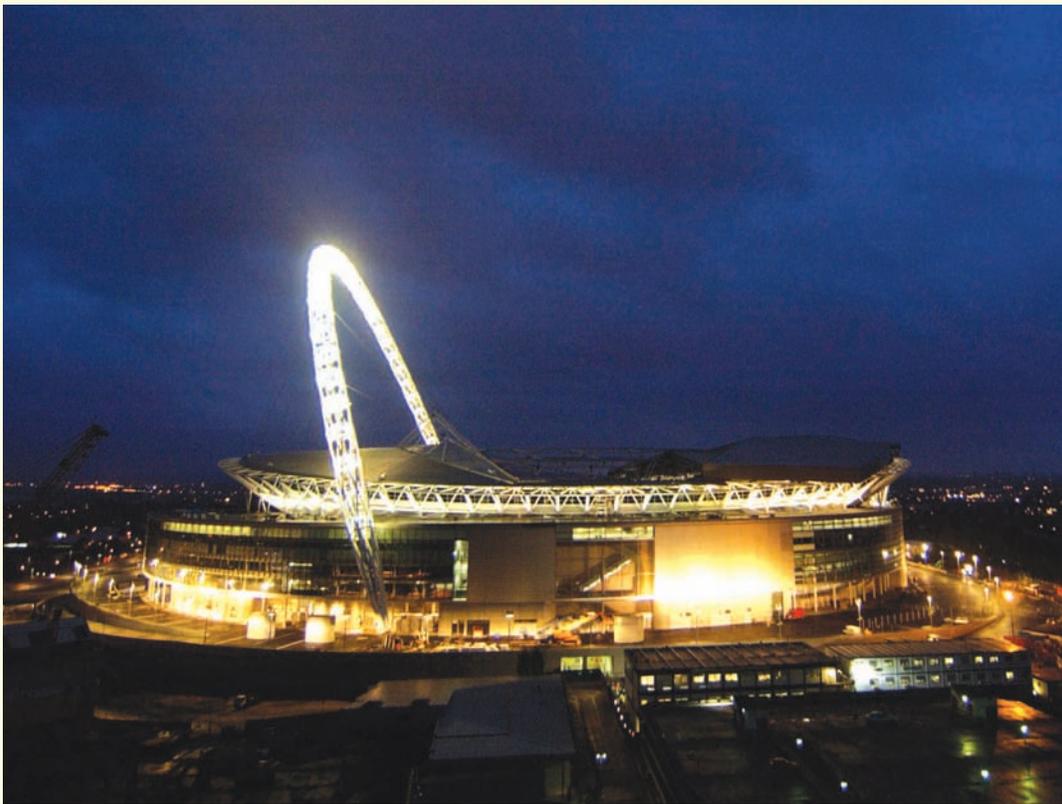


The State of the Game

The Corporate Governance of Football Clubs 2006



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The State of the Game

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Preface



by José Luis Arnaut, Chair, Independent European Sport Review

The Independent European Sport Review resulted from the need EU Governments felt to act in order to protect and safeguard the European Sports Model. In fact, although the EU Heads of State have already recognised the specificity of sport, in the 2000 NICE declaration, a long way is yet to be made in order to effectively implement it.

The definitive edition of the IESR has now been published and it reflects the serious and ambitious endeavour of all those that shared their expertise and hopes to make an holistic approach to the main challenges facing sport in Europe, and football in particular, suggesting, at the same time, tangible instruments to deal with them. The detailed work undertaken, that counted also with the precious knowledge and experience of Professor Christine Oughton, has – unfortunately – demonstrated that sport in general and football, in particular, are not in good health.

Sport has decisively contributed to build and define the European identity; it has earned such an important role in our societies because of the important values that it expresses: fraternity, courage, discipline and loyalty. Moreover sport has turned into a significant economic activity estimated to account for more than 3% of world total economic activity and 3.65% of the GDP of the European Union.

The fact that the top end of the sports' pyramid (which characterises the European Sports Model), developed into a "business", especially in football, has increased the tendency towards legal disputes with the result that sport now exists in an environment of legal uncertainty. In particular, it cannot be denied that EU law has had a major impact on the structure and organisation of sport. Following the Bosman case in 1995, there have been more and more disputes involving issues of EU law. In order to obtain this legal certainty and a clear definition of the borderline between governmental and sporting responsibilities the sport governing bodies must also understand and accept the requests of political institutions towards sport's governing bodies regarding the need for proper governance. Good governance, transparency in the ownership and management of clubs, cost control issues, the role of players' agents and other relevant questions (such as money laundering, trafficking of young players and both racism and xenophobia) must be urgently addressed.

Only a joint effort and strong commitment of both sports governing bodies and clubs on the one side and EU and national political authorities on the other side can ensure the preservation of the European sport model and the proper development of sport in the future. It is therefore my strong belief that the time has come to act.

**José Luis Arnaut
December 2006**

Foreword



by Rt Hon Richard Caborn, Minister for Sport, DCMS

Before putting pen to paper for this foreword, I looked back with interest at Brian Barwick's equivalent piece from last year. His focus, quite rightly, was on the increasing importance of good governance and the FA's on-going work to improve both its own practices and those of clubs.

We have seen a great deal of progress since then, with the FA Council endorsing the recommendations of the Burns Report. The positive changes taken forward from the Report, along with other regulatory changes that The FA has made in the last year, will make a dramatic difference to the way football is run – from the top of the game to the bottom.

The debate around governance has been moved forward significantly by the publication of the Independent European Sport Review. The Review, instigated under the UK Presidency, takes many of the issues dealt with by Lord Burns to a European level. It marks a welcome start to a long overdue dialogue about how the special nature of sport (as enshrined in the 2000 Nice Declaration) is recognised and protected at a national and European level.

At the heart of the Review is a growing concern that the increasing commercialisation of football poses a threat to its long-term stability and success, and that action is needed to reconcile the business side of football with its sporting nature. The challenge it presents to governments is to ensure that the special nature of sport is recognised clearly in policy-making and regulatory frameworks in order to ensure the Football Authorities have the discretion to act in the best interests of the game as a whole.

It is clearly for UEFA and the national associations to take the lead and to continue to look at their own governance arrangements to ensure they are fit for purpose. As the Review recognises, it is not the role of governments or EU institutions to run sport, and this autonomy is not negotiable. However, governments can, and should, help to ensure the environment within which the governing bodies operate enables them to govern effectively. Without action, there is a very real danger that the Courts will become the key player in determining the future of football and sport.

The Review raises some complex and challenging issues. There is a lot of work to be done if we are to realise its vision, but progress is already being made. I was delighted to see UEFA's recent announcement about plans to roll out the UK's Supporters Direct initiative across Europe. I also look forward to seeing further detailed proposals, particularly around the revised Club Licensing System which I believe will form the central tenet of football's revised system of governance.

It has been an important year for the governance of football in this country and across Europe, but the next 12 months will hopefully see greater strides taken to secure the future of the game.

I am delighted to welcome the sixth annual State of the Game report.

**Richard Caborn
December 2006**

Glossary of Terms

Annual General Meeting (AGM): a company gathering, usually held after the end of each fiscal year, at which shareholders and directors can discuss the previous year's performance and the outlook for the future, directors are elected and other shareholder concerns are addressed.

Alternative Investment Market (AIM): a market regulated by the London Stock Exchange, but with rules not as strict (or expensive) as those on the main stock exchange. In particular, there is no minimum requirement for the proportion of shares that must be traded publicly.

Annual Report: an audited document issued annually by all publicly listed companies to their shareholders. Contains information on financial results and overall performance of the previous fiscal year and comments on future outlook.

Articles of Association: supplementary information to the Memorandum setting out in greater detail the internal administrative rules by which the company is to conduct its business.

Audit Committee: a committee recommended in the Combined Code for establishing formal and transparent procedures regarding financial arrangements.

Auditor: an accountant who audits the company accounts.

Authorised Share Capital: The amount of the company's share capital.

Board of Directors: the collective group of individuals elected by the shareholders (and in some cases appointed by the Board) to oversee the management of the company.

Burns Review: An independent review of the internal organisational structure of the Football Association, undertaken by Lord Burns. The review involved extensive input from stakeholder bodies in the football industry, with the final report published in August 2005 making recommendations concerning the structure of the FA.

Customer Charter: requirement set by both Football Association Premier League and Football League that each club will have a written charter in which they set out club policy with regard to ticketing, merchandise and relations with supporters, season ticket holders, shareholders, sponsors, local authority, etc. A copy of the charter should be publicised by the club.

Combined Code: a set of principles of good governance and good corporate practice incorporated into the listing rules of the London Stock Exchange. The Combined Code was introduced in 1998 and since then a number of reviews have provided additional guidance on implementing the code (Turnbull 1999, Smith 2003, Higgs, 2003). In 2003, the guidance and suggestions of these reviews were incorporated into a revised Combined Code 2003, which came into effect for reporting years beginning on or after 1st November 2003.

Companies House: the registry for incorporated companies.

Company Law: the system of legal structures to regulate companies and their activities.

Company Law Review: an independent review of company law with the aim of developing a simple, modern, efficient and cost effective framework for carrying out any business activity in Britain.

Company Limited by Guarantee: a company structure offering limited liability for its members and defined responsibilities for its directors.

Company Minute Book: a book containing all the minutes of proceedings of any general meeting of the company, kept at the company's registered office and open for inspection by any member without charge.

Co-operative: governing structure owned and run jointly by its members. Also called a Mutual.

Corporate Governance: The way in which companies are run, including the relationship between the shareholders, directors and management of a company.

Director: A person elected by shareholders to serve on the company's board of directors.

Disclosure: The public dissemination of material or market-influencing information.

Enterprise Governance: Enterprise Governance combines *conformance* with *performance*, where conformance is related to corporate governance and performance is concerned with business governance, resource utilisation, strategy and value creation (IFA, 2004).

Extraordinary General Meeting (EGM): Shareholders' meeting called by the directors or shareholders representing not less than one tenth of the paid up capital carrying voting rights.

Executive Director: A member of a company's board of directors who is also an employee of the company.

FA: Football Association.

FA: Governance: A Guide for Football Clubs: A guide that sets out principles of good governance for football clubs. The Guide was published in December 2005.

FAPL: Football Association Premier League

FC: Football Conference

Football Creditor Ruling: A ruling which defines a special category of preferential creditors ("the football creditors") who must be paid in full in any case of football club insolvency, if the club is to maintain its membership of its league.

FRC: Financial Reporting Council

FSA: Financial Services Authority

Higgs Report: a review of the role and effectiveness of non-executive directors, written in 2003.

Independent European Sport Review: the first independent European inquiry into the governance, regulatory and legal issues facing sport. The overarching aim of the review is to implement the Nice Declaration on Sport to provide greater legal certainty over the respective realms of sporting rules and the law. The review was chaired by Mr José Luis Arnaut and published in May and October 2006.

Independent non-executive Director: a non-executive director who is independent from the company and other directors. For a non-executive Director to be independent they must meet certain criteria, including that they should not be affiliated with the company in any other capacity, and they should not have had an association with the company for more than 9 years.

Industrial and Provident Society: a form of governance structure built on not-for-profit, democratic and community benefit principles which is registered with the Financial Services Authority (FSA). Also called a mutual.

Insolvency: a state in which a company cannot pay its debts as they fall due.

Issued Share Capital: the nominal value of the shares issued to shareholders.

London Stock Exchange: a market where the shares of listed public limited companies (PLCs) are traded.

Memorandum: states the name and status of the company, and its statement of purpose or 'objects'.

Modernising Company Law: a government paper issued in response to the Company Law Review proposals in its Final report, which maps out how the Company Law framework is to be restructured and corporate governance improved.

Mutual: a governance structure owned and run jointly by its members. Also called a Co-operative.

Nomination Committee: a committee recommended in the Combined Code as part of a formal and transparent procedure for the appointment of new directors to the Board.

Non-executive Director: a person elected by shareholders to a company's board of directors who is not employed by the company

OECD Principles: An established set of discretionary good corporate governance principles.

Glossary of Terms

OFEX: A regulated share market established in 1995 to provide a share-trading platform for unlisted and unquoted securities.

PFA: Professional Footballers Association.

PIRC: Pensions Investment Research Consultants.

PLC: a public limited company.

Proxy: a person who is authorised by a shareholder to vote at general meetings of shareholders in their absence.

Remuneration Committee: a committee recommended in the Combined Code to ensure directors' pay is structured so as to link rewards to corporate and individual performance, while avoiding paying more than necessary.

Resolution: formal motion by a Board, or the shareholders, authorising a particular act, transaction or appointment.

Salary Cost Management Protocol: A governance mechanism introduced by the Football League designed to restrict club spending on player wages to 60 per cent of turnover, and spending on all staff wages to 75 per cent of turnover. The ruling is currently in operation at clubs in Football Leagues One and Two.

Senior Independent non-executive Director: The Combined Code requires that there should be a strong and independent non-executive element on the Board, with a recognised senior independent non-executive director other than the chairman to whom concerns can be conveyed. The chairman, chief executive and senior independent director should be identified in the annual report.

Share register: a list of names of all shareholders.

Shareholder: a person or entity that owns shares in a company or mutual fund.

Smith Report: a report on the role of Audit Committees and the Combined Code, written in 2003.

Stakeholder: in the context of football, a person or entity with an interest in the game but without necessarily having formal representation within its decision making structures.

Supporters Direct: a Government funded initiative promoting supporters' trusts as a vehicle for supporters to play a greater role in the running of the clubs they support.

Supporter-shareholder trust: a supporters' trust that holds shares on behalf of its members.

Supporting statement: a statement of up to 1000 words accompanying a resolution requisitioned by shareholders under the Companies Act 1985.

Turnbull Report: A report on internal control for directors serving on boards of listed companies, with special emphasis on assessment of risk, evaluation and control.

Unincorporated Trust: a form of governance structure that is constructed by a trust deed and not incorporated i.e. does not fall under the regulatory requirements of Companies House or the FSA.

Executive Summary

Chapter 1. Introduction

When the first *State of the Game* Report was published in 2001, many may have wondered why time and effort was being put into a topic as esoteric as the relationship between corporate governance on the one hand, and football on the other. It might have appeared at best tangential to either the game of football itself, or to what was already an obviously commercially successful sector – at least for the top clubs and in terms of the size of the TV deals. Five years on there are widespread concerns being expressed about the changes in ownership within the English Premier League, about the danger that commercialisation may undermine the social and sporting roles of football, and about the inadequate state of regulation and governance within the football industry in England, Europe and globally.

Good governance is at last recognised to be at the heart of what is needed for football to be run in the interests of its supporters, local communities and other stakeholders. This annual survey of governance standards in football is thus more necessary than ever.

The major event in terms of football governance over this past year has been the Independent European Sport Review, which was published in May and October 2006. It is important that these recommendations, which are discussed in Chapter 2, are implemented.

The Independent European Sport Review (IESR) commissioned research on the competitive balance of football within Europe which revealed that the national leagues are becoming unbalanced, with the top teams becoming more likely to qualify for the Champions League places from their leagues each year.

There are two pressing needs. Firstly, the regulation and governance of the game as a whole needs to be strengthened. In order for this to happen there needs to be greater legal certainty over the respective domains of sporting rules set by governing bodies for the good of sport, and the law. Without greater clarity, the ability of sports governing bodies to govern will continue to be undermined by case law. In exchange for greater legal certainty, sports governing bodies must improve their own governance structures.

Secondly, there is a need to improve the governance standards at the level of individual football clubs across Europe.

In December 2005 the FA published its own guide to governance for clubs. This move is to be welcomed though we believe that it must be reinforced by requiring clubs to publish an annual statement explaining each and every case of non-compliance. The IESR has also recommended that a code of governance be introduced for European clubs. This would help promote best practice and protect clubs from poor ownership and governance.

In October 2005 the FA began the process of implementing the proposals contained in the Burns Review – these are being phased in with a gradual reduction in the number of Premier League (PL), Football League (FL) and National Game representatives on the main board, the introduction of an independent Chair, voting rights for the Chief Executive and – at a later stage, the appointment of independent non-executive directors. It is important that this process continues. It is also important that the weaknesses in the Burns review are not overlooked. The proposals implicitly involve transfer of strategic power from the Council to the main Board and thus serve to undermine the authority of the FA Council, instead of transforming this into a genuinely representative body. What is needed is a slimmed down Council with a membership that represents the key stakeholders, with authority over the Executive.

Chapter 2. Regulation and Governance by the Football Authorities

The past year has seen a number of major developments in the governance and regulation of football and sport. Prime amongst these is the publication of the *Independent European Sport Review* (IESR) in May and October 2006. The review marks a turning point in the governance and regulation of sport in Europe, not least because it will feed into the forthcoming European White Paper on Sport. The Review represents the first coordinated international initiative that aims to deal with the challenges created by the rapid commercialisation and globalisation of sport, in general, and football, in particular.

In the UK, the publication of the Football Association's *Governance: A Guide for Football Clubs* represents a significant milestone: for the first time the FA has set out general principles of governance for clubs.

The commonality of purpose shared by the reports published over the past year suggests that football's governing bodies are beginning to grasp the regulatory nettle. Much progress has been made: however, the impact of all this work will depend on the extent to which the recommendations are implemented and enforced. The need to act is urgent.

Executive Summary

The review was published in May 2006 and a final version presented in October 2006. As stated above, the overarching aim of the review was to 'implement the Nice Declaration on sport' in order to provide a clear legal framework for the governance and regulation of sport in general, and football in particular. The starting point of the review was therefore to identify what is meant by the 'specificity' of sport and to describe and explain the European Sports Model.

To tackle these problems, three inter-related sets of recommendations are set out in the review.

- I. The first set is aimed at EU institutions and member states and is designed primarily to provide greater clarity over the respective domain of sporting rules and the law.
- II. The second set is aimed at sports governing bodies and clubs and is designed to improve governance in the sector.
- III. The third set is aimed jointly at EU institutions and sports governing bodies and aims to provide greater cooperation between government and sport to tackle serious problems, such as, match-fixing, fraud, money laundering and other criminal activity.

European sport is at a cross roads. It has a golden opportunity to put its house in order and to preserve and strengthen the European Sports Model and the pyramid structure that characterizes football and other European sports. The challenges to the model from large clubs, owners, agents and organized crime, as well as from unfettered use of competition laws designed to regulate business and markets without regard for the specificity of sport have made it difficult for sports governing bodies to govern. The IESR offers a solution. It is important that the solution is now implemented.

In December 2005 the FA published a Guide to Governance for Football Clubs developed in partnership with Grant Thornton. The guide sets out four broad principles of good governance in relation to:

- A. The Executive Body or Board
- B. Risk and Control Management
- C. Regulatory Compliance
- D. Disclosure and Reporting to Shareholders

Within these general principles, the guide specifies 36 criteria and shows how each of these should be implemented bearing in mind differences in the size and type of clubs.

The FA Guide encourages clubs,

“to report publicly on the extent to which they have adopted these principles of good governance in order to be able to demonstrate accountability and transparency to stakeholders. For example, a club may wish to include a section in its annual report or on its website to set out its governance policy.” (The FA, 2005, p. 5)

In our view this should be made a requirement and the FA should monitor compliance with the guide and publish its findings in an annual report.

The publication of the Guide is a positive step forward. However, there a number of areas where the Guide could be modified and strengthened to reflect issues pertinent to football.

In October 2006 recommendations based on the Burns Review were put before the FA Council. All of the proposals were passed. The Burns review proposed reducing the number of representatives from the Professional Game and the National Game from 6 each, to 3 each. It also proposed introducing 2 or 3 independent non-executive directors onto the main board. Lord Burns proposed that these changes should be staged with 1 representative from the Professional Game and 1 from the National stepping down at each stage of reform.

The proposals passed by Council in October represent the first stage of the reform process with the number of representatives from the Professional Game and National Game being reduced from 6 each to 5 each. They also included the introduction of an independent Chairman. It is important that this process of reform is continued.

We commented in last year's report on some of the weaknesses of the proposals in the Burns review and our key concerns remain. In particular, the main Board is too large to be an effective executive body and the proposals in the Burns review to reduce its size and increase its independence did not go far enough. In our view the number of representatives needs to be reduced beyond the recommendations of the Burns Review to no more than 1 each from the Premier League and the Football league and 1 or 2 from the National Game. If there are to be 2 from the National Game, they should be drawn from different parts. We also advocate that a representative from a democratic supporter organisation, such as the FSF or Supporters Direct be represented on the Board. At the same time, the Board should be strengthened by the introduction of two independent non-executive directors in addition to an independent chair. The recent reforms are a welcome step in the right direction, but the reform process must go further if it is to resolve the problems of gridlock on the Board.

The FA Council meeting in October 2006 also agreed to expand the membership of the Council to include representatives from: disability and black and ethnic minority groups; supporters' bodies; the Professional Footballers' Association; the League Managers' Association, referees, as well as to increase the representation from the professional and semi professional game. Whilst we welcome the wider representation on the Council, in our view more radical reform is needed to make the Council an effective strategic body.

Football Agents

Football agents have again been in the media spotlight. The past year has seen a number of regulatory changes and reports, including the UEFA Working Party Recommendations, changes in the FA regulations and ongoing review by FIFA.

A central issue regarding the role of agents is the practice whereby agents act for both a club and a player in a single transfer. At a meeting of the FA Board in November 2006 it was agreed to prohibit such dual representation. In our view this proposal, which still needs to be agreed by Council, should go further and simply prohibit agents from acting for clubs at all, so that players' agents become precisely that – agents to represent players' interests.

Ultimately, the effectiveness of the regulations depends on how they are enforced and on the penalties for breaches. Hence, initiatives in this area must be viewed together with the introduction of the FA's regulation and compliance unit and monitoring and enforcement by UEFA and FIFA.

The past year has seen major developments in the regulation and governance of football. The IESR represents a golden opportunity to address a number of problems that have beset football and sport more generally. Its main objective is to implement the Nice Declaration so that the specificity of sport is given legal recognition. At present rampant commercialisation has undermined the ability of governing bodies to govern as sporting rules have been challenged by powerful clubs, agents and owners in the courts, and by the competition authorities. The creation of greater legal certainty will help governing bodies to govern by safeguarding sporting rules designed to promote sport. In exchange, governing bodies must improve and constantly monitor their own governance standards to ensure that they operate in an open and transparent manner.

The recommendations of the ISER will feed into the European White Paper on Sport. Ultimately, the impact of the review will depend on the extent to which it is implemented. However, the review itself has made a major contribution in that it has not shied away from clearly identifying the problems. More importantly, it shows what can be done and provides positive solutions.

Chapter 3. FA Premier and Football League Clubs

Despite the continued growth in revenue, especially from the sale of Premier League broadcasting rights, many football clubs in the Premiership and the Football League continue to make losses.

The past year offers a glimmer of hope in that there are some signs of an improvement. In 2005, the latest year for which figures are available five Premiership clubs made pre-tax losses (Deloitte, 2006, Appendix 1). This is a significant improvement on the previous year when ten clubs recorded losses. The amount of combined losses has also fallen from £118m in 2004 to £77m in 2005; however, the scale of the combined losses is still a cause for concern.

Executive Summary

In the Championship, 13 clubs made pre-tax losses compared with 12 in 2004.

In December 2005 the FA published its Guide to Governance for football clubs. We welcome this initiative and report on its impact in Chapter 3.

Over the past year two more clubs have de-listed from London stock markets. Aston Villa is no longer quoted on the London Stock Exchange (LSE) and Charlton Athletic de-listed from the Alternative Investment Market (AIM).

The threat of hostile takeover bids and concerns about lack of transparency of ownership and the risk of clubs falling into the wrong hands raise questions about the suitability of the stock market model, which offers little protection from takeover.

In 2005 the share of revenue accounted for by the five biggest earners amounted to 47 per cent, nearly half the revenue of the league: in 1993 this figure stood at just 27 per cent. Growing revenue inequality has implications for inequality in wage expenditure and competitive balance.

Competitive balance declined again in the 2005-06 season and our index now stands at its highest level (indicating that competitive balance has hit an all-time low). The main factor driving the decline in competitive balance is growing inequality in wage expenditure. Most clubs spent less than £40m on wages. However, five clubs have broken away from the rest of the league, each spending somewhere between £50m to £110m on wages.

A widening income gap has also opened up between the Premier League and the Football League. In 2004 the income gap stood at £940 million; by 2005 the gap had increased to £1.1 billion (Deloitte, 2006). Clubs promoted from the Football League are finding it harder to compete on equal terms in the Premiership.

Over the past decade or so, the leading clubs have successfully campaigned for changes to the distribution rules that have enabled them to gain a larger share of a bigger pot. The problem of declining competitive balance could be addressed by a re-examination of the distribution rules and greater redistribution within and between leagues:

- 64 per cent of Premier League clubs and 60 per cent of Premier and Football League clubs are in favour of greater redistribution within their league.
- 81 per cent of Premiership and Football League clubs are in favour of greater redistribution across leagues and only 18 per cent are opposed. In contrast, 55 per cent of Premiership clubs are against redistribution across leagues, 36 per cent are in favour and a further 9 per cent 'Don't Know'.
- 50 per cent of Premiership clubs and 63 per cent of Premiership and Football League clubs were in favour of more redistribution from UEFA competitions to non-qualifying clubs.

These results show that there is considerable strength of support from clubs for greater redistribution within and across leagues. The only exception is Premiership Clubs' attitudes for greater redistribution to the Football League, but even in this case there is a sizeable minority in favour.

In December 2005 the FA published its Guide on Governance for clubs:

- 89 per cent of clubs were aware of the code and 85 per cent had found it useful. Nearly 20 per cent of clubs had already used the code to implement changes in governance.
- Only 47 per cent of clubs published a statement on governance in the Annual Report. We believe that this should be made a requirement by the FA.
- Only 11 per cent of clubs had an induction procedure or training for new directors and only 9 per cent of clubs had director appraisal procedures.

Overall, our results on risk management and business planning suggest that while there have been improvements in many areas of club activity, there is still a sizeable proportion of clubs that do not have the risk evaluation and business planning procedures in place to effectively manage the risks facing their clubs and to plan accordingly.

Chapter 4. The Football Conference

Governance of clubs in the Football Conference has been in the spotlight over the past 12 months:

- Crawley Town entered into administration in June with reported debts of £1.1 million
- Scarborough were demoted to the Conference North and deducted 10 points at the start of the 2006/07 season because of concerns over the financial management of the club after they entered into their third Company Voluntary Arrangement in six years, only three weeks after exiting administration
- Canvey Island voluntarily resigned from the Conference National and were accepted into the Ryman League after their benefactor withdrew financial support

The survey results this year for the clubs in the Conference were mixed. There are some key aspects where improvements have been made:

- 54 per cent of clubs in the Conference National have a process to identify and evaluate risks to the club, a significant rise on the 39 per cent of clubs in 2005
- 85 per cent of clubs in the Conference North and South have a one-year business plan, up from 79 per cent in 2005
- 41 per cent of clubs in the Conference North and South have a three-year business plan, up from 25 per cent last year

However, there are also some areas for concern:

- 62 per cent of clubs in the Conference National found it difficult to maintain solvency, a significant rise on the 17 per cent of clubs in 2005
- 54 per cent of clubs in the Conference North and South found it difficult to maintain solvency in 2006 compared to 48 per cent in 2005
- 56 per cent of clubs in the Conference North and South have a process to identify and evaluate risks to the club, down from 69 per cent in 2005

Chapter 5. Supporters' Trusts and Local Communities

The supporters' trust concept has been recognised as important for the future of the game. The Independent European Sport Review concluded that the lessons from the Supporters Direct model should be learned and applied as appropriate across Europe.

In addition, supporters' trusts have continued to be established and to grow in strength and influence, including at lower league clubs. The big weakness of the supporters' trust movement is the lack of influence with Premier League Clubs and with the Premier League itself. With the takeover of Premier League clubs by multimillionaires it is going to be hard for the supporters' trust movement to make a real impact until and unless the football authorities – the Premier League itself, or the FA – take action, such as requiring clubs to recognise and deal with their supporters' trust.

We surveyed 99 trusts, of which 48 responded. Total trust membership for those responding was 51,363. The average trust membership was 1070. Around half the trusts (46 per cent) meet at least once a month, and the overwhelming majority – 88 per cent – meet to discuss strategy. Most trusts do not have a business plan: only 29 per cent reported having a business plan, down from 34 per cent the previous year. Of those that do have a business plan, 55 per cent had a one-year plan, 18 per cent had a 3-year plan, and 27 per cent had a 5-year plan.

Almost a fifth of trusts (19 per cent) felt that the skills on their boards were less than adequate. Just four per cent had carried out a training needs analysis. This is something that the Co-operative College would be well qualified and able to provide to the trust movement if funds could be found to enable it to be provided on a collective basis.

Executive Summary

Chapter 6. Conclusion

There are four clear conclusions to be drawn from this year's analysis of governance and regulatory changes and our surveys of clubs and supporters' trusts.

Firstly, there is a need for greater coordination on governance and regulatory issues across Europe, together with an urgent need for legal recognition of the specificity of sport. The Independent European Sport Review has addressed these issues and made recommendations. The effectiveness of the review, which is to feed into the European White Paper on sport, will depend on its recommendations being implemented. It is now time to act.

Secondly, supporters' trusts have clearly made an important and positive contribution at many clubs across the leagues. But for the supporters' trust movement to make a significant contribution towards the improvement that the UK Government and other governments across Europe appear to want to achieve, then action is needed to empower trusts at the big Premier League clubs. Either the Premier League or the FA could introduce new regulations that would require a certain proportion of the club to be made available to the supporters' trust – where there was a supporters' trust in operation that passed whatever governance tests might be thought appropriate. This could be in return for funds invested by the trust, or it could be a 'golden share' arrangement where a nominal payment gave certain rights to consultation and decision-making. In the absence of any such self-regulation being introduced by the footballing authorities, action could be taken by Government to insist on such developments.

In order for the supporters' trust movement to be in a position to press for such drastic action in their favour, they need to demonstrate a capacity and capability for delivering at this level. This requires good governance standards among the trusts, including the use of skills audits and training needs analyses that are followed up by the necessary training. This is an obvious case for collective action, with training made available to all trusts.

Thirdly, it is clear that the tail that wags the dog – namely the Premier League clubs – have actually moved in the wrong direction over the past year, with takeovers resulting in many of these clubs now being owned by multimillionaires who have no connection with or allegiance to the club, its local community or its supporter base. This led UEFA to urge the UK Government in September 2006 to investigate those who are involved in the purchase of Premier League clubs:

'The trend is going against what we want to see – more clubs being owned by the community and the people who really care for them. This is a wake-up call and the UK Government have a responsibility to start investigating. After all, it's a part of the UK economy.' (William Gaillard, Director of Communications, UEFA, September 2006)

Finally, there remains the problem of agents in football – that the FA and FIFA have both struggled to deal with. We have analysed this problem in detail elsewhere (Holt, Michie and Oughton, 2006), and conclude that the key reform that is needed is for football clubs to be debarred from employing or paying agents for any work, and that instead agents should be seen as players agents, providing a service to players for which the players concerned would pay, should they decide to avail themselves of that service.

Other sports leagues across the globe have managed to regulate the activities of agents, so that they are limited to their proper role of representing the interests of the players who employ them. The football authorities have been talking for years of doing just this, and some action has been taken, but more is needed, including greater international coordination across Europe and beyond. The Football League in England has at least required Football Clubs to publish what they pay to agents. And this has seen these sums fall, perhaps as a result of this increased transparency.

But what is needed is for agents to be employed *solely* by players and never by clubs. Football clubs should do their own work – they should not be permitted to employ or pay agents, even to move players on. This single reform would cut through the mountains of proposals and recommendations proposed by FIFA, UEFA, the FA, the Football League, the Premier League and other bodies. It also has the support of 87 per cent of the clubs that responded to our survey.

