

# The Scottish Parliament

The Information Centre

Research Note

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## THE FINANCES OF SCOTTISH FOOTBALL

This research note aims to inform the European Committee's investigation into the proposed changes to the football transfer system. The note examines the European Commission's stance on transfer fees and the response of the football authorities. It also considers the importance of transfer fees in terms of the overall financial health of Scotland's club sides. Information on the structure of Scottish league football is also provided for background information.

### **How the current transfer system works**

The roots of the current transfer system lie in a historic decision made by the European Court of Justice in 1995, commonly known as the 'Bosman' decision. The effects of the Bosman decision were outlined to the [European Committee](#) by Sandy Bryson of the Scottish Football Association:

"The original Bosman decision that was taken by the European Court of Justice on 15 December 1995 meant that a club was no longer entitled to a compensation payment for an out-of-contract player - for whom that club had retained the right to a compensation fee - upon the player signing for another club. The crucial point was that that affected only players whose contracts had expired. Clubs were, and are still, able to obtain transfer fees for players who are still under contract. Given that the European court decision was based on the movement of players from one EU member state to another, it has also been possible for internal compensation systems to operate within the home national associations. Today, the association's member clubs can still obtain a compensation fee for an out-of-contract player under the age of 24 who has concluded a new contract with another club in

Scotland or England. Compensation fees apply where the club has offered the player terms of re-engagement, which are not less favourable than his previous contract, but the player has decided to better himself by moving to another club in the UK. The two clubs do not agree a fee, so the matter goes to a tribunal.”

Giving evidence in the same meeting, David Thomson of the Scottish Football League, added:

“When a player is registered they are not registered with the club; they are registered with the football body, which is very unusual. For example, a player with Falkirk, Hibernian or Motherwell will sign a fixed-term contract of service that details all remuneration. It is agreed between the player and the club and lodged with the relevant football authorities: the Scottish Football Association (SFA) and either the Scottish Premier League (SPL) or the Scottish Football League (SFL).

Unlike an ordinary employer-employee relationship, a football contract is for a fixed term, and both the club and the player are willing signatories to it. The club and the player are required to agree mutually to terminate the contract. That can be done either through payment of a transfer fee, where there is a willing club or buyer, or with immediate effect if the club and the player agree mutually to cancel the contract. The player would then be free to sign for another club without a transfer fee being payable.”

### **The challenge to the current transfer system**

The debate on the transfer fee system is not a new one. The European Commission initially challenged the compatibility of the FIFA (World football's governing body) transfer rules with Competition rules in 1998. The Commission has made it clear that European Community law applies to sport – in particular the principles of non discrimination, the principle of free movement and competition rules.

In essence the [Commission believes](#) that rules drawn up by FIFA unduly restrict transfers. The Commission is particularly concerned by the fact that FIFA can determine the condition of a transfer following the termination of a contract – even where the player has terminated his contract in a proper manner and appropriate compensation has been paid. The Commission has made it clear that it wants to see a system that will respect the principles of community law and the specificity of sport. It argues that the current transfer system fails to do this because:

- It restricts competition between clubs.
- It restricts the free movement of players.
- It has not prevented the over-commercialisation of the game.
- It has failed to narrow the gap between the richer and poorer clubs.
- It has failed to prevent young players becoming objects of speculation.

The Commission has stressed that it does not want to abolish the transfer system altogether or allow players to terminate their contracts on the spur of the moment. Instead, it feels compensation will be justified when a player breaks his contract with a club in order to join a new club. This compensation will be in accordance with national employment law. It would also accept proposals to limit transfers to

certain specified periods. The Commission has stressed that the efforts involved in training young people should be encouraged and clubs compensated accordingly.

Much energy on both sides of the debate has involved stressing what the proposed changes are NOT about. There has also been widespread media reporting that the proposed changes will lead to the abolition of the existing transfer system, a charge the EC strenuously denies. Some responses by Scottish football clubs to the European Committee's inquiry have also stressed that the position as reported in the media is unclear. Another complicating factor is that negotiations between Europe and the football authorities are ongoing, with positions changing accordingly.

