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Financial performance in English professional football: ‘an inconvenient truth’¹

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This article presents an analysis of the financial performance of English football since the creation of the Premier League in 1992. It demonstrates that despite large increases in revenue, in particular from broadcasting, football clubs in the Premier League and Football League have year-on-year collectively failed to post a pre-tax profit; there have been many examples of clubs in the Football League having to enter into administration; and debt levels have risen. The article argues that, in their denial that the financial crisis in the wider economy will seriously impact the economic health of English Football, many of the industry’s leading figures share many of the same hugely optimistic assumptions of those who seek to play down the significance of climate change. In doing so they overlook the ‘inconvenient truth’ coined by former US Vice-President Al Gore in the context of the climate change debate, that English football is not immune from the impact of wider financial instability. The article questions whether, given the current economic climate, a failure to implement pro-active regulatory action to address the problem of chronic unprofitability and unsustainable debt will lead to a major financial crisis in English football.

Introduction

Since the foundation of the Premier League (Premiership) in 1992, English football has embarked on an extraordinary financial expansion. Between the 1992/1993 season and the 2006/2007 season the combined financial turnover of the clubs in the Premier League increased by 900% from £170m to £1530m.² This is a significant achievement by any standards. This financial success is not confined only to the Premier League. All levels of the English professional game have increased financial turnover, if not as spectacularly as the Premiership. By way of example, between the 1997/1998 and 2006/2007 seasons, the combined financial turnover of clubs in the second tier of English professional football, the Championship, increased 179% from £186m to £329m.³

However, it is an astonishing fact that there has not been a single year since its foundation when the combined Premier League clubs have made a collective pre-tax profit. This is also the case for the Championship and Divisions 1 and 2 of the Football League. The clubs have been able to survive only through the receipt of new investment from owners or investors, or through shedding debt via the financial administration process, as nearly 50 clubs went bankrupt between 1992 and 2009.

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This raises a fundamental question. Is it possible for any industry to sustain losses on the consistent annual basis that has characterized the English football industry and not eventually be faced with a catastrophic industry transforming crisis?

The stock answer to the lack of profitability by English football insiders is that owners of English clubs have always recognized that few clubs make money; they are in fact motivated primarily by nonfinancial considerations, for example, by the desire to pursue sporting success on the field of play at the expense of profit because they themselves are fans, for the public relations benefits to their wider business interests, or for the celebrity and vanity assuaging benefits that club ownership brings. By this logic, there will always be a sufficient pool of willing investors prepared to sacrifice some investment in order to, to echo the well-worn phrase, 'live the dream', if only for a short period. Certainly, the fact that the Premier League has managed to sustain 17 years of uninterrupted pre-tax losses since its foundation while simultaneously being lauded as the most successful soccer league business in the world would seem to support this folklore. However, that was before the 'credit crunch'.

In September 2008, the world entered a economic slowdown of a severity not experienced since the great depression of the 1930s. A number of major British banks had to be rescued either by the British state taking a significant shareholding via a cash injection, as in the case of Royal Bank of Scotland, or by straight nationalization, as in the case of Northern Rock. Fundamental to their difficulties was the issue of over-indebtedness. It does not seem an extraordinary leap in logic to suggest that, with some of the country's major financial institutions brought to their knees by the 'credit crunch', it was at best rather optimistic to suggest that English football would be immune from its effects. That was certainly the view of Lord David Triesman, chairman of English football's main governing body the Football Association (FA). In a controversial speech⁴ to the Leaders in Football conference in October 2008 at Chelsea's Stamford Bridge Premiership stadium he observed regarding indebtedness of English clubs:

The best estimate I could get in the City yesterday was that debts in English football as a whole have probably edged to the £3bn mark.

Critically, Lord Triesman observed that such 'toxic debt' could cause massive damage to the game and called for a review of the Fit and Proper Persons test in order to make football club ownership more transparent. The test, first introduced by the Football League in 2003, with the Premier League following shortly after, effectively bars from ownership of a football club anyone with a criminal record. However, Lord Triesman expressed concern about the current format of the test:

Transparency lies in an unmarked grave. Nobody has real confidence in what they cannot see. The Fit and Proper Persons Test does not do the job sufficiently robustly. A review is now inevitable because football clubs are not mere commodities. They are the abiding passion of their supporters. We forget that at our peril.

Essentially, Triesman was arguing that the test should be extended to ensure that only those who could demonstrate a clear ability to finance a football club as an ongoing concern should be able to take ownership of an English football club. And that English football needed a much stronger financial regulatory framework if it was to avoid major problems in the near future.

Premier League chief executive Richard Scudamore responded robustly, arguing that the Premier League clubs' debts were not out of line with their revenues (although

he made no mention of profitability),⁵ and that the established framework of light touch self-regulation had served the industry well and did not require significant amendment. However, a week later, the government minister with responsibility for sport, Andy Burnham,⁶ Secretary of State for Culture, Media & Sport, entered the debate. Speaking at the annual conference of the supporters' organization Supporters Direct, he opined that English football risked losing touch with its core supporters but that it also needed to 're-assess its relationship with money'. He then asked the FA, as well as the Premier and Football Leagues to consider whether:⁷

- the rules governing finances could be made consistent between the leagues;
- there could be greater transparency and scrutiny of clubs' ownership, including the amount of debt used to finance a takeover and an assessment be made as to whether that debt is 'sustainable and in the wider interests of the game';
- the rules which penalize clubs falling into insolvency needed to be reviewed;
- the rule which requires insolvent clubs to pay football debts in full (the Football Creditors' Rule), unlike other debts, should be reviewed;
- the Fit and Proper Person test for club directors and 30% shareholders needed to be strengthened;
- 'competitive balance' [unpredictability of league outcome] should be promoted, 'preventing the game becoming too predictable';
- everything possible was being done to bolster the national side, and whether there is 'a case for introducing a specified number of homegrown players' into club sides.

