

Financing Football – the new reality

A Survey of English and Scottish Premier league and English First Division football club finance directors

August 2002

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Foreword

Spiralling player costs. Increased borrowing. Stagnant transfer income. Constraining transfer windows. Uncertainty over future TV revenue. The possibility of insolvency. After a boom in the 1990s, the financial problems facing football clubs could scarcely be starker.

Less than ten years ago, institutional investors piled into football as clubs were launched on the stock market. But today it's a different story – the British football industry is in financial crisis and the same scenario is evident across Europe. Just as the demise of ITV Digital and Kirch TV damaged the game in England and Germany, in Italy the state broadcaster Rai told the Italian league that it will end 40 years of coverage unless the asking price for the highlights package is halved.

As advisors to a number of top football clubs, we felt that the current financial backdrop made this the right time to ask the finance directors themselves about their views and perspectives of the future funding of their clubs. We hope this report will be the first of an annual survey of football finances.

Overall, this survey reveals that many of the finance directors for the Premier League and First Division clubs in England and Scotland are taking a new, balanced and unemotional view of how to finance their clubs' future. Nevertheless, there are worrying messages for both the football and the banking sectors and, in light of these findings, the message to the football authorities is clear. Current pressures on the funding of our top football clubs will not be solved by short-term solutions. Nor should we ignore the huge dichotomy between clubs in the English Premiership and the First Division.

Methodology

In the first two weeks of August 2002, we contacted the finance directors of clubs throughout the English Premiership and First Division and the Scottish Premier League. We invited each finance director to participate in the survey, which was subsequently completed by telephone questionnaire. This report reflects the views of 22 of a total of 56 finance directors representing a 39% response rate.

Individual responses were provided anonymously and interviews were conducted by an independent research company to maintain strict confidentiality.

Thanks

We are extremely grateful to everyone who gave up their time to participate in this survey, and for the candour of their views. A donation to the PFA Benevolent Fund has been made for each completed survey.

We are also grateful to Accountancy Age magazine for its co-operation in the publication of this survey.

Executive summary

- **Banking relationships may become more strained** – Despite widespread financial difficulty more than half (52%) of all clubs have increased their bank facility within the last 12 months. 71% of clubs in the English Premiership have increased their facility. However, over half (52%) said they envisaged using more than 90% of their available bank facility during the forthcoming year, indicating that they are going to be financially stretched.
- **Principal source of bank/debt finance** – 70% of clubs are borrowing at a variable rate of bank/debt finance. All clubs in Scotland are on variable rates of bank/debt finance. Many clubs on a variable rate were on a rate of 2 per cent or more over base rate. Nearly half (43%) have their borrowing repayable on demand. For term borrowing most (61%) repay their debts spread evenly over the term of the funding.
- **Security** – 17% of clubs have unsecured borrowing and surprisingly, this was highest amongst the smaller clubs with turnover under £10million (27%), although directors' guarantees may be a factor here.
- **Directors are on the line and accountable for the future of their clubs** – Nearly a quarter (22%) of clubs' funding has been guaranteed by a director. This is a cause for concern given the high level of borrowing within the sector versus corporate security.
- **Biggest concerns for the future** – Escalating salaries were the biggest concern coupled with the potential fall in TV income from the BSkyB deals and the loss of income due to relegation. The next biggest concern was the introduction of transfer windows (despite the fact that only a quarter rely on transfer fees for funding) which could inhibit transfers and reduce financial flexibility.
- **Revenue from TV and radio deals is perceived to be crucial to the future finance of English clubs** – TV and radio deals are regarded as the most important source of revenue when planning the financial future of Premiership clubs. They were followed by ticket sales and sponsorship as the next most important potential revenue generators by the English Premiership over the next five years.

Despite the massive investment in Internet and broadband technology by the major clubs, they do not perceive it to be a high revenue generator. Conference and catering was considered the third most important revenue generator by First Division clubs but only came in at sixth place amongst the English Premiership.

The most important source of revenue for the Scottish Premier League is ticket sales.

- **Transfer fees are offering a shrinking source of income for the future** – This figure was higher in Scotland with 44% of clubs relying on transfer fees.
- **Finance directors would rather TV deals were negotiated centrally rather than club by club** – Nearly three quarters of finance directors think TV deals should be negotiated centrally. However, the smaller the club, the less happy they are with the allocation of funds with only 25% of English First Division finance directors agreeing it was acceptable compared with 60% of the Premiership and only 43% of Scottish respondents.
- **Finance directors rule with their heads not their hearts** – Although 78% supported the club which employed them, 74% said they would sell the club's best playing asset if the price was right. In Scotland, 89% would sell their best asset which may indicate that they are even harder-headed, or it may be indicative of the state of the market. Only 15% of the UK respondents said they would retain their best playing asset to build success.

