

Foreword

Welcome to the 21st edition of the Deloitte Annual Review of Football Finance, in which we analyse and comment on notable financial developments in the world's most popular sport. In this edition we review recent performance and analyse the current situation in some detail, while looking forward to future prospects.

Unknown pleasures

As the curtain falls on the 20th Premier League season in the most dramatic fashion it is worth considering how far the game has come. In 1991/92 the collective revenue of the 92 Football League clubs was £263m, with the average club in the old Football League Division One generating less than £8m. In 2011/12 the 92 Premier and Football League clubs' combined revenues were £2.9 billion, with average Premier League club revenues having risen to £114m, nearly 15 times their level 20 years previously.

This spectacular rate of growth reflects the game's ubiquitous domestic and global profile, the exposure and interest having relentlessly driven revenues. Clubs have transformed their stadia into state-of-the-art venues hosting the world's greatest players, and appealing to a new and growing fanbase, completing a virtuous circle of growth. There is little doubt that the league is a tremendous success in revenue terms.

This performance has continued through one of the most challenging economic environments in decades, with many supporters seeing a reduction in real incomes as the economy continues to struggle to regain the ground lost during the 2008/09 recession. Football, at the top end in particular, continues to resist these headwinds, as the fundamentals underpinning consumer demand remain strong. Average attendances at Premier League games were close to 35,000 in 2011/12, with capacity utilisation once again comfortably above 90%, while in the Football League total attendances remained above 16m for the eighth consecutive season. BSkyB domestic TV subscriptions now exceed 10m, and the recent Manchester City v Manchester United match attracted a record BSkyB live football audience of over 4m. The consumer appeal of football remains as strong as ever.

Fools gold

As we have chronicled over the last 20 years, this stellar revenue growth has been accompanied by a corresponding increase in costs, and player wages in particular. Control of player wages, in order to deliver robust and sustainable businesses, continues to be football's greatest commercial challenge. In recent years there has been an increasing trend for any additional revenue generated to disappear as additional costs, the widely quoted 'prune juice' effect.

In the five seasons to 2009/10, the surge in wage costs accounted for 87% of the increase in Premier League club revenue, up from 55% of the increase in revenue in the previous five seasons. 2010/11 marked the start of new Premier League broadcasting deals, which delivered substantial increases in international broadcasting values, and drove a 12% increase in member clubs' revenues. In an extension of recent trends, over 80% of this additional revenue flowed directly into increased wage costs.

As a result, the Premier League's key wages to revenue ratio, which had stood at around 60% for most of the 2000s, has risen sharply in recent seasons to exceed 70% for the first time. Despite the revenue boost, the rise in Premier League clubs' total operating costs exceeded revenue growth, and operating profits fell in the first year of a new broadcasting deal for the first time. Operating margins, which stood at 16% in the Premier League's opening season, have narrowed to a wafer thin 3%.

With broadcasting revenues likely to deliver limited growth in advance of the next Premier League deal commencing in 2013/14, the focus will be on the clubs themselves to grow revenue in areas directly under their control. Despite a range of potential developments being mooted, Blackpool's East Stand was the first significant stadium redevelopment at a Premier League ground since the Emirates Stadium opened in 2006, and with clubs naturally focusing on maintaining attendances, rather than maximising revenue, Premier League clubs' matchday revenues have now remained broadly constant for five seasons.

Commercially we have seen some clubs – notably Manchester City and Liverpool in recent months – able to deliver substantially improved deals, but the overall environment remains challenging. It is not unrealistic to foresee a levelling out of Premier League clubs’ revenue in the short term, and potentially even a decline for some clubs in our next couple of editions.

Football League clubs face more immediate challenges, with a significantly reduced broadcast deal from 2012/13 likely to result in a reduction in both Championship and overall league revenues for the first time since the ITV Digital collapse in 2002/03.

Stop me if you think you’ve heard this one before

The more austere economic environment increases pressure for clubs to control costs in response to revenue variations. Football has previously showed an ability to respond to this challenge. Football League clubs did reduce wage costs in 2003/04, but the transition was extremely painful for many clubs and was followed by a swift resumption of steady growth. Similarly, 2004/05 saw Premier League wages fall – albeit minimally – for the only time after Premier League broadcasting deal values fell as a result of limited market competition. Again, this one-off was shortly followed by a return to double digit wage inflation.