As with Lord Triesman's comments, at the heart of Minister Burnham's comments was a concern that football clubs' perceived reckless approach to financial management was creating a risk of spiralling financial instability, leading to the possible demise of some clubs and the collapse of the traditional relationship between English football and its supporters.

Although the Premier League's response was more restrained than it had been for Lord Triesman's comments – a spokesman simply noted the comments and said they would await formal communication – clearly there was not much appetite in this quarter for the implied significant overhaul of the regulatory regime in football. So, while in the rest of the economy major companies collapsed with startling regularity, the view from the commanding heights of the major professional football league in the Europe was that, in all likelihood, English football would ride out the economic trauma of global recession relatively unscathed, and certainly without the need for the kind of dramatic regulatory intervention seen elsewhere in the economy. To repeat a comment made earlier, this seems an extraordinarily optimistic assumption in light of the wider economic circumstances that pertained toward the end of the 2008/09 season.

An effective analogy that might be drawn with the 'optimist' position on English football finance in 2009 can be found in the policy arena around the climate-change phenomenon and its threat to the world ecosystem. In his best-selling book, *An Inconvenient Truth: The Planetary Emergency of Global Warming and What We Can Do About It*, former US vice president Al Gore⁸ argues that the climate crisis is an 'inconvenient' one because it will be expensive to address over the long-term and there is a natural tendency to put off until tomorrow what requires financial commitment today. Nevertheless, even though its effects are happening slowly, if left unchecked, the consequences of climate change will be catastrophic; so it will require an expensive

transformation in the way we live our lives, and in the way the global economy is organized, to avoid these consequences. But in order to begin the process of addressing the crisis, there must first be recognition among global leaders that there is indeed a global climate change crisis. Gore then poses the question – why is it that some leaders seem not to hear the clarion warnings?

In its first season in 1992/1993, the Premiership commenced with four key supporting trends:

- (1) English clubs had just been re-admitted to European football competitions in 1990, with the consequent boost to revenue, after a five-year ban following the Heysel disaster (Brussels 1985), when 39 Juventus fans died at the European Cup Final between Juventus and Liverpool following crowd disorder.
- (2) The rebuilding of all English football stadia had commenced, following the recommendations of the Taylor Report into the Hillsborough disaster which saw 96 Liverpool fans die at an FA Cup semi-final with Nottingham Forest due to flawed stadium management and policing strategies. This meant conversion to all-seater status and a consequent improvement in stadia conditions and services which attracted a much wider and more affluent spectator to English football grounds. This rebuilding received a significant subsidy from the state via a levy on pools betting duty.⁹
- (3) Premiership clubs were benefiting from the first season of revenues from a brand new and highly lucrative source – pay-per-view television via the first BSkyB contract.
- (4) Coming out of recession, the world and UK economies were beginning 15 years of uninterrupted growth which lasted into 2007; as economies grow a disproportionate amount is spent on leisure and so the Premiership benefited disproportionately from this trend.

In 2009, the economic landscape for English football changed radically:

- (1) European competition revenues were an established requirement not an additional boost.
- (2) Investment in new stadia had to be financed independently and involves some trade-off with player expenditure.
- (3) Domestic TV income was comparatively stable and the years of exceptional growth were over. The latest domestic Premier League broadcasting deal (2010–2013) is worth £1.782bn, compared with £1.7bn over the period 2007–2010, a marginal increase.
- (4) Both the world and the UK economies were contracting and commercial and sponsorship incomes, and the incomes of many of those who support Premiership football clubs, were contracting with them.

In summary, for the first time since its foundation, the Premiership was facing an environment in which the economic stars were not universally aligned favourably.

Although the crisis in English football finance will only be a footnote in history compared with the issue of climate change, in terms of their response to the issue of rising debt and chronic unprofitability does the response of the Premier League and its member clubs, and indeed those of the Football League, also share many of the same characteristics of those who seek to play down the significance of climate change,

another ‘inconvenient truth’? And if this view is accepted and no proactive action is taken, then is it inevitable that the problem of chronic unprofitability and unsustainable debt will quickly lead to a major financial crisis in English football? Whatever the answer, it is clear that English football is entering uncharted waters.

Some history

English professional football is widely held up as the definitive success story of European football over the last decade; and by extension the role model for other European leagues to follow. Drawing on data from the authoritative Deloitte *Annual Review of Football Finance* there is certainly a lot of evidence to support this contention:¹⁰

- The top tier Premier League is the richest league in Europe by some margin in terms of financial turnover.
- Over the 10-year period 1996/97 to 2006/2007 the combined turnover of the 20 clubs in the Premier League, when expressed in euros to allow cross-comparison with other European peer leagues, increased by 330% from €689m to €2273m.
- The next most lucrative league, the German Bundesliga, increased from €444m to €1379m.
- The second tier English league, the Championship, is itself the fifth richest league in Europe in terms of financial turnover.
- The Premier League has the most lucrative television broadcasting deal and derives the most income from sponsorship.

In the 2007/2008 season, the average Premiership team stadium operated at around 93% capacity – a capacity utilization figure most airlines would be delighted with:

- Total crowds for the season were 13.7m, the highest since the foundation of the Premier League in 1992/1993.
- The Championship was the fourth best-attended league in Europe after the Premiership, the Bundesliga and La Liga; again illustrating the strength in depth of the performance of English football across a number of key performance indicators.

Average match-day revenue per game attendee at a Premiership match in 2006/2007, at €61, was by far the highest in Europe (the comparative figure for La Liga was €35). This again underlines the extraordinary commercial power of the Premier League:

- Not surprisingly, the Premier League paid the highest wages in Europe. The total Premiership wage bill in 2006/07 was €1440m; the total for the next highest, Spain’s La Liga, was €822m.
- Equally unsurprisingly, Premier League clubs had a dominant position in the global market for football players. It was therefore widely perceived as being the highest quality league in Europe in terms of the quality of football, and the most glamorous in terms of the number of celebrity players it could attract.
- This, in turn, made it more attractive to TV broadcasters, which is why the Premier League has the most lucrative TV broadcasting deal of any league in the world.