There are, then, clearly major and challenging issues facing football. But equally there are detailed and realistic proposals for reform that could tackle the current problems and strengthen the sporting and social aspects of the game, while at the same time pursuing a business model of stakeholder involvement and good governance that is actually the best guarantee of long term success for the clubs and the leagues, here and internationally.

Chapter 1

Introduction

When the first *State of the Game* Report was published in 2001, many may have wondered why time and effort was being put into a topic as esoteric as the relationship between corporate governance on the one hand, and football on the other. It might have appeared at best tangential to either the game of football itself, or to what was already an obviously commercially successful sector – at least for the top clubs and in terms of the size of the TV deals. Five years on there are widespread concerns being expressed about the changes in ownership within the English Premier League, about the danger that commercialisation may undermine the social and sporting roles of football, and about the inadequate state of regulation and governance within the football industry in England, Europe and globally.

Good governance is at last recognised to be at the heart of what is needed for football to be run in the interests of its supporters, local communities and other stakeholders. This annual survey of governance standards in football is thus more necessary than ever.

Part of the drive for improved governance within football in this country came from the supporters' trust movement. For too long, football clubs had ignored the legitimate interests of their supporters. So the current concerns regarding the risks from commercialisation and profiteering are certainly not based on a nostalgic hope for a return to a lost world. Football clubs in general have never enjoyed particularly good governance. What the supporters' trust movement hoped to achieve was something new – a model where the supporters would have a genuine stake in the future of their clubs, with a concomitant say in key issues of strategy that might affect the long term sustainability of the club, such as policies for youth development of players and encouraging the next generation of supporters.

These annual surveys have thus also reported on the state of the supporters' trust movement, including how well the trusts themselves were managing to govern themselves. In some cases there have been dramatic success stories, where the trust has played – and still is playing – a key role in the survival and continued success of the football club. The results from this year's survey of supporters' trusts are reported in Chapter 5.

1. Governance reviews

The Burns review of the FA was commented upon in last year's *State of the Game* report, and in much more detail by the alternative review of the FA by Michie and Oughton (2005).

In October 2006 recommendations based on the Burns Review were put before the FA Council. All of the proposals were passed. The Burns review proposed reducing the number of representatives from the Professional Game and the National Game from 6 each, to 3 each. It also proposed introducing 2 or 3 independent non-executive directors onto the main board. Lord Burns proposed that these changes should be staged with 1 representative from the Professional Game and 1 from the National stepping down at each stage of reform.

The proposals passed by Council in October represent the first stage of the reform process with the number of representatives from the Professional Game and National Game being reduced from 6 each to 5 each. They also included the introduction of an independent Chairman. It is important that this process of reform is continued. We commented in last year's report on some of the weaknesses of the proposals in the Burns review and our key concerns remain. In particular, the main Board is too large to be an effective executive body and the proposals in the Burns review to reduce its size and increase its independence did not go far enough. In our view the number of representatives needs to be reduced beyond the recommendations of the Burns Review to no more than 1 each from the Premier League and the Football league and 1 or 2 from the National Game. If there are to be 2 from the National Game, they should be drawn from different parts. We also advocate that a representative from a democratic supporter organisation, such as the FSF or Supporters Direct be represented on the Board. At the same time, the Board should be strengthened by the introduction of two independent non-executive directors in addition to an independent chair.

The FA Council meeting in October 2006 also agreed to expand the membership of the Council to include representatives from: disability and black and ethnic minority groups; supporters' bodies; the Professional Footballers' Association; the League Managers' Association, referees, as well as to increase the representation from the professional and semi professional game. Whilst we welcome the wider representation on the Council, in our view more radical reform is needed to make the Council an effective strategic body.



What is needed is a slimmed down Council with a membership that represents the key stakeholders in the game, and a Council with authority over the Executive. The Executive itself needs to be drastically reformed, in stark contrast to the recommendations of the Burns review that would do little in this regard. It is thus vital that the need for the FA to be properly reformed remains in the sights of all those with an interest in the game, and that the Burns review is not allowed to distract attention from this more fundamental need, which sadly the Burns review does not properly address.

The major event in terms of football governance over this past year has been the Independent European Sport Review, which was published in May and October 2006. It made recommendations aimed at national governments, domestic football associations and UEFA. It is important that these recommendations are now implemented across these various national and institutional boundaries.

The European Review concluded that the future of sport in Europe – and most particularly of football – was most definitely not safe in the hands of those currently calling the shots and making the deals. On the contrary, the Review recognised that it is the supporters and the local community around each club that are the key long-term stakeholders, and that empowering them is the surest way of enhancing the sustainability of clubs and ensuring that they deliver on their historic sporting and social mission. In short, the European review came to very similar conclusions as to the underlying problems as well as to the potential solutions that led in this country to both the development of the supporters' trust movement and the launching of this annual *State of the Game* survey of governance standards in clubs and trusts.

The IESR represents a golden opportunity to address a number of problems that have beset football and sport more generally. Its main objective is to implement the Nice Declaration so that the specificity of sport is given legal recognition. At present, rampant commercialisation has undermined the ability of governing bodies to govern as sporting rules have been challenged by powerful clubs, agents and owners in the courts, and by the competition authorities. The creation of greater legal certainty will help governing bodies to govern by safeguarding sporting rules designed to promote sport. In exchange, governing bodies must improve and constantly monitor their own governance standards to ensure that they operate in an open and transparent manner.

The recommendations of the ISER will feed into the European White Paper on Sport. Ultimately, the impact of the review will depend on the extent to which it is implemented. However, the review itself has made a major contribution in that it has not shied away from clearly identifying the problems. More importantly, it shows what can be done and provides positive solutions.

In December 2005 the FA published a Guide to Governance for Football Clubs developed in partnership with Grant Thornton. The publication of the Guide is a positive step forward. However, there are a number of areas where the Guide could be modified and strengthened to reflect issues pertinent to football and we comment on these in Chapter 3.

2. Competitive Balance

In order to underpin their analysis, the Independent European Sport Review commissioned research on the competitive balance of football within Europe. This revealed that there is indeed an issue to be addressed (Michie, Oughton and Tacon 2006). Thus, it is sometimes argued that there has never been more money coming into the game, that the Premier League is booming, and that attendances and viewing figures are at an all time high. However, such an interpretation of the evidence would be dangerously complacent. It is important in league sports to maintain a degree of competitive balance, both within leagues and between them. If it is known before the season starts that Chelsea, Manchester United and Arsenal will take the 1st, 2nd and 3rd places in the Premier League and hence take the corresponding places in the Champions League for the subsequent season, there is a danger that matches become less interesting. Likewise if the gap between the Premier League and the Championship grows, so that those promoted are immediately the favourites to be relegated again the next season.

That football in England has become less competitive – and hence more predictable – has been established (see Michie and Oughton, 2004). The evidence from Europe suggests that there is the same danger there – many national leagues are becoming more unbalanced, with the top teams becoming more likely to qualify for the Champions League places from their leagues each year.

3. Structure of this Report

Thus there are two pressing needs. Firstly, the regulation and governance of the game as a whole needs to be strengthened. One aim of this must be to maintain competitive balance within and between leagues. These issues are considered in more detail in the following chapters.

Secondly, there is a need to improve the governance standards at the level of individual football clubs. It should be an urgent concern of the FA and the UK Government that there has been a marked deterioration in this regard within the Premier League, reflected in the fact that few Premier League clubs will even divulge information about how good – or bad – their governance practices are. These are considered further in Chapter 3, along with the governance of clubs within the Championship and Leagues 1 and 2, where at least there is a greater willingness than is evident in the Premiership to improve their current practices and learn from others – including their own supporters' trusts. Chapter 4 reports the state of play within the three divisions of the Conference. The governance standards within the supporters' trusts themselves is considered in Chapter 5, and Chapter 6 concludes.

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Regulation and Governance by the Football Authorities

The past year has seen a number of major developments in the governance and regulation of football and sport. Prime amongst these is the publication of the *Independent European Sport Review* (IESR) in May and October 2006. The review marks a turning point in the governance and regulation of sport in Europe, not least because it will feed into the forthcoming European White Paper on Sport. The Review represents the first coordinated international initiative that aims to deal with the challenges created by the rapid commercialisation and globalisation of sport, in general, and football, in particular.

The findings of the IESR have been made available to FIFA which established its own task force to deal with problems arising from the growing commercialisation and inequality in international football. The FIFA Task Force report, *For the Good of the Game* was put before the FIFA executive in March 2006 and continues to be developed against the background of the legal challenge by the G14 to FIFA's rule on the release of players for national duty.

In the UK, the publication of the Football Association's *Governance: A Guide for Football Clubs* represents a significant milestone: for the first time the FA has set out general principles of governance for clubs.

Throughout the year, agents have been in the media spotlight in England and elsewhere. New FA regulations to control agents were introduced in January 2006 and have recently been revised. The issues created by agents have been examined by FIFA, UEFA, The FA, the FA Premier League and The Sports Nexus. What these various reports show is that there needs to be concerted action by National Associations, UEFA and FIFA if the agent problem is to be resolved.

In short, it could be said that 2006 has been a bumper year for reports on the regulation and governance of football. A number of common themes have emerged and it is possible to identify at least three central concerns. The first is that football is in danger of becoming a victim of its own success. The rapid commercialisation of the game has attracted investors that are keen to extract revenue from parts of the football pyramid without realising that: (a) the commercial success of the game depends on preserving an integrated pyramid structure facilitated by redistribution from the apex, or elite game, to the grass roots; and (b) that football's global reach depends on the strength and breadth of the pyramid and success of UEFA national competitions, the FIFA world cup, and the release of club players for national team duty. Second, there is concern over the growing inequality in

football and the widening gap between a small number of rich clubs and the rest. Football leagues need teams to be equally balanced in order to generate exciting matches and real sporting competition. Growing financial inequality undermines competitive balance on the pitch.

A third central theme concerns the need to find solutions at an international level. Sport and football are not immune from the impact of globalisation. Effective regulation of the game now requires a higher degree of international coordination and cooperation in Europe and beyond. International takeovers of football clubs, particularly in England are being driven by global factors, such as the desire to capture pay-TV markets in Asia. In one respect this development reflects the success of European football and the English Premier League. At the same time, it raises new questions about who is controlling football and for what purpose?

The commonality of purpose shared by the reports published over the past year suggests that football's governing bodies are beginning to grasp the regulatory nettle. Much progress has been made: however, the impact of all this work will depend on the extent to which the recommendations are implemented and enforced. The need to act is urgent. In the past year football in a number of EU countries has been rocked by scandals involving match-fixing, betting, corruption and agents. At the same time there is evidence that competitive balance is declining and that despite the increased revenue flowing into the game, the vast majority of clubs operate on the edge of viability and many face insolvency.

In this chapter we provide an analysis of recent regulatory developments, as well as an assessment of their likely effects. We start in section 1 by analysing the *Independent European Sport Review*. Section 2 focuses on regulation by the FA and looks at: the FA's guide to governance for clubs; changes in the regulations of agents; and the implementation of the Burns review; ownership issues and international takeovers. The final section provides an assessment of the overall impact and future outlook.

1. The Independent European Sport Review

The Independent European Sport Review was established by the Rt Hon Richard Caborn, Minister for Sport, DCMS when the UK held the Presidency of the EU in 2005. The starting point of the review was a concern with excessive commercialism and the need to recognise that in addition to its intrinsic and commercial value, sport plays a wider role in society. Hence, a balance needs to be struck between commercial interests and the preservation and promotion of sport's inherent value and the wider social and economic benefits that it provides. In short, there is a need to recognise the 'specificity' of sport.

Sport may be distinguished from other economic activities by virtue of its wider socio-economic functions - a point that was recognised by the ancient Greeks and encapsulated in the Olympic ideal. The Olympic movement in ancient Greece went beyond sport itself to include the development of education and training sites around Athens and political cooperation between regions and Nation states, as well as the establishment of an ethical code of sportsmanship.

Recent research on the economic and social impact of sport (Oughton and Tacon, 2006) has shown that sport has potentially more external effects than almost any other sector. These effects include the role that sport can play in promoting social inclusion, community cohesion, regeneration, education, and healthy lifestyles. The health benefits from participation in sport are well proven. Four of the major diseases that afflict the UK - heart disease, diabetes, obesity and high blood pressure - are known to be largely preventable by participation in physical activity and sport. The potential savings in health care costs associated with higher participation in sport run into billions of pounds. The improvements in physical and mental *well-being* have not been fully quantified, and indeed it may not be possible to put a precise monetary value on such *well-being*, but a number of studies now indicate that the benefits are significant. Major events such as the Olympics can regenerate the urban landscape - Barcelona provides a flagship example of what can be achieved - and help promote social cohesion via encouraging volunteering and building a sense of community and common purpose.

Recognition of the wider socio-economic benefits of sport and the need to preserve and enhance these specific 'sport' characteristics sets the context for the Independent European Sport Review. Against this background the review aims to recognise the specificity of sport and in doing so provide greater legal certainty regarding the respective domains of *sporting rules* and the *law*.

The lack of clarity regarding the dividing line between rules that are necessary and proper for sport to function, and those that are not, has meant that the regulation of sport is being decided by case law (Arnaut, 2006b). The IESR aims to provide greater legal certainty so that in areas where sporting rules are necessary for good sporting reasons, sports governing bodies should be able to set and enforce those rules without being subject to legal challenge. In areas where there are not good sports-based reasons for rules and regulations, or where such rules might have damaging effects, sports governing bodies must comply with the law.

At present the *specificity* of sport is recognised in the European Union's *Nice Declaration on the Specific Characteristics of Sport* (Nice European Council, December 2000, see Appendix I) but this declaration is not enshrined in law. As a result, many sporting rules that are necessary to ensure that sport can function have been subject to legal challenge by commercial and vested interests. A prime example of this is FIFA's regulation of the release of players for national team duty. Other sporting rules that have been subject to legal challenge include: the transfer rules, doping rules, rules governing the regulation of football agents, collective selling of broadcasting rights and redistribution rules, and rules preventing dual ownership of clubs in the same competition. Removing these rules can have very damaging effects on sport. For example, removing the right to collective selling of broadcasting rights has been very damaging in the case of Italian football. Similarly, allowing two clubs in the same competition to be controlled by the same owner damages sporting integrity and casts doubt over the validity of match results involving those teams.

The need to provide legal recognition of the specificity of sport was recognized at the time that the EU Constitution was being drafted. However, the Draft EU Constitution was not signed. To ensure that the specificity of sport set out in the Nice Declaration was given legal recognition, the Rt Hon Richard Caborn MP took the initiative to establish the IESR:

"under the UK Presidency, Richard Caborn called a meeting of the European Sport Ministers representing the "big" football nations and relevant football bodies to discuss how best to implement the Nice Declaration in football.

The meeting explored how the principles in the Nice Declaration relating to the special characteristics of sport can best be put into effect by the football authorities, the EU institutions and the member states so as to ensure that its social and cultural role is

respected and nurtured. By identifying key issues in the game that either support or undermine these principles, the football authorities can ensure that football's special characteristics are upheld and improved for the good of the game itself and, also, for the communities of each member state.

In particular, with reference to the Nice Declaration, it is generally considered that, in European football:

- special attention has to be paid to corporate and social governance
- grassroots football plays a crucial role in social inclusion, in the fight against discrimination, in the development of a healthy lifestyle and the delivery of other key components of public policy
- central marketing (collective selling) of rights by the football authorities at European level is essential to ensure that solidarity nurtures the different levels of the pyramid, not least the grassroots
- UEFA's Club Licensing System is an important step in establishing good corporate governance, financial transparency and stability, and minimum standards in European football there are a range of problems – such as doping, corruption, racism, illegal gambling, money-laundering and other activities detrimental to the sport – where only a holistic approach between football and the EU and national authorities will be truly effective
- the central role of the football authorities is to independently govern the sport, whilst taking into account the views of the different stakeholders and working in harmony with the EU institutions and the member states” (Independent European Sport Review, Terms of Reference, 2006)

The full Terms of Reference of the IESR are set out in Appendix 2. There are seven key areas:

- 1) *The “European sports model”*: The central role of the football authorities independently to govern the sport while respecting the European and national legal frameworks and in harmony with the EU institutions and member states.

- 2) *The arrangements for overseeing the ownership/control and management of clubs, and to recommend changes where appropriate.*
- 3) *The level of expenditure in respect of players, considering the financial (in)stability and concentration of wealth amongst clubs at both an international and national level, and to recommend changes where appropriate.*
- 4) *The arrangements by which the football authorities oversee*
 - (i) *the activity of agents and intermediaries in respect of both the transfer of players’ registrations and player contract arrangements; and*
 - (ii) *the system of player registration and movement, and to recommend changes as appropriate.*
- 5) *The distribution of revenues generated within European football, considering the financial (in)stability and concentration of wealth amongst clubs, and to recommend changes where appropriate.*
- 6) *The role of the EU institutions, member states and football authorities in respect of the provision of funding to generate opportunities for all people to participate in football, considering the level of support from top-level football to recreational football, and to recommend changes as appropriate.*
- 7) *The role of the EU institutions, member states and football authorities in respect of support and encouragement for investment in football stadia, with a focus on security and safety.” (Independent European Sport Review, Terms of Reference, 2006)*

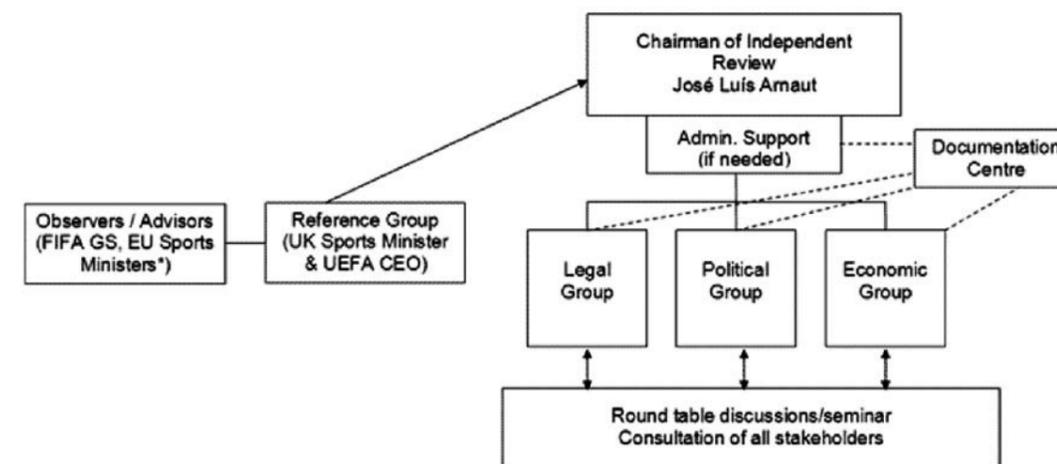
Initially the review was focused on football, but given the generic nature of many of the issues, particularly in relation to: (i) the need to establish more legal certainty over the respective domains of sporting rules and the law; and (ii) the need to preserve and promote sport’s wider social benefits, the review was extended to cover sport in general, using football as a case study.

1.1 The organization, structure and methodology of the review

The IESR is the first European review of football and sport. It differs from many of the reviews carried out in England in two respects. Firstly, it is an *independent* review. Secondly, it integrates three expert elements that are essential to understanding sport: the economics of sport; politics; and the law. The review’s independent structure distinguishes it from the Football Task Force Reports undertaken in England as these were carried out by a mix of independent experts, politicians and representatives from the football authorities. In contrast the IESR was carried out by independent experts under the Chairmanship of José Luis Arnaut, a lawyer by profession, who had previously held the posts of Deputy Prime Minister of Portugal, and Sports Minister. The review included a process of consultation with key stakeholders so that their views could be taken into consideration and feed

The structure of the review is represented in Figure 2.1 where it can be seen that the three expert groups, each comprising 4 members, provided input, as requested, to the Chair. The three groups had access to a documentation centre of cases, studies and reports coordinated by UEFA; they also had access to stakeholder contributions and discussions. Reference and Observer Groups were established to oversee the work and the Chair had access to advice from EU Sports Ministers, the General Secretary of FIFA, European Sports Ministers and the Chief Executive of UEFA. Draft and interim reports were shared across the three expert groups and the Chair had the task of pulling all the material into a coherent whole and writing the overall report. The working process of the review is described in more detail in Appendix 3.

Figure 2.1 The Organisation and Structure of the IESR



into the process, but ultimately the conclusions of the review were the responsibility of the independent Chair aided by the review team. The strong independence of the review had the advantage of freeing it from the problems that beset the Football Task Force, when different stakeholder groups on the Taskforce could not agree on a single final report. In this regard it is worth noting that the reviews of football in England that have had most impact, such as the Taylor report, have all been independent of the sector, notwithstanding the need for consultation with stakeholders and politicians.

1.2 Key Recommendations and Assessment

The review was published in May 2006 and a final version presented in October 2006. As stated above, the overarching aim of the review was to ‘implement the Nice Declaration on sport’ in order to provide a clear legal framework for the governance and regulation of sport in general, and football in particular. The starting point of the review was therefore to identify what is meant by the ‘specificity’ of sport and to describe and explain the European Sports Model.

The European sports model is based on a pyramid structure. At the base of the pyramid of league sports, such as football, are local clubs. Below that are numerous children's leagues organised by sports governing bodies, such as the English FA, and dependent on the goodwill of trained volunteers playing a crucial role promoting sport in their local communities. The base of the pyramid is therefore broad and wide, it serves to embed sport in our culture and it creates demand to watch and play the game.

The base provides the foundation for an integrated open league structure. Clubs at the bottom are locally rooted and serve to promote participation in sport. They participate in leagues and the leagues are integrated by an open and meritocratic system of promotion and relegation. At the apex of the pyramid in football are European club competitions, such as the UEFA Champions League and the UEFA Cup. And beyond that lies international and global competition with the best players from each nation competing for their country in the FIFA world cup.

In short, the European model is rooted locally, extends globally and is characterised by:

- open leagues with promotion and relegation;
- by redistribution of revenue between clubs to promote financial solidarity and competitive balance; and
- by investment in the development of sport at local level at the base of the pyramid.

The European Model is open, democratic and meritocratic and its strength lies in its investment in grass roots sport. In return, the elite end of the game receives widespread demand from amateur sports participants and the creation of the next generation of supporters keen to watch their sport because their participation in school and junior leagues engenders interest in the game. This model has proved to be very successful and the elite end of the game has turned into a business that has experienced rapid revenue growth. Unlike most US league sports, the European sports model, based on a pyramid structure, has global reach. However, the commercial success of the model has also created problems. In particular, it has generated massive revenue growth that attracts financial investors keen to extract returns from part of the pyramid (or from supporters via higher ticket prices) without understanding that the success of the model depends on redistribution of income between clubs and leagues and reinvestment from the apex to the grass roots.

To tackle these problems, three inter-related sets of recommendations are set out in the review.

- I. The first set is aimed at EU institutions and member states and is designed primarily to provide greater clarity over the respective domain of sporting rules and the law.
- II. The second set is aimed at sports governing bodies and clubs and is designed to improve governance in the sector.
- III. The third set is aimed jointly at EU institutions and sports governing bodies and aims to provide greater cooperation between government and sport to tackle serious problems, such as, match-fixing, fraud, money laundering and other criminal activity.

I. Recommendations to EU institutions and member states to provide greater legal certainty for sport

Here the main aim is provision of greater legal certainty over the respective domains of sporting rules and the law requiring an understanding and recognition of the specificity of sport. This is necessary in order to establish clarity over rules that are necessary for sport to function, and over areas where sport should be subject to civil law. The key recommendations in this area include:¹

- The right of sports governing bodies to set the rules of the game
- Preservation of the system of relegation and promotion and organization within a pyramid structure
- Block exemption of collective selling of media rights and redistribution of income to promote competitive balance
- Measures to encourage investment in training, such as the home grown players rule. This is necessary to overcome the free-rider problem characterized by clubs poaching players rather than investing in training
- Club licensing to ensure a level 'financial' playing field and to guard against over-investment in players' wages and to ensure minimum financial standards in an industry where incentives are such that most clubs operate on the edge of viability
- A system of effective cost control to promote competitive balance
- A transfer system to ensure stability of contract throughout the playing season and compensation for training

¹ These points are summarised from the Executive Summary of the Review pp. 20-23, Arnaut (2006a).

- A European directive to regulate agents, providing greater control over the qualifications and training required, greater transparency, stronger monitoring, enforcement and sanctions, an end to 'dual representation' and the introduction of a system whereby agents are paid only by players and not by clubs
- Legal protection for rules governing the release of players for national team duty – this is essential to ensure the authenticity of international competitions
- Establishment and protection of intellectual property rights over sports fixture lists. At present betting companies free-ride on sport as the fixture lists are often freely available. Sport should be compensated for the input it provides to the betting industry and there should be stronger coordination between sport and the betting industry to help stop illegal betting and match fixing
- Tougher measures to control prejudice in media reporting, news access and ticket touting
- Greater harmonization of measures to combat hooliganism
- Recognition of the right of sports governing bodies to represent their sport and to have ownership over the rights to their competitions
- The establishment of a European Sports Agency to act as a monitoring and information centre

II. Recommendations to sports governing bodies, such as UEFA and National Associations. Under this heading the review makes the following recommendations:²

- Recognition of the principle of subsidiarity and the need to review the division of tasks across UEFA and National Associations
- The need to improve governance in national and international football authorities, leagues and clubs and to have systems in place whereby governance is constantly monitored and reviewed
- The need to promote competitive balance and to encourage investment in training young players
- UEFA to review the system of club licensing and its enforcement and, in particular, to:
 - Set up an independent body to monitor compliance
 - Establish a European Code of Corporate Governance for Clubs
 - Introduce licensing measures to promote competitive balance such as some form of salary cost control

² These points are summarised from the Executive Summary of the Review pp. 23-27, Arnaut (2006a).

- Provide a European Clearing House for player transfers
- Improve the regulations to prevent dual ownership of clubs
- The establishment of internal governance units to promote good governance within European football authorities
- The establishment by UEFA of a strategic board with representatives from clubs and leagues to promote efficient consultation
- Greater involvement of supporters organizations at European level in consultative and advisory bodies
- Examination of the 'feasibility of establishing a European 'Supporters Direct' body
- The establishment or strengthening of dedicated anti-fraud units within governing bodies
- Tougher measures to tackle racism and xenophobia
- The introduction of (or revisions to) appropriate arbitration clauses in the statutes of governing bodies to prevent undue recourse to the courts

III. Joint recommendations to EU governmental institutions and European Football Authorities. In this category the IESR recommends:³

- The establishment of a consultation mechanism to determine which sports rules fall outside Community law
- Greater cooperation with government to prevent 'trafficking' of young players (minors)
- Cooperation with government to prevent match fixing and serious fraud
- Cooperation with government to improve stadium safety and security
- Official recognition by EU institutions of UEFA as the governing body for European football, including bilateral cooperation and agreements. At the same time UEFA must ensure that it respects the principles of transparency, democracy and good governance

1.3 Assessment

The IESR is the most wide ranging review of football conducted to date. It recognizes that many of the problems facing sport, and football in particular, have an international dimension and require international solutions. It also clearly recognizes the corrosive effect that persistent legal challenges have on the ability of sports governing bodies to govern.

³ These points are summarised from the Executive Summary of the Review pp. 27-28, Arnaut (2006a).

Its major contribution, therefore, is to show that there needs to be much greater clarity on this issue.

Without greater legal certainty, the ability of governing bodies to govern is undermined by vested interests seeking to challenge sporting rules for their own private gain. The EU, national governments and sports authorities must be clear about the specificity of sport and the implications that has for the application of the law. If greater clarity can be achieved this will represent a major step forward.

This aspect of the review has been misinterpreted by some as an attempt by the EU or UEFA to control football. This view is not only misplaced, it is precisely the opposite of what the IESR sets out to achieve. By providing greater legal certainty over the respective realms of sporting rules and the law, the IESR aims to prevent the undue use of European law to circumvent regulations set by sports governing bodies for the good of the game. It therefore aims to strengthen the right of sports governing bodies to govern in areas germane to the preservation of sport.

With greater clarity, comes greater responsibility and in exchange sports governing bodies must strengthen their own governance structures and increase transparency and democracy. Moreover, they must constantly review and monitor their own governance systems and performance to ensure that they are fit to govern. It is arguable that EU institutions and national governments should play a role in setting and monitoring the governance standards of football and sports authorities.

The conclusions of the IESR will feed into the forthcoming EU White Paper on sport. In this regard it is important that the recommendations are seen as an inter-related package in order to avoid cherry picking by particular groups.

European sport is at a cross roads. It has a golden opportunity to put its house in order and to preserve and strengthen the European Sports Model and the pyramid structure that characterizes football and other European sports. The model has proved to be very successful. It has generated massive revenue growth. It is rooted locally and facilitates investment in grass roots sport and yet it has probably the widest international and global reach of any sports model. Yet the ESM is in danger of becoming a victim of its own success. Greater wealth has opened it up to investors keen to extract revenue from parts of the pyramid without regard for the long term stability of the pyramid as a whole. The challenges to the model from large clubs, owners, agents and organized crime, as well as from unfettered use of competition laws designed to

regulate business and markets without regard for the specificity of sport have made it difficult for sports governing bodies to govern. The IESR offers a solution. It is important that the solution is now implemented.

2. The Football Association: Regulatory Changes and Governance

2.1 The FA Code of Corporate Governance

In December 2005 the FA published a Guide to Governance for Football Clubs. The guide sets out four broad principles of good governance in relation to:

- A. The Executive Body or Board
- B. Risk and Control Management
- C. Regulatory Compliance
- D. Disclosure and Reporting to Shareholders

Within these general principles, the guide specifies 36 criteria and shows how each of these should be implemented bearing in mind differences in the size and type of clubs.

The Guide is a major step forward and the FA should be congratulated on its introduction. The guide is to be implemented by encouraging clubs to report on the extent to which they comply with the guide but they are not required to do so. This marks a departure from the way in which the Combined Code of Corporate Governance (CCCG) operates for companies listed on the London Stock Exchange. The CCCG is voluntary in the sense that companies can choose to comply with it or not as they see fit; however, companies *are* under obligation to issue a public statement listing each and every point of non-compliance. The FA Guide makes no such provision for clubs. Instead, it simply encourages clubs,

“to report publicly on the extent to which they have adopted these principles of good governance in order to be able to demonstrate accountability and transparency to stakeholders. For example, a club may wish to include a section in its annual report or on its website to set out its governance policy.”
(The FA, 2005, p. 5)

In our view this should be made a requirement and the FA should monitor compliance with the guide and publish its findings in an annual report.

There are a number of areas where the Guide could be modified and strengthened to reflect issues pertinent to football. These include specific criteria in relation to the transfer of ownership, publication of agents' fees and publication of clubs' ticket pricing policy. Moreover, further guidance would be desirable on the implementation of a Fit and Proper Person test for directors and owners, for example, on the importance of applying the test *before* directors are appointed. In a similar vein, we believe that the current tests implemented by the FA, the Premier League and the Football league should all apply to owners (with a stake of 10% or more), should be implemented prior to transfer of ownership and should take account of offences committed outside of UK law. Clearly this last point requires international coordination of the Fit and Proper Person test and suggests the need for international cooperation via UEFA and FIFA.

2.2 Implementation of the Burns Review

In October 2006 recommendations based on the Burns Review were put before the FA Council. All of the proposals were passed. The Burns review proposed reducing the number of representatives from the Professional Game and the National Game from 6 each, to 3 each. It also proposed introducing 2 or 3 independent non-executive directors onto the main board. Lord Burns proposed that these changes should be staged with 1 representative from the Professional Game and 1 from the National Game stepping down at each stage of reform.

