Cobseo
The Confederation of Service Charities

Efficiency and Rationalisation Information Note

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Scope
The importance of charities and other organisations working together to meet the needs of their beneficiaries has long been recognised, and this was emphasised by the Covid-19 pandemic and Cost-of-Living Crisis. There are numerous examples of cooperation between Cobseo Member organisations, and when delivered successfully, they invariably lead to reduced overheads, the more efficient utilisation of resources, and an improved focus on services to beneficiaries. This Information Note presents a summary of the options available to improve how Members support their beneficiaries. It draws upon recent studies in the charity sector, Members' experiences, and the wider charity sector. The generic forms of collaborative working are described, as well as the typical issues to be addressed to achieve successful outcomes. The aim is to encourage Trustees to consider how their charity could be more efficient by working with other charities, and to consider the merits of more collaborative ways of working as part of their future business planning.

Charities as Discrete Entities
Every charitable organisation (charity or not-for-profit incorporated body) is created as a separate entity with its own charity Trustees (Directors in incorporated bodies). Trustees are responsible for the organisation's governance and maintaining a focus on its support to beneficiaries. No-one can impose rationalisation or mergers; rather Trustees have the executive and legal authority to operate independently. Nevertheless, Trustees and senior managers should remain mindful of the opportunities to generate improvements and efficiencies in their services to beneficiaries by reviewing how they operate, and considering the scope for partnering with other organisations. The Cobseo Governance Practices Aide Memoire: [Governance-Practices-Aide-Memoire-Feb-2022.pdf] and the Charity Governance Code both set out the expectations on Trustees, when undertaking strategic business planning, to consider whether such measures can lead to a more sustainable future for the charity and its beneficiaries.

Differing Forms of Collaboration

There are numerous subtleties to the types of efficiencies that can be devised. As an example, a sliding scale from informal to more formal collaborative arrangements are described by New Philanthropy Capital (NPC) in their April 2018 report that reviewed 'sharing' and merger models [Document Title (npproduction.wpenginepowered.com)]. The NPC found that a common like-mindedness between two or more organisations was the key factor in achieving a better outcome collectively, than they could obtain in isolation.
Collaborative working can be undertaken in a number of ways. Four generic models have been identified in this Information Note; each encompasses a range of ways to bring about an economical and positive change. Broadly, those efficiencies that involve less structural change within an organisation will be faster and easier to achieve; whilst deeper measures, such as rationalisation and mergers, often involve greater change and streamlining of services:

> **Convergence** is the process whereby the organisation combines its multifarious funds and activities, possibly overseen by different groups of Trustees, into one or a few larger charitable organisations. The aggregation of separate charitable funds within regimental structures would

be one example of convergence.

Cooperation is where two (or more) charities remain separate entities with their own management and Trustees but work together in one or more areas to be more efficient to increase their collective support to beneficiary groups. The cooperation between separate charitable organisations could include combining purchasing and contracting orders to get better value for money. The cooperation in supporting the welfare needs of service and veteran beneficiaries facilitated by the MOSAIC Casework Management System (CMS) is a good example of cooperation.

Co-working is where two or more charities formally combine some of their functions, most commonly resulting in one charity undertaking those functions on behalf of the other. The driving force may be to reduce administrative costs (e.g. in HR, procurement, contracting and finance functions and/or IT services) to increase the efficiency of office-based activities and/or service delivery to beneficiaries.

Consolidation is the process where one entity is rationalised and taken into the structure of another entity. The rationalised organisation may or may not keep an individual nominal identity inside the larger body (e.g. as a separate marque or a restricted fund). The process of consolidation could go further with the combined entities being established as a new one with a revised Board structure, revised objects and branding.

Short case studies on each of these examples are **available here**.

Stimulus for Future Cooperation

The model of the independent charity or not-for-profit incorporated body has prevailed for many years. It remains the predominant mode of operation for a large majority of the 170,000 charitable organisations regulated by the Charity Commission in England & Wales 25,000 charities in Scotland; and 7500 charities in Northern Ireland (based on the figures from the regulators. The size of the Service Charity Sector has been monitored by the Directory of Social Change (DSC) in a series of Sector Insight reports funded by the Forces in Mind Trust (FiMT). Their 2024 report noted that against a baseline of 1917 charities in 2012, the size of the sector remained relatively stable until 2017, but had shrunk to 1733 by July 2023. The overwhelming source of this reduction is in association branches, which numbered 763 in 2012 but fell to 480 by July 2023. By contrast, welfare charities rose from 443 to 498 during the same period, but this subsector was the most volatile, with a 5.4% increase in openings per year being partially offset by a 3.7% closure rate. There have been 42 mergers between 2012 and 2023, and DSC's findings suggest that welfare and association branch charities are the most common mergers.

