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supporters direct

SUPPORTERS DIRECT BRIEFING PAPER NO.3

Financing Supporter Community Ownership

"Achieving club ownership always requires supporters' trusts to be able to finance that ownership"

About Supporters Direct

Supporters Direct was formed in 2000 as an initiative of the UK Government. Its goal is to 'promote sustainable spectator sports clubs based on supporters' involvement and community ownership'.

Supporters Direct aims to create the conditions in which supporters can secure influence and ownership of their clubs, and campaigns for the wider recognition of the social, cultural and economic value of sports clubs.

It believes that sports clubs and competitions are increasingly being put at risk by short-term vested interests, poor financial management and inadequate standards of governance.

It began its activities in English football but is now working in more than 20 different European countries, and also works in rugby league, rugby union and ice hockey. It has offices in London and Glasgow.

It is a community benefit society registered with the Financial Services Authority and owned by its member supporters' trusts.

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1 Introduction

Briefing Paper No. 3 from Supporters Direct provides information and guidance on the different forms of fund raising available to supporters' trusts.

Other papers in Supporters Direct's Briefing Paper series outline:

- The policy framework, changes and opportunities for supporters' trusts *(Briefing Paper 1)*;
- The football regulatory structures and regulatory benefits of supporter community ownership *(Briefing Paper 2)*;
- The business advantages of supporter community ownership *(Briefing Paper 4)*.

Supporters Direct was formed in 2000 to 'promote sustainable spectator clubs based on supporters' involvement and community ownership'

In addition, Supporters Direct has previously commissioned research that has outlined the social benefits that supporter community ownership of football clubs can bring[1]. Supporters Direct was formed in 2000 to 'promote sustainable spectator clubs based on supporters' involvement and community ownership'. It believes that the best way for supporters to have a meaningful role in the running of their clubs and to achieve the best possible social and community impact of clubs is through supporter community ownership based on the democratic supporters' trust model.

However, achieving the ownership of football clubs always requires trusts to be able to finance that ownership. One of the major obstacles to extending current supporter community ownership – whether for wholly owned, majority or minority ownership – is the ability of trusts to raise capital finance. An additional difficulty is the huge variety of circumstances in which opportunities for developing ownership through collectively and democratically held shareholdings occur. For those supporters' trusts that do have an ownership stake in their clubs, there are additional capital requirements, such as the development of new facilities.

Sources of capital finance are essential to trusts:

- To buy controlling stakes or to take over clubs especially when they fall into administration or face the threat of it. The rate of insolvencies in football is such that 55 clubs have gone into insolvency proceedings

1 Brown et al (2010) *The Social and Community Value of Football*, London: Supporters Direct

since the formation of the Premier League in 1992. This provides the most likely and immediate opportunity for supporters' trusts to take over their clubs, as happened at Exeter City;

- To buy controlling or minority stakes in clubs when either the whole or part of the shareholding is put up for sale, as current developments at Wrexham FC illustrate;
- To buy minority shareholding stakes in clubs through ongoing share purchase, as is the case with the Arsenal Supporters' Trust and their FanShare Scheme;
- To buy or develop club facilities, including a home ground, as shown at both AFC Wimbledon and FC United.

In addition, in *Briefing Paper No. 1* Supporters Direct outlined the opportunities that may emerge for supporters' trusts within the context of the localism policy agenda and the specific provisions of the 2011 Localism Bill. This Bill provides the opportunity for local community groups, termed 'Community Interest Groups' (CIG) to be in a better position to acquire and run local assets, termed 'Assets of Community Value' (ACV).

In particular, what has been termed the 'right to buy' provisions of the bill could allow:

- Supporters' trusts to be considered as *bona fide* community interest groups;
- Supporters' trusts to request their local authority to list football grounds as assets of community value;

If grounds or clubs were listed as community assets, any proposed disposal by their owners would trigger a 'window of opportunity' for a supporters' trust to put together a bid for the asset.

What this would mean is that if grounds or clubs were listed as community assets, any proposed disposal by their owners would trigger a 'window of opportunity' for a supporters' trust to put together a bid for the asset. Whilst this does not amount to a right to buy – a supporters' trust's bid would be in competition against others – it does provide a more open competition that trusts could benefit from. Being able to raise finance quickly, or already have it in place, will be critical for trusts.

In essence, to take advantage of all these opportunities and circumstances, and to provide the benefit to football and local communities that supporter community ownership can bring, supporters' trusts need to be able to raise finance.

This Briefing Paper therefore outlines the following methods of raising finance:

i) Community Shares Schemes for Community Benefit Societies

ii) Loan Notes and Bonds, Transferable Shares and Fighting Funds

iii) Share issues in 'traditional' limited company structures where supporters' trusts have majority or minority holdings

iv) Share purchase schemes

v) Community Interest Companies (CIC)

vi) 'Traditional' fundraising

vii) Markets for finance

2 Methods of Raising Finance

2.1 Community Share Schemes

'Community Shares' is a means of raising money within a community benefit society (CBS) structure. All supporters' trusts are formed as community benefit societies (as defined under Industrial and Provident Society legislation) and this means that they can raise capital finance through this method.

The number of new community share issues is growing rapidly with over 120 enterprises currently using this method and is increasing at a rate of 30% per annum.

Raising money in this way is increasingly popular in the co-operative sector, helping to finance everything from wind farms, to health food shops, to football stadiums. The number of new community share issues is growing rapidly with over 120 enterprises currently using this method and is increasing at a rate of 30% per annum. It is envisaged that numbers will increase to 750 societies participating in community shares by 2015 and 3,000 by 2020[2].

In 2009 Co-ops UK, the Development Trusts Association, Department of Communities and Local Government and Cabinet Office launched a project called Community Shares to promote this as a way for community groups to buy, develop or run local assets and businesses. That project funded ten pilot schemes to demonstrate how schemes could be run in a variety of contexts and to learn from the process[3].

Mutuo, a not for profit society that works to promote new mutuals, has also recently published a document in conjunction with Cobbetts LLP about Community Shares, called *Punk Finance*[4]. It says that community shares are the best way for organisations that have objectives about benefiting the community and have aims other than trading for profit to raise capital finance and sets out the legal basis on which shares can be issued.

This section draws on both those pieces of work.

2 Brown, Jim (2011) *Big Society Finance Fund for Community Shares*, London: Baker Brown Associates, DTA.

3 Brown, Jim *The Community Shares Programme: One year on*, London: Baker Brown Associates, DTA.

4 Jaquiss, K and Walsh, A (2011) *Punk Finance: Capital Made Mutual*, London: Mutuo

What is particularly attractive about this method within football is that it means considerable sums of money can be raised by supporters' trusts without altering the one member one vote democratic structure. It is also attractive in that it does not privilege those who can put more money in by giving them more votes or more say over those that can put in smaller amounts. This means that the interests of supporter communities, as articulated through the democratic and collective shareholding of supporters' trusts, are embedded within the ownership of the club and are not subjugated to the interests of large shareholders.

Raising capital via community shares could be used by supporters' trusts to fund new developments, such as new grounds where they own a football club, or to take over clubs, or to buy a shareholding in them.

Raising capital via community shares could be used by supporters' trusts to fund new developments, such as new grounds where they own a football club, or to take over clubs, or to buy a shareholding in them. The key defining issue is that the funds raised must be used for community benefit; so where anything other than a controlling interest is acquired, there will be a need to identify and secure through the transaction specific community benefits.

In terms of current schemes, FC United of Manchester have launched a community share scheme to build a new football ground and community sports centre. In the summer of 2011 it is planned that Wrexham supporters' trust will launch an offer to acquire the club, its training ground and stadium as well as provide working capital to break even within 12 months.

2.1.1 Outline

What are community shares?

'Community Shares' is not a legally defined term but has come to refer to a form of share capital that can only be issued within co-operative societies or community benefit societies (the new names for Industrial and Provident Societies) as registered with the Financial Services Authority, for purposes which are designed to fund community benefit outcomes. Both 'withdrawable shares' – where the shareholder can withdraw their capital on request – and capital fund shares – non-voting shares issued in the co-operative or community benefit society – are referred to as 'community shares'.

Unlike 'normal' shares, community shares carry no voting rights and cannot be traded. However, community shares can, under certain conditions, be withdrawn. This means that the capital amount that is paid in can be

withdrawn by 'cashing-in' your shares to the society, subject to conditions set down in their rules and share offer document. All supporters' trusts are community benefit societies so can issue this form of share capital.

Community shares schemes must have a primary aim of delivering community benefit.

Community shares schemes must have a primary aim of delivering community benefit. This means that the main purpose of putting money into community shares is to help the society concerned deliver a stated community benefit aim – a social, rather than a financial return. However, community shares can also pay interest[5] to those that hold them, depending on the scheme, the society's conditions and delivery of community benefit.

The difference between community shares and 'normal' shares

There are a number of differences between Community Shares and normal company shares. The DTA/Co-ops UK project produced a table to summarise some of the differences which is reproduced below[6]. However, it should be highlighted that:

- It is possible to offer community shares for sale without complying with the prospectus and regulatory requirements which affect other financial promotions provided certain conditions are met, although this is currently under review and the Financial Services Authority may issue further guidance in this area;
- There is an individual limit of £20,000 on withdrawable shares;
- Delivery of community benefit must take precedence over payment of interest on shares;
- Only a 'savings account' rate of interest can be paid.

