

BEAUTIFUL GAME...

Reeling from the shock as some of the oldest clubs in football teeter on the brink, **Santhie Goundar** investigates the financial fallout

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Football will eat itself. Maybe. With the shock administrations of big-name football clubs such as Rangers, Portsmouth, and more recently Port Vale – not to mention smaller clubs such as Darlington, Rushden & Diamonds and Plymouth Argyle – one can be forgiven for wondering if, after more than a decade of the high-income, huge-losses rollercoaster that has sustained the game, the bubble has finally burst. This is, however, a sentiment that has been expressed before, when clubs like Crystal Palace, Leeds and Southampton went into administration.

Joe McLean, partner in Grant Thornton's sports group, says that with the notable exception of Portsmouth FC in 2010, it's the lower league clubs that tend to struggle so

much with their finances that they go into administration. They suffer the penalty of having at least 10 points deducted and it is the relegated Premiership teams that are particularly vulnerable. Not

surprisingly, he suggests a large part of their problems stem from having tasted Premier League football in the first place.

'Top football clubs receive so much money from digital broadcasters and the like, you get a situation where clubs are desperate to be one of the "Big Four" clubs, with a top-four spot in the Premier League,' McLean explains.

'Football clubs spend vast sums of money to achieve this Holy Grail. Meanwhile, some of the smaller clubs are aiming to just stay in the Premiership, and the payoff for this reward is significant – the Premier League pays around £40m to the team finishing at the bottom (20th) of the table. That team gets relegated to the Championship, but it's still guaranteed around £48m in "parachute payments" from the Premier League over four years.'

PARACHUTE PAYMENTS

This supposedly helps relegated teams have a 'softer landing', compensating for the loss of a huge chunk of income from TV rights. The parachute payments are meant to help those football clubs re-adjust their finances to the Championship, especially if they do not manage to return to the Premiership.

'For a lot of clubs that become insolvent when they're in the Championship and below, their problems are rooted in the fact that they were once in the Premiership,' McLean continued.

'Clubs finishing in the middle of the Premier League may receive about £48m – it's understandable that a Championship team

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ALLAN MCGREGOR
£5.3m

...UGLY FINANCES



Championship clubs tend to carry a lot of debt on their balance sheets, and then take on even more debt by buying new players to help them win promotion

Joe McLean, partner, sports group, Grant Thornton

will want to get back up into the top flight. The problem is those clubs tend to be carrying a lot of debt on their balance sheets, and then take on even more debt by buying new players to help them win promotion back to the Premier League. They use any money they receive to invest in new players rather than paying down their debts. Players' wage costs are often more than 100% of turnover.

'Football club chairmen and managers feel under intense pressure, particularly from fans and the media, to spend money to improve the club's performance. If they don't have that money themselves, they often look to the bank to fund this spending, but the risk is that the bank can simply refuse to lend any more.'

Very few British football clubs are actually profitable, and Arsenal is one of them. The old ground at Highbury has been successfully and lucratively developed into a housing complex, and the club tightly controls player costs. Andrey Arshavin is Arsenal's most expensive signing to date, at just £16.5m, and top player Robin van Persie is receiving a £110,000 weekly wage – a modest amount for a top-flight club.

Arsenal manager Arsène Wenger is keen to maintain his strict wage structure, which has resulted in the club losing top players (albeit often at a handsome profit) because wages are often far lower than other clubs. If Arsenal's fiscal prudence knocks the club off its position as one of the Big Four, then, while they have a healthy balance sheet, going for so long without winning trophies may well lead to a dearth of talented players and threaten the club's standing.

POMPEY AND CIRCUMSTANCE

Premier League teams tend to owe most of their money to banks and not so much to the taxman, but it is not unusual for clubs in the Championship and below to fall into difficulties over amounts owed to HMRC.