Across a range of key indicators therefore it is clear that English football does deserve the accolade of being described as Europe's most successful league. However, on the most critical financial indicator of all, English football's performance is deeply problematic. For the top flight of English football – that is the Premier League, and also the three divisions of the Football League below it, the Championship, League One and League Two – is chronically unprofitable as the data in Table 1 illustrates for just the seasons 2005/2006 and 2006/2007.

English football is unprofitable

So, at the pre-tax level (profit after taking account of player transfer trading) total losses in the 2006/2007 season at Premiership clubs reached a new high of £285m (Table 1). The pre-tax losses of the 72 clubs in the Football League were also significant totalling £86m; while aggregate debt levels for the 18, of 24, Championship clubs for which Deloitte had information at the time of publication, totalled £289m. Total debt in the Premier League reached £2.47billion (making the combined Premier League clubs debt-to-turnover gearing a very high 161%) with some clubs, notably Manchester United (owned by the Glazer family; debt of £605m), Chelsea (owned by Russian oligarch Roman Abramovich; debt of £620m), Arsenal (a company quoted on the London's MyPlus stock market but controlled by a group of private investors none with a dominant share together with several thousand small shareholders who were mainly supporters; debt of £268m), West Ham United (controlled by Icelandic investor Bjorgolfur Gudmundsson; debt of £142m) and Fulham (owned by Mohammed Al Fayed, who also owned London's iconic Harrods department store; debt of £167m) maintaining especially high levels of debt. With the exception of the consistently well-managed Arsenal, all of these clubs made substantial pre-tax losses in the 2006/2007 season. For example, Fulham made a loss of £15.9m and West Ham United lost £22m.¹² Unless these clubs are able to trade their way out of debt, which for the vast majority, given the long history of unprofitability in the Premier League is unlikely, the only way they will ultimately be able to address their debt issues is either by debt write-off through new investment from existing or new investors, or by entering administration via a bankruptcy. Essentially English football is almost entirely dependent for its continued stability on the willingness of individual owners, increasingly non-UK citizens, to sustain losses and underwrite debt and pay the related interest payments. This situation would be regarded as intolerable and unsustainable in any other industry.

Table 1. English football – pre-tax profitability (£ sterling).

	2006/07		2005/06	
	Pre-tax profit	Turnover	Pre-tax profit	Turnover
Premier League	–£285m	£1530m	–£200m	£1379m
Championship	–£62m	£329m	–£36m	£318m
League One	–£20m	£102m	–£17m	£102m
League Two	–£4m	£63m	–£4m	£61m

Source: Deloitte, *Annual Review of Football Finance*.¹¹

Nevertheless, although Premier League clubs are loss making, as of the beginning of the 2008/2009 season, almost all owners appeared willing to sustain these losses – perhaps for reasons of prestige they regard their ownership of a club as a ‘trophy asset’ the benefits of which are largely non-pecuniary. As such, the finances of Premiership clubs are more stable than clubs in the Football League. For example, they are at least profitable at the operating level (before transfers) making a cumulative operating profit of £1312m in the 15 seasons to 2006/2007. By contrast, in 2006/2007 the cumulative operating losses of the 72 clubs in the three divisions of the Football League in the 15 seasons up to 2006/2007 were £932m. In other words, Football League clubs do not even break even before transfer spending. This can be explained by the fact that they spend a much higher proportion of their income on wages. In 2006/07 the wages-to-turnover ratio for the Premier League was a record 63%; whereas the comparative figures for the Championship, League One and League Two were 79, 74 and 67%, respectively. The wages-to-turnover ratio in the Championship in the 10 seasons from 1997/1998 to 2006/2007 has never been below 71%, and was as high as 101% in 2000/2001. Deloitte recommend a wages-to-turnover ratio no higher than 60% as part of a prudent financial strategy.

In effect, the reality is that the vast proportion of increased revenue that has been generated by the English football industry since its restructuring with the establishment of the Premier League in 1992/93 has been transferred to the elite players in increased wages.

Bankruptcy – a common occurrence in English football

While there has been a history of financial instability at clubs below the Premiership in the Football League, prior to the 1990s, financial crisis was often averted due to the intervention of local businessmen, with few cases of administration or insolvency (bankruptcy leading to dissolution of the club). Administration is the process whereby failed companies which are unable to meet their financial obligations are given protection from their creditors while being ‘administered’ by an insolvency practitioner until such time as they are restructured. Yet from 1992 to 2008, the period when English football entered an unprecedented period of financial revenue expansion through increased attendances, the most lucrative television broadcasting deals in Europe and very beneficial sponsorship deals, financial problems at Football League clubs resulted in 48 cases of administration¹³ (well over half of the 72 clubs in the Football League) or bankruptcy. This was because they overspent on player wages to achieve sporting success, although some clubs in the Championship were committed to unaffordable player contracts upon relegation from the Premier League; in effect, clubs which got into difficulties while taking on debt in a failed bid to stay in the Premiership only crystallized the financial consequences of this reckless behaviour on exiting the Premier League, thus flattering the overall financial performance of the Premier League in the process. The experience of Leeds United exemplifies this effect. Having reached the UEFA Champions League semi-final in the 2000/2001 season, the club narrowly missed qualification the following season and began an inexorable spiral of decline as players were sold at less than their purchase price to service debt, sporting performance then declined, until finally the club was relegated from the Premiership at the end of the 2003/2004 season, entering administration in 2007. A further relegation followed and they were playing in League One in the 2008/2009 season, a shadow of the great big city club they once were.

