The new regulator faced with tackling football's baffling economics

It is still unclear how the proposed watchdog will meet its goals for England's beautiful game

Leeds United's Eirik Bakke, Rio Ferdinand and David Batty during the semi-final second leg game against Valencia in 2001, when heavy spending failed to pay off

GARETH COPLEY/PA

Jack Barnett, Economics Correspondent

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"Should we have spent so heavily in the past? Probably not, but we lived the dream."

Twenty-two years ago, Peter Ridsdale, then chairman of Leeds

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financial troubles.

In the early 2000s the three times champions of England gambled on spending heavily on transfers, mostly funded by borrowing, to reclaim their English crown and win the Champions League, Europe's elite club competition. It did not pay off.

Peter Ridsdale leaving Elland Road after resigning as chairman of Leeds United

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Although the Yorkshire club reached the semi-finals of the 2000-01 Champions League, success was not sustained, debt neared £90 million and losses spiralled to £50 million. Relegation followed and financial woes mounted. Leeds fell into administration in 2007 and slid to League One, the third tier of English football.

Since then crises have gripped several clubs. Nearly 140 years after formation, Bury FC disappeared in 2019 but has since returned and is back playing at the Gigg Lane stadium in Greater Manchester. Macclesfield Town followed the same path in 2020.

Derby County, Coventry City, Portsmouth, Crystal Palace, Wigan Athletic and, most recently, Reading, all flirted with a similar fate.

The finances of England's beautiful game are still strained. In 2020, the wage-to-revenue ratio of the 24 clubs in the Championship, the second tier, climbed to 129 per cent from 85 per cent in 2010. Uefa, European football's governing body, recommends a football cost ratio of 70 per cent. The debt of Premier League and Championship teams neared £6 billion in 2021, up from £3.5 billion in 2016.

A dejected Bury fan kisses goodbye to the club in 2019

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Government response

These alarming financial indicators, and an attempted breakaway European Super League, prompted action. A 2021 Conservative government fan-led review recommended the creation of an independent football regulator to root out financial overreach and unfit owners.

The Labour government has made progress with creating this

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and trade policy when approving takeovers.

The Football Governance Bill is being examined by the House of Lords before it reaches the Commons, where it is expected to sail through amid cross-party support, amounting to the biggest overhaul of English football since the Premier League's creation in 1992.

Once up and running the 116 clubs in the Premier League, English Football League (EFL) and National League will have to secure a licence from the regulator by demonstrating sound financial governance. Clubs can incur a penalty of up to 10 per cent of revenues if they breach financial guidelines that are yet to be set out. A levy on clubs will fund the watchdog.

It is estimated that the regulator will impose an additional £15.8 million of annual costs but generate £79.9 million of benefits "as a result of all clubs being run more in line with [fans'] interests", according to a government impact assessment published in October.

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Bury FC's new owners at Gigg Lane stadium in 2022

DAVE PINEGAR

Fans will have greater control over changes to a club's name, badge and home kit and the regulator will encourage clubs to regularly meet with supporters. A tougher examination of prospective owners will be implemented. According to David Little, partner at the law firm Bishop & Sewell, the regulator's aim is "to ensure that clubs in the lower divisions are less unprofitable".

Clipping ambitions

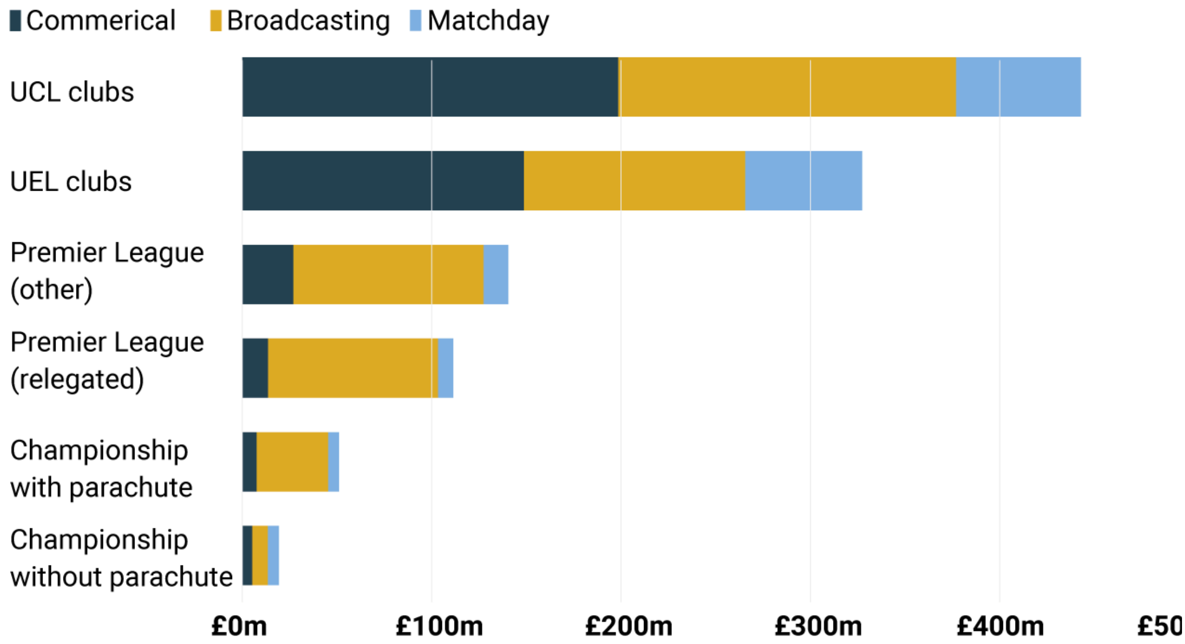
There are concerns that the regulator could clip smaller clubs' ambitions by curbing spending to raise on-the-pitch performance to stabilise finances in English football's top five tiers.

