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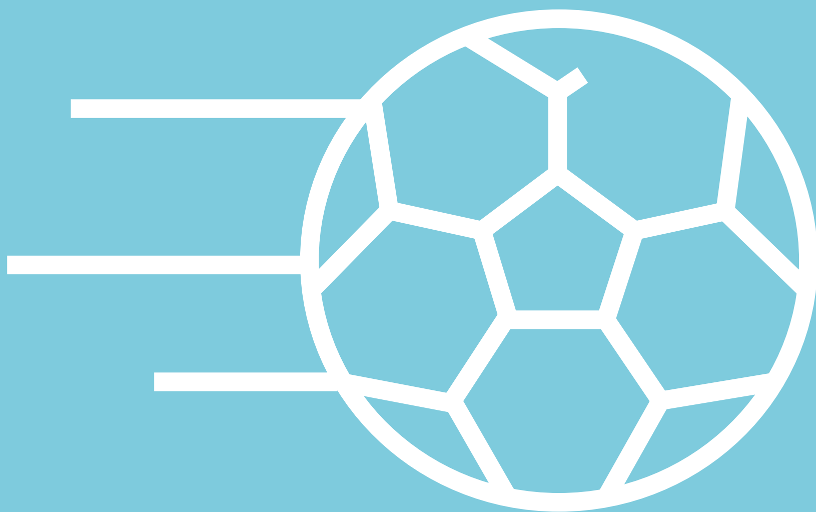
COMMUNITY FUND

These Clubs are Ours

50+1 Petition Debate Briefing



June 2021

This note summarises some of the relevant issues relating to the coming debate on fan ownership of football clubs on 14th June. The debate will take place following the 100,000th signature to the following petition.

Enforce the "50+1" Rule for professional football club ownership in the UK: Bring in a law which enforces professional football clubs to have at least 51% fan ownership similar to how the Bundesliga operates this rule

On 24th May the Government responded to the petition by pointing to the coming fan-led review. It said:

This note, therefore, sets out a brief overview of the issues surrounding fan and community ownership as they relate to the petition and the ongoing fan-led review. It has five sections:

- The 50+1 rule – what does it mean and how does it work
- The role our clubs play as community assets
- The dire state of football finances
- The history, benefits and challenges of community ownership in football
- A practical plan to boost community ownership in football:
  - **A £400m Club Community Ownership Trust to help supporters buy the clubs they support when in crisis or up for sale** This would give supporters a window of opportunity to raise the capital required for community ownership, by ensuring those with a sensible business plan and genuine appetite and opportunity to take control of their club have the 'day one' capital they need. It could be capitalised from a levy on TV revenue or the hugely profitable football betting industry, and underwritten by Government.
  - **A strengthening of existing Community Right to Bid powers into a more powerful Community Right to Buy** This would give groups which mobilise to register the local stadium or ground as an Asset of Community Value vital leverage over club owners seeking to dispose of cherished football grounds.
  - **A trial of a Back the Fans policy for clubs in administration, to replace HMRC's preference for liquidation** HMRC could trial a policy of accepting Company Voluntary Arrangements where a supporters' trust or similar entity has a viable business proposal to take ownership of the club.
  - **Ensure The fan-led review brings about meaningful change in the way the game is run** Properly addressing the long-term problems of financial mismanagement in football and creates a more level playing field.

This briefing was put together by the authors of These Clubs Are Ours – Putting football into community hands, a Power to Change report. We would of course be delighted to discuss any of the issues arising from this briefing, or the report itself, as we work to build a coalition of support for greater community ownership of our football clubs.

The 50+1 rule – what does it mean and how does it work

For British football fans, the European Super League (ESL) farce underlined a growing sense that our clubs are all too often run in the interests of remote, unaccountable owners, not just detached from the interests of fans, but often in direct opposition.

As well as the broader financial problems within the game discussed below, at its most striking this has included:

- Owners removing clubs from their home communities
- Owners changing the colours of historic clubs or seeking to change their names
- Owners using a leveraged buy-out to take control of clubs saddling them with debt

A recent Daily Mail poll showed 55% now want fans to own their clubs, with more than 2:1 believing billionaire ownership is bad for football.

