SUPPORTER SHARE OWNERSHIP:

Recommendations on how to increase supporter ownership in football

supporters direct

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Contents

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Supporter Share Ownership

Executive Summary

The case for encouraging greater levels of collective supporter share ownership, primarily via the supporters' trust model in football, has been strengthened still further in recent years.

There are an increasing number of good examples of supporter ownership, both in England and throughout Europe. Memorably, the 2012/13 Champions League was contested by FC Bayern and Borussia Dortmund, two clubs owned by their members. In England, Portsmouth Supporters' Trust took majority control of their club via a local consortium in 2013, demonstrating both the potential of the supporters' trust model, but also many of the barriers to greater levels of collective supporter shareholdings.

Political support for this agenda has also grown, not least through manifesto pledges from all three major parties at the 2010 election. The on-going Culture, Media and Sport Select Committee Football Governance inquiry recognised the value of supporter ownership, and the need to encourage its further development. It recommended "measures that increase their [supporters' trusts'] ability to raise money; and measures that increase the opportunity for supporters' trusts to achieve a share in their club, whether on a minority or majority basis."[1]

This highlights barriers to increasing the levels of collective supporter share ownership in football and makes recommendations about how new opportunities to facilitate supporter ownership can be taken.

The paper's central proposal is for the creation of a Community Football Fund which would be established as a social investment intermediary capable of securing various forms of social investment to assist supporter ownership. Also proposed are measures such as tailored tax relief for supporter-led takeovers and pre-emption opportunities for supporter share purchases.

Supporters Direct and the trust movement have been at the forefront of these developments, and this paper sets out our position on how to take the next step towards widespread supporter ownership of clubs.

1. Introduction

Supporter share ownership is increasingly important to the future sustainability of football as a spectator sport. Supporter involvement and ownership has the potential to transform the business model of football, from one that is unstable, reliant on debt and/or benefactors and unsustainable to a more robust distributed ownership model, engaging fans as investors, customers, and fully committed supporter-members. This report presents the options for supporter share ownership in football, ranging from full community ownership and investment, to schemes which involve supporters in minority share ownership and share schemes.

The report identifies the barriers supporter share ownership faces, and the potential solutions to these barriers. It also makes a series of recommendations for policy makers, who want to see more supporter share ownership in the future.

The report makes a cornerstone proposal for the development of a new Community Football Fund, involving the Big Society Bank and Big Lottery Fund, to enable supporter ownership.

1.1 Rationale for supporter ownership

Research conducted by Substance for Supporters Direct over a number of years has demonstrated that supporter/community ownership of football clubs can help:

- Improve governance in football, by creating more democratic, transparent and accountable structures.
- Make clubs more financially sustainable by living within their means.
- Deliver greater social value – or community benefit – for the local communities in which they operate.
- Engage a wider groups of stakeholders in a meaningful way, generating opportunities for volunteering, democratic participation, skills development and taking responsibility.

This has been recognised both within the UK and across Europe.

In the UK, the Culture, Media and Sport Parliamentary Select Committee recommended:

> **'Supporters' trusts have become an increasingly significant and successful model for club ownership and can have a beneficial influence on, particularly financial governance.'[2]**

Ms. Androulla Vassiliou, the European Commissioner for Education, Culture, Multilingualism, Sport, Media and Youth said:

> **"Supporters sustain sport not only through economic investment but also through countless hours they devote to volunteering and participation at their clubs. This is a vital part of the role that sport can play in building stronger communities. At the same time the relationship between supporters and their club constitutes one of the fundamental specificities of the sport sector relative to other economic activities.**
>
> **The work of Supporters Direct Europe shows how fans can help to develop inclusive and sustainable structures at both their grass roots and professional levels, giving life to the concept of active citizenship and demonstrating how supporters can contribute to better governance and long term sustainability in sport."**

1.2 Demand for supporter share ownership

Supporter ownership of football clubs is a concept that has increased in popularity, credibility and profile in the UK in recent years.

At a policy level, in the 2010 general election all three major parties made promises about encouraging supporter ownership of football clubs, whilst the Coalition's Programme for Government pledged to:

> **'Encourage the reform of football governance rules to support the co-operative ownership of football clubs by their supporters.'**

Amongst football supporters, the demand for greater levels of collective supporter ownership of clubs is clear.

Supporters Direct's mission statement is 'to promote sustainable spectator sports clubs based on supporters' involvement and community ownership'. Supporters Direct works with over 170 supporters' trusts that have a combined membership in excess of nearly 400,000 people across Europe. There are about 299,000 individual trust members and 99 supporters' trusts in England alone with an additional 22 supporter owned football clubs also in membership.

Over the years SD has developed its expertise in helping supporters' trusts to acquire influence and ownership in the clubs they support. This demand has been turned into ownership of clubs:

- 17 clubs in the English pyramid are wholly owned by supporters – including Wrexham AFC, AFC Telford United, Wycombe Wanderers FC, and FC United of Manchester.

- 5 clubs are majority owned by supporters – including AFC Wimbledon, Portsmouth CFC and Exeter City FC.
- 16 clubs are partially owned by supporters – including Swansea City FC in the Premier League and Grimsby Town FC, Carlisle United FC and Dorchester Town FC.

Supporters' trusts have also raised large amounts of capital, often from a relatively small fan base.

- AFC Wimbledon supporters raised £1.26m to buy their Kingsmeadow Stadium in 2006.
- FC United of Manchester members have so far raised in excess of £2m (£1.75m via 'community shares') to help fund the building of their stadium and community facility.
- Wrexham supporters raised about £750k to take 100% ownership their club in 2012 after years of instability at their clubs.
- Most recently, Portsmouth Supporters' Trust has secured over £2m to take a majority shareholding in their club, Portsmouth FC.

The demand from supporters to extend this ownership is very strong. Research conducted by YouGov for Coops UK[3] suggested that:

- 83% of Manchester United fans and 72% of Liverpool fans who expressed an opinion felt their club would be in better hands if it was owned co-operatively. Across the country 56% of fans, who gave an opinion, feel the same way.
- On average supporters would be prepared to personally invest £414 in a cooperative in order to save their club from administration.

Community Ownership definition

The working definition of community ownership that Supporters Direct use is;

- A minimum of 50% +1 of the voting rights of the Club is controlled collectively by a democratic entity which has an open and inclusive membership.
- Any profits within the majority controlling entity are reinvested back into the Club as opposed to being distributed to shareholders/members.
- The Club is committed to running as a sustainable business.

1.3 Report Structure

The report is structured into six sections including this introduction. There is also a feature case study on Portsmouth Football Club, which was recently acquired by Portsmouth Supporters' Trust through the purchase of a majority stake in the club.

Section 2 – Supporter Share Ownership Structures: This section outlines the different corporate structures that can be used to facilitate supporter ownership, focusing on Community Benefit Societies (CBS) and Community Interest Companies (CICs), as well as addressing a range of other structures in football in which supporters have sought to gain ownership stakes.

Section 3 – Raising Community Finance: All football clubs need a mix of capital, getting the right blend of equity, debt and retained profits. This section explores how community investment can be encouraged through the offer of community shares, community bonds, community fundraising and crowd funding.

Section 4 – Share ownership and Financial Regulation
For supporters to be able to buy shares in football clubs, club owners must first be willing to sell their shares, or agree to clubs issuing more shares. Financial regulations and company law restricts the scope for private limited companies to sell shares to the public. Although schemes such as Arsenal Fan Share have been developed to give fans a stake in the club they support, there are very limited opportunities for this to happen and significant barriers to be overcome.

Section 5 – Towards a Community Football Fund: This section outlines the report's cornerstone proposal for a Community Football Fund which could address the barriers faced by supporters' trusts seeking to secure the community ownership of football clubs through supporter share ownership. It includes important proposed roles for Big Society Capital and the Big Lottery Fund.

Section 6 – Key Recommendations: With all the main political parties pledged to encouraging democratic supporter ownership, the report concludes with a summary of recommendations on how barriers to supporter ownership can be overcome. In each case of supporter ownership or finance raising, regulatory issues have emerged that need to be addressed if supporter ownership is to be effectively encouraged.

Feature Case Study: Portsmouth Football Club. In July 2013 Portsmouth Supporters' Trust acquired a 60% stake in Portsmouth Community Football Club, for an investment of more than £2 in community shares. Their experiences stand as a powerful example of many of the barriers and solutions highlighted in this report.