In the 78-page government impact assessment several passages are dedicated to examining whether a regulator could constrain investment, reduce international competitiveness and restrict spending.

"The introduction of the new regulator is not expected to deter investment," it states. "The regulations have been carefully designed to avoid this impact and no decline in investment has occurred amid the prospect of new regulation."

Yet James Palmer, partner at the law firm Herbert Smith Freehills, said the government was "taking for granted that English football has the right to be number one in the world. We risk undermining a sector by thinking it's the golden goose."

Average revenue of Premier League and Championship clubs in 2019-20 season



Graphic by The Times and Sunday Times. Source: Gov UK

Football's market failure

Governments create regulators to prevent behaviours that are damaging to businesses, consumers and markets in the long run.

According to the impact assessment, the football regulator is intended to stop owners from over-spending to achieve short-term success while risking the club's survival if those ambitions

Clubs hold market power over fans, the assessment argues, as they rarely switch to another team if treated poorly. This dynamic "empowers owners of football clubs to act in their own self-interest, often at the expense of fans and/or communities in which football clubs are based".

It is unclear how higher transfer spending, and therefore higher chances of success, is against fans' interests.

The regulator will not impose financial restrictions on clubs that "directly [influence] on-pitch decisions", the assessment said. This "effectively [implies] measures such as salary caps ought to be avoided", Daniel Baker, senior associate at the law firm Moore Barlow, said.

The government argues that "football does not function like a typical market" because most of the value clubs generate is social rather than monetary. "Football clubs are more community and heritage assets than typical businesses, with fans rather than consumers. As such it is crucial football clubs are stable and sustainable."

Quantifying social value is tough and it is unclear why clubs are more worthy of regulation than other cultural sectors, such as music, theatre or the arts, that also create social value.

"All businesses incur a social cost if they fail. It is not true that it is only football," Palmer said.

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The government used a 2022 survey by Ipsos that asked fans, neutrals and non-supporters in a club's surrounding area how much they would pay annually for a regulator that acted in fans' interests as "a proxy for the governance benefits associated with establishing [the watchdog]". It estimated these benefits at £360 million.

Tackling inequality

The regulator could tackle market power that has accrued to the Premier League's elite clubs by securing a fairer distribution of funds across the pyramid, acting almost like an antitrust buster.

Rick Parry, chairman of the EFL, said: "The gap between the Premier League and the Championship has grown to become a chasm and has clear impacts on competitive balance."

Kevin Miles, chief executive of the Football Supporters' Association, said: "Clubs further down the pyramid are scrambling to survive."

Revenue-sharing agreements should be agreed between football leagues but the regulator can impose its own deal if one cannot be reached. This backstop "is intended to be the ultimate 'stick' or power of last resort", Baker said.

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Rick Parry, chairman of the EFL: the gap between leagues has become a chasm
MIKE EGERTON/PA

Clubs relegated from the Premier League receive tens of millions of pounds in "parachute payments" to help them to transition to the thinner revenues associated with playing at a lower level. The government amended the bill to allow the regulator to examine these payments when assessing the finances of the pyramid.

It is argued in the impact assessment that the existing framework hands too much financial might to relegated clubs, creating a situation where the same clutch of teams gain promotion but cannot compete in the top division. It also puts "additional pressure on clubs with lower income to outspend their revenue in order to match wealthier competitors".

There is a risk that clubs promoted to the Premier League and mid-table teams already there will trim investment if the protection of parachute payments is removed.

Wrong metrics risk harm

Regulations that try to instil financial stability already exist and the watchdog would probably complement these.

Under the profitability and sustainability rules, Premier League teams' losses cannot breach £105 million across the previous three seasons or £15 million of their own money. Similar rules

This month the Premier League rejected a cap of 85 per cent of a club's revenues spent on football costs and limiting player spending to five times the income the league's bottom club gets in broadcast and prize money.

"The goal posts are not going to be shifting on the current financial regulations in the Premier League", Simon Leaf, partner at the law firm Mishcon de Reya, said.

It is unclear what financial metrics the regulator will monitor to determine a club's financial sustainability.

Until these details are crystallised once — and if — the regulator is active, clubs will continue to operate in an information vacuum.

"The intentions behind the regulator appear to be good," Leaf said, but he warned: "The reality is that it may not have the day-to-day oversight or indeed resources to succeed in what it has set out to achieve."

The Department for Culture, Media and Sport said: "The regulatory regime will be light touch, including requirements for clubs to have a sensible business plan and for owners to act in the best interests of the club."

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