Sector income was broadly stable at ~£1Bn per annum prior to the pandemic, but fell to £820M in 2020 and generated a cumulative impact which is still being felt. Many charities drew on their reserves to plug income shortfalls and respond to increasing beneficiary needs, and the DSC assessed that the cash assets of Armed Forces charities in 2020 was 81.2% of what it was in 2017.

Even before the Covid-19 pandemic and other global events, there were increasing signs that the environment was changing, and that operating in isolation was not the optimum means for charities serve their beneficiaries. Charitable organisations across the third sector now have to adapt to increasingly complex beneficiary needs whist coping with demographic, financial, competitive and regulatory pressures, all of which could impact on their capacity to undertake current and future operations:

Demographic – The including of a question on military service in the 2021 Census has opened up a rich vein of data on the size, location, age and needs of the veteran community. Of the 1,853,112 veterans in England and Wales, 982,000 are over 65 and 590,000 are over 80, which reflects the national service throughput, but the cohort will change significantly over the next ten years. The overall impact will be fewer potential beneficiaries for charities to support, but a better understanding of their increasing complex needs, and where there are gaps to address.

Financial – Just as for other economic sectors, the cost of providing services is subject to inflation, labour, materials and administration pressures; and recent events, such as the impact of the conflict in Ukraine on energy supplies, all of which demonstrates how fluctuations in overheads can impact on the cost of doing business. In an environment where income from public grants, contracts and voluntary and philanthropic donations can be uncertain and unpredictable, charities will need to find further ways to reduce costs and/or reduce the level of support they can sustain.

Competition – Competitive overlap between charities to assist similar groups of beneficiaries is inevitable in some areas of need. Where this coincides with a declining number of beneficiaries, then caseloads may decline to uneconomic levels for some charities.

Regulatory – The number of regulatory bodies, volume of regulation and rigour of public sector enforcement has increased and there is no indication they will decline. The general expectation within charities should be that regulation will inexorably increase as authorities react in future years to new public concerns.

Over time, the adverse impact of these pressures on the physical and fiscal resources available to support beneficiaries will rise, and experience shows that the impact is most felt by our smaller charitable organisation. The 2024 DSC Sector Insights report advises that 85.5% of closures over the past decade were small or micro charities so it has never been more important for Trustees to examine whether new ways of working and partnering with other organisations can help to maintain and improve the charitable support they provide.

Trustees as the Drivers of Change

Collaboration between charities is not new. It has been a feature of the charity sector since its earliest days. The Charity Commission in England and Wales has logged over 2612 mergers of charitable organisations in the period 2019-2023. Common to all forms of efficiencies are the Trustees. They are the drivers of change. Not just when there is an insurmountable threat to a charity's existence, but as part of their normal business review process. The greatest benefits from efficient working, for example in reducing costs, is extending the reach to more beneficiaries and broadening the quality of support provided. This should be regularly considered by Trustee Boards and be a standing consideration in their periodic rounds of strategic business planning. During the pandemic, Cobseo worked with Cluster Chairs to develop a checklist of potential efficiency options **available here**. The Armed Forces Covenant Fund Trust published a think-piece on 16 October 2020 which emphasises the importance that grant-makers attribute to collaboration when considering funding submissions. [Collaboration in Grant Making: your views sought : Armed Forces Covenant Fund Trust]

Collaboration is most effective as a driver for mutually beneficial change when it is undertaken between viable and well-performing charities, rather than the more frequent situation of when the viability of one organisation is under serious threat. In situations where resources are not an issue, organisations normally prefer to operate as a self-contained entity. In doing so, management oversight and decision-making processes are based on familiar policies and practices; delivery of services is achieved by personnel sharing the same business culture and, generally, contacts and understanding between the various parts of an organisation are easy to maintain. However, in today's resource-constrained environment this ideal rarely exists.

