Assessing the Financial Sustainability of Football

Research paper by Christina Philippou and Kieran Maguire

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Overview and Objective

1. Following a series of online meetings with DCMS staff, Christina Philippou (CP) of the University of Portsmouth and Kieran Maguire (KM) of the University of Liverpool were tasked with identifying appropriate financial metrics that could act as potential identifiers of financial stress for professional football clubs in the Premier League (EPL) and English Football League (EFL).

2. They were also tasked with considering the broader issue of financial sustainability and fragility in football, and the key reasons for this.

3. The specific research questions CP and KM were asked to consider in relation to the problem of financial sustainability and impact were:
    - What are the key metrics that should be used to evaluate the financial health of football clubs and the game as a whole?
    - Is there an issue of financial unsustainability in football and, if so, how significant is it?
    - Are there systemic financial weaknesses in the football industry such that there is a risk that a few clubs topple and more will follow?
    - What are the impacts in the event a club does go into administration, or worse goes out of existence entirely?

Introduction

4. The Fan Led Review of Football Governance[1] (FLR) concluded that the finances of many football clubs are fragile, putting them, and the communities to which they are integral, at risk. The FLR presents that this is in part due to overexposure to risk and uncertain funding, poorly governed clubs, and dangerous incentives to gamble for success.

5. This research brief assesses these FLR conclusions in light of traditional financial and football industry-specific metrics. This brief also uses case studies from a financial perspective to help illustrate and provide further detail for some of the issues highlighted in the FLR.

The problem: financial sustainability and key metrics

6. The following two research questions are covered in this section of the brief:
    - What are the key metrics that we should use to evaluate the financial health of football clubs and the game as a whole?
    - Is there an issue of financial unsustainability in football and, if so, how significant is it?

7. KM and CP considered a range of financial metrics to evaluate the financial health of clubs. The metrics in this brief cover the key financial aspects facing football clubs: profit (or, more commonly, loss), cash flow, debt, and dependence on ownership.

[1] Fan Led Review of Football Governance (2021)

8. The key metrics[2] and areas considered in evaluating the financial health of football clubs and the game as a whole were:
    - Income based metrics
    - Wage control
    - Operating cash flow
    - Net owner funding
    - Current ratio
    - Football Net Debt

9. In addition to the above metrics, which are based on historical financial statements, a system of real-time monitoring of club finances, which focuses on present day cash management, would be an issue to consider.

10. **Income based metrics.** Considering reliance on a particular income stream is important when assessing financial risk. Too much reliance on a single source can create increased pressure when that source is affected. For example, matchday revenue was affected during the pandemic lockdowns so clubs that were very heavily dependent on matchday revenue (more common the lower down the leagues one goes) suffered more than those that weren't. Relegation from one division to another can also cause a large drop in income and therefore this can affect financial sustainability.

11. **Wage control ratios.** These are the most common metrics used in terms of determining the affordability of wages. Often referred to as wage-to-turnover or wage-to-income ratios, these show how much of club income goes to pay player wages and give an indication of whether cost controls in a club are robust. Both standard[3] and adjusted (for player sale profits averaged over three years) wage control ratios are used in this brief. UEFA, the governing body of European football, considers a wage-to-income ratio of 70% and above to be a risk indicator as per the UEFA Club Licensing and Financial Fair Play Regulations[4].

12. **Operating cash flow** This is a measure of liquidity of the club as operating cash flow measures the cash generated from day-to-day trading activities of the club.

13. **Net owner funding.** Dependence on ownership funds puts clubs at risk, especially if the funding is in the form of loans from related parties (rather than equity, which is hard for the owner to extract, particularly if the club is loss-making). Looking at net owner funding over 3/5 years from the financing section of the cash flow statement highlights the dependency on ownership, which is problematic if the owner is no longer able to support the club (death, sale, personal bankruptcy, loss of interest etc) and requests repayment of the loans.

14. **Current ratio**[5]. This commonly used financial analysis ratio measures liquidity in organisations i.e. ability to repay short-term debts. Although industry dependent, a current ratio of well below 1 normally indicates potential cash-flow issues. For

[2] These are based on club financial statements obtained from Companies House, some of which are unaudited.

[3] Wage/income x100

[4] UEFA (2020) The European Club Footballing Landscape report

[5] Current assets/ current liabilities

example, Bury FC's current ratio in 2017 (the last set of available accounts before it was sold for £1 in 2018 and expelled from the EFL in 2019 for inability to pay debts) was 0.12. Birmingham City's current ratio was 0.40 in 2012/13 and 0.43 in 2013/14 while it was getting loans to help with liquidity[6]. The EFL club current ratio average in the period 2005-2014 was 0.53[7].

15. **Football Net Debt**. The industry-specific metric Football Net Debt[8] (FND) looks at debt owed to lenders and other football clubs. UEFA notes that "it is important to look at net debt in context, rather than in isolation, as the debt taken on to finance investment is clearly perceived as far less risky compared to that of debt taken on to fund operating activities, which might lead to financial sustainability issues for clubs."[9] The metric was used in order to assess the risk to clubs' sustainability. The higher the ratio, the higher the perceived risk of the business.

Income based metrics

16. Football clubs earn their revenues from three main sources: matchday (mainly ticket sales), broadcast (domestic, international, and UEFA), and commercial (kit manufacturing, kit sponsorship, official partners, etc).

17. Figure 1 shows the dependency of the lower half of the 2019 EPL table (in the last pre-pandemic season) on broadcasting income. Smaller clubs in the Premier League can become very dependent upon broadcast income and this can create problems if they are relegated and unable to reduce their cost base.

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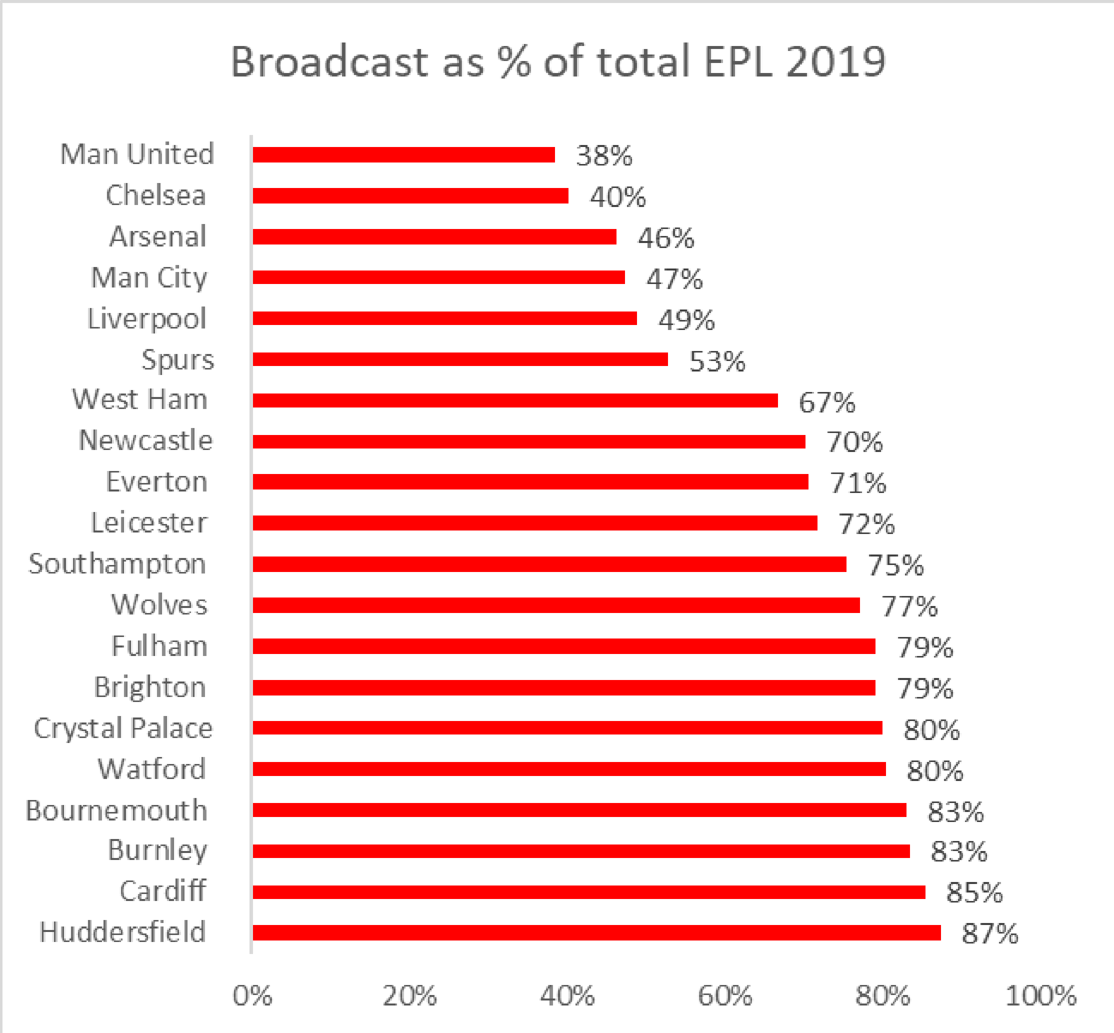
[6] Insider Media Limited (2013), Birmingham City Parent Agrees £1.2m loan.

[7] Evans, R., Walters, G., & Tacon, R. (2019). Assessing the effectiveness of financial regulation in the English Football League: "The dog that didn't bark." Accounting, Auditing & Accountability Journal, 32(7), 1876–1897.

[8] Defined in the UEFA Club Licensing and Financial Fair Play Regulations as net debt which offsets bank overdrafts, bank and other loans, related-party loans and payables and transfer payables against transfer receivables and cash balances.

[9] UEFA Club Licensing Benchmarking Report - Financial Year 2018

Figure 1: Broadcast revenue as a proportion of total revenue in the EPL 2019



18. Aside from relegation, a decrease in an income stream over time can also impact financial stability (albeit less of a shock). While international broadcast rights for the EPL continue to grow, domestic broadcasting income is showing signs of plateauing, and other international leagues have seen a fall in domestic broadcasting income[10]. Over-reliance on a single income stream can be costly for more than relegated clubs in the long-run.

19. Clubs relegated from the Premier League have on average a reduction in income of £53 million (47%) in their first season in the Championship (see Table 1). This income figure includes parachute payments from the Premier League which are designed to prevent clubs suffering financial distress due to having payroll costs that are linked to long-term fixed sum payments. Wages in the first season in the Championship following relegation decrease by an average of 41% for those clubs that are not promoted immediately back to the Premier League.

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[10] Bhattacharyya, R. (2021) [European Football Leagues facing sharp decline in broadcast revenues](), Sports Mint Media.

Table 1: Relegation effects on revenue and wages 2015-2019

Year	Team	PL Revenu	Champ Rev	Reductior	PL Wages	Champ Wages	Reduction	
2015	Hull	84.1	41.9	(50.2%)	55.6	30.0	(46.0%)	Promoted
2015	Burnley	78.8	40.0	(49.2%)	29.4	38.4	30.7%	Promoted
2015	QPR	85.9	41.9	(51.3%)	72.9	40.8	(44.0%)	
2016	Newcastle	125.8	85.7	(31.9%)	74.7	112.2	50.3%	Promoted
2016	Norwich	97.8	75.3	(23.0%)	67.2	55.1	(18.0%)	
2016	Villa	108.8	73.8	(32.2%)	93.0	61.5	(33.9%)	
2017	Hull	116.9	56.7	(51.5%)	61.3	31.1	(49.2%)	
2017	M'Boro	121.4	62.0	(48.9%)	64.9	48.7	(25.0%)	
2017	Sunderland	126.4	63.7	(49.6%)	84.4	46.8	(44.5%)	
2018	Swansea	126.8	69.4	(45.3%)	90.7	50.3	(44.5%)	
2018	Stoke	127.2	70.6	(44.5%)	94.2	56.0	(40.5%)	
2018	West Brom	124.8	70.8	(43.2%)	92.2	46.8	(49.2%)	
2019	Cardiff	125.2	44.9	(64.1%)	53.7	35.6	(33.6%)	
2019	Fulham	137.7	58.0	(57.9%)	92.6	72.6	(21.6%)	Promoted
2019	Huddersfield	119.3	52.7	(55.8%)	64.2	30.3	(52.9%)	
	Total	**1,706.8**	**907.4**	**(46.8%)**	**1,091.0**	**756.3**	**(30.7%)**	

20. Furthermore, while clubs are highly reliant on one source of income (and/or key providers of funds), this impacts their financial resilience to withstand major economic shocks (not just the pandemic). There is evidence of a lack of economic resilience across most clubs (including the wealthiest ones)[11]. Where risks of this nature appear reasonable during periods of strong growth in revenue, they are likely to have great impact if the growth in broadcast revenues falters – something we are seeing in other European leagues[12].

Cost based metrics

21. The most significant costs for football clubs are in relation to player recruitment and retention. Football is a talent-based industry and there is a strong correlation between wages and points earned.[13]

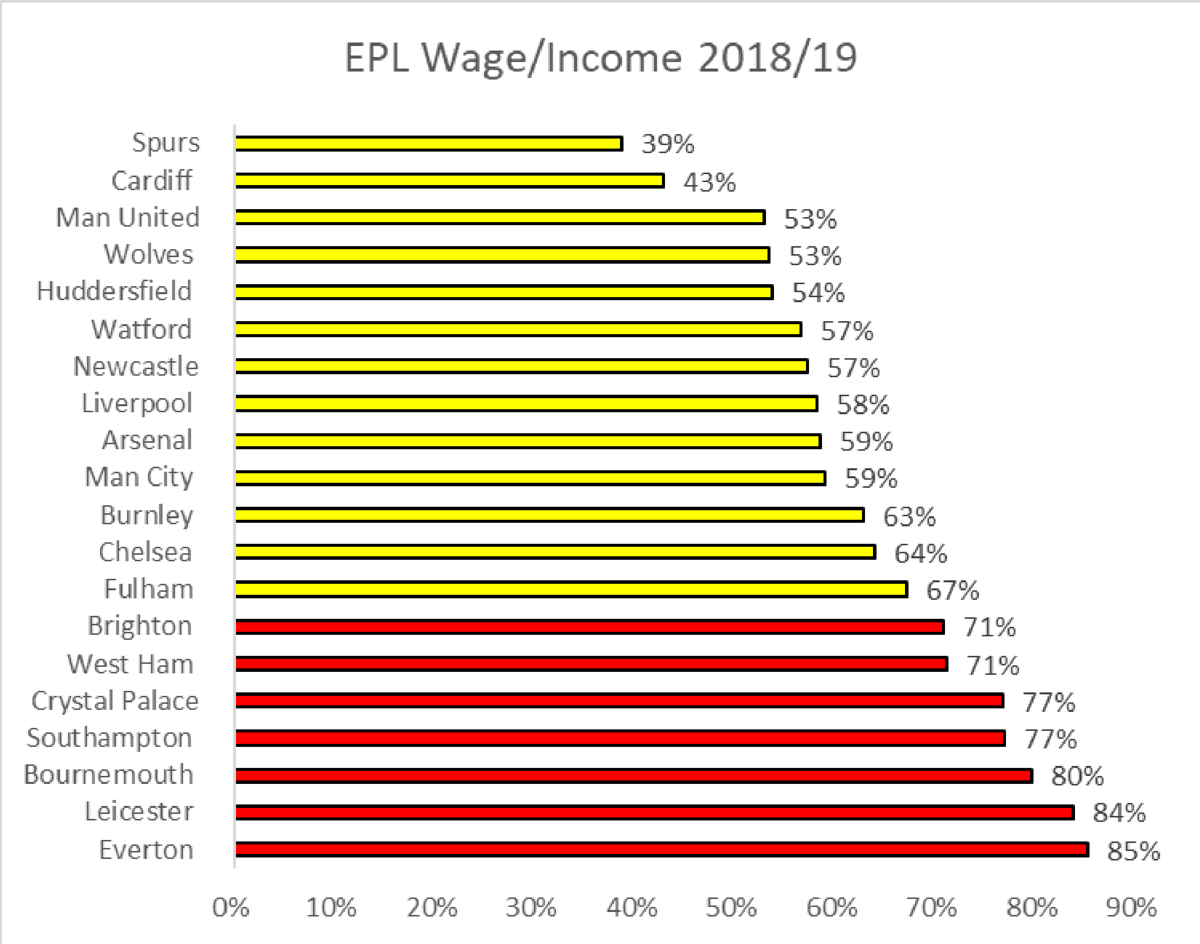
22. Prior to Covid-19, there were seven clubs (35%) in the Premier League in 2018/19 that exceeded UEFA's 70% wage control guideline (see Figure 2).

