Challenging parachute payments and unmasking English football’s finances

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Abstract

This commentary serves to provide a rapid analysis of the impact of coronavirus disease 2019 (COVID-19) on English football's finances. The focus surrounds the distribution of wealth and financial disparity between clubs in the English football system leading to overspending and potential insolvency. We consider the impact of broadcast rights distribution, solidarity payments and parachute payments across the system and provide strategic direction for a collective recovery. The intention is to stimulate discussion, analysis, interest, and research on how football governing bodies can use the opportunities presented by the COVID-19 pandemic to reset the financial landscape in the English system. Such discussion provides a more balanced, competitive suite of competitions that collectively tackle financial inequality and put aside self-interest. We reposition the winner takes all narrative, requesting clubs to reflect on the sporting product that has led to both success and failure at an individual club level. We hope this commentary provides an interesting record and reference point for future research and practice of those operating in football organisations. Learning lessons from this crisis and ensuring league administrators are better prepared to deliver a financially sustainable game.

Keywords; football, finance, parachute payments, covid-19, competitive balance, integrity

Introduction

It has taken a global health pandemic to unmask the frailties of football's finances. As leagues shut down across Europe, revenues have dried up presenting acute cash flow challenges for the game (Parnell, Widdop, Bond, & Wilson, 2020; Parnell et al., 2020). While some leagues have managed to restart, others have curtailed their season. First the

Bundesliga, and most recently the English Premier League (EPL) and English Football Championship (EFL) managed to pause initially, restarting in June, albeit under strict social distancing protocols and behind closed doors. Ligue 1 in France perhaps the highest-profile league to curtail its competition. Many clubs could go out of business owing to the problematic nature of social distancing at football matches meaning games continue to be played behind closed doors, a measure which may be in place for the whole of the 2020/21 season (Sky Sports, 2020).

No club will be immune to financial repercussions from the crisis, but some will be better placed than others. The EPL and its clubs generated combined revenues of over £5bn in 2018/19, yet nine clubs still made a pre-tax loss (Deloitte, 2020). In the EFL, revenues are not on the same scale. The average revenue per club in the Championship (tier 2), League 1 (tier 3) and League 2 (tier 4) stand at £33m, £8m and £4m respectively compared to average EPL revenues of £215m per club (Deloitte, 2020). Recent reports suggest that EPL clubs should brace themselves for a 50% reduction (at least) in matchday revenue next season and to expect a total loss of £500m (Taylor & Conn, 2020). If the same scales are applied to the rest of the Football League then financial crisis, unfortunately, appears inevitable. Indeed, one club (Wigan Athletic) has already been placed into administration in July 2020 (BBC Sport, 2020a), with more clubs reported to follow (BBC, 2020b).

COVID-19 allows us to revisit existing issues in how football leagues in England are governed. Existing structures have created a significant financial disparity between the professional leagues; a financial disparity that has grown since the formation of the EPL in 1992/93 and which COVID-19 has laid bare. Indeed, while the EPL and EFL Championship has resumed, clubs in EFL League One and EFL League Two have voted to end the regular league season using 'unweighted points per game' to decide the final finishing positions (English Football League, 2020a, 2020b). The argument from most clubs here is that restarting now is not cost-effective owing to the significant outlay required for COVID-19 testing and hosting matches with no fans present to drive revenue. However, despite the curtailment of the league, the end-of-season play-offs are still taking place and the usual promotion and relegation remain (English Football League, 2020a, 2020b). Promotion for the successful club here means increased revenue and must be one of the key reasons for continuing. Higher up, in the Championship, play resumes in a similar way to the EPL with season completion being a key objective for clubs given the solidarity payments provided by the EPL and the metaphorical pot of gold for the teams promoted from football's second tier as £120m is on offer to clubs reaching the EPL (Wilson, Ramchandani & Plumley, 2018).

Broadcasting, Parachute Payments and Solidarity Payments in the English Football League

Lucrative television deals, rising from £304million in 1992 to £4.46 bn for UK rights for the 2019-22 cycle (Wilson et al, 2018), has helped the EPL become one of the richest professional sports leagues in the world (Deloitte, 2020). There are significant financial benefits of competing at the top of the pyramid in top five European football leagues, in some instances leading to an eightfold increase in revenue for a club. Huddersfield Town, for example, saw a £110m uplift in revenue following promotion to the EPL in the 2016/17 season, owing to broadcast payments and a significant rise in sponsorship and commercial revenues. Relegation, by contrast, means an instant reduction of around £60m and can result in financial distress for the clubs involved (Wilson et al., 2018).