Collaboration is not the natural mind-set for most Trustees and management teams. Consequently, charities are often slow to recognise the scope for efficiencies, or when collaboration would be in the best long-term interests of their organisation. The approach of loyally following their own objectives with little regard to the possibilities for working with others inevitably, over time, increases the vulnerability of the charity to one or more of the significant external demographic, financial, competitive and regulatory pressures.

The Right Mind-set

The right mind-set for more cooperative working should be an aligned vision for beneficiaries; a measure of commitment; time; and importantly, compromise by all involved. It is important to recognise that the benefits to both parties are greater than the estimated effort required to see it through. And it is important to communicate, internally, the progress being made to complete the exercise and settle with staff and third parties the uncertainties such a process of change can create. If the mutual advantages of the efficiency are not clear, or is found to be unachievable, then it is unlikely to succeed.

The financial savings and economies of scale that are possible from collaboration is the principal feature. The delivery of lower (or avoided) operating costs through combining the use of staff and physical resources; and/or increased access to capital and investment services; and/or the introduction of more available funds to support beneficiaries are central to all efficiencies. To paraphrase the experience of Lisa Harker, CEO of the Art Room charity, "a collaboration is a courtship" between the two Boards of Trustees and their management teams.

A successful courtship requires building a trusting relationship between the parties, which can take time and effort to get right. If the Trustees (and senior management team) of the two organisations cannot get beyond an initial pledge, then the initiative is unlikely to proceed. Harker emphasised that a successful merger is when Trustees and staff members are satisfied and feel that the two organisations are a 'good fit' together and share a 'sense of mission' on what is to be created by the rationalisation. Successful mergers often start in a small way and, over time, build into a deeper working relationship. The eventual, settled state may be co-working in various areas of mutual activity or possibly going that bit further to a full consolidation into a new entity. Experiences from across the charity sector suggest that, at the outset of a proactive collaborative initiative between two organisations, the eventual end state may not be entirely predictable.

Uncertainties to Address

When cooperation between parties is first contemplated there may be a variety of views expressed by Trustees, staff, beneficiaries and others; and it is unlikely that all will be supportive. These uncertainties need to be recognised and addressed positively and sympathetically within each organisation from the start of an exploration into working more efficiently. If not tackled, the uncertainties are likely to be raised by some individuals in an organisation that are opposed to change, which could increase in their intensity to create an insurmountable body of opinion against progress. This would be detrimental to realising the potential benefits to beneficiaries from achieving a successful outcome. The typical forms of doubt recorded during previous proposed efficiencies are presented below:

Protectionism – A perceived loss of identity by one or both organisations; and/or a reluctance by Trustees to relinquish some part of their control of the organisation; and/or an emotional attachment by founding and long-standing Trustees with a reluctance to changing the status quo.

Disbelief – A perceived view in one or both organisations that financial or resource pressures now, or in the future, are not serious enough to contemplate change.

Incompatibility – A perceived view in one or both organisations that the ethos, vision or ways of working in the other party are not well-matched.

Distraction – A focus in the preliminary discussions within one or both organisations on the reasons not to collaborate rather than opportunities for the charitable works undertaken. This can manifest by detractors dwelling upon an organisation's history, how things have been done in the past, or disagreeing on what is best now for their beneficiaries.

Inertia – A perceived view that the charity sector is not (or should not) be constrained by the same business pressures as the corporate environment, and reasoning that cooperation is not necessary, and/or a view that the effort involved will exceed the advantages and opportunities accrued.

Liabilities – A perceived view that one or both organisations have large liabilities (e.g. pension obligations, fixed asset obligations or contractual risks) that would make an efficiency unwise.

Complexity – A perceived view within one or both organisations that any form of efficiency is complicated and costly to set up, so why bother when there may be other, nearer-term priorities to focus upon.

Eastside Primetimers, a management consultancy for charities, reviews annually the climate for collaborations between charities [How to close a charity - GOV.UK (www.gov.uk)] and has described in greater detail the attitudinal and practical barriers to overcome, as well as the different options possible to develop successful efficiencies with others.

Getting Ready

The commitment of an organisation's time and resources to promote cooperative working requires the positive determination of its Trustees to see it succeed. The amount of effort in time and cost required by an organisation is broadly commensurate with the depth and complexity of the intended measures. Efficiencies involving the cooperation between two organisations with little change to the internal management or ownership arrangements within each is likely to be easier and quicker to establish than a co-working arrangement involving widespread realignment of services and resources. Consolidation and convergence options and/or rationalisation, where distinct organisations are merged into bigger organisational structures, are likely to be more intricate, potentially involving fees for legal advice, additional staff costs, and dedicated project management effort and due diligence expertise.

