

Joined Up Thinking

Successful AHB
Collaboration,
Mergers and
Acquisitions

Greg Merrin

Acknowledgements

Interviews with a wide range of stakeholders played a key role in this research and I would like to thank each of them for their time, patience and openness. I would particularly like to thank staff at Clúid who were extremely generous with their time.

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Greg Merrin

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Foreword

This research was funded by the Department of Housing, Planning and Local Government's Innovation Fund with matching funding from Clúid Housing. Clúid is very grateful to the Department of Housing, Planning and Local Government for its support.

Clúid Housing is an independent, not-for-profit charity that develops and provides high-quality, affordable housing for people who cannot afford to buy their own home or pay for private rented housing. Clúid was established in 1994, and currently owns or leases 6,700 houses and apartments across the country.

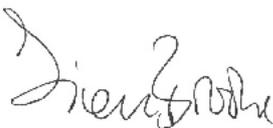
Approved Housing Bodies (AHBs) (also called housing associations, or voluntary housing bodies) such as Clúid play a significant role in the provision of social housing in Ireland, owning or leasing a total of approximately 30,000 houses and apartments across the country. The sector has grown significantly in recent years and at the same time has become more heterogeneous, characterised by a small number of relatively large AHBs and a large number of very small AHBs. This process has been reinforced by funding arrangements and regulation of the sector.

There has been discussion in several quarters about whether or not the AHB sector might be able to reconfigure itself to become overall more effective. Ideas raised have included: mergers that would result in a sector with a relatively small number of large players; strategic alliances and collaborations that would enable a group of AHBs to collectively promote the delivery of AHB housing, develop and share good practices, and develop innovative solutions. In addition it is widely accepted that there is an unknown but probably significant number of small, voluntarily-run AHBs facing a very uncertain future, due to one or more of the following: difficulties recruiting new board members; housing stock requiring renovation; and lack of finance. In some cases, a partnership with, or acquisition by a larger AHB may be a solution for these AHBs.

In light of this, Clúid Housing decided to carry out this research as a contribution to this important debate, with the aim of examining the implications and practicability of some of these proposals, and whether through them, the AHB sector as a whole can become more effective in delivering high-quality affordable housing to people in need.

I would particularly like to thank Greg Merrin for his work in researching and writing this report. He took on the challenge with enthusiasm and energy.

Signature



Simon Brooke
Head of Policy
Clúid Housing
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Executive Summary

This research was funded by the Department of Housing, Planning and Local Government's Innovation Fund which was matched by funding from Clúid Housing. A Project Officer, Greg Merrin, was recruited by Clúid Housing on a one-year contract to undertake this project and present the report on the findings.

Twenty-four individuals from the approved housing body (AHB) sector, the Department of Housing, Planning and Local Government and the Housing Agency in Ireland, two from the housing association sector in Northern Ireland, and one leading academic in the field of social housing in the UK were interviewed. In-depth interviews were conducted with each participant, and experiences of collaboration, mergers and acquisitions in the AHB sector in Ireland were explored.

Before discussing the findings unearthed during the interview stage, a number of terms related to collaboration, mergers and acquisitions were decided upon and defined. These definitions are important to frame and understand the discussion of findings and topics that were raised further along in this report. This part of the report defines the terms collaboration, partnerships, service level agreements (SLAs), procurement groups, strategic alliance, group structure, strategic restructuring, merger and acquisition. These definitions flow into the following section of this particular chapter which looks at the collaboration continuum and the options available to AHBs considering collaboration, mergers or acquisitions.

The research included identifying a number of options that could be available to AHBs in terms of mergers or acquisitions. In addition to this, a collaboration continuum was designed, which is supplemented by a continuum of options. These provide an outline of the various options available to AHBs in Ireland that are considering mergers and acquisitions, as well as the implications for these AHBs. The continuums will also serve to provide an understanding of the different elements of collaboration, mergers and acquisitions. These AHBs can choose whatever option is most suitable to their needs and present situation.

A number of findings were uncovered during the interview stage and these are outlined in a number of chapters. Findings are presented under the potential benefits and disadvantages to mergers and acquisitions, and the drivers and barriers to mergers and acquisitions.

A number of benefits and drivers towards mergers and acquisitions were also recognised amongst the interviewees in this research. These drivers included:

- » **Assisting AHBs in difficulty:** This section also explores some current problems being faced in the AHB sector in Ireland. In addition to this, a number of contemporary issues facing the AHB sector in Ireland were explored. These issues include governance issues such as the renewals of boards, regulatory issues, issues surrounding sinking funds and cash reserves, and issues regarding the ongoing maintenance of social housing units and property stocks amongst Tier 1 AHBs.
- » **Ease of regulation:** It was suggested during the interview stage that mergers and acquisitions and the consolidation of the sector would make it easier for the Regulation Office to safely and efficiently regulate the sector.
- » **Achieving economies of scale:** accessing the benefits associated with economies of scale was noted by interviewees as being a primary driver for mergers and acquisitions. This could be in terms of procurement, but also scale in terms of housing delivery.
- » **Making non-viable AHBs viable:** mergers and acquisitions can help struggling AHBs by allowing them to access scale, by adding them into group structures and by reducing their risk.
- » **Protecting and improving responsiveness to tenants:** A number of interviewees were of the opinion that mergers and acquisitions can help to protect tenants, particularly in the case of tenants of AHBs that are in distress. In addition, other interviewees noted that by upping the scale tenants can be better provided for.

» **Protecting the AHB sector in Ireland:** The failure of Tier 1 AHBs was considered a risk by a number of interviewees. Should mergers or acquisitions take place to assist with unviable Tier 1 AHBs, this can help in protecting the sector from the inevitable fallout that would follow the failure of an AHB. It would also serve to protect state assets and assets purchased or constructed with taxpayer money.

» **Reputational gains:** by assisting in making non-viable AHBs viable, AHBs can stand to make reputational gains in the sector, and be seen as the “go-to” AHB for future mergers.

Contra to these drivers, a number of (drawbacks and) barriers were also recognised by interviewees. These included:

» **Concerns of smaller AHBs:** Some interviewees noted that Tier 1 AHBs would be wary of the motivations of Tier 3 AHBs and would feel that Tier 3 AHBs would provide fewer services and be less responsive to their tenants.

» **Resource intensive:** Interviewees noted that mergers and acquisitions were resource-intensive processes that also involved a lot of time.

» **Lack of finance was noted by interviewees:** A number of participants in this study noted that a lack of sinking funds and access to finance would be an issue for any AHB getting involved in mergers and acquisitions.

» **Lack of support from key individuals:** Egos and personalities were widely cited by respondents, noting that the attitude towards the merger or acquisition by the chairman or the CEO is absolutely key to a successful merger or acquisition; without their go-ahead or goodwill toward the collaboration the process may not get past the board approval stage. One interviewee noted that success in mergers and acquisitions hinged on two ‘gatekeepers’; in this case the chief executive and the chair of the board.

» **Immediate benefits not being apparent:** Literature and a number of interviewees noted that the immediate benefits of mergers and acquisitions may not be apparent, and that this can cause staff dissatisfaction and dips in performance.

» **Funding difficulties:** In addition to this the methods of funding the repairs may be limited; and access to private and public finance may be constrained due to the presence of Capital Assistance Scheme (CAS) loans on the units.

» **Local resistance to change:** Another barrier that arose throughout the interview stage was the issue of a local and Tier 1 AHB resistance to change, and thus the idea that mergers and acquisitions may not be amenable to some actors in the sector who will be resistant to change and outside control and will block any attempts of ‘courtship’.

» **Issues with title:** a number of interviewees noted that without good, clean titles it would not be possible to finance, or re-finance, any mergers or acquisitions, or to fund any renovations needed to properties. Without proper title, it would be impossible to obtain finance leveraged against the units. In addition to this, without proper title for the units, there will technically be no units to hand over. Thus issues with title can prove to be quite a considerable barrier to mergers and acquisitions.

Interviewees were asked during this research to identify anything which they would regard as being central to successful merger or acquisition.

» **Due diligence:** For numerous interviewees, thorough and timely due diligence is necessary to ensure a successful merger or acquisition.

» **Finance:** It was noted by a number of respondents that adequate finance is needed to support a merger and acquisition, particularly if the housing stock that has been acquired is in need of extensive works to bring it up to standard.

» **Communication:** Good communication to keep staff up to date with developments will keep everyone focussed towards the end goal or objective. In addition it can reduce and mitigate against any dips in performance.

» **Organisational and strategic fit:** Success will depend on how the integration of the two AHBs will look and what is the organisational and strategic fit.

» **Co-operation from CEOs and boards:** It was noted that both CEO and the chair of the board are vital in assuring that the process runs smoothly, and ultimately this process will not progress without them.

» **Planning and vision:** was noted by interviewees to be important to the success of mergers and acquisitions. Well-thought-out goals and objectives before initiating collaborations, mergers and acquisitions will allow AHBs to assess and plan through each stage of the process.

» **Putting tenants first:** A number of respondents in this research noted that keeping tenants in mind during the merger and acquisition process is of particular importance and is vital in achieving a successful merger.

Whilst undertaking the research, particular merit was seen in outlining the process that would be undertaken when participating in a merger or acquisition. As a result, a template was designed to guide mergers and acquisitions in the sector. This template was designed by conducting interviews with a number of respondents that have knowledge and experience of mergers and acquisitions in the AHB sector. The template goes on to describe all the different elements that need to be considered when undertaking a merger or acquisition. The template guides AHBs from the initial contact, before outlining the feasibility study, which includes important items such as alignment with business plan; strategic fit; location, design and housing demand; financial viability and funding. Once the feasibility study is completed, it is referred to the Executive Team for approval. If approval is granted, the Due Diligence process can begin, which includes legal, financial, housing services, property services and human resources aspects.

Following on from the findings outlined earlier in the paper, it became apparent that there were a number of issues to consider. These included a rescue fund from the department, fostering collaboration in the sector and guidance from the Regulation Office.

» **A rescue fund** was deemed to be necessary due to the aforementioned high costs of mergers and acquisitions, along with the potential issues of sinking funds and substandard accommodation in Tier 1 AHBs. Interviewees noted that potentially there could be issues with property conditions and sinking funds, as well as units already being leveraged with CAS or CLSS loans. As such, a rescue fund would mitigate risk and reduce the financial burden when dealing with the rescue of an AHB.

» **Guidance from the Regulation Office regarding collaboration, mergers and acquisitions.** A number of interviewees noted that it would be good practice for the Regulation Office to guide mergers and acquisitions in the sector, particularly ones that involved the rescues of Tier 1 AHBs. The Regulation Office could provide independent, impartial advice to Tier 1 AHBs to ensure that there is no feelings of ill will following the mergers and acquisitions process.

» **Fostering collaboration in the sector feeds on from collaboration leading to mergers and acquisitions, as a stepping stone to further collaboration and more intense relationships.** Stakeholders in the sector, such as the Regulation Office and the Irish Council for Social Housing, can assist here in providing advice, toolkits, information and other support to AHBs during mergers and acquisitions.

I Introduction

I.1 Origins and funding

This project was funded by the AHB Innovation Fund established by the Department of Housing, Planning and Local Government on foot of a commitment in the Government's Action Plan for Housing and Homelessness, *Rebuilding Ireland*. The funding of €25,000 from the Innovation Fund was matched by equal funding by Clúid Housing. The project was carried out by Greg Merrin.

I.2 Outline of the report

The report begins with a brief overview of the Approved Housing Body (AHB) sector in Ireland and indicates some current issues that are relevant to a discussion of collaboration, mergers and acquisitions. Next these terms and other specific forms of joint working are defined, accompanied with a discussion of some of these arrangements. Following this, the potential benefits and disadvantages of collaboration, mergers and acquisitions are discussed; and the drivers and barriers for these arrangements are identified. Key elements of a successful merger and acquisition are named and discussed. A detailed template for a successful merger or acquisition follows, and the report concludes with a discussion of the principal issues.

I.3 Methodologies

A literature review was conducted consulting a number of authors and sources primarily from across Ireland and the United Kingdom. The literature review was conducted to provide a better understanding of AHBs, collaboration, mergers and acquisitions, as well as funding models and social housing policy in Ireland.

A number of in-depth, face-to-face interviews were carried out with respondents from a range of stakeholders. In-depth interviews were chosen because they would provide detailed information on the topic this research sought to explore (Boyce and Neal, 2006). Respondents came from AHBs; the Housing Agency; the Regulation Office; Department of Housing, Planning and Local Government (DHPLG); the Northern Ireland Federation of Housing Associations (NIFHA); the Residential Tenancy Board (RTB); the Irish Council for Social Housing (ICSH); Campbell Tickell management consultancy; and a leading UK academic with extensive experience of housing association mergers. The aim of these interviews was to understand the drivers and barriers for collaboration, mergers and acquisitions, common issues arising from these, and the experiences each respondent has had with guiding or overseeing the process.

2 Overview of the Approved Housing Body sector in Ireland

Social housing in Ireland is provided by local authorities and not-for-profit social housing providers known as Approved Housing Bodies (AHBs), sometimes called housing associations or the voluntary housing sector. AHBs are independent, non-profit organisations that provide affordable rented accommodation for people who cannot afford to buy their own home or pay private sector rents, or for people with special needs such as older people or people with a disability.

At the time of writing, 253 AHBs with a total stock of approximately 29,000 units are registered with the AHB Regulation Office at the Housing Agency. The sector is very diverse, with a large number of small AHBs (185 have less than 50 units), and a very small number of large AHBs (the seven largest AHBs account for about 20,000 dwellings representing 70% of the registered AHB housing stock).

