

THE FINANCIAL CRISIS IN SCOTTISH FOOTBALL

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Individual clubs in Scotland have experienced financial crises on several occasions in the past. But to many observers what we are witnessing at present is a systemic crisis in Scottish football: a common set of problems afflicting all clubs with negative financial implications for all, the crisis in one club or group of clubs threatening to damage the financial stability of other clubs (Rimini Group 2004). As of March 2004 a quarter of Scottish Premier League (SPL) clubs are in administration. The playing staff at another SPL club were obliged to accept substantial pay cuts to avoid the same fate, while the board of another club is seeking to sell its stadium to meet its debts, moving its home matches (average attendance 12,521) to Murrayfield Stadium (capacity 67,500). The combined debt of the twelve SPL clubs is estimated at £190m, some £30-40m higher than the clubs' combined turnover; in the last three seasons only one SPL club has reported a pre-tax profit. The annual turnover of two clubs (the Old Firm of Celtic and Rangers) equates to about 70% of the total turnover of the SPL. Unsurprisingly this dominance is also apparent on the field: no club outside the Old Firm has won the title since 1984/85. Yet, if any SPL club is in administration on 31st May 2004, it will begin season 2004/05 with a ten-point deduction. Thus any semblance of genuine sporting competition is further threatened by the very real prospect of a quarter of the SPL beginning next season 10 points adrift from other clubs. To those not familiar with the business of Scottish football these facts may be quite extraordinary. The explanations of how Scottish football ended up in this situation are perhaps no less so.

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A FEW REASONS; MANY MORE EXCUSES

Certainly clubs have suffered as a result of factors outwith their control. Looking at clubs' cost base, one consequence of the Bosman ruling¹ and subsequent modifications to the player transfer market has been to create something akin to a single European market in players (Morris et al 2003). Scottish clubs do not exist in a vacuum; the mobility of players has resulted in wages – the principal expense of football clubs – being influenced by wage rates in other countries. Concomitant with this, the last decade or so has seen a greatly increased importance of television income. This has caused wider polarisation of wealth, with leagues in larger television markets benefiting from substantially more lucrative television deals. But, within those leagues, much of that income then flows to that market place's major clubs. Such market differences have been exacerbated by decisions taken by football's governing body, UEFA, concerning the sporting and financial operation of its competitions (Morrow 2003, pp.22-27). Hence, clubs in countries like Scotland are squeezed. Income levels are driven primarily by domestic factors; European or other international influences influence the cost base.

That said, on the face of it the SPL's current financial predicament arises more directly from television arrangements demonstrably within the control of clubs themselves. For many observers, the decisions taken in 2001 that resulted in the SPL not renewing its deal with Sky Television and ending up instead with a lesser and shorter deal with the BBC is the single most important explanation of the SPL crisis. As well as being shorter in length the deal was also worth about £3.5m less per annum to the SPL clubs: the deal with B Sky B was a four year deal (1998-2002) worth approximately £12m per season to SPL clubs; the two year deal with the BBC (2002-04) was worth about £8.5m per annum (Morrow 2003). In both deals the Old Firm share

¹ *In a case brought by the Belgian footballer, Jean Marc Bosman, the European Court of Justice insisted in 1995 that out of contract professional football players who are EU nationals may invoke the same rights of freedom of movement bestowed upon them by the Treaty of Rome as other employees (Gardiner et. al, 2001; Morris et al., 2003). What this meant was that it became illegal to charge a transfer fee for an out of contract football player as it infringed a worker's right to freedom of movement within the European Union. Bosman has been identified as one factor that has led to inflation in salary levels and generally improved contracts for top players (Stead 1999).*

Scottish Affairs

approximately 35% of the total revenue, the remainder being shared among the other ten clubs. For clubs outwith the Old Firm there have been other related financial consequences, most notably the drop in home attendances at matches shown live by the BBC.

But emphatically the fall in television income does not fully explain the present financial difficulties. For example, it is worth noting that the fall-off in income experienced by Scottish clubs – £3.5m pa between the twelve clubs – was quite different in magnitude to that arising out of the collapse in the English Nationwide League's deal with ITV Digital which cost its twenty four clubs approximately £80m per season between them (Plunkett 2002). It is also worth noting that the published accounts of the SPL clubs for the 2001/02 financial year, the final year of the previous deal with BSkyB, demonstrate that six of the twelve SPL clubs were already technically insolvent at that time – their liabilities exceeding their assets – with one of those six, Motherwell, already being in administration (Pricewaterhouse Coopers 2003).