Indeed Portsmouth FC, now in the Championship, finds itself with another HMRC winding-up order – this time because it missed two PAYE payments of £800,000. PKF insolvency practitioner Trevor Birch was appointed one of the administrators of the club in February, and explained: 'This time, the administration has been primarily because Portsmouth's former owner, Vladimir Antonov, has been prosecuted by the Lithuanian government. This has led to his company, Convers Sports Initiatives, going into administration. As it is Portsmouth's » 20

CURRENT LEAGUE SPL

STATUS In administration; currently being taken to court by HMRC for unpaid NICs on contractual payments to players made through EBTs to avoid tax

CURRENT DEBTS £69.4m (borrowings £nil)

TAX OWED Should Rangers lose the HMRC tax case, reported estimates range from £30m to as high as £50m

REVENUE £56.2m (gate receipts and hospitality £27.1m)

PRE-TAX PROFIT £0.8m

MOST EXPENSIVE PLAYER Striker Kyle Lafferty was purchased in the 2008-09 season from Burnley FC for £4m, although the club's all-time record purchase was Norwegian striker Tore Andre Flo from Chelsea in 2000 for £12m. Current goalkeeper Allan McGregor is estimated to be worth £5.3m



CHELSEA

CURRENT LEAGUE Premier League

STATUS Not in administration; reported a reduced annual loss in the 2010/11 accounts. Recently settled a £6.4m tax bill with HMRC over players' image rights

CURRENT DEBTS £186.6m (exclusive of £94.3m intra-group debts; no bank borrowings)

TAX OWED £12.8m

REVENUE £222.3m (football activities £201.3m; merchandising £11.9m)

PRE-TAX LOSS £67.7m

MOST EXPENSIVE PLAYER Striker Fernando Torres was bought from Liverpool FC for a whopping £51.5m in January 2011, breaking the club transfer record. Despite being out of form since the move to Stamford Bridge, the Spanish forward is still considered Chelsea's priciest player with an estimated worth of £31m


MANCHESTER CITY
CURRENT LEAGUE Premier League**STATUS** Not in administration, but recently reported the biggest annual loss in English footballing history**CURRENT DEBTS** £216.3m (borrowings £73.2m)**TAX OWED** £16.1m**REVENUE** £153.2m (gate receipts £19.7m; broadcasting £68.8m)**PRE-TAX LOSS** £197.5m**MOST EXPENSIVE PLAYER**

Argentinian striker Sergio Agüero is City's most expensive purchase at £39.5m. The 23-year-old came to Man City from Spanish team Atlético de Madrid in July 2011, and is estimated to be worth £41.5m


RANGERS

PORTSMOUTH
CURRENT LEAGUE Championship**STATUS** Has now entered administration for the second time in as many years after becoming the first Premiership club to go into administration, in 2010. After missing two £800,000 PAYE payments, HMRC issued a winding-up order against the club in February**CURRENT DEBTS** at least £40m**TAX OWED** £1.6m**REVENUE** £70.4m to 31 May 2008 (matchday revenues £12m, Premier League income £49.2m)**PRE-TAX LOSS** £16.9m to 31 May 2008**MOST EXPENSIVE PLAYER**

In the 2008-09 season, Portsmouth purchased striker Peter Crouch from Liverpool FC for a club record of £11m, only to sell him the following season to Tottenham for £9.2m as the club went into administration for the first time. The most expensive signing still playing for the club is Hayden Mullins, purchased in the 2008-09 season for £2m. Currently, defender Tal Ben-Haim is the club's most valuable player at £1.5m


ARSENAL
CURRENT LEAGUE Premier League**STATUS** One of the few profitable Premiership clubs, but has a very high level of debt**CURRENT DEBTS** £407m (borrowings £260.5m)**TAX OWED** £21.5m**REVENUE** £255.7m (gate receipts £93.1m; broadcasting £85.2m; property development £30.2m)**PRE-TAX PROFIT** £14.8m

MOST EXPENSIVE PLAYER Famously conservative Arsenal has never signed a player for more than £16.5m and that record goes to midfielder Andrey Arshavin, purchased from Russian club Zenit St Petersburg in 2009. Adept at nurturing young talent and later selling at a significant profit. Dutch star striker Robin van Persie (purchased at the age of 21 for £2.8m in 2004) is now worth an estimated £39.5m

FOOTBALL RESULTS

These figures are based on the 2010/11 financial statements for each club (with the exception of Portsmouth FC, where the last filed accounts were for 2007/08). Debt figures include all known outstanding creditor amounts in the financial statements. Estimated current player market values provided by www.transfermarkt.co.uk.

parent company, the funding to the club dried up, so it went back into administration.

