

STRICTLY CONFIDENTIAL

INVESTIGATION INTO FOOTBALL GOVERNANCE

**Submission to the House of Commons Select Committee on Culture, Media and Sport by
Chris Witcher on behalf of the Board of Reading Football Supporters' Society Limited T/A
'STAR' (Supporters' Trust at Reading)**

1. INTRODUCTION

- 1) We in STAR are delighted that the Government have undertaken to encourage the reform of football governance rules to support the co-operative ownership of football clubs by supporters, enhanced supporter involvement in decision-making processes and to review the adequacy of current regulatory processes, including fit and proper person tests.
- 2) Our submission relates solely to professional football, viz. football clubs who have full-time professional players on their payroll.
- 3) Addressing each of the areas to be reviewed by the Committee, our views may be summarised as follows.
 - In some respects, football clubs should be treated differently from other commercial organisations.
 - The governance of football in England and Wales is wholly inadequate and the governing bodies which set the rules and apply them are, to varying degrees, ineffectual.
 - There is far too much debt in the professional game and there often appears to be scant regard for its repayment or the interests of creditors.
 - The Supporters' Trust share-holding model has much to commend it and Supporters Direct and others will doubtless address this in detail.
 - Government intervention is justified, but it should be restricted to imposing a powerful, independent regulatory regime with two key objectives:
 - (i) To establish a no-nonsense 'fit and proper persons' requirement for all club owners, majority shareholders, board members and senior 'decision-makers';
 - (ii) To ensure that every club's strategic objectives and financial management are prudentially sound, in order to protect the interests of its employees and all interested third parties, including creditors and other football clubs, particularly those in the same league, as well as supporters.
 - Professional football has an almost unique role in terms of its relationship with its supporters and local communities, whilst at the same time generating huge revenues and capital injections on an international scale. A unique governance model is required for a unique industry. Self-regulation will never impose the two key objectives set out above. Other aspects of regulation, such as the Laws and Rules of the game and the organisation of the competitions, are best left to the football authorities themselves.

2. DETAIL

a) Treatment of Football Clubs

- 1) Whilst many commercial organisations benefit from customer and brand loyalty, very few enjoy the passionate, generally lifelong support and prominent role in the community of the local football club. For the larger clubs, this support obviously extends nationally and worldwide. The vast majority of professional clubs are over 100 years old and in that time have created an immense amount of social capital and added considerably to local identity and pride. For these reasons, professional football clubs merit rather different treatment from more conventional businesses. The same, of course, could be argued for a few other types of institution.
- 2) Such widespread support generates huge revenues which inevitably attracts major investors or speculators who may not share the same long-term interests of supporters or the local community.
- 3) Outside, fresh investment is not necessarily a bad thing and, in the case of Reading Football Club, was a 'lifesaver' twenty years ago and has provided the Club with facilities that the town and supporters could only have dreamed of.
- 4) However, the only area of UK commerce that appears to have a regulatory regime to provide adequate governance safeguards as are urgently required for professional football is the finance sector.

b) Football Governance Rules and Bodies

- 1) We have no confidence in the ability of football to self-regulate, still less to impose the type of regime necessary to meet the two key objectives set out above to ensure the long-term future of the professional game.
- 2) It appears that, whilst the Football League may have had some limited success, the Premier League, as evidenced by such high-profile cases as Liverpool, Manchester United and Portsmouth, is manifestly incapable of regulating itself where it really matters.
- 3) Only a truly independent regulator for all professional football clubs will suffice.

c) Debt

- 1) Just as outside investment is not necessarily a bad thing, neither is debt, provided it is controlled, serviceable and can be repaid in accordance with its borrowing terms.
- 2) However, much of football seems to borrow 'on a wing and a prayer', relying on success on the pitch and/or television revenues to enable it to get by. More and more clubs' balance sheets are becoming precarious and it is inevitable that clubs will continue to go into administration in a wholly unsatisfactory and competitively unfair way of 'wiping the slate clean'.
- 3) Football, from the very largest clubs downwards, has demonstrated that, by and large, it has neither the ability nor the will to get debt under control. It has in general gained the reputation of being economically and socially irresponsible, leaving the tax-payer and businesses to pick up the tab whilst protecting its own via the football creditors' rule.
- 4) A strong, independent financial regulator is desperately needed.

