"The Need for Better Governance in football’

How can professional football in Europe strike a better balance between business, culture and future sustainability?: Some Lessons from England.

Sean Hamil, Birkbeck Sport Business Centre, Birkbeck College, University of London (drawing on joint work with Dr Geoff Walters).

Challenges for Football Conference
Aarhus University – 20th-21st June 2011
Overview


3. Why English football has never been profitable, and why this matters, for the rest of Europe also.

4. What is to be done?

5. Regulation is necessary in a modern economy: the only question is “how much?”.
A Brief History of
English Football 1979-1992
In the 1970s and 1980s English football was in a state of crisis (current crisis in Italian football bears comparison):

- Declining attendances.
- Hooliganism and racism.
- Minimal TV income.
- Lack of commercial awareness - merchandising and sponsorship underdeveloped.
- Poor financial management.
- A chronic lack of investment in grounds.
English Football
Recovery from the Dark Days of the 1980s

• Bradford (1985) and Hillsborough (1989) stadium disasters.

• The Taylor Report (1990):
  - Mainly remembered for the recommendation that stadia become all-seater.

• Government regulatory intervention (Football Trust and the Football Licensing Authority) – a catalyst for reform: state subsidies for rebuilding.

• Effective reform not based solely on policing strategies:
  - successful reform flows from a modernisation agenda for stadia, though many argue that “traditional” supporters are priced out of new stadia.

• Reform also supported by: (1) re-involvement of English clubs in UEFA competitions; (2) introduction of pay-tv (increased revenues); (3) economic growth in UK economy – 1992-2007.
Achievements of English Football 1992-2011
Key Achievements in English Football

- Across a range of key indicators it is clear that English football (and the Premier League) deserves the accolade of being described as Europe’s most successful league:

- In 2009/2010 total Premier League club revenues were Euros 2,479m, the highest of any elite league (the Bundesliga is Euros 1,664).

- The Premier League has the most lucrative television broadcasting deal (international deals increasing in value) and derives the most income from sponsorship.

- In the 2010/2011 season, the average Premiership team stadium operated at around 92.2% capacity.

- 13.4m people attended Premier League matches in 2010/2011

- 16.1m people attended Football League matches in 2010/2011

Source: Deloitte, 2011.
Why English football has never been profitable, and why this matters, for the rest of Europe also.
Financial Performance in English Football

- On the most critical financial indicator of all, English football’s performance is deeply problematic.

- Between 1992 and 2009, clubs have, on aggregate, consistently failed to achieve pre-tax profits.

- The clubs are chronically indebted – total Premier League club debt in Summer 2010 is £2.6bn.

- The use of the insolvency process to shed debt is endemic, its abuse recognised by the football authorities by the introduction of sporting sanctions (points penalties) for clubs entering financial administration on bankruptcy.
### English Football – Pre-Tax Profitability (£ sterling)

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Why is English football unprofitable?

• The key reason has been very high wage levels.

• Race to hire and retain the best playing talent – a clear link between on-pitch performance and wage levels.

• Inflationary spiral whereby clubs spend too high a proportion of their income on players’ wages and transfer fees.

• This is especially the case for clubs in the Football League.

• In the absence of centralised financial regulation and control English clubs overspend on players, because they can.
Chart 3.4: Premier League clubs – comparison of total wages with league position 2009/10 (£m)

Source: Deloitte, 2011, page 42
Revenue Growth, Without Profitability, Does Not Deliver Sustainability

• “After I'd told the Championship clubs we'd just done a new media deal for a 130% increase in their TV revenue one chairman said, in a meeting, 'Brian, for God's sake give us some help because if you don't put in some form of regulation we are going to piss this money up the wall on players' wages'. Quote unquote”

Lord Mawhinney, Chair of the Football League, The Guardian, December 8th 2009
"I wanted to [take over] Liverpool," said Kraft. "I met with [the then chairman] David Moores, who is a fine gentleman, and we came very close to buying it, very close. But in the end my instinct was – without a salary cap, or a stadium ... I wasn't sure how we'd get a stadium built quickly and efficiently. But the more important issue was the salary cap. If the salary cap was there, we would have done it."

UK Parliament’s Enquiry
Into Football Governance:
Reasons for Concern

- Tensions between the elite professional game (particularly the Premier League) and the grassroots game (the National Game) – particularly on the board of the Football Association – five Professional Game representatives, five National Game representatives, the Chairman and the General Secretary.

- Poor performance of the national team.

- Poor financial performance of English professional football:
  - systematic non-payment of taxes.
  - numerous financial crises in lower league football – fuels emergence of Supporters Direct.
  - chronic loss-making crowds out productive investment in new stadia facilities, youth development, community services etc.
    - This problem is exacerbated by the decline in state expenditure on sport facilities.
  - “high quality” owners driven out – emergence of “new” owners such as Thaksin Shinawatra at Manchester City.

- These problems are replicated across all of Europe.
Appendix 17: Member clubs of The Football League and Premier League that have undergone insolvency proceedings – 1992 to May 2011 (number of clubs)

Note: Timings of entering insolvency proceedings are approximate. The form of insolvency proceedings has differed between clubs.

Source: Deloitte analysis.

What is to be done?
Resistance to Financial Regulation in English Football

- Football Task Force - Commercial Issues Report (1999) - recommends:
  - A need to improve financial regulation.
  - Financial Compliance Unit / Football Audit Commission with statutory regulatory powers.
  - Fit and proper persons test for club directors.
  - Code of practice to set out minimum standards of conduct for clubs.