However, a report by the European Professional Football Leagues <sup>1</sup> does provide a useful outline of what the EC objects to:

- FIFA's failure to grant transfers to those players who decide to terminate unilaterally an existing contract; even though they have complied with the obligations provided for by national laws in terms of penalty for early termination of contract.
- A club's right to receive a transfer fee freely agreed upon between the parties in case of mutually consented transfer of a player under contract.
- FIFA rules saying that a fee should be paid for the transfer of all international players – whether under contract or not – from a non-EU country to a member state or vice versa.

The same report states that unless changes are made, the EU will intervene unilaterally to bring about its own changes, which could result in:

- The possibility of players unilaterally terminating contracts prior to their natural expiration.
- The abolition of transfer fees for players still under contract to be replaced by 'indemnities' calculated according to 'objective and reasonable parameters'. These 'parameters' would include the residual years left on the player's contract.
- FIFA and UEFA propose that the club which trains a player, should be the club the player signs their first three-year contract with. The EU is likely to rule this proposal inadmissible.
- A club that signs a young player from a second club who provided the training for the player would have to pay compensation. This compensation would include the costs of providing the training based on a formula that takes into account all costs incurred by the whole youth sector– not just for the individual player becoming professional. The sum would also include any costs incurred by other amateur clubs previously involved in the training process, but not the athlete's sports value.

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<sup>1</sup> 'International Transfers of Players under Contract', July 2000.

## **The Response to the EC's Proposals**

From submissions by Scottish clubs and from evidence produced by the football authorities, it is fair to say that the Scottish reaction to the European Commission's proposals on transfer fees has been virtually unanimously against. Representatives from the SFA, SPL, SFL, Scottish Federation of Football Supporters Clubs, and Scottish Professional Footballers Association, have all said they want to see the current transfer system retained. In evidence to the European Committee, ([Official Report 19 September 2000](#)) it was suggested that the abolition of the current system would have a number of negative consequences:

- If clubs were deprived a return on their investment in training and developing a player, this would seriously question the point of youth development programmes.
- Scaling down these programmes could lead to a lack of Scottish talent coming through and also a significant decrease in employment opportunities for young players.
- The ability of top players to move around from season to season would seriously affect a manager's ability to plan his team from one season to the next.
- In a relegation scenario involving two teams, the richer club could take a player from its rivals.
- Any change to the transfer system could affect the principle of competition that football relies on.

In evidence submitted to the European Committee's discussion of the transfer system, Tony Higgins of the Scottish Professional Footballers Association, called for a special protocol for sport to be adopted by the EU, 'so that some of the worst excesses of European law do not apply to football'. He cited broadcasting as an area that is already exempt from the Treaty of Rome, and claimed that most countries in the EU supported the idea. The idea of a protocol was also backed by Lex Gold of the SPL.

Responses to the European Commission's proposals have also come from FIFA (World football's governing body) and UEFA (European football's governing body). [UEFA President](#) Lennart Johansson initially said the proposals would have a 'devastating impact on player development', 'could lead to total instability and chaos across the professional game' and 'would have a devastating impact on the future of players, club finances and their ability to plan for the future'.

At an [Elite Coaches Forum](#) in Geneva on 30<sup>th</sup> August 2000 eleven participants from leading clubs in Europe issued a joint statement outlining their opposition to change:

"For the team-building process, the corner-stone of the sport, it is essential that team managers can count on their players for a period of three to four years'

A [statement](#) by UEFA Chief Executive Gerhard Aigner, summed up his organisation's views on the current system:

"We believe that you cannot look at the transfer system in isolation. The current system, while sometimes open to abuse, does help redistribution within the game and the current contract arrangements are vital to overall stability. Yesterday's meeting endorsed UEFA's proposals for no international transfers for 'under-18s', the creation of uniform transfer windows and a proper compensation system for players aged under-24. However, we need to go further in ensuring proper arrangements for contracting players over-24, encouraging player development and taking steps to deliver compensation to clubs who see a player move while under contract."

More recent [UEFA press releases](#) have hinted at a more constructive and conciliatory dialogue with the European Commission. UEFA has formed a **Transfer Task Force** to lead the dialogue with the Commission and said emphasis needed to be given to a transfer system that:

- Protects young players
- Encourages training and development
- Supports contract stability
- Uses compensation to underpin these aims; and
- Creates a transitional period to allow adjustment to any new system.