Section 2: Supporter Share Ownership Structures

This section outlines:

i. The connection between corporate law, share ownership and investment.

ii. Why Supporters Direct (and other agencies) regard community benefit societies as a good legal form for supporter ownership of football clubs.

iii. Some of the drawbacks of using the CIC form for supporter ownership.

iv. A brief review of other legal forms currently used by football clubs, and how these relate to supporter ownership.

2.1 Corporate law

In order to fully appreciate the options for structuring supporter share ownership in football clubs it is first necessary to understand a little about corporate law. Corporate law is important because it determines who owns and controls an enterprise, and how this ownership and control is exercised.

Corporate law provides a legal identity to an enterprise. This identity is distinct from the identity of its members and owners. It limits the liability of members to what they have invested in the enterprise in the form of share capital. Share capital is fully at risk. Shareholders are the last in the line of creditors, and if the enterprise fails, shareholders could lose some or all of the money they have invested in share capital.

There are two main bodies of corporate law in the UK; company law and industrial and provident society (IPS) law. Both provide an enterprise with limited liability status, and both make arrangements for members, as shareholders, to exercise control over the enterprise. However, company law and IPS law are very different in how shareholders control an enterprise. Company law embodies the principle of one-share-one-vote, whereas IPS law embodies the principle of one-member-one-vote.

Most football clubs are structured as companies. Indeed, the Football League and the Premier League requires clubs to be structured as companies, because of differences in the way in which insolvency is handled in a company, compared with a society.

Community ownership is not a legally defined term, but there are two legal forms, which provide a starting point for community ownership: community benefit societies (CBSs) based on IPS law and community interest companies (CICs) based on company law. These forms are explored in greater detail below.

2.2 Community Benefit Societies (CBSs)

There are two reasons why IPS law is suited to community ownership. It provides a legal basis for the democratic rights, responsibilities and rules of association for members. It also provides for a unique form of share capital called ‘withdrawable shares’. Crucially, all members have only one vote, regardless of how much they have invested; and although interest on shares can be paid, this is limited to what is deemed ‘sufficient only to attract and retain the investment’.

Under IPS legislation there are two main forms of society - a co-operative society, and a community benefit society. The main difference between these two types of society is that co-operative societies exist for the benefit of their members and must subscribe to internationally recognised principles of co-operation, whereas CBSs have wider community benefits as core objectives of the society. CBSs may choose to subscribe to international principles of co-operation and become full members of the federal body Co-operatives UK, to underline their co-operative credentials.

The CBS form of society is better suited to community ownership of football clubs than a co-operative society because it aims to serve the interests of the whole community, and not just the members of the co-operative. All supporters’ trusts and many supporter-owned clubs are formed as a CBS with obligations to benefit the wider community as well as the club and supporters. As such a CBS is the corporate form under IPS legislation that is most relevant here.

The defining features of a CBS are that it:

- Has objects that its purpose is to benefit its community.
- Is based on one member one vote.
- Has a membership that is open to anyone to join.
- Is registered with and regulated by the Financial Conduct Authority mutual register.
- It is non-profit distributing.
- It allows for a ‘statutory asset lock’ which means a club’s assets cannot be sold for private (members’) gain.

2.3 Community Interest Companies (CICs)

Community Interest Company regulations were introduced in 2005 and provided an alternative under company law so that a company could be formed that serves the interests of communities, rather than financial interests of shareholders, and also restricts the private financial benefits of membership.

Fundamentally, a CIC is a regulated form of company, and is fully subject to company law. A CIC can be formed as a company limited by shares (CLS), a public limited company (Plc), or a company limited by guarantee (CLG)[4]. However, they have features to safeguard the interests of the community they were set up to benefit:

- A CIC has to have articles and carry out activities which fulfil a community purpose, thus meeting the so-called 'community interest test'.
- A CIC also has a statutory lock on its assets written into its articles of association to prevent residual profits from being distributed to its members or shareholders.
- The company must include 'Community Interest Company' or 'CIC' in its name.
- There are limits on dividends to shareholders, currently 20%, provided that its community objectives have been met.

CICs that are structured as a CLS or Plc can issue shares but work to the principle of one-share-one-vote, thus allowing an individual, entity or small group of people to have overall control. In common with all companies, shares in CICs are normally transferable, although they also have the power to issue redeemable shares.

2.4 Comparing community ownership structures

i) Advantages of a CBS Structure

Supporters Direct in England recommends the CBS structure for community ownership because it provides:

- A robust, democratic structure for community ownership and investment.
- All of the advantages of incorporation, such as limited liability status.
- The ability to issue withdrawable shares.
- One-member-one-vote regardless of how many shares are held.
- A non-profit distributing structure.

Withdrawable shares are a critical element because they allow supporters to invest in supporters' trusts and/or clubs in the knowledge that they can in the longer term probably have opportunities to cash-in their shares, subject to conditions set out in the rules of the society. This is an important advantage over transferable shares issued by companies, including CICs, where it can be extremely difficult to find a buyer for a relatively small number of shares.

However, withdrawable share capital is subject to the following conditions:

a) Withdrawable shareholdings are limited to £20,000 per member.

b) Interest can be paid on share capital, but only at a rate that is sufficient to attract and retain the investment.

c) Members can withdraw their share capital from the society, but subject to terms and conditions laid down by the CBS (e.g. notice period, total amount of capital to be withdrawn in any one financial year).

c) They cannot increase in value (but in some instances can go down).

Four major advantages of withdrawable shares in football are that:

- Their non-speculative form (they cannot be traded or increase in value) means it helps prevent football clubs being used for speculative purposes by individuals or companies.
- The limit on interest payable on shares to a 'rate sufficient to retain the investment', helps prevent large amounts of a club's surplus being paid out to private individuals or corporations.
- A statutory asset lock further reinforces the non-speculative nature of withdrawable share capital because even if the society was sold for above its net asset value, the residual value could not be distributed amongst members.
- The share offer must be primarily for community benefit, ensured by how the club is subsequently managed.

Another major advantage of a CBS is that it is exempt from financial regulation when promoting the sale of withdrawable shares to the general public, which means that it is cheaper and more straightforward for community groups to raise equity capital. CICs are not exempt from this financial regulation.

ii) Advantages of a CIC Structure

CICs are a better model for football clubs than normal company forms because they prioritise community benefit over financial return. The limit on the payment of dividends, set at 20%, and only payable once community benefit objects are met, would help to prevent clubs being used for speculative purposes and helps retain reinvestment. However it should be noted that the ceiling is still very high for a football club, although the members could choose to lower this ceiling.

- A CIC is flexible in that it can be formed in one of three ways – CLS, CLG or Plc.
- A CIC also has the advantage that it meets the Football League's requirement that it can enter into a Company Voluntary Arrangement (CVA), which a CBS cannot do.
- Although CICs work to the principle of one-share-one vote, it is also possible for them to issue a category of share that provides certain rights on a one-member-one-vote basis.

2.5 Barriers to community ownership

i) Barriers for a CBS

For a CBS there are a number of barriers:

- Withdrawable shares are limited to £20,000 at present – although legislation has been passed to increase this limit, it has not yet been implemented.
- Football League and the Premier League rules do not allow clubs to be a CBS. Instead the club must be structured as a company in order to satisfy the Football League requirements. The reason for this is that a CBS cannot currently enter into a Company Voluntary Arrangement (CVA), which allows the company to continue to trade under the direction of an administrator, whilst simultaneously protecting the interests of major creditors (including within football) from further losses.
- This restriction on CBSs places a premium on them being run sustainably to live within their means – something football authorities are also seeking to encourage via points deductions as punishment for entering a CVA.
- Although there is a Government review of insolvency arrangements for societies, the removal of the restriction on CBSs by the leagues would both overcome the barrier and allow a form of football club that has to operate sustainably.

Key Recommendations:

To address these barriers, Supporters Direct would like to see:

- An increase to the amount of withdrawable shares possible in a CBS
- The Football League and the Premier League allowing clubs to be formed as a CBS.

ii) Barriers for CICs

There are some drawbacks with each form of CIC as a structure for democratic supporter ownership in football.