[11] Cox, A., & Philippou, C. (Accepted/In press). Measuring the resilience of English Premier League clubs to economic recessions. Soccer & Society

[12] Bhattacharyya, R. (2021) European Football Leagues facing sharp decline in broadcast revenues, Sports Mint Media.

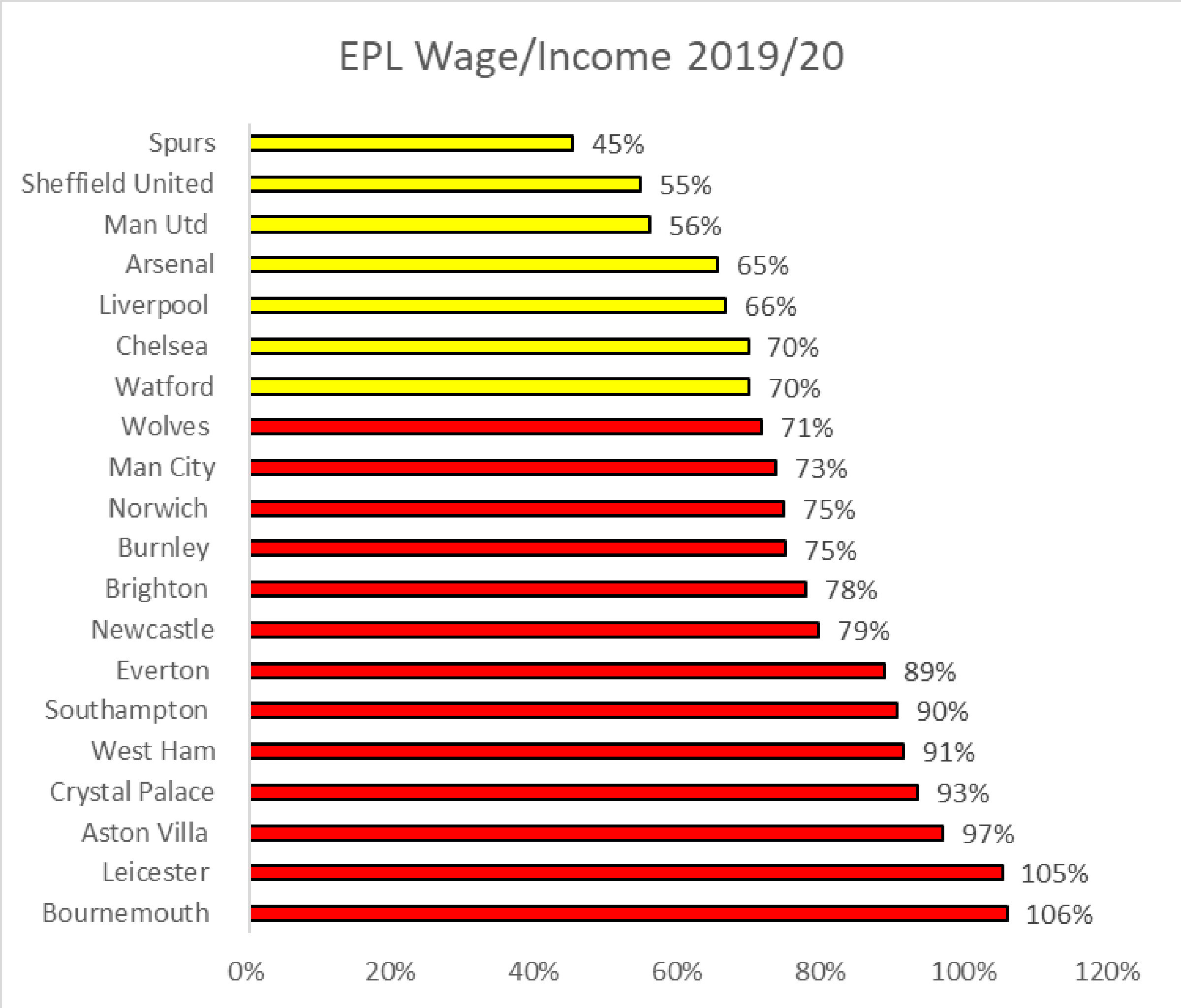
[13] Carmichael, F., McHale, I., & Thomas, D. (2011). Maintaining Market Position: Team Performance, Revenue and Wage Expenditure in the English Premier League. Bulletin of Economic Research, 63(4), 464–497.

Figure 2: EPL Wage-to-Income ratio 2018/19



23. When accounts were published for 2019/20[14], the number of Premier League clubs that exceeded UEFA's 70% wage control guideline had risen to 13 (65%), including two that had exceeded 100% (see Figure 3).

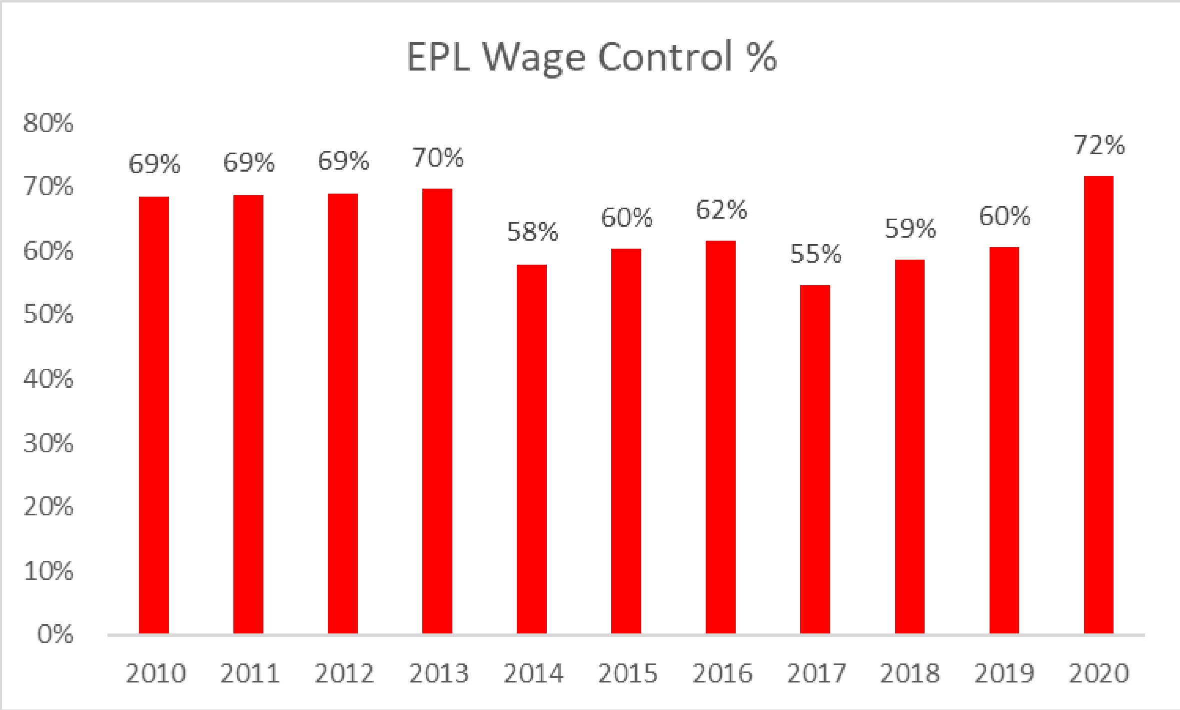
Figure 3: EPL Wage-to-Income ratio 2019/20



24. Since the commencement of the Premier League in 1992/93, revenue has grown from £205 million in 1992/93 to over £5.1 billion in 2018/19 (figures in 2019/20 were distorted by the Covid-19 pandemic). This is an increase of 2,413%, but is exceeded by wages rising by 2,811% in the same period.

[14] At the time of writing, not all clubs had published their 2020/21 accounts.

Figure 4: EPL Wage Control over time



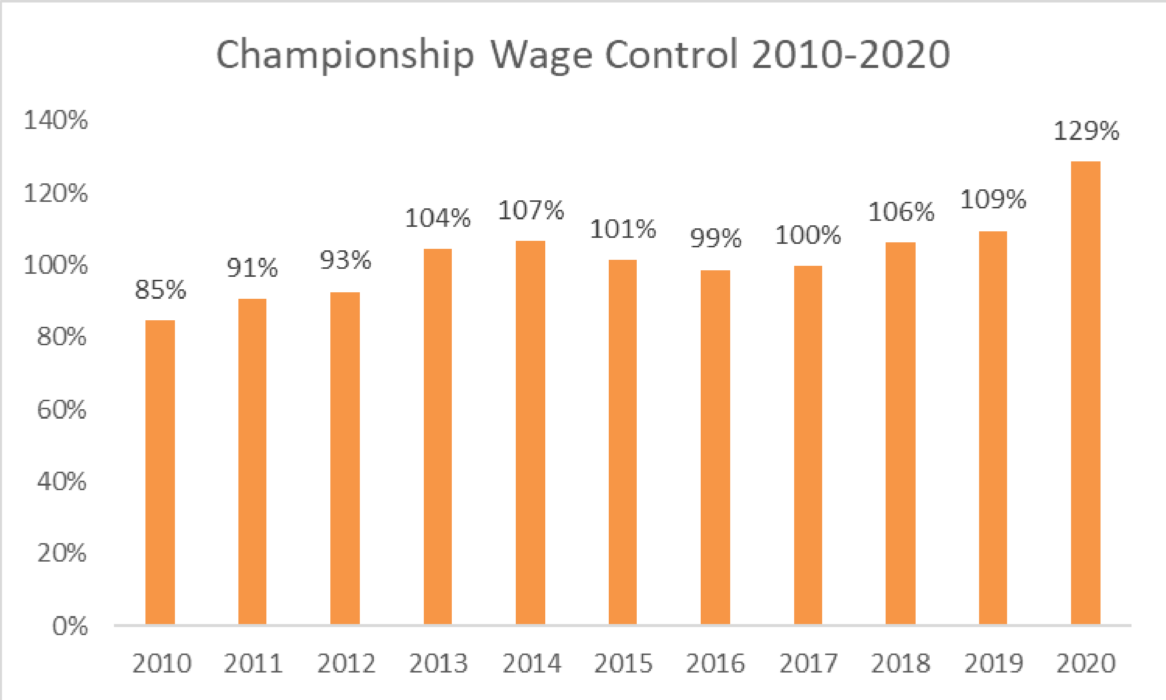
25. The wage control ratio has fluctuated close to but below the 70% UEFA guideline over the last ten pre-pandemic years (see Figure 4). The new domestic broadcasting deals signed by the Premier League in 2014 and 2017, both of which resulted in significant (approximately 70% each time) income increases, helped keep the overall wage control figures in the division at acceptable levels, although there are concerns at individual clubs.

26. The latest indications of broadcast income is that the domestic market has reached a plateau whereas there is still growth achievable in the international market. The predictions are that from 2022-23 onwards, international rights will exceed those generated domestically[15].

27. In the EFL, existing Profitability and Sustainability (P&S) rules allow clubs to lose up to £39 million over a three-year period. These losses exclude certain expense categories, such as infrastructure and academy costs and, as a result, clubs can lose in excess of £60 million from an accounting perspective and still comply with P&S.

[15] Bassam, T. (2022), Report: Premier League TV rights revenue to pass UK£10bn over next three years, Sports Pro Media.

Figure 5: Championship Wage Control over time

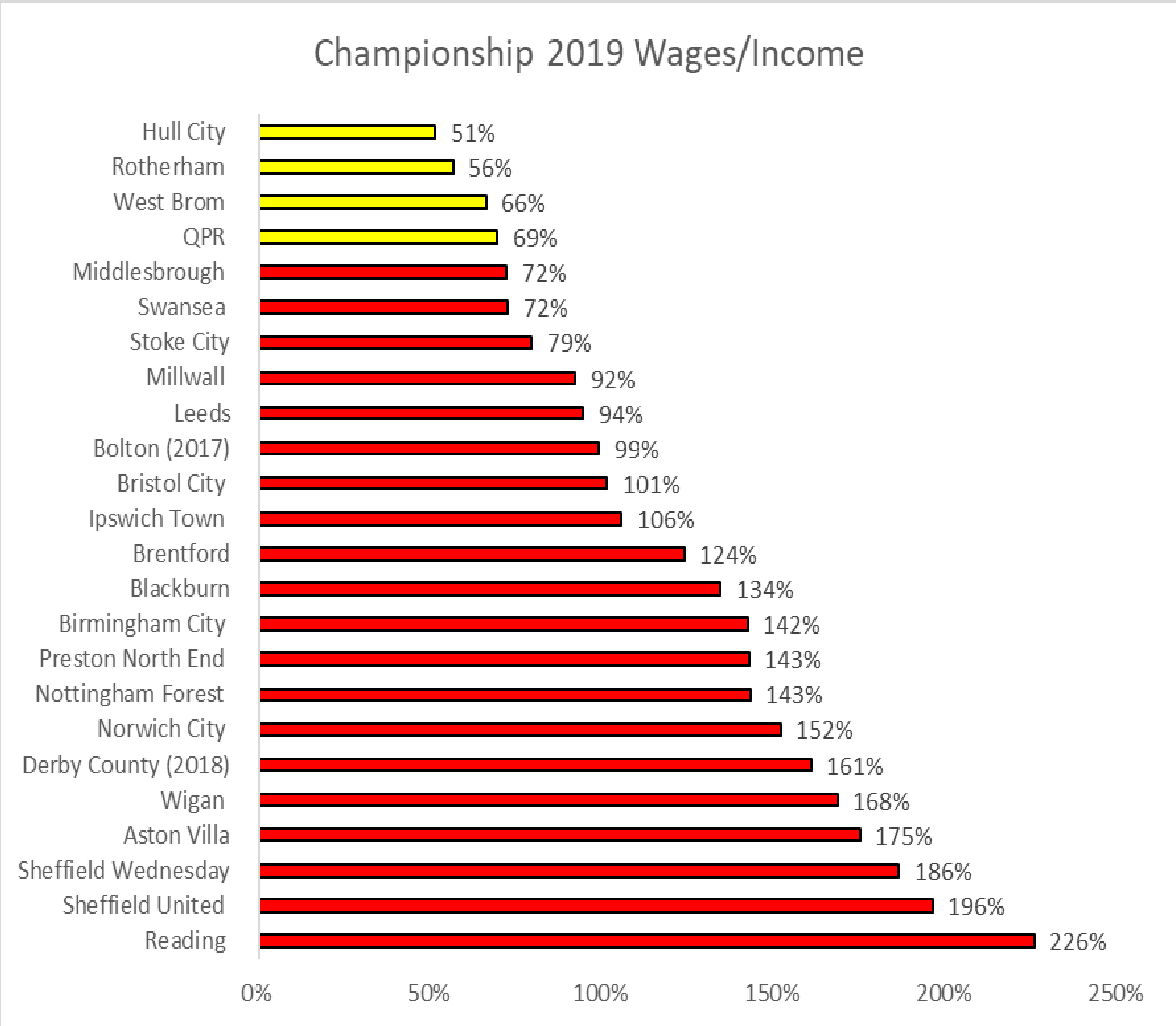


28. Clubs in the Championship have had poor wage control for many years (see Figure 5). This is partly due to owners choosing to gamble through paying higher wages to seek promotion to the Premier League[16]. In addition, those clubs in receipt of parachute payments tend to have higher wage bills due to legacy contracts and this is one (of many) factors that result in wage inflation.