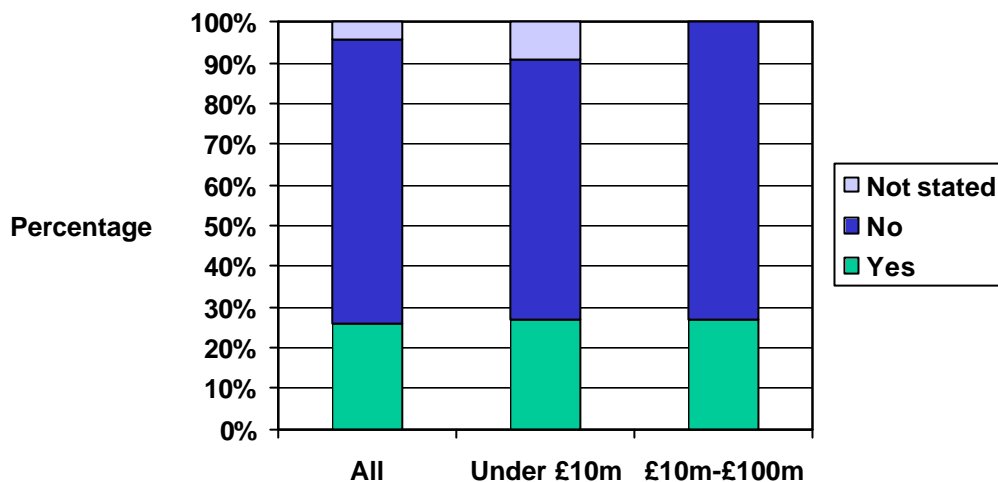
- **The Premiership stands alone but united on performance** – The days of mediocre players earning high salaries may be over. All respondents agreed that players' salaries should reflect performance and over half (52%) thought that pay should be performance-linked purely to first team football results. 100% of finance directors in the English Premiership agreed that performance should be linked purely to football. 44% of the sample thought pay should be linked to other performance criteria such as match attendance or TV revenue. Nearly all thought that 30% or more of players' salaries should be performance based with the largest proportion (39%) considering that 41-50% of players' salaries should be performance based.
- **Post Enron** – Nearly all finance directors had full confidence in their club's accounting policies. The football authorities are considering making recommendations to streamline and harmonise financial reporting, but it's clear that the finance directors within the leading UK clubs do not consider there to be major issues. 17% thought there should be automatic demotion for clubs that are financially weak although none of the English Premiership club respondents were in favour of automatic demotion.
- **Super creditors** – Half of finance directors (52%) thought football players should lose their status as 'super creditors' although only 26% thought that football clubs should lose their status. Clearly they hold the interests of their own clubs at heart although two thirds of English First Division finance directors were still in favour of clubs foregoing super creditor status.
- **Ground share** – 86% of English Premiership clubs would prefer not to see ground sharing, while 67% of English First Division clubs would consider it, thereby raising funds and reducing costs. Clearly, many of these decisions are driven by geography and club location as well as financial issues.
- **Home grown talent** – Following some of the recent excesses, it's heartening to see that 83% of clubs believe they are spending the right balance of income on home grown talent versus buying it. The setting up of more player academies and involvement in local communities seems to show that the leagues are now taking a long-term view towards building viable teams for the future.
- **And finally, a message to the Government; get your wallet out** – 96% of finance directors think the Government should provide financial support for a national bid to host the World Cup and/or European championships.

Analysis of survey findings

1. Does your club's budget for 2002/2003 rely on receiving a surplus of funds from player transfers to fund your trading?

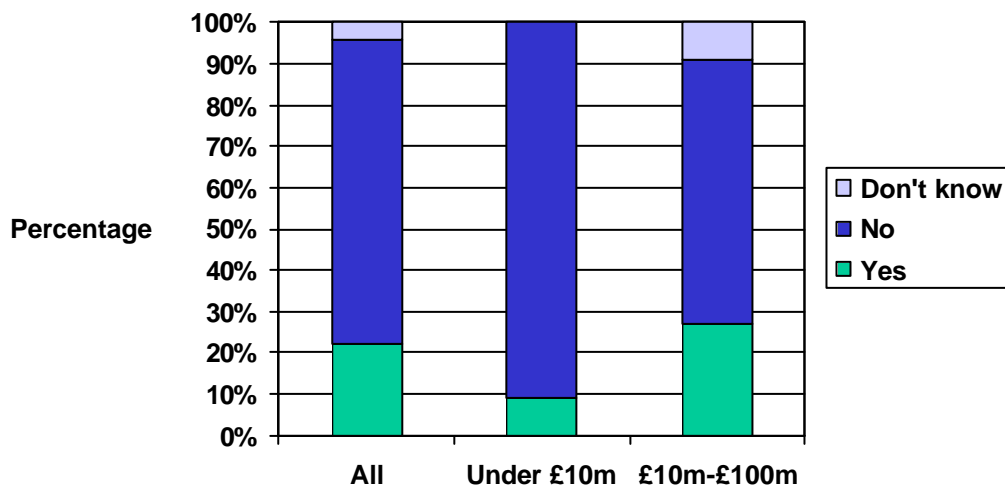
Reflecting the new reality, only one quarter of clubs intend to rely on transfer fees to fund their future trading.

It's reassuring that they recognise that transfer fees will be providing a shrinking source of potential funding for the future, especially in the English First Division. Finance directors are therefore now loath to bank on unrealistic windfalls as they have done previously.



