Punk Finance

Capital: Made Mutual

By Kevin Jaquiss & Andy Walsh

About Mutuo

Since 2001, Mutuo has worked to promote new mutuals. This has led to renewed growth in the mutual sector, with public sector mutuals established in health, housing and education and new community based businesses ranging from football to childcare.

- Mutuo operates as a not-for-profit Society, committed to:
- Campaigning for a better understanding of the benefits of mutual businesses
- Conducting and publishing policy research on issues of importance to the mutual sector
- Developing innovative new mutual businesses for the delivery of public services

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"As government accelerates the process of public sector reform, there are likely to be many new stakeholder led mutuals established over the coming months and years. "

1 Preface

The current policy interest in mutuals presents a significant opportunity to develop and extend the sector in a range of business and public service areas.

As government accelerates the process of public sector reform, there are likely to be many new stakeholder led mutuals established over the coming months and years.

At the same time, there remains a need for a greater understanding of how mutuals work, and where they can be appropriately applied. New entrants to the sector need to learn from the experience of others and to construct their new mutual with care.

Since 2000, Mutuo has led the policy debate about mutuals and has been closely involved in the development of many types of new mutuals. It intends to maintain this leadership position.

The Made Mutual series of Mutuo publications is designed to contribute to the ongoing debate in a practical way by drawing on the experience of experts and practitioners who have already faced the challenges of running mutual organisations. The series will also address key issues particular to mutual businesses, starting with this contribution, looking at finance.

This publication is the first in a number of pamphlets that will address the issue of capital in mutuals.

Mutuals do not have investor capital and instead rely on retained profits from their trading activities to finance investment. Much work is currently being undertaken to consider new types of capital instruments to provide investment finance for mutuals without distorting the true purpose of the mutual.

This pamphlet is a contribution to that work.

Peter Hunt
Chief Executive

“If people are going to do things for themselves they will need capital.”

2 Executive summary

As the Coalition Government’s policies work themselves through, some significant public sector services will come to be delivered by employee and community led enterprises.

If people are going to do things for themselves they will need capital. Limited companies trading for profit have sophisticated structures to balance risk against reward for investors. But such structures are less well developed for the funding of enterprises trading for other purposes.

This pamphlet considers how finance can be attracted in such circumstances.

People who use a service for a period of time, such as local park or library services while they live in a particular neighbourhood or music lessons while their children are growing up, may be prepared to see modest sums of money used as working capital by a community benefit organisation in which they have a voice. Such community groups need ways to organise this, and punk finance is one avenue.

Punk finance aligns people’s motivations for becoming part of an enterprise with the legal structure of that enterprise. FC United of Manchester put this theory into practice.

The football club set out to raise £1.5M from a fan-base of just 2,000 dedicated and determined members. At the time of writing, £1.2 million has been raised. In achieving its goal it has demonstrated what is possible and opened up the opportunity for others to follow.

The framework developed by and for FC United is capable of application in a wide range of situations where communities decide to provide services or facilities for themselves.

More ambitious community projects will require more money and involve more risk. Yet the FC United share offer has demonstrated that people will allow their money to be used in these projects if the proposition is good enough. Punk finance is now attracting interest from professionals in the housing and regeneration fields.

Punk finance may have a significant part to play in the funding of the increasing number of enterprises which have a focus other than trading to return profit to shareholders.

"Some elements of punk have proved remarkably durable and they have an odd but undeniable resonance with the cluster of ideas which makes up the concept of the Big Society"

3 Punk Finance

3.1 Why "punk"?

To people of a certain generation "punk" means music to make your ears bleed and a street style defined by bin bags, razors and safety pins. In its public manifestations, playing to the gallery of the British media, punk was aggressive, destructive and nihilistic. There was always more to it, though; it would not have defined a generation otherwise. Some elements of punk have proved remarkably durable and they have an odd but undeniable resonance with the cluster of ideas which makes up the concept of the Big Society.

Within the anti-establishment instinct which flared up in the 1970s there is a focus on individual rights and a fierce opposition to racism, sexism and homophobia and a championing of the rights of the poor. Just as importantly, the scorn for "selling out" carries with it a strong commitment to direct action, to doing it for yourself.