To help soften the financial blow of relegation, the EPL distribute a percentage of their television revenue to relegated clubs (Wilson et al., 2018). Parachute payments have been a fixture in English football since the early stages of the EPL (mid-1990s), although the real shift in their value (and subsequent impact) was in 2006/07, where relegated clubs received a share of broadcasting revenue for four seasons since relegation. The number of years over which these parachute payments are made was reduced to three seasons from the start of 2015/16, or two seasons for teams that are relegated after a season in the Premier League (Guardian, 2015).

According to the Premier League (2019), the television deal for the 2019-2022 cycle is valued at £9.2billion globally, with clubs in the EPL likely to receive approximately £85m per year as an equal share of revenue (in addition to live match fees and so on). Parachute payments are set against a percentage of this equal share. This percentage drops progressively over a three-year period – 55% in the first year (£46.75m), 45% in year two (£38.25m) and, if the club is eligible, 20% in the third year (£17m). The details of clubs in receipt of parachute payments for the 2019/20 season are presented in table 1 for further context.

Table 1: Parachute Payments to EFL Clubs 2019/20 (Projected)

Club	**Year**	**2019/20 Parachute Payment (£m)**
Cardiff City FC	1	46.75
Fulham FC	1	46.75
Huddersfield Town FC	1	46.75
Swansea City FC	2	38.25
Stoke City FC	2	38.25
West Bromwich Albion FC	2	38.25
Sunderland AFC	3	17
Total		**288**

Again, by contrast, the solidarity payments distributed by the EPL to the EFL are considerably lower in value. These payments are calculated as a percentage of a third-year parachute payment (30% for Championship clubs, 4.5% for League 1 clubs and 3% for League 2 clubs). A total of 64 clubs in the EFL are in receipt of solidarity payments in 2019/20 (see table 2).

Table 2: Solidarity payments to EFL Clubs 2019/20

League	No. of clubs	Solidarity Payments 2019/20 per club (£m)	Total payments 2019/20 league total (£m)
EFL Championship	18	5.1	91.8
EFL League One	22	0.76	16.83
EFL League Two	24	0.51	12.24
Total	**64**	**1.89**	**120.87**

Such financial disparity has led to clubs in the Championship overstretching themselves financially in an attempt to gain promotion to the EPL, often spending beyond their means on player wages (Plumley, Ramchandani & Wilson, 2018; Wilson et al, 2018). Such an approach poses a significant risk to their long-term viability and potentially leading to insolvency (Scelles, Szymanski, & Dermit-Richard, 2018; Szymanski, 2012). Yet a correlation exists proving that higher spending tends to lead to sporting success (Plumley et al, 2017), presenting a complex challenge for clubs over their strategic direction.

Covid-19: Time for a financial reset?

Parachute payments have come into sharp focus again during the covid-19 pandemic. EFL Chief Executive, Rick Parry, referred to them as ‘evil’ at a parliamentary committee hearing and has called for them to be scrapped as part of a radical overhaul of club finances to provide financial balance in the Championship (Wilson, 2020). Academic research argues a similar point in relation to sporting balance (see Wilson et al., 2018). The authors found that clubs in receipt of parachute payments are twice as likely to get promoted to the EPL and, on average, gain five points more on the pitch than those clubs that do not have parachute payments. They conclude that parachute payments are one of the factors that have led to a decline in competitive balance in the EFL Championship.

However, a spokesperson from the EPL defended the parachute payments as a mechanism of confidence for newly promoted clubs to invest in their playing squad to remain competitive in the top division. It has been further argued by the EPL that there is no evidence that parachute payments distort competitive balance in the Championship as they support other clubs of the EFL with solidarity payments (The Guardian, 2020), something at odds with the academic evidence (Plumley et al, 2018; Wilson et al, 2018). Herein lies a wider governance challenge for English football and the power play between the EPL and the EFL.