The AHB sector is broken up into three regulatory 'tiers', which are as follows;

Designation	Units held
Tier 1 Approved Housing Body	<50 units
Tier 2 Approved Housing Body	Between 50 and 300 units
Tier 3 Approved Housing Body	>300 units

Table 2.1 Approved Housing Body Tiers. Housing Agency (2016)

AHBs are subject to increasing amounts of regulation which is currently voluntary, but these regulations are expected to become statutory during 2019. In addition to this, AHBs are also subject to the Companies Act 2014, the Charities Act 2009 and come under the aegis of the Residential Tenancies Board. The regulatory demands on these three tiers are as follows:

AHB Level	Regulatory Requirements
Tier 1:	<ul style="list-style-type: none"> Have in place a properly functioning board with: Clear roles and responsibilities; At least five members, none serving more than two consecutive five-year terms; A general meeting at least once a year; No employee acting as chairperson; Comply with existing companies law, charities requirements, conditions of approved status; Have a tax clearance certificate and a sinking fund; Have an agreed set of performance management indicators; Submit an Annual Report and Accounts, and a copy of filing to the CRO or to the Registrar of Friendly Societies, to the Department; Submit data on Tenant Services; Submit a signed copy of this Charter to the Department.
Tier 2	<ul style="list-style-type: none"> All Tier 1 requirements plus: Have a Finance committee, or equivalent, in place. Annual report to include details of fixed assets, liabilities, reserves, loans outstanding, capital repayments and evidence of a risk register.
Tier 3	<ul style="list-style-type: none"> All Tier 1 and Tier 2 requirements plus: Have an external audit process in place; Maintain an active strategic plan; Three-year financial plan in place; Have an agreed range of Tenant Services indicators in place; Submit a completed annual return, as specified by the Department; Agree to be subject to an audit by the Department and/or its agents, if so requested; Attend an annual review meeting with the Department and the Housing Agency, if so requested.

Table 2.2 Department of the Environment, Community and Local Government (2013) Regulatory Tiers of the AHB Sector in Ireland.

The above regulatory tiers illustrate the regulatory commitments placed on each tier of AHB. As expected, those AHBs with a large amount of stock, high reserves and, ultimately, a duty of care to a greater number of tenants are subject to a relatively high level of regulation. However, Tier 1 AHBs are faced with a not insignificant amount of regulation which is necessary to allow for the proper functioning of the AHB and the continuance of housing provision for their residents. The implementation of AHB regulation has led to some specific issues, which will be discussed further along in this report.

3 What is the difference between collaborations, mergers and acquisitions?

This section sets out the options available to AHBs which for a range of reasons may be considering collaboration with one or more other AHBs, merging with another AHB, or acquisition by or of another AHB. This, together with the collaboration continuum (see section below), will enable AHBs to make informed choices that would suit their particular needs, and would be appropriate for the circumstances that they find themselves in.

3.1 Definition of terms

First, the terms that are most commonly used in this discussion are defined. It is important to acknowledge that there is some overlap between some terms.

3.1.1 Collaboration

Collaboration is a generic expression which describes a number of different arrangements for joint working, which fall short of a merger or acquisition. It may include procurement groups, and strategic alliances that are dealt with below. In general, collaboration describes a number of scenarios in which two or more organisations work together toward a common goal whilst retaining their own individual structure and decision-making authority. Collaborative relationships can be mutually beneficial, enabling organisations to achieve more together through coordinated or collective action than they would have been able to acting independently. Each collaboration is different, and organisation leaders must define how they share resources, responsibilities, and credit for results; such agreements may be formal or informal. Collaboration may be either time-limited or ongoing, but typically does not entail a permanent partnership. Aikens, O'Connor, Stacey, Hatch (2009) note that the definition of collaborative working is said to be a partnership between two non-profit organisations. It identifies that the term can cover a spectrum of ways of working, from informal networks and information sharing to full mergers.

3.1.2 Service level agreement (SLA)

A service level agreement (SLA) is a contract between a service provider and a customer which sets out the nature, quality and scope of the service to be provided, as well as the respective responsibilities and obligations of the service provider and customer. A common example would be an SLA between an organisation that provides personal support services to tenants with particular needs, and the AHB which is the landlord of the tenant.

There are numerous areas of co-operation which are governed by SLAs which set out the terms of a relationship between an AHB and other organisations. For example, where an organisation is providing support to tenants of an AHB, there would best practice to have an SLA in place that sets out the nature of the support to be provided and the steps taken to ensure that the support is continued and that best practices is maintained.

3.1.3 Procurement group

Procurement groups are structures which are developed by AHBs wherein a number of AHBs pool together to purchase services or business-related goods. By joining in procurement groups, organisations have the opportunity to achieve economies of scale, which will be discussed further along in this report.

3.1.4 Strategic alliance

A strategic alliance is an agreement by two or more AHBs to work together to achieve an agreed set of objectives whilst at the same time each AHB retains its corporate structure and independent status. A strategic alliance may be a short-term arrangement put in place to achieve a specific outcome or outcomes; or it may be a longer-term collaboration with a broad set of objectives which, if achieved, will impact positively on all the alliance's members.

Strategic alliances can take a number of forms:

- » **An administrative consolidation is a strategic alliance that entails the sharing, exchanging, or contracting of administrative functions to increase the operational efficiency of one or more of the partner organisations.**

- » **A joint programming is a strategic alliance that includes the joint launching and managing of one or more programmes to further the programmatic goals of the participating organisations.**

- » **A joint earned income activity occurs when two or more organisations jointly create a revenue-generating activity**

- » **A joint advocacy activity occurs when two or more organisations combine their advocacy efforts on a single issue/time-limited basis or for ongoing campaigns.**

3.1.5 Group structure

The National Housing Federation (2010) note that for some merging parties, it is not always desirable to completely take on the identity of the new organisation, and that sometimes it is preferable for both parties that the identity of each remain in place, at least initially. This can be achieved by joining an existing group structure or creating a new group structure. A new overarching parent company or group can be formed, enabling the subservient AHBs to retain their identities, whilst fulfilling contractually mandated activities on behalf of, and subject to the budget of, the overarching entity.

3.1.6 Stock transfer

Stock transfers or transfer of engagements can be defined as the transfer of housing stock from one body to another, or to a newly formed AHB formed for that purpose (ICSH, 2010).

3.1.7 Merger

A merger can be defined as the fusion of two or more AHBs to form a new company, or the original identity of one of the companies may be retained as an enlarged original entity. The Charity Commission for England and Wales (2009) defines mergers as the transfer or combination of the assets (and liabilities) of two or more registered charities. Usually this will result in some or all of the parties restructuring or dissolving. According to Hirshleifer (1995), in mergers the involved firms cease to have a separate identity and combine to one surviving entity.

3.1.8 Acquisition

An acquisition describes the purchase by one entity of another entity. Generally two organisations are involved. This can be a friendly or a hostile event and will not require the forming of a new entity.

3.2 Continuum of options

This section will outline the options that are available to AHBs wishing to engage in collaboration, mergers and acquisitions. Each option should be considered, taking into account the definitions in section 3.1. of this report, with the short- and long-term interests of both parties in mind. In addition to this, the current circumstances of all parties should be carefully considered before choosing.

The diagrams in the following sections can inform AHBs in Ireland of the options that are available to them if they are considering collaboration, mergers and acquisitions. These are not exhaustive, and for each AHB their choice will depend on what circumstances suit them best and what aligns most appropriately with their vision, ethos and organisational culture.

3.2.1 Relationship Intensity Matrix

Before beginning the journey into collaboration, mergers and acquisitions, it is important to assess all the options and make the choice that is most appropriate for each AHB. Different options for collaboration, mergers and acquisitions will have different effects on AHBs; some might take control away, and some may subsume the AHB completely whilst others will achieve economies of scale whilst retaining a level of autonomy.

The figure (3.1.) illustrates that certain acts or collaborative ventures fall into different categories of relationship intensity. Low intensity relationships entail higher transaction costs but looser relationships and more autonomy and as such include activities like collaborative fundraising, information sharing and group purchasing – no other activities may take place co-operatively, and these activities may be informal. Medium intensity relationships involved more formal procedures and may involve contracts or memorandums of understanding between parties. Medium intensity relationships involve a much more integrated relationship, with autonomy reducing but with economies of scale increasing. A high intensity relationship marks the extreme end of the scale and is notable for decreased autonomy, closer or even synergistic relationships and lower transaction costs. High intensity relationships would usually include mergers, acquisitions or stock transfers where two entities become another, different entity or one entity is completely subsumed into another.

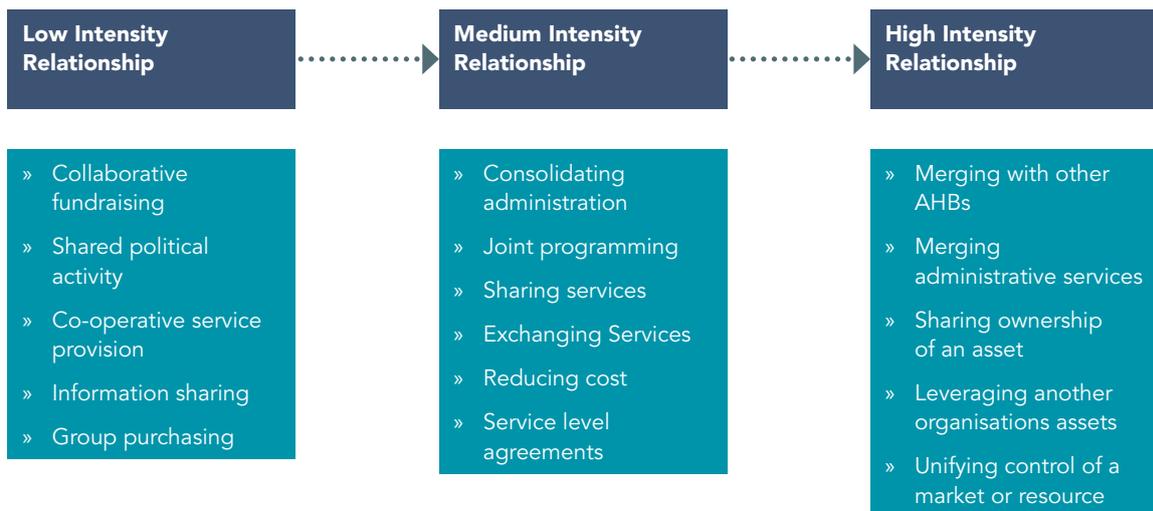


Fig 3.1 AHB Collaboration Strategy Matrix. Adapted from La Piana and Hayes (2004).

3.2.2 The Collaboration continuum

The figure (3.2.) below outlines a number of options open to AHBs in Ireland, and how this will impact both on their transaction points and their level of independence. Mergers and outright stock transfers would characterise the extreme on this scale, whereas other forms of collaboration such as partnerships, SLAs and procurement groups enjoy more autonomy but experience higher transaction costs as they do not enjoy the same economies of scale.

Group structures can bring a certain amount of autonomy, however it is possible that organisations in the groups structure will have signed legal documents that limit their autonomy in certain events, or they can be subject to stock transfers or mergers should those legal instruments be implemented.

Contracts and SLAs, allow both parties to remain in control of their assets and their respective companies. However, it should be noted that individuals working in an AHB argued that this arrangement would not be so desirable, as it could represent a loss for the company providing the services, and would be less desirable as it would indicate a complete lack of control over assets it is paying to maintain and collect rent for. However, as mentioned by the CEO of a large AHB, this is not inevitable.

Alliances and procurement groups allow economies of scale to be accessed, whilst retaining the independence of the AHB. Economies of scale can be reached in procurement, in advocacy operations and in acquiring or accessing funding or projects.

Stock transfers would entail the partial or complete transfer of housing units to another organisation. This can be done whilst keeping the original company intact, or most likely the original company will be dissolved, as it will have no further use.

Mergers, as the final option on this continuum, involve the process of merging one AHB with another and the complete pooling of assets. A new AHB may be formed with a joint identity, or more likely the bigger AHB will remain having subsumed the smaller AHB. This involves complete dependence on the part of the smaller AHB.

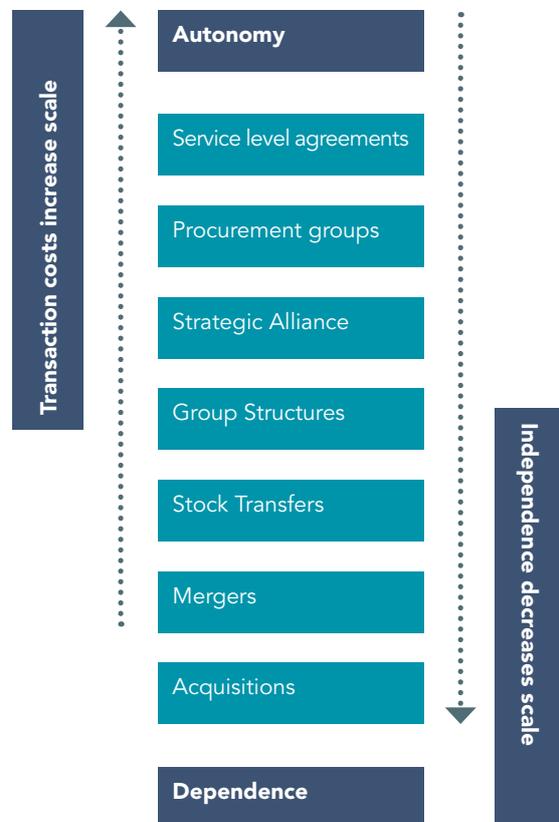


Figure 3.2 The collaboration continuum open to AHBs. Adapted from van Bortel, Mullins and Gruis (2010).

