

A NEW DAWN FOR FAIR PLAY?

THE ANNUAL SURVEY OF FOOTBALL CLUB
FINANCE DIRECTORS 2013

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FOREWORD

Fair play has always been at the heart of the beautiful game, so it is good to see its appearance in the finances of football as well. An encouraging 95% of English clubs are expecting to comply with the Financial Fair Play rules in 2013/14 (the first season when FFP will apply to all English domestic leagues). As a consequence most FDs have reported some form of restraint on wages and transfer fees, a vital step on the road to more sustainable business models for all.

In financial terms, the run of play has been going against many clubs – but if we have discovered anything while producing this survey, it's that football clubs are fighters. Indeed, it's probably not news that many of our findings this year give some level of cause for concern. But what is perhaps more surprising, and encouraging, is the extent to which clubs are still managing to cope with adversity and take better control of their circumstances.

This is not to downplay the challenges. We are seeing many common factors which conspire to increase financial instability and risk. For instance, a number of clubs depend heavily upon either a single owner or a small number of key shareholders, who may have their eye on short term glory. Inevitably, the huge potential rewards for reaching the Premier League may

lure many clubs into a gambling frame of mind, risking future financial security for the big prize. As a long term model, this is not sustainable, and could result in structural instability for many clubs if it goes unchecked.

Revenue streams are also down (and by more than finance directors expected). However, some of this can be put down to the UK's delayed economic recovery, though, according to the latest indicators, we may be turning the corner at last. It is also interesting to see that the revenues of the SPL (now Scottish Premiership) clubs have not been adversely affected when compared with the other leagues surveyed. Tellingly, SPL 2012/13 was the first season without Rangers.

Now that PKF has merged with BDO, our goal has been to make this year's survey reach further than ever before. In total we managed to interview 66 finance directors of football clubs, a best-ever total that represents 63% of the football leagues featured. We would like to extend our special thanks to all our contributors, and wish every one of our readers a prosperous season ahead. For every completed survey, we have made a donation to the PFA Benevolent Fund.

Charles Barnett, Trevor Birch and Ian Clayden

EXECUTIVE SUMMARY

FINANCING THE CLUB

- Only three out of ten finance directors rate their club's financial situation as 'very healthy'. Almost half (48%) say that their situation 'could be better but is not bad'; 17% of respondents' finances 'need attention' while 5% say their finances are 'a cause for grave concern'.
- Two thirds (65%) of respondents are dependent on the principal shareholder(s) to finance annual revenue shortfalls or operating losses – up significantly from 58% in 2012.
- The current owners of more than a third (36%) of FL1 and 28% of FLC clubs in the survey are considering a full or partial exit.
- A fifth of clubs in the survey (21%) have been approached in the last 12 months by interested external parties with a view to taking an equity stake – rising to a third of FLC and 40% of SPL clubs.

CLUB REVENUE AND PROFITABILITY TRENDS

- Almost two thirds of respondents (64%) do not expect to make a profit *before* player trading and amortisation in their next accounting period. The two premier leagues are the most confident with 92% of EPL and 60% of SPL respondents anticipating a profit.
- Two thirds (65%) of respondents also do not expect to make a profit *after* player trading and amortisation in their next accounting period.
- The UK economic conditions continue to depress revenues with more than half of the clubs reporting reduced sales of match tickets, merchandising and corporate entertaining. However,

finance directors are more optimistic about revenue prospects in the forthcoming 2013/14 season.

- Only 44% of respondents are using the wages to turnover ratio as a key performance indicator (KPI) of their club's financial health – down from 58% in 2012. 41% of clubs using the ratio have a benchmark of less than 55% - also down from 58% in 2012.

CLUB OPERATIONS

- The three top concerns of football finance directors continue to be the inflexibility of players' salaries, the loss of income if the club is relegated, and the fall in attendances due to the economic environment. A new concern for the EPL and FLC finance directors is the challenge of complying with the financial fair play (FFP) regulations.
- A fifth of clubs were late with tax payments during the year but most of these had formally agreed the delay with HMRC. More than half of respondents (52%) said that HMRC was contacting them earlier and more frequently to chase payment of the tax due.
- Almost a quarter (23%) of clubs are concerned about increased challenges by HMRC to complex salary structures, which could lead to large PAYE bills. The EPL and FLC are the most concerned with 41% and 39% of respondents respectively.
- It appears that the financial fair play rules are being taken seriously: 95% of respondents will comply with the FFP rules in 2013/14; 42% of clubs admit that their decision not to increase the cost of the first team payroll has been partly or largely driven by the fair play rules; 22% say that FFP rules have affected their decision to not to increase their transfer budget.

PLAYER COSTS AND TRANSFERS

- More than eight out of ten (85%) clubs have clauses in players' contracts stipulating a wage cut if the club is relegated. The number of EPL and SPL clubs with these clauses has increased over the last 12 months from 56% and 33% to 75% and 60% respectively.
- More than half (53%) of respondents will cut the size of the first team squad; 42% will keep it the same size; and 5% will increase the squad size. More than half (56%) are also planning a smaller payroll budget for their first team squad.
- Nearly two thirds (64%) of respondents will keep their transfer budget the same as last year; a quarter (24%) will reduce it and only 12% will increase it.

CORPORATE GOVERNANCE

- Almost all (92%) respondents regard their football club as a public interest business with a high degree of scrutiny.
- Nearly two thirds (64%) of respondents agree that the level of public interest leads them to manage the club with a higher level of corporate governance than they would for a similar sized business outside the football sector.