More generally, football clubs are not the only organisations that exist in rapidly changing environments. One responsibility of any company's directors is to respond to alterations in market conditions and to manage their business risk. Many clubs have given the impression of disregarding financial consequences. Whether self inflicted or otherwise, the duty of the directors was to respond appropriately to the changed financial circumstances. Instead some clubs have shown a disregard for financial common sense, continuing to live well beyond their means, their profit and loss accounts continuing to show a marked imbalance between income and expenditure. While it is true that some clubs have taken steps in recent seasons to reduce their outgoings, in particular their level of player wages, it remains the case that the wages being paid by many Scottish clubs are not sustainable (see Table 1)².

But, notwithstanding that the fixed nature of players' contracts reduces the ability of clubs quickly to cut costs, it is apparent that the cost cutting has not

² *Salary levels vary enormously in Scottish football, even within the SPL. While a few top players at Celtic or Rangers may earn £30,000-40,000 per week, the highest paid players outwith the Old Firm earn about £4,000-5,000 per week. At the other end of the scale, the average salary at Partick Thistle is approximately £500 per week, a fact not unrelated to both its financial health and its lowly league position.*

The Financial Crisis in Scottish Football

been sufficiently aggressive in several clubs. For example, in full cognisance of the figures set out above, during the autumn of 2003 Dundee Football Club embarked on a high-profile recruitment strategy bringing players of the calibre of Fabrizio Ravanelli and Craig Burley to the club: less than three months later on 24 November 2003 Dundee applied to the Court of Session to be put into administration, with debts estimated at £20m. Elsewhere, again despite the figures set out above, Dunfermline Athletic continued to recruit players during the January 2004 transfer window: three weeks later it was forced to ask its players to take a sizeable pay cut to stave off administration.

Table 1
Player wage costs

	Total wages £000s	Wages as a percentage of turnover		
	2002	2002	2001	2000
Aberdeen	5,277	70	86	83
Celtic	32,475	58	62	52
Dundee	5,332	154	126	75
Dundee United	3,529	88	96	81
Dunfermline Athletic	4,196	132	131	142
Heart of Midlothian	5,688	94	90	84
Hibernian	5,691	78	76	78
Kilmarnock	3,844	89	76	70
Livingston	4,099	84	72	NA
Motherwell	1,933	62	107	99
Rangers	37,282	83	70	66
St Johnstone	3,090	112	89	73

Source: company accounts, Pricewaterhouse Coopers (2003, 2001)³

³ Further indication of progress in this area is provided in some of the 2003 annual reports presently available, with the following clubs all showing a decrease in wages as a percentage of turnover: Celtic, 55%; Heart of Midlothian, 85%; Hibernian,

Scottish Affairs

Such examples do little for the credibility of football as a business. But more than credibility is at stake: one possibility is that the directors of SPL clubs in administration may be investigated for wrongful trading, i.e. where the directors allow a company to continue in business when they knew or ought to have known that there was no prospect of meeting the company liabilities as they fell due (s.214 Insolvency Act 1986). In the words of one expert in this area 'it is not enough for directors to hope that every cloud will have a silver lining ... the prospect of more generous TV viewing fees is not enough, seen in isolation' (Frier 2004). Furthermore, these examples do nothing to preserve the integrity of football competition. With SPL prize money awarded on the basis of final league position, clearly sporting and financial advantages may accrue to clubs that have recruited players they cannot subsequently afford, a point noted by Aberdeen Chief Executive, Keith Wyness (Sportscene, BBC Scotland, 14 February 2004).

The inescapable outcome of consistently spending more than you earn is debt. As mentioned previously, the current debt of SPL clubs is estimated at approximately £190m, well up on the £144m reported at the end of the 2002 financial year (Pricewaterhouse Coopers 2003) and markedly greater than the £12m reported five years ago at the end of the 1998 financial year (Pricewaterhouse Coopers 1999).