That is why one manifestation of the enduring nature of punk has been punk football, celebrated on 15 May 2010 in a match between FC United of Manchester and FC St Pauli in Hamburg. Both clubs are proudly non-conformist but both clubs are fiercely committed to the communities they serve and fiercely anti-racist. Most importantly in the context of this pamphlet, both clubs give their fans a key role in governance through democratic structures – they are doing it for themselves.

Life has not been easy in either case – professional football is a difficult world if you are not prepared, literally, to sell out. Punk football is about football fans finding a new way of being a football club. It has required new governance structures, new business models and new funding arrangements.

It was for these funding arrangements that Andy Walsh, General Manager of FC United coined the phrase "punk finance". The share offer which the club launched in Autumn 2010 involved a complete rethink both of the concept of share capital in an industrial and provident society and of the way in which shares should be publicly offered.

The result of that rethink is set out in this pamphlet and it is of fundamental importance to the Big Society agenda. If people are going to do things for themselves they will need capital. We have highly developed and sophisticated structures to balance risk against reward for investors in the share capital of limited companies trading for profit but much less well developed structures for the funding of enterprises trading for other purposes.

Punk finance, developed by and for people who needed a solution to this problem, has a significant contribution to make in the development of a diverse 21st century economy. It is finance which involves people doing it for themselves rather than going to the capital or debt markets. It is finance in which people allow an enterprise they believe in to have the use of their money. In the post credit crunch world it may, ironically, become part of the mainstream.

3.2 What's the problem?

The limited company with shareholders has been an astonishingly successful creation, to the extent

that it is the basic unit of operation of most private enterprise across the globe. Its origins are simple but important. If I have a business idea, I usually have to resolve two key issues. Firstly, I need money to exploit the idea. I may have no money or may wish to share the risk that the idea does not work. Secondly, I do not want to be a guarantor of the success of my idea. I want people to make decisions about my idea and not about me. I want to be able to walk away if the business fails.

The Government, acting on behalf of everyone else, has now accepted in legislation for over 150 years that it is important to resolve my two issues. Otherwise I will not do anything with my idea, nor will anyone else do anything with their ideas. Over time, it has been accepted that the same principles apply to all businesses run for profit, whether or not they involve a new idea. People who run businesses must be able to attract investors and must be able to separate the business as a legal entity from themselves.

There has therefore been a company law framework since the 19th century and it has benefited from regular review and updating to address problems as they emerged. The essence, what we might call the DNA, has however remained constant:

- Going back to me and my business idea, the basic premise is that it is by attracting investors to buy shares in my company that I have been able to exploit my idea
- It is accepted that those investors have taken a calculated risk in the hope and expectation that my idea will succeed and that they are entitled to a return on their investment which is related to the amount of money they have put at risk
- The shares the investors have bought are not just the basis of calculating the return – they give the investors ownership of the company and in the basic company structure they give them collective control
- As a matter of law, the company is run in the interests of the investor shareholders and those interests are understood and expressed in financial terms
- People who deal with the company can see on the public record what it does and how it is structured and funded and can decide whether to do business with it – the company is a separate legal entity from the people who own and run it

These are the basic building blocks of capitalism. The paradigm for business is the provision of capital and the generation of a healthy return on capital.

In general, this has proved highly effective. If the business is run and managed by its shareholders, their business interests as shareholders are indistinguishable in practice from their business interests as managers. In other cases, the managers of businesses are accountable to outside investor shareholders and they work hard to deliver the best return they can. If they fail, they can be replaced. In the listed company context, if the return they generate is inferior to that achieved in competitor businesses, they are likely to find themselves subject to a takeover. All of this harnesses very effectively the need to generate a return on shareholder capital as a driver for success.

> "Co-operatives exist to provide goods or services to their members at the best possible price."

There are, however, two particular situations in which a business model structured around return on capital is awkward or inappropriate. Firstly, some businesses – especially businesses where people are doing things for themselves - do not trade to make a return on capital. Secondly, some investors acquire shares for reasons other than the wish to secure the best return possible – the business has the use of their money because they believe in what it is doing.