The proposals passed by Council in October represent the first stage of the reform process with the number of representatives from the Professional Game and National Game being reduced from 6 each to 5 each. They also included the introduction of an independent Chairman. It is important that this process of reform is continued. We commented in last year's report on some of the weaknesses of the proposals in the Burn's review and our key concerns remain. In particular, the main Board is too large to be an effective executive body and the proposals in the Burns review to reduce its size and increase its independence did not go far enough. In our view the number of representatives needs to be reduced beyond the recommendations of the Burns Review to no more than 1 each from the Premier League and the Football league and 1 or 2 from the National Game. If there are to be 2 from the National Game, they should be drawn from different parts. We also advocate that a representative from a democratic supporter organisation, such as the FSF or Supporters Direct be represented on the Board. At the same time, the Board should be strengthened by the introduction of two independent non-executive directors in addition to an independent Chair. The recent reforms are a welcome step in the right direction but the reform process must go further if it is to resolve the problems of gridlock on the Board.

The FA Council meeting in October 2006 also agreed to expand the membership of the Council to include representatives from: disability and black and ethnic minority groups; supporters' bodies; the Professional Footballers' Association; the League Managers' Association, referees, as well as to increase the representation from the professional and semi professional game. Whilst we welcome the wider representation on the Council, in our view more radical reform is needed to make the Council an effective strategic body. At present, its size means that it has limited opportunity to engage in strategic debate and shape the strategic direction of the FA. The size of Council needs to be reduced to no more than 25 drawn or elected from the groups discussed above and the National Game. The wider 'Parliament' role that Council now plays should be transferred to a shareholders meeting or to an Annual General Meeting.

Finally, the FA Council agreed at its October meeting to establish a Regulation and Compliance Unit. We welcome this development and believe that provided the unit is properly resourced and staffed, and has sufficient powers of independence (especially from the Board) it should bring significant improvements to the governance of football.

The proposals passed at Council have to be ratified at a Shareholders meeting of the FA early in 2007.

2.3. Football Agents

Football agents have again been in the media spotlight. The past year has seen a number of regulatory changes and reports, including the UEFA Working Party Recommendations, changes in the FA regulations and ongoing review by FIFA. We will not go into detail here about all the issues surrounding agents as this has been covered elsewhere;⁴ instead we highlight a number of key issues.

A central issue regarding the role of agents is the practice whereby agents act for both a club and a player in a single transfer. At a meeting of the FA Board in November 2006 it was agreed to prohibit such dual representation. In our view this proposal, which still needs to be agreed by Council, should go further and simply prohibit agents from acting for clubs at all, so that players' agents become precisely that – agents to represent players' interests.

There are at least two reasons to make this further change by prohibiting clubs from employing agents.

⁴ Holt, M, Michie, J and Oughton, C (2006) *The Role and Regulation of Agents*, The Sports Nexus, London

Firstly, conflicts of interest may arise when clubs employ agents to move players on. In particular, the agent is in a strong bargaining position to extract an enhanced fee when players are approaching the end of their contract, since failure to complete the transfer before the contract expires results in the club losing its transfer fee. This is arguably less of a problem under a system that prohibits 'dual representation' but it is still a problem as two agents may now extract fees in a single transfer. Under a system whereby agents are employed only by players, only one agent can extract a fee and that fee must be paid by the player. Secondly, there is a suspicion that clubs employ agents to carry out work that they are prohibited from doing themselves. Changing the rules to ensure that agents act only for players would greatly simplify the regulatory framework and make enforcement of the regulations more straightforward.

Other key regulatory changes passed at the FA Board meeting in November 2006 include:

- Limiting the use of the 'exempt individual' clause of the regulations that allows lawyers to act in transfer deals, so that lawyers may only be used in limited circumstances and they must also register with the FA
- Overseas agents to register with the FA to ensure that the FA has jurisdiction over agents' activities
- Agents to be covered by the tapping up rule
- 'Prohibition on agents owning an interest, either directly or indirectly in the registration rights of a player' – this regulation is designed to help stop agents engaging in investment trade in the future value of players

We welcome these changes. However, we believe that they should be supplemented by other regulatory changes as discussed above and in Holt, Michie and Oughton (2006). In particular we believe that agents should not be allowed to represent minors and that this work should be done by the PFA. We also believe that there is a greater role for the PFA to play in developing and undertaking *standard* contract work leaving agents to focus on specific details of a player's contract outside the standard specification. There is also a case for the PFA playing a regulatory role. Ultimately, the effectiveness of the regulations depends on how they are enforced and on the penalties for breaches. Hence, initiatives in this area must be viewed together with the introduction of the FA's regulation and compliance unit and monitoring and enforcement by UEFA and FIFA.

2.4 Ownership Issues

Over the past year ownership issues have been in the spotlight for three main reasons. Firstly, the increased number of foreign-owned clubs in the English Premier League and the factors driving this. Secondly, issues over transparency and the need for strict compliance with UEFA and FA rules on dual ownership. And thirdly, concerns regarding the integrity of owners and the need to comply with fit and proper person criteria.

The growth in foreign ownership of English clubs reflects the increasing globalisation of football and the associated growth in the market for Pay TV in Asia driving anticipated increases in income from overseas TV rights. The issue, therefore, is not foreign ownership *per se* but the motivation of owners, in particular, the question of whether they might prioritise overseas markets and TV audiences over domestic markets and the local supporter base.

Foreign ownership also makes it more difficult to determine the individual, rather than the corporate identity of who actually owns a club. Knowing the individual identity of owners is important in order to ensure compliance with sporting rules on dual ownership. These rules are essential to preserve the integrity of matches i.e. we need to know that each side is fielding its best team and trying its best to win a match. Lack of transparency over ownership arising from corporate owners being registered overseas also makes it harder to implement and fit and proper person tests.

Finally, foreign ownership necessitates a change in the 'fit and proper person' criteria to include crimes committed overseas. Clearly, this requires a degree of international coordination and suggests a role for concerted action by National Associations, UEFA and FIFA.

During the past year, the FA, the Independent European Sport Review and the FIFA Task Force have been looking at ownership issues. In 2005 the Financial Advisory Committee of the FA took legal advice on the regulation of transfer of ownership of clubs and investigated this matter further during 2006.

The Independent European Sport Review also considered these issues and examined which ownership structures offered most protection from hostile takeovers and asset strippers and most voice for supporters. The IESR advocated the need for greater transparency and tighter regulation to ensure that rules on dual ownership can be upheld.

The IESR also recommended that the feasibility of rolling out the Supporters' Trust movement across Europe in order to give supporters greater 'voice' should be explored.

3. A Brighter Future for Football?

The past year has seen major developments in the regulation and governance of football. The IESR represents a golden opportunity to address a number of problems that have beset football and sport more generally. Its main objective is to implement the Nice Declaration so that the specificity of sport is given legal recognition. At present rampant commercialisation has undermined the ability of governing bodies to govern as sporting rules have been challenged by powerful clubs, agents and owners in the courts, and by the competition authorities. The creation of greater legal certainty will help governing bodies to govern by safeguarding sporting rules designed to promote sport. In exchange, governing bodies must improve and constantly monitor their own governance standards to ensure that they operate in an open and transparent manner.

The recommendations of the IESR will feed into the European White Paper on Sport. Ultimately, the impact of the review will depend on the extent to which it is implemented. However, the review itself has made a major contribution in that it has not shied away from clearly identifying the problems. More importantly, it shows what can be done and provides positive solutions. In this respect alone, therefore, the review has increased the prospects of a brighter future for football.

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Premier and Football League Clubs

Over the past year issues of ownership and governance have again been in the media spotlight. In England, foreign takeovers mark a new trend towards globalisation in football ownership. In Italy football has been rocked by revelations of corruption and attempts by clubs to interfere with the selection of referees. There are continued concerns about the financial viability of clubs across Europe. Despite the record revenue coming into the English Premier League in 2005, the current Champions, Chelsea, recorded a pre-tax loss of £140m. Across both the Premier League and the Football League there are ongoing concerns about the role and activities of agents, ranging from allegations of bribes and bungs and tapping up, trafficking of young players, to concerns over the amount of money that agents are able to extract in fees. These problems are not confined to English football; they are largely international problems that require international solutions.

Notwithstanding the continued growth in revenue, especially from the sale of Premier League broadcasting rights, many football clubs in the Premiership and the Football League continue to make losses. The past year offers a glimmer of hope in that there are some signs of an improvement. In 2005, the latest year for which figures are available five Premiership clubs made pre-tax losses. This is a significant improvement on the previous year when ten clubs recorded losses. The amount of combined profit and losses has also fallen from £118m in 2004 to £77m in 2005; however, the scale of the combined losses is still a cause for concern. In the Championship, 13 clubs made pre-tax losses compared with 12 in 2004. The continued financial problems facing England's top flight and the football league, together with wider concerns over governance and regulation issues, suggest that there is an urgent need to improve governance at all levels of the game.

In previous reports we recommended that the Football Association introduce a Code of Corporate Governance for clubs. In December 2005 the FA published a Guide to Governance for football clubs. We welcome this initiative and report on its impact below.

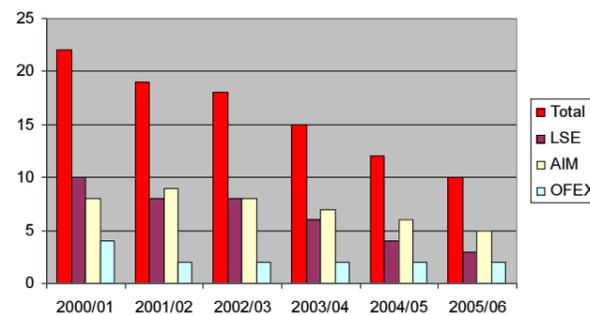
This chapter provides an analysis of recent developments in the ownership and governance at FA Premier League and Football League clubs, however, many of the issues addressed here have resonance for football clubs and leagues across Europe. To set the context, we start by reviewing recent trends in ownership and risk. Section one examines recent developments in ownership and the relevance of the stock market model for football following the de-listing of two more clubs in the last year: Aston Villa and Charlton. These changes

are considered against the findings of the Independent European Sport Review and increased risk associated with a decline in competitive balance, rising revenue streams and greater income inequality and falling attendances at some clubs. Sections two and three provide analysis of trends in compliance with company law and corporate governance, as well as clubs' attitudes to regulatory changes. Section three also deals with strategic issues and enterprise governance, while the final section draws some conclusions and makes a number of policy recommendations.

1. Ownership models for Clubs and the Nice Declaration

Over the past year two more clubs have de-listed from London stock markets. Aston Villa is no longer quoted on the London Stock Exchange (LSE) and Charlton Athletic de-listed from the Alternative Investment Market (AIM). The continued decline of the stock market model of ownership in football is illustrated in Figure 3.1. It can be seen that only 10 clubs are now listed, and just three of these are listed on the LSE: five clubs are listed on AIM and two on OFEX.

Figure 3.1 The Number of Listed English Clubs by Market: 2000-2006



The threat of hostile takeover bids and concerns about lack of transparency of ownership and the risk of clubs falling into the wrong hands raise questions about the suitability of the stock market model, which offers little protection from takeover. A central issue is the inherent tension between sporting and financial objectives. In principle, the stock market model prioritises maximising profit and shareholder value over other objectives such as sporting success. However, the UK experiment with stock market flotation has shown that football clubs have found it difficult to prioritise profit over glory.

As a result, and despite the rapid growth in revenue accruing to English clubs, shareholders (with a few exceptions, such as those that cashed in at the time of the flotation or those that benefited from takeovers)

have been disappointed and the returns on shares in clubs have been poor.

The specificity of sport and the central conflict between sporting vs. commercial objectives lies at the core of the problem of the stock market flotation of clubs. The UK experience, suggests that it is difficult to resolve this issue in a manner that makes football clubs an attractive investment prospect. Few countries and clubs have followed the English experiment, and listed clubs are very much the exception rather than the rule. On the continent, the Members Association is a more common form of ownership structure for clubs (sometimes combined in a hybrid form with a company model) and in France, for example, government legislation has prevented sports clubs from listing on the stock market.

In December 2005 this legislation was challenged by the European Commission when it issued a statement to the effect that:

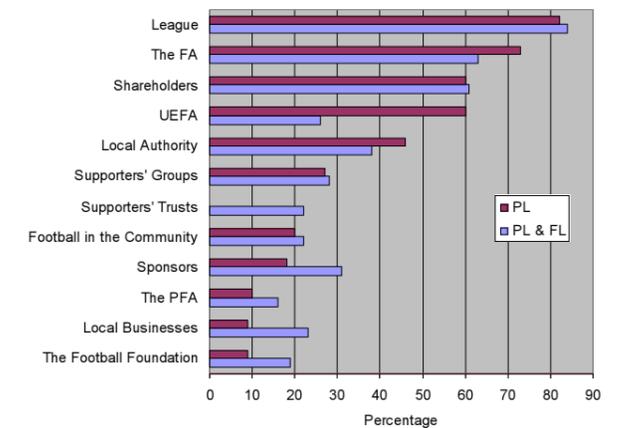
“The European Commission has decided to ask France to formally modify its legislation preventing football and other sports clubs from being listed on stock markets. It views this as an unjustified barrier to the free movement of capital, in breach of the EC Treaty (Article 56).” (European Commission, 2005)

Initially the French government opposed the request but faced with the threat of action in the European Court of Justice the French government approved new draft legislation in September 2006. A number of clubs, such as Olympique Lyonnais welcomed the move arguing that it would help them compete on equal terms with their competitors in other European leagues (Financial Times, 2006). This argument may well prove to be ill-founded. Stock market flotation requires clubs to keep within market norms on a number of financial variables, such as profitability and debt equity ratios. The difficulty that French clubs face in competing in Europe, is not necessarily with listed clubs but with clubs such as Chelsea that are privately owned, not regulated by the stock market and are prepared to run up large debts in order to finance the highest level of expenditure on players' wages in Europe. Olympique Lyonnais' concern with the need for a level financial playing field in Europe is unlikely to be resolved by allowing French clubs to float. It could however be resolved by strengthening the UEFA licensing system with the introduction of tighter and more uniform financial regulation across Europe and a greater emphasis on containing debt levels and forward financial planning. A new UEFA licensing system is to be introduced at the start of the 2008-09 season. This

should help introduce greater uniformity in financial controls across European top flight leagues.

A second reason to be cautious about the application of the stock market model to football clubs stems from the fact that football clubs have a wider set of stakeholders than normal businesses. Amongst this range of stakeholders, shareholders are not prioritised. This point reflects one of the central tenants of the Nice Declaration namely that sport clubs play a wider social role in society as compared with regular businesses. Our survey asked clubs what level of influence various stakeholder groups have over club governance. The results are shown in Figure 3.2 where it can be seen that the football family – the FA, Leagues and UEFA – have most influence followed by shareholders and local governments. This is true for both Premier League and Football League clubs, though the influence of UEFA is higher for the former. It can also be seen that other stakeholders, such as local business, sponsors, supporters' groups and trusts, the PFA, Football in the Community and the Football Foundation have a strong influence on governance at many clubs. The range of clubs' stakeholders and their strength of influence over club governance suggest that a stakeholder model of governance is more relevant for football clubs than the stock market model.

Figure 3.2 Stakeholder Influence on Club Governance: Percentage of Clubs Stating Stakeholders Had a Strong Influence, 2006¹



Before concluding this section it is worth noting that one of the benefits of stock market flotation is that it encouraged a number of clubs to take a more professional approach to corporate governance. In previous reports we have shown that listed clubs outperform all clubs in, for example, business planning,

¹ Those selecting 4 or 5 on a scale of 1-5. Results based on returns from 64 clubs (70 per cent of Premier and Football League clubs) responding to our 2005 and 2006 surveys.

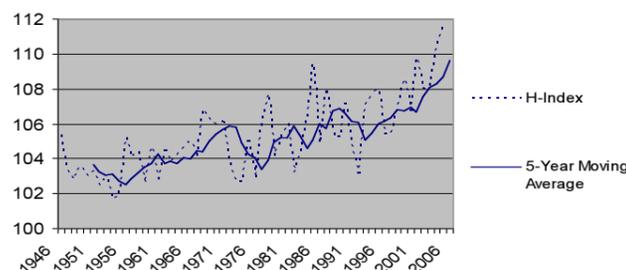
risk management and the use of non-executive directors, although the corporate governance performance of listed clubs is still below that of the LSE listed company sector as a whole. While higher standards of governance are a plus, it is important to recognise that it is not necessary for clubs to float in order to improve governance. Now that the FA has issued its Guide to Governance for clubs, there is a clear benchmark that clubs should seek to meet. Our results show that the Guide is already beginning to have a positive effect though we believe the Guide would be more effective if it were mandatory for clubs to report all areas of non-compliance.

1.1 Revenue Inequality, Competitive Balance and Risk

The past decade has seen the top five clubs in the Premiership account for a larger share of total revenue. In 2005 the share of revenue accounted for by the five biggest earners amounted to 47 per cent, nearly half the revenue of the league: in 1993 this figure stood at just 27 per cent. Growing revenue inequality has implications for inequality in wage expenditure and competitive balance. Competitive balance refers to the degree of equality between the sporting capabilities of teams: a degree of competitive balance is important because it makes matches and the Championship title race uncertain: other things being equal, uncertainty of outcome generates interest from supporters and increases demand for watching matches both at the ground and on television (including by subscription and pay-per-view). Lack of competitive balance can make matches and the league championship boring. A league that is not competitively balanced is therefore not maximising potential income from spectators and viewers.

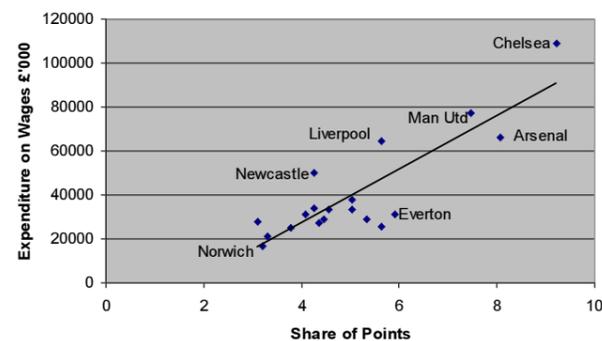
Figure 3.3 shows that competitive balance declined again in the 2005-06 season and our index now stands at its highest level (indicating that competitive balance has hit an all-time low).

Figure 3.3 H-Index of Competitive Balance: Top-Flight English Football, 1947-2006



The main factor driving the decline in competitive balance (rise in the index in Figure 3.3) is growing inequality in wage expenditure. Figure 3.4 shows the positive relationship between wage expenditure in 2005 and each club's share of points in the 2004-05 season (the latest year for which wage data are available). It can be seen that most clubs spent less than £40m. Five clubs had broken away from the rest of the league, each spending somewhere between £50m to £110m on wages. Over the past decade or so wage expenditure has become a stronger predictor of league performance. The relationship between wage expenditure and league performance is represented by the slope of the trend in Figure 3.3. In recent years, the trend line has become steeper reflecting a stronger correlation between wage expenditure and performance: in 1993 wage expenditure explained 68 per cent of the variation in league performance; by 2005 this figure had risen to 86 per cent.

Figure 3.4 Wage Expenditure and League Performance in the Premier League



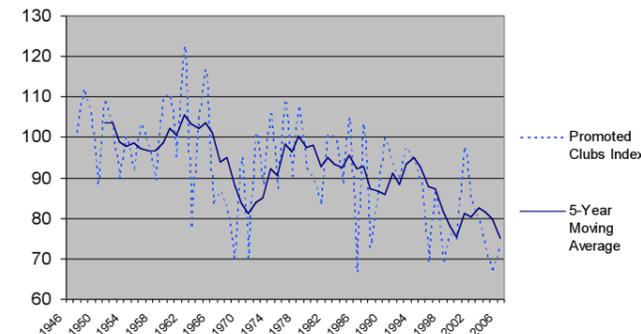
As mentioned above, the long-term decline in competitive balance illustrated in Figure 3.2 is of concern because greater predictability in the outcome of matches and the league championship can have a negative impact on attendances. The latest analysis from Deloitte shows that Premiership attendances peaked in 2002-03 and have fallen back marginally in each of the last 3 seasons. Many factors affect attendance, not least ticket prices and the number of matches shown on television; however, greater predictability of outcome, particularly if the title race is decided early on, is likely to exert a negative influence.

A widening income gap has also opened up between the Premier League and the Football League. In 2004 the income gap stood at £940 million; by 2005 the gap had increased to £1.1 billion (Deloitte, 2006).

Not surprisingly, clubs promoted from the Football League are finding it harder to compete on equal terms in the Premiership.

Figure 3.5 shows the share of points won by promoted clubs in each season. If the three newly promoted clubs were able to compete on equal terms the index would take a value of 100. It can be seen that for much of the period from 1947 through to the eighties the index hovered around this mark and often exceeded it in individual years. Since the 1990s the index has been persistently below the 100 mark and has shown a marked downturn. Although, the index rose in 2005-06 due to strong performances by West Ham and Wigan, the five year moving average hit an all-time low.

Figure 3.5 Promoted Clubs Index of Competitive Balance: Top Flight English Football, 1947-2006



The decline in competitive balance within and between leagues is being driven by widening revenue inequality between clubs. The distribution rules for TV income allocate a bigger share to top clubs and the absence of gate sharing means that the big clubs earn more than smaller clubs on match days. Clubs qualifying for UEFA competitions gain access to additional revenue streams from European match-day and broadcasting income. However, it is important to note that it is the dominance of a few big clubs in national leagues that results in the same clubs gaining access to revenue from UEFA competitions. If there was more competitive balance in national leagues, there would be more likelihood of different clubs qualifying for UEFA competitions and therefore, UEFA revenues would be spread more widely. All three of these factors have tended to widen the income gap between the top clubs and the rest. Similarly, the end of TV revenue sharing between the Premier and Football Leagues² has contributed to a large income gap opening up between the two leagues.

² Cross-league revenue sharing ended when the Premier League was formed.

The emergence of significant income gaps between the clubs at the top of the Premiership and the rest of the Premier League, and between the Premiership and the Football League has led to a significant increase in risk in the industry.

Small differences in sporting performance over the season are now associated with large differences in revenue.

The desire to win, together with growth in revenue inequality, has set up an incentive system that encourages clubs to over-invest in wages (Dietl, Franck, and Lang, 2005), and as a result risk has increased.

To summarise, the decline in competitive balance (rise in the index) is associated with:

- a further widening gap in wage expenditure between the top five and the rest;
- inequality in the distribution of TV money and inequalities in other revenue streams available to the top clubs, especially those qualifying for the Champions League – a problem that is exacerbated by predictability in national leagues resulting in the same clubs qualifying on a regular basis;
- a decline in the effectiveness of the promotion and relegation system as a means of promoting competitive balance associated with the widening income gap between the Premier League and the Championship.

Over the past decade or so, the leading clubs have successfully campaigned for changes to the distribution rules that have enabled them to gain a larger share of a bigger pot. The problem of declining competitive balance could be addressed by a re-examination of the distribution rules and greater redistribution within and between leagues.

1.2 Attitudes to redistribution

The trend towards revenue inequality across clubs and the associated problem of declining competitive balance could be solved by a return to greater redistribution of income. We asked clubs whether they were in favour of greater redistribution: (a) within their league; and (b) from the Premiership to the Football League. The results are presented in Table 3.1.

Table 3.1 Attitudes Towards Greater Redistribution of TV Income*

	Percentage of Respondents	
	Premier League Clubs	Premier and Football League Clubs
Would you favour greater redistribution of TV revenues within your league?		
Yes	64	60
No	36	37
Don't Know	0	3
Would you favour greater redistribution of TV revenues between the Premier League and the Football League?		
Yes	36	81
No	55	18
Don't Know	9	2
Would you favour greater redistribution from UEFA competitions to non-qualifying clubs?		
Yes	50	63
No	25	16
Don't Know	25	22

*Figures may not sum exactly due to rounding. Results in this table are based on returns from 70 Premier and Football League Clubs.

It can be seen that a clear majority of respondents - 64 per cent of Premier League clubs and 60 per cent of Premier and Football League clubs - are in favour of greater redistribution within their league. The lower level of support in the Football League may reflect the fact that there is less inequality in that league.

In terms of redistribution from the Premiership to the Football League, there is a marked difference of opinion between Premiership clubs compared to clubs generally. 81 per cent of Premiership and Football League clubs are in favour of greater redistribution across leagues and only 18 per cent are opposed. In contrast, 55 per cent of Premiership clubs are against redistribution across leagues, though it is worth noting that 36 per cent are in favour and a further 9 per cent 'Don't Know'. Reluctance on the part of Premiership clubs to redistribute more income to the Football League may spring from a concern that it will make it harder for qualifying clubs to compete in UEFA competitions. This suggests that there is a need to coordinate redistribution policies across Europe to create a more level playing field.

We also asked clubs if they were in favour of more redistribution from UEFA competitions to non-qualifying clubs. 50 per cent of Premiership clubs and 63 per cent

of Premiership and Football League clubs expressed support for such a move.

In summary, there is considerable strength of support from clubs responding to our survey for greater redistribution within and across leagues. The only exception is Premiership Clubs' attitudes for greater redistribution to the Football League, but even in this case there is a sizeable minority in favour.

1.3 Impact of Greater Redistribution

As discussed above the effects of greater inequality in revenue include increased risk, making it more difficult for clubs to balance their sporting and commercial objectives by successfully managing their financial and sporting performance. We asked clubs whether greater redistribution of TV revenue would help or hinder these problems. The results are presented in Table 3.2. It can be seen that 55 per cent of Premiership clubs think that greater redistribution would help reduce risk; 64 per cent think it will help them financially and 55 per cent believe it will help them compete on the field. The combined results for Premier and Football league clubs show slightly stronger positive effects: 86 per cent of clubs feel that greater redistribution would help them financially, 84 per cent believe it will help reduce risk and 77 per cent state that it will help them compete on the field.

Table 3.2 The Impact of Greater Redistribution of TV Revenue*

	Percentage of Respondents	
	Premier League Clubs	Premier and Football League Clubs
Would greater redistribution of TV revenue help or hinder your club's financial position?		
Help	64	86
Hinder	27	10
Neither	9	4
Would greater redistribution of TV revenues help or hinder your club reduce risk?		
Help	55	84
Hinder	27	8
Neither	18	8
Would greater redistribution of TV revenue help or hinder your club to compete on the field?		
Help	55	77
Hinder	27	8
Neither	18	15

* Results in this table are based on returns from 70 Premier and Football League Clubs.

These results show a high degree of support for greater redistribution of income and an understanding on the part of clubs that this will help reduce risk and improve the financial position of the majority of clubs.

2. Compliance with company law and best practice corporate governance

Shareholders of companies have certain rights and one of the key mechanisms via which they can engage with companies is through understanding the objectives of the company as set out in its Memorandum and Articles of Association and gaining access to the share register in order to influence the agenda at AGMs and put shareholder resolutions to the meeting.

Over the past 6 years we have asked clubs whether they would provide a copy of the share register to shareholders that request it. The degree of compliance with this part of company law has increased from 67 per cent of clubs in 2001 to 89 per cent of clubs in 2005 but has fallen back to 81 per cent in 2006. It is disconcerting that almost 20 per cent of clubs do not appear to be aware of their obligations under company law.

There has also been a decline in the proportion of clubs stating that they would provide the share register in electronic format, down from 33 per cent in 2005 to 22 per cent.

The degree of compliance with company law is higher for provision of the Memorandum and Articles of

Association (M&AA), with 89 per cent of clubs responding to our survey stating that they would provide a copy of this on request, though only 11 per cent of clubs stated that they would provide this electronically.

A small number of clubs stated that they would charge shareholders for a copy of the share register and/or the M&AA. Although companies are allowed to charge at the statutory rate, this is widely regarded as bad practice, and given that the statutory rate is very low (5 pence in the case of the M&AA) it would appear that there is a small minority of clubs that are unaware of company law in this regard.

2.1 The Annual General Meeting (AGM)

Despite the proposed change in Company Law to allow private companies not to hold an AGM, all clubs responding to our questions on the AGM indicated that they held an AGM. The AGM and a club's Annual Report are two of the main mechanisms via which clubs disclose information on the financial performance and strategy of the club. The AGM is also used to elect directors and to vote on directors' pay. For the AGM to be an effective vehicle to engage shareholders it is important that sufficient notice of the AGM and adequate information are provided to enable shareholders to participate and to make informed judgements about how the company is run. Results from this year's survey indicate that this is an area where there has been a noticeable improvement in corporate governance.

Table 3.3 Disclosure of Information to Shareholders

	Percentage of Respondents					
	2001	2002	2003	2004	2005	2006
Clubs stating that they would provide a copy of the Share Register in paper or electronic format	67	79	86	81	89	81
Clubs stating that they would provide a copy of the Share Register in electronic format	Not Available	Not Available	18	16	33	22
Clubs stating that they would provide a copy of the Memorandum and Articles of Association in paper or electronic format	77	95	88	93	93	89
Clubs stating that they would provide a copy of the Memorandum and Articles of Association in electronic format	Not Available	Not Available	8	19	9	11

In terms of providing adequate notice of the AGM, 100 per cent of clubs responding to our survey stated that they provided at least 20 days notice and 94 per cent of respondents stated that an Agenda was circulated in advance of the meeting. Both of these figures are an improvement on the previous year's. The Company Law Review White Paper proposed changing the period of notice for an AGM for private companies from 21 to 14 days. However, the FA Code of Governance stipulates that there should be at least 21 days notice for an AGM and our results show that all clubs gave at least 20 days notice.

There has been a welcome improvement in the proportion of clubs that provided details of directors' histories and experience, up from 23 per cent in 2005 to 36 per cent in 2006.

Table 3.4 Board Use of the AGM to Disclose Information to Shareholders

	2002	2003	2004	2005	2006
Board gave at least 20 days notice of the AGM	87	87	94	100	100
Board circulated Agenda for the AGM in advance	91	84	90	94	97
Board circulated Annual Report or Accounts before the AGM	95	85	83	98	100
Directors' histories/resumes disclosed and/or circulated before the AGM	NA*	17	31	23	36
Directors' attendance records disclosed and/or circulated before the AGM	7	8	11	6	11
Details of Directors' pay provided before or voted on at the AGM (Listed Clubs)	4	36	36	43	54

* NA denotes Not Available

Disclosure of this information is important so that shareholders can make informed judgements about the election of directors to the board. The disclosure of directors' biographies in football is low compared to companies listed on the LSE where the disclosure rate is over 90 per cent. Similarly there has been an increase in the proportion of respondents providing information on the attendance records of directors, up to 11 per cent this year compared to 6 per cent in 2005.

However, it is still the case that the vast majority of clubs do not disclose how many directors actually turn up for meetings.

The final area of disclosure and consultation relates to directors' pay. This is an area where there continues to be a marked improvement in performance. Most of the improvement is attributable to a change in the law on 31st December 2002 that required companies to produce a remuneration report to be voted on at the AGM. The directors' Remuneration Report Regulations require all listed British companies to produce a remuneration report to be voted on at their AGM. In 2002 only 4 per cent of clubs provided details of, or voted on, directors' remuneration at the AGM. In 2006 the figure rose to 54 per cent. This is a welcome improvement.

2.2 Dialogue with Shareholders and Stakeholders

The FA Guide to Corporate Governance states that clubs should ensure that 'a satisfactory dialogue with stakeholders takes place' (The FA, 2005, p. 6).

