SUMMARY REPORT

SUPPORTER SHARE OWNERSHIP:

Recommendations on how to increase supporter ownership in football

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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.

A full copy of the report can be viewed at :
www.supporters-direct.coop


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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 Presi dents 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.


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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.

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.

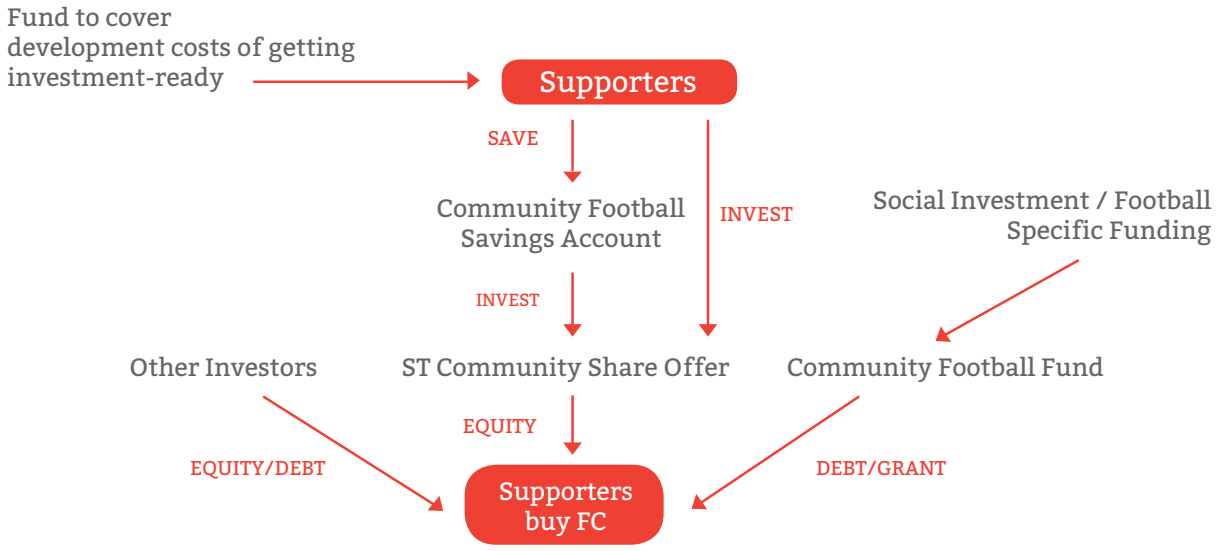
v) For Supporters' Trusts

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.

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



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