The circumstances in which English football clubs become insolvent

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THE CIRCUMSTANCES IN WHICH ENGLISH FOOTBALL CLUBS BECOME INSOLVENT

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INTRODUCTION

In 1863, when the (English) Football Association was founded, individuals who fell bankrupt were still sent to a debtors' prison, a situation which continued until they were finally closed in 1867. The ambient social attitude then was that insolvency was a matter not merely of shame, but of criminal conduct.

By the first decade of the twenty-first century, approximately 140 years later, attitudes had changed dramatically. While few English football clubs had become insolvent in the professional era, beginning in 1885, the move into commercialisation and the post-commercialised era resulted in insolvency becoming, while not quite the norm, at least a far from unusual situation.

A brief 'pre-research' scoping exercise identified very few clubs who had faced insolvency during the major part of the professionalised era. These few examples of insolvency or near-insolvency include, in England:

> Accrington Stanley (resigned from the League 1962);
>
> Gateshead (not re-elected 1960; disbanded 1973);
>
> Bradford Park Avenue (not re-elected 1970; disbanded 1974);
>
> Portsmouth (1976; rescued by 'SOS Pompey');
>
> Charlton (1984; club, but not stadium, acquired by fans);

and in Scotland:

> Third Lanark (1967; declared bankrupt and liquidated following a Board of Trade enquiry).

In the commercialised era, however, insolvency began to feature all too commonly.

The pre-research exercise has been reported as Beech (2007). This Working Paper reports on further progress to date on a major research project to investigate this perhaps surprising development.

THE LITERATURE CONTEXT

It was not until Argenti (1976) that a thorough analytical study of business failure was made. He highlighted the importance of distinguishing between the causes of failure and the symptoms of failure. This present research project acknowledges that its focus is on the symptoms of failure, and that any causal relationship between symptom and cause will be, at best, tentative.

The project also draws to some extent on the approach supported by Anheier and Moulton, who argue that there are distinct approaches to the study of failure: organisational, political, cognitive, and structural (Anheier and Moulton, 1999a and b). This work in the football sector, however, suggests that in this particular sector the approaches are less distinct, and are in fact inter-related. Anheier and Moulton further suggest that there are four aspects of failure to be explored: concept, cause, process, and implications.

Because it involves a specific legal process, bankruptcy, which in the context of this study includes the liquidation of incorporated bodies, is the most studied form of failure and many studies have explored organisations in this category. Related terms are 'insolvency', which is best thought of as bankruptcy without the legal process that pushes an organisation over the edge, and 'financial distress', but these states are not sufficiently clear-cut to be easily researched; indeed such states are normally concealed as far as possible. Because we are conducting a qualitative study and are particularly interested in behaviour at the margins, we are going to use these words precisely and as follows:

- Bankrupt/in liquidation – the situation where by due legal process control of an organisation has passed from its directors to an outside independent party, normally known as an administrator or receiver, who acts in the interests of the creditors.
- Insolvent – unable to meet your obligations as they fall due. The most high-profile recent UK insolvency was the Channel Tunnel. The creditor banks were owed billions of pounds but it suited them to influence the directors rather than to appoint a receiver and, indirectly, to receive ownership of a hole in the ground.
- Financially distressed/illiquid – short of money. By its nature these are not precise terms.
- Liquid – with surplus cash, for example after a small club sells a star player or has an unexpected cup run.

Authors have tended to try and associate the bankruptcy with the study of a particular business facet, such as cash-based fund flows (Aziz, Emanuel and Lawson, 1988), agency and prospect theory (D'Aveni, 1989a and b), governance structures (Daily and Dalton, 1994), inter-organisational linkages and financial leverage (Sheppard, 1994) and a variety of factors (Daily, 1994).

