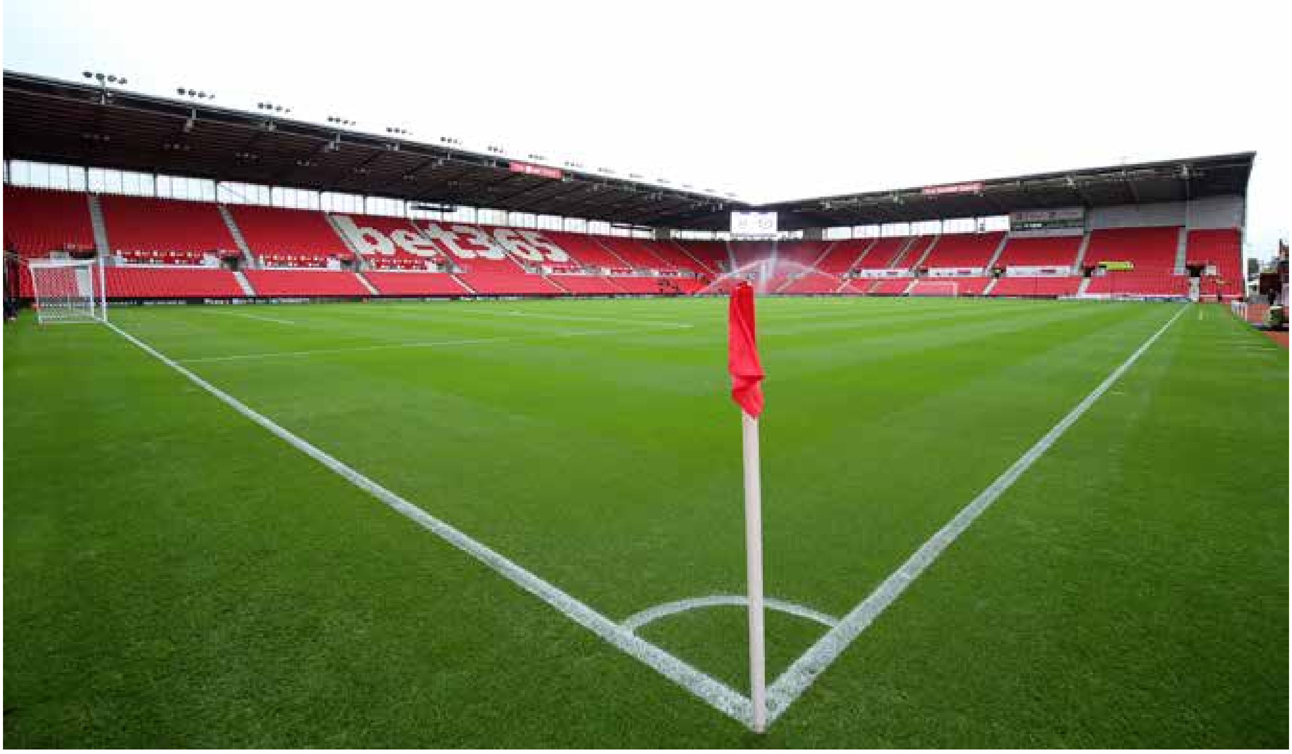
FINANCIAL MANAGEMENT & CONTROLS

CONTENTS



1. Club/Trust Structures

This report is prepared for use by boards of both supporters trusts who own clubs at different levels of the English football pyramid and of those clubs themselves. It is accepted that, in some cases, the club itself will be a Community Benefit Society while, in other cases, it will be a separate company in which the trust has a controlling shareholding of 50-100%. Other than where stated in the report, no distinction is made between these different structures although it is assumed that the policies and procedures recommended will apply mainly to the club itself.

2. Responsibilities of Board and Management

The responsibilities of a board of directors are defined by Company Law and by the entity's own constitution, namely its rules or Articles of Association. These will include obligations to act within their powers, promote the success of the company, exercise appropriate care, skill and diligence and to avoid conflicts of interest.

Of particular importance will be the obligation for a club's board to exercise stewardship over its funds and resources. How this obligation is discharged will depend on the size of the club and the complexity of its operations. However, to a greater or lesser extent, all clubs are likely to need to address the issues set out in this report and so it is recommended that clubs should consider incorporating relevant features of this guide into their own procedures manual. Depending on the size of the club, it may be appropriate for the board to delegate certain duties to senior management and staff and this too should be clearly documented.

Procedures adopted, and documented, should be sufficient to ensure the following.

1. Appropriate financial planning;
2. Maintenance of accurate and up to date financial records;
3. Dissemination of appropriate information to all stakeholders, including the board, key staff, trust members, club supporters and other external stakeholders within the wider community and the game's governing bodies;
4. Discharging the club's tax compliance obligations;
5. Safeguarding the club's financial resources and non-financial assets;
6. Identification of key risks and adoption of appropriate procedures to mitigate such risks.

Within point 3 above, the board should meet formally on a regular basis with a clear agenda which covers key areas of governance. Key financial information should be distributed in advance of the meeting and discussed fully.

Depending on the size of the club and the number of board members it may be appropriate to create sub-committees with responsibility for certain areas of the club's operation. However, even if a sub-committee is established to deal with certain financial matters, finance should always feature on the agenda of main board meetings.

3. Financial Year

Companies have absolute discretion in selecting their financial year. However, because football clubs' activities are measured by season it is recommended that, unless there are important overriding reasons to select a different financial year end, clubs should opt for 30 June or, conceivably, either 31 May or 31 July.

In this way their main sources of income (season ticket, commercial, central distributions) and principal costs (playing contracts) are likely to be aligned with the financial year. Moreover, financial performance, as reported in annual accounts, will more readily align with playing performance in terms of final league position, cup success, etc.

Exceptionally it is acknowledged that some clubs, controlled by parent companies, may need to align their year end with that of the parent company but it is assumed that this is unlikely to apply to community owned clubs.

4. Budgeting

It is essential that clubs prepare a detailed, and realistic, budget in advance of the start of each financial year.

4.1. Two Year Cycle

Indeed, it is recommended that clubs should in fact prepare budgets for up to two periods with a more high level, less detailed budget for the second period. In preparing their budgets clubs need to recognise the risk of relegation at the end of the forthcoming season, or indeed the opportunity of promotion, and take account of the financial implications thereof.

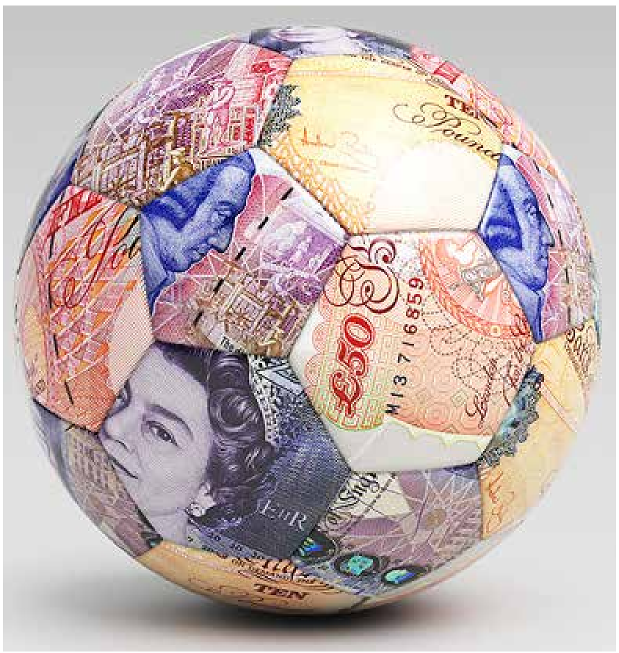
This is especially important when clubs have granted contracts of more than one season to players or management and where contractual income (for example sponsorship) provide for a reduction in the event of relegation.

However, it is also always tempting to offer incentives to players and management linked to promotion and clubs need to have a clear understanding of the financial benefits, and challenges to be faced, following promotion to ensure that bonus payments do not exceed the likely net gains. For example, promotion to a higher league may mean having to consider the option of a full time rather than a part time playing squad while promotion from a regionalised league may result in higher travel costs and fewer local derbies.

So a club's two year budget might comprise a base budget, assuming retention of current league status over the forthcoming and subsequent season, with a sensitised version identifying the likely variances in the event of relegation or promotion.

4.2. Analysis by Activity

It is important that clubs' budgets are prepared with a level of analysis consistent with the club's management accounts (see section 10) to allow for comparison of actual performance against budget as the season progresses.



Most football clubs' operations are quite diverse relative to the size of the company and this diversity needs to be reflected in the level of analysis in both the budget and accounts.

A club may have a number of different profit and cost centres, including the following.

- Matchday operations;
- Commercial activities, including sponsorship, advertising and other fundraising;
- Catering and non-match day events;
- Retail;
- Community;
- First team;
- Academy.

The club's financial records should be prepared with sufficient detail to allow the performance of each centre to be measured, not least to ensure that all profit centres are making a positive contribution.

4.3. Method of Preparation

Pursuing this point it is likely that different individuals within the club will have responsibility for certain centres and it is essential that they have an input in preparing the budget and that it is not prepared in isolation by the head of finance.

It is almost inevitable that some budget holders, especially those involved in sales, will be optimistic by nature. Their projections need to tempered with caution especially where they are out of line with recent experience. There is no harm in setting ambitious targets, indeed sales personnel can be incentivised to achieve targets, but those targets should not necessarily be incorporated within the annual budget.

Indeed the entire exercise of setting the annual budget should be undertaken conservatively. Although clubs are fortunate that a good deal of their income (season tickets, sponsorship, central distributions) will be known in advance it is also the case that playing contracts have to be negotiated early in the close season, usually before there is certainty of key income streams, and so it is recommended that the playing budget should not be fully committed contractually until there is a greater level of certainty about income.

