

## **Lord Mawhinney's speech to Leaders in Football Conference**

I grew up in the era when television showed only the most occasional football match and Stanley Matthews, Tom Finney and Billy Wright were heroes. For me, you could add Danny Blanchflower and Jimmy McIlroy.

Football has come a long way since then. The people in this room now oversee a multi-billion pound industry that provides huge tax revenue to exchequers across Europe. Thanks to television the profile of the game has never been greater.

Yet while it is encouraging to note modern day successes, problems remain. It is important for us to understand why our clubs are consistently spending more than they earn; why Arsene Wenger is laughed at for saying that he wouldn't be doing his job properly if his club lost money at the end of season; why everyone in the game is impacted by the signing of one player.

To do that, we must first remember two revolutions that have occurred in our life-time. First there was Jimmy Hill, to whom I had the pleasure of presenting a Football League life time achievement award last season, in recognition of the part he played in freeing football wages. Unquestionably, that represented a great development for the game.

We also had the Bosman ruling, after which football beat its breast and then accepted the court's decision. Unfortunately, it spent less time considering the damage that ruling caused to players' contracts, which are an important cornerstone of the football industry – or should be.

I say "or should be" because player contracts are in danger of becoming worth less than the amount spent on the lawyers and agents who put the words on paper. A player negotiates a contract for, let us say, four years. By the end of the third year the club is under pressure to sell him, notwithstanding the contract, because if the contract runs its full course the club loses all its investment in the player. What picture of financial rectitude does this paint? And why is this not a matter of broader concern to an industry that prides itself on regulation? If contracts really are important then this issue needs to be addressed.

The lack of respect for contracts also flows in the other direction. Players voluntarily sign agreements which should bind them for a given period. Increasingly, however, they appear to have little compunction about behaving in ways that can undermine the legal agreements they have signed. Often, while still under contract, players respond to being "tapped up" or peddled around clubs by agents conveniently distanced from the clubs. And sometimes they simply reject the contracts they have freely signed. When some of these players are among the most senior, prestigious and well paid in the land, it is hardly surprising that they become role models for others.

What adds 'salt to the wound' are the ritual denials that such behaviour has anything to do with "wanting more money". I don't believe them. You believe what you wish, I and a lot of other people believe it is all about money.

The industry's perceived wisdom that, if a player does not wish to play for a club they should be let go, is simply another cliché that undermines the importance of contracts.

Within reason, clubs and players are entitled to write into contracts what they wish. The rest of us are more likely to take contracts seriously and therefore football finance seriously, if contracts are shaped and implemented fully, consistently and robustly.

In the last twelve months there has been much public debate about football debt - some of it, misplaced. As a former Government Minister, I have had exposure to hundreds of businesses. Very few of them were debt free because debt is an integral part of running and growing a business. Debt is not the problem in football, unsustainable debt is.

The debt figures in the game are huge, and increase the further up the pyramid you go. Newspapers have suggested that Premier League clubs might have more than £3.1 billion of debt. According to Deloitte, Championship attendances between 2002/03 and 2007/08 rose by 9 per cent, revenues by 28 per cent and at the same time, operating losses by 23 per cent. This trend resulted in the net debt position of all English League clubs during the same period rising from £45 million to £326 million.

By 2008, aggregate revenues of all professional clubs had risen to £2.5 billion, but operating losses stood at £529 million. The latest statistics show that in the Championship, year on year, players' wages increased by a further 24.1 per cent in the season 2008/09. In the Premier League, research indicates that player wages simply follow television income. The truth, however, is that as players' wages increase, club debt increases also.

The Premier League is the highest revenue generating league in the world, and the Championship alone is the sixth highest football revenue generator in Europe. Yet that success seems to be founded on the promise of a virtuous circle – better players, more success, more revenue, profits. The reality is a zero sum game. Club A increases wages. Club B matches them. Club C seeks to gain an edge. Club D tries to keep up. And no one (except players and agents) makes money. This approach leads to massive inflation in terms of "wages to revenue. In 2007/08 in the Championship, research from Deloitte shows that clubs spent an average of 87 per cent of revenue on players' wages. Is there any business in the world where such a percentage would be sustainable?

