

March 2019

**SISU has been the target of much unwarranted and misleading press attention. This is unfair both to it and to Coventry City Football Club. SISU does not want to enter into a media war, but instead sets out its position in this document. The background to where the Club finds itself is highly complex which has in part led to misrepresentations in the media. SISU has tried to simplify the issues here to explain the history that has led it to the current litigation and its long term aims for the Club.**

## **Summary**

---

SISU is committed to making Coventry City Football Club as successful as it possibly can be. Ultimately, SISU's objective is for the Club to be back in the Premier League again.

SISU has, since its first involvement in 2007, invested over £50m in the Club and has devoted extensive time and effort trying to get the Club back to a secure financial footing. SISU has always believed that in turn would lead to success on the pitch.

Central to SISU's historical efforts has been its work to secure a permanent stadium the Club can truly call home, whether at the Ricoh or at a new stadium.

As is set out in detail below, SISU's path has been made unnecessarily difficult. The Council has repeatedly acted against the interests of the Club, the effect of which is to have left it without a stadium, without access to its own match-day income, and crippled with high rents.

Behind the scenes, a malicious PR campaign was conducted against SISU, with at least the connivance of the Council (as seen by the Council Cabinet members' request to hire PR consultants), to discredit SISU and its efforts to develop the Club. The barrage of inaccurate and unfair reporting on the issues that SISU and the Club face seems never-ending.

In 2014, the Council decided to sell the Ricoh to Wasps. Not only was this a slap in the face to the Club but the effect of the deal was that Wasps gained control over a very long lease at a significant (some £28 million) undervalue. The Club has never been offered the true ability to buy a stake in ACL, nor anything close to the deal Wasps concluded. This has been devastating to the long-term interests of the Club and its fans.

SISU had no choice but to bring litigation to challenge various aspects of the Council's deal with Wasps. SISU's core complaint is that the Council acted unreasonably, outside of its powers, and broke the EU-wide laws against a public body unfairly subsidising one private entity over another.

Litigation is the only route available to SISU to protect the Club's interests in the long term and has never been financed by the Club. This is not intended as a vendetta against Wasps, although of course Wasps has had a large windfall given to it. SISU is not suing Wasps (nor the Higgs Charity). Wasps is involved in the litigation only as "an interested party".

SISU has, in parallel to the litigation, continued to invest money and time in exploring and putting together a proposal for the construction of a new stadium which would become the Club's long term home. SISU is yet to receive any indication of the likelihood of the proposal being agreed by the Council.

There have been some myths about tax losses, and SISU would like to clarify that only the Club can ever benefit from the tax losses it has generated in the past.

SISU wants to make the Club successful, both on and off the pitch. Any serious and determined owner of the Club would want the same thing. Contrary to popular view, there is no magic solution to the current difficulties via the sale of the Club to another owner. In any case, to date SISU has not received any offers with accompanying proof of funds.

## **Background**

---

### **The New Ricoh Arena**

The development of a new stadium for the Club was started in the late 1990s, when the Club was competing in the Premiership. As part of the process, the Club spent millions of pounds sourcing the land in North Coventry and putting together the proposal for the Club's new stadium.

The Club negotiated the sale of the land to Tesco for almost £70m; the proceeds would cover the required decontamination works as well as financing the stadium build.

### **Council push through damaging deal**

However, the Club was unable to finance the option purchase of the land 3 weeks ahead of the sale to Tesco. The sale of the land to Tesco was expected to fully finance the stadium build for the Club. The Club therefore approached Coventry Council to assist in bridging this short time gap.

Unfortunately, the Club was in a weak negotiating position opposite the Council, and ended up with no ownership of the land (and therefore no right to the proceeds of the sale to Tesco), instead holding a 50% share in a company (later called ACL) that would run the stadium.

### **Higgs Charity call in loan**

The Higgs Charity had previously provided a loan to the Club in order to finance player acquisitions. During the 2000/01 season, the Charity called in the loan early, which was not due for repayment until 2003. The Club was unable to repay, and so were forced to give up their share in ACL (and consequently any access to their match-day revenues) to pay off the loan. The Club's Board noted in their Board meeting minutes on 3 December 2003 that they were unable to afford legal advice at this time, despite both ACL and the Council each using teams of advisors.

### **Club in financial trouble**

CCFC's financial position was difficult: on the one hand it had to pay exorbitant rent after its move to the Ricoh Arena in 2005 - far in excess of average rents paid by a football club; on the other hand CCFC was deprived of revenues commonly received by clubs renting their stadiums (such as corporate hospitality, stadium and stand sponsorship, and concession revenues).

## **SISU's Initial Investment**

The Club was going under when SISU got involved to rescue it.

SISU funded the Club in 2007 and early 2008 even before completing the purchase of CCFC in March 2008; an unusual, but necessary, step to pay wages and related costs to staff.

