

# Supporters Direct

## Submission to the All-Party Football group Inquiry on Football Finances

We are pleased to be able to submit this evidence to the Inquiry and grateful for the All-Party Group's desire to examine this pressing issue within football.

The first point we wish to make is that whilst finance is a major concern within the game, it cannot be looked at in total isolation from other aspects. We respect that this current inquiry has a specific remit, but we would like to refer to those linked aspects where relevant.

The season just gone will probably be remembered for the collapse of ITV Digital and the ensuing difficulties this caused clubs. It is perhaps a testimony to the special place that the game has in the national culture and consciousness that despite the grave predictions, no club disappeared in this season.

We would ascribe this in no small part to the heroic endeavours of supporters at clubs working through their Supporters Trusts who have been a much needed source of resources, both financial and human in times of crisis. We see that when a club is threatened, Trusts are an excellent vehicle for galvanising the community around the football club. However, the problems arguably only just begin at this stage due to certain endemic factors within the game that make it difficult for most football clubs to prosper in the current climate.

### The Revenue Gap

The first factor in this is clearly the huge revenue gap between clubs in different divisions, and between clubs within the same divisions. It is a matter of fact that sporting competitions must retain an uncertainty of outcome if they are to deliver their key sporting objectives – excitement and unpredictability. It is beyond the ability of any one club to deliver the environment required, and in most sports, a central body exists to make sure that the environment is geared to deliver upon these objectives.

Sadly, the bodies charged with this responsibility in England have failed in their mandate. In the crucial aspect of revenue distribution, the authorities have presided over a situation whereby:

- Teams with a realistic opportunity to win the Championship have been reduced to effectively 2 or 3.
- Teams getting promoted to the top flight are immediate favourites for relegation, such is the disparity in financial resources (which relates directly to the ability to acquire playing resources of sufficient ability to enable them to compete meaningfully).
- Teams with a realistic ability to secure promotion to the top flight can be said to be the top 10 resourced clubs in the First Division.
- Relegation has always been what might be termed an occupational hazard for clubs; now it is a matter of life and death for the club – all three relegated clubs in season 2001-2002 either ended up in administration or in the case of Derby County, surrendering effective control to their bank as prime creditor.

The gap in resources means that clubs with 'ambition' must spend beyond their resources in the hope of achieving promotion - the gamble that by winning promotion, the deficit can be made good. However, the nature of the game means that such things are not predictable – the level of risk is much greater than in other industries since the factors that contribute to performance are varied and by their nature very unpredictable.

The game has a choice to make; it can either institute systems to rectify this, or ignore the situation. The consequences of doing nothing are clear – a degraded competition, which is increasingly uncompetitive, clubs going bankrupt and the end of a professional structure as commonly understood.

There are remedies at hand however. The English game had mechanisms to compensate for the 'natural' advantages of big city clubs – they were in effect the game's version of the American draft system which redistributes talent amongst clubs to maintain competitive balance. With no university system as a finishing school for players, finance was always the proxy for talent. As a result, the gap between divisions was much less.

Not only was the gap between divisions smaller, but the gate-sharing mechanism ensured that there was also a form of redistribution within divisions, which mitigated the financial gap still further. It was through these means that smaller clubs were able to rise through the divisions – Northampton's astonishing rise in the 1960s, Ipswich winning the First Division in their first season in the division in 1962, QPR almost winning the Championship in 1976 and most famously, Wimbledon's rise from the amateur game to the first division and FA Cup victory.

These mechanisms were abolished in 1985 to assuage the bigger First Division clubs who had been threatening a breakaway. The breakaway occurred in 1992 anyway, but it is important here to note that the mechanisms of redistribution were removed after threats from the larger clubs who wanted more money. It was not abandoned because it proved to be an unsuccessful method of ensuring better competition; quite the opposite. It was abandoned because it made the sport more competitive, and therefore those clubs with the greatest resources wished to have more of the money that they conceived as 'theirs' by right and therefore start to gain the revenue, and thus success, that they felt they deserved.

We now see the consequences of that policy in the current state of the game in England. However, some of the symptoms of this policy are now being treated as causes in their own right. The recent idea to penalise clubs who enter administration, and to also ensure that clubs spend no more than a 'safe' proportion of their turnover, are attempts to remedy the indebtedness of the game, but fail to get to grips with the driving forces behind such behaviour.

Therefore, clubs with small catchment areas will effectively be condemned to a life in the lower divisions. By capping their spending on players, they will be at a competitive disadvantage as against better resourced clubs. There will of course be an incentive to increase the attendances and thus income at such clubs, but given that there is no short term route to this, the temptation will be to increase prices as this is the only option to clubs to increase their turnover. Such a move would make the game – already one of the most expensive spectator sports in Europe – more exclusive.