Lots of clubs are chasing a dream paid for by their owner's wealth. They are defying economic gravity simply because their owners are rich. There is nothing wrong with that. Rich men have always been involved in football. But increasingly, being a rich man in football is not enough. Today what is required is to be very rich. This trend has reached the point where the wealth of countries may soon start to influence the football scene. Millionaires cannot compete with billionaires. And billionaires cannot compete with national GDPs (gross domestic products). The 'sustainability' of debt is becoming increasingly dependent on the infusion of non football related resources. That is not a sustainable business model and everyone in this room knows it.

I am told that a strength of our professional game is that it operates in a 'free market'; but the truth is that market freedom is limited. Any one of us can set up a business to make widgets and from day one we can compete with other sellers of widgets. That is not true in the world of football. You can set up a team today, but you cannot play in our leagues today.

It would be more accurate to describe our structure as a 'closed market', though that in itself is simplistic. For example, those at the top of the Premier League play simultaneously in two closed markets – a domestic one, and a European one. One of the most important aspects of a closed market is that, over time, whatever happens in it affects all the members.

This past summer Mr Ronaldo was sold to Real Madrid for £80 million. So Manchester United have £80 million to spend on buying players, paying their players more or retiring some of their debt. So far, so good. But the practical consequence of this trade is that, in the European closed market, Mr Ronaldo's £80 million fee ratcheted up all transfer market values by setting a new standard.

Mr Ronaldo, not unreasonably, may take the view that if he is worth £80million then this should be reflected in his wage packet. And it appears to have been so. This wage decision in turn also has a ratcheting effect and all top clubs playing or aspiring to play in a European closed market are affected.

Manchester United, Chelsea, Liverpool and Arsenal, who have been affected by this European ratchet also play in the domestic closed market. So over time transfer fees there will rise also, as will players' wages. Unfortunately, The Football League cannot be protected from the consequences of this series of events because we play in the same closed market as the Premier League. So, Football League spending will increase, but at a faster rate than income – thus increasing debt.

Since 2002, 25 Football League clubs have entered administration. As Patrick Barclay rightly reminded us recently, club administrations hurt countless people – from suppliers of pies and programmes, to the police and the taxpayer. It “is not a victimless crime”. A Premier League administration would cause even greater damage.

The pressing question is whether such a system can ever be sustainable. Can a huge dependence on the personal or corporate wealth of individuals outside the game and on television revenue ever be sustainably sound in the long term? In my view these models need reworking and sooner rather than later. Change cannot be made to happen overnight, not least because there are too many real legal contracts which would prevent that from happening.

The Football League has another concern. Those that govern world and European football decided to enhance genuine competition by preventing rich European clubs from buying star players to help win late round European games. Thus transfer windows were invented, with the added promise that they would maintain contract stability. Windows may well make some sense in the European closed model about which I spoke, but they make no sense within the domestic closed system. Traditionally smaller, community based Football League clubs were able to remain financially sustainable by selling a player from time to time throughout the season. Now they cannot do so either with each other or with their senior league. That restriction increases the threat of financial administration.

Those who talk about ‘the beautiful game’, frequently quote the illustration that football is a pyramid whose strength lies in its broad base. Yet while expressing those opinions they make decisions that have the effect of weakening that base. Please forgive me, but I am not impressed.

The Football League Board has asked both the Government and the FA to apply pressure on FIFA to exclude our domestic market from the transfer window regime. Were that to happen, that bit of football's broad base which we represent would be strengthened to the benefit of English football, and football more generally. I cannot believe that a player transfer tomorrow between Peterborough and Accrington Stanley or Wolverhampton Wanderers would be likely to cause sleepless nights in Rome, Madrid or Barcelona. But the freedom to do so might reduce sleepless nights in Wycombe, Reading or Burnley.