4 What are the benefits and drivers of collaboration, mergers and acquisitions?

This section will focus on the current drivers towards collaboration, mergers and acquisitions in the AHB sector in Ireland. Like the preceding sections, it has been informed by interrogation of the literature, and supplemented by the experiences and insight of the respondents in this research.

4.1 Assisting AHBs in difficulty

The idea that collaboration, mergers and acquisitions would occur as a need to 'rescue' AHBs that are facing existential threats is an extremely important theme of this study, and, as such, will require further thought and discussion.

A strategic stakeholder interviewed as part of this research argued that there are a number of circumstances when a small AHB may look to a larger AHB to acquire it. The board may no longer be able to carry out its functions effectively and may not be able to recruit new members. The dwellings owned by the AHB may be in need of significant refurbishment and the AHB may not have the funds or the ability to raise capital to carry out this work.

Throughout this research, there were a number of contemporary issues which were identified by interviewees and which will be faced by the AHB sector in the coming years. These issues, whilst in a broader sense will have other implications, will also serve as drivers for collaboration, mergers and acquisitions amongst AHBs. This section will review these current issues, and how they serve as drivers for mergers and acquisitions.

4.1.1 Board depletion

Amongst these problems, and perhaps the most serious, is the struggle for small AHBs to appoint new members to their board. It was noted by a number of individuals in this research that the decline of volunteerism in Ireland has led to a number of the smaller AHBs facing governance and succession issues. According to one AHB CEO, there are now fewer trustees available for charities in Ireland, particularly in the rural areas where the majority of the small AHBs would be based. Furthermore, it is noted by other strategic stakeholders that Tier 1 AHBs have little capacity to manage what they have, let alone manage development. They will face many issues in the future regarding their succession planning and their board. Another interviewee representing a strategic stakeholder also noted that boards have a difficulty in renewing and finding new trustees. To compound these issues, it was noted that the increase in regulation and the potential ramifications for trustees acts as a disincentive to join the board of directors.

The CEO of one AHB argued that the immediate problems facing Tier 1 AHBs are the ageing of board members; compliance with regulation; units may be in bad condition; boards may not be able to meet; a lack of sinking funds; onerous demands of having to deal with increased administrative loads; reclassification and potential loss of funding; ageing stock and stock condition surveys; and replacement of board members.

In addition to this, the prospect of becoming a director may be unappealing for some; individuals may not wish to take up the responsibilities, and housing management and 'becoming a landlord' could be seen as less attractive than the initial setting up of an AHB, along with the construction of the stock and the placement of tenants in the scheme.

A participant involved in a strategic stakeholder noted that roles have changed – previously individuals on the boards of AHBs were volunteers but now they are faced with managing tenancies, managing financial and governance returns to the Regulation Office and regular audits. It is a large burden for them, and a complete departure from what had been signed up to.

4.1.2 Regulatory burden

Increased regulation and the accompanying administration was found to be a pressing problem being faced by Tier 1 AHBs in the current environment. One interviewee working in a strategic stakeholder noted that previously for AHBs there were no obligations to the Residential Tenancies Board (RTB), no submissions to the Office of Corporate Governance under the Companies Act 2014, and no obligations to the charity regulator or Regulation Office. Currently however, these are minimum requirements, and returns must be submitted to each body, which, in turn, has placed a burden on volunteers and directors. This work can be difficult for voluntary board members, particularly when scheduling around work and personal lives.

This burden was acknowledged by another interviewee working in an AHB, who agreed that there will be a number of serious issues facing AHBs in coming years. This interviewee argued that this is something which has been recognised at local level; volunteers aren't equipped for regulation and lack the necessary skills and time to complete the returns and to deal with tenant issues. In addition to this, they are faced with some challenging tenants and some complaints and issues from tenants regarding their rights and the RTB. Within that particular AHB, they were also aware that smaller AHBs don't have the capacity and skills to manage properties and social housing with regulations becoming more onerous and more demanding of volunteer workers.

One interviewee working in an AHB noted that for some Tier 1 AHBs, it is difficult to meet the standards set out by the Regulation Office – AHBs can have issues submitting returns and carrying the 'administrative burden'. These tasks take up a lot of time, particularly for volunteers, when there may be other focusses apart from housing management in their lives and in their organisations.

From an interview with a staff member of an AHB that had actively sought out collaboration, there were a number of issues that had been experienced by them. Firstly, it was noted that the board was having issues regenerating, not enough trustees were coming forward from the local community and imaginative solutions to this were being devised such as making contact with local businesses, posting adverts in the local newspapers and trying to get people involved in volunteering at the AHB in question. Secondly, the age of the board was noted as being a problem; a number of the trustees would not have the energy to be involved in the running of the AHB and providing the visitation services, in addition they would be older than the average tenant in the sheltered housing scheme. Thirdly, the increased workload caused by an increased amount of regulation was cited as an increasing problem, particularly for volunteer, part-time administrators.

4.1.3 Ageing stock

Another issue that was identified by a number of interviewees was that of ageing stock in the sector, generally managed by the Tier 1 AHBs. For the interviewees, poor stock condition in the Tier 1 sector, coupled with inadequate sinking funds or reserves, has the potential to drive further mergers and acquisitions.

One interviewee working for a strategic stakeholder in the sector noted that the sector has changed from when many properties were initially built, and their upkeep and maintenance is now governed by regulation. In this interviewee's opinion the condition of properties amongst Tier 1s can be poor which will bring more boards and directors 'to the doors', or around to mergers and acquisitions. These AHBs reportedly have no sinking fund provision, or what sinking fund was provided for has been used to fund the general running of the AHB. Furthermore, many Tier 1 AHBs will not be able access funding, whether that be public or private. For these AHBs, collaboration, mergers or acquisitions can be a solution to these difficulties.

For one interviewee working in an AHB with experience of mergers and acquisitions in the sector, there are number of AHBs where stock is below standard and there is no sinking fund or reserves put aside to provide for their upgrade or maintenance. Some of these smaller organisations find it hard to set a sinking fund aside and maintain it; a planned upgrade to stock may deplete the sinking fund which may take some time to replenish. In this interviewee's opinion, AHBs faced with the prospect of ageing stock and inadequate sinking funds will begin looking for 'ways out', which may well involve merging with another unit.

4.1.4 What are the indicators of difficulty?

In light of the above, the following indicators would suggest that the viability of an AHB is at significant risk, and that this should prompt early intervention with the aim of avoiding a crisis or putting tenants through periods of uncertainty. Based on conversations with a number of interviewees, the two primary indicators proposed are the following:

- » **Governance Issues:** These focus on the difficulties faced by some smaller AHBs in maintaining an active and effective board of directors. Appropriate indicators might include:
 - » Number of directors on the board
 - » Length of service of each director
 - » Attendance at board meetings

- » **Condition of properties and sinking funds:** The poor state of repair of dwellings or need for refurbishment, together with insufficient funds held by the AHB to carry out the necessary repairs or refurbishment can be taken to be an issue that would indicate the potential failure of an AHB.

In addition to these primary indicators, there were also a number of secondary indicators, which could include:

- » **Failure to sign up to the voluntary regulation code.** According to one strategic stakeholder in the sector, the fact that an AHB has not signed up to the voluntary regulation is an indicator of risk and that AHB may not be compliant with many of the regulations set out by the Regulation Office.

- » **Failure to register with the Residential Tenancies Board (RTB).** Although one strategic stakeholder in this research noted that the engagement with the RTB by AHBs was generally good, another interviewee from a strategic stakeholder felt that there would be worries over AHBs who have not registered with the RTB, and who have tenancies that remain un-registered and this would indeed indicate that an AHB was facing issues.

- » **Failure to collect a significant proportion of rent.** This was identified by one strategic stakeholder who noted, in an anecdotal sense, that in some cases Tier 1 AHBs are not collecting the correct amount of rent. This was agreed with by another interviewee working for a large AHB, who noted that rent levels may not have changed throughout the life of an AHB, and in some case the rents would not be collected at all. This in turn would have implications for sinking funds and the general maintenance of units.

The issues outlined above may not be exhaustive. One suggestion that was brought up by a number of participants in this research would be that the commissioning of a survey by the Regulation Office of dwellings or AHBs where a proportion of other indicators suggested weakness. What also would be important would be the undertaking of stock condition surveys by AHBs, these stock condition surveys would then be reported to the Regulation Office. Although these would incur costs, their inherent value is the identification of AHBs exhibiting the above indicators and the proactive engagement with them.

4.2 Consolidated AHB sector easier to regulate

A smaller, consolidated sector and the apparent ease of regulation therein was identified as a driver towards collaboration, mergers and acquisitions, in particular the latter two. One CEO of an AHB speculated that for the Regulation Office, a smaller sector would be desirable as it would be easier, less time-consuming and more efficient for them to regulate the sector.

During another interview, one strategic stakeholder noted that the Department of Housing, Planning and Local Government would be keen for consolidation through collaboration, mergers and acquisitions in the AHB sector in Ireland, as the current number of AHBs is not considered to be viable and/or sustainable and is inherently difficult for the Regulation Office to regulate. It is worth noting that at the time of writing, the Department of Housing Planning, and Local Government's Register of Approved Housing Bodies contains 548 AHBs; perhaps half of these are not currently operational.

4.3 Achieving economies of scale

Almost uniformly, interview participants noted that one of the main benefits of collaboration, mergers and acquisitions lay in the realisation of economies of scale – particularly if procurement groups or vehicles are formed by collaborators. This is also backed up by a number of sources encountered in literature. The ICSH (2010) states that by collaborating, there are opportunities to enhance service delivery and achieve greater efficiencies and protect investments made by the state, voluntary boards and other stakeholders. Economies of scale, including shared and integrated back office functions and consequent cost savings, can be achieved through mergers and acquisitions (Bortel et al 2010). Mergers can be the right option for AHBs for a number of reasons which include: increased reach of services; reduced costs and duplication; financial uncertainties or difficulties; benefits from scale; better public profile; and improved learnings or skills (Charity Commission of England and Wales, 2009).

An interviewee working in a strategic stakeholder believes that in five years there will be greater collaboration in the sector; this interviewee believes that this may involve pooling resources to achieve economies of scale and greater efficiency. This was echoed by another individual with detailed knowledge of the legal aspect of AHBs, who believes that as more regulation is introduced, there will be more failure of organisations and, ultimately, collaborations with larger AHBs can help smaller AHBs access economies of scale.

A Chief Executive Officer (CEO) from a prominent AHB noted that for AHBs and the good of the sector there is a need to become bigger, to achieve economies of scale, but also to deliver housing at an increased level – this will be important in addressing shortages during the housing crisis. This was noted by another CEO of an AHB who noted that scale is central to mergers and acquisitions. This interviewee saw a problem in that in Ireland a significant amount of the development and growth of organisations and the sector is piecemeal, and as such is inefficient. However, in this interviewee's opinion, if organisations worked together they could increase their output and size and realise cost savings and economies of scale. Economies can also be realised in procurement, in sharing auditors, materials for repairs and IT systems. For this interviewee, the missing element for Irish organisations is scale, which will be vital to ramping up delivery of units. In this interviewee's opinion, the sector would be better served by upsizing. Other interviewees from strategic stakeholders in the sector noted that collaboration, mergers and acquisitions would help realise "scale, efficiencies and value for money" in the sector.

One interviewee from an AHB argued that Tier 3 AHBs could look at supporting smaller AHBs and give them advice and support in managing stock, rent services, thus allowing smaller organisations to access the benefits of economies of scale. Furthermore, a CEO at a Tier 3 AHB noted that economies of scale can be realised through collaborations such as procurement groups, and other efficiencies can also be gained; a number of Tier 3 AHBs have recently come together to design and procure a computer system, for example.

Ultimately, according to one interviewee who works in an AHB, mutually beneficial mergers should be encouraged – they can add efficiency to the sector and allow AHBs to grow faster and help to achieve economies of scale.

One interviewee, who is a CEO of an AHB, noted that serious cost savings can be made through collaboration and achieving economies of scale. Specifically, it was mentioned that grouping together to collaborate on implementing a new IT system for AHBs can help to lower costs for each individual entity, whilst all entities will enjoy the benefits of a uniform, tailored-to-the sector IT system.

Another interviewee, also a CEO, noted that at the moment in Ireland the approach to housing is “piecemeal”. Through mergers, acquisitions and collaboration, AHBs can increase the scale of the delivery of social housing, while also challenging developers and construction firms for reduced costs. For this interviewee, the economies of scale for procurement are secondary to increasing the scale of the delivery of good quality, timely social housing, which will be key to alleviating the housing crisis. This was concurred with by another interviewee, who works in a strategic stakeholder in the sector, who believed that currently among the AHBs there is not enough size to grow the sector – everything is currently being done at a very low scale and very slowly, and in addition many AHBs simply do not have development plans in place to grow themselves. In this interviewee’s opinion, and the opinion of the CEO, mergers and acquisitions can allow AHBs to reach a scale where they can more efficiently deliver housing stock to the sector.

In addition to these, one interviewee noted that with the current prospect of reclassification, scale in the AHB sector can lead to the acquisition of finance. Larger AHBs will be seen as less risky for lenders, with more collateral to leverage. In this particular interviewee’s opinion, this would drive mergers in the coming years. This was agreed with by an interviewee in a strategic stakeholder, who argued that it would be possible to use increased stock from mergers and acquisitions to grow by leveraging the assets and borrowing on this stock. In addition, larger organisations would attract better candidates, adding another dimension to the scale argument.

4.4 Making non-viable AHBs viable

A number of interviewees in the research were candid in noting that potential benefits of mergers and acquisitions lie in making non-viable AHBs viable. For instance, one interviewee from a strategic stakeholder argued that with the impending introduction of statutory regulation by the Regulation Office, it is envisaged that some small, Tier 1 AHBs will experience increased workloads and difficulty in completing regulatory returns. These AHBs may be found to be ‘not fit for purpose’ and will be directed to merger with other AHBs. This will result in the consolidation, rationalisation and professionalisation of the sector.

