THE OFFSHORE GAME

tax justice network

About the Offshore Game

The Offshore Game has been established, initially as a project of the Tax Justice Network, to look at the role of offshore financial secrecy in sports. Our first research project tries to quantify the amount of offshore finance in the professional football leagues of England and Scotland, and explores the main risks that arise.

For more information please visit our website:

www.theoffshoregame.net

About the Tax Justice Network

The Tax Justice Network is an independent international network launched in 2003. We are dedicated to high-level research, analysis and advocacy in the field of international tax and the international aspects of financial regulation. We map, analyse and explain the role of tax and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. The world of offshore tax havens is a particular focus of our work.

Our core goals are to create understanding and debate, and to promote reform, especially in poorer countries. We are not aligned to any political party.

www.taxjustice.net

The Offshore Game Team

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Executive Summary

Our research looked at the annual returns of all 134 teams in the professional football leagues of Scotland and England. We sought to discover how many had a significant ownership from offshore, which we defined as offshore companies owning more than 10% of the shares in the club.

We then sought to find out, by looking of the annual reports of the clubs with offshore ownership how much money was invested in the club from offshore sources in the from of equity and loans. We ranked the teams using an index that took account of how much finance they had coming from offshore and the location of the companies providing the money.

In total our research uncovered £3bn in offshore finance in the UK's professional leagues. This finance was found in 34 of the teams investigated, or just about one in every four teams. All levels of football were represented, although clubs more heavily reliant on offshore finance tended to be in the English Championship and Premiership.

Manchester United had the most offshore finance, accounting for third of the value of the league with just over £1bn. That was made up of £882,922,000 in shareholder funds at Red Football Limited, the largest company in their UK structure to present consolidated accounts. Red Football Limited is eventually owned by Manchester United PLC registered in the Cayman Islands. A further £171,497,000 in debt was issued by their finance subsidiary MU Finance PLC. The loans come in the form of loan notes listed on the Luxembourg Stock Exchange.

However, not all offshore pounds are equal. To create the offshore league we also looked at the secrecy of offshore financial centers from where their money came from. We did this using the Tax Justice Network's Financial Secrecy Index.

When we take the financial secrecy of the countries where the companies providing finance were based into account it was Manchester United's rivals Manchester City that topped the offshore league.

Manchester City has £445,770,264 in finance coming from the United Arab Emirates. This is in the form of £435,262,000 in equity owned by Abu Dhabi United Group Investment & Development Limited. A further £10,900,000 has been loaned by Abu Dhabi United Group to Brookshaw Developments, one of Manchester City Football Club Limited's subsidiary companies. The United Arab Emirates have a significantly higher secrecy score than both the Cayman Islands and Luxembourg (themselves no beacons of transparency).

We contacted all of the clubs included in the league to see if they would provide an explanation as to why their shares were held in offshore vehicles. The responses from those that replied are included in our result section.

Clubs that did respond were keen to stress that the operating companies for the clubs were all based in the UK and subject to UK taxes. In some cases clubs responded to say that the reason offshore holding companies were used was because the owners were located in those countries.

The locations of companies holding shares in football clubs were found in a variety of places, from the traditional offshore financial centres of the British Virgin Islands, the Cayman Islands, Jersey and Guernsey to places like Malaysia, Malta, Thailand and India.

In some cases we were unable to find out where the holding company of a club was located at all. In one case the location of a company owning shares in a football club was simply listed as "the West Indies" a region with a number of tax havens. These clubs we assessed to be the most secretive, as it was impossible to assess the transparency of their financial structure without even being able to find out where their holding companies were located.

The clubs used a mixture of types of finance. Debt, loans which carry a fixed obligation to repay, and equity, shareholdings, where an investor agrees to put in money for a share in the profits of the club.

The total finance figure breaks down into £1.1bn in debt and £1.8bn in equity. However, the equity figure is vastly dependent on three teams, Arsenal, Manchester United and Manchester City who between them have £1.5bn in equity held by offshore vehicles.

Without these three teams the debt to equity ratio is reversed to approximately £900m debt to £400m equity, showing that there is a preference for the use of debt as a financing instrument. The use of debt as a means of finance should be of particular concern to fans. Clubs do not need to pay shareholders if they do not have the money to do so, but if a club cannot meet its debt obligations it could be bankrupted.

Some of the clubs we looked at were highly dependent on loans from offshore companies. We believe that the debt is part of a wider problem which Football Associations need to deal with, perhaps though putting a cap on the amount of debt clubs can take out.

Tax havens are by their nature lightly regulated and untransparent. Given the long history of financial difficulties football clubs in the UK have faced it should be of concern to regulators that so much money in football comes from offshore financial centers.

Our report suggests that football regulators should take steps to make sure that clubs are run on a more sustainable basis, and that the finances of clubs are open, transparent and responsible. Clubs should submit financial reports to the Football Associations that include details of the beneficial ownership of both the shares in clubs and the loans received by clubs. It should also include details of any related party transactions between the club and their owners. The regulators should then make these reports public so that the fans have an easy to access source of information about the finances of the game.

Introduction

Offshore finance, once a niche industry confined to the basements of some of the less scrupulous banks, accountancy firms and criminal gangs has come to dominate every aspect of economic life, including sports.

The last ten years have seen an increasing number of clubs being taken over by offshore entities to the point where the largest of the British Virgin Islands (Tortola, population: 23,908) is home to more companies owning teams in the football leagues than there are teams in Leeds, Liverpool, Bradford, Hull, Bristol or indeed most towns and cities in the United Kingdom.

There is no single reason of why clubs are held offshore. A common reason can be the lower taxes and fewer regulations available in tax havens. It can be from a general desire for secrecy and confidentiality or simply a product of the fact that the owner may already own a business empire offshore and wants to add a football club to it. It may be that the owner lives offshore. It may be that it is just the way business is done in the country where they operate. The structures and the purpose of offshore holding companies are often more dependent on the needs of the owners than the club.

This is in our view where things can start to go wrong, when the structure and finance of clubs risk being driven by the egos and financial needs of powerful men, the fans can be forgotten. Without transparency, owners can become entirely unaccountable – even as their financial decisions may condemn century-old institutions like Rangers FC to liquidation.

The disasters of individual clubs aside, a broader issue of concern is the impact on competition. Offshore structures can create opportunities for clubs to gain an unfair advantage over others. It can also hold back a successful club if the owner seeks personal profit over performance on the pitch. They allow for the possibility of hidden, common ownership or control of a number of clubs by a single individual - which should worry everyone from fans to FAs.

The issue was neatly summarised in the proceedings of the High Courts of Justice concerning the Secretary of State's decision to allow the compulsory purchase of land needed for Tottenham Hotspur's stadium redevelopment. Tottenham was resisting disclosure of some documents on the basis of commercial confidentiality. They said that it would damage their competitive advantage if they were forced to publish some of the plans around the stadium. The judge put it to the court that in football competition should happen on the pitch. The barrister for Tottenham, Mr Christopher Katkowski QC replied: "Forgive me my lord but that is a rather naïve view of the modern game".

But if the real game is played in the boardrooms, banks, and courtrooms, rather than on the pitch, what fun is that at all?

The Offshore World

Why use offshore?

There are many reasons why people use offshore structures. Offshore means your business being placed in a company somewhere else. The key thing about offshore is that your company becomes subject to a different set of laws, which will often be weaker than the country you are in. These can be different tax obligations but other non-tax rules can be an advantage also - such as rules governing the need or otherwise for disclosure of accounts, or the identity of owners. (While we consider offshore jurisdictions from a UK perspective here, it is worth noting that the United Kingdom itself can and does act as an offshore jurisdiction for businesses in other countries.)

The size of the offshore industry is vast and is not a trade limited to certain specialised outfits; it has become mainstream. Offshore structures are created and marketed by the world's largest banks, law and accountancy firms. As one academic study put it, "Far from a marginal or exotic backwater of the global economy, offshore in many ways is the global economy."

In total the Tax Justice Network estimates that between $21 trillion to $32 trillion of private financial wealth is located, untaxed or lightly taxed, in jurisdictions offshore around the world.

The impact that offshore finance has on the world economy cannot be underestimated. The vast amount of money flowing under cover of offshore opacity was a major contributing factor to the global financial crisis. The taxes lost to offshore exacerbate budget deficits and cuts in government spending. The low tax rates offered by offshore and the ease with which multinationals and rich individuals can move their money offshore drives a tax war, where each country cuts their effective tax rate in a race to the bottom that further undermines revenues.

Avoiding tax

One of the most common reasons for holding assets offshore is to avoid tax. If you have a job in the UK and are paid a wage or a salary you are taxed - typically at source - in the UK. Although possible, it is difficult for ordinary people to avoid taxes on their labour.

However, capital is much more mobile. If someone owns an income-generating asset, a business, or let's say a (profitable) football club then you can avoid paying tax on the profits of that company if you move those profits offshore.

Offshore jurisdictions generally have very low or no tax on capital. That means no taxes on corporate profits, dividends, interest payments and crucially the gains you make from the rise in value of your assets – capital gains.

If the club is owned by a British citizen than there are all sorts to rules to stop people profiting from tax havens. But there are legal ways around the rules. You can leave the country like Joe Lewis, the owner of Tottenham Hotspur, who is a tax exile in the Bahamas.

If you have a foreign connection, it's even easier to avoid tax. The UK government runs one of the oldest and best tax avoidance schemes in the world. Anyone not born in the UK, or even anyone who has spent time abroad, can apply to be non-domiciled for tax purposes. This means that you claim to still have strong roots abroad and some day may think about going back. In the mean time you are free to live, work and use all of our public services in the UK just like any other UK citizen, but without paying any taxes on your foreign earnings. If you move all your business offshore, then it can be a tax free bonanza.

Capital gains

Of course if you are not a UK citizen and have no intention of living in the UK after you have moved the profits of your UK business offshore you have no need to worry about the UK tax system.

There are a number of ways of making tax free profits offshore. One of the most important for football clubs is capital gains tax avoidance. Many clubs don't make a profit year on year. They spend so much of their cash on wages and transfer fees they may have little or nothing left to pay their shareholders in terms of a yearly return.

The companies that own and manage the club do however still have a value and when sold a football club can go for a lot of money.