The industrial and provident society has existed as a business model almost as long as the company. Like a company it provides limited liability for the people who own and run it because it is a separate legal entity. Its capital structures, however, are not the same as those of a company and in some respects do not lend themselves to the needs of the 21st century. That is what makes punk finance necessary.

3.3 Capital in mutuals – the missing bit

The focus of this pamphlet is on industrial and provident societies (IPSs), since they have been used for the delivery of community services historically, particularly in housing, and they are now being used in new contexts. The analysis of the nature and purpose of shares in an IPS also applies, however, to shares in a community interest company and some other types of mutual society.

Under the legislation which emerged to establish the legal framework for them, there are two types of IPS; co-operatives and community benefit societies. Co-operatives must conform to Co-operative Principles promulgated by the International Co-operative Alliance. Community benefit societies must trade for the benefit of the community and – interestingly in the present context – must also have a special reason not to be registered as a company. This special reason is often the fact that a community benefit society is constitutionally committed to benefiting the community; trading for community benefit is a condition of registration and the registering authority, currently the FSA, monitors constitutions to ensure they comply and continue to comply with this requirement.

IPSs are separate legal entities from the people who own and run them and ownership is through shares. As with a company, people who deal with an IPS can see on the public record what it does and how it is structured and funded and can decide whether to do business with it. IPS shares are not, however, structured around the concept of return on capital and share capital does not play the same role in an IPS as it plays in a company.

Co-operatives exist to provide goods or services to their members at the best possible price. They aim to secure a competitive advantage from the fact that they do not have capital investors who require a return on their investment out of the profits of the business. The "dividend" in a retail co-operative is not a return on investment; it is the means of adjusting the price of goods at the year end to what it actually was by distributing any surplus in proportion to each member's trade with the society.

So far as control of the society is concerned, membership is open and each member has one vote. There is no association between capital investment and an entitlement to control or influence. The Co-operative Principles make all of this clear:

- Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions… In primary co-operatives members have equal voting rights (one member, one vote) (2nd Principle)
- Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership (3rd Principle)
- Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy (4th Principle)

Turning to community benefit societies, it is inherent in the purpose for which they are registered that they cannot be run in the interests of their shareholders. The first priority will always be the community and a requirement to generate returns to investor shareholders would be inconsistent with that priority.

It follows that shares in an IPS are very different from shares in a company. They reflect ownership and an entitlement to a voice in the affairs of the IPS but they are not a financial investment or a means of acquiring control. People have not therefore invested in IPS shares and, historically, there was a limit on the value of shareholding any member could have (currently £20,000 but about to be changed). More recently, with a view to preventing "demutualisation" by conversion to a company with shares, legislation has permitted IPSs to put in place a permanent "asset lock" which operates to limit severely any distribution of profit or capital to members. This does not involve a change in the basis of share ownership; rather it cements in place the principles which have always applied.

In the past members of retail co-operatives in particular used shares as a safe and convenient place in which to keep their savings. This grew out of the fact that membership of the early co-operatives extended well beyond those who operated bank accounts. Those people became accustomed to operating a share account which they would use for deposits and withdrawals. The shares attracted a nominal rate of interest but did not represent an interest in the assets of the society. The IPS legislation recognises these shares as "withdrawable" shares, a concept unique to mutual law. The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010 ("LRO") "it is important that some key principles about what can be sold and on what basis are established and enforced"

will remove the £20,000 maximum shareholding for ordinary shares in IPSs but it will remain in place for withdrawable shares. Payments of interest on and repayments of withdrawable shares are exempt from the "asset lock" provisions described above.

Because they can be withdrawn at any time, withdrawable shares cannot properly be viewed as capital to be employed in the business. Ordinary shares do represent capital employed in the business but they are not an investment in the sense that shares in a company are an investment. The return is limited, they do not represent a stake in the assets of the society which reflects capital growth and they do not buy control or influence. All of this creates the further problem that, once acquired, they are likely to be difficult to dispose of because there is no reason for a market in them to exist.