METHODOLOGY

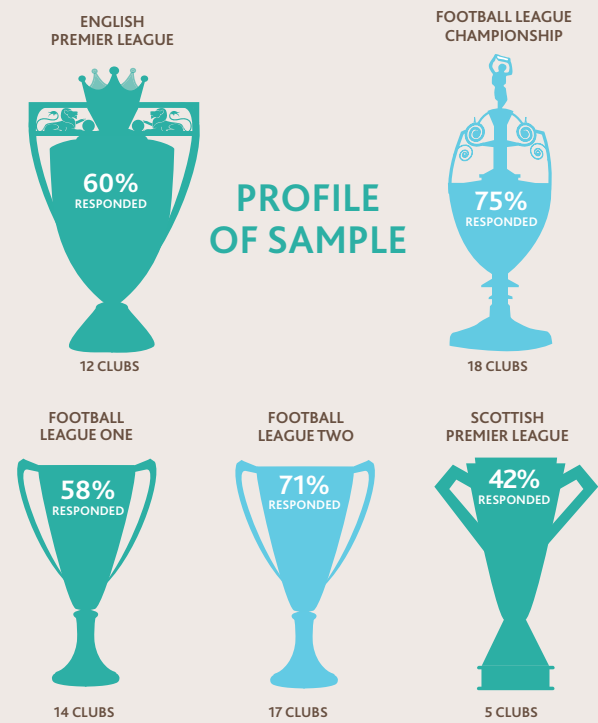
BDO UK's Professional Sports Group commissioned an independent researcher in May and June 2013 to undertake structured telephone interviews with finance directors of football clubs.

and Two (FL2) and the Scottish Premier League (SPL).

Since the survey was undertaken the SPL has been renamed the Scottish Premiership.

A total of 66 interviews were completed with finance directors in the English Premier League (EPL), English Football League Championship (FLC), Football Leagues One (FL1)

Throughout this survey, results are presented as percentages rounded to the nearest whole, and arithmetic means, unless otherwise stated.





ANALYSIS OF FINDINGS 2013

FINANCING THE CLUB

1. How would you rate your club's current financial position?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Very healthy	30	83	22	14	18	20
Could be better but not bad	48	17	50	50	64	60
In need of attention	17	0	22	29	12	20
A cause for grave concern / on the verge of administration	5	0	6	7	6	0

Base: 66

Only three out of ten finance directors rate their club's financial situation as 'very healthy' – the same result as in 2012 – and there is a wide variation between the different leagues, with 83% of EPL respondents enjoying good financial health compared to just 14% of FL1 respondents.

Almost half (48%) say that their situation 'could be better but is not bad', while 22% of respondents' finances 'need attention' or are 'a cause for grave concern'. This figure is up from just 13% in 2012, while over a third (36%) of FL1 respondents admit financial difficulties.

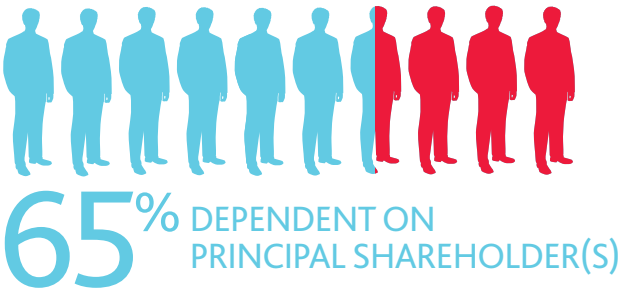
2. Is your club dependent on the principal shareholder(s) to finance annual revenue shortfalls or operating losses?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	65	50	94	64	53	40
No	35	50	6	36	47	60

Base: 66

The trend towards greater reliance on a single owner or small group of shareholders continues to strengthen. Two thirds (65%) of respondents are dependent on the principal shareholder(s) to finance annual revenue shortfalls or operating losses. This is up from 58% in 2012, and the percentage rises to 94% for FLC respondents.

Indeed, the SPL is the only league which appears to have reduced its dependency on principal shareholders this year.



“No surprises here! The EPL surges ahead and the lower leagues are left floundering in its wake. However there may be cause for optimism as we see the implementation of the fair play regulations starting to have a stabilizing effect on operations going forward. Stakeholders are crying out for a sustainable business model and it can only be hoped that the regulations are embraced not just in letter but in spirit.”

Trevor Birch





3. Has your club used funding from a secondary source (i.e. not main bankers) secured on any of the following in the last year?

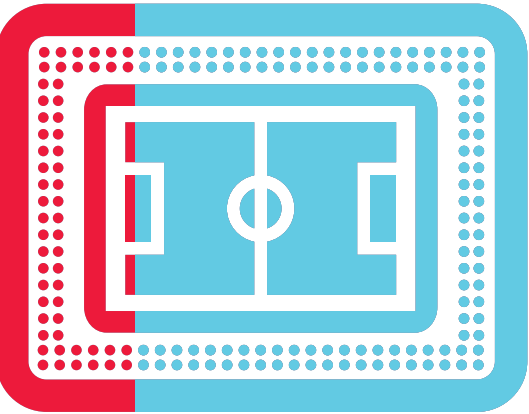
%		All leagues	EPL	FLC	FL1	FL2	SPL
Advance on season tickets – one year	Yes	9	0	17	7	12	0
	No	91	100	83	93	88	100
Advance on season tickets – two or more years	Yes	0	0	0	0	0	0
	No	100	100	100	100	100	100
Player transfer fee receivables	Yes	14	8	17	7	18	0
	No	86	92	83	93	82	100
Other receivables	Yes	9	25	17	0	0	0
	No	91	75	83	100	100	100

Base: 66

The last 12 months have not seen much rise in the use of secondary source funding, which was low to begin with. Just 14% of clubs used secondary source funding secured on player transfer fee receivables, while 9% have used the advance on season tickets as loan security.

However, further analysis of the results reveals that 39% of FLC respondents have used at least one of the secondary sources of funding listed in the survey. Only the SPL respondents did not cite any such funding at all.