- A CIC CLG cannot issue share capital, and instead must rely on some form of debt instrument (loan stock, debentures, bonds etc) if it were to seek capital from its members. They cannot issue withdrawable, or other, forms of shares. However, a supporters' trust (formed as a CBS with withdrawable shares) could be a member of a CIC CLG and provide capital for it.
- A CIC CLS can issue shares but it cannot offer these shares to the general public, only privately, because Section 755 of the Companies Act 2066 prohibits a CLS from making a public offer of securities, including shares. A CIC CLS wishing to issue shares to the public must first convert into a CIC Plc.
- A CIC Plc would face even more onerous regulation if it were to make a public offer of shares, as any Plc has to have a minimum of £50,000 paid-up share capital, and meet more stringent audit and public reporting standards. Larger share offers may also be subject to financial regulation under various Prospectus Directives and Orders, resulting in high compliance costs. Partly for this reason there are currently no CIC Plcs.
- All CICs are subject to the Financial Services and Markets Act 2000, the Financial Services Act 2012 and all associated regulatory orders regarding financial promotions. These regulations allow for a number of exempted categories of investor such as self-certificated sophisticated investors, high-net-worth individuals, and common interest groups, which may include pre-existing members of a club or supporters' trust.
- For both CIC CLS and CIC Plc forms, the other main disadvantage compared to a CBS is that they are not democratic, meaning that those with larger shareholdings have a greater say, unless their governing documents are amended to address this issue.

This latter barrier could be partially addressed by establishing two classes of share in a CIC, with one class of "investor" share designed with specific rights to meet the needs and interests of individual investors, and the other class of "supporter" share aimed at fans, or held by a supporters' trust.

2.6 Other ownership structures in football

Apart from those clubs that are already community owned, there are four main types of ownership structure in football. It is important for supporters' groups to understand these structures, because they provide the starting point for any plan to increase supporter share ownership. The four main types of ownership in football are listed below.

i) Community Amateur Sports Club

Many non-player paying football clubs in the UK are small community organisations, run by volunteers, and are registered with HMRC as Community Amateur Sports Clubs (CASC). The advantages of this status are that they: can be democratic one-member-one-vote structures; qualify for 80% business rate relief; can attract Gift Aid on donations; and they have exemption from various taxes. There are over 550 football clubs registered as CASCs.

The main disincentive to registering as a CASC is the fact that once registered, a club cannot undo the status, even if it is promoted to higher levels of the football pyramid which are incompatible with amateur status (a CASC cannot pay players, even if it promoted to a semi-professional league). A CASC registered club can be legally structured as an unincorporated association, a CLG, or a CBS. It must also practice open membership, admitting anyone who is eligible to membership. Consultation on how the CASC structure can be made more flexible is currently underway. Proposals include a relaxation to the rule preventing CASCs from employing professional players, and arrangements for placing any semi-professional activity into a trading subsidiary organisation.

ii) Company Limited by Guarantee

A Company Limited by Guarantee (CLG) is a type of company which instead of requiring its members to hold share capital has named guarantors who accept a limited liability for the debts of the company (usually a nominal amount such as £1). This form of company is often used to incorporate charities, because they do not provide for any shareholder interest, and by other non-charitable, not-for-profit organisations such as CASCs. The weakness with this form of incorporation is that it makes no provision for equity finance, nor is there any requirement to prioritise public or community interest or benefit. The major drawback with this form is the lack of any scope to raise equity capital for investment in the club.

iii) Private Companies Limited by Shares

A private company limited by shares (CLS) is the most common legal form in professional and semi-professional football. The Football League insists that all clubs it admits must be structured as companies, so that they can be subject to CVA procedures. The CLS form is highly adaptable, provides limited liability status, a clear structure for membership and the ability to raise capital through share issues. However, any issue of shares has major regulatory costs and may require the club to convert to a Plc if the shares are offered to the public (see Section 2.5).

In football most CLSs are owned and controlled by a miniscule number of people, whether supporters or not. However there are a significant number of clubs that have, over the years, made shares available to supporters, although this usually only amounts to a tiny minority stake offered privately, which carries no influence over the majority shareholders. These shares tend to have very limited or no value because the shares are not listed on a stock exchange and there is no other secondary market for them, especially if shareholders receive no dividends, as is often the case.

Even where there may be hundreds, and possibly thousands, of supporter shareholders in a club, unless they collectively own more than 10% of the share capital, are organised or act collectively, their influence over the club will be negligible, and their shares will probably be worthless.

iv) Public Limited Companies

Whilst this form does allow clubs to sell shares to the general public, and for their shares to be listed on a stock exchange, there is currently little appetite for this form of ownership structure in English football. The Plc form briefly became popular in football in the early 1990s, but since then most Plc clubs have reverted to being private limited companies. Among the handful of clubs that are still structured as Plc's, only Arsenal is listed on a UK stock exchange, with the others held in private hands, or listed on foreign stock exchanges.
The Plc form is more heavily regulated than a private CLS and it has to comply with much higher standards of disclosure, making it unattractive to most majority-stake owners. Even though Arsenal FC is listed, there have been no shares traded through the exchange in recent times.

Case Study
Portsmouth FC

This case study of Portsmouth FC highlights many of the challenges confronting supporters groups that attempt to take a club into community ownership. It illustrates many of the key barriers identified by this report, and provides a context for understanding the importance of the key recommendations.

The case study also highlights the serious problems of financial instability, irresponsible ownership and an inadequate regulatory framework within English football, although it should be noted that the regulatory framework has improved since the last episode of failure at Portsmouth FC.

A Chequered History

Portsmouth Football Club, established in 1898, stands as a cautionary tale of contemporary football. Its ownership history in recent years is as chequered as any in the game and its survival has on more than one occasion been due to the activities of supporters.

In the last 15 years ownership of the club has passed between no less than nine individuals. From 1988 Portsmouth passed from John Deacon, to John Gregory, to Terry Venables and then back to Gregory's son in a matter of eight years. It went into receivership at the end of 1996. The club was then 'rescued' by Serbian-American businessman Milan Mandaric, who had no previous ties to the club. But it was no rescue:

- In 2006 Mandaric sold the club to Alexandre Gaydamak, winning the FA Cup in 2008.
- It was then sold to UAE businessman Sulaiman Al Fahim.
- Al Fahim struggled with debts that were partly as a result of excessive investment and he sold the club on to Saudi businessman Ali Al-Faraj.
- In February 2010 the club entered into administration again, only to be saved by a major creditor, Balram Chanrai.
- Chanrai sold the club just twelve months later, in June 2011, to Russian businessman Valdamir Antonov, retaining a £18.6m charge against the assets of the club.

In January 2012, the club entered administration for the second time within two years, with estimated debts in excess of £100m.

Supporters' Rescue

In 2012 the Portsmouth Supporters' Trust (PST) resolved to save the club, with community ownership as the solution to the catastrophic events documented above. The appetite for this was demonstrated in a survey of 6,000 supporters.

A scheme was launched inviting fans to pledge a £1,000 investment in PST (starting with a down-payment of £100) and discussions were also held with high net worth individuals. The PST plan was to create a new legal entity, Portsmouth Community Football Club (PCFC):

- PST would invest the share capital it raised from members in this new entity.
- Alongside this would be direct investment (of a minimum £50,000) by wealthier fans .
- PST would be the majority shareholder in PCFC, with community interests further protected by a shareholders' agreement.

In October 2012 the Football League announced that that PST had won their support as preferred bidder over Chanrai. By then, PST had received pledges from over 2,000 fans who had paid the initial deposit of £100. Eleven 'Presidents' had pledged a further £1.5m, having already provided the administrator with £400,000 in cash to keep the club afloat. A loan of £2.75m, put together by PST, from local property developer Stuart Robinson, secured against the future ownership of the stadium, backed by a £1.5m loan from Portsmouth City Council.

Chanrai however retained a £17m charge on the stadium, and refused PST's offer of £3m for it. Eventually, despite prolonged legal battles and counter offers, in April 2013 Chanrai accepted an out-of-court offer of £3m for the stadium, along with a further £450,000 for the release of a floating charge against the other assets of the club.

What is Portsmouth Community Football Club?

Portsmouth Community Football Club (PCFC) is a company limited by shares. The majority of the shares are owned by Portsmouth Supporters' Trust, raising more than £2m through a community share issue, with a minority of shares held by the eleven fans, known as Presidents, who have individually invested between £50,000 and £250,000 in shares, totalling about £1.6m.