There are various mechanisms that facilitate this including the AGM, meetings with shareholders and stakeholders and the appointment of a senior independent non-executive director available to liaise with shareholders. Our survey shows that in 2006, only 26 per cent of clubs had appointed a senior independent non-executive director to facilitate communication; this is down on previous years.

We asked clubs and supporter trusts about dialogue between the club and its shareholders. Table 3.5 illustrates that 22 per cent of clubs state that it is 'not at all difficult' consulting with shareholders, while 18 per cent of supporters' trusts state that the club is 'not at all effective' at consulting with shareholders. This difference of opinion between clubs and their stakeholders reflects a similar gap observed in the business sector as a whole. In 2004 Blue Rubicon published a survey demonstrating the gulf between business and its investors.

"It showed that half of the companies believe they work actively to anticipate the City's concerns and maintain dialogue with investors but that only 3 per cent of investors agree with that view." (PIRC, 2005, p. 5). While football is clearly not the only industry where shareholders register a lack of effective dialogue, there is still a long way to go to improve engagement between clubs and their shareholders.

Table 3.5 Dialogue/Consultation Between the Club and Shareholders*

	Percentage of Respondents	
	2006	2006
Club Survey	Supporter Survey	
How difficult do you find consulting with shareholders?	How effective is your club at consulting with shareholders?	
	%	%
Not at all difficult	22	Not at all effective 18
Moderately difficult	78	Moderately effective 71
Very difficult	0	Very effective 12

* Figures may not sum exactly due to rounding

Table 3.6 Dialogue/Consultation Between the Club and Fans*

	Percentage of Respondents					
	2001	2002	2003	2004	2005	2006
Club Survey	How difficult do you find consulting or maintaining a dialogue with fans?					
Not at all difficult	35	46	50	35	27	19
Moderately difficult	63	55	50	63	73	78
Very difficult	0	0	0	2	0	3
Supporter Survey	How effective is your club at maintaining a dialogue with fans?					
Not at all effective	26	17	26	8	25	13
Moderately effective	53	58	60	85	75	75
Very effective	17	22	14	7	3	10

* Figures may not sum to 100 per cent due to rounding or 'Don't Know'

The FA Guide to Governance stipulates that clubs should develop a policy for communicating with stakeholders. Our survey indicates that only 51 per cent of club Boards reviewed their communications policy with stakeholders on an annual basis.

We asked clubs how difficult they found consulting with fans. We also asked supporters' trusts how effective clubs were at maintaining a dialogue with fans. Table 3.6 provides an analysis of the effectiveness of clubs' dialogue with fans from the perspective of both

Thus, there seems to be a greater recognition on the part of clubs that maintaining dialogue with fans requires resources and effort, and this appears to be acknowledged by supporters.

A similar difference in perspective arises in regard to the effectiveness of clubs' customer charters. In 2006, 35 per cent of clubs responding to our survey stated that they had 'no difficulty' in implementing their customer charter, 64 per cent stated that they had only 'moderate difficulty' and no clubs reported that implementation was 'very

Table 3.7 The Implementation and Effectiveness of Customer Charters*

	Percentage of Respondents					
	2001	2002	2003	2004	2005	2006
Club Survey						
How difficult is it for you to implement the customer charter?						
Not at all difficult	25	40	29	29	28	35
Moderately difficult	57	59	62	68	72	64
Very difficult	0	0	0	2	0	0
Not applicable	17	2	10	2	0	0
Supporter Survey						
How effective is your club's customer charter at protecting and promoting the interests of fans?						
Not at all effective	20	8	26	19	21	16
Moderately effective	33	34	33	42	64	48
Very effective	2	4	4	2	0	5
Not applicable/ Don't know	24	54	37	32	15	25
Club Survey						
How effective is your club's customer charter?						
Not at all effective				6	2	3
Moderately effective				81	86	81
Very effective				10	12	17
Not applicable/ Don't know				2	0	

* Figures may not sum to 100 per cent due to rounding and some missing responses.

fans and clubs. Over the past 2 years there appears to be a greater awareness among clubs that maintaining effective dialogue is likely to involve some degree of difficulty. In 2006, 78 per cent of clubs recognised that maintaining dialogue with supporters is 'moderately difficult' and 75 per cent of supporters' trusts stated that their club was 'moderately effective'. There has been a convergence in club and supporters' trust views at the lower end of the scale. From the fans' perspective the percentage of supporters' trusts stating that clubs were 'not at all effective' fell from 25 last year to 13 per cent in 2006. Similarly, the proportion of clubs stating that maintaining dialogue was 'not at all difficult' fell from 27 to 19 per cent.

difficult' – see Table 3.7. In terms of the effectiveness of the charters, results from our supporters' trust survey show that only 5 per cent of supporters' trusts found the customer charter to be very effective at protecting and promoting the interests of fans and 16 per cent stated that the charter was not at all effective. In contrast, our results from clubs show that clubs rate the effectiveness of the customer charter more highly than supporters: 17 per cent rate the charter as 'very effective', 81 per cent rate it as 'moderately effective' and only 3 per cent of clubs rate it as 'not at all effective'. Despite these differences in opinion between clubs and trusts it is clear that over the last few years there has been a marked increase in supporters' awareness of the charters: the proportion responding 'Don't Know/Not Applicable' has fallen from 54 per cent in 2002 to 25 per cent in 2006.

These results indicate that while the customer charters offer a degree of protection to supporters they are only moderately effective at promoting supporters' interests and they therefore need to be supplemented by other mechanisms.

In 2005 the proportion of supporters' trusts that used the Charter to enforce good practice increased to 32.5 per cent in 2005 from 17 per cent in 2004. This figure has been maintained in 2006 with 32 per cent of Trusts stating that they used the Charter to good effect. In 2004 we argued that one area for improvement would be to encourage the use of clear, measurable standards of improvement of service into the charters. Almost 80 per cent of clubs state that these are incorporated into the charter, compared with 73 per cent in 2004.

2.3 Dialogue with Supporters' Trusts

The number of supporters' trusts at Premier and Football League clubs continues to grow. At clubs where there is a supporters' trust meetings take place on a monthly or more regular basis at around 60 per cent clubs of clubs (see Table 3.8).

Table 3.8 Clubs, Supporters' Trusts and Frequency of Meetings*

Club Survey	2003	2004	2005	2006
If there is a supporters' trust at your club, how often do you meet?				
More than once a week	0	7	13	NA
Weekly	28	31	17	21
Monthly	28	24	33	38
Bi-monthly or Quarterly	14	21	17	25
Other	24	10	10	13
Infrequently	7	7	10	4

* Figures may not sum to 100 due to rounding. NA denotes not available.

Around half (48 per cent) of clubs responding to our survey stated that there was a strong or very strong link between the club and their supporters' trust. In addition, 59 per cent of clubs indicated that trusts had a moderate (37 per cent) to strong (22 per cent) influence over club governance.

3. Corporate governance, the FA Guide and the Combined Code

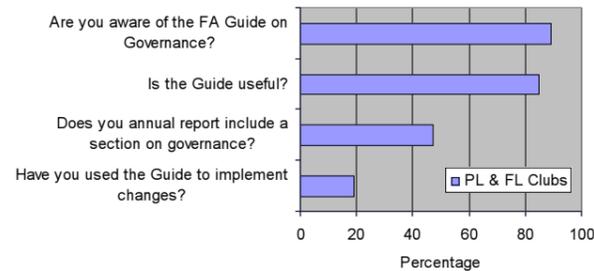
In this section we review the extent to which football clubs comply with best practice corporate governance as set out in the Combined Code and the FA Guide. The Combined Code of Corporate Governance is designed to set a benchmark for corporate governance and to promote transparency. Companies listed on the London Stock Exchange must either comply with the provisions of the code or issue a public statement explaining the rationale for each and every case of non-compliance. The idea is that if a company has a good reason for not complying with an aspect of the code it can explain this to shareholders and stakeholders who can then make an informed judgement about the impact of non-provision on the company's corporate governance and performance.

In December 2005 the FA published its Guide on Governance for clubs. The Guide is not intended to replace the combined code; instead it aims to set out best practice for football clubs, many of which are small companies not listed on the London Stock Exchange

(LSE). Clubs listed on the LSE are still required to comply with the Combined Code. The FA Guide encourages clubs to report on governance but as yet this is not a requirement.

Figure 3.6 shows that 89 per cent of clubs responding to our survey were aware of the code and that 85 per cent had found it useful. Nearly 20 per cent of clubs had already used the code to implement changes in governance. However, only 47 per cent of clubs published a statement on governance in their Annual Report. We believe that this should be made a requirement by the FA.

Figure 3.6 The FA Guide to Governance



For the purposes on continuity, much of our analysis below is based on compliance with the 1998 Combined Code. The revised 2003 Combined Code came into effect for reporting years commencing on or after 1st November 2003 and this is the first year that all LSE listed companies should comply with the new code.³ The new code incorporates the findings of the Turnbull Committee on internal control, the Smith Group on audit committees and the Higgs Review on the role of non-executive directors. These amendments were designed to strengthen the operation of the code and provide guidance on how to embed good governance practices into company procedures. Both the 1998 and the 2003 codes are based around 5 sets of principles relating to:

- A. The Board of Directors (Nominations Committee)
- B. Directors' Pay (Remuneration Committee)
- C. Accountability and Audit (Audit Committee)
- D. Relations with Shareholders
- E. Institutional Shareholders

The new combined code is only a requirement for companies listed on the London Stock Exchange, although, it is widely regarded as best practice and many companies listed on AIM and OFEX as well as some private companies issue statements of corporate governance based on the code. However, the number of listed clubs on the three main share markets has fallen again over the past year. Table 3.9 shows that there are now just 12 listed clubs and only 3 of these are listed on the LSE.

In light of this, and the publication of the FA Guide our analysis is based on the criteria we have used in previous reports supplemented by criteria from the FA Guide to Governance for Football Clubs.

Table 3.9 Listed Clubs: FA Premier and Football League

LSE	AIM	OFEX
Newcastle United	Birmingham City	Arsenal Holdings
Sheffield United	Millwall Holdings	Manchester City
Southampton Leisure	Preston North End	
	Tottenham Hotspur	
	Watford Leisure	

3.1 The Board of Directors and the Nominations Committee

The board of directors is responsible for setting the strategic direction of a company and for ensuring that the risks facing the company are effectively assessed and managed. For a board to work effectively it is important that there is a separation of powers between the Chair, who runs the board and the Chief Executive who runs the business. This is one of the criteria set out in the FA Guide for clubs that are limited companies.

It is also important that there is a balance of executive, non-executive and independent non-executive directors (NEDs and INEDs) such that no group can control the board or hamper its effective operation. NEDs and INEDs are important because they have distance from the day-to-day running of the company and can provide an external/independent perspective on company matters.

The Combined Code (1998) states that NEDs should make up at least one-third of the board and that a majority of the NEDs should be independent. It can be seen from Table 3.10 that 75 per cent of all Premier and Football League clubs comply with the combined code provision that at least a third of the board should be non-executive directors. Use of independent non-executive directors is less prevalent with only 52 per cent of all clubs having a majority of INEDs amongst their NEDs. These levels of compliance with best practice are below those observed for LSE listed companies across all business sectors.

Table 3.10 also provides information on the proportion of clubs that have a separation of the roles and powers of the Chair and Chief Executive. 84 per cent of all clubs have a separate Chair and Chief Executive. However, only 40 per cent of all clubs responding to our survey indicated that the division of responsibilities between the Chair and Chief Executive was set out in writing.

The 2003 Combined Code has strengthened these provisions by removing the waiver for small boards not to have a committee and by setting out more detail on the work of the nominations committee. In particular, it makes it clear that, "Appointments to the board should be made on merit and against objective criteria", moreover, the committee "should evaluate the balance

Table 3.10 Board Composition and Separation of Powers

	All Clubs			
	2003	2004	2005	2006
Do non-executive directors comprise at least one-third of the board?	Not Available	69	76	75
Is a majority of non-execs identified as independent?	Not Available	33	37	32
Has the company stated that there is at least one non-executive director?	55	75	82	81
Are the roles of Chairman and CEO separate?	82	84	77	84
Is the division of responsibilities between the Chair and CEO set out in writing?	38	43	30	40

Although board structure is important the strength of the board depends crucially on the skills, quality and experience of its directors. The 1998 Combined Code states that, "There should be a formal and transparent procedure for the appointment of new directors to the board." (The Combined Code 1998, Code Provisions A.5).

of skills, knowledge and experience on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment." (Combined Code 2003, Provision A.4). These principles are echoed in the FA Guide.

In addition, the 1998 Code required that the nominations committee should be comprised of a majority of independent NEDs and be chaired either by a NED or the board chairman.

Table 3.11 provides data on the proportion of clubs that have a nominations committee with a majority of non-executive directors. It can be seen that this is an area where clubs are weak.

Table 3.11 Nomination Committee and Appointments to the Board

	All Clubs			
	2002/3	2003/4	2004/5	2006
Is there a nominations committee comprising a majority of non-executive directors?	NA	4	13	5
Is there a transparent procedure for appointing new directors?	31	32	29	44

Only 5 per cent of all Premier and Football League clubs have a nominations committee with a majority of non-executive directors. In contrast 85 per cent of the LSE listed companies complied with this provision of the 1998 Combined Code. We also asked clubs if they had a transparent procedure for appointing new directors: here there has been a marked improvement on previous years – perhaps as a result of the FA Guide - but still only 44 per cent of all clubs responding to our survey stated that this was the case.

Having a board with the necessary skills is essential if clubs are to be well equipped to operate in the complex business environment of the football industry. The recruitment and selection of directors with appropriate skills is central to this task. Nominations to the board is clearly an area where many clubs would benefit from following best practice.

3.2 Induction and training for directors

The Higgs review highlighted the fact that it is not enough to make sure that there is an open and transparent procedure for appointing executive and non-executive directors on the board, it is also necessary to ensure that they receive appropriate induction and training. In particular, new directors need to be made aware of their obligations and of the time commitment involved. Table 3.12 shows that this is another area where there is considerable room for improvement. Only 11 per cent of clubs responding to our survey stated that they had an induction procedure or training for new directors.

Table 3.12 Induction, Training and Appraisal of Directors

	All Clubs			
	2002/3	2003/4	2004/5	2005/6
Is there an induction procedure or training for new board members?	12	4	4	11
Is there an appraisal procedure for directors?	10	9	15	9
Is training provided and required for directors?	2	13	4	0
Is there a supporter elected director?	16	25	25	32

A similar picture emerges for appraisal procedures and training for directors - only 9 per cent of clubs stated that they had director appraisal procedures; this is below the LSE All Share Companies' figure of 20 per cent.

Clearly this is an area of weakness in the company sector as a whole and not just the football industry. This year none of the clubs responding to our survey stated that they provided and required training for directors. Current figures for LSE companies are not available but in 2002, 46 per cent of LSE companies provided training.

In order to evaluate and enhance corporate performance the board should undertake an assessment of its own performance, the performance of its committees and that of individual directors. Table 3.13 shows that in 2006, 31 per cent of clubs stated that they carried out an evaluation of the board's own performance; 11 per cent carried out an evaluation of its committees' performance; and 25 per cent an evaluation of individual directors' performance. These figures represent a deterioration on those for 2005 despite the fact that the FA Guide recommends appraisal of the board.

3.3 Directors' pay and the Remuneration Committee

In recent years there has been much controversy over directors' pay. The Combined Code recognises that pay has to be sufficient to attract and retain qualified directors but clearly states that "companies should avoid paying more than is necessary for this purpose" (Combined CODE 1998, Provision B1). Moreover, the code requires that at least part of directors' pay should be linked to corporate and individual performance. To help ensure that these principles are upheld the code requires companies to have a remuneration committee

comprised wholly of independent non-executive directors. Table 3.14 shows that only 8 per cent of all Premier and Football League clubs responding to our survey complied with this aspect of the code.

Table 3.13 Board, Committee and Director Evaluation

Does the Board undertake an evaluation of the following?	Percentage of Respondents		
	2004	2005	2006
Board's own performance	28	37	31
Performance of its committees	13	25	11
Performance of individual directors	17	29	25

This compares unfavourably with the performance of the All-Share Companies on the LSE where the rate of compliance is well over 80 per cent.

Table 3.14 The Remuneration Committee

	All Clubs			
	2003	2004	2005	2006
Is the remuneration committee wholly comprised of independent non-executive directors?	NA*	10	12	8

* NA denotes not available

3.4 Risk, internal control and the Audit Committee

Risk has increased in the football industry over the past decade making it all the more essential for clubs to have sound procedures for risk assessment and internal control. The 1998 Combined Code recommends that companies have an audit committee with at least 3 non-executives and a majority of independent non-executives. It can be seen from Table 3.15 that only 8 per cent of clubs comply with this aspect of the code. 19 per cent of clubs put a report on internal audit controls to the board.

Table 3.16 provides analysis of the type of risk assessment and management activities that clubs carry out. It can be seen that for all clubs there have been some areas of improvement over the past 4 years.

Table 3.15 The Audit Committee

	All Clubs			
	2002/3	2003/4	2004/5	2006
Is there an audit committee with at least 3 non-execs and a majority of independent non-execs?	NA*	13	10	8
Did the board receive a report on internal audit controls?	NA*	10	NA*	19

* NA denotes not available

In particular, 83 per cent of clubs now carry out a risk evaluation and there are also improvements in the areas of risk assessment and measures to control fraud. However, there are still areas of concern. In 2006 only 49 per cent of clubs stated that they put a 3-year plan to the board for approval and there has been a slight fall in the proportion of clubs with a 1-year business plan.

Table 3.16 Risk Assessment and Management: Club Survey Results

	All Clubs			
	2003	2004	2005	2006
An evaluation of the nature and extent of the risks facing the club	47	66	75	83
The likelihood of the risks concerned, materialising	41	40	50	57
Specific risk studies and assessment of impact	26	32	31	40
Controls and procedures to limit exposure to loss of assets and fraud	45	43	46	60
Board approval of a 1-year business plan	NA*	85	98	92
Board approval of a 3-year business plan	48	62	54	49

* NA denotes not available

Overall, the results on risk management and business planning suggest that while there have been improvements in many areas of club activity, there is still a sizeable proportion of clubs that do not have the risk evaluation and business planning procedures in place to effectively manage the risks facing their clubs and to plan accordingly.

3.5 Attitudes to regulatory measures

Against the background of calls for tighter regulation of clubs and agents we asked clubs whether they favoured a number of regulatory measures designed to improve governance, reduce risk and increase transparency. The results are presented in Table 3.17. Overall there is a high level of support for all of the mechanisms.

Table 3.17 Attitudes to Regulation: Premier and Football League Clubs

Are you in favour of the following mechanisms?	Percentage of Respondents 2005	Percentage of Respondents 2006
The 'Fit and Proper Persons' Test	94	95
UEFA's Home Grown Players Rule	NA*	63
Salary Cost Management protocol	68	62
Divisional Player Wages	64	66
Agent Fee Transparency	94	94
Tighter Regulation of Agents	92	92
The Football Creditor Ruling	73	73
Sporting Sanctions for Clubs in Administration	84	86

*NA Denotes Not Available

In particular, there is almost universal support for: agent fee transparency (94 per cent); tighter regulation of agents (92 per cent); and the 'Fit and Proper Persons' Test (95 per cent). 86 per cent of clubs are in favour of sporting sanctions for clubs entering administration and almost two-thirds of clubs favour some form of salary cost controls. In 2006-07 UEFA's home grown players rule came into effect: almost two-thirds of clubs are in favour of this measure.

The very high level of support for tighter regulation of agents and agent fee transparency suggests that it is time for the authorities to act.

4. Enterprise governance

Enterprise governance is the combination of *conformance* and *performance*, where *conformance* refers to compliance with corporate governance criteria and *performance* refers to strategic aspects of business management (IFA 2004). In this section we look at two aspects of enterprise governance: financial management and resource utilisation.

4.1 Financial management

We asked clubs how concerned they were about their levels of debt. The results are presented in Table 3.18. It can be seen that there has been a welcome decrease in the percentage of clubs stating that they are 'very

Table 3.18 Levels of Debt: Premier and Football League Clubs *

How concerned are you about the levels of debt in your company?	2003	2004	2005	2006
Not concerned	6	21	16	11
Moderately concerned	79	64	61	75
Very Concerned	15	15	22	14

*Figures may not sum exactly due to rounding.

Table 3.19 Cash Flow Projections: Premier and Football League Clubs

How often are your cash flow projections updated?	Percentage of Respondents			
	2003	2004	2005	2006
Weekly	24	27	33	14
Monthly	62	65	55	78
Quarterly	4	2	10	6
6-Monthly	4	4	2	3
Other	4	2	0	0

*Figures may not sum exactly due to rounding.

There has been a change in the cash flow management techniques used by clubs reflected in an increase in the proportion of clubs deferring capital expenditure – up to 44 per cent in 2006 from 25 per cent in 2005. There has also been an increase in the use of trade credit – up to 31 per cent in 2006 compared to 22 per cent in 2005. These changes may be related to the increase in the proportion of clubs that are moderately concerned about their level of debt – up from 61 per cent in 2005 to 75 per cent in 2006.

4.2 Resource utilisation

Two of the most valuable assets of a club are: the players and the stadium. Following the Bosman ruling, it is essential that clubs have in place a process for tracking players' contracts to ensure that players do not leave on a free transfer. Since 2003 there has been a marked improvement in the tracking of players' contracts - in 2006 virtually all clubs had a tracking mechanism in place (see Table 3.20).

Table 3.20 Monitoring Players' Contracts: Premier and Football League Clubs*

Do you have a method in place for 'tracking' players' contracts (e.g. to prevent players leaving on a Bosman)?	Percentage of Respondents			
	2003	2004	2005	2006
Yes	78	98	98	97
No	16	2	0	3
Don't Know	6	0	1	0

* Figures may not sum exactly due to rounding.

A club's income on match day and non-match days will depend on the range of services offered at the stadium. Table 3.21 shows the extent of commercial use of clubs' stadia. The data show that there is scope for the majority of clubs to increase their revenue by offering a broader range of services.

Table 3.21 Stadium Utilisation: Premier and Football League Clubs

Does your stadium have?	Percentage of Respondents 2006
A club shop	100
Hotel	11
Conference Facilities	87
Creche	8
Rented office space	38
Nightclub	5
Restaurant	49
Bar open to public outside of match days	60
A health centre	14
Rented retail outlets	14

5. Conclusion

Over the past year a number of developments have highlighted the importance of good governance and strong regulation by the football authorities. The trend for English clubs to de-list from the stock market has continued bringing the question of appropriate ownership models for football clubs to the fore.

Competitive balance has continued to decline and our survey of club attitudes to redistribution show that the majority of clubs are in favour of more redistribution of TV revenue both within and across leagues, including from UEFA competitions to non-qualifying clubs. Clubs are also strongly in favour of tighter regulation of agents and greater transparency of agents' fees.

However, for redistribution of income and other regulatory reforms to work they must be introduced as part of a package of measures designed to improve corporate governance; otherwise there is a danger that greater redistribution could be used to subsidise poor management.

This year has seen the introduction of the FA's guide to governance developed in conjunction with Grant Thornton. We welcome this initiative and believe that it should be reinforced by requiring clubs to report on each and every case of non-compliance with the Guide. We also believe that it should include more provisions, for example in relation to the use of independent non-executive Directors.

As we reported last year, a key area of weakness in the corporate governance of the football sector is the appointment of directors to the board together with the lack of adequate induction procedures and training. If clubs are to be successful in the complex world of the football industry they need to ensure that they have the right skills and experience on the board and that these are constantly updated via training.

UEFA's new licensing system should help raise financial management standards in the top-flight. The Independent European Sport Review has recommended stronger monitoring and compliance checks by UEFA to help promote a level playing field across Europe. The review also advocates introducing a Code of Corporate Governance across Europe. We believe that both of these initiatives would strengthen European clubs and European football.

Our survey of clubs reveals a high degree of support for measures to improve the governance and regulation of football. The football authorities should take note and act.

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The Football Conference

This chapter looks at governance practices within the Football Conference, the top level of non-league football since 1979. Since 2002 the Football Conference has overseen a number of developments that have enhanced the status and recognition of football outside the Premier League and Football League. Structurally, the semi-professional game has undergone major changes, resulting in the Football Conference expanding to three divisions with, at present, 68 member clubs. The introduction of a play-off system increased the number of promotion places between the Football Conference and the Football League from one to two. The Football Conference has increased the level of central funding that gets distributed to clubs through enhanced sponsorship. It has overseen the development of live Conference football on television, presently available through Sky, but from season 2007/2008 through Setanta Sports after a five-year deal to show 79 games a season was signed in August 2006. These structural and commercial developments have coincided with an increase in the number of member clubs in the Conference National Division making the transition from offering part-time player contracts to full-time contracts. These developments have meant that adhering to good governance practices and putting in place sound business procedures are increasingly important at member clubs within the Football Conference.

The need for clubs in the Football Conference to maintain good standards of governance and financial management has been evident during the past twelve months. In June, the Football Conference board took the decision to demote Scarborough Football Club to the Conference North and deduct 10 points for the start of the 2006/07 season over concerns surrounding the financial management of the club. These concerns seem justified given that Scarborough entered into a Company Voluntary Arrangement in June, their third in six years and only three weeks after exiting administration. Crawley Town also took the decision to enter into administration in June with debts of £1.1 million, only a year after being taken over, resulting in a ten-point penalty, while Canvey Island took the decision to resign from the Conference and start in the Ryman League after their benefactor withdrew further financial support. The latter case highlights that having a wealthy benefactor does not necessarily offer a sustainable business model for a football club.

This chapter is structured as follows. Section 1 analyses the survey returns received from clubs in the Conference National Division. This is the third year that these clubs have been involved in the survey and the response rate this year was 59 per cent, the same as the response rate in 2005, although slightly lower than

the 62 per cent of clubs that took part in 2004. Section 2 then reports the findings from the clubs in the Conference North and South. The return rate of 66 per cent this year was a rise on the 64 per cent that responded last year, their first year of inclusion in the survey. Overall, the response rate from clubs in the Conference National, North and South was 64 per cent. Section 3 looks at the relationships between clubs in the Conference National, North and South, and a number of stakeholder organisations. This section discusses the relationships clubs have with the football authorities – the FA and the Football Conference – before looking at their attitudes towards a number of regulatory measures that the FA and the Football Conference have put in place to improve standards of governance at member clubs. We then turn to the relationships that Conference National, North and South clubs have with a number of other stakeholder groups, in particular focusing on the work that Conference clubs undertake in their communities.

1. Corporate Governance standards at Conference National Clubs

The following section assesses the survey returns from the Conference National clubs and compares them with the survey results from 2004 and 2005. It analyses the results using aspects from the Combined Code of Corporate Governance (2003) as a benchmark, in particular code provisions relating to directors, accountability and audit, and shareholder relations. Some of the best-practice recommendations are also features of the FA's Guide of Governance, introduced to clubs in the Football Conference in December 2005 as a benchmark of best-practice. The attitude of Conference clubs towards the Guide is reported in section 3.

1.1. The Board

The Combined Code (2003) recommends that all companies should be headed by an effective board, with the code provision stating that regular meetings are necessary so that the board can operate effectively. It also stresses the need for boards to avoid being too large and unwieldy, and hence ineffective in decision-making. The survey results revealed that the average number of board members at clubs in the Conference National Division in 2006 was seven, identical to the results for both 2004 and 2005. This is consistent with the Higgs Review (2003), which found that for smaller listed companies outside the FTSE 350, the average size of the board was six.

The survey results also revealed that football club boards in the Conference National Division met on average 10 times per year in 2006, compared with an average of 12 meetings in 2005 and 10 meetings in 2004. Figure 4.1 shows that 62 per cent of clubs felt that the number of board meetings held was adequate in 2006; a fall from 67 per cent in 2005 and 69 per cent in 2004. With regard to board agendas, 62 per cent of clubs felt that they provided appropriate time to discuss significant issues compared to 77 per cent for both 2004 and 2005.

Figure 4.1 also shows that the majority of club boards in 2006 understood their duties and responsibilities with 77 per cent of respondents stating so. This was identical to the response for 2005, although it was lower than the 92 per cent of clubs in 2004 that felt the board understood its duties and responsibilities. However, the duties and responsibilities of the board and board committees in most instances were not formally presented, with only 15 per cent of clubs stating that they had terms of reference for the board and committees in 2006. This is an identical response to the 2004 survey, but represents a significant fall from the 38 per cent response in 2005.

The Chairman and Chief Executive

The provision laid out in the Combined Code (2003) states that there should be a division of responsibility between the chief executive and chairman and that the roles should be set out in writing and agreed by the board. This is to avoid one individual having too much power, dominance and influence over the operations of a firm. Although the code provision relates specifically to listed companies, the Financial Advisory Committee (FAC) of the FA sees this as a key issue in the football industry:

“The FAC believes that one of the single biggest threats to the long-term future of a club is the dominance of it by one or two key individuals. This is usually exemplified by a reliance on an individual(s) for continued funding and can lead to a breakdown of internal checks and controls within a club.”

(Football Association, 2004: 6)

Figure 4.1 The Board

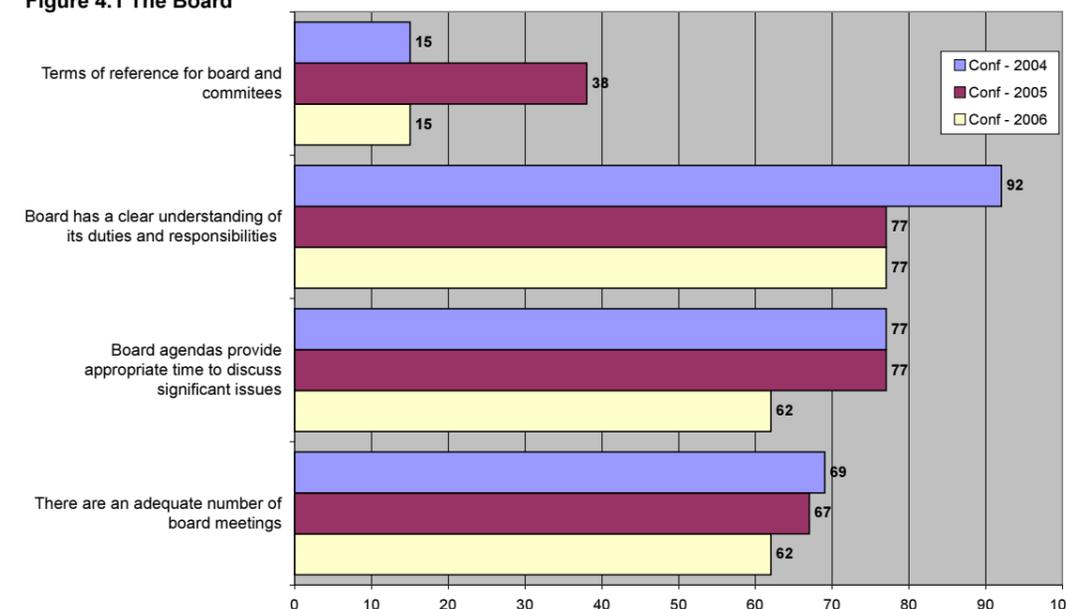


Figure 4.2 reveals that the roles of chief executive and chair were separate in 46 per cent of Conference National club respondents in 2006. This is significantly lower than the 62 per cent response in 2005 and 54 per cent in 2004 – a worrying trend given the stance of the Financial Advisory Committee. However, there were a number of clubs in the survey that did not employ a chief executive, which goes some way to explain the low figure.