The ESL proposals have not created dissatisfaction with the way the game is run – but they have catalysed and energised it. As fans react to that outrage, more than 100,000 have signed the petition to enforce the 50+1 rule, 'similar to how the Bundesliga operates'.

The Bundesliga describes its own rule as follows:

In short, it means that clubs – and, by extension, the fans – hold a majority of their own voting rights. Under German Football League [DFL] rules, football clubs will not be allowed to play in the Bundesliga if commercial investors have more than a 49% stake. In essence, this means that private investors cannot take over clubs and potentially push through measures that prioritise profit over the wishes of supporters. The ruling simultaneously protects against reckless owners and safeguards the democratic customs of German clubs.

There are a handful of exceptions but in general German clubs, including two giants of European football, Bayern Munich and Borussia Dortmund, are owned by their fans. The 50+1 rule ties the clubs to the interests of the communities that support them. As such, the egregious examples of anti-community ownership described above are impossible. And the rule is credited with ensuring further fan-friendly signifiers of the German game, especially around the cost of football (Germany's most expensive season ticket is a tenth of the price of its Premier League equivalent) and the matchday experience for fans.

However, the 50+1 rule did not come about as a move towards fan ownership in German football. It grew from an existing tradition of fan ownership. In the English football league we have no such entrenched tradition. Therefore a move towards large-scale fan ownership of our clubs needs a serious plan – not least proposals to help support communities in taking ownership of football clubs often valued in the millions or tens of millions of pounds.

The Power to Change These Clubs Are Ours report sets out a practical plan to do exactly that – by giving Supporters' Trusts the time and space to purchase the clubs they support. The argument and recommendations it makes are set out below.

The role of our clubs as community assets

Football matters a great deal to its fans but our football clubs matter well beyond the fan base too. There are three main ways in which local football clubs benefit the communities in which they are based.

Direct community work

League football clubs have always played an outsized role in their communities, from supporting local good causes to leading recruitment to the so-called 'pals battalions' in the First World War. In recent years, football's community work has become more formalised. In the English Football League (EFL), community work is now largely carried out by distinct units within clubs known as Club Community Organisations (CCOs). In the EFL's 2020 review of the 72 clubs of the Football League's CCOs they found that in one year:

- £62,844,816 is spent directly on community and social projects
- 886,581 people took part in CCO activities

Much of this work takes place in disadvantaged and hard to reach communities.

Wider community benefits

In their Loss on the Terraces report, Hope Not Hate set out five ways in which clubs have an outsized impact on local identities – as shared spaces, community support networks, formalisers of place identity, anchor institutions, and hubs of economic activity. In many towns across Britain, the football club is by far and away the dominant institution. Clubs provide venues for weddings and birthdays, host food banks and, during the pandemic, vaccination centres. In an increasingly atomised age of social media and streaming, a local club provides one of the few focal points for the whole community.

Further, there is evidence that local professional sports clubs provide significant benefits to the local economy. Sport England has estimated that the combined GVA of the two major Sheffield clubs, United and Wednesday (both in League One at time of assessment), is around £11.6m to the city over the course of a year.

