CHARITY COMMISSION
FOR ENGLAND AND WALES

Case Report

Gosling Sports Park (302498)

About the charity

Gosling Sports Park was registered in 1969 and became a registered company in March 2011, with charitable objectives to provide or to assist in providing facilities for recreation, physical education or other leisure time occupation, in or in connection with Welwyn Garden City and its neighbourhood.

Why the Charity Commission got involved

The monitoring team undertook proactive analysis of and compliance visits to a group of charities identified as having signs they may be at risk of financial distress, including potential insolvency. The aim was to seek assurances that trustees understood their duty to protect charity assets; had adequate measures and controls in place to manage finances; and were actively managing the risks, taking appropriate action where necessary to mitigate the impact on the charity. The aim was also to identify common risk factors in these types of cases to inform future risk assessment and highlight good practice in dealing with financial distress where this was identified.

Gosling Sports Park was randomly selected from a group of 94 charities whose accounts included an 'emphasis of matter'[1] relating to their financial position. The concern contained in the Gosling Sports Park's accounts for the year ended 31 March 2015 indicated that the charity had incurred a net loss of £191,827 during the year ending 31 March 2015 and had a debt of £7 million.

We proactively contacted the charity to gain further understanding of the issues and the actions being taken to resolve them and to assess whether there were any regulatory concerns. This is part of our work to proactively monitor charities that fall into certain risk categories.

The action we took

We opened a monitoring case and carried out a scrutiny of the charity's latest accounts. We met with the trustees to verify the actions being taken by the charity to improve its financial position.

1 A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

What we found

In 2007, the charity decided to create a new leisure/spa facility on the site at a cost in excess of £4 million. This was funded by a loan at an interest rate of more than 5%, which led to problems following the recession of 2008 when interest rates fell but the rate on the loan remained the same. The charity's debts were mounting and reached around £7 million by June 2016. The charity did not have a reserves policy in place.

Over the past 2 years, the trustees had considered various options in order to save the charity from closure and protect the facility for future use. The options explored included:

- land release - there is a significant area of unused land on the charity's site and the trustees had explored releasing this to generate sufficient funds to clear all or most of the charity's debt burden; this was unsuccessful, however, due to the complexities resulting from the local authority owning the freehold
- loan agreement - the trustees made several attempts to challenge the terms of the loan, but these appeals were ultimately unsuccessful
- outsourcing - a project to explore the feasibility of outsourcing the operational aspects of the park to another leisure operator was undertaken, but could not be implemented in a way that would satisfy the bank or resolve the charity's financial difficulties
- partial transfer to another similar charity - this option was successful

In November/December 2015, the charity considered finding another organisation to takeover of the management of the sports ground on the site. The charity considered 2 different proposals to find the best value for the charity.

On 10 June 2016, after conducting the required due diligence and analysis, the trustees successfully completed a charity to charity transfer with Greenwich Leisure Ltd (GLL), an exempt charity and a registered society under the Co-operative and Community Benefit Societies Act 2014 with similar purposes. GLL covered all the charity's outstanding debts and also paid it £200,000. This transfer secured the charity's recreational facilities for its beneficiaries, whilst addressing the charity's financial issues. The Gosling Sports Park remains a registered charity and plans to continue as a grant-making organisation, providing funding to help athletes develop.

The information examined by the commission demonstrated that the trustees of the charity had taken significant steps over the last 2 years to try and protect the charity's assets and improve its financial position. Relevant professional financial advice had been obtained, the trustees regularly reviewed the charity's finances and a series of actions had been taken to establish the charity on a more stable footing. The charity established a financial sub-committee reporting regularly to the trustees, initially on a quarterly basis but then on a monthly basis as the financial situation worsened.

Impact of our involvement

We verified the information in the annual accounts and report about the charity's financial position. Our findings provided assurance that the trustees had put in place measures which ensured both the future financial stability of the charity and the continued operation of its sports facilities for the local community.

Lessons for other charities

This case demonstrates the number of options trustees can consider when there is a risk of their charity going into financial distress. Trustees need to be alert to changes to their charity's funding and take steps as soon as possible after identifying that there may be a shortfall. Trustees have a duty to act in their charity's best interest and protect its assets. Where charities do face financial difficulties, trustees can discharge these duties effectively if they identify at an early stage the options and pursue those that stand some chance of success. The trustees in this case attempted to challenge the terms of the loan agreement and explore other options to raise revenue, while these attempts were unsuccessful they demonstrated that a range of options had been explored by the trustees.

In this case the trustees successfully transferred part of the charity's operations to another charitable organisation. Where a charity faces financial issues a merger or transfer of operations can be a good way for the charity's activities to continue. Trustees should explore which other charities they might be able to collaborate with. Our guidance **Collaborative working and mergers: an introduction (CC34)** sets out the issues and factors you need to think about when working in partnership or merging with other organisations.

Our guidance **Managing financial difficulties and insolvency in charities (CC12)** provides advice for charities that are facing financial difficulties and how charities can reduce the risk of insolvency.

This charity did not have a reserves policy. The commission expects trustees to have a reserves policy in place as an important part of financial management and forward financial planning. Our guidance **Charities and reserves (CC19)** provides a guide to what charities need to consider when thinking about the levels of reserves they hold and describes what to think about when drafting a reserves policy.

Trustees should regularly review the financial health of their charity and act where they identify financial issues. Trustees can use **Charity trustee meetings: 15 questions you should ask** as a helpful starting point to consider the health of their charity.