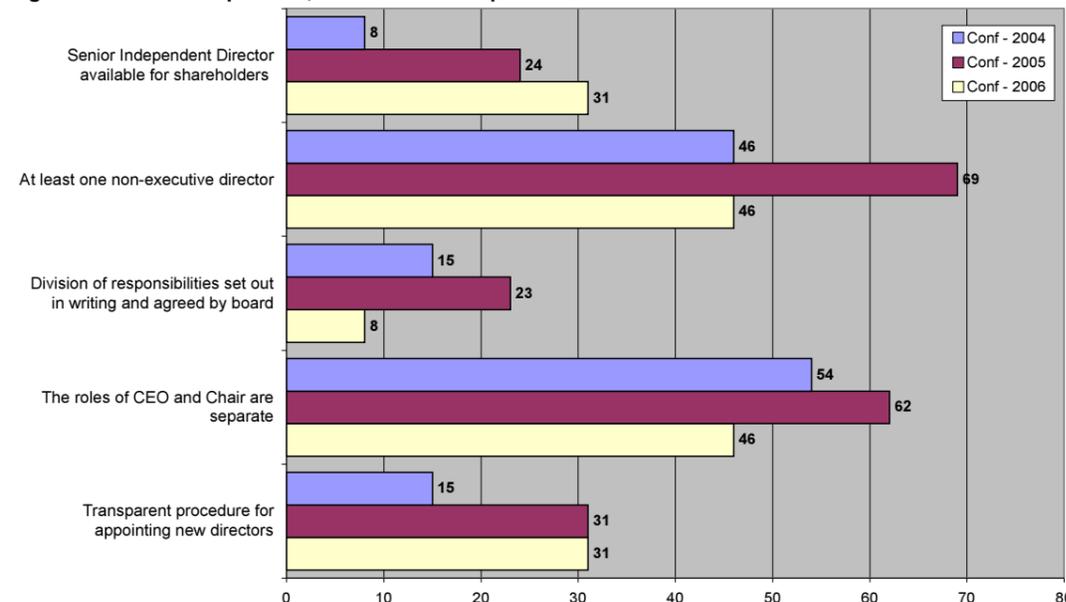
Board Balance and Independence

In addition to the separation between the roles of chief executive and chair, the Combined Code (2003) also recommends that there should be a balance of executive and non-executive directors, and in particular independent non-executive directors so that an individual or a small group of individuals do not have excessive power over the decision-making processes of an organisation. Indeed, the provisions of the code maintain that at least half the board – excluding the chair – should comprise independent non-executive directors. An exception is made for smaller companies where it is expected that there should be at least two independent non-executive directors. Figure 4.2 reveals that only 46 per cent of clubs in the Conference National Division have at least one non-executive director – significantly fewer than in 2005 – although 31 per cent stated that they have a senior independent non-executive director available for shareholders. This is an improvement on 2005 and 2004.

Board Appointments, Information and Professional Development

The Combined Code (2003) states that there should be a formal, transparent and objective procedure when appointing new directors to the board of an organisation. In the Conference National Division, the survey results revealed that in general, there is a lack of transparency regarding board selection. Indeed, Figure 4.2 reports that only 31 per cent of clubs in 2006 and 2005, and 15 per cent in 2004, stated that they had in place a transparent procedure for appointing new directors. However, no club in the survey had a nominations committee; a mechanism through which the process of board appointments is both formal and transparent. The survey results also revealed that information and professional development are two areas where there is much room for improvement as no club that responded from the Conference National required their directors to undergo a formal induction process, offered an induction pack for new directors, or offered directors the opportunity to update their skills and knowledge through training. While this shows that the majority of clubs in the Conference National fall short of best practice as outlined in the Combined Code (2003), it suggests that given the size of the clubs, these mechanisms might not be considered appropriate or relevant in the Conference National.

Figure 4.2 Board Composition, Balance and Independence



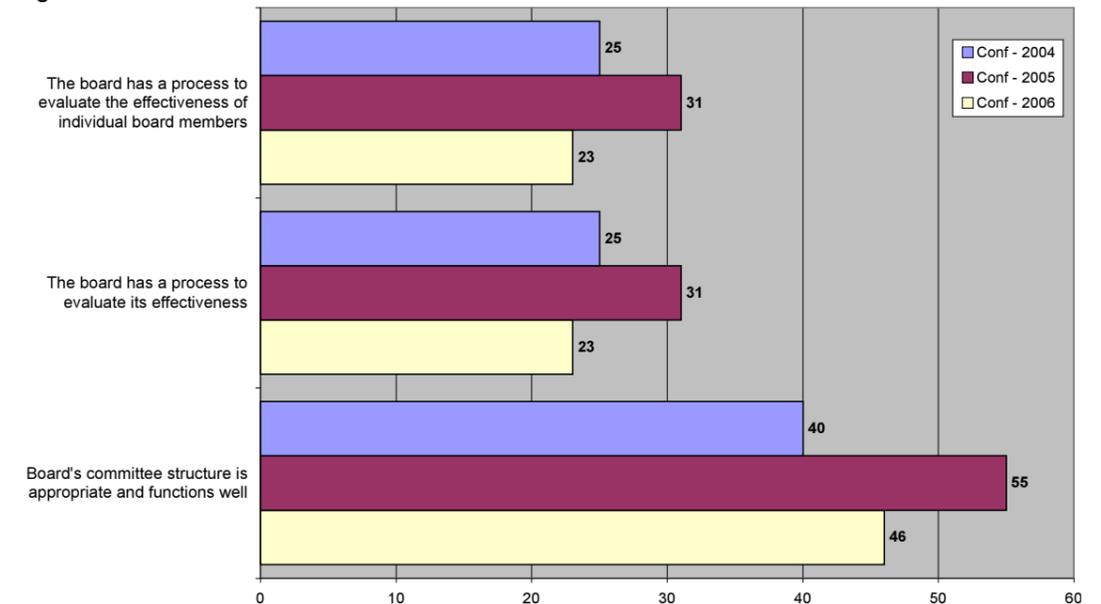
Performance Evaluation

Figure 4.3 reports the club survey results regarding board evaluation. The Combined Code (2003) states that the board of directors should evaluate their performance, both as a group and individually. Board evaluation provides a mechanism to monitor the effectiveness of individual and board contributions to the performance of the organisation and assess areas of strength and weakness. Only 23 per cent of clubs had a process to evaluate the effectiveness of the board in 2006. This has fallen from 31 per cent in 2005 and 25 per cent in 2004. A similar trend can be seen for individual board member evaluation. In 2006, 23 per cent of clubs stated such a process was in place, compared to 31 per cent in 2005 and 25 per cent in 2004. The Combined Code (2003) also maintains that a company board should evaluate the performance of its committees. The survey results revealed that 46 per cent of club respondents claimed their committee structure is appropriate and functions well in 2006; a fall from 55 per cent in 2005, but an improvement on the 40 per cent in 2004.

1.2. Accountability and Audit

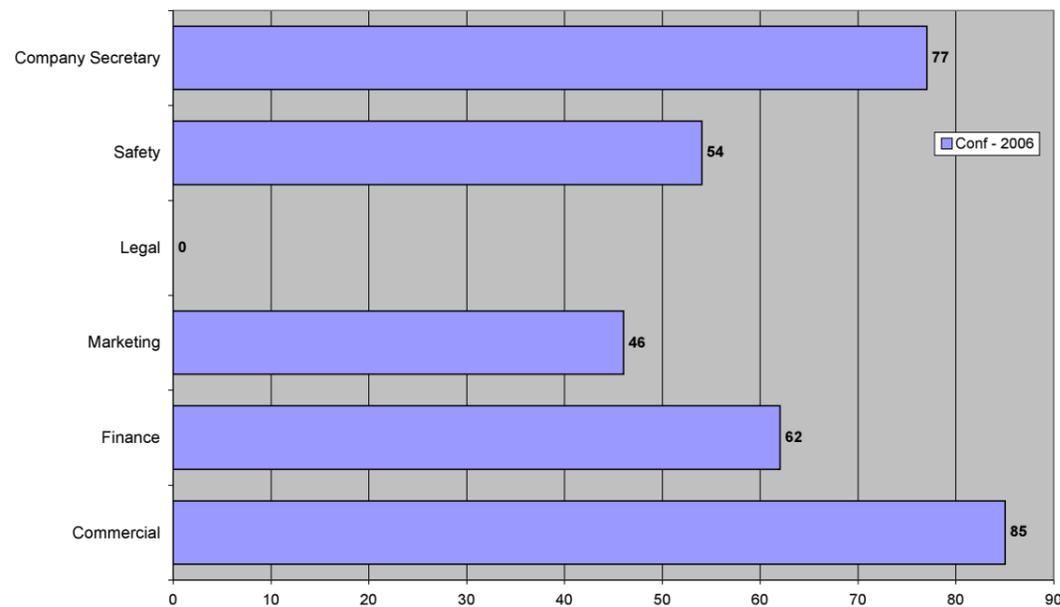
Internal control refers to the financial and operational management procedures that the board of an organisation puts in place to minimise risk, meet business objectives, and allow the continued sustainability of an organisation. However, before looking at risk assessment procedures, business planning and cash flow management at clubs in the Conference National, it is important to consider the balance of skills and experience available to clubs. Even within the Conference National, having a management team with expertise available to call upon if necessary is important for the day-to-day operations of a football club. With a management team in place, operations should be carried out more efficiently and effectively, with clear lines of accountability and control. The FA Guide of Governance states that the executive body of a football club should have at least three members with a balance of skills and experience to maximise the performance of the club. Figure 4.4 indicates the percentage of clubs that stated they had an individual at the club responsible for different operational areas. At 85 per cent of clubs, there was an individual responsible for commercial operations while there was someone responsible for marketing at 46 per cent of club respondents.

Figure 4.3 Performance Evaluation



Company Law states that a requirement of being constituted as a limited company is that there should be a company secretary. Figure 4.4 reveals that 77 per cent of clubs in the Conference National stated that they had a company secretary within their management team. However, with smaller football clubs, they will often employ a legal firm to act as a company secretary and deal with legal issues. This is why no club respondent from the Conference National had an individual responsible for legal issues. Moreover, 62 per cent of clubs had an individual in their management team responsible for finance. Again, this could be because some clubs do not have the resources to employ someone specifically for this role, so financial concerns are outsourced to an accountancy firm. Finally, Figure 4.4 reveals that only 54 per cent of clubs have an individual responsible for safety in their management team. This question was new to the survey in 2006.

Figure 4.4 Expertise within the Management Team



While having a management structure is important to the operation of a football club, the Higgs Report (2003) was clear in stating that having good governance structures in place at an organisation can only minimise rather than eliminate risk. To assist company directors with risk management and the requirements of the Combined Code, the Turnbull Report (1999) aimed to make directors more aware of the importance of internal control. The recommendations made by the report are included in the Combined Code (2003).

With regard to risk management, the key considerations faced by the board are:

- The nature and extent of the risks facing the company
- The extent and categories of risk which it regards as acceptable for the company to bear
- The likelihood of the risks materialising
- The company's ability to reduce the incidence and impact on the business of risks that do materialise
- The costs of operating particular controls relative to the benefit thereby obtained in managing the related risks (Turnbull, 1999: point 17: 6)

The issue of risk has been high on the agenda within the football industry over the course of the last five years. Factors such as the collapse of ITV Digital and rising player wages have contributed to continued pre-tax losses sustained by many clubs in the Premier and

Football Leagues, with 23 clubs having undergone insolvency proceedings since 2000 (Deloitte and Touche, 2005: appendix 18). However, risk assessment and management is also a serious concern for clubs in the Conference National Division given that the majority now operate with full-time playing squads. Despite this, Figure 4.5 reveals that the percentage of clubs in the Conference National Division that have put in place formal internal control and risk assessment procedures is not as high as might be expected, with just 54 per

cent responding that they have in place a process to identify and evaluate risks to the club. However, this is a significant rise from the 39 per cent of clubs in 2005, and slightly better than the 50 per cent in 2004.

Figure 4.5 also shows specific risk evaluation procedures and the percentage of clubs that had such procedures in place. It is disappointing to see that less than half the clubs in the Conference National have the particular procedures in place. For instance, only 38 per cent of clubs identified the categories or extent of risks that they faced – although this represents an improvement on the 23 per cent and 33 per cent in 2005 and 2004 respectively. The proportion of clubs that considered the financial implication of identified risks was 31 per cent in 2006 and 2005, down from 42 per cent of club respondents in 2004. Figure 4.5 also shows that the incidence of clubs that assessed the likelihood of risks materialising fell from 42 per cent in 2004 to 31 per cent in 2005, with a further drop to 23 per cent in 2006. Only 8 per cent of clubs conducted specific risk studies and the assessment of the impact of risks in 2006 – the same as the previous two years. It was disappointing to find no clubs having procedures to limit exposure to the loss of assets or fraud.

The importance of putting in place a risk assessment procedure has more significance this year given that 62 per cent of clubs in the Conference National Division stated that they found it difficult to maintain the solvency of the football club, a large rise from 17 per cent in 2005 and 46 per cent in 2004. Figure 4.6 also shows that 31 per cent of clubs stated that they were concerned over the levels of debt at the football club. Given these figures, a business plan is an essential measure of internal control that can help to minimise risk by making clear the objectives of the company and the strategies used to fulfil those objectives, while presenting financial forecasts and analysis for the forthcoming operating year(s). Despite this, in 2006, only 77 per cent of clubs in the Conference National Division had a one-year business plan, while 38 per cent had a three-year business plan. These results were not as impressive as the results for both 2004 and 2005. However, it is good to see that all clubs in the Conference National Division now track player contracts.

Figure 4.5 Risk Assessment Procedures

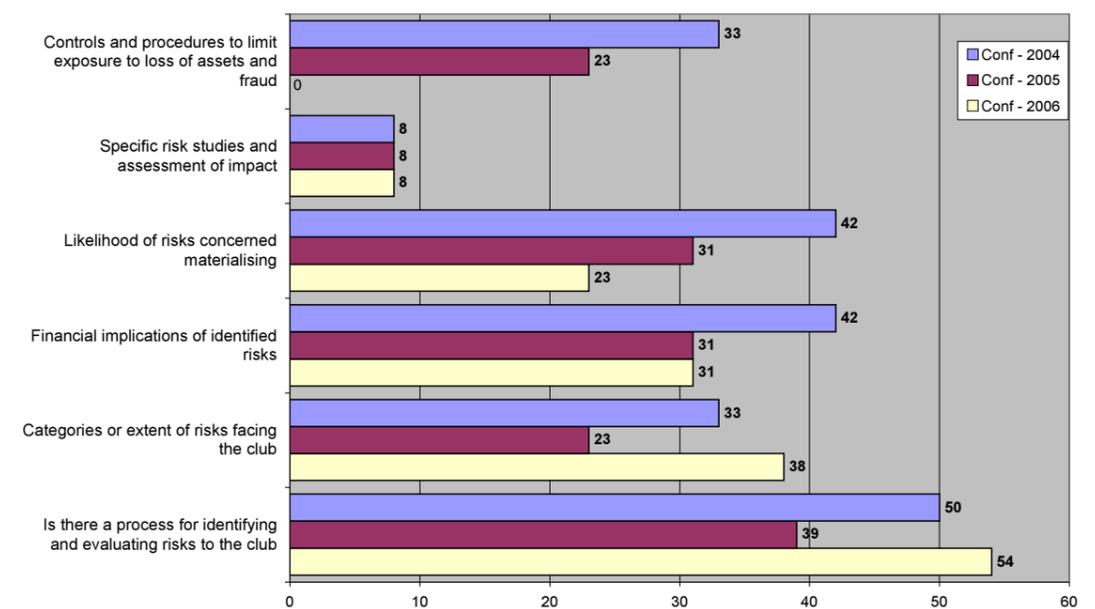


Figure 4.6 Business Planning and Debt

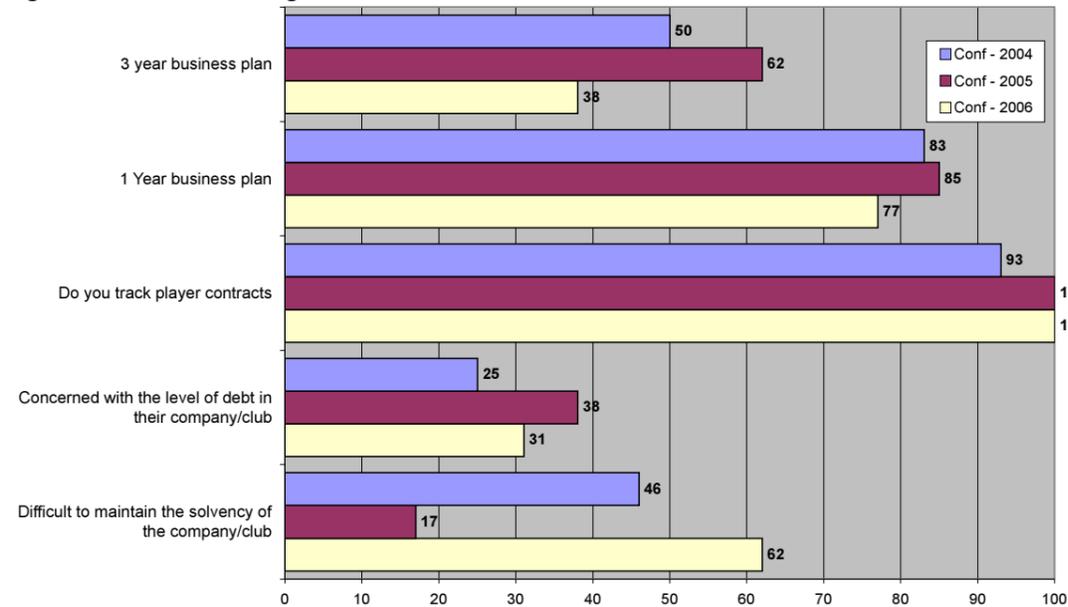


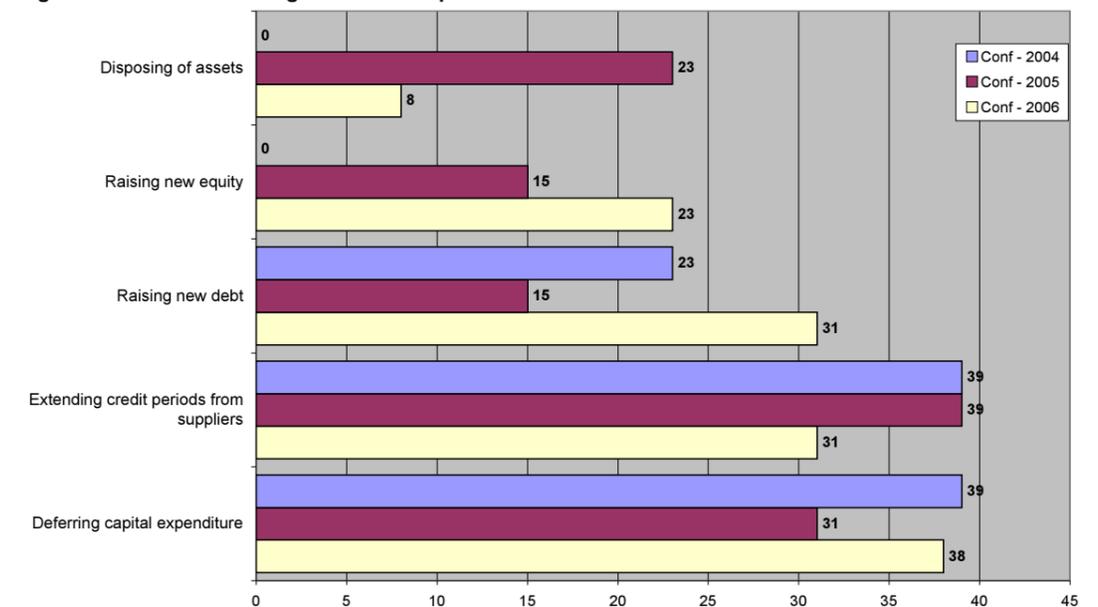
Figure 4.6 showed that the percentage of clubs that find it difficult to maintain the solvency of the club has risen significantly since 2005. Therefore it is critical for football clubs in the Conference National Division to regularly update their cash flow projections as these are central to financial management and a critical requirement in the operation of a business. The percentage of clubs that updated their cash flow projections at least every month was 62 per cent in 2006, 69 per cent in 2005 and 85 per cent in 2004. This is worrying given the rise in clubs stating that they had difficulty in maintaining the solvency of the club.

Figure 4.7 shows particular cash flow management techniques used by clubs in the Conference National three months previous to the completion of the survey. In some cases, usage had fallen compared to previous surveys. For instance, in 2006, 31 per cent had extended credit periods from suppliers, less than the 39 per cent of clubs in 2005 and 2004, while only 8 per cent had disposed of assets in 2006, compared with 23 per cent in 2005. However, usage of other methods of cash flow management had increased with 23 per cent stating that they had raised new equity, 31 per cent having raised new debt, and 38 per cent also having deferred capital expenditure in 2006. The increase in the use of cash flow management techniques is consistent with the findings that more clubs in the Conference National Division are finding it difficult to maintain the solvency of the football club, therefore having to use additional ways to manage their cash flows.

1.3 Relations with Shareholders

Between 2004 and 2006, the survey asked clubs in the Conference National Division a number of questions designed to assess how well they engaged with their shareholders. Figure 4.8 reveals the survey results. The clubs were asked how difficult it was to consult with shareholders: in 2004, 69 per cent responded that it was not difficult, compared with 42 per cent in 2005 and just 31 per cent in 2006. Only 38 per cent of clubs in the Conference National stated that the chair of the board discusses governance issues with shareholders, down from 54 per cent in 2005 and 46 per cent in 2004. The Companies Act 1985 states that copies of the share register and memorandum and articles of association must be made available on request to shareholders. The majority of Conference National clubs stated that they would adhere to this – 62 per cent in 2006, up from 54 per cent in both 2004 and 2005. In addition, 62 per cent of clubs in 2006 would provide a copy of the memorandum and articles of association compared to 77 per cent in 2004 and 2005. These results suggest that a number of clubs are ignorant of company law concerning the rights of shareholders to company information.

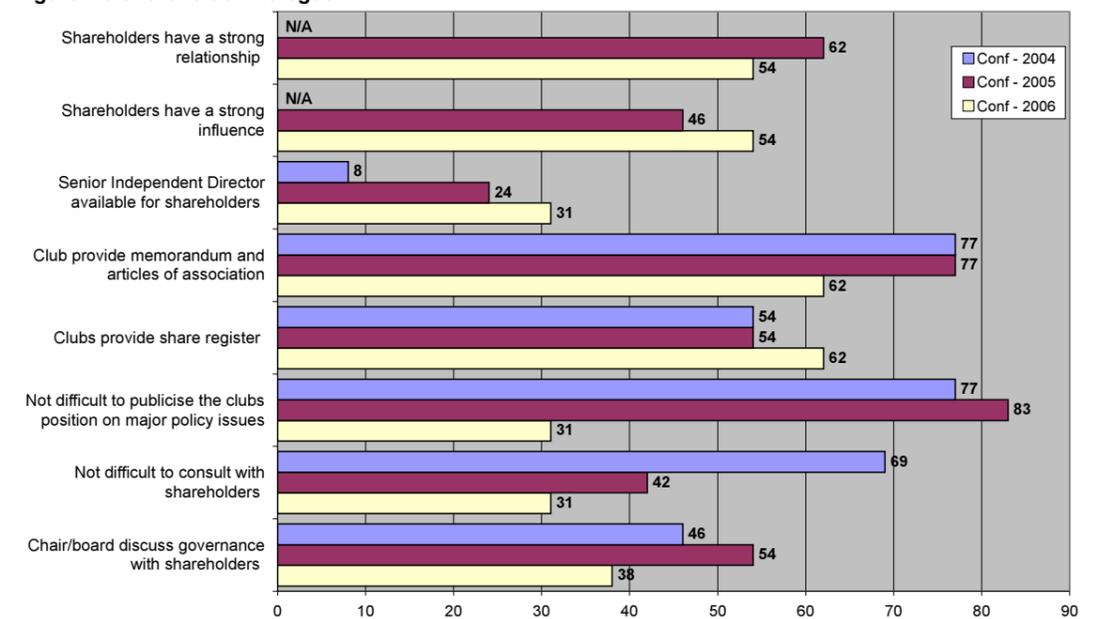
Figure 4.7 Cash Flow Management Techniques



In terms of the relationship with club shareholders, 54 per cent of clubs claimed that shareholders had a strong influence over the way the club is governed – a significant increase on the 46 per cent in 2004 – while 54 per cent also reported that shareholders have a strong relationship with the club, slightly less than the

62 per cent in 2005. The survey also asked clubs to state how difficult they found publicising their position on major policy issues. Figure 4.8 reports that 31 per cent claimed it was not difficult in 2006, compared to the much higher figures of 83 per cent and 77 per cent in 2005 and 2004 respectively.

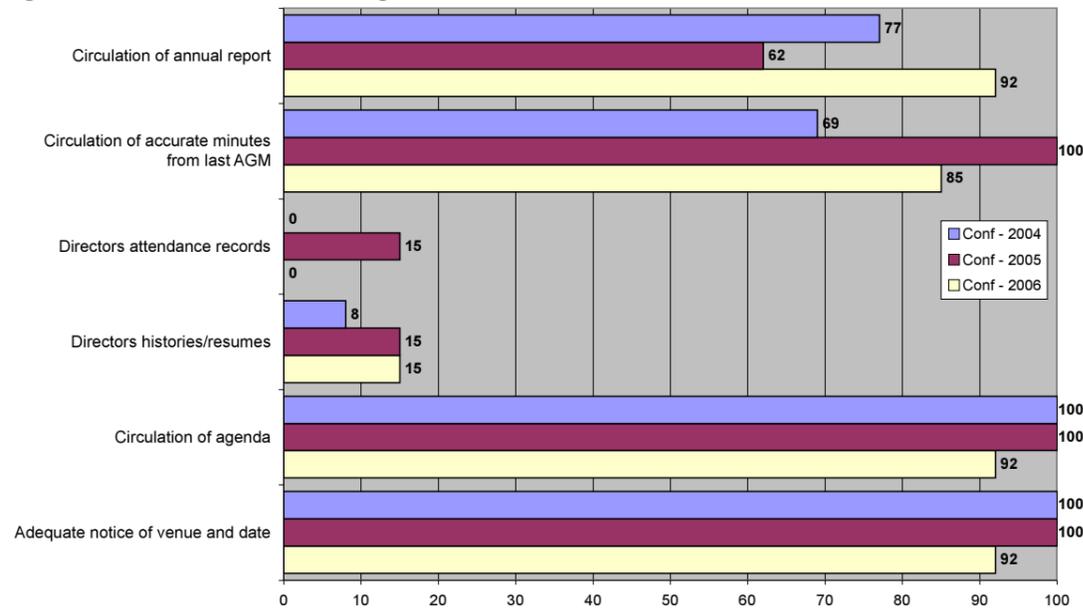
Figure 4.8 Shareholder Dialogue



The Annual General Meeting

The Annual General Meeting (AGM) provides the means by which a company can disclose information to shareholders, and in turn offers shareholders the opportunity to question the performance of the board. With regard to the information provided to shareholders, the Combined Code (2003) states that shareholders should receive at least 20 days notice. In 2006, 92 per cent of clubs in the Conference National Division provided adequate notice of the venue and the date of the AGM. This had fallen from 100 per cent in 2005 and 2004. These figures were exactly the same for the circulation of the agenda prior to the AGM. In 2006, 92 per cent of clubs stated they would circulate the annual report, a large rise from 62 per cent in 2005 and 77 per cent in 2004, while 85 per cent circulated accurate minutes from the previous AGM. Other information relating to the AGM included directors' attendance records and resumes (Figure 4.9).

Figure 4.9 The Annual General Meeting



The AGM also offers shareholders an opportunity to enquire into board performance and to question the board over the governance of the company. The survey asked the clubs in the Conference National Division the nature of shareholder questions at their last AGM. The survey results revealed that the majority of questions in 2006 were considered to be either constructive (54 per cent) or very constructive (15 per cent).

2. Corporate Governance standards at Conference North and South Clubs

This section presents the survey results for the clubs in the Conference North and South. This is the second year in which these clubs have participated, and the following section compares the responses with the survey results from last year and the results for the Conference National Division this year. Although these clubs are smaller than their counterparts in the Conference National Division, it is still important that good business practice and governance procedures are in place in order to achieve long-term sustainability. Therefore, whilst many principles of the Combined Code (2003) are not as relevant for football clubs in the Conference North and South as they are for Conference National clubs, certain aspects of best-practice governance do have some degree of applicability. For this reason, the following survey analysis continues to use the Combined Code (2003) as a best-practice

benchmark, but understands that the applicability of some aspects of the Code at the level of Conference North and South clubs may be questionable.

2.1 The Board

In 2005, the average board size at clubs in the Conference North and South was eight, meeting 12 times per year. This year, the average number of board members was seven, again meeting an average of 12 times per year.

Figure 4.10 shows that 66 per cent of clubs felt this was an adequate number of board meetings. Figure 4.10 also shows that only 31 per cent of clubs in the Conference North and South have a separate chairman and chief executive. However, given the size of the clubs, there are a number that don't employ a chief executive, which helps to explain these low figures although they are comparable to the results for the Conference National clubs. It is encouraging also to see that 54 per cent of the clubs in the Conference North and South have at least one non-executive director on the board. This is slightly higher than the 52 per cent in 2005. However, 32 per cent have terms of reference for the board and committees, slightly lower than the 43 per cent response rate in 2005. Despite these results, 78 per cent of clubs in the Conference North and South stated that their board had a clear understanding of its duties and responsibilities. This is very similar to the 79 per cent last year and the 77 per cent in the Conference National Division.

Figure 4.10 also reveals that 62 per cent of clubs in the Conference North and South thought that board agendas provide appropriate time to discuss issues.

Even at clubs in the Conference North and South there is a need for individuals with certain skills and expertise to fulfil various roles. Figure 4.11 shows the percentage of clubs that stated they had an individual at the club responsible for commercial, financial, marketing, legal, and safety issues. It also shows the percentage of clubs with a company secretary in their management team. It is pleasing to see that the results are comparable to the clubs in the Conference National Division, with 86 per cent and 43 per cent having in place an individual responsible for commercial operations and marketing operations respectively. Given the size of clubs in the Conference North and South, the commercial and marketing function will often be undertaken by the same individual. 75 per cent have a company secretary at the club, 61 per cent have someone responsible for finance and there is an individual responsible for legal matters within the management team at seven per cent of club respondents. In 57 per cent of cases, there is also somebody responsible for safety issues within the management team.

