



**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](mailto:James@clubdevelopment.coop)

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

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## 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](mailto:adam.brown@substance.net)

T: 07974963020

[www.substance.net](http://www.substance.net)

[www.fc-utd.co.uk](http://www.fc-utd.co.uk)

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## 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.***

# 1. INTRODUCTION AND SUMMARY RECOMMENDATIONS

This document provides a proposal by Supporters Direct for the creation of a new legal status of 'Community Owned Sports Clubs' (COSCs).

This status would be akin to that enjoyed by Community Amateur Sports Clubs (CASCs) in providing tax and rate reliefs to sports clubs that meet specific and stringent community ownership criteria.

This is being proposed to assist current community owned sports clubs deliver wider community benefits and be more sustainable as well as incentivise other sports clubs to become community owned on a defined model.

## 1.1 Summary of Proposals

The proposal outlines that a new status should be established for Community Owned Sports Clubs (COSCs).

To qualify as a COSC, clubs must demonstrate that:

- They are 90%+1 owned by a recognised, democratic community organisation
- Ownership is on a one-member-one-vote basis
- Their ownership is inclusive and the club encourages anyone who agrees with their principles in the community to join
- The club has articles of association that specify their community benefit function to be binding
- They have a statutory asset lock or similar device to prevent distribution of assets or proceeds to members in place

COSC status will provide:

- Qualification for Gift Aid on donations
- Exemption from Corporation Tax
- Rate relief of a minimum of 80%

COSCs will be regulated by HMRC

COSCs should demonstrate on an annual basis:

- The benefit they have provided to their communities and other 'social auditing'
- Their financial sustainability and reinvestment

- Good governance performance

In support of this proposal Supporters Direct are:

- Requesting that DCMS's Expert Working Group on Supporter Ownership makes this one of its core recommendations
- Campaigning to get the new government to implement this proposal
- Working with HMRC and others to refine this proposal

It is proposed that the scheme would be administered by HMRC through the existing CASC unit we understand from consultation that it would not require 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.

## 1.2 This Report

This report has the following sections:

**Section 2** - An outline of the case for a COSC scheme to be established

**Section 3** - Details of the scheme being proposed, outlining benefits, governance, criteria and desired effects

**Section 4** - A Cost/benefit estimate outlining the cost of the scheme to the Exchequer and the value of public benefit it could deliver

**Section 5** - Next steps

A separate **Appendix** is available with the detailed information and figures on the case studies.

## 2. THE CASE FOR A COMMUNITY OWNED SPORTS CLUBS SCHEME

### 2.1 The Benefit of Community Ownership in Sport

#### 2.1.1 Sport and Community

##### *i) The Context of Community Ownership in Sport*

##### Historical Context

Community ownership of sports clubs is nothing new. Most sports clubs and certainly the major team sports clubs codified in the 19th century began as one formulation of ‘community’ organisation or another<sup>1</sup> - whether that was based around schools, neighbourhoods, workplaces or churches.

In some sports, rapid popularisation led to professionalisation and the formation of clubs as private limited companies, something that was particularly notable in football. In others, other forms of community ownership were maintained, such as clubs formed as member cooperatives (in the form of Industrial and Provident Societies) in rugby and cricket. However, in the late 20th century, even these sports saw a growth in professionalisation and re-formation of clubs as private companies.

Since 2000, there has been a significant development of supporter and community owned semi-professional and professional sports clubs in England and Wales, which has largely been driven by Supporters Direct. This has been most notable in football and rugby league, where supporters have sought to take control of their clubs to rescue them, reinvent them following the demise of pre-existing clubs or provide new models of sports ownership.

They have set out to do a number of key things:

- Operate democratically within a well defined model established by Supporters Direct and agreed with the FCA.
- Operate on a sustainable financial footing, living within their means

- Have a legal obligation to deliver benefits to the wider community as well as to their supporter communities.

This development has occurred in a context in which rapid re-commercialisation and globalisation of professional sports such as football, rugby league, rugby union and cricket has seen a number of clubs disappear and/or clubs lose connection with their local communities and fan base. In football in particular, many clubs have entered administration processes (or had similar insolvency events), disappeared altogether or been sold to remote, foreign private owners. Since 1992 when the Premier League was formed there have been 55 winding up petitions involving clubs that have played in the top four divisions in that time; involving 28 clubs in the top four divisions at the time of the petition<sup>2</sup>.

As such, there has been a growing sense – and evidence – that these sports have lost touch with their local communities and supporters. The growth in supporter ownership has, in a large part, been a reaction to these processes and comes with a commitment to deliver better public value and reconnection to their communities.

##### Community Definition

Any consideration of ‘community ownership’ or ‘community benefit’ needs to at least have a working idea of what is meant by ‘community’. It is a term which is used extremely widely and often very loosely.

The Football and its Communities research for the Football Foundation (2006)<sup>3</sup> recognised that whilst communities are plural, fluid, interchanging and contingent on particular times (for instance football supporter communities around matches), it is useful in football’s context to think about a number of categories.

<sup>1</sup> Walvin, J. (2000) *The Peoples Game Revisited*, Edinburgh: Mainstream;

Holt, R. *Sport and the British: A modern history*, Oxford, OUP

<sup>2</sup> Source: Dr John Beech <http://footballmanagement.wordpress.com/no-of-clubs/>

<sup>3</sup> Brown, A., Crabbe, T., Mellor, G. (2006) *Football and its Communities*, London: Football Foundation

These are also a useful yardstick for consideration of community ownership and community benefit that this proposal is concerned with:

- i. Supporter communities, the most important community formation in relation to community ownership. Although this becomes more problematic with global clubs and fan bases in the context of community owned sports clubs, membership is overwhelmingly local.
- ii. Residential communities in the town or locality of the club, who should have opportunities to own as well as meaningfully interact with the club.
- iii. Business communities, especially those that are dependent on, or affected by proximity of the club and its supporters.
- iv. Communities of need, and in particular those that might be served by sports, health, education and social inclusion work undertaken by the clubs.

### Legislative Context

These developments fit into a recent legislative context in which community ownership is being promoted and developed:

- The commitment of the Labour government in 2001 to create Supporters Direct to promote supporter ownership
- The Localism Act delivered by the 2010 Coalition Government which encourages communities to own and run assets and services in their area
- Government funding to support this through the My Community Rights funding run by Locality and Social Investment Business
- A significant increase in community cooperatives and community shares schemes to support local facility development and businesses supported by Cooperatives UK and the Community Shares Unit
- The Cooperative and Community Benefit Societies Act 2014 which established these as legally recognised corporate forms.

Part of the reason for this legislative support has been a growing recognition of the benefits of community ownership and running of facilities and services in the area in which they are situated. Community assets have been taken over and run by groups of employees, residents, beneficiaries and supporters. This is based on a belief and some evidence that community owned enterprises:

- Engage a wider range of local stakeholders in their ownership, governance and activities
- Provide different ways for communities to integrate with those organisations – such as through volunteering
- Have an approach that prioritises longer-term sustainability over short term profit, with higher levels of reinvestment in the business<sup>4</sup>

With reference to sport in particular:

- All the main political parties made manifesto commitments to developing supporter ownership in football prior to the 2010 General Election; and the Coalition Government's Programme for Government made a specific promise to '... encourage the reform of football governance rules to support the co-operative ownership of football clubs by supporters'.
- A Culture, Media and Sport Select Committee was established in 2010 and issued a report into football governance in 2012 which said that 'Supporters' trusts have become an increasingly significant and successful model for club ownership and can have a beneficial influence on particularly financial governance.'
- Most recently, and partly as a response to that report, the Coalition Government has established the Supporter Ownership and Engagement Expert Group to help identify ways in which barriers to community ownership can be overcome.

However, despite all these commitments, to date, no concrete proposal has been agreed nor implemented to assist community ownership in sport.

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<sup>4</sup> Brown, A et al. (2010): The Social and Community Value of Football: Summary Report, London, Supporters Direct: 2

**This proposal offers those concerned with a meaningful and specific way forward which will support existing community owned sports clubs, incentivise others to become community owned, improve governance and financial stability in sport and deliver real, identifiable community benefit.**

### *ii) Benefits of Community Ownership in Sport*

Most football clubs deliver ‘community benefit’ through outreach work (sports development, education etc.) undertaken by their community foundations, which are arm’s length charities that sit outside of the club itself<sup>5</sup>. Many of these deliver excellent work and have a significant impact on their communities<sup>6</sup>. However, increasing evidence suggests there are added community benefits when sports clubs are community owned.

Community owned clubs tend to be run more sustainably because they cannot take on unsustainable borrowing, soft equity or soft loans and their member ownership ensures a level of scrutiny of financial matters that is often lacking in single or private ownership models. As such, encouraging more clubs to become community-owned, through tax reliefs, will reduce the likelihood of clubs operating unsustainably and going in administration. Many of those clubs that have failed have left significant tax debts, harming public finances.

There are thus distinct advantages in increasing the number of community owned sports clubs – both in terms of the health of sports as a whole and football in particular, but also in financial terms to the Treasury.

Supporters Direct and research company Substance have undertaken a series of research projects to outline these wider benefits of community ownership over recent years<sup>7</sup> (please see the end of this report for a full list of these publications).

