

Despite widespread belt tightening across the economy, football clubs are still operating in a league of their own.

The relentless pursuit of glory and pressures from ever-demanding supporters to compete with the best both domestically and in Europe are causing desperate chairmen and directors to take their eye off the business ball.

According to the accountant Deloitte, the collective debt of the Football League's 92 clubs now stands at some £3.5 billion. For the Premier League alone the proportion of income that

clubs spend on wages has hit a record high of 68%.

Fears of a double-dip recession were emphatically pushed aside by the league this year when transfer window spending on players went through the roof – a record outlay of £710m, eclipsing the 2008 peak of £675m.

In spite of the drive by football's European governing body UEFA to impose the Financial Fair Play directive, designed to crack down on debt-laden clubs, only Arsenal, out of all the Premier League's high-profile clubs, would currently satisfy the ruling.

Scepticism surrounds UEFA's power to ensure debt-laden clubs will make strides over the

coming three seasons to try and break even. But the disparity between the haves and have-nots of football is more of a grim reality now than ever before.

Figures recently leaked from the Professional Footballers' Association show top-flight earnings have grown 200% over the past decade.

The average weekly wage in the Premier League is now £22,353, compared with £4,059 in the Championship League and £747 in League Two.

Foreign-owned giants Chelsea, Liverpool, Manchester United and Manchester City have all been able to increase their wage bills. And the

comparatively-frugal Arsenal – whose major shareholder Stan Kroenke is American – also managed to spend more on salaries.

Yet clubs dining at the top table of English football can defend their huge outlays on these mammoth salaries and transfer fees by pointing to the Premier League's booming coffers. Indeed, the league's revenue has risen to almost £2.2 billion – some £700m ahead of the next best European league, Germany's Bundesliga.

Broadcasting revenue for the latest television deal has also grown over the past year by 7% to make England's top division the first league

DID YOU KNOW?
Premier League wages are now 30 times bigger than League Two salaries. In 1992, they were just 3.7 times greater

to break the £1 billion benchmark.

It is the enviable prospect of these riches that often persuades smaller clubs to overstretch themselves and risk their financial security.

In recent years the list of football clubs falling into administration has been steadily growing, with Crystal Palace, Portsmouth and, most recently and controversially, Plymouth Argyle, all notable additions.

As Nigel Cordell, corporate recovery consultant of Wilson Field, explains: "I think the situation is only going to get worse with people chasing the dream of getting into the Premier League.

"Football clubs have always lived on that fine line of pretty much spending everything that comes in and it's getting finer and finer as people gamble more.

"And if that gamble doesn't pay off in terms of getting promotion, teams have already committed to that expenditure.

"If it works, it is fine, but we are talking about sport and nothing is certain. You can't always just throw money at it."

Broadcasting benefits

With the huge influx of TV money into the game, the growth of prestigious tournaments such as the Champions League, and increasingly

lucrative overall rewards for being successful, the temptation to really push the boat out is compelling.

Certainly, south London-based Crystal Palace know more than most about the dangers of overstretching.

The Championship side has gone into administration twice in little over a decade and has endured the pain of selling its prized assets – the star players – in a bid to stay afloat.

"Having experienced the process twice, I can say it certainly is not easy," says the Eagles' chief executive Phil Alexander. "It's like living in a goldfish bowl.

"You have to balance a

number of things. Fans are very emotional while the administrators are desperately trying to keep the club going.

"They are trying to look after the interest of the creditors and fulfil all the obligations of the Football League."

Since coming out of administration last year, Palace's much-vaunted youth academy has produced a new batch of promising young players – which Alexander hopes will safeguard the club's future.

"Our academy has always been very successful in developing quality players," he says. "If they're good enough they will play. We have a great crop at the moment which >>



Back of the debt?

Recent insolvencies show football clubs are continuing to gamble their financial stability with expensive players. [Andy Pearce](#) asks if the sport will ever see a level playing field



PAUL REEVES
BUSINESS DEVELOPMENT DIRECTOR,
LEONARD CURTIS

The fans think we sit in our ivory tower and don't understand football, but we do. We were getting email threats from fans angry about how long it was going on for. They were protesting and, one day, they marched out to our office and were baying for our blood

>> stops you having to spend huge amounts on transfers and wages. There is nothing better for the fans to see than their own players doing well and it also bonds the players to the club."

And Alexander is hopeful UEFA's new financial fair play system – which Football League clubs voted to adopt this summer – will ensure that clubs operate more within their means.

The new rules are "definitely a step in the right direction to make sure clubs become a bit more frugal" he says. "But saying that, there are always those clubs with wealthy owners who will want to make the quick push back to the Premier League.

"Spending money doesn't guarantee success – it is a gamble people have to weigh up."

This lure of glory can still turn

BRENDAN GUILFOYLE
PARTNER,
P&A PARTNERSHIP

We have taken a big hit and written off half of our costs. It's getting a lot harder dealing with football clubs and persuading people to buy loss-making businesses. Sometimes you just have to lick your wounds – I won't get any sympathy and I won't expect it.

club chairmen and directors – once renowned as savvy and thriving businessmen – into irrational decision-makers with minimal financial sense.

