Highlights

Europe's premier leagues

- Despite the challenging global economic environment, the European football market grew to €15.7 billion in 2008/09. The 'big five' leagues' revenues (England's Premier League, France's Ligue 1, Germany's Bundesliga, Italy's Serie A and Spain's La Liga) grew by 3% to €7.9 billion.

- In their local currencies, the 'big five' leagues all managed to increase their total revenues in 2008/09. The Bundesliga, Serie A and Ligue 1 achieved growth across all three key revenue streams.

- The Premier League increased its revenue by £49m (3%), however, due to sterling's deterioration against the euro, revenues fell by €115m to €2,326m in 2008/09. Despite this, the gap to the second highest revenue generating league, the Bundesliga (having moved ahead of La Liga), was still €751m.

- The Bundesliga's revenue growth of €137m (10%) to €1,575m, the highest absolute and relative growth of any of the 'big five' leagues, was driven by an impressive €99m (16%) increase in commercial revenues.

- La Liga growth of €63m (4%) to €1,501m was driven by combined growth of €93m by Real Madrid and Barcelona, the world's top two revenue generating clubs. The remaining 18 La Liga clubs recorded an aggregate fall in revenue of €30m.

- Serie A's revenues increased by €73m (5%) to €1,494m leaving it in fourth place of the 'big five' leagues ahead of Ligue 1 whose clubs revenues exceeded €1 billion for the first time, totalling €1,048m (up 6%).

- The 'big five' leagues' wages increased by €305m (6%) to exceed €5 billion for the first time in 2008/09. Serie A clubs' wages grew by €121m (12%), with wage inflation of 11% experienced by the Premier League (up £132m) and the Bundesliga (up €78m). La Liga and Ligue 1 had more modest increases of 4% and 3% respectively.

- The Premier League and the Bundesliga were the only leagues to achieve operating profits in 2008/09, with the Bundesliga (increasing to €172m) overtaking the Premier League (falling to €93m) (£79m).

- European club football is increasingly polarised; Europe's top 20 revenue generating clubs earned over €3.9 billion in 2008/09, 25% of the entire European football market. Amongst the 'big five' leagues La Liga is the most unequal with a revenue spread of 25 times between the biggest and smallest club. The Premier League and Ligue 1 are the most even with an equivalent spread of six times. The scheduled return to collective selling of broadcasting rights for Italian clubs in 2010/11 should reduce the revenue imbalance in Serie A, while the Spanish LFP is reportedly looking at the feasibility of such a change.

- Whilst the 'big five' leagues have shown admirable resilience to the economic climate in terms of revenue generation, the imbalance between revenue and costs has, in the main, worsened. With UEFA's focus on greater cost control for clubs planned to be effective from the 2013/14 season, clubs will need to start preparing themselves now to achieve a more sustainable balance between their level of spending and income generation.

Revenue and profitability

- The overall revenues of the 92 top English professional clubs exceeded £2.5 billion for the first time in 2008/09, an increase of almost £100m.

- The challenging economic environment restricted revenue growth such that total Premier League club revenues just failed to reach £2 billion (up 3% to £1,981m). By contrast, Championship club revenues increased by 12% to £375m, helped by a change of mix in clubs in the division.

- Broadcasting continues to be the biggest contributor to Premier League club revenues at 49% of total revenues. 2008/09 was the middle season of the current £2.8 billion Premier League broadcasting contracts.

- Matchday revenue increased by 2% across all the Premier League clubs. Commercial revenues fell to £449m (down 1%).

- The next set of Premier League broadcast rights contracts, which start in 2010/11, are expected to drive revenue to £2.2 billion. The total value of these rights packages has increased by c.30% to £3.6

billion, with almost all of the increase coming from overseas packages which have more than doubled in value to £1.4 billion over three years.

- From 2009/10 Football League clubs have benefitted from new three-year broadcasting deals with the BBC and BSkyB worth £264m. Additionally, overseas rights have increased by 300% to £24m over the same period highlighting the attractiveness of all levels of English football to the global market. When combined with the increased parachute payments and enhanced solidarity package from the Premier League, we forecast that in 2010/11 Championship revenues will be c.£100m higher than in 2008/09 at c.£470m.

- Premier League operating profits fell by more than half to £79m, their lowest level since 1999/2000, primarily owing to wage inflation (£132m) being greater than the £49m increase in revenue. Profitability particularly weakened at a number of clubs outside of the 'big four' who invested heavily in players either to strive for European qualification or to protect their Premier League status.

