Title: Regulation of English men's professional football **IA No:** **RPC Reference No:** RPC-DCMS-5250(2) **Lead department or agency:** Department for Culture, Media and Sport (DCMS) **Other departments or agencies:** N/A	**Impact Assessment (IA)** **Date:** 23/10/2024 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Primary **Contact for enquiries:** football-governance-team@dcms.gov.uk

Summary: Intervention and Options

RPC Opinion: Fit for purpose

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value NQ	**Business Net Present Value** NQ	**Net cost to business per year** NQ	**Business Impact Target Status** Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

Despite the commercial success of English men's professional football in recent years, a number of fundamental problems continue to exist in the industry. Perverse incentives and misaligned owner motivations have resulted in excessive risk taking in pursuit of sporting success and promotion. As a result, the prevalence of financial distress in the game is growing, with clubs operating with unsustainable wage-to-revenue ratios and levels of borrowing and debt continuing to increase in the pursuit of short-term sporting success. Strong fan loyalty provides clubs with market power - since most fans will not switch to a club on the basis that it is run in a more financially sustainable manner. There is a negative externality on fans and local communities when clubs enter financial distress, as their social identities, cultural heritage and pride in place are tied to their clubs. Despite repeated opportunities and years of calls for reform, the football industry has failed to self-regulate to address these problems, and the existing football authorities do not have the appropriate incentives or governance structures to do so. Therefore government intervention is necessary to correct market failure in the industry.

What are the policy objectives of the action or intervention and the intended effects?

- To improve the financial sustainability of individual clubs and English men's professional football as a whole, in the interests of fans and local communities.
- To protect and preserve the use of important cultural heritage assets.
- To ensure that clubs sufficiently engage with their fans on matters of interest to supporters

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The policy options under consideration are: **Option 1: Do nothing** - the counterfactual; **Option 2: Do minimum** - backstop measures only; **Option 3: Introduce a new watchdog**; and **Option 4: the preferred option - to establish an independent regulator with statutory powers**. This includes regulation of finance, corporate governance, ownership, club heritage and fan engagement, and backstop powers over revenue distribution. Only the government is able to give an independent regulator the statutory underpinning required to provide it with the necessary authority.

Is this measure likely to impact international trade and investment?	Yes			
Are any of these organisations in scope?	**Micro** No	**Small** Yes	**Medium** Yes	**Large** Yes

What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** N/A	**Non-traded:** N/A
Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** TBC		

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible : S. Peacock Date: 23/10/2024

Summary: Analysis & Evidence

Preferred Option

Description: Independent statutory regulator

ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time period 10 Years	Net Benefit (Present Value (PV)) (£m)		
			Low: 463.6	**High: 596.7**	**Best Estimate: 523.4**

COSTS (£m)	Total Transition 2019 Constant Price	Years	Average Annual (excl. Transition) 2019 Constant Price	Total Cost (Present Value)
Low	0.4		12.3	**103.2**
High	1.2		17.7	**148.9**
Best Estimate	0.8		15.8	**132.8**

Description and scale of key monetised costs by 'main affected groups'

The key monetised costs include compliance and familiarisation costs to clubs in scope, as well as the operational costs of running the Regulator. **Familiarisation costs: £0.4m - £1.2m.** The familiarisation costs are a one off cost to business, occurring in the first year of the appraisal period. **Compliance costs: £17.9m - £35.8m.** The compliance costs are an ongoing cost to business which occur following the first year of the appraisal period. **Operational costs: £77.4m - £106.8m.** The operational costs are ongoing, and occur in every year of the appraisal period. These operational costs will be initially funded by the Exchequer, before an industry levy is introduced. The costs are not expected to fall equally on each club, factors such as size or existing levels of compliance impact the level of activity required, therefore the estimated cost per club is not simply the total estimated cost divided by the total number of clubs.Therefore, as per the Small Business, Enterprise and Employment Act 2015 guidance, levy costs are not classified as a cost to business. Costs have been estimated using evidence gathered through industry engagement, existing regulators, ONS datasets and other sources of information.

Other key non-monetised costs by 'main affected groups'

N/A.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-		74.6	612.5
High	-		85.3	700.0
Best Estimate	-		79.9	656.2

Description and scale of key monetised benefits by 'main affected groups'

An increase in use and non-use value to fans and communities as a result of all clubs being run more in line with their interests (as opposed to the short term interests of owners), relative to those of only owners under the counterfactual ('governance benefits'). There are a number of non-monetised benefits, meaning that the monetised benefits are likely a conservative estimate of the overall benefits.

Other key non-monetised benefits by 'main affected groups'

There are direct benefits associated with the continued existence of clubs which may otherwise have gone out of business, causing social costs. These are not monetised in this Impact Assessment to avoid double counting due to a partial overlap with the monetised benefits resulting from improved governance of football clubs.

It is possible that a significant proportion of economic activity would be displaced should a club cease to exist (i.e. fans will reallocate at least some of their previous football-related spending on other goods and services). It is extremely difficult (and spurious) to estimate the proportion of this economic contribution that is truly 'additional'. This is however expected to be significant. In any case, these benefits are both secondary and indirect, and have therefore not been quantified in the economic appraisal.

Under the counterfactual, administrations and insolvency events within the English football pyramid are expected to continue at least at the existing rate. When a club goes into administration, HMRC loses out on unpaid taxes. Implementing the preferred option is expected to reduce the frequency of these events thereby reducing the costs to HMRC.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5%
For the purpose of this Impact Assessment, the set up and running costs for the regulator are assumed to be recouped from businesses via a levy. Within the benefits estimation, an assumption is made that the regulator is effective and that clubs in scope comply with the regulations.		

BUSINESS ASSESSMENT (Preferred Option)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:** illustrative only
Costs: 4.0	**Benefits:** 0.0	**Net:** 4.0	20.2

1.0 Policy Rationale

1.1 Background

1. The organisations in scope of the proposed regulation are football clubs in the top five divisions of the men's English football pyramid: the Premier League (20 clubs), the English Football League (72 clubs, across 3 divisions) and the National League (24 clubs).[1]

2. The Football Association (the FA) is the national governing body for football in England, however the English football pyramid is largely self-regulated through individual leagues, which are ultimately membership organisations. For example, to pass a rule change in the Premier League, 14 club (shareholder) votes are required, meanwhile in the EFL a rule change requires a majority of the votes cast by all member clubs, and majority of the votes cast by all member clubs in the Championship.

3. A series of footballing crises including the collapse of Bury FC, the attempt to join a breakaway European Super League by six English clubs resulted in the launch of the Independent Fan-Led Review of Football Governance (FLR) in April 2021.[2]

4. The FLR was published in November 2021. It found that the current self-regulatory system in English football was insufficient and not fit to meet the needs of domestic football. It cited misaligned incentives, poor corporate governance, and a complicated and ineffective regulatory structure as the three main factors of English football's fragility. As a result, it made 10 strategic recommendations which set out that specialist business regulation was required to solve the structural challenges in the game.

5. The FLR detailed how many clubs overspend (relative to their income) on player salaries in an attempt to compete, leading to heavy losses across the game, unsustainable debt levels, and a reliance on owner injections. Independent expert analysis has shown that this model has put the financial sustainability of clubs at significant risk.[3]

6. In the White Paper, 'A Sustainable Future - Reforming Club Football Governance' (the "White Paper"), published in February 2023, the case for government intervention was set out, with the aim to protect the financial stability, the systemic stability of the English football pyramid and the cultural heritage of England's historic footballing institutions.

7. The White Paper concluded that existing regulations overseen by governing bodies have proved ineffective.[4] In particular, that existing regulation provides insufficient legal protections for clubs' heritage assets, the Owners' and Directors' Tests have failed to prevent owners who are unfit to act as custodians of community assets, and clubs have been allowed to circumnavigate the regulatory system to outspend their earnings without facing regulatory sanctions.

8. A targeted consultation of the proposals in the White Paper ran throughout spring and summer 2023 with the publication of the response to this consultation in September 2023. Further research was also commissioned and published alongside the consultation to provide an updated report on the financial health of English football. This updated independent, expert financial analysis further confirmed that many clubs are being run in unsustainable ways.

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[1] The full scope of the Regulator is set out in the White Paper, A Sustainable Future - Reforming Club Football Governance. DCMS, 2023.
[2] Fan-Led Review of Football Governance: securing the game's future. DCMS, 2021.
[3] Assessing the Financial Sustainability of Football. Philippou and Maguire, 2022.
[4] A Sustainable Future - Reforming Club Football Governance. DCMS, 2023.

9. The White Paper, laid out a proposal for the establishment of a new independent regulator for English football clubs. The Regulator’s primary purpose will be to protect and promote the sustainability of English football.

10. This is underpinned by three operational objectives: 1) the club financial soundness objective; 2) the systemic financial resilience objective; and 3) the heritage objective. It is also supplemented by general duties which set out that the Regulator must have regard to the desirability of exercising its functions in a way that avoids: effects on sporting competitiveness; adverse effects on the competitiveness of regulated clubs against non-regulated clubs (including overseas clubs); and adverse effects on financial investment in English football.

11. The Regulator will operate a licensing system, whereby all clubs in scope would need a licence to legally operate as professional football clubs. Clubs will initially apply for a provisional licence for up to three years, and then work with the Regulator towards a full operating licence by the end of their provisional period.

12. Financial regulation will be the Regulator’s core focus and will be based on improving financial resilience. To achieve this, the Regulator will require clubs to: 1) demonstrate good basic financial practices; 2) have appropriate financial resources or ‘buffers’ to meet ongoing requirements and deal with financial shocks; and 3) protect the core assets of the club - such as the stadium - from harm.

13. To address corporate governance issues in football, the Regulator will establish a corporate governance code that clubs must report against annually. There will be a requirement for clubs to publish an Equality, Diversity and Inclusion action plan. Clubs will submit an annual corporate governance statement following an ‘apply and explain’ model, detailing how they are applying the code. This will improve transparency and accountability. The code will be applied proportionally, with regard to the size, league and complexity of the club’s business model, and where risk may exist as a result of weak corporate governance.

14. The Regulator will oversee strengthened tests for owners and directors. All prospective owners and directors will have to pass the Regulator’s tests before they can take up a position at the club. These include: 1) A fitness test, to ensure individuals have honesty and integrity, are financially sound, and (for directors only) have the requisite competence for that role; 2) Enhanced due diligence of source and sufficiency of wealth of owners; and 3) A requirement on owners to have a business plan and sufficient funds to acquire and run the club.

15. The Regulator will also implement a minimum standard of fan engagement whereby clubs will be required to consult their fans on matters which affect them and will add and reinforce existing protections around club heritage.

16. Finally, the Regulator will have statutory backstop powers to intervene in relation to financial distributions, to deliver a solution if football fails to find one itself.

17. This Impact Assessment (IA) provides evidence and analysis to support the government’s case for intervention and provides a more detailed qualitative and, where possible, quantitative assessment of impacts of the regime.

1.2 Problem under consideration

18. Despite the commercial success of English men's professional football in recent years, a number of fundamental problems continue to exist in the industry. Perverse incentives and misaligned owner motivations have resulted in excessive risk taking in pursuit of sporting success and promotion.

19. Ultimately, this has resulted in market failure. Entering financial distress charges a negative externality on fans and local communities as their social identities, cultural heritage and pride in place are tied to their club, as well as the negative impact on the local economy. Football is different to most other industries, with fan loyalty meaning that clubs have particular market power - most fans will not switch to a club that is run in a more financially sustainable manner.

20. Despite repeated opportunities and years of calls for reform, football has failed to self-regulate to address these problems, the existing football authorities do not have the appropriate incentives or governance structures to do so. Therefore government intervention is necessary to correct market failure in the industry.

1.2.1 There is a perverse incentive for clubs to overreach financially

21. **Football clubs have a strong incentive to outspend their rivals.** The primary objective of most professional football clubs is to attain the highest league position. Leagues within the English football pyramid are structured with promotion, relegation and European qualification to reward the teams that perform best on the pitch and incentivise them to perform better. They do so by competing for the best players and coaching staff. Empirical evidence over several years across leagues shows a strong correlation between wage expenditure and league position.[5]

22. The financial differences between leagues have become so great and performance is so closely linked to expenditure that clubs have a strong incentive to take excessive financial risks. For instance, in 2021/22, the average revenue of a Premier League club (£275m) was nearly ten times that of a Championship club (£28m).[6] Therefore, clubs are incentivised to spend increasing amounts on wages (and transfer fees) in order to increase their chances of attaining a higher league position and achieving promotion or preventing relegation. When clubs fall short on these sporting ambitions, their financial overreach can result in financial distress, administration and potentially liquidation. Therefore, in these circumstances, the incentive to perform better can lead to significantly worse financial performance.

23. Differences in available funds across clubs generates a perverse incentive for some clubs to overspend on player wages in order to compete with wealthier counterparts and/or to take excessive risks in a bid to secure promotion or avoid relegation. For instance, promotion to the Premier League is worth approximately £200m. These incentives are built into the market structure, made worse by revenues being unevenly distributed across leagues and clubs. Therefore, owner subsidy and/or financial overreach may feel necessary at times in order for clubs to remain competitive. Subsidies from wealthy owners provide some clubs with greater spending power than others in the same division. For example 'soft loans' from owners accounted for over £1.5bn of debt on Premier League and Championship clubs' balance sheets in 2022.[7]

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[5] Stefan Szymanski on the business of football | OpenLearn - Open University (2021).
[6] Annual Review of Football Finance 2023 - Deloitte (2023)
[7] Annual Review of Football Finance 2023 - Deloitte (2023)

24. Research has found that overspending on player wages has become more prevalent, and while not rational from a profit perspective, it is often necessary in order to achieve short-term sporting success.[8] Owners who invest in football for leisure and status may be willing to take this risk to chase short-term gains. In contrast, fans, who have lifelong emotional and monetary investments into their clubs, are likely to value the sustainability of their club and long-term success. This results in a positive externality to fans and communities, whose personal and social identities are often intertwined with their local club.

25. As outlined in Section 1.2.6 below, the existing regulatory framework has been unable to tackle these issues effectively. Rule changes rely on the votes of the clubs themselves. Therefore, regulatory capture is present, as the relevant regulatory bodies are not sufficiently independent from the entities that they are regulating. As a result, there are limited incentives to restrict overspending.

1.2.2 Inequitable distribution across the English football pyramid has exacerbated poor financial and operational management

26. **The revenues earned by the clubs in the top tier of English football have grown considerably in recent years**, mainly due to lucrative global broadcasting deals. At the same time, many of these clubs benefit from particularly wealthy owners willing to inject significant additional investment. Clubs in the lower divisions have not benefited from the same revenue growth. The result has been the emergence of an ever-widening revenue gap between the Premier League and the lower divisions.

27. Redistribution by the Premier League in the form of solidarity and parachute payments aim to address this. Whilst not insignificant (amounting to approximately 16% of PL broadcast revenue), this has not grown at enough of a rate to address the increasing gaps between leagues. Furthermore, the vast majority of these distributions go to a handful of clubs relegated from the Premier League in the form of parachute payments, thereby distorting relative revenues between clubs within the Championship.

28. A lack of sufficient redistribution also results in significant within-division disparities. For example, clubs near the top of the Premier League who benefit from significant additional broadcast revenues from UEFA competitions gain a financial advantage over other clubs in the division.

29. This generates significant ‘cliff edges’ between divisions. These differences between leagues can exacerbate poor financial and operational management, especially where clubs take excessive risks to achieve promotion or avoid relegation in pursuit of the much higher revenues on offer in higher divisions, especially the Premier League.

1.2.3 Unsustainable financial management

30. Despite recent rapid growth in total revenue[9] clubs' finances are becoming less sustainable. More specifically (Annex A provides more detail and evidence):

- Many clubs operate with unsustainable wage-to-revenue ratios, for example most Championship clubs spend over 100% of their revenue on player wages.

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8 Gambling in professional sport: the enabling role of regulatory legitimacy - Evans et al (2022)

9 Combined revenues across the top four divisions increased from approximately £360m in 1991/92 to over £6bn in 2019/20; a level of growth that has outperformed comparator leagues across Europe. Analysis based on Deloitte (2021), ‘Riding the challenge: Annual Review of Football Finance 2021 – Databook’, July.

- Many clubs are consistently heavily loss making and rely on external funding e.g. from the 2010/11 season to the 2019/20 season, Championship clubs made collective pre-tax losses of £2.5bn.

- Levels of borrowing and debt are increasing. Across the Premier League and Championship combined, net debt increased from approximately £3.5bn in 2016 to almost £6bn in 2021.[10]

31. Increasing debt is largely driven by Premier League clubs with a notable increase in bank loans following COVID-19. In the Championship, the majority of debt is in the form of 'soft' loans from club owners and directors. Soft loans are typically offered on interest free terms and can therefore be favourable to the club compared to bank borrowing or bonds.[11]

32. These unsustainable financial management practices can lead to financial distress if/when owners can no longer, or choose to no longer provide the required cash injection to maintain a club's solvency. They also exacerbate financial distress that can result from external factors (e.g. COVID-19) or poor 'on pitch' performance (e.g. relegation). In addition, the interconnectivity of clubs' finances, such as through outstanding transfer fees owed, means there is a risk of systemic problems if more clubs enter financial distress.

33. There have been a number of high profile financial failures in recent years, involving clubs with long histories e.g. Bury, Macclesfield Town, Wigan Athletic, and Derby County. In total there have been over 60 insolvency events involving English league clubs since the Premier League's inception in 1992 (Annex A provides the list of clubs that have entered administration since 1992 and in which year they did so). Unsustainable financial management and the club's reliance on owner funding was identified as the primary cause of Bury FC's collapse in the independent review conducted by Jonathan Taylor QC[12].

34. While there is no historical evidence of an increase in the rate of administrations or insolvencies, the underlying financial metrics show an increasingly systemic fragility, with more clubs more stretched than ever before. In independent research reports published in 2022 and 2023, football industry experts Kieran Maguire and Dr Christina Philippou consider financial metrics to evaluate the financial health of English football.[13] The 2022 research report found that:

    - Championship clubs have maintained poor wage control for a prolonged period of time. The authors found 22 out of 23[14] Championship clubs exceeded UEFA's 70% wages-to revenue guideline during the 2019/20 season.

    - A majority of clubs across the top 4 divisions had very low current ratios[15] (significantly below 1), a common measure of a business' ability to pay day-to-day costs. In fact, over 20 clubs had a current ratio below that of Bury FC (0.12) when it went out of business in 2018.

    - The lower half of the Premier League was heavily reliant on broadcast revenue, which creates problems if they are relegated and unable to reduce costs.

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[10] Annual Review of Football Finance 2022 - Deloitte (2022)
[11] Evidence via Deloitte in Annex A suggests this tendency is growing.
[12] The Bury FC Review: Report to the EFL Board, p. 1, para 1.3. - Jonathan Taylor QC (20 February, 2020)
[13] Assessing the Financial Sustainability of Football - Philippou and Maguire (2022). 'Still ill? Assessing the financial sustainability of football - Maguire and Philippou (2023)
[14] Luton Town publish abbreviated accounts and, as such, wage data was unavailable
[15] The current ratio is current assets (e.g. cash, inventory, receivables) divided by current liabilities (e.g. wages, taxes, short-term debt). Current means within 12 months. This is a measure of a business's ability to meet its short-term obligations.

35. Overall the authors found 'wide-reaching financial stress' and 'serious concerns around the financial sustainability' of football. In June 2023, the authors updated their analysis in the research report 'Still ill? Assessing the financial sustainability of football' and once again found systemic financial weakness in the football pyramid:

- Once again, Championship wage expenditure was well beyond recommended levels. 21 (out of 24) Championship clubs had a wages-to-revenue ratio in excess of the UEFA guideline 70%, with 17 exceeding 100%.
- Once again, very low current ratios were commonplace across the top 4 divisions of English football.
- Once again, the authors identified several Premier League clubs that are reliant on broadcasting for over 75% of their income.
- The authors also highlighted that there are poor standards of financial reporting in the football industry, with many clubs not filing accounts by the statutory submission date.

36. A year on, the conclusions of the authors' research have not changed. Traditional financial analysis shows the football industry is 'still ill'. This unsustainable trajectory, in conjunction with the other problems identified, pose a significant risk that the failure rate of clubs (including administrations and even liquidations) will increase without intervention.

37. In response to the consultation on the White Paper some stakeholders stated that there was limited evidence of large or increasing risks to club sustainability, noting that in the last decade there have only been seven club failures and stating that the system is self-evidently robust, having survived a global pandemic and the increasingly volatile financial conditions in the UK.

38. However, this fails to take into account the fact that the COVID-19 pandemic had a huge impact on clubs' already fragile finances.[16] Looking beyond administrations, a club that has not yet failed may be in a perilous financial state. For instance, whilst Derby County was ultimately saved, it was clearly in financial distress - as evidenced by the fact that it spent nine months in administration and was relegated to English football's third tier following a points deduction for breaching the EFL's financial rules.[17] This caused uncertainty and decreased wellbeing to its fans and local community, as well as impacting the finances of local businesses in the supply chain and HMRC tax revenues.[18]

39. Furthermore, broader financial metrics and indicators of financial distress indicate growing risks:

- **Clubs are consistently loss making and rely on external funding:** Excluding two clubs with significant loan write-offs, aggregate pre-tax losses for Championship clubs increased by 66% to a total of £406m in the 2021/22 season. Stoke City and Coventry City benefitted from loan write-offs of £120 and £29m, this further highlights the commonplace reliance on a significant amount of external funding.[19] Even at Premier league-level, from the 1999/2000 season onwards,

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[16] Arsenal and Tottenham availed the COVID Corporate Financing Facility from the Bank of England to secure low interest loans of £120m and £175m respectively. 'A new dawn: Annual Review of Football Finance 2022', Deloitte (2022).
[17] For further information see Box 6 of the White Paper.
[18] Derby County administration reports show that the companies in administration owed £25m in taxes but HMRC only received 75% of this debt. Companies House (2022), 'DC Realisations 1 Ltd: Administrator's progress report, 27 October.
[19] 'Riding the challenge: Annual Review of Football Finance 2021 – Databook' - Deloitte (2021); 'A new dawn: Annual Review of Football Finance 2022' - Deloitte (2022); 'A balancing act' Annual Review of Football Finance 2023 - Deloitte (2023).

18/22 (81%) Premier League seasons, where information is available, have resulted in pre-tax losses, highlighting that this is a persistent issue even for the highest earning clubs.[20]

- **Clubs operate with unsustainable wage-to-revenue ratios:** UEFA has indicated that for clubs to have a reasonable chance of breaking even, wages should not exceed 70% of revenue[21]. However, in the Championship, this ratio has continually exceeded 100%. At a club-level, 17 of the 22 clubs for which wage information was available had a ratio above 100%, with 10 exceeding 150%.[22] Although the average ratio in the Premier League has been approximately 70% in recent years, 13 Premier League clubs reported wage to revenue ratios at or in excess of UEFA's recommended threshold of 70% in 2020/21, up from 8 in 2018/19.