Senior executives in charities, that have been through these processes advise that they had to satisfy internal opposition and legal or organisational complexities before a collaboration could succeed.

Collectively, the typical steps to achieve a positive outcome can be summarised as:

1. Focusing on the business strategy an organisation wants to pursue and the place within that strategy for collaboration.

2. Making time to engage with key stakeholders, and to learn from the experience of others who have been through similar processes. It is vital for organisations to understand the environment in which we all operate and empathise with one another. It can also show how some charities are closely aligned in strategy and core values, and how cooperative working could benefit both parties.

3. Before approaching another organisation, be clear on the underpinning objectives and motivations, and then get the Board's thoughts and/or agreement on the measures proposed, and consider any concerns they raise.

4. Identifying and seeking Board agreement on the functions and services the organisation must preserve if they proceed (often known as the 'red lines').

5. Once the preceding steps are decided, examine if the potential partner(s) can meet the objectives expected, and where each organisation has strengths or development needs that would benefit from a collaborative arrangement.

6. Estimating the potential risks and issues (e.g. legal issues, financial debts, pension/employment liabilities, staff opposition), and how they could be mitigated. It is important to realise that not all risks can or need to be managed away, but the ramifications to each party and the associated liabilities, if any, need to be understood. Once arrived at, this clarity can help guide how the proposed collaboration develops and avoid potential pitfalls.

7. Where the possible impediments appear manageable, beginning initial discussions with prospective partners.

8. Focusing discussions first on the compatibility of future collaboration before deciding on the measures that would be most suited to the requirements of both organisations. This approach assists in defining the potential structure of the new joint arrangement.

All commentators urge charities contemplating a collaboration to engage with their personnel early in the process to explain the rationale behind it. Exploring such initiatives will inevitably raise questions about cultural differences, job security, and business continuity. Early and regular communication on how this is being taken forward, and the changes being considered, as well as taking their views and suggestions into account, will help to ensure understanding and support for the change journey.

Implementation

When driving change leaders need to keep in mind that ‘culture eats strategy every time’. It is the culture and tone set by the Board and the Executive team that will facilitate the delivery of strategic objectives. If behaviours are not right, the benefits will not flow, and it is unlikely that the collaborative venture will succeed.

Over the past decade, experience gained across the Service Charities Sector, including the consolidation of several existing funds and organisations, found that successful collaborative ventures present a number of common features. Top of the list is a **good beneficiary-focussed argument** setting out the case for change, which gains broad acceptance by the Trustees, management, staff and supporters in both organisations. This is a pre-requisite to engender a positive attitude on both sides to persevere with delivering the arrangements to collaborate.

Trustees and management set the tone and attitude of an organisation. They should be visible in their support for the changes being progressed, and welcoming in embracing the partnering organisation into the new arrangement. When possible, the outputs and benefits achieved following implementation should also be communicated, without overstatement, through these teams to demonstrate the aims that are being delivered.

And this progress should be communicated clearly and regularly to **staff, members and supporters, volunteers and beneficiaries** in order to keep the focus on the benefits that will be achieved. When problems or delays in progress arise, they should be addressed transparently and supported by prompt communications with clear explanations to stakeholders. This is the best approach to avoid unrepresentative rumours developing. This is because there will inevitably be differences of opinion and legal and technical hurdles to overcome on the path to successful delivery. Maintaining constructive behaviours by all involved, especially those tasked with resolving any problems when they arise, is important to sustain a positive level of motivation.

It is important to emphasise that examples from the sector demonstrate that timelines for implementation from start to finish, can be long and, at times, frustrating. Five years or longer is not unusual to bring a vision to reality, particularly where it involves significant change within one or both organisations. Maintaining focus on the annual and monthly objectives of each organisation whilst at the same time managing the increased workload of a major change programme, is an issue that Boards will need to monitor to prevent overload on Executive teams. Creating a core, joint Trustee-management team to steer and guide the process is key.

