

COLLABORATIVE  
WORKING &  
MERGERS



**Choosing to Collaborate:**  
Helping you succeed



## Tips for successful collaborations

1. Be clear that any collaboration is in the interests of your charity's beneficiaries
2. Make sure you are satisfied that the collaboration furthers your charity's objects
3. Ensure that your agreement clarifies objectives, processes, roles and responsibilities
4. Pay attention to communications and make sure that all stakeholders understand how and why your charity should collaborate
5. Make sure that your charity's independence is not compromised
6. Contact the Charity Commission at an early stage if you need our advice or help

Charity Commission

Telephone: **0845 300 0218**

Typetalk: **0845 300 0219**

By post: **Charity Commission Direct**

PO Box 1227

Liverpool

L69 3UG

Website: **[www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)**

**This toolkit should be read alongside the Charity Commission publication Collaborative Working and Mergers: An introduction (CC34)**

# Contents

<b>1. Introduction</b>	<b>2</b>
1.1 Collaborative working explained	2
1.2 Charity Commission and collaboration	2
1.3 Using this toolkit	2
<b>2. Considering collaboration</b>	<b>3</b>
2.1 Knowing your organisation	3
2.2 Finding and approaching partners	4
2.3 Being clear about what you want to achieve	5
2.4 Understanding the drivers for collaboration	5
2.5 Assessing the impact on your charity	6
2.6 Deciding to collaborate	6
2.7 Addressing financial or reputational risks (Due diligence)	7
<b>3. Ways to collaborate</b>	<b>10</b>
3.1 Types of collaboration	10
3.2 Structures for collaborative arrangements	12
3.3 Types of agreement	13
3.4 Developing an agreement	14
3.5 Accounting arrangements	15
3.6 Other legal considerations	15
<b>4. Planning and communication</b>	<b>17</b>
4.1 Project planning and management	17
4.2 Communicating effectively	18
4.3 Resourcing	19
4.4 Managing risks	19
4.5 Evaluating the collaboration	20
4.6 Developing an exit strategy	20
<b>5. Other information</b>	<b>22</b>
5.1 Glossary	22
5.2 Useful organisations	22
5.3 Useful publications and links to online resources and services	25
<b>6. Annexes</b>	<b>26</b>
1 Collaborative working: 20 questions trustees need to ask	26
2 Due diligence checklist	28

## Boxes

Box 1: Barriers to success	6
Box 2: Issues to cover in the agreement	14

# 1. Introduction

## 1.1 Collaborative working explained

*Collaborative working describes joint working by two or more organisations in order to better fulfil their purposes, while remaining as separate organisations.*

This may relate to any aspect of the charities' activity, including administration, fundraising, resource sharing, streamlining costs, campaigning and service delivery. Charities can collaborate in a variety of ways, ranging from very informal agreements to large scale contracts. The arrangements can last for a fixed period or be permanent.

Sometimes a decision to work together can lead to a formal merger of two or more charities. As there are different practical and legal issues to consider, we have also produced *Making mergers work: Helping you succeed* to assist charities that want to explore this option.

## 1.2 Charity Commission and collaboration

The Charity Commission encourages charities to look regularly and imaginatively at what more they can achieve for their beneficiaries by working with others. The ultimate aim of any charity must be the provision of the very best services for those who benefit from its work and one way that this can be achieved is by joint working.

Collaboration can lead to improved organisational effectiveness, reduced duplication, better use of resources and more value for money, all of which enable the charity to better help its beneficiaries. Trustees should consider frequently whether there are any aspects of their work that can be better delivered in partnership with others. This could be as simple as sharing a minibus or providing joint training or may involve more complex arrangements.

Charities can approach us with queries of a technical nature or for good practice advice and assistance on general aspects of collaboration.

## 1.3 Using this toolkit

*Choosing to collaborate: Helping you succeed* is designed to be of practical help to all charities when considering, planning and progressing a joint working arrangement.

The toolkit highlights the common pitfalls and offers good practice advice that will help charities collaborating, from considering the decision through to evaluation. It focuses on some of the most important legal and process aspects of general collaborations, as well as addressing many of the issues that arise frequently in our casework. We have also signposted to other support and resources that provide more specific information on particular types of collaboration. Full details on where to access these can be found in section 6.

Working through the toolkit will enable charities to identify the different stages and practical steps essential to collaborate successfully. It will also help them decide whether or not they want to approach us for further support and where they should consider taking professional advice.

### **'Must'** and **'should'**

Where we use **'must'**, we mean there is a specific legal or regulatory requirement. Trustees and the charity must comply with these requirements. These sections are highlighted by the **L** symbol.

We use **'should'** where we recommend trustees follow good practice guidance unless there is a good reason not to.

## 2. Considering collaboration

### Key questions for trustees

1. How can we better meet the needs of our charity and its beneficiaries by working with others?
2. How will potential partners be identified? Do we already have an existing relationship with them?
3. Is the proposed partner charity(s) compatible with us in terms of its objects, culture, governance arrangements, organisational structures and funding base?
4. What are the reasons for collaborating?
5. What will or might our charity gain and lose from collaborating? Have we considered the wider impacts on our charity?
6. Do we plan to approach stakeholders for their views, particularly service users?
7. Does the collaboration further our charitable purposes? Is it an appropriate use of charitable funds? Is any private benefit incidental? **L**
8. Are there significant reputational or financial risks? If yes, are we carrying out a due diligence exercise?

### 2.1 Knowing your organisation

All charities should regularly review their aims and how they operate, including ways of working and organisational health. This can identify duplication or areas where it may be advantageous for the organisation to consider working with others in order to improve services to beneficiaries.

A review can also assist the organisation to identify further benefits, barriers and risks to joint working. It may be useful for charities to consider lessons from existing and past partnerships too, particularly where they have previously worked with the potential partners.

#### For further information:

- Tools for Success (Cass Business School): a series of guides, templates and an online self assessment tool that enable organisations to identify areas of strength, and capacity gaps.
- The Big Board Talk (Charity Commission): helps trustee boards review their charity's resilience in light of the economic downturn.

## 2.2 Finding and approaching partners

Proposals to collaborate arise in a variety of ways, for example, through informal contacts, proximity of offices, similarity of activities, or from strategy discussions. In some cases, joint working arrangements will evolve naturally from existing relationships. At other times, charities will actively seek out new partners.

There should be clarity from the outset about what a charity wants from its partners and vice versa. When approaching partners, charities should consider compatibility with them in terms of charitable objects, culture, governance arrangements, funding, organisational structures and decision making process. Where there is compatibility, the process will be much more straightforward. Areas that are thought to be incompatible should be highlighted and charities should consider whether differences can be overcome. Particular attention should be given to cultural differences and working styles.

It is most likely that a charity will collaborate with another charity. However, charities will sometimes work with public and private sector partners. In all cases, trustees must be confident that the collaboration furthers their charity's objectives, is an appropriate use of charitable funds and that any private benefit is incidental. Where there is any doubt, charities or trustees should contact us for advice.