The prediction of bankruptcy through the use of financial data has prompted considerable research. Altman developed a model which offered a reasonable degree of success in predicting bankruptcy two to three years ahead of the event (Altman, 1968). This model was refined and adapted for use in the United Kingdom by Taffler and Tisshaw. Among the examples which they said would have been predictable with their model was the 1973 collapse of Court Line (Taffler and Tisshaw, 1977). Altman further developed his predictive model (Altman, Haldeman and Narayan, 1977), and it has been further developed more recently by Zopounidis and Dimitras (1998).

Morris casts doubts, however, on the accuracy of such models, because of the high rate of misclassification error, their self-fulfilling nature, and the fact that many bankruptcies are due to 'unforeseeable' circumstances (Morris, 1998).

The particular nature of sport as business – exemplified in the Commission of the European Communities' *White Paper on Sport* (2007), which argues that there is a 'specificity' to sport – suggests that general theoretical frameworks may be problematic in their application to sport as business. The argument that individual sectors need individual 'recipes' has been well rehearsed by Spender (1989; 1998), and an objective of this project is to produce an individual analysis of insolvency – individual in that it is recognised from the outset that it is highly unlikely that it will be generalisable beyond the sports industry.

Within the football sector, interest in the performance nexus – on the pitch and in financial terms – grew as the post-commercialised phase of business evolution emerged following the formation of the Premier League and the first BSkyB broadcasting rights contract (Beech, 2004). Within a decade there was an extensive literature – see, for example, Conn (1997), Szymanski and Kuypers (1999), Hamil et al. (1999), Morrow (1999) and Hamil et al. (2000) – but the emphasis in writings was on the general, on success or on lack of success. Two more recent examples from the literature do focus on failure: Buraimo et al. (2006) and Emery and Weed (2006). They are of particular interest in that they adopt strongly different approaches. While Buraimo et al. concentrate on the analysis of aggregated financial data with relatively little consideration of individual clubs, and are thus entirely quantitative, Emery and Weed begin from this perspective but then focus on a single case study (of Lincoln City), considering both the financial failure and the subsequent recovery. While both these contrasting approaches are attractive and insightful, it is clear that a methodology covering both aggregated and individual data, and quantitative and qualitative data, is likely to give the richest analysis.

OUTLINE OF THE INTENDED METHODOLOGY

A three-phase methodology has been developed. In brief, the three phases envisaged were:

1. An exploratory phase to define the scope of the project. This included identifying the temporal scope – the date from which the study should begin – and the spatial scope – in particular, whether to look at football in Britain or just in England. Once the temporal scope had been identified, a timeline of relevant external events was to be developed.
2. A phase of data gathering and analysis covering the selected phase.

Data gathering consisted of identifying all instances of insolvency during the chosen period, building mini-case studies of each instance, identifying the factors which proved relevant in each case, mapping the data gathered together with any further data identified as being needed to meet the needs of the investigation, and mapping this data into a database. The structure of the database would be such that it could be sorted in ways that would lead to the identification of archetypes[1] of clubs that became insolvent.

3. In a third phase, each archetype would lead to specific clubs to be identified for deeper investigation involving interviews with key players in individual insolvencies.

PHASE ONE

As the detailed scoping exercise began, a number of issues arose which needed to be addressed. Prime among these was the issue of the reliability of secondary and tertiary data. In particular it emerged that the normal research method of triangulation to confirm the accuracy of data was problematic as secondary and tertiary data sources on the internet were tending to be the ***same*** in terms of the original (and usually uncited) source.

The most obvious starting point was the well known series of annual Deloitte Touche Reports. While these Reports provided a useful check-list of clubs becoming insolvent, they only cover English League clubs and would have pre-defined the time range. It was therefore decided to build from scratch a list of clubs with dates at which they went into Administration.