*The Social Value of Football* research<sup>8</sup> compared the activities of supporter-owned and non-supporter owned clubs and concluded that there were areas of



‘added value’ with clubs that were community owned. These included:

- A priority given to sustainable finance – not spending more than is earned – meaning that their engagement with their communities was long term and sustainable and that companies, charities and agencies – including HMRC and the Treasury – were not disadvantaged by clubs going into administration.
- A horizontal integration of community interests across the club, rather than it being the preserve (or ‘community ghetto’) of an arm’s length charity
- Company objects that specify the club’s (as opposed to its charity’s) obligations to deliver community benefit
- Benefits felt by supporters as co-owners of the clubs, including roles in governance, financial scrutiny and volunteering
- Better and more extensive relationships with local authorities and other local partners delivering social impacts

<sup>5</sup> Brown, A., Crabbe, T. and Mellor, G. (2006); Brown, A. et al (2010) *The Social Value of Football*, London: Supporters Direct

<sup>6</sup> Brown, A., Crabbe, T. and Watson, N. (2013) *Brentford Community Stadium: Valuation of Community Benefits*, Manchester: Substance

<sup>7</sup> Brown, A. and McGee, F. (2011d) *Briefing Paper 4: Business Advantages of Supporter Community Ownership*, London: Supporters Direct

<sup>8</sup> Brown (2010) *op cit.*

Research into the *Business Advantages of Supporter Ownership*<sup>9</sup> also highlighted that community-owned clubs:

- Had long term sustainable partnerships as a result of their community ownership
- Generated sponsor support through a desire to be associated with the principles of community ownership
- Were able to embrace community involvement in finance-raising
- Created more opportunities to volunteer
- Have greater levels of supporter satisfaction

Supporters Direct Europe has set out the case for supporter involvement in ownership and running clubs in Europe in its position paper, *The Heart of the Game*<sup>10</sup>. This has been welcomed by the European Commission and sits alongside statements by the Commission and European Parliament recognising community ownership as beneficial<sup>11</sup> in terms of:

- Improving governance
- Improving financial scrutiny and sustainability
- Involving citizens in democratic structures and volunteering
- Delivering greater involvement of local communities in their clubs, delivering greater social value

Indeed, SD Europe became an observer on the Expert Working Group on Good Governance established by the European Commission and continues to be engaged by policymakers to advise on promoting community ownership in recognition of the added value that this brings to the social value of sport<sup>12</sup>.

**As such, whilst clubs of all types can deliver community benefit through programmes run by their charities, there is an added value to community owned clubs through the ways in which they engage and involve local people as co-owners, volunteers and participants. However, whereas charities and foundations of most clubs enjoy the benefits of being a charity (such as Gift Aid on donations and other tax reliefs), the work of community owned clubs themselves does not.**

### iii) Community as Core Business

Clubs that are either formed as a Community Benefit Society, or owned by one in the form of a supporters' trust, have Objects which state the community benefit purpose of the club/trust. These are obligations on directors to ensure the club itself delivers community benefit, for which they are accountable to their members. Furthermore, it means that a concern with wider community interests remains part of the club's core business.

Most clubs place 'community work' as the responsibility of an independent or semi-independent charity or foundation. Whilst some community owned clubs may also have such an organisation, it does not absolve the clubs themselves from this community benefit obligation.

In contrast to almost all other clubs, most community owned clubs deliver some, if not all, of their community benefits and engagement (such as volunteering) from work the club itself undertakes as part of its core business. This is evidenced in the Case Studies described in Section 4 and provides significant added value to community engagement by embedding community concerns across the club as part of its core business, rather than just remaining as a responsibility of an 'arm's length' organisation.

Furthermore, because community benefit remains a core objective of community owned clubs, they are democratically accountable to their members and local community for what they do. This contrasts with

<sup>9</sup> Brown (2010) op cit.

<sup>9</sup> Brown, A. and McGee, F. (2011d) op cit

<sup>10</sup> Brown, A., Hagemann, A., Shave, B. and Bielefeld, A. (2012) *The Heart of the Game: Why supporters are vital to improving governance in football*, A Supporters Direct Europe Position Paper, London: Supporters Direct

<sup>11</sup> European Parliament (2012) Report on the European Dimension of Sport (the 'Fisas Report'); European Commission (1999) *The Helsinki Report on Sport: Report From The Commission To The European Council With A View To Safeguarding Current Sports Structures And Maintaining The Social Function Of Sport Within The Community Framework*: Brussels: EC

<sup>12</sup> [http://ec.europa.eu/sport/policy/organisation\\_of\\_sport/good\\_governance\\_en.htm](http://ec.europa.eu/sport/policy/organisation_of_sport/good_governance_en.htm)

charities that report to the Charities Commission which is a far more remote form of control and scrutiny and does not really allow the local community any direct say in what is delivered.

**The case being made here is that whereas others clubs' community activities receive benefits from their charitable status, community owned clubs that undertake work with their communities as part of the club's business, receive no reliefs for this. Making the proposed changes would allow them to benefit from and extend their 'core business' community work.**

### 2.1.2 The Current Extent of Community Ownership in Sport

Supporters Direct works with 40 clubs in the UK who are now in 100% or majority community ownership based on the SD model rules and meeting SD's criteria for:

- Share ownership
- Open membership
- Democratic structure
- Affordable membership
- Community benefit Objects

However, community ownership in sport is significantly more extensive than this if one includes those clubs formed in ways other than on model SD rules.

Using the Financial Conduct Authority Mutuals Register as a dataset, we have undertaken analysis into the numbers and forms of sports club constituted either as Benefit for the Community Societies (BenComs or CBS) – which must have open membership and objects to be of benefit to the wider community or as Bona Fide Cooperatives – which exist primarily to benefit their own members.

The table below and chart overleaf shows the complete breakdown of these, highlighting the number of societies that are actually sports club and those that are other forms of association, including supporters' trusts, regional and national bodies and officials' associations.

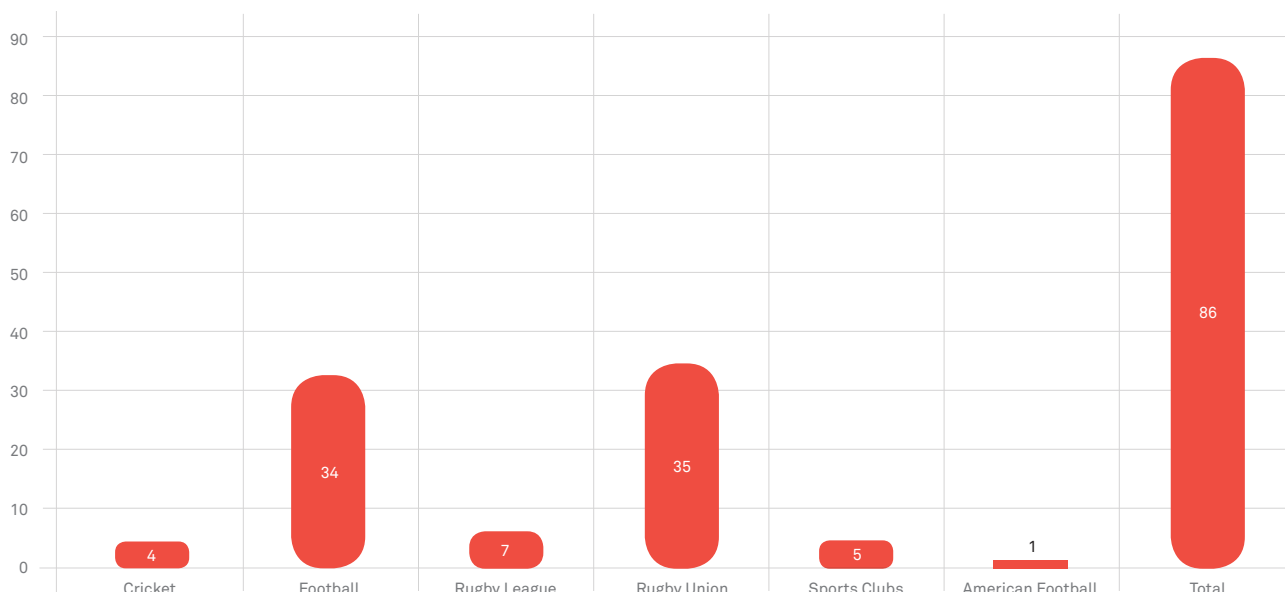


Figure 1: Breakdown of sports clubs formed as Community Benefit Societies



| Sport             | Total<br>IPS | Of<br>which: |                      |              | Total<br>clubs | Of<br>which: |                            |                        | Non<br>Club: |                 |          |          |  |
|-------------------|--------------|--------------|----------------------|--------------|----------------|--------------|----------------------------|------------------------|--------------|-----------------|----------|----------|--|
|                   |              | Ben<br>Com   | Bona<br>Fide<br>Coop | Not<br>Known |                | Clubs        | ST that<br>own/<br>control | Trusts /<br>Supporters | Asscns       | Social<br>clubs | Referees | Other    |  |
| American Football | 2            | 1            | 1                    | 0            | 2              | 2            | 0                          | 0                      | 0            | 0               | 0        | 0        |  |
| Cricket           | 25           | 4            | 15                   | 6            | 25             | 25           | 0                          | 0                      | 0            | 0               | 0        | 0        |  |
| Football          | 173          | 162          | 9                    | 2            | 38             | 15           | 23                         | 131                    | 1            | 1               | 0        | 2        |  |
| Golf              | 15           | 0            | 5                    | 10           | 15             | 15           | 0                          | 0                      | 0            | 0               | 0        | 0        |  |
| Rugby League      | 19           | 19           | 0                    | 0            | 7              | 3            | 4                          | 12                     | 0            | 0               | 0        | 0        |  |
| Rugby Union       | 351          | 41           | 240                  | 70           | 312            | 312          | 0                          | 4                      | 25           | 2               | 6        | 2        |  |
| Sports Clubs      | 124          | 10           | 67                   | 47           | 24             | 24           | 0                          | 0                      | 0            | 100             | 0        | 0        |  |
| Tennis            | 9            | 0            | 3                    | 6            | 9              | 9            | 0                          | 0                      | 0            | 0               | 0        | 0        |  |
| Sports Trade      | 1            | 1            | 0                    | 0            | 0              | 0            | 0                          | 0                      | 0            | 0               | 0        | 1        |  |
| <b>Total</b>      | <b>719</b>   | <b>238</b>   | <b>340</b>           | <b>141</b>   | <b>432</b>     | <b>405</b>   | <b>27</b>                  | <b>147</b>             | <b>26</b>    | <b>103</b>      | <b>6</b> | <b>5</b> |  |

Figure 2: Breakdown of Sports organisations listed as IPS on FCA Mutuals Register





It should be noted that the majority of clubs will be amateur organisations – they will not pay players and most do not exist for the wider benefit of the community. Many of these sports clubs will be registered as Community Amateur Sports Clubs.