The Chairman of the (joint UEFA and FIFA) Transfer Task Force, Mr. Per Omdal, met with European Commissioner Mario Monti on 8<sup>th</sup> September 2000, to try and create a constructive dialogue between the two organisations. Mr Omdal commented:

"We have had a very constructive and positive meeting with Commissioner Monti.  
"We are particularly pleased with the confirmation given of the new timetable, with our ideas submitted by **31 October** and a dialogue taken forward to **31 December**.  
"We are now making progress on these vital issues for the future of European and World football."

The most recent [statement from UEFA](#) was issued on the 20<sup>th</sup> of October, following a meeting with UEFA's 51 member organisations. It summarised the key aims and objectives of the Transfer Task Force on the issue of contracts between clubs and players:

- To build a system based on the respect of contracts and contract stability, with the objective of a minimum of three years and a maximum of five years;
- To maintain the existence of mutually agreed transfers;
- To prevent a negative decision from the European Commission on the current FIFA rules and regulations and the ensuing chaos which would be unleashed;
- To build on the strengths of each country's national labour law and national collective bargaining arrangements to protect the strengths of the current

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system;

- To develop European rules and regulations which deliver tough sanctions against those who undermine the integrity of football's competitions by unreasonably breaching a contract or inducing a breach of a contract;
- To create a new arbitration system for the resolution of any international transfer disputes with an agreed pool of experts, arbitrators and independent chairmen;
- To develop a European model for compensation which reflects national labour laws and agreed objective criteria e.g. player's age, club and international appearances etc.;
- To encourage leagues, clubs and players unions to pay heed to the European model in drafting rules and regulations for domestic transfer systems and any new collective bargaining arrangements they may be negotiating;
- To ensure that the education and training compensation proposals for players aged 23 and under are integrated within the overall proposed approach; and
- To ensure the preservation of existing contracts via appropriate transitional arrangements.

The conference also called for an EU sports protocol which recognises the social and educational role of sport and its positive impact on the integration and development of the European countries. This protocol would take proper account of:

- The national character of sports structures;
- The importance of sport for local communities;
- The traditions of sport in Europe; and
- The autonomy and competence of the recognised sports bodies.

Arguments for and against retaining the current transfer system have also been made by Professor Stephen Morrow of Stirling University. (The following information is based on his study of Scottish football finances <sup>2</sup>)

### **The Case for Compensation**

The argument for compensation rests on the recognition that footballer's skills are industry specific not firm specific. Without some form of compensation to clubs for skills training then the nature of a footballer's task means that there is a risk that other clubs can poach promising young players. At present, under-investment by football clubs in training is partially mitigated by state funding of youth training. But the prospect of obtaining a transfer fee provides an important incentive for clubs to engage in training.

### **The Case against Compensation**

Arguably the only thing that differentiates football clubs from other organisations is that there has always been some compensatory mechanisms in place in football. It is commonly asserted that football clubs will reduce their investment in training and development if no compensatory fee exists. Little evidence presently exists to back up this assertion. More fundamentally, it can be asked why any organisation should be compensated for training its workforce?

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<sup>2</sup> "The New Business of Football", Chapter 2, Stephen Morrow, 1999.

Very little information is currently provided by clubs in their annual reports as to the extent to which they invest in training and development, other than in terms of physical assets such as facilities. If clubs believe that compensation for investment in training is appropriate, then, as a minimum, it is reasonable to expect them to be in a position to quantify that investment.

**Difficulties with compensation:**

- Is it possible to develop older players as well as younger players?
- To what extent is a player's ability improved by coaching and to what extent is it natural artistic ability?
- Should a club be rewarded for training a player who is blessed with inherent ability?
- How much of a player's improvement is down to the quality of a club's coaching?
- Why should clubs be compensated for poor training?

Some answers have been provided to these questions and others as a result of a survey carried out on behalf of Scottish Football's Independent Review Commission to establish the views of professional footballers in Scotland :

- 78 per cent of the international squad and 80 per cent of professional players in Scotland, believed that managerial tactics and bad coaching are having too marked an effect on the game.
- Only 56 per cent of the international squad and 61 per cent of professional players in Scotland agreed that 'clubs took a great deal of trouble to coach and develop the young players'. 45 per cent of international players and 49 per cent of professional players agreed that 'people in charge of young professionals were good coaches who knew how to bring on players of that age'.