Against this background, IPSs have not generally been funded by share capital. Co-operatives have benefited from the reinvestment of profit in assets over the years and have borrowed money for working capital and fresh investment. Community benefit societies have also borrowed and, because of their community purpose, have attracted significant grant income. The post credit crunch squeeze on lending and on grant aid puts IPSs in a potentially vulnerable position and has inevitably led to questions about the extent to which the sale of shares may be an untapped source of capital.

3.4 IPS law - Sleeping beauty or Cinderella?

This pamphlet is not the place for a detailed analysis of the strengths and weaknesses of IPS law in this area at the start of the 21st century. My colleagues Cliff Mills and Ian Snaith are publishing that analysis separately. It is, however, important to sketch out the main features.

Because IPSs have never been the main engine of economic progress and because their shares are not significant avenues for investment, IPS law and the regulatory framework for IPSs has remained largely unchanged for generations. The last review and update of the legislation was in 1965. There have been two wholesale reviews of company law since that date.

This means that fundamental questions about the nature of shares in IPSs, which have been answered by legislation for companies, remain unanswered by the IPS legislation. In particular, it remains unclear whether and in what circumstances an IPS can repay the value of ordinary (not withdrawable) share capital to a member. This is important because, as I have explained, sale or transfer of IPS shares as an exit route is unlikely to be a generally available option.

Company law in this area has undergone significant change even in recent years but the basic principle is that capital can be repaid but only if certain safeguards are in place to protect the interests of creditors and others dealing with the company who look to its share capital to guarantee its viability. No such framework

for repayment of ordinary capital exists in IPS law. One view of this would be that no restrictions whatsoever apply. Another would be that no repayment of capital is possible. The fact that statute does not answer the question must be a matter of concern.

A separate area of concern, if IPSs are to offer their shares for sale, is consumer protection. Investors in companies enjoy considerable protection and very detailed rules and obligations apply to those who offer shares in companies for sale. Community benefit societies enjoy substantial exemption from those rules and obligations provided they are raising money for the community purpose for which they are registered. A steady trickle of new enterprises have taken advantage of this exemption, offering shares in a community benefit society as an "investment", albeit one whose return is expressed in the form of interest rather than capital growth. Often a "social return" in addition to a financial return is promised.

Current FSA guidance states that interest payable on shares in a co-operative or community benefit society must "not be more than a reasonable rate necessary to obtain and retain enough capital to run the business". This suggests a limit on how much interest can properly be offered, although an enterprise struggling to survive or embarking on a risky venture in the post credit crunch market for lending might argue that only comparatively high rates would attract "enough capital to run the business".

Co-operatives[UK] has produced some helpful guidance on how shares in IPSs should be marketed and a proposal for co-regulation.

In my view it is important that some key principles about what can be sold and on what basis are established and enforced. In particular, in the context of a community benefit society, there needs to be a focus on the purpose which is a condition of the society's registration and the view of priorities which that necessarily implies. A society whose ability to deliver community benefit is limited by the need to pay interest to its shareholders, or a society which uses all its surpluses to pay interest rather than to deliver community benefit, is not on the face of it entitled to be registered as an IPS and to enjoy immunity from regulation in its sale of shares. In the light of suggestions which have been made elsewhere, I should add that in my view the same principles apply if a community benefit society takes on obligations to pay interest to a company so that that company can make a return to its shareholders.

Pending further legislation or regulation it is important, for the good of the mutual sector and the wider economy, that those raising capital for IPSs do so with scrupulous regard to the underlying legal framework and the purposes for which IPSs exist. The framework is there, albeit enshrined in rather dusty legislation, and it makes clear what is and is not legitimate. Punk finance is not capitalism but it is not anarchy; it is an alternative based on important principles.

3.5 What can be done?

It is possible to issue shares in a co-operative or community benefit society which balance appropriately and lawfully the interests of the IPS

"The key point is that all of this is only legitimate and possible if it is recognised that the purpose and nature of the shares is fundamentally different from the purpose and nature of shares in a company."

and the shareholder. Once the LRO comes into force, the number of ordinary shares issued to an individual member will not be subject to any restriction and those shares can attract a limited payment of interest and be repayable after a fixed period. Subject to the precise terms on which they are issued, the sale of the shares is exempt from the regulatory regime which applies to the promotion and sale of shares in companies.