- **High levels of borrowing and debt:** Aggregate net debt across the Premier League and Championship was £4.3bn in 2022, an increase from £3.5bn in 2016 despite large debt reductions due to the recent sales of Chelsea FC and Newcastle United (reducing net debt by £1.6bn).

Case Study: Leeds United - Financial overreach ***Box 1.1.1***

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

In 2003, Leeds United Chairman Peter Ridsdale made a statement to the media regarding the club's financial situation, which included this now infamous line.[23]

The club's fragile position was built on several years of high transfer spending, financed by borrowing from financial institutions. When the club's gamble for Champions League football failed in successive seasons in the early 2000s, it was laden with an £82 million net debt. Even revenue from the growing Premier League broadcast deal could not cover the spiralling debts and wage bill, and in 2003 Leeds posted net losses totalling £49.5 million.

The mass sale of players to reduce the wage bill led to Leeds' relegation from the Premier League in the 2003-04 season. Following relegation, the sale of players continued and the club was forced to sell its training ground and stadium in 2004. Leeds entered administration in 2007, with the ensuing ten-point deduction guaranteeing its relegation to the third tier of English Football.

Leeds was ultimately saved from liquidation. However, the economic and wellbeing losses stemming from Leeds' financial distress could not be reversed[24].

1.2.4 Poor quality operational management

40. **These perverse incentives that lead to financial mismanagement are exacerbated by poor quality operational management and decision making at clubs.** The White Paper identified a number of examples of poor corporate governance in football clubs that would not be considered tolerable in other sectors, particularly in relation to internal 'checks and balances' within clubs'

[20] Ibid
[21] 'Given that other – mainly fixed – operating costs tend to consume between 33% and 40% of revenues, a wage-to-revenue ratio in excess of 70% is highly likely to result in losses, unless there is a significant surplus from transfers.' UEFA (2019), 'The European Club Footballing Landscape: Club Licensing Benchmarking Report, Financial Year 2018'
[22] Riding the challenge: Annual Review of Football Finance 2021 Databook - Deloitte (2021). A new dawn: Annual Review of Football Finance 2022 - Deloitte (2022).
[23] Chairman Makes Statement - Leeds United (January 2003).
[24] For example, approximately 130 full-time and 400 part-time staff lost their jobs following Aston Villa's 2015-16 relegation from the Premier League. Kieran Maguire explains community schemes also suffer since 'it becomes that much more difficult to do the outreach, health and education programmes' - The Athletic (May 2023)

internal decision making structures. Having appropriate board structures may have helped to scrutinise the high risk decisions taken by these clubs. Examples include:

- Newcastle United, which had a board of one until its takeover in 2021.
- Reading and Derby County, both of which have lacked appropriate Board structures.
- Birmingham City, where the club and the ground has been owned by different entities, under a complicated offshore ownership structure and it has been unclear who the ultimate owner of the club is.[25]

1.2.5 Clubs do not sufficiently take into account the interests of fans / communities

41. Football clubs are community heritage assets, which benefit not only fans but also the wider communities in which they are based. As expressed in the FLR: *"Football clubs also sit at the heart of their communities and are more than just a business. They are central to local identity and woven into the fabric of community life. The rich history surrounding football clubs is invaluable to their fans, with many clubs having existed for over one hundred years. They play a huge and often invisible role in unifying communities across generations, race, class and gender. They are a source of pride, and often in hard times comfort as well as practical assistance*."

42. This finding is supported by the English Football League's (EFL) *Supporters' Survey*[26]. Notable findings from this survey include: 83% stating that their team plays an important role in their community; and 75% of respondents stating that football plays an important part in their family life.

43. In addition, the 'specificity of sport' (i.e. the notion that sports sectors, including football, have inherent characteristics that distinguish them from standard economic activities) is a legally established concept in the rulings of the European Court of Justice and the decisional practices of the European Commission[27].

44. The FLR identified several examples of owners making decisions that threaten the heritage of English football. Examples include:

    - The attempt by a small number of Premier League clubs (in conjunction with several other teams from across other European leagues) to form a pan-European 'Super League'.
    - The sale of critical club assets e.g. stadiums and training grounds. In recent years Coventry, Darlington, and Wimbledon (MK Dons) have been either temporarily or permanently moved away from their 'traditional homes'. A number of clubs (e.g. Aston Villa, Sheffield Wednesday, Derby County, Birmingham City) have all sold their stadiums in order to offset financial losses.

45. There is insufficient fan engagement taking place across the game. The FLR identified highly variable standards of fan engagement across clubs. While some clubs follow strong fan engagement practices, e.g. Brentford operate a 'golden share' style fan veto over some management decisions, and Exeter City top the 'fan engagement index'[28]; evidence from the Football Supporters' Association indicated that there 'has been limited progress on delivering the relatively unambitious standards' set out in the Premier League and EFL rule books[29].

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[25] Fan-led Review of Football Governance (2021), p. 29.
[26] EFL 2019 Supporters Survey
[27] Mapping and Analysis of the Specificity of Sport - European Commission (2016)
[28] Fan Engagement Index, https://fanengagement.net/fan-engagement-index/
[29] Fan-Led Review of Football Governance: Evidence Submission - Football Supporters' Association (2021).

46. The financial incentives and short-termism within the market (discussed above) have also led to owners taking decisions that are detrimental to fans in other ways. For example:

- Owners may have a shorter time horizon (and higher risk appetite) than fans e.g. the FLR found that owners have been willing to gamble on 'winning now' over securing their club's long-term financial security. Fans and local communities incur significant costs when clubs go into administration (or cease to exist in a worst case scenario) e.g. where administration proceedings result in the sale of heritage assets.

- Owners face incentives to prioritise revenue growth over other aspects that fans value in order to increase the funds available for investment in the playing squad. Such a priority on revenue growth contributed to the failed attempt by some clubs to form a European Super League.

- These differences in preferences between owners and fans may result in a principal-agent problem. Where fans are the principal, with lifelong investment in their club. And owners and executives are the agents, which should act as custodians of the club representing fan interests[30]. There are lots of examples of owners taking excessive financial risks to chase short-term success, putting the long-term stability of the football club at risk. Owners fail their duty as custodians when they take excessive risks and short-term decisions which are against the interests of fans.[31]

1.2.6 Existing regulations have proven insufficient

47. Current oversight from industry authorities remains insufficient. Many of the market's problems are not new. Yet, neither clubs nor authorities have taken the necessary transformative actions despite repeated calls for reform from government, Parliament and the public.[32]

48. In the past decade alone, there have been a number of efforts to initiate reform. In 2011, the House of Commons' Culture, Media and Sport Select Committee called for robust ownership rules as part of a new licensing model for the game.[33] A follow-up report on football governance was published in 2013. An Expert Working Group was subsequently established to consider barriers to supporter ownership and 'to explore the greater facilitation of supporter engagement and involvement in the governance and running of football clubs[34]. Further reports into the collapse of Bury FC and the impact of COVID-19 on DCMS sectors have also called for urgent action.[35]

49. In October 2019, the FA Council passed a unanimous resolution calling for the FA to produce proposals for reform. The resolution stated 'it believes that these failures [of Bury and other clubs] indicate that the current financial and governance regulatory framework in the professional and semi-professional game needs strengthening'.[36]

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[30] See Fan-Led Review of Football Governance (2021), p. 4.
[31] For example 86% of English fans surveyed were concerned about the financial viability of clubs and leagues, as per 'Saving the Beautiful Game: Manifesto for Change' - Our Beautiful Game (2020).
[32] See for example:
'Football governance' - House of Commons Culture, Media and Sport Select Committee (2011).
'Government Expert Working Group on Football Supporter Ownership and Engagement' - DCMS (2016).
Impact of COVID-19 on DCMS sectors: First Report' - House of Commons Digital, Culture, Media and Sport Committee (2020). 'Football governance' - House of Commons Culture, Media and Sport Select Committee (2023).
[33] 'Football governance' - House of Commons Culture, Media and Sport Select Committee (2011).
[34] 'Government Expert Working Group on Football Supporter Ownership and Engagement' - DCMS (2016)
[35] 'Impact of COVID-19 on DCMS sectors: First Report' - House of Commons Digital, Culture, Media and Sport Committee (2020).
[36] https://thefsa.org.uk/news/fsa-proposals-to-protect-clubs-supported-by-fa/

50. Since the publication of the White Paper, football leagues have taken positive steps to develop and strengthen existing policies, which many stakeholders have noted. For instance, the Premier League has introduced an updated Owners' and Directors' Test and a Fan Engagement Standard.

51. That said, this recent industry-led reform is not sufficient to deliver long-term financial sustainability. This is because, as set out in the White Paper, the industry does not have the incentives and the governance structures to guarantee the necessary behavioural and structural changes over the longer term, and government pressure is not a lasting solution to these issues. Leagues in other countries have taken bolder steps, including the establishment of a taskforce to implement cost discipline and transparency in Germany and the introduction of squad cost limits in Spain (discussed further in the *International Comparisons* section).

52. By comparison, the existing authorities and governing bodies (such as the FA, Premier League, and EFL) in England have a track record of inaction, or ineffective action, that has allowed English football's problems to grow and worsen, and has failed to avert disasters. Given the lack of independence under the existing regulatory structures, it is unlikely that these bodies will be able to push through the transformative action that is required.

53. As set out in more detail immediately below, the weaknesses of the current self-regulatory framework include i) regulatory capture and ii)fragmented and poorly designed regulations.

54. **Regulatory capture:** The constitutional structures mean that the existing football authorities have vested interests that can lead to bias and/or inaction. For example, the Premier League, the private company responsible for aspects of regulation of its 20 member clubs, is owned by its 20 member clubs. These clubs are able to vote for changes to the rules/regulations (with a minimum of 14 clubs needing to support a change in order for it to be passed). Consequently, the regulatory bodies are not sufficiently independent from the entities that they are regulating and have misaligned incentives in designing and enforcing rules.

55. **Poorly designed and poorly enforced regulations:** Some current regulations fail to achieve their intended outcomes and lead to unintended consequences. For example, Bury FC's collapse highlighted the deficiencies of both the EFL's Owners' and Directors' Test and of its Profit and Sustainability rules. When giving evidence to the House of Commons Digital, Culture, Media and Sport Committee's inquiry into Bury's collapse in 2019, The EFL's acting chair, Debbie Jevans said "We must learn lessons from this" because the rules at the time did not require buyers to provide information on "source and sufficiency of funding" before a takeover, but within 10 days after the takeover had been completed.[37]

56. The EFL commissioned an independent report by Jonathan Taylor QC into the circumstances leading to the withdrawal of Bury FC's membership of the EFL. The report flagged fundamental flaws in the system that enabled the likes of Bury to be reliant on owner funding to be competitive on the pitch. Specifically, the report highlighted wages reaching as high as 140% of turnover. As well as this, the EFL led an internal review into the provision of future financial information and the Owners' and Directors' Test.[38]

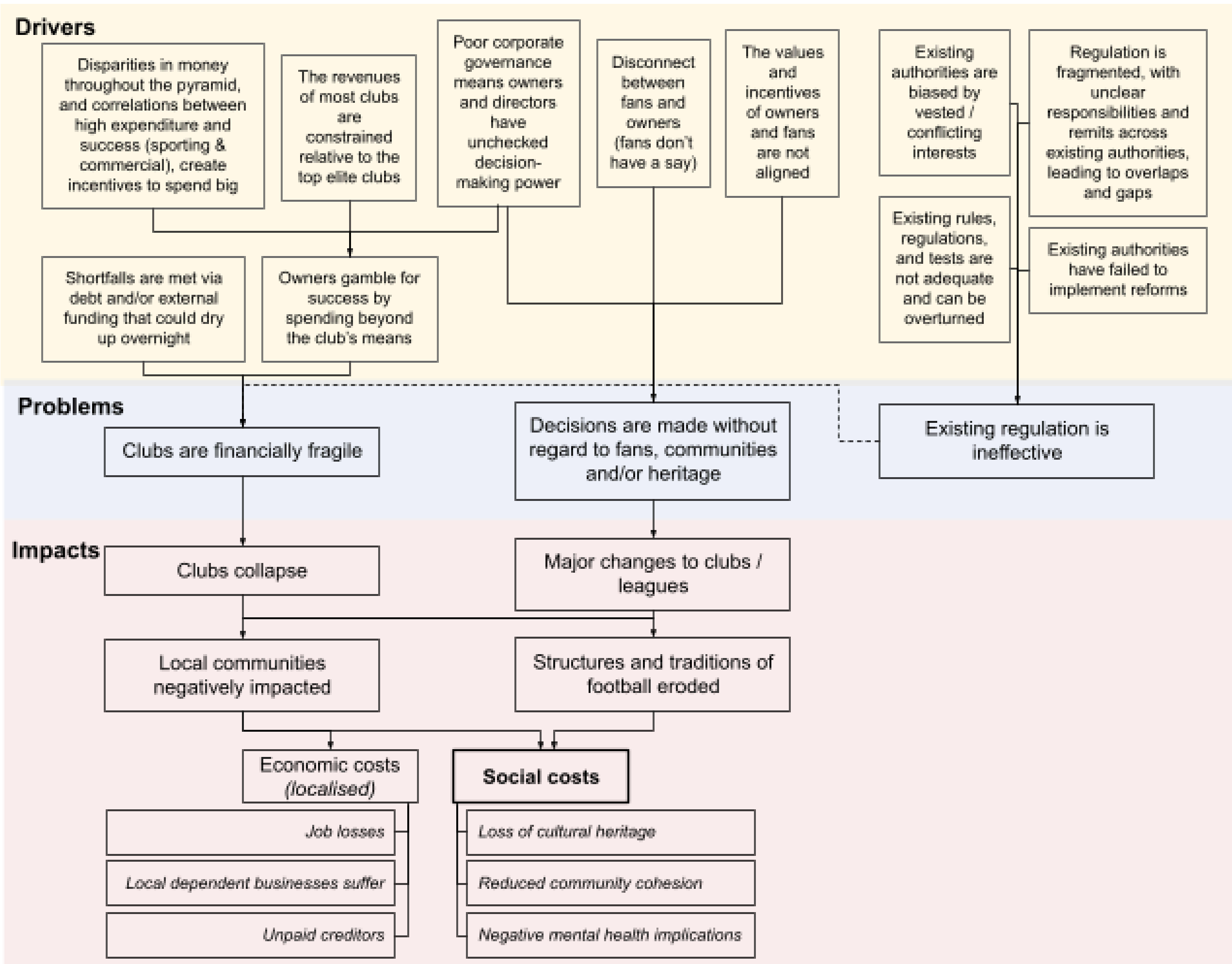
57. The EFL's Financial Fair Play rules have in a number of instances been bypassed as a result of gaps in the regulations. For instance, clubs have been accused of using the sale and leaseback of stadia at an artificially inflated price in order to loosen spending limits. Sheffield Wednesday were accused of using the sale and leaseback of Hillsborough Stadium in order to hide overspending and accounting losses. The club were ultimately deducted six points after appealing charges put

[37] EFL checks on prospective owners to be reviewed after Bury expulsion - The Guardian (2019).
[38] EFL Governance and Bury FC Review - EFL (2020).

forward by the EFL[39]. Following the sale of Pride Park in 2018 for £81.1m, Derby County were accused of a similar practice and charged by the EFL. However, the club appealed the decision and were ultimately cleared of the charges relating to the sale and leaseback of Pride Park.

58. Figure 1.2.6.1 displays the 'theory of harm' that explains the various ways by which a football club entering financial distress[40] causes 'harm' to both fans and communities.

Figure 1.2.6.1: Theory of Harm



[39] EFL Statement: Sheffield Wednesday (2020)
[40] Distress is deliberately a broad team and covers instances of club finances being under pressure, but not necessarily going through formal mechanisms like administration.

1.3 Rationale for intervention

1.3.1 Market Failure

59. The rationale for government intervention is based on two market failures:

- English football clubs represent heritage assets of significant value to fans and the communities in which they are based. Football clubs generate **externalities**, which is where a third party (not directly involved in the transaction) is impacted by a transaction. If a football club experiences financial distress or goes out of business, there are significant negative externalities for fans. Additionally, there is a positive non-use value to those not directly consuming the product of football. Moreover, English football as a whole represents an intangible asset of cultural heritage[41], contributing to the welfare of citizens nationwide; in other words, the loss of one club represents a wider erosion of the value of English football.

- English football clubs have **market power**, not in the traditional sense of market share, which is the relative ability of a firm to influence prices through supply and/or demand in a market, but because of the unconventional relationship between producer and consumer in this market. Once a consumer chooses to consume football, most choose one club 'for life'[42]. This provides clubs with market power, as consumer loyalty is extremely inelastic i.e. there is no substitute product for the vast majority of fans, which 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. Football clubs and owners, acting as the firm, have the power to make decisions in their own interest, without the risk of losing their customer base, their fans.

60. Football clubs play a pivotal role in many communities. The loss of a football club can result in substantial economic and social costs to the team's different stakeholders.

61. **Fans** - Unlike typical consumers, fans have deep emotional and social connections to their club. In economic terms, this means when their club ceases to exist, they will not substitute to an alternative 'supplier' - their demand will simply remain unfulfilled. In football terms, an Everton fan is not going to cross Stanley Park to switch allegiance to Liverpool if the worst happens to their club.

62. The previous government commissioned research from Ipsos to better understand the value of football clubs to their fans and communities.[43] The research found that the welfare gains generated through the continued existence of English men's professional football clubs, as measured by individuals' willingness-to-pay from their household budget to preserve their local / supported club, amounted to £360 million per year. This is additional to any economic value already paid through the contribution of gate receipts, shirt sales and sports subscriptions. These findings demonstrate

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[41] UNESCO defines 'intangible cultural heritage' as the 'practices, representations, expressions, knowledge, skills – as well as the instruments, objects, artefacts and cultural spaces associated therewith – that communities, groups and, in some cases, individuals recognize as part of their cultural heritage.' This intangible cultural heritage is 'transmitted from generation to generation and provides them with a sense of identity and continuity.

[42] From the EFL Supporters' Survey 2019: "As has been supported in findings from previous surveys, supporters view their connection to their club as an integral part of their social lives. Through a combination of factors such as friends and families, proximity to the ground and the desire to leave a legacy to future generations, it appears that fan allegiance to a team is part of their very identity."

[43] Contingent Valuation of Men's Professional Football Clubs and the Fan-Led Review Recommendations for DCMS, Ipsos, 2022.

that club failures can have wider impacts on the welfare of fans. These impacts include the loss of a recreational and social outlet, psychological distress, and a loss of identity and pride.

63. The Ipsos report finds that 58% of club fans, 27% of neutral football fans, and 12% of football non-users were willing to pay to implement the FLR recommendations[44]. In terms of the amounts, club fans were willing to pay £38.86 per household per year to put in place the recommendations of the FLR, showcasing the value of indirect benefits of changes to the governance of professional football. Neutral fans were willing to pay £5.66 per household per year, and football non-users £1.05 per household per year.

64. **Local communities** - Unlike typical businesses, football clubs are community assets with cultural heritage value. In addition to the direct and indirect economic benefits they deliver to local areas, they benefit wider society. Clubs often engage in community initiatives, and contribute to civic identity and pride in place. For example, Club Community Organisations in the English Football League (EFL) contribute £63 million to community and social projects each year,[45] and The Premier League Charitable Fund has a three-year budget of around £100 million to support community organisations.[46] Even non-football fans value their local football club, citing its cultural heritage value as well as associated charity and volunteering work.[47] In the event of a football club failing, these contributions may be partially or fully lost.

65. Local businesses in the vicinity of a football club's stadium often experience large increases in footfall on matchdays. These businesses stand to lose out in the event of a football club closure. These impacts are explored further in Section 3.1.

66. **Wider football ecosystem** - When a club is in financial distress, there can be ripple effects through football. For example, analysis of club finances identified the interconnectivity of clubs through transfer fees owed as a potential risk factor for systemic problems if more clubs become distressed.[48]

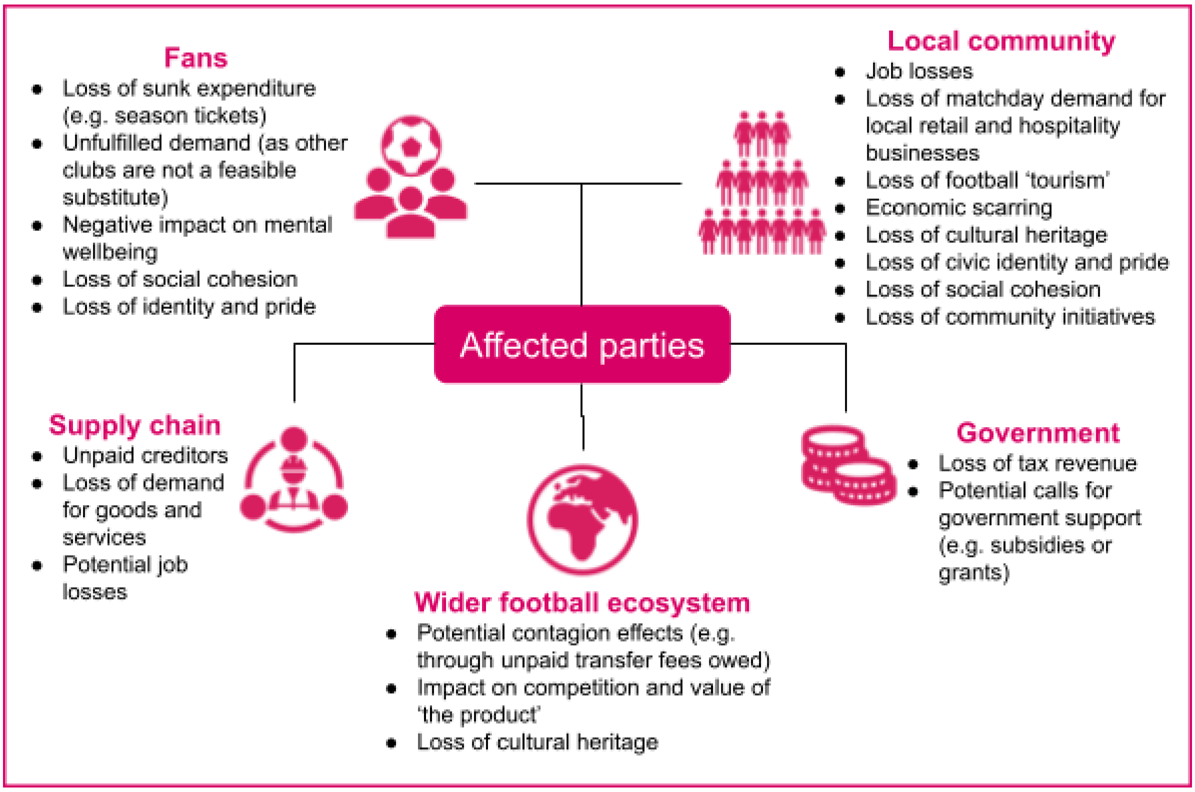
67. **Supply chain** - Clubs indirectly support economic activity and employment in supply chains that depend on them.[49] When a football club enters administration, there is no guarantee that creditors in the club's supply chain will recoup what is owed to them.[50] If the club goes into liquidation, those supply chains will lose future demand for their business too. For example, in 2007, Leeds United's administrators produced a 25-page list of creditors, including local hospitals and utilities providers, many of which were offered just pennies on the pound for what they were owed.[51] The failure of football clubs has real world consequences for local businesses.