We are not stating that the policies proposed to enforce good financial management are bad in themselves; it is perhaps an eloquent testament to the crisis the game finds itself in, that clubs must be forced to spend less money than they bring in. But without tackling the revenue gap, the policies would be more strait-jackets than life-preservers. The gate-sharing mechanism would ameliorate this tendency, and allow clubs to expand in a stable manner. It would be a fitting policy that would go to the roots of the word 'league' as a body acting in concert and provide some much-needed collegiality. Indeed, one of the ethics that have seemingly been lost over the past 15 years is the sense of the game as a collectivity; of clubs pursuing their own interest within a framework that encourages all to prosper and rewards success, and provides a safety net rather than an ultimately deleterious winner-takes-all system.

### The structure of clubs and their personnel

Allied to these 'macro' factors are 'micro' factors that exacerbate the problems that clubs find themselves in. Clubs are currently constituted as limited companies – some are private, others public, and of those, a proportion are quoted on public exchanges.

Clubs are therefore owned by individuals or consortia who exercise power through their control of the shares in those companies. There are also at liberty to sell that shareholding to others. As a result, decisions at clubs tend to be made in isolation of several other factors.

This model of corporate governance places great power in the hands of this individual, and experience shows that most 'scandals' that have occurred at clubs – Brighton, Carlisle, Chesterfield, Doncaster and indeed at Wimbledon – have come about because there is no counterbalance to their freedom to act. They make decisions without recourse to wider interests, without consultation with supporters and often without regard to League rules. Yet football is powerless to prevent them from becoming involved in football clubs. Indeed, there is nothing to stop Darren Brown, the ex-Chairman at Chesterfield who presided over a massive haemorrhaging of money during his time at the club (that is the subject of an ongoing Fraud Squad enquiry), from becoming Chairman of another club. All that is required is that an existing shareholder sells his shares and the League are powerless. Yet there is a clear case to be made for the League being able to have 'door policy' in these matters, to ensure that its good name is not tarnished by the behaviour of a small minority.

Furthermore, even when there are no allegations of impropriety, the model of governance that sets one individual or a small coterie apart from everyone else without any checks or balances is flawed. Decisions are made according to a narrow set of interests that ignore the wishes of supporters or the local community. Some

would argue that ultimately, such actions will come back to haunt a club, and in some cases they do - but at a price.

The simple problem is that in most commercial enterprises, flawed decisions eventually affect turnover and profitability, as consumers reject the company's products in favour of an alternative. The investors, fearing for the value of their investment, demand changes to the company's management and strategy. The feedback loop depends on 2 crucial aspects – consumers ready to abandon a product, and shareholders separate from the management of the club.

In football, this feedback loop does not operate, as the consumers – the supporters – do not withdraw support, as not to support the team is antithetical to the identity of a supporter. Furthermore, the management of the club is in the main conducted under the auspices of the Board of Directors, who usually control a majority of the company stock. So, supporters do not 'punish' the management for poor decisions, and shareholders do not hold the Board to account as they *are* the Board.

Yet the supporters' failure to punish is not to imply disinterest – contrast the campaign to stop BSkyB taking over Manchester United in 1999 by its supporters, and the singular lack of any interest amongst Sainsbury's customers as to which bid for the company they would prefer. Supporters have traditionally been excluded from decision-making and for many, it has become a situation accepted with resignation. However, when serious decisions are made they do become interested, animated and express a desire to be involved in the decision-making process. The inability to do so results in what might be termed 'revolutionary outbreaks' – demonstrations and other forms of public protest, which all ultimately indicate that they feel that the board is not listening and is not acting in what they see as the best interests of the club.

Directors of clubs arguably used to operate with a sense of custodianship; they were privileged to be charged with owning or managing an institution that was a source of pride in the area. The institution pre-existed them, and would be there long after they had moved on. Their task was to pass on the institution to the next generation in good health. But this concept is now less and less of a concern, and at the root of it is the inability of the regulatory bodies to demand certain standards from its member clubs, and the tension between clubs as commercial entities and clubs as something more.

The financial crisis affecting the game has left many clubs in dire straits, and in such a climate, there is a temptation to treat potential saviours offering quick solutions with greater credulity than they deserve. The danger is that some of the people who present themselves as potential rescuers have less than noble motives, since clubs are generally loss making operations. They do however often have significant assets in the form of their grounds, which by dint of history, are found in inner-urban sites that are valuable development land. We have seen in the case of York City that the combination of a property deal, an mercenary owner and the general financial state of the game can lead to a club losing its ground.