30% have given a fixed charge over their stadium



4. Has your club given a fixed charge over the stadium as a security for a loan?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	30	42	28	21	12	80
No	70	58	72	79	88	20

Base: 66

Although seven out of ten clubs in the survey have not given a fixed charge over their stadium as loan security, 80% of SPL and 42% of EPL respondents have done so.

It is likely that the banks have been willing to use the stadia of larger clubs as security for loans to meet the lender's requirements, but in the belief that it is unlikely that they will need to make a call on this security.

5. If the club has given a fixed charge over the stadium as a security for a loan, what was the purpose of the loan?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Build or expand the stadium	36	20	33	0	75	50
Provide cash flow for the club	64	80	67	100	25	50

Base: 20

Of the 20 clubs who have given a fixed charge over the stadium as security, 64% used the loan to provide cash flow for the club, while just 36% used the money to build or expand the stadium. Two clubs reported that they had used the loan for both purposes.

“Leverage of fixed assets for short term working capital, rather than investment in infrastructure, is clearly unsustainable. However, one might expect to see this trend reverse in light of financial fair play regulation.”

Ian Clayden





INVESTMENT CYCLE

In *Leagues Apart*, our 2012 report, we identified the growing disparity between the English Premier League and the rest of the football industry. This year's survey suggests that the gap may have widened even further in the past 12 months.

Intense competition for a limited number of promotion places has pushed the majority of Championship and League One clubs

into the red and created a dependency on principal shareholders bankrolling trading shortfalls.

In this context, we now see around a third of existing owners seeking a full or partial exit, while a similar proportion of clubs are being approached by new external investors. Despite the significant financial costs, the enduring appeal of football has created a clear investment cycle, with new owners eager to pick up the baton from shareholders that are no longer prepared or able to finance the cost of their clubs ambition.

6. Are the current owners of the club considering a full or partial exit within the next 12-18 months?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	17	0	28	36	0	20
No	83	100	72	64	100	80

Base: 66

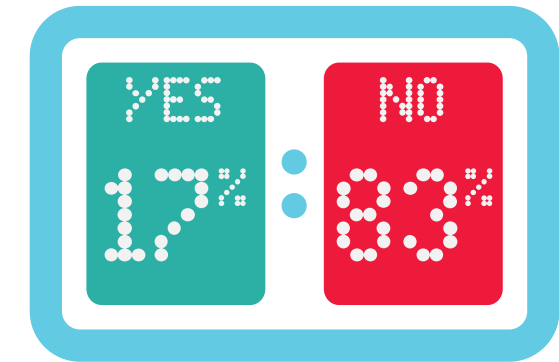
Although only 17% of respondents' current owners are considering a full or partial exit, this is mostly concentrated in the FL1 (36%) and FLC (28%) clubs.

7. Within the last 12 months, has the club been subject to an informal or formal approach from interested external parties with a view to taking an equity stake in the club?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	21	8	33	21	0	40
No	79	92	67	79	100	60

Base: 66

Over the last 12 months a fifth of respondents (21%) have been approached by external parties – rising to a third of FLC and 40% of SPL respondents. Only the FL2 respondents have had no interest.



“ Clubs outside the EPL are continuing to experience financial challenges so the growing number of owners seeking out external investment is a consequential inevitability. This trend is likely to continue, although the growing appetite for investment is encouraging, reflecting the attraction that the leagues still hold. ” Ian Cooper



CLUB REVENUE AND PROFITABILITY TRENDS

8. Do you expect to make a profit *before* player trading and amortisation in your next accounting period?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	36	92	17	29	18	60
No	64	8	83	71	82	40

Base: 66

With the exception of the SPL finance directors – who are more confident than last year – these results are very similar to those in 2012, with almost two thirds of respondents (64%) not expecting to make a profit before player trading and amortisation in their next accounting period.

However the two premier leagues are much more confident, with 92% of EPL and 60% of SPL respondents expecting to make a profit compared to just 17% of FLC and 18% of FL2 respondents.

9. Do you expect to make a profit *after* player trading and amortisation in your next accounting period?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	29	42	6	43	24	60
No	65	42	88	50	76	40
Don't know	6	16	6	7	0	0

Base: 66

The overall profit outlook for the next financial year continues to darken, with two thirds (65%) not expecting to make a profit after player trading and amortisation compared to 57% in 2012 (and only a third in 2011).

The most troubled leagues are FLC and FL2, where respectively 88% and 76% of respondents expect to make a loss.

The SPL respondents have the brightest outlook, with 60% expecting to make a profit.

% OF CLUBS WHO EXPECT TO MAKE A PROFIT....

36%

before player trading



29%

after player trading



“ It is concerning to note that despite financial fair play and wage capping now operating in all English professional divisions, there is no noticeable improvement in the high number of clubs expecting to make a loss next season. Responses to question two very clearly demonstrate that these losses will be financed by the clubs' principal shareholder, a position that is not sustainable. We should not be surprised to see more administrations in the coming months. ”

Charles Barnett

10. What has been the impact of the economic conditions on the following revenue streams in the current financial year?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Match tickets						
Reduced	59	25	73	65	65	60
No impact	21	50	11	14	24	0
Improved	20	25	16	21	11	40
Merchandising						
Reduced	55	58	73	50	48	20
No impact	29	17	17	36	47	20
Improved	16	25	10	14	5	60
Match day catering						
Reduced	44	17	56	42	53	40
No impact	41	75	28	36	41	20
Improved	15	8	16	22	6	40
Corporate entertaining packages						
Reduced	56	50	67	50	59	40
No impact	24	17	11	29	35	40
Improved	20	33	22	21	6	20
Season ticket sales						
Reduced	45	17	66	35	53	40
No impact	31	66	6	29	29	40
Improved	24	17	28	36	18	20
Sponsorship						
Reduced	33	8	39	43	36	40
No impact	43	42	33	26	53	60
Improved	24	50	28	31	11	0

Base: 66

This year's results continue the trend of the last three years, with little evidence of improvement in revenue streams over the past 12 months. More than half of the respondents continue to suffer a reduction in revenues for match tickets (59%), merchandising (55%) and corporate entertaining (56%). However, the impact is less notable within the EPL than in other leagues.