The key point is that all of this is only legitimate and possible if it is recognised that the purpose and nature of the shares is fundamentally different from the purpose and nature of shares in a company. Unsurprisingly, punk finance is not ordinary finance.

Although the target of £1.5M FC United has set itself to raise for its new ground and facilities by a sale of Capital Funding Shares is a daunting one, it seems probable that the target will be hit; hundreds of people have already agreed to buy shares. None of those people is making an 'investment'. Each of them knows that the shares do not buy them a stake in the assets of FC United (which are in any event subject to a statutory asset lock preventing a "demutualisation"). They also know that, however many shares they buy, they will only have one vote. Each of them knows that the highest rate of interest which will be paid on the shares is 2% above base rate and that no interest will be paid for at least three years and only then if the board feel able to pay after taking into account the long term interests of the club, the need to maintain prudent reserves and the society's primary commitment to community benefit. The club's business plan dictates that any repayments of shares will be limited to 10% of the total value of shares in any year, again starting after three years and again only if the board feel able to pay after taking into account the long term interests of the club, the need to maintain prudent reserves and the society's primary commitment to community benefit.

What the document offers is the opportunity to be part of what FC United is doing, to be part of a new and better way of running a football club and, through that, to be part of the regeneration of the Manchester community where the new facilities are to be built. It does not stress "return" to investors, but rather what the club intends to do with the money.

There is an element of altruism – many of the shareholders do not live in Manchester and will not themselves benefit from the impact of the club on that community. There is also an element of non-conformism – people want to show that football does not have to be owned by the super rich or the highly geared. As altruists and non-conformists, people are pooling their resources, allowing the club the use of their money. The money is at risk – its return might never happen or be delayed for years – but people judge that to be a risk worth taking to give the club a chance to do what it is setting out to do. If things go well, the financial outcome might look very much like what would have happened if the money had been put in a deposit account at the bank or building society. More importantly though, if things go well, all the rest of the things the club wants to do will have happened and that is the main reason for buying the shares.

What punk finance does is to align the motivation of people for becoming part of an enterprise with the legal

structure of the enterprise. This is not difficult where the purpose of the enterprise and the motivation of its members are community benefit or co-operation. It is more difficult where the purpose of the enterprise is community benefit or co-operation but the motivation of its members is 'investment' and return.

There will be areas other than football where these principles apply and punk finance presents a viable funding option using a community benefit society model. The same principles may also offer new funding opportunities to existing co-operatives and community benefit societies. Some of the enterprises will be less risky and ambitious than FC United and more secure in paying interest on capital provided by members. There is no reason why the businesses to be funded should be small.

In the previous section I referred to the need to establish some key legal and regulatory principles and the need for those offering shares in IPSs to observe those principles pending legislation or regulatory guidance. Having looked at some practical examples, it is possible to articulate some of those principles. They define the terms on which shares are offered for sale. In particular:

- An obligation to pay a "savings account" rate of interest from surpluses (ie to make a payment equivalent to what a shareholder could get by putting the money on deposit which will be less than the cost of borrowing on the commercial market) is likely to be legitimate
- Any obligation to pay a higher rate should be subject to an absolute limit and there should be an express commitment to benefit other members (in the case of a co-operative) or deliver community benefit (in the case of a community benefit society) out of the surplus before paying higher rates
- The governance of the enterprise which offers shares for sale should provide a voice for members who are not simply investors so that there is accountability for the way in which surpluses are used
- If there is a right to interest or repayment of shares, the terms and conditions of the shares should include provisions protecting creditors along the lines of those set out in company legislation. This will be particularly important if there is any question of payment out of capital rather than surplus

None of these provisions should cause any difficulty for an enterprise which is a true co-operative or which is truly committed to benefiting a community. That is why punk finance works.

3.6 What next?

The framework developed by and for FC United is capable of application in a wide range of situations where communities decide to provide services or facilities for themselves. There is now a real opportunity to develop and apply the punk finance model.

