



### DAFC as a Community Interest Company - Third Sector, Social Enterprise

On 27 March 2013 Dunfermline Athletic Football Club (DAFC), was placed into **Interim Administration**. On 11 April 2013, a **full Administration** was confirmed by a Court hearing, DAFC entered “administration” because of a very serious cash flow situation, and was carrying a considerable amount of debt. Effectively, the club had more debts than assets and was unable to pay its way.

As well as being a football club, at that time in the Championship Division of Scottish football, DAFC directly employed around 100 staff, both full-time and part-time. This was made up of the obvious players and coaches, but also included employees in finance, marketing, retailing, hospitality, and ground maintenance.

An “**administrator**”, Bryan Jackson, of BDO, was appointed by the Court. BDO UK are a leading accountancy and business advisory firm.



“Administration” is a method whereby an independent administrator attempts to find a way for the business to continue trading. If this can’t be done, then the business will go into “**liquidation**”. Liquidation means all assets of the organisation are sold in an effort to raise as much cash as possible to pay off its creditors. In all probability, there will not be enough cash raised by a liquidation process to pay creditors in full, and this means that each creditor will receive only a percentage of what they are owed. For example, if the liquidation raises only 10% of the total owed, each creditor will be paid 10% - a creditor owed £1,000 will receive only £100.

This is bad news for each creditor, who in many cases may be a local business, and may have a knock-on effect to on that business’s ability to continue trading.

The **administrator’s task** is to find a way to make the business solvent by **reducing costs** (such as making staff redundant), selling some assets (if any) and seeking a deal with creditors to write off some or all of the monies owed to them, in order to find new buyers to take over the business, and run it as a going concern. This applies to any business in administration - not just football clubs.

In DAFC’s case, many of the staff, including some players, were made redundant in order to reduce costs and effectively save the club from liquidation. There was a real fear that the club would disappear, that local people would lose jobs and that the home of the Pars for over 120 years, East End Park, would be sold to a property developer for flats or possibly a supermarket.



Consequences for the club were serious. Scottish Football Association sanctions - a 15-point deduction, plunged the club to the foot of the league table and led to relegation to the Scottish Professional League Football (SPFL), League 1, in May 2013. The club were also banned from signing any new player over the age of 21 until January 2014. To play in a lower league, without experienced players, would also mean a reduction in income at a time the club were desperate to maximise it. A lower league usually means smaller crowds, and certainly less SPFL prize monies.

Other Scottish football clubs who have been in Administration include Livingston, Dundee, Hearts and Rangers. In the case of Rangers, they were liquidated in October 2012, with a brand new company purchasing their assets rather than shares in the old company. Livingston, Dundee and Hearts went through a similar process to DAFC, but their shares were taken over by ordinary limited companies and not by a Community Interest Company.

### Saving the Pars



DAFC is affectionately known as the “Pars”. Local fans rallied round, organising bucket collections, cash donations, selling off Pars and football memorabilia, running concerts and fund-raisers.

Pars United CIC was formed in April 2013 by local business people (and themselves long term supporters) who felt strongly that the club should not only be saved, but had a future as a key part of the local community. They were joined at the very outset by the Pars Supporters’ Trust, and other

supporter groups. The vision was to establish a community owned football club as a **CIC**, a form of **third sector social enterprise**, which runs as a business, employs staff, trades, and is subject to normal company law, but the purpose is **for the good of the community**. No one individual took more than 10% of the shares in the CIC, and the Pars Supporters’ Trust became the largest shareholder with close to a 30% holding. It was made possible for fans to buy a share in the Pars, indirectly, by becoming a member of the Pars Supporters’ Trust, for £100 per person.

Pars United CIC formed an interim board, who would take over the club if a CVA (**Creditors Voluntary Agreement**) could be agreed. The administrators, working closely with Pars United, managed to secure the CVA, whereby debts owed by the football club were fully written off as no other option was available. **Preferred creditors** were agreed (the employees - both footballers and non-footballers - were paid in full, as were all debts owing to other football clubs. This allowed



Dunfermline Athletic Ltd to carry on trading and playing in the SPFL. If no agreement had been found, then the company would have had to enter “**liquidation**” and cease trading completely.

In October 2013, the complex and delicate negotiations were completed, and Dunfermline Athletic Ltd was taken under the ownership of Pars United CIC. Funding came from a mix of;

- “Pars Patrons”, who invested between £5,000 and £50,000 each, and close to a thousand ordinary fans who purchased shares in the new CIC via the Pars Supporters’ Trust (PST)
- fan groups such as the Dunfermline Athletic Supporters’ Club, Kincardine Supporters Club and the Elizabethan Supporters Club

In this way, close to £750,000 of new **working capital** was raised and the Club’s immediate future was secured. The supporters groups elect a representative to the Board of Directors, ensuring that supporters have a direct voice in the future of their Club.