PST has gained:

- A shareholder agreement in PCFC which precludes dividends and restricts the sale of shares as well as listing a number of 'reserved matters' which the board may not action without a shareholders' vote (issuing loan capital, acquisitions, disposal of the business or varying the rights attached to any shares).
- These reserved matters require a 75% or 90% majority, depending on which list they are in.
- The shareholders agreement also allows for PST to have at least 3 board members with the Presidents also entitled to up to 3 Board places.

What restricted the development?

There were a number of barriers to the development:

i) In January 2012 PST only had limited resources and no significant cash reserves to be considered a serious bidder. It therefore needed the support of wealthier fans, who were committed to community ownership.

ii) When PST decided to bid for the club it had to work hard with Supporters Direct to educate supporters about legal formats, raising capital and community shares.

iii) Counter proposals for forming a Community Interest Company were tabled and the case for a Community Benefit Society structure had to be made, underlining the lack of knowledge and understanding about the capital-raising scope of both these forms.

Also, Football League rules prevent a club being formed as a CBS (see section 2.2) so although PST can own the club, as a wholly-owned or majority-owned subsidiary, it could never be the club directly, unless PST itself was to convert its form to that of a company.

The interests of larger investors could have been accommodated within PST's community share offer by allowing investors who wanted to exceed the £20,000 statutory limit on withdrawable share capital, to purchase transferable share capital, for which there is no upper limit. Alternatively, PST could have developed a parallel community bond offer which would also not have been subject to any investment limits.

However, one of the consequences of having to establish the club as a company, in which PST has majority ownership, but less than a 90% stake, is that the investment does not qualify for Enterprise Investment Scheme tax relief (see section 3.1). The loss of this tax relief is a barrier to some fans investing, or investing more than they have done.

What changes are required?

i) Development Capital

PST would have been in a far stronger position if it had been able to show how much its fans were prepared to invest in the club at the start. Proposals in this report, to create a Community Football Fund, would enable supporters' trusts to demonstrate that their supporters had the financial wherewithal to bid for their clubs.

ii) CBS Insolvency

The government has announced that it is prepared to investigate making changes to the insolvency procedures for co-operatives and CBSs, so that they have an equivalent to the Company Voluntary Arrangement. This would clear the way for football authorities to recognise CBSs as an appropriate legal form for football clubs.

iii) Awareness of Community Investment

More needs to be done to promote the concept of community shares and community investment to the general public. The government has backed the creation of a Community Shares Unit, a joint initiative between Co-operatives UK and Locality, funded by DCLG, to develop this field of activity. The Unit must concentrate its efforts on ensuring that the public are aware of the options for community investment and community ownership of enterprises.

iv) 'Buying Time' Through Assets of Community Value

PST benefited from the terrible financial problems at Portsmouth FC which discouraged other serious bidders coming forward, giving PST time to build a bid. More usually, much less time is available to supporters' trusts, underlining the importance to use the Localism Act to get their clubs' stadiums listed as Assets of Community Value (see section 4.2). The extension of the Localism Act to cover the sale of the enterprise, and not just the underlying property asset, would obviously make the six month moratorium period a far more powerful tool.

v) Tax Relief

People who bought community shares in PST did not qualify for EIS because PST was not able to raise enough capital to meet the EIS requirement that the enterprise must own 90% or more of any subsidiary that it is investing in. Although this restriction makes sense for private companies, it unduly restrains social enterprises entering into joint ventures. Consideration should be given to lowering the EIS qualifying threshold for subsidiaries to include majority-owned (50%+) ventures for CICs and CBSs.

Section 3: Raising Community Finance

From a community perspective there are significant barriers to raising capital:

- The sheer amount of capital required to acquire and develop the club.
- Inherited debts and liabilities, especially where a supporters' trust takes control of a club in administration or financial crisis.
- The speed at which capital must normally be raised.

This section considers the three main forms of community finance:

i) Community shares.

ii) Community bonds and loans.

iii) Community fundraising.

All three forms of community finance have a part to play in securing and sustaining the community ownership of football clubs. Supporters' trusts may need to devise strategies for sourcing all three types of community finance, or a combination of them.

This section also considers the role of crowdfunding in raising all three forms of community finance.

3.1. Community Shares

A growing number of clubs and supporters' trusts are turning to their own members and supporters as a source of investment capital. 'Community shares'[5] is a term coined by Locality and Co-operatives UK and refers to withdrawable shares issued by an Industrial and Provident Society. Section 2 of the report explained why the CBS structure was recommended by Supporters Direct for clubs and supporters' trusts planning to raise community finance.

Community shares are different to normal shares in that they:

- Operate under the one-member-one-vote principle, rather than one-share-one-vote – no matter how many shares you own you have just one vote.
- Prioritise the delivery of community benefit over financial return.
- Limit interest/dividend payments to that 'sufficient to attract and retain the investment'.
- Cannot be traded or transferred, but are withdrawable, providing the member with an exit route if they need to sell their shares.
- Are not subject to onerous and costly regulation that applies to shares in companies, including CICs.

Supporters' trusts and clubs that are structured as CBSs, and are planning to raise equity finance, thus have two forms of share:

i) The membership share, which is not for capital purposes and has a nominal value (usually £1). This is neither transferable nor withdrawable and it expires if and when a member resigns or fails to pay their annual subscription. The membership share has full voting rights.

ii) Withdrawable shares (only available to members) carry no voting rights, but do attract interest payments and are withdrawable (wherein the value of share is paid back by the CBS), subject to conditions and at the discretion of the society. This arrangement therefore allows clubs and supporters' trusts to maintain a one-member-one-vote membership structure, whilst raising additional capital from members.

Raising money in this way has become increasingly popular, helping to finance a wide range of community ventures from wind farms, shops and pubs to football stadiums. Since 2009, over 300 new industrial and provident societies have been established with the express intention of issuing community shares. In the same time period there has been 120 successful community share offers, raising more than £20m from over 20,000 members.

The Community Shares Unit[6] (CSU) was launched in October 2012 funded by Department for Communities and Local Government (DCLG), and its steering group includes representatives from the Financial Conduct Authority, HM Treasury, the Cabinet Office, DECC, the Charity Commission and HMRC.

In football, FC United of Manchester have raised £1.75m to date in order to fund a new stadium and community facility; Wrexham Supporters' Trust raised over £150,000 to help develop infrastructure at their stadium; and Portsmouth Supporters' Trust have raised in excess of £2m in community shares to take a majority stake in their club.

Although financial return is not the primary objective of a community share scheme, some schemes have qualified for the Enterprise Investment Scheme (EIS) which means those that buy shares may claim 30% of the sum invested in tax relief[7] . EIS is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.

There are a series of conditions on which kind of enterprise and share issues that qualify for relief (including a maximum of £5m shares issued in any 12 months, and an upper size limit of £15m in gross assets and 250 employees)[8].

EIS has been used successfully by a supporter owned club raising finance to develop its facilities (e.g. FC United of Manchester) but EIS cannot currently be used to support initiatives where supporters are aiming to secure anything less than a 90% stake in the club. This makes it more difficult to negotiate deals with the current owners of clubs who may be prepared to enter into joint ventures with supporters, or to promote other ways of enabling supporters to build up an influential stake in their club.

Supporters Direct and the Community Shares Unit only endorse community share offers that can secure at least 50% plus 1 share in a football club[9] along with embedded rights to ensure the primacy of community benefit.

Community shares are generally seen as a highly effective way of raising community finance because of the leverage it provides over other sources of finance, including debt and grants. Lenders prefer to lend money to enterprises with significant levels of shareholder equity, and public grant giving bodies see successful community share offers as strong evidence of public support and community engagement.

Supporters Direct received a grant of £100,000 over two years from the Fans Fund, to establish its own community shares programme for clubs in the English National football system but also to explore the appetite from amateur sports clubs that may wish to become community benefit societies. It has so far raised about £2.5m of investment into English football.

Key barriers for community shares are:

- The amount of withdrawable shares that can be held by an individual in a CBS is currently limited to £20,000, when many larger clubs have supporters who would be prepared to invest significantly above this limit.
- The lack of public awareness and knowledge of the IPS form and community shares can inhibit people from investing in an unfamiliar proposition.
- The time and cost of helping supporters' trusts prepare to launch a viable community share offer can be too much for many groups.
- Many schemes will not qualify for EIS because they are not able to acquire a sufficiently large stake in the club.