d) The Supporters' Trust Share-Holding Model

- 1) The Supporters' Trust ownership model has much to commend it and we believe is the best for promoting and securing the long-term interests of the supporters and local community. We are sure that Supporters Direct will be submitting a strong case for this approach.
- 2) Nevertheless, we also believe that football would have to move too far from its current position to achieve this universally, although we recommend that consideration be given to requiring each club to transfer a defined minimum minority and inalienable shareholding to its Supporters' Trust (where such a properly regulated and widely endorsed body exists) to ensure that supporters and the local community always have a voice in the running of the club. (N.B. This would not extend to picking the team!)
- 3) There is a place for a range of properly controlled ownership models. The key is to have a strong, independent regulatory regime to keep every club in reasonable check.

e) Government Intervention

- 1) Government intervention is not only justified, it is essential for the long-term wellbeing of the professional game. A starting point for regulation is already available in the form of the Financial Services Authority (FSA).
- 2) The general public would probably be surprised to learn of the full range of powers (until now) held by the FSA in its regulation of banks and building societies and the regulated activities of other types of financial institution. (The fact that things still go wrong is more down to the implementation of the regulation, not the powers available!)
- 3) For example, every individual wanting to become a Board member, every executive or manager who reports direct to the Board and every individual carrying out a “controlled function” has to meet the criteria for authorisation and comply with the standards required before being approved by the FSA to make the appointment effective. The FSA web-site states that the most important considerations are the individual’s:
 - Honesty, integrity and reputation;
 - Competence and capability;
 - Financial soundness.
- 4) Secondly, financial returns have to be submitted regularly to the FSA, annually, quarterly, monthly, weekly and, in some instances, particularly for the larger institutions, daily. Financial projections and regular updates have to be submitted and meetings are held with the regulator to review progress, discuss future strategy and consider major areas of potential risk and how they are to be mitigated.
- 5) We see no reason why a similar regime, tailored appropriately, should not be imposed on professional football clubs. As with the FSA (in future, the Bank of England), the regulator would have both
 - (i) the authority backed by legislation to require such information as he deems necessary to carry out his role and satisfy himself that the club is being properly and prudently run; and
 - (ii) the power to impose limits or courses of action on a club to protect all creditors, not to mention the long-term viability of the club and the interests of its supporters.
- 6) Indeed, with the transfer of much of its regulatory powers to the Bank of England, the FSA could be ideally placed to assume that role in professional football. As with the finance sector, the regulator would be financed by levying a scale of charges on clubs based on their size; so there would be no cost to the Exchequer.

e) Government Intervention (continued)

7) Some of the advantages of such regulation would be as follows:-

- (i) The proposed regime would cater for all types of club ownership; for example, if a club were owned by a very rich oligarch, it would still be necessary, through the strategic review, risk assessment and financial projections several years forward, to show that the club had the resources to survive and pay its debts, even if its owner were no longer providing financial support. This might perhaps involve his lodging a legally-binding guarantee or even a financial bond to off-set that potential risk. The regulator would have the power to impose such requirements.

Equally, a Supporters' Trust-owned club would have to demonstrate ongoing access to financial resources adequate to meet its future plans.

- (ii) Potential creditors and clubs in the same league division would have the assurance that the regulator was independently monitoring the financial situation and acting, as far as possible, to protect third-party interests.
- (iii) Supporters would have the assurance that clubs could not be bought and sold simply to make money for the owner, usually leaving the club with huge debt and an uncertain future.
- (iv) It is a logical extension of these requirements that club ownership would have to be completely transparent.
- (v) Everybody would benefit from an improved atmosphere of trust that an effective 'fit and proper persons' regime would bring.

3. CONCLUSIONS

- 1) A professional football club is an essential part of the ongoing life of its supporters and the local community. At the same time and with huge variations, professional football is big business and attracts national and worldwide interest. These two aspects are not necessarily compatible.
- 2) The football authorities have generally shown themselves to be unable to reconcile these two aspects and seem to have insufficient regard for, or control over, the ownership and control of clubs, especially with regard to the probity and competence of the individuals concerned.
- 3) Government intervention to legislate for a powerful, independent regulator who has oversight of who owns and controls football clubs and who can ensure that their finances are managed prudently to protect the long-term interests of all interested parties is urgently needed.

Chris Witcher
Reading Football Supporters' Society Limited
T/A 'STAR' (Supporters' Trust at Reading)

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