In order to do this, the BBC News website was selected as a source to trawl using the search function. This posed problems in that the earliest available pages were from 1999. A comprehensive trawl was therefore made of these websites:

Wikipedia

The Political Economy of Sport - Clubs

Clubs In Crisis

For promotions and relegations, Football Club History Database

Where appropriate, individual Supporters' Trust websites

[1] The term 'archetype' has been chosen over 'ideal model' or 'exemplar' in order to avoid a positive conotation.

with data being logged onto an Excel spreadsheet under the following headings:

When the club went into Administration

Which tier the club was in at the time

The club’s recent previous (at least three years’) performance

Size of the club’s debts

The club’s creditors

The business model in use by the club

The club’s catchment area / local competition

The club’s owner / directors

Any criminal activity (alleged/proven) by the club’s owner / directors

Stadium factors (ownership; development; move; rental)

The club’s rescuer (or not)

Data was thus partly quantitative and partly qualitative. The use of coding allowed the spreadsheet to be sorted by qualitative data as well as quantitative data.

The basis for logging a club’s insolvency is not as clear-cut as might be imagined, and the basis for logging is discussed in the Appendix.

Scope

Once data had been gathered under the first four headings, three decisions were made regarding the scope of the project:

1. It was decided to restrict further research to clubs which play within the English League system
2. As some clubs seem to have gone into ‘free-fall’ once they have been relegated from Tier 4 (the current League Division 2), it was decided to cover all Tiers of English football. Although this means including a small number of Tier 5 and Tier 6 clubs, relatively few clubs below this level were found as being reported in Administration. While it is possible that low-tier clubs do fall into Administration but are not widely reported as doing so, it seems more likely that at the lower levels there are lower levels of budget, lower levels of debt and lower levels of uncertainty, resulting in higher levels of stability, increased ease of financial control and the increased probability of finding a benefactor, who would, in effect, underwrite the club’s losses.
3. 1986 was selected as the starting point for the study as before that date there were relatively few cases of insolvency, as reported

above. In addition, 1986 saw a significant change in the law on insolvency.

Timeline

The following key events were identified as constituting a timeline against which data should be evaluated:

1986	Insolvency Act (introduced the notion of 'wrongful trading')
1992	Premiership formed as Tier 1, with major broadcasting rights contract awarded to BSkyB
1997	Premiership introduce 'parachute payments' for clubs relegated to Tier 2
27 Mar 2002	ITV Digital, then owners of Football League broadcasting rights, collapsed
2002	Enterprise Act passed but not immediately brought into use
15 Sep 2003	Crown loses 'preferential creditor' status
25 Sep 2003	Football League introduces 'parachute payments' for clubs relegated from Tiers 2 and 3
1 Apr 2004	Insolvency provisions of Enterprise Act 2002 come into force
16 Apr 2005	Internal Revenue (IR) and Customs & Excise (C&E) merge to form Her Majesty's Revenue and Customs (HMRC)
22 Jul 2007	Premier League offers Football League 'solidarity package' to ensure a fairer distribution of revenues across the professional English game

INITIAL FINDINGS

In the light of the difficulty of obtaining data on cases of insolvency as far back as 1986, the datasets are not yet fully complete in their detail, although the authors are confident that the list of insolvencies is complete. However, as Figure 1 shows, it is the older incidents that are much less common, and there is sufficient data to present initial findings.

To date (June 2008), in the period beginning in 1986 a total of 56 clubs in the English leagues have been identified as becoming insolvent. Three of these are Welsh clubs which play in English leagues – Newport County, Swansea City and Wrexham.

Allowing for clubs becoming insolvent more than once and clubs regressing into deeper states of insolvency (see Appendix), a total of 68 incidents of insolvency have been identified.