5 Although the word "dividend" has been used historically to describe payments to shareholders in co-operatives they do not pay dividends like companies. They have strict limitations on payments to shareholders and con only make limited payments of interest. No other payments are permitted. In this paper references to "dividends" are references to the payment of interest on shares

6 Development Trusts Association and Co-ops UK (2010) *Investing in Community Shares*: p3.

Community Shares in Co-ops and Community Benefit Societies	Company Shares
Maximum £20,000 limit on individual shareholdings	No maximum limit – one person can own all the shares in a company
One vote per shareholder, which means that the decisions are democratic	One vote per share, which means a majority shareholder can make all the decisions
Can only pay limited interest (or dividend) on shares 'sufficient to attract and retain the investment'	There are no legal limits on the dividend rate paid on shares
Interest on shares is paid gross of tax. It is up to investors to declare this income to HMRC	A tax-credit of 10% is deducted from all dividend payments on company shares
In most cases shares can be cashed-in ('withdrawn'), subject to the rules of the society	Shares cannot be cashed-in. Shareholders must find a buyer to whom they can 'transfer' (by selling) their shares
Shares can go down in value, but they cannot increase in value above their original price	Shares can go up or down in value according to the price the buyer is willing to pay and the seller is willing to accept
If a society is wound up, some or all of the money that is left, after shareholders have cashed-in their shares, will be given to an organisation with similar aims	If a company is sold or wound up, any money that is left is distributed in full to shareholders, according to how many shares they hold

How are community shares issued?

A co-operative or community benefit society can issue community shares but this has to be for a purpose that has community benefit. This could be the community that the society is set up to benefit, including the local supporters of a football club, or another community. The purpose of putting money into the club to benefit supporters by enabling the club to buy better players would not on its own be a community benefit purpose.

The society must have in place the relevant rules in their constitution to allow them to do this. Supporters Direct has produced model clauses as part of a new set of model society rules developed with Cobbetts LLP. These clauses are provided in the Appendix.

The board of the society then needs to issue an offer document that sets out the terms of the share issue.

How do people who buy shares get their money back?

Community shares can be withdrawn, but only under conditions set out in the share offer document. At the relevant time, and subject to conditions being met, those who hold shares will be given a period and a process by which they can apply to the society to withdraw their shares. They will be paid back the amount they originally paid and the shares will cease to exist.

Each share issue will be different and the offer document will set out the conditions in which withdrawing shares can happen. For instance, FC United's share issue which is helping to fund a new home ground has:

- A moratorium period of 3 years in which no shares can be withdrawn (to allow the club to develop trading and reserves);
- A limit of 10% of total share capital withdrawable each year (to protect the society from having to repay all the shares in one go);
- An obligation to deliver the community benefit outlined and to ensure the sustainability of the society before any withdrawal can be made.

Are there different types of community share issue?

Beyond the specificities of each offer document which will vary significantly, there are several different *types* of community share issue. These include[7]:

i) Pioneer Offer: A short term and limited share offer to raise development capital and get the organisation 'investment ready' for a larger share offer. Lewes FC's fundraising to buy the club in 2010 and get it ready for a wider community share offer in 2011 might be considered to be in this category.

ii) Time Bound Offer: Made to raise capital for a specific, tangible purpose. A target amount and timescale will be set. FC United's community share offer to raise capital for its stadium is in this category.

iii) Open Offer: An ongoing means of raising capital which sets out the financial and social returns the society is likely to make and might be to maintain capital reserves for a society or to create a fighting fund. This sort of offer could also include an issue of shares to replace those withdrawn by others.

7 Brown, J (2010) *The Community Shares Programme: One year on*, London: Co-ops UK and DTA, p6

2.1.2 Setting up a Community Share Scheme

This briefing paper is an initial guide only. As society directors are legally responsible for the terms set out in the share offer document and in ensuring these are met, if a supporters' trust wishes to establish a community share scheme it will almost certainly need some professional or legal advice.

Supporters Direct has developed a model share offer document with Cobbetts LLP which can be tailored to suit individual offers and circumstances. This will be available on Supporters Direct's website.

Supporters' trusts should also refer to the excellent guidance documents issued by Co-ops UK and the DTA – *Practitioners' Guide to Governance and Offer Documents* and *Investing in Community Shares*[8] – as well as the fact sheets and further information on the Community Shares website: www.communityshares.org.uk. To understand more about community shares and the opportunity they offer societies and the conditions under which they should operate, supporters' trusts should also read Mutuo's paper, *Punk Finance: Capital Made Mutual*[9].

However, the following step-by-step information should act as a quick guide to what is involved.

Step 1: Define the purpose of the community share offer

Supporters' trusts will want to raise finance for a variety of purposes. However, the most likely scenarios are to:

- Develop or buy a facility, such as a football ground or community/club house;
- Buy a majority stake in their club;
- Buy a minority stake in their club;
- Buy a supporters' stake in a joint venture with other funders;
- Establish a 'fighting fund' to be ready to buy club assets when they become available.

However, it is also important that the *community benefit* of the purpose is both properly understood and articulated. For example:

- If the purpose is to develop a new football ground then the supporters' trust needs to say why this is of benefit to its supporter and local

8 DTA/Co-opsUK (2010) *Community Shares: Practitioners Guide to governance and Offer Documents*; DTA/CoopsUK (2010) *op cit*

9 Jaquiss, K and Walsh, A (2011) *Punk Finance: Capital Made Mutual*, London: Mutuo

communities – which might be to make a supporter owned club sustainable, or to provide facilities for local community use.

- If the purpose is to buy a majority stake in a football club, then the supporters' trust needs to say how this will enhance the lives of its members and other fans – such as being able to control the policies of the club for their benefit and ensure that the long term future of the club is secured and enhanced.

If the purpose is to develop a new football ground then the supporters' trust needs to say why this is of benefit to its supporter and local communities

- If the purpose is to buy a minority stake in a football club, the deal might involve the club making certain commitments about community engagement and supporter involvement underpinned by the club operating sustainably.

Step 2: Ensure that the society has the appropriate rules

In order to issue community shares, trusts must have the appropriate rules in their constitution. These rules will empower the board to issue shares in the society – they do not have to be enacted but they allow the board to act.

All supporters' trusts should consider putting such rules in place as a matter of course, to speed up the process of issuing a community share offer should the need arise. Indeed, Supporters Direct is now recommending this and is incorporating community shares clauses within its new standard model rules for supporters' trusts. The appropriate clauses are provided in the Appendix to this paper and full model rules are available on Supporters Direct's website.

Rule changes normally require a General Meeting of the society with the appropriate notification period, along with a two-thirds majority to approve the change. All changes to a society's rules need to then be registered with the FSA.

Step 3: Consider an asset lock

At the same time as enacting rule changes it is important to consider putting in place an Asset Lock. An asset lock in a community benefit society such as a supporters' trust means there is a legally binding restriction on what the society can do with its assets. This prevents the society from selling the asset and distributing the proceeds to its members for private gain. Asset locks are useful because they:

- Embed the community function of the asset that is to be acquired or developed (a stadium, a club etc.);

- Protect the supporters' trust against 'carpet bagging';
- Provide assurance to other partners (such as grant funders, or ethical investors) that their capital is to be used for the purpose described and is not a means of getting around regulatory issues;
- Provide assurance to the FSA and other regulators of the community purpose of the capital.

To put an Asset Lock in place requires a more rigorous process than for rule changes because it is legally binding and irreversible. To adopt an asset lock requires:

- Statutorily defined standard clauses to be included in the rules;
- A General Meeting and vote of over 50% of the membership;
- A 75% majority of those voting in favour of adoption;
- A second General Meeting to be held within a month which requires a simple majority;
- Notification of FSA of changed rules.

The statutory clauses are provided in the appendix of this report and are provided as an option in Supporters Direct's new model rules.

Step 4: Write an offer document

The board of the trust then need to write and issue an Offer Document to outline the share offer, its purpose and conditions. This is one area where expert professional advice is definitely advisable and this is something that Supporters Direct can help provide. The Offer Document needs to set out:

i) What purpose the capital will be used for, including the community benefit it will deliver;

ii) How many shares are being issued and at what price;

iii) How long the offer is open for;

iv) What the minimum and maximum amount of shares an individual can buy is. There is at present a legal maximum of £20,000 but changes made by the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010 may make it possible for this limit to be removed in certain circumstances. When the Order comes into force the number of ordinary (i.e. not withdrawable) shares issued to an individual member will not be subject to any restriction and those shares can attract a limited payment of interest and be repayable after a fixed period;

v) How those who buy shares can get their money back (or 'withdraw' their shares) and conditions on that withdrawal, such as whether there is a 'moratorium' period or not and how many can be withdrawn in any one year;

vi) What interest is expected to be paid on the shares, when and under what conditions;

vii) Whether the offer is for members of the society only or not, and how non-members can join;

viii) What the 'trigger points' or milestones are for the share offer to become 'live' – for instance reaching a certain level of shares sold, or approval of shares or acquisitions;

ix) The application form and process.

Step 5: Set up an Escrow account

With most community share offers, there will be a period when it is not known if enough capital has been raised for the project to go ahead and its purpose to be achieved. As such there will be a time lag between some people buying shares and those shares actually being issued.

With most community share offers, there will be a period when it is not known if enough capital has been raised for the project to go ahead and its purpose to be achieved.

To accommodate this and provide reassurance to those buying shares, supporters' trusts should establish an 'Escrow' account which allows money to be held securely in trust until such time as the appropriate levels of share sales have been reached. If for any reason the project does not proceed, then the money can be returned. The terms of the Escrow arrangement have to be carefully set out and recorded and expert professional advice is definitely advisable - this is something that Supporters Direct can help provide.

Step 6: Apply to HMRC for Enterprise Investment Scheme (EIS)

Some share issues may be eligible for HMRC's Enterprise Investment Scheme (EIS). This is a government scheme to promote investment in small businesses by providing tax credits for those investing and leaving that investment for 3 years or more. Currently, if people invest £500 or more in a new business, they may be eligible to claim 30% of that back against their own tax liability in the first year. Not all schemes will qualify and the tax credit will not apply to all investors.

However, if supporters' trusts do qualify, then this is a significant incentive for people to buy shares – for instance, a £500 investment could give an immediate return of £150 against tax liabilities. More information can be found at: www.hmrc.gov.uk/eis.