**The Importance of Transfer Fees**

Hibernian Football Club's recently published annual accounts<sup>3</sup> provide an example of the importance of transfer fees to the Scottish game. In 1998 –99 the Edinburgh-based club was in the first division and registered a £2.5 million loss. They were then promoted back to the Scottish Premier League for season 1999 – 2000 as champions, and accounts show they enjoyed a £220,000 pre-tax profit for the year up to 31 July 2000.

Most of this financial improvement can be attributed to the sale of one of their players, Kenny Miller, to Rangers for £2.2 million. The club also increased revenue through a rise in the number of supporters attending home games. Last season Hibernian had an average home attendance of 11,900 - an increase of almost 1,500 from the season they spent in the first division.

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<sup>3</sup> As quoted in the Scotsman, 13 September 2000

Not all Scottish clubs however, are convinced of the dangers of the EC proposals. The Chief Executive of Partick Thistle Football Club, Mr Allan Dick, has rejected claims that smaller clubs will be forced out of business if the transfer fee system is abolished<sup>4</sup>:

“Small clubs in Scotland do not budget for money received from transfer fees or expect to sell players. The original Bosman decision effectively killed the transfer market. Partick Thistle sign players on short term contracts, and club who wants to sign one of our players can simply wait until their contract expires then make them a new offer.

“Apart from Rangers and Celtic there is very little transfer money in Scottish football. Our team relies on other sources for income: gate receipts, sponsorship and advertising.”

### **The Financial State of Scottish Football**

Accountants PricewaterhouseCoopers<sup>5</sup> provide an annual review of the finances of Scottish football. The latest set of figures available are for season 1998-99 and show heavy losses being suffered across the board in the SPL, with top clubs having to borrow heavily as they spend more than they generate.

The generally unhealthy state of the game can be illustrated by Table 1, which shows cash flows for 1999 and 1998. Although the report asserts that football needs cash to survive and prosper, there was an aggregate net outflow of cash over the year of £11.1 million, following on from a figure of £22.9 million from the previous year:

**Table 1 – Net Cash Flows: inflow/(outflow) in cash**

	<b>1999</b>	<b>1998</b>
	£'000	£'000
Aberdeen	-1,315	1,893
Celtic	3,401	-5,234
Dundee	270	-152
Dundee United	-2,372	-2,858
Kilmarnock	177	-312
Motherwell	-2,279	486
Rangers	-8,763	-16,453
St Johnstone	581	166
<b>Total</b>	<b>-11,131</b>	<b>-22,881</b>

The main factors behind this net cash outflow are transfer fees and the ensuing rise in players' wages. For season 1998/99, transfer fees - or player registration fees - increased by 28% from the previous season to £25.1 million – despite the advent of 'Bosman' transfers. As ever, the big spenders in the SPL were the Old Firm of Celtic and Rangers – particularly the Ibrox side which paid over £26.5

<sup>4</sup> Personal correspondence

<sup>5</sup> The PricewaterhouseCoopers Financial Review of Scottish Football for Season 1998/99.

million pounds in transfers. After accounting for transfer fees received, a net £25 million was paid out by SPL teams in transfer fees over the season – most of which was lost to the Scottish game.

**Table 2 – Transfer Fees Paid and Received**

	1999			1998		
	Paid £'000	Received £'000	Net £'000	Paid £'000	Received £'000	Net £'000
Aberdeen	-1,839	1,644	-195	-2,033	1,220	-813
Celtic	-6,020	1,826	-4,194	-12,920	9,847	-3,073
Dundee	-115	208	93	-196	294	98
Dundee United	-2,324	1,133	-1,191	-431	220	-211
Dunfermline*			-109			-142
Hearts	-1,890	1,303	-587	-660	123	-537
Kilmarnock*			-27			-295
Motherwell	-1,477		-1,477	-100		-100
Rangers	-26,571	8,500	-18,071	-18,457	3,407	-15,050
St Johnstone	-435	1,131	696	-485	1,050	565
			<b>-25,062</b>			<b>-19,558</b>

\*Only net transfer fees are available in published accounts.