The EFL has attempted to support its clubs during this pandemic, committing a further £50m in solidarity payments to all clubs in the system to run daily operations (English Football League, 2020d). However, there have been calls for the EPL to also help by sharing their revenue with clubs lower down the pyramid to ensure their survival (Wilson, 2020). This relates to the concept of co-opetition (e.g. Nalebuff, & Bradenburger, 1997). Professional football clubs act as economic partners to deliver the product to its audience (see Bond et al, 2019). Member clubs need to recognise the value created collectively or risk failure. In short, the clubs need each other to survive both on and off the pitch.

As part of a financial reset in football, parachute payments could be used to aid 'co-opetition' and competition. The money ringfenced for just three clubs every season (£46.75m per club in the first year) could be redistributed equally to every club in the EFL (of which there are 71) to prop up the short-term cash flow necessary for the survival of these clubs in the coming months. In any given season, based on current data, that would equate around £1.98m per club. The EPL, of course, will argue this is not their problem, which in a governance sense is true, yet they clearly have the power and the cash (current cash reserves stood at approximately £1.6bn in the latest accounts) to do more should they wish.

The worry for clubs remains games without fans. In this scenario, clubs (especially those in the EFL) are likely to face a significant drop in revenues. By way of an example, table 3 outlines the most recent revenue figures for Championship clubs and examines the proportion of money earned through matchday revenues based on current league position (as at 1st July 2020).

Table 3 – Revenue and matchday income in the English Football League Championship

Pos.	Club	Revenue (£m)	Matchday % of Rev.	Adjusted Revenue (£m)
1	Leeds United	48,920	25.8	36,299
2	West Bromwich Albion	70,823	10.3	63,528
3	Brentford	15,250	22.3	11,849
4	Nottingham Forest	25,344	30	17,741
5	Fulham	137,748	7.8	127,004
6	Cardiff City	125,216	6.3	117,327
7	Preston North End	13,808	25.8	10,246
8	Derby County*	29,616	31.3	20,346
9	Blackburn Rovers	16,674	22.4	12,939
10	Swansea City	69,419	9.6	62,755
11	Millwall	18,336	30.8	12,689
12	Bristol City	30,251	19.8	24,261
13	Sheffield Wednesday**	25,234	71.9	7,091
14	Queens Park Rangers	34,219	15.6	28,881
15	Reading	21,053	22.5	16,316
16	Birmingham City	23,007	21.8	17,991
17	Wigan Athletic	11,536	20.7	9,148
18	Charlton Athletic	7,307	52.7	3,456
19	Middlesbrough	55,643	10.9	49,578
20	Stoke City	70,620	9.1	64,194
21	Hull City	11,155	12.8	9,727
22	Huddersfield Town	119,321	4.2	114,310
23	Luton Town	N/A	N/A	N/A0
24	Barnsley	7,782	39.9	4,677

NB All data is 2018/19 expect *Derby County (2017/18). **Sheffield Wednesday is also 2017/18 and club does not break down matchday and television revenue as individual items in accounts. No data available for Luton Town.

Here, we can note two key points. Firstly, the influence of parachute payment on the revenue profile of clubs. The clubs with low percentages of matchday revenue are the ones also in receipt of parachute payments from table 1. Second, in the adjusted revenue column (based on 2018/19 data) we can see that 16/23 clubs would have a projected revenue for 2019/20 that is lower than a first-year parachute payment. At a time when revenue will be even harder to come following Covid-19, the financial playing field will be even more unstable due to parachute payments. There may still yet be further implications linked to television money with multiple international broadcasters having already deferred payments to the EPL (The Guardian, 2020a). This, in turn, would have a knock-on effect on the EFL.

The financial reset must benefit all clubs and seek balance, not just the books, but the sporting playing field, too. Strong evidence exists suggesting parachute payments are no longer fit for purpose and a sensible starting point for future discussion would be to consider the redistribution of them throughout the football pyramid. Canadian medical sociologist Arthur Frank stated that new evidence does not necessarily help us make better, more ethical decisions for our communities (Frank 2000). But the time to engage with the evidence and for collective action, not self-interest, is now more important than ever. Some of the authors from this commentary have made practical suggestions to support the system, abolishing parachute payments and implementing salary cap regulations perhaps being the most prominent (Wilson et al, 2018). It’s time the policymakers reacted to such evidence.

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