### **For further information:**

- On identifying and contacting new partners:
  - Register of Charities (Charity Commission): provides the contact details for any registered charity and relevant facts such as its objects. Can be used to search for charities working in a particular area or established for particular purposes.
  - Merge-maker (Futurebuilders): an online match-making service for third sector organisations considering working together through merger, collaboration or forming consortia.
  - Small charities coalition: matches small charities with other organisations to increase resources or improve knowledge and skills.
  - Funding Central: users can search for organisations with which to collaborate with on projects and to develop joint bids.
  - Local umbrella bodies such as Councils for Voluntary Services (CVSs) might be a good source of information, as may Local Strategic Partnerships (LSPs).
- On collaborating with public or private sector partners
  - Charities and Public Service Delivery (CC37) (Charity Commission)
  - Local Government Charity Toolkit (Charity Commission)
  - Charities and Commercial Partners (Charity Commission)
  - Partnership Improvement Programme (IdeA)

## 2.3 Being clear about what you want to achieve

Charities should invest time and effort in the early stages to identify clear shared objectives for the collaboration. As a starting point, charities should take time to identify and agree the common issue that the collaboration is addressing and the desired outcomes. The issue, and the desired outcomes, should be kept central to discussions and at the forefront of planning for the duration of the collaboration.

### **For further information:**

- Identify – Being clear about your goals (bassac): tools and templates that will help charities to consider options like collaboration, how it will benefit your organisation, its users and what charities will achieve from the partnership and who will be involved.

## 2.4 Understanding the drivers for collaboration

Charities and their trustees should always be very clear about the factors that influence their decision. Open dialogue between partners from the very beginning about motivations can help prevent complications later on.

The drivers for and benefits of each joint working arrangement will vary. However, the most common drivers include:

- *Reduced costs and lower overheads:* Charities can improve their organisations' effectiveness, reduce duplication, benefit from increased purchasing power and make better use of resources, eg sharing back office services.
- *Increased reach of services:* Charities can reach a wider number and range of beneficiaries.
- *Greater fundraising capacity:* Charities can reach a wider pool of donors and increase the range of publicity opportunities eg disaster appeals.
- *Stronger campaigning, lobbying and public awareness:* Charities can speak with greater authority, access a wider supporter base, increase public awareness and improve credibility with decision makers. eg joint anti poverty campaigns.
- *Improved access to funding:* Increasingly funders see partnership working as a way of getting better value for money, and many small grant funders offer funding to allow charities explore the possibility of working together or merging.
- *Improved learning and skills:* Charities can share experiences and learn new and better ways of working.
- *Benefits from scale:* Large charities can benefit from the expertise of small specialist organisations. Small organisations can benefit from the profile, capacity and reach of larger organisations.

Collaboration also brings the benefits of increasing public trust and confidence as charities are viewed as displaying collaborative as opposed to over-competitive instincts.

## 2.5 Assessing the impact on your charity

Charities and trustees should be clear from the outset about the impact of the collaboration on their organisation and its beneficiaries. This can be done by considering the immediate and wider impacts on beneficiaries, staff and the reputation of the charity and by assessing what the charity stands to gain and lose in the short, medium and long term.

Two common risks are that the collaboration may divert resources from existing activities or that it may compromise a charity's independence. Charities and trustees need to consider how any arrangement would affect their charity's existing funding needs, continuing operations, and how it would impact on staffing capacity. Trustees should ensure that the collaborative arrangements value each party's independence. This is particularly important in cases where charities collaborate to access funding.

Charities may find it helpful to consult with stakeholders, staff and beneficiaries to get a full assessment of the likely benefits and risks.

### Barriers to success

Charities should take time when considering collaboration to think about the potential barriers to the success of the collaboration. Barriers can be cultural, structural, financial, professional or political.

Identifying these at an early stage and looking at whether they can be overcome will help in deciding whether or not to proceed with the collaboration. The most problematic barriers identified by charities include:

- lack of adequate communication with stakeholders;
- no stated objectives or evaluation mechanisms;
- integrating staff from different organisations;
- integrating IT systems;
- lack of project planning/process management;
- personality clashes;
- rushing the process, having different expectations or unrealistic targets.

### Box 1: Barriers to success

## 2.6 Deciding to collaborate

Following the initial scoping and identification of risks and opportunities, a decision will need to be made about whether or not to proceed with the collaboration.

Ultimate responsibility for the decision to proceed lies with the trustees, who must act prudently in the best interests of the charity. This means that they will need to be satisfied that there will be improved benefits for beneficiaries. These could include cost benefits, improvement in the quality of service or the ability to reach a more diverse group of people. Trustees should be able to show that:

- *The collaboration furthers their charity's objects:* Legally, as long as the charities can justify the collaboration as furthering their own objects, there is scope for collaborative working. In many cases, charities collaborating will have similar or compatible objects and where this is the case, the process can be more straightforward.
- *It is an appropriate use of charitable funds:* Resources used for the collaboration must be reasonable relative to the extent to which objects are furthered.
- *Any private benefit is incidental:* Private benefits are benefits that people, or organisations, may receive other than as a beneficiary. Charities can provide private benefits to people other than their beneficiaries so long as those benefits are incidental to their charitable purposes.

When the collaboration is low risk and informal, the decision to collaborate will often be made by charity staff. However this should be within the context of the charity's overall strategy that has been agreed by trustees. When the collaboration is complex and may involve financial or reputational risk, trustees should be fully involved and, depending on the nature and/or complexity of the arrangement, take professional advice. Trustees may also wish to conduct a due diligence exercise. The extent to which an agreement is formalised is also a matter for trustees to consider, taking professional advice as necessary.

**For further information:**

- Charities and Public Benefit (Charity Commission)

## 2.7 Addressing financial or reputational risks (Due diligence)

Where a charity wishes to work collaboratively and significant financial and reputational risks are involved, then the trustees will generally need to carry out a formal due diligence exercise.

'Due diligence' is the term used to describe the steps organisations take to assure themselves that a collaboration or merger is in the best interests of the charity. Trustees are responsible for deciding on the appropriate level of due diligence required. The costs of commissioning due diligence work are a proper use of charitable funds, but should be forecast at the outset and reviewed to ensure they remain proportionate to the risks involved.

A risk analysis which concentrates on all aspects of the arrangement should help establish priorities for a due diligence exercise. For more information, see annexes.

**For further information:**

- Due Diligence Checklist (Charity Commission)
- Charities and Risk Management (Charity Commission)
- Due Diligence Demystified (NCVO)

### **Case Study: Stop Climate Chaos - a campaigning coalition**

The Stop Climate Chaos Coalition is the UK's largest group of people dedicated to action on climate change and limiting its impact on the world's poorest communities.

It includes over 100 not for profit organisations, from environment and development charities to unions, faith, community and women's groups. Members of the coalition range from high profile large national charities with a history of campaigning on climate change to smaller community groups and operational charities that don't necessarily have the resources to research and run campaigns for themselves. Together they call for practical action to prevent global warming and have specific shared goals.

The coalition aims to be a diverse, open and inclusive movement. Charities and not for profit organisations that have an interest in the issue can sign up and register as members while continuing with their own work independently. Where feasible, organisations make a financial contribution, but the primary condition for membership is support for the main campaign objective and activities.

By coming together, charities have a united voice on the issue and their demands of government, society and industry. They also dramatically increase the number of ordinary people engaged and guarantee widespread public awareness. Collectively they have a supporter base of more than 11 million people. The coalition also enables them to reach a greater diversity of organisations and supporters, provides an opportunity for learning, information sharing and improved communication with each other.

The coalition was established as a campaign of the registered charity, the Climate Movement, is administered by a small secretariat and is governed by an elected board consisting of the major members.