If you buy a business in the UK for £10 and sell it for £15 pounds, you pay a tax on your capital gain of £5. However, if you own a UK business through a company in the Cayman Islands, and instead of selling the UK business you can sell the Cayman Islands business, then there is no change of ownership of the UK business. The capital gain, if there is any, arises in the Cayman Islands. And as luck would have it, the Cayman Islands do not charge capital gains tax.

Where the company being sold is located is a key factor. Some clubs responding to our research told us that in the event of a sale, even though part of their ownership may be though an offshore company, the unit being sold would be the UK company meaning capital gains tax would arise in the UK.

A more full discussion of the possible tax benefits of converting profits into capital gains, and moving capital gains offshore, follows later in our discussion on Manchester United.

Secrecy

Offshore jurisdictions can also provide secrecy. In many offshore jurisdictions companies do not need to file their accounts like they do in the UK. This means that it is extremely difficult and sometimes impossible to know about the financial health of a company. Often, companies also have no obligation to publish who their owners are.

These kinds of structures can be very useful for hiding assets from the taxman back home. It is why traditionally tax havens and secrecy go hand in hand. But it can also be very useful for hiding all sorts of other transactions. For example, hiding the proceeds of crime and money laundering, or obscuring conflicts of interest, are facilitated by such arrangements.

Again, this is something which even the world's largest banks are involved in. BNP Paribas, one of the world's largest banks, was fined $9bn by the United States in 2014. In the statement of facts made before a US court BNP Paribas admitted that it had been running a criminal operation for 8 years. Through its Swiss bank the company had been knowingly, intentionally and wilfully breaking sanctions on Iran, Sudan and Cuba to the tune of $8.8bn. Switzerland is possibly one of the oldest and most well known secrecy jurisdictions.

That is not to say that the use of offshore necessarily implies criminality in any particular case. But offshore secrecy can certainly act as a facilitator of illicit financial flows. Even if there is no criminality financial secrecy can act against the public interest in other ways.

To see the kind of damage secrecy can do to the football world you only need to look to the current mess at Leeds United. Leeds were taken over by Gulf Finance House (GFH) in 2012. The company bought the club through a Dubai company and transferred ownership to LUFC Holdings Limited based in the Cayman Islands.

David Haigh, who fronted the deal, is currently in a Dubai prison because GFH accuse him of taking money out of the company owning the club illegally. Haigh, who has not been charged, maintains that he is innocent.

Leeds is now owned by Massimo Cellino, who has been convicted in Italy of tax fraud and as a result been told to give up his ownership of Leeds. As David Conn has reported in the Guardian, however, Cellino's lawyers are believed to have said that the ownership is in fact through a blind trust and not with him personally - despite the earlier statement to the football authorities that Cellino had acquired a controlling stake. The latest is that Cellino has said he has divested himself from his minority stake in the club, that it had always been his intention to do so and that he is innocent.

Throughout these various episodes, greater financial transparency may well have benefited the supporters of Leeds and improved the club's fortunes on the pitch.

Note: Leeds do not appear in the Offshore League, since the public declarations were that Cellino had a controlling stake, and that this was through a UK company (Eleonora Sport Ltd). Eleonora Sport Ltd has still not filed accounts, any complications to Cellino's ownership - including the possible involvement of offshore jurisdictions - are not publicly visible.

Ownership

One part of the secrecy offered by offshore is the way in which it can be used to obscure ownership. Businesses are owned by legal people, but legal people are not necessarily warm-blooded people. A legal person is any entity that can enter into contracts. This can be a living breathing human being, but it can also be a company, a trust or a charity. It is a distinction often lost when people talk about football club ownership. But it is shouldn't be.

We often say that a club is owned by an individual. For instance, Arsenal is owned by Stan Kronke and Manchester United is owned by the Glazers.

But it is rare that these people will actually have direct, or exclusive, ownership of the club. More often than not, the club is actually owned by another company, which is then owned by a person; and there may also be other shareholders. It is not always at all clear how that is arranged.

Sometimes there is no human ownership at all. The eventual owner may be a trust, which legally owns the club on behalf of a person. That person will get the profits passed on by the trust so is called the beneficial owner. But the legal owner is still the trust because the trustees have control of the asset. Indeed in order for trusts to work they must have independent control from the beneficiary. One example of a club owned by a trust is Bolton Wanderers, which has as its eventual owner the Fildraw Private Trust Company of Bermuda.

If there is a company that owns the club it is called the holding company. Understanding holding companies is key to understanding the offshore system, as the combination of holding companies and offshore financial centres provide very useful tools for obscuring financial flows.

A company registered in the UK, for example, may be owned by a holding company in the British Virgin Islands (BVI). As the BVI do not require any publication of ownership or financial accounts, the public can have no way of knowing what happens to the money after it leaves the United Kingdom company.

It may then be the case that the BVI company is in turn owned by another set of companies in the Cayman Islands. Splitting the ownership of one offshore company between two or more other offshore companies is quite common. Those companies might in turn be owned by trusts in Jersey. There could be a whole massive structure behind the first BVI company, but most people would never know since the trail will go cold when it is impossible to see who or what owns the BVI company.

Offshore ownership of football clubs

In an attempt to improve transparency and weed out criminality, the Football Association and league bodies introduced rules in 2004 to ensure the owners of football clubs are declared and that they are good upstanding people: the owners and directors test.

Today every club must declare their real (beneficial) owner on the club website. If the club is owned by a trust for example, the fans must know who is the beneficiary of that trust.

If the beneficiary has been convicted of a dishonest act they are prevented from having a stake in or managing the club.

But knowing the beneficial owner of a football club doesn't mean the flows of money are necessarily clear. Offshore structures can effectively blur financial flows and control even if we do know the identity of the beneficial owner. This is particularly the case when the capital of a company has a high proportion of debt.

It is said, for example, that Tony Fernandez owns Queens Park Rangers. Technically, Tony Fernandez does not own one share in Queens Park Rangers. Queens Park Rangers Football and Athletic Club Limited, which operates and manages the club, is owned by QPR Holdings Limited, a company based in the UK.

QPR Holdings is 66% owned by Tune QPR sdn Bdh, based in Malaysia, and 33% from Sea Dream Limited, which we believe to be registered in Malta.

Tony Fernandez, Kamarudin Meranun, and Ruben Ganalingam are the stated beneficial owners of Tune QPR sdn Bdh, according to the QPR website, but we do not know in what proportion.

The Mittal Family own Sea Dream Limited. Assuming that Tony Fernandez, Kamarudin Meranun, and Ruben Ganalingam own an equal part of Tune QPR, then Tony Fernandez only has a 22% indirect stake in Queens Park Rangers. But there is no reason to assume that the three businessmen have divided the company equally. Tony could have a far lower proportion of the shares than the other two, or he could have more. The public cannot know because Malaysia is a secrecy jurisdiction.

The situation is complicated even further when we consider that QPR shares are not actually worth much at all because it is almost entirely financed by debt.

According to our research, QPR has around £115m in debt from Tune QPR sdn Bdh, another £40m from Sea Dream Limited and £10m more from a company called Almunya Properties Limited. Little is known about Almunya other than there is a company in India registered with the same name.[1]

Because of all these loans the share capital of Queens Park Rangers Football and Athletic Club Limited appears to be worthless. The sum total of that company's assets are worth less than the amount of debt it owes.

[1] Since our research was carried out QPR's owners have written off £60 of their debt. However this does not change basic position that the liabilities of the club outstrip the assets.

On paper, the known owners of QPR, Tony Fernandez, Kamarudin Meranun, and Ruben Ganalingam and the Mittal family, may own the companies that control QPR, but they have hardly invested any money at all in its share capital because almost all of QPR's financing comes from loans. QPR did not respond to requests for comment about their ownership structure.

Beneficial ownership works though shareholdings and not debt, so there is no way of knowing whether the loans from the companies that own QPR came from money from their shareholders, or was loaned to those companies by unknown third parties. We are in the dark.

Financing Football

Football clubs needs cash, and lots of it. Cash to buy players, cash to pay players and cash to build and maintain stadiums.

Almost all business will need finance from time to time to cover payments before revenues come in. But finance can be used in very different ways; from funding future growth of companies, to extracting value for the benefit of their owners.

Debt and equity

There are two main ways in which private companies can raise cash on the financial markets. They can sell a stake (shares) to investors. This is called equity financing.

Alternatively, companies can choose the debt financing route and borrow the money. Football clubs usually do this through signing loan notes. This is an agreement with a lender to pay back the money on fixed terms.

Importantly, there are different rights and obligations that come though equity and debt. Although people often refer to owners of football clubs “investing” in a club, this may in practice cover a range of quite different structures with serious consequences for the financial health of the club.

Shareholders, as part owners of the company, have a role in corporate decision-making, in particular through voting rights at the Annual General Meeting. In return for giving their cash to a company shareholders receive a share of the profits of the company; a dividend. However, they are also not guaranteed a return. If the company makes no profit it will have no money to distribute to its shareholders, and is not under any legal obligation to do so. If the value of the company falls, so does the value of their stake in it. If the company goes bankrupt, they can lose their entire investment. Shareholders share risks with a club as well as the profits: they are investors in the true sense of the word.

Debt is different. If a company gets into financial difficulty, creditors (that is, people who lend the club money) are repaid before shareholders, and loan creditors are sometimes repaid before some other creditors, depending on how deals are structured. Debt typically requires interest payments, which are paid to creditors. The money they have lent to the company is repaid at an agreed rate, regardless of how the company is performing. If a company is not generating enough cash in order to pay back its debts, it could be declared bankrupt.

Debt has a further advantage for those providing the money, which is with regard to tax. If a company pays a dividend, it does so after it has paid its corporation tax. Corporation tax is a tax on profit, and dividends are a distribution of profits. However, debt interest payments are seen as a cost of doing business. They come out of a company before its tax bill is calculated, and as a result reduce the paying company’s taxable profits.

The amount of debt a company has relative to its equity is called its gearing ratio. This is a key indicator of the financial health of a club. If a company has lots of debt, it has a very small margin of error when it comes to its finances; a poor performance in one year and a hit on the company revenues can mean game over, because it can't pay back its loans on time. Alternatively, most of the team will be up for sale – which may simply defer the inevitable.

