



**SD**

supporters direct

# INCENTIVISING AND SUPPORTING COMMUNITY OWNERSHIP IN SPORT

A proposal for a Community Owned Sports Club Scheme

**Written and Researched by:**  
Dr. Adam Brown, Substance

**Supported by, and prepared for:**  
James Mathie, Supporters Direct

1st Floor, CAN Mezzanine  
49-51 East Road  
London  
N1 6AH

020 7250 8138  
[www.supporters-direct.coop](http://www.supporters-direct.coop)

## ABOUT SUPPORTERS DIRECT

Supporters Direct helps fans to set up democratic cooperatives (known as supporters' trusts) to gain influence in the running and ownership of their clubs.

SD was formed in 2000 and exists because we are needed: Sports can be better run and should be more responsive to the needs of its fans and local communities. SD helps achieve this by sharing the experience of supporters' trusts and community owned clubs across sport, helping them to speak with one voice so that they can challenge and change the way that clubs and sport is run. SD is from the grassroots and works within sports structures, with government and others, whilst being a positive influence and a credible voice with the movement that we serve.

To find out more contact:

James Mathie, SD Club Development Manager

t: (0) 20 7250 8142

m: (0) 79 3204 0186

e: James@clubdevelopment.coop

www.supporters-direct.coop

## DR ADAM BROWN, SUBSTANCE

Dr Adam Brown is a research manager at Substance has researched and written this report for Supporters Direct. He has undertaken much of Supporters Direct's research in the last 8 years and is also a founding Board member of FC United of Manchester, a leading supporter owned football club in England.

Contact:

adam.brown@substance.net

T: 07974963020

www.substance.coop

www.fc-utd.co.uk

## EXECUTIVE SUMMARY

Supporters Direct believes that a Community Owned Sports Club scheme will both enhance and reward the benefits that clubs which are community owned deliver and incentivise more clubs to become community owned. SD is advocating that a COSC scheme is created and that it will deliver lasting benefit for sport, for the communities in which it takes place and for the Exchequer.

In support of this proposal, Supporters Direct:

- Has secured the agreement of the Expert Working Group to ask the government to investigate the proposal further.
- Is lobbying the new government to implement the proposals.
- Is working with HMRC and others to refine the proposal.
- Is working with member clubs and trusts to campaign for its implementation.



The outline of the scheme is:

- i. That a new status should be established called Community Owned Sports Clubs (COSCs)
- ii. To qualify as a COSC, clubs must demonstrate that:
  - a. They are 90%+1 owned by a recognised, democratic community organisation
  - b. Ownership is on a one-member-one-vote basis
  - c. Their ownership is inclusive and the club encourages anyone who agrees with their principles in the community to join
  - d. The club has articles of association that specify their community benefit function to be binding
  - e. They have a statutory asset lock or similar device to prevent distribution of assets or proceeds to members in place
  - f. They do not qualify under the newly revised criteria for CASCs
- iii. COSC status will provide:
  - a. Qualification for Gift Aid on donations
  - b. Exemption from Corporation Tax
  - c. Rate relief of a minimum of 80%
- iv. COSCs will be regulated by HMRC
- v. COSCs should demonstrate on an annual basis:
  - Good governance performance
  - Their financial sustainability and reinvestment
  - The benefit they have provided to their communities and other 'social auditing'

It is proposed that the scheme would be administered by HMRC through the existing CASC unit and would not require any new IT infrastructure and have a neutral impact on resources. Because it is based on an existing scheme there are no foreseeable capability or capacity issues and in its early years would not add significant volume existing processes.

SD is proposing that the scheme entails a compliance function that would be undertaken by an independent body, involving sports governing bodies, DCMS, SD and possibly a representative third sector organisation such as Coops UK.

## Cost / Benefit

The COSC scheme can achieve the aims outlined below and in doing so will deliver far greater value to the

economy than it will cost the Exchequer.

Whereas the CASC scheme has cost £1.3bn in tax reliefs over its lifetime, this proposal would be a fraction of that amount.