68. **Government** - The Football Creditors Rule also affects HMRC. For example, the EFL requires that for a club to successfully exit administration and retain its EFL membership, all football related debts must be paid in full and any other creditors should be offered a 25p/£ settlement.[52] HMRC is treated as 'any other creditor'. As a result, HMRC estimates that administrations at EFL clubs have contributed to the UK Government being unable to collect nearly £30 million in unpaid taxes since

[44] The number of respondents in the survey is split as 3,031 club fans, 1,067 neutral football fans and 1,231 non-users.
[45] 'Measuring the impact of EFL clubs in the community: insight and impact report 2020' p. 11 - EFL (2020).
[46] 'Premier League: Economic and social impact' - EY (2022).
[47] Ibid.
[48] Assessing the Financial Sustainability of Football - Christina Philippou and Kieran Maguire (2022).
[49] For example, Premier League clubs alone spent £1.8 billion through their supply chains in 2019/20, supporting an estimated 47,000 jobs. EY, Premier League: Economic and social impact 2022.
[50] The Football Creditors Rule prioritises repayment to 'football creditors' (e.g. players and other football clubs) in the event of an administration. This can often result in non-football creditors recovering only a small amount of what they are owed.
[51] Leeds leave creditors clinging to wreckage - The Guardian (May 2007).
[52] EFL rule book, E25 - E34.

2019[53].

Figure 1.3.1.1: The impacts of a football club failure



69. Unfit custodians, poor corporate governance, and financial mismanagement would result in the financial failure of almost any business. For most sectors in the economy this is the acceptable natural selection of the free market. However, as set out above, football is unique. 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.

1.3.2 Why government intervention is required

70. Government intervention is required, as opposed to self-regulation reform, for several reasons.

71. **The free market will not rectify the football industry's problems:** Since football clubs and fans do not behave like typical businesses and consumers, football does not function like a typical market. Therefore, a large proportion of the value of clubs to their fans and communities is not properly captured in the market. As a result, private actors within the market do not fully account for the potential social costs and benefits of their actions. For example, when owners focused on short-term success take risky financial decisions, they may be placing insufficient weight on the long-term consequences of failure to the local community. There is precedent for government regulatory intervention in other markets where service disruption (e.g. through the failure of individual businesses) risks imposing significant economic or social costs. For example, financial services regulation and utilities regulators.[54]

[53] A Sustainable Future - Reforming Club Football Governance. Gov.uk, p. 16 - 2023.
[54] For example, the Prudential Regulation Authority undertakes stress-testing of the financial health of large financial institutions (banks, building societies and insurers). Similarly, Network regulators (e.g. Ofwat and Ofgem) are increasingly taking steps to monitor and promote financial resilience.

72. **Industry self-regulation will not deliver the reform required for long term financial sustainability:** As set out in detail in the White Paper[55], the football industry does not have the incentives and governance structures to make the behavioural and structural changes needed. The industry's problems are long-standing. Neither clubs nor authorities have taken the necessary transformative actions despite repeated calls for reform.[56] This means targeted government intervention is required to specifically address financial sustainability. The constitutional set up of the existing authorities is conflicted, with the regulation being set and voted on by the parties that are to be regulated. Given the lack of independence underpinning these existing regulatory structures, it is unlikely that these bodies have the ability to push through reforms to the level needed. The recent industry-led reform further demonstrates that industry self regulation will not deliver long-term financial sustainability.

73. There have been some recent changes in regulations from the Premier League and EFL[57], such as more disqualifying events as part of Owners' and Directors' Tests. While these changes are welcomed, they do not sufficiently address all of the problems identified and do not provide a lasting solution and the proposed reforms seen to date do not go far enough to deliver long-term sustainability.

74. The required reform will not happen without a strong centre to independently apply reformed rules, backed in statute, across all relevant football clubs. Only the government is able to provide an independent regulator with the statutory underpinning required to provide it with the ability to enforce its regulations. An independent regulator without a statutory underpinning would be reliant on clubs' good will in terms of ensuring regulatory compliance and would therefore be less likely to deliver improved financial sustainability.

75. **The market failure has large spillover impacts on society:** Football is the national game and the most popular sport in England. Aggregate attendances across the top four divisions stand at 35 million per season. In addition to this significant number, an even larger audience watches live matches and/or highlights on television, listen on the radio, or follow results via other media platforms. Many other people have a long-term affiliation with, or interest in, a particular club even if they do not consume matches directly. Research conducted by Ipsos revealed that there are significant impacts on society of football clubs being poorly run, going into administration, or going out of business.[58] The fan survey conducted by the FLR found strong support for the greater regulation of club finances (89%) and the establishment of an independent regulator (93%).[59]

76. To conclude, the evidence is clear that the free-market will not rectify the problems facing football and industry self-regulation will not deliver the long-term reform required. Therefore, government intervention is required to resolve the market failures in the industry and to better protect the interests of fans.

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[55] Government Response to the Fan Led Review of Football Governance (2022). A Sustainable Future - Reforming Club Football Governance (2023).
[56] See for example:
'Football governance' - House of Commons Culture, Media and Sport Select Committee (2011).
'Government Expert Working Group on Football Supporter Ownership and Engagement' - DCMS (2016).
Impact of COVID-19 on DCMS sectors: First Report' - House of Commons Digital, Culture, Media and Sport Committee (2020). 'Football governance' - House of Commons Culture, Media and Sport Select Committee (2023).
[57] Premier League statement: Owners' and Directors' Test (2023) and EFL Statement: Regulation Changes (2023)
[58] Contingent Valuation of men's Professional Football Clubs and the Fan-Led Review Recommendations for DCMS - Ipsos (2022).
[59] An online survey, conducted between 19th and 30th July 2021, with 20,841 responses.

1.3.3 Precedent in the regulation of other industries

77. Table 1.3.3.1 provides several important examples of UK Government regulatory intervention in markets where significant economic or social costs result from the failure of individual businesses within the relevant industry. This includes several cases in which regulators monitor, assess and/or intervene in relation to financial sustainability.

78. Previous interventions in relation to financial sustainability tend to be targeted at sectors where there is a high cost associated with service disruption, particularly where the product / service is considered to have an 'essential service' component (e.g. banking, utilities, postal services). In the case of the professional football sector, it is the heritage value / externalities in combination with the unique relationship that fans have with clubs (in terms of lack of substitutability) that provide the equivalent rationale for regulatory intervention (in a similar vein to the Environment regulations described in Table 1.3.3.1).

Table 1.3.3.1: Examples of similar government regulatory interventions

Role	Examples
Safeguarding financial sustainability	● The Bank of England's Prudential Regulation Authority undertakes stress-testing of the financial health of large financial institutions (banks, building societies and insurers) and sets minimum requirements for their capital, liquidity and leverage ratios. ● The Financial Conduct Authority (FCA) is responsible for prudential regulation of around 50,000 firms including asset managers and investment firms. ● Ofcom assesses and reports on the financial sustainability of Royal Mail as part of its annual monitoring process. ● Network Regulators (e.g. Ofwat, Ofgem) have generally left companies to make their own decisions regarding financial structure but are increasingly taking steps to monitor and promote financial resilience. Ofwat (the UK water industry regulator) is currently considering a number of options to strengthen financial resilience, including gearing caps, minimum credit rating requirements, dividend restrictions and increased transparency. ● The Water Industry Commission for Scotland (WICS) is implementing financial resilience measures for licensed providers in the non-household retail market.
Minimising negative externalities	● The Information Commissioner's Office (ICO) ensures that organisations comply with data protection and privacy law. ● Environmental regulators (e.g. Environment Agency, Scottish Environmental Protection Agency, Natural Resources Wales) have been established with duties to protect and enhance the natural environment.
Heritage protection	● The Historic Buildings and Monuments Commission for England has a number of responsibilities in terms of protecting national heritage. Listed buildings consent is required for any works to a listed building that would affect its special architectural or historic interest.

Source: Based on Oxera (2021), 'Tactical innovation or own goal? The proposals for an independent football regulator', 14 December.

1.3.4 International comparisons

79. As part of this IA, a review of international approaches to financial sustainability issues in football has been undertaken. The European leagues listed below are all similar in sporting format, with promotion and relegation, and financial incentives for clubs to aim for improved league positions. The English football pyramid generates the most revenue of the European football pyramids listed below. The average revenue of Premier League clubs in 21/22 was £274.6m, which exceeds the average revenue of clubs in the top leagues in Germany (£149.2m), Spain (£139.9m), and Italy (£99.8m).[60] Rules introduced in the USA have also been considered.

80. This section considers some of the regulations in place in other major football leagues where authorities have taken significant steps to address similar issues arising in their leagues. Each of these leagues are intervening, with some interventions going further than others. For example, the Spanish (La Liga) financial controls could be viewed as directly influencing on-pitch decisions by preventing the purchase of players due to a club's budget being exceeded. These rules are reported to have prevented Barcelona from re-signing Lionel Messi, who instead moved to Major League Soccer side Inter Miami.[61]

Spain

Economic controls imposed on clubs

81. Since 2013, La Liga has implemented 'economic controls' that impose squad cost limits (i.e. maximum wage and transfer budgets) on a club-by-club basis, taking into account individual club revenue circumstances. This framework was self-imposed by the clubs to ensure the long-term sustainability of the competition. The driver of the introduction of economic controls was that 19 of the 42 clubs in Spain's top two divisions had gone into receivership between 2004 and 2013. High profile clubs have faced a number of consequences from compliance with these and similar rules, such as FC Barcelona being unable to register players.[62] These rules largely go above and beyond those which the UEFA FFP rules implement on a European wide basis.[63]

Ownership

82. In Spain ownership structures are mixed, with private ownership the norm across professional sport clubs with four exceptions in La Liga including Real Madrid and Barcelona which are owned by membership rather than limited companies. These are often under the leadership of a president, often with considerable power and profile. There are a range of pros and cons to consider with a membership-based ownership structure, with greater membership input in the club operation maintaining a link between the club and members. Without private investment, there are challenges for how clubs are able to raise capital and clubs are more reliant on income to finance the club.[64]

Italy

83. The Italian Football Federation (FIGC) places financial rules on clubs with the aim of enhancing stability and placing restrictions on debt. This is in addition to other commitments such as publishing financial statements, budgets, football reports, social reports and management reports.

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[60] Annual Review of Football Finance 2023. Deloitte, 2023.
[61] Why Lionel Messi didn't return to Barcelona – despite both wanting a deal - The Athletic (2023)
[62] Understanding La Liga's Financial Fair Play rules and Barcelona's transfer struggles (2022)
[63] How LaLiga economic controls go beyond Financial Fair Play (2020)
[64] Cure or Curse: Socio Club Ownerships in Spanish La Liga (2010)

84. The system that tests clubs' finances includes three indicators to measure some aspects of financial performance, a debt indicator, extended labour cost indicator and primarily, a liquidity indicator. The liquidity indicator considers how able a club is to settle liability by converting its current assets, and sets a threshold for doing so.

85. This is set by the ratio of current assets and receivables against current liabilities and payables over a 12-month period and essentially measures whether short-term commitments can be met without creating debt. If a club fails to meet this threshold, clubs may be forced to sell existing players if they wish to make new signings. Lazio experienced this in 2021[65]. However, there are alternatives such as clubs injecting capital in order to make up any shortfall. The level at which this ratio is set can be adjusted to reflect wider external circumstances. Recently the ratio was lowered from 0.8 to 0.6, prompted by pandemic effects, to loosen restrictions on debt.[66]

Germany

86. The German Football League (DFL) established a 'Future of Professional Football' taskforce to develop concepts 'for promoting greater social responsibility in professional football as a cultural asset in Germany and also for implementing cost discipline and transparency at national and international level'. Following the review, the 36 DFL member clubs have committed to incorporating mandatory sustainability criteria (including around financial sustainability) in their licences.

50+1 rules on ownership[67]

87. German clubs operate a 50+1 rule, which has promoted a greater focus on sustainability. The 50+1 rule is an informal term used to refer to a clause in the regulations of the German Football League. The clause states that, in order to obtain a licence to compete in the Bundesliga, a club must either wholly- or majority-own its association football team, i.e. the parent club or members' association retains majority control in some way. Sweden also applies a 50+1 style rule in a similar way to Germany, with these rules applying not just to football, but also other sports.[68]

88. In essence, this means that private or commercial investors cannot take over clubs and potentially push through measures that contrast with the wishes of supporters. In the German divisions below the DFL-regulated Bundesliga and Bundesliga 2, clubs follow a similar approach, partly because it aids compliance in the case of promotion.

89. There are examples where the rules allow flexibility. For example, investors who have had an interest in a club for more than 20 years can be granted an exemption from the 50+1 rule, such as the cases of Bayer Leverkusen and Wolfsburg.[69]

90. The potential positive impacts of the 50+1 rule include knock-on fan impacts such as lowering ticket prices, given the reduced focus on profit maximisation.[70] German clubs were also not involved in the proposed European Super League because of this arrangement.

91. The potential negative impacts of this model include a potential deterrent to investment levels in the league via limiting the injection of external finances. External funding (which this system does not enable) could lead to increased competition, by lowering the barriers to entry by other non-elite clubs that can receive investment and progress.

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[65] Explaining the liquidity ratio that is blocking Lazio's incoming market (2021)
[66] FIGC eases liquidity index rules for Italian clubs (2021)
[67] Explaining the Bundesliga's 50+1 rule
[68] Fact: The 51 percent rule (2013)
[69] 50+1 rule in Germany: DFL wants no more exemptions to rule (2023)
[70] What is the 50+1 rule and could it work in the Premier League? (2021)

France

Independent commission

92. France have created an independent commission (DNCG) to monitor accounts of Ligue 1 and 2 clubs among other responsibilities. This does not explore ownership, focusing instead on accounts, auditing and solvency. The DNCG has powers to apply various sanctions in instances of a breach of the solvency regulations, which could extend to relegation in severe cases.[71] This includes requirements for owners to provide financial guarantees that they have the resources to run a club for a year.

USA

93. The USA's Major League Soccer (MLS) enforces some regulation, primarily related to salary regulation and monitoring. This includes strict salary cap measures and the designated player rule, which allows up to 3 players to be contracted outside of the cap.[72] In terms of ownership, fan ownership is rare in US sport, barring some exceptions such as San Francisco FC in USL2, further down the pyramid.[73]

Conclusions

94. The range of approaches in place in other countries listed above have been deemed to carry a greater risk of unintended consequences, or to be less suitable for the English football pyramid, than the preferred model. The specific market failures identified will be tackled by the proposed functions of the Regulator, including financial regulations to improve financial sustainability, Owners' and Directors' Tests to ensure suitable custodians, a 'Football Club Corporate Governance Code' to improve corporate governance, minimum requirements for fan engagement and protection for club heritage assets.

95. The preferred option proposed in this IA takes a risk-based and proportionate approach to avoid directly influencing on-pitch decisions. For example, by setting outcomes on financial sustainability rather than imposing strict spending limits and salary caps. The Regulator will take into account individual club circumstances, placing fewer (if any) requirements on well run clubs, and will aim to minimise: the effects on sporting outcomes; the adverse effects on the competitiveness of regulated clubs against their international counterparts; and, the adverse effects on investment into English football. This regulatory independence and flexible approach in setting individual licensing conditions will be particularly important given that the majority of major European leagues have regulated the top two divisions, while the Regulator for the English football pyramid will cover the top five leagues.

[71] Governance and Competition in Professional Sports Leagues (2007)
[72] Everything you need to know about the MLS transfer market
[73] Fan ownership in MLS is impossible. Why? (2023)

1.4 Objectives of intervention

96. Despite increasing broadcast revenues, high fan attendance and record commercial deals, excessive financial risk in English football is increasing the danger of clubs entering administration and going out of business. Too many clubs have poor governance structures and reckless decision-making at the executive level.[74] And existing football bodies have failed to provide effective oversight of the game, allowing systemic issues to persevere.[75]

97. As a result, the government has set out the need for an independent regulator to address the market failures that have led to financial sustainability issues at the individual club level and at a systemic level across the English football pyramid.[76] Part of the independent regulator's remit will be to deliver financial regulation, protect cultural heritage and fan interests, establish a Corporate Governance Code and establish a statutory Owners' and Directors' Tests which strengthens existing industry tests.

98. The primary objectives of government intervention in terms of outcomes are, relative to the counterfactual:

- To significantly reduce the number of clubs entering financial distress / administration via improved financial management, corporate governance practices etc. Consequently, to reduce the number of clubs going out of business.

- If / when clubs do enter financial distress, to protect the use of important cultural heritage assets (e.g. a club's stadium, Intellectual Property).

- To achieve objectives whilst ensuring that:
    i. the 'on field product' remains 'best in class'.
    ii. English football continues to attract the best players, global viewership, and revenues.
    iii. There is a competitive domestic league structure, with high levels of competition within leagues and between divisions.
    iv. The Regulator will deliver the protections set out, while not damaging English men's professional football's contributions to economic growth, in accordance with the Growth Duty.

99. Indicators of success will include club sustainability, systemic sustainability and fan engagement metrics.

[74] Fan-Led Review of Football Governance (2021), p.29.
[75] Fan-Led Review of Football Governance (2021), p.31.
[76] A Sustainable Future - Reforming Club Football Governance (2023), p.5.

Figure 1.4.1: Football Regulator Logic Model

Activities	Outputs	Outcomes	Impacts
Government establishes a new regulatory regime to promote better football governance and financial sustainability. Regulatory requires football clubs to take part in licensing regime. Regulator will establish strengthened statutory owners' and directors' tests for prospective owners and directors. .	Regulator delivers financial regulation. Regulator delivers effective monitoring of systemic risk. Strong new legal protections to safeguard the heritage of clubs and ensure fans' voices are heard. Higher threshold for owners and directors.	Take action to mitigate identified risks. Protect cultural heritage of football clubs. Improved corporate governance structures in football.	Protect and enhance financial resilience and sustainability of English football. Fewer clubs in financial distress, entering administration or going out of business versus the counterfactual. Fan interests are protected, improving mental wellbeing and social pride.

1.5 Consultation Response

100. As above, in February 2023, the previous government published the White Paper titled, 'A Sustainable Future - Reforming Club Football Governance' ('the White Paper'),[77] which built on the recommendations of the Fan Led Review and laid out a proposal for an independent regulator of English football. The Regulator's primary purpose will be to protect and promote the sustainability of English football.

101. There was then a targeted consultation on the proposals in the White Paper. This included a series of panel discussions with key stakeholders, such as the Premier League, the English Football League ('EFL'), the National League, the English Football Association ('The FA'), the Football Supporters' Association ('FSA') and many more. In addition, written comments were invited from: all 116 football clubs in the top five tiers of English football; the relevant leagues and existing footballing bodies; fan groups; legal experts; industry experts; leading academics; and civil society organisations.

102. Overall, the majority of stakeholders welcomed the reforms but provided targeted and constructive areas of concern and consideration.

103. In the response to the consultation, published in September 2023, the previous government set out the following points in further detail:

- The case for reform, which is clearly evidenced by independent, expert financial analysis.
- The scope of the Regulator, which needs to be tightly defined and focused on financial sustainability. That said, it is recognised that there are issues in other areas, such as grassroots, that are not in the Regulator's scope but the government will work with stakeholders to address.
- Consistency of the regulatory approach, which needs to be proportionate and bespoke to reflect the diverse nature of issues and clubs across the pyramid.
- The independence of the Regulator, which is key to ensuring integrity and impartiality in decision-making. The government is working to ensure that independence, particularly operational independence, is built into legislation around regulatory design and governance structures.
- Managing the regulatory landscape: there needs to be collaboration, coordination and information sharing between the Regulator and existing football bodies, where appropriate, to minimise regulatory overlap and burden. Whilst the Regulator will be the ultimate authority on matters within its remit, it will work and have a formal relationship with the relevant leagues to help manage the regulatory landscape.
- The regulatory backstop powers on distributions: the government's strong preference is for a football-led solution but given the importance of distributions to financial sustainability, the Regulator will need to have targeted powers to intervene if necessary. This backstop mechanism needs to be carefully designed to ensure it delivers the right outcomes with minimum regulatory involvement

104. In parallel to the consultation on the policy, further engagement was undertaken to understand the compliance and familiarisation costs clubs and leagues will face under the proposed new regulations. Views have been collected from a range of clubs throughout the English football pyramid, as well as the Premier League, the English Football League, and the National League. Questions and assumptions were shared in advance of meetings to clarify the aims of the consultation.

[77] A sustainable future - reforming club football governance - DCMS (2023)

105. The discussions with clubs consisted of questions on the compliance and familiarisation activities that clubs currently undertake under existing regulations. Given that the full detail of the regulatory regime is not yet known, clubs were asked to provide indicative estimates based on the assumptions set out. Scenarios were put to the clubs involved to help their understanding of how the new regulations might impact them.

106. Based on these expected impacts, clubs provided estimates of the additional activity required of them, and the relevant costs of those activities. The vast majority of respondents indicated that, provided the Regulator is well-designed to avoid duplication, the additional requirements would mean modest additional familiarisation and compliance costs. There was an acknowledgement that some clubs would have better starting positions than others, based on level of resources and current operations. These responses have informed the assumptions used as inputs within the modelling of the compliance and familiarisation costs outlined in Section 2.0 below.

107. The leagues will be given a formal role in the regulatory model, which should reduce any overlap and duplication of current requirements under existing regulations, limiting compliance costs for clubs. Leagues have been consulted on this formal role, with their assessment of the additional activities required of them feeding into the estimated compliance and familiarisation costs for leagues contained within Section 2.0 below.

108. This engagement with key stakeholders has continued as the policy position has been refined further. The government will continue to engage closely with a range of stakeholders across football and beyond as the legislation is implemented.

1.6 Summary of the preferred option and implementation plan

109. The preferred policy option is Option 4 - to introduce an independent football regulator for English football with statutory backing.

110. Under this option, the government will establish an independent regulator in statute to oversee a licensing system for English football clubs in the top five leagues. Clubs will have to be licensed to operate as professional football clubs. The Regulator's primary strategic purpose will be to ensure that English football is sustainable and resilient. The Regulator will be set up as a new body, and funded via a levy on regulated clubs. The government intends to implement this via primary legislation.

1.7 Options Considered

111. In line with Green Book guidance, a long list of options was developed using evidence and views gathered as part of the FLR. The long list options varied by scope, the level of intervention, delivery mechanism and funding mechanism. A series of critical success factors (CSFs) were developed to assess these options against, including strategic fit, achievability, value for money, capacity and capability, and affordability. Analysis of each option against the CSFs, as well as stakeholder views from the FLR fed into the decisions on which options were taken forward from the long list to the shortlist.