As well as spending more on transfer fees Rangers and Celtic also had a far greater turnover than any other SPL club. For 1999, Celtic increased their turnover to £33.8 million, Rangers to £36.5 million. The next nearest club, Hearts, had a turnover of £7.7 million. Wage bills too increased substantially – not surprising given the level of transfer activity. Wages paid increased by 36% from the previous season, and on average now amount to 66% of an SPL club's turnover. According to PWC this state of affairs cannot last:

“Clearly, such a significant level of expenditure in relation to income cannot be maintained in the long run.

“It would appear that the biggest challenge facing every SPL club (excluding Rangers and Celtic) is, as last year, to ensure survival in the upper echelon of Scottish football at a cost that can be supported in the long term.”

New finance raised in 1998/99 amounted to almost £31 million, however the vast majority of this - £28.8 million – came from loans. Table 3 shows the total borrowing of the SPL clubs during the year, compared with last year – an increase of £30 million:

**Table 3 – Total Borrowings**

	<b>1999</b>	<b>1998</b>	<b>Movement</b>
	£'000	£'000	£'000
Aberdeen	2,484	2,076	408
Celtic	5,322	2,190	3,132
Dundee	2,537	1,706	831
Dundee United	965	185	780
Dunfermline	6,151	3,402	2,749
Hearts	5,594	4,941	653
Kilmarnock	1,515	1,889	-374
Motherwell	2,764	0	2,764
Rangers	29,532	9,632	19,900
St Johnstone	0	0	0
<b>Total</b>	<b>56,864</b>	<b>26,021</b>	<b>30,843</b>
<b>Average</b>	<b>5,686</b>	<b>2,602</b>	<b>3,084</b>

The report states that:

“Clubs had to increase borrowings to fund the shortfall between income and expenditure. Whilst this offers a short-term solution to cash outflow, no commercial organisations can continue to fund a sustained cash outflow in the longer term.”

Overall, for season 1998-99, the 10 SPL clubs registered a total loss of £25.9 million before tax. However, these figures are heavily skewed by Rangers who lost £25.1 million before tax:

**Table 4 – Profit/(Loss) before tax for each SPL club**

	<b>1999</b>	<b>1998</b>	<b>Movement</b>
	£'000	£'000	£'000
Aberdeen	-864	-2,830	1,966
Celtic	550	7,132	-6,582
Dundee	77	-658	735
Dundee United	-501	-121	-380
Dunfermline	-330	-392	62
Hearts*	222	-1,939	2,161
Kilmarnock	279	5	274
Motherwell	-1,055	560	-1,615
Rangers**	-25,123	-12,670	-12,453
St Johnstone	844	1,388	-544
<b>Total</b>	<b>-25,901</b>	<b>-9,525</b>	<b>-16,376</b>

\* The 1998 results for Hearts are for a period of 14 months

\*\* The 1999 results for Rangers are for a period of 13 months

The financial state of clubs outside the SPL is little better. Most First Division clubs incurred losses and significant debts, with a ‘concerning deterioration’ in overall financial stability. The report concludes that:

“Assuming that little can be done to increase turnover in the lower divisions, the results would indicate that most of the First Division clubs need to perform a

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significant cost cutting exercise in order to save what is not far from a financial crisis across the whole division.”

### **The Importance of the Banks**

All Scottish clubs consulted by the European Committee have stated the necessity of retaining the current transfer system as a major source of revenue. Transfer fees however are just one source of income, along with season ticket sales, retail sales, merchandising and commercial activities, television rights, sponsorship, success in cup runs, etc. Another critically important source of revenue is the club's bank, in terms of providing loans and overdraft facilities.

Information on the financial state of Scottish football as provided by PricewaterhouseCooper has been outlined above. More detailed information on the role of the banks in supporting Scottish football has been provided by Professor Stephen Morrow of Stirling University<sup>6</sup>. He argues that some clubs are only kept going by the decision of the banks not to call in their security. In theory, loans and overdrafts provided to clubs by the banks are usually secured over some or all of the club's assets. In practice, he says the actual security provided by such asset backing is questionable. In the event of liquidation, what is important is the realisable value of a company's assets, i.e. how much those assets can be sold for. The principal tangible asset of most clubs continues to be its stadium, something that is highly specialised in nature. Although clubs have spent heavily on new grounds their realisable value is likely to be their redevelopment value – which isn't guaranteed.