[16] Daniel Plumley, Jean-Philippe Serbera, & Rob Wilson. (2020). Too big to fail? Accounting for predictions of financial distress in English professional football clubs. *Journal of Applied Accounting Research*, 22(1), 93–113.

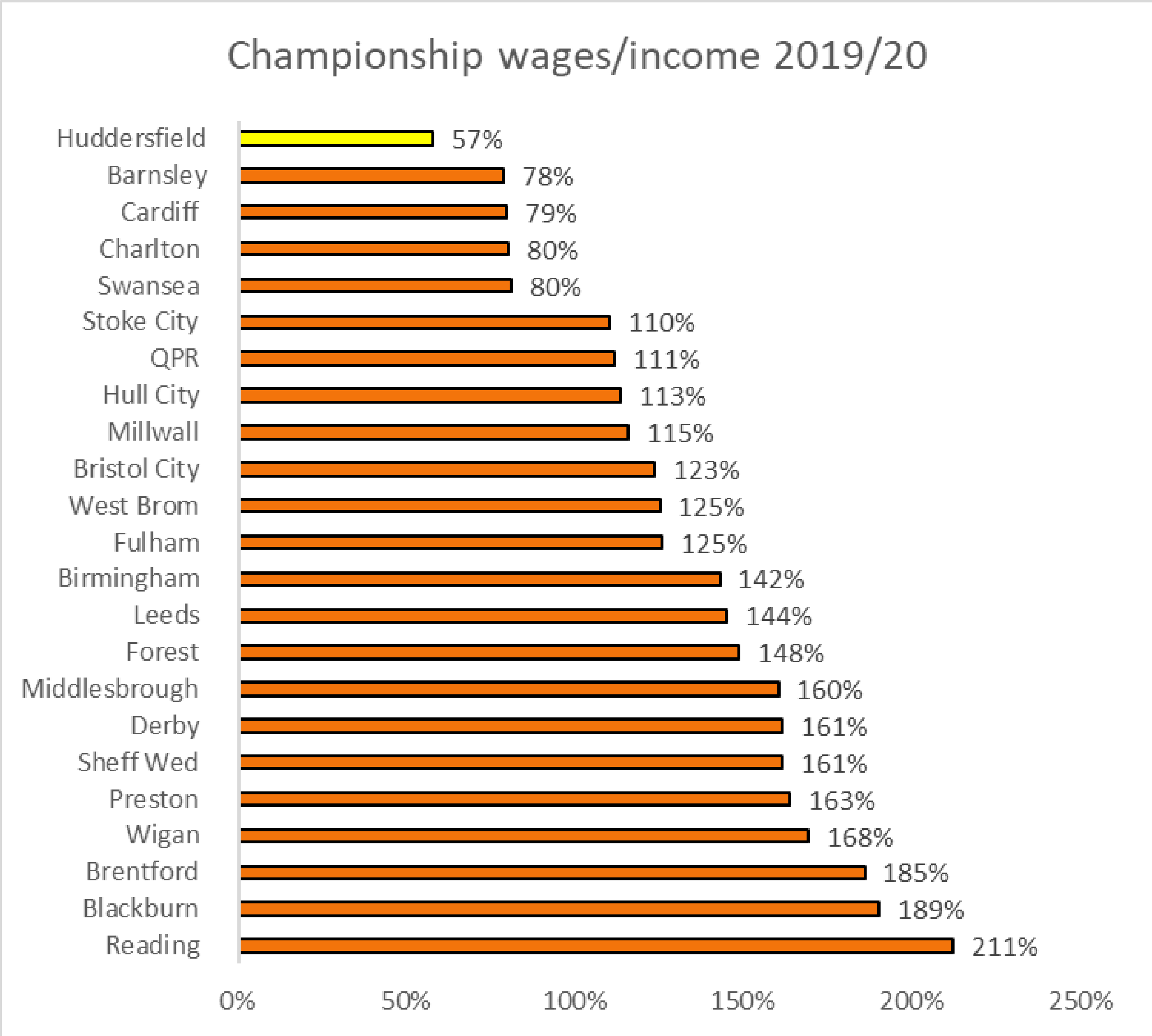
29. The picture at individual clubs highlights the concern around wage control. In the 2018/19 season (pre-pandemic), 20 Championship clubs (83%) exceeded UEFA's 70% guideline, with fourteen (58%) exceeding 100% (see Figure 6).

Figure 6: Championship Wage Control 2018/19



30. In the 2019/20 season (partially affected by the pandemic), 22 out of 23[17]Championship clubs exceeded UEFA's 70% guideline, with eighteen (four more than prior year) exceeding 100% (see Figure 7).

Figure 7: Championship Wage Control 2019/20



31. Only a handful of Championship clubs have reported financial results for 2020/21 at the date of writing this report, but already those reporting have indicated challenges in terms of wage control with Brentford having 234% of income, Preston 216%, and QPR and Millwall at 167%.

32. Some clubs have a player development model that could be seen as an additional revenue source. Under accounting rules, 100% of the profit from a player sale appears in the income statement in which it arises, whereas the cost

[17] Luton Town publish abbreviated accounts and, as such, wage data was unavailable to allow the club's inclusion in the data shown for 2019/20 Championship clubs (Figure 7). As a result, Figure 7 shows only 23 of the 24 clubs.

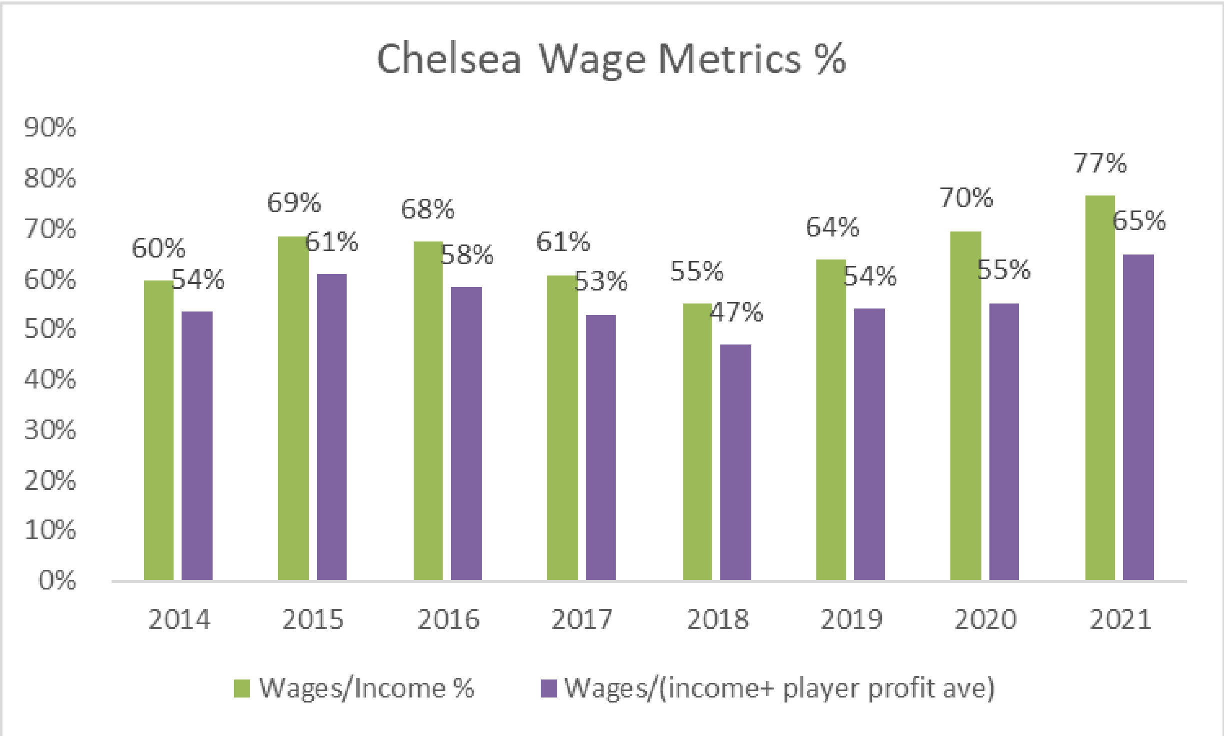
of buying a player is amortised over the contract period linked to the acquisition. There is therefore some merit in adding to revenue the average profit from player sales over a period of time if wanting to take into consideration the player development model. A period of three years has been chosen as this links into the three-year assessment period over which clubs are presently assessed for P&S purposes.

33. For the purposes of this analysis the following clubs have been chosen to illustrate this metric:

- Premier League:
  - Chelsea
  - Everton
  - Burnley
- EFL Championship:
  - Derby County
  - Reading
- League One:
  - Lincoln City

Premier League analysis

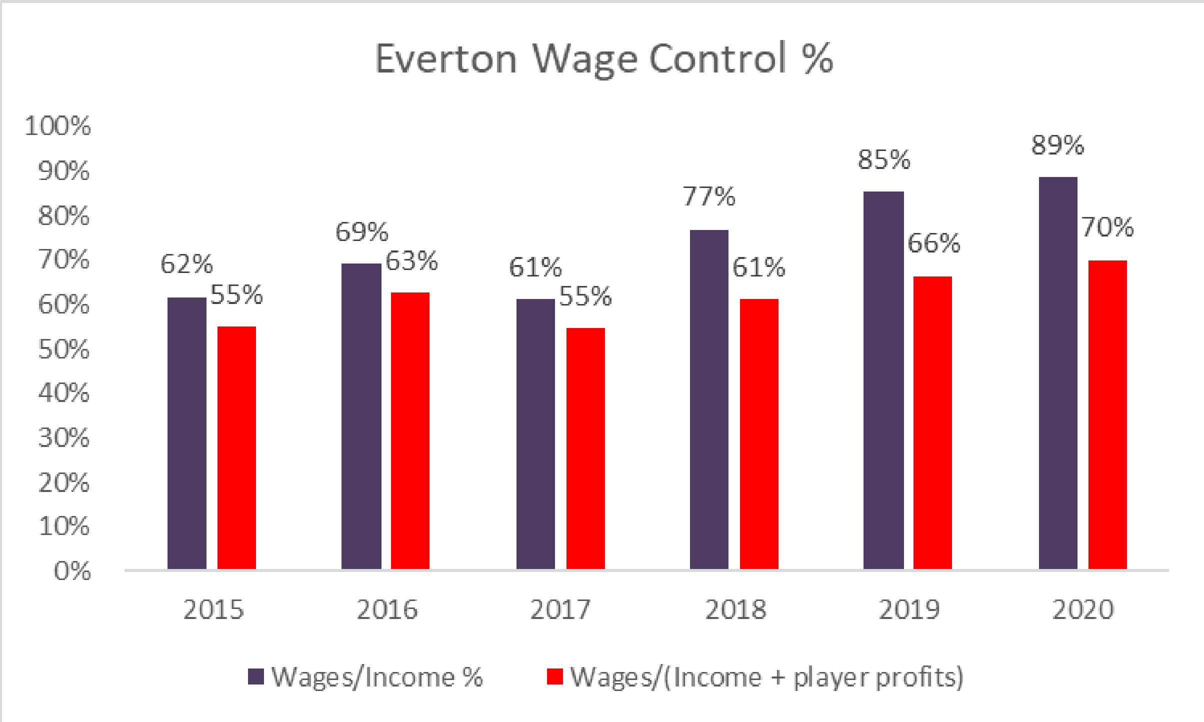
Figure 8: Chelsea Wage Control



34. Chelsea are one of the Premier League 'Big Six' clubs who have had success in winning domestic trophies and UEFA Champions League places for a decade or more. This success has been heightened since the club was acquired by Roman Abramovich in 2003.

35. Chelsea have a smaller stadium capacity than other clubs in its peer group[18] and so has developed a player trading model that has generated more profits than any other Premier League club.

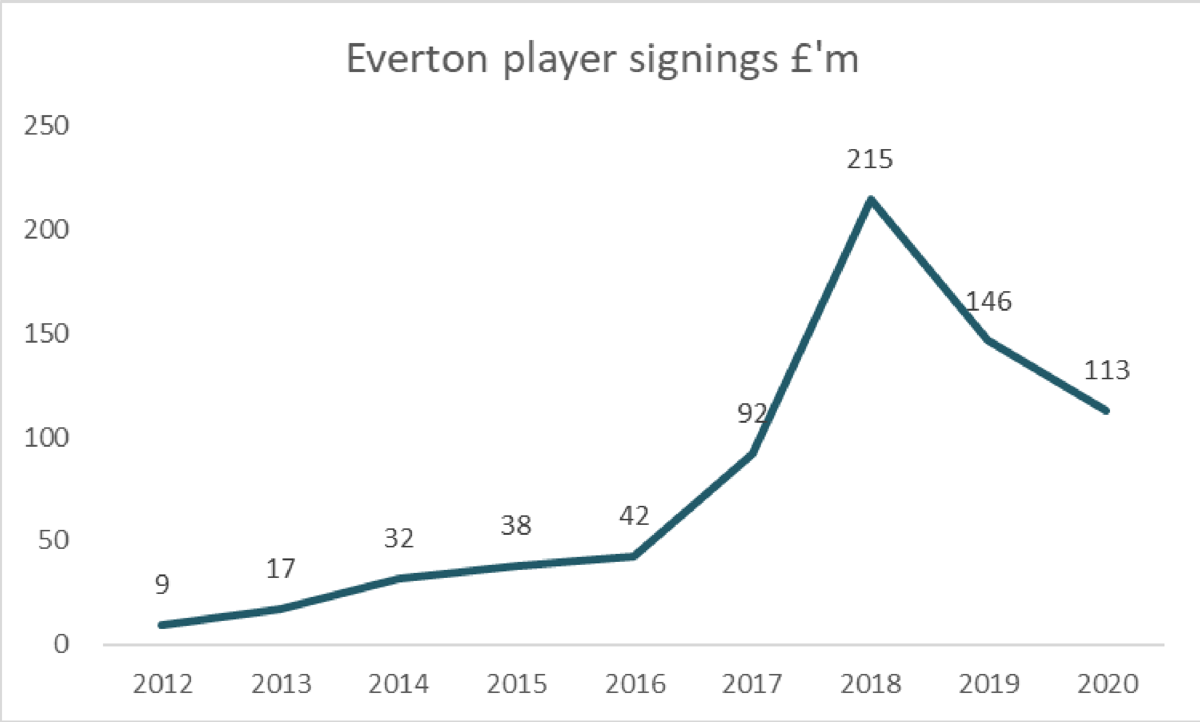
Figure 9: Everton Wage Control



36. Everton have exceeded the UEFA cautionary wages to income line of 70% for the last three seasons for which financial statements have been submitted. This broadly ties in with the new ownership at the club under majority shareholder Farhad Moshiri, who has sought to make Everton more competitive with clubs at the top of the Premier League by investing in player recruitment and retention (see Figure 10).