Dr Ashok Sinha, Director of the coalition, said:

*'Our coalition's size, diversity and unity of voice adds value to the vital work our members do individually. Although there is still much work to be done, the cross-sectoral alliance we have built has had an important impact on UK climate change policy. Our coalition will continue to rise to this urgent challenge.'*

#### **For further information:**

- <http://www.stopclimatechaos.org/>
- Speaking Out: Guidance on campaigning and political activities (Charity Commission)

## **Case Studies: How working with others can benefit small charities**

### **a) Learning from others**

African Prisons Project (APP) was founded five years ago to improve the lives of prisoners in Africa by providing education, healthcare and access to justice. As a small charity, it collaborates with other similar-size organisations all the time. For example, APP invited volunteers from a charity that was raising tuition fees for Ugandan refugees in the UK to cook Ugandan food at a music night organised to raise funds. APP also relies on more experienced charities for advice. By collaborating with African Initiatives, a social justice organisation working with communities in Africa, APP volunteers have recently learnt a great deal about how international NGOs like theirs should go about applying for government money.

Adam Smith, trustee from APP, said:

*'Partnering with another small charity in this way is incredibly useful: staff at African Initiatives have faced the same challenges and, as the charity is still relatively small, they are approachable and always willing to help.'*

*For further information: [www.africanprisons.org](http://www.africanprisons.org) or [www.african-initiatives.org.uk](http://www.african-initiatives.org.uk)*

### **b) Supporting development**

Armley Common Right Trust, a small charity which maintains local commons and parks in Leeds were struggling to recruit younger volunteers and trustees to help them to continue their work. Health Living Network-Leeds (HLN) worked together with the Trust to attract new volunteers and engendering greater community involvement by improving the constitution of the Trust, sharing contacts and resources such as photocopying, providing training courses and jointly running community events.

*For further information: [Healthy Living Network Leeds and ACRT case study \(bassac\)](#)*

### **c) Widening opportunities and reducing duplication**

Partnership working in Leeds has led to a more joined-up training offer and helping small charities to access bursaries. The project to develop a single shared training directory, listing courses delivered by a range of providers, is helping groups to identify quickly opportunities for building capacity. It is also proving a useful planning tool for providers, highlighting gaps and overlap.

*For further information: [Leeds training directory case study \(bassac\)](#)*

## 3. Ways to collaborate

### Key questions for trustees

1. Have we considered what type of agreement will be appropriate for our charity's needs?
2. Do we need to take professional advice about the type and content of the agreement?
3. Does the agreement state the collaboration objectives, benefits for each party, duration and funding arrangement?
4. Does the agreement address the identified risks including any conflict of interest?
5. Are there any employment or staffing issues to consider? These could include TUPE requirements, pensions liabilities and compliance with employment law.

### 3.1 Types of collaboration

Collaborative working covers a huge range of ways of working together. It can involve very simple informal ideas and extends to more complex contractual arrangements, which will usually require professional advice.

Examples of informal collaborations include:

- borrowing or lending equipment;
- networking groups;
- joint training events;
- information and expertise sharing, membership of associations, groups or federations.

More formal collaborations can include:

- high profile joint fundraising events;
- shared back office services;
- shared accommodation, vehicle lease or rental agreements;
- joint employment of staff (eg HR officer);
- joint building projects;
- shared service provision (eg a drugs awareness programme or care provision);
- consortium bidding for service delivery projects.

The approach to collaboration that a charity should take will depend on the scale of what is proposed and the levels of risk and resources involved. Many of the most effective and common collaborations are very simple and involve low levels of risk. The nature of the activity will also be an influential factor. It can be useful to look at guidance and case studies of what has worked for other charities.

**For further information on collaborating to:**

- **Campaign and lobby**
  - Campaigning in collaboration (NCVO)
  - Influencing and campaigning (bassac)
- **Share back office services and accommodation**
  - Sharing back office services (NCVO)
  - Collaborative working to make more effective use of ICT (NCVO)
  - Shared staff or resources (bassac)
  - Shared accommodation (bassac)
  - Working together for better infrastructure (ACEVO, IoF and CFDG)
- **Delivering services**
  - Charities and public service delivery (Charity Commission)
  - Joint working for public service delivery (NCVO)
  - Joint service delivery (bassac)
  - Collaborate for Commissioning, (bassac)
  - Collaborative working: Building a Consortium (VCS Engage and ICAN)
  - Working in a consortium: A guide for third sector organizations involved in public service delivery (OTS)
  - Consortia delivery of public services, (NCVO)
  - Collaborate resource kit (HACT and Neadon Consulting)
- **Fundraising**
  - Collaborative working to generate income (NCVO)
  - Other funding related (bassac)
- **Network**
  - Networking (bassac)
- **Working internationally**
  - Charities working internationally (Charity Commission)

## 3.2 Structures for collaborative arrangements

There are a number of structures that charities can use depending on the nature of the collaboration. The most common structures include:

- **Coalition**

The most common collaborative arrangements involve separate organisations working together to achieve a specific shared objective. Each organisation maintains its own identity and independence, although the collaborative activity itself may have a joint name eg a joint fundraising event. The collaboration may only be temporary with a certain aim in mind, or it could be established on a more formal basis. More formal coalitions could involve the establishment of a new working arrangement such as a regular forum, or a partnership of independent charities that forms in certain circumstances, for example for the relief of a natural disaster.

The partners in a coalition may appoint a *lead or accountable body*, as frequently happens when charities work jointly in order to access funding. The lead or accountable partner is solely accountable to the funder or commissioner for receiving the funding and delivering the work. The risk associated with the funding is then carried by the lead body, however they can explore options for sharing the risk among partners. There should be a clear joint working agreement that covers issues like decision making, power balance and ownership of risk should be developed. Other issues it should cover are set out in box 2.

Charities may decide to set up a *new organisation* in order to manage the collaborative arrangement. One reason for this may be the desire to isolate financial or liability risks by passing them to a new entity. It may also be the case that partners wish to isolate or separate the collaborative working element from their separate continuing activities. In these cases, each original organisation maintains its own identity distinct from the new organisation. But the legal structure of the new entity may differ from the collaborating charities. Charities should give full consideration to the governance arrangements, will need to seek professional advice and should consider any VAT or tax implications. This model is frequently used for charities sharing back office functions.

- **Group**

Group structures are a distinct and well established form of working together. They are a formal association of separate organisations and could involve, for example, a parent charity setting up other charities and non-charitable subsidiaries. Group structures enable charities to fulfill common purposes over a wide area, or deliver a complex range of related services to their beneficiaries. They are particularly common in the charitable housing sector.

- **Affiliation or federation**

The most common example of this type of structure is where a large national umbrella charity exercises some degree of control over local independent charities who are members or affiliates of the umbrella body. A well known example is the Citizens Advice Bureau, where each local charity has its own trustees with responsibility for the general control and management of the local charity. The national group offers resources or expertise to its members and may have other powers.

## • Merger

In many cases a collaborative working arrangement leads to a full merger. This is where two or more separate charities come together to form one organisation or where one or more charities transfers its assets to another with similar purposes. When this happens, either a new charity is formed to continue the work or take on the assets of the original charities, or one charity assumes control of another. Trustees must act in accordance with the powers in their charity's governing document or those given to them by law to make sure that any merger is legally sound.

### For further information:

- On group, affiliated and federal structures
  - National organisations with local groups (NCVO)
  - The Charity Commission and NCVO will shortly be launching guidance on groups structures, that will include affiliated structures.
- On merger
  - Making mergers work: helping you succeed (Charity Commission)
  - Collaborative Working and Mergers: An introduction CC34 (Charity Commission)
  - Mergers (NCVO)
  - Mergers (bassac).

## 3.3 Types of agreement

There are many different types of collaborative working agreements ranging from very informal, such as verbal or embodied in the content of a letter or email, to formal contracts, such as those used for large scale service delivery projects.

We recommend that even informal collaborations involving low risk activities, such as sharing knowledge, experience or best practice, are set out in writing to avoid any misunderstanding. While trust plays a vital part in joint working relationships, it is not sufficient to rely on it alone. Written agreements form a common point of reference, may be subject to contract law and may also protect the charities from risks to their assets and reputation.