Step 7: Issue and promote the offer document

Once the Offer Document is finalised and approved by the board, the share offer can be made publicly available. However, because community share offers are not regulated by the FSA, the board must be satisfied that it is not misrepresenting the offer in any way and professional guidance on this is advised.

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It is important to promote this to the different markets of people who might buy them, such as existing supporters' trust members, other club supporters, the wider supporters' 'movement', local residents, local businesses and businessmen, other local sports clubs and social or ethical investors. It is important to utilise all avenues to promote a share offer. This could include local and national press; club supporter networks, publications and websites; local business networks and club sponsors; the local co-operative movement and other ethical businesses.

Step 8: Issue Shares

Supporters' trusts can track the success of the share offer by keeping good records of who is applying for shares and what money is being transferred into the Escrow account. For large share offers this can involve considerable administration, but is vitally important. Supporters Direct are exploring ways in which they might be able to assist in this work in the future.

Once the target is reached and the 'project' can go ahead, the supporters' trust needs to:

- Issue share certificates or a record of shares bought to those who have bought shares;
- Transfer the money from the Escrow account into the supporters' trust account, or special purpose account.

2.1.3 Regulatory Issues – The Primacy of Community Benefit

Share capital in a community benefit society or a co-operative is not subject to the same legal and regulatory structure as company share capital.

The shares are subject to a maximum shareholding of £20,000 for each member (although this limit may change). If the society has a statutory asset lock preventing demutualisation, payments of interest on and repayments of withdrawable shares are exempt from the restrictions imposed by the lock.

In general shares issued by a community benefit society to raise money for community benefit purposes are free from financial promotion regulation.

As argued in *Punk Finance*, in general shares issued by a community benefit society to raise money for community benefit purposes are free from financial promotion regulation. This freedom is however dependent on certain key principles being observed and the FSA is likely to be issuing new guidance making this clear.

i) The rights attaching to the shares must not subvert the primary purpose of the society: to deliver community benefit.

ii) The shares cannot be an investment in the normal sense of the word and should not be described as an investment. This means that:

   a) Only a 'savings account' rate of interest should be payable.

   b) The obligation to the continuance of benefiting members (in a co-operative) or the community (in a community benefit society) should remain paramount over the payment of any interest on shares.

iii) The governance of the society needs to maintain the voice for members who are not investors so that they have a say over distribution of surpluses.

iv) The shares should be subject to restrictions on repayment to protect creditors. A company cannot have withdrawable shares and cannot reduce its capital without following a statutory procedure or applying to the court. The purpose of the rule is to protect creditors. The position in industrial and provident society law is less clear but the best view is that any offer of shares should observe basic principles preventing a reduction of capital which prejudices creditors, particularly if there is any question of payment out of capital rather than surplus.

The restrictions arising from the nature of IPS shares are important and need to be observed. This position and the principles of community shares are set out in more detail in *Punk Finance*.

However, although these restrictions may sound like a disincentive to people investing under traditional circumstances – there is no guarantee of a financial return and the social return takes precedent – it is nonetheless possible to raise significant amounts through this means as the case studies illustrate.

FC United – Football's First Community Shares Scheme

FC United of Manchester were formed in 2005 following the Glazer family takeover of Manchester United. Since then they have played their home games at Gigg Lane, Bury which, whilst serving a purpose, is not a long term sustainable solution and does not allow the club to fulfil its constitutional community benefit ambitions. Since 2007 it has been developing plans to build its own ground and community facility in Manchester and working with Manchester City Council to make this happen.

In 2009 FC United became one of ten pilot Community Shares schemes, seeking £1.5m.

However to do this the club needs to raise around £3.5-4m and, whilst the club were confident of raising significant amounts from grants, the club sought ways of raising £2m itself. Bank borrowing would have placed an undue burden on club finances into the future so they explored alternative sources of finance. Working capital has been provided through a Development Fund that has secured donations and other 'no strings' income from events and more traditional fund raising – nearly £400,000 in total to date.

In 2009 FC United became one of ten pilot Community Shares schemes in the country, in a project sponsored by Co-ops UK, the Development Trusts Association and the government. This helped the club establish football's first community shares scheme, which was launched in September 2009 to fund a development at Ten Acres Lane in Newton Heath.

The scheme sought £1.5m from selling 'capital fund shares' in the IPS, with specific conditions that:

- The minimum investment was £200, the maximum £20,000 per individual as stipulated in IPS law;
- No shares could be withdrawn until after 3 years of occupancy of the new stadium;

- Interest could be paid but only up to 2% above base rate and even then only after 3 years and after community benefit obligations had been met.

To do this required a change in club rules, overwhelmingly approved at a Special General Meeting in April 2010. The club also put in place a statutory Asset Lock, guaranteeing that the facility couldn't be sold for private gain.

FC United applied to the HMRC and were given advance approval that it qualified for the Enterprise Investment Scheme which gives tax credits of 20% (now up to 30%) on investments over £500 against individual tax liability.

FC United applied to the HMRC and were given advance approval that it qualified for the Enterprise Investment Scheme which gives tax credits of 20% (now up to 30%) on investments over £500 against individual tax liability. This means that, subject to personal circumstances, those investing £500 could get £150 back against tax – a significant financial 'return' for a social investment scheme.

Despite raising £1.3m through the scheme – money which is held in an Escrow account - the club suffered a setback in February 2011 when the site in Newton Heath was withdrawn by the council. It is now working on an alternative site and will re-launch the share scheme in summer 2011, with existing investors transferring to the new scheme.

Wrexham Supporters' Trust Community Share Issue

In 2010 it started to seem to the Wrexham Supporters' Trust (WST) that things at the club were not going well. 'The current owners bought the franchise for Crusaders (Rugby League team), but hadn't done their research and were not aware of the debt that came with that and had to take the club out of administration. They used the Racecourse Ground as security for that,' says Terry Heath, a founder member of WST.

'At this point we started doing some intensive fundraising, as well as research into what was going on. We found out that the owners intended to sell the club, so we started once more to look at how we could buy the club'.

WST are now in the process of setting up a community share issue and have set up an Escrow account, for people to pledge money to.

The pledges won't be activated until they are actually about to buy the club. So far, a couple of hundred people have pledged funds, starting at £250, with the maximum amount allowed being £20,000. This is being marketed to members, through the local papers, BBC and ITV Wales. They are currently trying to find out more details about the finances of the club, which will allow them to assess the situation and go to the current owners with a deal to buy the club.

If we'd had at least 25% of the shares before this current crisis, we could have stopped things; we could have vetoed anything that the Chairman wanted to do.

'This will bring the club back to where it came from, which is the fans…I've always felt that every football club should have… fans' ownership in their club,' says Heath. 'If we'd had at least 25% of the shares before this current crisis, we could have stopped things; we could have vetoed anything that the Chairman wanted to do. We would never have got to the stage where the club was going to sell the Racecourse Ground. I think you need to get fans' involvement from early on, to stop certain things…'

2.2 Fighting Funds, Transferable Shares, Loan Notes and Bonds

Given the process that has to be gone through to raise community shares, which could take several months, it may be necessary in some circumstances for supporters' trusts to raise finance more quickly. Also, the current £20,000 limit on shares places a cap on what one individual can put in, when they may wish to put in more. In circumstances such as the sale of a club, or when a club might be put up for sale under the conditions of the Localism Bill, time is likely to be a critical success factor.

In such cases, supporters' trusts may need to look beyond the scope of a normal community share offer in three ways:

2.2.1 Establish a Fighting Fund

Several supporters' trusts have used a pledge system to give them some indication of how much money they can raise in a share issue as well as make the 'realisation' of that capital quicker. Online, email and postal pledges can be taken that can then be more easily and readily converted into share purchases or other interests.

Examples of this include:

- Wrexham supporters' trust's pledge system ahead of a community share issue in summer 2011;
- FC United ran a pledge system alongside their community share offer. This was designed so that people who knew that they could put money in, but only at a future stage in the share issue, could let the club know that. In addition, the club ran a Development Fund donations scheme which provided over £350,000 of working capital.

Humberside Co-op Development Agency – Developing a Fighting Fund

In general, football clubs only tend to come on the market when there's a crisis. This means that fans are faced with trying to raise a substantial amount of money within a timescale of weeks, rather than months, if they are to step in and save their club. Community shares are obviously one option for raising money, but the problem is that this requires time, when often supporters do not have any. One way of overcoming this problem is to develop a fighting fund over a longer period of time.

Jon Clarke of the Humberside Co-op Development Agency says: *'With football clubs, you generally have a bit of warning that something is going to go wrong…What you need is a mechanism whereby you get the fans to pledge money at a very early stage – 6-12 months before a problem occurs – and perhaps set up an arrangement where people sign a direct debit agreement/pledge which says that at any time in the next 12/18 months, the supporters' trust can activate the direct debit, with the appropriate safeguards etc. This mechanism would allow trusts to say to fans a year in advance, 'You need to start pledging now, so that if/when the crisis happens, we'll take the money then'. This gives you the ability to prepare and to respond quickly, so that when you come to sit down with other investors/the bank, you're a credible player and credibility is the big issue that fans' groups always have.'*

'This model is about forward planning. For example, the supporters' trust looks at the club and realises it is in trouble, it's making a loss etc and is not sustainable in the long term, so you ask the fans to start making pledges. Then, either you wait until the crisis erupts and take the pledges, or you could enter negotiations with the club at a much earlier stage and can demonstrate that you're serious because you've got a large amount of money lined up behind you. It helps address the credibility issue.'

2.2.2 Transferable Shares

Shares in community benefit societies are not normally transferable. This means that they cannot be freely bought and sold, or traded, as shares in many companies can. However, it is possible to have non-voting shares that are transferable. In such a case, the individual shareholder could reclaim capital paid in from a third party and this might make a share offer more attractive.