An interviewee who is a strategic stakeholder in the sector noted that one of the big issues facing the sector are succession issues – smaller AHBs are struggling with replacing boards. This strategic stakeholder expects that in 2018 or 2019 when regulations become statutory there will be many AHBs that will become unviable, and will struggle to meet their regulatory commitments in terms of governance and returns. In this interviewee’s opinion, larger AHBs will have a role to play in protecting the sector and the assets within. By merging with smaller organisations, they can ensure that unviable AHBs do not collapse and remain viable, although completely subsumed into a larger organisation, or in a different guise.

Another strategic stakeholder opined that there is a concern around the long-term viability of the sector and suggested that achieving this would involve pursuing mergers and acquisitions with AHBs in distress. As such, there is some scope for acquiring some of these smaller single scheme AHBs, which would prove to be useful for expanding the stock for AHBs, particularly the larger Tier 2 and Tier 3 AHBs. Therefore allowing more organisations to grow, and smaller ones to become viable.

4.5 Protecting and improving responsiveness to tenants

Protecting tenants was another driver for mergers and acquisitions in the AHB sector which was mentioned by a number of interviewees. According to one individual involved with a strategic stakeholder, it is of utmost importance to ensure that the tenants and units of distressed AHBs are protected. For these tenants to lose their homes, particularly in the current housing climate in Ireland, would be an extremely negative outcome which would be avoided at all costs.

Another strategic stakeholder in the sector noted that through mergers and acquisitions, AHBs have the scope to become more efficient and responsive to tenants’ needs. This would indeed serve as a driver for many AHBs, as providing for tenants is something which is included in the mission statement of every AHB in the sector. The CEO of a large AHB also explained how previously their experience was that mergers and acquisitions could help to protect tenants who would be vulnerable should an AHB be experiencing difficulties or issues with its viability. For another person working in an AHB, protecting tenants in non-viable AHBs is more important than protecting the housing stock.

4.6 Protecting the AHB sector

A number of participants in the research noted that one of the drivers towards mergers and acquisitions in the AHB sector was the protection of state assets which would be threatened by the bankruptcy or collapse of an AHB.

One interviewee working for an AHB noted that their employer had always said that they would be there to step in in the cases of mismanaged or in-distress AHBs if the Regulation Office or department requested it. This was due to the simple fact that there was and is a need to protect the sector, as well as the assets, which in this case would be housing stock and tenants. There was also a need to maintain the reputation of the sector as 'low risk', leaving future opportunities for funding intact. In future, this interviewee would expect the Regulation Office to drive these collaborations. This is echoed by another respondent working in the policy section of a strategic stakeholder who believes that there is a place for Tier 3s in Ireland to protect the reputation of the sector and to help with rescuing some of the smaller Tier 1 AHBs.

Another strategic stakeholder in the AHB sector interviewed noted that there is a preference that housing stock stays in the AHB sector simply because CAS funding was used to either build or procure these homes and so it would not be desirable for public funds to have paid for something that enters the private sector.

4.7 Reputational gains

It was also noted by a number of interviews that reputational gains would follow from mergers and acquisitions, or by assisting with the rescues of AHBs. An interviewee in the position of CEO of a large AHB noted that there are reputational gains for AHBs that assist with taking over other AHBs that may be experiencing governance or financial issues – the 'rescuing' AHB then becomes the "go-to body" for dealing with these sort of rescues. Ultimately this will be looked upon favourably by government and within the sector itself. Another staff member of an AHB concurred with this and noted that larger Tier 3 AHBs could benefit from reputational gains for taking over from small, Tier 1 AHBs that were unable to continue functioning effectively, or who were putting their state assets in danger.

Furthermore, an individual of a non-Irish AHB stated that mergers and acquisitions can actually serve to enhance the reputation of the sector by ensuring that there are no failures of AHBs. Failing AHBs would have a negative effect on the reputation of the AHB sector in Ireland, and by extension all of the AHBs operating in that sector, and so by 'saving' AHBs that are in trouble through mergers or acquisitions, AHBs would be protecting the reputation of the sector.

5 What are the disadvantages and barriers to a successful merger or acquisition?

In this section, a number of barriers to successful collaborations, mergers or acquisitions will be discussed. A number of overarching themes and issues were identified by the interview participants in this research.

5.1 Concerns of smaller AHBs

Mergers have been viewed with concern by some AHBs as there are arguments that mergers will diminish the AHBs movement, wipe out smaller organisations, and sever community links (Dunne, 2012 in Chartered Institute of Housing, 2012). Similar worries were noted through discussions with respondents to this research.

For example, one interviewee in an AHB noted that it was common for Tier 1 AHBs to refer to the large size and perceived 'impersonal' nature of the Tier 3 AHBs. In addition to this, according to the CEO of a Tier 3 AHB, there is a degree of "bigger isn't always better" attitude and a suspicion that the motivations for Tier 3 AHBs are not as 'pure' and client-focused as those in Tier 1 AHBs. Another strategic stakeholder noted the danger of bigger AHBs being viewed as predatory amongst the smaller AHBs, who will arguably be threatened by a focus on mergers and acquisitions. This will act as a barrier to some of the AHBs collaborating or merging with some of the bigger AHBs.

One interviewee working in an AHB noted that mergers and acquisitions are a sensitive issue amongst some of the Tier 1 AHBs:

"For them [Tier 1 AHBs] it appears that everything is very opaque which is worrying to the smaller AHBs. They would like to see success stories [of collaborations] and know that their previous work is in safe hands. It is also threatening to see a large outside organisation asking around and trying to acquire housing stock with a perceived disinterest in volunteers or tenants."

Similar to this, another respondent in a strategic stakeholder noted that some of the Tier 3 AHBs are seen as "national bodies", which are seen as being "being aloof or apart from the local communities" in which Tier 1 AHBs are based, therefore less responsive to the needs to the local communities and tenants. Moreover, there is a worry when going into mergers and acquisitions that the larger AHBs won't have that personal touch – currently the rural, small, community-based Tier 1 AHBs provide a "local solution to a local problem". Another interviewee working in a Tier 3 AHB noted that Tier 1 AHBs would be wary of any AHB that was inquiring about mergers and acquisitions – they would be suspicious of their intentions and would have a feeling that the process is not transparent enough. It is for these reasons that Tier 3 AHBs and collaboration with them would be viewed with suspicion by Tier 1 AHBs and the need to mitigate against this is covered further in this report.

5.2 Resource intensive

For the Charity Commission for England and Wales (2009), before starting a merger process, questions need to be asked such as: have we estimated the full cost of merging? This should include issues such as staff time, rebranding, professional fees, relocation and unanticipated costs. Aikens, O'Connor, Stacey, Hatch (2009) also note that the merger and acquisition process can be resource-intensive, with lots of money and time being spent on due diligence, marketing, professional advice and others. The 'resource-heavy' nature of mergers and acquisitions poses a risk, and ultimately a barrier, to the process.

Similarly, a number of individuals interviewed for this research agreed with this and noted that mergers and acquisitions are resource intensive, taking up a large portion of staff time. One interviewee involved in the development department of an AHB gave the example of how a development team could secure more units through purchases and development than through mergers and acquisitions. To secure a merger with a small AHB that is in distress would require more time, with only a small number of units on the line. In addition to this, it was noted that most work with collaborations and mergers and acquisitions takes time and is not easy. It is important to manage expectations of all parties: benefits may not be immediate, it may not be a quick fix, and there may not be a huge amount.

An interviewee who serves as the CEO of an AHB was not convinced that mergers and acquisitions were an effective use of resources. Ultimately, mergers and acquisitions used a lot of resources, and it was noted that taking over a failing AHB can involve a disproportionate amount of work. This interviewee concluded that most of the time it can be easier for AHBs to develop or acquire stock instead of taking over a small number of units from a failing AHB. This was touched on by an individual with knowledge of development within an AHB. The interviewee went on to note that for some of the larger AHBs, their development sections can procure two or three times the stock in the same amount of time that it would take to merge with a failing AHB.

One interviewee working in an AHB and with knowledge of the development process reported that in their experience, previous mergers and acquisitions in that AHB had both been extremely time-consuming. There were issues with the title, they were bad quality and ultimately the mergers were badly done, meaning a lot of strain was placed on the resources of the merging company. For this interviewee, unless the stock is in good quality, the AHB was being reasonably well run and it had good finances, it was not worth it from a business or development point of view.

With every merger and acquisition that one large AHB had been involved with, there has been a lot of work and effort with very little gain, one interviewee working in an AHB stated. Some of the AHBs have been small, and it has been a lot more resource-intensive to acquire or merge with an AHB, than to develop or purchase units. From a legal perspective, and as mentioned by another interviewee that works for an AHB, mergers and acquisitions have been time-consuming and heavy on manpower. It has been found that there is very little energy and dynamism in Tier 1 AHBs which have been involved in mergers and acquisitions and so it has been difficult to get a full knowledge of documents, information and full co-operation from these AHBs, particularly if they are coming in crisis. So this can mean extra work for legal teams or those project teams overseeing the mergers. This was also acknowledged by a strategic stakeholder, who argued that there will be costs for securing the titles. Similarly, there may be costs for repairing any assets and liabilities.

Furthermore, another individual involved in the finance department of an AHB noted that all forms of mergers and acquisitions are expensive to do and there are a lot of aspects to them, particularly in a financial sense: VAT, balance sheets, sinking funds, reserves and how much rent is being paid. There can be a big bill for the AHB that has stepped in to bring housing stock up to standard, particularly if these properties have not seen any work done to them since inception.

According to one strategic stakeholder, there is an acknowledgement in the sector that some of the Tier 3 AHBs are already very busy organisations and so mergers and acquisitions would place a further burden on them if they were to be constantly asked to rescue failing or troubled AHBs. Another interviewee from a housing association outside of Ireland suggested that mergers and acquisitions, by their nature, take a lot of time. In addition to this, due diligence can also be time-consuming and costly, and ultimately there is a chance that the process may not advance based on the findings of the due diligence, meaning more costs for the company.

5.3 Lack of finance and sinking funds

A number of participants in this study noted that a lack of sinking funds and access to finance would be an issue for any AHB getting involved in mergers and acquisitions. One strategic stakeholder in the sector noted that although many AHB schemes were funded by Capital Assistance Scheme (CAS) loans, insufficient attention may have been paid to the provision of sinking funds, whilst other respondents noted that sinking fund provision could have been used for general needs uses, and ultimately to provide services to the residents in sheltered accommodation. Ultimately, there could be a lack of sinking funds to repair any defects in the schemes, or to bring them up to standard.

It was noted by one participant, with experience of mergers and acquisitions in an AHB that some of the units that had previously been acquired were of mostly negative value to one of the Tier 3 AHBs. These mergers required a large effort, they were encumbered with CAS and Capital Leasing and Subsidy Scheme (CLSS) loans which can be high-value mortgages on the properties and would require the acquiring AHB to buy them out. This was an issue that was also identified by another strategic stakeholder who pointed out that AHBs, particularly Tier 1 AHBs which were established in the 1990s will now will be coming to the end of their CAS and CLSS loans. They probably will not have seen any work done to their units since they were developed and so will need expensive repairs and upgrades. Furthermore, a sinking fund is not present in a lot of cases and, in addition to this, there are no systematic processes for maintenance either.

One strategic stakeholder noted an issue with the CLSS, which would have been used to fund the construction of a number of Tier 1 schemes. This interviewee argued that CLSS funding did not provide for renovation of these schemes, and so these schemes may be left with no sinking fund and in need of a substantial amount of work to be done in terms of repairs from current day until now. This same participant noted that there are numerous AHBs that would have no cash reserves, having used the reserves for financing the services provided to their tenants, meaning that any repairs or works to the units would have to be financed by the merging entity.

This was also identified by another strategic stakeholder, who argued that properties that were built or procured 20 years ago will require maintenance, which previously had not been done, and will be difficult for the Tier 1 AHBs to fund as they may not have provided for sinking funds or reserves.

An individual working for an AHB also noted that for that particular AHB, sinking funds will be an issue and will be one of the drivers for mergers and acquisitions in the sector, as well as being a potential disadvantage for any organisation taking over. This is exacerbated due to the fact that in some cases, AHBs are not charging appropriate rents, as mentioned by a strategic stakeholder. Some AHBs would be charging less than the current rent, still being paid on the old rental scales in some cases, e.g. €13 instead of €30. This has an impact on the financial health of the scheme and the sinking fund being generated by the scheme.

5.4 Immediate benefits may not be apparent

Another disadvantage to mergers and acquisitions that was recognised by a number of respondents to this study was the lack of immediate benefits to both organisations involved. Van Bortel, Mullins and Gruis (2010) argue that following a merger, organisations do not operate in a more efficient, effective or more customer-focused manner.

With this in mind, two individuals involved in a strategic stakeholder in the sector noted that restructuring often results in dips in performance, whilst another expert in AHBs noted that a drop in performance can very often be the outcome of mergers and acquisitions. In both cases, these individuals reported that these dips in performances can be down to staff demoralisation, clarity of vision and a lack of direction. Another strategic stakeholder noted that a merger or acquisition cannot be a “quick fix”, and benefits may not be immediately apparent, but further along the line these can appear or manifest themselves with proper planning. Ultimately, it can be argued that one disadvantage of a merger or acquisition is an immediate downturn in productivity, with the immediate benefits not being apparent. This, in turn, can affect staff morale, finances and the responsiveness to tenants, which should be avoided at all costs.