- The polarisation of operating profits in the Premier League is stark. Together Arsenal, Liverpool and Manchester United and the newly promoted clubs collectively generated operating profits of £196m. By contrast, the other 14 clubs recorded combined operating losses of £117m.

- It is likely that operating profits will have reduced further in 2009/10, as many clubs will have committed a portion of the future uplift in revenue into their player budgets before the income is received.

- The new broadcast contracts provide the immediate opportunity to substantially boost operating results and, as a minimum, reduce pre-tax losses to more sustainable levels. Most clubs must ensure that this level of profits is the floor as the economy emerges from recession, like many other businesses, they need to improve their profitability in order to repair their balance sheets.

- The 92 top professional clubs contributed around £957m to the Exchequer in 2008/09, a 11% increase on the previous season. The introduction of the 50% income tax rate for high earners is likely to see this total pass £1 billion for the first time in 2009/10.

Wages and transfers

- Total wage costs across the 92 top professional football clubs in England exceeded £1.8 billion in 2008/09 following a £191m (12%) increase. Premier League clubs were the largest contributor to this growth as their total wages increased by £132m (11%) to over £1.3 billion.

- The wage bills of Premier League clubs have now recorded double digit percentage growth for three years running and total wages have grown by in excess of 55% (£474m) in that period. With wages growth outpacing revenue growth in 2008/09, the Premier League's wages/revenue ratio increased to 67% – a record high. This key performance indicator increased in all four divisions in 2008/09.

- The most rapid inflation in Premier League wages has been in the group of 13 clubs outside of the 'big four' and the three newly promoted clubs as the pressure intensifies for them to secure European qualification or to avoid relegation.

- However, whilst there continues to be a strong correlation between wage costs and league finishing position at the very top (top four) and the bottom (relegation places), there is an extremely weak link for the clubs in the middle. This again highlights that money spent on wages is certainly no guarantee of success for the majority of Premier League clubs, and suggests many clubs are getting questionable value for investment in player wages.

- The Championship saw total wage costs in 2008/09 increase by £45m (15%), the third successive year of double digit growth and the largest absolute year-on-year increase for nine years. With total wages in the Championship increasing by almost 50% (£108m) in three years, against revenue growth of £57m, the wages/revenue ratio has jumped from the low 70s to 90%. The correlation between wage levels and Championship performance remained extremely weak, except for a few clubs at the very top of the league.

- Overall, The Football League is now spending 86% of its revenues on total wages, with only an £82m surplus of revenue over wages to manage the rest of the business, fund operating costs, and consider transfer budgets, which is a huge, and ultimately unsustainable, financial challenge.

- Gross transfer spending across the 92 top professional clubs increased marginally (1%) to £784m in 2008/09 (up by £5m), with £713m (2007/08: £664m) spent by Premier League clubs.

- A buoyant domestic transfer market, with the value of intra-Premier League deals increased by over 85% to £298m in 2008/09, meant more money stayed within English football with net transfer payments (i.e. to overseas clubs and agents) decreasing to £220m (2007/08: £276m). This increased domestic activity is evidence of the impact of sterling's decline against the euro and that many of the world's best players are already located in England.

- Agents' fees increased by 4% to £80m in 2008/09, such that these payments represented 36% of the total net transfer spending (up from 28% in 2007/08). Five clubs were responsible for more than 50% of the total amount paid to agents.

- Manchester City's ongoing heavy investment in their squad resulted in a record single year's gross spending of £138m (net spending of £125m). Tottenham Hotspur had gross spending of £119m but recouped £72m through player sales, while Manchester United's sale of Ronaldo for a reported £80m meant they generated net player transfer receipts.

- Ten Premier League clubs had net transfer spending of less than £20m with a further six being net sellers. These findings perhaps provide an initial sign that many clubs were starting to reduce transfer spending, either through choice or necessity. Falls in transfer activity in the summer 2009, and particularly January 2010, transfer windows provide further evidence of this shift.

- The growth in wages is more difficult to slow down given existing three-four year player contracts but must nonetheless be reined back to address clubs' declining profitability. Genuine performance related pay has its place to play in delivering this, although it is not without its challenges.

Stadia developments and operations

- In 2008/09 capital expenditure on stadia/facilities by English clubs rose to £196m, the third highest figure since the formation of the Premier League. More recently, the economic downturn has slowed certain major planned developments, primarily due to the unavailability of funding. The full impact on such investment will not flow through until next year's Annual Review and beyond.

- Both the Championship and League 1 saw record levels of investment in 2008/09 – mainly due to new stadium builds for Cardiff City and Brighton & Hove Albion.