SD and Substance's research has involved work with six case study clubs. That research has included estimates of average annual cost to the Exchequer for each club and estimation of annual average value delivered. Based on this new research:

- **The average annual cost per club in tax reliefs, based on our case studies would be: £25,664**
- **The gross annual average benefit through capital investment is £168,383, a leverage of 6.5:1**
- **The gross annual average benefit through volunteering value is £126,630, a leverage of 5:1**
- **For both investment and volunteering value combined, there is a gross benefit of £295,013 and net benefit of £269,349 – a leverage of 11.5:1**

Even taking just one of these value estimates in isolation, there is considerable public economic benefit to the scheme by encouraging more clubs to become community owned.

In addition to this the scheme will deliver a number of areas of additional value that are key areas for government:

- Incentivising private giving through increased donations
- Encouraging and enabling inward investment, particularly around regeneration
- Assist the creation, improvement and viability of community-owned sports assets
- Help overcome identified barriers to community finance initiatives
- Increase volunteering levels
- Developing community cohesion and local democracy



## TEN REASONS TO IMPLEMENT THE COSC SCHEME

1. It will increase financial sustainability and transparency in sport through community ownership
2. It will improve governance in sport
3. It will encourage wider community participation in ownership
4. It will help deliver volunteer participation and value
5. It will encourage community engagement in sports clubs
6. It will encourage sports clubs to deliver local services and facilities
7. It will help deliver increased inward investment in areas of deprivation
8. It will develop new or protect existing community sports and non-sports facilities
9. It will help level sport's uneven financial playing field
10. It will incentivise the expansion of community ownership by creating more wholly community owned clubs



## TEN REASONS TO IMPLEMENT THE COSC SCHEME

### 1. Financial Sustainability and Transparency

Encourage better financial management in sport. All of the case study clubs operate on a sustainable, break even basis and do not spend beyond their means. This contrasts with the majority of clubs in professional football and many in other sports.

Community owned sports clubs also deliver and encourage good practice:

- Repayment of historic debts in full, as has happened at Hunslet RFL
- Being in the vanguard of non-league football clubs in VAT, PAYE and National insurance transparency, as Lewes CFC have demonstrated in being the first club in their league to pay players by BACS
- Allowing better scrutiny of club finances by supporter co-owners and developing best practice in financial transparency as happens at FC United

If encouraged more widely, through the benefits outlined and by incentivising wider community ownership, this would deliver economic value to the Exchequer that will far outstrip the cost of provision of those benefits. It will also benefit sport more broadly by developing good financial practice in a sector where this is often lacking.

### 2. Good Governance in Sport

The UK and European governments have emphasised the need for better governance in sport, generating more transparency, the involvement of citizens in democratic processes and organisations and allowing wider public scrutiny of sports governance processes.

The proposed scheme would assist existing community owned sports clubs to maintain and improve their

governance processes as well as incentivise others to adopt model rules and ownership structures.

It would also help spread good practice evidenced in the case studies, such as having the forward thinking and binding community objects more widely adopted, member participation in annual board elections and scrutiny by members of their boards.

### 3. Encourage wider community participation in ownership

The proposed scheme would help maintain existing community ownership. However, more importantly it would:

- Allow clubs to invest in the development and expansion of community ownership. Many of the case study clubs have done this – such as Exeter who have gone from a few hundred owners to 3,155 in 2014 – but could do more to engage a wider membership base if they had more resources.
- Incentivise other clubs to move from private ownership to open, democratic, community ownership. This is shown not only to deliver a wider range of community benefits, but embed local communities in the ownership of their club, generating strategies for their long term development, as shown at Hunslet and Lewes.

### 4. Help deliver Volunteer Participation and Value

The COSC scheme will enhance what existing community owned sports clubs deliver in terms of volunteer engagement in the running of sports clubs and expand this to other clubs. This helps to realise a calculable in kind contribution to the delivery of sport which is based upon people's engagement in the ownership of their clubs.

The case studies that have been researched for this proposal show exceptionally high levels of volunteering in the core operations of the club – a feature that is not very evident in privately owned clubs and which has been identified in previous research as one of the business benefits of supporter ownership. This delivers benefits for the volunteers as well as the club. **In our case studies volunteer input has an equivalent average annual economic value of £100,966 per club.**

## **5. Encourage Community Engagement in Sports Clubs**

The COSC scheme will help to increase the amount of community engagement by sports clubs, generating significant participation in schemes and wide ranging benefits in key agendas of education, health, social inclusion and sport.