However, three things are important to note from this data:

- The extent of community and cooperative ownership in sport is considerable;
- There is the potential to grow the numbers of sports clubs formed as community benefit societies – and thus deliver greater and wider community benefit as opposed to primarily serving their members' interests – if they were incentivised to do so; and
- There is the potential to provide a pathway to semi-professionalism for amateur clubs in some sports. i.e. from CASC to COSC status

## 2.2 Legislative Precedent for Incentivising Community Benefit in Sport Through the Tax Regime

This proposal is built on a well established and largely successful scheme for promoting sports participation through amateur sports clubs.

The Community Amateur Sports Club (CASC) scheme was established in April 2002<sup>13</sup>. This allowed amateur sports clubs which met certain criteria to benefit from a range of tax benefits including:

- Gift Aid on donations
- Exemption from Corporation Tax:

- o on profits from trading where the turnover of the trade is less than £30,000
- o on income from property where the gross income is less than £20,000
- o on interest received
- o on chargeable gains
- A minimum of 80% Business Rate rebate

Qualifying criteria are that clubs must:

- Be open to the whole community, meaning:
  - o Membership of the club is open to all without discrimination
  - o The club's facilities are available to members without discrimination
  - o Any fees are set at a level that does not pose a significant obstacle to membership or use of the club's facilities
- Be organised on an amateur basis, meaning:
  - o It is non-profit making
  - o It provides for members and their guests only the ordinary benefits of an amateur sports club
  - o Its governing document requires any net assets on the dissolution of the club to be applied for approved sporting or charitable purposes
- Have as its main purpose providing facilities for, and promoting participation in one or more eligible sports
- Meet the location requirement, meaning it is in a member state of the European Union
- Meet the management condition, meaning the club has managers that are fit and proper persons to be managers of the club<sup>14</sup>

<sup>13</sup> CTA 2010 Part 13 Chapter 9; FA 2010 Schedule 6 Part 3 introduced changes to the conditions of the scheme with effect from 6 April 2010. [http://www.hmrc.gov.uk/casc/casc\\_guidance.htm](http://www.hmrc.gov.uk/casc/casc_guidance.htm) accessed on 11.11.14

<sup>14</sup> [http://ec.europa.eu/sport/policy/organisation\\_of\\_sport/good\\_governance\\_en.htm](http://ec.europa.eu/sport/policy/organisation_of_sport/good_governance_en.htm)

To be registered as a CASC a club must complete an application form and submit details of its articles of association. Provided that a club's constitution is not altered or its operation starts to fail to meet these criteria, once established as a CASC, that status remains in place. However, should changes to the club happen, including the constitution or sale of assets, then CASC status can be revoked and the club can become liable for some of the benefits it has received.

There are 6,571 (April 2014) clubs registered as CASCs and clubs have received around £130 million in savings since 2002<sup>15</sup>.

A review of CASC regulations was brought into force in the Finance Act 2013 including a public consultation in 2013. This proposed a number of changes to CASC status designed to alleviate some of the restrictions on CASC status in terms of membership fees, paying players and club earnings. New regulations were published in November 2013 and included the following modifications:

- Clubs that charge more than £520 a year must make special provisions for members on a low or modest income to participate for £520 or less, subject to an upper membership fee threshold of £1,612.
- Clubs will be able to pay any number of players to play up to a total limit per club of £10,000 a year (including the cost of any benefits).
- Clubs will be able to pay reasonable subsistence expenses and club tours subject to limits that will be set out in HMRC guidance.
- At least 50 per cent of a club's members must be participating (sporting) members.
- A participating member will be defined as a person who participates in the sport at least 12 times a year.

- Clubs will be able to generate unlimited income from their members.
- Clubs will be able to generate up to £100,000 turnover (receipts) from trading and other miscellaneous transactions with non-members.
- The threshold on the exemption from corporation tax on trading income will be increased from £30,000 to £50,000. Clubs will pay no tax on trading income so long as the turnover from non-members is no more than £50,000.
- The threshold on the exemption from corporation tax on income from property will be increased from £20,000 to £30,000. Clubs will pay no tax on income from property so long as the receipts from non-members are no more than £30,000.
- All companies will be able to obtain tax relief on qualifying donations to a CASC under corporate Gift Aid<sup>16</sup>.

Our consultation with key agencies such as the Sport and Recreation Alliance and sports governing bodies - the FA, the RFU and RFL - suggest that whilst these changes have made some aspects easier for CASCs, concerns remain as to how they will be regulated and operated – for example defining and separating member and non-member income. Another issue is that barriers still remain to CASCs that are ambitious and want to progress up their sport's pyramid, which may mean they lose CASC status.

### 2.3 The Need for Similar Legislative Support for COSCs

Whilst these changes may assist community amateur sports clubs prosper, they still mean that most community owned sports clubs which are semi-professional and professional do not qualify. This therefore leaves a gap in legislative support for community owned clubs, despite the sporting and non-sporting community benefits they bring. Whilst the benefits sought for community owned clubs are designed to be the same as those for CASCs, the differences between them mean that they cannot gain these benefits under current CASC legislation and criteria. There are a number of important areas to highlight in this regard.

- i. All of the leading community owned clubs – those that meet Supporters Direct's model criteria on openness and community benefit – involve levels of business that exclude them from being registered as CASCs where non-member income cannot exceed £50,000 turnover without triggering corporation tax charges.

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<sup>15</sup> <http://www.cascinfo.co.uk/>

<sup>16</sup> [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/260944/CASCs\\_Consultation\\_Response.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/260944/CASCs_Consultation_Response.pdf)

ii. Many community owned clubs pay players to a much higher degree than is possible under CASC regulations where club spending on players cannot exceed £10,000. Indeed, those operating in the Football League are fully professional and those operating in the top few divisions of the non-league pyramid have players' wage bills in the hundreds of thousands. This means that the limits that apply to CASCs disqualify many if not most that are currently community owned.

iii. For major team sports (in particular rugby league, rugby union, cricket and football) restrictions on income generation from non-members excludes most community owned clubs from CASC status. Imposing any restriction on non-member income for COSCs would actually make them less, not more, sustainable as it would hugely reduce their ability to generate inward revenue.

iv. Although the limit on income from property for CASCs has been increased from £20-30,000, this again is too low for community owned sports clubs, where routinely they use the rental of sports grounds and associated facilities as a means of sustaining the club in a hostile competitive environment and maintaining socially beneficial policies such as low ticket prices for supporters.

v. The requirement that 50% of members must be sporting members in CASCs – those that take part in the sport – has less relevance for community owned clubs whose members join because they are predominantly spectators and supporters, not sports participants. It is their role as spectators that informs and guides their ownership, not their participation in a club's teams or use of facilities.

Whereas the separation of member and non-member roles, the limits on income and the primacy of promoting sports participation make sense for establishing criteria for CASCs, it does not make sense for COSCs.

Rather, it is the use of income and the benefit delivered by co-ownership by supporters and local communities that is most important for COSCs. As such, one vital element of the proposed criteria and compliance for COSCs is that they must demonstrate how they are delivering community benefits and how they are using the additional resources generated from the proposed tax benefits to be sustainable and grow their community benefit role.

Indeed, for clubs formed as Community Benefit

Societies, it is their legally defined obligation (under the Cooperative and Community Benefit Societies Act 2014) to deliver benefit to the community ahead of benefit to its own members. Their ability to do this is sustained by the use of additional financial resources and would be significantly, if not wholly, eroded if they had to comply to CASC criteria.

However, the CASC scheme and review also highlights other needs for Community Owned Clubs in terms of legislative support.

It would offer a pathway for CASCs that currently does not exist, especially one that operates at the grass roots of a team sport pyramid that is professional and/or semi-professional at its apex. Should a CASC proceed up that pyramid, it will at some point be faced with a choice of either not proceeding any further or losing CASC status and facing financial penalties as a result. This can happen regardless of the fact that it may actually deliver more public benefit if it were able to proceed to semi-professional or professional status.

A COSC scheme would allow a CASC to convert to a CBS and be registered as a COSC thus maintaining benefits received, provided it continued to deliver (and even extended) wider public benefit. It would then provide a pathway from amateur to semi-professional and possible professional status for some clubs that are currently CASCs.

The CASC scheme also focuses almost exclusively on the delivery of opportunities to participate in sport and not the wider community benefit that COSCs could deliver. The evidence outlined in Section 4 illustrates how educational, volunteering, health and social inclusion benefits are delivered by COSCs – and should be part of the criteria of a new COSC scheme, thus providing a public benefit that is wider and deeper than that sought through CASCs which focuses solely on participation.

Finally, legislative support for COSCs is required if it is to help address the structural weaknesses in governance and financial transparency and stability in some of the major sports. Although debates will continue about regulation of sport 'from above', the COSC scheme offers a way in which more clubs can be established and prosper with model, open and democratic governance and sustainable financial strategies. That cannot be achieved for semi-professional and professional clubs through the CASC scheme.





## 3. THE PROPOSAL FOR A COSC SCHEME

### 3.1 Measures

This proposal is to create a new status of COSC as an amendment to the Finance Act 2013 that provides benefits similar to those offered to Community Amateur Sports Clubs.