Sustained operating losses in the Football League have also served to increase debt levels, which proved too difficult to service. In England, if a club emerging from administration wishes to retain its place in the league then it must first pay all its football-related debt (player wages and transfer payments to other clubs) under a condition known as the Football Creditors' Rule. This is a football industry-specific rule which is designed to protect football clubs from the reckless financial behaviour of those peer clubs which fall into bankruptcy and financial administration. As a result, a particularly dubious scenario results whereby other creditors receive proportionately less from the reconstruction of the business. Often significant losers are the UK tax authorities. So, in effect, a large part of the cost of failing English football clubs is being carried by the public purse, in effect, a public sector subsidy to a failing private business sector.¹⁴ Again this is a situation that would not be tolerated in any other industry, with the exception of the strategically critical UK financial services sector which was bailed out by the British government over the 2008/2009 period. In effect, football trades on its status as one of the most powerful cultural and social assets in the country. In reality, no state body, such as the tax authorities, wants to be the organization that ultimately liquidates a football club, such is their iconic status in English popular culture.

Why is English football unprofitable?

Prominent businessman (and star of the UK TV hit show *The Apprentice*) and former owner of Tottenham Hotspur Sir Alan Sugar has referred rather coarsely to 'the prune juice effect' (prune juice being a laxative – increased revenues enter the mouth of a football club and exit swiftly out the rear in player salaries). When Sugar sold his controlling interest in Tottenham in 2001, he publicly stated that owning an English football club was not a viable business proposition, but a very expensive 'hobby' or leisure pursuit.¹⁵

With the exception of one football club – Manchester United – it is questionable whether they are good investments or not. I've got my [13% of Tottenham – down from 40%] and I'm quite happy. We're all entitled to a little hobby.

He subsequently sold the balance of his investment in Tottenham.

There has always been some debate as to why Alan Sugar originally involved himself in football by purchasing Tottenham in 1991. Clearly, he had another interest in the football industry as his Amstrad company was the main supplier of satellite dishes for the Sky pay-per-view television company (soon to be BSkyB as it took over its only rival BSB), who established the market for pay-per-view television in 1992 largely on the back of broadcasting the first season of Premiership football. However, having bought Tottenham, he did try to run it as a conventional profit-making business. As Szymanski & Kuypers¹⁶ have outlined, the consequences are instructive. Refusing to compete with the inflationary wage awards of competitors, the club was profitable (although only marginally) but sporting performance suffered. It moved from being a team challenging for qualification to European competition to one flirting with relegation (in the 1997/98 season) and crowds also declined affecting revenues. To avoid relegation, Alan Sugar had to sanction the signing of former Tottenham, and German international player, Jurgen Klinsmann and a very significant uplift in player transfer spending. Relegation was avoided, but the expenditure

involved in achieving this objective negated the attempt to run a profitable business in the process. As noted above, Sugar exited Tottenham soon after highly disillusioned with football's economics.

The experience of Alan Sugar's tenure at Tottenham illustrates a central reality in sports economics. The source of competitive advantage on the field of play is obvious for all to see – the best players. Every year the Deloitte *Annual Review of Football Finance* charts the close relationship between expenditure on players and sporting success.¹⁷ In a situation such as pertains in the English Premiership and Championship leagues where there is a free, unrestrained market for player contracts and player salaries, then all clubs are free to engage in what is essentially a labour market version of the Cold War 'arms race' to hire and retain the best playing talent, in the process driving a highly inflationary spiral in players' wages and transfer fees. In a league which is not closed and where there is promotion and relegation there are clear incentives for all clubs, not just those seeking to win the league title, but those seeking to compete to qualify for European competition or to avoid relegation, to spend beyond their means to achieve their immediate sporting objectives. In this situation, only one team can really plan on being consistently profitable; the one with the highest turnover who can therefore afford to outbid all other teams in the league for the best labour but still have a margin left over for profit. Until the arrival of Roman Abramovich at Chelsea, this was the position occupied by Manchester United, who as Alan Sugar rightly observed, have been the only consistently profitable (at a significant level) club in England since the establishment of the Premiership. Of course, there are occasions where spending power alone cannot buy absolute success. It is a tribute to the extraordinary managerial ability of Sir Alex Ferguson that he has been able to sustain Manchester United's sporting dominance with significantly inferior spending power than Chelsea (while also, as we will see below, having to tolerate a situation where significant revenues go to service the debt the Glazer family used to buy the club in the first place). But this is a rare achievement and is untypical of the industry.

In reality, the reason why the American NFL football competition operates as a closed league with a highly equalized redistribution of centrally controlled broadcasting and commercial income together with a highly regulated player recruitment market with a salary cap is because: (1) they want to achieve a high level of competitive balance (uncertainty of outcome) in order to enhance the attractiveness of their 'product' to spectators and TV viewers; but also (2) critically, because they wish to create an environment where all owners of NFL club franchises can make profits and the league is financially stable.¹⁸

Or put another way, why do the owners of NFL franchises accept aggressive redistribution of TV and merchandising revenues by a central body – the office of the NFL Commissioner – a salary cap, a draft system – the worst performing team gets to pick the best players from the College (university) competition system which sits below the NFL in the sport's organizational hierarchy – and strict ownership eligibility criteria? The reason is because this acceptance of restraints on individual business autonomy creates competitive balance and hence sporting uncertainty which drives spectator/TV interest, because it guarantees financial stability, and most critically of all because the franchises are then profitable for virtually all owners. In contrast to the UK, the NFL owners understand the implications of one of the key descriptive principles of sports economics – in order to be profitable individual clubs need to sacrifice some control over their own business because sports leagues are

joint products and you need strong competitors for the league to be successful, and if you are to be profitable you need to eliminate the built-in incentive to engage in labour cost competition.

These conditions do not exist in English football which is why it is chronically unprofitable. Essentially, English football is a not-for-profit industry for its owners, from which other stakeholders, notably the players, TV companies and merchandising companies make money. This central reality was disguised over the 1992–2007 period because every year saw further increases in revenues and so it was possible to generate profit through selling on clubs to the next ambitious (and dare we say, optimistic) owner. However, with overall revenues likely to be at best static in 2008/2009 and increasing only incrementally thereafter logic dictates that the challenge of lack of profitability will be harder to disguise. It is useful to examine some individual case studies to illustrate the potential problems which may lie ahead.