The FLC is suffering the greatest reduction in almost all revenue streams, with 73% reporting lower revenues for match tickets and merchandising, 67% experiencing a drop in corporate entertaining and season ticket sales, and 56% reporting a reduction in match day catering.

Two thirds (65%) of FL1 and FL2 respondents have also suffered a reduction in match day ticket sales, and 59% of FL2 respondents have reduced revenues from corporate entertaining.

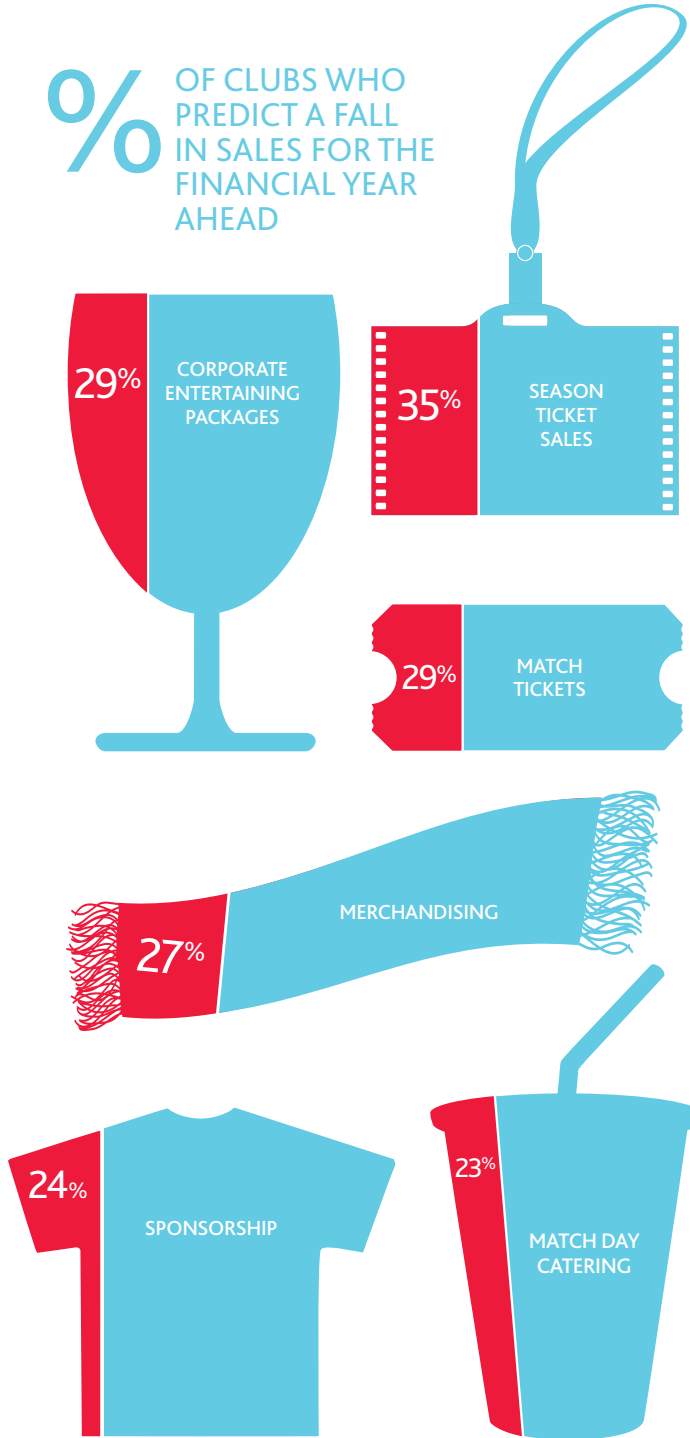
The only glimmers of good news are improved results for merchandising and sponsorship for SPL respondents; an improvement in sponsorship revenues for half of EPL respondents (compared with just 11% in 2012); and an improvement in season ticket sales reported by 36% of FL1 respondents – up from 13% in 2012.

11. What effect do you expect the state of the economy to have on your 2013/14 revenue streams compared with the season just ended?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Match tickets						
Reduced	29	17	50	21	18	40
No impact	47	66	33	58	53	0
Improved	24	17	17	21	29	60
Merchandising						
Reduced	27	24	44	7	18	40
No impact	51	43	44	72	64	0
Improved	22	33	12	21	18	60
Match day catering						
Reduced	23	0	39	14	30	20
No impact	54	100	44	50	46	20
Improved	23	0	17	36	24	60
Corporate entertaining packages						
Reduced	29	25	33	14	41	20
No impact	45	50	45	50	41	40
Improved	26	25	22	36	18	40
Season ticket sales						
Reduced	35	17	61	36	24	20
No impact	35	58	17	36	41	20
Improved	30	25	22	28	35	60
Sponsorship						
Reduced	24	8	39	14	24	40
No impact	50	50	44	50	47	40
Improved	26	42	17	36	29	20

Base: 66

Finance directors across all the leagues are generally more optimistic for the forthcoming year (2013/14). The SPL is the most confident league of all, with 60% of respondents anticipating improved season ticket sales, merchandising, match day catering and match day ticket sales.



“Jubilee and Olympic optimism that invigorated the UK in the summer of 2012 was not enough to fend off the impact of the near collapse of the Eurozone, a return to recession and some of the worst weather in living memory. In this regard, like much of the UK economy, the results for the football sector did not, on the whole, meet expectations.”