This may mean not recruiting the final few members of the playing squad until the season has commenced, possibly meaning these may have to be loan signings. Although this may be less than ideal from the perspective of assembling and preparing a squad, it is preferable to a club experiencing, for example, gate revenue consistently below budget giving rise to cash flow difficulties in the final months of the season.

It is also likely that League rules will require most clubs to submit some form of budgetary information. Budgets need to be prepared with this in mind so that they can readily be fed into the template required by the respective league body.

4.4 Revisiting Assumptions

If clubs do indeed prepare their initial budgets conservatively they should be prepared to update them if it becomes clear that the assumptions on which the original was based have, to a material extent, been overtaken by events. Factors might include either favourable or adverse changes in forecast income or costs including cup runs, live TV appearances and unbudgeted transfer fees receivable or payable.

Moreover, as the season progresses a club may revisit its second year budget which, as proposed above, will have included sensitised versions for possible promotion or relegation. As the club's probable league status for the following season becomes more certain it is likely that sensitised versions of the budget could be discarded in favour of the most likely outcome.

If this scenario is likely to be relegation, with an associated reduction in income, the club should have a contingency plan in place to achieve cost savings, most likely in the playing budget but also including possible staff redundancies and savings in operating costs.

Relegation to a more regional league may of course make savings easier to achieve.

5. Cash Flow Management

Cash flow management for all companies is of paramount importance but perhaps especially so within football where cash flows fluctuate seasonally. A good deal of income may be received in advance (season tickets, sponsorship) but is likely to dwindle significantly in the final months of the season.

Many clubs overcome this challenge by accelerating the following season's income either by offering early bird discounts to season ticket holders or negotiating advance payment from sponsors, Although often tempting it is recommended that this practice be avoided if at all possible. Otherwise clubs find themselves using next season's income to meet the balance of the current season's costs and it can become something of a vicious circle from which it is hard to break out.

Moreover, early bird offers, although likely to be attractive to purchasers, may represent discounts of 10% or more and therefore extremely costly short term finance for the club.

Clubs should therefore maintain a cash flow forecast throughout the season. This may initially be at quite a high level linked to the club's annual budget discussed in section 4 above. This will take account of timing differences between when income is earned and costs incurred and the timing of receipt or payment, potentially material in some instances. It should also take account of non-trading cash flows, including loans receivable or payable, anticipated equity investment, transfer fees receivable or payable or capital expenditure.

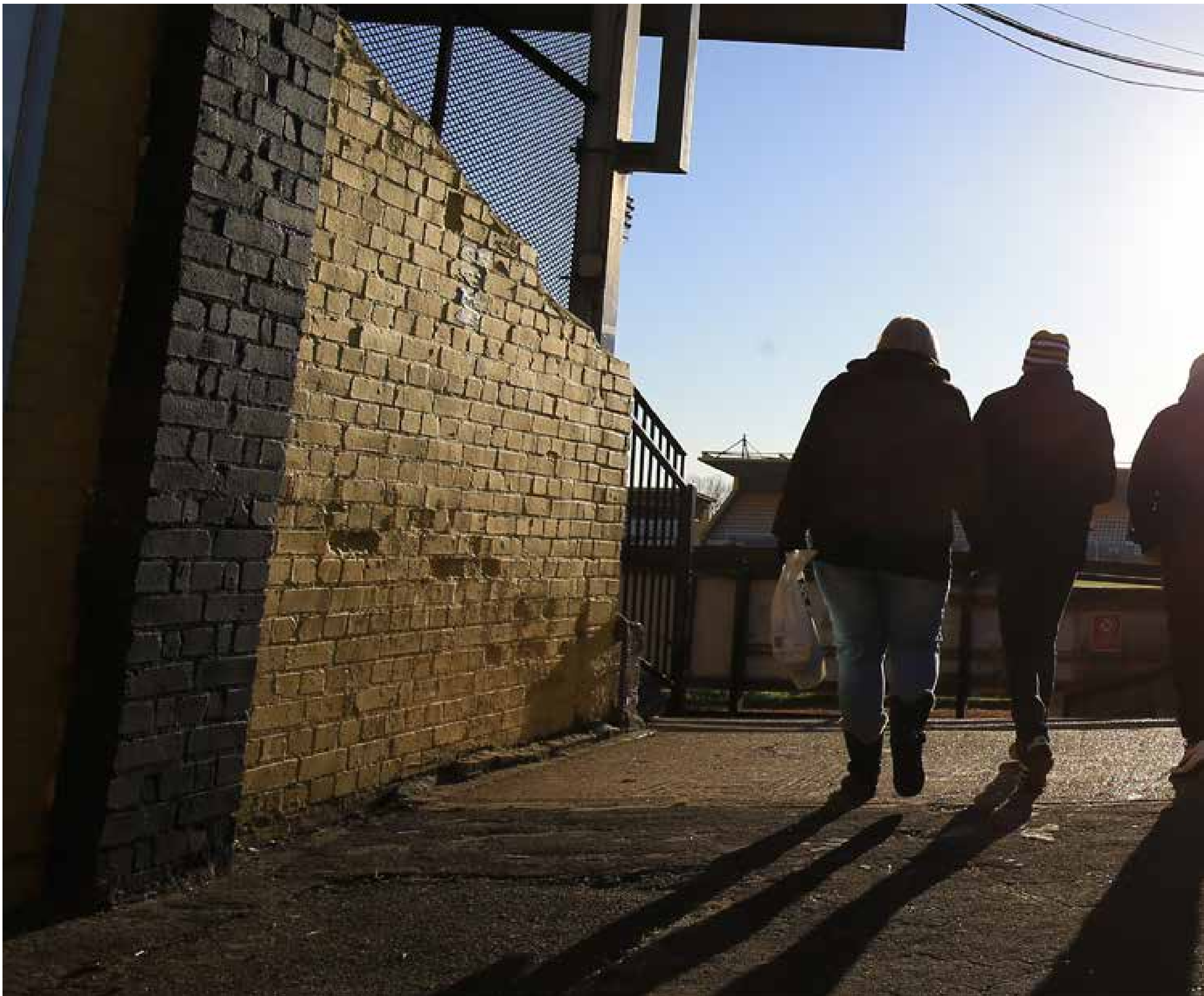
This forecast may identify critical points in the season when cash flow is likely to be especially constrained and, in such circumstances, clubs are advised to prepare more detailed forecasts, breaking down cash flows by week perhaps on a rolling 2-3 month basis. If there is then a particularly critical point, with month end wage payments or the risk of postponements through adverse weather impacting on gate revenue, it is possible that remedial action might be taken if the risk can be identified sufficiently in advance.

6. Sales Inventory

Section 4 referred to the importance of sales budgeting and target setting. A valuable starting point is to identify the inventory available for sale. Depending on a club's circumstances (for example does it own/lease its own ground or does it ground share?) this may include the following.

- Club/front of shirt sponsorship;
- Secondary sponsorships or partnerships;
- Affinity schemes;
- Match and match ball sponsorships;
- Player sponsorships;
- Separate sponsorships for Academy;
- Ground or stand naming rights;
- Perimeter advertising;
- Other in-stadium advertising;
- Website advertising;
- Programme advertising;
- Non-matchday catering and events.

The challenge will be to sell the club's entire inventory without compromising its pricing model. It is accepted that achieving even a modest price for a match sponsorship on the night before that match might be tempting but, if potential sponsors realise they can regularly negotiate a low price at the eleventh hour, there is a danger of this becoming the norm.