This pamphlet defines punk finance by reference to two characteristics:

- It involves people doing it for themselves rather than going to the capital or debt markets
- It is finance in which people allow an enterprise they believe in to have the use of their money

"...punk finance may have a significant part to play in the funding of the increasing number of enterprises which have a focus other than trading to return profit to shareholders. "

This suggests that punk finance may have a significant part to play in the funding of the increasing number of enterprises which have a focus other than trading to return profit to shareholders. As the following examples show, it will necessarily be provided on terms which are different from the terms on which traditional company share capital is provided and the basis on which it is sold will also be different.

People who use a service for a period of time, such as local park or library services while they live in a particular neighbourhood or music lessons while their children are growing up, may be prepared to see modest sums of money used as working capital by a community benefit organisation in which they have a voice whilst they are using the service. In these models payment of a "savings account" rate of interest and the return of the capital when people move on should be easily manageable.

More ambitious community projects will require more money and involve more risk but the FC United share offer has demonstrated that people will allow their money to be used in these projects if the proposition is good enough. Punk finance is attracting interest from professionals in the housing and regeneration fields.

As the Coalition Government's policies work themselves through, some significant public sector services will come to be delivered by employee and community led enterprises. In some cases, those enterprises will be structured in such a way as to attract punk finance. Many existing community benefit societies, including large and small housing associations, may also be able to use the model, at least for some parts of their activity. In all these cases it is possible to imagine people allowing the enterprise the use of their money on the basis of a low but predictable payment of interest because they believe in what it is doing.

As the concept is better articulated and understood, the field of potential providers of punk finance can and should expand. "Ethical investment" by people with significant assets covers a spectrum which is certainly wide enough to include punk finance share offers. The definition of punk finance is also clearly capable of encompassing the provision of capital by public sector bodies by way of shareholding rather than grant or contract payments. Given the flexibility afforded to funds such as the Regional Growth Fund in the way capital is provided and the power of general competence for local authorities proposed in the Localism Bill, punk finance may represent a neat alternative to grant funding where capital is being provided to support a community or public purpose.

Finally, some of the thinking about the purpose of investment which underlies the punk finance concept has potential application to "ethical investment" and to shares, including "golden shares" which public bodies hold in traditionally funded enterprises to protect some public interest.

These potential applications are real and have practical significance in a world which is being weaned off debt and grant funding. Above all, they are evidence that in punk finance a new way of thinking about the funding of enterprises and a new type of finance have been born.

4 Punk Finance in practice: FC United

FC United is a fan-owned football club formed in the wake of the unwelcome takeover of Manchester United FC by the Glazer family.

The supporters of Manchester United had opposed the takeover in large numbers. A well organised campaign of demonstrations and lobbying of key figures at the club, the FA and Ministers in Government failed to garner any support for the fans' concerns that the takeover would ultimately not just damage Manchester United but also have a detrimental effect on the wider game of football.

The Glazers were keen to win over the fans with declarations of lifetime support for the club and promises of good custodianship. Their plan was to quieten down the opposition with vague promises to enable them to establish control and quietly go about their business in the knowledge that once they had their feet under the boardroom table it would be much harder to remove them. The promises clearly satisfied The FA and the Sports Minister Richard Caborn but the supporters of Manchester United remained sceptical.

Football fans have largely been ignored by the clubs they support and are rarely considered important enough to be consulted by the game's governing bodies; instead the source of the game's largest financial support are patronised at best. Having done all that we could to stop the takeover and have our concerns heeded a fierce debate raged amongst fans as to the next step to be taken.

The fans' campaign centred around the slogan 'Not For Sale' threatening a boycott should the Glazers be successful in their takeover bid. A significant group of supporters argued that any boycott was in danger of quickly crumbling if there was no mechanism to keep the campaigners together.

The idea of a new club was proposed, one dedicated to flying the anti-Glazer flag but one which would campaign on the positive agenda and wider demand that fans and the local communities should be central to every football club as a counterweight to the rapacious drive for on-field success and personal gain. This was seen not only as an extension of the campaign to remove the Glazers but as a mechanism to demonstrate the long term benefits of supporter ownership.