5.5 Funding difficulties

As previously noted, the need to resource mergers is an issue and something which should be carefully considered before beginning any process. As noted by a number of respondents, mergers and acquisitions can be time- and resource-heavy processes, and this may be compounded by the poor upkeep of units being held by the smaller of the merging parties.

One interviewee noted that the funding of mergers or acquisitions is a potential issue as it can be a resource-intensive process, and there may not be funding or personnel available. Another strategic stakeholder who was interviewed as part of the research noted that the lack of a sinking fund would be an issue: if no sinking fund has been built up, any repairs to the units, or any work needed by the units to bring them up to standard will have to be funded by the larger merging partner. In addition to this, the methods of funding the repairs may be limited: access to private and public finance may be constrained due to the presence of CAS loans on the units.

Another individual working in a strategic stakeholder was of the opinion that CLSS-funded units would not have any funding left for the regeneration of housing schemes, and moreover properties can be left with no sinking fund and in need of a huge amount of work to be done in terms of repairs.

5.6 Lack of support from key individuals

A lack of support for mergers or acquisitions from key personalities was widely cited by respondents, noting that the attitudes towards the merger or acquisition by the chairman or the CEO are absolutely key to the process; without their go-ahead or goodwill toward the collaboration the process may not get past the board approval stage. One interviewee noted that success in mergers and acquisitions hinged on two "gatekeepers"; in this case the chief executive and the chair of the board.

One respondent working in an AHB noted that there will often be resistance amongst boards to mergers and acquisitions. Another participant noted that due to the larger asset bases that often come with AHBs, even a small Tier 1 scheme will have a substantial asset base, and some personalities involved in the scheme will find it hard to 'let go', or detach themselves from these assets.

In addition, it was also noted by a number of participants that the personalities of elected members may become an issue. Local politicians may have been involved in the construction of the schemes, or in procuring land or securing planning permission. It was reported that these elected members may have a vested interest in a merger or acquisition not going through, and thus may attempt to block or impinge the progress.

One respondent working for a strategic stakeholder remarked that it is important to remember the personalities involved in the smaller Tier 1 AHBs, who, for the most part, have been community activists that have worked for a long time in their communities. Another strategic stakeholder agreed, and added that there is a difficulty for board members in letting go of the schemes they have been involved with from the start and have committed a huge amount of time and effort into their development and lifetime. Indeed, this was further touched on by an individual from a non-Irish housing association who noted that people can be protective of the assets, particularly if they have been involved from the start.

Another strategic stakeholder noted that nobody wants to give up part of the organisation – there can be sensitivities involved and these have to be handled and treated with care. AHBs and their stock bestow a lot of power and prestige upon the people that are involved. Thus in some cases it is not in the interests of some of the personalities involved to pursue mergers and acquisitions as there could be a loss of power, prestige or, in some cases, livelihoods.

5.7 Local resistance to change

Another barrier that arose throughout the research was the issue of a local and Tier 1 resistance to change, and that the idea of mergers and acquisitions may not be amenable to some actors in the sector, who will be resistant to change and outside control and will block any approaches by larger AHBs. The geographical and historical makeup of the AHB sector in Ireland was noted by one strategic stakeholder in the sector who reported that county identity is strong amongst Tier 1 AHBs. In this interviewee's experience, previous attempts were made to work co-operatively across county lines and these attempts ultimately proved to be unsuccessful due to local resistance.

In addition to this, there is a worry when going into mergers and acquisitions that the larger AHBs won't have that personal touch. According to one strategic stakeholder, it is widely believed that the rural, community-based Tier 1 AHBs provide a "local solution to a local problem". Indeed, this interviewee argued that mergers and acquisitions aren't popular terms in the Tier 1 sector because they imply an organisation completely losing its identity and disappearing into a larger organisation. This interviewee went further to mention that Tier 1 AHBs had affirmed on occasion that "they weren't Clúid". In this case, it is easy to see how a local resistance to change can stand in the way of a successful merger or acquisition. Finally, this was agreed upon by another strategic stakeholder who argued that because many of the Tier 1 AHBs were resistant to mergers and acquisitions, this would certainly present itself as a barrier to a successful merger or acquisition. Indeed, this is logical and feeds into the previously mentioned section, Egos and Personalities. A resistance to change, coupled with certain personalities, could well lead to the failure of any merger or acquisition.

5.8 Issues with title

When discussing mergers and acquisitions with a number of interviewees, issues regarding the titles and ownership of the properties was raised. For some of the respondents in this research, this issue was deemed to be barrier to mergers and acquisition and a risk to any AHB considering mergers and acquisitions. Indeed, an interviewee working for an AHB and with in-depth knowledge of the merger and acquisition process stated that, in their opinion, title issues presented one of the biggest challenges and risks to mergers and acquisitions.

Another interviewee working in an AHB noted that in their experience, mergers and acquisitions are made more difficult when there are issues with the titles. This interviewee reported that many of the mergers and acquisitions of AHBs they had been involved with had problems with titles and, as a result, would view these as a barrier to a successful merger or acquisition. In this interviewee's opinion, this would be negated with thorough and rigorous due diligence. This was reinforced by comments from another interviewee with knowledge of the legal processes involved in mergers and acquisitions, who noted that issues over who holds the titles to land can be a distraction and can slow down the merger and acquisition process. A strategic stakeholder also noted that in some cases, Tier 1 AHBs do not have clear titles, or it is not known where these title documents are.

Furthermore, one interviewee working in an AHB noted that without good, clean titles it would not be possible to finance, or re-finance, any mergers or acquisitions, or to fund any renovations needed to properties. Without proper title, it would be impossible to obtain finance leveraged against the units. In addition to this, without proper title for the units, there will technically be no units to hand over. Thus issues with title can prove to be quite a considerable barrier to mergers and acquisitions.

6 What leads to a successful merger or acquisition?

Aikens, O'Connor, Stacey, Hatch (2009) argue that for a merger, collaboration or acquisition in the non-profit sector to be a success, the following needs to happen:

- » **Research and planning is vital to success. All options for collaboration should be explored, as well as their potential effects and implications.**
- » **Openness and communication is key to negotiating a successful collaboration, as well as easing fears and concerns amongst your staff, and getting them on board with the process.**
- » **Supportive staff teams are crucial, so that they can sell the change to various stakeholders.**
- » **Strong leadership is crucial**
- » **Desired outcomes of the proposal should be quantified, so that evaluations can occur at a later date.**

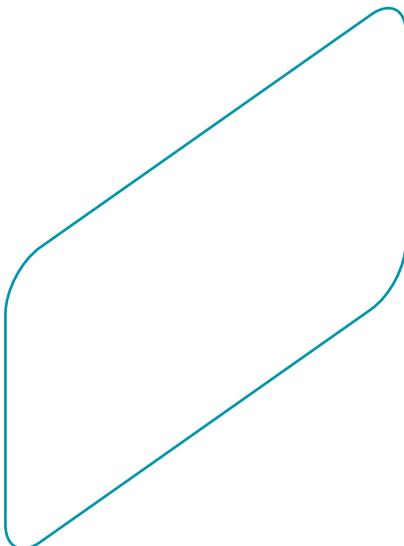
These items were all identified by interviewees in the research and will be explored in this section.

6.1 Due diligence

The Charity Commission for England and Wales (2009) describe due diligence as the steps that organisations take to assure themselves that the merger is in their best interests. Should organisations wish to merge, due diligence should be conducted within three categories: legal, financial and commercial. It also described a process of information acquisition and verification designed to support the acquirer's valuation of the target firm, its resources, and obligations (Lajoux and Elson, 2000); and the examination of legal and financial conditions, as well as potential legal and financial ramifications of a potential partnership (Yoshida, 2017). For mergers, a complete due diligence review is usually necessary, however for elements for strategic alliances like joint programming, the due diligence requirements will be less.

A number of respondents in this piece of worked noted the importance of due diligence; the CEO of an AHB noted that thorough due diligence is absolutely vital; without it unexpected issues can occur which can lead to further legal and financial burdens on the company. An example of these issues was described to me by one interviewee, and involved the mergers between a large AHB (AHB 1 in this example) and a smaller AHB (AHB 2). After AHB 1 and AHB 2 had merged, it emerged that the board of AHB 2 had not been fully transparent with AHB1 and an employment law suit followed and AHB 1 was forced to settle as they had now subsumed AHB 2.

From the experience of one respondent working in a financial capacity in an AHB, due diligence is extremely important and central to any success, as it can highlight any legal, financial or governance issues in advance, as well as problems with stock and tenants. Previously, there had been due diligence problems with mergers that AHB 1 undertook, and so it has meant that they were invariably messy and left lasting legacy issues. A strategic stakeholder further argued that although due diligence is a huge piece of work it is very important.



One interviewee with experience of mergers with a Tier 3 organisation noted that, in their experience, due diligence was not conducted as thoroughly as might have been desired – there were a number of issues with the properties and the organisation:

- » **AHB 2 had a property in Dublin that had initially been used as a single person, shared accommodation. This did not fit AHB 1s purpose, and there were issues with the property as it may not have been completely up to the regulatory standard. This was leased to another organisation whose needs it would fit.**

- » **AHB 2 had opened a children’s home – again this was not part of AHB 1s mission, although it was a good building. AHB 1 eventually found another owner.**

- » **AHB 2 bought houses to disperse families, as a way to increase integration and avoid creating a ‘ghetto’. AHB 2 did this by buying up old local authority houses in mixed estates. AHB 2 had taken out CAS loans to renovate these properties, however they did a minimal amount of works and so properties were not completely up to standard.**

Another strategic stakeholder with knowledge of AHBs outside of Ireland noted that legacy issues within AHBs can be faced when mergers and acquisitions occur. This interviewee noted that previously in Northern Ireland, there were a number of legacy issues with state-directed mergers. In the opinion of this interviewee, this was because proper and rigorous due diligence was not conducted. For this interviewee, thorough, timely due diligence is necessary in ensuring a successful merger or acquisition.

6.2 Adequate finance and resources

It was noted by a number of respondents that adequate finance is needed to support a merger and acquisition, particularly if the housing stock that has been acquired is in need of extensive works to bring it up to standard. This was noted by a number of respondents, who expressed concern that certain AHBs sinking funds may not be adequate, or reserves may be below what is needed to improve the units acquired. Another issue would be the presence of CAS charges on the properties, although a walkthrough with a number of options has been developed to possibly remedy this. A number of respondents expressed the view that departmental support may be necessary, in terms of some form of grant or fund. This will be discussed further in this report.

According to a number of interviewees, collaboration, particularly mergers and acquisitions, can place a significant burden on company resources. Mergers can be time-consuming, with a very limited return in the short term; it was noted by one respondent that a merger or acquisition for a scheme of 15 to 20 units can take the same amount of time and manpower to procure a New Business project for 200 units.

Another respondent to the research asserted that for mergers to be successful, there needs to be government or departmental support through all stages, a write-off of debts on any units that are to be acquired and, perhaps, a Payment and Availability (P&A) agreement available so that funds can easily be borrowed against the units to provide any necessary works. Alternatively, a type of “rescue fund” should be provided to the acquirer, so that there should not be an unnecessary cost burden on the acquirer.

6.3 Good communication

The Charity Commission for England and Wales (2009) argue that good communication is vital to the success of a merger. For the communications to be successful during a merger, it is important to take into account who will be affected by the merger, and to communicate the intentions and steps in the process as clearly as possible. Naturally, there will be a degree of uncertainty with an organisation as details of any merger or acquisition are discussed. This can cause issues with staff morale, as uncertainty may linger over roles and futures in the subsequent organisation, or if these roles or futures will be affected by collaboration. A number of interviewees noted that it was important that CEOs and senior management, as representatives and drivers of the merger process, are vocal in their support for mergers and acquisitions and clear with their employees as to plans and direction.

One interviewee who works in an AHB argued that in their opinion, for a merger to be successful, communications need to be prioritised and everybody kept in the loop and abreast of any and all developments. If a merger or acquisition is badly communicated, there is room for staff uncertainty, as well as the danger of negative stories about the merger getting out into the public sphere. In addition, there can be reputational, or even brand damage.

For another interviewee in an AHB who had considerable experience of conducting mergers and acquisitions, communication had an extremely important part to play in a merger’s success. In this interviewee’s experience, issues around communication had arisen where:

» In some cases, there was nobody to talk to in the AHBs and no consistent contact person. This is made worse if an AHB is entering into talks where they may be in crisis, facing financial issues or depletion of the board.

» There were issues with dealing with the expectations of people on the board of the smaller AHB.

» There were misunderstandings between both parties, which included;

- » One party believing the process was finished long before it was so.
- » Members of one board of directors abdicating their responsibilities regarding returns to the Regulation Office.
- » Asking for advice from the interviewee, where they really should have sought independent advice.

When a strategic stakeholder was asked about communication and what was central to a successful merger and acquisition, it was noted that it is important to be sensitive to the wishes of the other AHBs, particularly Tier 1 AHBs. In addition to this, another informant noted that it was important to recognise the contribution that the previous trustees and board of directors have made – in some cases they have found themselves ending up as accidental housing managers and landlords, when really they would have preferred to leave the housing management to other people.

Another interviewee with experience of Tier 1 AHB operations noted that upfront information was required from the bigger AHBs before any merger or acquisition process, stating that it is best to be open with any potential partners or collaborators about what the intentions are and how far the collaboration will go. Any approaches need to be honest and open, with a number of different options presented – most of the smaller AHBs will not be interested if all the larger AHBs want is their stock, and there is no interest in the human face of the organisation. In addition, another strategic stakeholder argued that it is important to consider the interests of staff when merging. Good communication to keep staff up-to-date with developments will keep everyone focused towards the end goal or objective, and can reduce the dips in performance and mitigate against any due diligence issues.