'Portsmouth has now managed to secure funding from the Football League that will enable them to finish the season. The club has around £40m of debt and only about £2m is tax debt.'

Portsmouth is not the only high-profile club going into administration over debts to HMRC: Rangers FC in the Scottish Premier League appointed administrators in the same month. HMRC has taken Rangers to court over a reported £49m of unpaid tax on monies paid by the club to players through Employee Benefit Trusts (EBTs), which in the light of HMRC's clampdown on disguised remuneration was to be expected.

MHA MacIntyre Hudson tax director Alastair Kendrick explained that Rangers paid a portion of their payments outside of payroll and through an EBT. 'The idea was to try to save National Insurance (NICs) on monies paid to footballers by paying a portion of wages into an overseas EBT,' he said. 'However, because these were clearly contractual payments, they should all have been subject to PAYE and NICs. An EBT can be used for payment of a discretionary bonus to avoid tax – it goes without saying that it shouldn't be used for a contractual payment.'

'With auditors needing to consider materiality – and the nature of the EBT meant it would have been material – I would have expected Rangers' auditors to have considered and reviewed the EBT arrangement during the audit process.'

In the case of Rangers FC, the auditors were Grant Thornton, but they are unable to comment on the audit criteria as the club is in administration.

The EBT decision is still to be made by the Tribunal at the time of writing, but Kendrick believes Rangers has been advised that it has lost the case. The tax bill, plus interest and penalties, reportedly could end up being anything between £30m and £50m. Already the club has had to re-negotiate player contracts to slash wage costs and make redundancies, and there is talk that the club could sell as many as 11 players. Coupled with news of disgraced owner Craig Whyte failing to make £9m of PAYE and VAT payments since he took control of Rangers, it is possible the club could even go bust if they do not find a buyer to take over from Whyte.

RISING FROM THE ASHES

Gerald Krasner, former Leeds United chairman and currently insolvency partner with Begbies Traynor, has recently been appointed one of the administrators of Port Vale FC, for which the main creditor was not HMRC, but a £1.9m loan from Stoke Council for the club to build a new stadium.

'The first thing we need to do is stabilise the club's finances so they can finish the season, the second is to find a buyer, the third is to make an exit via a Company Voluntary Arrangement (CVA) so that there's no further points deduction for the club,' he said. 'As an administrator, you need to very quickly determine the level of debt, the

CURRENT VALUE



SERGIO AGÜERO
£41.5m



TAL BEN-HAIM
£1.5m



ROBIN VAN PERSIE
£39.5m



FERNANDO TORRES
£31m

wage costs, the cashflow – the entire financial position of the club. It's early days but by going into administration we can keep Port Vale going until the end of the season, and we're hopeful that the club will be rescued.'

UEFA's Fair Play rules, intended for 2012 but deferred to 2015 for full implementation, will give clubs a three-year period in which to tackle their fiscal issues. Clubs will have to operate on a break-even basis, and will be excluded from European competition for non-compliance.

Applying to clubs with income and expenditure of over €5m (£4.2m), the regulations state the maximum deficit these clubs will be allowed to incur will be €5m for the aggregate of the three financial years from 31 March 2013 to 31 March 2015 inclusive. The aggregate can be exceeded in the early years if the excess is made good by equity injections. The allowable deficits will be €45m for the combined seasons 2013-14 and 2014-15, and where a club shows aggregate losses in any financial year from 31 March 2013 to 31 March 2015, it can use profits from the two years prior to reduce this aggregate loss.

It's a step in the right direction – it's clear the current business model needs to change. As UEFA general secretary Gianni Infantino said, 'What kind of healthy business is it that waits for a white knight on a horse with lots of money to throw around when one day he could jump on his horse and ride away?'

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MHA MacIntyre Hudson tax director Alastair Kendrick