- Supported by many stakeholders – particularly supporters’ organisations.

- Football authorities argued for self-regulation, and dismissed the need for more regulation:
  - “the football authorities do not believe that the overall well-being of the game will be helped by new layers of regulation or bureaucracy” (Task Force, Fourth Report, 1999)
1999-2011
Slow but Steady Expansion
of English Football Governing Bodies’
Regulatory Footprint

Examples from the Premier League:

- Sporting penalties for entering financial administration.
- Overdue payables reporting.
- HMRC tax reporting.
- Directors Test (formerly the Fit & Proper Test).

➢ The English football authorities know there is a need for regulatory action.

Following the announcement of an enquiry into the governance of English football by the House of Commons (UK Parliament) Culture, Media & Sport Committee the Sport Minister observes:

"Issues of football governance need attention and need action and that is precisely why the select committee has responded to levels of anxiety across the House and announced their investigation... If you look across sport, it is very clear to me that football is the worst governed sport in this country, without a shadow of a doubt."

Hugh Robertson MP, UK Sport Minister, January 2011.

UEFA Licensing System – Overall Picture of Clubs’ Finances in 2009

• After 10 years of nearly continuous income growth, losses remain and many balance sheets also weak. Some clubs reporting relatively massive losses.

• 10% of European clubs (sample c400) had Going Concern emphasis of matter or qualification in 2008 Audit Report.

• Preliminary figures suggest modest income rise in FY2009 with second tier clubs in particular struggling to meet commitments.

• Longer term investment in football has not matched spending – Less than 1 in 4 clubs own stadium and less than 1 in 3 own training facilities.

• Increasingly difficult for clubs with sustainable business plans to compete with those living beyond their means.
UEFA’s Financial Fair Play Initiative

- Since 2005 UEFA has gained increasing regulatory influence through the UEFA Licence.

- Financial Fair Play Concept supported by European clubs and approved by UEFA Executive Committee in September 2009 – will be phased in over three seasons

- By 2012-13 the Licence will require that clubs:
  - do not spend more than they generate over a period of time;
  - that there will be no overdue payments to other clubs, employees and/or social/tax authorities;
  - that they provide future financial information to ensure clubs can meet their future obligations.
UEFA Financial Fair Play Initiative:
The “The Break Even” Requirement

**RELEVANT EXPENSES**
- Cost of Sales
- Employee benefits expenses
- Other operating expenses
- Player transfer amortisation or expense
- Finance costs

**RELEVANT INCOME**
- Revenue:
  - Gate receipts
  - Broadcasting rights
  - Sponsorship & advertising
  - Commercial activities
  - Other operating income
  - Player transfer profit or income
  - Finance income
  - Excess proceeds on disposal of tangible fixed assets

**Is not Greater than**

**NO LIMIT:**
- Infrastructure costs
- Youth development activities
- Community development activities
Financial Action Task Force
Money Laundering Through
The Football Sector (2009)

• “The Financial Action Task Force (FATF) reports warns football is at risk from criminals buying clubs, transferring players, and betting on the sport.”

Source: BBC Sport, 1st July 2009
• “A second theme and one which I have found frankly surprising, is that there have been numerous well known sports which have simply not been properly governed by their governing bodies. This is startling when one considers that by the mid to late 19th century it was recognised that sports required good governance.

Take, for example, the establishment of the Football Association in 1863, and other governing bodies in the late Nineteenth Century. The sports which were placed into the World Class Payments Bureau were sports which were not “fit for purpose” in large part because of poor governance arrangements in their governing bodies.

This was occurring more than a century after the establishment of governance arrangements in at least some of our national sports. It might have been expected that governance arrangements in sport would by the mid 1990s have progressed into effective, efficient, economical and modern arrangements for all sports, and in particular all sports whose members aspire to elite competition.

At the end of the 20th and the start of the 21st Century this had not happened.”

Future Reforms?

• Despite the implementation of various regulatory measures, financial instability within English football remains a key issue.

• It could be argued that a fundamental weakness of the regulatory reforms adopted in England so far is that they have been uncoordinated in their application, and this has undermined their effectiveness.

• To overcome this there is a need to integrate the various measures into an over-arching system of regulation, a licensing system, which addresses aspects of financial regulation at all levels of league competition.

• This is necessary as the football industry is structured as an eco-system where a problem occurring in any one part of the system inevitably impacts elsewhere.
Lessons for European Football from the Global Financial Crisis: A Failure of Regulation?

• “Those of us who have looked to the self-interest of lending institutions to protect shareholders’ equity, myself included, are in a state of shocked disbelief…”

Alan Greenspan, Former Chairman of the Board of Governors of the US Federal Reserve, to the US House of Representatives Committee on Oversight and Government Reform.

Achieving Equilibrium in the Sport “Eco-system”

• Ultimately football is a mass sporting and cultural, as well as an economic, activity.

• Elite sport is simply part of a wider “eco-system” that needs to be regulated to be kept in equilibrium so as to deliver benefit for all the stakeholders.
Background Reading


  http://www.sportbusinesscentre.com/images/BirkbeckHoCFootballGovernanceEnquirySubmission_Revised_February2011%20%2720_Feb_


  http://www.sportbusinesscentre.com/research/governmentenquirysubmissions/commons