All charities involved should carry out research into the most appropriate form of agreement, and where necessary seek professional advice. As a guide, the formality and detail of the agreement should be proportionate to the level of risk involved and the resources invested. It should be sufficiently robust to protect each party's interests and take account of the risks but not be so burdensome as to hold back innovation or incur unreasonable administrative costs. The extent to which the agreement is formalised is a matter for the trustees to consider.

Written agreements can come in a number of formats depending on the formality required. Some of the most common examples include:

- *Memorandum of understanding (MoU)*: an agreement between two or more parties indicating an intended common line of action. It is most often used in cases where parties either do not want a legally enforceable commitment or cannot create a legally enforceable agreement;
- *Service level agreement (SLA)*: part of a service contract where the level of that service is formally defined in writing;
- *Contract*: an agreement enforceable by law.

### 3.4 Developing an agreement

It is important that the agreement is fully understood and jointly owned by all organisations involved. Charities should work together on drafting and agreeing the core content. This also provides an opportunity to discuss concerns and ensure that arrangements value each party's independence. However, while it is important to set the ground rules, charities should not over complicate the arrangements.

The types of issues the agreement should cover are listed below.

#### Issues to cover in an agreement

The list is not exhaustive and charities should consider their own particular circumstances and take professional advice as necessary.

- The specific *objectives* of the collaboration and benefits to each partner
- The *duration* of the collaboration, including timescales and milestones
- *Roles, responsibilities and expectations* of each partner
- *Decision making* structures and processes
- The *resources* required, contributions from each partner, management cost and how under/overspend will be managed
- Specific arrangements if there is an *accountable body*
- *Staffing* arrangements, particularly if staff are being employed specifically for the collaboration
- *Communication plans* for the joint work, including branding, and arrangements for *regular liaison* between partners
- Clarity about ownership of and rights to *assets, intellectual property and any earned income*
- A *risk log* outlining risks to the success of the collaboration and how they will be mitigated
- Clause outlining how *disputes* will be *resolved*
- *Exit strategy* and arrangements for terminating the collaboration in case circumstances change, including notice period and cost implications
- Plans for *review and evaluation*

#### Box 2: Issues to cover in the agreement

#### For further information:

- Joint working agreements (NCVO)
- Legal issues worksheet (HACT and Neadon Consulting)

### 3.5 Accounting arrangements

The accounting arrangements for collaborative working will depend upon the nature of the agreement and whether any joint venture is created. In determining the accounting solution charities will need to review the substance of the transaction and the assets and liabilities of each of the parties involved. The underlying principle is that each party only reports their interest in the activity and reflects their own assets and liabilities arising from involvement in their accounts. Charities should also check if there are any tax and VAT implications.

**For further information:**

- Charity Reporting and Accounting (Charity Commission)

### 3.6 Other legal considerations

Charities collaborating may also want to seek legal advice on issues such as:

- new and existing contracts with third parties that may be affected by the collaborative arrangements;
- pension's liabilities and insurance policies;
- TUPE (Transfer of Undertakings for Protection of Employment) regulations, if new work involves staff moving from one employer to a newly set up body;
- arrangements for ownership of any intellectual property or copyright on materials created as a result of the collaboration;
- collaborating to generate income or advance their objects by joint trading;
- any issues relating to volunteers.

**For further information:**

- Trustees, trading and tax: How charities may lawfully trade (Charity Commission)
- Intellectual property office (IPO)
- Pensions regulator
- Advisory, Conciliation and Arbitration Service (ACAS)
- Volunteering England

### **Case study: Blenheim CDP and Thames Reach**

Blenheim CDP and Thames Reach are two medium sized charities that work across London and whose services complement each others. Blenheim CDP provides services for people with drug problems and Thames Reach works with the homeless. They work jointly in the provision of some frontline services.

The charities decided to form this new partnership after collaborating on a project that supports homeless people who also have substance abuse problems. This new strategic partnerships formalises their joint commitment to developing more innovative projects, bringing together the skills and knowledge from both organisations to maximise the support people will get.

They have agreed a memorandum of understanding (MoU) which aims to allow a more strategic approach to improving their services. It expresses the spirit of partnership, co-operation and trust that exists between the two charities and establishes a framework of principles within which joint working and collaborations in specific areas can take place. Both charities have worked in partnership with other organisations before and describe this MoU as a meeting of values. The MoU rules out the possibility of a formal merger between the charities which enables staff to concentrate on providing a better service rather than feeling anxious about issues such as job security.

The charities feel that the sharing of knowledge and expertise is an important result of this joint working - it has enabled them to consider public service delivery contracts as a partnership providing a comprehensive service. Also they are confident that they will make more effective use of their resources by establishing this partnership.

Jeremy Swain, Thames Reach Chief Executive, said:

*“We have already shown what two organisations with complementary specialisms can achieve when they have a working relationship based on strong mutual respect. I look forward to this partnership transforming more lives over the coming years.”*

#### **For further information:**

- [www.blenheimcdp.org.uk/](http://www.blenheimcdp.org.uk/)
- [www.thamesreach.org.uk/](http://www.thamesreach.org.uk/)

## 4. Planning and communication

### Key questions for trustees

1. Have we established a project board, committee or group to oversee the project? Is there an individual managing the overall process or other arrangements in place?
2. Have we established a project plan with milestones?
3. Have we identified the risks associated with the collaboration and put measures in place to mitigate those risks?
4. Have we estimated the full cost of collaborating and how it will be resourced? This should include costs such as staff time, rebranding, professional fees, relocation and unanticipated costs.
5. Have we conducted a stakeholder analysis and established a communications plan that covers all relevant stakeholders and audiences? How will we manage any joint branding?
6. Have we identified clear measures to monitor the success of the collaboration? How will it be evaluated?
7. Have we developed an exit strategy for ending the collaborative arrangement should circumstances change?

### 4.1 Project planning and management

There are opportunities, risks and challenges involved when entering into joint working relationships and charities should invest time at the beginning to plan properly. Planning does not need to be over complicated for small collaborations, but as best practice charities should think about the following, which can help to inform the written agreement:

- overall objectives;
- risks and barriers;
- discussing how and who will manage the process;
- who needs to be involved in decision making;
- how effectiveness of the collaboration will be evaluated.

*Organisational leads:* There should be an identified lead in each organisation involved who co-ordinates their organisation's contribution, is responsible for monitoring the written agreement and acts as the first point of contact for any joint communications. This individual should regularly monitor the performance of their own organisation and others under the agreement and be aware of any deadlines, such as submitting performance information and payments.

*Project manager:* It may also be helpful to assign or appoint one individual to manage, oversee or coordinate the overall process. This individual could be employed by one organisation and take on a project management role or may be an external facilitator.

*Project board:* Charities may want to establish a project board, committee or group to oversee the development and implementation of the collaboration with representatives from each charity involved. A decision should be taken about:

- the frequency of planning or partnership meetings;
- who will attend and chair the meetings;
- how and when the group can make decisions;
- arrangements for trustee oversight of the collaboration, particularly if it is high risk.

Trustee and senior management involvement will vary according to the scale and nature of the collaboration. If it carries high levels of risk, trustees may want to form a joint oversight committee with representatives from each trustee board and set out formally how they work together. Alternatively, they may delegate implementation to individual staff from each organisation and receive reports at agreed milestones to chart progress.