The case of Manchester United

The ‘credit crunch’ makes it much more difficult for owners to refinance debt in the event that they struggle to meet interest payments if financial performance declines and could conceivably lead to the financial collapse of some clubs. This should be a particular concern for Manchester United.

In 2005, the American Glazer family bought Manchester United, historically the only English club to consistently make a pre-tax profit,¹⁹ through a mechanism known as a leveraged buyout, i.e. they borrowed the money to purchase Manchester United and intend to pay it back out of the club’s profits. However, in order to achieve this they are totally dependent on team manager Sir Alex Ferguson continuing to produce a highly competitive team on the field of play, the wellspring from which financial revenues are derived. To give some idea of the challenge, for the 2006/2007 financial year, the ultimate holding company for Manchester United had a financial turnover of £212.2m, made interest payments of £81m, made a pre-tax loss of £62.6m, but still actually saw total debt rise to £605m. Were Manchester United to fail to qualify for the Champions League by finishing below the top four in the Premier League placings, then the Glazer business plan would come under severe pressure. It would not be over-dramatic to say that such a failure would threaten the very financial stability of the club. The Glazers are in fact almost completely dependent on Sir Alex Ferguson to continue to work his particular brand of coaching magic by not only always qualifying for the Champions League, but also reaching the latter stages of the competition. Should he retire, the challenge of organizing a successor will be challenging – as the history of Chelsea since the departure of Jose Mourinho at the end of the 2006/2007 season demonstrates, with the club, at the end of the 2008/2009 season, onto to its third manager since Mourinho’s departure and struggling to meet the competitive standards achieved during his time at the club.

The case of Liverpool

In March 2007, Liverpool football club was acquired by American businessmen George Gillett and Tom Hicks²⁰ using a similar debt-financed model to the Glazer takeover of Manchester United. In January 2008, the vehicle they used to take over Liverpool, Kop Football Limited, secured a £350m financing package, a proportion of which was intended to fund commencement of the club’s proposed new stadium in

Stanley Park, Liverpool. In October 2008, Liverpool announced that it was delaying commencing the new stadium development due to financing problems related to the 'credit crunch'.²¹

Going forward, this delay puts Liverpool at a major competitive disadvantage because it can only have 45,000 paying customers in its Anfield ground to drive revenue for players (and to meet interest payments on Kop Football Limited's debt) against Manchester United's capacity of 76,000. Critically, Liverpool lacks scale to compete with Manchester United. How it can overcome this disadvantage while staying profitable enough to meet interest payments on its debt and also building a new stadium is a very challenging question.

It has been estimated that the immediate benefit to Liverpool of qualifying for the group stages of 2008/2009 Champions League via a last minute goal by Dutch striker Dirk Kuyt against Standard Liege in the third-round qualifier was £10m.²² Were Liverpool to fail to qualify for the Champions League the business model of Gillett and Hicks, already under stress, would come under very severe pressure.

The case of Chelsea

When Chelsea released their financial results for 2007/2008 in February 2009 the accounts revealed that Russian oligarch Roman Abramovich had spent a total of £679.6m on the club since he took over in 2003. In effect, the club have been totally dependent on subsidy by Mr Abramovich, although the club's chief executive, former Manchester United chief executive Peter Kenyon, continued to emphasize that it was the short-term aspiration of the organization to start to operate on at least a break-even basis.

In 2007/2008, Roman Abramovich converted half of the £679.6m historic subsidy, which was constituted as a loan, into shares in Chelsea. As *Guardian* journalist David Conn²³ observed:

Putting the money in as shares is a genuine financial investment in Chelsea, not repayable, as loans are, unless he sells the club. It is by far the largest equity contribution ever made to a football club.

However, regardless what the form that Roman Abramovich's investment in Chelsea takes, it does not obscure the fact that should he decide to exit the business in the future, in order to avoid Mr Abramovich making a loss a new owner would have to pay at least £700m. This is a challenging price in today's marketplace. The example of Chelsea would appear to underline the hypothesis that prospective owners of Premier League clubs need to have motives, other than a simple desire to run a profitable business, if they are to justify their investment.

The case of Manchester City

In July 2007, the former president of Thailand, Thaksin Shinawatra, became the owner of Manchester City football club. Under criminal investigation for fraud/corruption in Thailand – where his wife had been convicted of fraud – the Thai government had frozen his financial assets in his homeland. Questions abounded over the extent to which he had actually invested his own money in Manchester City or had in fact borrowed against future season ticket sales and broadcasting income to buy out the previous owners and sign new players. His motive for buying Manchester City was widely reputed to be to further his political campaign to rehabilitate himself in

Thailand and keep himself in the public eye in a country where Premiership football is a major attraction. In the summer of 2008 rumours began to circulate that Manchester City were in severe financial difficulties. A further complication was that it appeared increasingly likely that Shinawatra would be convicted in the criminal courts in Thailand (in fact this did happen subsequent to his sale of the club and in November 2008 the UK government renounced his visa rights to enter the UK). The consequences of Manchester City collapsing into administration and not being able to pay their star players their contractual obligations, raising the spectre that the club might not be able to complete its fixtures, can only be imagined but they would clearly have been severe for the credibility of the Premier League competition, particularly in overseas markets. Fortunately, in early September 2008, Abu Dhabi-based Abu Dhabi United Group Investment and Development Limited took over the club.