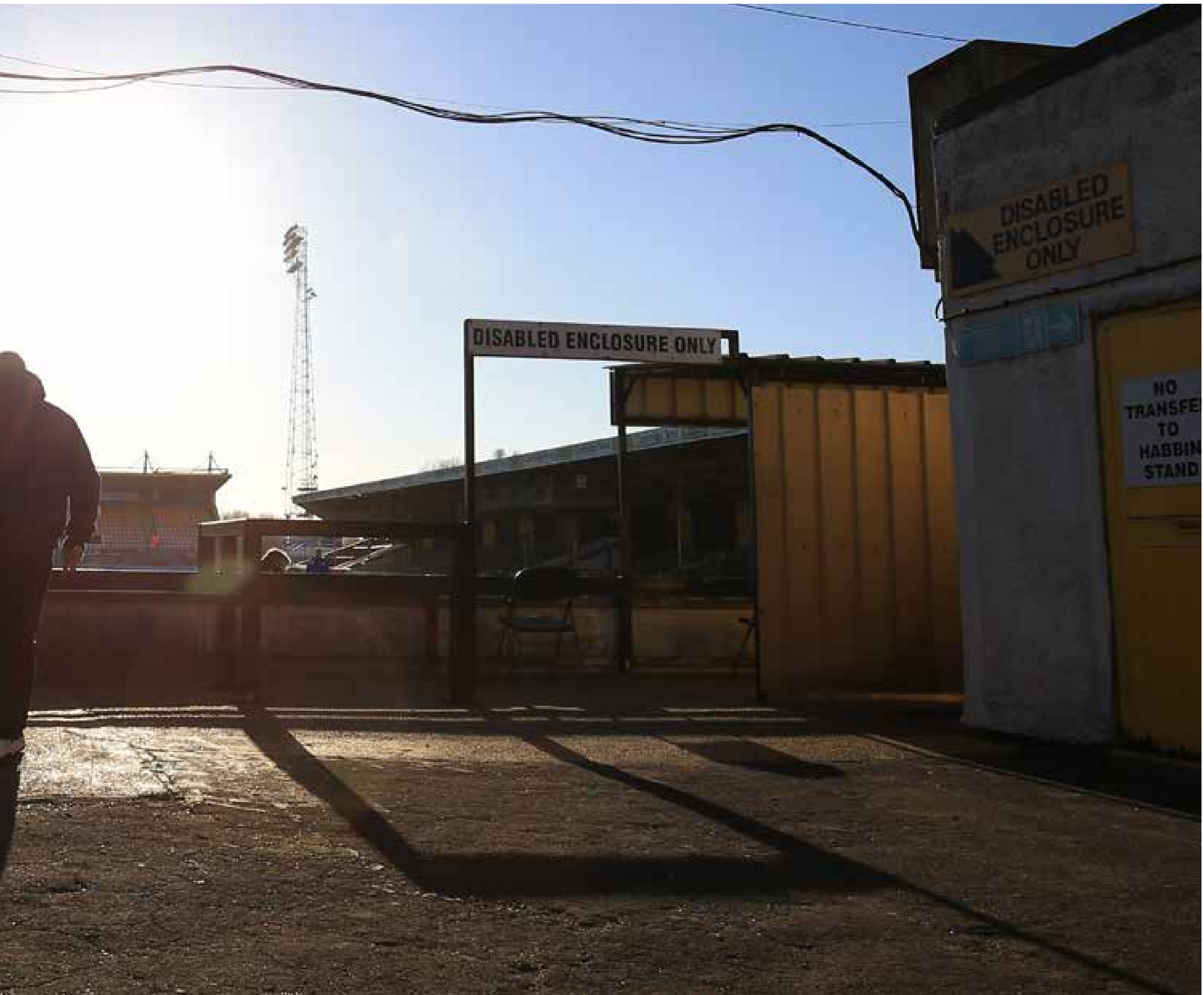


Moreover, it is important to strike a balance between agreeing terms for all inventory and undertaking too many contra deals with suppliers. Contra deals should be on mutually favourable terms, where the club is providing inventory to a sponsor or advertiser in exchange for goods or services of genuine value to the club for which it would otherwise pay in hard cash.

An increasingly sensitive issue is programme sales where, due to the availability of club related media online, sales have dwindled over successive years such that, for many clubs, the cost of printing the matchday programme is no longer covered by the sales income. It is likely that this trend will continue and the decline in sales is also likely to diminish the appeal for advertisers paying to feature in the programme. For this reason clubs need to be wary of being contractually obligated to place advertising for main sponsors and partners in the match day programme, when this may be of only marginal appeal to the sponsor or partner, and programmes are being printed and sold at a loss.

Clubs may also from time wish to explore opportunities to outsource certain areas of operation, in particular catering. There is much to be said for this when the operation can be outsourced to a specialist caterer, experienced in the challenges of matchday catering, able to source materials more competitively as a result of similar operations at other venues, and accustomed to managing staff in this very specialised sector.

Typically an outsourced caterer will offer a guaranteed minimum royalty for a season with incremental revenue based on a range of factors, including the number of home games played, number of covers per game and non-matchday activity. The financial terms will form part of a Service Level Agreement which will also define acceptable choice of meals, levels of staffing, pricing and other key factors.



7. Cost Management

Although a club's major cost will always be its playing budget all clubs will incur material operating expenditure which needs to be closely controlled. Section 12 sets out some recommendations on cost control procedures but it is also advisable to revisit a club's cost base from time to time as part of setting the annual budget.

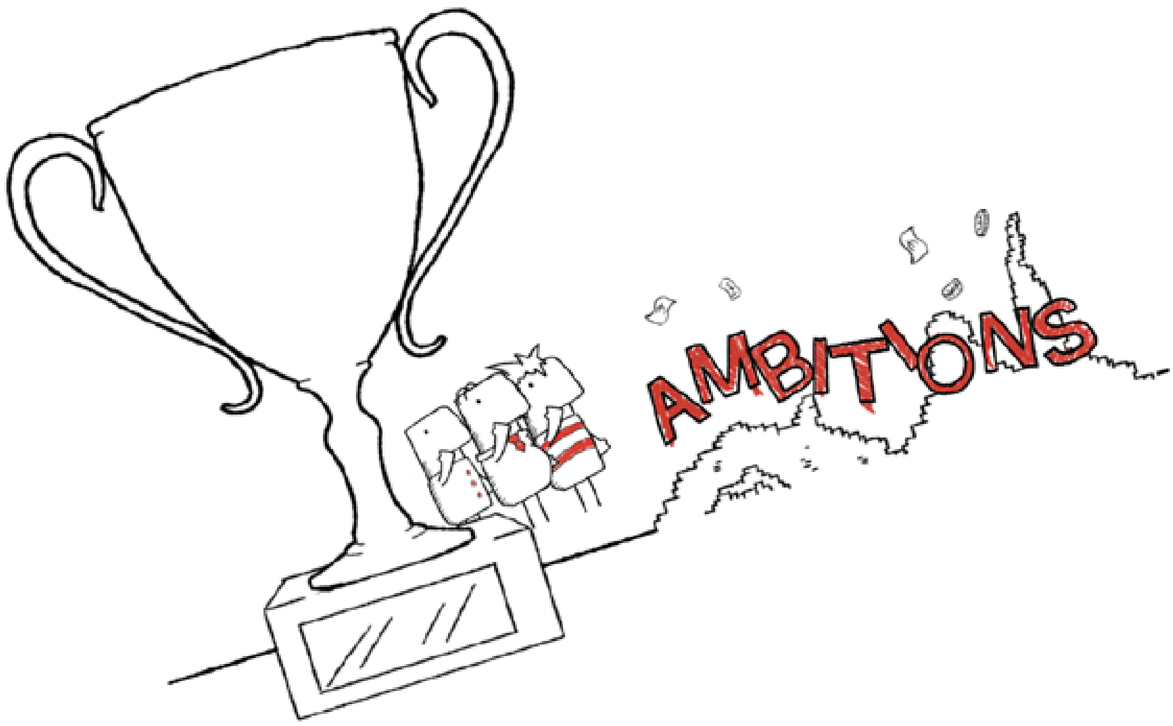
Major recurring costs are likely to include the following.

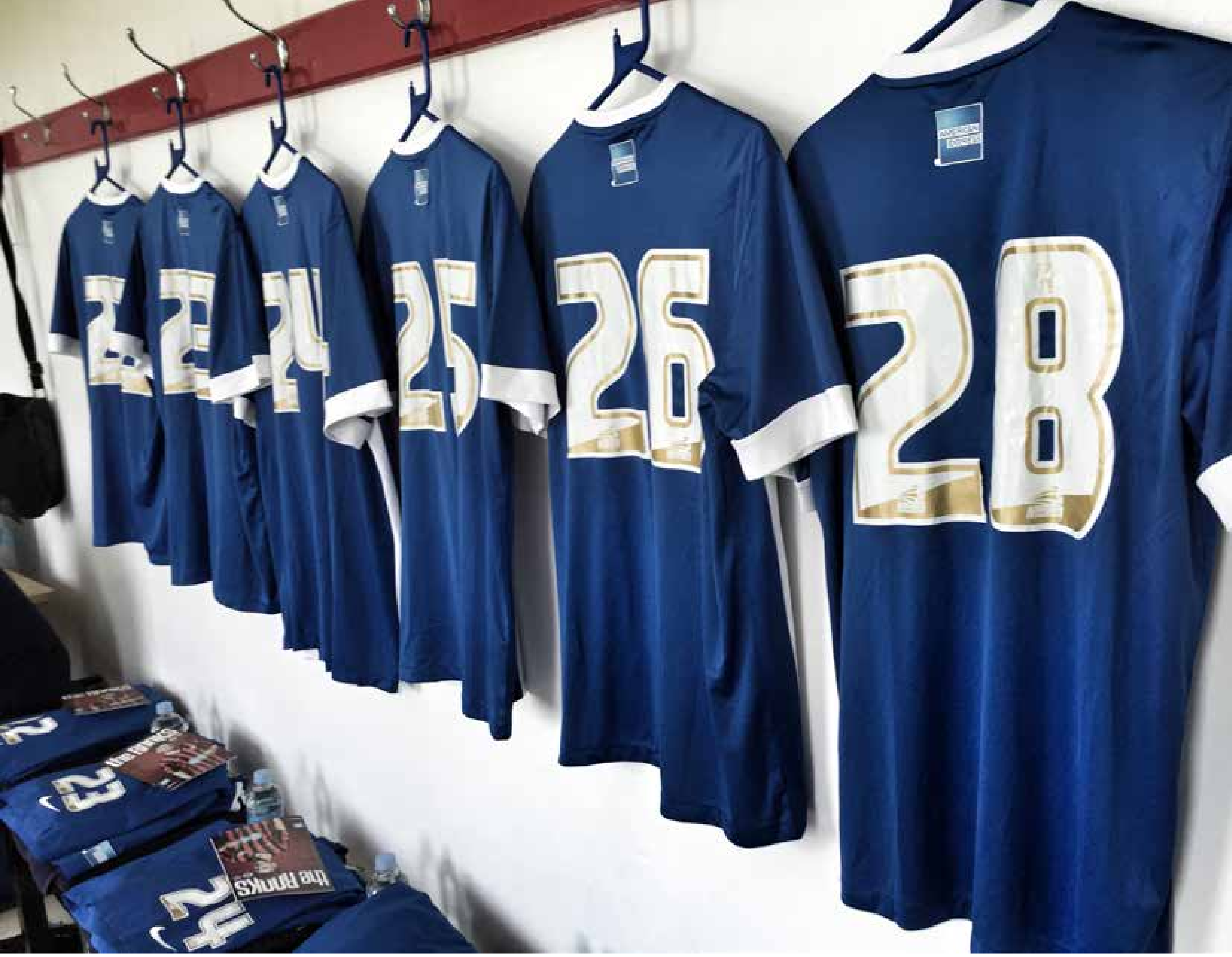
- Ticketing;
- Away travel;
- Medical costs, including insurance;
- Playing and training kit;
- Stewarding & other match day costs.

In many cases there may be long term relationships with suppliers but that should not preclude periodic review to ensure costs remain competitive. Also, it may be that local suppliers would be willing to purchase commercial inventory on a reciprocal basis, perhaps entering into contra arrangements.