6.4 Organisational and strategic fit

AHBs are noted to have diverse cultures, ethos and organisational policies and procedures. It is logical to assume that mergers between two organisations with similar cultures and ethos' would be a natural fit, and would turn out to be more successful than those with a number of conflicting policies, procedures and cultures. Indeed, a number of research participants noted that organisational culture and 'fit' was extremely important and one of the main factors in determining the success of a merger or acquisition. This was also noted by the ICSH (2011), who noted that success is dependent on whether or not there is a good cultural fit with like-minded organisations.

For the CEO of an AHB, organisational culture can be a huge issue to work through as each AHB has different ways of working and, as such, this can be a huge mismatch. However, it can be very difficult to quantify and define. One interviewee with knowledge of the legalities of mergers and acquisitions noted that each AHB has a different organisational culture and manages things differently. How this is managed is key, and the organisational differences are often exacerbated if they are organisations that are currently in crisis. For another strategic stakeholder, the culture and ethos of an AHB can create wastage and foster a lack of synergy.

For one strategic stakeholder, there needs to be a focus on what happens after mergers and acquisitions have been completed; that is how the two companies can come together. Success will depend on how the integration of the two AHBs will look and what is the cultural fit.

6.5 Co-operation from CEOs and boards

Co-operation and board buy-in to the merger process is necessary for success, according to a number of respondents in this research. It was noted that both the CEO and the chair of the board are vital in assuring that the process runs smoothly, and ultimately this process will not progress without them.

According to a number of respondents, particularly those with experience in driving collaborations, mergers and acquisitions, there needs to be a willingness to invest time and engage honestly with both parties, and this would naturally extend to both the board and the CEO as being the main drivers of collaborations, mergers and acquisitions. Additionally, one strategic stakeholder noted that executives can present as a difficulty as they will not want to leave their jobs, and staffing can be difficult as there can be some uncertainty about how the direction that the AHB is going in. As such, co-operation from executives, and, in particular, the chief executive, can lead to a successful merger or acquisition.

It was noted by one interviewee who works in an AHB that there had been very few issues with personalities during their experiences of mergers and acquisitions – the chief executive of one party had found another job fairly quickly and the founding member of one party had no direct involvement with the organisation at this point. This interviewee noted that it was definitely an issue with other mergers and acquisitions. In this interviewee’s opinion, personalities on boards and staff members will always be an obstacle and issue with mergers and acquisitions.

6.6 Planning and vision

For the ICSH (2010), there are a number of factors which lead to a successful form of collaboration, one of which is planning. As such, the following should be laid out and considered at the beginning of every merger and acquisition process in order to gauge the success of any actions. These points emphasise the importance of planning in the merger and acquisition process:

- » **We have set clear, quantifiable objectives with defined timescales and responsibilities;**

- » **We have evaluation reviews at each stage of the process and throughout to avoid wastage of resources and conserve valuable time and energy;**

- » **We have a change management process and good human resource practices which are crucial to employees;**

- » **There is a good cultural fit with likeminded organisation(s);**

- » **We have mutual trust and co-operation, supported by legal agreements;**

- » **There are customer service benefits for tenants, service users and other stakeholders;**

- » **We have improved performance and quality standards and accountability;**

- » **We have clear goals with realistic implementation plans;**

- » **We allowed adequate time.**



Furthermore, the ICSH (2010) outlines a number of steps which should be followed when beginning a collaboration and planning the initial project. These involve:

- » **Appraising different options;**

- » **Sourcing appropriate partners;**

- » **Evolving negotiation between bodies;**

- » **Developing the business case and plan;**

- » **Conducting due diligence;**

- » **Monitoring and evaluating outcomes.**

Therein, proper planning for a merger or acquisition can assist in properly allocating the correct amount of resources and manpower to the task, it also enables the chief executive and chairman of the board to have solid timetables for the merger.

In addition to this information from the ICSH, a number of interviewees agreed with this assessment. A strategic stakeholder in the sector noted that in the experience of this interviewee, some of the actors in various collaborations have not been on the same page and have lacked the unified planning and vision. However if everyone has a direct focus, and a clear idea of the outcome, there can be much better outcomes, thereby underlining the importance of planning to the success of a merger and acquisition.

An individual from a non-Irish AHB suggested that before a merger and acquisition process begins, the question should be asked; what is success? This sort of question informs the entire merger and acquisition process and the plans therein. In addition to this, this type of question allows for taking stock at the conclusion of the process, and, ultimately, measuring the success and assessing if objectives have been achieved.

6.7 Putting tenants first

A number of respondents in this research noted that keeping tenants in mind during the merger and acquisition process is of particular importance and is vital in achieving a successful merger. A participant involved in AHBs in Ireland and Northern Ireland noted that mergers and acquisitions should be about tenants and community. The interests of tenants should always be kept in mind throughout the process. A colleague of this strategic stakeholder agreed, noting that tenants should be consulted throughout the process and should be kept abreast of any developments.

Ultimately, according to another respondent, tenants are a lever for mergers; should an AHB be in a particularly precarious position, tenants will have the benefit of security of tenure, as well as improved services and responsiveness. Another interviewee working in an AHB noted that it is necessary to go into a merger or acquisition with the tenants in mind, and the tenants will have to be dealt with and looked after. In addition to this, some tenants may not have been paying rent, or may have been paying a lower amount of rent and so should be guided through the process in a sensitive fashion.

In addition to this, a respondent involved in a strategic stakeholder in the sector, argued that mergers and acquisitions have the potential to improve the efficiency, support, effectiveness of AHBs and equip them to be better able to meet the needs of tenants, and thus by keeping this in mind, a merger or acquisition will be more successful. Based on these opinions and experiences, it can be argued that by keeping tenants' needs in mind and by working towards better services for tenants, a merger or acquisition will be more successful.

7 Template for a successful merger or acquisition

Throughout the research stages of this project, it became clear that it would be helpful to develop a 'template' for mergers and acquisitions, or at least for the typical processes that would be followed by a Tier 3 AHB when engaged in the process of a merger or acquisition. The template that follows applies primarily to acquisitions rather than mergers, although the same process can be followed for transfers of engagements or mergers themselves. This template was developed through consultation with the departments of a Tier 3 AHB that would be mainly involved in mergers and acquisitions. There remains a caveat: every merger and acquisition is different, so this remains an outline of what is needed for successful mergers and acquisitions and is not a definitive guide.

The template incorporates four key stages:

- » **1. Initial contact and Board advised;**

- » **2. Feasibility study;**

- » **3. Due diligence; and**

- » **4. Board approval.**

7.1 Initial contact

First, initial contact is made between the two AHBs. Full details of the potential merger or acquisition should be furnished to the Executive Team. This should include details of the AHB; the size of its housing stock; where the housing is located; how the housing is funded and most importantly, why the merger or acquisition is being proposed. Ideally, an initial policy towards mergers and acquisitions should be in place in the approached AHB, which will allow the Executive Team to make decisions independently and with the full trust of the Board of Directors. Once the initial contact has been made, if the Executive Team agrees, a feasibility study and development of a business plan should be pursued by the New Business Team. It should be noted that not every occasion will warrant a feasibility study and due diligence piece: AHBs may not be in a position to pursue every merger or acquisition for financial, strategic or other reasons as mergers and acquisitions can be a time- and resource-consuming endeavour, and it may be apparent on first glance that the services provided by certain AHBs may not be a 'fit' for one of the parties involved in the merger or acquisition.

7.2 Feasibility study conducted by New Business Team

Once the approval has been provided by the Executive Team, a feasibility study will be conducted by the New Business Team in advance of a full due diligence exercise. The feasibility study will include the following elements:

7.2.1 Alignment with business plan

Does the proposed acquisition align with the current Business Plan? This should be investigated by the New Business Team.

7.2.2 Strategic fit

It also must be asked if the potential merger is the correct “strategic fit” for the AHB in question, and whether it is compatible with their mission, vision, current expertise and current business plan. For example, an AHB may only have experience in providing general needs social housing; in those circumstances it would need to think very carefully before acquiring an AHB which operated special needs housing.

7.2.3 Location, design and housing demand

The New Business Team will seek the views of Housing Services in assessing the location, design and housing demand using the standard Housing Management Support form.

7.2.4 Financial viability and funding

Along with this, an outline financial assessment will be drawn up by New Business. This financial viability will look at how the acquisition of the scheme will be financed, and if any development of the scheme will be financed with loans or through other forms of finance, such as reserves or the Capital Acquisition and Lending Facility (CALF). A financial stress test will also take place for the scheme, which will factor in rents, running costs, maintenance costs and any potential redevelopment or acquisition costs.

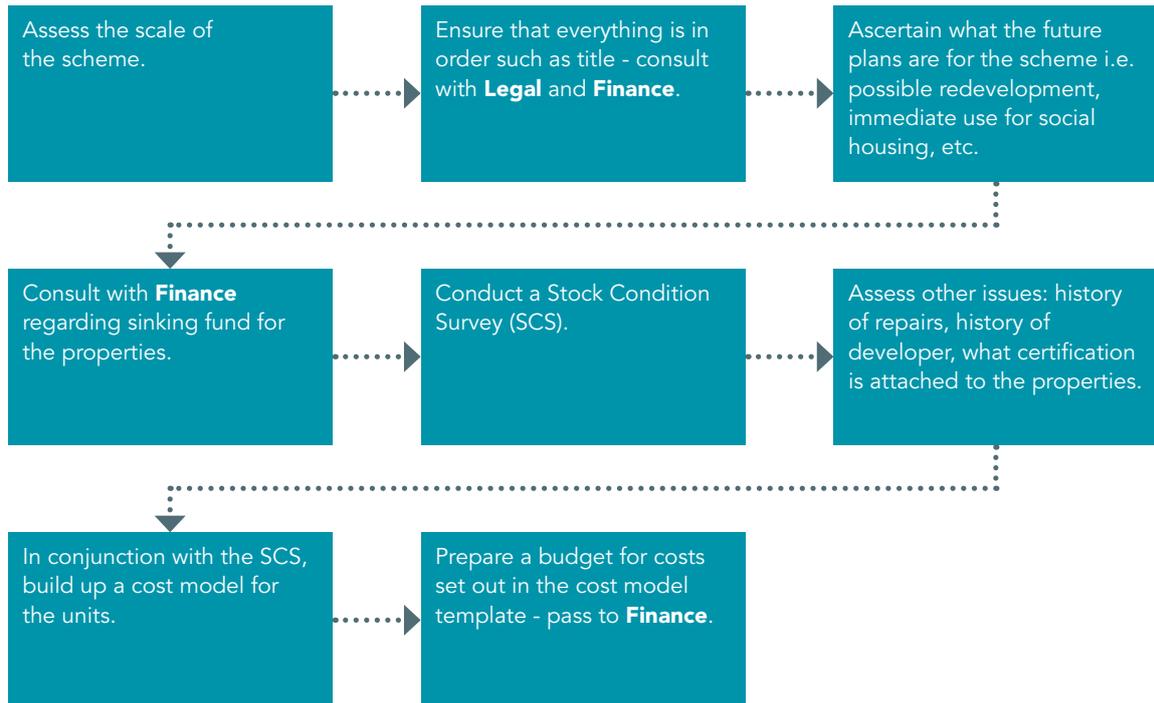
7.2.5 Referral to Executive Team

Following the completion of the feasibility report, it will then be passed back to the Executive Team for review. If necessary the Executive Team will refer back to the New Business Team for more information. The Executive Team will then either decide to move to the next stage, or decide not to pursue the merger or acquisition. It will also be essential to inform the Board of Directors of the feasibility study and any other developments – this also increases in importance should the process become lengthier than foreseen. The Executive Team or New Business Team should also prepare an exclusivity agreement or memorandum of understanding between both parties in the merger or acquisition process. This agreement will stipulate that both parties remain committed to the process, and that both parties have “exclusivity” to the process – as the due diligence process can be costly, if one partner is not fully committed the costs will have been for nothing. However, it should be noted that there is no point in persisting with a merger or acquisition that doesn’t “fit”, even if costs have already been allocated towards it.

7.3 Due diligence

Due diligence will be overseen by a project team headed by New Business which will include representatives from each of the main departments involved: Property Services, Housing Services, Legal, Finance and Human Resources. The project team will ensure that as far as possible the participating departments will work concurrently in order to reduce the time taken to complete the process.