Similarly, if Shinawatra had been convicted of criminal charges while owner of Manchester City he would then have posed a very significant problem for the Premier League. As Premier League Chief Executive Richard Scudamore observed in an interview in the *Daily Telegraph* in early August 2008 regarding Shinawatra's legal status:²⁴

We have to establish the status of his [Shinawatra's] return to England [Shinawatra was out of the country at the time] and where that leaves him as regards to the legal process in Thailand. Our rules are clear. Somebody has to be convicted of something before they fall under the remit of the 'Fit and Proper Person' act. Until such a time as he is convicted, he falls within the rules. But we have always said that the test is meaningful and has to be applied. We need to make sure that if he is guilty of anything we will deal with it.

The Abu Dhabi takeover saved the Premier League from having to make some very difficult choices. But for how long? Will the Premier League have to face similar challenges over future owners with questionable sources of finance?

Potential problems at Arsenal

Arsenal has long been regarded as a model for English football clubs. It has consistently broken even financially, with a board largely made up of long-term shareholders widely regarded as effective and reliable custodians of the club as a sporting institution as well as a business. The Arsenal board executed a bold move to a state-of-the-art new ground at the Emirates Stadium for the beginning of the 2006/2007 season, quite close to their old ground at Highbury. The old ground was the subject of a real estate development meant to pay for the new stadium. However, with the property market in the doldrums due to the 'credit crunch' the club was left vulnerable to a predatory takeover.

In February 2009, Arsenal and the Premier League faced a major challenge in the face of new investor Alisher Usamov, an oligarch from Uzbekistan, who had taken control of 25% of the shares in the club. When Usamov first emerged as an investor in 2007 *Guardian* journalist David Conn summarized the problem as follows:²⁵

Controversy over Usmanov's record has surfaced since he paid Arsenal's former vice-chairman [David Dein] £75m for a 14.5% stake... In 1980 he was convicted of offences reported to include fraud, corruption and theft of state property and served six years in prison, but after the collapse of the Soviet Union he insisted the charges had been

politically motivated and that he has since been formally pardoned by the Russian government. This version of events has been contested by Craig Murray, the British ambassador to Uzbekistan from 2002 to 2004.

Alisher Usamov is a controversial figure in the Shinawatra mould.

Regardless of who owns Arsenal, going forward, the club's business plan is fundamentally dependent on qualifying for the group stages of the Champions League, which necessitates a top four finish in the Premiership. In 2008/2009 they were, for the first time in a number of seasons, facing stiff competition for this position from a fifth club – Aston Villa. Failure to qualify for the group stages for the Champions League, in this or any other season, would throw the financial stability of the club into jeopardy and uncertainty.

Some lessons from Scotland – Gretna FC

Although English football is facing some severe economic challenges the situation in Scottish football is significantly worse. Because of the cultural and economic similarities between the football industries in the two countries, it is useful to look at some recent examples of financial difficulty in Scottish football as a guide to some of the problems that might occur in England if proactive regulatory initiatives are not embarked on.

In February 2008, one of the twelve members of the Scottish Premier League (SPL), Gretna FC, collapsed with a reported £4m worth of debt. Gretna was an unusual club. From a town with fewer than 10,000 inhabitants its rise from non-league English football to the top division of the Scottish football, a Scottish Cup final appearance followed by one round of the UEFA Cup, was financed entirely by idiosyncratic millionaire Brooks Milesen who spent £4m of his own money 'living his dream'. However, in February 2008, when Milesen fell seriously ill (a condition from which he ultimately did not recover, dying in November 2008), funding was withdrawn and the club collapsed into financial administration. In fact it was only able to fulfil the rest of its fixtures through advance payments on prize money from the SPL.²⁶ At the end of the season, the club was liquidated and left the league. Gretna supporters subsequently formed a new club in non-league football using the fans' owned supporters' trust model.²⁷

The collapse of Gretna mid-season raises a critical question. What if a bigger club than Gretna had collapsed mid-season with running costs too large to be sustained to the end of the season by the SPL and with no obvious bail-out buyer? Would the integrity of the league have been compromised if the club's fixtures had been declared void? This was a problem which Gordon Smith, Chief Executive of the Scottish Football Association, alluded to in an interview in June 2008 on the subject.²⁸

The SFA, the SFL, the SPL will need to look very closely at these aspects of how the game is structured and financed... It's very sad... Unfortunately, the problem with Gretna was their success was down to the money of one person and there was no stability behind it because of that. That's something that maybe lessons have to be learned about, the stability in the game. If someone is putting a lot of money into a team and it's getting a bit of success for a while, is there any future for that team if that one person pulls out? I think all of us in Scottish football need to look at that, all the bodies, everybody involved in the game.

Table 2. Hearts Football Club – key financial indicators (2005 to 2007).

	2005/06	2006/07
Turnover	£10.3m	£10.3m
Pre-tax loss	£5.8m	£12.9m
Debt (held by Lithuanian owner Vladimir Romanov's bank)	£21.5m	£37.6m
Wages/turnover ratio (%)	102	121

Source: PriceWaterhouseCoopers, *Season 2006/2007 19th Annual Review of Scottish Football*.

And this is a problem that they might have to address quite soon. For, as in England, the level of indebtedness of many Scottish clubs is alarmingly high. Table 2 illustrates the case of Scotland's third biggest club, Hearts, which is owned by Lithuanian financier Vladimir Romanov.

With debt at nearly three times the level of turnover the club is entirely dependent on its owner for survival. Business consultants PriceWaterhouseCoopers observed:²⁹

Hearts' wage costs have nearly tripled in three seasons ... the wage to turnover ratio now sits at an unsustainable 121%.

Twice in the 2008/2009 season it was reported in the Scottish press that Hearts had played their players late.

In December 2006, prominent Scottish tabloid newspaper pundit Jim Traynor had this to say on the issue of club ownership in Scottish football prompted by a dispute at Hearts between Vladimir Romanov and senior players,³⁰ the culmination of what many observers felt was a highly aggressive and eccentric style of management by the owner:

...we don't have any kind of proper screening programme in this country. We have three governing bodies yet not one of them can be bothered running rigorous checks on anyone who wants to own a club. That's why the world's most wanted man, Osama Bin Laden, could fund a buy-out of any club in Scotland and no one would know. Worse still, our administrators wouldn't know where to start with background checks even if they did wish to find out a little about buyers. This also is why not a single one of them has any right now to criticise or complain about what is happening at Hearts, who have become a joke under the Romanov regime.