The status of COSC would be similar to that of a CASC, namely legally defined and regulated by HMRC.

In terms of the process for establishment, a sports club meeting qualifying criteria (see below) would register as a COSC in a similar manner to the process currently used by CASCs, namely:

- Completion of an application form provided by HMRC
- Providing governing documents, accounts and other information as required

The application would then be assessed by HMRC. Currently CASCs are administered by the HMRC CASC unit – the same, or a similar unit could be used for administering those applying to be registered as COSCs. HMRC would assess whether the criteria for a COSC have been met and:

- Approve registration and backdate to the start of that accounting period
- Identify if conditions have not been met and inform the organisation as to why they do not qualify (and what might be undertaken to meet the conditions, such as amendments in their rules)
- List the club's details once registered

It should be noted that whilst there are currently 6,571 registered CASC's (as at 10 April 2014) the numbers of COSCs would be far, far fewer. Supporters Direct works directly with 35 community owned (majority owned) clubs and the estimates on cost and benefit (Section 5) are based on 30 COSCs being registered in the first 3 years, 50 in 5 years and 100 in 10 years. As such, the administrative burden is likely to be far less. However, as there are very specific reporting requirements attached to COSCs about their performance and delivery of community benefit, it may be that an intermediary body is required to oversee these reports and highlight any concerns about criteria being met.

### 3.2 Proposed Benefits for COSCs

Clubs qualifying as a COSC would receive the following benefits.

#### 3.2.1 Gift Aid

The ability to raise funds from individuals under Gift Aid at 25%. This would mean that a registered COSC could reclaim £25 in tax for every £100 donation received.

Gift Aid currently works as follows:

- Charities and CASCs to reclaim basic rate tax against gifts received
- Qualifying organisations take the donation and then reclaim the basic rate of tax from HMRC on its gross equivalent (the amount before basic rate tax was deducted)

An example provided by HMRC is as follows:

- Basic rate tax is 20 per cent
- If an individual gives £10 using Gift Aid, it is worth £12.50 to the charity. If an individual gives £100, the charity receives £125.

Should this benefit be applied to COSCs, then they would:

- Ask donors to fill a Gift Aid declaration when providing a donation
- Ask for details of full name, home address, name of the COSC, and a statement saying that it is a Gift Aid donation and this form would cover subsequent donations in any period set by the COSC

### 3.2.2 Corporation Tax Relief

Like CASCs, COSCs would gain exemption from Corporation Tax on profits derived from trading activities.

There is currently a limit on income that qualifies for this relief for CASCs of £30,000. Most if not all clubs that are community owned – especially those that this proposal is specifically aimed at in major sports such as football and rugby – will have trading income significantly above this amount. Also, part of the rationale for the scheme is to encourage more larger, semi-professional and professional clubs to become community owned. As such a limit is not really appropriate for COSCs. A caveat to the lifting of this limit for COSCs might be that evidence will need to be provided to show that income and profits generated are reinvested for business sustainability and community benefit (see criteria and regulation, below).

That said, the case study clubs we have worked with (Section 4) have zero or virtually zero corporation tax liability as they tend to operate on a break even basis; or they have capital allowances or previous losses to offset liabilities. Should this scheme come into effect however, the clubs have indicated that they would seek to use it to operate more profitably allowing them to, for instance:

- Build up reserves for the continuation of business and provide a ‘safety net’
- Build up reserves for capital improvement and maintenance of community facilities
- Have ‘pump priming’ development funding available for initiating community finance schemes

COSCs would also enjoy Corporation Tax relief from property income. For CASCs there is currently a limit on that income of £20,000. As with general income tax relief, consideration needs to be given to eliminating this limit for COSCs, especially as some property income (e.g. rental of facilities) can play an important role in the financial sustainability of community-owned sports clubs. As with general tax relief, however, evidence that this income was being reinvested and helping generate community benefit would need to be provided.

Like CASCs, COSCs would also receive:

- Relief on Corporation Tax on interest received
- Relief on Corporation Tax on chargeable gains

Although CASCs that fall below the threshold are exempted from submission of an annual Corporation Tax return, we do not feel that this is appropriate for most COSCs. This is because many COSCs are much larger organisations, employing staff and also because this should be an important part of monitoring the effect of the proposal and its regulation. As such, unless a COSC’s turnover is below the standard limit of £20,000 we are not proposing that they are exempt from submitting Corporation Tax returns.

### 3.2.3 Business Rate Relief

COSCs would receive a minimum of 80% business rate relief where they own facilities. This could be extended up to 100% by local authorities at their discretion. As with other reliefs, COSCs should be able to demonstrate the community use of the facility on which they are receiving relief and local authorities should expect to see certain conditions met – such as strategic partnerships with the authority, partnerships with community organisations and evidence that they are helping to deliver local social priorities (such as those in education, employment, health and sport). Local authorities might, for instance, extend the relief upwards from 80% if the club is delivering particularly innovative partnerships or developments and is helping to deliver the local authority’s priorities in health, education, crime reduction and social inclusion.

### 3.3 Criteria

COSC status should be tightly defined to ensure that the community benefit purpose for their creation is delivered. Many clubs and organisations call themselves a 'community organisation' or claim that they have 'community facilities'.

Community ownership should be something very specific to ensure that the benefits that derive from community ownership are genuine.

As such, to qualify as a COSC, clubs should demonstrate the following criteria.

#### 3.3.1 Appropriate levels of community ownership: 90%+1

It is important that the community actually controls the club. Where clubs have only a simple majority community ownership, other shareholders can exert significant influence. We suggest that clubs should have a minimum of 90%+1 share in community ownership on a one member one vote basis. This gives the community the ability to control the organisation and ensure that community benefits are delivered.

This measure will also incentivise clubs that are currently minority or majority owned below the 90%+1 threshold, to increase their proportions of community ownership.

#### 3.3.2 Appropriate corporate form

There are a variety of corporate forms for community ownership. However, only some have built-in protections of community benefit. These are:

- A Community Benefit Society – that must have open membership, one member-one-vote and community benefit objects
- A Community Interest Company – that must prioritise community interest over generation of surplus, be regulated by the CIC regulator, have limits on any surplus generated must also operate on a one member one vote basis
- A Limited Company that is wholly owned or owned to a level of 90%+1 share by a supporters trust - along with community benefits objects in the trust and the club articles.

A club that is a CBS is de-facto community owned as

this is regulated by the FCA. However, clubs formed as a CIC (of which there are very few) and as a limited company owned by a supporters' trust, will have to demonstrate that the community owns 90%+1 Share of the club and that it genuinely has control (such as in the case of a limited company shared directors between the trust and the club; and the ability for the trust to remove the board of the club if required).

#### 3.3.3 Protection of community benefit

Whichever corporate form is taken, there must be the following community benefit protection factors:

- Company objects** that specify the primacy of its community benefit function
- Open membership/ownership** to encourage anyone in the community who shares their aims to participate in ownership as members
- Democratic** one member one vote structure (in CICs and Limited Companies this can be achieved through voting and non-voting shares but it must mean that the membership has one-member-one-vote control of the club)
- Be **not for profit** – this does not mean it cannot make a surplus, but that that surplus should be reinvested (for sustainability, business development and benefit of the community purposes) and not be distributed to shareholders. An exemption would exist for payment of interest on Community Share Schemes (and similar) provided that these meet current model rules/guidance as provided for in Supporters Direct's model rules<sup>17</sup>
- Have a **form of 'Asset Lock'** (or similar) that prevents the proceeds from the sale of club assets being distributed to shareholders/members
- Be an organisation whose primary function is to deliver one of the sports recognised by Sport England<sup>18</sup>.

#### 3.3.4 Demonstration of community benefit

As part of the regulation of COSCs and to ensure that there is some measurement of public benefit from the tax reliefs provided, they should be able to demonstrate the value that they provide to local communities.

This should include an **annual report** of performance and evaluating the community benefits and sustainability delivered.

A set framework of key measures and exercises that clubs must report on should be provided. This is a form



of club licensing for COSCs and should focus on the particular benefits of community ownership that are to be assisted by the tax reliefs provided. It should cover:

- i. A **financial** statement outlining financial performance, demonstrating 'fit for business' status and short, medium and long term projections. It should include:
  - a. Surplus generated and **reinvestment** in the club achieved
  - b. Investment by the club in **community programmes**
  - c. **Community finance** raised for community facilities and ongoing club development
- ii. A **governance** report showing co-owners' levels of involvement in democratic processes; transparency in terms of publication of minutes and financial reports; board election data; and general meeting minutes.
- iii. **Ownership development** performance showing membership numbers and profile and progress in broadening the ownership base
- iv. A **community benefits statement that could include:**
  - a. Work undertaken in the fields of sport and physical activity, health, education and employment including participant numbers, profile, attendance and outcomes
  - b. Volunteering numbers, strategies and profile
  - c. An annual stakeholder survey to demonstrate the views of external people (such as local residents) and organisations (such as suppliers, community partners)
  - d. An annual supporter survey to demonstrate satisfaction and supporter involvement in decision making
- v. Where a club owns its own facility it should also be able to demonstrate that it has:
  - a. A statutory asset lock to prevent co-owners profiting financially from the sale of the facility
  - b. Set minimum levels of community use of publicly accessible areas of the facility (e.g. community matches on the main pitch, percentage of hours of use of sports pitches or function/meeting facilities)
  - c. Discounted community rates of hire
  - d. Delivery on site of local services, including education, health and/or local employment work
  - e. Undertaken community consultation about ongoing facility development

This form of club licensing will have the added benefit of generating data about all community owned clubs

and the public benefit they create, act as a soft touch regulator of the COSCs and encourage good practice more widely in sport.