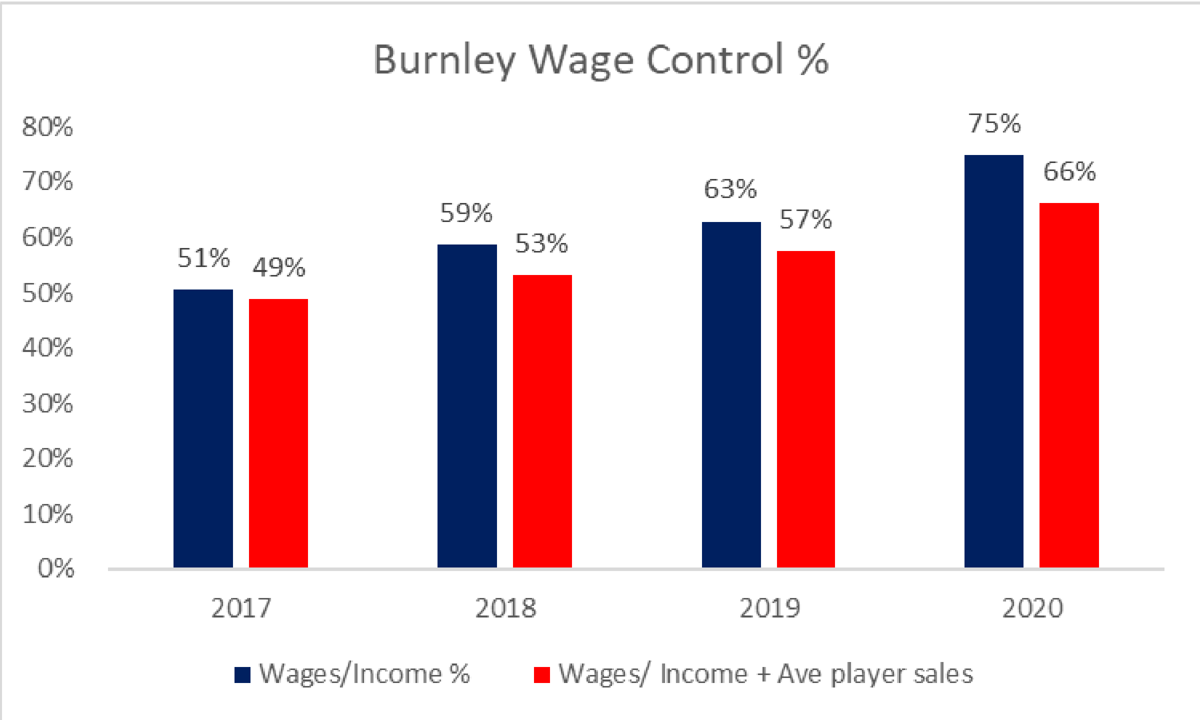
[18] SportMuse, All 20 Premier League Stadiums: Smallest to Largest.

Figure 10: Everton player signings



37. Burnley have been the most sustainably run football club in the Premier League since being promoted there in 2016 (see Figure 11).

Figure 11: Burnley Wage Control

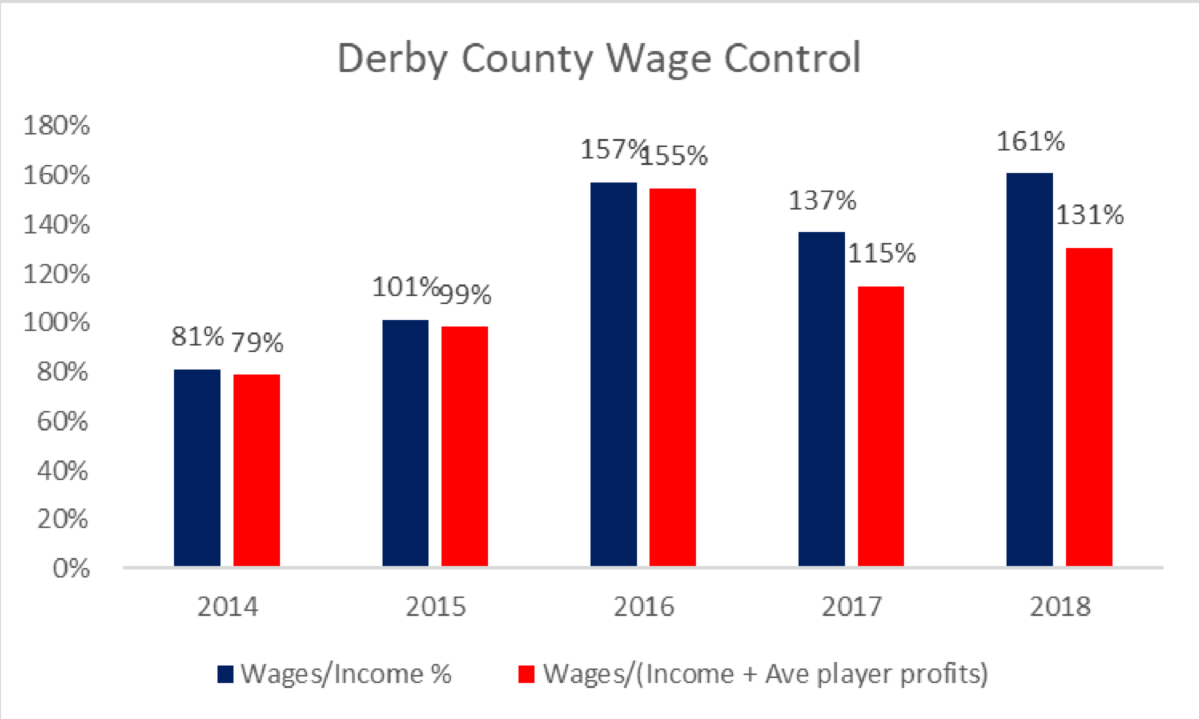


EFL analysis

38. Derby County have been in the EFL Championship for over a decade. When the club was acquired by Mel Morris in 2015, it had reasonable wage control by Championship standards.

39. Under Mel Morris's stewardship, the club's wage bill almost trebled between 2014 and 2018, which meant that the sustainability of the club became more difficult. This was a contributing factor to the club being put into administration by owner Mel Morris in September 2021[19].

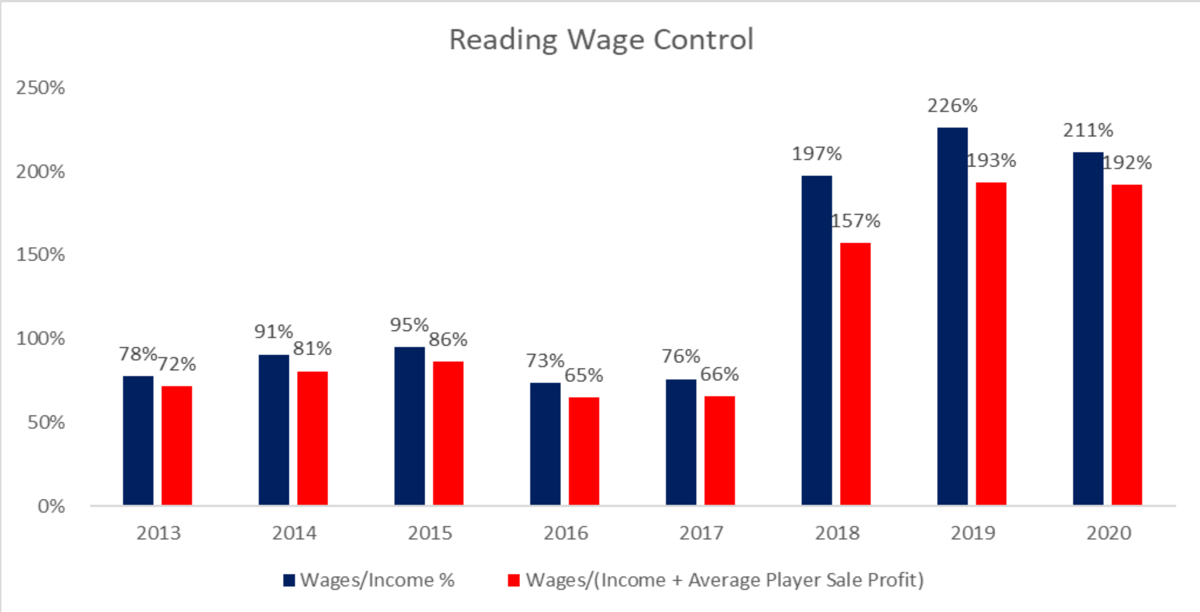
Figure 12: Derby County wage control



40. Reading were in the Premier League in 2012/13 and have spent the subsequent time in the EFL Championship. They were in receipt of parachute payments for four seasons which expired in 2018. As soon as parachute payments expired, the failure to control wages was evident (see Figure 13).

[19] BBC Sport (2021), Derby County officially enter administration and are deducted 12 points.

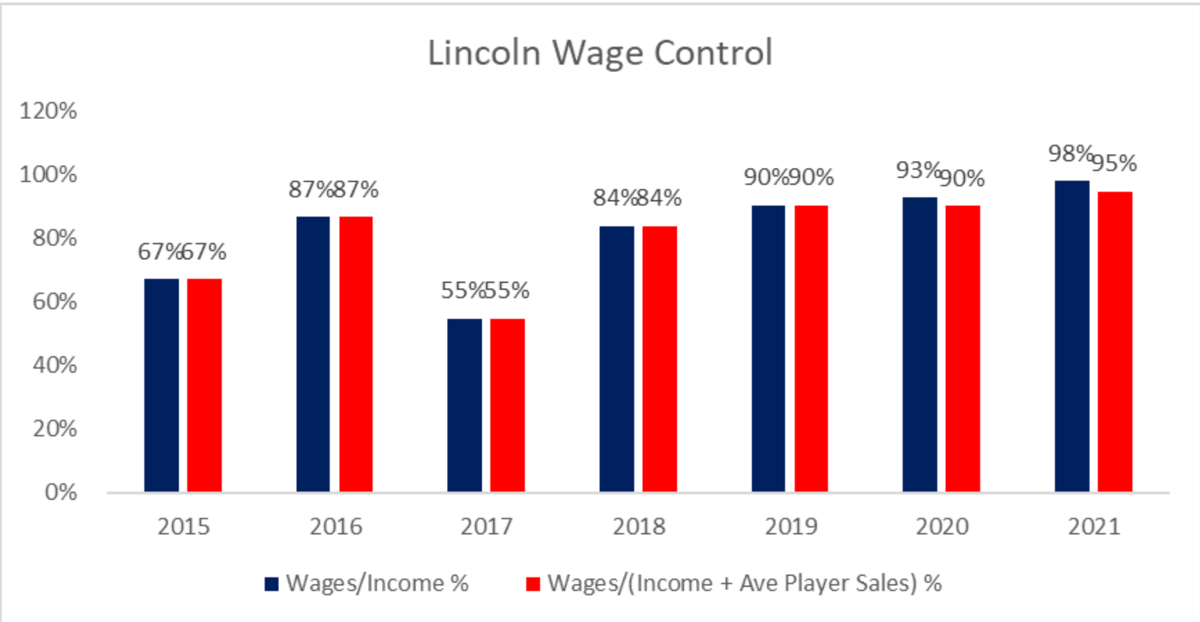
Figure 13: Reading Wage Control



41. Lincoln City were promoted from the National League in 2017 and then from League Two to League One in 2019. The club was nominated for Fan Engagement at the Football Business Awards in 2021 and holds regular meetings with fans.

42. The wage control metrics suggest that, even at the lower levels of football, it is difficult to achieve progress on the pitch without substantial investment in wages (see Figure 14), and this leads to financial losses which have to be underwritten by external funding, which in the case of Lincoln is mainly from shareholders.

Figure 14: Lincoln Wage Control



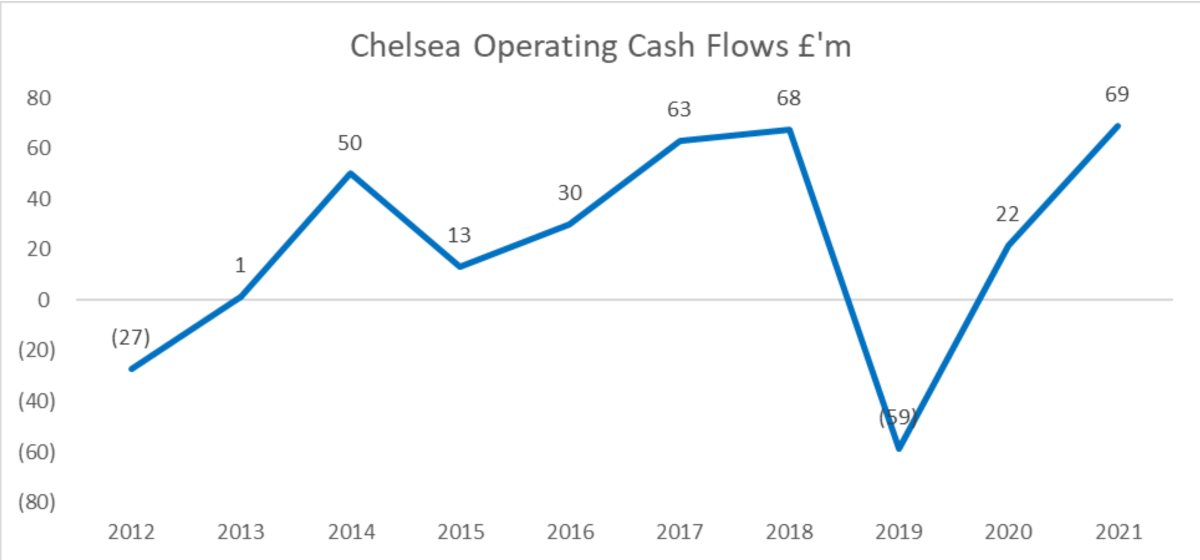
Operating cash flow

43. Operating cash flow represents the cash generated by the club in the course of the normal day-to-day trading activities. For most businesses, it is a positive figure and indicates the cash which can then be used to fund discretionary spending in the form of investing activities (for football clubs this is usually player transfer fees and capital expenditure projects) and pay down any financing activities, such as loans from lenders.

44. For a mature business, operating cash flows would only be expected to be negative under extenuating circumstances, as this would indicate the business is failing to generate cash resources that make future trading sustainable.

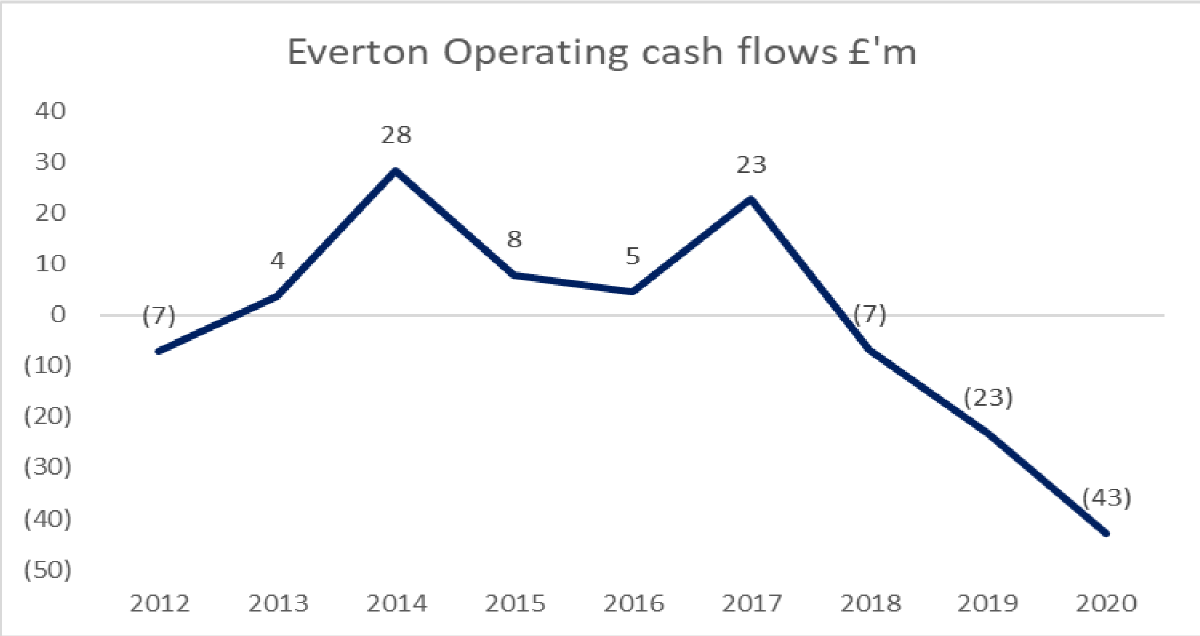
45. Chelsea's figures (see Figure 15) show the importance of qualifying for the Champions League as the one season they failed to reach that competition (in 2018/19), there was a net decrease in operating cash flows of nearly £140 million, even though the club won the Europa League.