Figure 4.10 The Board

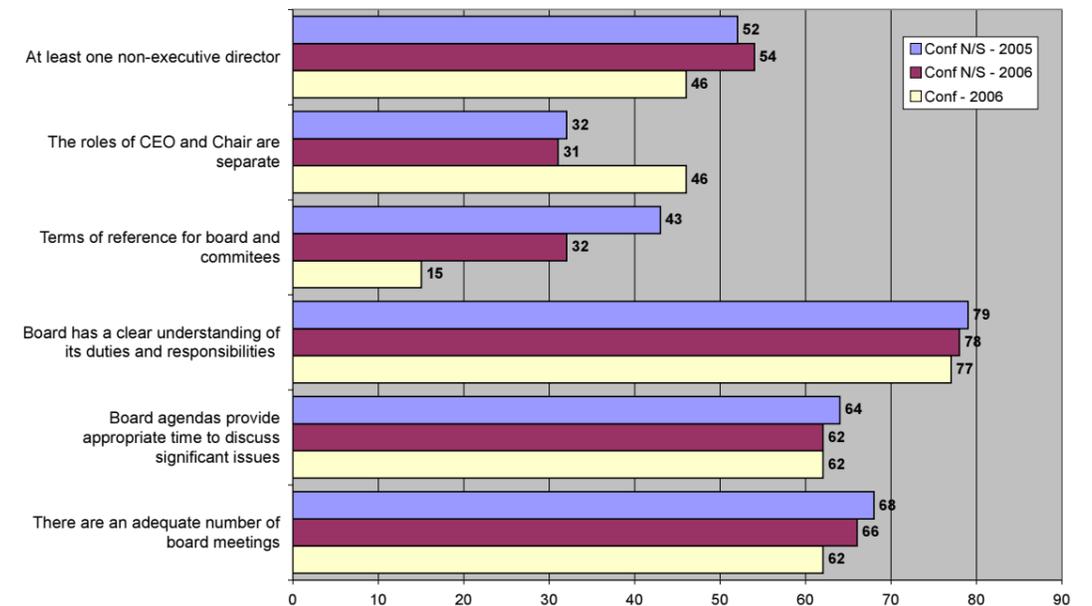
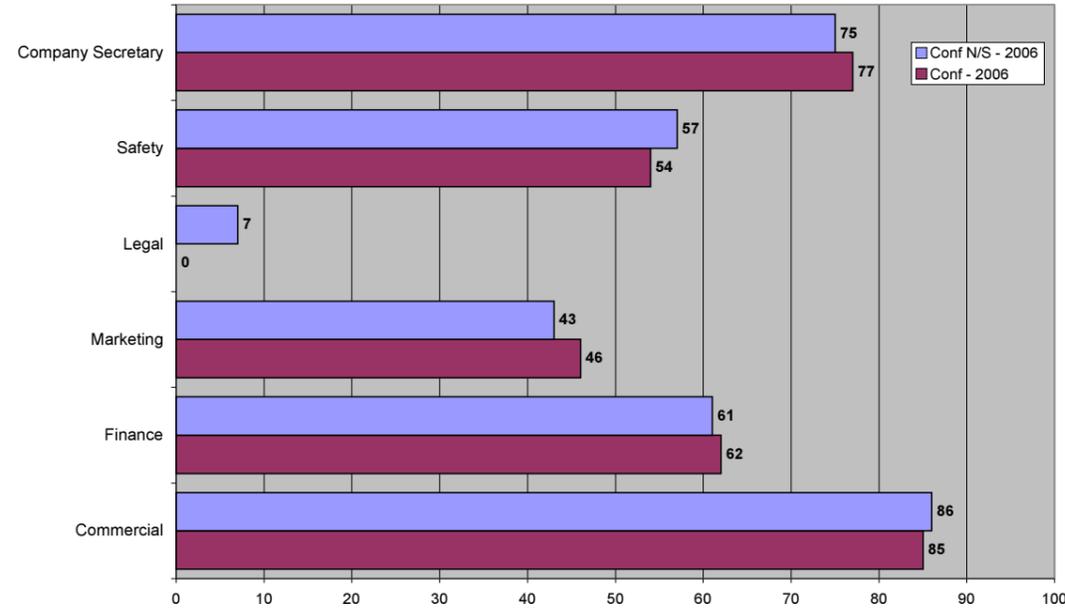


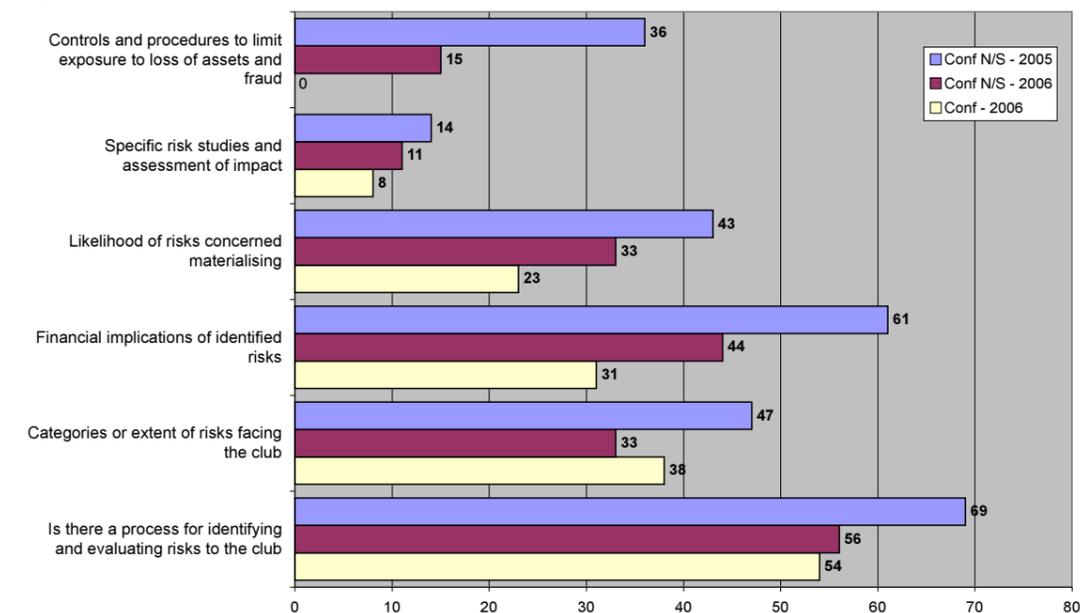
Figure 4.11 Expertise within the Management Team



In 2005, 69 per cent of clubs in the Conference North and South had a process to identify risks to the club. However, Figure 4.12 shows that this year, this has fallen to 56 per cent. It is also disappointing to see that the percentage of clubs that stated they have particular risk assessment procedures in place also fell.

For instance, only 33 per cent of clubs identified the categories or extent of risks that they faced, down from 47 per cent in 2005. 44 per cent considered the financial implication of identified risks, a fall from 61 per cent last year. The percentage of clubs that assessed the likelihood of risks materialising fell from 43 per cent

Figure 4.12 Risk Assessment Procedures



in 2005 to 33 per cent in 2006, while only 11 per cent of clubs conducted specific risk studies. Finally, Figure 4.12 reveals that 15 per cent of clubs in the Conference North and South in 2006 stated that they had put in place controls or procedures to limit exposure to the loss of assets or fraud – significantly less than the 36 per cent in 2005.

Although there has been a fall in the percentage of clubs in the Conference North and South that have a process for identifying risks to the club, it is pleasing to see that 85 per cent have a one-year business plan in place – an improvement from the 79 per cent in 2005. Figure 4.13 also shows that 25 per cent have a three-year business plan. These are encouraging given that there has been an increase in the percentage of clubs that found it difficult to maintain the solvency of the football club, from 48 per cent in 2005 to 54 per cent in 2006. There has also been a very small increase in concern over the levels of debt with 30 per cent of clubs in 2006 responding compared to 26 per cent in 2005. However, in both cases, Figure 4.13 shows a higher response rate for clubs in the Conference

National. Finally, even for clubs in the Conference North and South, it appears that there are implications to losing a player on a free transfer as 89 per cent claim to track player contracts.

Figure 4.13 reports a small rise in the percentage of clubs that find it difficult to maintain the solvency of their club since 2005. Some of the results in Figure 4.14 that show particular cash flow management techniques used by clubs in the Conference North and South three months previous to the completion of the survey may reflect this. For instance, 39 per cent of clubs had raised new equity compared to 29 per cent in 2005. 39 per cent had extended credit periods from suppliers compared with 36 per cent in 2005, while 29 per cent had deferred capital expenditure in 2006 compared with 25 per cent in 2005. However, fewer clubs had raised new debt: 11 per cent in 2006 compared to 14 per cent in 2005. This result compares favourably to the Conference National clubs where 33 per cent had raised new debt. Figure 4.14 also shows that just 4 per cent had disposed of assets. On the whole, these results are similar to the clubs in the Conference National.

Figure 4.13 Business Planning and Debt

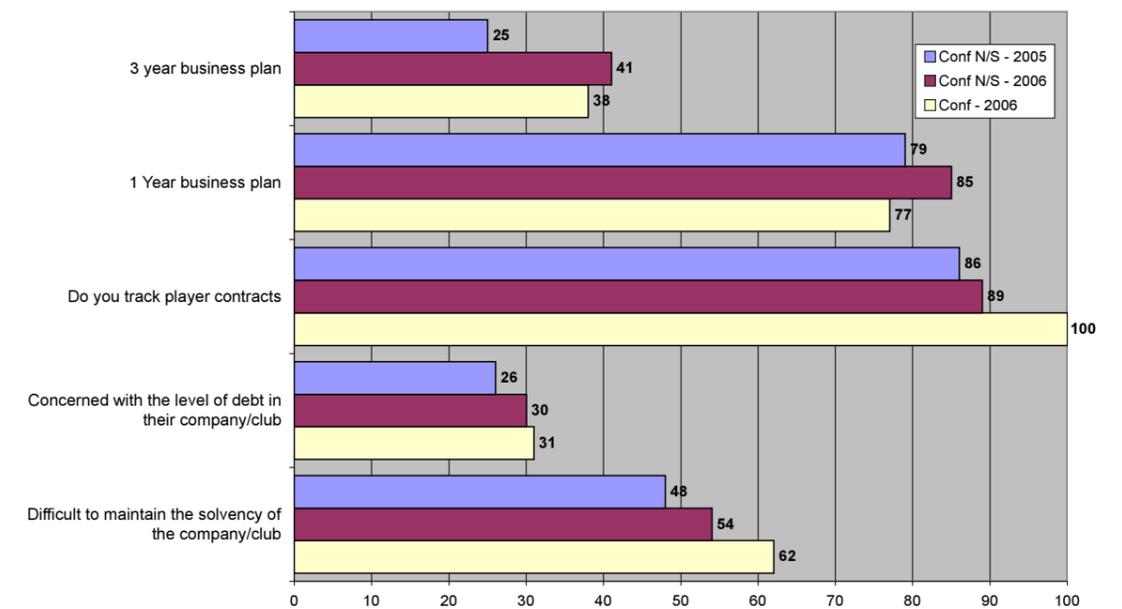
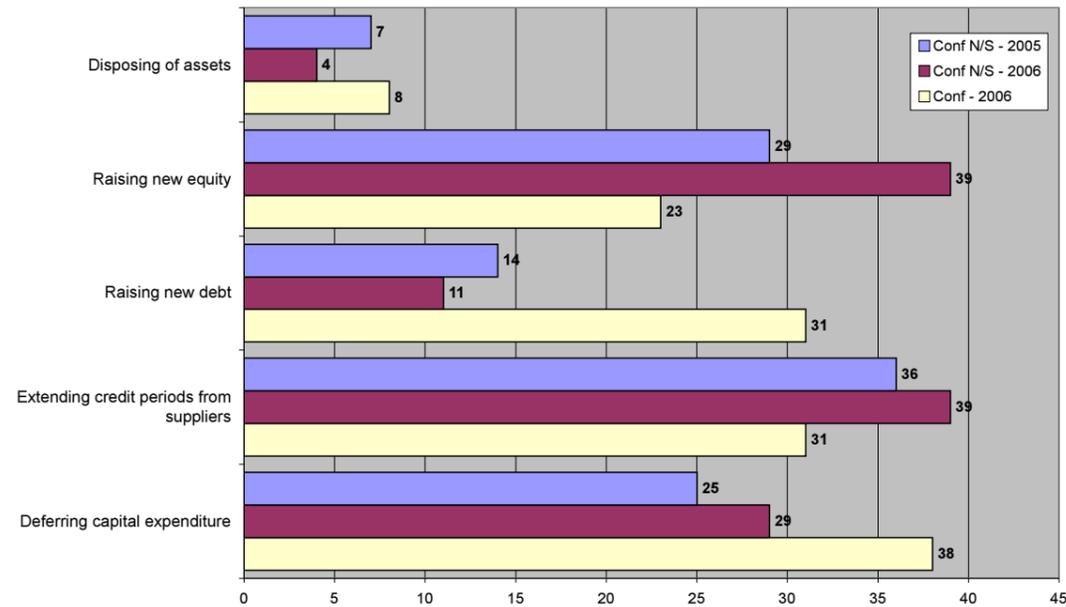


Figure 4.14 Cash Flow Management Techniques



3. Stakeholder Relations in the Football Conference

The 2005 *State of the Game* included a chapter on stakeholder relations, looking at a range of diverse stakeholder organisations and asked clubs to comment on the strength of the relationship that they had with these organisations and the level of influence that the stakeholder groups had over the way the club was governed. This section builds on that chapter by looking more closely at the relationship between clubs in the Conference National, North and South Divisions and the Football Association, in addition to the relationship with the league – the Football Conference – in which the clubs play. This section then reports the attitude of clubs in the Conference National, North and South towards a number of regulatory measures before looking more closely at the Approved Playing Budget and the FA Guide of Governance, introduced by the Football Association last December. Following this, we look at the strength of the relationships between clubs and a number of stakeholder groups in addition to the level of influence that the stakeholder organisations had over the governance of the club. The aim is to determine which organisations have the closest relationships with clubs in the Conference National, North and South, and which of these organisations are able to exert the most influence over the way the clubs are governed.

With the local community a key stakeholder for clubs in the Football Conference, this section concludes by looking at the support the Conference clubs provide to their community schemes and the reasons why clubs get involved with their local communities.

3.1 Relationships with the Football Authorities

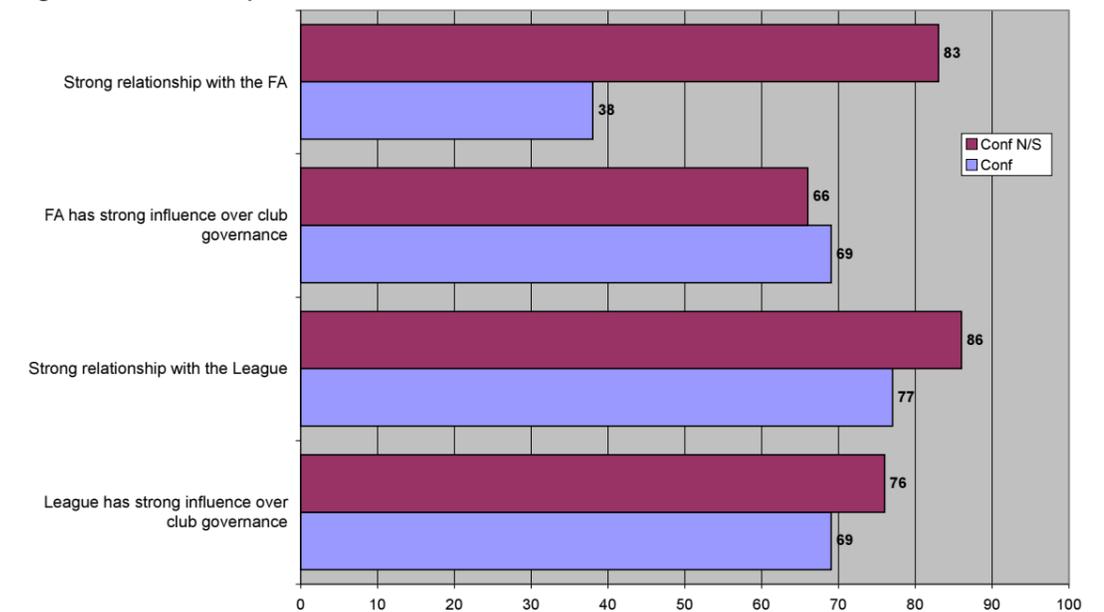
Figure 4.15 reveals the relationships between the clubs in the Conference National Division, Conference North and South, and the Football Association and the Football Conference. Given the role of the Football Association as the governing body with overall responsibility for the game in England, it is unsurprising that the majority of clubs from the Conference North and South (83 per cent) indicated that they have a strong relationship with the Football Association. However, what is surprising is that only 38 per cent of clubs in the Conference National claim to have a strong relationship with the Football Association. Also unsurprising is that 77 per cent of clubs in the Conference National and 86 per cent of clubs in the Conference North and South stated that they have a strong relationship with the Football Conference, given this is the league in which they play and to whose rules and regulations they have to adhere. These results show that the relationships between clubs in the Conference National, North and South and the Football Conference are stronger than with the Football Association.

Figure 4.15 also reveals that the majority of clubs felt the Football Association and the Football Conference have a strong influence over the way they are governed. Again, this is to be expected given that Conference National, North and South clubs have to adhere to the rules of both the Football Association and the Football Conference and many decisions on the governance of a club will have to take the rules into account. Figure 4.15 shows that 69 per cent of clubs in the Conference National Division and 76 per cent in the Conference North and South indicated that the Football Conference has a strong influence over club governance, while 69 per cent of clubs in the Conference National and 66 per cent in the Conference North and South stated that the Football Association has a strong influence over club governance.

better corporate governance practice. The results indicate that the majority of clubs are in favour of many of the governance measures, suggesting that clubs are aware of the necessity and importance of regulatory control being imposed by the football authorities.

The most widely supported governance measure is the 'fit and proper persons' test. This is encouraging for the Football Association given the test has been in place since 2004 and the clubs therefore appear to believe in its merits. 85 per cent of the clubs surveyed in the Conference National were in favour of the test, with 90 per cent of Conference North and South clubs in support of this regulation. Regulations governing the behaviour of player agents are also well supported by clubs in the Conference National and clubs in the

Figure 4.15 Relationships with the Football Authorities



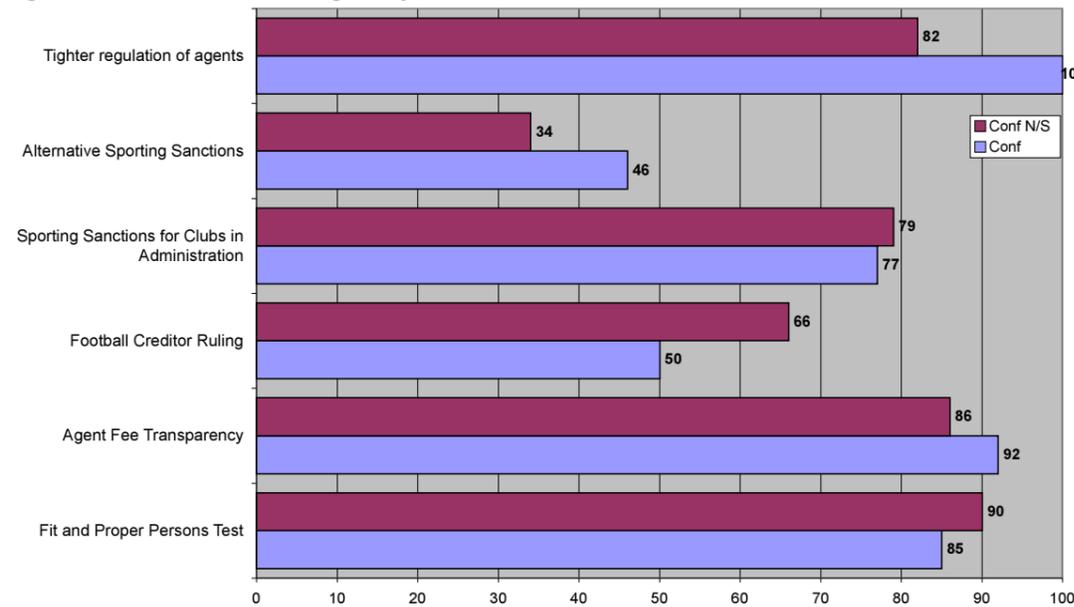
3.2 Attitudes towards Regulatory Measures

Over the course of the last few years, the football authorities have taken steps to improve standards of corporate governance at member clubs. These have included introducing a 'fit and proper persons' test to club directors, improving the transparency of agent dealings through an annual report (Football League) and establishing sporting sanctions for clubs in administration. Figure 4.16 reveals the attitude of member clubs in the Conference National, North and South to these regulatory measures designed to promote

Conference North and South. Figure 4.16 reveals that 92 per cent of clubs in the Conference National and 86 per cent in the Conference North and South support agent fee transparency, despite only the Football League requiring its member clubs to disclose their financial dealings with player agents. Linked to this is that 100 per cent of clubs in the Conference National would support tighter agent regulation, with 82 per cent in the Conference North and South responding likewise.

Like the Premier League and Football League, the Football Conference has put in place a sporting sanction for clubs that enter into administration. This season, Crawley Town found themselves starting the season on minus 10 points as a result of their being in administration. Figure 4.16 indicates that 77 per cent of clubs in the Conference National and 79 per cent of Conference North and South clubs are in favour of this rule. However, the level of support for alternative sporting sanctions –which are not in place - such as a deduction of points for failing to pay a monthly tax bill was much less with only 46 per cent of Conference National and 34 per cent of Conference North and South clubs respectively in favour of this. Figure 4.16 also reveals that exactly half of the clubs in the Conference National that responded to the survey support the Football Creditor ruling, compared to 66 per cent in the Conference North and South.

Figure 4.16 Attitudes towards Regulatory Measures



3.3 The Approved Playing Budget

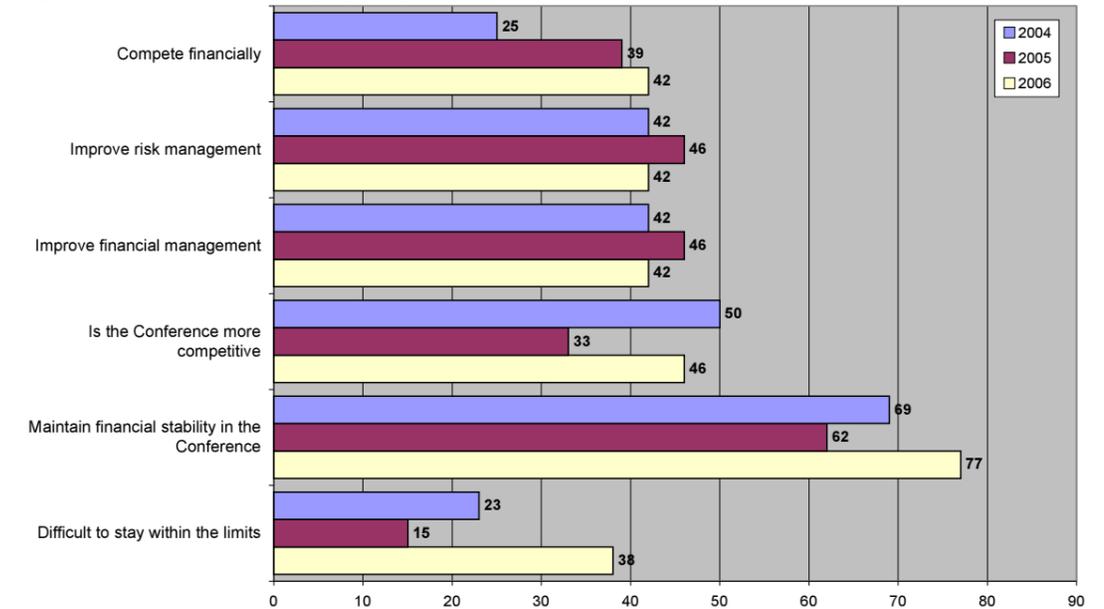
The Approved Playing Budget has been applied to clubs in the Conference National Division since season 2003/2004 and has demonstrated the desire by the Football Conference to help their member clubs maintain stability by restricting the percentage of turnover that a club can spend on player wages. The Approved Playing Budget is calculated from a baseline figure, determined by the level of turnover at the club, which is then added to either 25 per cent average of

two years' turnover or 25 per cent of the previous year's turnover, whichever is greater. To ensure that clubs in the Conference National stay within the limits set by their Approved Playing Budget, the Football Conference review the clubs twice a year.

Figure 4.17 reveals the attitudes that clubs in the Conference National Division have towards the Approved Playing Budget. It shows that 38 per cent of clubs in 2006 stated they have difficulty in staying within the limits of the budget – significantly higher than the 15 per cent and 23 per cent of clubs that did so in 2005 and 2004 respectively. This is consistent with the result reported earlier that a higher percentage of clubs are finding it difficult to maintain the solvency of the club. Despite this, there was a rise in the percentage of clubs that felt the Budget helped to maintain financial stability in the Conference National Division, from 69

per cent and 62 per cent in 2004 and 2005, to 77 per cent in 2006. Moreover, 46 per cent felt the Conference National is more competitive as a result of the Budget in 2006, compared to 33 per cent in 2005 and 50 per cent in 2004. However, when asked about the effect of the budget at each individual club, 42 per cent of club respondents stated that it had helped them to compete financially, to improve their risk management, and to improve their financial management. All these figures were similar to the results in 2004 and 2005.

Figure 4.17 The Approved Playing Budget



These results on the whole provide encouraging reading for the Football Conference as they show that the Approved Playing Budget is having a positive effect at some member clubs in the Conference National, with most agreeing that it helps to maintain financial stability.

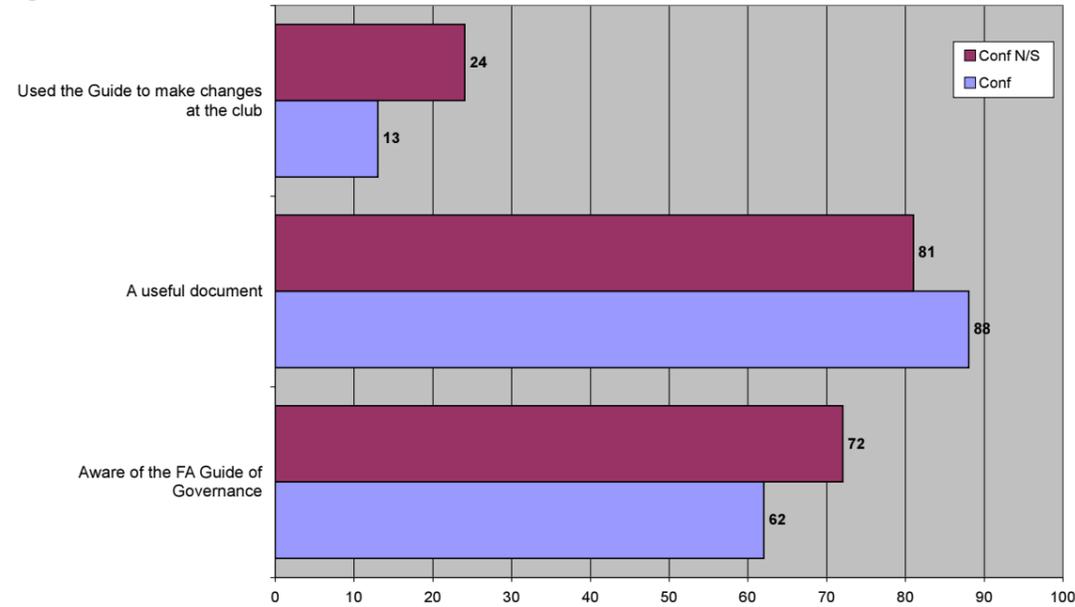
3.4 The Football Association Guide of Governance

In December 2005, the Football Association issued a Guide of Governance to all clubs in the FA Premier League, the Football League, the Football Conference, the Isthmian Football League, the Southern Football League and the Northern Premier Football League. The Guide aimed to raise awareness of the importance of good governance by providing examples of best-practice governance structures and standards, while also recommending how to implement these governance structures. There were four specific sections to the Guide, relating to the executive body, risk and control management, regulatory compliance, and disclosure and reporting to stakeholders. However, given the wide range of clubs that were sent the Guide, the Football Association decided that it would be non-mandatory, giving clubs the flexibility to apply different parts of the Guide as they see fit at their club.

This year's survey asked the clubs in the Conference National, Conference North and South a number of questions about the Guide of Governance.

Figure 4.18 presents the responses. It shows that 62 per cent of the clubs in the Conference National and 72 per cent in the Conference North and South were aware of the Guide. Of those clubs that were aware of the Guide, 88 per cent in the Conference National and 81 per cent in the Conference North and South agreed that it was a useful document. Given this positive endorsement, it is disappointing to see that only 13 per cent of the clubs in the Conference National and 24 per cent in the Conference North and South that were aware of the Guide stated that they had used it to make changes at their club. Nevertheless, given that the Guide has only been in circulation since December 2005, it suggests that it has had some impact at a number of clubs in the Conference National, North and South.

Figure 4.18 The FA Guide of Governance

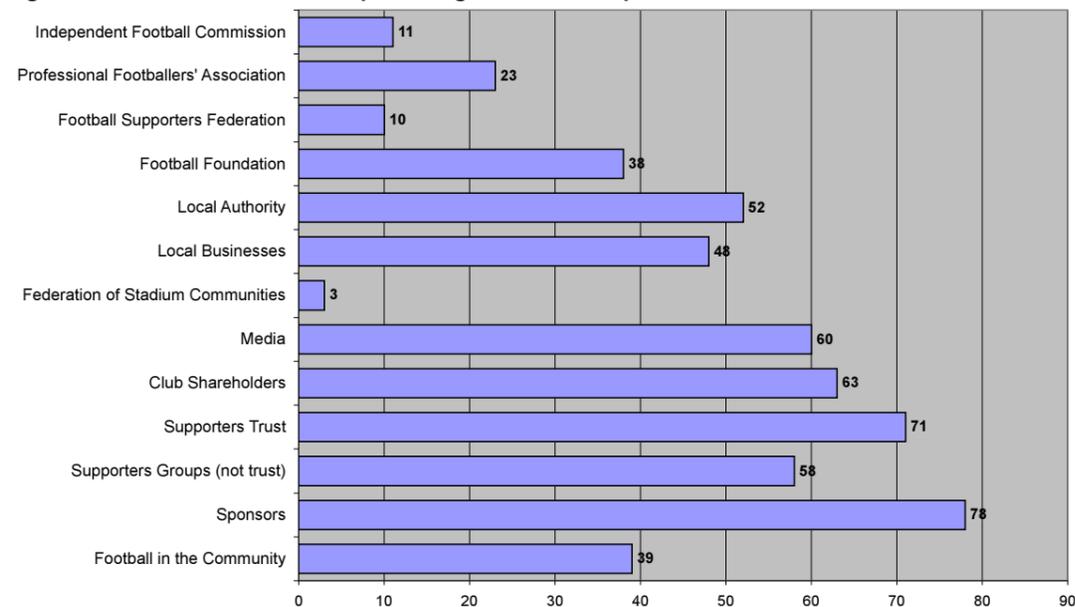


3.5 Relationships with Stakeholder Organisations

Figure 4.19 and 4.20 are based on the collective responses from the 42 clubs in the Conference National and Conference North and South that replied to the survey.

The survey asked clubs to rank the strength of their relationship with a number of stakeholder groups in addition to the level of influence that the stakeholder organisations had over the governance of the club. The aim was to determine which organisations have the closest relationships with football clubs and which

Figure 4.19 Stakeholder Relationships - strength of relationship



are able to exert most influence over the way the clubs are governed.

Figure 4.19 illustrates the percentage of clubs that described their relationships with particular stakeholder organisations as either strong or very strong. It shows that the strongest stakeholder relationship is with club sponsors as 78 per cent of clubs in the Conference National, North and South stated they had a strong or very strong relationship. Also, the relationship between the clubs and club shareholders appears to be important, as 63 per cent of clubs stated they had a strong or very strong relationship. Figure 4.19 also shows that 52 per cent and 48 per cent of clubs stated they had a strong relationship with the local authority and local businesses – two key groups that can provide support to the operations of a football club. In particular, local authorities often own the ground on which the football club plays.

This year's survey revealed that 45 per cent of clubs in the Conference National, North and South leased their grounds from the local authority, which is one reason to explain the 52 per cent of clubs that have a strong relationship.