### 3.3.5 Demonstration of financial transparency

COSCs should also follow best practice in financial transparency. Community Benefit Societies in general must report financial matters to members (as well as the FCA), and members/co-owners have the right to scrutinise finances. However, both Wrexham and FC United are particularly open in reporting financial performance.

Good practice should be encouraged through the compliance procedure to include:

- Full and open reporting to members
- Member right to scrutinise accounts on request
- Financial summaries made public and published on websites
- Summary reports to be produced in a way that is accessible to lay readers

Other practices should also be encouraged. Lewes Community Football Club were the first in their league to pay players by BACS, allowing for the simple and transparent provision of information for HMRC, co-owners, leagues and football authorities. As part of COSC compliance, where players are contracted and/or playing is their main employment they should be paid via PAYE; and where this is not the case, as is often the case in non-league semi-professional football, payments should be made via BACS and advised to declare income to HMRC.

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<sup>17</sup> Supporters Direct sponsor model CBS rules that are approved by the Financial Conduct Authority, Model Rules for a Supporters' Community Mutual (2014 version). For more information contact Supporters Direct.

<sup>18</sup> [www.sportengland.org/our-work/national-work/national-governing-bodies/sports-that-we-recognise/](http://www.sportengland.org/our-work/national-work/national-governing-bodies/sports-that-we-recognise/)

### 3.4 Governance

#### 3.4.1 Registration

COSCs should be regulated and registered by HMRC in a similar way to CASCs and most likely through the existing CASC unit. As noted above, the registration of COSCs is likely to be far less onerous than for CASCs of which there are a much larger number. This would involve receipt of applications and governing documents and approval or rejection of these.

Initial consultation suggests that could be administered by HMRC through the existing CASC unit and would therefore 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.



<sup>19</sup> HMRC (2014) Community Amateur Sports Clubs: Changes to rules, London: HMRC

<sup>20</sup> Department of Business, Innovation and Skills (2013) Response to the CIC consultation on the dividend and interest caps, London: BSI [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/264664/CIC-13-1333-community-interest-companies-response-on-the-cic-consultation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264664/CIC-13-1333-community-interest-companies-response-on-the-cic-consultation.pdf)

#### 3.4.2 Community Benefit Performance – ‘Community Club Licensing’

However, it is vital that COSCs both demonstrate that they are meeting the criteria and also that they are delivering the community benefit the reliefs are designed to support. It is essential that these reliefs are only provided to sports clubs that both meet the criteria outlined above and maintain that status and the benefits they deliver.

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.

This approach for more robust reporting of community impacts reflects similar processes in other associated regulatory areas:

- Proposed changes to the CASC scheme have emphasised the policy objectives of ‘other priorities’ in addition to sports development other priorities, ‘in particular health, crime reduction, volunteering, community building and promoting social inclusion’.
- The recent CIC Regulator’s response to consultation on changes to CICs emphasised the need for ‘the annual community interest report [to reflect] the activity and impact of the business and review the layout of the form to encourage fuller responses’<sup>20</sup>

As such there will be a need for ongoing oversight of the ‘community ownership licensing’ of the community benefits being delivered based on the framework outlined in 3.3.4 above. This would require the following tasks to be undertaken:

- i. Setting and adapting the framework for reporting
- ii. Identifying tools for this to be undertaken
- iii. Setting reporting dates
- iv. Evaluation of reports submitted
- v. Annual approval of COSC status
- vi. Liaison with clubs where it is believed that COSC status has not been met and identification of remediation measures and time frames for change
- vii. Ultimately, recommendation to HMRC for removal of COSC status if criteria have been breached and remediation has not been undertaken or successful within agreed time frames

Although it should remain the regulatory body, it is unlikely that HMRC would wish to or is the most appropriate body to undertake this role.

Whilst Supporters Direct, as the leading organisation developing community ownership in sport could play a role, as many of the clubs (certainly in the initial stage) will be members of Supporters Direct, it would be inappropriate for them to solely perform the licensing role.

Therefore we propose that an independent panel is established to undertake this role. It could include:

- An independent chair
- Representative of Supporters Direct
- Representative of the key sports national governing bodies that this proposal is most likely to affect (football, rugby union, rugby league, cricket)
- Representative of the Sports and Recreation Alliance and potentially Sport England
- Independent members, including potentially those from Coops UK or similar agencies. potentially those from Cooperatives UK.

### 3.5 Desired Effects

The desired effects of creating a COSC status for sports clubs are to:

#### 3.5.1 Create greater business sustainability

By creating tax and rate reliefs for COSCs and allowing them to benefit more from donations, they will be better able to maintain sustainable finances and it will support sustainable community business models. This will help offset some of the disadvantages that community owned football clubs face in the context of English sport, notably football, such as clubs that run at unsustainable levels of spending and finance operations with soft loans and debts.

In particular it will:

- Allow COSCs that currently operate on a break even basis to start to develop reserves for the ongoing continuation of the business without those reserves being subject to corporation tax
- Help COSCs compete more effectively on a sustainable basis

- Allow COSCs to build up pump priming finance that can support the initial stages of community facility improvement and community finance initiatives in particular by generating donations that qualify for Gift Aid
- Help COSCs re-invest in broadening their ownership base and improving their governance Assist COSCs in investing in community programme/engagement work

In addition to the benefits that clubs receive, it will have the added benefit for the Exchequer in reducing the number of clubs that operate unsustainably and enter administration. As the scheme grows, this effect will be more significant.

#### 3.5.2 Support and develop community ownership

Additional resources created by this proposed change will help to make community owned clubs more able to:

- Expand the ownership base of the club
- Involve a wider spectrum of their communities with a broader demographic profile
- Engage with other community owned clubs more effectively to share good practice and experiences
- Incentivise the development of other community owned clubs and the transfer of other clubs from private to community ownership



### 3.5.3 Help develop their community engagement

Due to the fact that many community owned clubs deliver at least part of their community engagement as part of their core business, granting that business the proposed reliefs will assist them in delivering the community benefit from the club alongside any foundation/charity delivery if they have it.

This will also help maintain the practice evident in the case study clubs of delivering community benefit from the heart of the organisation, ensuring it is meeting its company objects and the added value that this integration of community interests across the club brings. The changes will help ensure that the community benefit approach remains integral to the club.

Whilst the financial benefits received will enable clubs to be more sustainable, they should also demonstrate in their reporting how they support community work and wider member ownership which would assist clubs in developing a number of areas of work:

- Broaden the scope and range of schemes delivering local services and work with local authorities, to help meet local and national agendas about improving health, physical activity, education and employment
- Engagement of a wider range of people and organisations in the club
- Extension of volunteering opportunities and more formalised structures for volunteers (including accreditation, reward, skill development)
- Embedding awareness of community ownership in the delivery of outreach programmes
- Develop new community owned facilities and sports assets

### 3.5.4 Support community finance and facility development

As noted above, the proposed changes will assist clubs to raise community finance – especially for facility development - through increasing the value of donations through Gift Aid and through rate and tax relief, making business plans more sustainable and allow the creation of reserves that are not subject to corporation tax.

In particular, allowing Gift Aid on donations could be vital in supporting COSCs wishing to develop

community finance initiatives, such as Community Shares. This was a specific recommendation to help overcome barriers to community finance in SD's report *Supporter Share Ownership* <sup>21</sup>.

Supporting facility development and community owned sports clubs running local facilities is very important in relation to key national and local policy agendas to do with community control and running of local assets, localism and local authority sports provision. Ensuring that community ownership is at the heart of local sports facility provision could allow greater, more sustainable local control of provision. In addition, where local authorities have Section 106 or other resources, having robust community owned sports clubs that can enable the proper use of such resources can assist local authorities deliver new facilities as well as sports, education, health and other schemes that meet local priorities. As such, the COSC scheme should be seen as one that enables additional investment through appropriate, locally owned and democratically controlled sports organisations.

This will benefit communities in two ways:

- i. Assisting in the development of community sports facilities that local people can co-own and help run, and which meet their needs
- ii. Assisting clubs to increase their levels of community ownership (for example by raising finance to buy shares from minority shareholders)

### 3.5.5 Encourage more sports clubs to be COSCs

The proposals will also help create more community owned clubs. This is a key plank of this proposal – to incentivise wider community ownership in sport.

The COSC scheme would:

- i. Make transferring the privately owned clubs into community ownership more attractive (to owners, supporters, communities)
- ii. Help address some of the financial burdens often faced by supporters trusts when they take on ownership (such as historic debts and/or the consequences of administration)
- iii. Make it more likely that supporters trusts can take over clubs by making sustainable business plan targets easier to achieve
- iv. Encourage clubs that have minority community ownership to become fully community owned

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<sup>21</sup> Brown, A., Hall, T., Brown, J. (2013) *Supporter Share Ownership: Recommendations on how to increase supporter ownership in football*, London: Supporters Direct: p22

### 3.5.6 A Development Pathway for CASCs

Currently those clubs that have CASC status cannot pay players once recent changes are implemented, above a total of £10,000 a year; and they must operate within set trading limits. Most community owned sports clubs that this proposal concerns (especially those that are semi-professional and professional) exceed this amount. Furthermore, if CASCs expand their organisation – for instance through development of their trading activities which can be vital in their long term sustainability – then they may exceed the thresholds for tax relief.

In some sports, particularly the major team sports, as CASCs develop and proceed up their pyramids, they will almost certainly face the choice of either losing CASC status – and benefits – as soon as they exceed the set payment and trading criteria; or they choose not to progress. The latter option would mean arguably losing the ability to expand their operation and thus the opportunity to expand the community participation in sport and other community benefits.

Creating a new category of COSCs would allow a natural development pathway for existing CASCs, whilst maintaining the core objective of community benefit and community ownership and maintain sustainability through the reliefs provided.