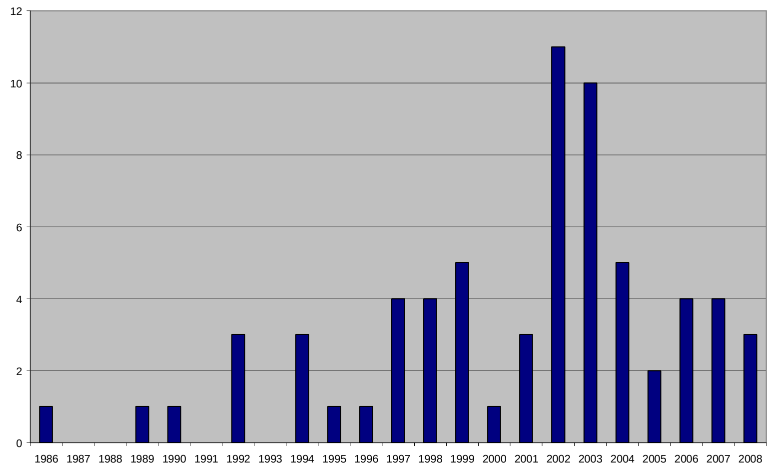

Figure 1 Incidence of insolvency by calendar year since 1986

At the time of entering insolvency the clubs were distributed across the league tiers as follows:

Tier 1	0 clubs
Tier 2	13 clubs
Tier 3	16 clubs
Tier 4	19 clubs
Tier 5	10 clubs
Tier 6	6 clubs
Tier 7	0 clubs
Lower than Tier 8	1 club

In the case of two further clubs, the year only of the insolvency has been identified, meaning that, because of promotion or relegation, the tier at the time of the insolvency has not yet been identified; in one case it must be either Tier 3 or Tier 4; in the other, it is either Tier 4 or Tier 5.

Although no Tier 1 club has become insolvent, a pattern of a club being relegated from the top Tier and very shortly becoming insolvent can be identified with such frequency that we feel confident in labelling it as one of our archetypes. Such clubs are shown in Table 1.

The peak of insolvencies in 2002 would seem to lend credence to the received wisdom that the collapse of ITV Digital was the major causal factor of these clubs' insolvency, as does the fact that all three clubs relegated from the Premier League in 2002 found themselves insolvent very shortly. This collapse occurred towards the end of the 2001/02 season (27 March 2002) and the data was re-plotted on a season by season basis to see if this produced a significantly different peak at this apparently crucial time. The results are shown in Figure 2.

Club	Relegated	Administration in season start	Debts
Middlesbrough	1982	1985	£2m
Crystal Palace	1998	1998	£9m
QPR	1996	2000	£13m
Bradford City	2001	2001	£33m
Leicester City	2002	2002	£40m
Ipswich Town	2002	2002	£35m
Wimbledon FC	2000	2002	£20m
Derby County	2002	2003	£33m
Leeds United	2004	2006	£35m