According to Morrow, there is little evidence of banks calling in their legal security for loans and overdrafts - an acknowledgement by the bank that the club is almost certainly of greater value as a going concern than as a liquidated entity. The decision on whether to lend money to football clubs is primarily based on judgements about the quality of a club's income stream. If the bank believes that a club will be able to service its debt in the future, funds will be advanced – even when some clubs have liabilities that already significantly exceed assets.

A particular problem for clubs, which rely on bank borrowings and overdrafts as a source of funding, is that such finance is often short term in nature. By contrast, much of the expenditure which clubs have required to incur in recent years is long-term, not least stadium improvements.

The banks have argued in the past that they do not lend on the basis of prospective transfer fees, instead lending on the basis of future income streams. While - according to Morrow - this is doubtless true, it is also true that where clubs have been in difficulties, banks have had an entitlement to a % share of transfer fees receivable.

### **Television rights**

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<sup>6</sup> Information on the role of Scottish banks in Scottish football is based on, Chapter 4 of “The New Business of Football”, Stephen Morrow, 1999.

Another key source of income for clubs is broadcasting rights:

The **SFA** negotiates television rights with broadcasters to cover A) the national team's home games and B) the Scottish Cup. At present Sky has contracts for the national team's games and the Scottish Cup, with coverage subcontracted to BBC Scotland in both instances. Both contracts were signed on a 4 year basis, and both have 2 years to run. All money raised from the contracts goes to the SFA and covers, for example, the running of the national teams, coaching programmes, etc. The SFA would not disclose the value of either contract. The SFA also has a sponsorship deal with Scottish Gas. In his evidence to the European Committee, Sandy Bryson of the Scottish Football Association stated that:

"Moneys that are fed in through the SFA's cup competition and from international matches are fed back to the SFA's 78 member clubs. Those clubs are not just in the Scottish Premier League and Scottish Football League, but the South of Scotland League and the East of Scotland League."

In terms of the **SPL**, the main broadcasting contract is with Sky. The current contract is worth £45 million over 4 years, and is in its third year. SPL games are also broadcast by BBC Scotland, Scottish Radio Holdings<sup>7</sup> and STV. Exact figures for the value of these individual contracts are commercially sensitive<sup>8</sup>. The SPL also has a sponsorship deal with the Bank of Scotland, worth £80 million over 4 years.<sup>9</sup>

Much of the financial information provided by the **Scottish Football League**<sup>10</sup>, in terms of television coverage and sponsorship of divisions 1 – 3, is commercially sensitive. The SFL claims it has no financial reserves; that every penny it receives is paid out to its members where possible, meaning that it starts and ends the season with nothing. The funds the SFL receives can be divided into three categories:

### 1) **Television rights**

The SFL runs three separate competitions – the Leagues, the CIS Insurance League Cup and the Challenge Cup. At present, two separate deals have been struck with Scottish Television:

- Coverage of Scottish Football League Division 1: at present STV is in the 2<sup>nd</sup> year of a three year deal.
- Coverage of the CIS Insurance Cup. Although this is run by the SFL it is also open to SPL teams i.e. all 42 teams in Scotland can take part. Again, STV is in the 2<sup>nd</sup> year of a three year deal. STV is entitled to show a certain number of live games but usually chooses the top game in the round. Because of its ability to select the game it broadcasts, the bulk of the STV money usually

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<sup>7</sup> Scottish Radio Holdings includes Radio Clyde, Radio Forth, Northsound and Radio Tay.

<sup>8</sup> Contemporaneous newspaper reports suggested that the STV deal with the SPL was worth £6 million. An STV source has privately indicated that this figure is 'fairly accurate'.

<sup>9</sup> Quoted in the PriceWaterhouseCooper Financial Review of Scottish Football, 1998/99

<sup>10</sup> Private correspondence with SFL.

goes to the top teams in the competition and not to the smaller division teams. However STV also has the option to show a highlights package of all the games in the round, so at least some money will filter down to the smaller teams.

There is no television coverage of the Challenge Cup. However clubs are awarded money from the SFL depending on how far they progress.