2. Do you think TV deals should be negotiated on a club-by-club basis, rather than centrally?

Although there was some slight separation in views between the finance directors of the English Premiership and First Division clubs, overall, nearly three quarters of finance directors are against club-by-club TV deal negotiations. Understandably, these smaller clubs (i.e. those with annual turnovers under £10 million) are more keen to see central negotiations.

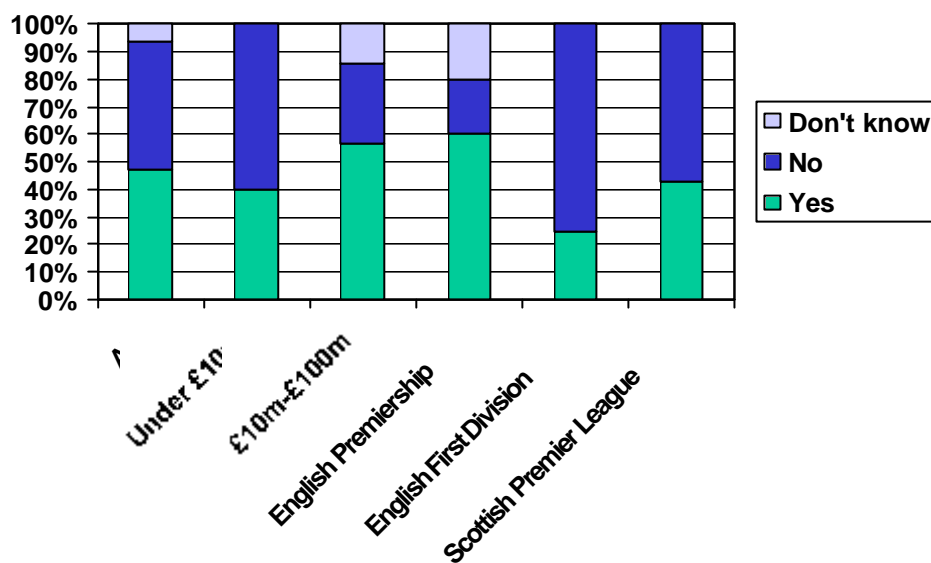


3. If you think TV deals should be negotiated centrally, is the current method of allocation of funds broadly acceptable?

These responses demonstrated a divergence of opinion between the English Premiership and First Division. Whereas 60% of the Premiership finance directors felt the allocation was broadly acceptable, only 25% of English First Division finance directors agreed with this. Almost 60% of Scottish Premier League Finance Directors were not happy with the allocation of funds and felt they were unacceptable.

It is also clear that the smaller the club, the greater their dissatisfaction with the allocation of funding: 60% of finance directors objecting to the allocation of funds worked for clubs with annual turnovers below £10 million.

Since this survey was conducted after the English First Division deal with BSkyB was negotiated, and after individual clubs had heard about their allocation of funds in that



deal, this result gives us a good insight into much of the disquiet currently being voiced about management of the football leagues. We suspect that this will continue to remain a burning issue for the less financially secure clubs, especially those in the English First Division.

4. Would you sell the club's best playing asset if the price was right, or would you seek to retain them to build success?

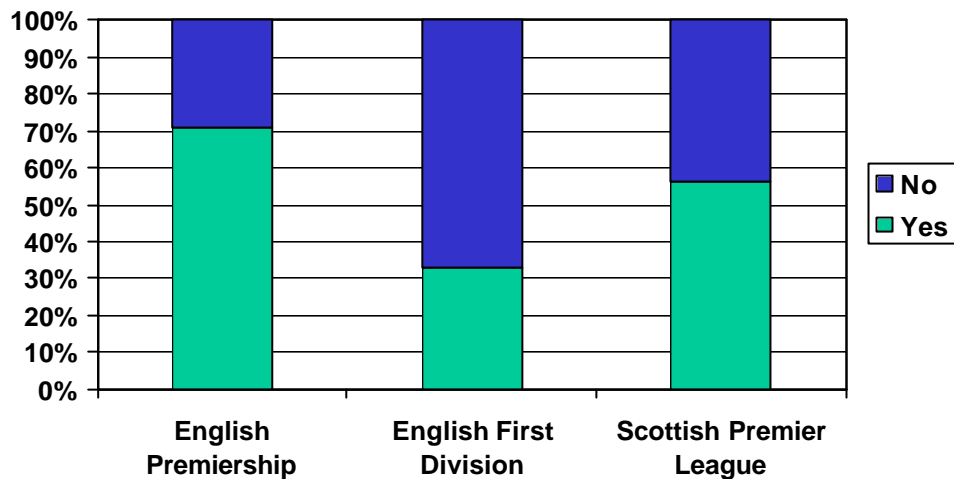
While many directors and chairmen view their clubs both as a sport *and* as a business, it's unsurprising that finance directors maintain a cooler and less emotive approach to business decision making. Overall, three quarters of respondents *would* sell the club's best playing asset if the price was right, with a marginally higher level of agreement from the smaller clubs.

Scottish finance directors were even more hard-headed as, broadly speaking, they would be more likely to view their club's best players as saleable assets.