However, no action has been taken by the SFA or the SPL to address the issue of owner suitability.

Financial instability threatens ground ownership

On the back of this financial instability, an increasingly common development in English football has seen some owners of failing clubs separating ownership of the club from ownership of their club's ground. Then, when the club enters administration they can at least salvage something from the wreckage by selling the ground for building development. So, for example, in July 2008, League Two club Rotherham United were seeking to relocate from Rotherham to Sheffield's Don Valley Athletics Stadium as a temporary measure after over 100 years' tenure at their Millmoor stadium due to a financial crisis which had seen their previous owners retain ownership of the ground.³¹ However, securing and financing a new ground without the benefit of finance from the sale of the old ground is a major challenge. So when a club loses its

ground it often sets in train a prolonged period of instability and decline, as was the case after former Premiership club and FA Cup winners (1988) Wimbledon FC's Plough Lane ground was sold to a supermarket company without any suitable alternative stadium being made available.

After a long period of ground-sharing with south London neighbours Crystal Palace, the club's, by then Norwegian, owners ultimately generated a *cause celebre* by relocating the club to the English city of Milton Keynes, 55 miles north of London, (England's first, and so far only, case of football club franchising) where it was reformed as the MK Dons in the 2003/2004 season. Predictably, the club then went into administration due to financial difficulties (from which it has since emerged having shed its considerable debts), and the vast majority of its traditional fanbase chose to support the establishment of a new supporters owned club, using the supporters' trust model, called AFC Wimbledon, currently thriving in the non-league football pyramid below the level of the Football League.

In February 2009, Barry Hearn, owner of Leyton Orient, separated ownership of the football club from ownership of Orient's Brisbane Road ground. This caused much anxiety among Orient's supporters.³²

At the beginning of the 2008/2009 season, the financial challenges facing the Football League clubs could best be illustrated by a direct quotation from the management consultants Deloitte:³³

In general, a Championship club can only hope to significantly reduce its net debt in the short/medium term via either promotion to the Premier League or an injection of equity funding from its owner... [in Leagues One and Two] ... managing the risks taken by some boards of directors will, without correction, lead to a continuing flow of insolvency cases in the seasons to come.

That club owners would seek to cash in on land values is hardly surprising given that grounds are more valuable for non-football purposes, as illustrated in stark terms by a 2006 study by Cass Business School.^{34,35} However, this trend poses a significant threat to the stability of the English football industry because in order to participate in a league a club must have a ground. And ground purchase and development is an expensive undertaking for any new investor thinking of purchasing from an administrator a club which does not have its own ground. In fact, it raises the question that some clubs which find themselves in this situation may, in fact, end up following the example of Gretna and being liquidated as they lose their grounds and their place in their respective leagues, destroying decades of history, tradition and fan investment in the process.

Conclusion

There is no doubt that there is much to admire in the recovery of English football from its status in the 1980s as a chronically poorly managed industry with declining attendances whose clubs were banned from playing in Europe from 1986 to 1992 due to the blight of hooliganism following Brussels' Heysel stadium disaster of 1985 when 39 Italian supporters died at the European Cup final between Liverpool and Juventus. English stadia have been completely rebuilt to a very high standard, crowds have flocked back and the Premiership in particular is regarded as the most attractive elite league in Europe with the most lucrative TV broadcasting deal. Both BSkyB and the Premier League have done an excellent job in marketing their product.

However, it is an ‘inconvenient truth’ that English football remains, as it always has been, chronically unprofitable; and the scale of the losses, as reflected in the enormous debts carried by the 92 clubs collectively, would not be sustainable in any other industry, and so, we would argue, are unlikely to be sustainable in the football industry over the medium term. Although at the time of writing no major club had yet to collapse completely, anecdotal evidence was emerging that very many clubs were suffering severe financial pressures, as we have illustrated through the selection of case study evidence above. By way of further example, in an interview³⁶ with *Guardian* journalist David Conn, in December 2008, Adam Pearson, chairman of newly relegated from the Premiership Derby County – who lost £12.5m in the year to June 2007 – warned starkly that clubs need to bring wages under control:

The game is close to meltdown at all levels... Boards are under pressure to gain success and that leads to them paying ridiculous wages. It cannot carry on or it will end in disaster. There is a growing feeling now that some sort of wage cap has to come in.

Up to now, the chronic loss-making exemplified by Derby County has only been sustained by shedding debt through the administration process (following wholesale bankruptcies); this is in fact a form of *de facto* state subsidy because the majority of the tax debt is rarely repaid, and through equity investment by new owners and investors seeking trophy assets. However, by the beginning of 2009 evidence suggested that the supply of rich overseas investors was drying up. As no less a figure than Keith Harris, executive chairman of investment bank Seymour Pierce, the leading broker in almost all the major sales of Premiership football clubs since the turn of the millennium, told David Conn³⁷ in January 2009:

The clubs have been spending too much and the club owners were looking for richer people to buy the clubs and take on the losses... But we are in a different climate now, where the football clubs have to realise it is back to the fundamental basics of managing their costs. The supply of richer people has proved to be finite [authors’ underlining].’

A similar argument was being made at Premiership club Middlesbrough. Deloitte’s reported that Middlesbrough made a loss of £13.3m in the 2006/07 season³⁸ and had total debt of £85m.³⁹ Most of the debt was believed to be owed to club owner Steve Gibson who was neither paid a salary or received a dividend from his shareholding.⁴⁰ In a December 2008 newspaper interview, Middlesbrough manager Gareth Southgate⁴¹ amplified Keith Harris’ theme:

At the moment quite a few [clubs] are dependent on billionaire owners. But if those people walk away you’re reliant on finding someone else with those sorts of funds... We’re all marvelling at how strong our league is but I’m not sure quite where we go after billionaire owners, especially as a lot of them are losing a lot of their money at the moment... I don’t see why the chairman should keep footing the bill here... It’s my belief that we should run it as a sound business.