We have also given thought to the ratcheting effect on the rest of us of football wages at the top of the domestic closed system. We have suggested that there could be a compensatory payment made down through the pyramid, which would have the effect of mitigating wage increases within our divisions due to this ratchet effect. Whatever form that takes, something needs to happen.

Over the last half dozen years The Football League has sought to improve its governance – and there was room for improvement. Notwithstanding those improvements, both the game and the media still assume that when a club goes into administration it is always the fault of bad management. In some cases sadly that is true. But in other cases Directors are wrestling with pressures not of their own making and sometimes outside their ability to resolve. This cancer needs to be treated.

In such circumstances it would be wholly legitimate for you to ask what The Football League has done to put its own house in order. Among other initiatives:

- We pioneered sporting sanctions to encourage Boards of Directors to maximise their efforts to live within their means;
- We pioneered the publication of our clubs' payments to agents - not because we hate agents, but because we think fans should know how much of their clubs' money is going out of the game. We are delighted that UEFA regard this as 'best practice';
- We have just implemented new regulations which will govern at least part of our clubs' relationships with HMRC. Over time these regulations should reduce club indebtedness to HMRC – which is in line with the law of the land. They will also reduce the ability of HMRC to prevent CVAs being accepted. This in turn will help us move away from the need to apply additional points deductions, over and above the initial sporting sanctions.

There is more to be done. We have been involved in a long debate on the controversial subject of whether control of squad wages should be exercised centrally. My sense is that while League 1 and 2 clubs would welcome this, Championship clubs are more divided and still to be persuaded. The debate has had the effect of digging deep below the surface of Directors' feelings. In my consultations I treasure in particular, two remarks. One Championship chairman told me I was a "communist" for even raising the issue. Another said "if Mrs Thatcher was dead, she would be spinning in her grave at what one of her Ministers is suggesting".

They were right in one sense; wage controls are not something that instinctively would be at the top of a former Conservative Cabinet Minister's personal agenda. On the other hand, I chair a trade association where the majority of our top clubs are trading at a serious loss and adding to their debts. Despite big increases in centrally derived funding they seem unable or unwilling to change. Some new element of cost control does seem to be needed – though it should be neither suffocating nor a straightjacket. Perhaps a first step might be for us to adopt further financial reporting requirements similar to those in the Premier League. We shall see.

A second major preoccupation for us relates to how much transparency we should require from those who are the beneficial owners of our clubs. The law of the land allows money to be "hidden" off-shore for tax purposes. Personally I do not believe that owners' identities should also be hidden from The League, as the representative of fans, if their clubs want to play in our League. But as everyone in the game recognises this tradition will not be easy to change.

Our vision is not one of doom and gloom. Despite issues with players' contracts and wages, rising debt levels and a transfer system that penalises smaller clubs, The Football League is healthy. Attendances remain above 16million per season, revenue and profile are rising and on the pitch excitement continues until the very last match of the play offs. The League's market value continues to rise. All of us will work hard to ensure that remains the case.

We are grateful to the Premier League, and the FA, for the help and support they give us. On behalf of The League I want to say "thank you". I also want to thank today's organisers for inviting me, a member of the least financially strong of English football's tripartite leadership, to

address this Conference. I hope that something I have said will strike a chord, to the mutual benefit of us all.

One final thought which is a little sobering. As League Chairman I find myself having to talk too much about money and too little about football. Nevertheless I enjoy the challenge of trying to shape a transparent, well governed and sustainable League amid contemporary pressures. But just occasionally I hark back in my mind to the days of Stanley Matthews, Tom Finney and Billy Wright, of Danny Blanchflower and Jimmy McIlroy. At least in my memory, those were days when we talked more about football than money.