Table 1 Tier 1 clubs which subsequently became insolvent

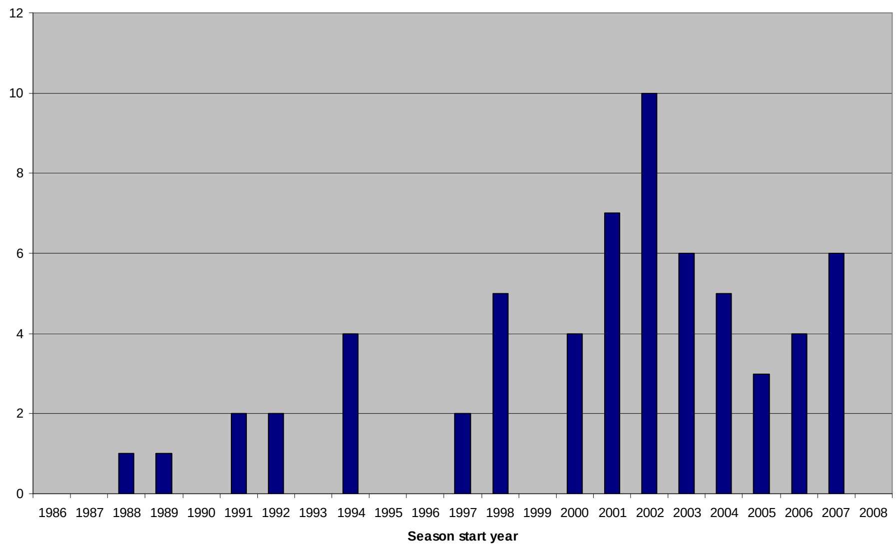

Figure 2 Incidence of insolvency by season since 1986/87

This re-plotting of the data would suggest that, while the collapse of ITV Digital was a significant factor in causing clubs to become insolvent, it acted as a catalyst in a number of cases rather than being the primary cause – the incidence of insolvency was already on the rise. Plotting the data this way would also suggest that the incidence of insolvency is currently on the rise.

Any relegation seems to be a common circumstance for insolvency. In 30% of instances the club had been relegated in the previous 12 months, 36% in the previous 24 months and 48.5% in the previous 36 months. This provides good evidence for the need for 'parachute payments' and arguably that these payments are insufficient. The counter-argument is of course that clubs need to consider risk assessment more thoroughly and plan ahead for a possible relegation.

When a club is under pressure through actual relegation, it clearly leads to reduced gates and revenue streams from ticket sales, and reduced income from sponsorship and merchandising. Clubs need to manage their costs very carefully in such circumstances. There is clear evidence that outflows in respect of taxes and National Insurance payments are not always given the priority that they should be given.

Of those cases where at least one debtor has been identified 87.5% involved one of the government tax agencies – either the Internal revenue and/or HM Customs and Excise prior to April 2005, or HM Revenue & Customs subsequently.

57% of these cases of insolvency have occurred since September 2003 when the government agencies lost their 'preferred creditor' status, compared to 43% in the period from 1986 to September 2003. This represents a change from 0.065 per month to 0.143 per month. This may be overstating the case as earlier data is less complete so far, but it would appear that HM Customs and Excise are now more likely to press for insolvency than their predecessors, who had a legal priority in the recovery of debts

The timing of going into insolvency shows a very clear variation through the football season (see Figure 3). Once the season starts in September, there is a small pre-Christmas peak in November. Into the New Year there is a steady rise until a higher peak in May, which tails rapidly off to the least common month for insolvency, August.