5. Have you increased the level of your bank facility within the last 12 months?

This and the following question give a special insight into the perilous state of football finances. It is surprising, given the current financial situation, that just over half of the clubs have increased their bank facility within the past 12 months (with 71% of English Premiership clubs increasing their bank facility but only 33% of First Division clubs increasing their bank facility).

It's also clear that a number of clubs throughout the English First Division and the Scottish Premier League may have wished to increase their bank facility but were unable to do so.



Perhaps yet more worrying is the response to the following question.

6. Do you envisage using more than 90% of your available bank facility during the forthcoming year?

Not only have more than 50% of football clubs increased their bank facility but a similar proportion also envisage that they are going to use more than 90% of that facility in the coming year.

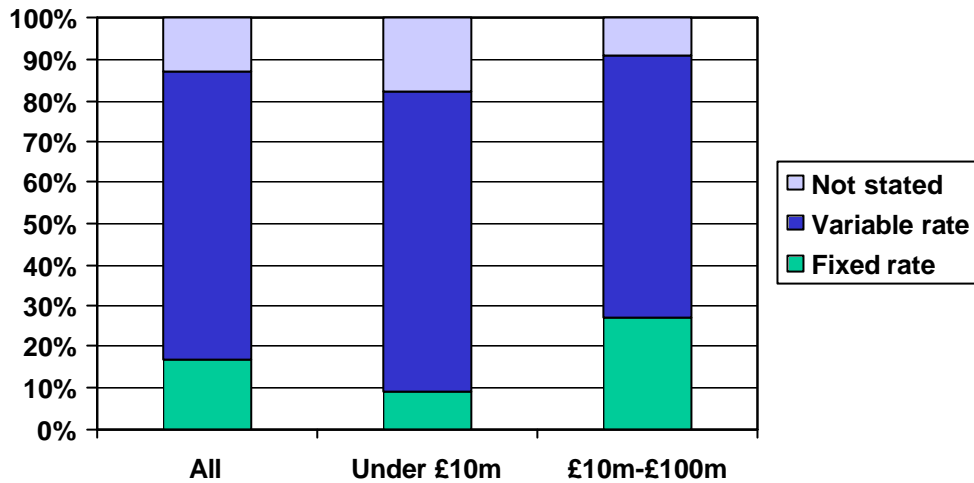
Answer	All
Yes	52%
No	26%
Don't know	5%
Not stated	17%

This has two clear messages for both the clubs and their bankers. Firstly, it gives an indication that banking relationships may become more strained for the smaller clubs. Secondly, bankers should be worried about their potential exposure if nearly 60% of the larger clubs that have increased their bank facility use it in the coming year.

7. What are the key terms of your principal sources of bank/debt finance?

One might expect the smaller clubs to be predominantly financed by overdraft. While 64% of clubs with annual turnovers between £10 and £100 million had variable rate bank/debt finance, it was 73% for clubs with annual turnovers below £10 million.

We were surprised that nearly 70% of clubs were borrowing at a variable rate at a time when economic indicators and interest rates are generally fairly stable. It raises the question why more clubs are neither able to arrange nor looking towards structured or fixed finance facilities.

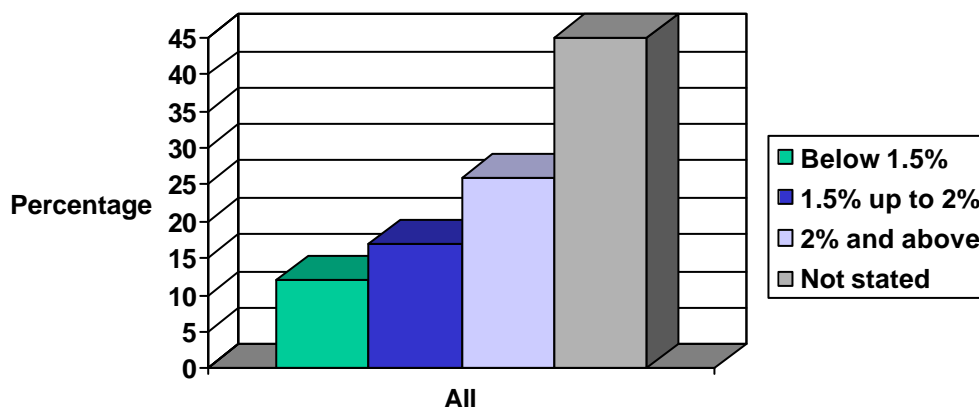


Maybe this gives a strong indication of the extent to which banks need to maintain control of lending to clubs. Responses to the following question seem to reinforce this interpretation.

8. If you have a variable source of bank/debt finance, what is the margin over base/LIBOR (London inter-bank offer rate)

These responses were revealing through what the finance directors were *not* prepared to divulge.

43% of respondents were *not* prepared to reveal the rates of interest on their bank loans. In fact, in the case of the English First Division finance directors, none of them was prepared to provide an insight.



