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Football finance and FRS102: the fall and rise of a small-town football club

Dr Wayne Bartlett CPA examines the relationship between the financial fortunes of a football club and the division in which they are playing

A confession: like many others I am a bit of a football addict. So when my local team, AFC Bournemouth, was promoted to the English Premier League for the first time ever in 2015, I was as happy as anyone. I could remember the days, less than ten years before, when Bournemouth was strapped for cash and second from bottom of the entire Football League of 92 clubs. The 2008 season had started with a 17-point deduction for financial irregularities and a real danger that the club would fold completely. When a young and totally inexperienced youth team coach was appointed manager because no one else was affordable it seemed that the end was nigh. Instead the same young coach would be the man who less than a decade later would guide the club to the Premier League for the first time in its history. In the process, he would be voted the Football League Manager of the Decade.

What perhaps I didn't consider in anything other than a general sense was quite how much difference these events would make to the club financially. But the recent release of the accounts for the year ended 31 July 2016 brought matters into stark contrast. With fortuitous coincidence, the year then ended included Bournemouth's first year in the Premier League and also the comparatives for the previous year when they had been in the Championship (in effect, the Second Division of the English Football League). By looking at the numbers, a fascinating and in its own way scary, picture emerged of just how much difference the club's promotion to the top league made financially.

Description	2015/16	2014/15	Inc/(Dec) £	Inc(Dec) %
Turnover	87,875	12,867	+75,008	+583%
Of which League income...	75,179	4,652	+70,527	+1,516%
Of which matchday income	5,417	4,088	+1,329	+33%
Staff costs	(59,557)	(29,606)	+29,951	+101%
Depreciation and amortisation	(14,223)	(4,231)	+9,992	+236%
Profit/loss for the year	3,395	(38,634)	+42,029	+109%

Key elements of the AFC Bournemouth statement of comprehensive income (all figs. In UK £'000)

The 2016 financial statements were the first time that the accounts had been prepared on the basis of FRS 102 though the notes suggest that the effect of the change from the previous basis was not hugely significant. What was striking though was the difference in income when comparing the current year to the previous one. Turnover rose from about £12.9 million for the year ended 31/7/2015 to £87.9 million a year later, a staggering increase. This was almost entirely due to a rise in TV income from the Football League, from £4.7million to £75.2million, a 15-fold increase. The difference in matchday receipts was almost negligible in comparison, rising from £4.1million to £5.4 million. With a ground capacity of less than 12,000, by far the smallest in the Premier League, this situation is unlikely to change materially in the near future.

What was this extra money spent on? Unsurprisingly perhaps staff were a substantial beneficiary. Wages and other staff costs rose from £29.6 million to £59.6 million, over double in one season. There are around 150 staff in total plus those employed specifically for matchdays only, but it would not be unreasonable to assume that playing staff were the group that benefited most from this increase. This was despite the fact that the club's spending on new players was comparatively restrained compared to other clubs in the Premier League (well, everything is relative...). In other words, it looks as if the existing playing staff saw sizeable pay increases based on their part in the club's success. Other expenses also rocketed from £7.5 million to £20.5 million though it is a bit frustrating that the notes do not give us further information to explain in more detail what is behind this.

There are some very positive overall results emanating from this. The earnings position moved from a terrifying loss of £38.6 million in 2015 (over 300% of turnover) to a small profit (but a profit nevertheless) of £3.3 million in 2016. The cash flow position also improved substantially, from cash at bank and in hand of £1.3 million to a healthy £33.5 million.

All this is very good news on the surface but scratch it and you will quickly see some indications of the rather bizarre world of football finance not far below it. I have already mentioned the proportionally huge loss in 2015 and there are other concerning indicators from the previous year that stand out. For example, the accounts reveal that the club was fined a whopping £7.6 million for breaching rules on what is known as Financial Fair Play. These rules, very simplistically summarised, do not allow a club to have losses of above a certain level and if they do, they will be financially sanctioned.

The fine would take effect whether or not Bournemouth were promoted and therefore represents potentially a huge gamble on the part of the club. The club were promoted and a fine of £7.6 million seems a small enough price to pay given a £75 million increase in turnover in just one year – especially given the fact that the club has just secured its place in the Premier League for a third successive season which will see an accumulated increase in turnover equating to the thick end of £250 million so far. In other words, the gamble has paid off. If it had not, then the club would have had to pay the fine from a turnover of around £12 million: if promotion had not been achieved, over half of annual income would have gone just to pay it off. It is not difficult to see how easy it is for some clubs to find themselves in financial trouble when gambles like this do not work.

Description	2015/16	2014/15	Inc/(Dec) £	Inc(Dec) %
Intangible assets	70,900	16,912	+53,988	+319%
Debtors	14,615	7,529	+7,086	+94%
Cash at bank and in hand	33,506	1,363	+32,143	+2,358%
Creditors due in one year	(153,546)	(44,467)	+109,079	+245%
Creditors due in more than one year	(16,427)	(30,754)	(14,327)	(47%)

Key elements of the AFC Bournemouth statement of financial position
(all figs. In UK £'000)

Another significant factor concerning the club's financing can be found in the statement of financial position for 2016. Creditors for amounts falling due within one year have also sky-rocketed from £44.6 million in 2015 to £153.6 million in 2016. A significant part of this relates to interest free loans from the club's shareholders. The club has a combination of Russian and US-based shareholders who are effectively underwriting the club. The risk is of course that this commitment might not be continued indefinitely in the future, especially if the club were to be relegated to a lower division, for then its real value would deteriorate quickly and alarmingly. Hardly unique in the football world but to a supporter a cause of potential concern nevertheless. On the positive side though there has been a massive increase in cash resources available due to the financial improvement brought about by promotion to the Premier League and at least a good proportion of these remain untouched at the end of the year.

This is a fascinating and in some ways mesmerising financial as well as a football story. There are some other more technical insights we can get into football accounting from the financial statements. One intriguing aspect is the way in which players are valued. They are treated as intangible assets and are valued at £70.9 million in the 2016 accounts. The value is calculated as the cost of player registrations based on the fair value of purchase consideration. These costs are amortised over the life of player contracts. Players who are produced by the club's youth academy do not have a value on the statement of financial position as they are not purchased. A profit or loss on disposal is calculated based on the written-down value of any player sold and the consideration received (which could include a player in part exchange whose value will be calculated based on a fair value assessment).

Other interesting insights we can take from the accounts relate to how transfer fees for players bought in are paid. We are told in the accounts that some players are purchased through a deal that requires further payments to be made when certain milestones, such as the number of appearances, are met. In such cases, the extra payments are treated as contingent liabilities and become provisions when it seems probable that the future event generating extra payments will occur. There have even been suggestions in some such cases involving other clubs that players have not been picked to play when the event that will trigger such payments is coming close.

So all in all a fascinating glimpse of the rather whacky world of football finance. As a supporter I of course am 'enjoying the ride' as they say and long may it continue. As an accountant, I am fearful of the potential financial fall-out should the club ever lose its position at the top table. I am keeping my fingers crossed.