7.3.1 Property Services

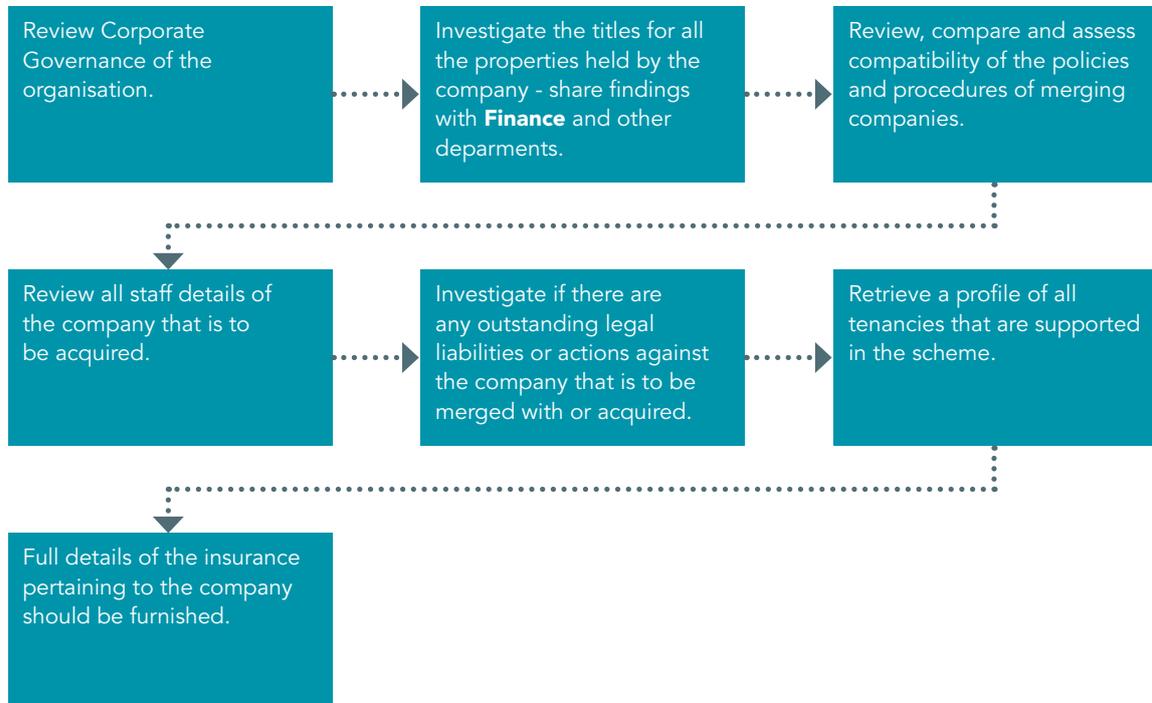


In conjunction with the New Business team, it is important to first assess the scale of the scheme which is the target of a merger or an acquisition: how big is the scheme, how much land, how many units, any utility buildings or community centres. Following this, it is of utmost importance to consult with the legal department to ensure that all Titles for the properties are clean and in order – it is also important to consult with the finance department to review how the scheme had initially been financed, and if there are sinking funds or reserves which could be used to finance future works. This feeds into the next steps, which requires that housing services and finance be consulted regarding the future plans for the scheme; if it will continue as is, or if the AHBs plan to completely renovate and rebuild large parts of the scheme.

Should no rebuilding or other development works be taking place, a full Stock Condition Survey (SCS) is to be carried out. A stock condition survey looks at all aspects of the property and assesses its condition, for example, whether there have been repairs carried out, are they fit for purpose, do they comply with regulations? A stock condition survey will ultimately inform Property Services and other departments as to the condition of the properties, and what works, if any, need to be carried out to raise them to minimum standards and to suit the future occupants.

Other items and issues such as the history of repairs and works should be investigated, as well as identifying the developer of the scheme, as this will inform the parties of any potential risks or defects to the properties and their inhabitants. Finally, finance will need to again be consulted as once a cost model is developed from the outcomes of the SCS, a budget is presented to finance who begin to acquire funds for works.

7.3.2 Legal



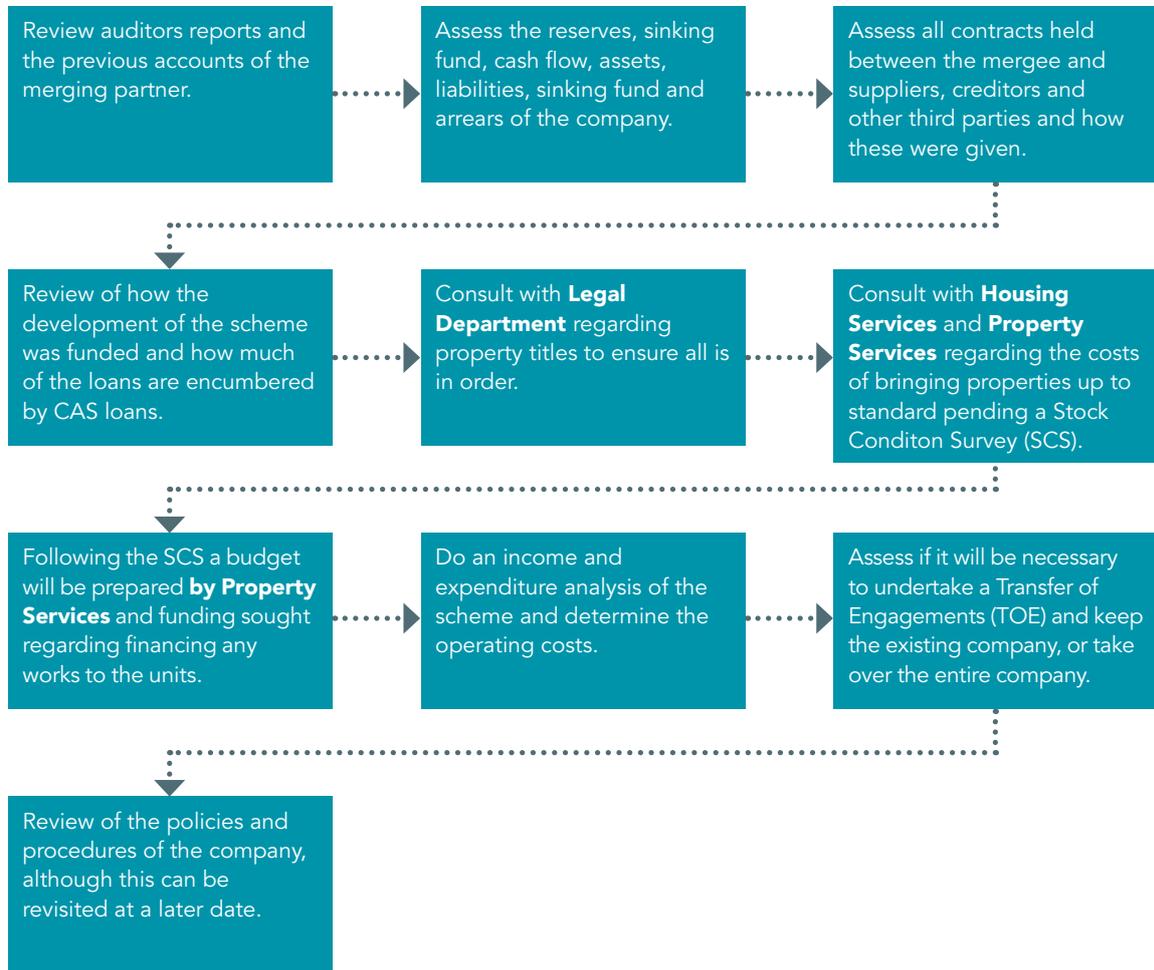
A full understanding of the corporate governance structure, if any, of both parties should be exchanged by the legal team. The purpose of this element of the review is to construct a comprehensive picture of the constitution of the Company, its corporate identity and the type of governance regime which is in place. This will involve collecting Certificates of Incorporation, Memorandums and Articles of Association, Tax Clearance Certificates, proof of Approved Housing Body status, details of the directors and details of the management structure, as well as a copy of all the board minutes of the last three years.

Titles are to be investigated, again this is important as it gives an outline as to who owns the properties and land, and if the organisation has responsibility or not for authorising a transfer of engagements. Title is also necessary for securing funding, and for any future developments to the land. Evidences will also be sought for ownership, planning permission and mortgages against the properties.

A full review of legal liabilities or actions outstanding against the company is an integral part of the due diligence process. A complete review will ensure that there is no unpleasant surprises when it comes to effecting the full merger or takeover. In one instance, reported during an interview by a member of a Tier 3 AHBs staff, a previous employee of a merged organisation took employment action against their previous employers – which in this case would have been this Tier 3 AHB since the previous organisation has been subsumed completely by the larger Tier 3.

Other details should be followed up that are necessary to gaining a full understanding of the organisation which is to be acquired. The details will also assist other departments like Corporate Services, Housing Services and Property Services, as they will need to know about the details of tenants, the insurance details and the details of any employees that may be in employment with the AHB.

7.3.3 Finance



For the Finance Department to get an accurate picture of the proposed partner AHB, it is necessary to first review all previous accounts and auditors’ reports furnished by the partner. Looking at these accounts will give an accurate, signed off statement of the finances of the company and will highlight any issues with regards to the sinking fund, cash reserves and assets.

Additionally, it will be important to assess how the housing schemes of the proposed AHB partner were financed. This becomes important when it comes to judging how encumbered the assets are by loans, and how this will affect future borrowing by the AHB for any repairs or developments that need to be carried out at the site of the scheme. It will also allow risk to be assessed.

Confirmation should also be sought that the AHB has previously been in full compliance with full accounting practices, and that previous returns had been made. It will also be necessary to test the feasibility of the scheme and the solvency of the company.

Throughout the course of this process, and as part of the project team, it will be necessary to keep contact with all other departments. Property services will furnish a budget to Finance to secure funding for any works.

To conclude the process, an income and expenditure analysis of the scheme should be completed, with inputs from Property Services and Housing Services as regards to the costs of maintenance and rents, and this report will be used to inform feasibility of the scheme going forward.

7.3.3.1 Items to consider with CAS or CLSS properties

A high proportion of Tier 1 AHBs availed of Capital Assistance Scheme (CAS) or Capital Loan and Subsidy Scheme (CLSS) grants when initially setting up their social housing schemes. It may well be the case that an acquisition by another AHB is being considered because:

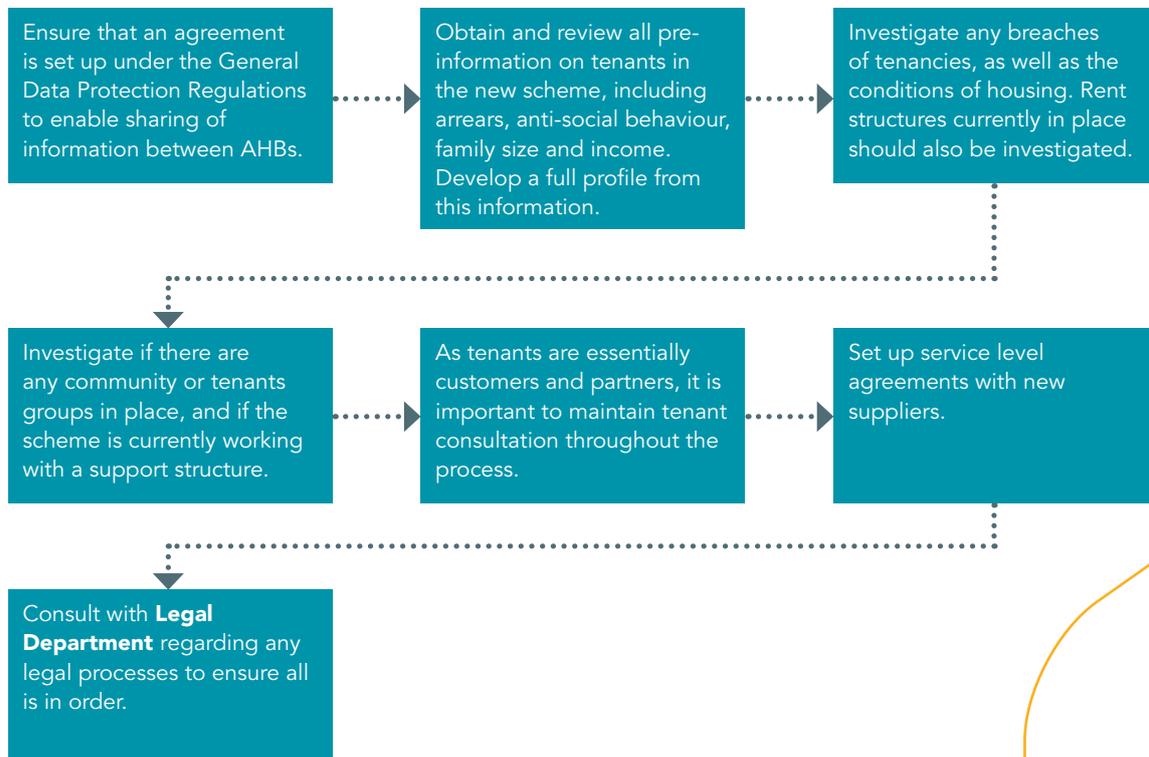
- a) Works are needed to bring the properties to standard, and
- b) The properties will be encumbered with CAS charges.

This throws up a number of issues related to the securitisation of any funding needed to address works on the units. Therefore a number of options are proposed below:

- 1. Approach the supplier of the CAS loan, and seek to increase the term and the amount. This will potentially cover any costs for any works that are due to the units.

- 2. Have the CAS charge relegated to a second charge, then seek a Payment and Availability agreement or some other form of subvention as the first charge over the unit.
- 3. Release the charge on, and leverage a proportion of, an acquired scheme to finance works. For example, should an AHB acquire a scheme with 20+ units (each valued at €100,000, with works costing €20,000 per unit), one option would be to release the charge on a proportion of the units (in the example here it would be four units), and further subvention on these units would fund the works needed on the entire scheme.
- 4. The Department of Housing, Planning and Local Government could provide a fund or grant facility of sorts that would cover the costs of works to CAS properties. These could be repayable, although the mechanism of this would need to be investigated.