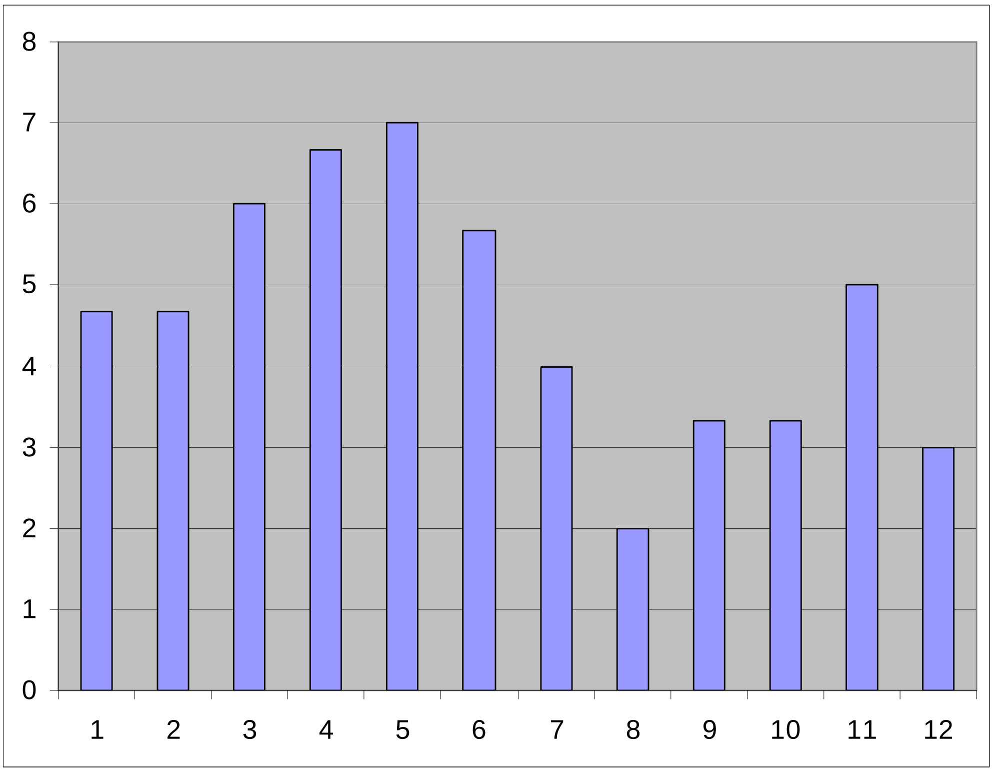

Fig. 3   Insolvencies by calendar month (rolling three-month average)

The form of insolvency chosen (or forced onto the club) shows interesting variation. Liquidation is thankfully uncommon, occurring in only 11% of cases. These are shown in Table 2. All have since reformed, usually under new ownership and with new investment, and with varying degrees of success. While Middlesbrough rapidly recovered, Hornchurch, Maidstone United and Scarborough lost any continuity with a reformed club. Aldershot have very tortuously recovered over a fifteen-year period.

Middlesbrough	Tier 2	1986
Aldershot	Tier 4	1992
Maidstone United	Tier 4	1992
Hornchurch	Tier 6	2004
Lancaster City	Tier 6	2006
Scarborough	Tier 5	2007 [2]

Table 2 Clubs liquidated

Only three clubs are noted as having been placed into Administrative Receivership – Birmingham City in 1992, Luton Town in July 2003 and Derby County in October 2003. All have subsequently 're-emerged', although Luton Town was again placed in Administration in November 2007.

If there is a 'normal' pattern to insolvency, it is to be placed in Administration, to then progress to a Company Voluntary Arrangement (CVA), which should under legal provision be completed to the creditors' satisfaction within five years. The Football Association now requires clubs to proceed to a CVA. Failure to do so results in a further 15 points deduction in addition to 10 points deduction for going into administration.

The majority of clubs have come out of Administration within a year, but the period of CVAs has varied considerably. Swindon Town spent a period of 74 months in Administration and then struggling to comply with the terms of their CVA.

Full analysis of the variables identified on p.5 is not yet complete. However one of these, which looks like being another archetype, is worth reporting on at this stage, that is, incidences of alleged/proven criminal or irregular financial/management activity by directors and/or owners. This behaviour is by no means confined to the world of football of course, with the Robert Maxwell and Conrad Black 'empires' being two high-profile examples. At the time of writing the English football examples include:

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[2] While the other clubs listed went into liquidation very rapidly, the liquidation of Scarborough followed the club being placed in Administration some five years previously.

Boston United	Ex-Chairman guilty of "conspiring to cheat the public revenue between 1997 and 2002". Also charged with breaking FA rules; club docked 4 points
Cambridge United	Club forced to sell stadium to a company owned by one of the directors
Darlington	Ex-Chairman charged with personal financial offences
Derby County	Ongoing fraud cases against previous directors
Doncaster Rovers	Arson of the club's stadium by the owner
Hull City	Six arrested in connection with an investigation into the financial affairs of club
Luton Town	FA charges re payments to agents
Swindon Town	Ongoing legal dispute with former investor
Wrexham	Chairman attempted to get them evicted from their stadium so that he could sell it for development purposes. Administrators managed to force return of ground to club.
York City	Chairman had moved ownership of stadium into a holding company. Club ownership regained Jan 2005

Although the issues listed vary in degree of seriousness and not all are proven, the fact that ten of the 56 insolvent clubs (17.9%) are listed does suggest that such issues are disproportionately correlated with insolvency. More research is needed to gain a clearer picture.