Contracts for playing and training kit can be complex. Clubs need to balance the offer of gift of kit with the price being charged for the kit they will purchase not only for playing and coaching requirements but also for sale through their retail outlet. Moreover, clubs should be mindful of contractual obligations to purchase minimum quantities of kit annually and ensure there is no risk of this being in excess of likely demand, creating the risk of redundant end of year stock.

For the reasons explained in section 6, outsourcing of certain services may also warrant consideration.





8. Player Contracts

Depending on the league status of the club, playing contracts will either be in standard EFL or National League ("NL") format. A club relegated from the EFL should strive to put all players on NL contracts at the earliest opportunity. These typically only provide for wages to be paid to the end of the playing season in early May and avoid the clause in EFL contracts where the club must also pay the player in July if he has not secured another club on at least equivalent terms: a provision which is usually exploited to the full by departing players and their new clubs.

Where possible there is merit in introducing a performance related element to player wages, linked to appearances, goals scored, clean sheets, etc. It should also be possible to create a bonus structure based around cup runs and promotion although care needs to be taken to ensure that the aggregate bonuses are in proportion to the incremental earnings enjoyed by the club from any such playing success.

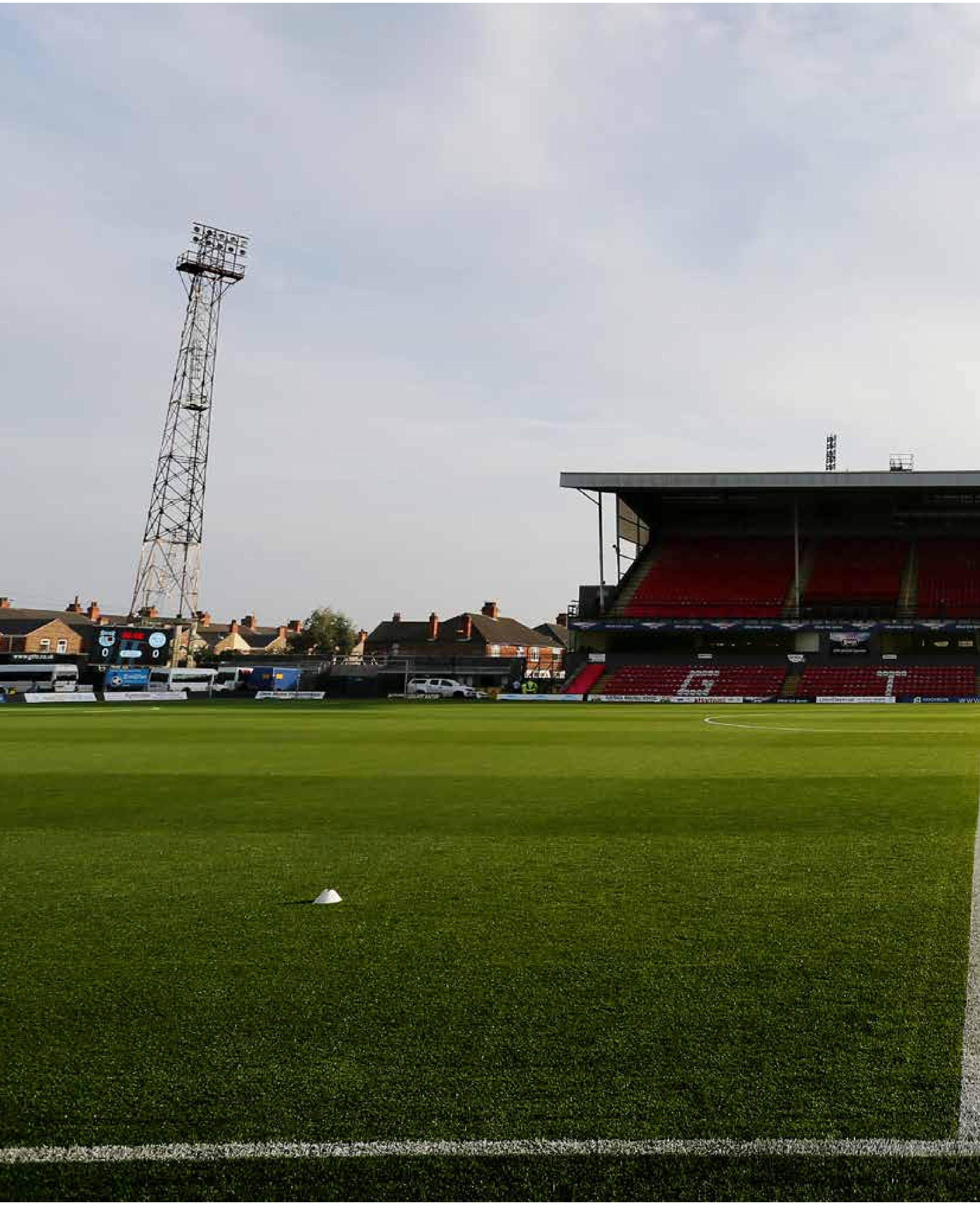
From time to time there may be merit in securing key players on contracts of more than one year's duration. This would be especially attractive for younger players on relatively low wages who might command a transfer fee in the future.

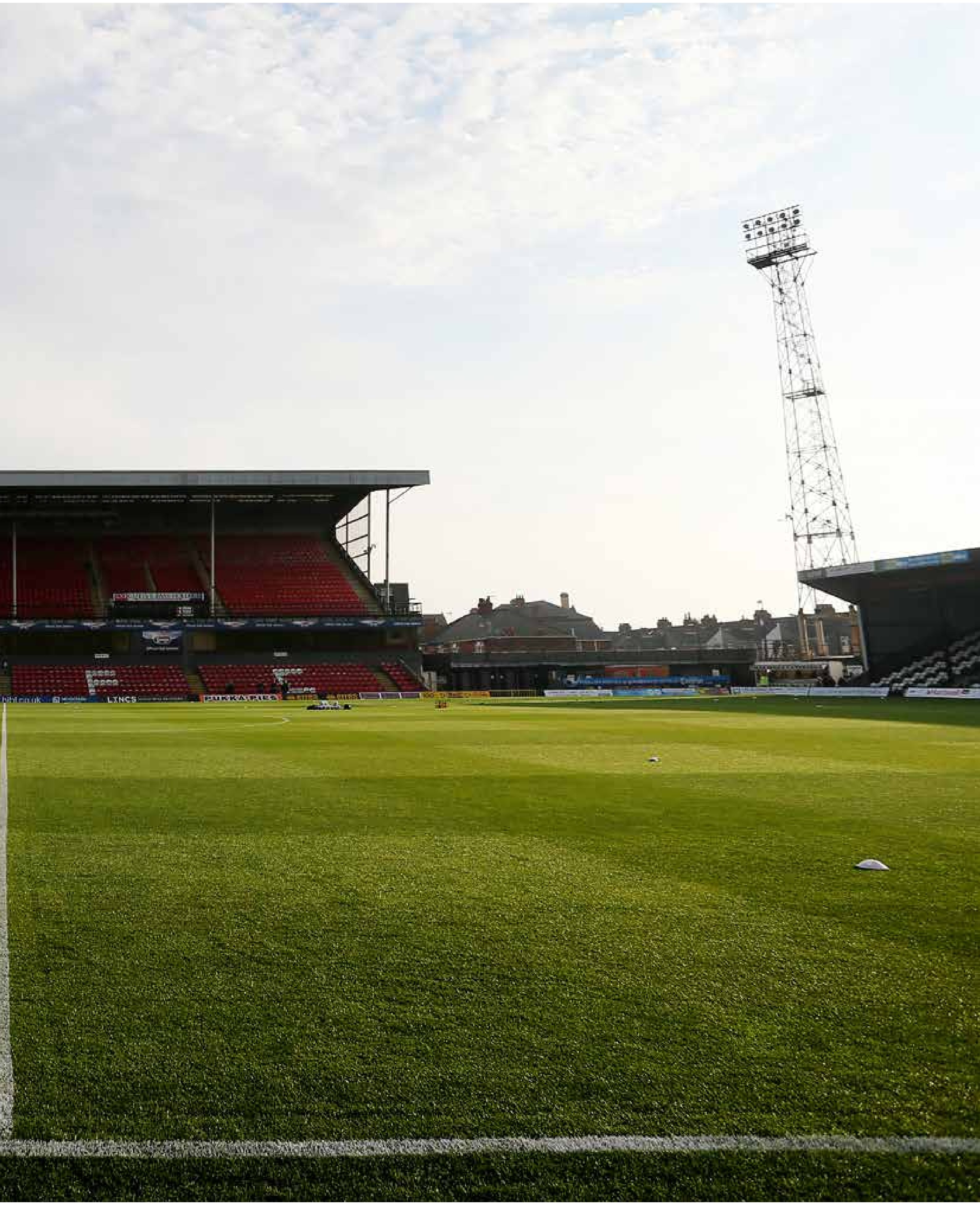
Clearly if the club was unfortunate enough to be relegated with a number of players on long term contracts it would be desirable to mitigate the risk. This can best be achieved at the contract stage by either of three options.

1. Contracts might be for a one year period but with an option exercisable by the club only to extend for a further year. In the event of relegation the club would be unlikely to exercise the option.

2. Contracts might provide for an automatic reduction in basic salary in the event of relegation. This would have to be meaningful and the lower wage would need to be affordable in the lower league.

3. The player may be granted the option to break the contract in the event of relegation, exercisable, say, by 31 July to give the club time to secure a replacement. If the player had originally commanded a transfer fee the option might be subject to the club recouping this fee or a proportion thereof.