## **2) Sponsorship money**

Bells sponsor Divisions 1,2 and 3, while the SFL also “allows Bells to put its name to the Challenge Cup”. The League deal runs for 3 years and is currently in its second year. CIS Insurance is in the 2<sup>nd</sup> year of a 4 year contract to sponsor the League Cup. Because the tournament is also open to teams outside the SFL, then, again, not all the money goes to the smaller teams. For example, teams taking part in the first round receive £6,000 while the winners receive £80,000. It would be extremely unusual for a team outside the SPL to win the League Cup.

## **3) Other sources**

There are two other main sources of income for the SFL:

- Copyright royalties from pools promoters and the betting industry - although this has fallen dramatically in the past few years because of the National Lottery
- The SFL receives annual ‘severance money’ received from the SPL. This money was intended as compensation for SFL teams after the split between the 2 organisations in 1998.

These monies received are paid out to all teams governed by the SFL, 75% equal shares, 25% on the basis of merit i.e. where the team finished in the league.

In total, the various sources of income for the SFL amount to around £4.5 million per annum, although it should be noted that most of the annual income from STV goes outwith the SFL as does a substantial amount of the money from CIS Insurance.

There is also a range of individual or ad hoc broadcasting deals. For example, Scottish Radio Holdings and BBC Scotland will bid to cover a European game involving a Scottish team, while Scot FM has a contract to cover all Rangers’ home games in the Champions League. STV, through ITV, has a contract to show European Champions League games involving Scottish teams.

## Appendix 1 - The Structure of Scottish Football

At present, there are a total of 42 senior football teams in Scotland, playing in the Scottish Premier League or the three divisions run by the Scottish Football League. 12 teams play in the Scottish Premier League, while Scottish Football League divisions 1 – 3 each contain 10 teams.

The **Scottish Football League** <sup>11</sup> was set up in 1890 and is responsible for the running of divisions 1,2 and 3. This entails first team, reserve and youth football, television revenues, league sponsorship, fixtures, and the running of the League Cup (open to teams in all 4 divisions) and the Challenge Cup (open to teams in Divisions 1 – 3). Teams in the Scottish Football Leagues can be either full time or part time and one, Queen's Park, has an amateur status.

The **Scottish Premier League** (SPL) <sup>12</sup> is the governing body that organises Scotland's top division. The SPL was created in time for season 1998-99 after a breakaway from the Scottish Football League. The SPL organises and maintains the league, in terms of fixtures, league structure and youth development. It also handles the sponsorship rights of the League and secures television rights for the individual clubs. It liaises with the Scottish Football Association and the Scottish Football League on issues such as the future development of the game in Scotland, and on co-ordinating fixtures. All teams in the SPL are full time.

Although there are two different organisations responsible for running the 4 leagues in Scotland, teams from the Scottish Football League Division 1 can be promoted to the SPL as long as they meet certain criteria, for example having a 10,000 capacity all-seater, covered stadium.

The **Scottish Football Association** <sup>13</sup> is responsible for organising fixtures and arrangements for the national teams; running and securing sponsorship for the Scottish Cup; referees; the administration of transfers; the disciplinary system; coaching; and has an input into the laws of the game through world governing body FIFA.

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<sup>11</sup> Personal correspondence with SFL

<sup>12</sup> Personal correspondence with SPL

<sup>13</sup> Personal correspondence with SFA

## Appendix 2 – Case Study of Raith Rovers

**Capacity:** 10,600    **League Status:** Scottish Football League Division 1  
**Based:** Kirkcaldy    **Formed:** 1926  
**Playing staff:** 23 full time, 12 skillseekers, 40 registered youth players from age 12 upwards.

The financially precarious state of Scottish football can be perfectly illustrated by Raith Rovers FC. The Kirkcaldy-based side were in Scotland's top division as recently as season 1996-97, but have been in the first division ever since. Their annual financial performance over the last five years provides a clear example of the pressures facing smaller teams attempting to regain a place in the upper echelon:

- The importance of transfer fees can be illustrated by figures for 1995/96 when Raith Rovers were still in the Premier League. Fees accounted for 35% of total income: £1,227,000 was raised through transfers, contributing to a total income of £3,504,000.
- Last season, in the first division, transfer fees brought in only £165,000 – 16% of the total income of £1,060,000. The value of income from transfers has fallen by £1,077,000 - or 88% - from 1995/96 – 1999/2000.
- The substantial fall in income available through transfer fees reflects a general fall in income across the board – gate receipts, season tickets, commercial activity and TV royalties. The only income to increase was that received from the SFA/SPL/SFL. The overall effect is that from season 1995/96 – 1999-00, income fell by £3,504,000 to £1,060,000 – a drop of £2,444,000 or 70%.