### 3.5.7 Impact on Football Governance

By incentivising COSCs to prosper and increase in number, it will assist football and other sports governing authorities by providing a solution to the unsustainable finances which have led to so many clubs having financial difficulties. By giving supporters controlling ownership of clubs, it will also ensure that they have better scrutiny of club finances, are more satisfied and are more involved in governance.

This will not only help develop greater social value – as evidenced in the following section – but will save the Exchequer money by having fewer clubs enter administration and renege on debts.

### 3.5.8 Improving the practice of community ownership

The proposed changes would also have an impact in encouraging better practice within COSCs and better governance.

The ‘community club licencing’ framework proposed is there to ensure that minimum standards and criteria are met.

However, the particular benefits the scheme involves will also help to cross-pollinate innovative and good practice in community ownership.

For example:

- Some COSCs have well-developed donations schemes whilst others are less active in this area as evidenced in the following section. By allowing Gift Aid on donations it will help extend existing schemes and kick start others to help encourage more private finance and giving into sport. This will have a significant net benefit on the financing of community sport at a time when other sources of finance are much more restricted.
- It could encourage more clubs to adopt schemes such as a ‘pay what you can afford’ season ticket scheme, where donations are a significant constituent, additional part and on which Gift Aid could be paid. This will help maximise access to the sport concerned by making it more affordable for the less well off and increase club sustainability.
- The use of community ownership to access regeneration funding has been a key part of some clubs’ community facility development and if adopted more widely this could significantly increase external investment into community sports.
- The good practice shown by some COSCs in automated payment of players, tax, National Insurance and VAT if adopted more broadly would help both sport be run more transparently and the Exchequer in efficient receipt of moneys owned.

There will be a huge range of other practise that can help improve the sport sector as a whole, but the point to emphasise is that by assisting and incentivising community ownership the innovative and good practices COSCs demonstrate will be more significant and more widespread.

## 4. COST-BENEFIT ANALYSIS OF THE COSC SCHEME

It is important to understand the impact that the proposed changes might have – both as a cost to the Exchequer for providing these benefits and in terms of the added value that protected and increased levels of community ownership of sports clubs might bring.

To help inform this we have undertaken case study work with with five community owned clubs, and additional information from one other, to identify the cost and benefits to the exchequer of this scheme, based on:

- i. An estimate of how much those clubs would benefit in reliefs should the measures be implemented
- ii. An estimate of what additional investment those clubs bring through their community ownership
- iii. An assessment of the in kind value these clubs bring through activities such as volunteering

The clubs are: AFC Telford United, Exeter City FC, Hunslett Hawks RLF, Lewes CFC, and FC United of Manchester with additional information from Merthyr Town FC. Full details of the case study clubs on which these assessments are based are in an Appendix to this report.

In this section we summarise that data and provide a comparison of economic costs against the economic value generated by community ownership.

### 4.1 Cost to the Exchequer

#### 4.1.1 The Potential Cost of Case Study Clubs

Table 2 summarises the cost to the Exchequer of the annual financial benefit the case study clubs would receive from the proposed changes.

It is notable that the biggest benefit would be through Gift Aid at the maximum estimate; although Rate Relief is of similar cost. It is notable that corporation tax liability was zero for all of the clubs – although for both AFC Telford and FC United his was only due to previous losses or capital allowances.

Furthermore, all clubs felt that this was an important benefit to include because, should community ownership prosper, making a taxable surplus in years to come would be much more likely and could help underpin financial sustainability and ongoing community impacts (such as building up reserves for new community facilities).

**The maximum annual total cost to the Exchequer of the case study clubs in 2013/14 would have been £128,322.**

| Club                                     | Gift Aid        | Corp Tax  | Business Rates | Gift Aid (additional potential cost)              |
|--|-----------------|-----------|----------------|---|
| AFC Telford United                       | £2,250          | £0        | £9,760         | £6,750 if trust donations included                |
| Exeter City FC                           | £12,000         | £0        | £30,000        |   |
| Hunslet RFL                              | £462            | £0        | £0             |   |
| Lewes CFC                                | £13,000         | £0        | £8,000         |   |
| FC United of Manchester                  | £16,250         | £0        | £13,600        | £34,750 if stadium development donations included |
| <b>Cost to Exchequer</b>                 | <b>£43,962</b>  | <b>£0</b> | <b>£61,360</b> |   |
| <b>Total Cost to Exchequer (maximum)</b> | <b>£66,962*</b> |           | <b>£61,360</b> | *Gift Aid if both the above included              |

Table 2: Annual cost to the Exchequer of COSC Scheme with Case study clubs

#### 4.1.2 The Potential Cost of Expansion of Community Ownership

Given that we have conducted research on costs with only five of the community owned clubs we researched, when there are 35 in England and Wales, and that part of the purpose of this scheme is to increase the number of community owned clubs, it is necessary to estimate the potential cost to the exchequer should the scheme be successful in that aim.

To do this we need to establish an average cost per club of each of the tax benefits being proposed. Using the data from the case study clubs:

- The mean average Gift Aid 'cost per club' is: £13,392
- The mean average Corporation Tax 'cost per club' is: £0
- The mean average Business Rate 'cost per club' is: £12,272
- **The mean average total cost per club: £25,664**

In terms of estimating increases we have produced data based on the following factors:

- That there are 35 sports clubs currently in community ownership on the Supporters Direct model in England and Wales which would be likely to meet the criteria reasonably easily

- That it may take some time for these to comply with all of the criteria – 10 in the first two years and the majority of them within 3 years.
- That there are larger numbers of sports clubs established as Community Benefit Societies, which may not however meet the criteria and may have to undergo some constitutional changes to do so
- That we have anticipated a rapid growth as the scheme gets established and estimated 50 clubs by year 4 and 100 clubs by year 5.

These are of course 'guesstimates' and are provided to help illustrate the concomitant cost to the Exchequer of such an expansion.

It should be noted that these numbers of clubs are far fewer than the numbers of clubs that currently qualify for CASC status, which number over 6,700. This is largely because there are far more community amateur sports clubs than semi-professional or professional ones.

It should also be noted that the averages are based on an average case study clubs at a range of levels in football and rugby that reflect where the majority of community ownership is located. Should much larger clubs higher up the league convert to community ownership then we can expect these average costs (but also the average benefit) to increase.

|                                | Average per club | Cost based on 30 clubs (Year 3) | 50 clubs (Year 4) | 100 clubs (Year 5) |
|--------------------------------|------------------|---------------------------------|-------------------|--------------------|
| <b>Cost of Gift Aid</b>        | £13,392          | £401,760                        | £669,600          | £1,339,200         |
| <b>Cost of Corporation Tax</b> | £0               | £0                              | £0                | £0                 |
| <b>Cost of Business Rates</b>  | £12,272          | £368,160                        | £613,600          | £1,227,200         |
| <b>Total cost to Exchequer</b> | £25,664          | £769,920                        | £1,283,200        | £2,566,400         |

**Table 3:** Cost to the Exchequer of COSC Scheme Expansion

## 4.2 The Economic Benefit of Community Ownership: Case Study Evidence

To compare these costs to the value that community ownership brings, we have used two measures to identify economic value – investment generated through community ownership that would not otherwise have been possible; and the value of volunteering generated by the clubs. In addition we also provide summary evidence about the non-financial value that the clubs generate in their communities through community engagement and participation in the club.

The clubs researched were:

- AFC Telford United
- Exeter City FC
- Hunslet Hawks RFL
- Lewes CFC
- FC United of Manchester
- Merthyr Town FC

The detailed information on the case studies is provided in an Appendix to this report, providing background, volunteer value calculations, details of community engagement and estimated financial benefit to the clubs (and cost to the Exchequer) of the scheme.

### 4.2.1 Community Investment

All of the case study clubs have, to varying degrees, generated new or redeveloped community facilities by accessing social investment, grants and other support, such as from local authorities, *that would not have been possible without their community ownership status*. That status commits them to not for profit, open and democratic ownership as well as sound governance and good financial practices which has enabled them to unlock capital finance and funding for facilities. Much of this has gone into areas of deprivation and has therefore been targeted at areas of need.

Below we summarise some of the major elements of community investment that community ownership has brought. These calculations are inevitably a little bit 'rough and ready', based on limited available data. However, they are also prudently conservative: in some cases, where clubs have been saved or new ones created, the very existence of the club has delivered

value by maintaining clubs in their localities, but we have not included the asset or local economic impact value of the stadium itself in calculations. Also, some funding that has been accessed – such as some sports grants – are available to non-community owned sports clubs and these have also been omitted from calculations.

A brief summary of some of this investment is provided below; with calculations about the average annual economic benefit following.



#### i) AFC Telford United

AFC Telford United was formed in 2004 following the collapse of Telford United FC in 2004. It is a limited company that is 100% owned by the Telford United Supporters Trust. Promoted to the Conference Premier in 2014, the club has an extensive community operation, a partnership with the local authority that is widely regarded as an example of best practice. Whilst most of the stadium is owned under a 150 year lease from the local authority, the club is exploring ways of developing its West Stand as well as the site more generally that will create additional community facilities.

The value of community facilities the club's community ownership has secured to date includes:

- The establishment of the club itself was only possible with local authority support and action to restrict the use of the stadium site. This prevented developers from buying the site and meant Telford could obtain the lease for the ground for £50,000 instead of the market value of £4m. Not only did this bring huge community value to the area, the site's future was secured for community benefit by a range of agreements with the council. Arguably, this retained an asset worth in excess of £4m for the community's benefit, although we have omitted this from calculations.
- A Learning Centre was built in 2006 incorporating educational facilities (which double up as hospitality facilities on match day) incorporated within a new football stand. This was part funded by £1m of funding from the Football Foundation and the local college. The ownership status of the club, on which its partnership with the council and college were based, enabled this funding<sup>23</sup>.
- An artificial pitch with a Dome (also part funded by the Football Foundation, in partnership with



the council and college). This funding has been excluded from calculations.