In recent rationalisations involving convergence or consolidation of one entity into another, Members encountered various ‘risk topics’ that could require effort and external assistance to overcome. Not all will be relevant in every case of rationalisation involving one entity combining legally with another. The risk topics suggested are assimilation of a branch network; tax (particularly VAT) issues; data handling and safeguarding its protection; legal and operational aspects of any trading subsidiaries; reconciling different financial accounting systems; agreement on new branding and publicity literature; pre-existing (particularly long-term) contracts and leases; and pensions and/or pre-existing debt liabilities.

For charities considering a consolidation or merger it might also be helpful to seek support from a neutral third-party. This could be a senior manager or Trustee of an organisation that has undergone a merger or experienced a consolidation of charities, or perhaps a consultant or external agency with relevant experience. They could act as an impartial mediator in helping to establish the terms for the changes envisaged.

There are several useful texts available to support charities seeking further information on the collaborative options set out in this Information Note, and a selection is listed below. There are also several texts available on change management, delivering transformation, and the human factors involved in delivering collaboration, which might be useful background reading, One example for the corporate world which was suggested by a Member is 'The Change Monster' by Jeanie Daniel Duck (ISBN 9780609808818).

Regulatory Guidance and Training

The Charity Commission provides a breadth of guidance on efficiency and rationalisation. It has published advice to encourage and support those considering co-working and similar initiatives, including:

- Guidance on Collaborative working (CC34) - GOV.UK (www.gov.uk)
- Work with other charities - GOV.UK (www.gov.uk)
- A checklist for charities considering full consolidation (in the Commission's words, a 'merger') [Mergers checklist.odt (live.com)
- More extensive guidance on completing a full consolidation by merger between two charities. - How to merge charities - GOV.UK (www.gov.uk)
- Guidance on How to close a charity - GOV.UK (www.gov.uk)

Free resources

See the New Philanthropy Capital for their resource hub on mergers.[Let's talk mission and merger - NPC (thinknpc.org)] In particular, Members may find their free resources and blogs useful. [Charity Mergers – Impact Measurement, Support, Advice - NPC (thinknpc.org)]

NCVO also have information on collaboration between charities [Collaboration | NCVO] and guidance on the Merger process | NCVO.

CharityConnect has prepared a useful article for smaller Members describing 5 ways charities can benefit from collaboration by looking at ways to cut costs and improve impact. [5 Ways Charities Can Benefit from Collaboration | CharityConnect]

Research

The Directory of Social Change's 2024 Armed Forces Charities – Sector Trends report [Sector-Insight-Armed-Forces-Charities-2024-PDF.pdf (dsc.org.uk]) is the latest of a series of studies which explores how the Service charity sector has changed since 2012. These reports include the financial patterns which impact on the opening, closing and merging of organisations working within the sector.

The Institute for Voluntary Action Research, alongside Bates Wells Braithwaite, in their Thinking about… series have produced guidance for charities thinking about a merger. Read the report which includes reasons for merging, stages to the merging process and what makes a merger successful here [Thinking_About_Merger.pdf]

The Good Merger Index is an annual review of not-for-profit mergers along with the financial drivers if change. [Good Merger Index Historical Charity Merger Reports (eastsidepeople.org)]

The Social Finance have brought together key findings and recommendations on charity mergers in their paper Charity mergers: Tackling the issues in practice [Charity mergers: Tackling the issues in practice | Social Finance]

The British Association of Settlements and Social Action Centres (basccac), in 2005, also produced a piece of research Sharing Without Merging [Microsoft Word - Collaborativef (cobseo.org.uk)] to evidence good practice in shared services and broader collaborative approaches.

Regional guidance

Those registered with the Scottish Charity Regulator (OSCR) can also refer to tailored guidance on amalgamating your charity with another body. [OSCR | Amalgamating your charity with another body]

The Charity Commission for Northern Ireland has advice for charities operating in Northern Ireland. See their mergers and closures webpage for more. [Mergers and closures | The Charity Commission for Northern Ireland (charitycommissionni.org.uk)]

For charities in Wales, the Wales Council for Voluntary Action (WCVA) regularly produces information sheets which promote joint working on issues such as the cost-of living-crisis [Cost of living resources & information - WCVA]

Legal guidance for the charity sector

Sayer Vincent published an article Mergers Made Simple that considers the legal forms of mergers and when to involve the Charity Commission. [SV-MS-Mergers-July2015.pdf (sayervincent.co.uk)]

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