Key recommendations:

- Increase the £20,000 limit on individuals buying shares in a CBS (this is currently under review).
- Make special provisions in EIS to enable CBSs and CICs to qualify for tax relief when purchasing 50%+ 1 share stake in an existing club or enterprise.
- Finance Supporters Direct to provide development support to clubs and supporters' trusts seeking to raise community finance, including via community shares. This could be provided by the Fans Fund or an alternative funding body.

3.2 Community Bonds

Community bonds are another form of community investment, but instead of issuing shares, the club or supporters' trust offers investors a 'bond', which is normally an unsecured debt instrument, and may carry a different name, such as a loan note or loan stock. Bonds normally have a fixed date when the bond will be redeemed, and usually carry a fixed and pre-stated interest rate (although this is sometimes discretionary). Bondholders usually have no voting rights and are not required to be members of the enterprise issuing the bonds.

AFC Wimbledon was the pioneer of this form of finance for community-owned football clubs. In 2004 the Dons Trust launched a 4 year bond with a discretionary interest rate of up to 4%. Approximately 60 people purchased bonds, which in total raised about £300,000. Many of the bondholders elected to receive little or no interest, reducing the cost of the bonds to less than 2% per annum. Many of the 60 bondholders have also decided to extend the redemption periods of their bonds, relieving pressure on the Dons Trust to find replacement capital.

Although bond offers by companies and CICs are regulated in the same way as any other financial promotion, CBSs are exempt, as long as the capital is used to pursue the society's business purpose. One of the advantages of bonds for CBSs is that there is no upper limit on the amount of bonds an individual can purchase. The drawbacks include the commitment to a fixed timetable for repaying the bond, and the limitations it places on raising other forms of debt finance.

The Government is currently consulting on the introduction of a new incentive for social investors called Social Investment Tax Relief (SITR), which will focus on unsecured debt. Supporters Direct welcomes this consultation, and the proposal to incentivise unsecured lending to social enterprises, including CICs and CBSs. A generous tax relief may enable social enterprises to set terms that are more favourable to themselves, perhaps linking it to the future profitability of the enterprise, rather than committing to a fixed repayment schedule.

Key barriers for community bonds are:

- Ensuring that bonds can be repaid and the club still maintain a sustainable business plan.

Key recommendations:

- Support is provided via Supporters Direct to supporters' trusts with preparing adequate business plans, that ensure bonds are repaid.
- Set SITR rates at a sufficiently high level to encourage lenders to agree to loan repayment schedules that support the delivery of community benefit – such as flexible terms linking repayments to profitability rather than fixed terms.

3.3 Community Fundraising

'Traditional' fund raising – through donations, events gifts etc. - can be an important element of collective supporter shareholding because it can be spent on high risk and developmental activities (such as developing a community shares scheme) and it does not have to be repaid. This is important because high risk costs in capital schemes can be as much as 10% of the capital required and much of that money will be spent on non-recoverable expenses, such as professional fees. Further details on how clubs have done this is contained in an earlier Supporters Direct report[10].

Both FC United of Manchester and Wrexham Supporters' Trust raised in excess of £0.4m through fundraising over a period of several years to assist with the development of capital finance raising initiatives.

Key barrier:

- Despite successful examples, raising funds for high risk or developmental expenditure remains a key barrier for supporters' trusts, especially if those funds are needed quickly or in an unexpected 'crisis' situation.

Key recommendations:

- Social Investment Tax Relief is extended to include tax relief on donations to CICs and CBSs development finance funds.
- Supporters' trusts need advice and support to develop community fundraising.
- Supporters' trusts need to have access to developmental funds to support the creation of a community share scheme. This would be 'at risk' but could be provided on a repayment basis should the scheme be successful, thus 'buying time' for supporters' trusts.

3.4 Crowdfunding

The last three years has seen the mushrooming of crowdfunding internet sites. Crowdfunding is based on the principle of attracting a large number of people to contribute small amounts of money to finance a project, scheme or enterprise. Research commissioned by NESTA identifies four main types of crowdfunding proposition:

i) 'Donation' crowdfunding supporting good causes for no personal benefit.

ii) 'Reward' crowdfunding, where funders are incentivised by rewards, or are pre-purchasing a product or service.

iii) 'Crowdfunded lending', including aggregated forms of peer-to-peer lending.

iv) 'Equity' crowdfunding, offering share capital in enterprises.

To date there has been very few attempts by supporters groups or trusts to use crowdfunding, the only known example being a failed attempt in 2012 by supporters of Darlington FC to raise equity finance to rescue the club. More recently the CSU acquired the equity crowdfunding website www.microgenius.org.uk. This site originally focussed on IPS community share offers made by renewable energy initiatives. The CSU re-launched the site in June 2013 as a pilot project, to test how the site might assist IPS community share offers in a range of different trade activities.

Crowdfunding could be a useful tool for many supporters' groups that want to raise community development finance quickly. It could provide a simple and easy-to-use platform for supporters, and reduce the administrative burden on supporters' trusts. Selective use of crowdfunding sites could help in the following ways:

a) Donation crowdfunding could be used to raise relatively small sums, of between £2,000 to £10,000, for specific development tasks and projects, such as paying for feasibility studies, professional valuations, planning applications and business plans.

b) Equity crowdfunding could significantly reduce the administrative burden for supporter groups that are ready to launch a community share offer.

c) Crowdfunded lending might be an appropriate way of marketing community bonds, subject to regulatory constraints.

Key barriers:

- There is very limited experience of using crowdfunding sites to generate development or investment finance for supporters' groups, so there is no evidence of what the potential benefits of this approach may be, or what impact it may have on supporters' trusts.
- The regulatory constraints on raising debt or equity finance via crowdfunding websites are not fully understood, particularly regards the restrictions on private companies making public offers of securities.
- The community benefit purpose of funds raised by this method need to be better protected/ensured.

Key recommendations:

- Supporters Direct should work with its member organisations to test the scope of donation crowdfunding to raise development finance for supporter share ownership schemes.
- Supporters Direct should work with the CSU to pilot a football-related community share offer.
- Supporters Direct should work with the CSU to explore ways in which the community development/ capital fund raising purpose of crowdfunding can be ensured.

Section 4: Share Ownership and Financial Regulation

The long term ambition of many supporters' trusts is to secure ownership of, and influence over, the football clubs they support. In pursuit of this goal, it is important for supporters' trusts to consider all the mechanisms open to them for acquiring and developing a stake in the clubs they support. Clubs in the Football League and Premier League are all structured as companies, mostly private companies limited by shares, although there is a minority of clubs which are owned by public limited companies, and even fewer are listed on a stock exchange. A listing on a stock exchange normally means the shares can be bought and sold by the public, although in the case of Arsenal, no shares have been available for sale for the last twelve months. Manchester United shares are listed on the New York Stock Exchange.

This section examines the scope for promoting supporter share ownership through Fan Share Schemes, and the barriers to extending this approach to private limited companies, principally stemming from financial regulations.

4.1 Financial Services and Markets Act (2000)

The public marketing and sale of shares, bonds or other forms of financial securities in a company is rightly a heavily regulated activity. The Financial Services and Markets Act (FSMA) 2000 provides the legal and regulatory framework governing the public offer of securities, including shares and bonds. This is supported by a raft of regulations, orders and directives governing financial promotions and is such a complex area organisations seeking to make a public offer will require professional and legal advice.

The Financial Services Act 2012 sets out the responsibilities of the Financial Conduct Authority (FCA), including responsibilities for financial promotions, which it inherited from the Financial Services Authority (FSA).

Section 21 of FSMA 2000 sets out restrictions on how financial promotions can be made. Essentially, the contents of any form of communication encouraging the public to make an investment must be approved by a FCA authorised person, unless it is covered by an exemption. It is important to note that this requirement does not apply to withdrawable share capital in a community benefit society. There are a large number of specific exemptions, laid out in the Financial Promotions Order 2005.

These include exemptions for:

- High-net-worth individuals.
- Sophisticated investors.
- Common interest groups.

The definition of these terms, and the scope of the exemptions, is not straightforward, and any organisation seeking to apply these exemptions to its offer is advised to obtain professional advice.