#### **For further information:**

- Making Partnerships Work (The Prince's Trust)

## **4.2 Communicating effectively**

Good communication is vital to a successful collaboration. Every charity engaging in a collaboration, no matter how small should consider their stakeholders and what information, if any, needs to be communicated. This does not need to be a complication process, but as best practice charities should:

- carry out a stakeholder analysis, that is consider who will be affected by the collaboration or who may want to comment on and have an interest in the collaboration proposals. For example:
  - service users/beneficiaries;
  - members of the charity;
  - staff that may be affected;
  - funding organisations or local authorities.
- develop a communications plan linked into the stakeholder analysis and that takes into account the different audiences. It should set out how and when different stakeholders and partners will be communicated with. For example, the approach to service users will differ from that to charity staff, funding organisations and so on. The communications plan should link to the collaboration objectives as it will help all stakeholders keep sight of the fact that they must act in the best interests of the charity and its beneficiaries. These do not need to be overcomplicated for small collaborations, but it is worth charities investing the time to think them through.

As part of communications planning, charities may also want to think about how they will refer to the collaboration in any publicity material, including the branding, use of logos etc. Consideration should also be given to roles and responsibilities and resourcing for any joint communication and the extent to which the charities involved will promote the collaboration through their own communication channels.

## 4.3 Resourcing

Charities should consider the resourcing needs of the collaboration over its lifespan in advance of committing to it. Issues to consider include:

- whether there is a need to allocate responsibility for co-ordination and financial management amongst partners;
- management costs and how they will be divided, including where applicable, costs for rebranding, relocation, professional fees and charges involved if there is an accountable body;
- specific costs attributed to each partner including staff time;
- staffing, including who will employ staff, how they will be line managed and where they will work from. In many small scale collaborations, existing members of staff may incorporate work on the collaboration into their existing roles;
- potential future costs including the likelihood of under/over spend and how it will be managed;
- how earned income and assets that are the jointly owned will be divided, in particular if the collaboration ends;
- how unanticipated costs will be handled;
- how decisions will be made about future budgets.

### **For further information:**

- Staffing a Collaborative Project (NCVO)
- Advisory, Conciliation and Arbitration Service (ACAS)

## 4.4 Managing risks

There are risks associated with collaborating and charities should discuss them both internally and, where appropriate, with partners. Common risks include:

- resources being diverted from existing work to fund or staff the collaboration or to set up a new organisation;
- negative impact on profile, if collaborating with an organisation whose objects, purposes, means of conducting business or reputation is at odds with its own;
- mission drift, for example, a charity losing track of the original objective of the collaboration and engaging in activity that is not in line with its objects.

Charities should also be aware of the major barriers to collaboration arrangements succeeding. Often it is not the legal or technical aspects that give rise to problems, but personal and cultural factors.

There is no one solution for ensuring collaborative arrangements will work effectively without ever encountering problems. As with all areas of risk, being able to manage, reduce or eliminate potential problems depends on identifying the issues and finding the appropriate methods.

When the collaboration is complex and may involve financial or reputational risk, trustees may also wish to conduct a due diligence exercise. (See Annex 2)

**For further information:**

- Charities and Risk Management (Charity Commission)

## 4.5 Evaluating the collaboration

Charities should plan how and when the collaboration will be evaluated. There are lessons to be learnt from even the most simple collaborations and it can be useful in helping to justify the original decision and whether to continue with it. The evaluation itself need not be lengthy or costly. In many cases, an evaluation can be carried out in-house and involve the views of those involved in or affected by the collaboration.

As a basic guideline, the evaluation should focus on the overall impact of and objectives of the collaboration, but importantly, link back to each charity's reasons for participating. Success measures should be identified from the beginning and used to monitor the collaboration's achievements. This in itself can help ensure that the collaboration stays on track to deliver its objectives and helps prevent any drift.

Where significant resources have been committed, charities may wish to conduct a more formal evaluation or commission an external evaluator. If this is likely to be the case, charities should consider any costs involved when planning.

**For further information:**

- Charity Evaluation Service (Charity Evaluation Service)

## 4.6 Developing an exit strategy

Charities should consider how, whether and when they will leave or end the collaboration as part of the planning process. Factors to consider include:

- whether everyone agrees to stay in the partnership for a minimum period eg tied to a particular contract;
- circumstances under which an organisation may decide to withdraw from the collaboration;
- how a decision may be made;
- impact on beneficiaries;
- how earned income, assets and liabilities will be divided;
- employment issues.

### **Case study: Life Education & CORUM**

Life Education Centres & CORUM, both of whom work with children and young people, have a unique collaborative arrangement that brings together the strengths of both organisations but stops short of a full merger.

Working together both charities are aiming to enhance the regional educational services offered to children and young people. Coram provide a range of services to disadvantaged children that focus on building self-esteem and emotional well being. Life Education uses a fleet of mobile classrooms to give children health messages on subjects such as drugs and healthy eating and is made up of 38 local groups. The combination of Coram's financial strength and reputation as the oldest children's charity, combined with Life Education's breadth and universal health education objective has proved a winning formula with sponsors.

In the arrangement, Coram holds a 75 per cent stake in the organization and Life Education's local groups have the remaining 25 per cent. The Life Education trustees control the constitution and objects of the charity, demonstrating Coram's commitment to the charity and the engagement of local members of the network who, through their commitment and volunteering are the lifeblood of Life Education. The arrangement allows Coram Life Education to build from the current role in schools and with families at home, in support of the government agenda for PSHE,

but specifically give more recognition to the crucial role of parents and teachers as primary educators to integrate and strengthen the charity's approach.

Stephen Burgess, national director of Coram Life Education, said:

*'The key was in communication with all our stakeholders and particularly the volunteers and local member trusts who were fully engaged through consultation each step of the way and representatives helped fashion the final arrangements.'*

The agreement covers aspects such as governance, budgets and sets out how the collaboration will benefit the future of both charities. The Commission assisted with the process by meeting with both sets of trustees to offer advice on object compatibility and possible governance structures.

#### **For further information:**

- <http://www.coram.org.uk/>
- <http://www.lifeeducation.org.uk/>

## 5. Other information

### 5.1 Glossary

**Governing document:** any document setting out the charity's purposes and usually how it is to be administered. It may be a trust deed, constitution, will, conveyance or Royal Charter or Commission Scheme.

**Assets:** the land, buildings, cash, investments and any other property belonging to a charity.

**Trustees (charity trustees):** the people who, under the charity's governing document, are responsible for the general control and management of the administration of a charity. In the charity's governing document they may be called trustees, managing trustees, committee members or governors, or they may be referred to by some other title. Sometimes a charity also has **custodian** or **holding trustees**, whose function is restricted to holding its property. Custodian or holding trustees have no power to make management decisions and must act on the lawful instructions of the charity trustees. In this pack it is the charity trustees who are being referred to unless stated otherwise.

**Transfer of Undertakings (Protection of Employment) Regulations (TUPE):** preserve employees' terms and conditions when a business or undertaking, or part of one, is transferred to a new employer.

**SORP:** *The Statement of Recommended Practice: Accounting and reporting by charities* is the SORP for the charity sector which sets out the accounting and reporting framework for all UK charities, except where a more specialised SORP applies.

### 5.2 Useful organisations

#### **Advisory, Conciliation and Arbitration Service (ACAS)**

ACAS aims to improve organisations and working life through better employment relations. They promote best practice in the workplace through easily accessible advice and services and offer independent services for dealing with disputes.

Euston Tower  
286 Euston Road  
London NW1 3JJ

[www.acas.org.uk](http://www.acas.org.uk)  
tel: 0845747 4 47

#### **ACEVO**

ACEVO is the professional body for the third sector's chief executives, with over 2000 members. It connects, develops and represents the sector's leaders, with a view to increasing the sector's impact and efficiency.