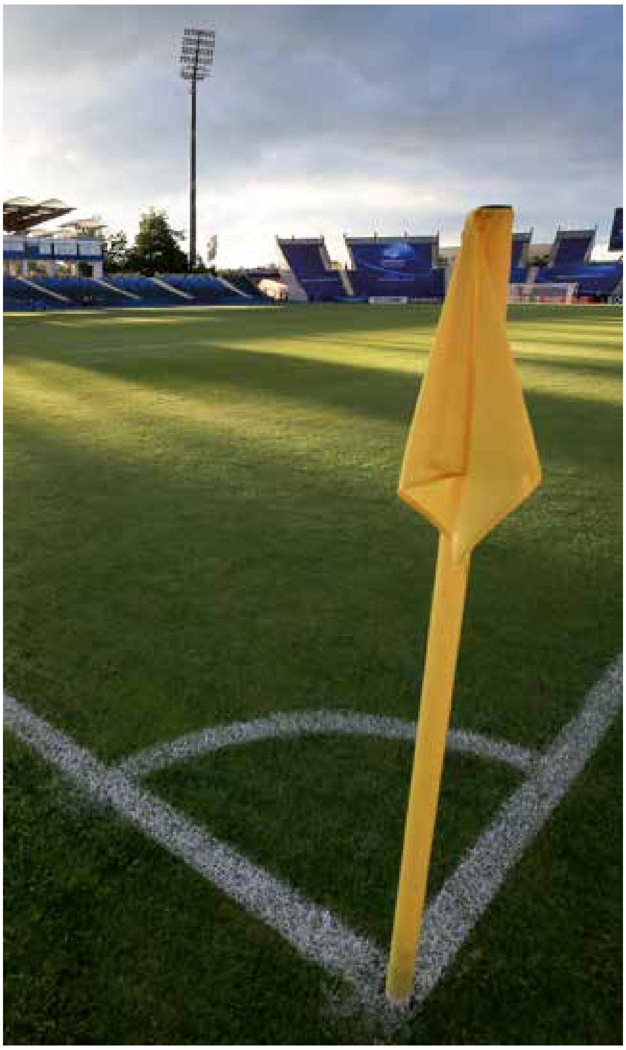


9. Staff Contracts

It is recommended that the approach to awarding contracts to first team support staff should mirror that for playing staff as set out in section 8 above.

Other staff are likely to be on straightforward contracts of employment with limited scope for instant cost savings in the event of relegation. Indeed, it must also be observed that it would be appropriate for the rights of such staff to be protected.

Under auto-enrolment all clubs are now likely to be paying pension contributions for all eligible staff. These are presently set at 2%, increasing to 3% in April 2019, on earnings between £6k and £46k p.a.. Clubs outside the EFL also need to pay these contributions for players: within the EFL players are members of a separately funded scheme.



10. Management Accounts

As recommended in section 4 on budgeting, the club's accounting records should report on the various profit and cost centres making up the club's operations.

Depending on the size of the club it would be appropriate to produce management accounts on either a monthly or quarterly basis, comparing the year to date actual result with the budget for the equivalent period.

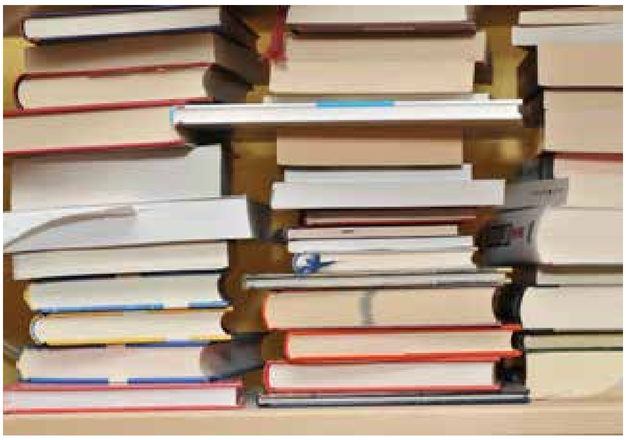
The monthly report should avoid excessive detail and focus on the key issues, in particular any material variances against budget, identifying whether these variances are simply timing differences or permanent in nature.

The report should be circulated to all board members and subject to appropriate discussion at board meetings.

In addition and on a more frequent basis, it is recommended that the club develop a series of KPIs to be monitored and reported on. Depending on the scale of the club's operations this might include the following, at various stages of the financial year.

- Season ticket sales;
- Attendances and gate revenue;
- Commercial sales;
- Catering & hospitality sales.

Unless stated otherwise these would monitor performance against budget and the report might be a simple one page document produced, perhaps, shortly after each home game.



11. Annual Accounts

11.1. Limited Companies

All limited companies have an obligation to prepare annual accounts, to distribute these to shareholders and to file them, at Companies House. The requirements vary depending on the company's size. Most community owned clubs are likely to meet the definition of a small company, being any two of the following criteria.

- Turnover below £10.2m;
- Net assets below £5.1m;
- Staff fewer than 50 employees.

Small companies must prepare accounts comprising a profit and loss account, balance sheet, supporting notes and a directors' report. There are more detailed guidelines laid down in the Companies Act.

These accounts must be sent to shareholders and a less detailed version, excluding the directors' report and profit and loss account, will be filed at Companies House.

In certain circumstances, small companies may only prepare abridged accounts but this option is unlikely to be available to community owned clubs.

Clubs which are limited companies under majority ownership by a supporters trust will enjoy these exemptions and, of course, only the trust and any other minority shareholders, will see the more detailed accounts which would not need to be made available to trust members. Moreover, only the very brief information filed at Companies House would be available to supporters and the wider community.

Community owned clubs will therefore have to balance taking advantage of the minimal disclosure obligations with the benefit of greater transparency resulting from increased disclosure. They may wish to consider preparing accounts that go beyond the Companies Act disclosure requirements and either making these available to all trust members or indeed to the public at large. Many community owned clubs already do this while some make fuller disclosure on special member-only zones on a club/trust website. Clubs need to be confident that this greater transparency will not confer any competitive advantage to other clubs in their league while having the great merit of increasing the information available to members and supporters.

Small companies do not usually need to have their accounts audited. However, community owned clubs may feel that obtaining an audit would provide reassurance to stakeholders.

Companies have until nine months after their year end to file accounts, often effectively towards the end of the following football season. Again, in the interests of transparency, community owned clubs might consider preparing and publishing their accounts more promptly.

11.2. Community Benefit Societies

There are key differences in the obligations regarding publication, filing and audit of accounts for societies as summarised below. These will be relevant for all trusts who either own a controlling shareholding in or in some cases operate their clubs.

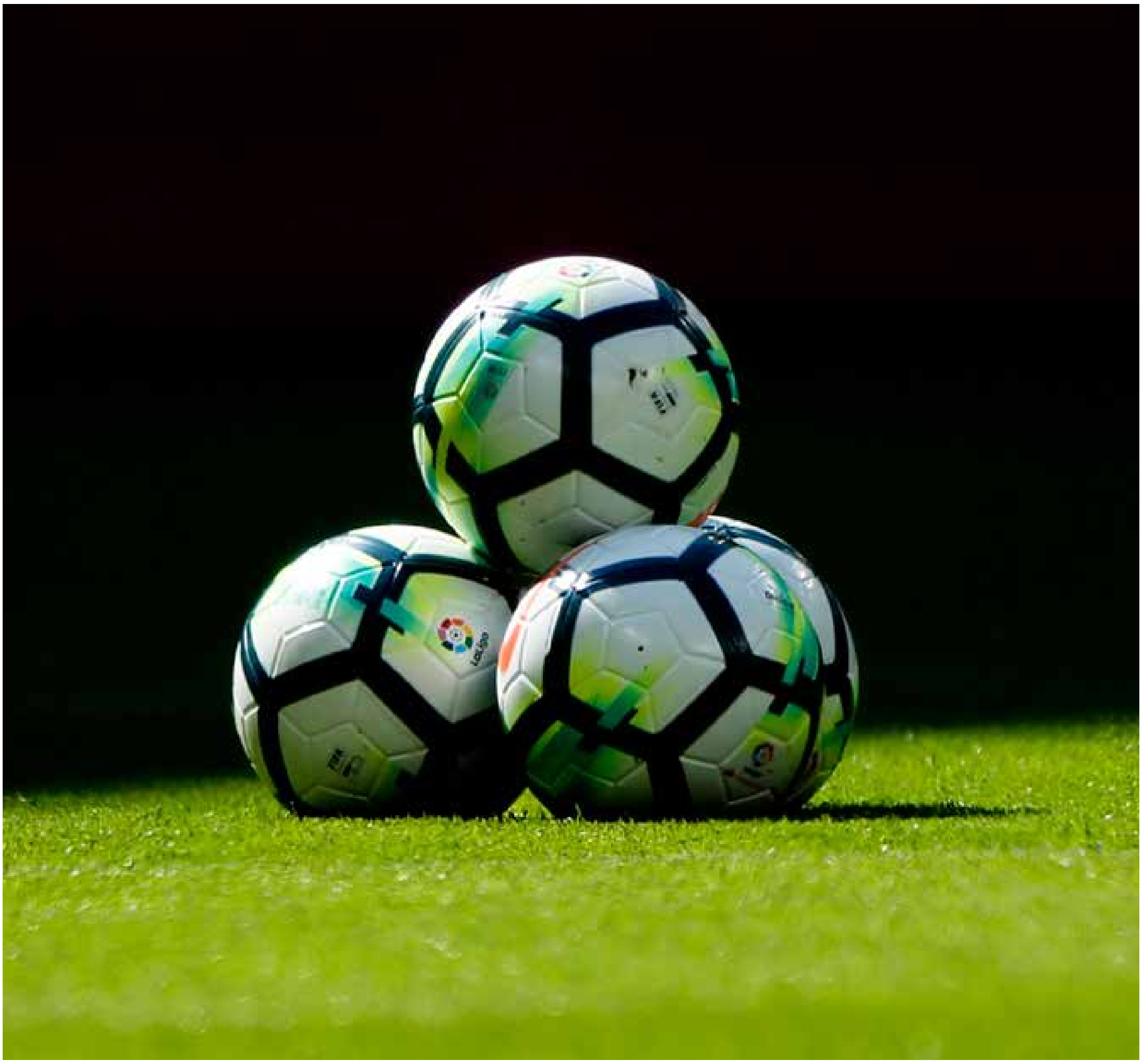
- Societies' accounts must include a revenue account, broadly the same as a profit and loss account. Other disclosure obligations are similar to those for limited companies.
- The threshold above which an audit is required is the same as for small companies above.
- Notwithstanding this, smaller societies must also have an audit unless their members vote to disapply the obligation. In those circumstances, all but the smallest of societies (turnover less than £90k) must have an accountant's report, a lower level of scrutiny where the accountant merely confirms the accounts are consistent with the underlying accounting records.