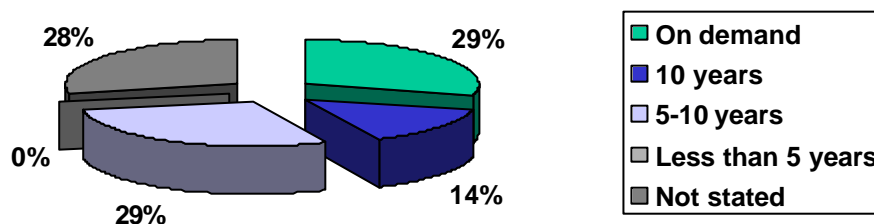
Of those who did reply, only a small percentage were paying interest below 1.5% over base, while over one quarter of the clubs were paying interest at 2% or more over base. Given the state of the wider economic environment, it would be fair to characterise 1% over base as a reasonable lending rate for a 'good' business; 1.5% for a reasonably stable business; and 2.5% over base for a 'slightly risky' business. This reinforces the impression that bankers are taking a measured view of the risk profile of lending to football clubs.

The fact that many FDs were not prepared to reveal their rates of interest may indicate interest rates are considerably in excess of 2.5 % above base.

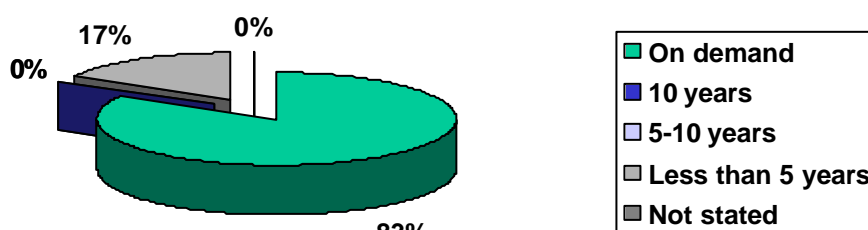
9. If you have a variable source of bank/debt finance what is the repayment period?

Two clear messages emerge from the responses to this question. Firstly, 43% of clubs generally have facilities that are repayable on demand. This varies little between large and small clubs. Secondly, whilst only 29% of English Premiership clubs have facilities which are repayable on demand, more than 83% of English First Division clubs have debts which are repayable on demand.

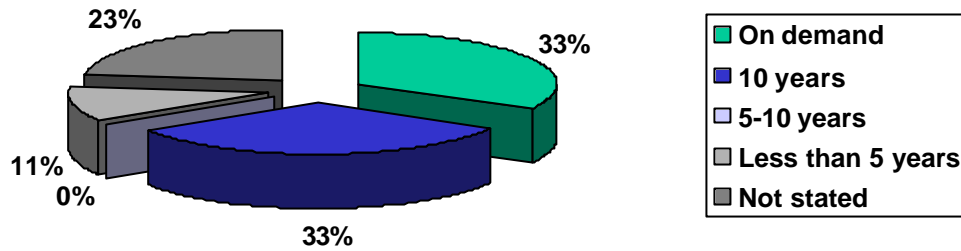
English Premiership repayment periods



English First Division repayment periods



Scottish Premier League repayment periods



This is clearly a strong message from the bankers about the risk profile of English First Division clubs.

10. Which repayment terms are you bound by?

The larger the club the more likely it is to have a repayment method spread evenly over the term of the funding. All the Premiership clubs that responded to the survey have repayment methods spread evenly over the term of the loan, yet only one third (33%) of English First Division clubs and just over half of Scottish Premier League clubs (56%) had even repayment terms.

Repayment method	All
Evenly, over the term of funding	61%
Predominantly at the end of the funding	26%
Not stated	13%

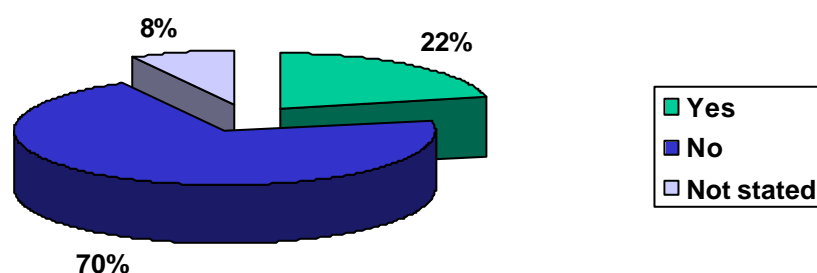
11. How are your loans secured?

Beneath the general results is a more worrying statistic: one third of the lending to English First Division clubs is unsecured. This is surprising as unsecured loans are usually payable on demand and the banks are usually unwilling to lend on this basis. However, this must be linked into what other guarantees clubs have got.

Security on loan	All responses	English Premiership	English First Division	Scottish Premier League
Secured over assets	57%	57%	67%	56%
Unsecured	17%	0%	33%	22%
Secured over assets and future income stream	13%	29%	0%	11%
Secured over future income stream only	4%	14%	0%	0%
Not stated	9%	0%	0%	11%