- Most new stadium projects continue to be at Football League clubs. In 2008/09, investment by Premier League clubs in stadia/facilities was at its lowest level since 1996/97, mainly because there were no major construction projects on-going for Premier League clubs. The two biggest spenders at Premier League level were Tottenham Hotspur and Liverpool, whose new stadia are both yet to reach the construction phase.

- Combined 2009/10 attendances for the Premier League and Football League exceeded 30m – a level not seen since well before the introduction of all seated stadia.

- Average attendance for the Premier League in 2009/10 was down 4% to 34,215 per match, although this was predominantly due to Newcastle United's relegation.

- Average capacity utilisation in the Premier League was unchanged, and stayed above 90% for the 13th consecutive season, showing the continued attractiveness of Premier League matches despite the economic downturn.

- Total Football League attendance in 2009/10 hit 17m for the first time since the Premier League was formed, showing the lasting appeal of the Football League as a live entertainment spectacle.

- Looking at matchday revenue, we expect to see the effect of the economic downturn – notably on corporate hospitality revenues – in a small negative impact on average revenue per attendee in next year's Annual Review.

- For the first time, two clubs – Manchester United and Arsenal – each generated over £100m in matchday revenues in 2008/09. Together, these clubs generate almost £2 in every £5 of matchday revenue across the whole league.

- Looking forward, it appears that the public's appetite for live football remains extremely hearty, and over recent seasons clubs have adjusted prices to help maintain attendances. Securing funding and in some cases planning permission for new stadium developments will remain a challenge. However, new stadia continue to be constructed across the 92 clubs and a decision by FIFA in December 2010 to appoint England as hosts for the 2018 World Cup would provide a boost to investment.

Club financing

- Premier League clubs' net debt at the end of the 2008/09 season increased to £3.3 billion (2008: £3.2 billion). This includes £1.4 billion of non-interest bearing 'soft loans' from club owners. If this soft loan type debt were to be reclassified as, or swapped for, equity the total net debt in respect of Premier League clubs would reduce by around 40%.

- The two largest assets on Premier League clubs' balance sheets at end of the 2008/09 season were the £1.9 billion carrying value of tangible fixed assets, reflecting the investment of over £2.7 billion investment by English clubs in facilities over the last 17 years, and the carrying value of player registrations costs which exceeded £1 billion for the first time.

- Almost two-thirds (over £1.9 billion) of the total net debt related to Arsenal, Chelsea, Liverpool and Manchester United. On the positive side of the balance sheet, in aggregate these four clubs had a carrying value of £1 billion in respect of investment in facilities and £385m from investment in players.

- Net bank borrowings have decreased by £200m since summer 2008, whereas 'soft loans' have increased by £186m, in part reflecting the reduction in availability of bank debt financing.

- The overall net interest charges in respect of Premier League clubs in 2008/09 was £184m, with 12 clubs failing to generate sufficient operating profits to cover interest charges. However, the non-interest bearing nature of loans at a number of clubs help to keep the net debt service charge at under 6% of the overall debt balance.

- By December 2009 Sheikh Mansour Bin Zayed Al Nahyan's had invested £440m in Manchester City's playing squad, operational management and infrastructure. This has been the most significant investment by an owner since Roman Abramovich, whose overall investment in Chelsea has grown to around £725m over six years.

- In February 2010 Portsmouth became the first club to enter Administration whilst in the Premier League. Unsurprisingly, unaffordable expenditure on players and lack of financing were the key causes of the club's financial demise.

- Reported net debt in respect of Championship clubs at the end of the 2008/09 season had risen to £406m (2008: £327m), funding much of an aggregate pre-tax loss of £160m. It will remain the case that, in general, a Championship club can only hope to significantly reduce its net debt in the short to medium through either promotion to the Premier League or an injection of equity funding from its owner.

- Below the top two divisions, managing a club's financial position is a challenge from one season to the next. Legacy debt issues and the risks taken by some boards of directors will, without correction, inevitably lead to further insolvency cases in the seasons to come. Chester City, Darlington and Stockport County all entered Administration in 2009.

- Increasingly there have been initiatives from the football bodies to promote sustainable business models for football clubs. In future, we expect there will be a more intense scrutiny of a club's ownership and debt position from supporters and the media. Enhanced disclosure and communication can help educate this interest and reduce misunderstandings and instability.

These highlights are extracted from the relevant sections of the Deloitte Annual Review of Football Finance (June 2010). The basis of the calculations are described in the relevant sections.