- A recent Heritage Lottery award of £35,000 to work with the local community around Telford's history. As this is revenue rather than capital funding it too has been excluded from calculations.

**Total 'added value' investment is estimated as: £1m.**

### ii) Exeter City



Since 2003 Exeter has been majority-owned by its supporters' trust who hold 67.5% of the club's shares. It should be noted that at this level of community ownership Exeter would currently not meet the 90%+1 share being proposed. However, the club is exploring ways of increasing supporter ownership and the proposed scheme would act as an incentive to that. The supporters' trust takeover rescued the club and in 2008 it won promotion back to the Football League and then to League 1, gaining its highest attendances in 40 years.

The Exeter City Supporters Trust has invested over £1.75m into the club since taking it over in 2003<sup>24</sup>. This income has supported the sustainability of the club, when the alternative was for the city to lose its football club, and has thus enabled the provision of significant value in terms of the presence of a local team; community programme work; community sports facilities. However, we have excluded this from calculations. Additional investment secured includes: improvements to the stadium (nominally valued here at £50,000); £90 000 for what are now classrooms from DFE and Devon County; and £50 000 from Heritage Lottery Fund to set up a 'Grecian Voices' project. The latter of these has been excluded from the calculations

**Total 'added value' investment estimated as: £140,000.**

### iii) Hunslet Hawks RFL



After a number of troubled years the club became community owned when the Hunslet Independent Supporters Trust (HIST) acquired 76% of Hunslet Hawks RFL in 2012 (which is likely to increase to 97% in the near future).

Hunslet's community ownership has brought value to the community in two ways:

i) The South Leeds Stadium is owned by Leeds City Council and Hunslet are anchor tenants. As such it is the local authority who invest capital in the stadium and community facilities. However, the Hawks tenancy has enabled this to generate significantly more revenue that happened previously, including doubling revenue from the bar specifically leased to the club.

ii) Previously precarious finances were stabilised since the trust's involvement and the ground capacity has been increased to 3,450. When HIST took on the club it had about £100,000 of debt on taking control, much owned to local organisations and businesses. Demonstrating best practice in this regard, the trust opted to repay all the debt, rather than enter administration, as a sign of commitment to the local community and creditors. This will now be fully paid off by autumn 2015.

**Total 'added value' is estimated as: £100,000.**

### iv) Lewes Community Football Club



In 2010, Lewes FC were less than 24 hours away from extinction until a local group of businessmen transformed the club into one that is fan owned. Lewes Community Football Club is a Community Benefit Society and competes in the Ryman Premier League. The club operates on break even basis and running it sustainably is fundamental to its approach.

The club's main infrastructure development is a community 3G artificial turf pitch and improvements to the club house. This is costing £843,000 with £115,000 raised in community shares and £650,000 in grant income - £200,000 Sport England, £170,000 Coast to Capital, £100,000 from Lewes Council Section 106, £237,000 from Football Foundation and £21,000 from Social Investment Business.

Of this funding, all but the Sport England and Football Foundation funds - £400,000 of additional investment - would not have been available if the club had not been community owned. Also, the club itself would not have existed without the community buy-out in 2010, which means the other investment into sports facilities (SE and FF) would not have happened.

**Total 'added value' investment is estimated as: £400,000.**

<sup>22</sup> Brown, A and McGee, F (2013) Grounds for Benefit: Developing and protecting community benefit in sport, London: Supporters Direct, p28

<sup>23</sup> Brown, A. et al (2010) The Social Value of Football.

<sup>24</sup> <http://ecfcst.org.uk/>



#### v) FC United of Manchester

Formed in 2005 in the wake of the Glazer takeover at Manchester United, FC United is 100% community owned and it has always retained as singular structure with the club existing as a Community Benefit Society. The club had 3,200 members in 2013/14 and exceeded 4,000 members in 2015. The over-riding strategic development for the club is the (current) building of a £6.3m new stadium and community facilities (sport and non-sport) in Moston, a deprived area of north Manchester.

Although £750,000 of city council capital budget was earmarked for the area prior to the club's involvement, it was only the club's development that enabled this to happen. Although Sport England's grant (£918,000), Football Foundation grants of £650,000 and a Viridor grant of £90,000 are available to non-community owned ventures, it has been FC United's Community Share Scheme that helped unlocked them. Nonetheless, we have also excluded these from calculations. The remaining 'added value' from community ownership is therefor conservatively estimated at £2.503m. This includes:

- £2m from a Community Share Scheme
- £303,000 Social investment Business funding
- £275,000 in a Social Investment Tax Relief qualifying loan scheme

**Total 'added value' investment is estimated as: £2.503m**

In addition, the club's business turnover in the area is estimated to range between £1.3m to £1.7m in the first three years, which alongside increased local employment, will bring significant additional local economic value.



#### vi) Merthyr Town

Merthyr Town FC became community owned in 2010 following the liquidation of Merthyr Tydfil FC. It is 100% owned by its supporters' trust. Due to its supporter ownership, Merthyr Town has not only retained the stadium within the town, but significantly redeveloped it, something which would not have been possible, and with regeneration funding for which it would not have been eligible without its community ownership status. This capital investment represents a significant economic contribution to an economically challenged area.

Capital development investment includes:

- Vibrant and Viable Places, a Welsh Assembly Government Fund (£1.8 million for redeveloping the stadium to include new community and banqueting facilities)
- European Regional Development Fund (£180,000 for temporary support for employment and capital improvements (security fencing, heating, lighting etc.)
- Ffos y fran Community Fund (£500,000 for a 3G pitch and changes to the ground). Tydfil Training (local to Merthyr)
- Coalfields Regeneration funding

**Total 'added value' investment is estimated at: £2.48m**

The club's community ownership has also increased business turnover by £70,000 which adds further to the added value.

| Club          | Amount     | No. of years in community ownership (to 2014)   | Average annual value |
|---------------|------------|---|----------------------|
| AFC Telford   | £1,000,000 | 10  | £100,000             |
| Exeter City   | £140,000   | 10  | £14,000              |
| Hunslet Hawks | £100,000   | 2   | £50,000              |
| Lewes         | £400,000   | 4   | £100,000             |
| FCUM          | £2,503,000 | 10  | £250,300             |
| Merthyr Town  | £2,480,000 | 5   | £496,000             |
|               |            | <b>Average Annual Investment Value per Club</b> | <b>£168,383.33</b>   |

**Table 4:** Average annual value of community investment

### vii) Summary

The added capital investment values brought through community ownership by each of the case study clubs to their local communities vary considerably. In order to provide an estimate of the average annual economic value that community ownership has brought, we have divided the total 'added value' for each club by the number of years each of them has been in community ownership. This generated an average annual investment figure for each club and then an annual average across the six case studies on which to base estimates of cost/benefit which follow.

Although there are wide variances between clubs (and some are fairly rough estimates) our work suggests that the average **annual additional capital investment** we can expect from community ownership is: **£168,383.**

#### 4.2.3 Volunteer Value

It is a noted feature of community owned sports clubs that they generate high levels of volunteering – something that is not evident either at other, privately owned club, nor at the case study clubs prior to community ownership researched for this report. As such, calculating the financial value of this input of human resources is an important way of demonstrating the cost benefit to the Exchequer of this scheme.

The volunteer value estimate is the first exercise of this kind undertaken across a number of community owned clubs. It is based on:

- Club records of their volunteers' hours, which are anonymised to hide the identity of individuals
- A calculation of volunteer hours varies and includes on per week, per month and/or per match basis
- A calculation based on the non-London Living Wage of £7.65. Although clubs have undertaken their own estimates of volunteer value, these have been done on a variety of bases – including methods that differentiate between skilled, unskilled and professional work. Others have adopted an 'average wage' approach, or rates recommended by volunteering organisations, which are also significantly above the Living Wage.

Whilst we provide the estimates that clubs themselves have made, we needed to provide a consistent approach to the calculation of volunteering economic value and have used the Living Wage as the basis. As this is below other alternative methods, we consider this a conservative estimate.

It should also be noted that some clubs have provided overall estimates of volunteer numbers and time contributions, whereas others have provided detailed individual information that has been collected over a period of time. Clearly the latter is preferable and provides a basis for ongoing monitoring of volunteer contributions. However, the good practice that has

| Club                    | People     | Hours          | Value           |
|-------------------------|------------|----------------|-----------------|
| AFC Telford United      | 214        | 13,878         | £106,167        |
| Exeter City             | 92         | 19,228         | £147,094        |
| Hunslet RFL             | 45         | 11,609         | £88,809         |
| Lewes CFC               | 50         | 25,000         | £191,250        |
| FC United of Manchester | 289        | 22,501         | £172,133        |
| Merthyr Town            | 50         | 12,000         | £91,800         |
| <b>Total</b>            | <b>740</b> | <b>104,216</b> | <b>£797,253</b> |
| Mean Average            | 148        | 20,843         | <b>£132,876</b> |
| Median average          | 92         | 22,114         | <b>£126,630</b> |

**Table 5:** Annual Volunteering Values of Case Study Clubs

been demonstrated and the approach taken can form the basis of ongoing work to value the input of volunteering through community ownership of sports clubs.

Also, the volunteer values presented are to provide an economic comparison to the cost of the tax benefits being proposed and do not include the many and significant qualitative or 'social values' of volunteering. This would involve a much more extensive approach than was possible here, but nonetheless is an aspect that should be acknowledged.

Full details of each of the case study clubs' volunteer input is contained in the appendix to this report.

Table 5 summarises those values.