- Accounts must be filed with the Financial Conduct Authority within 7 months of the financial year end, as opposed to 9 months for limited companies. These accounts are not freely accessible by the public who must pay a £12 fee to obtain a copy.

- There is no obligation for societies to send accounts to each member although a copy must be provided free of charge to any member, or indeed anyone else, on request.

- A society is also required to display a copy of its balance sheet, but no further information, at its registered office at all times.

Consistent with the recommendations in section 11.1 for limited companies, trusts and clubs constituted as Community Benefit Societies may consider it appropriate, in the interests of transparency, to go beyond the minimum disclosure obligations by either sending the society's accounts to all members (or at least those for whom email addresses are known) or making them available on the club/trust website. Equally societies should consider publishing more promptly than the seven month deadline.



12. Internal Control Procedures

It will be desirable for all clubs to have formal internal control procedures. How sophisticated these are will be dependent on the size of the club and the number of responsible staff members or senior executives. For this reason it is difficult to prescribe a single system that will be suitable for all clubs and so it is likely that clubs will only adopt elements of the following guidelines as appropriate.

12.1. Segregation of Duties

The overall criterion has to be an adequate segregation of duties. By way of example, no one individual should be responsible for ordering goods or services, accepting delivery, approving the supplier's invoice and paying that supplier. Equally no one individual should be responsible for agreeing a sale, arranging despatch, collecting payment from the customer and banking the proceeds.

Essentially it is for the board to set out procedures and to ensure they are observed so that a club's funds and non-financial assets are safeguarded. If the company is of sufficient size the board is likely to delegate certain responsibilities to key members of staff.

Whatever system is adopted it is desirable that agreed procedures are committed to print and reviewed periodically by the board.

12.2. Acquiring Goods and Services

Procedures will define who is authorised to order goods or services. It may be appropriate to establish a structure where certain personnel are authorised to order up to certain limits, or within an existing budget. Anything required in excess of budget or above the limit will require a higher level of authority.

The limits should take account of recurring orders as part of a larger contract, for example orders for playing kit/retail stock within an overall contract of supply, or the hire of a coach for away travel as part of a season long arrangement. It is recommended that, in these circumstances, the aggregate value of all amounts to be ordered should determine who is authorised to place the order.

The procedures should stipulate that prices should be obtained for all orders and, above a certain value, competitive quotes should be obtained. In all cases a club should seek to negotiate credit terms and only agree to pay cash in exceptional circumstances.

Depending on the size of operation it may be appropriate to have a formal purchase ordering system co-ordinated by the accounts department. This would ensure that orders in transit are logged and allow for independent verification of the accuracy of supplier invoices, including prices.

The accounts department should process invoices received, matching with purchase orders and requesting approval to pay the invoice. This may be by the person who ordered the goods or services or, ideally, by that person's line manager or immediate superior.

12.3. Staff Expenses/Credit Cards

Most clubs are likely to have to reimburse staff for certain out of pocket expenses. It is desirable that the club should have a separate written expense policy, possibly within a staff handbook.

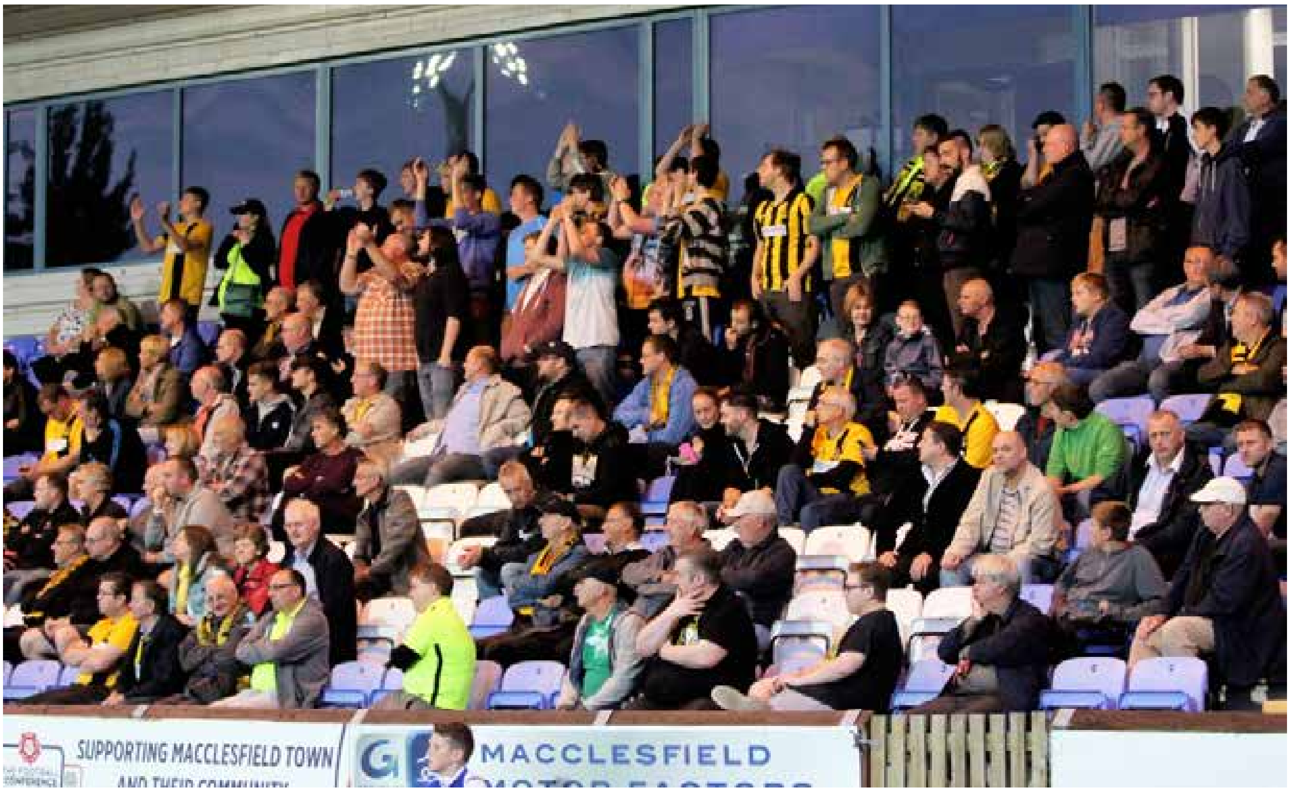
Staff should be encouraged to minimise amounts claimed in this way, placing orders as recommended above wherever possible. Expense claims should be limited to travel, subsistence, mileage and other minor ad hoc amounts.

Expenses should in all cases be supported by appropriate evidence of payment (till receipts etc) and summarised on a standard expense claim form designed by the club.

The written policy should set out clear rules on what can be claimed, including approved mileage rates, option of car sharing where feasible, use of car versus train travel and circumstances where accommodation and subsistence can be claimed and limits thereon.

Where material, expenses should be agreed in advance by the individual's line manager: for example overnight travel or recurring weekly mileage should in general terms be agreed in advance. Expense claims should then be approved by that manager and processed for payment monthly rather than on an ad hoc basis.

For larger clubs it may be appropriate to issue company credit cards to senior employees. Again their use should be subject to a written policy and employees should complete a monthly return supporting the amounts charged with appropriate documentation and obtaining approvals from their line manager.



12.4. Bank Payments

The club will have in place a bank mandate recording signatories on the bank account. This will be in respect of both cheque payments and other banking transactions including accepting loan and overdraft facilities. It is recommended that this mandate should be based on similar principles to the approval procedures set out above, perhaps with a single signatory below a certain amount and a second signatory for higher amounts.

The approvals procedure should encompass bank payments with the approved invoice being made available to the bank signatory(ies) when payment is to be made.

It is accepted that many clubs will use online banking and, subject to the functionality of the system being used, approval levels should be set in the same way as those for cheques signing, for example a second authoriser would be required above a certain limit. There may be logistical challenges where directors are required to be involved in the process but are not based at the club but, since online banking can always be accessed remotely, this should not be an insuperable challenge.

12.5. Sales Controls

Section 4 on budgeting and section 6 on sales inventory recommended procedures for identifying saleable inventory and setting prices. It is further recommended that the club's internal control procedures should set authorisation procedures for offering discounts, perhaps beyond a certain level, to avoid the temptation for sales staff to offer excessive discounts perhaps in order to achieve sales targets.

Similar procedures should be defined for negotiating contra deals for commercial inventory offered in kind in lieu of goods/services supplied to ensure that the deals are on acceptable terms.

Procedures should also be in place for writing off amounts owing by customers either by issuing credit notes or writing off debt.

Depending on the size of club it may be desirable to have some form of inventory control. It is likely to be impractical for a software package to be used but access to inventory must be limited to trusted personnel. This would include retail stock and, for example, away tickets supplied on a sale or return basis where the club would be obliged to meet the cost of any tickets not accounted for.

Retail inventory should, from time to time, be counted, overseen by a responsible individual.

12.6. Cash Handling

Depending on the size of club it is possible that large amounts of cash will be processed, in particular for match day ticket sales. Every effort should be made to minimise cash and offer credit card processing as an alternative, not least because many customers prefer to pay by card nowadays. Depending on attendance levels it may be possible to direct supporters wishing to pay by credit card to an outlet which can accept cards or to equip turnstile operators with wireless card readers.