A club with low levels of debt has much more flexibility. A bad year might mean that investors take home less. More likely, the club may have to borrow money to cover the loss, but at least it is likely to be able to do that. A club which already has high levels of debt might find it more difficult to borrow more.

When we look at business as a whole, the ability of a company to take on debt is linked to its ability to pay it back. A company that has low levels of debt and is generating a lot of cash and profit will find it easy to borrow. A company which does not make a profit will find it more difficult.

Why do football clubs need finance?

One of the main reasons football clubs use finance is to try to buy success. In football the sources of revenue are, prize money, TV rights, tickets, advertising and sponsorship.

Almost all of these sources of income are tied to success on the pitch. If a club gets promoted they get more prize money, bigger TV rights. It may also become more popular, meaning bigger ticket sales and become more attractive to sponsors and advertisers.

The difference between the amount of money on offer between the top clubs and everyone else in the English football league is particularly acute. Since the Premier League broke off in 1992 the 20 teams in England's top division have monopolised the cash available from TV rights. Today 93% of the money available from TV goes to the top 20 clubs. The next 72 clubs share 7% between them.[2]

The situation is made even more acute by the existence of parachute payments. These payments are given for three years to clubs being demoted from the Premier League. The purpose is to help clubs deal with the financial bombshell of relegation.

The effect, however, is that once a club wins promotion to the Premiership, it is guaranteed a four year cash bonanza of £120m even if they just stay for one season in the league.

On top of this, a few top clubs have access to European football which in addition to further prize money and TV fees can help to build a global brand and fanbase, and with it access to even more revenue.

All of this gives many clubs a huge incentive to spend more money than they can afford, in

[2] Information from interviews

order to try to achieve success and access to greater revenue flows.

But there is a problem. On the whole football clubs make little or no profit. The pressure to compete leads to clubs spending any excess cash on transfer fees or players' wages. When a club gets to the next level revenues may increase - but so too will transfer fees and wages for the necessary calibre of players to compete.

In this context financing football clubs becomes an unattractive prospect. Shareholders are unlikely to see dividends, so new share issues are unlikely to be popular. But at the same time clubs would be unwise to take out much debt given the prospect of bankruptcy if things don't go to plan. Besides, it would be difficult to convince normal commercial lenders to loan money to a club for the purposes of trying to climb up the league given the huge risks in that strategy.

With the economics of football as they are, we might expect to see clubs financed conservatively, with low levels of debt, mostly to cover short term payments and turning over very small profits. Using as much cash as they can to invest in the squad, with a loyal shareholder base who value more the pride in having a stake in their club than any potential financial returns. Accrington Stanley is a club which works on this model.

Instead what we see is a huge amount of debt. Our analysis shows many clubs in the offshore league rely heavily on using debt finance rather than equity. Some 12 clubs had negative shareholder funds. This means that the value of the assets of the club is lower than the amount owed to lenders. In financial terms these clubs are worth nothing, indeed they are technically bankrupt. This is what led Egon Franck a Swiss academic to describe European football as a "zombie race".

When we look at the finance coming only from offshore, in total 16 teams saw most of their finance come in the form of loans with an offshore loans to equity ownership ratio of more than 50%. Overall the average amount of loan finance coming from offshore is 47% of the total finance in the club.

So how do clubs survive? More often then not, the loans taken out by clubs are with the owners of the club.

In the Offshore League report we counted loans that could be identified as coming from offshore. The vast majority of these were found in the related party transaction notes of companies, which state when a company has made a transaction with another company that is related to it. In most cases the loan came from the offshore holding company. These can be soft loans where there are sometimes no interest payments, and there is often an agreement that the payments terms will be extended or the loans will be written off if the club can't pay.

But buying success is not the only reason why clubs use finance. Sometimes investors can engineer greater profits for themselves by getting clubs to use financial instruments. The best example of this is Manchester United. Manchester United is a club at the top of the game. It does not need to pay way above the odds convincing Brazilian World Cup stars to play for them. World Cup stars want to play for Man U (albeit the last couple of years of limited on-field success won't have helped). With a global fan base, it also has the prospect of a huge market and revenues big enough to cover the high wage demands of a Premiership football team.

The cash available from this opens up new possibilities in debt finance, in particular the prospect that the owners may use that cash to pay off their own loans rather than invest in the club or hold down ticket prices for fans. In the section on Manchester United below, we discuss how companies can pay for themselves with leveraged buyouts.

But if you aren't a Man U fan, why should you care if the club's owner wants to stick a load of cash into your club if he has little chance of getting it back, and there are no interest payments?

The problem is that these loans can be called in and if an owner chose to do so it would mean the club would be in a huge amount of difficulty. In the offshore game many of the clubs live or die, dependent on debt in the control of one person. If an owner was to suddenly to call in the loans, it could be game over.

This is essentially what happened to Hearts, An Edinburgh club. In June 2013 the club entered administration. A month earlier the club's owner, Vladimir Romanov, had fled his native Lithuania after being charged with embezzling millions from financial institutions he had set up. These banks were taken into administration and forced to call in their debts. They had loaned £25m to the club.

As a result of this the entire Hearts squad was put up for sale. The club could have lost its stadium as the ground was put up as collateral for the loans. In the end a rescue package was put together and the club was taken into fan ownership. However, the club was dancing with death as creditors were slow to reach a deal.

Hearts went into administration and was docked 15 points for the 2013-14 season, a deduction that proved decisive as they were relegated that year. The club is now making its way back to the Scottish Premiership.

Measuring the offshore game

To gain a greater understanding of how football is financed by offshore, the Offshore Game team undertook a study to find out how much finance in the UK professional football leagues came from offshore companies. We focused on companies rather than people because if a person directly owns a club that is the most transparent ownership structure you can get.

To undertake this exercise we first of all looked through the annual return for every club in the UK professional leagues to see if any offshore companies owned more than 10% of the club. If the club was majority owned by a UK based holding company we also checked the shareholders of that company too.

We relied on returns filed for 2013/14, so that we can judge all clubs on the same basis. Unfortunately this means that where there has been more recent change in finances - [Rangers] is a particularly glaring example - the results are out of date.

In total we found significant offshore ownership in the UK holding structure of 33 clubs. These clubs were spread out across all levels of professional football, from giants like Manchester City, to Southend United, an Essex seaside club owned in the British Virgin Islands.

We then set out trying to quantify how much finance each club that we were then looking at had from offshore. To do this we used the concept of enterprise value, and looked at the enterprise value of the top holding company in the UK for which consolidated accounts were available. This is because football clubs are not always one company but a number of companies grouped into one ownership through a holding company. The consolidated accounts of the top company incorporates all of the information about the subsidiary companies so it gives the best overall picture of the worth of the operation as a whole.

Enterprise value is one way in which financiers value companies. It looks at the entire value of the finance of the club, rather than the assets in isolation. Enterprise value broadly is defined as being the sum of the value of total debt and share capital of a club. The idea that this reflects is that when you buy a company you not only take control of the equity, but you also take on the responsibility for paying back its debt.

Often the value of share capital is measured by looking at the market value of the company's shares multiplied by the number of shares that exist, but this is only feasible if the company in question is quoted on a recognised stock exchange. This is not possible for most football clubs as only a few clubs sell their shares on the stock market. Most football clubs are private companies where the shares are not for sale on public markets and so there is no readily available price that is published for each share in the company.

For the purposes of the Offshore League we therefore looked at the shareholder funds of the company instead. Shareholder funds represent the amount of money the shareholders have actually invested in a club plus the accumulated profits or losses of the company over time that have not been paid out to the shareholders. In other words, they are the assets of the club, minus what is owed in debt. These two figures must be the same because that is what a ‘balance sheet’ of a company always implies. For our purposes this figure is the best indication of the value of the club owned by the shareholders that we can get. We accept that the value of the shareholder funds may be different from the market value of the shares, as a potential owner may be willing to pay over the odds to gain control of the club. But as all companies in the UK publish the value of their shareholder funds it provides us with a good comparison between clubs which are listed on the stock market and clubs held privately.

It is important to note that the value of shareholder funds can be negative: this means that the club has more debts than assets. This implies that if a club went bankrupt and all its assets were sold off the company would still not be able to pay off its loans. As debt holders are paid before shareholders in a bankruptcy, negative shareholder funds effectively makes the value of shares in the club worthless, at least in the event that the company hit hard times and had to be wound up.

Out of the teams in the offshore league, there were 12 with negative shareholder funds. In these cases we counted the equity value of the club to be £1.

Once the shareholder funds of a club had been established, the value was split by the jurisdiction or jurisdictions owning the shares. For example, if a club had shareholder funds of £10m, and 70% of the shares were held by a company in Bermuda and 30% by a Cayman company we attributed £7m of equity to Bermuda and £3m to the Caymans.

We then looked at the loans made to a club. In order to get a value for the amount of loans coming from offshore jurisdictions we looked though the accounts for identifiable loans from offshore companies.

UK companies are required by UK law to record transactions with related parties, which are companies connected to their owners or directors. This includes loans made to the club from companies related to the owners of its shares. So it is possible to see when loans are made by offshore companies are from entities connected to the club.

The reason why clubs are often funded by loans from the owners has a lot to do with the financial structure of the game. As we noted earlier, a company which does not have large profits will find it difficult to attract loans.

Football clubs do not often make profits because spare cash is reinvested into wages and transfers. So loaning money to a football club is usually a much higher risk investment than loaning money to let’s say, a water company, which has very stable revenues and good profit levels.

It is a fact of financial life that when companies make loans to riskier third parties, they will either seek a greater interest rate, or more security. Security can come in the form of a right to claim one of the company's assets to repay the debt owing in the event that the company fails to do so. This is, of course, equivalent to a mortgage on a person's home from a bank or building society.

Football clubs have few fixed assets that are suitable for use as security for loans. By far the most important is the stadium, and there are a number of clubs that have mortgaged their grounds. Other assets of the club are mostly player's contracts. These assets depreciate quickly and are difficult to finance. Although some countries do have third party player ownership as a way that outside companies can finance players, this practice is officially not allowed in the UK.

In addition in football there is also the "football creditors rule". This means that in the event that a football club goes bankrupt, players wages, transfer fees to other clubs and any payments outstanding to the league need to be paid off before anyone else – including the tax man and people who have loaned the club money.