FC United has over 3,400 members who elect a board of eleven members. The club holds two general members meetings a year and is run by two full time staff and over three hundred regular volunteers. With so many volunteers the club's approach has been described as 'punk football' – fans doing it for themselves.

There is a real sense of energy at FC United, with fans of the club taking an active role in shaping the club's future this 'hands on' mentality permeates every aspect of the club with the bonds between players and supporters a refreshing antidote to the remote and 'up their own backside-ness' of many in the professional game.

"FC United is proud to be called a 'punk football club', nothing would give us more collective pleasure than if our efforts to design a funding model becomes a template for other football clubs and community enterprises. "

To those familiar with semi-professional sport none of this is new but to those used to supporting a professional club and one the size of Manchester United it was a unique experience. The club's approach to its community responsibilities is similarly refreshing with the community coaching team consisting of players, management and supporters. The projects we become involved in are driven by the community groups we work with. This bottom up approach has been welcomed by local politicians and community organisations alike and whilst it is a constant challenge to respond it allows our coaches to gain satisfaction that they are meeting genuine need and winning new recruits to our cause along the way.

Any sporting organisation would struggle without a base to call home especially one with the ambitions of FC United and the club board has been working to secure a ground since formation in 2005. Raising the necessary finance to build a ground is a major hurdle especially for a relatively new organisation - as a Community Benefit Society we have limited means of raising finance capital, at least until we were fortunate enough to be included in the Cooperatives UK Community Shares pilot project.

The Community Shares initiative provided an ideal template for our kind of club in that we do not have to sacrifice our cherished one-member-one-vote structure to raise the funds we need to develop our ground nor do we have to become over-reliant on borrowing. We have had the support of specialists from the Development Trusts Association and Co-ops UK as well as learning from the experiences of others within the pilot project.

Our members embraced the idea and changed our constitution to allow the issuing of 'capital funding shares'. We have also added an asset lock clause acting as belt and braces security for our 'community purpose' and, given the circumstances of our 'birth', as a very public sign that our club is not to be easily overrun by speculators and chancers. Finally, as Kevin Jaquiss explains in the main body of this pamphlet, we had to develop precise terms for the share offer which reflected our aims and principles and fitted within the legal framework. This meant writing an offer document with a very different emphasis from a traditional prospectus. We focused on what FC United is about and what we are committed to doing rather than on the return people could expect. The reaction we have had suggests that the approach can work.

FC United is proud to be called a 'punk football club'; nothing would give us more collective pleasure than if our efforts to design a funding model for our club became a template for other football clubs and community enterprises. FC United set out to raise £1.5M from a fan-base of just 2,000 dedicated and determined members. In achieving our goal we have demonstrated what is possible and opened up the opportunity for others to follow. If we can do it then any one can and we would be happy to help.

FC United of Manchester, using 'punk finance' to find a 'Better Way for Football'.

About the authors

Kevin Jaquiss

Kevin is a partner at law firm Cobbetts LLP and has recently been awarded the Financial Times Innovative Lawyer of the Year Award.

He has wide experience in the way businesses are structured and managed.

He is a member of the cross-disciplinary team at the forefront of developing new structures for community enterprises in sport, housing, care, utilities and leisure sectors and is a trained mediator.

Andy Walsh

Andy is a fervent campaigner for fan involvement in football clubs. As Chair of the Independent Manchester United Supporters' Association, he led the successful campaign to stop the takeover of Manchester United by Rupert Murdoch's BSkyB.

Formerly an Associate Research Fellow at Birkbeck College, he is widely published and is co-author of the influential book 'Not For Sale! Manchester United, Murdoch and the Defeat of BSkyB', he has worked in TV, radio and new media as well as writing for numerous newspapers and magazines. He is a regular speaker at conferences on the subject of fan involvement in football and served on the Home Office Working Group on Football Disorder.

Andy is currently the General Manager of FC United of Manchester, a fan-owned football club formed in 2005 by disenchanted and disenfranchised Manchester United fans when the Glazer family bought Manchester United. The club has over 3,400 members and has won successive promotions in its first three seasons and is now playing in the Northern Premier League, watched by crowds of up to 6,000.

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