1 New Oxford Street  
London WC1A 1NU

[www.acevo.org.uk](http://www.acevo.org.uk)  
tel: 0845 345 8481  
email : [info@acevo.org.uk](mailto:info@acevo.org.uk)

#### **Bassac**

Bassac hosts the Collaboration Benefits programme which provides training and support to help community and voluntary groups develop strong and successful partnerships.

33 Corsham Street  
London N1 6DR

[www.bassac.org.uk](http://www.bassac.org.uk)  
email: [info@bassac.org.uk](mailto:info@bassac.org.uk)  
tel: 0845 241 0375

### **Charities Evaluation Services (CES)**

CES is a charity that provides resources, consultancy, external evaluations and support on quality and evaluation systems for the voluntary sector.

4 Coldbath Square,  
London EC1R 5HL

[www.ces-vol.org.uk](http://www.ces-vol.org.uk)

email: [enquiries@ces-vol.org.uk](mailto:enquiries@ces-vol.org.uk)

tel: 020 7713 5722

### **Companies House**

Companies House incorporates and dissolves limited companies, examines and stores company information delivered under the Companies Act and related legislation, and makes this information available to the public.

Crown Way, Maindy  
Cardiff CF14 3UZ

[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

email: [enquiries@companies-house.gov.uk](mailto:enquiries@companies-house.gov.uk)

tel: 087 0333 3636

### **Futurebuilders**

Futurebuilders offer loan financing, often combined with grants and professional support, to third sector organisations that need investment to help them bid for, win and deliver public service contracts.

5th Floor, 6 St Andrew Street  
London EC4A 3AE

[www.futurebuilders-england.org.uk](http://www.futurebuilders-england.org.uk)

email: [info@futurebuilders-england.org.uk](mailto:info@futurebuilders-england.org.uk)

tel: 0191 261 5200

### **House Associations' Charitable Trust (HACT)**

The Housing Associations' Charitable Trust (hact) pioneers housing solutions for people on the margins. They work through partnerships and networks, acting as a bridge between housing associations and the wider Third Sector.

Octavia House  
50 Banner Street  
London EC1Y 8ST

Telephone: 020 7247 7800

Fax: 020 7247 2212

Email: [hact@hact.org.uk](mailto:hact@hact.org.uk)

### **Institute for Voluntary Action Research (IVAR)**

IVAR works with third sector organisations to offer an innovative response to the challenges of organisation and management faced by third sector organisations.

26 Russell Square  
Bloomsbury  
London WC1B 5DQ

tel: 020 7631 6608

email: [enquiries@ivar.org.uk](mailto:enquiries@ivar.org.uk)

### **National Council for Voluntary Organisations (NCVO) – Collaborative Working Unit**

The Collaborative Working Unit at NCVO provides good-practice information and advice on all aspects of collaborative working for voluntary and community associations.

Regent's Wharf  
8 All Saints Street  
London N1 9RL

[www.ncvo-vol.org.uk/scollaborate](http://www.ncvo-vol.org.uk/scollaborate)

email: [ncvo@ncvo-vol.org.uk](mailto:ncvo@ncvo-vol.org.uk)

tel: 020 7520 2440

### **Intellectual Property Office**

The IPO is the official government body responsible for Intellectual Property (IP) rights in the United Kingdom. These rights include patents, designs, trade marks and copyright

Concept House  
Cardiff Road  
Newport  
South Wales NP10 8QQ

[www.ipo.gov.uk](http://www.ipo.gov.uk)

email: [Enquiries@ipo.gov.uk](mailto:Enquiries@ipo.gov.uk)

tel: 0845 9500 505

### **Improvement and Development Agency (IdeA)**

The IDeA supports improvement and innovation in local government, focusing on the issues that are important to councils and using tried and tested ways of ...

Layden House  
76-86 Turnmill Street  
London EC1M 5LG

[www.idea.gov.uk](http://www.idea.gov.uk)  
email: [ihelp@idea.gov.uk](mailto:ihelp@idea.gov.uk)  
telephone: 020 7296 6880

### **National association of voluntary and community associations NAVCA**

NAVCA is the national voice of local third sector infrastructure in England.

The Tower  
2 Furnival Square  
Sheffield S1 4QL

[www.navca.org.uk](http://www.navca.org.uk)  
tel: 0114 278 6636  
email: [navca@navca.org.uk](mailto:navca@navca.org.uk)

### **Office of the Third Sector (OTS)**

Office of the Third Sector leads work across government to support the environment for a thriving third sector, enabling the sector to campaign for change, deliver public services, promote social enterprise and strengthen communities.

2nd Floor, Admiralty Arch, South Side  
The Mall,  
London SW1A 2WH

[www.cabinetoffice.gov.uk/third\\_sector](http://www.cabinetoffice.gov.uk/third_sector)  
email: [OTS.info@cabinet-office.x.gsi.gov.uk](mailto:OTS.info@cabinet-office.x.gsi.gov.uk)  
tel: 020 7276 6400

### **Pensions Regulator**

The Pensions Regulator is the UK regulator of work-based pension schemes.

Napier House  
Trafalgar Place  
Brighton BN1 4DW

<http://www.thepensionsregulator.gov.uk>  
Email:  
[customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)  
Tel: 0870 6063636

### **Regulator of Charitable Incorporated Companies (CICS)**

Registration of a company as a CIC has to be approved by the Regulator who also has a continuing monitoring and enforcement role

Room 3.68  
Companies House  
Crown Way, Maindy  
Cardiff CF14 3UZ

[www.cicregulator.gov.uk/](http://www.cicregulator.gov.uk/)  
email: [cicregulator@companieshouse.gov.uk](mailto:cicregulator@companieshouse.gov.uk)  
tel: 029 20346228

### **Small Charities Coalition**

The Small Charities Coalition exists to help small charities access the skills, experience and resources they need to achieve their aims. The also match small charities with other organisations to increase resources or improve knowledge and skills

24 Stephenson Way,  
London NW1 2DP

[www.smallcharities.org.uk](http://www.smallcharities.org.uk)  
Email: [info@smallcharities.org.uk](mailto:info@smallcharities.org.uk)  
Tel: 0207 391 4812

### **The Prince's Trust**

18 Park Square East  
London NW1 4LH

[www.princes-trust.org.uk](http://www.princes-trust.org.uk)  
email: [webinfops@princes-trust.org.uk](mailto:webinfops@princes-trust.org.uk)  
tel: 020 7543 1234

## VCS Engage

VCS Engage run a programme to strengthen the engagement of the voluntary and community sector (VCS) in delivering the Every Child Matters: Change for Children agenda.

8 Wakley Street  
London EC1V 7QE

[www.vcsengage.org.uk](http://www.vcsengage.org.uk)

email: [info@vcsengage.org.uk](mailto:info@vcsengage.org.uk)

tel: +44 (0)207 843 6000

## Volunteering England

Volunteering England is a charity committed to supporting and enabling volunteering. It is a very useful and comprehensive source of information and advice on all aspects of volunteering.