12. Has a director guaranteed the funding?

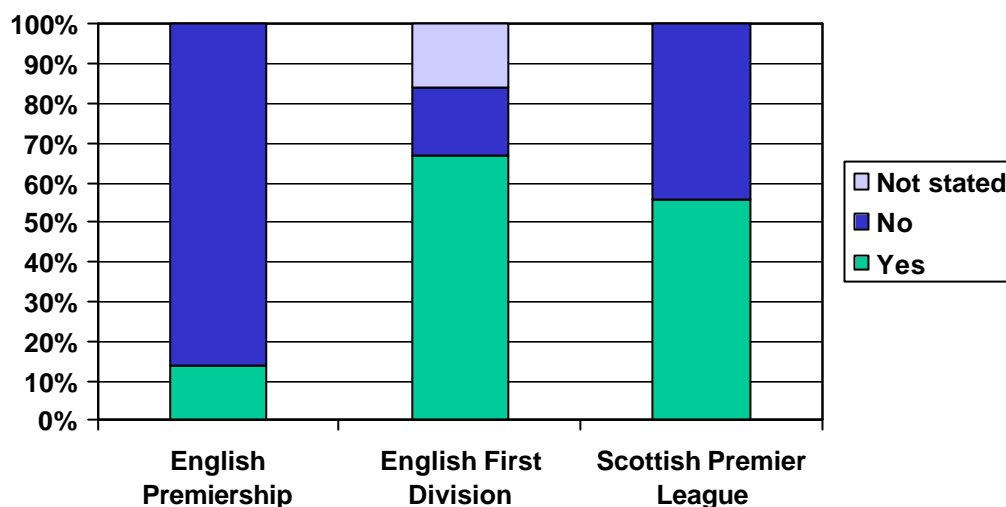
Nearly one quarter of the clubs has funding which has been guaranteed by a director – this being most evident amongst English First Division clubs. Given the high level of borrowing within the sector versus corporate security, the fact that clubs are relying too much on personal guarantees is a cause for concern for the future security of many football clubs.



Sources of finance for the future

13. Do you think the major clubs should 'ground share' – thus freeing up income from ground sales, as with Inter/AC Milan?

This question goes right to the centre of the emotional versus rational view of a sport as a business. The location and grounds for a football club are often a highly charged and emotive issue and linked to the club's brand. Yet they are also expensive assets to maintain.



While two thirds of the clubs with turnovers below £10 million agree that ground sharing is a good idea, three quarters of clubs with annual turnovers in excess of £10 million disagree about the benefits of ground sharing.

Underlying this is a polarisation of views between the finance directors of English Premiership clubs and those of the English First Division/Scottish clubs. 86% of English Premiership clubs would prefer not share their grounds, while 67% of English First Division clubs would like to use this route to free up income.

Clearly many of these decisions are driven by questions of geography and club location. It also raises more general questions about the ability to develop stadium design. Some clubs such as West Ham and Chelsea, have chosen to explore more innovative ways in which they can draw alternative sources of income from their stadium facilities.

14. There has been much talk of football clubs diversifying their income streams. Please score the following sources of revenue from 1 to 6 (where 6 is high), and their potential contribution to financial performance of the club over the next five years.

The main conclusion we can draw from this analysis is the vital importance attached to the revenue from TV and radio deals when planning the financial future of Premiership clubs.

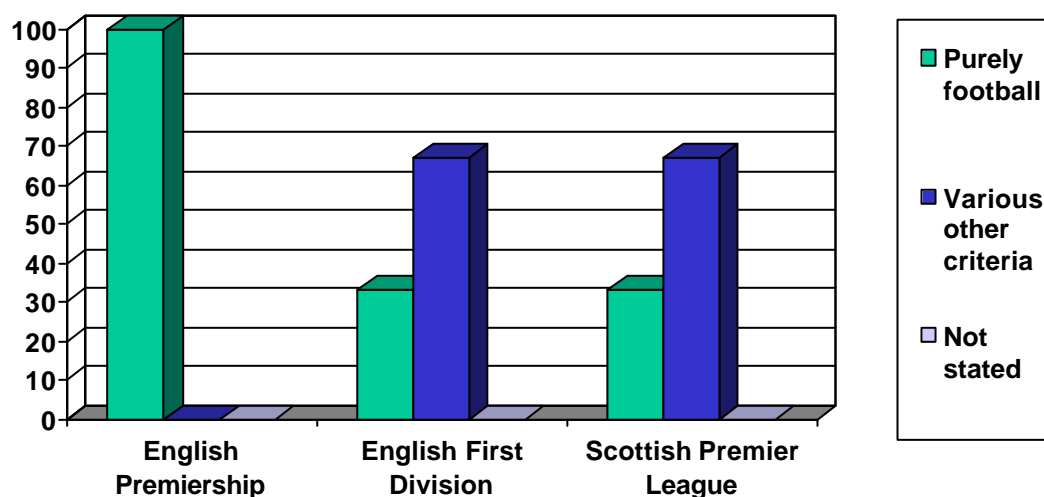
Source	English Premiership	English First Division	Scottish Premier League
TV & radio deals	6.0	4.8	4.8
Ticket sales (inc. corporate boxes)	5.3	4.8	5.6
Sponsorship	4.4	3.8	4.4
Merchandising (retail & royalties)	3.9	4.0	3.9
Internet/broadband	3.3	3.4	2.1
Conference & catering	3.1	4.2	3.9
Alternative stadium use - non-match days	2.7	3.2	3.2
Publications	2.6	2.7	2.1

15. Do you think players' salaries should reflect performance to a greater extent?

The unanimous 100% 'Yes' response to this question gives a clear signal to all the parties involved in negotiating players' salaries for the future.