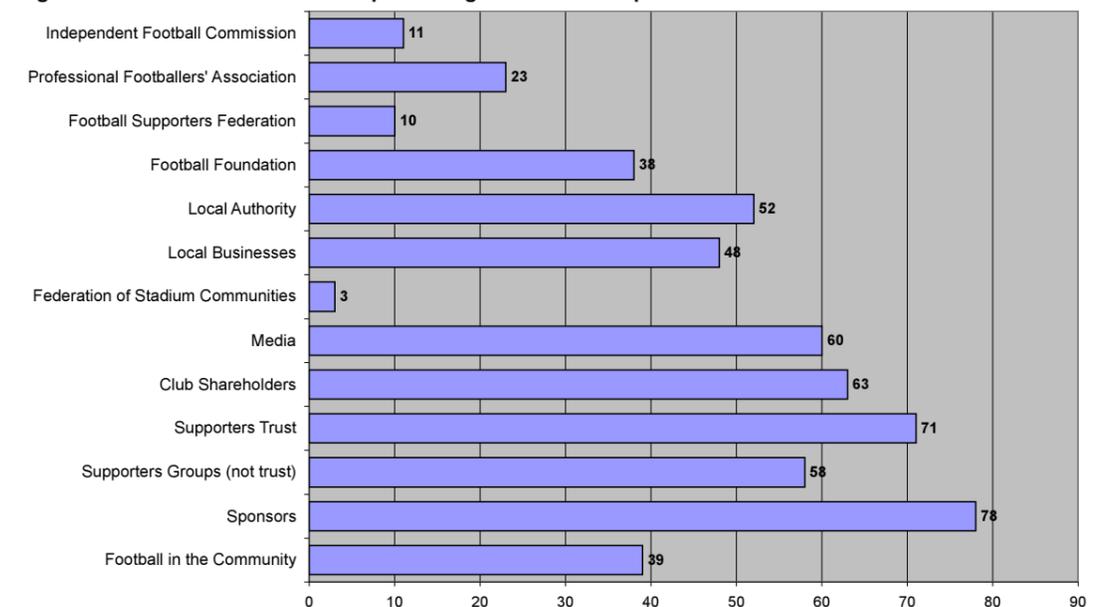
Another organisation that can provide financial support to football clubs in the Football Conference is the Football Foundation: 38 per cent of clubs stated that they had a strong relationship with the Foundation.

This is unsurprising given that the Foundation has at some stage provided funding to 83 per cent of clubs from the Conference National, North and South in the survey. 60 per cent of clubs also stated that they have a strong relationship with the media. These results suggest that there is the opportunity at many clubs to develop the relationships with these key groups further.

In terms of supporter relationships, 71 per cent of clubs with a supporters trust felt that they have a strong relationship with the trust, while 58 per cent of clubs stated they had a strong relationship with other supporters groups. While it is encouraging to see that there are strong links between clubs and their supporters in the majority of cases, there is evidently still the opportunity for some trusts and clubs to strengthen their relationship. In the case of the Football Supporters Federation, the organisation that represents the interests of its 130,000 individual members, only 10 per cent of clubs in the Conference National, North and South felt they had a strong relationship.

Figure 4.19 shows that there are a number of stakeholder organisations with which only a minority of club respondents feel they have a strong relationship. Surprisingly, only 39 per cent claimed to have a strong relationship with their 'Football in the Community' scheme, while only 23 per cent of respondents have a strong relationship with the Professional Footballers' Association (PFA). This is a reflection of the fact that the

Figure 4.19 Stakeholder Relationships - strength of relationship



union has a closer relationship with its members than with individual clubs, and that the majority of PFA members are from the Premier League and the Football League. Also, only a small minority of club respondents indicated that they have a strong relationship with the Federation of Stadium Communities, and the Independent Football Commission (IFC). However, given that the original remit of the IFC was to focus at the level of the Premier League and Football League, that the IFC has been able to develop a strong relationship at 11 per cent of clubs within the Football Conference given its level of resources is impressive.

Level of Influence over Club Governance

Figure 4.20 illustrates which stakeholder groups have a strong or very strong influence over the way the club is governed. In contrast to the strength of stakeholder relationships, the number of clubs indicating that stakeholder organisations have an influence over decisions made in the football club is much lower. Therefore, although a football club may maintain a strong relationship with a particular stakeholder organisation, it does not mean that that organisation has any power or influence over the governance of the football club.

Figure 4.15 showed that the majority of clubs consider the Football Association and the Football Conference to have a strong influence over the way they are governed. This is unsurprising considering the clubs have to adhere to the rules and regulations of both authorities. However, Figure 4.20 shows that there are not many football clubs where other stakeholder groups have a strong influence over club governance. The most influential group in the survey was club shareholders, with 54 per cent of clubs stating they had a strong influence on governance. In terms of supporter influence, despite the claim that 71 per cent of clubs with a supporters trust have a strong relationship with the trust, only 31 per cent of clubs claim that the trust has an influence over the way the club is governed. Given that an aim of the trust movement is to enable supporters to have more influence over the governance of the club and encourage more democratic decision-making, this suggests that the trust movement still has a substantial way to go before it is firmly embedded within the governance of football clubs.

27 per cent of clubs maintained that the local authority has a strong influence over governance. As noted above, given that almost half the clubs in the survey from the Conference National, North and South lease

their grounds from the local authority, it would be expected that the council should have some influence.

Also, Figure 4.20 shows that the Football Foundation has a strong influence at 23 per cent of clubs, while 22 per cent of clubs stated that local businesses influence the way their club is governed. Figure 4.20 also shows that fewer than 20 per cent of club respondents revealed that organisations including the Federation of Stadium Communities, the Football Supporters Federation, the Professional Footballers' Association, the Independent Football Commission and the media have a strong influence on the governance of their club. Interestingly, given that the majority of clubs have a strong relationship with sponsors, only 19 per cent stated that sponsors have a strong influence over club governance.

3.6 Football Conference Clubs and the Community

In 1986, the Professional Footballers' Association and the Football League worked in partnership to create 'Football in the Community' schemes, set up and administered through the Footballers Further Education and Vocational Training Society (FFE + VTS), a charitable arm of the Professional Footballers' Association. The FFE + VTS is now the Footballers Education Society, but through the 'Football in the Community' National Support Office in Manchester, it still provides funding and other support to nearly all

clubs in the Premier League and Football League where a 'Football in the Community' scheme is in place.

Over the course of the last twenty years, these schemes have provided a valuable channel through which football clubs have been able to engage and form bonds with the local community. Given that the local community is a key stakeholder in a football club, interaction with the community is good corporate governance practice. Core community programmes involve coaching in-schools, after-school coaching, soccer schools including holiday courses, and Saturday clubs (McGuire and Fenoglio, 2004: 4), while some clubs have expanded their schemes to include social inclusion work in line with government policy through the delivery of educational projects or projects aimed at tackling anti-social behaviour. Community schemes can also deliver benefits to clubs through building a positive reputation and encouraging new support within a community.

As clubs in the Football Conference are arguably closer to their local communities than larger professional clubs in major cities in England, the local community is therefore a key stakeholder and it is important for clubs in the Football Conference to build relationships through a 'Football in the Community' scheme. The survey revealed that 85 per cent of club respondents from the Conference National have a 'Football in the Community' scheme.

Figure 4.20 Stakeholder Relationships - level of influence

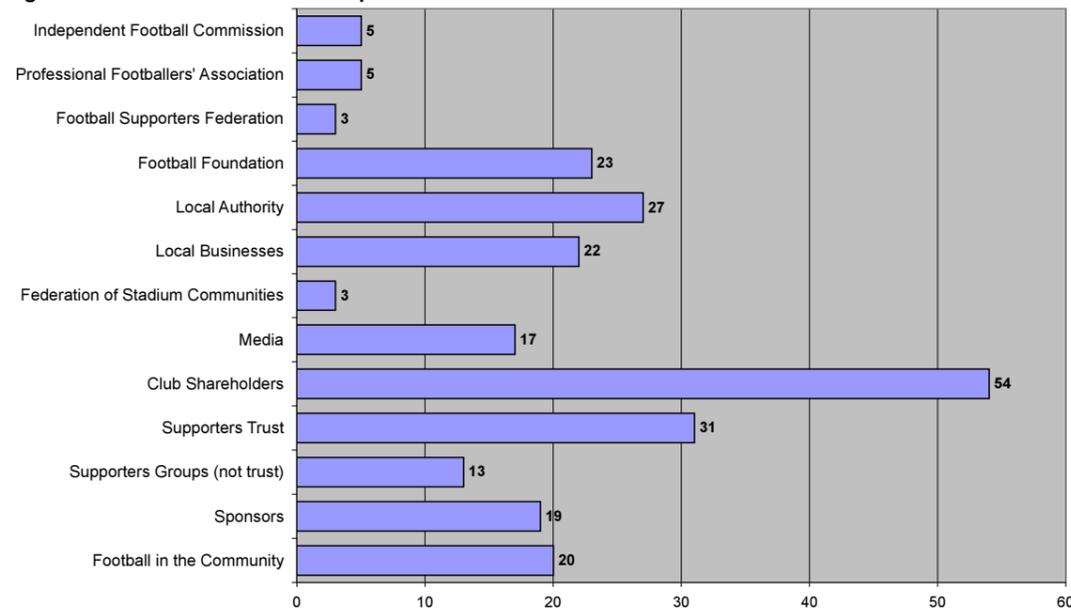
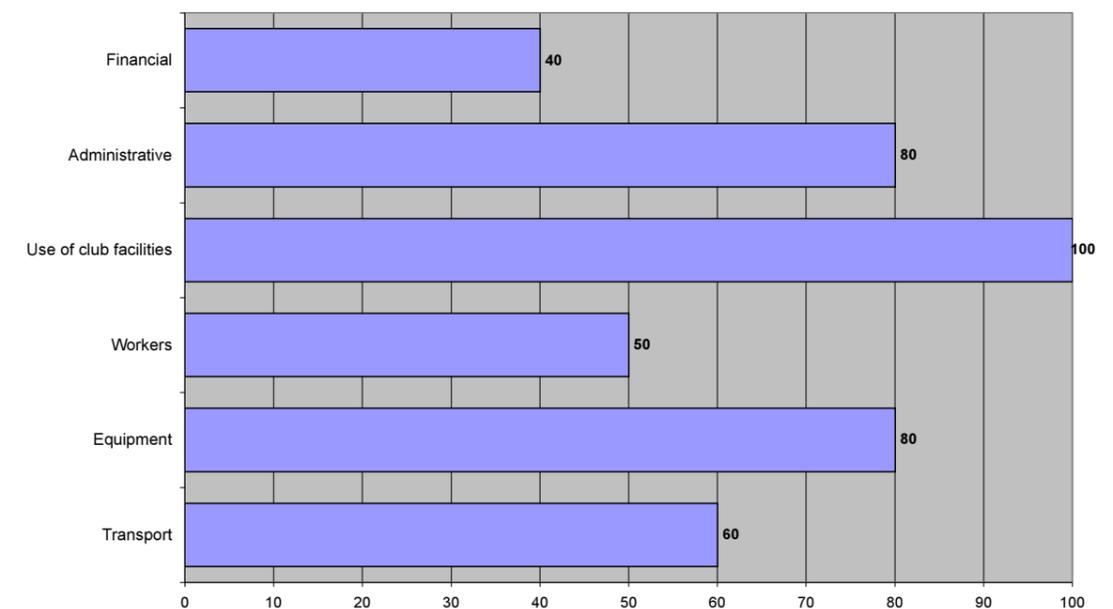


Figure 4.21 Football Conference - Support Provide for Football in the Community Scheme



The clubs that have been relegated from the Football League to the Football Conference continue to receive funding and support from the 'Football in the Community' National Support Office in Manchester. However, in most cases, clubs in the Conference National, North and South have had to develop their own schemes with the support of the Football Conference. Despite some funding from the Nationwide Building Society through a partnership with the Football Conference, many of the schemes have to be self-funding and it is more difficult at clubs that do not have the support mechanism that the National Support Office in Manchester can offer. Despite this, the survey revealed that only 21 per cent of clubs in the Conference National, North and South claimed that it was difficult to develop community activities.

All clubs in the Conference National, North and South were asked to rank how important a number of issues were when the clubs undertake any work in their local communities. Figure 4.22 reveals the percentage of clubs that stated a particular issue was important. It shows that almost all clubs felt that community work was an important vehicle to enhance the public image of the club (98 per cent) and to encourage new support for the club (95 per cent). Moreover, 69 per cent stated the importance of creating an additional income stream through community work while 57 per cent felt that community work was an important way to recruit young players. These issues benefit the clubs more than the community. However, it is pleasing to report that 74 per cent stated that promoting social inclusion and reducing anti-social behaviour were important, and 57 per cent and

strategic independence from the club, working on health, education, community safety and regeneration initiatives. In doing so, it gives the community department the autonomy to make their own strategic decisions that meet the needs of the community first rather than the needs of the football club.

A final point to note is the limitation of the survey method. The results this year are based on a three-year data set that has been used to contrast governance standards at Conference clubs between 2004 and 2006. Despite the high response rate for the three years, an inevitable consequence of the survey approach is that different clubs respond each year. While a number of clubs were involved in the survey in all three years, this can have an impact on the results. However, this is a general limitation of the survey approach and is unlikely to have affected the results to a significant extent.

4. Conclusion

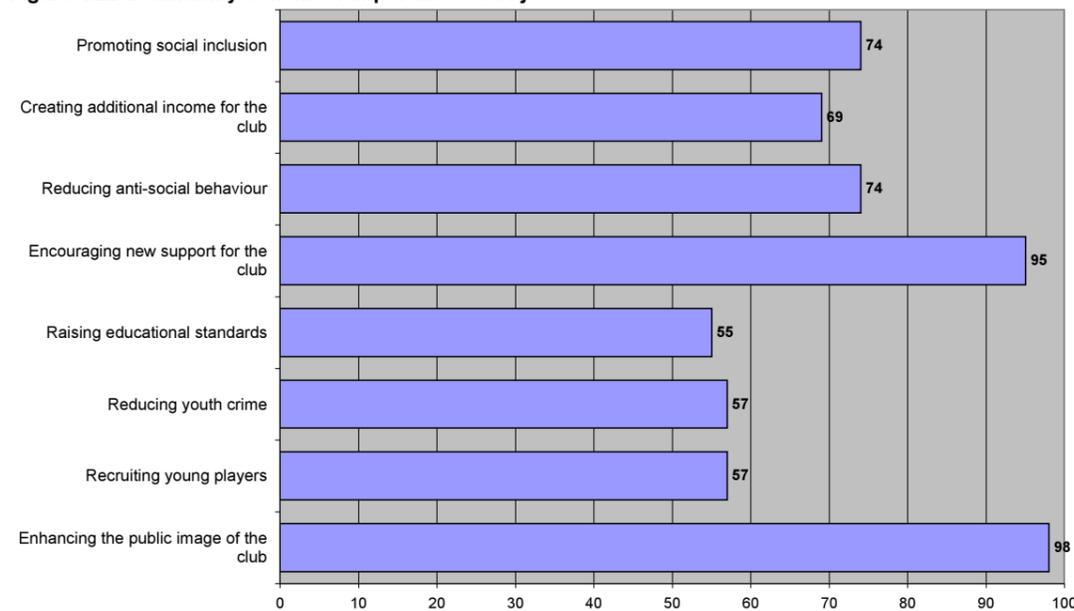
This is the third year that clubs from the Conference National have been involved in the annual *State of the Game* survey. Over these three years, it has been encouraging to see that although clubs in the Conference National are small business and not subject to the requirements of the Combined Code (2003), many clubs adhere to many of the best-practice principles. It is especially encouraging that certain principles that are crucial to good governance such as having a one-year business plan are adhered to by the majority of clubs in the Conference National, while over half this year had a process for identifying risks. The same can be said of the clubs in the Conference North and South where in most cases, they have reported results that are similar to their Conference National counterparts. This is particularly encouraging given that the majority of clubs in the Conference North and South are even smaller than the clubs in the Conference National.

However, this year has shown that there are some areas for concern. That there was a large rise this year in the percentage of clubs that found it difficult to maintain solvency, more so in the Conference National than the Conference North and South, shows that there is still a need for clubs to continually assess standards of governance. The release of the FA Guide of Governance in December 2005 provides a best-practice benchmark for the clubs to consult. Also, with the majority of clubs in the Conference National now offering full-time, professional playing contracts, costs and the level of risk have heightened. However, with the Football Conference continuing to play a proactive role in the governance of member clubs through the successful Approved Playing Budget in the Conference National – and other measures such as sporting sanctions – the Football Conference is well placed to continue to grow in strength.

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Figure 4.22 Community Schemes: Importance of Objectives



The nature of the support that Football Conference clubs give to their 'Football in the Community' schemes varies from club to club. This year the survey asked the clubs in the Conference National with a 'Football in the Community' scheme to state the type of support they provide. Figure 4.21 reveals the results. It shows that while just 40 per cent claim to provide financial support to their schemes, showing that the majority do need to be self-financing, all clubs claim to offer their schemes the use of club facilities, while 80 per cent provide equipment and administrative support. Moreover, 60 per cent offer transport and 50 per cent claim that they provide workers to the schemes.

55 per cent stated that reducing youth crime and raising educational standards respectively were important aspects to the community work they undertook. These clearly are more beneficial to the local community.

However, the results suggest that despite the benefits that community work brings to the community, clubs in the Conference National, North and South still place more importance on the benefits that the clubs can gain from community work. These results support one of two key recommendations made by Brown et al (2006: 23) that there is a need for 'outward facing' independent community organisations with structural, financial and

Supporters' Trusts

The supporters' trust movement has continued to grow in strength over the past year in a number of ways. On the one hand the supporters' trust concept and movement has gained increasing recognition nationally and internationally as being important for the future ownership and governance of the game. This is perhaps illustrated most dramatically by the conclusion of the Independent European Sport Review that the lessons from the Supporters Direct model should be learned and applied as appropriate across Europe.

In addition, supporters' trusts have continued to be established and to grow in strength and influence, including at lower league clubs. A dramatic example is the establishment of FC United of Manchester, wholly owned by the supporters' trust, but operating several divisions below the Conference. But the establishment of FC United also illustrates another point which is one of the weaknesses of the supporters' trust movement, and the one area in which there has been a lack of progress over the past year, namely the influence that supporters' trusts have at Premier League Clubs, and the influence that the supporters' trust movement in general has with the Premier League Clubs and the Premier League itself. Thus, by far the largest supporters' trust, with over 30,000 members, is the Manchester United Supporters Trust, formerly Shareholders United when there were shares in Manchester United for it to hold. As Shareholders United, the trusts members held several million pounds worth of shares in the plc, with a share-buying scheme that added to this on a monthly basis. The trust was represented on the club's Fans Forum and had separate meetings with the plc on a regular basis.

However, this was of course lost with the takeover of the plc by the Glazers, with a compulsory purchase of all shares, and the removal of the trust (and of the Independent Manchester United Supporters Association) from the Fans Forum.

With the takeover of other Premier League clubs by multimillionaires it is going to be hard for the supporters' trust movement to make a real impact at the Premier League level until and unless the football authorities – the Premier League itself, or the FA – take action, such as requiring clubs to recognise and deal with their supporters trust.

This chapter reports the findings of our survey of football supporters' trusts.

1. Trust membership

We surveyed 99 trusts, of which 48 responded – a response rate of 48 per cent. This compares with 56 responses last year, which represented 62 per cent of the 90 supporters' trusts surveyed in 2005. This year's response rate is still a relatively high return rate for a lengthy survey such as the one we issued.

Total trust membership for those responding was 51,363 – down from the 62,549 combined membership of the trusts that responded last year. However, if the average size of responding and non-responding trusts was the same, then total trust membership would have risen by around 3,500 on last year. The average trust membership was 1070 in 2006, compared to 1137 the previous year. So with a slight increase in the total number of trusts, this again is consistent with a total trust membership fairly stable between last year and this, at around 100,000 members.

Only three trusts employ staff and only one of these employs full-time staff. The reliance on voluntary staff poses a real challenge to the development of the trust movement. However, it is clear of course that the supporters' trust movement is going to have to be based overwhelmingly on the volunteer efforts of the trust membership. The key issues are therefore: firstly how to best mobilise and utilise this huge membership resource; and secondly how to train and develop the necessary skills to allow the trusts to achieve their objectives. Governance issues are key to both these challenges.

2. Trust governance

Around half the trusts (46 per cent) meet at least once a month, and the overwhelming majority – 88 per cent – report that they meet to discuss strategy. It has been stressed that supporters' trusts need to consider co-opting members to their boards both to ensure that they have the necessary skill sets collectively, and also to ensure that the relevant stakeholders are represented, and more than two-thirds of trusts (69 per cent) had co-opted at least one member – in addition to the elected members – to the board of the trust. The most commonly cited reason for co-options was to fill skills gaps.

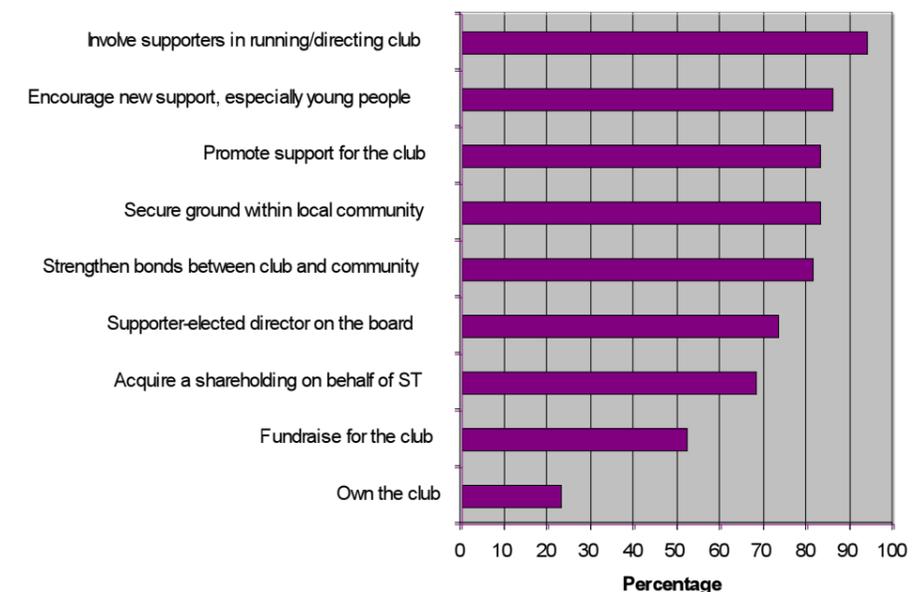
Our survey asked trusts to describe how important they felt particular objectives to be. The results are presented in Figures 5.1 which shows the percentage of trusts that rate a particular objective as 'important' or 'very important'.

It can be seen that the most important objective is to involve supporters in the running of their club, closely followed by: encouraging new support (especially youth support); promoting support for the clubs; securing the ground within the local community; and strengthening bonds between club and community. Ownership of the club is less highly rated. This might be because trusts feel that this is a difficult objective to achieve. Whether or not this is the case is certainly a question worthy of further investigation.

Skills and training

In 29 per cent of cases, trusts reported that they have legal expertise on the board, although only 13 per cent have a dedicated legal committee position on the board. Around two thirds (63 per cent) reported that they had financial expertise represented on their trust board.

Figure 5.1 Which objectives do supporters' trusts consider either important or very important?



In order to achieve their objectives trusts must have a clear strategic plan. Figure 5.2 shows that nearly all trust boards meet to discuss strategy (88 per cent) but only 30 per cent reported having a business plan, down from 34 per cent the previous year. Of those that do have a business plan, 55 per cent had a one-year plan (down from 65 per cent last year), 18 per cent had a 3 year plan (up from six per cent last year), and 27 per cent had a 5 year plan (down from 29 per cent the previous year).

Of those trusts with a business plan, the business plan had been approved at a general meeting in 39 per cent of cases – up from only 16 per cent the previous year. This is therefore a welcome sign of a greater degree of involvement of the membership, greater sophistication of trusts and their general meetings, and improved democracy.

Table 5.1 reports the percentage of supporters' trusts that had filled the key officer roles on their boards last year and this. The results are in line with what might be expected, although surprisingly there had been a slight fall in the proportion that had a member of the board with responsibility for fundraising – from just over half (54 per cent in 2005) to under half (40 per cent in 2006). If trusts are going to continue to increase their ownership stakes in their clubs – which is so important for ensuring proper levels of representation and influence, to ensure good governance of the clubs, with decisions taken to ensure the long term sustainability of the clubs – then fundraising is going to remain crucial. This is an area, therefore, in which it would appear there is a need for further skill development.

Figures 5.2 Strategy and business plans of supporters' trusts

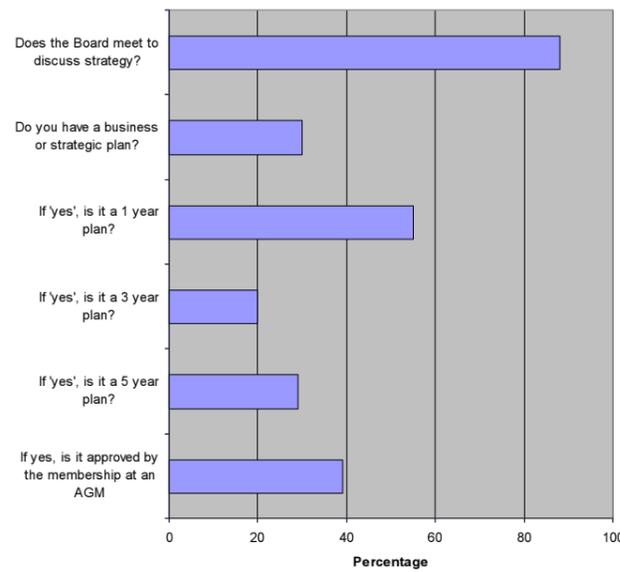


Table 5.1 Board/Committee Membership: Percentage of Trusts with Specific Trust Officers

	2005	2006
Chair	95	96
Treasurer	98	100
Secretary	98	98
Fundraising	54	40
Membership	69	72
Media & Communications	69	66
Legal	17	13

In addition to the roles reported in Table 5.1, one trust had an equal opportunities officer on the trust board, and two had a Community Liaison Officer. Only one trust had a youth development officer on their Board.

Nearly 20 per cent of trusts expressed concern about the adequacy of the skills-base on their board or committees. Figure 5.3 shows that on a scale of 1-5 only 15 per cent of trusts felt that their skills base was 'very adequate'. Six per cent of trusts felt that it was not at all adequate and a further 13 per cent rated it as below adequate.

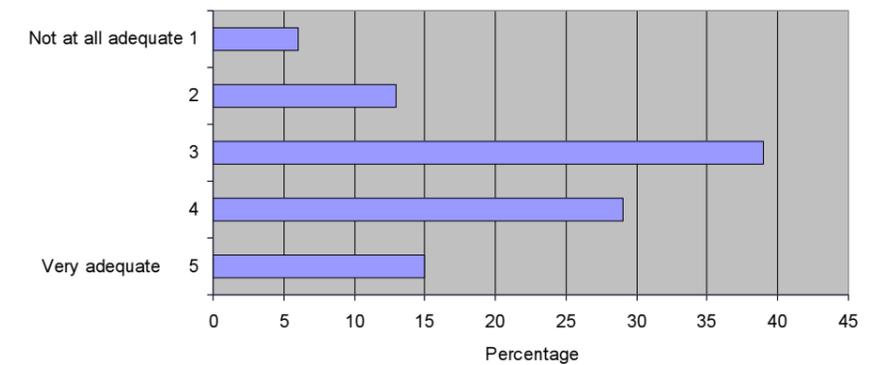
These are all areas that need to be addressed if the supporters' trust movement is to continue to develop in strength and influence. They are obvious examples of where sharing best practice could benefit the whole trust movement.

3. A European Supporters Direct Movement

The Independent European Sport Review has recommended exploring the feasibility of rolling out the trust model across Europe. In this section we consider some of the key issues.

The supporters' trust movement in the UK was developed in the specific context of football clubs being incorporated as companies. The main aim of the trust movement is to promote and support the concept of democratic supporter ownership and representation through mutual, not-for-profit ownership structures. The key instrument to achieve this is the formation of supporters' trusts as Industrial & Provident Societies (a particular type of co-operative or mutual, not-for-distributed-profit entity under UK legislation) to ensure democratic, transparent representative bodies for supporters at their clubs. The objectives of trusts are wide ranging, but a central aim of the trust movement is for a supporters trust to seek to acquire a shareholding (based on the pooled share ownership of the trust) in the club and democratic representation on the football club board.

Figure 5.3 How adequate is the skills base on trust boards or committees?



In many countries in Europe the context is somewhat different. In France and Germany, for example, most clubs are incorporated as Members' Associations and though hybrid corporate structures have been formed in recent years, whereby a company is created that owns a stake in the club, the members still have voting rights.

However, the extent to which these rights are exercised varies and there may be a lack of informal and formal mechanisms to bring members together so that they have an effective voice in their club. In these countries, who has majority control (the Members Association or the company) is an important question. But equally important are questions of how, and to what extent supporters as members are involved in running their club? What objectives are supporter members trying to achieve and how might they best be realised? These are questions that the supporters' trust movement faces in the UK but they are often secondary to the question of ownership. In European countries where the Members Association is the most prevalent ownership form, these questions would come to the fore.

Different questions arise in countries where clubs are under state ownership or where local government has an ownership stake.

The first step, to rolling out the trust movement across Europe is therefore to attain a detailed picture of ownership, governance and control structures in each country. Some work on this was undertaken as part of the work of the Economics Group of the Independent European Football Review. The next step is gauge the level of 'demand' from supporters in each country for greater ownership and voice. The third step would then be to devise workable 'supporters' trust' models to

increase the ownership stake *and* voice of supporters for the different corporate forms of ownership across Europe. The final step would be the implementation of these models at clubs.

There are several factors that are crucial to successful implementation. These include: the establishment of dedicated units to provide appropriate legal and practice advice to supporters; and commitment from governments and the football authorities. In the case of the UK, the support of the cooperative movement was also a key factor.

The UK experience can provide valuable lessons for the establishment of the supporter trust movement in other countries. The context will differ across countries but the principles are largely the same. The challenges that face the trust movement in the UK – for example, reliance on volunteer time, the need to balance interests of supporters and club, the need for training for supporters' trust officials - are also likely to arise in other countries. It is important that these issues are addressed if the supporters trust movement is to develop further in the UK and take off across Europe.

4. Conclusion

Almost a fifth of trusts (19 per cent) felt that the skills on their boards were less than adequate. The fact that 44 per cent felt that the skills on their board were more than adequate or very adequate might be interpreted as being reassuring, provided it does not represent any complacency over what is really needed, or a lack of ambition in what the trust might achieve had it a stronger skill base – including in fundraising which of course is crucial in raising the sights regarding what might be possible in terms of having an ownership stake and hence a real say in the football club itself.

In some ways the most worrying finding was that hardly any trusts – just four per cent – had carried out a training needs analysis. This is something that the Co-operative College would be well qualified and able to provide to the trust movement if funds could be found to enable it to be provided on a collective basis.

So, while there are welcome signs of the supporters' trust movement making headway at the national and international 'political' levels, it is vital that this work is backed up by a strong and growing supporters' trust movement at club level. Here, there have been advances at the Football League and Conference levels – and below. But there are two areas of weakness that need to be addressed if the current advances are to be sustained. Firstly, given the power and influence of Premier League clubs and of the Premier League itself as an organisation, it is vital that the supporters' trusts at Premier League clubs begin to build meaningful ownership stakes and develop a dialogue and influence with the club boards. This requires the national authorities, that are increasingly acknowledging the benefits of supporters' trusts, to take action that would allow real progress in this area. The Premier League clubs should be obliged to deal properly with their stakeholders, including their supporters' trusts.