Figure 15: Chelsea Operating Cash Flows



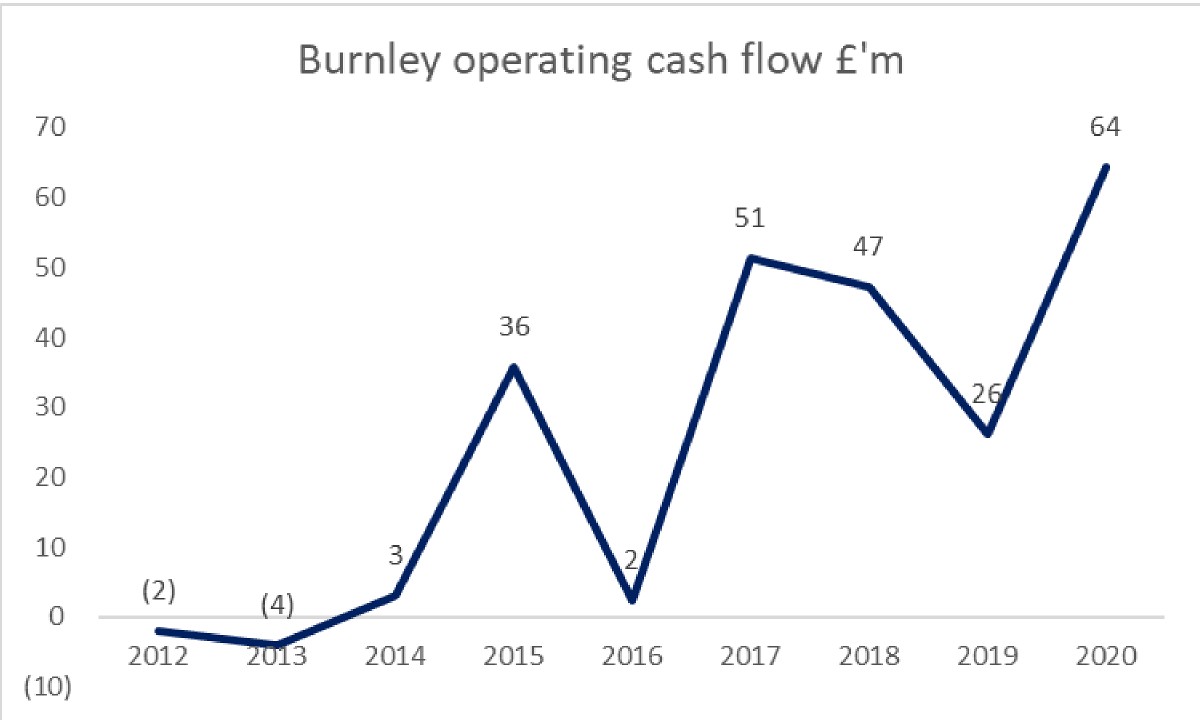
46. Everton's operating cash flows have deteriorated since Farhad Moshiri bought the club (see Figure 16). As well as having negative operating cash flows in the last three seasons, the club has had a net cash transfer spend of £214 million in the same period. With no operational cash flows to finance this spending, Everton have had to rely on the generosity of the owner.

Figure 16: Everton Operating Cash Flows



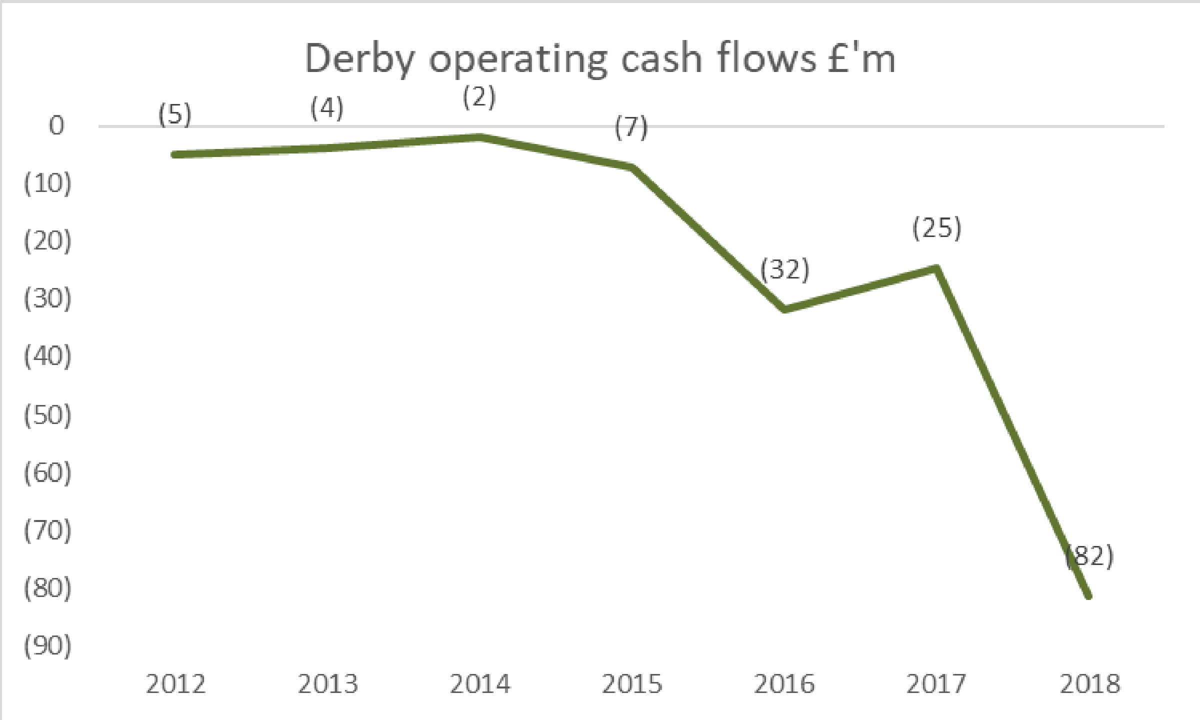
47. Burnley's operating cash flow totals (Figure 17) show the impact of being in the Premier League. It is quickly evident which of the seasons in the analysis Burnley were in the elite competition (higher operating cash flows) and which they were in the EFL Championship (2011/12 to 2013/14, and 2015/16 as seen in Figure 17).

Figure 17: Burnley Operating Cash Flows



48. The acceleration of Derby County's negative operating cash flows (see Figure 18) is a clear indicator of a business that is demonstrating financial distress. Whilst the EFL Championship is a challenging division prior to Mel Morris acquiring the club the cash consumed by day-to-day operating activities was in single digit millions. Derby's financial gamble in relation to this period of ownership is highlighted by the club having a negative cash flow of £82 million in 2017/18.

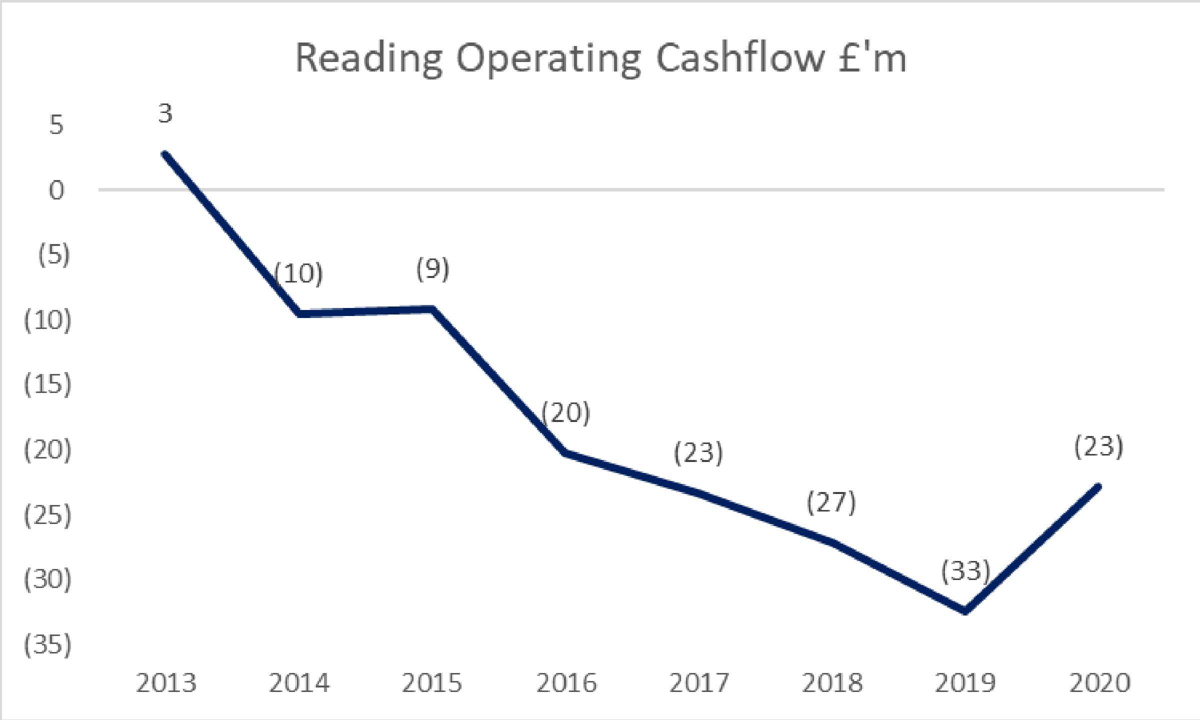
Figure 18: Derby County Operating Cash Flows



49. Despite Reading being in receipt of parachute payments of over £60 million following its relegation from the Premier League in 2013, the club has failed to manage operational cash and has incurred a significant deficit in every subsequent season in the EFL Championship (see Figure 19). The cumulative impact of this cash mismanagement has contributed to the club failing to pay wages on time on occasion, as well as being subject to sanctions from the EFL, the most severe of which was a points deduction in 2021/22[20].

[20] Buckingham, P. et al. (2021) Special report: The 'bewildering' decline of Reading Football Club.

Figure 19: Reading Operating Cash Flows



Net owner funding

50. Net owner funding helps highlight dependency of clubs on their owners, which can pose a risk should that support be removed. For example, Chelsea have benefitted from more owner financing than the rest of the Big 6 in the last decade[21].

51. When clubs are dependent on owner funding and this is removed, the financial stress on clubs can send them into administration. Sometimes, clubs find a willing buyer to bring the club out of administration (although this is not always successful, such as the case of Portsmouth FC who faced a number of financial stress and insolvency events between 2005 and 2011 as a result of ownership issues and changes[22]). A few clubs go into liquidation, such as the case of Macclesfield Town[23]. Then there are those clubs where the burden of saving the club from winding up orders falls to the fans and supporters trusts, such as in the case of Northampton Town[24] (1992) and Portsmouth (2013).

52. Fan/Supporter Trust owned clubs have themselves suffered financial challenges which have resulted in the clubs going back into private ownership. Examples include Portsmouth[25], Wrexham[26], and Wycombe Wanderers[27].

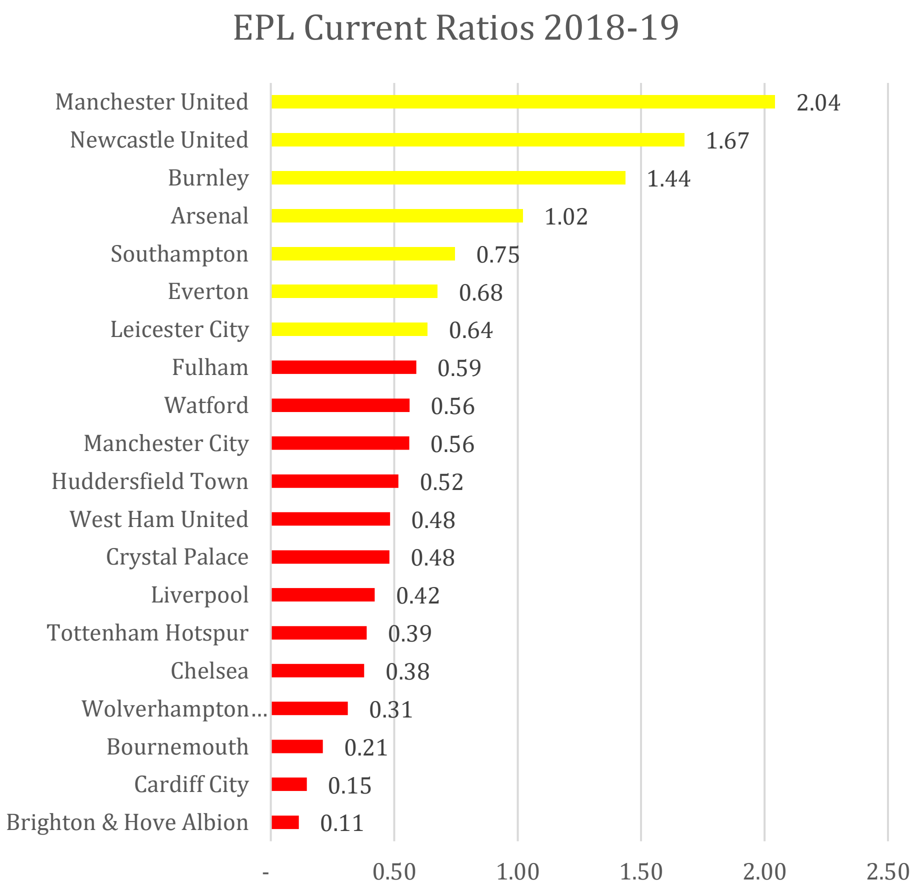
[21] Swiss Ramble via Twitter.
[22] Gordon, C (2020) Portsmouth FC: A Spirited Comeback from an Ownership Catastrophe, Sports Gazette.
[23] Freeman, J (2020) Macclesfield Town FC wound up in High Court over debts exceeding £500,000, BBC Sport.
[24] Northampton Town FC, Club History via website.
[25] Pompey Supporters' Trust (2017) PST Shareholders vote to sell to 'Tornante'.
[26] Wrexham Supporters Trust (2021) Statement: Completion of Club Sale.
[27] Wycombe Wanderers FC (2020) It's Done! Rob Couhig Completes Majority Share Acquisition.

Current ratio

53. Liquidity is important for the day-to-day running of football clubs, as lack of cash creates an inability to pay debts on time. Therefore, low current ratios indicate a liquidity issue within the club.