There is great flexibility in the industrial and provident society model in relation to the rights attaching to shares and there is no legal reason why shares cannot be transferable. This may be desirable in circumstances where supporters are being asked to put money into a fund to be used to acquire a stake in a club or an asset at short notice, for example.

In such a case, the society could issue shares with conditions attached as to their powers, use and transferability. This may mean that the society (or supporters' trust) can obtain capital more quickly by making it more attractive. One way to do this is to make shares transferable so that the purchaser of shares knows that should they need to, they may be able to get their capital back by transferring the shares to someone else.

It should be noted that transferable shares cannot go up and down in value, and transfer is unlikely to be permissible without restrictive conditions.

It should be noted that transferable shares cannot go up and down in value, and transfer is unlikely to be permissible without restrictive conditions. As such, this will not create a 'market' for that society's shares. However, it does make the withdrawal of money in the case of individual need possible and one potential exit route is finding another supporter who is willing to take over the share.

Two practical issues arise where the possibility of transferable shares is being considered:

i) Supporters' trusts usually have rules as to who can be a member and there is therefore a limit on the freedom to transfer;

ii) The exemption from financial promotion legislation which is available to community benefit societies is dependent on the absence of a market in shares and therefore dependent on shares not being transferable at will.

The usual solution to these issues is that shares can only be transferred at the discretion of the board. This is an area in which expert professional advice is definitely advisable.

2.2.3 Loan Notes and Bonds

In the context of fund raising by supporters' trusts, Loan Notes and bonds both involve the creation of a debt from the supporters' trust to Loan Note or bond holders. The difference in practice is that bonds tend to involve the supporters' trust promising to repay the debt at a particular point in time whereas Loan Notes tend to be more open-ended. This section deals specifically with loan stock but the content applies to both fundraising methods.

It is possible for a supporters' trust to generate capital relatively quickly through the issue of Loan Notes in the society. In addition, this allows community benefit societies to raise more than the £20,000 individual purchase that can be achieved under a community share scheme, although some characteristics are common to both approaches.

Loan Notes are effectively loans to the community benefit societies by individuals or entities.

Loan Notes are effectively loans to the community benefit societies by individuals or entities. A supporters' trust would need to determine the basis on which loans were taken, for what purpose and on what basis they might be paid back, over what period. There is some flexibility in setting the conditions for Loan Notes but supporters' trusts going down this route will need to determine:

- Creation and issue of Loan Notes – how much is required and in what amounts;
- Issuing Loan Note certificates – when and for how long; time limited offer or open-ended;
- If interest is payable or not;
- The conditions for immediate repayment should the supporters' trust cease to function and whether Loan Notes are secured or not;
- The conditions for redemption of Loan Notes by the society – when and how it can pay them off;
- The rights of Noteholders including meetings of Noteholders and voting rights in those meetings to amounts of Loan Notes held;
- Requirements to be members of the community benefit society or not;
- Rights to transfer Loan Notes to third parties.

However, there are also a number of regulatory and legal concerns to bear in mind. As with community shares, Loan Notes from a community benefit society have certain exemptions from regulation. However, these are conditional that:

- The money raised must be for the society's community benefit purpose;
- No market in Loan Notes can be created;
- As with community shares, there need to be limits on the return payable, to a level commensurate with savings account rates;
- Loan stock cannot create an interest in the underlying assets of the society or an entitlement to participate in capital growth;
- The 'one member one vote' structure of the supporters' trust should not be undermined by rights associated with loan stock;
- A detailed offer document is required with information about the use to which money raised will be put and financial information enabling people to make an informed decision about the viability of the scheme.

Money can be raised either within the society's corporate structure or within one with a similar constitutional commitment to community benefit.

Money can be raised either within the society's corporate structure or within one with a similar constitutional commitment to community benefit. This could be a community interest company (CIC) but there are some technical differences between company share capital and industrial and provident society share capital which make the industrial and provident society model easier to use.

The financial rights associated with loan stock and shares in a community benefit society are in practice indistinguishable in their essential elements, the key difference being that Loan Notes are not subject to the individual £20,000 limit that an issue of shares would be. Also, whereas share capital could be treated as working capital in the balance sheet of a society, loan stock would appear as debt.

It is therefore possible for supporters' trusts to have both a share scheme for people paying up to £20,000 and a separate Loan Note offer with different rights for people paying over £20,000.

Brentford's Loan Note Scheme

Bees United's Loan Note scheme meant minimal liability to the supporters' trust as it was not secured. In this scenario, those buying the Loan Notes did so at their own risk – 'a kind of enhanced donation' – although some minor incentives were offered.

The Brentford Loan Note scheme allowed the supporters' trust, Bees United, to lend the club money in advance of their takeover, but a condition was placed on what the supporters' trust could do with the money by restricting it to purchase of shares, giving the supporters' trust a foothold in the ownership of the club.

It is also possible to raise much larger sums through Loan Note schemes, but this will normally require much more formal legal agreements as well as securing those loans against club assets, such as the ground. Brentford also pursued this option when actually purchasing the club, raising £0.5m in four large loans. This obviously creates a greater liability for the supporters' trust or the club, but may be the key to securing overall ownership of a club.

Loan Note schemes such as Brentford's have their own membership and AGM, with voting usually allocated in relation to the size of loan and this is an important distinction from the approach taken with community benefit society membership and community shares. Whilst this doesn't give any constitutional power over the community benefit society, in Brentford's case the Loan Note scheme do get a seat on the board of Bees United.

2.3 Share Issues in Wholly Owned Limited Company

The majority of football clubs where the supporters' trust have a controlling stake or where it is wholly owned are established as limited companies with the supporters' trust holding shares in it. It is therefore also possible for trusts to raise capital for the club by issuing shares in the club whilst maintaining overall control and this has happened on occasion.

This can be done through a more traditional share issue although, unlike community shares, this is subject to financial promotion regulation which can mean significant associated costs.

AFC Wimbledon is one example where a share issue helped raise finance for the purchase of their stadium. In this case, The Dons Trust owns

72% (and 88% of the votes) of AFC Wimbledon Plc (established on the Alternative Investment Market). This company wholly owns both the football club and a stadium company. When raising finance for the purchase of Kingsmeadow Stadium in Kingston, shares were offered publicly in the stadium company without much hope of a financial return, and no chance of trading them on the open market.

As with community shares, this meant that most investors were looking for a social return rather than a financial one. By issuing shares in the stadium company, the supporters' trust's control of the parent company, club and stadium was not affected. This was supplemented soon after by a bond scheme, issued directly by the supporters' trust.

AFC Wimbledon Share and Bond Issues

When they first bought their stadium, AFC Wimbledon agreed a deal to purchase it for £2.4 million. With reserves of £300,000 they decided on an issue of shares as the best means to raise finance. The Dons Trust created a Plc to sit 'in between' the trust and the football club, with a majority holding in it. The PLC owns 100% of both the football club and a separate stadium company.

Shares were offered to the general public, with a target of £1million, eventually securing £1.26 million. Expenses for the share issue were around £110,000 so they had £1.4 million of the £2.4 million required to buy the stadium. The Khosla family, who owned the stadium, said that they would be the creditors for the remaining £1 million.

Erik Samuelson, Chief Executive, says:

We were asking fans to buy shares in a company that was never going to pay any dividends ... and wasn't going to be a very good investment because it wasn't traded on the stock market.

'We did pretty well out of that, because in effect we were asking fans to buy shares in a company that was never going to pay any dividends, at least not for a very, very long time; and wasn't going to be a very good investment because it wasn't traded on the stock market. It was half way between an act of faith and a donation. We were very careful about how we worded the prospectus and talked about high risk, low likelihood of return etc. and people still bought the shares. Around a couple of thousand people purchased shares. The average purchase was around £500 and the highest individual purchase was £54,000 from a wealthy individual who tipped us over the £1 million

threshold. There was a minimum purchase of £150. The main appeal about taking this route was that we didn't have to pay the money back – when you buy shares, you never get your money back. That's the massive benefit of this sort of shares, that they're not reimbursable. This way, more than half of the £2.4 million that was needed was paid forever.'

However, they were then paying quite a lot of interest on the remaining £1 million, so they started to look at other ways of raising the money. In 2004 the supporters' trust issued the Dons Trust Bond.

Samuelson:

'If an IPS issues a bond, it can be done quite easily, with a fairly limited amount of legal input. People could choose their own interest rate, with a cap on it, which is a pretty way of saying, please say nil. The maximum we offered was 4% and the average rate we ended up paying was 1.98%. This enabled us to raise around £300,000, on which we then paid 1.98% interest rather than the 9 or10% to the Khosla family – a substantial saving. The bonds were for 4 years, with 1 year's notice being given after 3 years.'

The football club should repay the Dons Trust, but it never does. Instead, the Dons Trust capitalises that amount – instead of asking for the money back, it swaps it for more shares.

About 60 people took out bonds. There was obviously a risk that after 4 years, they would suddenly have to find £300,000 but so far, about 80 – 90% of the people have rolled over their bonds. It's the Dons Trust bond, so the Dons Trust loans it to the football club; and the football club uses it to repay the stadium debt. Nominally, the football club owes the Dons Trust and the Trust owes those individuals, so when money has to be repaid, the football club should repay the Dons Trust, but it never does. Instead, the Dons Trust capitalises that amount – instead of asking for the money back, it swaps it for more shares.

2.4 Minority Shares in a Limited Company Football Club

In many cases, supporters will not be in a position to acquire a football club outright. In the higher leagues this could be a matter of economics. In the lower leagues it may reflect the desire of an owner to raise money without giving up control.

This gives rise to issues connected with supporters acquiring a minority stake in a club. Minority stakes are generally problematic, in that money is invested in an organisation but does not buy control over how the money is used. It is, however, important as a matter of principle that if supporters put money into a club they should receive something in return. Rights of various kinds can be granted under the terms of a loan agreement or an acquisition of shares.