112. Four options are included in the shortlist:
- I) Do Nothing
- II) Do Minimum
- III) Introduce a new watchdog
- IV) Independent statutory regulator (preferred option).

Table 1.7.1: Summary of options shortlist

Options Framework for Analysis category	Option 1: Do nothing	Option 2: Do minimum	Option 3: Introduce a new watchdog	Option 4: Independent statutory regulator (preferred option)
Scope	N/A	Top 5 divisions of English league football[78]		
Service Solution	Market-led reforms	Backstop measures only	Backstop measures and light touch / non-statutory regulation (i.e. clubs are not legally required to adhere to recommendations) of finance and corporate governance	Backstop measures; Regulation of finance and corporate governance and ownership; and Backstop powers over revenue distribution
Delivery Mechanism	Self-regulation		Watchdog with non-statutory powers	Independent regulator, either within an existing organisation or a new organisation
Funding	N/A	Public funding	Levy on clubs	

1.7.1 Option 1: Do nothing (counterfactual)

113. This option involves continued industry self-regulation. The domestic football authorities have all taken some recent steps to improve the way in which they operate. Following the publication of the White Paper, footballing league bodies have taken positive steps to develop and strengthen existing policies. For instance, the Premier League has introduced an updated Owners' and Directors' Test and a Fan Engagement Standard.

114. However, this recent industry-led reform is not sufficient to deliver long term financial sustainability. This is because, as set out in the White Paper, the industry does not have the incentives and the governance structures to guarantee the necessary behavioural and structural changes over the longer term and government pressure is not a lasting solution to these issues. Clubs have a vote on league changes and clubs have proven to be unwilling to vote for the types of changes required. As such, league bodies cannot provide certainty that their policies will be designed, monitored and enforced effectively and in a way that addresses the relevant issue. Furthermore, these reforms need to be designed with football clubs across all the leagues in mind, harmonised accordingly and applied proportionately. This is not possible without a strong centre to independently apply reformed rules, backed in statute, across all relevant football clubs.

115. There have been over 60 instances of clubs entering insolvency proceedings in the 31 seasons since 1992. Meanwhile, there have been three instances of clubs going out of business in the 31

[78] 116 clubs in total (20 in the Premier League, 72 in the EFL, and 24 in the National League).

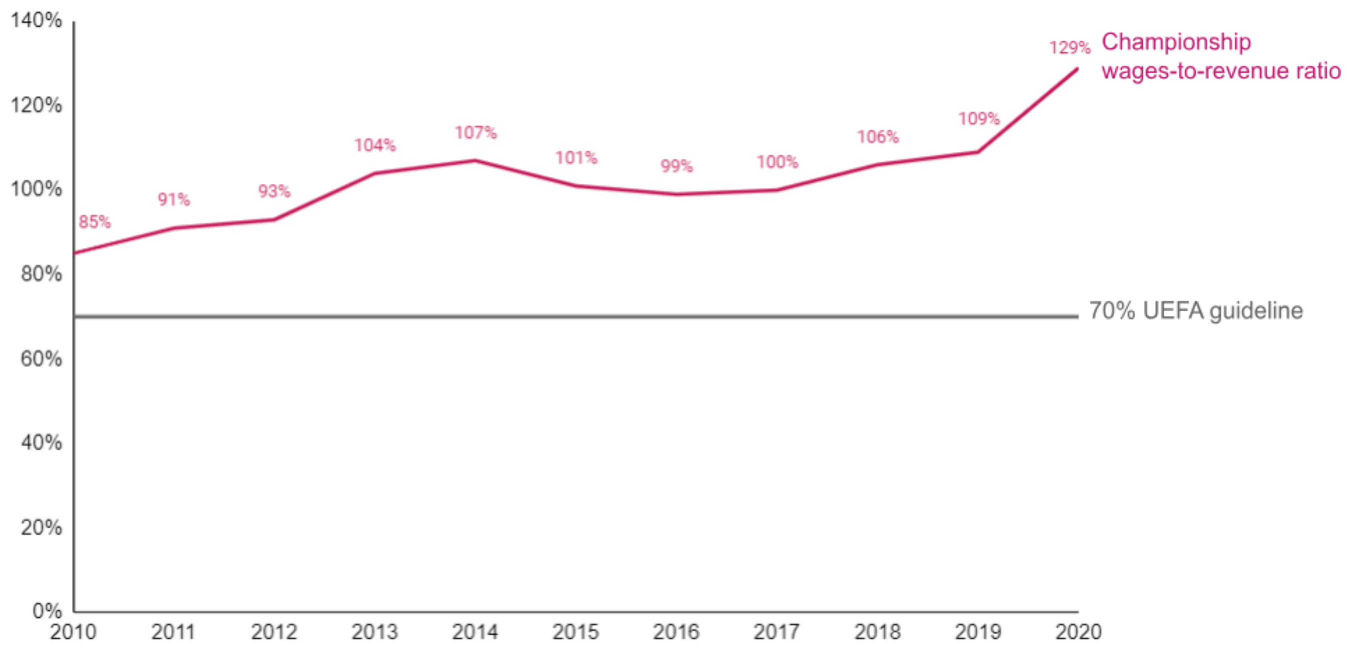
seasons since 1992 (Bury, Macclesfield Town, and Rushden & Diamonds). This averages at 2 insolvency events per year across English men's professional football, and just under 1 club going out of business every ten years.

116. Although the incidence of club insolvencies are relatively low at present, due to the trends observed in the underlying financial measures of sustainability the government expects an increase in the rate of clubs entering financial distress without reform. This is likely to result in an increased rate of insolvency events.

117. Furthermore, a club may still be in a perilous financial state even if it has not entered insolvency proceedings. For instance, whilst Derby County was ultimately saved, it was clearly in financial distress - as evidenced by the fact that it spent nine months in administration and was relegated to English football's third tier following a points deduction for breaching the EFL's financial rules.[79] This caused uncertainty and decreased wellbeing to its fans and local community, as well as significantly impacting the finances of local businesses in the supply chain and HMRC tax revenues.[80]

118. The medium term trend suggests that wage controls have been getting worse. Particularly in the Championship, where there is the strongest incentive to take financial risks in search of promotion to the Premier League.[81] Figure 1.7.1.1 below, as presented by Philippou and Maguire (2022), shows a medium term trend that wages have increased relative to revenue.

Figure 1.7.1.1: Championship wages-to-revenue ratio between 2010 to 2020



Source: Philippou and Maguire (2022).[82]

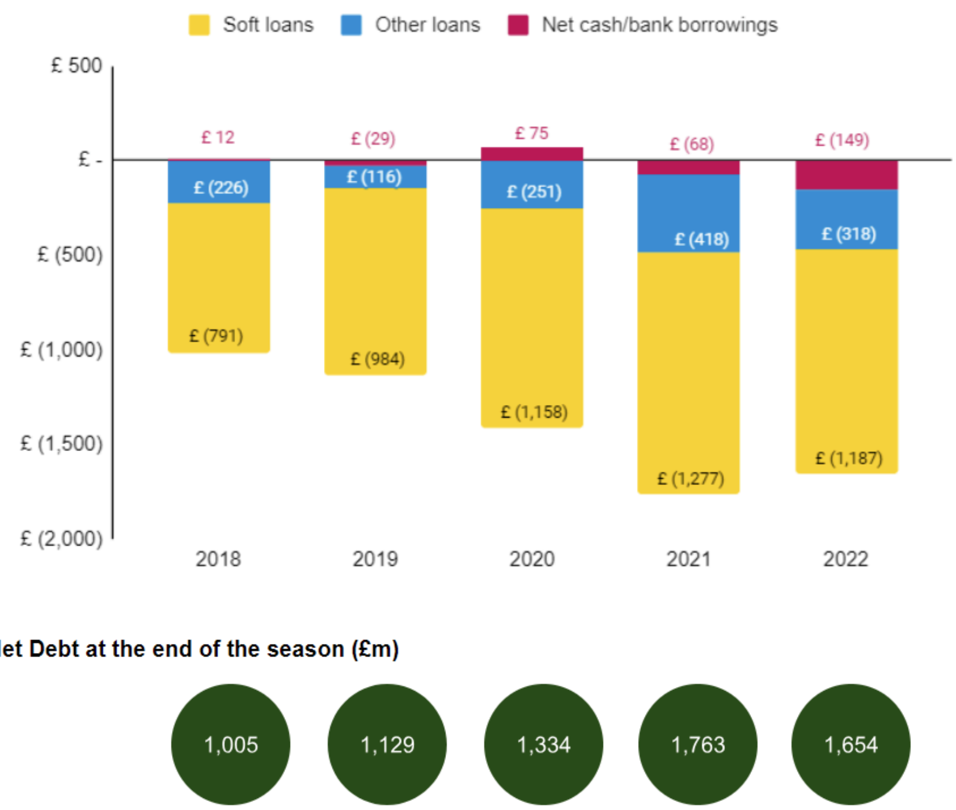
[79] For further information see Box 6 of the White Paper.
[80] Derby County administration reports show that the companies in administration owed £25m in taxes but HMRC only received 75% of this debt. Companies House (2022), 'DC Realisations 1 Ltd: Administrator's progress report, 27 October.
[81] 'Gambling in professional sport: the enabling role of regulatory legitimacy' - Evans et al (2022).
[82] Assessing the Financial Sustainability of Football - Christina Philippou and Kieran Maguire (2022).

119. Wages-to-revenue ratios have been consistently above the 70% UEFA guideline since 2010, and since 2013 they have regularly been above 100%. Between 2010 to 2020 the Championship wages-to-revenue ratio rose from 85% up to 129%, an increase of approximately 50%.[83]

120. More recent data suggests that the Championship wages-to-revenue ratio has decreased since a 2020 peak. The peak was in part due to the COVID-19 pandemic reducing revenues. The 2023 Deloitte Annual Review of Football Finance presents a Championship wages-to-revenue ratio of 126% and 108% for 2021 and 2022 respectively. While this suggests a return to pre-pandemic levels, it is still a substantial increase on 2010 figures[84].

121. Similarly, Deloitte analysis of Championship aggregate net debt finds that it is trending towards higher levels of financial risk. Figure 1.7.1.2 below shows that Championship net debt has increased by 63% in a 5-year period, from £1.01bn in 2018 to £1.65bn in 2022.

Figure 1.7.1.2: Championship aggregate net debt (£m), 2018 to 2022



Source: Deloitte (2023).[85]

122. Research has found that 'excessive exuberance' (i.e. overspending on player wages) is predictive of football club insolvencies[86]. This is particularly true when considered alongside negative demand

[83] Or 44 percentage-points.
[84] Note that this is comparing different sources (Deloitte, and Philippou and Maguire). However, both sources use analysis of Companies House financial accounts, therefore historic differences between the two sources are small (typically within 1-3%).
[85] Annual Review of Football Finance 2023 - Deloitte (2023).
[86] The S-Score of financial sustainability in professional football clubs - Evans, R (2023); Why do football clubs fail financially? A financial distress prediction model for European professional football industry - Alaminos and Fernández (2019).

shocks (e.g. reduced matchday attendance), financial shocks (e.g. reduced financial support from ownership) or sporting distress (e.g. relegation)[87].

123. The expected economic costs of an increased rate of football clubs entering financial distress, and an increased rate of insolvency events include: job losses, loss of revenue for local businesses, and unpaid creditors (including HMRC). The expected social costs include: loss of cultural heritage value and reduced pride in place amongst some communities.

124. These economic and social harms are expected to increase under the 'do nothing' option as a result of two primary factors:

- More football clubs are expected to fall into administration or, in the most severe cases, liquidation, resulting in significant economic and social costs to fans, local communities, and other stakeholders in the relevant clubs.
- Even in less extreme cases, many more clubs are expected to be forced into taking actions to improve their financial position, but in a way that results in the loss of important heritage (e.g. stadium sales).

125. In Option 1 (Do Nothing) there are no compliance, familiarisation or government costs to clubs. Neither are there tax costs to individuals or households.

126. However, Option 1 fails to meet the recommendations of the FLR and it does not achieve the strategic objectives of intervention. This means that it will not reduce the risk of clubs becoming insolvent. The increasing financial risk and weakening resilience in the football pyramid means that more clubs are expected to become insolvent, this harms the communities, fans and local businesses of these football clubs.

1.7.2 Option 2: Do minimum

127. This option involves backstop measures to protect the cultural heritage of a club in the event of insolvency.

128. This would involve enforcing certain FA rules that protect the cultural heritage of clubs when a club enters insolvency.[88] It would prevent the sale of stadiums in order to pay off debt obligations during insolvency proceedings. Additionally, if in the event of or following insolvency, a club wants to change its club crest, home colours or playing name it must be able to demonstrate that it has the backing of a majority of fans via an independently run poll.

129. This would be a low cost option for reducing the harm caused by clubs facing financial distress, as it would avoid the costs of setting up a Watchdog or Regulator. It would ensure minimal disruption and distress for fans when problems do occur, and would protect important heritage assets (except for instances in which clubs have already raised finance against them, or do not own their stadium). However, this option does not achieve the objective of making clubs sustainable and resilient because the backstop powers would only take effect once a club is in severe financial distress. Therefore, this option does not achieve the same benefit of options which target the root causes of financial instability within the current market structure.

130. The do minimum option:

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[87] Philippou and Maguire (2022) find that relegation from the Premier League is associated with an average 47% revenue decline, while wages are reduced by an average of 31%. This suggests that player wages are 'sticky', such that it is difficult for clubs to quickly adjust costs to their new financial circumstances.

[88] FA introduce new rules to protect heritage of clubs - The FA (2022).

- Scope includes the top 5 divisions of English league football
- Low levels of intervention, backstop measures only
- Involves self-regulation of the industry
- Publicly funded

131. Option 2 (Do Minimum) results in a low cost to football clubs and low tax costs. It also ensures the protection of heritage assets once a football club becomes insolvent, except in circumstances where a club does not own its stadium.

132. However, Option 2 fails to deliver on the majority of FLR recommendations. Heritage assets are only protected at the point of insolvency, which may be too late. This option does not do anything to improve financial sustainability, governance structures, Owners' and Directors' Tests or fan engagement. Therefore a trend of increased financial risk is expected to continue, resulting in more frequent insolvencies. This would harm clubs' fans, local businesses and the communities.

1.7.3 Option 3: Introduce a new watchdog

133. This option involves introducing a new watchdog funded by a levy on football clubs. The watchdog would gather and publish information on market outcomes. Although it may have some statutory information gathering powers, it would have limited enforcement capabilities in comparison to an independent regulator.

134. Introducing a new watchdog is expected to increase transparency between supporters and clubs. The watchdog would put pressure on owners to promote sustainability and financial resilience within a club's decision making processes.

135. However, a watchdog's inability to directly intervene in the market would place limits on its ability to improve financial sustainability and corporate governance. Although a watchdog can publish recommendations, there would be no statutory requirement on clubs to take action in response to them. Moreover, the information gathering and publication nature of a watchdog could mean that it may not pick up issues until it is too late to act.

136. Introduce a new watchdog option:

- Scope includes top 5 divisions of English league football
- Intervention includes backstop measures, light touch / non-statutory (i.e. clubs are not legally required to adhere to recommendations) financial regulation, ownership and corporate governance
- Watchdog
- Industry funded via a levy on clubs

137. Option 3 (introduce a new watchdog) has the benefit of carrying lower costs to clubs and tax costs than Option 4. It would improve transparency of club finances, highlighting potential risks and therefore perhaps indirectly improving financial sustainability. This increased transparency may deliver indirect benefits to fan engagement and to the wider community and local businesses. This option would protect cultural heritage assets in the event of club insolvency.

138. The watchdog would not have statutory backing to enforce its recommendations therefore may be ineffective in achieving its objectives. For instance, given a lack of statutory power, it is expected

that this option will be less effective than the preferred Option 4 in improving financial sustainability as Option 3 would rely on clubs proactively and voluntarily engaging with the watchdog. Clubs may be unlikely to take this action and restrict their own activities. Meanwhile, there would be limited improvements to Owners' and Directors' Tests and fan engagement. As such, Option 3 may fail to deliver on the majority of the FLR recommendations.

1.7.4 Option 4: The preferred option

139. The preferred option is to introduce an independent regulator for English football, backed by statute. Both of these aspects of the Regulator (independent and backed by statute) are required in order for the preferred option to meet the stated objectives, to address the perverse incentives of the current governance arrangements and to ensure that the Regulator has the authority to enforce its regulations. It is the combination of these two characteristics that separate the preferred option from the others on the options shortlist.

140. The Regulator’s primary purpose will be to protect and promote the sustainability of English football.

141. This is underpinned by three operational objectives:

- The club financial soundness objective - to protect and promote financial sustainability of individual clubs, ensuring that clubs take sensible financial decisions and consider the long-term when taking risks;
- The systemic financial resilience objective - to protect and promote the financial resilience of English football as a whole, ensuring that systemic risks and structural issues like the distribution of revenue through the pyramid are managed appropriately;
- The heritage objective - to safeguard the traditional features of English football that matter most to the fans and local communities of clubs.

142. The Regulator will operate a licensing system, whereby all clubs in scope will need a licence to legally operate as professional football clubs. Clubs will initially apply for a provisional licence for up to three years, and then work with the Regulator towards a full operating licence by the end of their provisional period. Licensing will allow the Regulator to apply requirements on clubs proportionately. The licence conditions on a club will vary depending on the club’s specific circumstances and the unique risks it faces. Clubs will need to comply with mandatory conditions and freestanding duties in order to receive a provisional licence. A full licence will be granted once the club complies with the full complement of requirements, including: mandatory conditions, freestanding duties on clubs, the threshold requirements, and if no owners or directors are found unsuitable under the Regulator’s tests. The Regulator will have a tightly defined scope focused on the financial sustainability of the game and safeguarding club heritage.

143. Financial regulation will be the Regulator’s core focus, and will be based on improving financial resilience. At its most extreme, financial failure can lead to clubs ceasing to exist and so risks causing the most significant harm to fans and communities.

144. To protect against this, the Regulator will require clubs to:

- Demonstrate good basic financial practices.
- Have appropriate financial resources or ‘buffers’ to meet cash flows and financial shocks.
- Protect the core assets of the club - such as the stadium - from harm.

145. To address corporate governance issues in football, the Regulator will establish a corporate governance code that clubs must report against annually. There will be a requirement for clubs to publish what action they are taking on equality, diversity and inclusion detailing what action a club is taking to improve these areas within the organisation. To date, the poor internal governance at some clubs has allowed owners to act unilaterally, pursuing short-term interests with little accountability or scrutiny. Under the new regulatory system, clubs will submit an annual corporate governance statement following an ‘apply and explain’ model, detailing how they are applying the code, to improve transparency and accountability. The code will be applied proportionally, with regard to the size, league and complexity of the club’s business model, and where risk may exist as a result of weak corporate governance.

146. The Regulator will oversee strengthened suitability tests. This will aim to avoid any more unsuitable custodians causing or contributing to problems at clubs and risking harm to fans. All prospective owners and directors will have to pass the tests before they can take up a position at the club. This includes:

- A fitness test, to ensure individuals have honesty and integrity, are financially sound, and (for directors only) have the requisite competence for that role.
- Enhanced due diligence of source of wealth (owners only).
- A requirement to have a business plan and sufficient funds to acquire and run the club (owners only).

147. Owners and directors who are already in place can be (re)tested on their fitness (owners and directors) and source of wealth (owners) if there are concerns about their suitability.

148. The Regulator will implement a minimum standard of fan engagement. Fans are the most important stakeholder for any football club, and both parties benefit from their involvement in the long-term decision-making process at a club. The Regulator will ensure clubs have a framework in place to regularly meet a representative group of fans to discuss key matters at the club, and other issues of interest to supporters (including club heritage).

149. The Regulator will also add, and reinforce existing, protections around club heritage. Clubs will be required to obtain the support of a majority of the club’s fans before making any material changes to the club’s crest or home shirt colours, and the approval of the Football Association (FA) before making any changes to the club’s name. A club will be required to notify and obtain approval from the Regulator before relocating from or selling its stadium, or if it intends to use the stadium as collateral for a loan. A club will also be required to consult its fans prior to any relocation.

150. Clubs will not be able to compete in competitions that have been prohibited by the Regulator. In considering whether to prohibit a competition, the Regulator must have regard to certain criteria, including whether: the competition is fair and meritocratic; jeopardises the sustainability of English football’s other competitions and the clubs in those competitions; or jeopardises the heritage of English football. The Regulator must gather the views of fans and consult the FA before prohibiting a competition. This will allow the Regulator to prevent English clubs from joining breakaway competitions that did not meet predetermined criteria. Crucially, this will safeguard against a future European Super League-style breakaway league.

151. The Regulator will have a targeted power of last resort to intervene in relation to financial distributions, to deliver a solution if football fails to find one itself. A mutual agreement amongst the football authorities remains the preferred solution to resolving the issue of insufficient and destabilising financial flows. However, the Regulator will have statutory powers to intervene on this

issue, should certain thresholds be met. The Regulator will empower and encourage football to reach an agreement itself first, but provide a crucial backstop to deliver a lasting resolution if the football authorities cannot.

152. The Regulator will operate an ‘advocacy-first’ approach to regulation, but with the power and mandate to intervene swiftly and boldly when necessary. This means it will aim to use constructive engagement rather than formal intervention wherever possible, but use its strong powers and sanctions to enforce compliance if necessary.

153. The Regulator will be proportionate and adaptive, rather than take a ‘one size fits all’ approach. The requirements on clubs will reflect their circumstances, meaning they might vary based on criteria like league, club size, and financial health or riskiness. Where clubs are already well run, the Regulator will not look to intervene unless necessary.

154. The Regulator will not be introduced into a vacuum and other footballing bodies will continue to have rules and processes in place. As such, although the Regulator will independently set and apply reformed rules with the ability to intervene as needed, it will also cooperate, coordinate and share information with the relevant leagues to manage the regulatory landscape and minimise regulatory burden on clubs.

155. In order to achieve this, existing relevant football leagues will have a formalised role in the regulatory system. They will be required to share information about their clubs with the Regulator in a timely manner, notify the Regulator in instances where they have determined a club to be non-compliant with relevant rules and consult with the Regulator if they intend to take enforcement action against a club. In the event that a club is not meeting, or likely not to meet, its threshold requirement around financial resources, the relevant league would have the opportunity to propose its own legally binding commitment to remedy the issue before the Regulator takes any action. These commitments would be subject to regulatory approval and would be optional to the leagues (i.e. they can immediately defer to the Regulator if desired).

156. Checks and balances will be embedded in the design of the Regulator and its system to ensure it exercises its functions in a fair and appropriate way. In addition to its duties and principles, the Regulator will be subject to legal processes to govern how it uses its powers, including requirements to consult and to meet legally defined thresholds to intervene. Directly affected persons (e.g. clubs) will have the right to appeal the Regulator’s decisions to a court or tribunal if they feel it has acted unfairly or outside its statutory remit.