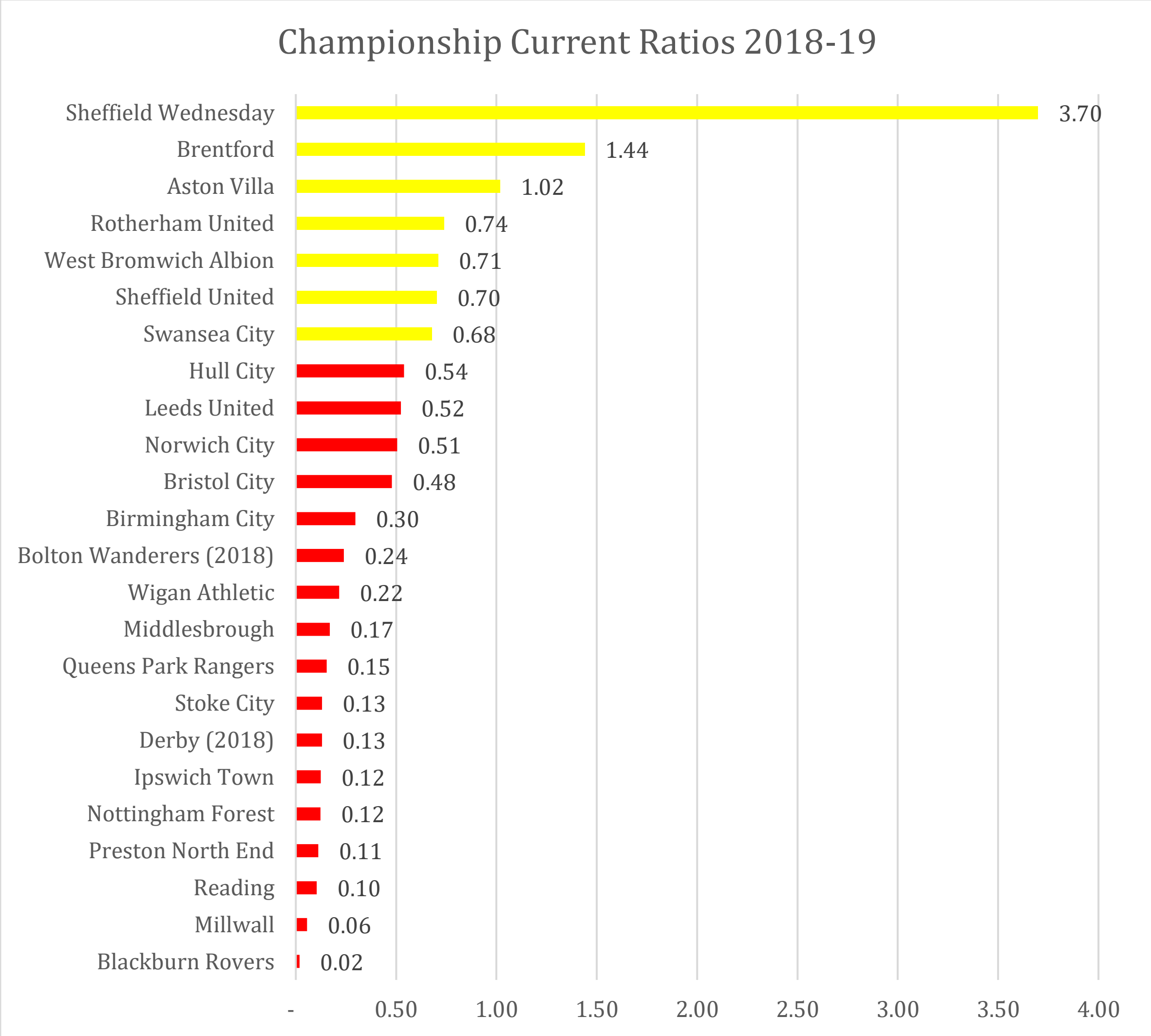
54. The 2018-2019 current ratios of the Premier League clubs that season (the last season unaffected by the pandemic) show a number of clubs with very low current ratios (see Figure 20). While liquidity issues are often bridged by loans or further equity investments by owners, this is an indicator of potential issues should, for example, an owner become unable to continue supporting the club.

Figure 20: Premier League Current Ratios 2018-19



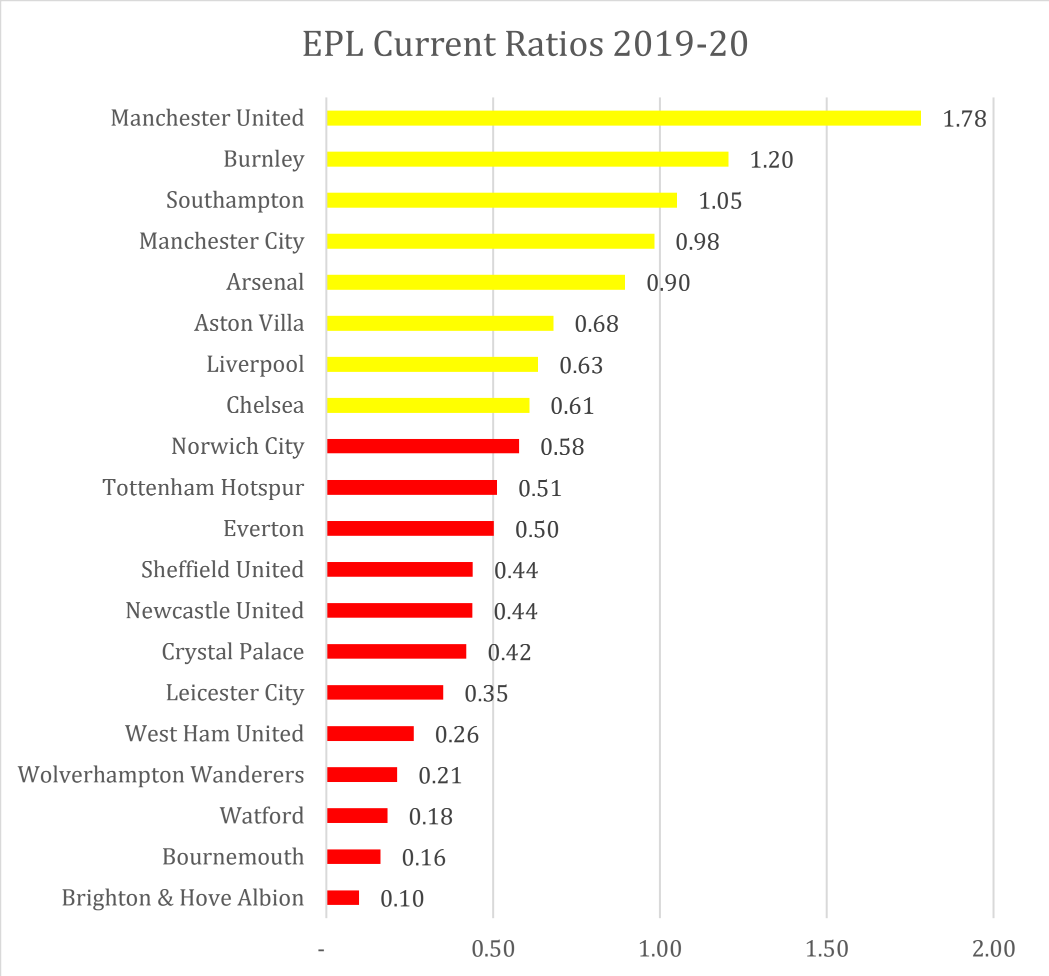
55. The same pre-pandemic season (2018-19) saw the majority of Championship clubs also fall into the liquidity risk areas highlighted by very low current ratios (see Figure 21).

Figure 21: EFL Championship Current Ratios 2018-19



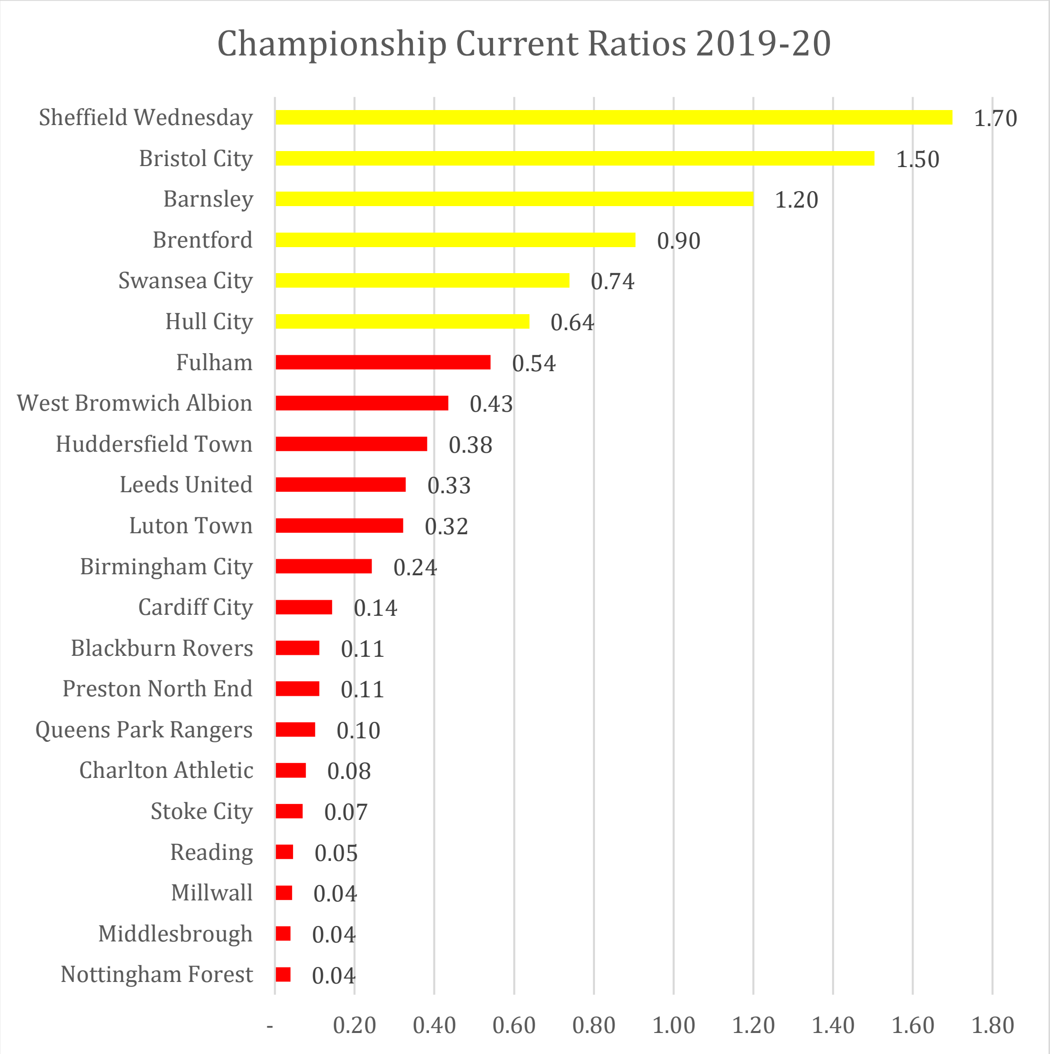
56. In line with other industries and as a result of the fall in match-day revenue during the start of the pandemic, the 2019-2020 Premier League saw more clubs fall into the low current ratio bracket (see Figure 22).

Figure 22: Premier League Current Ratios 2019-20



57. This was also the case in the Championship (Figure 23), which is to be expected in a league where the average club is more dependent on match-day revenue than in the Premier League. Similar pictures are seen further down the pyramid in Leagues One (Figure 24) and Two (Figure 25).

Figure 23: EFL Championship Current Ratios 2019-20

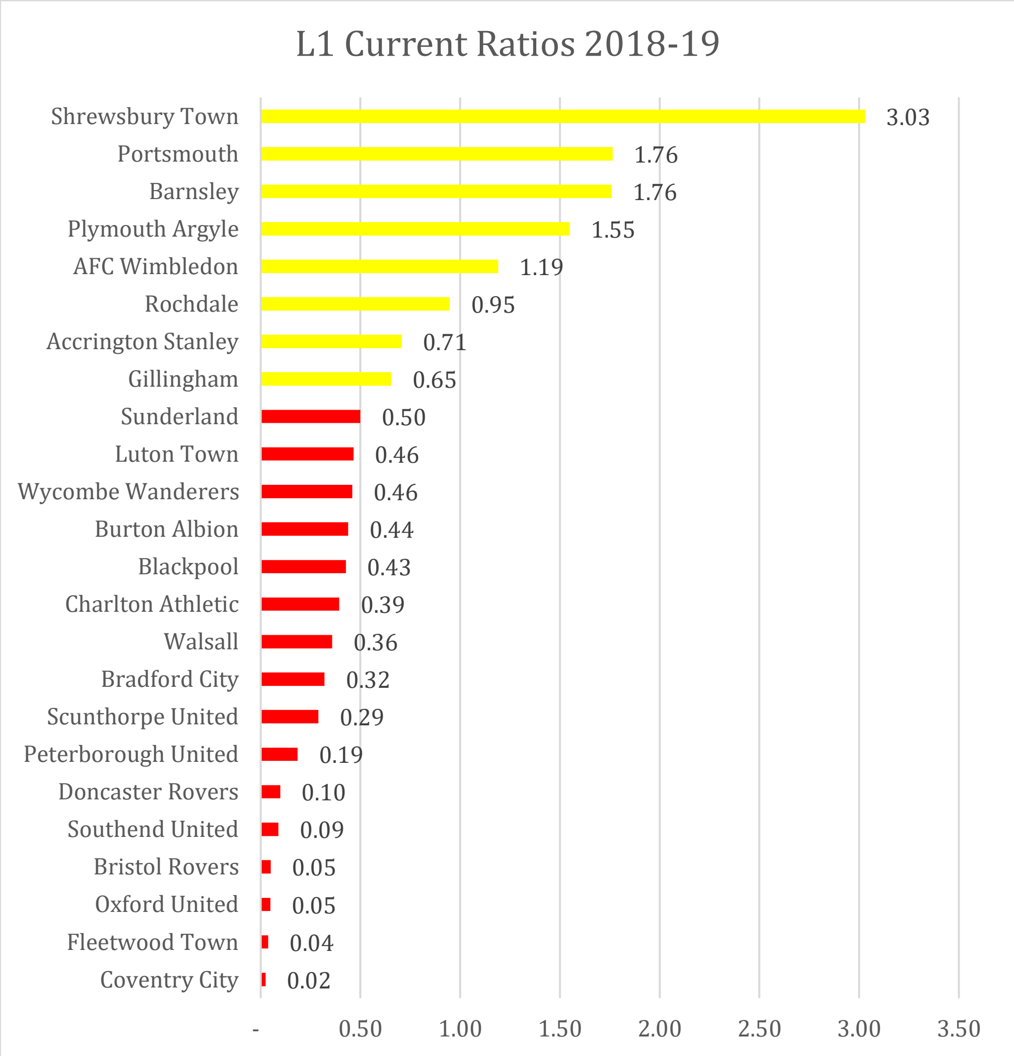


58. One example of liquidity concerns affecting clubs was the case of Birmingham City. The club faced liquidity issues during their years under the ownership of Carson Yeung (2009 to 2016). This led to a £1.2m borrowing from a BVI-registered company to the Cayman Islands-registered parent company of the club in November 2013 to improve liquidity issues[28]. The club's current ratio in 2013/14 was improved to 0.43 compared to 0.40 in 2012/13 (pre loan). During the 2013/14 season, the Birmingham City chairman was convicted in Hong Kong

[28] Insider Media Limited (2013), Birmingham City Parent Agrees £1.2m loan.

of money laundering charges[29] and the ownership of the club subsequently passed onto other owners in 2016[30].