Section 85 of the Financial Services and Markets Act 2000 requires organisations making a financial promotion to publish a FCA approved prospectus if they are offering transferable securities. The Act and the FCA's prospectus rules set out in detail what a prospectus must contain and the approvals required for such a document. This requirement does not apply to non-transferable securities, such as withdrawable share capital in community benefit societies.

There are also exemptions for the following:

- Bonds issued by charities, community benefit societies and other non-profit making bodies.
- Shares and bonds issued by community benefit societies, as long as the money raised is used solely for the purposes of the issuer's objectives.
- Offers of transferable securities where the offer is being made to fewer than 100 people, and the total being sought is less than the sterling equivalent of €2,500,000.

However, it is important to remember that although an offer might be exempt from having to issue an approved prospectus, the organisation promoting the investment opportunity may still need an FCA authorised person to approve the contents of any communications about the offer.

There are significant legal and regulatory barriers confronting football clubs that may want to offer shares to supporters and supporters' trusts. Some schemes, such Arsenal Fanshare, are fully compliant with these regulations, and provide supporters with sufficient levels of information to fully understand what they are investing in. Other schemes, such as the Wycombe Wanderers Bond offer, are structured to meet the exemptions, with the consequence that they are not fully accessible to members of supporters' trusts and all supporters of that club.

4.2 Fan Share Schemes

Where shares are available to purchase in a limited company structure – either in a Plc structure or through private sale – it can open up an opportunity for supporters to purchase shares:

- A Plc can make shares available either through a public offer, or because their shares are traded on a stock market.
- A CLS can make shares available on a private basis or have unallocated shares from a previous issue offered privately.

This poses two challenges for collective supporter shareholding:

i. It allows individual fans to purchase shares but is less straightforward for supporters to collectively own shares.

ii. The cost of shares, or of acquiring small numbers of them given broker fees, can be prohibitive for fans

However, a 'fan share' scheme is a means by which shares can be acquired collectively as well as allow fans to build up their investment over time.

An early example of this, in the mid-late 1990s, was an initiative by the Independent Manchester United Supporters Association that helped members get individual share holdings in Manchester United Plc and reduce brokers' fees through a scheme that bought them collectively, allowing a large number of supporters to access the club's AGM and accounts.

A more recent example is the Arsenal Fan Share scheme launched by Arsenal Supporters' Trust, which helped fans overcome the high cost of Arsenal shares when they were available, and also fostered a collective shareholding.

Arsenal's Fan Share scheme works as follows:

- The supporters' trust set up a Fan Share organisation. (This could potentially be done within the supporters' trust, but experience suggests that due to the current financial regulations and liabilities this may be more easily achieved as a separate society).
- Supporters join the organisation and make monthly donations to it (supporters' trusts can set minimum and maximum payment per month).
- The Fan Share scheme then purchases shares in the club on behalf of its members.
- Depending on the price and availability of individual shares in the club, each member will have an account that holds their money and whilst shares are bought and allocated to/owned by them, they are voted on collectively by the scheme.
- Shares are voted collectively at the club's AGM, with voting dependent on the membership (scheme contributors).

The scheme has so far raised just under £2 million from 2,000 subscribers with an average monthly contribution of £50. Their main issue now is the lack of liquidity for shares available.

The advantages of this approach are that it:

- Can give a wider group of supporters access to share ownership.
- Help maintain some collective control of those shares.

The disadvantages of this approach are:

- Regulatory costs can be prohibitive.
- It is dependent on shares being publicly available, which for the vast majority of clubs they are not – so would have been more suited to a time when more clubs were Plcs.
- In Arsenal's case it is the Fan Share organisation, and not the trust, that controls the shares.

4.3 Privately-owned football clubs

There are currently no fan share-type schemes at other clubs, partly because of the availability of shares and despite the existence at some clubs of many small shareholders.

There are numerous examples of football clubs, structured as private companies limited by shares that have raised share capital by directly selling shares to supporters, many of which are historical.

For instance, when Everton Football Club incorporated as limited company in 1892 it had 259 member shareholders, with no one shareholder owning a significant number of shares. Today, Everton has over 1,500 shareholders, although just five of these shareholders collectively own 80% of the shares. This is similar to other clubs and in nearly all these cases, there are a small number of shareholders who own the majority of the shares, which means that the majority of shareholders have little or no say in how the club is run.

Supporters Direct would like to see:

- Mechanisms by which supporter shareholdings could be aggregated in a collective organisation such as a supporters' trust.
- Development of 'succession' share ownership plans to transfer shares from large shareholders to appropriate collective supporters organisations (in which supporters could invest over time).

Both of these would be mechanisms through which collective supporter ownership could be increased, whilst avoiding costly and burdensome financial regulation.

4.4 Key barriers:

- The scope for developing more Fan Share type schemes is dependent on football clubs and their owners making shares available for purchase. There appears to be little appetite currently among club owners to do this.
- Even if there was an appetite among football club owners to sell shares to supporters, it would be onerous and expensive to do this through a public offering, but there are ways they could transfer shares to supporters' trusts which would overcome such barriers.

4.5 Key recommendations:

- Football clubs should be encouraged to engage with supporters' trusts who can develop Fan Share type schemes which endeavour to give a collective and democratic voice to minority shareholders.
- Existing owners of football clubs should be approached about developing long term ownership succession plans for their clubs, allowing supporters' trusts to purchase shares on behalf of members.
- Exemptions from FSMA (2000) for fan share type schemes may help, but are unlikely to be relevant in the vast majority of situations. However, any expemptions should only be provided if schemes meet specific criteria, namely:

i. That the shareholding is collectively owned and democratically controlled, preferably within a CBS.

ii. That the vehicle which owns the shares prioritises the community benefit function of them.

iii. That no personal financial benefit can result from the disposal of shares held (for instance so any proceeds go to the supporters trust/CBS not to individual members).

Section 5: Towards a Community Football Fund

5.1 The Opportunity

There are two key barriers to developing collective supporter share ownership in football when shares become available:

i) Supporters' trusts are unable to demonstrate that they will be able to raise the capital required to purchase clubs in the short time that is usually available

ii) Supporters' trusts do not have the development finance in place to prepare bids and feasibility plans, or develop finance initiatives such as community shares in order to purchase part or all of a club.

This section outlines how those barriers can be overcome.

In one set of scenarios, where a club has entered administration, it is the duty of the administrator to identify what actions can be taken to best protect the interest of creditors which includes identifying suitable bidders for the club. Also, one of the tasks for potential bidders is to demonstrate to the relevant football authorities that they have the financial capacity and business plan to take over and run the club. This can be an onerous task for supporters' trusts, especially in short time periods.

In other scenarios, where the club is not about to enter administration there is the possibility that shares become available, either through a shareholder wanting to sell their shares or from owners who may want to develop a succession plan for the club. In most cases where clubs are sold by their current owners, as going concerns, it is a result of a long and slow process of negotiation and decision making, which starts with identifying potential bidders who have the financial capacity to purchase the club. To be considered suitable successors, supporters' trusts must be able to demonstrate they either have the capital or can raise the capital required to take the club into community ownership within an acceptable timeframe.

Both of these scenarios pose a real challenge for supporters' trusts and other interested supporters' groups.

This section of the report develops proposals for mechanisms which would address these problems by demonstrating that supporters' trusts have ready access to sufficient capital. Outlined below are a series of actions that would enable supporters' trusts to raise the capital they need, making the most of current and future government initiatives to support community ownership.

5.2 Assets of Community Value – Buying Time

If a ground is put up for sale, whether in administration or not, one way that supporters' trusts can buy themselves time to put a bid together is to have had the ground listed as an Asset of Community Value (ACV).

The Localism Act 2011 allows community groups the opportunity to list land or buildings as ACVs with their local authority. Once listed this means that:

i) The group must be informed if the ACV is put up for sale; and

ii) Is given a window of opportunity' of six months to assemble a bid for it.