Intrinsic value of the game itself

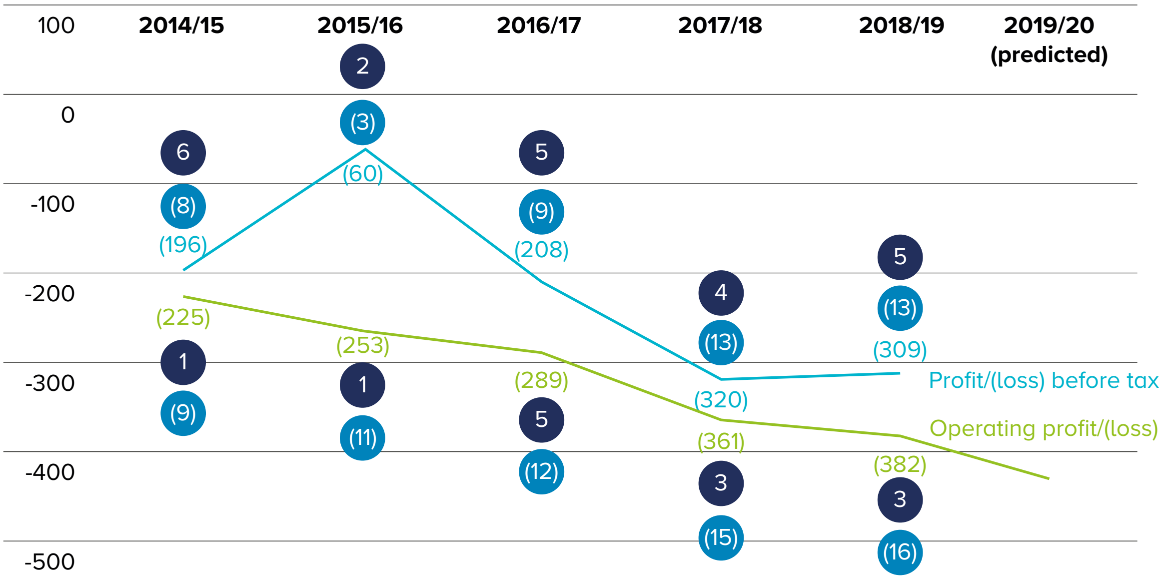
Clearly football plays an outsized role in the lives of committed fans and has enormous intrinsic value to them. But football does not just matter to the season ticket holders and the obsessives. At points, the game can grow to inhabit the hopes and dreams of an entire place – from an FA Cup run, to the miracle of Leicester City's Premier League title. The innate meaningfulness of a local football club is even clearer when the collective moment is not one of joy but of sadness. Much like the loss of an M&S or a John Lewis, the loss of a local football club feels like an unmistakable sign of decay – just ask the people of Bury who lost their club in 2019.

The dire state of football finances

In August 2019 Bury became the first club to be ejected from the football league in 30 years. But Bury was not a one-off. It very nearly happened to Bolton, just down the road. It did then happen to Macclesfield just months later. And even before Covid, many believe it could soon happen to a raft of others.

Every club is unique, and the financial circumstances of each club in crisis are often complex and opaque. But the root of the problem is the unsustainable management of the game itself. The basic operating model of league football is loss-making, and clubs are losing more each year. All the incentives inherent within the game demand that owners spend more and more as they gamble on promotion up the league and towards the incredible riches of the Premier League.

Although Bury fell further than any club since the early 1990s, the truth is that unending financial crisis has become a feature across modern football. More than 45 clubs have fallen into administration in the last 20 years – to put that into context, there are only 72 clubs in the football league. Our analysis, based on Deloitte research, shows that Championship teams were on course to lose £2bn in just 6 years – BEFORE the cost of Covid.



Year	14/15	15/16	16/17	17/18	18/19	19/20 (predicted)	6 year Total
Loss (£m)	225	253	289	361	382	421	1,931

A 2020 survey for financial advisers BDO found that 45% of football club finance directors said their club's finances were in need of attention – more than double the 21% figure the year before, and nearly four times the 12% reported in 2018. In other words, things are getting rapidly worse. Figures as stark as this suggest an obvious truth – these failures cannot all be a result of simple mismanagement. They must be a symptom of a deeper structural problem.

The history, benefits and challenges of community ownership in football

Community ownership in the UK has well evidenced benefits both for the assets taken into community control and for the wider community, notably financial resilience and sustainability, and its potential for driving local economic and social development.

The modern fan ownership of football movement can be traced back to the early 1990s and lowly Northampton Town in the old 4th Division, followed by the Football Taskforce (established by the incoming administration in 1997), which concluded that part of the solution to football's problems should be the proliferation of some element of fan ownership through Supporters Trusts. And it established Supporters Direct which promoted community ownership models. In the years since its inception, Supporters Direct (now part of the Football Supporters Association) has set up over 200 Trusts and helped 44 buy their local clubs, and another 44 take a share, by offering advice and expertise.