In the event that cash takings cannot be avoided every attempt should be made to ensure that cash takings accounted for by each turnstile operator can be reconciled to tickets issued and unsold tickets returned.

Moreover, procedures should be in place for non-matchday transactions whereby daily takings, by credit card, cash or cheque, can be reconciled to tickets issued in the day. In due course there should be an audit trail of how these takings are ultimately banked.

The same principle applies to the club's retail operation where end of day takings should be reconciled to a till roll or similar and, in due course these followed through to the bank account.

12.7. Smaller Companies

In the course of these recommendations a number of caveats have been made about the size of company. In smaller clubs, where segregation of duties or the adoption of many of these procedures is impractical, it is recommended that a senior director, ideally with a financial background, carries out a periodic review of transactions – a form of internal audit – to ensure that there has been no impropriety or error.

12.8. IT Security

Even smaller clubs are likely to maintain their accounting records using specialised software nowadays. Larger companies may also use dedicated software for ticketing, retail and other operational areas.

In such circumstances it is essential that appropriate security procedures are in place limiting access to authorised personnel only and minimising the risk of data being lost or damaged.

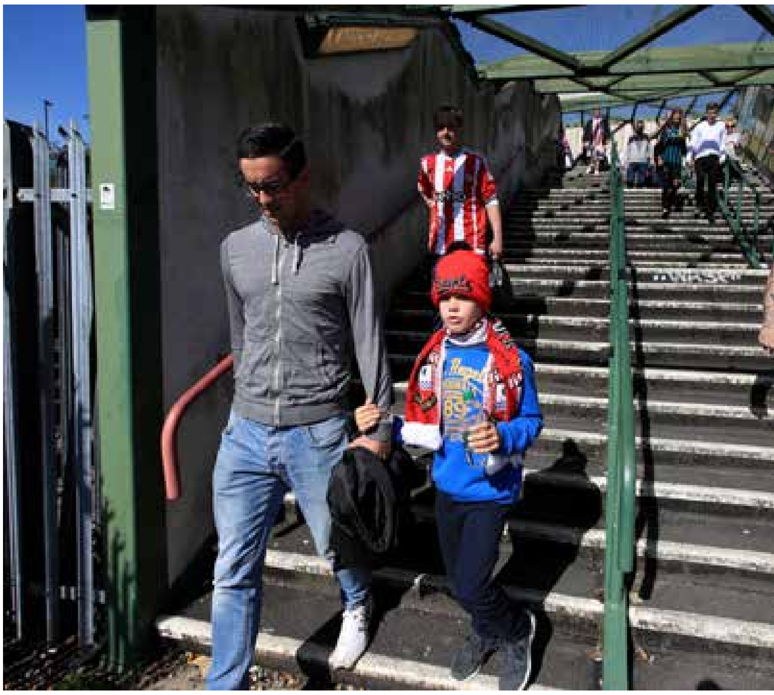
13. Capital Expenditure/Project Finance

It is likely that clubs will only occasionally embark on major projects and it is recommended that they should only do so after a thorough feasibility study, particularly from a financial perspective. Projects are likely to centre on the club's ground or training facilities and may initially be funded from a combination of the club's own reserves, grants and loan finance.

It is essential that project costs are tightly controlled, based on a comprehensive specification and the subject of more than one competitive quote. Once a project commences the costs need to closely monitored against the original budget and changes to the spec should be resisted to avoid costs escalating.

The feasibility study will have evaluated the revenue earning potential of the new facility under a range of scenarios and there must be a realistic prospect of the financial return from the project, based on cautious assumptions, being sufficient to allow the club to meet its loan repayment obligations.

It might be added that a club's prospect of obtaining grant or loan finance for a capital project will be greatly enhanced if it can support any application with a credible feasibility study.



14. Tax Compliance

Tax compliance obligations are complex for all companies and may require more detailed specific guidance. However, the following key points may be of assistance to club and trust boards.

14.1. PAYE

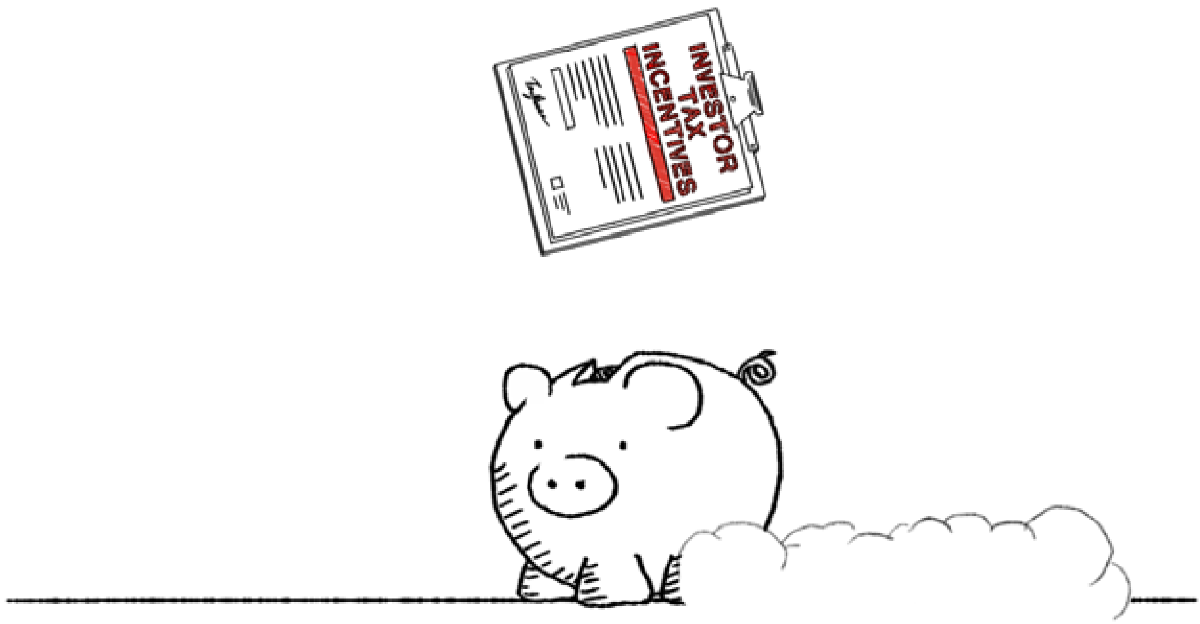
In material terms all earnings for workers at clubs are likely to be subject to PAYE, processed through the club's payroll. The only exception would be bona fide consultants. There is no simple definition of who might be an eligible consultant and each case will need to be considered on its merits. However, key indicators will include the following.

- Consultant status may be evidenced by the individual being self employed and performing similar services for other companies;
- The consultant might be engaged to perform a specific service rather than being required to attend for specific times;
- The consultant's fee for provision of the service might be fixed rather than an hourly or daily rate;
- The consultant would have no entitlement to holiday pay or any other employee benefits (pension, healthcare, etc).

Casual staff, in particular matchday staff such as stewards, turnstile operators, etc, are invariably employees and should be paid accordingly. They are required to attend at specific times on specific days and have no discretion as to how and when they provide their services.

It can seem tempting for clubs to treat workers as consultants or freelance, for example to take advantage of savings in employers' national insurance. However, if HMRC is successful in challenging these individuals' status and if they have not declared their earnings and paid tax thereon, HMRC would demand a grossed up payment from the club on the assumption that the payments made to the consultant were net of tax. Penalties might also be payable and the cumulative liability over a number of years could be crippling for a club.

Clubs are also urged to avoid any proposals to exploit any superficially tax efficient ways of paying their players. It may be that these schemes are largely confined to the upper reaches of the football pyramid but structures such as image rights have been scrutinised and challenged by HMRC and clubs who utilise them are at risk of being help liable for any unpaid tax in the future.



14.2. Benefits in Kind

Players and their agents may seek to negotiate additional benefits within a player's contract. Certain senior staff may also seek similar benefits. These might include the following.

- Payment of agent's fee;
- Medical insurance;
- Relocation/accommodation;
- Travel costs;
- Company cars.

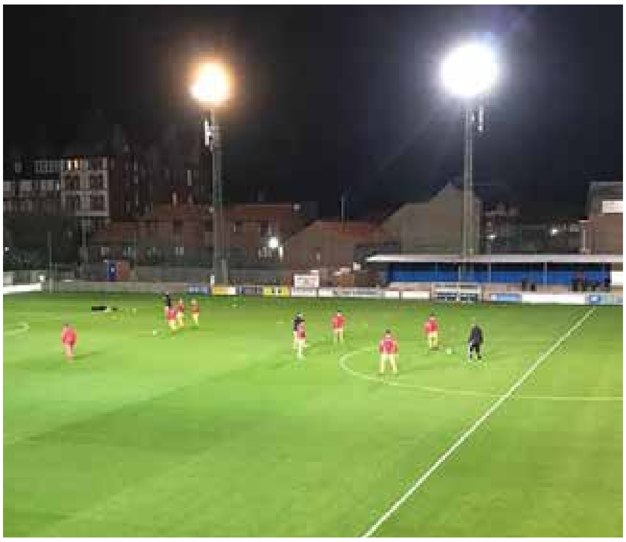
Offering these benefits alongside a basic salary may in certain circumstances represent a sensible package for recruiting new employees. However, clubs need to be aware of the tax implications and ensure they are fully complied with.

Agents' fees have long been a contentious subject with HMRC. HMRC does recognise that there are likely to be two roles performed by an agent – identifying or recommending a player who might meet a club's requirements and negotiating the contract terms for a player. These roles may on occasion be performed by two different agents and HMRC recognises that the former position (player identification) is a service provided to a club rather than a player.

However, when only one agent is involved the default position has always been that most agents are engaged to negotiate the best terms for their clients and, as such, their fees for these services should be deemed a benefit in kind for the player. However, clubs have argued, with some justification, that agents perform a dual role and this should be reflected in the tax treatment where at least an element of the agent's fee should be regarded as for the benefit of the club.