Similarly the variable of 'stadium factors' is leading to further in-depth research. For 24 clubs (42.9%), their stadium was in some respect an issue surrounding their insolvency.

As shown above in Table 1, clubs which have been relegated from Tier 1 and carrying debts in excess of £30m are vulnerable to insolvency. If the ex-Premier League clubs are excluded, typical debt levels of clubs going into insolvency are:

Tier 2	£10m
Tier 3	£3m
Tier 4	£1m
Tier 5	£1m
Tier 6	£1m

Clubs with current debts significantly above these levels, debts which therefore might be considered as 'inappropriate' ('inappropriate' in the sense that the debt level might be considered as unsustainable in the longer term on the basis of current revenues and costs), are clearly to be considered as being vulnerable to insolvency. From the (inexhaustive) background research carried out, this would include those given in Table 3.

With the exception of Sheffield Wednesday, debts have since been restructured, but, unless the debts have actually been written off, the liability remains.

Club	**Tier for 2008/09**	**Reported debt level**	**Year of Report**
Cardiff City	2	£30m	2005
Coventry City	2	£33m	2007
Derby County	2	£44m	2006
Leeds United	3	£35m	2007
Leicester City	3	£35m	2003
Sheffield Wednesday	2	£27m	2008
Southampton	2	£20m	2006

Table 3 Some clubs with 'inappropriate debts'

In several cases the club appears to be dependent on a single benefactor 'bankrolling' it. The risk associated with this as a business model are only too evident when one considers the case of Gretna, liquidated in 2008 while in the Scottish Premier League. Some (English) Premier League clubs must be considered as at least potentially at risk for the same reason – Chelsea, for example, which is handsomely 'bankrolled' by Roman Abramovitch. In February 2008 their annual loss was reported as £74,800,000, down only 7% on the previous season[3]. The same report, on the BBC News website (BBC News, 2008), revealed that Abramovitch had invested in excess of £500m in the club since purchasing it in July 2003. Chief Executive Peter Kenyon, commenting on Chelsea's high level of revenues, was quoted as saying "*The numbers speak for themselves. All of our metrics are very positive.*" It can only be assumed that neither profit nor return on capital employed were included in those metrics.

A very generalised picture of the slide into insolvency can be identified:

- A trend of poor performance on the pitch leads to relegation and reduced revenues.
- Costs are not cut back, in particular players' wages, and are wrongly prioritised.
- If the club owns its stadium, as the most valuable asset this becomes an issue. If the club does not own its stadium, it raises different issues – borrowing becomes extremely difficult, but creditors may hold off as there is no major asset to strip.

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[3] Losses for 2004/05 had been as high as £140,000,000 (BBC News, 2006)

- Management faces a dilemma of whether to spend in the hope of improved performance on the pitch and hence promotion with its attendant financial gains, or whether to release its better players in order to reduce costs.
- Bad management is widespread, with a worrying number of instances of unethical and even criminal management.

The second phase of the research project will be completed by the analysis of variables not yet studied, continuing gathering of data, the vectoring in of hard financial data drawn from Companies House, and finally the identification of archetypes in order to proceed to Phase 3 and the in-depth interviews.

PHASE 3

Several problems in completing the final phase of the research have been identified and attempts made to overcome them through the research design. This section outlines the problems and the steps taken in designing the research methodology in a way which should minimize their impact.

<u>Access</u>

It has been argued that "*negotiating access to organizations for the purposes of research is a game of chance, not skill*" (Buchanan, Boddy and McCalman, 1988, p.56). While an element of chance is not disputed, it can reduced by the skill shown in contacting potential interviewees through networking, and the third author undoubtedly has contacts directly or through one link to many suitable interviewees.

<u>Reluctance to talk about failure</u>

Again, there may be a reluctance by potential interviewees when the topic for discussion is posed as 'failure', but it is assumed that there will be less reluctance when the topic is posed as a discussion on 'battling to save the club'.