157. The Regulator will take steps to ensure a smooth transition to the new regulatory system. The proposed reforms are novel and will represent a significant change for the industry, so it will be crucial for the Regulator to be operationally ready and for clubs to be supported in the early years of the new system. As part of this, the Regulator will be able to phase in rules, and offer clubs ‘grace periods’ to become compliant, as appropriate.

158. Although the Regulator will have the ultimate responsibility for ensuring sustainability in English football, its regulatory principles will encourage it to cooperate with the industry (e.g. competition organisers) so far as reasonably practicable. Additionally, the Regulator will not have the statutory authority to act in areas outside its tight and strictly defined remit. This means it will not interfere in areas such as ticket prices, fixture scheduling, kick-off times, or other such sporting and competition issues which are for the industry (e.g. the leagues) to address. The government's extensive engagement with football’s national and international governing bodies has confirmed that there is support for the Regulator and its proposed remit.

159. There are other areas identified within the FLR which will fall outside the Regulator's scope and are being tackled by the UK Government via non-regulatory means, including:

- On women's football, for which the Future of Women's Football Review was published in July 2023.[89]
- On player welfare, for which the industry continues to push for progress but some key gaps remain.

1.7.5 Conclusion

160. The government has considered a long list of options for intervention, including proposals by the FA and the Premier League for non-statutory, industry-led reform. These models of reform would not be guaranteed in the long-term and they may not sufficiently tackle the key causes of harm in the market.

161. For example, salary caps tied to revenue - as proposed by industry - would have negative impacts on competition if applied throughout the pyramid, and would not build resilience to shocks into clubs' finances and operations. There are no proposals put forward by industry to ensure all clubs across the pyramid engage effectively with their fans. There is also no guarantee these models would be able to protect against English clubs joining future breakaway competitions.

162. The government has also considered international best practice. These examples have helped to inform the overall policy. But given the inaction of the leagues and the FA, the preferred option is to establish a new statutory independent regulator rather than industry self regulation or a light touch intervention.

163. Football needs an operationally independent regulator that will put fans back at the forefront, and ensure a stable pyramid. Any option that does not involve legislation would be a continuation of industry self-regulation. This would mean the same incentives, governance structures, and lack of independence that have led to poor regulation in the industry to date, with no guarantees that reform would not just be reversed down the line.

164. By contrast, legislating to establish an independent regulator would:

i. Provide a long-term solution that could not be altered or revoked in the future by the majority vote of clubs, or under industry pressure.
ii. Establish an independent body to regulate in the interests of the entire pyramid, rather than prioritising the interests of select clubs.
iii. Set a framework and objectives to ensure rules are designed and applied appropriately. Legislation would guarantee a sophisticated regulatory system that is proportionate, and tackles the root causes of problems holistically rather than treating the symptoms one-by-one.
iv. Provide statutory weight behind regulation with new powers and sanctions to ensure non-compliance is met with genuine consequences and sanctions, rather than drawn out legal proceedings that allow harm to grow.
v. Deliver a coherent regulatory landscape. Regulation would be carefully managed to avoid burdening clubs with overlapping rules or letting them slip through regulatory gaps.
vi. Create clear accountability for regulation. It would be clear who is responsible for regulation, and there would be clear levers to hold them accountable in the event

[89] Raising the bar - reframing the opportunity in women's football. (July 2023).

they were failing.

vii. Deliver a cultural shift in football to one that is open and transparent, and in which fans are valued appropriately by all clubs.

165. Further progress by the industry towards reform in the interim would be welcome, and the preferred option does not prevent industry from acting, but regulation is required to effect the full extent of the necessary change.

166. As such, the preferred policy option is Option 4 - to introduce an independent football regulator for English football with statutory backing. Under this option, the government will establish an independent regulator in statute to oversee a licensing system for English football clubs in the top five leagues. Clubs will have to be licensed to legally operate as professional football clubs. The Regulator's primary purpose will be to protect and promote the sustainability of English football. The Regulator will be set up as a new body, and funded via a levy on regulated clubs. The government intends to implement this via primary legislation.

2.0 Indicative Costs and Benefits Analysis

2.1 Summary of cost-benefit analysis

167. This section sets out the analytical approach to modelling the costs and benefits of the shortlisted options, including justification for which costs and benefits are considered to be direct, and which have been quantified. The resulting estimates are then discussed in detail for each option in the sections below.

Table 2.1.1 - Monetised Cost Benefit Analysis Metrics, Ten Year Appraisal Period (Present Value)

Category	Option 1	Option 2	Option 3	Option 4
Total costs (£m)	0	0.03	53.5	103.2 - 148.9
Total Benefits (£m)	0	-	-	612.5 - 700.0
Net Present Value (£m)	0	-	-	463.6 - 596.7
Benefit Cost Ratio	0	-	-	4.1 - 6.8

** Figures may not sum due to rounding*
*** For Option 3 and option 4, the results are presented for the central estimates within the sensitivity analysis conducted and described in Section 2.3 below.*

168. Option 1 does not incur any direct costs or benefits to the Exchequer or to business as it is equivalent to the counterfactual. However, in the absence of government intervention it is highly likely that, relative to now, the economic and social costs identified will increase significantly in future. There is a likelihood that costs to HMRC will increase under this option as insolvency events may become more frequent. As reported in the White Paper, HMRC estimates that administrations at EFL clubs have contributed to the UK Government being unable to collect nearly £30 million in unpaid taxes since 2019.[90] This option will not achieve the stated objectives of the intervention, with risks and harms identified not addressed. Any of the issues that the Fan Led Review (FLR) highlights are not addressed here. Therefore, it is not the preferred option.

169. Option 2 would be a low cost option for reducing the harm caused by clubs facing financial distress, as it would avoid the costs of setting up a watchdog or regulator. The costs of the option are close to zero, given that the funding of the backstop powers would be captured within existing budgets. The *Do Minimum* option would ensure minimal disruption and distress for fans when problems do occur, and would protect important heritage assets (except for instances in which clubs have already raised finance against them, or where a club does not own its stadium). However, this option does not achieve the objective of making clubs sustainable and resilient, and does not achieve the same benefit of options which target the root causes of financial instability within the current market structure. Overall, this option would be low cost but also yield low benefits when compared with the preferred Option 4.

170. The benefits of introducing a watchdog under Option 3 are expected to exceed the costs. Light touch regulation in the form of a watchdog is expected to increase transparency between supporters and clubs. It would improve upon the *do nothing* and do-minimum options in terms of putting pressure on owners to promote sustainability and financial resilience within a club's decision making processes.

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[90] A sustainable future - reforming club football governance. DCMS, 2023.

171. However, the expected benefits of Option 3 are expected to be significantly lower than that for the preferred option given that clubs would be encouraged but not obligated to act on the recommendations of the watchdog. A watchdog's inability to directly intervene in the market would place limits on its ability to improve financial sustainability and corporate governance. Moreover, the information gathering and publication nature of a watchdog could mean that it may not pick up issues until it is too late to act. As such, Option 3 is expected to achieve a lower level of benefit than is anticipated for Option 4.

172. Option 4 (the preferred option) achieves the strategic objectives of the intervention, and meets the recommendations set out in the FLR. Therefore, Option 4 is carried forward as the preferred option. The costs and benefits of this option have been monetised based on existing policy proposals. The benefit-cost ratio of this option ranges from 4.1 - 6.8, illustrating a strong indication of value for money.

2.2 Impact Assessment Metric Calculations

173. Table 2.2.1 sets out which of the quantified costs and benefits that are in-scope of the Business Impact Target (BIT) and Equivalent Annual Net Direct Cost to Business (EANDCB) metrics for this IA. Table 2.2.2 contains quantified impact assessment metrics for each option, including total costs, EANDCB, BIT calculations.

Table 2.2.1 Costs and Benefits in Scope of EANDCB Calculations

Monetised Variable	In scope of BIT?	In scope of EANDCB?
Costs		
Compliance Costs	YES	YES
Familiarisation Costs	YES	YES
Operating Costs	NO	NO
Benefits		
Benefits of Continued Existence	NO (Societal Benefits)	NO (Societal Benefits)
Benefits of Improved Governance	NO (Societal Benefits)	NO (Societal Benefits)

Table 2.2.2 - Monetised Impact Assessment Metrics, Ten Year Appraisal Period (£m, discounted, 2019 prices, 2020 base year)

Category	Option 1	Option 2	Option 3			Option 4		
			Cost Estimate			Cost Estimate		
			Low	Central	High	Low	Central	High
Costs to business	0	0.03	4.5	6.9	9.3	23.2	34.8	47.3
Operational costs	0	0	42.8	46.6	50.3	80.0	97.9	101.5
Total costs	0	0.03	47.3	53.5	59.6	103.2	132.8	148.9
EANDCB	0	0	0.4	0.7	0.9	3.0	4.0	6.1
BIT	0	0	2.2	3.4	4.7	15.0	20.2	30.5

**Figures may not sum due to rounding*

2.3 Sensitivity Analysis

174. Sensitivity analysis has been performed on the cost and benefit estimates for the preferred option, Option 4, to test assumptions and reflect uncertainty. Optimism bias is applied to the benefits estimates to reflect delivery risks. A 30% optimism bias is applied under the low benefit scenario, while 25% and 20% are applied in the central and high benefit scenarios respectively.

175. Meanwhile, sensitivity analysis is applied to the compliance and familiarisation cost estimates via differing assumptions for the additional resource costs expected to take action to comply with the proposed new regulations. Average Full Time Equivalent (FTE) salaries for relevant roles within football clubs have been estimated at varying levels under the low, central and high cost scenarios.

176. For the operational costs, differing levels of contingencies have been incorporated under the low, central and high cost scenarios.

177. The results of this sensitivity analysis on the Benefit Cost Ratio (BCR), Equivalent Annual Net Direct Cost to Business (EANDCB), and the Net Present Social Value (NPSV) is illustrated in Tables 2.3.1, 2.3.2 and 2.3.3.

Table 2.3.1 - Benefit Cost Ratio under sensitivity analysis for Option 4, Ten Year Appraisal Period

		Option 4		
		Benefit Estimate		
		Low	Central	High
Cost Estimate	Low	5.9	6.4	6.8
	Central	4.6	4.9	5.3
	High	4.1	4.4	4.7

Table 2.3.2 - Equivalent Annual Net Direct Cost to Business (EANDCB) under sensitivity analysis for Option 4, Ten Year Appraisal Period

		EANDCB
Cost Estimate	Low	3.0
	Central	4.0
	High	6.1

Table 2.3.3 - Net Present Social Value under sensitivity analysis for Option 4, Ten Year Appraisal Period

		Option 4		
		Benefit Estimate		
		Low	Central	High
Cost Estimate	Low	509.3	553.0	596.8
	Central	479.7	523.4	567.2
	High	463.6	507.3	551.1

2.4 Costs

178. At this stage, the specific requirements on clubs are unknown. There will be a licensing system introduced across the top five tiers of the English football pyramid. The Regulator's scope will cover financial regulation, Owners' and Directors' Tests, as well as corporate governance practices and fan engagement. The Regulator will set out in guidance and licence conditions the specific requirements on individual clubs, in a proportionate and risk-based manner.

179. Therefore, at this stage, estimated costs and benefits included here are largely illustrative and aim to indicate the potential scale or nature of impacts of the whole policy (Scenario 2 in the Regulatory Policy Committee's (RPC's) primary legislation guidance). While it is not possible at this stage to provide a fully monetised appraisal of the policy or a verifiable assessment of the EANDCB, every effort is made to provide an indication of the likely scale of impact of the whole policy through presenting illustrative monetised costs and benefits, and comprehensive qualitative analysis. Relevant future secondary legislation and the Regulator codes of practice will be subject to consultation with stakeholders. Further IAs will also be conducted where appropriate.

2.4.1 Overall approach to estimating costs

180. Table 2.4.1.1 provides an assessment of which costs categories are applicable to one or more of the options shortlist. Where cost categories are applicable, these are described below.

Table 2.4.1.1: Costs categorisation assessment against options shortlist

Cost classification		Applicable to options shortlist?
Costs to Business	Direct Costs to Business	YES
	Indirect Costs to Business	NO
Other Costs	Direct Public Sector Costs	YES
	Indirect Public Sector Costs	NO
	Social Costs	NO

181. The direct costs to business applicable to one or more of the options shortlist include:

- **Transitional costs**. These are associated with the set-up costs of any regulatory body as well as any costs for businesses to familiarise themselves with regulatory change.
- **Ongoing costs**. These are associated with day-to-day costs of running any regulatory body, as well as direct costs to businesses to comply with these changes. Within this, includes an industry levy to cover the set-up and running costs of any regulatory body.

182. Costs have been estimated using evidence gathered through industry engagement, existing regulators, ONS datasets and other sources of information.

Transitional costs

183. Transitional costs can be considered to cover both direct costs to the public sector and those to businesses. These costs to the public sector encapsulate the direct costs to the Exchequer that will be incurred to set up organisations where applicable to each regulatory option. For the purpose of this IA, it is assumed that the set up costs and running costs for implementing the preferred option

will fall to businesses in scope via a levy. The Regulator will design the levy system in a proportionate manner, ensuring that each of the 116 clubs pays an affordable share of the total.

184. Under Section 22(4)(a) of the Small Business, Enterprise and Employment Act 2015, taxes, duties, levies and other charges are excluded from the Business Impact Target. This cost therefore has not been included in the calculations of the EANDCB (although it is included in the net present social value (NPSV)).

185. Familiarisation costs are therefore considered as the sole direct transitional cost to business as included in the EANDCB. These are assumed to reflect the actions of firms to interpret any new regulatory requirements and how they impact their business activity. The methodology for estimation is set out in the costs section below.

Ongoing costs

186. Ongoing costs are considered as costs which incur in the years following the establishment of new regulation, which take place in each year. In terms of where they reflect direct costs to business, these are solely in the form of compliance costs to reflect new business activity that organisations take to follow new regulation.

187. Also considered within this section are costs associated with the day-to-day operation of the regime or regulatory body that is introduced. These include a range of ongoing operational costs, such as staff and non-staff costs. Unless stated otherwise, salary costs are taken from publicly available data from the ONS Annual Survey of Hours and Earnings (ASHE).[91]

188. Initially, these costs will be covered by government. However, it is assumed that the majority of set up and running costs will eventually be clawed back by government through a levy paid by organisations in scope. Under Section 22(4)(a) of the Small Business, Enterprise and Employment Act 2015, taxes, duties, levies and other charges are excluded from the Business Impact Target and EANDCB calculations.

189. Optimism bias adjustments are made to all cost estimate categories across all options. In line with *Green Book* guidance, these adjustments vary in size in response to varying confidence levels regarding their robustness.

2.4.2 Transitional direct costs

Familiarisation costs

190. Clubs and leagues will need to familiarise themselves with any new regulation and its effect on their governance. The Regulator will aim to publish detailed guidance to assist clubs and will work with the leagues to ensure coherence. Due to the novelty of the intervention, there is no well-evidenced process to leverage for the purposes of appraisal. In this case, an estimation methodology has been applied. The additional time commitment in terms of days of time is estimated for league and club directors, secretaries, and relevant legal and financial functions. This is multiplied by salary assumptions to provide overall familiarisation cost estimates. It is assumed that familiarisation activities take place in the first year of the appraisal period and do not take place after this.

Table 2.4.2.1 - Total familiarisation costs

[91] Annual Survey of Hours and Earnings (ASHE) - ONS (2023).

Cost category	Discounted, £m over the full 10 year appraisal period			
	Option 1	Option 2	Option 3	Option 4 (preferred)
Low estimate	0	0.03	0.05	0.4
Central estimate	0	0.03	0.25	0.8
High estimate	0	0.03	0.50	1.2

191. The assumptions and inputs included within the model have been refined through targeted consultation with several clubs from across the English football pyramid. This engagement provided an indication of the level of activity expected and the personnel generally involved with familiarisation with new regulation.

192. The salaries of relevant staff members within football clubs and leagues in scope are estimated based on available data. Relevant staff members include directors, legal, finance and club secretaries. The available data includes the ONS *Annual Survey of Hours and Earnings* and financial accounts. This is applied as an average across the leagues with a 22% wage uplift applied to account for non-staff costs (as per *Green Book* guidance). It is assumed that clubs towards the bottom of the pyramid may require external legal resources to familiarise and this has been reflected as an uplifted cost compared to equivalent internal resources. Whilst imperfect, it is a necessary simplifying assumption due to the opaque nature of club salaries and governance structures. These salaries are considered on a division by division basis, to account for higher salaries paid by clubs near the top of the pyramid.

Option 1

193. There are no familiarisation costs associated with Option 1. This assumption has been made following the consultation process with clubs and an assessment of the changes that the do-nothing option would create.

Option 2

194. Familiarisation costs to clubs for Option 2 are limited to the backstop measures introduced. The costs to the Exchequer for administering the backstop measures are assumed to be absorbed within existing budgets. Based on the scale and scope of the documents required, familiarisation is expected to require one working day[92] of a CEO/club secretary's time (with an assumed salary of £60,000 per year). Across the 116 clubs that would need to familiarise themselves with this legislation, this is expected to cost £26,216 in staff costs. Applying uplifts of 22% to account for non-staff costs, as per *Green Book* guidance, gives familiarisation costs of £31,984. Given that there are no compliance or operational costs associated with this option, the total cost Option 2 is £31,984.

Option 3

195. For Options 3 and 4, familiarisation costs have been considered on a division-by-division basis, assuming that the different internal structures, processes and personnel of clubs can be broadly categorised by division. While it varies between clubs, Premier League and Championship clubs have a greater number of employees, with legal and finance departments assumed to be responsible for familiarisation activities. Director and board level employees are also assumed to

[92] There is no estimate for how long the documents are that require familiarisation. However, with the legislation involving fairly simple changes to the law, it is envisioned that one day is a prudent estimate for familiarisation.

be involved, as indicated by club consultation. Clubs in League One, League Two and the National League are assumed to have smaller in-house teams and thus fewer people familiarising, assumed to be a small selection of senior directors or a club secretary. It is assumed that these clubs do not have internal legal resources and may source external legal advice. It is acknowledged that the relative cost of familiarisation as a proportion of revenue may be larger for these smaller clubs.

196. A division-by-division breakdown is included in the analysis, with clubs higher up the English football pyramid expected to have a greater number of individuals familiarising themselves with the regulation. For Premier League clubs, five directors or senior executives, two finance employees, three internal legal employees and one external legal resource are assumed to need to familiarise themselves with the regulation. In contrast, for National League clubs, one club secretary and one external legal resource are assumed to undertake familiarisation activity. Relevant salaries are applied to each role based on profession. Director salaries are expected to be greater for clubs that are higher up the pyramid. Therefore, salary inputs are adjusted by division.

197. Given the light touch nature of Option 3, the additional compliance burden is negligible. However, clubs still need to familiarise themselves with the new watchdog. The familiarisation costs for Option 3 have been considered to be relatively small in line with the reduced amount of compliance that clubs would be required to undertake in comparison to Option 4. Additional familiarisation activity is assumed to require between 0.1 and 1 days of time per person involved in familiarisation. A 22% uplift is applied to account for the non-wage costs associated with these employees' time, as per *Green Book* guidance. The total central estimate for familiarisation costs associated with Option 3 for all clubs is £0.25m.

Option 4

198. Familiarisation costs for Option 4 utilise the same division-by-division breakdown of relevant personnel and salary estimates as set out in detail under Option 3. The establishment of a new statutory regulator under Option 4 is assumed to lead to a greater level of familiarisation activity for clubs than under Option 3. Engagement with clubs in scope of the regulation has refined expectations of the estimated familiarisation activity. Specifically, the days of time required for each person within an organisation familiarising themselves with the new regulations is estimated to be between one and three days across low and high cost scenarios. The central estimate is two days of additional time per employee involved in familiarisation.

199. Familiarisation costs for the three leagues have also been taken into account. These represent the costs of employees undertaking activities to familiarise themselves with their information sharing responsibilities under the regulations, and understanding the opportunity to propose commitments in the event of club non-compliance. Salary costs follow the same division-by-division breakdown as for clubs, with a 22% uplift applied to account for non-wage costs.[93] The range of relevant employees involved in familiarisation activity differs across leagues. Similarly, the days of time required for each relevant employee within an organisation to familiarise themselves with the requirements ranges between one and two days depending on the nature of the role. For instance, for the Premier League, it is expected that eight employees across multiple levels of seniority and multiple disciplines will each spend two days familiarising themselves with the new regulations. In the low cost scenario a 50% reduction is applied to the overall estimated familiarisation costs faced by leagues. In the high cost scenario, a 50% increase is applied.

200. The total central estimate for familiarisation costs for clubs and leagues associated with Option 4 is £0.8m. It is possible that familiarisation costs may be overestimated or underestimated because of the nature of this novel and high profile area. Clubs are likely to interact with the detail in different

[93] For the EFL, Championship base salary costs are applied.

ways, and may buy in high-end, specialist advice. This may increase cost and time burden compared to what is being estimated in this IA. Central, low and high amounts of time taken to familiarise have been modelled to reflect the uncertainty in how extensively clubs will commit to familiarisation across Options 3 and 4. The Regulator will take a proportional, risk-based approach for clubs with lower revenue and those further down the pyramid. Therefore, while all clubs in scope will need to familiarise themselves with the new regulations, there may be slightly different requirements depending on the club on this front.

2.4.3 Ongoing direct costs

Compliance costs

201. Compliance costs have been modelled by assessing the expected obligatory actions required of clubs and leagues across the top five divisions of the English football pyramid.

202. The assumptions and inputs included within the model have been refined through targeted consultation with clubs and leagues. This engagement has provided an indication of the personnel generally involved with expected compliance and related administrative activities, and the level of increased activity required to comply. Compliance costs are only in scope for Options 3 and 4, given Option 1 introduces no new requirements on clubs and the light touch nature of Option 2 limits the need for any new club compliance activities.

Table 2.4.3.1 Compliance cost estimates, Ten Year Appraisal Period, (£m, discounted)

Cost category	Option 1	Option 2	Option 3	Option 4 (preferred)
Low estimate	0	0	4.4	22.8
Central estimate	0	0	6.6	34.1
High estimate	0	0	8.8	46.1

Option 3

203. Given the light touch nature of Option 3, compliance costs are relatively low. It is assumed that the additional activities constitute an equivalent of 0.01 additional FTE for the most compliant clubs, and 0.1 additional FTE for the least compliant clubs. Leagues would not face additional compliance activities under this option.

Option 4

204. For Option 4, targeted engagement with clubs in scope of the regulation has refined compliance cost estimates based on existing policy proposals. Examples of the specific compliance activities required under the new regulation have been provided to selected clubs, covering corporate governance, financial regulation, Owners' and Directors' Tests and fan engagement. Based on the views and estimates provided by clubs, a model has been developed with improved inputs and assumptions.

205. The Regulator will be set up to be proportionate and participative, cooperating with leagues to limit the regulatory burden on clubs. If a club is already run in a financially sustainable manner, the Regulator is much less likely to require any additional action from the club.