Still others have engaged in what can only be called crude fraud – Ken Richardson, the former Chairman of Doncaster Rovers was sentenced for plotting to burn down the main stand at Doncaster for the insurance money. Current investigations by the Fraud Squad prevent us from being more specific about recent cases that have attracted national attention.

There are also the plain incompetent, who take season ticket money a year in advance and spend it today, or run the club into the ground with a series of dubious or flawed judgements.

In all these cases, a key problem is that the Football bodies seem to take no action to regulate the conduct of Chairmen; they seem able to fine players for using the wrong toilet at a game, but powerless to enforce ethical standards. The view appears to be that as private businesses, their owners are free to do with them as they wish, be that sell them on, or liquidate them, or divorce them from the control of their long-held, cherished physical assets.

We would concur that the current status of football clubs is a problem, and suggest that a Rule change allowing them to be Industrial and Provident Societies would be of great benefit. Such a structure allows supporters to own the club on a one-member, one-vote basis. The club or its assets could not be sold without the express approval of the supporters. It would further provide accountability to supporters by enabling them by means of democracy to elect the Club Board, thereby entrusting management to those whose motives are sound and abilities are plain. If such people fail to honour their mandate, or their performance falls below acceptable levels, then the electorate can remove them as they see fit.

Along these lines would be a more through going reform of club-companies, which taking inspiration from the French system, would see a separate legal form for Football Clubs. This could incentivise clubs by offering tax benefits along the lines of a charity; the price would be a commitment to ethical standards and a community focus. The current status of sporting club charity is a welcome development, but cannot apply to professional sport due to the concentration on elite performance, and whilst we understand that a Strategy Unit report recommended an expansion of the Charitable Objects currently allowed, this process will take some time to see its way into legislation. We would also fear that whilst charitable status would provide benefits, it could create a burden, which would see clubs shoe-horned from one unwieldy corporate structure into another. It would be better instead in our view to look at what we want football clubs to be, and what they should not be, and then think about how we could construct a corporate vehicle made to measure.

Along these lines, but falling short of this would be a legal mechanism to place the playing surface of football grounds in some form of Trust for future generations. The surrounding area would be available to be developed to the club's advantage, but the playing area would forever be unable to be sold or encroached upon by development, unless the club's supporters could see an advantage to the club in doing so, conditional upon the same provision being made for a new stadium within the area, with similar legal protection for the playing surface.

Again, another intermediate measure would be to provide for some form of 'fit-and-proper' test to be instituted to make the purchase of a football club conditional on the authorities approving that such a person or persons be of good character and means. Furthermore, it would enable the authorities to take the action necessary against individuals who fell below acceptable standards, and prevent their return to the game.

### Conclusion

The model of ownership and management of clubs we are advocating is a stakeholder model. It fits football well, because stakeholders have greater prominence and power than in other spheres, however limited that power is. The sight of fans massed outside the ground chanting 'sack the board' is an all-too-familiar one, and one which we would argue is not in football's interests, as it is the cry of people who have been alienated from decision-making influence in something they feel a sense of 'moral ownership' of.

It would be better to bring them into the structure as partners. After all, every club's greatest source of revenue comes from supporters, and that is something that will increase as a proportion of total income in the wake of ITV Digital. The talents amongst the supporters could be used constructively to assist the club, and the supporters could act as local advocates in the community. The supporters could also be involved in formulating policy - they aren't stupid, and understand the financial pressure the club operates within. They could elect directors to the Board, who could improve consultation with supporters and see some much-needed transparency at the club. Finally, as someone with an interest in the long-term health of the club and not short-term financial interest, they could be an advocate for prudent management as opposed to the gambles that many clubs have made in paying salaries they could not afford on the possibility that they might be promoted.

Furthermore, the model of community ownership, where a partnership between local business and the supporters runs the club for the wider benefit, is a means whereby micro-level regulation can be carried out. Decisions are tested by proper argument and debate, and assumptions in financial models tested fully. The conflicting interests between shareholders and stakeholders can be resolved by uniting the two under the same roof, and as someone has said, since football clubs don't make profits, a virtue could be made of necessity by turning the clubs slowly into community-owned not-for-profit institutions, as is happening at several clubs now. Such a move may not be a panacea for all of football's problems by any stretch, but we are convinced that the talents of supporters, allied to a conviction about the proper place of the club within the community, have more to offer for football than a route that sees clubs operating in isolation, seeking shareholder value above all else.

### Summary of Recommendations/ Suggestions:

- Better redistribution between divisions
- Gate-sharing between clubs
- Fit and proper person test for Club owners and directors
- More democracy to ensure accountability and long-term realism
- Place pitches in Trust for future generations to protect against asset-strippers
- Clubs allowed to be Industrial and Provident Societies
- New form of legal vehicle for football clubs to provide benefits and ensure adherence to community objectives