During the purchase negotiations in 2007, SISU attempted to acquire Higgs' shares in ACL. Due to the complexity of the transaction and the time pressure to pay creditors, it was not possible to conclude the Higgs' share purchase in the required expedited timeframe. SISU's only option was initially to focus on stabilising the business, which included signing a co-operation agreement with ACL, envisaging cost and revenue sharing between the two companies. Unfortunately, despite costs being shared, the agreed revenue share never transpired.

SISU invested over £37m between December 2007 and 2011. Over £30m of that was invested in player acquisitions, player wages, rental costs and capex in an attempt to get back into the Premiership. The rest was spent on historic debts, late creditors and HMRC payments.

## **SISU's Further Investment**

Since 2011, SISU has invested a further £20m, including continuing to finance a competitive team on the pitch despite relegation, financing the administration process and the losses associated with the enforced short term move to Northampton. Following the return to the Ricoh Arena, SISU has continued to provide short term financial support as the Club progresses towards a break even position.

## **2011/2012, Financial Fair Play and Rent Renegotiations**

In 2011, the Club's senior management attempted to open discussions with ACL in order to provide the Club with a portion of the revenues it was generating. There were also broader strategic discussions including a fresh attempt to purchase the Higgs' shares.

SISU became involved in early 2012 as discussions between the shareholders of ACL and CCFC commenced. With the implementation of Financial Fair Play regulations, as well as relegation looming, an agreed reduced rent was paid to ACL during the course of these discussions from August onwards.

Between early 2012 and August 2012, ACL continued to receive full rent, dropping to an agreed reduced amount from August onwards. In total, from late March 2012 to March 2013, ACL received over £850,000 in rental payments, which whilst not the full total of the £1.3m rent, was significantly higher than any other League 1 and Championship football club rents. Without match-day income (which all went to ACL), it was all the Club could afford to pay.

## **ACL in financial trouble**

ACL's finance cost was so high it could not afford to reduce the rent paid by the Club. SISU therefore stepped in to provide a rescue package that would free ACL from the expensive finance costs in return for the Club having the benefit of some of the match-day income and security of tenure at the

Ricoh. SISU's intention was not to distress ACL; the Club simply could not afford to continue to pay almost £2m in rent and match-day costs.

In August 2012, heads of terms were agreed and signed with the Council under which:

- a. SISU would buy out and discharge (i.e. write off) the ACL debt owed to Yorkshire Bank;
- b. the Council would allow SISU to purchase the Higgs' stake in ACL, the Council would retain their 50% share in ACL;
- c. SISU would bring in the owners of the O2 arena, AEG, to run the Ricoh Arena itself;
- d. any outstanding rent would be discharged (i.e. written off); and
- e. the Council would extend the Ricoh Arena lease from approx. 42 to 125 years.

Under the agreed heads of terms, the long term benefit was that ACL would not have to service such an expensive loan, giving ACL greater flexibility to reduce the Club's rent. It would also allow ACL and the Club to focus on strategic growth and making both the Club and the Stadium a thriving Midlands business.

In addition, SISU signed a heads of terms with the Higgs Charity for their shares in ACL, and a term sheet with AEG to run the Ricoh Arena business as agreed with the Council. **Had these arrangements been finalised, the Club's future would have been secured.**

### **Council reneges on SISU's rescue package**

When it came to following through on the deal, ACL (half owned by the Council) did not offer the cooperation SISU was expecting, and SISU had significant difficulties obtaining due diligence materials.

SISU now knows that the Council Cabinet had decided on 3 September to pursue a competing strategy, only a few weeks after signing heads of terms with SISU. Emails from that time show that on 12 August 2012 (only 10 days after the heads of terms were signed), the Council was adamant that they would not allow SISU to purchase the debt.

However, SISU had no idea the Council had decided unilaterally to pursue its own transaction with the Yorkshire Bank and cut SISU out. SISU continued to push the transaction in good faith as it was in the best interests of the Club. A PR campaign, orchestrated by Weber Shandwick, targeted against SISU ultimately frustrated the deal and allowed the Council to enter into its own deal with the Yorkshire Bank.

### **Administration of CCFC**

SISU did everything it could: it invested significant funds (in excess of £50m), explored every avenue to gain back control of the Club's income streams and costs. Ultimately for reasons that have never been clear, others who were involved in these negotiations preferred not to enter into long term arrangements with SISU.

In March 2013, ACL (still owned by the Council and the Higgs at the time and with the Council now acting as ACL's banker) filed for administration of the Club on the basis of what was ultimately a net *de minimis* amount taking into account the effect of voting against the CVA and the rates rebates.

Just outside the playoffs at the time, the Club entered administration which cost it 10 points and any chance of promotion that season. ACL then voted against the CVA and the Club had to go through a liquidation process, costing the Club a further 10 points in the 2013/14 season, and ACL received almost £100k less than it would have received in the CVA.

### **Rates Rebate**

In early 2012, as the Club looked to further reduce costs, it discovered it had overpaid rates as if it was entitled to access the stadium 365 days a year, rather than the 23 days allowed under the lease agreement. The rebate due to the Club was assessed by the Valuation Office Agency as between £300,000-£400,000, which would need to be refunded by the Council as usual. Although the refund was confirmed in March 2013, by November 2013 the Club was still chasing senior Council executives for the refund payment. Eventually, the Club had to instruct lawyers, and only finally received the refund owed in February 2014.