16. Should performance then be linked purely to first team football results or should match attendance and TV revenue also be performance criteria?

It is fairly clear that the larger clubs, and particularly those in Premier League, would prefer to define 'performance' by results on the pitch - rather than alternative or additional criteria. By contrast, the finance directors of Scottish Premier League clubs would prefer to see a variety of criteria used to measure performance.



The Premiership seems to stand united in this one – but alone within the football industry.

17. What percentage of total remuneration do you think should be performance based?

There were no really contentious or disparate views on this particular issue and opinion was divided.

What % of total remuneration should be performance based?	All responses
21-30%	4%
31-40%	26%
41-50%	39%
>50%	26%
Not stated	5%

Financial management of football clubs

18. In the current post-Enron climate, are you concerned about any of your club's accounting policies?

96% of respondents appear confident about their accounting policies – the remainder did not answer.

We are aware of the discussions currently being led by the football authorities to streamline and harmonise financial reporting within football but it's clear that the finance directors within the leading clubs in England and Scotland do not believe this to be an issue.

We should also bear in mind that, with a high proportion of English Premiership clubs also quoted on public stock exchanges, the regulatory environment for quoted companies is also one which will be coming under increasing scrutiny.

19. Do you believe that there should be automatic demotion for clubs that are financially weak as in some other European countries?

This question drew a resounding 'No' from the group of finance directors. Finance directors of Premiership league clubs were most strongly against it.

It is also clear that there is no single compelling reason, especially amongst the finance directors of the Premiership, why automatic demotion would not work.

Answer	All	English Premiership	English First Division	Scottish Premier League
Yes	17%	0%	33%	22%
No	70%	100%	50%	67%
Don't know	9%	0%	17%	0%
Not stated	4%	0%	0%	11%

20. Should football players lose their status as 'super creditors'?

Given the current debate in the press and media on issues such as this, the results from finance directors are hardly surprising. The clear message from these finance directors is that players wield too much power under the current regulatory environment.

Should football players lose their status as 'super creditors'?	All responses
Yes	52%
No	13%
Not stated	35%

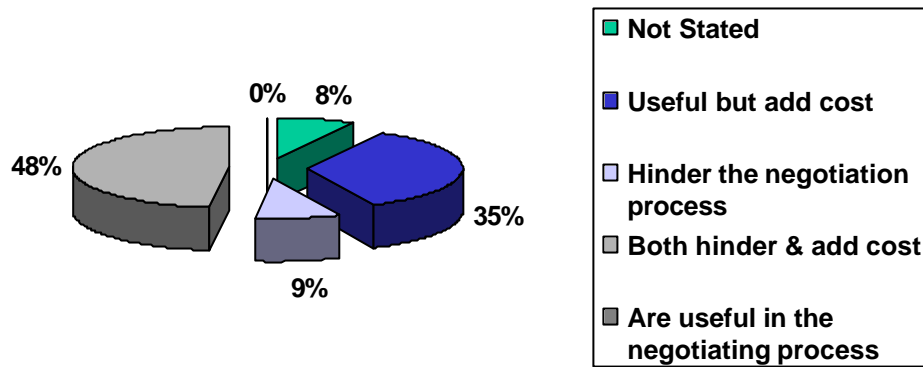
21. Should football clubs lose their status as 'super creditors'?

Given that we were surveying finance directors, the response to this question was somewhat more muted than the equivalent about football players. The finance directors clearly have the interests of their own clubs at heart. Despite this, two thirds of English First Division finance directors were still in favour of football clubs forgoing super creditor status.

Should football clubs lose their status as 'super creditors'?	English Premiership	English First Division
Yes	29%	67%
No	29%	33%
Not stated	42%	0%

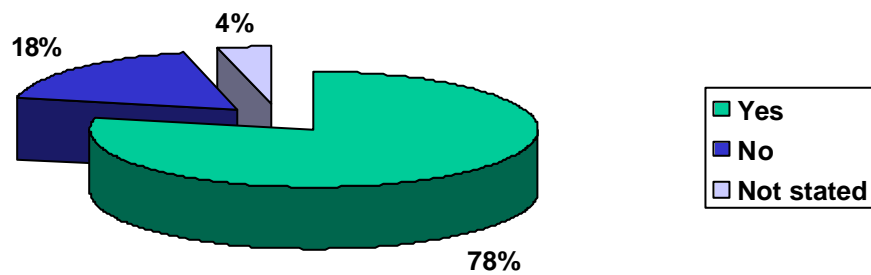
22. Of the following statements which do you think is closest to your view of players' agents?

The consensus seems to indicate that players' agents are 'a necessary evil'.



23. Are players' agents becoming too powerful/influential?

Although recognising the role that players' agents play, finance directors do seem to be strongly questioning their influence on the relationship between players and their clubs.



24. Do you think international associations should pay a fee to the club for using a club player in an international game?

Since part of the role of the finance director of a football club is to maximise the revenue to the club, and since they are financially driven men and women, the results of this question are hardly surprising.

But it does once again raise the issue of the competing demands for player skills between clubs and the countries that they represent in international competitions.