Ian Clayden

44% use the wages to turnover ratio as a key performance indicator

12. Do you use the wages to turnover ratio as a key performance indicator of the club's financial health?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	44	50	39	43	35	80
No	56	50	61	57	65	20

Base: 66

13. If 'yes' in which range is your benchmark?

%	All leagues
<50%	17
51-55%	24
56-60%	24
61-65%	28
>66%	7

Base: 29

In last year's survey there was evidence that best practice on wages to turnover ratios were beginning to be followed. However, this position has reversed this year with only 41% of clubs operating to a benchmark of not more than 55% compared with 58% of clubs in this range in 2012. Even so, there has been no significant change in the percentage of clubs using a benchmark of greater than 60%; this year 35% used this benchmark, virtually the same as in 2012 (33%).

14. What wages to turnover ratio do you currently operate in?

%	All leagues	EPL	FLC	FL1	FL2	SPL
<50%	21	8	6	36	41	0
51-55%	21	25	11	14	35	20
56-60%	14	17	6	36	0	20
61-65%	9	8	6	7	6	40
>66%	29	42	66	0	12	0
Not calculated	6	0	5	7	6	20

Base: 66

Although 42% of all respondents operate below 55%, much of this can be attributed to FL1 and FL2 clubs which have operated with a salary cap for the last few years. Indeed, more than three quarters of the FL2 clubs and half of the FL1 clubs operate below 55%. However only 31% of EPL and 17% of FLC clubs operate below 55%, with two thirds of FLC and 42% of EPL respondents operating above 66%.

The results for EPL and FLC show the extent to which these clubs invest in players, undoubtedly in an effort either to retain or gain EPL status. This ties in with the general findings that the rewards of the EPL are hugely, even disproportionately attractive, and can tempt clubs into high-risk strategies.

SPOTLIGHT ON: FINANCIAL FAIR PLAY

FINANCIAL FAIR PLAY (FFP) REGULATIONS WILL APPLY ACROSS ALL ENGLISH PROFESSIONAL DIVISIONS FOR THE FIRST TIME THIS COMING SEASON.

FOOTBALL CLUB COMPLIANCE WITH THE FFP RULES IN 2013/14

85%
EXPECT TO COMPLY WITHOUT ANY SIGNIFICANT CHANGES TO BUSINESS MODELS

10%
EXPECT TO COMPLY ALBEIT FOLLOWING SIGNIFICANT CHANGES

83%

PLANTO SPEND THE SAME OR LESS ON PAYROLL

42%
SAID THEIR DECISION WAS INFLUENCED BY FFP



88%

OF CLUBS EXPECT TO REDUCE THEIR TRANSFER BUDGETS OR KEEP THEM THE SAME.

Of the clubs planning to reduce or keep their transfer budget constant, 22% stated that FFP was a driver; however, this figure rises to 44% and 41% for EPL and FLC clubs



“Though many would prefer the sport to find its own sustainable financial equilibrium, the pressure on clubs and their owners for success has not allowed this to happen. Our survey suggests that the football industry is taking the FFP requirements seriously and we are beginning to see changes in club behaviour. The impact appears manageable for many respondents, although significant operational changes will need to be applied at those clubs with unsustainable financial models - most likely as the football authorities intended.”

IAN CLAYDEN

88%

CLAIM TO HAVE COMPLIED WITH THE RELEVANT REGULATIONS LAST SEASON

84%

of clubs have relegation clauses in their player contracts, up from 79% last year; for the EPL, this figure has risen from 56% to 75%



CLUB OPERATIONS

15. What is the projected level of your non-player capital spend during the next two years?

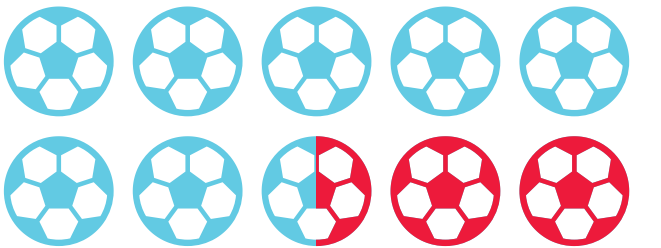
%	All leagues	EPL	FLC	FL1	FL2	SPL
<£2.5m	74	17	88	100	82	60
£2.5-£10m	14	42	6	0	6	40
£10m-£25m	2	8	0	0	0	0
£25m-£50m	9	25	6	0	12	0
More than £50m	1	8	0	0	0	0

Base: 66

This year's results are very similar to 2012. Three quarters (74%) of all respondents projected a non-player capital spend of less than £2.5 million over the next two years, with only 10% of respondents planning on spending more than £25 million.

But again the EPL bucks the trend, with 83% of respondents planning on spending more than £2.5 million and 8% spending more than £50 million. Somewhat surprisingly, 12% of FL2 clubs plan on spending between £25 and £50 million.

74% OF ALL RESPONDENTS EXPECT TO SPEND LESS THAN £2.5M ON NON-PLAYER CAPITAL INVESTMENT



16. What are your two biggest concerns for your club over the next 12 months?

Ranking	All leagues	EPL	FLC	FL1	FL2	SPL
Inflexible players' salaries	1	1	1	1	2	3 =
Loss of income due to relegation	2	2	2	3 =	3 =	3 =
Falling attendances due to current economic environment	3			2	1	1
Ability to raise new capital	4 =			3 =		3 =
Compliance with financial fair play regulations	4 =	3	3			
Potential fall in TV income	6			3 =	3 =	2
Ability to attract sponsorship	7					3 =

Base: 66

(The numbers 1-3 relate to the ranking for each league's concerns.)