The benefits of fan ownership can be understood across four broad categories:

- **As a mechanism to save a loved community asset in crisis** - community ownership models have repeatedly stepped in to save clubs from liquidation.
- **Custodianship and greater accountability to the community** - An institution like a football club should benefit the community that supports it.
- **Sustainability** – Football's financial crisis comes from unsustainable models based on a gamble that success on the pitch will make the whole thing viable in the end. That cannot work for every club. Community-owned clubs are run differently.
- **Direct Community Impact** - From the Dons Local Action Group, to FC United's community work, these institutions have enormous potential to do good locally

However, a range of shared barriers stand in the way of Supporters' Trusts as they seek to take ownership of their clubs. Four stand out:

1. **Buying at the bottom and the race against time**. The opportunity for Supporters' Trusts to purchase football clubs almost always comes at a time of crisis. Securing agreement and financial support across thousands of people is difficult at the best of times, but the quick succession of hard deadlines, which need to be met both to arrange the complicated formalities of buying a club and to raise the capital, is unquestionably a big barrier.

2. **Securing the ground**. Football grounds are nearly always a club's most valuable asset. That commercial value, and the opportunity to separate the asset from the club to raise revenue, creates a huge temptation for disconnected owners or administrators to sell the ground, which in turn makes it much harder for supporter-owned clubs to get going.

3. **Lack of support**. In a sector rife with financial mismanagement, there are nevertheless no incentives for community ownership.

4. **The competitive nature of the game itself**. The sound financial management of community ownership often makes it harder to compete with clubs prepared to roll the dice on going into debt to buy more expensive players and managers.

But if financial sustainability means that competing at previous levels is made more difficult, then football's model is broken and needs to change.

A practical plan to boost community ownership in football

We make four recommendations which, in combination, could underpin a real shift towards community ownership in football.

1. **A £400m Community Club Ownership Trust** to purchase clubs in crisis or when they come up for sale. It would give supporters a window of opportunity to raise the capital required for community ownership, by ensuring those with a sensible business plan and genuine appetite and opportunity to take control of their club have the 'day one' capital they need. It would be capitalised from a levy on football TV revenue or through a levy on the hugely profitable football betting industry, and underwritten by Government.

When clubs face liquidation or are put up for sale potential buyers need cash immediately. But the nature of raising community finance means securing sufficient funds takes time. A Community Club Ownership Trust could provide the necessary breathing space.

While in some cases it might be dangerous for communities to take over a football club in severe financial distress – and seeking to buy the club's main asset(s) might be more sensible – where it is financially prudent, fan ownership of a whole club makes sense.

A tie-over fund would solve many of the problems faced by supporters' trusts seeking to buy their clubs. We therefore propose that a Community Club Ownership Trust should be established at a scale which could support tens of football clubs into community ownership in the next decade.

Needless to say, it would be imperative that the Trust is operated under the highest administrative standards. It should only make loans to supporters trusts from whom it can confidently expect a return. Thus the Trust would not make awards to clubs facing insurmountable debts or to supporters' groups with no realistic plans of raising the funds to repay the loan. As such, we expect the Trust to make awards typically in the low millions – in line with the investment required from fans in the case studies discussed within this report.

This Trust would be able to act quickly to stave off the race against time that makes fan ownership so difficult. It would issue loans to supporters' trusts seeking to buy clubs, under certain criteria (e.g. a sensible business plan including demonstration of long-term viability of the supporters' trust; debt obligations not to exceed a certain threshold). This up-front capital could cover the cost of purchase, and the professional fees associated with purchase (which often put off supporters asked to contribute capital for fan ownership). It could also cover initial running costs (e.g. debt financing and players' wages) for a limited but relatively generous period of time until supporters' trusts are in a position to pay back the loan.

The Trust would issue loans rather than grants, as the community ownership model in football has consistently demonstrated its financial sustainability and its ability to attract capital from fans. Loans would be offered under very favourable conditions (e.g. zero % interest). The Trust would be independently run, drawing on the expertise of fan-led bodies within football, as well as those in the wider charitable sector with long experience of community ownership models.