A club wishing to pursue this approach would be well advised to draft its documentation in such a way as to reinforce this treatment. Standard agent agreements should specify the services being provided to the club and player respectively with the fee split 50:50 between each service.

The agent should then be instructed to raise two invoices – one to the club and the second to the player, albeit noting that payment should be made by the club. In addition, if practicable where clubs rely on certain agents to help identify players, clubs might consider an



advance agreement with those agents stating that they are engaged to identify players and will be remunerated in the event of a player they have recommended being offered a contract.

It should be noted that any VAT payable on the player benefit cannot be reclaimed and must be included in the cost of that benefit.

Many clubs at EFL and NL level now obtain medical cover for their playing squad via Premier League Medical Care. By concession with HMRC, only a very small proportion of the associated cost is regarded as a benefit in kind. By contrast, HMRC regards the full premium of conventional medical insurance as being a benefit in kind, notwithstanding the fact that clubs only bear the cost of cover for purely business reasons. PLMC notifies clubs of the benefit in kind element of costs each year.

Where players or staff are relocating to join a club the first £8,000 of any eligible costs can be paid by the club as part of a relocation allowance and is not taxable. Eligible costs include removal costs, professional fees in connection with a house purchase, certain rental costs and certain goods for a new home. They should be evidenced by appropriate documentation and ideally paid directly by the club. Costs paid by the club in excess of £8,000 are taxable as benefits in kind.

Certain travel costs may be allowable. This would include the cost of overseas based players coming to the UK for the first time on joining a club and, for those same players, limited trips back to their home country (including the costs for their immediate family) if their contract is one of less than twenty four months.

All business related travel and subsistence is allowable for tax purposes and so, in particular, travel to away games is fully tax allowable. Clubs should however be careful to ensure that staff and players are not reimbursed for home to work travel and are not given round sum allowances in respect of travel or other unspecified costs but are only reimbursed for specific costs. Any such round sum payments would be taxable.

Company cars are a less commonplace benefit than some years ago as the tax regime is now less favourable. Cars are taxed by reference to CO_2 emissions with a premium for diesel cars. Clubs should bear in mind that a car provided directly to a player or other employee by a club sponsor or commercial partner, even where no payment is made by the club, is deemed to be a taxable benefit which the club must report.

Reporting of benefits in kind is undertaken on forms P11D which must be submitted by early July each year. Employee will have to bear tax on the benefits reported while class 1A national insurance is payable by the club on the total of benefits reported at a current rate of 13.8%.

14.3. VAT

Accounting for VAT for football clubs should, in the main, be straightforward. With very limited exceptions, all of a club's income will be subject to standard rate (20%) VAT. The exceptions include the following.

- Distributions by the EFL and FA, for example monthly payments to EFL clubs or cup prize money. By concession these are treated as distributions to members and outside the scope of VAT.
- Any sponsorship income invoiced to a non-UK sponsor. The same does not necessarily apply to advertising charges to the same customer unless the product being advertised is also non-UK. If being promoted (by advertising at the club) and sold within the UK it must be subject to standard rate VAT.
- Rental income from subletting any property, but see below on opting to tax.
- Royalties or commissions charged to in-stadium betting concessions, treated as exempt income.

The latter two are likely to be a club's only exempt income meaning that, unless such income is exceptional compared to a club's other income, it is highly unlikely that the club will be subject to partial exemption rules and thereby restricted in the VAT it can recover on purchases.

It follows that clubs can generally recover all VAT on purchases with the probable exception of VAT on the player benefit element of agents' fees – see section 14.2 on benefits in kind.

All clubs which own the freehold of their ground need to be aware of whether the ground has ever been the subject of an option to tax. If not, they might be constrained in their ability to recover VAT on the cost of major redevelopment (but not routine maintenance) to the ground. Moreover, if they wish to sub-let part of the ground it may be appropriate to opt to tax if their sub-tenant is VAT registered and could recover the VAT. In practice, a club should seek appropriate professional advice before making a decision to opt to tax or revoke an earlier option as circumstances can be complex and will vary in each case.

14.4. Payment

Clubs should prioritise paying their taxes when due. HMRC no longer enjoys preferential status in insolvencies and has had to write off significant sums owed by insolvent football clubs. Consequently it tends to react vary aggressively to late payment and, following the transition to Real Time Information, is fully aware of what clubs owe. It is therefore not unusual for clubs which delay payment, or even seek HMRC's consent to delay, to be the subject of winding up orders. This can rapidly have a destabilising effect on clubs' creditworthiness.

15. Risk Management

All companies need to have an understanding of the risks which might affect their business and to have plans in place to mitigate such risks. A worthwhile discipline is to create a risk register which identifies potential risks, perhaps ranks them according to the perceived likelihood of occurrence and potential damage to the business and sets out steps to mitigate those risks.

Major risks might be performance related, financial or due to other factors. For a football club, performance related factors would include relegation. Financial risks might include a misjudgement of budgeted revenue, major default by a key sponsor or a major financial fraud. Other risks might include a major property incident or a liability claim against the club.

The mitigating actions in respect of performance related and most financial risks will include the approach to budgeting recommended in this guidance. Incidents such as a major default could not be planned for but might be mitigated, in part at least, by appropriate due diligence on commercial partners and by seeking advance payment such that, if default occurs, there might be time to secure an alternative partner albeit, possibly on reduced terms. It is possible that a club could insure against actual fraud.

Other risks are most likely to be mitigated by insurance. The club's liability insurance will probably have been arranged centrally by the league in which they participate. The most important element would be the public liability cover which would provide cover in the event of any major public safety incident at the club's stadium.

Clubs would also be well advised to take out insurance for other risks not covered by the league's central insurance. All risks cover would include insurance of the club's property against theft or damage. Business interruption cover would address loss of income in the event of damage to the stadium rendering it unavailable, or only with reduced capacity, for staging matches. Clubs should ensure they allow adequate time for full reinstatement of facilities lost due to major damage as the process of redesign, planning consent and construction can be protracted.

Moreover, clubs should ideally have a contingency plan in place to utilise alternative facilities, perhaps a reciprocal ground sharing deal with another local club, in the event of damage to their ground making it unusable. A business continuity plan might also provide for alternative administrative facilities, in particular IT systems, in the event of loss or damage.

Clubs should also consider directors' and officers' insurance to protect the board and senior management from any possible claim against them personally for negligence in the context of a public safety incident. In today's litigious world it is quite possible a claimant might look not just to a club's public liability cover but also to a claim against individual executives.

Finally, the issue of medical insurance has been referred to elsewhere and clubs need to make a decision whether or not their playing squad will be covered for private medical treatment. The cost may be prohibitive for smaller clubs.

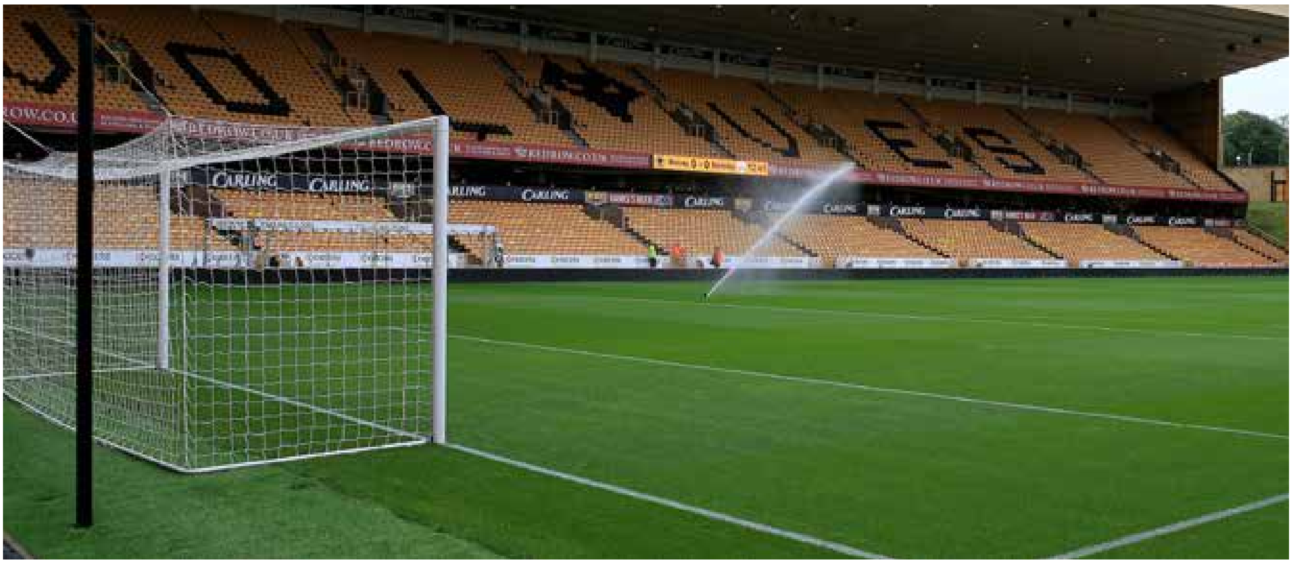
16. Conflicts of Interest

It is essential that club and trust directors are seen to be acting with impartiality and integrity at all times. For this reason, the utmost care must be taken to avoid any actual or even perceived conflicts of interest.

Since most directors are likely to act in a voluntary unpaid capacity, many may be local businessmen who, from time to time, may be in a position to supply goods and services to the club or accept services from it.

If this is the case it is essential that all such transactions are demonstrably at arms' length. If the terms of any such transaction are being negotiated with the club, the director should declare his interest in the transaction and, if subject to board approval, should absent himself from any discussion or vote thereon.

The board must ensure that all transactions involving board members are disclosed in the club's accounts as "related party transactions" and be prepared to be totally transparent about them.




SD
supporters direct