In other words, English football clubs are going to have to start operating on a break-even financial basis. But their ability to do so is greatly complicated by the extraordinary high level of debt they were collectively carrying as they entered 2009.

It is the view of these authors that unless the issue of chronic unprofitability is addressed through some form of pre-emptive regulatory action then a major financial

crisis in English football that will threaten the very existence of a number of clubs is inevitable. In this respect, both Lord Triesman, Chairman of the FA, and Andy Burnham, Minister of State for Culture, Media & Sport, were absolutely right to raise their concerns about the level of indebtedness of English football clubs and their related financial instability.

What pre-emptive regulatory action that might be embarked upon is open to debate, and the authors have made some suggestions of possible ways forward in a submission to the All-Party Football Group *Inquiry into English Football and its Governance*.⁴² What seems absolutely clear is that some form of renewed regulatory intervention is necessary, and indeed inevitable.

We would conclude by quoting the remarks of former UEFA General Secretary Lars-Christer Olsson⁴³ in 2004 in the context of a debate about chronic indebtedness and unprofitability of clubs competing in the European Champions League which was perceived to be distorting the quality and balance of the sporting competition:

In recent years, too many clubs have been indulging in, if you like, financial doping [authors' underlining] – sometimes not paying transfer fees and even having to delay salaries in some cases. The big problem is not so much on the income side, but on the cost side. They have to think more about their investment. Financial planning is often conducted on a far too short-term basis... In future, clubs ... [should] have to prove they have sound finances to play in our competitions [authors' underlining].

What Lars-Christer Olsson's remarks demonstrate is that the understanding of the impact of reckless financing on the integrity of sporting competition is already well-established. All that is missing in English football is the will to tackle this 'inconvenient truth'.

Postscript

In February 2010 Portsmouth FC became the first Premier League club to enter financial administration.

Notes

1. Gore, *An Inconvenient Truth*.
2. Deloitte, *Annual Review of Football Finance*, 34.
3. *Ibid.*, 35.
4. Bryant, 'English Football is £3bn in Debt, Warns FA Chairman'.
5. BBC Sport, 'FA Chief Fears £3bn "Club Debts"'
6. BBC Sport, 'Burnham Demands Football Reforms'.
7. Conn, D. 'Burnham Poses Seven Questions for Football's Authorities'.
8. Gore, *An Inconvenient Truth*.
9. Hamil, 'A Whole New Ball Game', 26.
10. Deloitte, *Annual Review of Football Finance*.
11. *Ibid.*, 24.
12. *Ibid.*, 59, appendices, 5.
13. *Ibid.*, appendices, 15.
14. BBC News, 'Football Clubs Owe Tax Millions'.
15. Daniel, 'Only Sweet Nothings From Sugar'.
16. Szymanski, and Kuypers, *Winners & Losers*, 291–4. This text provides an excellent, highly accessible introduction to sports economics for non-economists.
17. Deloitte, *Annual Review of Football Finance*, appendices, 37.
18. For a useful summary of how the NFL is organized see Staudohar, P. 'Governance in the National Football League'. In *Governance and Competition in Professional Sports Leagues*, ed. P. Rodriguez, S. Kesanane, and J. Garcia. Oviedo, Spain: University of Oviedo, 2007.

19. For a more detailed analysis of Manchester United's business strategy and the challenges it faces see Hamil, 'Manchester United'. See Deloitte, *Annual Review of Football Finance*, 59–60, appendices 4–5, for data on Manchester United's financial performance in 2006/2007.
20. Deloitte, *Annual Review of Football Finance*, 60.
21. BBC Sport, 'Liverpool Stadium Plans on Hold'.
22. Rich, 'Liverpool Leave It Late to Secure a Place in the Next Round of the Champions League'.
23. Conn, 'Abramovich Digs Deep Again to Cover Chelsea Losses'.
24. Winter, 'Soap Opera Involving Thaksin Shinawatra and Manchester City Damaging Our Game'.
25. Conn, 'Hill-Wood'.
26. BBC Sport, 'Gretna Relinquish League Status'.
27. For details of the new supporter-owned Gretna, see www.gretnasupporterssociety.co.uk
28. BBC Sport, 'SFA Chief Wants No More Gretnas'.
29. PriceWaterhouseCoopers, *Season 2006/2007 19th Annual Review of Scottish Football*, 13.
30. Traynor, 'Osama Bin Laden Could Buy Out a Scottish Club and Our Ruling Bodies Wouldn't Bat an Eyelid'.
31. Rotherham United Football Club, *Move to Don Valley Stadium*.
32. Website of Leyton Orient Supporters Trust <http://www.leytonorientfanstrust.com/index.asp>. Accessed March 3, 2009.
33. Deloitte, *Annual Review of Football Finance*, 57.
34. Pickard, 'Football Clubs Urged to Sell Off Stadiums'.
35. Cass Business School, *Rival Football Clubs Should Share Grounds to Ease Financial Problems*.
36. Conn, 'Fear of Bust has Clubs Looking for a Salary Ceiling'.
37. Conn, 'Financial Nightmare has Disrupted Dream of Club Ownership'.
38. Deloitte *Annual Review of Football Finance*, appendices, 4–5.
39. Deloitte, *Annual Review of Football Finance*, 59.
40. Taylor, 'League's Boom Could Turn to Bust Says Southgate'.
41. Ibid.
42. Walters and Hamil, *All Party Parliamentary Football Group*.
43. The Football Association, 'Keeping Football Together', March 12, 2004. http://www.thefa.com/TheFA/NewsFromTheFA/Postings/2004/03/Olsson_UEFA.htm. Accessed March 3, 2009.

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