All this makes financing clubs from third parties a difficult exercise, and that is why very often loans to football clubs come from the owners of their shares, who have control over the club. Control is the ultimate security.

Where we were able to identify a loan to a club from an offshore company we added the amount of that loan to the amount of equity owned by that jurisdiction from which that loan appeared to have come. So for example, if a club was worth £10m, and 70% of the shares were owned by a company in Bermuda, and the club also had a £30m loan from that Bermudan company then the total amount of finance attributed to Bermuda was £37m.

Occasionally we also found loans from non-shareholding companies listed in the accounts which we were able to identify as being from offshore companies. Where these were found they were also added to the total.

It should be noted this means that the total amount of offshore loans that we have recorded is probably an underestimate. What we found was limited to what we could identify in the accounts of the clubs, and it is quite possible that there will have been more loans made from unrelated offshore parties than we will have identified.

For example, there is a company called Vibrax Corporation based in the British Virgin Islands which has loaned money to clubs like Everton, Southampton and West Ham. We do not know who owns that company. These kinds of loans were beyond the scope of our study.

However for the reasons stated above, the vast majority of loans are likely to be from the owners of clubs and so the amount of finance that we can identify is a good starting point for this study.

Measuring Financial Secrecy

Not all offshore financial centres are equal in terms of the amount of secrecy they offer. For example, Switzerland has for a long time had strict laws on banking secrecy. This allows individuals to hide their private bank accounts. The offshore speciality of The British Virgin Islands, in contrast, is company secrecy. It is extremely easy to form a BVI company and extremely difficult to find out who is behind it.

The Tax Justice Network created the Financial Secrecy Index as a tool for looking at the various levels of secrecy of offshore financial centres. The FSI was launched in 2009 and is published every two years.

It is underpinned by a vast database which looks at 202 different criteria for each secrecy jurisdiction. The criteria cover legal structures, administrative powers, tax and regulations. The database is collected and updated by a team of dedicated researchers and covers 82 different financial centres.

The TJN's Financial Secrecy Index contains two components; a Secrecy Score and a Global Scale Weight. The Secrecy Score is a score based on how secretive and lightly regulated a financial centre is. The Global Scale Weight looks at the amount of finance which passes though a particular offshore centre. These values are then combined to create the Financial Secrecy Index.

The volume score is included to give a fuller picture of the importance of an offshore financial centre to the world economy. Clearly some secrecy jurisdictions have a much greater impact on global financial flows than others.

So for example although the tiny Pacific Island nation of Nauru has a relatively high secrecy score of 79 out of 100, the amount of finance passing through Nauru is so small it doesn't register on the Global Scale Weight. This means Nauru features at the bottom of Financial Secrecy Index.

The Index also demonstrates the importance of some major financial centres, such as the United States to the offshore economy. The United States is a secrecy jurisdiction as some states offer highly effective secrecy services.

Delaware is the most important state in this regard. In Delaware, a small state on the highway between New York and Washington, it is incredibly easy to set up a business. There is no requirement that you have any physical presence in the state and no requirement to disclose who owns the company.

Delaware companies as a result have become incredibly popular. Delaware has more companies than people. At just one address, 1209 North Orange, there are 285,000 registered businesses.

These businesses include American Airlines, Bank of America, Coca-Cola, Ford, Google and other top companies. It has also been used as the address of convicted fraudsters and gun runners.

You can get more information about the Financial Secrecy Index and a full breakdown of the methodology from the FSI website. http://www.financialsecrecyindex.com

Creating the offshore league

In order to create the Offshore League, like the FSI, we looked at both the amount of finance coming into clubs from offshore, and the level of secrecy granted by the offshore jurisdictions providing that finance.

In order to do this we created a league based on a score which has multiplied the amount of finance from offshore jurisdictions by the secrecy scores from the Tax Justice Network's FSI in order to create an offshore game score that the teams were ranked by.

The FSI secrecy score plots the secrecy of a financial centre on a range from 1 to 100. Because the amount of finance can run into hundreds of millions, an index that simply multiplied the two would lead to the final scores being overwhelmingly weighted towards the size of the club in financial terms. Instead we take logs (base 10) of the amounts of finance from each jurisdiction, and use these to weight the secrecy score for that jurisdiction.

When we could not find where a holding company of a club was based we gave it the maximum secrecy score. In the case of Sheffield United, where one of the holding companies is simply listed as being in "the West Indies" we used the top secrecy score for a secrecy jurisdiction in that region of the world.

So if we take for example a club with a total finance of £10m of which £6m comes from the Luxembourg and £4m from St Kitts in the Caribbean then the Offshore Game score of the club would be 6.778 (log10 of 6,000,000) multiplied by 0.6 (the proportion of finance coming from Luxembourg) multiplied by 67 (by the Financial Secrecy Index secrecy score of Luxembourg) plus 6.602 (log10 of 4,000,000 from St Kitts) multiplied by 0.4 (proportion of finance from St Kitts) multiplied by 80 (Financial Secrecy Index secrecy score of St Kitts). In total this club would have an offshore game score of 484.

The Offshore League

Below are the results of the offshore league which is our ranking of teams based on a combination of the amount of finance they have coming from offshore, and the secrecy score of the jurisdiction from where their finance comes.

There follows a full description of our analysis of the top 5 clubs, followed by brief details from every other team in our league.

We gave every club the opportunity to provide a comment for our report on why they are owned in whole or in part though an offshore holding company. At the same time David Conn of the Guardian contacted all of the clubs in the Offshore League as part of a feature on the offshore ownership of football clubs based on our work. Where responses were received by either the Tax Justice Network or the Guardian those responses have been included and it is indicated whom those responses were made to.

The League

	Team	Total Finance Offshore	Equity from Offshore	Debt from Offshore	OG score
1	Man City	£445,770,264	£434,870,264	£10,900,000	683
2	Bolton	£151,305,001	£1	£151,305,000	646
3	Bournemouth	£20,815,394	£12,066,226	£8,749,168	644
4	Spurs	£116,661,250	£66,661,250	£50,000,000	622
5	Man Utd	£1,054,419,000	£882,922,000	£171,497,000	614
6	Sunderland	£47,030,000	£34,953,000	£12,077,000	575
7	Fulham	£13,439,000	£13,439,000	£0	570
8	Celtic	£16,426,389	£15,048,155	£1,378,234	570
9	Rangers	£5,732,446	£3,474,902	£2,257,544	569
10	QPR	£165,684,001	£1	£165,684,000	551
11	Coventry City	£43,976,553	£1	£43,976,552	535
12	Arsenal	£242,919,266	£242,919,266	£0	512
13	Preston North End	£30,406,000	£13,097,000	£17,309,000	501
14	Dundee Football Club	£277,253	£277,253	£0	479
15	Liverpool	£127,924,000	£60,296,000	£67,628,000	470
16	Albion Rovers	£214,097	£213,342	£756	469
17	Dumbarton	£643,604	£643,604	£0	465
18	Aston Villa	£94,627,283	£5,970,000	£88,657,283	463
19	Wolves	£7,486,500	£7,486,500	£0	461
20	Birmingham	£3,847,001	£1	£3,847,000	460
21	Southend United	£4,584,410	£1	£4,584,409	440
22	Shrewsbury Town	£3,370,495	£3,370,495	£0	431
23	Derby	£26,706,665	£1	£26,706,664	431
24	Millwall	£18,213,001	£1	£18,213,000	421
25	Sheffield Wednesday	£13,224,000	£2,086,000	£11,138,000	413
26	Cheltenham Town	£180,153	£180,153	£0	367
27	Blackpool	£12,142,570.40	£4,874,402	£7,268,168	361
28	Blackburn Rovers	£38,997,444	£38,997,444	£0	349
29	Charlton	£20,559,000	£5,172,000	£15,387,000	329
30	Watford	£24,077	£1	£24,076	294
31	Leicester	£117,761,001	£1	£117,761,000	258
32	Ipswich	£75,437,001	£1	£75,437,000	167
33	Sheffield United Ltd	£1	£1	£0	84
34	Hartlepool United	£1	£1	£0	66
		£2,956,752,552	**£1,844,143,867**	**£1,112,608,695**	**455**

The Top Five

1. Manchester City

A total of £445,770,264 of Manchester City's finance comes from offshore, which is 69% of the total value of the finance in the club. This is a relatively high amount, on a simple measure of the amount of finance from offshore Man City is the second highest.

The offshore holding company, Abu Dhabi United Group for Development and Investment which ultimately own Man City is based in the United Arab Emirates.

The UAE has a secrecy score on the Financial Secrecy Index of 79 out of 100. The country has a financial centre based in Dubai which, is one of the world's smaller financial centres. The Financial Secrecy Index report says:

"The UAE's low-tax environment and numerous free zones; the provision of various secrecy facilities and a strong tradition of an ask-no-questions approach to commercial or financial regulation or to foreign financial crimes, has attracted large financial flows – and some of the world's most high profile criminals."

Of course, much of the economic activity in the UAE will be entirely legitimate and there is no suggestion Manchester City Football Club, Manchester City Limited or Abu Dhabi United Group for Development and have have broken any laws. This is simply the financial environment which they operate in.

The combination of the high secrecy score from the UAE and the relatively high amount of finance coming from offshore means that Manchester City comes top of this year's Offshore League.

Manchester City Football Club Limited is owned by Manchester City Limited, which is in turned owned by Abu Dhabi United Group for Development and Investment.

Little is known about that company and originally it was thought to be part of the Abu Dhabi sovereign wealth fund, but this was denied by the government of Abu Dhabi. It is described as a private equity fund. The beneficial owner as declared in the accounts is His Highness Sheikh Mansour Bin Zayed Al Nahyan (half-brother of UAE president and Emir of Abu Dhabi, Sheikh Khalifa bin Zayed Al Nahyan).