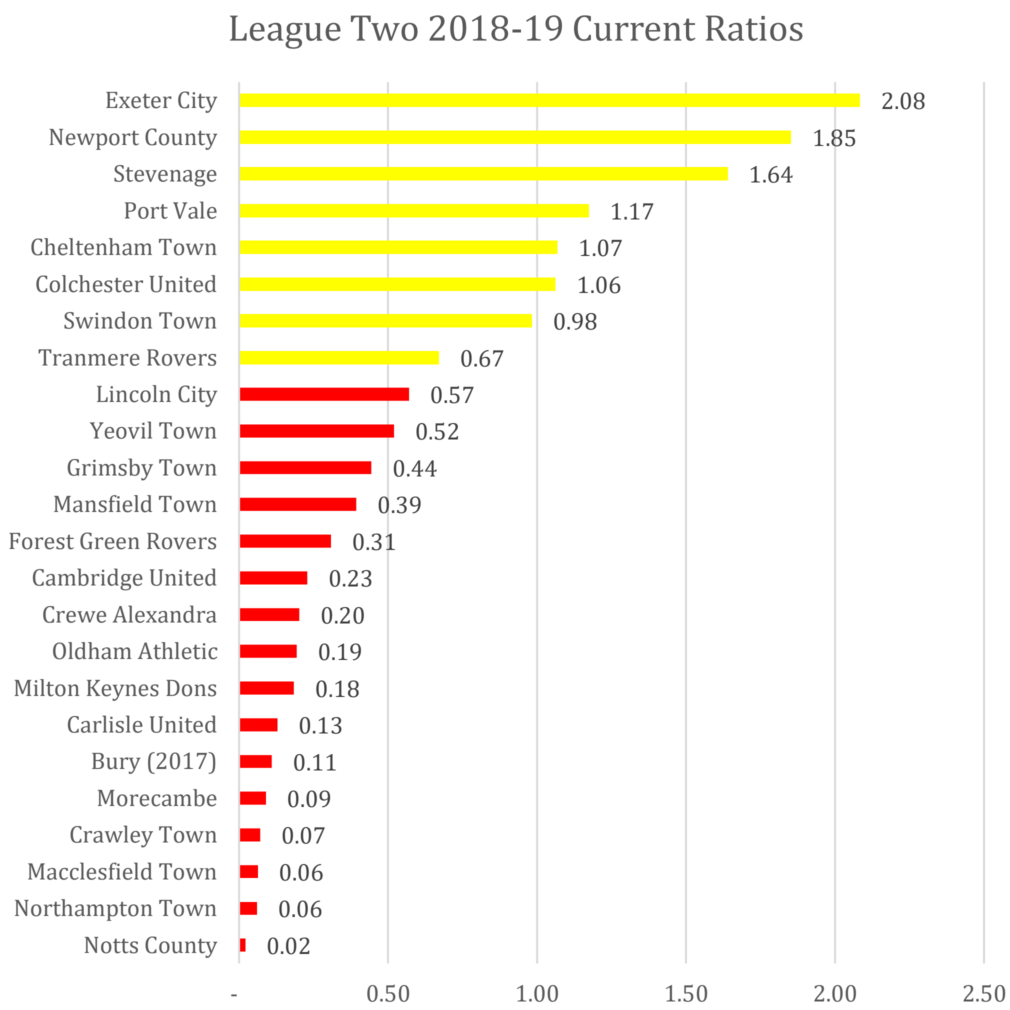
Figure 24: EFL League One Current Ratios 2018-19



59. Another example of liquidity concerns was that of Bury FC, who were expelled from the EFL in August 2019 for failure to pay debts and subsequently were put into administration. Bought for £1 by Steve Dale in 2018, the club continued to face financial difficulties until it agreed a company voluntary arrangement (CVA) with creditors in 2019, meaning that unsecured creditors would lose out and this is what triggered the EFL's concerns around financial viability of the club, which eventually led to its expulsion from the EFL[31]. Bury FC's current ratio in 2017 (the last set of available accounts) was 0.11 (see Figure 25).

[29] BBC (2014), Birmingham City owner Carson Yeung jailed for six years.
[30] Financial Times (2016), Birmingham City acquired by Hong Kong-based investors.
[31] BBC (2019), Bury expelled by English Football League after takeover collapses.

Figure 25: EFL League Two Current Ratios 2018-19



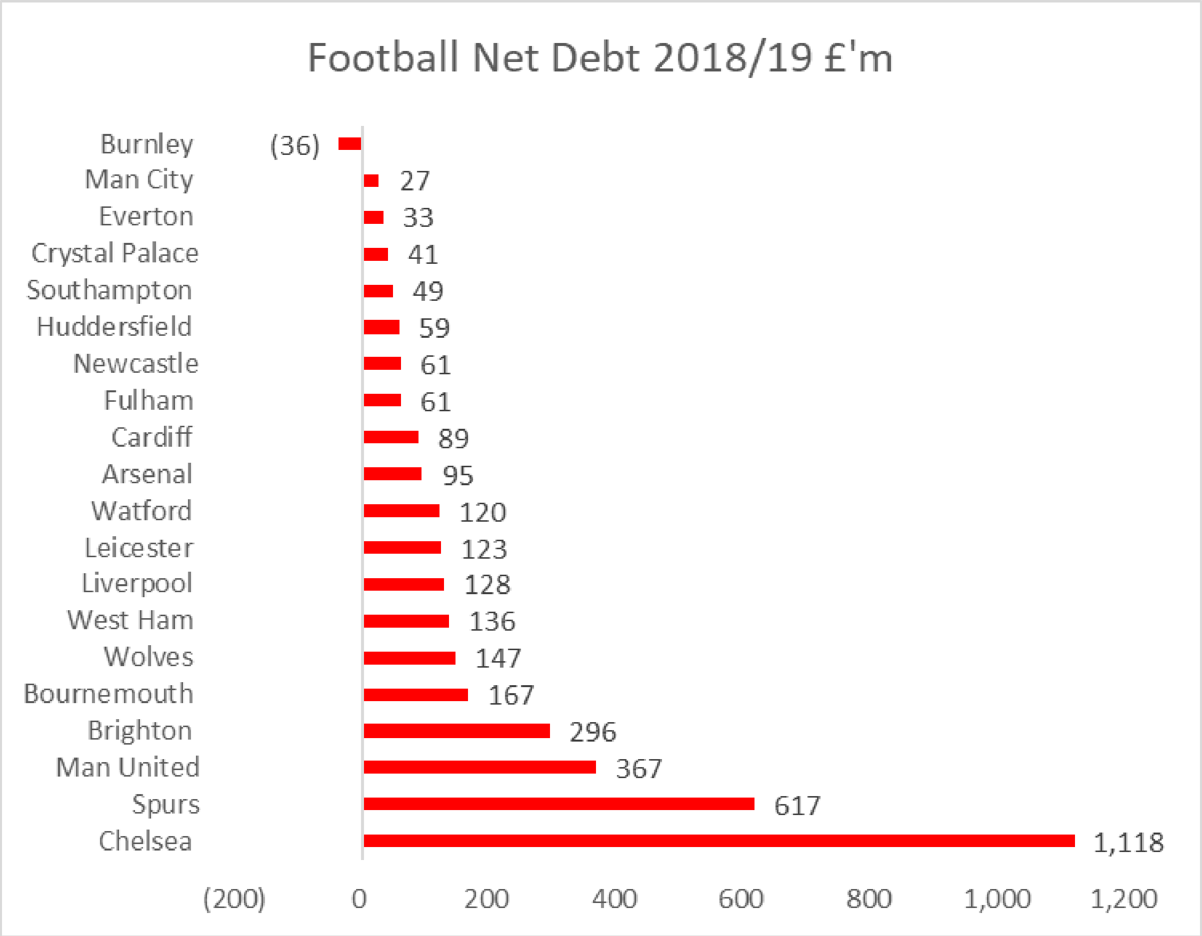
60. Other indicators of liquidity concerns arise when the equity (shareholders' funds) is negative as this indicates that the club has more liabilities than assets. While balance sheets value player registrations at cost and therefore often undervalue club assets, having a negative equity is an indicator of risk of failure. It is also an indicator that the club will struggle to find a lender if in need of a loan.

61. In 2018-19 (pre-pandemic), eight Premier League clubs (40%), 16 Championship clubs (67%), 14 in League One (58%) and 14 in League Two (58%) had negative equity at year-end.

Football Net Debt

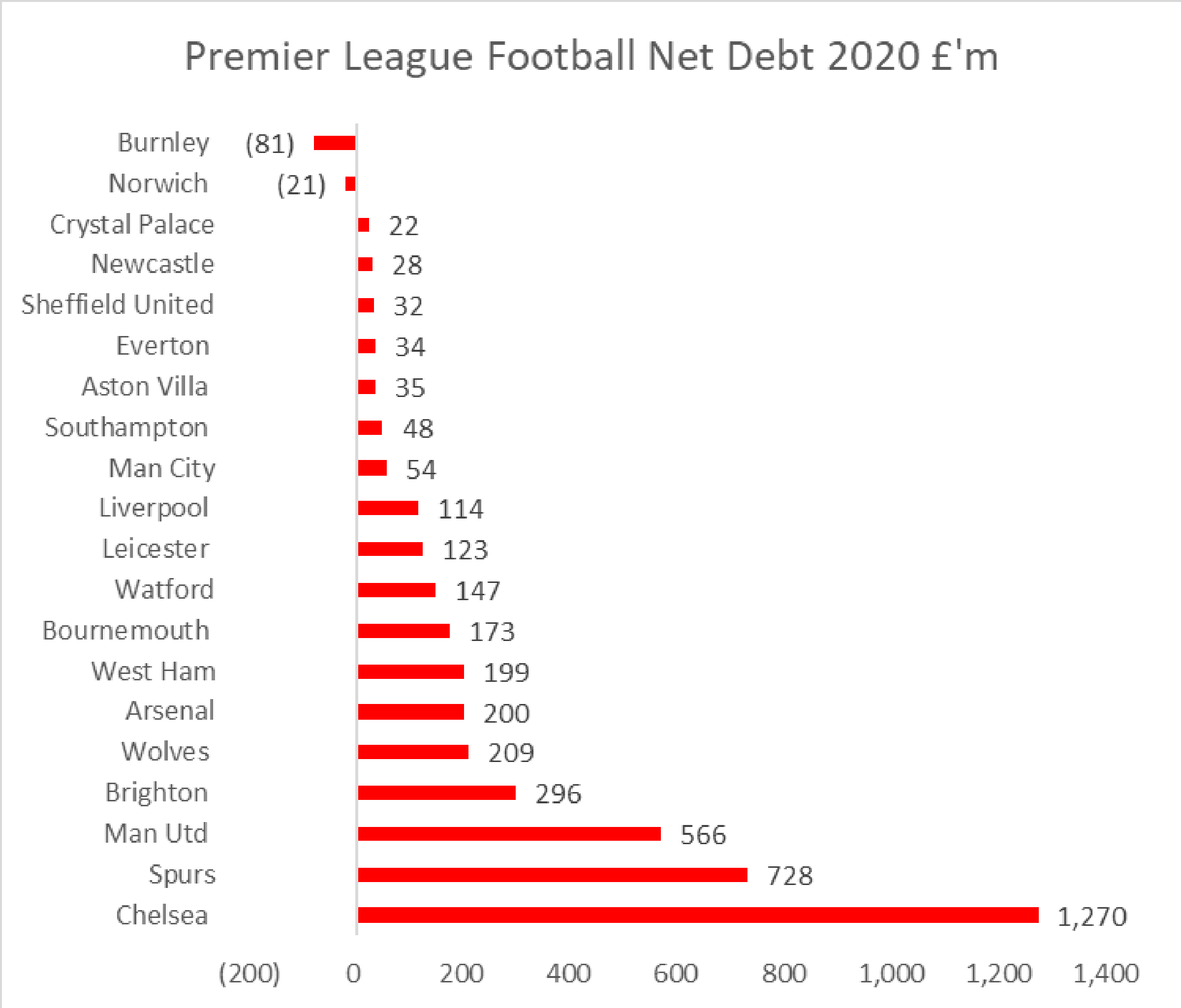
62. Football net debt (FND) is calculated as[32]:
borrowings - cash/cash equivalents + net balance due on transfers.
UEFA use FND as an industry specific metric to look at the potential repayments due from clubs to providers of funds and other football clubs for outstanding transfers, which are often arranged on credit terms.

Figure 26: Premier League Football Net Debt 2018-19



[32] Metric used as defined in Maguire, K. (2021) The Price of Football, 2nd edition, pg137.

Figure 27: Premier League Football Net Debt 2019-20



63. At the end of the 2020 season, FND was over £4.1 billion, £400 million higher than at the end of the previous season. Some of this is in the form of owner loans which are interest free and no fixed repayment date, which could be viewed as quasi-equity.

64. Debt is not inherently a problem for a business. The ability to service debt as payments fall due is a greater concern. Spurs, for example, have borrowed money to fund their new stadium, but some of this is in the form of an interest only loan with capital not due to be repaid until 2051.

65. Another aspect of debt in football, debt repayment profiles highlight long-term costs a club is committed to, as well as any large loan repayments coming up which may create a “pinch point”. When debt is due for repayment in the near future, this creates more pressure on the club in question than debt that is longer-term, although rescheduling of due dates when getting closer to repayment is a common occurrence (though not undertaken an infinite number of times for the same loan). This is worth bearing in mind when looking at FND.

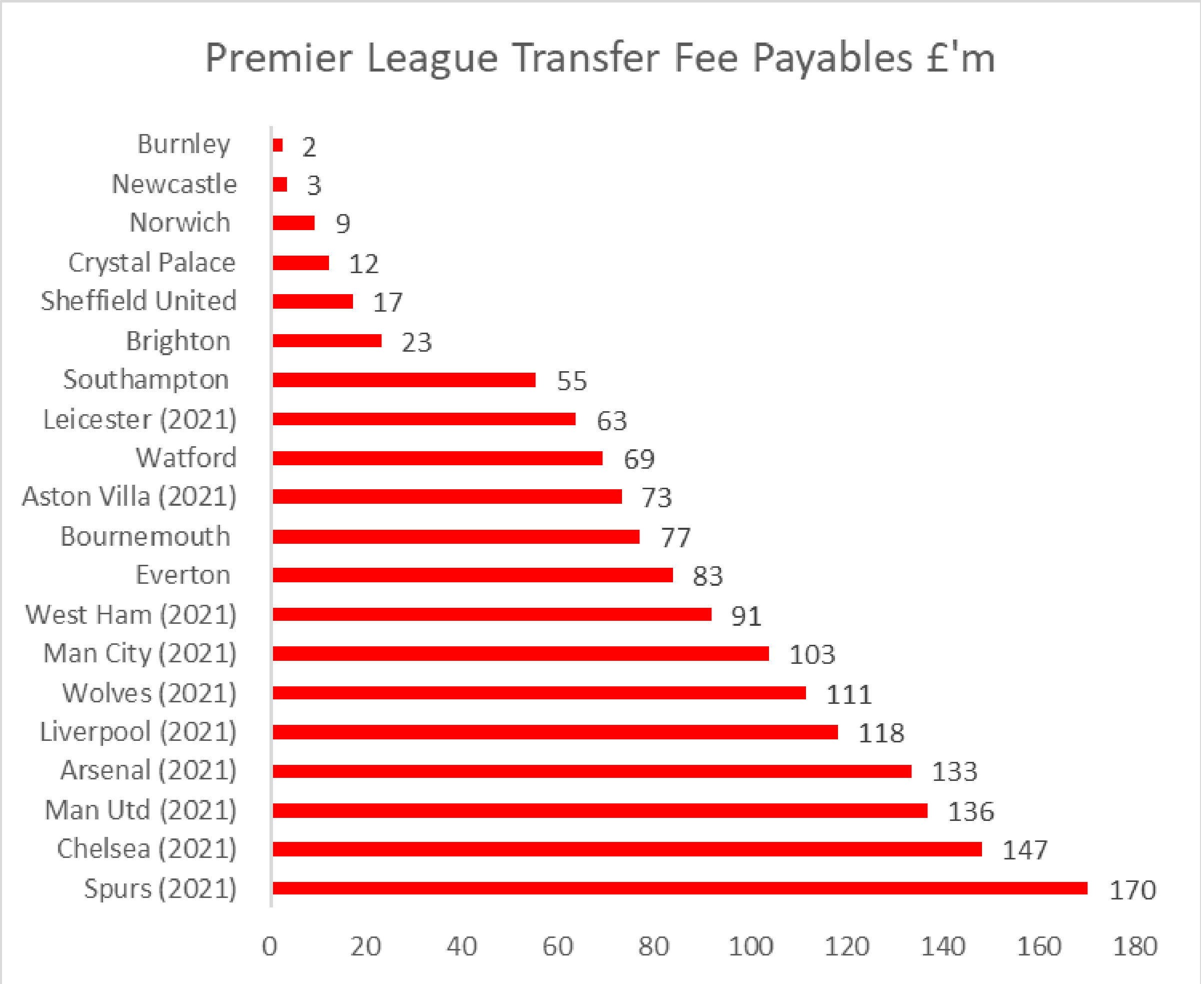
66. FND therefore should be considered in conjunction with other metrics, such as the current ratio.

Transfers and the wider football ecosystem

67. The following research question is covered in this section of the brief:
    - Are there systemic financial weaknesses in the football industry such that there is a risk that a few clubs topple and more will follow?