It is normal and desirable for companies to be funded partly by borrowings, but it is important both that the debt is appropriately structured in terms of timescale and that the level of debt is proportionate to income and profit; in other words that the company will be in a position to comfortably service the debt. In recent weeks questions have been asked about the role of the banks in this crisis. But when one looks dispassionately at the levels of debt, the financial issue is not whether they should have intervened, but rather why did it take them so long to intervene?

It does not seem unreasonable to suggest that the banks should have been concerned not only with a profitable business opportunity but also with ensuring that its customers' prospective cash flows and profits were

72%; Kilmarnock, 79%; Rangers, 71%. The ratio did rise at two clubs: Aberdeen, 77% and St Johnstone, 116%. In the latter case, the club was relegated at the end of the 2001/02 season and hence its turnover for the most recent year fell by 32% (£887,098).

The Financial Crisis in Scottish Football

proportionate to the lending being provided. The banks must take some of the blame for the present situation but it ill becomes football club directors to blame the banks for lending them the money in the first place: these directors are experienced businessmen, not individuals in chastened circumstances, forced into the hands of unscrupulous money lenders.

AGENDA FOR CHANGE

So much for the problems. Can Scottish football get out this mess? Looking outwith football, perhaps to government for tax incentives as put forward by the SPL, is unrealistic (see, for example, Woods 2004). To struggling businesses in other areas of the economy it might be interpreted as a reward for financial imprudence. Certainly none of the political parties has shown any enthusiasm for providing a financial rescue package (Scottish Parliament 2004).

Short term, the signing of a £35m four-year television deal with the Irish broadcaster Setanta to broadcast 38 live matches has been portrayed as offering cash flow respite for clubs (Broadfoot 2004). But disquiet has been expressed about several aspects of the deal: its length; its reliance on pay-per-view, a concept that to date has not performed well in European football; the financial position and performance of Setanta itself; the comparative financial benefit to clubs from the Setanta deal as opposed to the new BBC offer and the implications of reduced terrestrial television exposure on future sponsorship and advertising deals (see, for example, Grant, 2004; Wilson 2004; Wilson and Murden 2004). Furthermore, in the context of solving the present financial crisis, while the headline figure in the Setanta deal is greater than the existing BBC deal, more pertinently the annual rights fee is roughly the same under both deals. Hence, to avoid similar problems recurring in the future the emphasis must remain on the cost basis. What is important is that costs are cut more forcefully than has happened to date at most clubs. As well as continuing to reduce the terms and conditions of future contracts, one way forward may be to encourage voluntary wage cuts or wage restraint agreements for players currently under-contract, a policy adopted by Dunfermline. Understandably this may not look an attractive option to players or to the Scottish Professional Footballers' Association union but is probably preferable to dealing with the social and financial consequences of yet more clubs going into administration. That said any such revised agreements would require the most careful professional scrutiny to ensure

Scottish Affairs

that they would be honoured in full, not simply postponing the administration process.

Financial realism should also be demanded by those charged with regulating the game. While ultimately it is the responsibility of individual clubs to manage their business and sporting risks, some regulation of football finance and governance by the authorities is required. The UEFA Club Licensing System, which the SFA is charged with implementing in Scotland, is designed to ensure that the financial management of clubs is more effectively monitored and regulated and sets out financial criteria that clubs must meet in order to be permitted to participate in European competitions (UEFA 2002). National Club Licensing is seen by many, including the SFA, as a modern form of regulation (SFA 2003). For SPL clubs to be granted a licence for a particular season there are four main requirements within the financial criteria:

- Provision of audited financial statements for the preceding season (para 8.1);
- Confirmation that the club has no overdue payments from transfer activities with other clubs affiliated to national associations and/or league, players or other third authorised third parties (para 8.5.2);
- Confirmation that the club has no overdue payments to employees (para 8.5.3);
- A letter from the club's auditor confirming the previous two points (para 8.5.4).