206. Clubs are assumed to fall into three categories based on their current compliance activities. A club's current compliance activities reflect how well-equipped they are to comply with any additional burden that the regulation may create. Based on discussions with selected clubs, a

distribution across these compliance categories has been assumed within each of the five leagues in scope. For instance, some leagues are assumed to have a greater proportion of clubs that are starting from a higher baseline of compliance activities than others. Some clubs, primarily those higher up the pyramid, may be better equipped to absorb any additional requirements at no cost. Other clubs, primarily those further down the pyramid, may require additional resources to comply with new requirements under this option.

207. Policy details were provided to a range of clubs as part of a targeted consultation. Several clubs reflected that they were already undertaking the majority of the compliance activities that will be required of them. Others indicated that there would be some additional compliance activities required of them. Based on these conversations, it is assumed that 25% of the 116 clubs in scope are in the most compliant category, requiring the least additional compliance activity. 25% are assumed to be in the least compliant category, with the most additional compliance activity required. This leaves 50% in the averagely compliant category. The allocation of clubs to these categories is weighted based on the assumption that a greater proportion of clubs higher up the pyramid are more likely to fall into the most compliant category.

208. The majority of clubs involved in the targeted consultation indicated that the additional FTE requirements would be modest provided the Regulator is well-designed and avoids duplication. Given the differing structures of football clubs, these categories and corresponding resource burdens provide a simplified way of modelling the expected compliance costs. Sensitivity analysis is incorporated to reflect these uncertainties. Depending on the category a club falls into, a “resource burden” has been assigned, representing the additional FTE required to comply with new regulations. Under Option 4, the increased regulatory burden is reflected by an additional FTE requirement of 0.1 per employee involved in compliance activities for the most compliant clubs and 0.5 per employee involved in compliance activities for the least compliant clubs.

209. Targeted consultation with clubs has led to improved understanding of how clubs allocate responsibility for compliance activities. The number of employees involved in compliance activities is assumed to range from one for National League clubs to five for Premier League clubs.

210. As such, a club in the National League in the most compliant category is expected to experience a total increase of 0.1 FTE, compared to a total increase of 0.5 FTE for a Premier League club in the most compliant category. Meanwhile, a National League club in the least compliant category is expected to experience an increase of 0.5 FTE, while a Premier League club in the least compliant category is expected to experience an increase of 2.5 FTE. Higher up the pyramid, these additional activities are expected to be spread across several roles, professions, and levels of seniority. Further down the pyramid, club secretaries are most likely to undertake tasks associated with compliance.

211. On average, it is assumed that compliance activities for Premier League clubs are likely to fall on employees with salaries estimated at £100,000 per annum, while for the clubs in the other leagues, the relevant salaries are likely to be £60,000 per annum. A £20,000 range either side of these estimates generate low and high end scenarios to reflect uncertainty. A 22% uplift is applied to the salary costs to account for non-wage costs of the employee.

212. League compliance costs are captured by their obligation to share relevant information with the Regulator. Leagues may undertake further non-obligatory activities to gather information and support clubs with their compliance activities. The relative compliance burden on leagues will vary depending on the amount of non-obligatory activity leagues choose to undertake. To estimate the obligatory compliance costs to leagues, assumptions have been made on which roles within these organisations are involved in compliance activities. This varies across leagues. For instance, in the

low cost scenario, for the Premier League it is assumed that three employees across multiple disciplines are involved, whereas only one employee is assumed to be involved for the National League. A more detailed methodology for estimating the compliance costs to the National League is discussed in Section 3.1. Salary costs are applied based on the profession of the employee involved in the activity. For instance, a Premier League secretary role, expected to be responsible for a portion of compliance activity, has an estimated salary of £100,000. A 22% uplift is applied to account for non-staff costs. A 50% range either side of the total estimated annual compliance costs to leagues generates low and high end scenarios to reflect uncertainty.[94]

213. In the medium and high cost scenarios, the costs of potential non-obligatory activities of the leagues are also accounted for to present top-down estimates that are as accurate as possible based on engagement with relevant organisations. In these scenarios, it is assumed that a significantly greater number of employees are involved in the leagues' compliance activities.

214. The leagues have a formalised role in relation to financial regulation. In the event that a club is not meeting the Regulator's expected outcomes on financial regulation, the relevant league will have the opportunity to propose legally binding commitments to the Regulator so that they can address the issue with the relevant club in the first instance, before the Regulator takes direct action. These commitments will be subject to regulatory approval. Leagues will not be obligated to put forward commitments and will be able to immediately defer any enforcement to the Regulator if desired. If a league does decide to propose commitments, this could result in increased costs to that league. As per Business Impact Target guidance[95], this Impact Assessment assumes that clubs comply with regulations. Therefore, the costs of enforcement are not appraised as part of the cost-benefit analysis. Furthermore, proposing commitments is optional to the leagues. As such, this activity does not carry a direct cost to business in the context of this Impact Assessment. The possible enforcement and justice costs that may occur as a result of regulation are discussed in Section 3.5.

215. The model estimates the aggregated annual ongoing compliance costs across the top five divisions of the English football pyramid. The model does not take into account the proportional and risk-based approach that the Regulator will take for clubs with lower revenue and further down the pyramid. The policy expectation is that the Regulator will take a club's specific circumstances into account to relieve burdens where possible. It is also possible that clubs may reallocate existing resources to meet these new requirements, as opposed to bringing in additional resources, meaning that the compliance costs experienced by clubs would reduce.

216. Compliance costs may be underestimated for similar reasons to the familiarisation costs, in that this is a novel and high profile area, so clubs may pay more attention and buy in high-end specialist advice. Equally, though, clubs may absorb these responsibilities into existing headcounts. Additionally, relevant leagues may choose to support clubs in their competition with compliance activities. For example, leagues could introduce new IT systems for information sharing and provide specialist advice and guidance. The greater the action taken by leagues in this space, the lower the expected compliance burden on clubs. The Regulator is expected to publish clear guidance and engage with the sector in order to simplify the familiarisation process for clubs and leagues.

[94] For the EFL, Championship base salary costs are applied.
[95] Business Impact Target: Appraisal of guidance, p9.

Operational costs

Option 4

217. There will be costs associated with the day-to-day operation of the Regulator. The costs will vary depending on the exact function of the Regulator. Therefore, these figures should be considered as indicative only and are not intended to anticipate or inform future government decisions on funding. The organisation will be designed in such a way that the Regulator has sufficient resources to fulfil its responsibilities, while operating in an efficient manner to ensure value for money.

218. The ongoing operational costs of each option have been estimated based on the level of activity required under each one. Conversations with relevant employers with similar functions have refined cost estimates. The functions that the Regulator will provide include monitoring, supervision and compliance, investigation and enforcement, and licensing. Extensive thinking and engagement has fed into the proposed organisational design of the Regulator. These factors have been accounted for in the modelling of the Regulator running costs. Appropriate contingencies have been applied across the estimated operational costs of the Regulator. These range from 5%-30% to account for differing levels of certainty for different elements of the operational costs. These contingencies are reflected in the operational costs set out in Table 2.4.3.2.

219. The set up costs will initially fall to the Exchequer. Once the Regulator is operational, levy payments are expected to fund the Regulator. The levy will claw back the majority of costs incurred during the set-up of the Regulator, and will also cover the ongoing running costs of the Regulator. There will be a legislative requirement for the Regulator to make an assessment of affordability in the design of the levy payment system. This should ensure that the levy payments are divided among the clubs in scope in a proportional and affordable manner. As such, the levy payments will not be equally divided among the 116 clubs in scope. The Regulator will have a statutory duty to consult on the levy's methodology. As mentioned above, Section 22(4)(a) of the Small Business, Enterprise and Employment Act 2015, states that levy payments are excluded from the BIT and EANDCB calculations, though they are included within the NPV and BCR figures.

220. For Option 2, no additional operational costs are expected as the backstop measures introduced will be absorbed into existing Exchequer budgets. The watchdog proposed under Option 3 would require fewer FTE than the Regulator proposed under Option 4, hence the relatively lower operational cost estimated in Table 2.4.3.2 below.

Table 2.4.3.2 Total operational costs, Ten Year Appraisal Period, (£m, discounted, 2019 prices, 2020 base year)

Cost Category	Costs							
	Option 1	Option 2	Option 3			Option 4		
			Low	Central	High	Low	Central	High
Operational costs	0	0	42.8	46.6	50.3	80.0	97.9	101.5

2.4.4 Summary of costs

Table 2.4.4.1 Summary of costs, Ten Year Appraisal Period (£m, discounted)

Cost Category	Costs							
	Option 1	Option 2	Option 3			Option 4		
			Low	Central	High	Low	Central	High
Direct Transition costs								
Familiarisation costs	0	0.03	0.05	0.25	0.50	0.4	0.8	1.2
Direct Ongoing costs								
Compliance costs	0	0	4.4	6.6	8.8	22.8	34.1	46.1
Operational costs	0	0	42.8	46.6	50.3	80.0	97.9	101.5
Totals								
Total (all)	0	0.03	47.3	53.5	59.6	103.2	132.8	148.9
Total (business only)	0	0.03	4.5	6.9	9.3	23.2	34.8	47.3

**Figures may not sum due to rounding*

221. The cost estimates throughout this section are indicative and based on existing policy proposals. Assumptions and inputs to the cost modelling have been developed in consultation with industry experts and organisations in scope of the regulation.

222. Operational costs will be funded initially by the Exchequer, and then by levy payments (with the majority of the Exchequer funding required for setting up the organisation recouped via the levy). The Regulator will design the levy payment methodology in a proportionate manner, ensuring that each of the 116 clubs in scope pays an affordable share of the total. As such, it should be assumed that Premier League clubs will pay a significantly higher share of the operational costs than clubs further down the football pyramid.

223. The estimated compliance costs represent an aggregate total for the anticipated additional activities required of leagues and clubs under the new regulations. However, the burden on individual clubs will vary for several reasons. Firstly, as the Regulator will take a proportional and risk-based approach, licence conditions will be set on a club-by-club basis. Therefore, not all clubs will face the same requirements. Secondly, club structures vary. Some will absorb the additional activities into existing headcounts, while others will hire new resources to undertake the activities. Thirdly, the existing operations of some clubs will be more compliant with the new regulations than others. Therefore, some clubs will face a greater change to their operations than others. The modelling takes an aggregate approach as it is not possible to accurately estimate the costs faced by individual clubs. The compliance costs will not be equally divided among clubs.

2.5 Benefits

2.5.1 Overall approach to estimating benefits

224. Table 2.5.1.1 provides an assessment of which benefits categories are applicable to one or more of the options shortlist (where applicable, these are subsequently discussed below).

Table 2.5.1.1: Benefits categorisation assessment against options shortlist

Benefits classification		Applicable to options shortlist?
Benefits to Business	Direct Benefits to Business	NO
	Indirect Benefits to Business	YES
Other Benefits	Direct Public Sector Benefits	NO
	Indirect Public Sector Benefits	YES
	Social Benefits	YES

Indirect Benefits to Business

225. The introduction of an independent football regulator with a remit including financial regulation, Owners' and Directors' Tests is expected to improve the financial sustainability and corporate governance practices within the English football pyramid. Over time, this is likely to result in clubs becoming more profitable (or less unprofitable) on average. These impacts represent indirect benefits to business. These indirect benefits are extremely difficult to quantify, given the range of variables that will affect the profitability of individual football clubs. Therefore, these are not quantified in the appraisal.

Indirect Public Sector Benefits

226. Any increase in financial sustainability that results from the implementation of Option 3 and Option 4 is expected to reduce Exchequer losses. These benefits are expected to be greater under Option 4 due to the statutory power of the Regulator. Reducing the number of clubs entering administration is expected to increase Exchequer revenues. The EFL requires that for a club to successfully exit administration and retain its EFL membership, all football related debts must be paid in full and any other creditors should be offered a 25p/£ settlement. HMRC would only receive this 25p/£ as it is treated as an ordinary, unsecured creditor under the rule. Taxes can therefore remain unpaid, while football creditors are paid in full.

227. In comparison with the counterfactual (Option 1), the other shortlisted options are expected to reduce, to differing extents, the probability of clubs ceasing to exist as a result of financial mismanagement and improve the financial management of all clubs. This will affect the profitability of individual clubs and the sector as a whole, having a positive impact on Exchequer revenue. For instance, Premier League clubs made £3.6bn of direct tax contributions in 2019/20[96]. These benefits are extremely difficult and speculative to quantify and therefore are not quantified in the appraisal.

Monetised social benefits

228. By addressing the market failures (see 'rationale for government intervention'), two types of benefit to fans and communities result:

[96] Premier League: Economic and social impact. EY, 2022.

- **Continued existence of clubs:** An increase in use and non-use value to fans and communities as a result of football clubs continuing to exist where they wouldn't have done under the counterfactual.
- **Governance benefits:** An increase in use and non-use value to fans and communities as a result of all clubs being run more in line with their interests (as opposed to the short term interests of owners), relative to the way clubs would have been run under the counterfactual.

229. The Ipsos contingent valuation study provides data to estimate the benefits of both continued existence of clubs and improved governance.[97] However, this IA only uses the governance benefits estimates as these more accurately approximate the full breadth of the activities of the Regulator. The estimates cannot be combined to avoid double counting.

230. Therefore, a bottom-up benefits model has been developed to estimate the governance benefits of Option 4. Benefits are presented in 2019 prices and 2020 present value base year. These estimates have been discounted using the standard discount rate of 3.5% as per the *Green Book*. A 20-30% optimism bias has then been applied.

Non-monetised social benefits

231. English professional football makes a significant contribution to both economic growth and 'levelling up'. In both instances, English professional football clubs make a significant economic contribution - in terms of both GVA (Premier League football clubs spent £1.8bn through their supply chains in 2019/20) and employment (the Premier League supports 94,000 jobs and is directly responsible for 12,000 jobs) - to both the UK economy overall and to local communities (most of which are outside London) and supply chains[98].

232. That said, a significant proportion of this economic activity would likely be displaced should a club cease to exist (i.e. fans will spend at least some of their ticket cost on other goods and services). It is extremely difficult (and spurious) to estimate the proportion of this economic contribution that is truly 'additional'. As these benefits are secondary and indirect**,** they are not quantified in the economic appraisal.

2.5.2 Methodology

233. A study has been produced by Ipsos to estimate the benefits of the intervention options set out.[99] The model states that the results of this contingent valuation survey of football users and non-users shows that people positively value the club they support/their local club and would be willing to pay an annual subscription to support it, even if they do not engage directly with the club themselves.

234. The FLR's ten recommendations are used as a proxy for English football being run in the interests of fans and communities.[100] Respondents were asked whether they (on behalf of their household) would be willing, in principle, to pay an annual subscription to an independent *FLR Fund*, to put in place the ten recommendations of the FLR. This is used as a proxy for the value individuals would place on the establishment of an independent football regulator.

[97] Contingent Valuation of men's Professional Football Clubs and the Fan-Led Review - Ipsos (2022).
[98] Premier League: Economic and social impact - EY (2022)
[99] Contingent Valuation of men's Professional Football Clubs and the Fan-Led Review - Ipsos (2022).
[100] Fan-Led Review of Football Governance: securing the game's future. Gov.uk, 2021. Note that FLR strategic recommendations E, I and J are out of scope for the Regulator. However, the contingent valuation method provides the best approximation of the benefits of introducing an independent regulator.

235. DCMS guidance states that a lower bound 95% confidence interval of willingness to pay (WTP) figures should be used to offset the risk for over-estimation of values due to hypothetical bias in surveys such as this.[101]

Table 2.5.2.1 - Monetised benefits, Ten Year Appraisal Period (£m)

Category	Option 4		
	Low	Central	High
Option 4	612.5	656.2	700.0

236. Due to the uncertainty over the expected impacts of Option 2 and Option 3, these benefits have not been monetised. The benefits arising from backstop measures and from the establishment of a watchdog are both estimated to be substantially smaller than the benefits that would occur under Option 4. This is due to the reduced scope of these interventions and the lack of statutory power.

237. For example, under Option 2, backstop powers would be introduced. The benefits of this option are likely to be comparatively low in comparison to the other shortlisted options because:

- There is no effect on financial practices or corporate governance within football clubs.
- It does not protect heritage assets until the point that a club enters administration i.e. if an owner sold a heritage asset prior to entering administration, the backstop measures could not be applied retrospectively.

238. Meanwhile, under Option 3, a watchdog would be introduced. The watchdog would have no statutory power. Clubs will be encouraged but not obligated to act on a watchdog's recommendations. Therefore, this option does not fully achieve the strategic objectives of the policy.

Option 4

239. The establishment of a new independent regulator under Option 4 will at least partially satisfy the following recommendations proposed by the Fan Led Review:[102]

- To ensure the long-term sustainability of football, the government should create a new independent regulator for English football.
- To ensure financial sustainability of the professional game, the Regulator should oversee financial regulation in football.
- New owners' and directors' tests for clubs should be established by the Regulator, replacing the three existing tests and ensuring that only good custodians and qualified directors can run these vital assets.
- Football needs a new approach to corporate governance to support a long-term sustainable future of the game.
- As a uniquely important stakeholder, supporters should be properly consulted by their clubs on key decisions.

[101] 'Guidance Note: How to Quantify the Public Benefit of Your Museum Using Economic Value Estimates: A Resource for Understanding the Economic Value of Museums' - Lawton et al., Arts Council England (2021)..
[102] Government response to the Fan-Led Review of Football Governance - Gov.uk (2022).

- Football clubs are a vital part of their local communities, in recognition of this there should be additional protection for key items of club heritage.

- Fair distributions are vital to the long term health of football. The Premier League should guarantee its support to the pyramid and make additional, proportionate contributions to further support football.

240. The WTP values are averaged for club fan, neutral fan, and non-user groups, broken down by region. The proportions of club fans, neutral fans and non-users are applied to the total number of households in each region. For each region, the number of households in each category is multiplied by the relevant WTP value. These figures are aggregated to estimate the annual benefit of implementing the recommendations of the FLR. The estimated annual benefit totals £185.2m before discounting and deflation.

Table 2.5.2.2 - Annual Willingness to Pay Values by Region (£m)

Region	Total (£m)
East Midlands	£4.1
East of England	£3.0
London	£81.4
North East	£4.1
North West	£68.7
South East	£4.3
South West	£2.4
West Midlands	£8.0
Yorkshire and The Humber	£9.3
Total	**£185.2**

241. These figures have been used as a proxy for the governance benefits associated with establishing an independent regulator with the statutory powers outlined in Option 4. When aggregated across the appraisal period, deflated, discounted and with a 20% optimism bias applied, the benefits of this option are estimated to total £700.0m. As this reflects the aggregated WTP value for the delivery of all of the FLR recommendations, this is the high benefit scenario for Option 4.

242. To reflect the uncertainties associated with Option 4, an optimism bias has been applied. As per Green Book guidance for a project of this size and scope, a 20% optimism bias has been applied. This corresponds to the high benefit scenario, resulting in a total estimated benefit of £700.0m. There are several delivery risks and benefits realisation risks associated with Option 4. Mitigations have been built into the policy to limit the impact of these risks. However, should these risks materialise, there may be a limiting or delaying effect on the benefits accrued. To model this, an optimism bias of 30% is assumed to reflect the low benefit scenario where several of these risks materialise simultaneously. The application of a 30% optimism bias leads to an estimated total benefit across the appraisal period of £612.5m. Meanwhile, a 25% optimism bias is applied in the central scenario, resulting in a benefit estimate of £656.2m.

3.0 Wider impacts

3.1 Small and Micro Business Assessment (SaMBA)

243. There are 116 football clubs that fall in scope of the proposed regulations and 3 league bodies with a formalised role. It is expected that the vast majority of English football clubs in scope are medium sized businesses, with over 50, and fewer than 500 employees. Therefore, the costs and benefits to business assessed in the options appraisal are expected to apply almost entirely to medium sized businesses, though some clubs are classified as large businesses. All businesses in scope are football clubs or league bodies, therefore are in the sport clubs sector.

244. Table 3.1.1 below shows football club businesses that are included in the scope of the proposed new regulation, broken down by league and size.

Table 3.1.1: Football clubs in scope of regulation broken down by league and size[103]

League	Number of Clubs	Size of clubs (as per # of employees)	Approximate Annual Revenue (individual club)
Premier League	20	Medium and Large	£100m - £600m
Championship	24	Medium	£15m - £70m
League One	24	Medium	£8m - £10m
League Two	24	Medium	£4m - £6m
National League	24	Medium	£1m - £3m[104]

245. In consultation with industry bodies and several National League clubs, the government has been advised that, after taking into account playing squad, coaching staff, administrative staff, management and matchday staff, clubs in Tier 1 of the National League are expected to have at least 50 employees.

246. However, relative to the size of clubs higher up the football pyramid, employee numbers, backroom staff and revenues are significantly smaller in the National League. The Regulator will take a proportionate approach to regulating clubs taking into account the differing sizes and circumstances.

247. Table 3.1.2 below shows the three league bodies that will have a formalised role under the preferred option, broken down by size and revenue.

[103] As per financial accounts reported to Companies House and Deloitte Annual Review of Football Finance.
[104] Estimate based on limited available data.

Table 3.1.2: League bodies affected by regulation broken down by size and revenue[105]

League Body	Size of organisation (as per # of employees)
Premier League	Medium
English Football League (EFL)	Medium
National League[106]	Small

Benefits to National League clubs

248. There have been multiple occurrences of National League (formerly Conference National) clubs experiencing financial distress, including several administrations (e.g. Darlington in 2012, Rushden and Diamonds in 2011 and Salisbury City in 2009)[107]. It is noted that there are no instances of administrations initially occurring in the National League in the past decade. However, clubs in financial distress being relegated from the English Football League into the National League is not uncommon. This has the impact of weakening financial sustainability in the National League due to clubs entering the league in precarious financial circumstances. These clubs, their fans and local communities are expected to be amongst the greatest beneficiaries of financial oversight and regulation.

249. Therefore, within this small and micro business assessment, National league clubs in scope are expected to benefit in the instances where improved financial regulation is able to prevent insolvency events. Further benefits are expected due to improved governance across the league, greater levels of financial resilience and improved fan engagement resulting from the new regulation.

250. Furthermore, National League clubs being in scope of the Regulator means that they could benefit from the Regulator's targeted powers to intervene in financial distributions as a last resort (i.e. the backstop mechanism). This backstop mechanism has been designed to ensure that the relevant football authorities (the Premier League, the EFL and the National League) are incentivised to negotiate to reach a timely agreement that ensures a more sustainable distribution of funds throughout the football pyramid (even if the mechanism is never actually triggered). This would help ensure that National League clubs were able to operate in a more financially sustainable manner.

Costs to the National League (organising body)

251. The National League (organising body) is the one organisation directly affected by the preferred option that is classified as a small organisation. The National League is funded by distributions from the Premier League, membership fees paid by clubs that play in the National League system and other sources of income (e.g. sponsorship).In developing this policy, the National League has been consulted, and is supportive of its proposed formalised role in the regulatory regime.