There are a number of ways the Community Club Ownership Trust could be capitalised. Perhaps the most obvious route would be a levy on football TV revenues (for reference, £400m over a decade represents around 1% of TV revenues in that time). Given the fact that community ownership of football clubs is a public good, and given the government's own expressed commitment to community ownership, the proposed 'fan-led review of the game' could be a chance for government to encourage the main football institutions to capitalise this Trust.

Alternatively, a levy could be raised on the extraordinary profits gambling companies have made from the game since the advent of smartphone based in-play markets. To put those profits in perspective, it is worth noting that at time of writing, Bet365's Denise Coates is widely reported to have been paid £421m in a single year – enough to capitalise the fund and still provide Coates with more than 600 times the average wage. Another way of demonstrating government's desire to incentivise community ownership in football could be to underwrite the loans issued by the Trust, potentially using the Community Ownership Fund as the vehicle for this.

Ultimately, the **Club Community Ownership Trust** would provide patient capital to allow Supporters' Trusts the time and space to raise the funds required to take ownership of their clubs. Exactly this model is currently on the verge of transferring Hearts into fan ownership in Scotland, with local business woman Ann Budge playing the role we envisage the CCOT providing in the future. Hearts provides clear evidence that this plan can work. The full story is detailed within the These Clubs Are Ours report.

2. **A strengthening of existing Community Right to Bid powers into a more powerful Community Right to Buy**. This would give supporters' trusts or other local groups which mobilise to register the local stadium or ground as an Asset of Community Value vital leverage over club owners seeking to dispose of cherished football grounds.

If an asset is genuinely of community value, as so many football grounds are, then communities should have a real chance of taking ownership of it. We therefore propose an extension of existing rights, whereby community groups with a strong track record and a solid business case would be given priority to buy Assets of Community Value, and a generous window of opportunity (perhaps 12 months) to raise the funds necessary to meet a price for the asset as determined by an independent valuation. That valuation should take place according to the existing use class of the asset, so that football grounds are valued as football grounds and not as potential housing developments. And if the community group is able to meet this independently determined price then they should be given the right to purchase the asset without competition from other buyers. This would give supporters' trusts, or other local groups, which mobilise to register the local stadium or ground as an Asset of Community Value, vital leverage over club owners not acting in the local community's best interests.

3. **A trial of a Back the Fans policy for clubs in administration, to replace HMRC's preference for liquidation**. Given the greater financial sustainability of community ownership over traditional ownership models, HMRC could trial a policy of accepting Company Voluntary Arrangements in cases where a supporters' trust or similar entity has a viable business proposal and is in a position to take on ownership of the club.

Before Covid, HMRC tended to pursue liquidation for clubs in administration. Given the lack of gate receipts, there is currently a freeze on this policy to ensure clubs are not pushed over the brink because of the pandemic. HMRC should take advantage of this freeze to consider a new approach which would advertise government preference for community ownership models in football. Given the tried and tested resilience and financial sustainability of community ownership, it is in HMRC's interest to incentivise this form of ownership over the usual football merry-go-round of unpaid taxes and unscrupulous owners. HMRC could trial a policy of accepting Company Voluntary Arrangements in cases where a supporters' trust, or similar entity, has a viable business proposal and is in a position to take on ownership of the club. At the very least, the traditional policy of automatically voting to liquidate a club in administration could be softened to allow for the possibility that it is in the taxpayer's best interest to support community ownership of football clubs.

4. **The fan-led review must bring about meaningful change in the way the game is run**

Community ownership of football clubs is not a silver bullet. Even if a large minority of clubs or their grounds were taken into ownership by their fans in the next ten years, many of the rest would still likely be driven by the allure of the Premier League and its riches to overspend, and put their clubs at risk – thus failing as custodians of highly valued community assets. For that reason, the government must ensure that its long-awaited 'fan-led review of the game' properly addresses the long-term problems of financial mismanagement in football and creates a more level playing field.

ENDS

For more information on this briefing, the wider These Clubs Are Ours report, or to discuss their contents and any issues arising, please contact Power to Change at Vidhya.alakeson@powertochange.org.uk

Power to Change
The Clarence Centre
6 St George's Circus
London SE1 6FE

020 3857 7270

info@powertochange.org.uk

powertochange.org.uk

@peoplesbiz

Registered charity no. 1159982