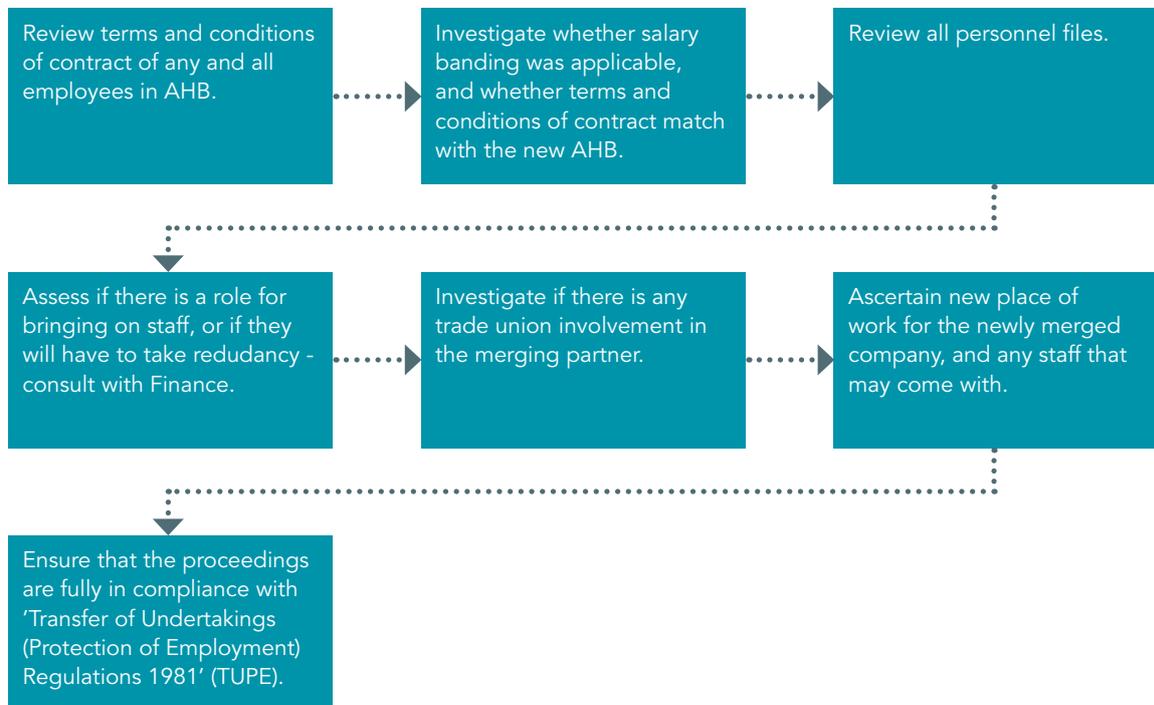
7.3.4 Housing Services



Property Services and Legal should be consulted throughout, in particular it is necessary to inform Property Services if there are any development plans for scheme, and Legal should be consulted in order to ascertain if all legal processes and actions currently pending have been resolved. All legal processes and actions should be resolved before transfer or merger goes ahead.

Throughout, it is important to keep the tenants of any schemes involved in and informed of the process. Tenants may have worries about their tenancies, rent levels and life under a new landlord and management structure. As previously mentioned in this report, communication and openness are vital to ensuring the success of a merger and acquisition, and so keeping tenants informed is a logical extension of this. It must be noted, however, that those involved should be mindful of generating unrealistic expectations amongst tenants. All communication should be shared between both parties, and the transition handled as delicately as possible so as not to inconvenience or upset tenants.

7.3.5 Human Resources



Although many Tier 1 AHBs have a limited number of staff, and are usually volunteer-run organisations, some do employ full-time staff and so it is of importance to review the human resources process for mergers and acquisitions.

It will be necessary to assess the extent of reconciliation of the terms and conditions present in the contracts of all incoming staff with the terms and conditions normally offered by the subsuming AHB.

It is also necessary to be in complete compliance with the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations 1981. These regulations aim to protect the rights of employees where the business in which they work is transferred to a new owner, namely an employee cannot be dismissed through a merger and that future employers must ensure that working conditions are kept in a reasonable condition post-merger.

7.4 Board approval sought for acquisition

A summary of the feasibility study and due diligence report with an appropriate recommendation will be submitted to the board for approval. If approval is given, the project team established to oversee the due diligence process will then oversee the implementation of the acquisition.

7.5 Implementation

Following approval by the Board, the merger and acquisition process moves into the implementation stage. Below is a brief implementation plan that would be followed by the AHB having gone through the feasibility study, the due diligence and board approval stages. This implementation plan is for illustration purposes and contains issues from Legal, Finance, Housing Services, Property Services and Human Resources and may vary depending on the size of the merging or acquiring parties and the nature of the merger or acquisition.

- » **Begin legal transfer of company, assets and any staff.**

- » **Set up service level agreements with suppliers, or maintain existing SLAs.**

- » **Begin handover of all tenant files and tenancies, reconcile new systems of rents with old systems of rents.**

- » **Notify tenants and stakeholders of any changes, and how, if any, these changes will affect their relationship with the AHB.**

- » **Bring policies and procedures of both AHBs into line with one another for dealing with property services, housing services and new business.**

- » **Choose to either wind down, or retain the company of the merging entity, and ensure that all of their company business has been attended to.**

- » **Settle any staff into their new roles in the new company, or settle redundancies with any staff that will not be retained.**

- » **Produce a plan of works for any works to acquired properties or units.**

In addition to this implementation plan, it is also important to remember that it is best practice to be prepared to walk away from any merger or acquisition that is not in the best interests of the AHB.

8 Discussion

Following on from learning of the merger process, the drivers and the barriers and the key personalities involved, it is important to take note of items for discussion and issues to consider. In this section, a number of points to consider and discuss will be presented, with the caveat that these should not be taken as recommendations. This paper outlined a number of issues with thinking of mergers and acquisitions in the AHB sector in Ireland. Amongst them, it was noted that there are a number of benefits and drivers towards mergers and acquisitions. Chiefly, assisting AHBs in difficulty was identified as an issue, and it was noted that a number of AHBs will be facing issues with governance, stock condition and finance in the coming years. Likewise, a number of disadvantages and barriers were considered, and it was noted that a lack of finance, funding difficulties and title issues may be an issue. As such, this section will conclude the report and suggest recommendations to deal with these issues.

8.1 Rescue fund

The issue of a 'rescue fund' to assist with mergers and acquisitions with Tier 1 AHBs that are in difficulty is something which was mentioned by a number of beneficiaries. One strategic stakeholder noted that there are a number of circumstances where a small AHB may seek help from a larger AHB in relation to a prospective acquisition. In some of these cases, the dwellings owned by the AHB may be in need of significant refurbishment and the AHB may not have the funds or the ability to raise funds to carry out this work. As such, special funding arrangements may be required from the DHP&LG for carrying out refurbishment.

One individual working in an AHB noted that Tier 3 AHBs can help out with consolidating the sector but need assistance to do so, particularly when it comes to covering the costs of renovations and bringing properties and units up to standard. The CEO of a large AHB was of the opinion that it would be helpful if there was a cushion, financially speaking, for the AHB which would be doing the 'rescuing', as there can be financial risks attached to any such mergers. Indeed, one interviewee working in an AHB argued that to make this process easier, a government fund that would assist with the costs inherent in merging, such as staff costs, costs for due diligence, and costs of bringing units up to standard, would be something which should be considered to incentivise a consolidation of the sector or rescues.

One interviewee who works in an AHB and would have knowledge of new business processes believes that there needs to be a financial incentive or offer to be put on the table for other AHBs before they will get involved with mergers or acquisitions. For this interviewee, for mergers to be successful, there needs to be government or departmental support through all stages, a write-off of debts on any units that are to be acquired and a Payment and Availability (P&A) agreement that can be accessed so that funds can easily be borrowed against the units to provide any necessary repairs. Otherwise, a type of "rescue fund" should be made available, so that there should not be an unnecessary cost burden on the AHBs attempting rescues.

8.2 Guidance from Regulation Office

From the interviews conducted throughout this study, it became apparent that the Regulation Office could take a leading role in guiding mergers and acquisitions in the sector, in this instance in relation to the 'rescues' of Tier 1 AHBs that are either experiencing governance issues or who have expressed their concerns regarding their future, or interest in merging with another AHB. This was agreed with an interviewee working for an AHB with knowledge of the Tier 1 AHB sector. For this interviewee, communications from the Regulation Office would be better received rather than being led by one of the Tier 3 AHBs. In this interviewee's opinion, this approach from the Department of Housing, Planning and Local Government would be friendlier. This would allow the Department and the Regulation Office to assist in guiding the smaller Tier 1 AHBs through the process. Furthermore, another interviewee working in an AHB noted that it would be important to have an independent voice to help to guide a process – something volunteers could link into or what other Tier 3 AHBs could offer – and serve as an intermediary between the two parties that could arbitrate, discuss and independently advise each.

Another strategic stakeholder in the sector argued that the Regulation Office can provide advice, and can also point to a process for mergers and acquisitions in the sector, which would cover the rescues of AHBs that were facing imminent issues. Similarly, the CEO of a Tier 3 AHB argued that the Regulation Office needs to persuade some of the Tier 1 AHBs that collaboration, mergers and acquisitions are in their best interests and that they need to work with the bigger AHBs. Convincing these AHBs, and offering them guidance, will ultimately lead to more collaboration, mergers and acquisitions in the sector. Ultimately, appropriate guidance or impartial advice from the Regulation Office or Department regarding mergers and acquisitions would be something which would be recommended by a number of interviewees in this research, and would certainly be something which should be considered or discussed going forward.

8.3 Collaboration as a precursor to merger or acquisition

From speaking with a number of strategic stakeholders and individuals in AHBs, it was noted that collaboration in the sector can be used as a way of a 'stepping stone' towards further mergers and acquisitions in the AHB sector. The CEO of one large AHB noted that initial collaboration can be seen as the precursor to mergers and further collaboration: procurement groups can initially assist in helping to 'share the load', but also help to establish common ground. And indeed another strategic stakeholder, who would have a particular in-depth knowledge of collaboration in the AHB sector, noted that regional forums were being organised by organisations such as the ICSH to foster collaboration between smaller, Tier 1 AHBs. Another strategic stakeholder noted that Tier 3 AHBs can provide management supports to the smaller AHBs: this would start off small at first, but could conceivably lead to further collaboration.

One strategic stakeholder noted the example of the County Limerick Housing Services Company (CLHSC). Initially Limerick was a very active county in terms of AHBs. There were a lot of small schemes that were offering similar services in a small geographic area. The boards of each of the participating AHBs identified a need, which was to collaborate and to achieve economies of scale. These boards got together to plan ahead for the collaboration. Importantly, the AHBs also enlisted the help of the ICSH to guide them through and facilitate the process. Collaboration in this instance started off small, but grew further into an integrated organisation that grew to employ staff and formulate development plans. Stakeholders in the AHB sector such as the Housing Agency, the ICSH, the Housing Alliance and even Tier 3 AHBs can help to foster collaboration through the provision of toolkits, providing independent advice, offering alternatives to those proposed by prospective partners, building relationships and facilitating the process.

Conclusion

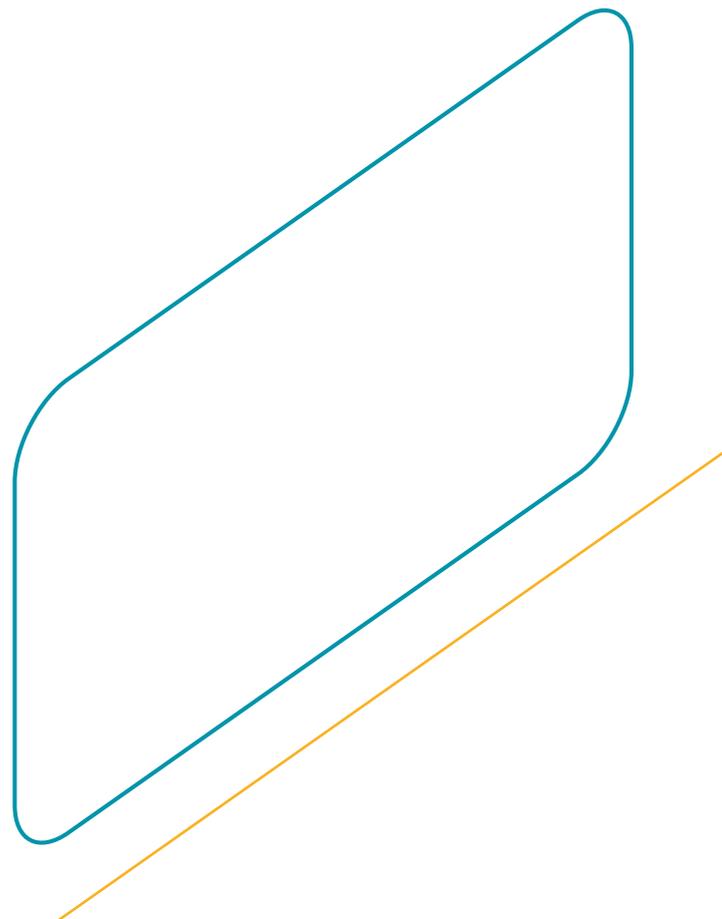
The AHB sector in Ireland has changed significantly in recent years, characterised in part by increasing overall provision and at the same time by a growing heterogeneity. Furthermore, under Rebuilding Ireland, the government's action plan for housing, the AHB sector is given ambitious targets for delivery of new homes.

In the context of this, there has been a growing discussion on ways in which AHBs can work together to the benefit of individual AHBs and the sector as a whole.

As this report has shown, these arrangements may come in a variety of shapes and sizes depending on a variety of factors. A wide range of arrangements are identified that come under the broad heading of collaboration, mergers or acquisitions. The benefits and drivers of these arrangements, as well as disadvantages and barriers are set out. A detailed template for the implementation of a merger or acquisition is provided, which includes a check-list of critical steps in the process.

The report makes it clear that collaborations, mergers or acquisitions are not always the solutions to difficulties, nor do they necessarily lead to improved effectiveness. In identifying the range of factors that need to be considered, it is clear that each case needs to be assessed comprehensively on its merits.

It is hoped that in setting out these parameters this report throws some light on a complex topic, to the benefit of the AHB sector and other key stakeholders including the Department of Housing, Planning and Local Government and the Regulation Office.



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Appendix

Interview Participants

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 Cathal Callan
 Fiona Cormican
 Brian O’Gorman
 Brendan Cunningham
 Imelda Coughlan
 Cara Ryan

Circle Housing Association

John Hannigan

Oaklee Housing Association

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Kieron Brennan

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Paula Kenny

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