Turning a blind eye

According to statistics published in business adviser PKF's recent report *A Decade in Football Finance*, basic business principles are being ignored.

Of all Football League teams, including the Scottish Premier League, only 34% of respondents expected to make a profit post player trading. A third did not even expect to make one.

Charles Barnett, head of PKF's Football Industry Group, which compiled the report, explains: "There's a saying in football – how do you make a small fortune in the game? Well, start with a big one and buy a football club.

CHARLES BARNETT
HEAD OF THE FOOTBALL INDUSTRY GROUP,
PKF

There's a saying in football – how do you make a small fortune in the game? Well, start with a big one and buy a football club. How many people have sold out and made fortunes? I can only think of one or two. Most are very good businessmen but, they walk through the club's front door and put their business brains to one side

"How many people have sold out and made fortunes? I can only think of one or two. Most are very good businessmen but they walk through the club's front door and put their business brains to one side.

"Clubs would often be better consolidating their position and accepting that they just cannot compete with the Manchester Cities of this world, but the chairmen get carried away."

What's more, Barnett believes that the biggest potential danger faced by football clubs is the falling number whose debt funding has been guaranteed by a director or shareholder.

Only 44% of clubs – a fall from 51% last year – have had their funding assured. For the Premier League in particular, the amount of clubs with director guarantees fell from 50% in 2010 to just 22% in 2011.

PHIL ALEXANDER
CHIEF EXECUTIVE,
CRYSTAL PALACE FC

Having experienced administration twice I can say it certainly is not easy. It's like living in a goldfish bowl. You have to balance a number of things. Fans are very emotional while the administrators are desperately trying to keep the club going.

Barnett describes the "prune juice effect" of football: "Although there is more money going into it than ever before, a lot of it drops out. The money should stay in the game but a lot of it is going straight back out again, for example, into the players' pockets. Clubs should be able to expect to return more profit."

The financial chances taken by the country's top clubs look increasingly hazardous.

In February 2010 Portsmouth FC became the first Premier League team ever to fall into administration, quashing the illusion that the country's top league was a safe haven for football clubs.

It came less than two years after Pompey's FA Cup triumph and impressive eighth-place finish in the top flight. But four years of overspending, financial mismanagement and a general disregard for the

DID YOU KNOW?

The entire turnover for the 2008/09 season of Rangers – who have won the Scottish league a record 54 times and boast an average match attendance of almost 50,000 – was less than what West Bromwich Albion – the bottom-placed Premier League club that season – earned from broadcast income alone

basic housekeeping rules of business led to the demise of the south coast club, in spite of the riches on offer at the Premier League.

An ignominious slump followed, with the inevitable nine-point deduction leading to the side's relegation.

Although the south coast side's fall from grace was emphatic, it could well pale into insignificance compared with the plight faced by a football giant north of the border.

In the spotlight

The vultures are now circling around Ibrox, the home of Rangers FC, who are staring down the barrel of an estimated £54m tax bill and a mooted 25-point deduction for going into administration.

The 54-time Scottish League Champions are being pursued by HM Revenue and Customs (HMRC) over two alleged tax avoidance ruses.

Some £49m is owed because of the alleged misuse of an Employee Benefit Trust from 2001 to 2010 which was reportedly used as a means of paying wages which were not subject to income tax or National Insurance.

And about £4.2m is owed through the alleged abuse of a Discounted Options Scheme between 1998 and 2003.

Rangers dispute both fines, but the financial figures for Scottish clubs show how high on impossible it has become for them to compete economically with their once fierce rivals in England.

Rangers' entire turnover for the 2008/09 season was less than what West Bromwich Albion – the bottom-placed Premier League club – would have earned from broadcast income alone.

As Barnett of PKF explains: "Scottish clubs clearly can no longer compete with the Premier League and the gulf is only going to get wider.

"There has been a total mismatch in revenues for the past six to eight years now. Clubs that get relegated from the Premier League are in line for parachute payments which rival the deal for the whole of

the Scottish Premier League."

Certainly, the dreaded arrival of administrators and the ensuing uncertainty surrounding the future of football clubs desperately struggling to preserve their future is a recipe for huge unrest among fans.

Insolvency law and its practices are complex at the best of times, but throw into the mix 30,000 fans all demanding an instant resolution and a quick-fire sale and the situation can rapidly descend into a tempestuous affair.

This is perfectly illustrated in the recent case of former Championship side Plymouth Argyle, who now find themselves languishing at the tail end of League Two.

Despite recently emerging from almost eight months of administration thanks to the long-awaited purchase by Akkeron Group, the process has been fraught with bickering, heated recriminations and even alleged threats.

Fans were left exasperated with P&A Partnership's rescue efforts, believing negotiations dragged on for too long after they witnessed the initial preferred bidder's proposal fall by the wayside.