Supporters Direct and Locality have published a paper providing guidance on how this can be done, which can happen at any time. This is available at:

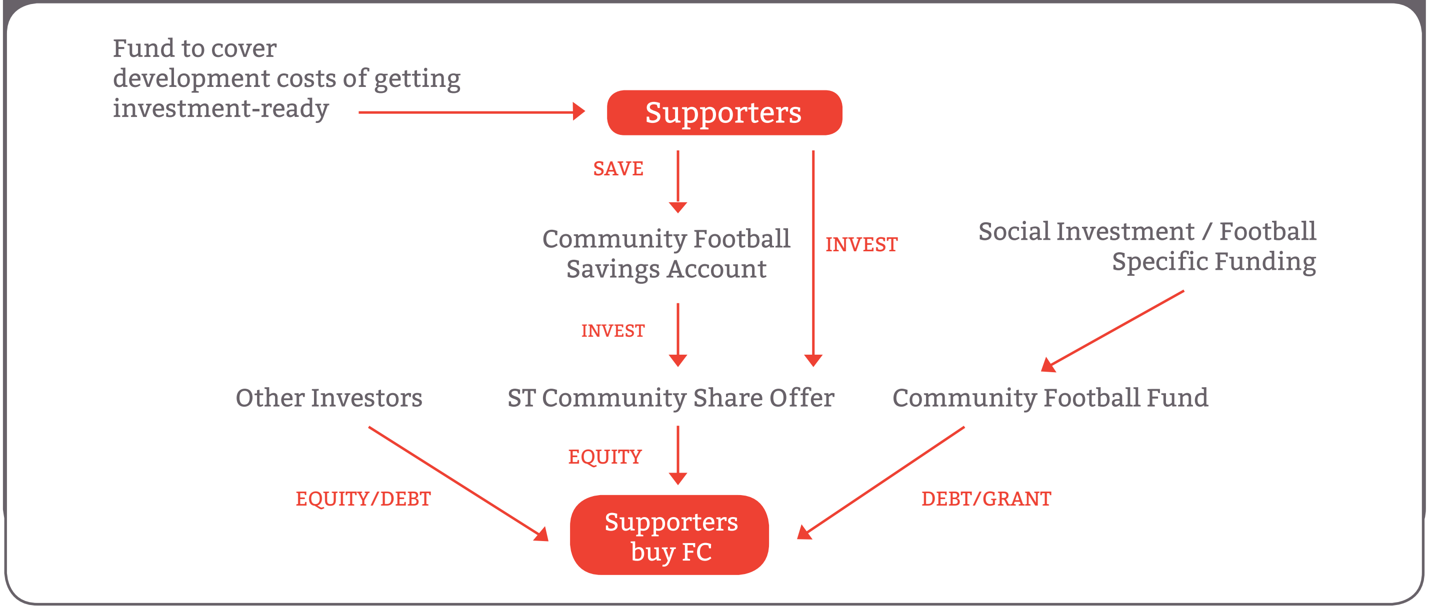
www.supporters-direct.org/homepage/research/right-to-bid

Oxford United Supporters' Trust, Manchester United Supporters' Trust, Spirit of Shankly and Nuneaton Supporters' Cooperative have already secured ACV status for their clubs' stadium, and at the time of writing applications for ACV status from supporters' trusts had reached double figures.

Key recommendations:

- For Department of Communities and Local Government (DCLG) to provide clear guidance to local authorities that applications for football grounds to be considered ACVs should be viewed favourably.
- For the Government to extend the 'right to bid' to a 'right to buy' to give supporters' trusts and other community groups 'first refusal' when a ground is put up for sale, provided that they can meet the market value.
- Extend the provision in the Localism Act so that clubs themselves, as well as their land/ground and buildings can be classified as an ACV.

How different financial components could assist a Supporters' Trust in buying a Football Club



5.3 Development Finance – Developing and Helping a Bid

The development costs of mounting a bid to acquire a football club can be quite onerous. These development costs include professional fees for initial appraisals, business planning, surveys, valuations and assessments, due diligence, communications, community engagement, consultations and negotiations. These costs must be met without the guarantee that the supporters' trust will be successful. This means that supporters' trusts need to have the funds freely available, and not be reliant on debt or equity to cover these costs.

Section 3.3 highlighted the importance of supporters' trusts engaging in community fundraising activities to raise the funds needed for development finance. The government could support these efforts by:

- Granting supporters' trusts the same tax reliefs available to Community Amateur Sports Clubs and charities.
- Extending the proposed Social Investment Tax Relief to include grants, gifts and donations to CICs and CBSs which would incentivise members of supporters' trusts to contribute to development funds.

There is currently some support available from the Social Investment Business Group for pre-feasibility and feasibility grants[11] under its Community Rights scheme.

Key Recommendations:

- Create tax incentives (akin to gift Aid) for those donating to CBSs (and CICs where similar criteria are met) where the purpose is fundraising for community ownership and clear community benefits are identified.

5.4 A National Savings Scheme – Demonstrating Capital Capacity

A recent survey found that 59% of the UK population had one or more savings accounts. 29% of people had savings in excess of £10,000 including 12% of people who have savings and investments worth more than £50,000. Based on recent reports that average savings are £1,678 the combined savings of the circa 300,000 members of supporters' trusts in England is probably in the region of £500m[12].

Supporters Direct is currently working towards the creation of a national savings scheme, branded as the Community Football Savings Account. The scheme would be operated by a bank, building society or some other form of licensed deposit-taker. Football supporters and other potential savers would be invited to open individual accounts, incentivised by the publication of aggregate data on their savings, a competitive interest rate and the protection of the Financial Services Compensation Scheme.

The scheme would allow:

i) Supporters' trusts and Supporters Direct to collectively demonstrate the investment power of supporters.

ii) Individual supporters' trusts to demonstrate the aggregate amount of savings their members have in the scheme as part of their bid building process.

iii) In the event of a club coming up for sale, individual supporters' trusts could ask their own members – as well as other individuals who had investments in the scheme – to pledge an amount of their investment toward purchasing the club, for example through a community share scheme. This could be done through a vehicle called the Community Football Fund.

5.5 The Community Football Fund

The Community Football Fund would be an independent social investment financial intermediary (SIFI). The fund would act as a broker for investment from supporters' trust members, other football fans, high-net worth individuals, and institutional investors. The fund would take a lead role in structuring the capital finance for the community acquisition of a football club.

If and when a football club became available for purchase, the members of the relevant supporters' trust would be invited to commit some or all of the savings they have in their Community Football Savings Account – and potentially other sums - to the purchase of the club, either by investing directly in a community share offer by the supporters' trust, or indirectly through the Community Football Fund. The supporters' trust would be responsible for raising at least 50% of the total investment through a community share offer, with the remainder coming from the Community Fund, in the form of unsecured medium-term debt. The community share offer could be incentivised by the availability of EIS tax relief.

The CFF would play an important role in the due diligence process, providing independent reassurance to supporters, football regulators and others that the acquisition was based on sound business principles. The CFF could support the acquisition either by underwriting the supporters' trust's community share offer, or by providing medium term debt. The exit route for the fund would be provided by members of the supporters' trust investing additional community share capital over an extended period of time, as well as from the retained profits of the club.

Investment in the Community Football Fund could be incentivised by tax relief schemes, such as a recently proposed Social Investment Tax Relief, which is targeted at unsecured lending to social enterprises structured as CICs and CBSs. Alternatively, current tax incentives, such as Community Investment Tax Relief (CITR) could be utilised, although this would entail the CFF being accredited as a Community Development Finance Institution and the tax relief would only be available for supporters' trusts and clubs located in eligible areas, the top 10% most deprived communities, as defined by the Indices of Multiple Deprivation[13].

The Community Football Fund would be independent of Supporters Direct, which would maintain its current role as advocate and business development partner to supporters' trusts. The CFF would be governed by stakeholders and partners drawn from football, social finance communities and operational management could be contracted out to an existing CDFI or SIFI.

The long term ambition for the CFF would be to establish a £20m fund which could be drawn on to support the community acquisition of up to 25 football clubs over the next five years. CFF investment would be in the form of unsecured debt, matching direct equity investment by the club's supporters. These figures are based on an average investment requirement of £1.6m, although the median size of investment will be closer to £0.75m, the amount possibly required to purchase a non-league football club.

The combination of equity from a community share offer, with debt from the Community Football Fund, would ensure the initial viability and long term sustainability of such schemes. Tax relief for both equity investors through EIS and for lenders through SITR is an essential ingredient.

5.6 Big Society Capital

The Community Football Fund fits perfectly with the aims and objectives of Big Society Capital (BSC), and with a focus on the goal of improving social cohesion BSC can play a key role in the development of the Community Football Fund.