The two top concerns of football finance directors are once again the inflexibility of players' salaries and the loss of income if the club is relegated. A new concern for the EPL and FLC finance directors is the challenge of complying with FFP regulations – an indication, perhaps, that FFP is being taken seriously.

Falling attendances due to the current economic environment is the main concern for FL1 and SPL clubs.

The ability to attract sponsorship is no longer a major concern for the English leagues. This is consistent with recent experience, where the majority of respondents saw sponsorship revenues improve or stay flat in 2012/13.

85% of clubs expect to comply with the fair play rules in 2013/14 without significant changes to their business models

17. If your club played in a domestic league in 2012/13 which had 'fair play' or 'salary cap' rules in operation, did your club comply with the requirements of these rules?

FFP rules applied to only FLC, FL1 and FL2 in 2012/13. Of the 40 respondents in these leagues, five of the FLC clubs did not comply with the rules. As this was the first season in which the rules applied to the FLC, a lack of certainty about how to apply may have been the reason for non-compliance.

18. Now that domestic and/or UEFA fair play rules are in operation, do you expect that for next season your club will:

%	All leagues	EPL	FLC	FL1	FL2	SPL
Comply with these rules with minimal change to the business model	85	84	66	86	100	100
Only manage to comply by making significant changes to the business model	10	8	22	14	0	0

Would not comply, but plan to be compliant within the next 2-3 years	5	8	12	0	0	0
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Base: 66

A large majority (85%) of respondents expect to comply with the fair play rules in 2013/14 without significant changes to their business model. A fifth (22%) of FLC respondent clubs will need to make significant changes to their business model to comply, with a further 12% of them expecting to take two to three years to achieve compliance.

77% were confident their tax position on payments to players was robust and defensible to HMRC compared to 92% last year

19. Was your club late on more than one occasion during the year with payment of any tax (e.g. corporation tax, PAYE/NIC, VAT) due to HMRC?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	20	0	17	29	29	20
No	80	100	83	71	71	80

Base: 66

A fifth of all respondents were late with tax payments during the year. None of the EPL clubs were late compared with three out of ten of the FL1 and FL2 clubs. Of the clubs who paid late, 14% and 18% of FL1 and FL2 respondents respectively had not formally agreed the delay with HMRC.

20. Have you noticed any changes in HMRC's attitude to pressing for the collection of tax due?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes, it is contacting us earlier and /or more often	52	42	61	71	35	40
Yes, it is taking them longer to get in touch	3	0	0	0	6	20
No	45	58	39	29	59	40

Base: 66

More than half of respondents (52%) said that HMRC was contacting them earlier and more often to press for the collection of the tax due.

21. HMRC has major ongoing projects challenging complex salary structures including certain image rights payments and employee benefit trusts. This could lead to a potentially large PAYE bill for affected clubs. Which of following statements best reflects your view?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Not concerned, the tax position on payments to our players is robust and very defensible	77	58	61	86	100	80
Somewhat concerned that a sizeable challenge could create a problem	18	25	39	7	0	20
Very concerned that a sizeable challenge would create a problem	5	17	0	7	0	0

Base: 66

Last year, 92% were confident that their tax position on payments to players was robust and defensible to HMRC but doubts appear to be creeping in with only 77% 'not concerned' this year. The EPL and FLC are, not surprisingly, the most concerned with respectively 42% and 39% of respondents.

“ It is no great surprise that nearly a quarter of all clubs are expressing concern about a possible challenge from HMRC into complex pay structures. The pressure on remuneration planning has increased as a result of legislative changes, policy and the increased media attention. If the appeal in the case of Murray Group Holdings v HMRC (involving Rangers FC) finds in favour of the tax man then we can only expect heightened activity by HMRC into arrangements by other clubs. Apart from salary structures, payments made to agents are also under HMRC's spotlight. ”

Andy Goodman





PLAYER COSTS AND TRANSFERS

22. Do any of your players have clauses in their contracts stipulating that their wages will be cut if the club is relegated?

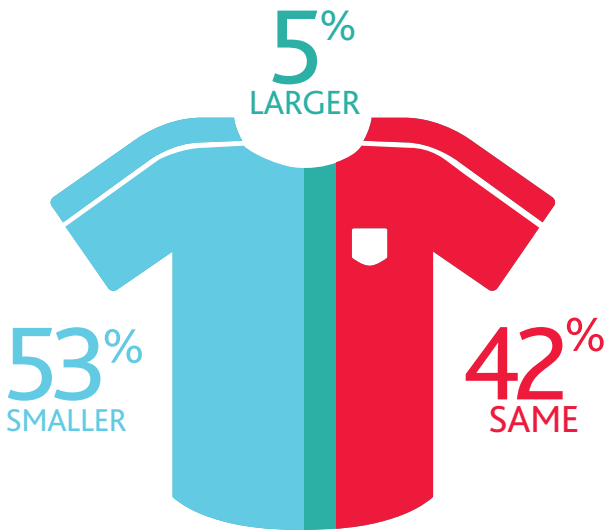
%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	84	75	94	71	94	60
No	14	17	6	29	6	40
No response	2	8	0	0	0	0

Base: 66

More than eight out of ten (84%) clubs have clauses in players' contracts stipulating a wage cut if the club is relegated, a slight increase on last year's 79%. The FLC and FL2 clubs are the most likely leagues to have relegation clauses in player's contracts (94%).

Prudence is clearly on the rise, however, with 75% of EPL and 60% of SPL respondents now having these clauses, compared to 56% and 33% respectively last year.