Because of the difficulty of identifying and securing community benefit through a minority shareholding in a club, this approach is less than straightforward. 'All supporters' trusts are community benefit societies and as such must be able to demonstrate that buying a minority stake in their club delivers benefits for their communities. This is also true where a supporters' trust uses Community Shares capital to buy such a stake.'

At its most basic, the bigger the stake the more influence the supporters' trust can have.

Lincoln City – 25%+1

Since 2001 the largest shareholding at Lincoln City – just over 25% - has belonged to the supporters' trust. These shares were gifted to the Trust by the previous chairman.

'The previous owner was the major (not majority) shareholder and had about 800,000 shares, worth about £400,000,' says Rob Bradley of the Imps Trust. 'He realised he had taken the club as far as he could and wanted to get out. He offered his shareholding to anyone who raised the money and he would then put that money into the football club. The trust raised some money – about £80,000 – but local business people got involved and made it up to £400,000.'

The Football Club currently has 7 Board members, comprising of 5 private individuals and 2 Trust representatives. Lincolnshire Co-operative has a Director on the Board, as they are one of the group of next largest shareholders with around a 5% stake in the club.

'The trust currently owns just over 25% of the shares and the ambition going forward is to have that amount or slightly more because any resolution at an EGM or AGM requires a 75% shareholding vote to go through. This way, if there's anything significant, the Trust members would have a vote and the Chair would be mandated to vote how the supporters wanted and they have influence in any major decision. It means that supporters' backing is required, basically.'

It is significant in the context of the acquisition of shares by supporters that the purpose of the acquisition is not financial. The important thing about shares owned by supporters, either directly or through a supporters' trust, might not be their financial value but the rights associated with them. Indeed, in many cases, a key reason for owning the shares would be to avoid the value of the club being cashed in to benefit shareholders.

Swansea City supporters' trust have had the co-operation of their club in raising finance through a novel arrangement whereby the £5 membership fee for the trust is deducted from season ticket prices, effectively meaning that it costs season ticket holders nothing to join. Through an initial purchase of 5% of the club in 2001, by 2006, the Swans' Trust owned 20% of the club, a situation that remains today for the newly promoted Premiership side, giving them a seat on the board and significant influence.

The Swans' Supporters Trust – 'Anything is Possible'

When Swansea City won promotion to the Premier League in the Championship Play-Off Final this season, there was a lot of talk about them being the first Welsh team to grace the Premier League. What there was less discussion of, however, is the fact that Swansea supporters own 20% of their football club.

The Swansea City Supporters' Trust (Swans' Trust) was formed in 2001, at a time when the football club was in private ownership and experiencing financial difficulties.

Everyone was rallying around the football club; they were adamant that it had to be saved and so it was easy for the Trust to get money from supporters.

'At the time, everyone was rallying around the football club; they were adamant that it had to be saved and so it was easy for the Trust to get money from supporters', says Phil Sumbler, Chair of the Swans' Trust. 'I think we were lucky to be in the right place at the right time in terms of being able to acquire shares, as the Trust came to the forefront as part of a consortium which is now the current board of directors and the current shareholders.'

Initially, the Trust managed to raise £50,000, through a combination of membership fees, donations and social events. This allowed them to buy a 5% stake in the club in 2001, which they increased to 10% in 2002/3 and to 20% in 2005/6. They were able to increase their share because when the club was taken over, £1 million of share capital – a million ordinary shares at £1 each – was issued. When the original

consortium went in, there was a partial release (700,000 shares) of the share capital and then it was decided to release the rest, so every shareholder had the option to increase their stake. 'Thankfully, at that time, the Trust had the funds in the bank to be able to take advantage of this', says Phil.

'We've also had support from the club right from the early days, because if you were a season ticket holder, your £5 membership fee for the Trust was taken out of the cost of your season ticket. By the time we moved to the Liberty Stadium, we'd got to about 6 – 7000 season ticket holders, which meant we were getting about £30 – 35,000 in membership fees straight off.'

Now that they're in the Premier League, the membership is likely to rise, although in their first season the trust membership will be free.

The 20% stake entitles the Trust to have a seat on the board of the football club, as it's written into the shareholders' agreement that anyone with at least a 5% shareholding in the club is guaranteed a director on the board. Phil says:

As time has gone on, the football club board appreciate that the Trust is in the same position as them; that we just want the best for the football club.

'The relationship between the Supporters' Trust and the other private owners has improved over the course of time. In the early days, the Trust was the one that had been organising the rallies and marches, so we were viewed as the rebels, the ones likely to cause trouble. However, as time has gone on, the football club board appreciate that the Trust is in the same position as them; that we just want the best for the football club. The only difference between us and the rest of the board is that the rest of the board are on there as individuals, whereas our Director is speaking for the membership of the Trust.'

Whilst increasing their stake may not be possible, maintaining at least 10% gives the trust significant influence. It also means that if someone bought all the other shares, the trust would not be forced to sell its stake.

'Anything is possible. Swansea, the Supporters' Trust, and Swansea the football club, is now a bit of a blueprint for what is possible. This is a football club that ten years ago was down and out, probably hours from going out of business. £200,000 is a lot of money, but supporters have clubbed together, got that sort of money and given us a real shareholding in the football club. Ten years later, we're a Premier League club and the supporters own 20% of it. That's pretty much unheard of at this level. I think other Trusts should be looking at Swansea and thinking as pie in the sky as it seems, it is possible.'

Company law allows considerable flexibility in the rights which can be attached to shares and allows in particular the creation of different classes of share with different rights. It is therefore possible to envisage a class of 'supporter shares', as recommended in Supporters Direct's Briefing Paper No.2 on football governance. In such a situation, a supporters' trust could hold shares which, whilst having limited financial rights, could have weighted voting rights, particularly on issues which affected the club's relationship with its supporters and community.

Issues associated with the club's ground, name and colours are often cited as important concerns but there is no reason in principle why the rights associated with a class of supporter shares should not be linked to the broader agenda about the 'legitimate interest' of supporters in the affairs of a club. This might involve special voting rights in relation to proposals to:

- Sell land or buildings such as the ground;
- Incur a significant level of debt in relation to the club's turnover and assets;
- Sell the club or significant assets.

Brentford's Golden Share

When Brentford's supporters' trust, Bees United, voted to accept a deal that would involve them eventually giving up their majority stake, they did a deal that means that the trust will retain a 'Golden Share' in the stadium company. This gives them significant levels of control in some areas and means that the supporters' trust has:

- The right to veto over any issue or transfer of shares;
- The disposal of assets (over a certain level);
- The use of land for any purpose other than that of a sports stadium;
- The charging of assets;
- The implementation of any liquidation proceedings;
- The payment of dividends.

In addition the supporters' trust has the right to appoint a minimum of one director to the board of the stadium company.

However, a supporter class of shares might also give supporters more say, or representation, over some operational matters when these are discussed at board level such as ticket prices, provision of information or supporter engagement and consultation.

Share Liverpool

The Share Liverpool scheme, which attracted interest from many thousands of supporters, was originally based on a simple calculation of the total sum required to buy the club, shared amongst the estimated supporter base.

At the time when Hicks and Gillette were still in control, Share Liverpool sought commitments from supporters to pay £500, with a target of 100,000 supporters backing the scheme. For a number of reasons, the scheme never reached the point at which it could be formally launched, but the expressions of interest collected suggested that sufficient money could certainly be raised to buy a significant minority stake.

The Share Liverpool board were clear that, if the opportunity to acquire such a stake arose, they would be seeking to negotiate specific rights attached to the shareholding. These would include rights to information, representation and supporter engagement as well as restrictions on the sale of the club or its ground, with pre-emption rights in the case of a sale of shares in the club.

Even since the departure of Hicks and Gillette the group is still pursuing a direct equity stake in Liverpool Football Club, 'giving the supporters real and meaningful representation' to enable the club to 'rebuild its relationship with tens of thousands of disenfranchised fans'.

2.5 Fans' Share Schemes

Where shares are available to purchase in a limited company structure – either in a Plc structure or through private sale – they are often beyond the reach of ordinary individual supporters and sometimes beyond supporters' trusts alone. The costs of share purchasing can also make it uneconomic to purchase small quantities of shares. Whilst there have been share schemes run by supporters' groups in the past – the Independent Manchester United Supporters' Association began such a scheme in 1996 to gain representation for fans at the club's AGM – the Fanshare scheme pioneered by Arsenal

Supporters' Trust is the most sophisticated and successful to date.

A fans' share scheme works as follows:

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

The advantages of a fans' share scheme are that it can give access to share ownership to a wider group of supporters and maintain some collective ownership.

The advantages of a fans' share scheme are that it can give access to share ownership to a wider group of supporters and maintain some collective ownership. One of the potential disadvantages under current regulations and legislation is that if a separate entity is set up to run the scheme, it is this entity and not the supporters' trust, as the legitimate representative body of supporters, that holds the ownership in the club.

The Arsenal Fanshare Society[10]

The high price of each share in Arsenal – currently around £13,000 – is a considerable barrier to supporter ownership. The Arsenal Fanshare Scheme was launched in August 2010 in part to create access to share ownership and to increase supporters' ownership of Arsenal.

10 Adapted from Arsenal Supporters' Trust (2011) *Parliamentary Select Committee on Football Governance.*

Arsenal Fanshare is operated by the Arsenal Fanshare Society Board, an CBS. This separate structure was established to protect the Arsenal Supporters Trust from being caught by FSA regulation for carrying on business in traded securities. The scheme itself is run by Equiniti, and the scheme is endorsed by both Arsenal FC and the AST.