However, what we can be fairly sure of is that Abu Dhabi United Group for Development and Investment is not the company which manages the club or indeed the estimated $20bn in assets held by Sheikh Mansour on a day to day basis. That is because it has just one employee.[3]

Unlike many other clubs, Man City has received a lot of its funds in the form of equity rather than debt. In total the shareholder funds owned by Abu Dhabi United Group is £434,870,264. Just 2% of the finance provided by Abu Dhabi has come in the form of loans, which is a £10,000,000 loan to Brookshaw Developments Limited, a company owned by Manchester City Limited. As we will see later this is in stark contrast to the way in which city rivals Manchester United were purchased. It is a reflection of the vast wealth of Sheikh Mansour that he can buy a Premiership football team of the size of Man City without any need to borrow money.

It also means that Manchester City's huge spending spree over the last few years, although financed from offshore, has not needed to rely on debt. This puts the club on a far more sustainable financial footing than others.

The massive wealth of the beneficial owner of Man City, and its willingness to pour it into the transfer market has led Man City to be referred to as the richest club in the world. But the distortion in competition created by the increasing number of clubs owned by the super-wealthy has led to footballing authorities to seek to rebalance the playing field with the financial fair play (FFP) rules.

Man City has already fallen foul of these rules, receiving a fine and a cap on wages and transfers from UEFA.

Although in this case Manchester City has agreed to accept the fine levied on it by UEFA, offshore does provide some scope for blurring the financial fair play rules.

The FFP rules means that clubs cannot operate at a loss for a sustained period. This means that if a club wants to spend more, it needs to earn more, and those earnings must be real earnings, not large cash donations from wealthy owners.

The most straightforward way to get around these rules is for a company owned by the same owners of the club to buy something from it for more than it would normally be able to get.

Football clubs get their income from ticket sales, TV rights, sponsorship and commercial operations (selling shirts for example). The owner cannot easily influence ticket sales, TV rights and the club shop, but it can influence sponsorship if it owns other companies that might want to advertise with the club.

This was an issue that was raised with Manchester City. UEFA considered the £40m a year sponsorship deal with Etihad Airways to be suspicious. And it was right for them to question the deal. Etihad as an airline business makes a profit of $62m (£41m) at its last

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[3] Abu Dhabi company register

annual report, only slightly more than it pays the club in sponsorship.[4]

The sponsorship deal was not counted as a related party transaction by City's accountants, although the head of Etihad Airways, is a member of the same family as Sheikh Mansour. Of course what would be extremely difficult to know is whether there were any business ties between offshore companies controlled by the family members.

In the end UEFA accepted that the main Etihad deal was not a related party transaction but didn't accept some secondary sponsorship agreements. What the sponsorship deal does show is the complicated and difficult judgements which have to be made when looking at trade between companies which may be linked, and how offshore makes those judgements more difficult.[5]

Comment from Manchester City

The club told the Guardian: "ADUG is a holding company and to date it hasn't done more than that. Given the size of our brought-forward losses we are unlikely to pay corporation tax in the near future. With the higher rate of tax being in PAYE (45% +13.8%), this is where a substantial amount of our cost (and loss) is. There is no construct of corporate entities designed to avoid straight tax compliance in the UK or other territory."

[4] Etihad annual report 2013

[5] Rumours in the press now suggest that Man City is renegotiating the sponsorship deal for an even greater amount with Etihad of up to 80m a year. Which will surely raise the issue again

2. Bolton – Mystery loans

Bolton Wanderers comes in second place in our offshore league. Bolton is mid-table when compared against some of the Premier League giants in the amount of finance coming from offshore in pure volume terms. It has a total of £151,305,000 in finance coming from offshore, putting it in 6th place in terms of volume.

However, that finance is hard to trace. The owner of Bolton Wanderers Football and Athletic Company Limited as stated in the accounts is Burnden Leisure PLC. The Fildraw Private Trust, owns 95% of Burnden which is based in Bermuda. The Bolton website states that the majority shareholder of Bolton Wanderers Football and Athletic Club Limited is Eddie Davies OBE & CBE.

Technically speaking, this is incorrect, Mr Davies may be the beneficiary of the trust that owns Bolton's parent. But the majority shareholder is Burnden Leisure Limited.

To complicate things further most of the finance doesn't come from Fildraw, but from Moonshift Investments Limited. Online forums state that Moonshift is registered in the British Virgin Islands, but the Offshore game team could not find any official record confirming this.

It is also frequently stated in online forums that Moonshift is "owned" by Eddie Davies. In reality, the annual accounts of Burnden Leisure simply state that Eddie Davies has "a beneficial interest" in Moonshift. In other words, he does have some rights to profit from the company, but nowhere does it state that he is the owner of the company.[6] From what is written in the accounts, it is perfectly possible that another person altogether controls Moonshift.

In total Bolton has £151,305,000 in loans from Moonshift Investments Limited. This is the entire amount of finance that comes from offshore as the shareholder funds of Burnden Leisure Limited are negative. The liabilities of the club in terms of loans and other payments they need to make are greater than the assets of the club.

Bermuda and the British Virgin Islands are two of the most notorious of the Caribbean Secrecy Jurisdictions. Bermuda has one of the highest secrecy scores in the FSI at 80, and the BVI 66.

Bolton provides the perfect example about how ownership can be, complicated and obscured by offshore. The shares of Burnden Leisure PLC are majority owned not by a person but by a trust. That trust is controlled by a company, the Fildraw Private Trust company, again not by a person. Bermuda does not have a public register of directors or shareholders. Instead these records are held by the company themselves. So we do not know who directors of the Fildraw Private Trust Company are. In reality it is incredibly difficult if not impossible to know who are the real human beings controlling the company and the club.

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6 See Burnden Leisure Annual Accounts 2013, note 31

Eddie Davies is the beneficial owner of the Fildraw trust, but that does not mean he has any say in how the trust is managed or run. Trusts are a mechanism by which day to day control of assets is separated from the people that benefit from a company.

The money, in the form of loans, comes from another unknown party Moonshift. Bolton find themselves in a position where they are entirely dependent on loans from an offshore company about which next to nothing is known about, and controlled by a company about which we also know very little.

3. Bournemouth – lost at sea?

Bournemouth comes in third place in the Offshore League. They have a relatively low amount of finance from offshore sources at £20,815,394. This puts them in 17th place in terms of the volume of finance. However their high Offshore Game score is because there are no records showing where the holding company of the club is based.

AFC Bournemouth Limited is wholly owned by AFCB Enterprises Limited. After searching on a variety of sources, it could not be determined where AFCB Enterprises was located.

The beneficial owner of the club is Maxim Demin. Nothing much is known about Maxim. He is a Russian and describes himself as a petrochemicals trader. He doesn't come to games because he thinks he is jinxed, and doesn't give press interviews.

That's pretty much all we can say about Bournemouth and its ownership structure – and pretty much all that fans may be able to glean from public sources with certainty. This is how the Cherries manage to reach such a high position in the offshore league.

Bournemouth declined to comment for the publication.

4. Tottenham Hotspur - Subsidy

Tottenham Hotspur is in fourth place in the league. Tottenham Hotspur Limited is owned by ENIC International in the Bahamas. Spurs have a mixture of debt and equity financing. It also received finance from Macon Inc. The owner of both companies is Joe Lewis, a tax exile in the Bahamas. Lewis is estimated to be worth between £1.5 and £2.8 billion.

Tottenham Hotspur is a football club located in one of the poorest parts of London, Northumberland Park. The area has high rates of crime, poor health indicators, high unemployment and teenage pregnancy.[7] It is partly due to the decades of neglect the area had suffered that it was the epicentre of the violence that exploded across London a few years ago.

The club is looking to expand their stadium, but needs land to do so. The Northumberland Development Project as it is called, is more than just a stadium. The plans involve building a new hotel and luxury homes.

The project involves a substantial amount of support from taxpayers. Tottenham originally told the local council that the development of the new stadium would not be financially viable without support from them. The club said if they didn't let it off some of their planning obligations they would go and play elsewhere.

The local council then agreed to pay for local infrastructure to support the scheme, to waive the requirement to provide affordable housing as part of the scheme and to support a compulsory purchase order to remove some of the landowners around the stadium.

The drop in the affordable housing was justified to allow Tottenham more money from luxury homes to build the new stadium. Haringey even agreed to demolish an existing council estate to create a nicer walkway to the stadium.[8]

In total the local council and the mayor are paying £41m to improve infrastructure in the local area. The local authority are waiving £16m of planning obligations that would normally have come from the club.

A public inquiry was held to determine whether or not to grant a compulsory purchase order to allow Tottenham to proceed with the plans. A government inspector recommended that the order be refused, saying:

"The principle benefit would be for a private business while the public benefits of regeneration would be at considerable cost to the taxpayer, and there would be no affordable housing. The s106 concessions were made by the council in the context of the claim that the stadium would not be viable and the club might move away."

The Secretary of State approved the order anyway. He thought that the benefits of having a new stadium and the potential for economic development from the stadium plans outweighed these concerns.

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[7] Inspectors report, CPO inquiry, Northumberland Development Project, the case stated by the council.
[8] David Conn's excellent article on the Northumberland Development Project can be found here: http://www.theguardian.com/football/2013/oct/30/tottenham-new-stadium-fury-regeneration

If the stadium project is ever completed, the revenue generating potential of the club will increase, and this is bound to have a positive impact on the value of the club.

If Joe Lewis was to sell the club, it is unlikely that he will pay any taxes on the capital gains. After all the holding company ENIC International Limited, is based in Bahamas.

All this may be galling for taxpayers, but perhaps even more so to Tottenham's rivals, who are watching public money being used to support the club in which will boost their financial strength, and allow them to become more competitive.

Comment from Tottenham Hotspur

A representative of Tottenham Hotspur told us that the club itself is a UK entity and as such pays all the respective UK taxes. The ownership of the Club has no relevance to the operations and tax position of the Club itself.

The spokesperson also stressed that many of the infrastructure upgrades being made by the local council and the Mayor around the new stadium redevelopment would have been necessary regardless of whether a new stadium was planned or not. Tottenham were keen to stress that their planning application and compulsory purchase order was approved by the Secretary of State after he determined that the scheme was in the public interest.

5. Manchester United – Private Equity and dynasties

In fifth place in the Offshore League is Manchester United. Manchester United is run by Manchester United Football Club Limited. It has a complicated series of holding companies in the UK, which are all owned by Red Football Holdings Limited. That company is owned by Manchester United PLC which is based in the Cayman Islands. 90% of Manchester United PLC is owned by Red Football LLC, based in Delaware, which is in turn owned by trusts controlled by Malcom Glazer's sons.