## Objectives

The immediate business objectives of Pars United were;

- ***To provide a stable and viable future for Dunfermline Athletic with no one person or group controlling the Club;***
- ***To give all Pars fans a voice in the decision making of the Club, with board representation via the Pars Supporters Trust which will contribute greatly to our future direction;***
- ***To restore the good name, and rebuild the brand, of Dunfermline Athletic in the local community and within Scottish football;***
- ***To improve communication with supporters at all levels and the overall experience of following The Pars; and***
- ***To bring a community focus back to our club.***

(Source - "Dunfermline Athletic Business Plan")

## So, what is a CIC?

- 1 A limited company, established **for the benefit of the community** rather than for the benefit of shareholders
- 2 An "**asset lock**", is set, where the maximum dividend payable on profit to the shareholders is 35%. (Pars United CIC have chosen to make this 0%)
- 3 The asset lock also means the assets of the business cannot be stripped from the company
- 4 Directors' salaries are restricted (Pars United have chosen to make this nil - all the Board of Directors give their time of free))

## How do DAFC meet "for the benefit of the community" conditions?

- 1 In the case of DAFC, there are no dividends or directors' salaries. All surplus is re-invested for the benefit of the football club and the wider community
- 2 Ownership is widely spread, with fans represented on the Board of Directors
- 3 The Club forms strong relations with local business and suppliers, providing jobs and incomes for a wider range of people other than just directly employed by the club
- 4 Draws support from a diverse range of fans
- 5 Markets itself as a family club
- 6 Runs a Schools Engagement Programme and a coaching programme (The Pars Foundation), which carries out a range of sport and other programmes for schools, in school holidays and for adults.
- 7 Provides a wide range of volunteer employment opportunities of local people to contribute to the club and develop employability skills
- 8 And provides (it is to be hoped) a football team to be proud of!

**Stakeholders in Dunfermline Athletic**

Shareholders, via Pars United CIC

Staff, including players

Supporters

Local businesses who trade with the Club

Other football clubs (who see the benefits of a successful DAFC in bringing a large away support to provide income)

**Notes;**

## Questions

- 1 Describe the **objectives** of a **Community Interest Company (CIC)**
- 2 Discuss how an administrator will try to rescue a business which has entered **administration**
- 3 Explain how a **CVA** works
- 4 Using examples, explain how DAFC as a CIC achieves “**benefits for the community**”
- 5 Describe the benefits for **each** of the **stakeholder groups** in a successful football club
- 6 DAFC made a “**preferred creditors**” agreement for staff. What advantages would this bring the club and these **preferred creditors**?
- 7 Further examples of Community Interest Companies in the UK include;

**Stenhousemuir FC** - a Scottish 1st Division Football Club <http://www.stenhousemuirfc.com/cic/>

**Chill Welfare** - a Glasgow-based company which supports keeping people safe from drug and alcohol abuse at music events across the UK <http://chillwelfare.org.uk>

**Partners in Creative Learning** - a business which designs creative learning projects for schools and business <http://www.picl.uk.com>

**City Health Care** - provides health and care services to local people in Hull <http://www.chcpcic.org.uk>

Use the internet to research one of these CICs to compare/contrast business models with DAFC

- 8 **Ownership is Black and White**  
[http://www.heraldscotland.com/sport/13132526.Ownership\\_is\\_black\\_and\\_white/](http://www.heraldscotland.com/sport/13132526.Ownership_is_black_and_white/)

How much has the pensioner who set up a shop inside East End Park raised?

What is she selling?

What have local businesses and other fans done to raise money or improve facilities?

When were CICs invented?

Describe what else the club is doing to “foster sense of unity”?

### Supporting Community Enterprise

<http://www.cicassociation.org.uk/about/what-is-a-cic> - advantages/disadvantages

“CICs are one of the fastest growing community enterprise movements in the country”

Roughly how many of new companies formed were CICs in 2014?

How many CICs are now on the Regulator’s list?

Discuss how an “asset lock” benefits the business

### Thinking of Starting a CIC?

<http://www.streetsweb.co.uk/media-comms/hot-topics/thinking-of-starting-a-social-enterprise-or-becoming-a-community-interest-c>

What counts as a “community”?

How do you ensure it’s for the benefit of the community?

Explain what is meant by a **dividend** and also a **dividend cap**