Do you think international associations should pay a fee to the club for using a club player in an international game?	All responses
Yes	83%
No	17%

25. Do you believe you are spending the right balance of income in producing home grown talent rather than player transfer acquisitions?

Following some of the recent excesses, there is evidence that the directors of football clubs now strongly believe they are achieving a better balance between the needs to produce home grown talent versus buying it.

The setting up of more player academies and involvement in local communities seems to show that the leagues are now taking a long-term view towards building viable teams for the future.

Do you believe you are spending the right balance of income on producing home grown talent rather than player transfer acquisitions?	All responses
Yes	83%
No	17%

26. What are your two biggest concerns for the sector over the next 12 months?

Whilst there are no surprises to the responses in this section, there is no denying the different financial concerns which preoccupy finance directors in the Premiership and First Division clubs in England and Scotland. While the escalation of player salaries is a primary concern to English Premiership clubs, the demise of ITV Digital and the emergence of the BSkyB deal has understandably preoccupied the finance directors of English First Division clubs.

A key concern for First Division clubs is also the possible introduction of transfer windows which, as we shall see later, may inhibit financial flexibility for the clubs.

	English Premiership	English First Division	Scottish Premier League
Escalating players' salaries	86%	33%	33%
Loss of income due to relegation	43%	33%	33%
Potential fall in TV income	29%	67%	33%
Ability to raise new capital	29%	0%	33%
Introduction of transfer windows	14%	50%	22%
Ability to attract sponsorship	0%	0%	22%
Performance of the stock market	0%	0%	11%

27. Do you think that there should be a 'British league' with the top English and Scottish clubs participating?

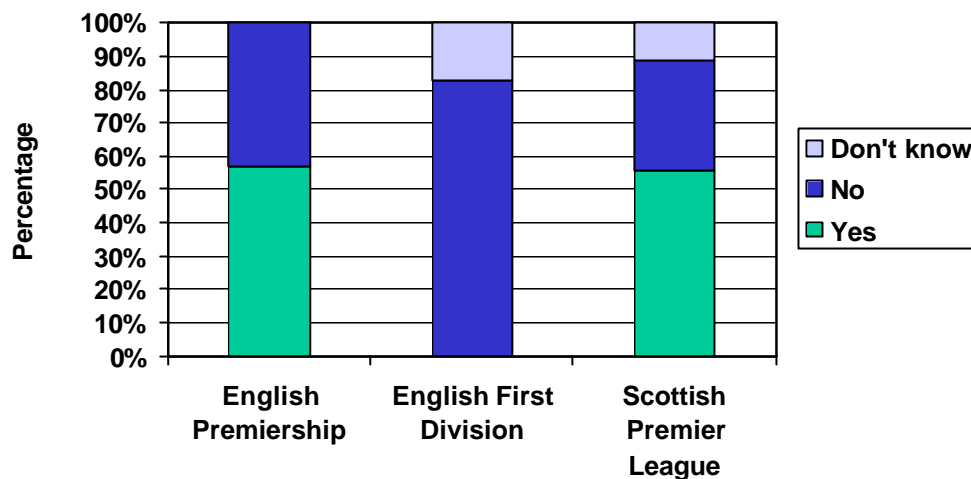
British League?	All responses
Yes	30%
No	61%
Don't know	9%

28. Are you in favour of UEFA's proposals on transfer windows?

As we saw from the responses to question 26, First Division clubs are opposed to the introduction of anything that inhibits the potential for financial flexibility. The English First Division clubs response is in contrast to the response from both the Scottish and English Premiership clubs.

Presumably this is again because of the potential for transfer windows both to inhibit transfers and financial flexibility.

We believe that the key underlying fear with the proposals on transfer windows is that, besides reducing flexibility, they will be hard to manage or won't deliver value for the clubs. There is a strong case to be made for the fact that transfer windows will result in short periods of time when there is a comparative glut of players on the market. This will serve to reduce prices of players and thereby the revenue for their selling clubs.



29. Do you support the club that employs you?

The responses to this and the following question demonstrate that the finance directors of these clubs can maintain an equitable balance between supporting the club for which they work, yet maintaining a dispassionate standpoint when making financial decisions.

Do you support the club that employs you?	All responses
Yes	78%
No	22%

30. If you support the club that employs you, can you easily ignore this fact when making financial decisions? (see above)

Can you easily ignore this fact when making financial decisions?	All responses
Yes	94%
No	6%

31. Should the British Government provide financial support for a national bid to host a World Cup and/or European Championships?

Given the current stance of the British Government on this issue, and the recent protracted debate about the siting of various stadia in the United Kingdom, this question does not look ready for a resolution.

Should the Government provide financial support for a national bid to host the World Cup and/or European Championships?	All responses
Yes	96%
No	4%

Services to football clubs

PKF has considerable experience of advising football clubs within the United Kingdom.

We have three regional centres of footballing advisory expertise, centred in London, the North West and Scotland. Our team of advisors provides the following services and advice to the football sector:

- Assurance and advisory work
- Tax compliance and tax planning
- Indirect tax advice
- Personal financial planning
- Leisure and hospitality consulting

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