And secondly the supporters' trusts themselves need to ensure that they have the appropriate mix of skills, along with the depth of skills in key areas such as fundraising, to enable them to rise to the challenge of taking and fully utilising ownership stakes in clubs. This needs action on a regional and national level so that supporters' trust can share best practice and also benefit from training that can be provided collectively.

The survey results reported in the previous chapters indicate that some progress is being made at individual clubs, in terms of both governance and stakeholder relations. Unfortunately, where this is most needed, namely at the big Premiership clubs that drive so much of football's agenda – not just within the Premier League but through the FA – there has been a flagrant disregard for good governance. The supporters' trusts have been powerless without the backing of Government, the FA or the Premier League – even at Manchester United, with more than 30,000 members having built up an ownership stake amounting to millions of pounds that was growing steadily month by month.

There are thus four clear conclusions to be drawn from this year's analysis of governance and regulatory changes and our surveys of clubs and supporters' trusts.

Firstly, there is a need for greater coordination on governance and regulatory issues across Europe, together with an urgent need for legal recognition of the specificity of sport. The Independent European Sport Review has addressed these issues and made 3 sets of considered recommendations about what needs to be done. The effectiveness of the review, which is to feed into the European White Paper on sport, will depend on its recommendations being implemented. It is now time to act.

Secondly, supporters' trusts have clearly made an important and positive contribution at many clubs across the leagues. And at a national level, backing has been given for the concept of supporters' trusts from the footballing authorities as well as Government. But for the supporters' trust movement to make a significant contribution towards the improvement that the UK Government and other governments across Europe appear to want to achieve, action is needed to empower trusts at the big Premier League clubs. Either the Premier League or the FA could introduce new regulations that would require a certain proportion of the club to be made available to the supporters' trust – where there was a supporters' trust in operation that passed whatever governance tests might be thought appropriate. This could be in return for funds invested by the trust, or it could be a 'golden share' arrangement where a nominal payment gave certain rights to consultation and decision-making. In the absence of any such self-regulation being introduced by the footballing authorities, action could be taken by Government to insist on such developments.

But for the supporters' trust movement to be in a position to press for such drastic action in their favour, they need to demonstrate a capacity and capability for

delivering at this level. This requires good governance standards among the trusts, including the use of skills audits and training needs analyses that are followed up by the necessary training. Of course, individual trusts cannot be expected to do this for themselves, and it would be wasteful if they were to attempt to do so. This is an obvious case for collective action, with training made available to all trusts.

The good governance practices that were identified in Chapters 3 and 4 need to be encouraged and developed. This would of course be enhanced if the capacity and capabilities of the supporters' trusts at each club were enhanced on a continuing basis, as described above. But it is also vital that the FA, Premier League, Football League and Conference continue to promote those reforms that can be seen to have had some positive effect. And training of club boards and board members is also needed.

But thirdly, it is clear that the tail that wags the dog – namely the Premier League clubs – have actually moved in the wrong direction over the past year, with takeovers resulting in many of these clubs now being owned by multimillionaires who have no connection with or allegiance to the club, its local community or its supporter base. This led UEFA to urge the UK Government in September 2006 to investigate those who are involved in the purchase of Premier League clubs:

'The trend is going against what we want to see – more clubs being owned by the community and the people who really care for them. This is a wake-up call and the UK Government have a responsibility to start investigating. After all, it's a part of the UK economy.' (William Gaillard, Director of Communications, UEFA, September 2006)

Finally, there remains the problem of agents in football – that the FA and FIFA have both struggled to deal with. We have analysed this problem in detail elsewhere (Holt, Michie and Oughton, 2006), and conclude that the key reform that is needed is for football clubs to be debarred from employing or paying agents for any work, and that instead agents should be seen as players agents, providing a service to players for which the players concerned would pay, should they decide to avail themselves of that service.

One of the reasons that clubs have paid the bills for the use of agents in the past, even when the work was really done for the player rather than the agent, is to avoid the player having to pay income tax on that amount, were it paid by the club to the player (who

The Nice Declaration

would then need to settle his agent's payment out of post-tax income). Often, though, clubs do use agents to do work for the club – as opposed to paying the bill after a player has used one. But the use that clubs make of agents is not necessarily any more honourable than the tax-avoidance motive. The suspicion, at least, is that clubs use agents when the club wants to circumvent the rules. The most obvious case is when they want to 'tap up' a player who is under contract with another club. An agent might be employed to make an approach that would breach the rules. The new FA regulations passed in November are designed to clamp down on this activity.

Other sports leagues across the globe have managed to regulate the activities of agents, so that they are limited to their proper role of representing the interests of the players who employ them. The football authorities have been talking for years of doing just this, and some action has been taken, but more is needed, including greater international coordination across Europe and beyond. The Football League in England has at least required Football Clubs to publish what they pay to agents. And this has seen these sums fall, perhaps as a result of this increased transparency.

But what is needed is for agents to be employed *solely* by players and never by clubs. Football clubs should do their own work – they should not be permitted to employ or pay agents, even to move players on. This single reform would cut through the mountains of proposals and recommendations proposed by FIFA, UEFA, the FA, the Football League, the Premier League and other bodies. It also has the support of 87 per cent of the clubs that responded to our survey.

There are, then, clearly major and challenging issues facing football. But equally there are detailed and realistic proposals for reform that could tackle the current problems and strengthen the sporting and social aspects of the game, while at the same time pursuing a business model of stakeholder involvement and good governance that is actually the best guarantee of long term success for the clubs and the leagues, here and internationally.

References

Holt, M., Michie, J. and Oughton, C. (2006) *The role and regulation of agents in football*, London: The Sports Nexus.

Declaration on the specific characteristics of sport and its social function in Europe, of which account should be taken in implementing common policies

1. The European Council has noted the report on sport submitted to it by the European Commission in Helsinki in December 1999 with a view to safeguarding current sports structures and maintaining the social function of sport within the European Union. Sporting organisations and the Member States have a primary responsibility in the conduct of sporting affairs. Even though not having any direct powers in this area, the Community must, in its action under the various Treaty provisions, take account of the social, educational and cultural functions inherent in sport and making it special, in order that the code of ethics and the solidarity essential to the preservation of its social role may be respected and nurtured.
 2. The European Council hopes in particular that the cohesion and ties of solidarity binding the practice of sports at every level, fair competition and both the moral and material interests and the physical integrity of those involved in the practice of sport, especially minors, may be preserved.
- Amateur sport and sport for all**
3. Sport is a human activity resting on fundamental social, educational and cultural values. It is a factor making for integration, involvement in social life, tolerance, acceptance of differences and playing by the rules.
 4. Sporting activity should be accessible to every man and woman, with due regard for individual aspirations and abilities, throughout the whole gamut of organised or individual competitive or recreational sports.
 5. For the physically or mentally disabled, the practice of physical and sporting activities provides a particularly favourable opening for the development of individual talent, rehabilitation, social integration and solidarity and, as such, should be encouraged. In this connection, the European Council welcomes the valuable and exemplary contribution made by the Paralympic Games in Sydney.
 6. The Member States encourage voluntary services in sport, by means of measures providing appropriate protection for and acknowledging the economic and social role of volunteers, with the support, where necessary, of the Community in the framework of its powers in this area.
- Role of sports federations**
7. The European Council stresses its support for the independence of sports organisations and their right to organise themselves through appropriate associative structures. It recognises that, with due regard for national and Community legislation and on the basis of a democratic and transparent method of operation, it is the task of sporting organizations to organise and promote their particular sports, particularly as regards the specifically sporting rules applicable and the make-up of national teams, in the way which they think best reflects their objectives.
 8. It notes that sports federations have a central role in ensuring the essential solidarity between the various levels of sporting practice, from recreational to top-level sport, which co-exist there; they provide the possibility of access to sports for the public at large, human and financial support for amateur sports, promotion of equal access to every level of sporting activity for men and women alike, youth training, health protection and measures to combat doping, acts of violence and racist or xenophobic occurrences.
 9. These social functions entail special responsibilities for federations and provide the basis for the recognition of their competence in organizing competitions.
 10. While taking account of developments in the world of sport, federations must continue to be the key feature of a form of organisation providing a guarantee of sporting cohesion and participatory democracy.
- Preservation of sports training policies**
11. Training policies for young sportsmen and -women are the life blood of sport, national teams and top-level involvement in sport and must be encouraged. Sports federations, where appropriate in tandem with the public authorities, are justified in taking the action needed to preserve the training capacity of clubs affiliated to them and to ensure the quality of such training, with due regard for national and Community legislation and practices.

Terms of Reference of the Independent European Sport Review

Protection of young sportsmen and -women

12. The European Council underlines the benefits of sport for young people and urges the need for special heed to be paid, in particular by sporting organisations, to the education and vocational training of top young sportsmen and -women, in order that their vocational integration is not jeopardised because of their sporting careers, to their psychological balance and family ties and to their health, in particular the prevention of doping. It appreciates the contribution of associations and organizations which minister to these requirements in their training work and thus make a valuable contribution socially.
13. The European Council expresses concern about commercial transactions targeting minors in sport, including those from third countries, inasmuch as they do not comply with existing labour legislation or endanger the health and welfare of young sportsmen and -women. It calls on sporting organisations and the Member States to investigate and monitor such practices and, where necessary, to consider appropriate measures.

Economic context of sport and solidarity

14. In the view of the European Council, single ownership or financial control of more than one sports club entering the same competition in the same sport may jeopardise fair competition. Where necessary, sports federations are encouraged to introduce arrangements for overseeing the management of clubs.
15. The sale of television broadcasting rights is one of the greatest sources of income today for certain sports. The European Council thinks that moves to encourage the mutualisation of part of the revenue from such sales, at the appropriate levels, are beneficial to the principle of solidarity between all levels and areas of sport.

Transfers

16. The European Council is keenly supportive of dialogue on the transfer system between the sports movement, in particular the football authorities, organisations representing professional sportsmen and -women, the Community and the Member States, with due regard for the specific requirements of sport, subject to compliance with Community law.

The Community institutions and the Member States are requested to continue examining their policies, in compliance with the Treaty and in accordance with their respective powers, in the light of these general principles.

UK Presidency Initiative on European Football – Context and Terms of Reference

Context

Football is an activity like no other. It is arguably the only truly global game and its influence cuts across economic, political, social and cultural spheres. In order to preserve the special nature of football a delicate balance between these different elements is needed to ensure sport's traditions, such as the link with local communities, can be maintained while embracing the modern nature of the game.

With its increasing revenues, football is often seen as 'big business', and is, therefore, often subject to commercial governance rules which do not necessarily take into account the wider role that it plays in the community. However, it is clear across EU Member States that sport, and particularly football, is more than just a business. Football can play a significant role in helping to deliver wider public agendas, including improving social inclusion, community cohesion, increasing participation and healthy lifestyles.

The EU has currently no direct competence to develop a sports policy, but particular aspects of sport are often subject to the full application of the EU legal framework. Football has been involved in this situation on many occasions. However, the special nature of sport is recognised in the "Nice Declaration on the Specific Characteristics of Sport" (Annex IV of the Presidency Conclusions for the Nice European Council, December 2000). The European Council stated that

"Even though not having any direct powers in this area, the Community must, in its action under the various Treaty provisions, take account of the social, educational and cultural functions inherent in sport and making it special, in order that the code of ethics and the solidarity essential to the preservation of its social role may be respected and nurtured".

After dialogue between EU Sports Ministers, the IOC, FIFA, UEFA and other sports bodies, a reference to sport was introduced to the Draft EU Constitutional Treaty which, in its Article III-282, recognises the specific characteristics of sport.

It is for the football authorities to run the game; however sports authorities, EU institutions and Member State Governments should work together to ensure the principles of the Nice Declaration are upheld and supported. To this end, under the UK Presidency, Richard Caborn called a meeting of the European Sport Ministers representing the "big" football nations and

relevant football bodies to discuss how best to implement the Nice Declaration in football.

The meeting explored how the principles in the Nice Declaration relating to the special characteristics of sport can best be put into effect by the football authorities, the EU institutions and the member states so as to ensure that its social and cultural role is respected and nurtured. By identifying key issues in the game that either support or undermine these principles, the football authorities can ensure that football's special characteristics are upheld and improved for the good of the game itself and, also, for the communities of each member state.

In particular, with reference to the Nice Declaration, it is generally considered that, in European football:

- special attention has to be paid to corporate and social governance
- grassroots football plays a crucial role in social inclusion, in the fight against discrimination, in the development of a healthy lifestyle and the delivery of other key components of public policy
- central marketing (collective selling) of rights by the football authorities at European level is essential to ensure that solidarity nurtures the different levels of the pyramid, not least the grassroots
- UEFA's Club Licensing System is an important step in establishing good corporate governance, financial transparency and stability, and minimum standards in European football
- there are a range of problems – such as doping, corruption, racism, illegal gambling, money-laundering and other activities detrimental to the sport – where only a holistic approach between football and the EU and national authorities will be truly effective
- the central role of the football authorities is to independently govern the sport, whilst taking into account the views of the different stakeholders and working in harmony with the EU institutions and the member states

The meeting discussed and took stock of existing work on European Football. The conclusions of this debate outlined the need for a report to be made, into how the football authorities, the EU institutions and the member states can best implement the Nice Declaration and address key issues of the corporate and social governance of football affecting the European game.

The report, while focusing on European Football, will provide analysis and recommendations that will be made available to the “FIFA Task Force For the Good of the Game”, commissioned by the FIFA World Congress in Marrakech (September 2005), and acknowledge that any report findings may have an important input into this Task Force and its recommendations for the rest of the world football.

Furthermore, this report will also recognise the role of UEFA, and FIFA, in governing European football respectively world football. Recommendations will look to enhance current practices, where appropriate, and facilitate Member State Governments, EU Institutions and football’s stakeholders working in partnership with both FIFA and UEFA to build upon any current measures or strategies being undertaken.

It is the intention of this report to consider and provide tangible recommendations for possible implementation during future Presidencies. The report recommendations will also be available in a timeframe for them to be considered, by FIFA, for wider application in conjunction with recommendations of FIFA’s Task Force For the Good of the Game which are due in 2006.

Timing

The report will be compiled by the end of May 2006, and the recommendations will be presented back to the football authorities, the EU institutions and member states.

Process

The meeting of the parties on the 8th December has agreed:

- Independent review
- Reference Group composed of UEFA and UK Sports Minister (for the EU Governments); observers: other sports ministers invited to Leipzig meeting, Urs Linsi (FIFA)
- The terms of reference of the review are defined below
- The timeframe in which the review will be completed– by end of May 2006, whilst some aspects may need further analysis

It is expected that the persons conducting the independent review will consult with all the relevant national government ministers and departments, the EU, football authorities, leagues and clubs, supporters organisations and other stakeholders in the game.

Terms of Reference of the Independent European Football Report

Overall Aim:

To produce a report, independent of the Football Authorities, but commissioned by UEFA, on **how the European football authorities, EU institutions and member states can best implement the Nice Declaration on European and national level**. The report will take into account relevant input from UEFA’s high level strategy *Vision Europe* (April 2005). These Terms of Reference have been drafted in consultation between UEFA and under the UK Presidency, some of the EU member states. Whilst led by UEFA, the EU ministers are part of the governance of the report. The “football authorities” in Europe are UEFA for European/EU matters and UEFA’s member associations for national matters.

In particular, the independent review will report on:

- 1) **The “European sports model”:** The central role of the football authorities independently to govern the sport while respecting the European and national legal frameworks and in harmony with the EU institutions and member states

Aim:

- To make recommendations for how the EU institutions, member states and football authorities can improve and support the central role of the football authorities independently to govern all aspects of the sport, whilst taking into account the views of the different stakeholders and working with the EU institutions and the member states in respect of the underlying legal framework. Whilst the autonomy of football and its responsibility for self-regulation are recognised, it is also true that national Governments and the EU adopts legislation which can affect football. There is a need for coordination, dialogue and transparency.
- Within such recommendations it should in particular be described (i) which rules or measures do clearly constitute “sports rules”, i.e. rules which are for the competent football authority – enjoying a reasonable amount of discretion - to decide and (ii) for which other rules or measures the specificity of sport should be increasingly considered in the interpretation/application of the relevant legislation. For this purpose it will be of interest to provide an inventory of the existing interpretations by the ECJ and by the Commission on the “specificity of sport” (with concrete examples, particularly in the areas of free movement and competition policy) and consequently to provide a definition.

- To define the various stakeholders within the “European sports model”, as this applies to football, and to clarify their role and how they relate to one another. In particular, to demonstrate the natural and necessary role of the football authorities to care for the health and development of the sport as a whole from the grassroots to the professional elite.
- To demonstrate that the central role of football authorities, provided that they govern democratically and transparently, can be consistent with economic and/or legal concepts of a dominant position.
- To identify and analyse relevant examples from other sports that demonstrate the risks of undermining or dismantling the central role of a governing body, e.g. basketball, boxing.

- 2) **The arrangements for overseeing the ownership/control and management of clubs, and to recommend changes where appropriate.**

Aim:

- For the football authorities to have effective arrangements to oversee the identity and integrity of the person(s)/entity owning/controlling/managing clubs, and to help prevent matters such as one person/entity influencing the management or sporting performance of more than one club entering the same competition.
- For the football authorities, EU institutions and member states to develop effective arrangements to prevent money laundering, and to prevent unsuitable owners/management being involved in the game.
- For the football authorities and member states to develop effective arrangements to protect the game from match-fixing and other forms of corruption.
- To examine the feasibility of UEFA, the EU institutions and the member states launching a European-wide ‘supporters direct movement’ (a thriving example of which exists in England) to improve the opportunity for supporters to take part in the running of their professional club.

- 3) **The level of expenditure in respect of players, considering the financial (in)stability and concentration of wealth amongst clubs at both an international and national level, and to recommend changes where appropriate.**

Aim:

- To examine ways to enhance the football authorities’ current efforts to encourage and support high standards of financial management, prudential operation within budgets and corporate governance amongst the clubs and to help achieve an appropriate level of competitive balance.
- To examine ways to support and encourage the education and training of young players at clubs within the local community.
- To update the UEFA study on salary caps undertaken at the end of the 1990s to take into account recent changes in the environment and re-examine the feasibility of salary caps.

- 4) **The arrangements by which the football authorities oversee**

(i) the activity of agents and intermediaries in respect of both the transfer of players’ registrations and player contract arrangements; and

(ii) the system of player registration and movement, and to recommend changes as appropriate.

Aim:

- To explore ways for there to be effective and transparent arrangements to oversee the activities of agents in respect of their dealings with clubs and players, and to promote greater consistency between national regimes.
- To develop recommendations to ensure that there is a properly-functioning system of player registration and movement at European and national levels, recognising fundamental principles such as stability of and respect for contracts, training compensation, sporting integrity of competitions, protection of minors and solidarity.
- To propose measures to efficiently protect the minors and therefore to fight against the “trafficking of young players”

- 5) **The distribution of revenues generated within European football, considering the financial (in)stability and concentration of wealth amongst clubs, and to recommend changes where appropriate.**

Working Process of the Independent European Sport Review

Aim:

- Acknowledging the validity of European football's efforts to increase revenues by effective conduct of its business - to encourage central marketing (collective selling/mutualisation) and the consequent solidarity distributions of part of the revenue from such activities on both European and national levels, in so doing to help achieve an appropriate level of solidarity between all levels and areas of football.
- To find ways for the EU institutions, member states and football authorities to consider central marketing (collective selling/ mutualisation) and the consequent solidarity distributions, and to work together to find ways to ensure solidarity is enhanced

6) The role of the EU institutions, member states and football authorities in respect of the provision of funding to generate opportunities for all people to participate in football, considering the level of support from top-level football to recreational football, and to recommend changes as appropriate.

Aim:

- For the football authorities to undertake an effective role in ensuring social inclusion, integration and sustainable youth development as well as an appropriate level of funding to support solidarity between the top-level and recreational level of the game, and thereby encouraging participation for all and to recommend measures that can be carried at EU and member states' level to assist the football authorities to ensure financial solidarity within the game.
- To examine the central role of national associations and national team football as a primary source of funding for grassroots and recreational football throughout their country, and to identify existing examples of best practice, e.g. the UEFA-funded mini-pitches, which attempt to create new spaces for youngsters to play football.

7) The role of the EU institutions, member states and football authorities in respect of support and encouragement for investment in football stadia, with a focus on security and safety.

Aim:

- For professional football matches to be played in stadia that are of sufficient quality (to an agreed standard) to help ensure the safety and enjoyment of spectators, and to examine ways in which the EU and member states, in conjunction with the football authorities, can adopt a strong and effective harmonised legal framework to deal with security threats caused by events such as hooliganism and activities such as ticket touting.

A) Working process

2.1 Under the UK Presidency of the European Union, Sports Minister Richard Caborn called for a meeting of his ministerial counterparts in France, Germany, Italy and Spain, the European Commission and the relevant football bodies to discuss current issues in football. On the football side, this "kick0 off" meeting in Leipzig on 8 December 2005 was attended by Messrs. Blatter (FIFA President), Johansson (UEFA President), Grondona (FIFA Senior Vice-President, CONMEBOL) and Hayatou (CAF President). This meeting agreed on the "Context and Terms of Reference" for the Review.

2.2 A Reference Group, including observers, was established in order to oversee the conduct of the work, with the participation of the Sports Ministers of the EU Presidency (Austria), France, Germany, Italy, Spain and the UK as well as the General Secretary of FIFA and the CEO of UEFA. The final meeting of the Reference Group took place in Paris on 18 May 2006 and included the Sports Minister of Finland (future EU Presidency).

2.3 On 8 February 2006, José Luis Arnaut was appointed as Chairman of the Independent Review with a mandate to report on the specific Terms of Reference, which included the following seven headings:

1) *The European Sports Model: The central role of the football authorities to independently govern the sport in harmony with the EU institutions and member states.*

2) *The arrangements for overseeing the ownership/control and management of clubs.*

3) *The level of expenditure in respect of players, considering the financial (in)stability and concentration of wealth amongst clubs at both an international and national level.*

4) *The arrangements by which the football authorities oversee (i) the activity of agents and intermediaries in respect of both the transfer of players' registrations and player contract arrangements; and (ii) the system of player registration and movement.*

5) *The distribution of revenues generated within European football, considering the financial (in)stability and concentration of wealth amongst clubs.*

6) *The role of the EU institutions, member states and football authorities in respect of the provision of funding to generate opportunities for all people to participate in football, considering the level of support from top-level football to recreational football.*

7) *The role of the EU institutions, member states and football authorities in respect of support and encouragement for investment in football stadia.*

2.4 Twelve experts, invited on the basis of their acknowledged expertise, were divided into three groups to study legal, economic and political issues respectively. Furthermore, the Review commissioned a number of additional experts' reports on certain specific issues.

2.5 In addition, a wide-ranging consultation process was conducted in the form of a public hearing, which took place in Brussels on 29 March 2006 and which was attended by:

- Independent Football Commission (UK)
- Deputy Chief Executive, PFA and FIFPro Board member
- The Football Association (England)
- Football Supporters' Federation
- Royal Spanish Football Federation
- European Professional Football Leagues
- G14 EU Affairs External Advisor
- UEFA Vice-President
- UEFA Media Technologies SA
- SPORTFIVE GmbH & Co. KG
- Advisor to the President and Executive Committee UEFA
- Celtic Chief Executive
- Former President of La Liga Nacional de Fútbol Profesional (Spain)
- Gama Sport Events SA
- Advisor Open Stadium
- Supporters Direct
- FIFPro
- EUROALARM Ltd.
- Eamonn Bates Europe SA
- S3 Sports Management Limited
- Licensed Players Agents
- German Sports University Cologne
- Sport Contract
- School of Social Science - University of Aberdeen
- IFR Member
- Members of the European Parliament
- The Football League (England)
- European Commission (Sport Unit)
- Smallbusiness Europe

Survey of clubs and supporters' trusts

2.6 In addition, a series of one-to-one meetings was conducted personally by the Chairman with the following bodies:

- Football family bodies:
- FIFA President
- UEFA Executive Committee and CEO
- National Associations

Specific key stakeholder groupings:

- European Club Forum (102 clubs from all 52 members of UEFA)
- European Professional Football Leagues (14 Professional Leagues)
- FIFPro (international professional players union/syndicate)
- G14 (European Economic Interest Group – 18 clubs)
- Supporters
- Political bodies and other interested parties:
- Preceding Presidency of the EU (UK)
- Current Presidency of the EU (Austria)
- Future Presidency of the EU (Finland)
- European Commissioners
- Members of the European Parliament
- Broadcasters, Sponsors, Agencies
- Furthermore, some of those parties also submitted written contributions.

2.7 Finally, to ensure that this consultation process was as wide-ranging as possible and fully involved all members of the public interested, a dedicated website (www.independentfootballreview.com) was set up early March 2006 and received more than 1.3 million hits. This allowed all interested parties to participate actively in the Review and to provide their feedback.

B) Methodology

2.8 As will become apparent from the following discussion, many of the subjects covered by the Terms of Reference are interlinked and so, for the purposes of this Review, it makes sense to treat them in a holistic manner, with cross-references as appropriate.

2.9 The most logical method to approach the subject is to look into current (and possibly future) problem areas in sport and to analyse how the relevant EU jurisprudence based on existing case-law as well as the themes underlying this jurisprudence could be applied to these problem areas. These matters are covered in Chapter 3 (European Law and the Specific Nature of Sport).

As explained later in the Review, we have managed to find three broad "themes" to the jurisprudence and have presented our discussion of the issues accordingly.

2.10 Separately, there are certain issues that are not strictly legal in character, but which rather relate to governance and efficient administration using football as a case study and these are dealt with in Chapters 4 and 5 below. In Chapter 6 we consider the nature of the legal instrument(s) that would best deliver stability and certainty to sport, whilst in Chapter 7 we set out our recommendations to the relevant parties, based on the analysis contained in the Review. Finally, in Chapter 8 we conclude on how bilateral relations between UEFA and the EU might be structured to achieve these ends in the case of football.

The analysis in this report is based on the following data and information sources.

1. The results from our questionnaire survey of all clubs in the FA Premier League and Football League. This includes the clubs that were relegated to the Football Conference in 2006. The survey was conducted between May and September 2006. Of the 92 clubs surveyed 38 responded, a response rate of over 41 per cent, which is very high for an in-depth postal survey of this kind. Analysis of the questions on clubs' attitudes to regulatory measures used pooled data from our 2006 and 2005 surveys, using the latest survey return if a club responded to both. Hence these results are based on responses from 70 Premier League and Football League clubs.
2. The results from our questionnaire survey of all clubs in the Football Conference. This includes the clubs that were promoted to the Football League in 2005 and the clubs that were relegated from the Conference North and Conference South. Of the 66 clubs surveyed, 42 responded, a response rate of 64 per cent, which is extremely high for an in-depth postal survey of this kind.
3. The results from our questionnaire survey of supporters' trusts in England and Wales. Of the 99 trusts surveyed, 48 responded, giving a response rate of over 48 per cent, which is extremely high for an in-depth postal survey of this kind.
4. Analysis of the corporate governance statements and Annual Reports of clubs listed on the London Stock Exchange (LSE), AIM and OFEX.
5. The results from PIRC's analysis of the corporate governance statements of all LSE listed companies published in their November 2005 *Annual Review of Corporate Governance*.
6. Findings from the Association of British Insurers' Institutional Voting Investment Service's 2005 analysis of the corporate governance statements of FTSE 100 Companies.
7. The collation of financial accounts and performance contained in the latest Deloitte *Annual Review of Football Finance*.

Our dual surveys of clubs and supporters' trusts provide comparative data, allowing analysis and insights from both perspectives.

This is our sixth annual review of the corporate governance of professional football clubs based on our dual survey methodology. We now have a longitudinal data set covering football clubs and supporters' trusts for the past six years; this is the second year that the survey has included clubs in the Football Conference. In this report we have provided, where appropriate, historical comparisons to identify trends in corporate governance in professional football.

Notes

Other Publications in the Series

Unless otherwise stated, all publications are available for £5 (including post and packaging) from the FGRC at the address on the back cover. Please make cheques payable to Birkbeck College. Also downloadable free of charge from: www.football-research.bbk.ac.uk

Fresh Players, New Tactics: Lessons from the Northampton Town Supporters' Trust -

Phil Frampton, Jonathan Michie and Andy Walsh

This paper provides an analysis of the Supporters' Trust at Northampton Town FC. It investigates the challenges facing an established Supporters' Trust and what can be done to facilitate the growth and increase the influence of the Trust.

The State of the Game: The Corporate Governance of Football Clubs – 2001 to 2005' - FGRC

Five annual State of the Game reports from 2001-2005 provide a comprehensive overview of the corporate governance of football over the past five years.

Model Rules for a Football Community Mutual - Kevin Jaquiss

These Model Rules were produced as a collaborative effort between Cobbetts, Birkbeck and the Co-operative Union, along with the pioneering groups of supporters who first set up the new wave of supporters' trusts. The paper sets out the Industrial & Provident Society Model for Supporters' Trusts.

A 'Fit and Proper' Person Test for Football? Protecting and Regulating Clubs - Matthew Holt

This research paper considers the regulation of football clubs' owners and major shareholders. It looks at the possibility of introducing a 'fit and proper' person test as recommended by the Football Task Force.

Building Sustainable Supporters' Trusts in the West Midlands: A Training Manual² - FGRC and The Co-operative College

The Training Manual is a set of teaching materials for supporters' trusts. The materials incorporated within the Training Manual can be used by trusts as text-based resources or by facilitators to guide a series of interactive workshops.

The Ownership Structure of Nationwide League Football Clubs 2002-03 - Stephen Hope

Using detail from the last annual returns and accounts from Companies House, this research paper focuses on the ownership of football clubs in the Football League, and includes a 'club by club' summary.

Professional Footballers' Association: A Case Study of Trade Union Growth - Geoff Walters

In the context of a declining trade union movement, this research paper charts the remarkable growth and development of the Professional Footballers' Association throughout the 1980s and 90s.

Competitive Balance in Football: Trends and Effects - Jonathan Michie and Christine Oughton

This paper provides analysis of trends in competitive balance over the last fifty years and looks at their determinants and effects. In the light of this analysis the paper makes a number of recommendations for regulatory reform.

Football and Social Inclusion: Evaluating Social Policy - Richard Tacon

This paper discusses the potential benefits of evaluating football and social inclusion policy. It also aims to develop the methodology of realist evaluation by providing a series of guidelines for the evaluation of social inclusion projects.

Does the Best Team Win? An Analysis of Team Performances at EURO 2004 -

Fiona Carmichael and Dennis Thomas

This paper examines the performance of the winning team in the EURO 2004 tournament, relative to its rivals. Match statistics are analysed to generate predicted tournament rankings and to examine the relative efficiency of teams.

The Role and Regulation of Agents

Matthew Holt, Jonathan Michie and Christine Oughton

This paper analyses the role and regulation of agents and sets out a number of recommendations for regulatory reform.

Why do Chinese Football Supporters Attend European Football Club Tour Matches? An Analysis of the Motivational Factors Shaping Attendance at Manchester United's Tour Match in Beijing in 2005

Jingfeng Wang

This paper uses a unique dataset of 1,118 survey returns from those attending the match to provide the first comprehensive analysis of the factors shaping attendance at European clubs' commercial tour matches in China.

¹ Copies of State of the Game reports 2001, 2002, 2003, 2004 and 2005 are available for £5; copies of the 2006 report are available for £25, with a discounted rate of £5 for supporters' trusts, club officials and students.

² The 190 page Training Manual (including CD ROM) is available in hard copy for £50, with a discounted rate of £20 for supporters' trusts, club officials and students.

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