For our analysis we looked at Red Football Limited (UK) as it was the top company in the UK to present consolidated accounts, which includes the subsidiaries.

Manchester United has by far the most finance coming from offshore. Being one of the few clubs with the potential to turn a substantial profit, it has a high amount of equity. In addition it has a large amount of debt issued out of Luxembourg.

But Manchester United still comes in 'only' fifth in the league because the Cayman Islands and Luxembourg have a lower secrecy score than some of the secrecy jurisdictions used by the other clubs.

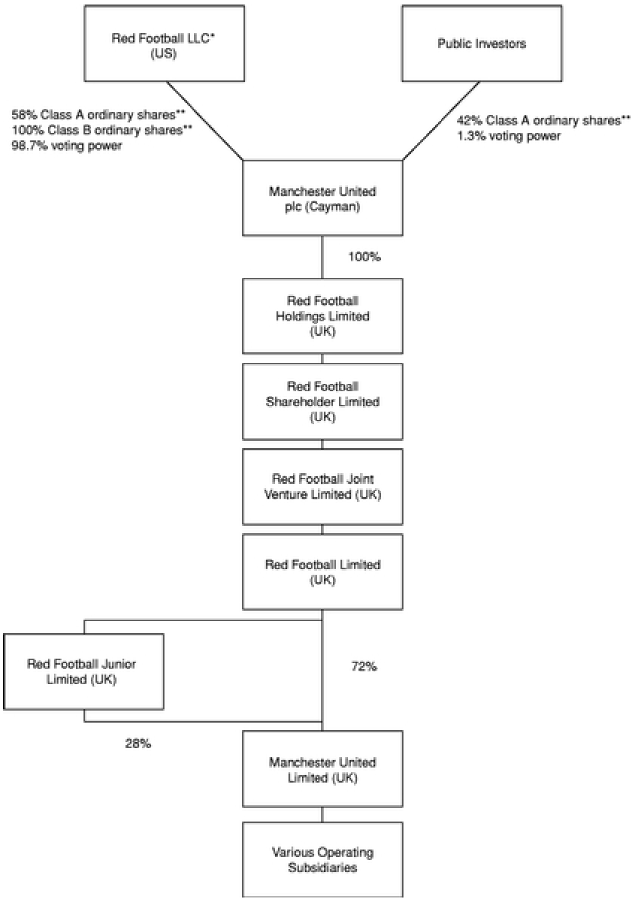

Figure 1 Manchester United's corporate structure as set out in the US Stock Market Filings from 2012 http://www.sec.gov/Archives/edgar/data/1549107/000104746912007537/a2210287zf-1a.htm

Manchester United's corporate structure is by far the most complex in the league, and may facilitate several types of tax avoidance. There is no suggestion that these structures break any laws or that the club does not pay all the taxes it is legally obliged to pay.

Trusts and inheritance tax

Malcolm Glazer died in 2014 after a long illness dating back to 2006. Trusts to hold the assets of the family were set up for the benefit of his sons years before his death.

Trusts hold assets on behalf of someone else, separating legal ownership from the beneficiary. In some circumstances they can last forever, which creates a way of passing assets between generations without changing ownership. The Tampa Bay Times, after the death of Malcolm Glazer, reported that the trusts were possibly set up to avoid inheritance tax on the assets of the family, including Manchester United.

It wouldn't have been an insignificant dodge. Inheritance taxes in the United States can be up to 40% on high value estates. The value of the shares in Manchester United held by the Glazer trust was $2.2bn at the time of Malcolm's death.

Inheritance tax is one of the few taxes which are paid on the value of assets. In very simple terms if you own something worth £1m on death the managers of the estate have to make a cash payment equivalent to the value of the tax. So if an inheritance tax charge is 40%, the executors of the estate have to pay £400,000. If the managers of your estate do not have cash available to pay the tax charge they will have to sell the asset to pay the tax. In reality it is a bit more complicated than that because most countries have an amount which you can pass on tax free. In the UK it is £325,000, and there are other exemptions too. But we can safely say that the Glazers assets far outstrip the tax-free amount.

So there are two issues with inheritance tax avoidance. The first is a loss of revenue for the government. The second, and more significant is that through avoiding inheritance tax families become dynasties, keeping control of assets like medieval nobility. Manchester United, bought by Malcolm Glazer, is now part of the family's assets, and may remain there forever more.

But it must be said that inheritance tax planning, as it is called in the business, is a very common form of tax avoidance and there is no reason to believe the Glazer family have done anything illegal in the way they have structured the ownership of Manchester United or any of its wider interests.

The pervasiveness of inheritance tax avoidance is one of the key reasons why there has been an increasing concentration of wealth in the world, according to bankers Credit Suisse.

Private Equity and capital gains

Manchester United's offshore structure is also interesting for another reason. With a global fan base Man U is one of the few clubs with the potential to make huge profits. As a profit making company it is also has the potential to generate taxes.

Taking profits offshore is a widely used way of avoiding taxes, although the situation with Man U is very complex.

Manchester United's Cayman Island's company was set up for its stock market listing in 2012. The Cayman Islands imposes no taxes on Manchester United, and as part of the deal, the Governor of the Cayman Islands, the representative of the Queen and a British

Government Official, on the orders of the Cayman Government, signed an agreement with Man U that it would be exempt from any future changes in tax legislation to impose new taxes for the next 20 years.[9] Proving surely beyond doubt that the Queen is a Man U fan.

But strangely by moving to the Cayman Islands Manchester United actually increased their tax rate on corporation tax. Before the move to Cayman Manchester United was a UK company owned by a United States partnership. Profits on the UK part were subject to UK tax, the US partnership profits subject to US tax.

The United States has rules to prevent companies moving offshore to avoid taxes. This meant that when Manchester United was moved to the Cayman Islands it brought the whole group under US corporation tax, which at 35% is significantly higher than the UK's 22%.[10]

However the change in rate matters little because the profits (which is what the higher rate applies to) are not the principle means of extracting value from the club. What is important in a private equity transaction is capital gains. If the club had listed its shares in London this would have meant that the US holding company would see a 15% capital gains tax charge on their asset. Given the nature of the Glazers' investment in Manchester United avoiding capital gains tax is a more important issue.

The Glazers' investment in Manchester United is a typical private equity style investment. In short the Glazers used borrowed money to buy the club and then use the cash generated by the club to pay the loan back. This is a very common private equity technique and is how most UK water companies have been bought as well as the AA, Boots, Comet and other household names.

There are a number of big advantages of using debt to finance the purchase of a company. Most are driven by the tax system.

The first is that by using debt, or leverage as it is called in the financial sector, you can super-charge your capital gains.

The best analogy for this is buying a house. If you buy a house worth £250,000 with a 90% mortgage you put in £25,000 of your own money and the bank lends you £225,000.

If the value of your house increases by 10% the house is worth £275,000. Sell it and you pay back £225,000 that you borrowed from the bank and pocket £50,000. A 10% increase in the value of your home has led to a 100% increase in the value of your investment.

Hence the term leverage. By using debt, you lever your returns.

[9] See Manchester United PLC share prospectus
[10] A discussion of the tax consequences for Manchester United of their listing on the New York Stock Exchange and the move to the Cayman Islands can be found here: http://uk.reuters.com/article/2012/07/12/uk-manchesterunited-ipo-caymans-idUKBRE86B1HP20120712

This is exactly what the Glazers have done too. The big difference of course is instead of buying a house, they have bought a football club. The amounts of money involved are much bigger and crucially, if you live in your home the house doesn't generate income, whereas a business can.

The potential for Manchester United to generate revenue for the Glazers leads us to the second big advantage of private equity style deals, which is the tax treatment on debt.

By exploiting the difference between taxes on dividends and interest payments, private equity companies get a tax break for buying companies.

The trick works like this. A company is set up to buy an asset and borrows money which it uses it to buy the asset.

The acquiring company usually does nothing other than take out loans and buy another company. It normally has no independent means of raising revenue. With the Glazers, their company Red Football Limited was set up solely for the purpose of holding Manchester United Limited.

If the companies stayed separate the acquiring company would have to wait for a dividend to be paid from the company it has bought before it could pay off its debts. If it didn't get a dividend it would quickly go bust as it would not have the income to pay off its loans.

In other words it would have to make sure that the company it had bought was making good profits and paying taxes so that it could get its hands on some of those post tax profits though a dividend.

The trick is to get your hands on the revenue of the company you have bought before it makes a profit and pays tax. To do this the acquiring company shifts the debt it used to pay for the company onto the company it bought.

If this happens, the company that has been bought, instead of paying a dividend, pays off the loans used to buy the club. It does so before tax is paid, which makes paying back the money used to take over the club a lot easier. The new owners get the club to pay for their purchase, and get a tax break for doing so.

Again in Manchester United's case, this whole process was set out in the offer to shareholders from Rothschild's when the Glazers were bidding for total control of the club.

> *Red intends to procure that Manchester United makes applications to the United Kingdom Listing Authority for the cancellation of the listing of Manchester United Shares on the Official List and to the London Stock Exchange for the cancellation of trading in Manchester United Shares. It is expected that such cancellations will take effect no earlier than 20 business days after the date of this document, but in any event no later than 30 June 2005.*
>
> *It is also the intention of Red to propose a special resolution(s) to re-register Manchester*

> *United as a private company and to procure (among other things) that all obligations incurred under the term loan facilities described in paragraph 8(c) above are guaranteed by, and secured over the assets of, Manchester United and the Club.*
>
> *It is unlikely that Manchester United Shareholders who do not accept the Offer will receive the same level of future dividend payments (if any) in respect of their Manchester United Shares as have been previously declared and paid.*

Once this operation has been completed the tax advantage for private equity owners is that profits manifest themselves as capital gains.

Because shares are a right to company profits, shares in companies that make profits, pay dividends and are debt free are obviously worth more than shares in companies that don't pay dividends and have tonnes of debt.

A private equity deal destroys the value of shares by loading debt onto the company and reducing its profits. This is why private equity relies on total control of the asset, and why shares are taken off the stock market. Minority shareholders would not accept their value being destroyed to loan money to someone else to buy part of the club.