The aggregate annual amount of volunteering effort from the three case study clubs is equivalent to:

- 4,342 days
- 11.9 years

In terms of annual economic value:

- **The mean average annual economic benefit is: £132,876**
- **The median average economic benefit is: £126,630**

The estimated annual economic benefits to the Exchequer generated from volunteering at case study clubs, based on the lower of these values, is: **£126,630**

#### 4.2.4 Non-Financial Community Value

The clubs contribute to their local communities in other important ways. As above more detail on this is provided in the case study descriptions in the Appendix. What is notable about the case studies is that, unlike many professional clubs, much of the community engagement they generate is through the club itself rather than (and as well as) semi-independent charities.

Examples of this sort of benefit from the case study clubs are shown below.

##### AFC Telford United

- The club supported around 75 local charities in 2011 and worked with numerous schools
- It has instigated a range of projects focused on addressing social issues of concern to the community, including men's health.
- Work has brought people into the stadium outside of a match day who would otherwise probably not go there. This includes local Asian groups meeting with the police to address problems with the English Defence League in 2011; and attracting young people from other areas of Telford.
- The use of 5-a-side pitches by community groups and charities in the day and the local business community in the evening, has helped bring those groups into contact with the club.





### Exeter City

- 3,155 members of the community own the club and around 10% of these actively participate in elections and other formal meetings.
- Alongside this, the club has regular forums and a presence at every match in “red square” near the ground.
- Activities for young people aged 14-19 including Doorstep Sports Clubs, National Citizen Service, Disability Table Tennis, Junior Football Leaders Courses, Level Two Futsal BTEC, Level Three Futsal BTEC, Creating Chances, Foundation Degree, Female Football Development Programme, Devon Active Communities Project, Football and Education Development Programme
- Exeter work with a number of key local agencies including: Exeter College, Exeter University, Devon FA, Local and County Council, St James Forum, Health authority, and the Prison service.



### Hunslet Hawks RFL

- 111 local people are members of the club
- Match day engagement includes:
  - o Junior and school teams take part in curtain raiser games
  - o Older age groups are part of the pre match entertainment e.g. Masters (over 35s) Rugby League
- A new foundation which has recently engaged:
  - o 5 primary schools
  - o 300 pupils at primary schools per week
  - o 30-40 young people in ‘Park life’
  - o 30 young people in dance
  - o 150 people in heritage



### FC United of Manchester

The club encourages community participation in the club in a number of ways:

- As members and co-owners of the club. Its membership is open to all and in 2014/15 it had record membership levels of over 4,000.
- At events such as Youth United Day, People United Day and the ‘A Woman’s Place is at the Match’ event which target particular populations that are normally under-represented at football matches
- As volunteers – with nearly 300 individuals volunteering in 2013/14
- As community programme participants, through sport, education, employment and social inclusion projects. Some participants have gone on to undertake volunteering and coaching roles. In 2014 the club has worked with:
  - o 551 individuals recorded
  - o 64 projects in 382 sessions and 1600 session hours.

### Merthyr Town FC

- 12,000 people per year using their 3G pitch
- The club employ 5.5 full time employees and 20 part time management/playing staff during the season, an equivalent of a further 4 FTE per annum.



|   | Average per club per year | 30 clubs (Yr 3)   | 50 clubs (Yr 5)    | 100 clubs (Yr 10)  |
|---|---------------------------|-------------------|--------------------|--------------------|
| Average annual cost to Exchequer                        | £25,664                   | £769,920          | £1,283,200         | £2,566,400         |
| Av annual benefit – Capital investment                  | £168,383                  | £5,051,500        | £8,419,167         | £16,838,333        |
| Net Annual Benefit (based on investment)                | £142,719                  | £4,281,580        | £7,135,967         | £14,271,933        |
| Av annual benefit – Volunteering                        | £126,630                  | £3,798,900        | £6,331,500         | £12,663,000        |
| Net Annual Benefit (based on volunteering)              | £100,966                  | £3,028,980        | £5,048,300         | £10,096,600        |
| <b>Net Annual Benefit (Investment and Volunteering)</b> | <b>£269,349</b>           | <b>£8,080,480</b> | <b>£13,467,467</b> | <b>£26,934,933</b> |

Table 6. Cost – Benefit Analysis Extrapolated over 10 Years

### 4.3 Cost Vs Benefit

#### 4.3.1 Economic Cost-Benefit

We have estimated the costs to the Exchequer of the scheme based on:

- The tax and rate reliefs that each club would receive had the scheme been in place in 2013/14.

We have estimated the benefit to the Exchequer in two different ways:

- The annual added community facility capital investment community ownership brings
- The annual added volunteering value community ownership brings

These estimates do not include a range of other benefits – economic and social – that are evident at all of the case study clubs.

We have also extrapolated both the costs and the benefits across a nominal 10 year period to demonstrate the increases that might be expected as the number of clubs registered as COSCs in the scheme expands: from a one club average to 30 clubs by Year 3, 50 clubs by year 5 and 100 clubs by Year 10. Of course these are indicative estimates. However, given that there are 35 clubs that are wholly or majority owned at present, an expectation of 30 clubs meeting the CSC criteria within 3 years is not unreasonable.

Table 6 above demonstrates the increasing costs and benefits we might expect based on these assumptions.

It is clear that on either measure of economic benefit – capital investment or volunteering value – there is a considerable net value from the scheme. However, with the values combined this is even more pronounced.

- For capital investment value, there is a gross benefit of £168,383, a leverage of 6.5:1
- For volunteering value, there is a gross benefit of £126,630, a leverage of 5:1
- For both values combined, there is a benefit of £295,013 (gross) and £269,349 (net), a leverage of 11.5:1

The benefits that community ownership brings far outweighs the potential cost to the Exchequer of measures to sustain, incentivise and grow that form of ownership.

Clearly this is an estimate based on limited data and includes some ‘guesstimates’ about the cost of the scheme if community ownership expands.

However, the additional economic benefits that might be generated would increase the net benefit considerably.

#### 4.3.2 Other Benefits

It is also worth noting the following benefits:

- i) It is widely acknowledged that community ownership tends toward better and more transparent governance and more sustainably financed sports clubs. Encouraging and sustaining this form of ownership would help save the exchequer the cost from unpaid tax bills and reduced income tax and National Insurance of

clubs that enter administration or going into liquidation.

ii) Proper administration of employees as exemplified by Lewes – especially in the non-league/semi-professional sector – means that the Exchequer receives more income tax and NI as well as reduced costs of resulting poor governance.

iii) The wider local economic benefit that community owned clubs generate is considerable. This is especially so where clubs have been revived or saved through supporter ownership maintaining the economic (and social and cultural) benefits they deliver locally – as has been the case with Telford, Exeter, Lewes and Merthyr.

iv) The economic impact, and revenue benefits to the Exchequer, of increased employment delivered through community ownership. In all of the case studies, community ownership has led to increased turn over and

employment and particularly in smaller towns this has a significant impact.

v) The economic benefit of capital developments and improvements delivered through community ownership – such as the education centre in Telford, 3G pitch in Lewes and stadium at FC United.

vi) The economic benefit of closer relationships with local authorities and delivery of local services.

vii) The cost saving to society of the outcomes of community programme work in education, health, physical activity and social inclusion.

The economic cost and net benefit analysis therefore is considered very conservative.



## 5. CONCLUSION AND NEXT STEPS

Supporters Direct has 15 years' of experience of working to develop community ownership in sport and has successfully helped create, advised and encouraged community ownership in sport. Underpinning this has been a track record of research to help identify both the benefits of community ownership in sport and the barriers that community owned sports clubs face.

It is SD's belief that the creation of a new tax category of Community Owned Sports Clubs, to receive similar benefits to those enjoyed by CASCs, would be a hugely significant step in:

- **Protecting** the community ownership status of existing clubs and helping them overcome some of the barriers they face
- **Encourage** other clubs to become community owned and encourage clubs that are partially community owned to become more so
- **Ensuring** that Community Owned Sports Clubs deliver – and demonstrate that they deliver – community benefit.

Supporters Direct has commissioned detailed research into this proposal from Substance and undertaken extensive consultation. This work has shown that far from costing the Exchequer, the average annual net benefit per club to the Exchequer is £269,349 which represents a leverage of 11.5:1 for every £25,000 of cost.

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

The scheme should be implemented because it:

1. Will increase financial sustainability and

transparency in sport through community ownership

2. Improve governance in sport
3. Encourage wider community participation in ownership
4. Help deliver volunteer participation and value
5. Encourage community engagement in sports clubs
6. Encourage sports clubs to deliver local services and facilities
7. Help deliver increased inward investment in areas of deprivation
8. Develop new or protect existing community sports and non-sports facilities
9. Help level sport's uneven financial playing field
10. Incentivise the expansion of community ownership by creating more wholly community owned clubs

Supporters Direct has contributed to a number of Parliamentary processes that have sought to examine and make proposals on how governance and financial sustainability in sport can be improved and how supporter ownership (particularly in football) can be encouraged. However, it is fair to say that despite decades of inquiries, very little tangible change has ever been delivered.

The most recent example of these processes has been the Parliamentary Select Committee on Football Governance which has led to the creation of an Expert Working group on Supporter Ownership in autumn 2014 and which is due to report in November 2015.

It is Supporters Direct's belief that the creation of Community Owned Sports Club status should be one of the major proposals made by the Expert Working Group and is encouraging all the main political parties to adopt and support these proposals.

**The COSC scheme is specific, realisable and founded in evidence of the public benefit it can generate. It is built upon a successful, 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.**

A COSC scheme could be created through an amendment to existing legislation without the need for new primary legislation and its administration could be handled within existing frameworks without creating costly additional bureaucracy.

Supporters Direct is campaigning for the government to implement these changes.



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