Regents Wharf  
8 All Saints Street  
London N1 9RL

[www.volunteering.org.uk](http://www.volunteering.org.uk)

e-mail: [volunteering@volunteeringengland.org](mailto:volunteering@volunteeringengland.org)

tel: 0845 305 6979

## 5.3 Useful publications and links to online resources and services

### Charity Commission

The following publications can be viewed and downloaded from our website on [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)

#### Guidance and resources

- Collaborative Working and Mergers: An introduction (CC34)
- Making mergers work: Helping you succeed
- Charities and Risk Management
- Charities and Public Benefit
- Charities and Public Service Delivery (CC37)
- Local Government Charity Toolkit
- Charities and Commercial Partners
- Due Diligence Checklist
- Charity Reporting and Accounting
- The Big Board Talk: 15 questions trustees need to ask
- Trustees, trading and tax: How charities may lawfully trade

- Charities working internationally

#### Online services

- Charity Commission Register of Mergers
- Charity Commission Register of Charities

#### Other sources of information

The following publications, resources, tools and case studies, many of which are signposted in the toolkit, may be of interest for charities planning to collaborate with others.

#### Research reports

- Working together for better office infrastructure (ACEVO, IoF, CFDG)
- Sharing without merging (bassac)
- Sink or SWiM? (bassac)
- 1 + 1 = 3 Does size really matter? (NCVO)
- Collaborative working between large and small voluntary organisations (NCVO)
- Making Partnerships Work (The Princes Trust)
- Joint working to meet the needs of young people (VCS Engage)
- Collaborative working: building a consortium (VCS Engage and ICAN)

#### Resources and models of collaborative working

- 'Collaborate for Commissioning' project (bassac)
- Collaborative Benefits programme (bassac)
- Tools for Success (CASS Business School)
- Models of collaborative working (NCVO)
- Due diligence demystified (NCVO)
- National organisations with local groups (NCVO)
- Staffing a collaborative project (NCVO)
- Working in a consortium: A guide for third sector organizations involved in public service delivery (OTS)
- Collaborate resource kit (HACT and Neadon Consulting)

#### Online services

- Funding Central (Funding Central)
- Merge-maker - online match making service (Futurebuilders)
- Modernisation Fund



## Collaborative working

### 20 questions trustees need to ask

*Collaborative working describes joint working by two or more charities in order to fulfil their purposes, while remaining as separate charities. Agreements may range from very informal agreements to large-scale service delivery contracts. Sometimes the decision to work together can lead to a formal merger.*

#### Purpose of the checklist

This checklist is intended as a simple guide to the typical issues trustees will need to think about when considering working collaboratively. Trustees must act prudently in the interests of their charity. This means that they should be satisfied that there will be adequate benefits for their beneficiaries. The extent to which an agreement is formalised is a matter for trustees to consider, and may require professional advice.

This checklist is intended as a simple guide to the typical issues trustees will need to think about when considering working collaboratively. We have designed the checklist to be suitable for all charities to use. Not all questions may be relevant to every charity - it will depend on the nature and scale of the proposed collaboration.

The checklist should be looked at alongside the Commission's publications:

- Choosing to Collaborate: Helping you succeed
- Collaborative Working and Mergers: An introduction (CC34)

#### Initiating collaboration

1. How can we better meet the needs of our charity and its beneficiaries by working with others?
2. How will potential partners be identified? Do we already have an existing relationship with them?
3. Is the proposed partner charity(s) compatible with us in terms of its charitable objects, culture, governance arrangements, organisational structures and funding base?
4. What are the reasons for collaborating?
5. What will or might our charity gain and lose from collaborating? Have we considered the wider impacts on our charity?
6. Do we plan to approach stakeholders for their views, particularly service users?
7. Does the proposed collaboration further our charitable purposes? Is it an appropriate use of charitable funds? Is any private benefit incidental? **L**
8. Are there significant reputational or financial risks? If yes, are we carrying out a due diligence exercise?

## Approaches to collaboration

---

9. Have we considered what type of agreement will be appropriate for our charity's needs?
10. Do we need to take professional advice about the type and content of the agreement?
11. Does the agreement state the collaboration objectives, benefits for each party, duration and funding arrangement?
12. Does the agreement address the identified risks including any conflict of interest?
13. Are there significant reputational or financial risks? If yes, are we carrying out a due diligence exercise?

## Planning and communicating

---

14. Have we established a project board, committee or group to oversee the project? Is there an individual managing the overall process or other arrangements in place?
15. Have we established a project plan with milestones?
16. Have we identified the risks associated with the collaboration and put measures in place to mitigate those risks?
17. Have we estimated the full cost of collaborating and how it will be resourced? This should include costs such as staff time, rebranding, professional fees, relocation and unanticipated costs.
18. Have we conducted a stakeholder analysis and established a communications plan that covers all relevant stakeholders and audiences? How will we manage any joint branding?
19. Have we identified clear measures to monitor the success of the collaboration? How will it be evaluated?
20. Have we developed an exit strategy for ending the collaborative arrangement should circumstances change?

**L** means there is a **specific legal or regulatory requirement. Trustees and the charity must comply with these requirements.**

This checklist forms part of the Big Board Talk series. For more information please see our website

[www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)



...the conversation  
all charities need to have



## Due diligence checklist

### What is due diligence?

'Due diligence' is a phrase used to describe the steps organisations take to assure themselves that a merger or complex collaboration is in their best interests. The result of a due diligence exercise is that a charity has full knowledge of the organisation they seek to merge or work with (ie there are no surprises).

The costs of commissioning due diligence work are a proper use of charitable funds, but should be forecast at the outset and regularly reviewed to ensure they remain proportionate to the risks involved.

Due diligence checks fall into three main categories:

- commercial;
- financial;
- legal.

The nature of the checks should be proportionate to the:

- size and nature of the proposal;
- amount of income and expenditure involved;
- nature of the existing and planned activities.

A more rigorous exercise may be necessary where charities have one or more of the following:

- complex service delivery arrangements;
- high profile or sensitive work;
- links with affiliated charities;
- operations in a number of geographical locations;
- one or more trading subsidiaries;
- extensive property holdings and assets;
- restricted funds or permanent endowments.

### Trustees' role

Trustees are responsible for deciding on the appropriate level of due diligence required when considering a merger with another charity(s) or a complex collaboration. They have a legal duty to act prudently. When planning a proposed merger or contractual collaborative arrangement, they should ensure they have identified any potential risks to their charity before entering into any agreement.

Depending on their initial assessment, trustees may require professional advice to ensure that there is an appropriate level of due diligence.

### About this checklist

The following checklist is a guide to the areas to review in a due diligence exercise. It is intended to be of use to trustees in understanding the due diligence exercise.

## Commercial and strategic

Area to review	What to do	How to use this information / Questions to ask
Reasons for merging	Review appropriate board minutes and identify the benefits of the merger for the beneficiaries.	What are the reasons for merging? What benefit will merging bring to beneficiaries?
Charitable objects	Review charitable objects.	Are the charitable objects compatible?
Fundraising strategy	Review amount raised in the last two years and compare with budget.	Is the effectiveness of the fundraising strategy reviewed against a predetermined programme?
Donors and funders	Consult with existing donors and funders about merger. Review other sources of finance and support.	Will they continue to support the proposed merged charity?
Beneficiaries	Review existing and potential beneficiaries.	In the long term, as a result of the merger, will the number of beneficiaries increase?
Trustees and management	Review CVs and contracts of employment for chief executives and senior management. Get CVs of trustees. Compare current provision with future need.	Is there sufficient trustee / management experience in different disciplines for the merged charity?
Organisational structure	Review organisation charts and staff handbooks.	Are the organisational structures of the charities compatible?
Governance	Review current governance mechanisms	What interim / future governance mechanisms will be required?
Effectiveness of board meetings	Review minutes of board meetings. Review minutes relating to financial information.	Are there recurring issues in board minutes which indicate an issue that is not being properly addressed? Are minutes and papers well presented especially regarding financial information? Are management accounts providing relevant and necessary information available to trustees and operating managers?
Risk management	Review risk registers and appropriate board minutes.	Are there significant risks that need to be resolved before merging?
Information technology	Review information technology systems.	Are systems compatible? How might existing IT systems be used in the merged charity? Is there scope to consolidate?
Stakeholders opinion	Consult with stakeholders about merger.	Will they continue to support the proposed merged charity?
Competitive position	Identify charities with similar objectives.	Will these charities prove to be too competitive and prevent the merged charities from achieving their objectives?
SWOT analysis	Review any existing SWOT analysis or conduct a SWOT analysis.	What issues does this raise?