The Arsenal Fanshare Society buys shares in Arsenal Holdings PLC and nominally divides each one into 100 Arsenal 'Fanshares'. As the value of one share in Arsenal Holdings Plc is currently around £13,000, the value of one Arsenal Fanshare will be around £130. The value of Fanshares varies according to the real time market price of a share.

Each participating supporter has a Fanshare account where their monthly contributions are saved until there are sufficient funds to cover the cost of a Fanshare.

Arsenal supporters join the Arsenal Fanshare Society by paying a one-off membership fee of £20 and deciding a set monthly contribution they would like to invest each month in Arsenal Fanshares. The lowest monthly contribution is £10, making it affordable, and the highest is £1,000. Each participating supporter has a Fanshare account where their monthly contributions are saved until there are sufficient funds to cover the cost of a Fanshare, at which time the Fanshare is allocated to them. Any money left over is put toward the cost of the next Fanshare.

The AFS uses its shareholding to vote collectively at the club AGM. A vote is held prior to the AGM and where, on a particular issue, the majority is under 65% of the vote, votes are split proportionately; if the majority is over 65% all the votes are cast in that direction.

The specific benefits that members of the Arsenal Fanshare scheme receive are:

- A direct ownership stake in Arsenal;
- Fanshare membership certificate;
- Opportunity to attend the Arsenal AGM;
- Quarterly shareholder email update from Arsenal Chief Executive Ivan Gazidis;
- A vote on key club resolutions;
- Access to the AST's scrutiny of the club's finances and opportunities to express their views directly to the club's Directors and Executives.

Once a member has acquired 100 Fanshares, equivalent to one full club share, their membership status within the scheme is amended to give them a guaranteed place at the club AGM, although votes are still held collectively. Arsenal Fanshare currently has over 1,600 members who have invested more than £350,000.

Fan Share Regulatory Issues

Fan share schemes like Arsenal's face two regulatory obstacles:

- They are not eligible for tax relief such as EIS because it is not an investment in 'new business' and returns to the taxpayer via capital gains tax are unlikely.
- They face regulation as if they were a 'normal' commercial vehicle for investing in shares – in which people invest in order to receive a financial return – when in fact such investment by football supporters is chiefly for other reasons (such as emotional attachment).

With regard to the first of these, it is unlikely that something like EIS could be adapted to meet the 'fanshare' scenario. However, it should be possible to devise a form of personal tax relief, under strict conditions such as length of investment and minimal financial return that does encourage supporters to support such schemes. Government action would be required to support such a change.

With regard to the second, there are good reasons why regulation is in place – the protection of the investor in a particularly unsuccessful area of the economy for investment. However, regulation also needs to:

- Find a better way of identifying risk and mitigating against it;
- Identify the criteria under which exemption might be given;
- Recognise that the investment is in a specific sector (in this case football), within a specific regime (in this case the supporters' trust) and is undertaken for specific reasons (concern for the long term interest of the football club and not financial gain).

As such, Supporters Direct has supported calls for providing exemptions in the Financial Services and Markets Act for community benefit societies and community interest companies, which would make such schemes more practicable by both lightening the regulatory risks and reducing costs. Enabling community benefit societies to provide such schemes directly would also eliminate the need for the establishment of dual structures.

2.6 Community Interest Companies

2.6.1 What is a Community Interest Company (CIC)?

Community Interest Companies (CICs) are relevant to raising finance for supporter community ownership because they can allow both 'community investment' such as from a supporters' trust as well as other equity based investment, whilst retaining some of the community benefit objectives of Community Benefit Societies. As such they are a potential corporate structure for a football club into which a supporters' trust could invest. CICs are a form of non-profit distributing organisation introduced in 2005 that allow equity investment (for example from social entrepreneurs) but where benefit for the community takes precedence over individual shareholder interests. Crucially, CICs have a statutory asset lock to ensure shareholders in the future cannot change the organisation into a for-profit organisation and distribute the assets of the company amongst themselves.

Fundamentally, CICs are normal companies. A CIC can be formed either as a company limited by shares (CLS) or company limited by guarantee (CLG). However, they have features to safeguard the interests of the community they were set up to benefit:

i) A CIC has to have articles and carry out activities which fulfil a community purpose, thus meeting the so-called 'community interest test'.

ii) A CIC also has a lock on its assets written into its articles of association to prevent profits from being distributed to its members or shareholders.

iii) The company must include 'Community Interest Company' or 'CIC' in its name.

2.6.2 The Difference between a CIC and a Community Benefit Society

There are a number of differences between a CIC and a community benefit society:

i) A CIC does not have to conform to co-operative principles.

ii) Shareholders in a CIC usually have one vote per share, meaning that the more you invest the more influence you have, which contrasts with the IPS 'one member one vote' structure.

iii) The CIC model can replicate one member one vote if required or provide for weighted voting.

iv) There is also the ability to allow for different classes of shareholders or members with different voting rights. This means that a CIC might be

useful where both fans and high-net worth investors are involved in the ownership and governance of a club.

v) A CIC has no limit on the amount each shareholder can invest and is not subject to the IPS cap of £20,000.

vi) A CIC with shares is subject to company law rules about share capital which means for example that shares cannot be "cancelled" when a member leaves, or be "withdrawn".

vii) Unlike an IPS which is registered with the FSA, CICs are registered with Companies House in the same way as any other company.

viii) However a CIC is also subject to the further regulation of the CIC Regulator who can intervene in the running of CICs in order to ensure that they conform to their community interest purpose. All CICs make an annual report containing a fair and accurate description of the manner in which the CIC's activities during the financial year have benefited the community.

ix) A CIC does not benefit from the same exemptions that a CBS does when offering shares to the public and has to comply with financial promotions regulations. Share offers usually involve obtaining approval from an FSA-authorised person and if seeking over €2,500,000 in 12 months, a full FSA-approved prospectus is required and significant legal costs could be involved in preparing a prospectus.

2.6.3 Football and CICs

The CIC regulator has accepted that a football club which delivers community benefit via its fan base and/or wider community activity can register as a CIC. A CIC might be appropriate in football where:

It is acknowledged that the legislation is not ideal for smaller scale social investment of the kind a football club might seek from fans.

- Larger investors want more influence in the governance structure of the club either by a seat on the board or voting rights;
- Investors want to put in more than £20,000.

Whilst it could be seen as a positive that CICs have additional regulation for share offers to protect investors, it is acknowledged that the legislation is not ideal for smaller scale social investment of the kind a football club might seek from fans. There are currently some moves for a more bespoke investment regime for smaller scale social investment.

2.6.4 Investment in CICs

Both individuals and companies can invest in a CIC, subject to certain rules that regulate this and a CIC can be financed by loans or bonds. However, where a loan is supplied to the CIC and where interest is performance-related it is capped at 4% above the Bank of England's base rate. There is no cap on normal interest rates.

Unlike other companies, no dividend may be declared by a CIC unless it has been approved by an ordinary or special resolution of the members.

2.6.5 The Asset Lock

As with a CBS the 'Asset Lock' is a general term for the provisions written into the CIC's articles of association which ensure that its assets are put towards its community goals or, if they are transferred elsewhere, that they are transferred at market value, thus ensuring that the CIC retains the value of the assets transferred.

CICs can transfer assets to other CICs or charities without getting full value, because these organisations themselves have an asset lock.

2.6.6 Shares and Buy Back

The dividend cap exists to strike a balance between encouraging people to invest in CICs and the principle that assets should be devoted to the benefit of the community.

A CIC that is a CLS can issue shares, but the law requires that if the CIC buys back those shares only the capital paid for the shares can be repaid pound for pound, with no uplift. In other words, all capital gains on buy back will belong to the CIC and not to shareholders. There are no limits on the price at which shares in a CIC can be sold to a third party. This means that, unlike normal company shares, the increased value of the business belongs to the CIC and not the shareholders. The value of CIC shares therefore usually lies in the dividend stream which is subject to the dividend cap detailed below.

2.6.7 The Dividend Cap

The dividend cap exists to strike a balance between encouraging people to invest in CICs and the principle that assets should be devoted to the benefit of the community. Payments of dividends or CIC shares is capped at 20% of the paid up value of a share. When the amount of dividend declared per share does not use up the 20% cap, known as the 'unused dividend

capacity', it can be carried forward from year to year for up to 5 years. There is also a ceiling on the aggregate amount of a CIC's profit that can be distributed by way of dividends, currently 35%.

2.6.8 Winding up

Due to the asset lock, any surplus remaining after paying back all creditors has to be applied to the community purpose, by giving it to another CIC or to a charity. Where the CIC is a CLS, this means that shareholders will only get back what they put in.

2.6.9 A CIC 'Hybrid Model'

A football club could be set up as a CIC with two classes of shares. One class could be for high net worth investors with specific rights: such as the ability to approve further share offerings and appoint a certain number of directors to the board. Another 'supporter' class of shares could be issued to fans directly, or held by a supporters' trust.

The exact balance of rights can be negotiated to fit the circumstances of the club and the demands of investors.

The exact balance of rights can be negotiated to fit the circumstances of the club and the demands of investors. However, supporters' shares could have specific rights attached, including the need for their approval before the club is wound up, assets are sold or dividends distributed. Alternatively a club could give fans all the governance control and issue investors' non-voting preference shares which only have a right to a dividend.

2.7 Fund Raising

Most of this briefing paper has been concerned with the issuing of shares or other more 'formal' finance that can be obtained to further supporter community ownership. However, more 'traditional' fund raising activities should not be underestimated or ignored and almost every supporters' trust will have undertaken such activities.

Generating working funds is vital in the development of almost all the options described in this briefing paper – whether to pump prime activities, generate publicity, get professional help with community shares schemes, or establish new company forms such as a CIC.

Having 'money in the bank' is also important in building confidence – in other supporters, in professionals and with partners such as local

authorities. Should grant money be sought – for example in facility funding – match funding is often required. Some options, such as share schemes, require legal advice when being established and this almost always costs trusts money.