In economic terms when private equity buys a business with borrowed money they get what they pay for. They put in a small amount of their own money to take control of all the shares, but because of the increased debt and interest payments those shares aren't worth much.

However, as the debt is paid off the value of the shares you own increases. This can be very attractive for private equity owners.

Again, if you own a company directly and it pays a dividend, apart from the tax paid by the company before the divided comes to you, you will also pay income tax on the money you receive.

If you buy a company and the value of the company increases, when you come to sell that company the money you make is not income, but a capital gain, which is taxed differently.

In the UK the top rate of income tax is 45%, but capital gains tax is 28%. Until recently the difference was even bigger. The top rate of income tax was 50% and capital gains tax 18%. In the Cayman Islands capital gains tax is 0%.

In the States the top rate of income tax is around 40%, but capital gains tax is 15%. The Glazers, through the deal they did on Manchester United shift the return on their investment from income to capital and therefore pay a lower amount of tax on their wealth. That is, if they pay any tax at all given the trust structure through which the Glazers own everything.

The Manchester United deal demonstrates how leveraged buyouts effectively manage to avoid taxation twice. Once at the corporate level by shifting the profit distributed out of the company from dividends to debt interest, and again on the receiver side by shifting returns from income to capital gains.

It is impossible to work out exactly how much tax the Glazers have avoided though using this technique, since it will depend on a whole range of variables, most of which are not publicly visible due to the location of the trusts and holding companies. What we can say is that the Glazers have made huge amounts of money for doing very little other than to channel the proceeds of gate receipts and TV deals towards the banks and hedge funds that gave them the money to buy the club.

When the Glazers bought the club they put in £272m into the deal but only a small amount of that was in cash. Around £222m came in the form of shares in the club they had already bought at a lower price.[11] The rest of the £790m price tag was paid for with borrowed money.

At the time of writing, Manchester United PLC, the Cayman Islands holding company listed on the New York Stock Exchange had a market capitalisation of around $2.6bn which is the total value of all the shares. The Glazers retain control over 90% of the shares with a value in pounds of £1.58bn. If they sold the club today, from an initial investment of £272m, they stand to make £1.3bn. All of this is capital gain which is taxed at a lower rate than the lowest rate of income tax. In other words the Glazers will probably pay a lower rate of tax on their £1bn capital gain than many Manchester United fans pays on their income.

It is questionable whether the Glazers' buyout of Manchester United, or indeed any other of the large private equity takeovers we have seen in the UK would have been possible or even desirable without the tax breaks for debt and the potential for companies to exploit the mismatch in taxes between debt and equity, capital and income.

Manchester United did not respond to our offer to comment.

[11] Details of the takeover bid can be found in the offer documents https://dl.dropboxusercontent.com/u/6622840/Football%20docs%20on%20blog/RedOffer.pdf These documents are available on the andersred blog http://andersred.blogspot.co.uk

The next 29

Club	Sunderland
Position	6
Offshore holding	Drumaville Ltd
Country	Jersey
% Owned by Offshore Company	100%
Offshore Game Score	

Club	Fulham
Position	7
Offshore holding	Big Cat Holdings
Country	Jersey
% Owned by Offshore Company	100%
Offshore Game Score	570

Fullham responded to the Offshore Game to say that Big Cat Holdings was now being liquidated and was a product of the previous ownership. The Club said that their funding now came from a company called Flex and Gate, which is based in the USA and owned by the Club's Chairman.

The Offshore Game looked at the 2013 accounts of all the club as at the time of writing those were the latest set of accounts available for all clubs. The change in ownership and Offshore league score will be reflected in next year's Offshore League.

Club	Celtic
Position	8
Offshore holding	Line Nominees
Country	Gibraltar
% Owned by Offshore Company	35%
Offshore Game Score	570

Club	Rangers
Position	9
Offshore holding 1	Blue Pitch Holdings
Country	Unknown
% Owned by Offshore Company	6%
Offshore Holding 2	Margarita Funds Holding
Country	Unknown
% Owned by Offshore Company	4%
Offshore Game Score	569

Club	QPR
Position	10
Offshore holding	Tune QPR SND BHD
Country	Malaysia
% Owned by Offshore Company	67%
Offshore Holding 2	Sea Dream Ltd
Country	Malta
% Owned by Offshore Company 2	33%
Offshore Game Score	551

Club	Coventry
Position	11
Offshore holding	Sconset LP
Country	Cayman Islands
% Owned by Offshore Company	96%
Offshore Game Score	535

Coventry City have not responded to requests for a comment. However, the Chief Executive of Sisu Capital which manages the investment fund that owns Coventry previously told the Guardian that most funds were registered in tax havens like the Cayman Islands to avoid capital gains tax.

Club	Arsenal
Position	12
Offshore holding	KSE UK Inc
Country	USA
% Owned by Offshore Company	67
Offshore Holding 2	Red and White Securities Ltd
Country	Jersey
% Owned by Offshore Company 2	30%
Offshore Game Score	512

Arsenal told the Guardian: “This is not the kind of private business we would discuss publicly.”

Club	Preston North End
Position	13
Offshore holding	Wordon Limited
Country	Isle of Man
% Owned by Offshore Company	100%
Offshore Game Score	501

The club told the Guardian that the owner of the Club has lived in the Isle of Man for over 30 years and holds all of his assets there.

Club	Dundee Football Club
Position	14
Offshore holding	Football Partnership Scotland
Country	Unknown
% Owned by Offshore Company	52%
Offshore Game Score	479

Club	Liverpool
Position	15
Offshore holding	UKSV I and UKSV II LLC
Country	USA
% Owned by Offshore Company	100%
Offshore Game Score	470

Club	Albion Rovers
Position	16
Offshore holding	Clifton Ordinary Suspense
Country	Unknown
% Owned by Offshore Company	23%
Offshore Game Score	469

Club	Dumbarton
Position	17
Offshore holding	Granada Enterprises Limited
Country	Belize
% Owned by Offshore Company	75%
Offshore Game Score	465

Club	Aston Villa
Position	18
Offshore holding	Reform Acquisitions LLC
Country	USA
% Owned by Offshore Company	58%
Offshore Game Score	463

Club	Wolves
Position	19
Offshore holding	Bridgemere Investments
Country	Guernsey
% Owned by Offshore Company	75%
Offshore Game Score	461

Club	Birmingham City
Position	20
Offshore holding	Birmingham International Holdings
Country	Cayman Islands
% Owned by Offshore Company	100%
Offshore Game Score	460

Club	Southend United
Position	21
Offshore holding	Mezcal Investments
Country	British Virgin Islands
% Owned by Offshore Company	66%
Offshore Game Score	440

Club	Shrewsbury Town
Position	22
Offshore holding	Jefreen Holdings
Country	British Virgin Islands
% Owned by Offshore Company	27%
Offshore Game Score	431

Shrewsbury told the Guardian: Jefreen is owned by the chairman, Roland Wycherley's, family trust. He has been involved since 1992, has never taken any salary or dividend, and was instrumental in the club's move to its new stadium.

Club	Derby County
Position	23
Offshore holding	General Sports Derby Partners LLC
Country	USA
% Owned by Offshore Company	100%
Offshore Game Score	431

Club	Millwall
Position	24
Offshore holding	Chestnut Hill Ventures LLC
Country	USA
% Owned by Offshore Company	100%
Offshore Game Score	421

In a Joint Response to the Offshore Game and the Guardian Millwall gave a detailed answer to why their owners use a Delaware LLC to hold the club. They said:

Chestnut Hill Ventures LLC (CHV) is an established USA Limited Liability Company (LLC) acting as a private equity investment company which owns significant holdings in a range of companies both in the USA and internationally. Since 2010 CHV has provided Loan

Facilities of £25m and invested £6m in Nonvoting B shares. LLCs are a very common form of structure for professional services businesses in the USA and the attributes and tax implications of these can be easily researched.

CHV, in common with a substantial number of corporations, is registered in Delaware, to take advantage of the great flexibility available to a Delaware LLC in regard to minimal start-up requirements, simple maintenance, and the ability for members to establish their own company structures and rules. For example see:
https://www.delawareinc.com/llc/advantages-of-llc

From a tax perspective a LLC is tax transparent in that it is considered a "pass through" entity so all tax characteristics and liabilities get passed through to the CHV's individual members, most of whom are taxpayers in the state of Massachusetts and pay Federal taxes to the US Government.

There is no tax advantage gained by CHV from being registered in Delaware.
CHV itself files tax returns in 8 states in the US.

John Berylson is a USA tax resident. As is The Philip Smith Deceased Will Trust, a family trust, established over 50 years ago with the aim to pass family wealth to younger generations. Both bear tax in Massachusetts as well as federally.

Should CHV realise its investment in MH at a gain for tax purposes this would be allocated to the individual members of CHV in the USA. Should MH dispose of MFAC, or MFAC dispose of the Club, any gain for tax purposes would be assessed in the UK.

Club	Sheffield Wednesday
Position	26
Offshore holding	UK Football Investments LLC
Country	USA
% Owned by Offshore Company	100%
Offshore Game Score	413

Club	Cheltenham Town
Position	25
Offshore holding	CTFC Investments
Country	Cayman Islands
% Owned by Offshore Company	22%
Offshore Game Score	368

A representative of Cheltenham Town told the Offshore Game that CTFC investments was owned by an investor from the area who now lived in the Cayman Islands. They are keen supporters of the club but wanted to remain anonymous.

Club	Blackpool Football Club
Position	27
Offshore holding	VB Football Assets
Country	Latvia
% Owned by Offshore Company	100%
Offshore Game Score	361

Club	Blackburn Rovers
Position	28
Offshore holding	Venkateshwara Hatcheries Pvt
Country	India
% Owned by Offshore Company	100%
Offshore Game Score	349

Club	Charlton
Position	29
Offshore holding	Staprix NV
Country	Belgium
% Owned by Offshore Company	99%
Offshore Game Score	329

Club	Watford
Position	30
Offshore holding	Hornets Management SARL
Country	Luxembourg
% Owned by Offshore Company	99%
Offshore Game Score	294

The Club told us that Hornets Investment Limited owns virtually all the shares of Watford Association Football Club. Hornets Investments Limited is registered in England and Gino Pozzo is its sole owner.