### **Northampton**

The Club could not afford to stay at the Ricoh on the terms proposed, as ACL's terms limited the Club's income further by **demanding a percentage of ticket sales**.

So SISU took the very difficult decision to move to Northampton in August 2013. It was not a decision taken lightly and SISU understood and empathised with supporters' decisions to stay away from matches at the time. It was the only way to protect the Club in the long term and to ensure it could fulfil its fixtures.

ACL then started a legal case against Northampton for allowing the Club to play there, but ultimately did not succeed.

### **Return to the Ricoh**

In May 2014, SISU welcomed the efforts of Reverend Witcombe in bringing all parties together and SISU willingly participated in the subsequent dinner in July 2014 and mediation process which resulted in the Club returning to the Ricoh Arena on 5 September 2014. As in all mediation processes, SISU approached the mediation in good faith and came out of the process cautiously optimistic for the future and the return to the Ricoh. Indeed, public and private comments at the time from senior Council officials pointed to there needing to be a period of time to rebuild trust before longer term ownership discussions (of the Ricoh Arena) could take place.

### **Coventry Council sells the Stadium to Wasps**

Neither SISU nor the Club had any idea that there was a pending deal to sell ACL to Wasps before, during or after the Club's return to the Ricoh. When the press reported on this in October 2014, it

was the first SISU learned of such a transaction, and one which had never been offered to the Club. The Council did not run a competitive sale process and invite bids for ACL.

SISU wrote to the Council asking to be involved in any sale process, and the Council responded only after the Council's stake was sold to Wasps to confirm the transaction had been completed.

### **The Sale was Unlawful**

SISU considers that the Council was not legally entitled to agree this sale to Wasps in the way it did. SISU also considers that the sale to Wasps was at an undervalue, partly because the Council did not run a competitive bid process (a key to establishing what an asset is worth on the open market). SISU was never given the opportunity to bid, and given the importance of the stadium to the Club, SISU would certainly have participated in a competitive sale process of 100% of ACL and a 250 year lease, such terms having never previously been available offered.

However, the Council did not run a competitive bid process; it simply entered into a deal with Wasps. There was no objective need for the Council to "help" Wasps in favour of the Club.

### **Higgs Shares 2014 (Wasps transaction)**

Following correspondence from the Higgs Charity, SISU made an offer to buy the Club's option over the Higgs shares in ACL at the higher of: either £2.8m or market value (i.e. an existing offer) plus an additional amount. Despite media comments to the contrary, there were no conditions attached to SISU's offer other than requesting basic documentation to understand what SISU was purchasing. SISU provided proof of funds, and the Club set out how it would look to continue to work with the Higgs Charity in the future on community projects<sup>1</sup>.

The sale process the Council structured with Wasps was conceived in such a way that the Club could never practically exercise its option without the approval of Wasps. Wasps had no incentive to give their approval, as the deal they got with the Council was highly favourable to them. So for reasons entirely outside of the Club's control, it was unable to buy a stake in ACL.

### **The Club's Tenancy at the Ricoh Arena**

In August 2014, the Club entered into a tenancy agreement with ACL at the Ricoh Arena (the terms of which are confidential). It was an initial 2 year deal (14/15 and 15/16 season), extendable for a further 2 years at ACL's option only. However, in December 2015, when the Club confirmed it wished to extend the deal for the following two seasons, Wasps refused to grant this option. Eventually, Wasps would only allow the Club to stay if it traded all its access to the Academy match pitch at the Higgs Centre (apparently as part of the developments of Wasps' new £7m training ground) in exchange for continuing its tenancy.

---

<sup>1</sup> As an example, Sky Blues in the Community spent almost £1million in 2018 running projects for the benefit of the community, and the Club and SBITC were recognised recently in Parliament, winning the regional Community Club of the Year award. This [video](#) gives a highlight of some of the fantastic work that has been achieved with the community of Coventry

## **A New Stadium for CCFC?**

Rightly, many fans ask why the Club has not built a new stadium, which would be the ideal solution in the long term, allowing access to all revenue streams and control over costs.

SISU has invested considerable time and money in exploring the construction of a new stadium:

- Real estate advisors have been and continue to be engaged to source land for such a development;
- Planning consultants and other experts (including environmental, roads/highways, economic impact, for example) have been appointed to advise on all other aspects of the development.

SISU has progressed to heads of terms on several occasions but, it has not been possible to finalise a new development because:

- The EFL rules restrict its geographical location
- There are political challenges for any potential seller given they would be seen as supporting SISU and sitting opposite the Council
- The Council itself is the planning authority and its impartiality is questionable in the context of the current acrimonious relationship
- The strong animosity against SISU appears to have influenced negotiations at every turn.

SISU is still hopeful that the Council will work with SISU to progress the development of a new stadium.