Furthermore, very significant sums can be generated through 'traditional' fundraising. Wrexham Supporters' Trust has raised nearly £400,000 which gives them a strong launch pad for the forthcoming community shares scheme. FC United of Manchester have also raised in excess of £350,000 through their Development Fund, something that has helped convince the local authority of the strength of support for their ground development, provided grant funders with confidence and provided working capital for a planning application and their community shares issue. Supporters' Trusts such as those at AFC Wimbledon and Exeter City both target £100,000 a year, which can provide a valuable resource to help with club projects and as extra security.

There are a number of ways that supporters' trusts have to date raised such finance. Whilst this list is not exhaustive, it is provided as a starting point.

Donations

- Organise 'bucket' collections on a match day. Notify supporters in advance that this is going to happen and explore innovative and new ways of doing it – such as asking for foreign currency to keep it 'fresh'.
- Take online donations and pledges.
- Establish a standing order for people to make regular, monthly donations, something that is particularly useful when there is a specific purpose such as a renewal of a pitch (Exeter raised over £150,000) or developing a facility (FC United get over £10,000 a month from supporters).
- Set up a text service to take donations – making donations easy is vital to getting a response.
- Develop a legacy funding scheme – Supporters Direct can help get discounts in re-writing wills.

Brentford's Standing Order loan repayment

When Brentford's supporters' trust, Bees United, were raising money to save the club they set up a standing order scheme amongst their fan base to help them access other sources of finance. By showing that they had regular money coming in, their bank granted them a loan for £250,000 which helped top up other funds collected by

larger loan notes and enable the acquisition. Although the loan was secured against the Financial Director's house the loan was repaid in 2010 and what's more they still have over £70,000 of Standing Orders set up and being paid to boost Bees United funds!

Raffles and Lotteries

- Raffles and match day lotteries can raise significant sums and with comparatively reduced effort compared to other one off events. Two different approaches to supporters' trust lotteries, which are both highly successful come from the Dons Trust and Merthyr Town. The Dons Draw relies on direct debits to bring in over £50,000 a year with monthly draws, where as Merthyr rely on the goodwill of individuals and groups in the local community to sell tickets on their behalf which amounts to over £30,000 a year.
- If a supporters' trust owns a club or has good relations with it, they could offer to split proceeds with them. Other examples have seen Dorchester Town Supporters' Trust splitting the proceeds with charities in the town and boosting their local profile.
- Use contacts to get unique club related material to raffle, such as pictures or signed memorabilia.
- Ask members to donate memorabilia they have in their attic.
- Be aware of the provisions of the Gambling Act if running a lottery to ensure that it is legally organised[11].

Events

- Supporters' trusts have organised a huge variety of events to generate funds, from sponsored walks to race nights, benefit concerts, gala dinners and end of season club nights.
- Use such events to publicise the purpose of the fundraising but also to 'pin' other fund raising activities on, such as auctions.

Buy a Brick

- Clubs building facilities have often used 'buy a brick' campaigns where supporters donate a certain amount and have a brick with their name – or other recognition – used in the building.

11 http://www.gamblingcommission.gov.uk/gambling sectors/lotteries/about the lottery indusry/running a lottery.aspx

- Digital technology can now be employed to show supporters exactly what they are contributing to.

Online

- There are some new innovative ways of raising funds offered via websites.
- These include buying 'pixels' on web pages to enter a lottery.
- One scheme has asked fans to buy squares on a football pitch to raise funds.
- Be aware of banking, money laundering and other regulations when taking money in this way.

Raising Hundreds of Thousands for Wrexham

In 2001/2002, when wider supporter concern developed about the direction Wrexham was going in, supporters' trust membership, which had been steady at about 4-500 people, shot up to around 1400. The supporters' trust started to fundraise with a view to buying the club. They sold scarves, hats, t-shirts and other merchandise; held race nights; and staged other events. This started a process to raise thousands of pounds which they put into an account they were using to develop a 'war fund' to try and buy the club.

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When the club was put into administration, the administrators asked the Supporters' Trust to take over the commercial side of the club. They successfully ran this for the 18 month period of administration and managed to make a profit on it for the first time since the 1980/81 season. Profits were shared 50-50 with the club.

Once out of administration in 2006, the supporters' trust contributed £120,000 to the club, for various things including a minibus, signing on fees for players etc. They carried on doing bits of fundraising and helped to keep things ticking over. The trust's fundraising had been so successful it still had just under £400,000 in the bank by the time the current crisis in 2010/11 emerged.

Lewes FC – From Donations to Shares

During the 2009/10 season Lewes FC got into serious financial trouble and in January 2010 the club faced a winding up order. Although the former owners managed to pay off some of their debts, they were left with about £48,000 still outstanding.

A group of six people, calling themselves Rooks125 started working to try and take control of the club. They set up a community benefit society with the help of Supporters Direct and, along with a handful of other people, managed to pay off enough of the tax bill to prevent the club from being wound up.

The group then began the process of taking the club out of private ownership, buying the club for £1 in July 2010 and split the remaining debts between the new entity and the old owners. The six individuals became the inaugural board of the new entity, Lewes Community FC Limited which bought 100% of the shares of Lewes 2000 FC Limited, which was the registered football club. As they explained in their pamphlet, Lewes Football Club Needs You, Rooks 125 felt that:

Where success is achieved through non-recurring income, such as individual, large-scale benefactors, the Club becomes inherently unstable.

"The objective of any football club is to attain the maximum possible success on the pitch. Success is usually measured by end of season league position and cup runs. This, at least, is the standard definition. But we think that what is missing from this definition is the phrase "…within available and sustainable financial and human resources". Where success is achieved through non-recurring income, such as individual, large-scale benefactors, the Club becomes inherently unstable. The foundation of Rooks125's approach is to achieve an equilibrium where success is bounded by resources."

Rooks125 wanted to encourage people to come forward and support the vision they have for their football cub as one which is truly rooted in its community. As such, they want people to be able to see that their investment is building a lasting community asset and not just a football club.

Promoting the club as a community benefit society to local individuals, they established a working capital fund. During their first year in charge, they established a membership scheme costing £1000 minimum to buy a Founder Lifetime Membership share in

the society, which generated £100,000. Although not technically a donation, these contributions have become so in all but name.

From July 8th 2011 (the first anniversary of their takeover), membership will be open to all at a rate of £30 per year and all shareholders – those that paid £1000 and those that will pay £30 – will have equal status on a one member, one share, one vote basis. The benefits of membership include, amongst other things, the right to stand for election to the Board of Directors and the right to vote for candidates in annual elections to that Board.

3 Markets and Support

3.1 Potential Sources of Funding

For all of the finance-raising options described in this briefing paper, supporters' trusts will need to appeal to a variety of potential sources of funding. These will vary depending on which funding route is being pursued. However, they include the following.

Members

The immediate market for any finance raising option is supporters' trust membership. Most of the routes described in this paper are affordable to most sections of society. Even where a minimum purchase has to be set – Wrexham's £200 minimum community share purchase for instance – it is possible to set up instalment schemes to allow everyone to participate, operated through standing orders. Also, although some capital sought may be for more significant amounts, supporters' trust membership is varied and diverse and could well include individuals with considerable financial resources who are prepared to put this into a finance scheme, as both Brentford and Wimbledon have found.

Other Supporters

Supporters' trusts – even where a club is wholly owned – may only be a minority or a proportion of the total fan base. Supporters' trust membership may also have been asked for support on more than one occasion and there is a danger of 'donation fatigue'. As such it is vital to get the message out to the wider fan base – through club communication channels if possible, via other means (press, leaflets, fanzines, web forums) if not. This is also a good opportunity to publicise supporters' trust membership and there are several examples where membership has increased significantly during finance campaigns (Wrexham from 400-1500; FC United from 2,300-3,500).

The success and strength of the supporters' trust movement is in part due to the support that supporters' trusts and supporters' clubs can give each other.

The Wider Supporters' Movement

The success and strength of the supporters' trust movement is in part due to the support that supporters' trusts and supporters' clubs can give each other. Some supporters' trusts have found that publicising through Supporters

Direct, Football Supporters' Federation and Football Supporters' Europe networks, websites and email lists can generate wider interest in the finance being raised. This in itself can help to reach relevant communities –such as co-operative sectors – in other localities.

The Co-operative Movement

Supporters Direct and the supporters' trust movement more widely is generally well regarded in the co-operative sector. Community shares schemes, CICs and other 'community benefit' finance options have particular appeal to this sector. Supporters' trusts can look to publicise financing schemes through Co-operatives UK, the trade body for co-ops (it helps if you are a member); local and regional co-operative groups and membership; and to local co-operative businesses. A co-operative or a community benefit society can invest deposits in another's share scheme; they can also help to publicise such schemes to their members and other co-operatives.

The Social Enterprise Sector

The social enterprise sector in the UK is still growing. As with the co-operative sector this is an important route to look for investment in finance schemes. Whilst this should include contacting local social enterprises and marketing to their staff, supporters' trusts can also publicise schemes through social enterprise conferences, websites and publications. Getting editorial coverage is particularly effective.

The Social and Ethical Investment Sector

Community shares schemes in particular, and community benefit societies in general, emphasise the community benefit purpose of raising financial capital. As such they appeal in particular to the social and ethical investment sector which is growing in the UK. Ethical investors may look for a financial return on their investment, but they are also seeking an investment that is both free from socially harmful effects and with a social benefit purpose. Whilst there are specialist services available (although these will cost) to approach ethical investors and to market schemes to them, there are also relatively low cost options, such as ethical and social investment conferences and 'pitch' events that can be very effective.

Community shares schemes in particular, and community benefit societies in general, emphasise the community benefit purpose of raising financial capital.