The importance of transfer fee income to the club's financial stability is clearly paramount. Raith Rovers' Director and Secretary Eric Drysdale comments:

"We have benefited materially from transfer income in recent times - without continuation of that income stream, full time football outwith the SPL will die within 18 months. The financial pressures of maintaining full time football on dwindling crowds are immense and unsustainable in the medium term.

In the absence of a transfer market, other developments such as youth academies will become financially unviable, investment in grass roots football will diminish still further, and senior football will diminish in quality to the levels seen in the 2<sup>nd</sup> / 3<sup>rd</sup> divisions, where the pressures caused by striving to maintain full time football are nowhere near as severe. The conveyor belt of talent will dry up and Scottish football will become even more of a backwater than it already is."

There is something of a vicious circle involving teams at this level. Figures for Raith Rovers show that being in the premier division means the chance to register a healthy profit (£887,000 in 1995/96) compared with the first division (a loss of over £1m in 1997/98). Income is also substantially higher, while bank borrowings and other loans are far lower than in the First Division.

However, escaping the first division means doing so on greatly reduced income and being at the mercy of clubs wanting to buy better players. Cutbacks have meant that the number of players employed by the club fell by 8 from last season.

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Furthermore, to get back into the SPL, clubs must have a covered, all-seater stadium. The cost of redeveloping Raith Rovers' ground totalled £2.7m. £1m of the cost was funded by the club, £900,000 of this came from the sale of one of their best players. Recently the club has also had to sell three of its best players to First Division rivals Livingston, thereby reducing their own prospects of promotion and enhancing the prospects of one of their rivals.

### Appendix 3 - RAITH ROVERS FC

#### Financial Analysis – 5 year Summary plus projections to year 2000 / 01

£'000	1995/96 Audited (Premier)	1996/97 Audited (Premier)	1997/98 Audited (1 <sup>st</sup> Div)	1998/99 Audited (1 <sup>st</sup> Div)	1999/00 Mgt Acs (1 <sup>st</sup> Div)	2000/01 Forecast (1 <sup>st</sup> Div)
<b>Turnover –</b>						
Gate receipts, season tickets etc	1,026	984	468	395	450	400
Commercial	319	343	241	246	200	200
Player Transfers	1,227	1,200	327	234	165	150
TV Royalties	525	41	-	-	-	-
SFA/SFL/SPL Income	65	270	112	146	180	150
Other Income	342	56	23	132	65	50
<b>TOTAL</b>	<b>3,504</b>	<b>2,895</b>	<b>1,171</b>	<b>1,153</b>	<b>1,060</b>	<b>950</b>
Less:						
<b>OPERATING COSTS –</b>						
Staff Costs	(1,297)	(1,299)	(1,341)	(1,052)	(850)	(500)
Other	(1,335)	(1,523)	(895)	(603)	(550)	(450)
<b>Operating Profit / (Loss)</b>	<b>872</b>	<b>473</b>	<b>(1,066)</b>	<b>(502)</b>	<b>(340)</b>	<b>0</b>
Less: Net Interest (paid) / received	15	(7)	(10)	(60)	(50)	(50)
<b>Profit / (Loss) before tax</b>	<b>887</b>	<b>466</b>	<b>(1,076)</b>	<b>(562)</b>	<b>(390)</b>	<b>(50)</b>
Less: Tax paid	-	-	-	(5)	-	-
<b>Profit / (Loss) After tax</b>	<b>887</b>	<b>466</b>	<b>(1,076)</b>	<b>(567)</b>	<b>(390)</b>	<b>(50)</b>
Bank borrowings	(521)	(361)	(984)	(1,011)	(700)	(700)
Other loans	(200)	(160)	(120)	(253)	(600)	(600)
Trade creditors / other accruals	(194)	(180)	(236)	(616)	(500)	(400)
Stadium valuation	931	2,863	2,782	2,736	2,750	2,650

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