PROJECTED SIZE OF FIRST TEAM SQUAD FOR 2013/14



23. In your budget for 2013/14 will your first team squad size be larger, the same or smaller than the season just ended?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Larger	5	8	0	7	6	0
Same	42	50	28	50	47	40
Smaller	53	42	72	43	47	60

Base: 66

Clubs this year are continuing the trend of reducing the size of the first team squad, with more than half (53%) of respondents budgeting for a smaller first team squad next season. A further 43% expect to keep it the same size, while just 5% expect a larger squad.

None of the FLC and SPL respondents expect to have a larger first team squad, and 72% of FLC and 60% of SPL respondents will be cutting the size of the first team.

24. In your budget for 2013/14 will you spend more, the same or less on the payroll cost of the first team squad than the season just ended?

%	All leagues	EPL	FLC	FL1	FL2	SPL
More	17	42	6	14	18	0
Same	27	33	16	36	29	20
Less	56	25	78	50	53	80

Base: 66

Not surprisingly, given that 53% of respondents are budgeting for a smaller squad, 56% overall are planning to spend less on the payroll cost – but this figures is as high as 78% for FLC and 80% for SPL respondents.

However, more than four out of ten (42%) of EPL clubs will be spending more on their payroll (up from 33% in 2012), despite only 8% expecting larger squads. This is a clear indication that player salary inflation is still prevalent in the EPL.



25. If your club plans to spend the same or less on payroll costs of the first team squad in the 2013/14 season, to what extent has this decision been driven by financial fair play rules?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Not at all	58	14	23	75	93	100
Yes, to some extent	31	72	59	8	7	0
Yes, to a considerable extent	11	14	18	17	0	0

Base: 55

42% of clubs admit that their decision not to increase payroll spend on the first team squad has been partly or largely driven by the FFP rules, but there is a divide between the larger teams – 86% and 77% of EPL and FLC clubs versus just 25% and 7% of FL1 and FL2 clubs.

26. Will you increase/reduce your transfer budget this year?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Increase	12	25	6	14	12	0
Same	64	50	50	65	76	100
Reduce	24	25	44	21	12	0

Base: 66

The trend towards controlling the transfer budget continues this year with nearly two thirds (64%) of respondents keeping their transfer budget the same as last year (up from 52% in 2012) and a quarter (24%) reducing it. Only 12% will increase their transfer budget this year.

27. If your transfer budget for 2013/14 will reduce or remain the same, to what extent has this decision been driven by fair play rules?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Not at all	78	56	59	84	100	100
Yes, to some extent	14	33	23	8	0	0
Yes, to a considerable extent	8	11	18	8	0	0

Base: 58

78% of respondents who are reducing or keeping their transfer budget the same deny that their decision has been driven by the FFP rules although more than one in five (22%) admits that the FFP rules have had an impact on their decision.

The FLC and EPL appear to be most affected by the FFP rules with 41% and 44% respectively admitting that their decision was partly driven by new regulations.

“To some extent, the perceived higher than average level of public interest faced by football clubs manifests itself in a focus on good corporate governance, as reflected in the relatively high (15%) number of paid non-executive directors (note that this excluded unpaid non-executive directors). However, the direction of travel for the UK is an increased level of commitment to corporate governance so we watch with interest to see if the statistic increases in future years.”

Trevor Birch

82% of respondents say they have the skills to exploit the benefits of social media



CORPORATE GOVERNANCE

28. Does your board include remunerated non-executive independent directors?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	15	33	6	7	12	40
No	85	67	94	93	88	60

Base: 66

Only 15% of respondents have remunerated non-executive independent directors on their club's board. This rises to a third of EPL and 40% of SPL respondents.

In a follow on question, almost all (92%) respondents regard their football club as a public interest business with a high degree of scrutiny.

29. Does the level of public interest in your club lead you to manage the club with heightened corporate governance in comparison to similar sized companies outside the football sector?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	64	67	67	50	76	40
No	36	33	33	50	24	60

Base: 66

Nearly two thirds (64%) agreed that the level of public interest in their club leads them to manage the club with a higher level of corporate governance than they would for a similar sized business outside the football sector.

SOCIAL MEDIA

30. How important is social media in terms of contributing to your club's brand?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Low importance	5	0	6	7	0	20
Medium importance	30	0	38	29	41	40
High importance	65	100	56	64	59	40

Base: 66

Two thirds of respondents (65%) say that social media is a very important contributor to the promotion of the club's brand. This percentage rises to 100% of EPL clubs.

31. Does your club have the appropriate skills to exploit social media?

%	All leagues	EPL	FLC	FL1	FL2	SPL
Yes	82	92	94	64	76	80
No	18	8	6	36	24	20

Base: 66

More than eight out of ten clubs (82%) say that they have the appropriate skills to exploit the benefits of social media. This confidence in skill levels rises to 92% of EPL and 94% of FLC respondents.



BDO PROFESSIONAL SPORTS GROUP

OUR PROFESSIONAL SPORTS GROUP CLIENT BASE EXTENDS ACROSS MAJOR PROFESSIONAL SPORTS INCLUDING FOOTBALL, HORSE RACING, RUGBY, GOLF, CRICKET, AND MOTOR RACING, AS WELL AS OTHER HEALTH AND FITNESS BUSINESSES.

In professional football we have worked for an array of high profile football clubs and governing bodies providing specialist services ranging from tax advice on image rights and agents' fees through to accounting, annual audit and insolvency assignments.

Our team of sector experts which includes partners with experience of managing and running top flight football clubs, can provide football clubs with a complete range of business advisory services including:

- External and internal audit
- Corporate tax
- Corporate finance and financial modelling
- Business Restructuring
- Specialist VAT consultancy
- Employment tax
- Corporate governance
- Forensic and fraud investigations

PROFESSIONAL SPORTS GROUP KEY CONTACTS

For more information on any of our services for the football industry, contact the relevant BDO expert in your region.