68. Included in the FND total in the previous section is almost £1.5 billion of gross transfer payments owed by Premier League clubs at the end of 2019/20 to other clubs (see Figure 28). This creates an interdependency within the industry and should one club be unable to pay its transfer creditors could cause a ripple effect similar to that which arose in the financial services sector in 2008.

Figure 28: Premier League Transfer fees payable 2019-20



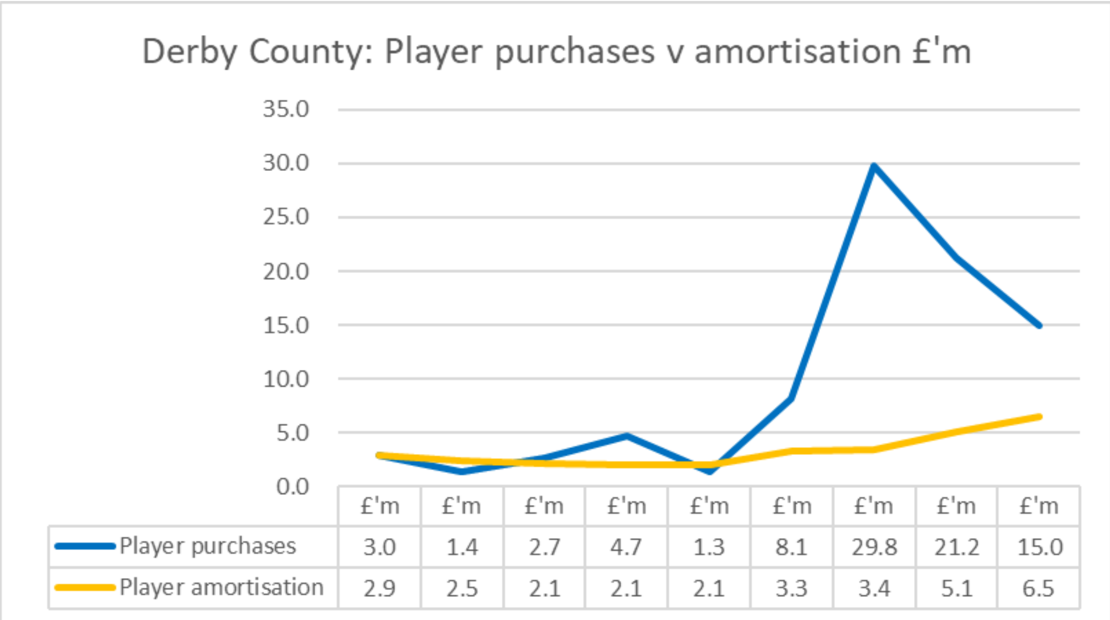
69. Promotion and relegation have significant financial consequences for clubs that fall into those categories and also those that are close to them. In 2018/19, Derby County finished 6th in the EFL Championship, thus qualifying for the playoffs to the Premier League. Middlesbrough finished one place below and therefore did not take place in the playoff system.

70. The unusual accounting policies of Derby County gave the club a competitive advantage and allowed the club to recruit players and incur transfer fees that would not have been attainable using the accounting policies used by nearly all other clubs[33]. Prior to the implementation of the new amortisation (transfer fees spread over the length of the player contract) policy at Derby, player purchase costs and amortisation fees were broadly similar. Following the introduction of the policy, Derby were able to buy players but the costs in the income statement (and therefore P&S calculations) were deferred.

71. Middlesbrough subsequently claimed that they were denied an opportunity to compete in the playoffs as an (in)direct consequence of Derby County being able to spend more money on player recruitment and retention than other Championship clubs.

72. This claim may or may not have been successful in a court hearing and if successful may or may not be deemed a ‘football creditor’ (to be settled in full before unsecured creditors). Under EFL insolvency rules, unsecured creditors must be paid at least 25 pence in the pound to prevent a 15-point penalty when exiting administration.

Figure 29: Derby County player purchases v amortisation over time



	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Player purchases	3.0	1.4	2.7	4.7	1.3	8.1	29.8	21.2	15.0
Player amortisation	2.9	2.5	2.1	2.1	2.1	3.3	3.4	5.1	6.5

73. In 2020/21, Wycombe Wanderers were relegated from the Championship. Derby finished one place above Wycombe Wanderers. Derby County Football Club Limited and their parent company had not submitted any financial statements for the periods subsequent to 2017/18, in breach of the Companies Act 2006.

74. Wycombe have claimed that Derby’s decision to break company law meant that the club was not assessed for P&S purposes in the 2018/19 and 2019/20 seasons and so escaped a points deduction for potential breaches of the P&S

33 Maguire, K. (2021) The Price of Football, 2nd edition, p202-210.

limits. Had a points deduction been allocated to Derby County, then Wycombe would have avoided relegation, which results in a reduction of broadcast revenues of about £6 million, plus lower matchday and commercial revenues.

75. Whilst there has been criticism of the amount of money spent on transfer fees from some observers, this money does circulate within the football ecosystem, and contributes to the distribution of revenues both within and between divisions.

Impact

76. The following research question is covered in this section of the brief:
    - What are the impacts in the event a club does go into administration, or worse goes out of existence entirely?

77. Since the inception of the Premier League, there have been 59 EPL/EFL football club insolvency events[34], across 46 different clubs. Therefore, 40% of all clubs in the top four leagues[35] have gone into administration since the start of the 1992/93 season, including 8 of the original 22 Premier League members[36] (36%). Portsmouth are the only club to have gone into administration while in the Premier League.[37]

78. Stakeholders linked to specific clubs can suffer more than once. Out of the 60 administrations, 11 EPL/EFL clubs have faced repeat events, meaning they have gone into administration more than once[38]. One of the repeat administration clubs was Bury, who went into and out of administration in 2002, was threatened with administration in 2013[39], then went into administration again in 2020.

79. The impacts in the event a club does go into administration can be split across different stakeholders:
    - Debenture/charge holders
    - Preferential creditors
    - Football creditors
    - Employees
    - Unsecured creditors
    - Fans and other stakeholders

    All are impacted financially, and some in other ways too (mentally, socially, etc).

80. The administrators' role is to try to trade the business and sell the assets as a going concern. The rationale is that a higher price for the business can be

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[34] Administrations/ liquidations. This information is based on Deloitte football databook (2021) and ongoing research undertaken by Richard Evans of Birkbeck London University and Christina Philippou.

[35] There have been 116 clubs in the top four divisions since the 1992/93 season.

[36] Coventry City, Crystal Palace, Ipswich Town, Leeds United, Oldham Athletic, Queens Park Rangers, Southampton, and Wimbledon.

[37] Callow, J. (2010) Portsmouth go into administration, The Guardian.

[38] AFC Bournemouth (1997, 2008), Bradford City (2002, 2004), Bury (2002, 2020), Chester City (1998, 2009), Crystal Palace (1999, 2010), Darlington (1997, 2003, 2009), Halifax Town (1999, 2002), Luton Town (2003, 2007), Portsmouth (1999, 2010, 2012), Rotherham (2006, 2008), Swindon Town (2000, 2002)

[39] Business Sale Report (2013) Bury FC tasked with finding £1m to keep out of administration.

obtained as a going concern than if the club is liquidated, which would result in a loss of jobs both directly at the club itself and indirectly in the supply chain.

81. Fixed charge secured creditors are paid first, then preferential creditors, which includes HMRC and 'football creditors' (the League, other clubs, and club employees), which have to be paid ahead of unsecured creditors.

82. However, this does not mean that the football creditors are paid on time in the event of an administration, merely that they are preferential creditors (paid first), so there could still be financial implications for football creditors too (particularly cash flow issues as a result of the delay in payment). Unsecured creditors (including season-ticket holding fans in case of liquidation) do not typically get paid back much if any of the amounts owed to them.

83. Under EFL insolvency rules, if a club exits administration and fails to pay unsecured creditors at least 25 pence in the pound, a further 15-point penalty is applied.

84. The EPL "drives economic activity across the UK"[40], having direct and indirect effects on jobs and supply chains. Football clubs bring regional benefits to their local areas[41] which include employment and business creation[42]. This interconnectivity can, however, also have destructive effects when clubs face financial distress. The financial effects of administration and liquidation are then felt by multiple stakeholders (fans, owners, football and non-football creditors, local businesses, the Exchequer etc).

85. For example, when Bolton Wanderers went into administration, non-player staff fell into financial hardship as they went unpaid and had to use food banks[43]. Bury's expulsion from the EFL and subsequent administration led not only to unpaid wages of staff, but also negatively affected surrounding businesses (such as the local café) financially too[44].

[40] EY (2022) Premier League: Economic and social impact

[41] Könecke, T., H. Preuss, and N. Schütte (2017) Direct regional economic impact of Germany's 1. FC Kaiserslautern through participation in the 1. Bundesliga, Soccer & Society; Gregory, M. (2021) More Than A Game, pg 158

[42] Roberts, A., N. Roche, C. Jones, and M. Munday (2016) What is the value of a Premier League football club to a regional economy?, European Sport Management Quarterly

[43] Parmenter, T. (2019) Bolton Wanderers: Food bank steps into feed unpaid staff.

[44] BBC Sounds (2020) Out of Our League.

Conclusion

86. The metrics considered in evaluating the financial health of football clubs and the game as a whole were:
    - Income based metrics
    - Wage control (both standard and adjusted for player sale profits averaged over three years)
    - Operating cash flow
    - Net owner funding
    - Current ratio
    - Football Net Debt

87. There is a widespread issue of clubs being run in unsustainable ways from a viewpoint of traditional financial analysis. This is not purely as a result of the pandemic as the unsustainability issue was in evidence for years prior to the 2019/20 season (see Tables 2 to 5).

88. As a consequence, football clubs tend to be more reliant on owner funding and underwriting of losses than companies in other industries that have been trading for a similar length of time. This increases the reliance of clubs on owners, and if their personal circumstances change increases insolvency risk.

Table 2: 2018-19 EPL clubs

Club	Income (%age broadcasting)	Wage control	Current ratio	Equity (£000s)	Football Net Debt (£m)
Arsenal	46%	59%	1.02	392,852	95
Bournemouth	83%	80%	0.21	(58,686)	167
Brighton	79%	71%	0.11	(54,013)	295
Burnley	83%	63%	1.44	81,029	(36)
Cardiff	85%	43%	0.15	(11,474)	89
Chelsea	40%	64%	0.38	(784,416)	1,118
Crystal Palace	80%	77%	0.48	33,297	41
Everton	71%	85%	0.68	160,802	33
Fulham	79%	67%	0.59	26,027	61
Huddersfield	87%	54%	0.52	(20,173)	59
Leicester	72%	84%	0.64	133,182	123
Liverpool	49%	58%	0.42	242,219	128
Manchester City	47%	59%	0.56	784,019	27
Manchester Utd	38%	53%	2.04	868,050	367
Newcastle	70%	57%	1.67	42,932	61
Southampton	75%	77%	0.75	92,576	49
Tottenham	53%	39%	0.39	403,724	617
Watford	80%	57%	0.56	(19,778)	120
West Ham	67%	71%	0.48	(19,442)	136
Wolverhampton	77%	53%	0.31	(5,205)	147
"Limit"	**75**	**70**	**0.6**	**0**	**200**

Table 3: 2018-19 Championship clubs

Club	Wage control	Current ratio	Equity (£000s)
Aston Villa	175%	1.02	87,751
Birmingham City	142%	0.30	(63,595)
Blackburn Rovers	134%	0.02	20,720
Bolton Wanderers*	99%	0.24	7,328
Brentford	124%	1.44	34,225
Bristol City	101%	0.48	6,147
Derby County*	161%	0.13	(3,998)
Hull City	51%	0.54	(16,620)
Ipswich Town	106%	0.12	(86,214)
Leeds United	94%	0.52	(6,980)
Middlesbrough	72%	0.17	(55,070)
Millwall	92%	0.06	(81,917)
Norwich City	152%	0.51	2,867
Nottingham Forest	143%	0.12	(34,677)
Preston North End	143%	0.11	(4,285)
Queens Park Rangers	69%	0.15	(33,808)
Reading	226%	0.10	(50,456)
Rotherham United	56%	0.74	(820)
Sheffield United	196%	0.70	(24,724)
Sheffield Wednesday	186%	3.70	(8,327)
Stoke City	79%	0.13	(78,698)
Swansea City	72%	0.68	10,801
West Bromwich Albion	66%	0.71	34,744
Wigan Athletic	168%	0.22	(16,903)
"Limit"	**70**	**0.6**	**0**

*2017/18 figures as last filed accounts prior to administration

Table 4: 2018-19 EFL League One clubs

Club	Current ratio	Equity (£000s)
Accrington Stanley	0.71	1,791
AFC Wimbledon	1.19	628
Barnsley	1.76	5,937
Blackpool	0.43	(1,339)
Bradford City	0.32	(1,129)
Bristol Rovers	0.05	(17,201)
Burton Albion	0.44	4,822
Charlton Athletic	0.39	(43,295)
Coventry City	0.02	(19,764)
Doncaster Rovers	0.10	(7,048)
Fleetwood Town	0.04	(15,428)
Gillingham	0.65	2,276
Luton Town	0.46	(3,126)
Oxford United	0.05	(15,113)
Peterborough United	0.19	(8,815)
Plymouth Argyle	1.55	6,667
Portsmouth	1.76	14,681
Rochdale	0.95	1,360
Scunthorpe United	0.29	(6,793)
Shrewsbury Town	3.03	17,205
Southend United	0.09	(16,548)
Sunderland	0.50	(2,100)
Walsall	0.36	3,474
Wycombe Wanderers	0.46	(1,648)
"Limit"	**0.6**	**0**

Table 5: 2018-19 EFL League Two clubs

Club	Current ratio	Equity (£000s)
Bury*	0.11	(482)
Cambridge United	0.23	(1,130)
Carlisle United	0.13	4,111
Cheltenham Town	1.07	758
Colchester United	1.06	(23,919)
Crawley Town	0.07	(923)
Crewe Alexandra	0.20	2,732
Exeter City	2.08	2,148
Forest Green Rovers	0.31	565
Grimsby Town	0.44	(398)
Lincoln City	0.57	1,549
Macclesfield Town	0.06	(628)
Mansfield Town	0.39	(102)
Milton Keynes Dons	0.18	(11,991)
Morecambe	0.09	4,433
Newport County	1.85	504
Northampton Town	0.06	(4,089)
Notts County	0.02	(10,713)
Oldham Athletic	0.19	(4,076)
Port Vale	1.17	(1,759)
Stevenage	1.64	62
Swindon Town	0.98	(24)
Tranmere Rovers	0.67	(402)
Yeovil Town	0.52	1,436
"Limit"	**0.6**	**0**

*2017/18 figures as last filed accounts

89. There are systemic financial weaknesses in the football industry such that there is a risk that a few clubs topple and more will follow. These include:
    - The interdependency of clubs in terms of outstanding transfer fees owed
    - The distribution of monies within the industry both within divisions and between divisions creates 'cliff edges' that encourage overspending to achieve success through achieving on field activities. These financial differences cause problems due to legacy contractual obligations when a club is relegated or fails to qualify for major European competitions.

90. The combination of the widespread financial stress in football and the interconnectivity of clubs means that assessing clubs' financial sustainability on the basis of annual financial statements as a means of monitoring concerns has its limitations. Historic accounts are inherently backward-looking (the balance sheet shows a snapshot in time at year-end while the income statement shows the movement between year-end and prior year-end). In addition, financial

statements are often published 6-9 months after year-end, causing further time gaps between the picture being assessed and the assessment date. Therefore, a system of real-time monitoring of club finances, which focuses on present day cash management, would be an additional method to consider when assessing finances.

91. The impacts in the event a club does go into administration can be split across different stakeholders, the majority of which lose out financially as a result of administration.

92. In conclusion, there is an issue of financial stress in football and it is wide-reaching, as shown by both the metrics and the case studies included in this brief. There are therefore serious concerns around the financial sustainability and fragility in football finances.