## Financial

### a. Accounts

Area to review	What to do	How to use this information / Questions to ask
Annual financial statements	<p>Identify the main sources of income and categories of expenditure for the last 2/3 years.</p> <p>Review the excess of assets over liabilities for the last 2/3 years</p>	<p>What are the trends for the last 2/3 years of excess income over expenditure and excess assets over liabilities?</p> <p>This will confirm the charity's solvency.</p>
Management accounts	<p>Compare</p> <ul style="list-style-type: none"> <li>accuracy of year end management accounts with annual financial statements for that year</li> <li>management accounts with budget or latest forecast.</li> <li>management accounts and annual financial statements for previous 2 years with budget/forecast for following 2 years.</li> </ul>	<p>Are periodic management accounts reliable for decision making?</p> <p>Is current budgeting/forecasting reliable and realistic?</p> <p>What are the reasons for any variances which have arisen?</p>
Cash flow	<p>Review cash flow and look for trends that show sustainability.</p>	<p>Are there any potential deficits that need to be monitored arising from timing differences in future cash flow?</p>
Accounting standards	<p>Confirm compliance with the Statement of Recommended Practice, Accounting and Reporting (SORP) for charities, Standard Statements of Accounting Practice (SSAP) and Financial Reporting Standards (FRS).</p>	<p>Are there any departures from the SORP, SSAPs and FRSs?</p>
Accounting policies and internal financial controls	<p>Compare accounting policies and internal financial controls with your own.</p>	<p>Are there any differences which make the organisations incompatible? What fits well?</p> <p>How effective are internal financial controls and do any areas need to be reviewed?</p>
Management letter from auditors	<p>Review auditor's copies of management letters from the last three years. These should include the charity's responses.</p>	<p>Is there anything of concern in the auditors or charities comments? Are there any possible defects in internal controls?</p>

## b. Commitments and assets

Area to review	What to do	How to use this information / Questions to ask
Future funding	Review plans for funding in next 2/3 years.	Is it likely that future funding will be achieved?
Funding of projects	Check that the practice of full cost recovery is being followed and that budgets allow for a small surplus to be added to reserves	What is the risk of undertaking projects where full cost recovery is not achievable and what will be the effect if those projects have to be subsidised from unrestricted funds?
Property and dilapidations	Obtain a list of properties. Perform a Land Registry search and obtain title deeds for freehold and leasehold properties. Check if cost exceeds market value in any cases.  Review leases for dilapidation clauses.	Could losses arise if property has to be disposed of?  Will the costs be very high if any leases are surrendered?
Fixtures and fittings	Get a register of fixed assets and reconcile the figures to the accounts. Check on sample basis fixtures and fittings.	Does the register represent the assets fairly?  Are there assets which will be used in the merged organisation?  Will some assets have to be disposed of at a loss?
Investments	Obtain a list of costs and value of investments.	Can you verify the legal title by checking certificates or other legal evidence?
Stocks	Obtain a list of stock and values. Attend a physical stock-take if the value of the stock is material.	Is there slow moving and obsolete stock that might lead to an overvaluation of stock?
Debtors	Obtain a list of debtors and amounts owed. Get direct third party verification on material amounts especially grant debtors.	Are adequate provisions in place for doubtful debts?
Prepayments	Obtain a list of prepayments. Verify a sample of prepayments.	Where prepayments relate to agreements that will be terminated does the value of the prepayment need to be reduced?
Bank	Obtain a list of bank balance(s) and check bank(s) reconciliations.	Are bank balances accurate? Are all bank accounts accounted for?
Creditors	Obtain a list of creditors and the amounts owing. Enquire into and consider getting direct third party verification on material and long standing amounts.	Are all creditors genuinely still owed or could there be problems with the records?
Debt and guarantees	Obtain details of terms for all debt, secured and unsecured and any guarantees. Review timing of debt repayments as part of cash flow analysis.	Can any terms, covenants and guarantees remain in place following merger?
Accruals	Obtain a list of accruals. Verify a sample.	Are potential liabilities being calculated on a reasonable basis and is the list complete?
Intangibles	Get details of patents, licences, brands and other intellectual property rights and goodwill together with copies of relevant agreements.	Is the valuation of intangibles reasonable?
Pension schemes	Specialist advice must be taken from the pension provider and other relevant professional advisors.	What sort of liabilities may arise if membership of the scheme is terminated either by staff leaving or transferring or by the merging organisation ceasing to exist?

## c. Tax

Area to review	What to do	How to use this information / Questions to ask
Income tax and national insurance	Examine the payroll and find out the normal monthly liability for PAYE.	Is the amount owed for tax and National Insurance the payment for one month or for longer? Do there appear to be any overpayments and, if so, are they recoverable?
Corporate tax	Check that there is no liability to pay corporation tax on any form of trading or relating to non-charitable expenditure.	Discuss with tax advisors.
VAT	Check whether the organisation is VAT registered or should be. If so, check its procedures with regard to irrecoverable VAT.	Discuss with tax advisors.
Gift Aid	Obtain a list of donations on which gift aid is being recovered. Check on a sample basis whether the documentation is correct to enable recoveries be made.	Would an HMRC gift aid audit uncover liabilities for gift aid being reclaimed in error?

## Legal

Area to review	What to do	How to use this information / Questions to ask
Power to merge	Get copies of current governing documents. Review the legal basis on which merger will proceed.	Is there power for the charities to merge in the governing documents?
Charity Commission involvement	Consider the need for Commission advice or authority.	Is there uncertainty about how to proceed? Would Charity Commission involvement assist?
TUPE and contracts of employment	Review contracts of employment and seek professional advice.	What are the implications for transferring staff including contracts of employment?
Property	Consider various clauses of leases such as dilapidation clauses and seek professional advice.	What are the implications of these? Act on professional advice
Intellectual property	Obtain details of patents, trade marks and other intellectual property rights and seek professional advice.	What are the implications of these? Act on professional advice
Other legal contracts	Review existing contracts.	Act on professional advice
Public service delivery	Review existing contracts and contact awarding agency. Find out the views of the awarding agency to merger.	Act on professional advice
Pensions	Review schemes and identify any issues. Determine if a deemed withdrawal or cessation event will be triggered and contact the Pensions Regulator.	Act on professional advice
Insurance	Obtain details of all insurance policies and make contact with insurers.	What are the insurance requirements of the merged charity?
Permanent endowment	Obtain relevant trust deeds and other documentation	Are the proposed arrangements for holding the permanent endowment legally sound? Act on professional advice
Legacies	Consider reliance on future legacy income.	Is there a need to register the merger with the Commission?

This publication can also be accessed at the Charity Commission's website: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)

© Crown copyright 20xx. This publication may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.

This publication is printed on paper obtained only from sustainable resources and is totally chlorine free.

xxxxxx xx/20xx

**You can obtain large-print versions  
of this publication from the Charity  
Commission on 0845 300 0218**

**Charity Commission**

Telephone: **0845 300 0218**

Typetalk: **0845 300 0219**

By post: **Charity Commission Direct**  
PO Box 1227  
Liverpool  
L69 3UG

Website: **[www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)**