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OUR SPECIALIST SERVICES INCLUDE:

CORPORATE FINANCE AND FINANCIAL MODELLING

We have significant experience providing transaction advisory and investigative services across all professional leagues to a number of Clubs for both vendors and acquirers. Our specialist transaction services team performs due diligence for potential investors and for FFP planning and compliance, and our advisory team specialises in leading sales processes and procuring investment.

BUSINESS RESTRUCTURING

We have been appointed Administrators of a number of clubs including Motherwell, Oldham Athletic, Dundee and most recently Portsmouth, Dunfermline and Hearts. All completed appointments have led to a successful outcome whereby a dividend was accepted by creditors under a Company Voluntary Arrangement (CVA). All companies survived following the CVAs and are continuing to trade.

SPECIALIST VAT CONSULTANCY

Some of our recent assignments have included providing extensive VAT input on the following:

- Affinity card agreements
- Overseas sponsorship issues
- Testimonial/benefit games for current and former players
- Stadium refurbishments and alternative uses, catering issues, retail sales
- Agents' fees

We have produced a VAT overview guide for clients in connection with a number of rules and treatments, including the place of supply of goods & services, plus certain VAT reporting requirements and a matrix relating to the key income streams.

EMPLOYMENT TAX

Over the last twelve months our team of specialists has provided advice in connection with the complex area of reward. This is in the light of heightened HMRC interest into the use of complex and convoluted remuneration structures sometimes involving Employer Financed Retirement Benefit Schemes (EFRBs), Employee Benefit Trusts (EBT's), contracts for difference and the use of Image Rights Companies. We have also assisted clubs with investigations into the use of such structures by HMRC Specialist Investigations. Obviously, in their day to day business, many clubs make payments to sports agents and we have advised clubs on how these should be correctly dealt with for income tax and national insurance purposes.

CORPORATE GOVERNANCE

Good corporate governance is essential if clubs are to be managed effectively by executive directors and legal obligations discharged properly by non-executive directors. Procedural issues include:

- Transfer policy – Aquisitions and disposals
- Disciplining regulations and rules – players and directors
- Fraud protection
- Anti-money laundering
- Cost control regulation
- Transparency measures
- Diversity and community

FORENSIC AND FRAUD INVESTIGATIONS

We provide forensic accountancy, investigatory and expert witness services to a number of clubs. Working in a partnership with the 'Centre for Counter Fraud Studies' at the University of Portsmouth, we are also able to help organisations to measure and reduce the cost of fraud. We deliver real financial benefits often achieving a 12:1 return on the cost of the work.





BDO LEISURE AND HOSPITALITY

ALONGSIDE THE PROFESSIONAL SPORTS GROUP, OUR TEAM WORKS WITH INTERNATIONAL BUSINESSES ACROSS THE LEISURE INDUSTRIES, INCLUDING BETTING & GAMING, HOTELS, RESTAURANTS, BARS & PUBS, AND TRAVEL & TOURISM.

BETTING & GAMING

BDO has acted as auditors, tax advisers and consultants to many UK and international betting and gaming businesses, both private and publicly quoted. Our clients range from many of the major 'bricks & mortar' bookmaking and casino operators to major offshore telephone and internet sports books, casinos, poker and other online gaming activities. As well as the more traditional forms of betting and gaming, we also act for FSA regulated businesses in the financial trading, financial spread betting and CFD sector.

Specialist advice we can provide to the sector includes:

- International tax planning and structuring
- Corporate financing and flotations
- Property and corporate acquisitions and disposals
- Financial Services Act regulations and compliance
- Installation of management reporting and controls and internal audit functions
- IT controls, environment reviews and systems improvement advice.

HOTELS

Our expertise covers the entire spectrum of investment and operating activities and our involvement brings credibility, competence and independence to any project. In short, if you are active in the hotel industry then you should be talking to BDO, the industry experts.

Specialist advice we can provide to the sector includes:

- Audit and assurance
- Feasibility studies
- Business valuations
- Litigation support and expert witness services
- Mergers and acquisitions including MBOs, MBIs and flotations
- Fund raising and refinancing
- Financial investigations and dispute resolutions
- Systems reviews
- Turnaround and distressed situations



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RESTAURANTS, BARS & PUBS

BDO can help realise the opportunities and minimise the pressures – just as we have helped numerous clients to do, during our long established history as a leading adviser in this sector.

We have advised clients as diverse as international brands and national chains, to owner managed businesses and outlets looking to expand and/or diversify. Our expertise will assist whether you are the individual restaurateur, the group operator, the restaurant franchisor or franchisee.

Specialist advice we can provide for your sector includes:

- BERR report, TRONCS, minimum wage legislation
- Tax efficient employee incentive plans
- Property issues and the associated stamp duty and capital allowances
- Business acquisitions
- Raising finance for business expansion – public and private, equity and debt
- Franchise advice



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TRAVEL & TOURISM

The travel sector has undergone some of the biggest changes we have witnessed to one particular industry over the last few years. It has been a roller-coaster ride of new entrants and new technology, consolidation and unpredicted new challenges to business, such as SARS and terrorism. BDO has helped its travel clients turn a turbulent time into one of opportunity.

Our commitment to this sector has seen us attract some of the best known names in the business – from owner managed private businesses through to large listed companies with international networks. BDO is an ABTA Travel Industry Partner and provides the section on Travel Agents and Tour Operators for Butterworth's Financial Reporting and Accounting for Specialised Sectors. We have members on the ICAEW / ABTA Working Group instigated by ABTA and also on the ICAEW/CAA Working Group instigated by the CAA.

Specialist advice we can provide for your sector includes:

- ATOL applications
- Tour Operator Margin Scheme
- Industry regulation and compliance
- Flotations, acquisitions and disposals
- Tax planning and compliance for the travel industry
- Business continuity planning



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