Regulation may help some clubs to adjust, with The Football League and the Championship clubs agreeing to implement financial fair play regulations. The new regulations seek to achieve a better balance between revenue and costs and reduce the burden of ongoing funding required from owners or other sources. They include significant penalties for failure to comply in respect of financial results from 2013/14 onwards. For many years the division has struggled financially, as the combination of clubs adjusting to the impact of relegation from the Premier League and others aspirationally attempting to achieve promotion, delivered six seasons of increasing losses. Although financial performance appears to have stabilised, it is at a level where operational expenditure stands 30% above revenues, delivering near-record losses – clearly an unsustainable position. We hope the introduction of the regulations is the catalyst for a long awaited improvement in financial balance.

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Despite the economic contrasts, the Championship remains keenly competitive, with limited correlation between financial outlay and on-pitch performance. Only four of the 15 Premier League clubs relegated in the last five seasons made an immediate return and clubs such as Burnley, Blackpool, Norwich and Swansea have all illustrated that having the largest player budget is not a prerequisite for success.

The Premier League has introduced a range of more interventionist measures in recent years that, together with the introduction of the financial fair play requirements for clubs competing in, or aspiring to compete in, UEFA competitions, should help take some inflationary pressure out of the top end of the player market. We have, however, recently seen a significant increase in ferocity of competition for the UEFA Champions League places among an increasing number of clubs, including a significant investment in playing squads.

Thus clubs are faced with a combination of the introduction of legislation designed to promote more balanced spending and economic headwinds limiting potential revenue growth. In previous years we have seen a trend of operating profitability steadily reducing over the course of broadcast deal durations. If this trend is repeated we could see Premier League operating profits fall to levels comparable with those seen in the league’s infancy, and a majority of Premier League clubs reporting operating losses rather than profits.

Over the years, clubs have sought to utilise various mechanisms including stock market listings, securitisation, bank loans and benefaction to help fund increased expenditure. Perhaps commercial reality, in the form of limited availability of such funding opportunities, may finally bring about a change in behaviour.

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Deloitte Annual Review of Football Finance

The sections of this year's Annual Review cover all the key areas to form an overview of football's financial situation. In addition to our analysis of trends up to the end of the 2010/11 season, where possible we include pointers to prospective future performance. **Europe's Premier Leagues** provides a detailed review of current trends in European football. We then focus on the English situation, with the **Revenue and profitability** and **Club financing** sections which form the core of our analysis of the domestic financial situation. **Wages and transfers** examines the primary area of expenditure for clubs while **Stadia development and operations** discusses a key area where English clubs continue to maintain a competitive advantage over their European neighbours. Sprinkled within the sections are a number of feature articles, where we discuss and comment on relevant topics and trends in the industry.

The **Appendices** continue to provide the most comprehensive collection of financial, statistical and reference data available anywhere. It is often said that football is more than a game. In **90 minutes and counting** we illustrate this using a snapshot of the wide ranging impact of English football, while in **The score** we outline some of the key milestones over the lifetime of our analyses.

The Annual Review addresses clubs' business and commercial performance in financial terms and strives to provide the most comprehensive picture possible of English professional football's finances. The basis of preparation, and some notes on the limitations of reliance on published financial information, are set out on the inside front cover. Guidelines for interpreting the Appendices are provided on the inside front cover of that document.



A review of this nature cannot provide detailed answers to your football business issues. If a commercial, business, financial, tax or accounting issue arises, we suggest you consult professional advisers. Details for some members of our specialist Sports Business Group are set out on the back cover. All of us are dedicated to full time work in the sports industry and would be delighted to help you.

More detail on our team, services and clients can be found at www.deloitte.co.uk/sportsbusinessgroup

We would like to thank all the clubs who sent us their accounts and, in England, The Football Association, the Premier League and The Football League for their assistance. Outside England thanks are due to the Liga Nazionale Professionisti ('Lega Calcio'), Deutsche Fußball Liga ('DFL'), Liga de Fútbol Profesional ('LFP'), Ligue de Football Professionnel ('LFP'), Koninklijke Nederlandse Voetbalbond ('KNVB'), Pro League (Belgium), Österreichischer Fußball-Bund ('ÖFB'), Svenska Fotbollförbundet (SvFF) and UEFA.

My colleagues, as always, also deserve a huge thank you – the co-authors, named on the inside cover, as well as Henry Wong for his phenomenal support. We all put in a great deal of hard work.

We hope you enjoy this edition.

Dan Jones
Partner, Sports Business Group