New report finds serious concerns around financial sustainability in football

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An independent study by the Universities of Liverpool and Portsmouth, published this week alongside the Government's response to the Fan Led Review of Football Governance, has found serious concerns around the financial sustainability and fragility in football finances.

The report, commissioned by the Department for Digital, Culture, Media and Sport (DCMS), highlights the widespread culture of clubs operating unsustainable financial practices and placing the pursuit of success over sound monetary management. This includes an overreliance on owner funding, which can leave clubs dangerously exposed if owners are unable or unwilling to continue financing clubs via cash injections in the form of loans or shares, such as the recent sudden departure of Roman Abramovich at Chelsea FC.

Premier League and Championship clubs are now regularly exceeding UEFA's guidance on spending no more than 70% of club revenue on wages, leading to vulnerable financial scenarios and balance sheets across the industry that would be unacceptable in any other field.

The report, "Assessing the financial sustainability of football," by Christina Philippou from the University of Portsmouth and Kieran Maguire from the University of Liverpool, looked at a range of metrics to evaluate the financial health of clubs: profit (or, more commonly, loss), cash flow, debt, and dependence on ownership.

Using industry-based limits from pre-pandemic club figures (2018–19), the research found that in the Premier League, only three clubs were not deemed at risk under any of the applied risk metrics (Arsenal, Manchester City, and Newcastle), while over half were deemed at risk under at least two metrics.

In the Championship, there was only one club that was not deemed at risk under any of the three applied risk metrics (West Brom, in receipt of parachute payments that year) and 20 were deemed at risk on at least two risk metrics. In Leagues One and Two, where only balance sheet metrics were applied due to available data, 14 and 10 clubs respectively were deemed at risk under both metrics.

Christina Philippou, Principal Lecturer in Accounting and Financial Management at the University of Portsmouth, said: "There is a widespread issue of clubs being run in unsustainable ways from a viewpoint of traditional financial analysis. This is not purely as a result of the pandemic as the unsustainability issue was in evidence for years prior to the 2019/20 season.

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

Since the inception of the Premier League, there have been 59 EPL/EFL football club insolvency events, across 46 different clubs—40% of all clubs in the top four leagues have gone into administration since the start of the 1992/93 season, including eight of the original 22 Premier League members (36%).

The report showed there are systemic financial weaknesses in the football industry, and there is a risk that more clubs will follow Bury and Macclesfield Town and go out of business. These include:

- The interdependency of clubs in terms of outstanding transfer fees owed.
- The distribution of monies within the industry, both within divisions and between divisions, creates 'cliff edges' that encourage overspending to achieve success through achieving on field activities. These financial differences cause problems due to legacy contractual obligations when a club is relegated or fails to qualify for major European competitions.

Kieran Maguire, Senior Teacher in Accountancy at the University of

Liverpool's Management School, said: "The impacts in the event a club does go into administration can be split across many different stakeholders, the majority of which lose out financially as a result of administration. The financial effects of administration and liquidation, including non-payment and cash flow issues arising from late payment, are then felt by the fans, local businesses and the employees at the club, causing widespread issues within the community.

"The present revenue distribution model and the significant gaps both within and between divisions encourages club owners to gamble by overspending to achieve promotion, and then to gamble again to avoid relegation."

More information: Assessing the Financial Sustainability of Football: assets.publishing.service.gov. … _web_accessible_.pdf

Provided by University of Liverpool

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