Community owned clubs tend to engage their local communities through the activities of the clubs themselves. Although some also have should be arm's length charitable institutions to undertake some of this work, it is a binding obligation on community owned clubs, through their company objects, for the club itself to deliver community benefit. However, unlike charitable foundations at privately owned clubs, community owned sports clubs receive no tax benefit or other reliefs from this 'core business'.

Involving community ownership of sports clubs can also assist community cohesion and increase local democratic participation.

By allowing community owned clubs to generate Gift Aid on donations these benefits can be much more widely felt.

## **6. Encourage sports clubs to deliver local services and facilities**

The COSC scheme will help further the good examples shown of close partnership work with local authorities. The case studies (as well as previous research by SD) have demonstrated how, through their community ownership status they are able to forge partnerships with local authorities and other statutory and third sector agencies to deliver local social and economic priorities.

This is an increasingly important area of potential partnership. Some local authorities are seeking ways to outsource the running (and sometimes ownership) of their sports assets, something which has been encouraged under the Localism Act and community rights agenda. Also, local authorities sometimes have Section 106 funding from other developments. In both cases trusted community owned organisations are well placed to ensure that local communities benefit from these processes.

From AFC Telford's acclaimed partnership with



Telford and Wrekin Council focused on educational benefits; to joint running of council owned facilities in Hunslet; to FC United's partnership agreement with Manchester City Council, community owned clubs have demonstrated that they can help bridge gaps felt by local authorities and deliver lasting social change in their areas.

### **7. Help deliver increased inward investment in areas of deprivation**

The COSC scheme will help expand the number of sports clubs that can access and deliver significant regeneration investment into their areas. Much regeneration funding will require bodies that can demonstrate both that they are not for profit and that they have the capacity to realise regeneration objectives – something which excludes many CASCs and all privately owned clubs.

Merthyr Town have demonstrated how European and Welsh government funding can help both underpin new employment opportunities and improvements to the built environment in an area of need. Lewes CFC now employ 0.5% of the town's total population.

Our estimate is that an average in the region of £16,000 per club of additional capital investment generated that would not otherwise have been possible without community ownership.

### **8. Develop new community sports and non-sports facilities**

The COSC scheme can be a real driver for the expansion of community sports and non-sports facilities delivered by community owned clubs. The COSC scheme has a huge potential to regenerate existing facilities and assist the development of new ones through: the provision of Gift Aid to enhance donations that are essential in pump priming facility development and community finance initiatives; exemption from Corporation Tax, which is important in the establishment of reserves; and through rate relief on the facilities once developed.

The examples of Merthyr Town – who have accessed in excess of £2m in funding to redevelop their ground and provide new community sports facilities; Telford – who have developed an education centre backing onto their pitch; and FC United – who developed a £2m Community Share initiative, several large grants

and donations to develop their community stadium, demonstrate what can be achieved. Indeed it is notable that each of the case study community owned clubs are involved in facility development for the benefit of the community.

### **9. Help Level Sport's Playing Field**

The rapid re-commercialisation of sport has generated greater financial divisions between the top and the bottom and in many cases the financing of clubs on an unsustainable, debt laden basis. Community owned clubs operate differently – not spending more than they can afford and delivering break even budgets.

The proposed scheme would be an important plank in helping to level what is currently a very un-level playing field. It would provide community owned clubs with a financial benefit that would allow them to compete and prosper in a hostile environment.

### **10. Incentivise expansion of community ownership**

Although ownership of sports clubs on the Supporters Direct model has expanded over the last decade, it is often a struggle to convince owners and supporters of the benefits of community ownership and overcome deep seated reservations about the viability of the model – especially given the hostile environment noted above. By creating these benefits for COSCs, the government would be putting its weight behind that process and demonstrating, through affordable but meaningful financial measures, that community ownership is a more viable option.

Although COSC numbers will never be in the same region as the number of CASCs, there is significant scope to expand community ownership to deliver lasting public benefit through sport. But it needs help and the COSC scheme is the way to achieve that. Through close regulation of the types of clubs that can become COSCs and receive these benefits, the scheme would also ensure public benefit from that expansion.

***The COSC scheme is specific, realisable and founded in evidence of the public benefit it can generate. It builds on an existing tax scheme and precedents, with basic criteria that have stood the test of time. It offers a clear and meaningful way forward for government to increase community ownership in sport and the widespread public benefits that can deliver.***

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