day, rather than to merge to survive and grow.

There is a danger, particularly under the pressures of the continuing Covid pandemic, that merger is chosen (understandably) as a response to impending closure but not as an opportunity to flourish. There appears to be a “fear of mergers”, with our quantitative findings year-on-year demonstrating that a negligible part of the sector utilises merger as a strategic tool.

Leaders in the sector must keep merger on the agenda in any strategic discussions. Merger needs to be approached from a long-term perspective, with ongoing conversations between potential partners.

Our case studies demonstrate improvements to policy and campaigning voice, innovation in reaching new beneficiaries, improved relationships with commissioners, and streamlined back-office functions.

## Merger practicalities

There remain significant structural barriers to mergers in the social sector, including a systemic lack of knowledge and awareness of merger processes, limited funds available to support mergers and an absence of motivation or incentive for boards to consider merger unless there is external (usually financial) pressure.

All our case studies illustrate the considerable complexity, time and resource implications for successful mergers.

Human emotion remains a key issue in merger discussions, particularly given the huge personal investment that sector staff, trustees and beneficiaries have in their organisations.

Culture during the continuous and ever-evolving process of a merger is also important. Emotion and culture are hurdles that often need to be appreciated or overcome to achieve mergers, though ultimately these are understandable issues, as emotional commitment is vital to the not-for-profit sector's continued success.

All these factors speak to the need to be alert to the huge potential for merger, to start early, and to invest in the time and resources needed for success.

## Partnerships and collaborations

**Close working relationships between organisations may often be a viable alternative to a full merger or a lower-risk route towards an eventual merger.**

As with merger, investing in careful discussion of values, principles, and undertaking due diligence may still be important steps towards partnership, but leadership and independence may be retained. A relationship may become stronger and closer over time, whilst the option to reverse the process remains.

## Next Steps

**Eastside Primetimers provides professional advice and support around partnerships and mergers, from facilitating initial internal discussion and undertaking searches for potential partners, to project management support for formal mergers or partnership ventures.**

In addition to a wide array of partnership arrangements, our advisory services have enabled more than 28 mergers and the transfer of £84.8m of services.

If you are interested in learning more about merger or developing closer partnerships with other organisations, we invite you to do any of the following:

- ▶ Read our Good Merger Guide – a detailed and comprehensive guide to the full merger journey: <https://ep-uk.org/charity-insights/charity-mergers-good-merger-guide/>
- ▶ Join one of our regular merger round tables. These are closed events conducted under Chatham House rules, which we aim to limit to around 20 chief executives, senior managers and trustees per session: <https://ep-uk.org/services/charity-partnerships-mergers/>
- ▶ **Or simply get in touch for an informal conversation with our Head of Partnerships & Mergers, Tracey O'Keefe at [tracey@ep-uk.org](mailto:tracey@ep-uk.org).**

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# Appendix: Merger Types





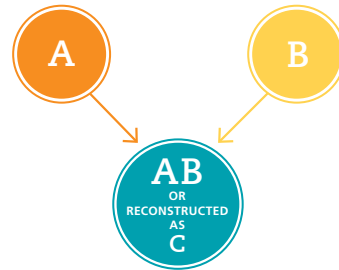
# APPENDIX: MERGER TYPES

There is no definitive objective set of merger definitions so, as with previous years, we use a framework based on Richard Gutch's work in our Good Merger Guide which has been 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 this sector.

For the sake of this report, we use 'merger' 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. Our technical application of these terms should not be interpreted as making a value judgement about the importance of any partners involved in a merger of any type.

## 1 Merger



### SUMMARY

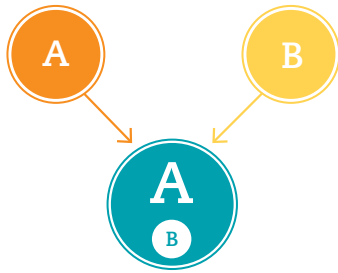
**Two or more organisations join to form a new organisation either through:**

- 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

## 2 Takeover



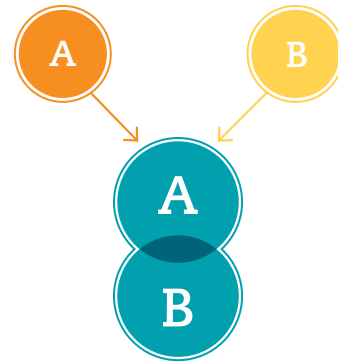
### SUMMARY

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

## 3 Subsidiary Model



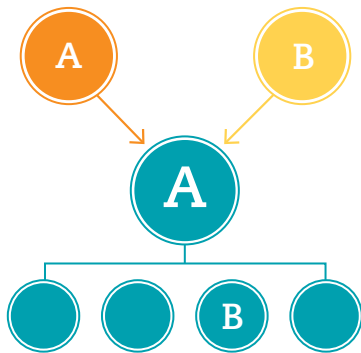
### SUMMARY

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 groupwide 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

## 4 Group Structure



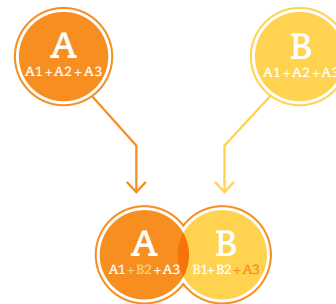
### SUMMARY

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;

## 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

## ABOUT EASTSIDE PRIMETIMERS

Eastside Primetimers is a social sector consultancy delivering social impact through strategy, advisory and recruitment services for charities and social enterprises.

Our mission is to increase the capacity and effectiveness of social sector organisations. Therefore, we aim to find and support exceptional individuals (both business and charity professionals) who have the skills, experience and temperament to make a difference in the social sector.

We are motivated by a strong commitment and passion for organisations delivering social objectives and the causes they serve. Our vision is for a vibrant social sector which enriches our communities and enables individuals to fulfil their potential. In this way, we aim to be a critical friend and partner for those that work with people most in need.

We advise and implement on strategic business planning, governance, mergers, acquisitions, partnerships, investment and social impact. We provide senior interim, board and permanent staff and recruitment services for senior staff, chairs, and trustees.

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