

# Loss leaders

## FINANCIAL FAIR PLAY RULES

Football League clubs have agreed strict Financial Fair Play (FFP) rules in what could be the most significant change to the way the game is governed since the Bosman Ruling. Faced with increased wage costs, losses, debt and insolvency, the new rules will impose a transfer embargo on clubs that overspend. The new League One and Two rules build on and extend the FFP regulations that are currently in place. However, the most radical changes are being introduced in the Championship.

The new rules place a cap on the amount a club can lose in a season and, although introduced immediately for monitoring purposes, they will commence in earnest in 2013-14. Clubs have to restrict their financial losses to below the "acceptable deviation" – a maximum of £3 million for 2013-14. If the club has an owner willing to convert the loss into equity, the maximum permitted loss rises to £8m. So, if Championship club Melchester Rovers lose £8m in 2013-14, the owner would be required to spend £5m to buy shares in the club, potentially waving goodbye to his money. The club is not allowed to fund the £5m by borrowing and increasing the level of debt. Anything over the £3m will have to be paid-off in full.

If the club owner does not have any cash to put into the club, he needs to ensure losses are kept below £3m for the season, or face a transfer embargo. Over subsequent seasons, the thresholds will reduce so that from 2015-16 onwards, losses are capped at £2m a season (or £5m if the owner injects £3m equity).



Club are now required to submit accounts by December 1. Any club that exceeds the limits will have a transfer embargo imposed from the next transfer window. The ban would stay in place until the club lodges financial information that passes the FFP test. Transfer embargoes could last for several seasons. The first transfer ban will commence from January 1, 2015 (ie based on financial performance over the 2013-14 season). Were the sanctions in place last season, a transfer embargo would have been imposed on Southampton in January and they would not have been able to sign Billy Sharp for their promotion run-in.

The Football League have also announced the Fair Play Tax for dealing with clubs that overspend but are promoted to the Premier League. The amount of "tax" will be based on the loss made during club's promotion season. The penalty is on a sliding scale and clubs that lose £10m above the permitted maximum will have to pay all of the excess. Last season's champions, QPR, lost £25.4m and would have been handed a "tax" of at least £17.4m based on the 2013-14 thresholds. As an added incentive to stay within the rules, any taxes collected will be

divided up among the compliant clubs that remain in the Championship.

The Championship clubs voted 21-3 in favour of adopting the new rules, whose introduction is subject to approval from the Premier League. As a concession, any club relegated to the Championship would be exempt from the break-even test for one season only (but still be liable for the Fair Play Tax if they win immediate promotion).

In Leagues One and Two the Salary Cost Management Protocol (SCMP) has been operating for several years on a "monitoring" basis. Significantly, clubs have voted to impose transfer bans from the start of next season. The SCMP takes a different approach to the Championship, with clubs needing to restrict spending on wages to a percentage of their turnover (55 per cent in League Two and 65 per cent in League One, which will decrease to 60 per cent in 2013-14). Rather than relying on clubs' annual accounts, the SCMP requires clubs to submit regular budgetary statements and forecasts throughout the season. The Football League will impose a transfer embargo as soon as a club is about to exceed the limits.

With the use of the transfer embargo punishment such a key part of the new rules, it is hoped clubs will be open with fans and inform them when they have a ban imposed (something that has not always happened in the past). The Football League deserve credit for their commitment and drive to introduce FFP. The rules are a significant step forward. In the years to come we may wonder how football managed without them.

*Ed Thompson*

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