252. One-off transitional costs are expected in order for the organising body to familiarise itself with its role in the new regulatory regime under the preferred option. Familiarisation activities are expected to be undertaken by a compliance and enforcement officer at the National League, and are

105 As per financial accounts reported to Companies House.
106 Estimates based on limited available data.
107 It is noted that National League insolvency events are often associated with relegation from the EFL to the National League. For example Darlington were relegated in the 2009-10 season.

estimated to take two working days. The central estimate assumes a salary of £90,000. While the high and low scenarios assume salaries of £100,000 and £80,000 respectively. This salary range reflects the relevant legal and financial expertise that is expected to be required, and the skills to liaise with clubs across the National League. In addition to this salary, a 22% uplift has been applied to account for non-wage costs. This results in estimated one-off familiarisation costs of £600 to £1,000.

253. The ongoing costs of compliance amount to information gathering, information sharing and engaging with clubs and the Regulator. Compliance activities are expected to be undertaken by a compliance and enforcement officer at the National League. These activities are expected to account for between 20% and 50% of one employee's annual working hours in the low and high estimates, and 35% in the central estimate. The greater time commitment of the additional National League employee to these compliance activities, the lower the relative compliance costs faced by National League clubs as the National League would be providing resources to support their compliance activities. Applying the same salary assumptions as for familiarisation costs results in estimated ongoing compliance costs between £21,000 and £69,000 annually.

254. Over a 10-year appraisal period, when discounted and put into real terms[108], this amounts to a total familiarisation and compliance cost to the National League between £0.131m and £0.392m.

255. In the event that a National League club is not meeting the Regulator's expected outcomes on financial regulation, the National League will have the opportunity to propose legally binding commitments to the Regulator so that they can address the issue with the relevant club in the first instance, before the Regulator takes direct action. These commitments will be subject to regulatory approval. The National League will not be obligated to put forward commitments and will be able to immediately defer any enforcement to the Regulator if desired. The National League will experience increased costs if it proposes commitments. To undertake these non-obligatory activities and the obligatory compliance and familiarisation functions, the National League expects to hire a compliance and enforcement officer.

256. As per Business Impact Target guidance[109], this Impact Assessment assumes that clubs comply with regulations. Therefore, the costs of enforcement are not appraised as part of the cost-benefit analysis. Furthermore, proposing commitments is non-obligatory for the National League. As such, this activity does not carry a direct cost to business in the context of this IA.

Costs to National League clubs

257. Club structures are complex and varied. Cost modelling suggests that some clubs may face higher compliance and familiarisation costs relative to their total revenue and operating costs.

258. As outlined throughout Section 1.0 and 2.0, the Regulator will take a proportional and risk-based approach, setting licence conditions on a club-by-club basis. This is designed to ensure that disproportionate burdens will not fall on any particular club, including those further down the pyramid and those with lower revenues. It is expected that some clubs currently taking less action will be faced with a larger step-change in their activities and costs following the introduction of the new regulation. However, the proportional approach of the Regulator should mitigate any disproportionate impact.

[108] Accounting for wage costs increasing in line with inflation.
[109] Business Impact Target: Appraisal of guidance, p9.

Proportionality and mitigations

259. The National League (organising body) is the one small organisation directly affected by the preferred option. The formalised role for the National League has been established in consultation with the organisation and it has been expressly preferred to it having no formalised role.

260. As outlined above, in the event that a National League club is not meeting the Regulator's expected outcomes on financial regulation, the National League will have the opportunity to immediately defer any enforcement to the Regulator if desired.

261. The White Paper set out that the Regulator will not implement a 'one size fits all' approach. Instead, it will be responsive and adaptive to consider the size of clubs in scope. Therefore, the Regulator may vary requirements and criteria depending on the size of the club under consideration. Additionally, the Regulator will aim to avoid duplication of existing submissions that clubs make to the National League. Where possible, submissions will follow the same format as existing accounting submissions.

262. All National League clubs are included within the scope of the football regulator. Clubs in the National League are not immune to financial distress. Therefore, the need to improve financial sustainability and protect cultural heritage assets still applies. The responsive and adaptive approach of the football regulator should be a help rather than a hindrance to National League clubs' governance and finances. As part of this approach, the football regulator will be able to provide tailored information to National League clubs to efficiently familiarise teams with advice and regulations.

Medium-sized businesses (50-499 employees)

263. According to financial accounts data, the vast majority of businesses in scope are medium sized businesses. Financial accounts suggest approximately a quarter of Premier League clubs report over 500 full-time staff, therefore are classified as large businesses, with this number increasing significantly if part-time staff are also included (almost all Premier League clubs and a small number of Championship clubs).

264. Given medium-sized businesses account for almost all businesses in scope, it would not make sense to exempt these businesses from the regulations. This would fundamentally undermine the objectives, functionality and rationale for intervention.

265. Almost all the costs and benefits as described in Section 2.0 are attributed to medium-sized businesses (with the remainder attributed to large businesses).

Additional costs and benefits

266. Some small and micro businesses are reliant on football clubs in scope of this regulation for their day-to-day revenue. Examples of these businesses are those that experience increased footfall on matchdays, as well as those that work directly with football clubs, such as catering firms. The regulation is designed to ensure that football clubs remain financially sustainable, while having minimal impact on the on-field product.

267. It is expected that these local small and micro businesses will benefit significantly in the instances where the Regulator's actions and oversight are able to prevent clubs entering administration or going out of business. Additionally, improved fan engagement and football governance might improve attendance and reduce the rare instances when fans have boycotted matches in protest, which would benefit local business by improving matchday footfall in comparison to the counterfactual.

268. It is not anticipated that local businesses surrounding stadia will face costs due to regulation as the football regulator is not expected to directly impact the on-field product. Therefore, attendances and footfall will not be reduced on matchdays.

3.2 Equality impacts

269. In relation to the proposed regulations, the government is not aware of any possible direct or indirect discrimination or adverse impacts on protected characteristic groups. As set out above, there will be a requirement for clubs to publish an Equality, Diversity and Inclusion action plan, detailing what action a club is taking to improve these areas within the organisation. As such, it is expected that there will be a positive indirect impact on those with protected characteristics.

- **Eliminate unlawful discrimination**, harassment, victimisation and any other conduct prohibited by the Equality Act 2010.

270. There is no evidence that creating a new independent football regulator will disadvantage some groups more than others, and no forms of discrimination are expected to arise.

- **Advance equality of opportunity** between people who share a particular protected characteristic and people who do not share it.

271. As set out above, the requirement for clubs to publish an EDI action plan is expected to positively impact people who share a particular protected characteristic.

272. On advancing the equality of opportunity, the intervention will give fans a closer connection to their football club. Fans with different protected characteristics may have an equal say in voting matters in some of their clubs' decision making, who may have felt isolated from influencing their clubs in the past.

273. There are no disproportionate impacts anticipated on individuals and groups with the following protected characteristics: sex, disability, gender reassignment, pregnancy and maternity, age, religion or belief, sexual orientation, race, or marriage and civil partnership.

- **Foster good relations** between people who share a particular protected characteristic and people who do not share it.

274. The policy intervention seeks to give every fan a larger voice in the way their club is run, with a minimum standard of fan engagement. The Regulator will ensure clubs have a framework in place to regularly meet a representative group of fans to discuss key matters at the club, and other issues of interest to supporters (including club heritage). This will give fans a say over changes to the badge and home shirt colours, in addition to the strong existing protections for club names. It is reasonable to assume that this representative group of fans will represent the diversity of the clubs fans, and foster good relations between them, all with their common aim of having their clubs best interest at heart.

3.3 Regional Impacts

275. This IA attempts to consider how impacts of the proposed regulation may vary across regions of England. Whilst the proposed regulations do not intend to operate differently in specific regions, this section aims to provide an indication of which regions in scope may accrue a greater proportion of the benefits of the intervention. It is assumed that no regions will face a

disproportionate cost burden, outside of the existing distribution of football clubs across different regions.

Levelling up: the distributional impacts of club failures **Box 3.3.1**

- The impacts of club financial failures are likely to fall disproportionately on lower income areas. Around two-thirds (73 of 115) of the clubs in English football's top five tiers are in regions where the average disposable household income is below the UK average. For EFL clubs, this rises to nearly 70% (50 of 72).[110]
- The FLR found that the loss of football clubs can 'hollow out' towns and communities. In addition to the social impacts, this can lead to long-term economic damage ('scarring') as local economies can no longer benefit from the positive growth multipliers associated with football clubs.

276. Table 3.1 below shows the distribution of football clubs in the English football pyramid across the regions of England (and Wales). Overall, clubs are fairly evenly distributed across regions. The region with the most clubs is the North West (20%), while the region with the fewest clubs is the North East (4%).

277. London and the North West make up 60% of Premier League clubs.This has the effect of skewing willingness-to-pay benefits (discussed below) to these regions, as these teams tend to have the largest fan bases.

278. The spread of clubs across England means that the policy intervention will bring benefits to communities, fans and local businesses in all regions.

Table 3.3.1 Distribution of Football Clubs by League and Region (2023-24 season)

	North West	North East	Yorkshire and the Humber	West Midlands	East Midlands	East of England	South West	South East	London	Wales
Premier League	25%	5%	5%	10%	5%	5%	5%	5%	35%	0%
Championship	8%	8%	21%	21%	4%	8%	8%	4%	8%	8%
League One	21%	0%	4%	13%	13%	13%	13%	17%	8%	0%
League Two	29%	0%	17%	4%	8%	4%	8%	13%	8%	8%
National League	17%	8%	8%	0%	13%	4%	4%	25%	21%	0%
Total	**20%**	**4%**	**11%**	**9%**	**9%**	**7%**	**8%**	**13%**	**16%**	**3%**

Preventing club administrations

279. One aspect in which the intervention could impact regions in different ways is in terms of the number of insolvency events that are prevented. Data on insolvency proceedings since 1992 has been analysed, in particular how these accrue to different regions within England. Table 3.3.2 sets out a summary of this.

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110 Internal DCMS analysis using ONS Regional differences in productivity and household income data from 2018 by NUTS3 region - ONS (2021).

Table 3.3.2 Clubs entering insolvency proceedings by region since 1992[111]

Region	Count of total insolvency events	% of total insolvency events by region	No. unique clubs entering insolvency proceedings at any point	% of unique club insolvency events by region
East Midlands	3	5%	3	6.5%
East of England	7	11.7%	6	13.0%
London	6	10.0%	5	10.9%
North East	5	8.3%	3	6.5%
North West	9	15.0%	7	15.2%
South East	11	18.3%	7	15.2%
South West	4	6.7%	3	6.5%
West Midlands	3	5.0%	3	6.5%
Yorkshire & The Humber	12	20.0%	9	19.6%
Wales	2	-	2	-
Total (all regions)	62	-	48	-
Total (England only)	60	-	46	-

280. There have been over 60 insolvency events for English clubs since 1992, across more than 46 unique clubs[112]. Clubs across all regions have fallen into administration, although Yorkshire and The Humber, the North West and South East are the regions with the most occurrences. Therefore, the potential benefits that are identified as a result of prevented administrations may fall disproportionately on these regions, given these typically see a high frequency of administrations.

Willingness to pay for improved governance

281. Data on the willingness to pay for improved governance has also been used to illustrate regional breakdowns of different impacts, also at a divisional level. Table 3.3.3 sets out willingness to pay estimates by region and league, as a percentage of the total willingness to pay benefits estimate.

Table 3.3.3 Willingness to pay for improved governance by region (%)

Region / League	% of WTP values by each region					
	Premier League	Championship	League 1	League 2	National League	Total
East Midlands	0.6%	11.5%	4.8%	14.6%	14.7%	**2.2%**
East of England	0.5%	6.1%	3.6%	12.5%	11.8%	**1.6%**
London	50.3%	14.2%	14.3%	10.4%	11.8%	**44.0%**
North East	1.5%	4.7%	9.5%	4.2%	0.0%	**2.2%**
North West	42.4%	3.4%	19.0%	22.9%	8.8%	**36.8%**
South East	0.5%	5.4%	21.4%	4.2%	26.5%	**2.3%**

[111] Percentages excluding Wales. Across all leagues.
[112] DCMS analysis finds 7 cases of National League clubs entering insolvency proceedings between 1992-2023 which are not counted in Table 3.3.2.

South West	0.0%	5.4%	9.5%	6.3%	11.8%	**1.3%**
West Midlands	1.9%	27.7%	6.0%	8.3%	2.9%	**4.3%**
Yorkshire & The Humber	2.4%	22.3%	10.7%	16.7%	14.7%	**5.0%**

**Percentages down columns may not sum to 100% due to rounding throughout analysis.*

282. The concentration of Premier League football clubs, and their large fanbases, in the North West and London heavily skews WTP figures to these regions. This is because WTP is measured across fans and non-fans, and then aggregated up to the region's population.

283. This table illustrates that primarily, willingness to pay for improved governance benefits are accrued to the London and North West regions, largely driven by WTP values across the Premier League. This is not consistent by league however, with Championship and lower leagues seeing the benefits distribution more equally distributed across regions, although the vast majority of impacts estimated are apportioned to the Premier League. Although the absolute level of WTP benefits that accrue to London and North West regions make up a significant proportion of overall benefits, clubs across all regions are still in scope to receive benefits. It should also be considered that the distribution of WTP impacts across divisions and regions will vary as teams move between pyramids each season.

284. Also considered is the differential in household incomes across these different regions and comparing this to willingness to pay breakdowns. Table *3.3* compares the total willingness to pay breakdowns against household income distributions across these same regions.

Table 3.3.4: Willingness to pay percentages compared with regional household income breakdowns

Region	Total (all leagues) WTP by region (%)	Region share of total household income (GDHI, 2020)[113]
East Midlands	2.2%	7.4%
East of England	1.6%	11.3%
London	44.0%	21.7%
North East	2.2%	3.8%
North West	36.8%	11.2%
South East	2.3%	18.2%
South West	1.3%	9.6%
West Midlands	4.3%	8.8%
Yorkshire and The Humber	5.0%	8.1%

285. This table shows that London occupies both the largest share of willingness to pay benefits and household incomes, although the South East whilst the second largest region in terms of the share of household incomes has a much lower share of the Willingness to Pay benefits. Alternatively, the North West region apportions a much higher willingness to pay estimate, but makes up a relatively lower amount of the household income distribution.

[113] ONS Regional Gross Disposable Household Income - ONS (2020).

3.4 Trade, investment and innovation implications

286. The decision to establish an independent regulator has been taken with careful consideration of the wider strategic context and associated risks. The regulations proposed for introduction under the preferred option **are not expected to have a notable impact on the value of international trade or investment**.

Risk of deterring investment:

287. UEFA's licensing benchmark report states that of the top European divisions, Premier League clubs have received the highest owner investment, totalling at £3.6bn between 2011 and 2021.[114] In comparison, the Italian top division received £2.9bn in the same time period, followed by the top divisions in France (£1.43bn), Germany (£0.8bn) and Spain (£0.4bn). There is a reasonable amount of Foreign Direct Investment (FDI) into the English football pyramid. According to UEFA's licensing benchmark report, foreign ownership of clubs is concentrated in the largest economies, with over half of foreign owned clubs in Europe's top divisions found in England, France, Belgium and Italy.[115] According to research by Norton Rose Fulbright, in 2020, 75% of Premier League clubs had some form of overseas ownership, with corporate investors, private equity firms and hedge funds representing over 50% of owners.[116]

288. The biggest and most high profile investments are into the Premier League, though there is FDI into the rest of the pyramid too. Portions of this FDI are globally mobile. As such, there is a risk that once new regulation is introduced, these investments could be switched to other European leagues. However, most major European leagues are subject to some form of regulation (as set out above in Section 1.3.4). This should not put UK clubs at a competitive disadvantage in terms of continuing to attract investment. This is reflected by the fact that the market has not yet reflected a negative impact of regulation on investment into European or Premier League football.

289. Heavy-handed, overly interventionist regulation could deter investment. The proposed intervention is a bespoke, sophisticated and evidenced-based regulatory framework. The Regulator's operating powers have been designed in such a way as to not impact the commercial prospects of clubs, taking into account lessons from international comparisons and adopting a more light-touch approach. For example, the Regulator's approach to financial regulation will mean it is only able to act on the creation of financial buffers, the amount of debt in a club and cost controls. The Regulator will be legally prohibited from intervening in football (e.g. spend on players) or commercial (e.g. ticket price) activities, thus limiting the potential risk of deterring investment.

290. As set out by the analysis throughout this document and through consultation with sector and finance experts, the introduction of the new regulator is not expected to deter investment. The regulations have been carefully designed to avoid this impact, and no decline in investment has occurred amid the prospect of new regulation. Introducing proportionate and objective regulation can provide greater clarity and market certainty to investors into English football, which could encourage greater long-term investment. Furthermore, at a club level, the regulatory regime would not constrain an owner's ability to invest sustainably into their club, recognising the positive impacts that investment can have. However, it would emphasise the importance of sensible, long-term investment that effectively manages risk and promotes long-term financial sustainability. Additionally, by maintaining the financial sustainability of clubs and providing improved stability across the English football pyramid as a whole, the establishment of an independent regulator may

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[114] The European Club Footballing Landscape - UEFA (2022).
[115] The European Club Footballing Landscape - UEFA (2022).
[116] Legal report examines the rise of overseas investment in English Premier League football - Norton Rose Fulbright (2020).

improve investment conditions.

291. The Regulator's Owners' and Directors' Tests are also designed with a view to mitigate harm against clubs, while protecting investment in the game. This test is necessary to prevent illicit finance from flowing through clubs and to prevent bad actors taking ownership of or being directors at clubs. The strengthened statutory Owners' and Directors' Tests will consist of three key elements:

- fitness test (owners and directors), to ensure individuals have honesty and integrity, are financially sound, and (for directors only) have the requisite competence for that role;
- enhanced due diligence on source of wealth (owners only), and
- a requirement to have a business plan and sufficient funds to acquire and run the club (owners only).

Risk of damaging sporting competition within the Game:

292. Owner funding can allow clubs to chase ambition, and has been a key factor in growing English football into the exciting, and valuable, product it is. It is the government's view that the Regulator should not unduly limit or deter sustainable owner investment. Clubs should be allowed to enjoy the benefits of investment and spending, though in a sustainable manner.

293. The legislation has been drafted in such a way that sporting competition is not damaged. This is delivered by adopting a licensing approach that takes into account a club's individual circumstances rather than implementing a blanket set of rules that could disproportionately impact one club over another.

294. The Regulator will be able to place requirements on clubs to ensure financial sustainability, however the Regulator will be legally prohibited from placing requirements around the values of sporting or commercial decisions. For instance, requirements like salary caps are perceived to limit dynamic competition. The specifics of the cost of a match ticket or indeed player will be out of the Regulator's scope. The Regulator's only interest here will be how these contribute to the financial situation of the club, and therefore impact on business plans and buffers.

3.5 Justice Costs

295. This IA assumes compliance with regulation. The football regulator is expected to ensure compliance through the use of advice and informal engagement to achieve fast resolutions and avoid unnecessary burdens of formal enforcement. Failing this, the enforcement levers available to the Regulator should prove an effective deterrent to non-compliance. In rare cases, the Regulator may pursue action which could incur time and resource costs for the courts.

296. As with all regulators, there is the possibility of appeals against the Regulator's decisions. There is a small list of identifiable potential claimants. This list includes the 116 football clubs in scope, their owners and directors, and existing football authorities. In some cases, club supporter associations could also have legal standing to appeal. Any appeals would result in some additional costs to the Competition Appeal Tribunal (CAT) and, in the extremely rare instances that the CAT's rulings are further appealed, possibly to the Court of Appeal. The costs resulting from appeals have been explored more fully in a separate Justice Impact Test, completed prior to legislation being introduced.

297. Legal and justice costs will be marginal relative to the benefits of the regime. This assumption is supported by insights from other regulators.

3.6 Power of Entry impact assessment

298. A new power of entry is required for the Regulator of men's professional football. Clubs will be licenced and will need to comply with the specific conditions imposed by the Regulator. As part of the Regulator's powers of investigation, it will require the ability to enter business premises in conjunction with an investigation of an actual or suspected breach of a club's licence conditions where the Regulator deems power of entry is necessary. The following associated powers are included, amongst others, under the power of entry:
    - Powers of search and seizure
    - Power to require specified persons to attend an interview.

299. It is assumed that compliance will be the norm amongst regulated clubs. As such, the new power of entry will be used sparingly, only in those infrequent instances where further evidence is needed to confirm or reject a suspected licence breach, and where there is suspicion that evidence is being withheld. The costs of these powers are expected to be minimal due to the rarity of their use.

4.0 Monitoring and Evaluation

300. The government is committed to monitoring and evaluation of the football regulator which will include state of the market reports, monitoring activities and a full post implementation review (PIR).

Summary of research to date

301. In order to understand the value of football to users and non-users, the previous government commissioned research conducted by Ipsos and presented in August 2022.[117] This was a contingent valuation study, based on surveying fans and non-fans on the willingness-to-pay for the continued existence of their local club, and separately the welfare gains that would occur if the FLR recommendations were enacted across the English football pyramid. This research enables understanding of the value of improved governance and management of football clubs, and the value of preventing insolvencies. This will be useful for quantifying the outcomes and impacts that will result from the football regulator's activities and outputs.

Monitoring and evaluation plan

302. A post implementation review (PIR) will be conducted within 5 years of implementation. It will be for the Secretary of State to determine the time at which the review will take place within this constraint (unless there is a clear and obvious reason for delaying the review).

303. The review will be led by the DCMS Secretary of State. It will also consult with the following stakeholders:

- The new regulator
- The Premier League
- The English Football League (EFL)
- The National League
- The Football Association (FA)
- Fans (either via consultation or individual supporter groups)

304. The review will assess the extent to which the actions of the independent statutory regulator have achieved the primary policy objectives. The policy objectives include:

- To significantly **reduce the number of clubs entering financial distress / administration** via improved financial management, corporate governance practices etc. Consequently, to **reduce the number of clubs going out of business**.

- If / when clubs do enter financial distress, to **protect the use of important cultural heritage assets** (e.g. a club's stadium, Intellectual Property etc.). To achieve this, the Regulator should ensure that:

- To achieve the above objectives whilst ensuring that **the 'on field product' remains 'best in class'**.

305. In order to monitor and evaluate the efficacy of the Regulator, potential evaluation questions for its value for money and impact are considered.

[117] Contingent Valuation of men's Professional Football Clubs and the Fan-Led Review Recommendations for DCMS - Ipsos UK (2022)

Table 4.0.1: Potential evaluation questions

Policy area / objective	Specific impact / outcome	Possible metrics
Financial performance	Value for money	● Cost-benefit analysis
Efficiency	Swift, unencumbered regulation	● Recorded regulatory activity, monitoring and enforcement.
Compliance	Successful advocacy-first regulation with enforcement where required	● Recorded licence condition breaches and enforcement action.
Proportionality	Minimise unnecessary burden on the industry	● Reported club compliance activities and costs (time spent engaging with the Regulator, financial forecasting costs, monitoring and reporting costs, etc.)
Impact	Has the Regulator had the desired impact on the English football pyramid?	● Relating to the metrics that will be tracked by the Regulator
Stakeholder sentiment	The satisfaction of key stakeholder groups (fans, clubs, leagues, players) with the State of the Game report and with IFR's performance	Index built on responses from: ● Fan surveys ● Club surveys ● Engagement with leagues
Policy reach	Distributional impacts of the the Regulator's activity	Disaggregation of the above metrics where possible/appropriate by: ● League ● Club type/size ● Geographic region

306. In addition, because measuring ultimate outcomes is both uncertain (e.g. related to the complexity of constructing a robust counterfactual) and potentially subject to significant lag times, the review will also need to evaluate the implementation of the intended outputs e.g. in relation to financial regulation, and corporate governance, and protection of cultural heritage assets.