Other Investors and the General Public

Some financial schemes will be attractive to other investors who may primarily be seeking a financial return. Community share schemes that qualify for Enterprise Investment Scheme approval, Loan Note or bond schemes paying a percentage interest and investments into CICs can appeal to a wider market regardless of the community benefit purpose – although this is likely to be an added attraction.

3.2 Other Support

3.2.1 Supporters Direct Mutual Loan Fund

Supporters Direct Fund

Supporters Direct is exploring the possibility of establishing a 'mutual loan fund' to assist the financing of supporter community ownership and to enable the sector to expand.

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It is known that some supporters' trusts hold reserves that are currently earning very little in terms of interest. The idea is that Supporters Direct could establish an IPS which would take loans from those trusts and use them to provide loans to other supporters' trusts developing schemes to finance the ownership of their clubs.

Although the feasibility study is at an early stage, this could be attractive to supporters' trusts looking for an ethical investment route and the society would be owned and controlled by its members, those who have borrowed or invested in the fund.

As a comparator, Co-operative and Community Finance (formerly ICOF) has been lending to co-operatives since 1973. The organisation has now grown to be the only financially self-sustaining Community Development Finance Initiative (CDFI) in the UK with unmatched experience of investing at risk without incurring significant bad debt. In addition to capital raised over three decades, Co-op Finance has been a pioneer in raising funds through ethical share issue through a plc subsidiary and an Industrial and Provident Society managed under contract. The organisation uses its Financial Services Authority authorisation to invest and take security for third parties.

Supporters Direct will be exploring the feasibility of such a scheme with partners in the co-operative movement, its member supporters' trusts and professional advisors. Key to its feasibility will be:

For potential investors

- How much spare capital they hold;
- Whether they would be interested in investing in such a fund;
- The sort of interest rate that they would expect;
- How long they would be prepared to commit the money.

For potential borrowers:

- Whether they would be interested in borrowing from such a fund;
- How much they might borrow;
- The sort of interest rate that they would expect to pay.

3.2.2 Local Authority Loans

Local authorities can play an important role in assisting supporters' trusts in a number of ways. Supporters Direct is producing a paper specifically on how local authorities can assist supporter community ownership. However, with particular relevance to this briefing paper there are two respects in which local authorities can assist financing supporter community ownership.

i) Loans from Council Reserves

Local authorities can lend supporters' trusts capital from their own reserves, provided that they have reserves to invest and a financial return on that investment which can be applied for public benefit. It is also helpful if the loan can support wider community benefit in the locality.

One example of this is the loan from Hounslow to Brentford United which helped Bees United to get a controlling stake in the football club. In this case:

- The supporters' trust, Bees United, negotiated the loan;
- The loan was made to Brentford Football Club on a 5 year, interest only payment at a fixed rate;
- The local authority stipulated that it would only make the loan if the supporters' trust was the major shareholder;

- The local authority also insisted that the club continued its community work in the district;
- The money loaned was not from revenue budgets that could have been spent directly on services.

ii) Prudential Loans

Local authorities also have the ability to borrow money at advantageous rates and there has been much discussion of the possibility of this power being used to assist community benefit organisations.

It is doubtful whether supporting the simple acquisition of a stake in a football club without any associated direct community benefit would be a proper use of a council's powers.

However, this power is subject to important limitations under public law relating to council powers and European law relating to state aid. In practice, the powers can only be used to serve an identified community benefit purpose of the council. Whilst there will be circumstances in which money could be made available to a supporters' trust within this limitation, it is doubtful whether supporting the simple acquisition of a stake in a football club without any associated direct community benefit would be a proper use of a council's powers.

However, the Localism Bill, in which football grounds might be identified and listed by local authorities as assets of community value, might offer a way forward in this regard.

ii) Mutual Guarantees

Mutual Guarantee Societies, whilst common in other European countries, have not succeeded to date in the UK due to regulatory restraints. However, this situation may change and they offer another potential route of support for financing supporter community ownership.

They work through co-operatives working together to provide guarantees against loans and debt. This can mean that much better terms are made available from banks and other lenders. Although some way off, within the supporters' trust movement this could offer the possibility of supporters' trusts providing guarantees for each other and thus reducing the cost of borrowing and loans.

4 Concluding Comments

This paper has sought to provide basic information on a number of different ways in which supporter community ownership can be financed.

It is intended as briefing paper that can help to direct supporters' trusts to other information.

In most, if not all, instances a 'mix' of finance will be required; and this is certainly the experience of supporters' trusts to date.

Different mixes of finance will be appropriate in different circumstances and will depend on the purpose and potential sources of finance.

Supporters Direct believes that whatever mix of finance is pursued, some core principles remain at the heart of finance for supporter community ownership. These are:

- Open membership and democratic control;
- The community benefit function of finance;
- An objective of realising ownership of football clubs.

There exist a number of potential new developments within Supporters Direct as well as in the co-operative movement that may provide further assistance.

Also, in the *Briefing Paper No. 1* on changes to government policy, Supporters Direct recommended:

- Use of Big Society Bank funds to support community ownership in general and within sport in particular;
- Changes to the tax regime to provide exemptions for individuals investing in supporters' trusts, recognising the community benefit objectives they have;
- Providing exemptions from FSA regulation for supporters' trusts running fan share schemes, recognising the specific role they play and the important differences between these schemes and other commercial investment vehicles.

Supporters Direct will continue to work to achieve these goals.

Appendix

1. Model Rules for Community Share Issues in a Community Benefit Society

Below are the model rules provided by Supporters Direct to allow the establishment of community share schemes for inclusion in Community Benefit Society constitutions. These form part of an overall new set of rules being provided by Supporters Direct (and as such numbering will change).

SHARES

1 The Society has ordinary shares and may have Capital Funding Shares in accordance with the provisions set out at [Rule 20].

2 The following provisions apply to shares in the Society:

2.1 Shares shall be withdrawable only in accordance with the provisions of these Rules;

2.2 Shares shall not be transferable except on death or bankruptcy or with the consent of the Society Board;

2.3 Application for shares shall be made to the Board of the Society who shall allot to members, upon their admission, the share or shares for which they have applied provided that the total number of shares allotted to any member shall not exceed the maximum shareholding permitted by these Rules or by law;

2.4 Shares shall be paid for in full on allotment.

CAPITAL FUNDING SHARE PROVISIONS

3 In order to fund its business, the Society may issue Capital Funding Shares. Capital Funding Shares may be issued in such denomination and upon such terms as the Society Board shall decide, subject to the Rules, and in particular the following provisions:

3.1 Capital Funding Shares shall not be withdrawable except with the consent of the Society Board;

3.2 The Society Board may specify a date or dates on which Capital Funding Shares may be withdrawn and may make provision for the withdrawal of different issues of shares on different dates;

3.3 The Society Board may pay interest to holders of Capital Funding

Shares as compensation for the use of such funds, but the rate of interest shall be no higher than the Society Board considers to be necessary to attract the funding needed for the business of the Society and shall not in any event be higher than 2% above clearing bank base rate from time to time. The rate may vary between different issues of shares;

3.4 No withdrawal of Capital Funding Shares or payment of interest on them shall be made except from trading surpluses and any withdrawal or payment shall be at the discretion of the Society Board having regard to the long term interests of the Society, the need to maintain prudent reserves and the Society's primary commitment to community benefit;

3.5 Capital Funding Shares may only be issued to members;

3.6 On the solvent dissolution or winding up of the Club, holders of Capital Funding Shares shall have no financial entitlement beyond payment of outstanding interest and repayment of paid-up share capital.

2. Model Asset Lock Rules

Below are the clauses that need to be included for community benefit societies that wish to insert an Asset Lock into their rules. This is being offered as an option with the new set of model supporters' trust rules being provided by Supporters Direct. This needs to be included under the 'Application of Profits' section of the constitution.

To give an Asset Lock statutory force requires two votes:

i) An initial vote at a General Meeting of over 50% of the membership with over 75% voting in favour;

ii) A second vote at a General Meeting within a month to ratify the decision.

Restriction on use: Pursuant to regulations made under section 1 of the Co-operatives and Community Benefit Societies Act 2003:

1 All of the society's assets are subject to a restriction on their use.

2 The society must not use or deal with its assets except-

a) where the use or dealing is, directly or indirectly, for the purpose that is for the benefit of the community;

b) to pay a member of the society the value of his withdrawable share capital or interest on such capital;

c) to make a payment pursuant under section 24 (proceedings on death or nominator), 25 (provision for intestacy) or 26 (payments in respect of mentally incapable persons) of the Industrial and Provident Societies Act 1965;

d) to make a payment in accordance with the rules of the society to trustees of the property of bankrupt members or, in Scotland, members whose estate has been sequestrated;

e) where the society is to be dissolved or wound up, to pay its creditors; or

f) to transfer its assets to one or more of the following –

i) a prescribed community benefit society whose assets have been made subject to a restriction on use and which will apply that restriction to any assets so transferred;

ii) a community interest company;

iii) a registered social landlord which has a restriction on the use of its assets which is equivalent to a restriction on use and which will apply that restriction to any assets so transferred;

iv) a charity (including a community benefit society that is a charity); or

v) a body, established in Northern Ireland or a State other than the United Kingdom, that is equivalent to any of those person.

3 Any expression used in this rule which is defined for the purposes of regulations made under section 1 of the 2003 Act shall have the meaning given by those regulations.

The Supporters Direct Briefing Papers

In 2011 Supporters Direct launch four Briefing Papers prepared by Substance in conjunction with a number of partners, including Cobbetts LLP, Salford University, Manchester Metropolitan University and Westminster University. The papers are:

- **Briefing Paper 1:** Developing Public Policy to Encourage Supporter Community Ownership in Football
- **Briefing Paper 2:** Developing Football Regulation to Encourage Supporter Community Ownership in Football
- **Briefing Paper 3:** Financing Supporter Community Ownership in Football
- **Briefing Paper 4:** The Business Advantages of Supporter Community Ownership in Football

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