While a step in the right direction, arguably these requirements are not sufficiently demanding in the present financial climate. For example, in the first instance clubs are to be encouraged to prepare budgets, to monitor liquidity, to ensure that they are in a positive equity or net asset position (SFA 2003). Licensing could be broadened to make these requirements, as well as being introduced more widely. For example, the award of a licence to participate in the SPL could be made conditional on the prior agreement of a club's annual budget. Also, as noted by the Independent Football Commission, the independent regulatory body for the football business in England, in its 2003 annual report, a particular requirement could be placed on clubs to demonstrate their capacity to meet contractual salary costs over the length of a player's contract as well as any transfer fee (IFC 2004); a requirement that would prevent player purchases of the type entered into by

The Financial Crisis in Scottish Football

some Scottish clubs during the 2003/04 winter transfer window. Domestic licensing systems have existed for a number of years in other European countries, among them France and Germany, where regulatory bodies like the Deutsche Fußball Liga (DFL) can impose sanctions including points deduction and denial of promotion on clubs which fail to comply with the conditions of the national licence (IFC 2004). Furthermore, a call for domestic licensing was one of the recommendations made by the Westminster All Party Parliamentary Football Group in its report into English football (All Party Parliamentary Football Group 2004).

Financial realism should also be demanded of those charged with regulating the game. Perhaps the most obvious example of this is the need for the SPL urgently to reconsider its stadia criteria. This states that to gain membership of the SPL a club must have an all-seater stadium with a capacity of not less than 10,000 (SPL 2003). As noted by Denis Canavan MSP, one of the ironies of the current situation is that all three of the Scottish clubs presently in administration (Motherwell, Dundee and Livingston) voted against the promotion of the financially solvent champions of the First Division, Falkirk, to the SPL, on the grounds that they did not meet the stadium criteria (Scottish Parliament 2004). That said the implications of lessening the requirement at this juncture, particularly on clubs like Partick Thistle and St Mirren that have endeavoured to meet the criteria with consequent financial and sporting implications, would require immediate attention, one option being some form of financial compensation.

Scottish football also needs to refocus. The SPL is not and never could be a mark two version of the English Premiership: the financial rewards available in England, particularly from television, will always markedly outweigh those available in Scotland. This financial reality is inescapable. Hence, for the majority of its clubs, the way forward may be to refocus on their community positioning or role. The existing ownership model has demonstrably failed in most of our clubs. One way forward is to widen ownership: for their stakeholder groups – supporters, the local community, local businesses, and local councils – to become more directly involved in the ownership, governance and management of the clubs. Initiatives like Supporters Direct and its encouragement to supporters to set up mutually structured Supporter Trusts to take a stake in their clubs have already shown their value, financially and otherwise, at many clubs (see www.supporters-direct.org.uk). Looking to the longer term, the new Companies Bill, presently

Scottish Affairs

being scrutinised by the House of Lords, proposes a new legal form, the community interest company (CIC), designed for social enterprises that want to use their profits and assets for the public good (www.dti.gov.uk/cics/). This form may well be significant to contemporary football clubs that are unavoidably involved with both financial and social objectives. The proposals allow the establishment of profit-making firms that have the specific aim of benefiting the community, with any profits earned by the company being spent on community work rather than passed on to shareholders (Burrows 2004).

Irrespective of structure, in moving forward it will be essential that all stakeholders behave in a manner appropriate to football's changed financial circumstances. Key to this in the short term is realism about buying and paying players. Longer term, it is about recognising the need for change. Football's business significance arises out of the game's enduring communal and social appeal. But in the current financial situation there is little merit in blind defence of history or tradition if the consequence is the disappearance of the very thing you are trying to save. Quite simply, there is an urgent need for rational debate involving all of football's stakeholders – one that must consider social and economic issues, though evidently the conflict therein will not always be reconcilable. At a European level this debate needs to be about issues like league restructuring (Moorhouse 2004; Morrow 2003). Competitive imbalance and polarisation of wealth within clubs are not unique to Scotland (Rimini Group 2004). There is an urgent need for UEFA to lead a debate on cross-border initiatives like the Atlantic League or about clubs playing in leagues organised other than under the auspices of their home association. Increasingly it seems that solving the problem of Old Firm dominance would benefit not only those clubs but also all other Scottish clubs. At a domestic level debate is required about initiatives like restructuring, ground sharing, relocation, involvement in broader multi-sport community complexes and so on; initiatives that might just ensure that football remains significant in this country.

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