307. To aid such an assessment, it is expected that the Regulator will set up the collection of the required data (e.g. the data it collects for business as usual benchmarking).This data will be presented in initial and subsequent 'State of the Game' assessments.

Next steps

308. The government will continue to work to expand and finalise a monitoring and evaluation plan. This will involve continued engagement with stakeholders, further research to fill evidence gaps, finalisation of evaluation questions, and further detail on the form of the evaluation approach and data collection.

Annex A: The problem under consideration (detail & evidence)

Financial Mismanagement

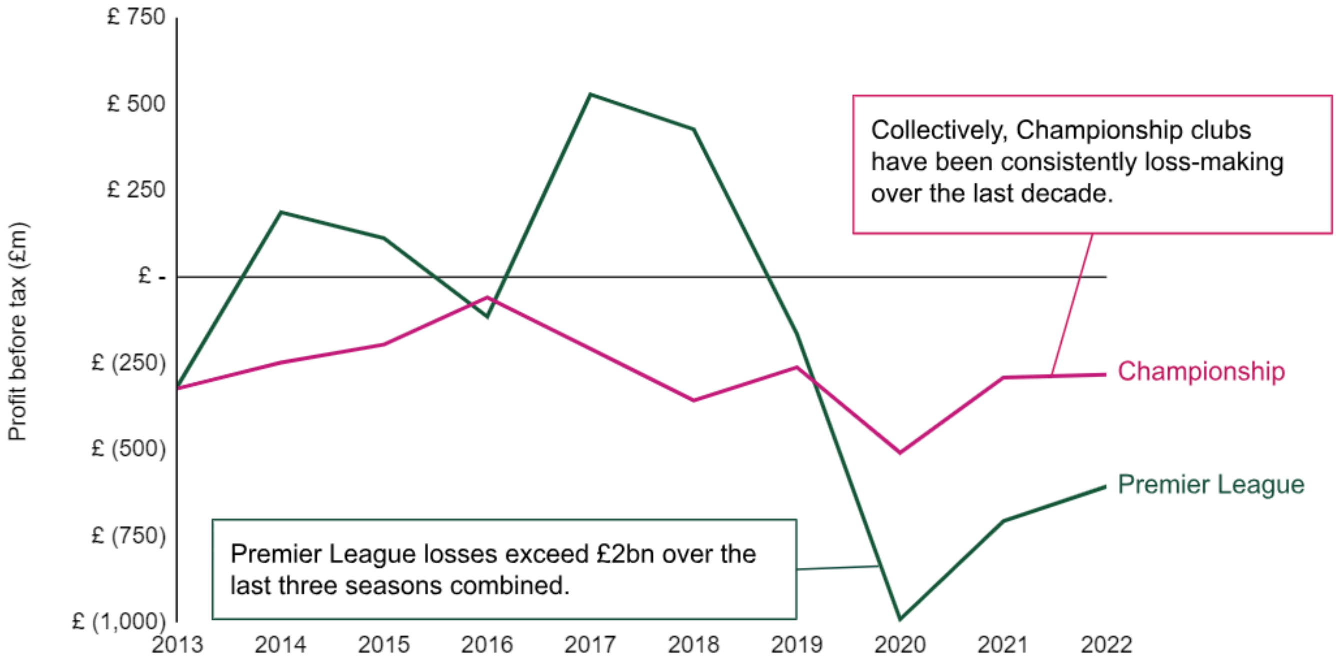
Clubs are consistently loss making and rely on external funding

From 2013 to 2022, Championship clubs made collective pre-tax losses of £2.7bn (taking into account both operating profit / losses and player trading).[118] There is no evidence to suggest that these losses are reducing as a result of profit and sustainability rules. For example, combined pre-tax losses exceeded £2bn in the last three seasons for which data is available (2020 - 2022).

Even at Premier league-level, where revenues are significantly higher, clubs have recorded aggregate pre-tax losses of over £4bn since the league's inception in 1992[119]. From the 1999/2000 season onwards, 19/23 (83%) Premier League seasons have resulted in pre-tax losses, highlighting that this is a persistent issue even for the highest earning clubs[120].

Looking at recent seasons (2020/21 and 2021/22), Premier League and Championship clubs combined had pre-tax losses of £1.9bn.

Figure A1: Premier League and Championship collective pre-tax profit/loss (£m)



Source: Deloitte Annual Review of Football Finance Databook (2021) and Annual Review of Football Finances Publications (2021 - 2023)

Clubs operate with unsustainable wage-to-revenue ratios

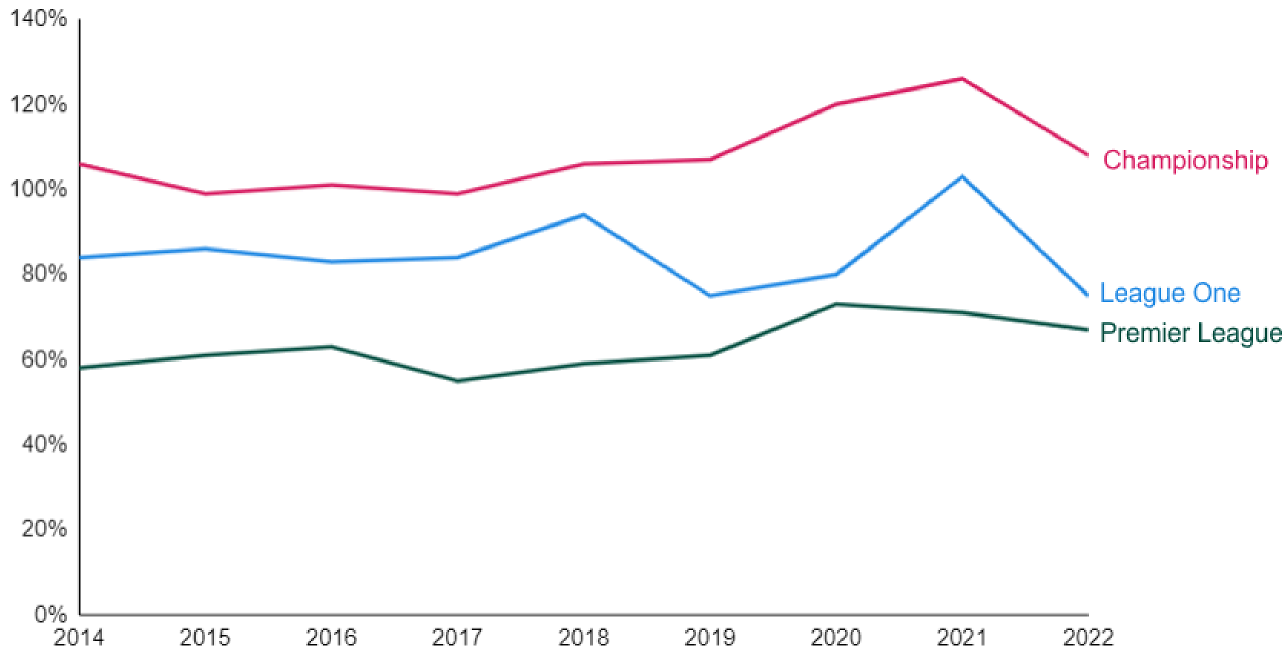
An important financial indicator of club finances is the ratio of wages to revenue. UEFA has indicated that for clubs to have a reasonable chance of breaking even, wages should not exceed 70% of revenue[121].

[118] Riding the challenge: Annual Review of Football Finance 2021 Databook - Deloitte (2021)
[119] Ibid. Based on data available from 1992-2020
[120] Ibid
[121] 'Given that other – mainly fixed – operating costs tend to consume between 33% and 40% of revenues, a wage-to-revenue ratio in excess of 70% is highly likely to result in losses, unless there is a significant surplus from transfers.'. The European Club Footballing Landscape: Club Licensing Benchmarking Report - UEFA (2019)

Figure A2 shows the average wage-to-revenue ratio in the top three divisions. The ratio is the highest in the Championship, where it has regularly exceeded 100%. In the 2020/21 season, as disruption and limited stadium capacities (due to Covid-19) resulted in lost matchday revenues, the ratio reached its highest ever level (126%)[122].

For Premier League clubs, the average ratio has been 63% (since 2014). However, the average masks a wide variation between clubs - from 47% (Tottenham) to 95% (Newcastle) in 2019/20[123]. 10 Premier League clubs reported wage to revenue ratios at or in excess of UEFA's recommended threshold of 70% in 2021/22.

Figure A2: Average wage-to-revenue ratios for the top three English divisions

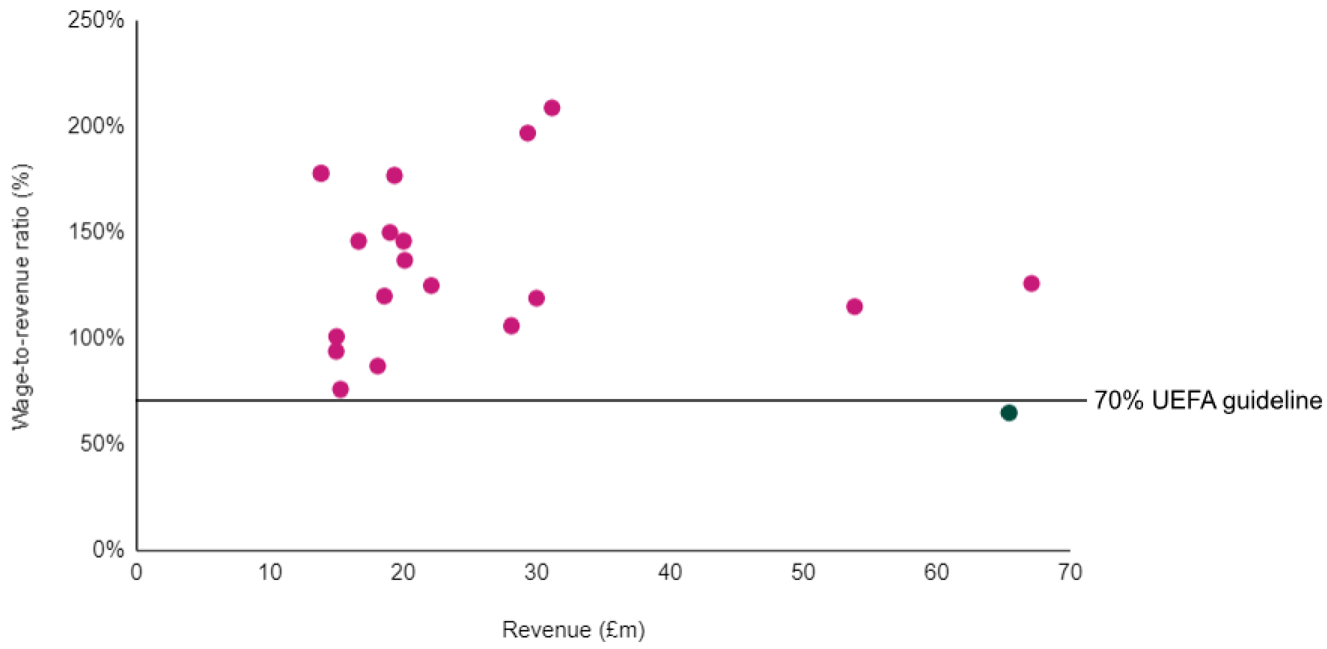


Source: Deloitte Annual Review of Football Finance Databook (2021) and Annual Review of Football Finance Publications (2021 - 2023)

Figure A3 shows that at Championship level, wages exceeded revenue for 15 of the 19 clubs for which wage information was available. Seven Championship clubs show particularly unsustainable expenditure levels with wage to revenue ratios above 140%, exceeding the UEFA guideline twice over.

[122] Riding the challenge: Annual Review of Football Finance 2021 Databook - Deloitte (2021)
[123] Riding the challenge: Annual Review of Football Finance 2021 Databook, p. 35 - Deloitte (2021)

Figure A3: Championship clubs' wage-to-revenue ratios (2021/22)



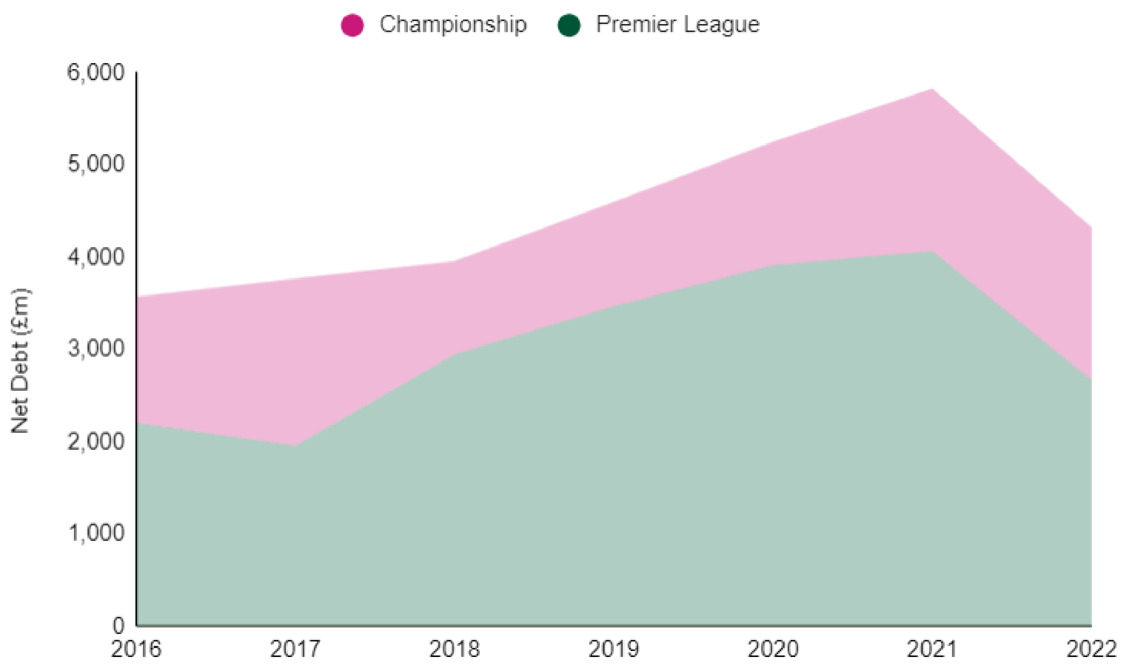
Source: Annual Review of Football Finance (Deloitte, 2023) and Maguire and Philippou (2023)

Levels of borrowing are increasing

Across the Premier League and Championship combined, net debt increased from approximately £3.6bn in 2016 to over £4.3bn in 2022 (see Figure A4).

At Championship level, the majority of the net debt takes the form of 'soft' loans from club owners and directors. These loans are typically offered on interest free terms and can therefore be favourable to the club relative to bank borrowing or bonds. However, the 2011 House of Commons Culture, Media and Sport Committee inquiry into football governance noted that there may still be some concern with these arrangements: *'the concern here is the tendency for "soft" loans apparently given with no expectation of recovery to be called in, with interest, when the owner's circumstances or intentions change.'*

Figure A4: Net debt (£m) - Premier League and Championship



Source: Deloitte Annual Review of Football Finance Databook (2021) and Annual Review of Football Finances Publications (2021 - 2023)

These financial circumstances mean that:

- There is a lack of resilience in the event of financial shocks.
- Many clubs are reliant on the continued willingness and ability of their owners to fund their day-to-day operations.

<u>List of clubs that have entered insolvency proceedings since 1992</u>

Table A2 provides the list of clubs in the top four divisions that have entered insolvency proceedings since the Premier League's inception in 1992, and in which year they did so.

<u>Table A2: Clubs that have entered insolvency proceedings since 1992</u>

Year	**Club(s)**
1992	Aldershot; Maidstone United; Northampton Town
1994	Barnet; Exeter City; Hartlepool United
1995	Gillingham
1997	AFC Bournemouth; Darlington; Doncaster Rovers; Millwall
1998	Chester City; Hereford United
1999	Crystal Palace; Halifax Town; Oxford United; Portsmouth
2000	Swindon Town
2001	Chesterfield; Hull City; QPR; Swansea City
2002	Barnsley; Bradford City; Bury; Carlisle United; Halifax Town; Leicester City; Lincoln City; Notts County; Swindon Town; York City
2003	Darlington; Huddersfield Town; Ipswich Town; Luton Town; Oldham Athletic; Wimbledon
2004	Bradford City; Wrexham
2005	Cambridge United
2006	Rotherham United
2007	Leeds United; Luton Town; Boston United
2008	AFC Bournemouth; Rotherham United
2009	Chester City; Darlington; Southampton; Stockport County
2010	Crystal Palace; Portsmouth
2011	Plymouth Argyle
2012	Port Vale; Portsmouth

2013	Aldershot Town; Coventry City
2019	Bolton Wanderers; Bury
2020	Wigan Athletic
2021	Derby County

Source: Deloitte (2021), 'Annual Review of Football Finance 2021

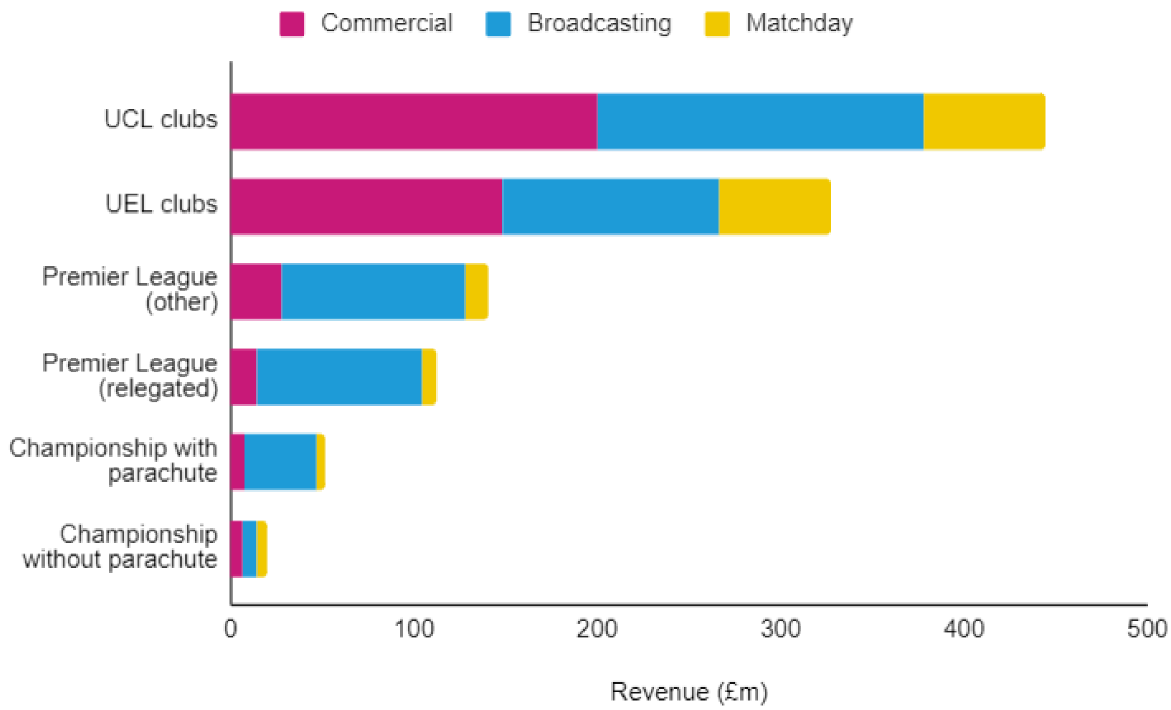
Revenues are unevenly distributed across the divisions and between clubs in the same division

There are large disparities in income between various points of the football league structure. There are (see Figure A5):

- *Revenue tiers across leagues*: In 2019/20, the average revenue of a Premier League club (£225m) was nearly eight times that of a Championship club (£28m)[124]. The gap between Championship (£28m) and League One (£8m) clubs was also wide. This generates an incentive for clubs to outspend their revenue in a bid to secure promotion to the division above or avoid relegation to the division below.

- *Revenue inequalities within leagues*: Clubs within the same division can also have vastly different incomes to fund their spending. In the Premier League, Manchester United's 2019/20 revenues stood at £589m, while 11 Premier League clubs had revenues below £150m. In the Championship, parachute payments for relegated clubs contribute to the revenue gap. These wide variations in revenue place additional pressure on clubs with lower income to outspend their revenue in order to match wealthier competitors.

Figure A5: Average revenue by Premier League and Championship club tier (19/20)



Source: Deloitte (2021), 'Riding the challenge: Annual Review of Football Finance 2021

[124] Riding the challenge: Annual Review of Football Finance 2021 - Deloitte (2021)

Subsidies from wealthy owners give some clubs far greater spending power than others in the same league

The persistent losses that English football clubs have made over a prolonged period of time illustrates that owners are generally not driven by financial (profit) motives. Where particularly wealthy owners have taken over football clubs, they have often been willing to subsidise significant losses in order to fund player transfers and wages. For example, in 2019/20 Manchester City and Everton both reported pre-tax losses of over £100m as a result of their transfer activity.

Annex B - Analytical assumptions and associated risks

309. Throughout the cost benefit modelling, a number of analytical assumptions have been made to estimate the impact of regulatory change. These are set out below, alongside the risks associated with these, evidence underpinning them and attempts to mitigate these challenges within the modelling. For the purposes of this section, the assumptions primarily refer to those used within the preferred option.

Table B1: Summary of analytical assumptions

Assumption	Evidence	Risk	Mitigation
Familiarisation cost burden for clubs	Consultation with clubs, Deloitte analysis of club finances, other similar regulators.	Familiarisation costs are not accurately estimated.	Inclusions of low, central and high estimates for the familiarisation burden to account for differences in club activity.
Compliance cost burden for clubs	Consultation with clubs, Deloitte analysis of club finances	Compliance costs are not accurately estimated.	Inclusions of low, central and high estimates for the familiarisation burden to account for differences in club activity.
Willingness to pay benefits that impact clubs	Ipsos report and contingent valuation survey.	The benefits of regulatory change are not accurately captured.	Inclusion of optimism bias figures to illustrate the lack of certainty on the realised figures.
Clubs will interpret regulatory change differently, in a way that can be broadly be categorised by division	Consultation with clubs highlighted different approaches and views from clubs across the football pyramid.	The impact of the regulatory change to different types of businesses are not accurately reflected.	Tailored assumptions within familiarisation and compliance cost modelling to reflect differences across leagues.