BSC was launched in April 2012 by the Prime Minister David Cameron. It is an independent financial institution established by government to 'develop and shape a sustainable social investment market'. It has been financed through equity investment from Big Society Trust, which holds the English share of the Dormant Accounts Scheme, and the four banks that were signatories to the Merlin Agreement with government. This has provided an initial £400m pot of development capital.

BSC invests in social investment financial intermediaries (SIFIs). It describes SIFIs as 'organisations that provide appropriate and affordable finance and support to social sector organisations that are tackling some of our most intractable social problems. Social sector organisations are driven by a social purpose, rather than the pursuit of profit. These include charities, social enterprises, voluntary and community organisations, cooperatives and mutuals.'

Football and supporters' trusts can be powerful vehicles for building social cohesion and engaging disadvantaged people in social capital creation. Community ownership is capable of transforming people's relationship with enterprise, beyond that of passive customer, to active investor, member, volunteer and participant in determining the direction and management of their football club. Engaging supporters in multiple ways is the best way of strengthening the business model of the club and at the same time generating more social capital not least via promoting democracy and active citizenship.

Supporters Direct's *Social Value of Football* research showed that football fans said that 'the value they got most from football was almost entirely social in nature'. This included:

- Feeling part of a locality and the generation of local pride.
- Deriving friendships.
- Having a sense of community and communality with other people.
- Being part of an informal 'family'.
- Sharing experiences with other supporters[14].

Subsequent research by Supporters Direct also illustrated some of the business advantages of community ownership in football, including increased volunteering and skill development[15]. It enabled a "greater sense of 'buy-in', engagement and inclusion of a wider cross section of people than with privately owned clubs." "At supporter owned clubs there was a greater commitment to social inclusion being part of the core business of the club than at other [privately-owned] clubs".

Big Society Capital says that its minimum size of investment is £500,000 and its maximum initial investment is £15m. It is prepared to invest equity capital to capitalise SIFIs that are developing and piloting new financial products for the social sector. It broadly lists the sectors that it will invest in as financial inclusion, education, employment and skills, housing and shelter, mental health, physical health, social cohesion and well being.

As such there is the potential for Big Society Capital to work with Supporters Direct and a Community Football Fund to assist with the capitalisation of the fund, as well as help deliver the aims of Big Society Capital. However, the lower limit of £500,000 may prove to be a barrier in the first instance as it is too high for many examples.

5.7 Big Lottery Fund

One of the remaining challenges facing supporters' trusts is how to raise sufficient development finance to pay for the costs of getting investment-ready. Getting investment-ready is a high-risk activity, which is not best suited to debt or equity investment. Big Lottery Fund is currently in the process of developing a future grants fund for community enterprise and the ownership of community assets, which could provide the development finance needed to get investment ready.

Development finance is needed to cover the cost of feasibility studies, professional valuations, business planning, community share offers, legal advice, community engagement and broader communications.

Grant support from Big Lottery Fund would provide an important boost for supporters' trusts, encouraging them to engage in serious efforts to acquire and develop football clubs for community benefit.

5.8 Next Steps

This section has mapped out how a national infrastructure could be created to make the supporter ownership of football clubs an achievable goal and overcome some of the principal barriers that this report has highlighted.

Supporters Direct has a vital role to play in establishing this infrastructure, but it needs the support of other stakeholders in government, football and social finance to play their part in developing robust and independent mechanisms for delivering the community ownership of clubs. Supporters Direct is now consulting with potential partners to make this a reality, but it needs help in doing so.

If this assistance is given as outlined, not only can those barriers be overcome, but will also make the business model of these entities more robust and sustainable. In doing so, the aims of social finance institutions and the government can be achieved through community ownership in football. It may also be that the infrastructure described in this section should be developed not just for football, but for other sports.

For Government:

- To support and work with Supporters Direct and relevant agencies in developing a Community Football Fund.
- This work should also include exploring the feasibility of the CFF being established as a Community Development Finance Institution (CDFI) or similar, in order to access Community Investment Tax Relief (CITR) or tailored relief.
- To ask HMRC to confirm that receiving Social Investment Tax Relief on unsecured debt should not prejudice supporters' trusts or community-owned clubs from making community share offers that also qualify for EIS

For Big Society Capital:

- To work with Supporters Direct on this proposal
- To reduce the minimum value threshold from £500,000 to help CFF establish itself.

For Big Lottery Fund:

- To work with Supporters Direct to explore how BLF grant funding might support development finance for supporters' trusts and/or matching/underwriting community shares schemes.

Section 6: Summary Recommendations

i) Community Football Fund

Supporters Direct calls for:

- Government and social investment agencies to work with Supporters Direct to create a Community Football Fund.
- Big Society Bank to work with Supporters Direct to help capitalise a Community Football Fund.
- The Big Lottery Fund to work with Supporters Direct in helping supporters' trusts develop and deliver community shares schemes, through the provision of grants to meet early stage development costs.

ii) Tax Incentives

Supporters Direct welcomes proposals to introduce Social Investment Tax Relief and calls upon government to consider the following improvements to its scheme:

- Create a tax incentive for people to donate to CBSs to enable them to raise development finance for community ownership.
- Social enterprise investment initiatives should be encouraged to raise a balanced mix of equity and debt, so it is important that same community ownership scheme should be able to qualify for both EIS on equity and SITR on debt.
- Special recognition should be given to social enterprises, to allow the purchase of a majority stake in club (50%+1 share) to qualify for EIS tax relief.
- Additional EIS tax incentives should be given to investors in CICs and IPSs to compensate for the lack of any scope for capital gains enjoyed by investors in private enterprises. This could take the form of exemption from income tax on interest (or dividends) paid on share capital.

iii) Community Benefit Society regulation

The Community Shares Unit is currently digesting the contents of the recently published consultation document on Social Investment Tax Relief and will be submitting a response later this summer. Community shares are already well catered for by EIS and SEIS, but recognise scope for additional benefits to encourage social investment, including maybe tax relief on social investment donations.

Supporters Direct recommends that:

- The £20,000 limit on Community Share Schemes is raised.
- It is made easier for valid community share schemes to qualify for EIS tax relief and that this should be provided where supporters can secure 50%+1 share of a club.

iv) Football Regulation

Supporters Direct believes that CBSs offer a sustainable, democratic and open means for supporters to own their football clubs. Supporters Direct calls on football authorities to remove regulations preventing clubs operating as members of the leagues as CBSs.

v) For Supporters' Trusts

Supporters' trusts need further assistance in developing financing for community ownership, both in developing community share schemes and in other financing. Supporters themselves need to develop longer term capital finance rather than attempt to do this at the point of crisis.

In particular, Supporters Direct recommends that:

- Funding is provided for supporters' trusts to build development finance .
- Tax relief or exemption is provided for fund raising and donations that is specifically used for development of community share schemes.
- Exemption is provided from financial regulation – under specified conditions – CICs.

References

1 CMS SC Football Governance Report Session 2010-12 page 83

2 CMS SC Football governance follow up report of Session 2012/13 page 19

3 http://www.uk.coop/pressrelease/fans-want-take-over-premier-league-club-owners-reveals-new-survey

4 They can also be formed as a Plc but none of these actually exist.

5 For a fuller discussion of community shares see Supporters Direct Briefing Paper No.3: Financing Community and Supporter Ownership in Football.

6 www.communityshares.org.uk

7 See www.hmrc.gov.uk/eis

8 For full details see http://www.hmrc.gov.uk/eis/part1/1-1.htm and http://www.hmrc.gov.uk/eis/part2/index.htm

9 Defined as the entity that owns the FA registration share.

10 Brown et al (2011) Supporters Direct Briefing Paper No.3: Financing Community and Supporter Ownership in Football, London: SD

11 http://www.sibgroup.org.uk/communityrights/

12 http://www.telegraph.co.uk/finance/personalfinance/savings/9873834/How-Britain-is-giving-up-on-saving.html

13 As previous research by Substance has illustrated, only 12 Football League clubs (17% of the total) are in the top 10% although others will draw support from these areas.

14 Brown, A et al. (2010) The Social Value of Football, Final Report, London: Supporters Direct

15 Supporters Direct (2011) Briefing Paper No. 4 The Business Advantages of Supporter Ownership