The latest accounts of Watford state: The immediate parent company is Hornets Investment Limited, a company registered in England and Wales. The ultimate parent company and controlling party is Hornets Management S.a.r.l. a company registered in Luxembourg. The majority shareholder and therefore the ultimate controlling party is Mr Gino Pozzo.

Club	Leicester
Position	31
Offshore holding	King Power International
Country	Thailand
% Owned by Offshore Company	100%
Offshore Game Score	258

Club	Ipswich
Position	32
Offshore holding	Marcus Evans Investments
Country	Bermuda
% Owned by Offshore Company	88%
Offshore Game Score	167

Ipswich Town told the Offshore Game and the Guardian: “Ipswich Town is subject to tax in the UK. The long-established ownership of the wider [Marcus Evans] group pre-dates the acquisition of Ipswich Town so is irrelevant to it. Given the club is loss-making it is very unlikely there will be any gain in value of the club.”

Club	Sheffield United Ltd
Position	33
Offshore holding	UTB LLC
Country	West Indies
% Owned by Offshore Company	50%
Offshore Game Score	84

The club told the Guardian: “Prince Abdullah is a Saudi national and it is normal for non-UK residents to hold their assets in non-UK companies. There is no intention on behalf of the owners to make a gain selling the football club but if very exceptional circumstances occurred, the owner would be a UK company, Blades Leisure, that is fully exposed to capital gains tax.”

Club	Hartlepool United
Position	34
Offshore holding	Dove Energy
Country	British Virgin Islands
% Owned by Offshore Company	100%
Offshore Game Score	66

The club told the Guardian: “The ultimate owning company is in Jersey, but the club is owned by UK company IOR Ltd. IOR bought the club for football and business reasons; it was never the intention to sell the club at a gain and that has never been possible with a League One or Two club. Even if it had been, IOR Ltd are not in the business of avoiding any tax due to HMRC.”

Conclusions and Recommendations

The Offshore Game has uncovered the widespread use of offshore companies in professional football. Teams were keen to stress that the operating companies of their clubs were all based in the UK and paid UK taxes. However, as we have found those operating companies are often owned in whole or in part by offshore companies.

The reasons are varied. In some cases it is clear that the owners themselves are tax exiles, rich men who have moved to a tax haven to protect their wealth. Their ownership of a football club is simply a part of that structure.

In the case of a club like Millwall the Delaware holding company is a vehicle by which a number of investors buy the club. Profits are all passed straight though to the investors who pay tax in their home state in the US. The owners say this is done simply for convenience, as Delaware is an easy place to set up a company to create such a structure.

In some cases the offshore holding company is part of an already existing business structure which has nothing to do with football, such as with Hartlepool. The football club is simply added to it.

Sometimes, we simply cannot know why the offshore holding company exists. This is one of the key problems with tax havens.

The secrecy surrounding tax havens makes it very difficult to find out what is happening with the financial affairs of offshore companies. Although it cannot be said that having an offshore owner will lead to ruin, there can be little doubt that offshore financial centers create an environment of lower transparency, low regulation and low or no taxes.

Given the financial difficulties that have afflicted so many clubs in England, Scotland and Wales over the last couple of decades the widespread use of offshore finance by teams in the professional football leagues should cause concern to fans, the FA and the government.

The question that really needs to be asked is whether this is an acceptable way to manage the finances of football. Money which after all comes from the fans through pay-tv subscriptions, ticket sales and other purchases.

Fixing the wider economy

The reasons why football clubs might be owned though offshore holding companies are no different from why any other company might be owned in that way. The use of offshore is widespread in the economy.

The offshore issue is also much more important than the activities of an individual offshore company. It may be that a company based offshore is doing nothing wrong. But that does not make it acceptable for tax havens to operate low regulation environments where other companeis can easily do wrong. Regulators and government should be as concerned about the potential opportunities for tax avoidance and financial impropriety created by tax havens as they are about real instances of these activities.

The Tax Justice Network has for over a decade supported measures which improve financial transparency and remove incentives for companies to use secrecy jurisdictions. In particular we support public registries of beneficial owners of companies, so individuals cannot hide behind offshore anonymous companies and trusts. The automatic exchange of information between tax authorities would mean that when an individual starts a company or opens a bank account abroad the local authorities automatically inform the tax authorities in that person's home country. Country by country reporting would make sure companies based in the UK report how much profit they make in each country where they operate.

Many of these issues are by their nature international, but Britain can play a leading role. The British Empire did not die after the Second World War, it just got smaller, and the Empire today is a collection of tax havens and secrecy jurisdictions like the British Virgin Islands and The Cayman Islands. Is this really an appropriate contribution for the UK to be making to the world economy?

One of the most positive things the UK government could do in the next parliament would be to end their support for tax havens.

Controlling debt

The Offshore Game also uncovered a number of issues that could be addressed specifically by Football regulators. Football is a key part of the social infrastructure of the United Kingdom. Millions of people identify themselves with their football club and yet there is nothing stopping a few private owners piling tens of millions of pounds of debt onto the club. The club becomes dependent for its survival on the lender, which can be an offshore company about which little if anything is known.

The United States National Football League has for a long time recognised the importance of investors in clubs having real skin in the game.

The NFL has imposed a total debt ceiling of $150m or around £100m for each club. This may sound a lot, but it is less debt than held by clubs such as Bolton and QPR, and the teams in the NFL are generally much richer than the average UK football team. The poorest NFL team last year was the Oakland Raiders, which had a revenue of $244m (£163m) which is more than all but the top 5 clubs in the Premier League. If such a debt ceiling had been in place in the UK it would have stopped the Glazer family takeover of Manchester United though a debt financed purchase.

The combination of controls on debt, salaries and the way in which the transfer market works means that NFL teams are also profitable, affording them every prospect of paying off their debts.

The NFL can also mandate the form of investment by owners in clubs and insist that the club is bought with equity rather than debt. If debt is used to buy the club, the NFL can insist that the debt is secured over the assets of the owner.

The effect of this is that owners have a real stake in success of the club, and if the club goes down, they go down with it. It would be impossible to have a situation (which has happened in the UK in the past) where the club is bankrupt but the owners walk away with millions still in their pocket. A bankrupt club would likely bankrupt the owners, and that might force them to make some very different decisions with the finances of clubs.

A hard cap like the one imposed in the United States is unlikely to be effective in the UK because teams in the US have a much more equal distribution of wealth. A large variation in wealth of UK teams means that a hard cap would be too big for some. Instead the league should consider a cap based on revenues or ability to pay.

The Football Associations should consider imposing limits on the amount of debt clubs can take out and should have the power to block debt financed takeovers of clubs.[12]

Full financial transparency

These kinds of reforms would be impossible without full transparency of ownership and finance.

Currently the Football League and Premier League rules insist that any ownership over 10% be disclosed. However this does not always work in practice. We found that Cheltenham Town FC are 22% owned by CTFC Investments Limited.

A spokesperson for CTFC said the company is backed by keen supporters of the club who have no desire to appear in the public domain. The club also said that the company was based offshore because that is where the investors live.

Regardless of where the company is based there is no record of who owns CTFC investments, and no way of finding out. If the company was based in the UK, the company's annual return would reveal the identity of the owner.

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[12] Centre Forum, a think tank, has suggested a debt ceiling of 100% of revenue for each club. http://www.centreforum.org/assets/pubs/football-and-the-big-society.pdf

It would be much better if rather than relying on the clubs to publish their ownership, and journalists to scout around in the world's company registries, the Football Association required clubs to submit this information to them directly, which they then published. This is the kind of transparency stock market listed companies need to abide by, companies submit information to the stock market which is then made available to the public by the stock market.

Related parties

The experience of some clubs tell us there is more to controlling a football club than shareholdings. Some football clubs are entirely dependent on debt, which can be another method of exercising control, but details of the beneficial owners of debt are not published as a matter of routine.

Again, Rangers provide a good case study. Mike Ashley, who owns less than 10% of the club also owns a substantial amount of the debt. Without these loans the club would find itself in severe financial difficulty and could face liquation for the second time. This gives him a substantial amount of control over the club, which he has publically exercised. Since Ashley also owns Newcastle United, this control has attracted the attention of the Scottish FA who have rules against the same person controlling two UK clubs. The SFA found Ashley in breach of the rules and fined Ashley £7,500 (yes, just seven thousand five hundred pounds). Ashley is reported to have a net worth of over £3bn, or enough to pay the fine 400,000 times.

In the case of Bolton, the entire debt is owned by a mysterious company, Moonshift Investments about whom we know very little.

Contracts and related party transactions can be an issue too. Directors and owners of football clubs can have substantial financial interests in the club that go beyond the ownership of shares. This can be loans made to the club, but it also can be commercial agreements between the club and companies related to the directors.

This kind of information is now increasingly required by Football Leagues and UEFA in order for them to assess financial fair play rules. Given that related party transactions are by their nature not open market transactions, it is difficult to see an argument against the full publication of the terms of contracts entered into between clubs and their owners. This could be done by the regulators who collect this information.

A fair playing field

There is no sport without competition. There is little point to watching a game if you know the result in advance. But it is important to be clear on what competition is acceptable and unacceptable.

Competition should not be about which team has the most favorable tax treatment, the best accountants, the best lawyers, or the owner with the fattest wallet. It should be about who has the team with the best players, best coaches and best fans to support their team.

New rules on Financial Fair Play change the nature of game to some extent by limiting the ways in which clubs can use finance to gain an advantage. However they also introduce new problems. They will do nothing to deal with the vast disparity of wealth between the top and bottom of British Football and if they prevent clubs from spending to reach the top, they will entrench inequality. It is a likely outcome of the FFP rules that we will simply see the rich clubs getting ever richer with the poorer clubs staying in the lower leagues but with better financial management.

The time has now come for a public debate about how we can improve competition within our national sport. Regulators, fans and government need to address the key issues of the distribution of wealth between clubs, whether particular forms of ownership should be excluded from football, and what forms of outside assistance to clubs from local councils, governments or private interests are acceptable.

There has been a lot of great work done on this by think tanks, campaigners like Supporters Direct and the Parliamentary Select Committee, but there is no clear process for change from the regulators. It is now time for the government and the FA to set out how they will include fans in a discussion about the redesign of the rules of the game.