Original frontrunner Bishop International, a Gibraltar-based consortium headed by Truro City chairman Kevin Heaney, failed to complete the takeover during the period of exclusivity it had.

Plymouth Argyle Fans' Trust chairman Chris Webb sums up fans' frustration: "The whole process has been devastating. We think the administrators have made several mistakes along the way and elongated the process, which has added to the pain.

"They have wracked up a huge amount of expense by backing the wrong horse. During the whole time we have not been able to sign any new players and we are bottom of the Football League after two successive relegations."

The process turned nasty, with joint administrator Brendan Guilfoyle claiming staff had received >>

HOW FOOTBALL SCORES

£3.5bn

The collective debt of the Football League's 92 clubs, 2009/10

£710m

Amount of money spent in 2011 transfer window in England

£6%

The proportion of income Premier League (PL) clubs spend on wages, 2009/10

£1bn

PL's broadcasting revenue (2009/10)

£2bn

PL revenue 2009/10 season

£1.4bn

Bundesliga revenue (Germany) 2009/10

£1.3bn

La Liga (Spain) and Serie A (Italy) revenue 2009/10

£0.9bn

Ligue 1 revenue (France) 2009/10

£774m

Chelsea's wage bill (2009/10)

£1.26bn

Combined total revenues of Arsenal, Chelsea, Liverpool, Manchester City and Manchester Utd, 2011

£4%

Football League (FL) and Scottish Premier League (SPL) clubs expecting to make a profit, 2011

£22,353

Average Premier League weekly wage

£4%

FL and SPL clubs whose debt funding has been guaranteed by a director or shareholder, 2011

£4,059

Average Championship weekly wage

£2%

PL clubs whose debt funding has been guaranteed by a director or shareholder, 2011

£747

Average League Two weekly wage

>> intimidating emails and warned they could be forced to resign from the negotiations.

Following the completion of the administration process, Guilfoyle told *Insolvency News* that he had emerged "battered and bruised" from the protracted saga.

He admitted P&A Partnership would re-evaluate how it deals with football club rescue bids in the future following the fractious affair. "We have taken a big hit and have written off half of our costs. Sometimes you just have to lick your wounds – I won't get any sympathy and I won't expect it. I think as a general rule it's getting a lot harder dealing with football clubs.

"It's becoming more difficult to persuade people to buy loss-making businesses, especially when they come with outstanding wages of about three or four million pounds.

"It doesn't bode well for other clubs that are in threatened situations."

Not an isolated case

The challenges faced by Guilfoyle during the eight-month administration resonate strongly with Paul Reeves, the business development director at Leonard

Curtis, whose team dealt with the administration of Stockport County two years ago.

Reeves, who describes the season-long administration process as a "pressure cooker situation", says: "The fans think we sit in our ivory tower and don't understand football, but we do. "Our main priority was always to sell the club as quickly as possible but we weren't dealing with the sale of Manchester United.

"The fans thought the delay was our fault but we also had to negotiate with the Football League and, at the end of the day, if they don't want that person or business to take over it won't happen – their 'fit and proper' test really slowed the process down.

"The more we tried to rush them, the more it appeared there were obstacles in the way. At one point we were getting email threats from fans angry about how long it was going on for.

"They were protesting and, one day, they marched out to our office and were baying for our blood. Fans like to dream there is a rich benefactor out there waiting for their team, but when you're talking about a small

club that's not the case."

Reeves also pours cold water on fans' belief that insolvency practitioners deliberately draw out the process in order to benefit from greater fees in the long term.

He insists that Leonard Curtis is yet to take "a single penny" from running the club and the company would be "lucky" if it were to be paid for 20% of its time.

The downfall of football clubs can be an unavoidably messy affair – and among the debris of beleaguered fans and embattled insolvency practitioners, lies the taxman himself. For years now the Football League and Premier League have stoked the anger of HMRC thanks to the Football Creditors' Rule. Essentially, the ruling means that creditors from the football world – players, staff and agents, for example – are automatically at the front of the queue for monies owed when clubs go into administration.

Therefore, creditors not involved in football – for example, HMRC – are often forced to accept a fraction of what they are owed at the end of the administration process.

Following years of taxman angst, HMRC's claim against

both Football and Premier Leagues will finally be tried at the High Court on November 28. If this rule is found to be unlawful, it could potentially have huge ramifications on the football league, with Wilson Field's Cordell convinced it could change the game for the better.

"Although clubs will argue the rule is there to protect them, I agree with the Revenue," he says.

"When it comes to selling a player, clubs don't have to act commercially because they know they will always get paid. They don't need to protect themselves so they can agree these huge fees without any need to back it up.

"In any other line of business you would never sell an asset for £20m without looking for some form of security, but clubs can get away with it.

"But if the Football Creditors Rule is changed it would force clubs to act more sensibly when it came to demanding transfer fees, thus driving down transfer fees, wages and agents' fees."

Yet as it stands at the moment there appears to be only one way to compete with the Sheikhs and Russian oligarchs – spend more money. □