<u>Information aversiveness and Accuracy of memory</u>

The former is perhaps a symptom of management in the football sector, the latter a general difficulty faced when researching events in the recent past. Furthermore (and here the world of banking, where one can compare the rescues of Johnson Matthey, Northern Rock, Bear Sterns and Bradford and Bingley) there are gains to speed, secrecy and a certain ruthlessness. The fact that these gains accrue to all parties makes it hard to argue in favour of the openness and earnestness with which Northern Rock was treated. The researchers will, in each case, have a set of data from contemporary sources with which to challenge memories if they seem to be drifting astray.

Persistence bias and Cognitive dissonance

These two factors, the former leading too the latter, are anticipated. Again, the contemporary record of events, albeit incomplete, provides a benchmark against which the views expressed in interviews can assessed.

Gagging clauses

Because some of the interviewees may be ex-owners or ex-directors, it may mean that they are restrained by gagging clauses in the settlement contracts with which they left the clubs. However, through networking, the researchers are confident that they will be able to find enough participants who will be willing and able to be interviewed. Though not co-extensive with gagging, dealing with a company in trouble is a black art which can be extraordinarily lucrative for the receiver, who has no interest in de-mystifying the process for the common good or in raising his/her profile.

CONCLUSIONS

As noted above, the European Commission recognises in principle that sport as business has a specificity, which may require a special legal status with respect to issues such as competition law and employment law. This should not be seen as an excuse to abandon sound business practices in the football sector. In the five seasons from 2001/02 to 2005/06 the 92 clubs in the top four tiers of English football made an aggregated loss of £1,014,000,000 (developed from Hamil, 2007). It may still be a beautiful game, but clearly is an ugly business.

Already at this stage in the research project, it has become clear that, in this contemporary context, insolvency has become almost a 'legitimate' tactic in a football club's business strategy. This is supported by the sheer number of cases of it, especially in Tiers 2, 3 and 4. The moves by both the Premier League and the Football League to penalise clubs for going into Administration or failing to negotiate a CVA can be interpreted as a move to de-legitimise this tactic.

The high incidence level also suggests that becoming insolvent might be an emergent tactic rather than an intended tactic (Mintzberg, 1991) and the identification of the sector-specific factors associated with becoming insolvent is a very worthwhile exercise, with obvious practical applications.

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APPENDIX

TERMINOLOGY OF INSOLVENCY AND DEFINITION OF INSOLVENT CLUBS

The term 'insolvent' is used when an individual or a company finds itself in financial difficulty. This is likely to arise in one of three situations:

- A developing situation, in which costs regularly exceed revenue and there are no longer sufficient assets to cover the difference;
- A point-in-time situation, when repayment of a loan is due and there are not sufficient funds available to make the necessary repayment;
- An asset or the assurance of support on which the person has been relying collapses in value, putting in jeopardy the willingness of others to sustain loans which in the normal course of event would have rolled on indefinitely.

As creditors become anxious, a club, or indeed any company, may choose to follow one of three courses:

1. Ignore the situation and press on regardless;
2. Place itself in some form of voluntary administration – selling its assets to pay off its debts, and possibly ceasing to trade;
3. Seek protection from the courts by going into Administration.

It is very rare for a club to place itself into voluntary liquidation. There is evidence that ignoring the situation is widespread in the football industry, but the focus of this research project is those clubs who choose the third option and seek court protection.

Until 2003 there were two types of action that a court could take:

- The appointment of an Administrator tasked with taking over the running of the club or business with a view to placing it on a firmer financial footing and ultimately rescuing it. In this situation, the company may not be wound up without the court's permission. The state of Administration thus offers both hope and protection to the insolvent club. The appointment of an Administrator may be initiated by either the club or one or more of its creditors.
- The appointment of an Administrative Receiver tasked primarily with the maximisation of debt recovery. Debtors could seek the court appointment of an Administrative Receiver if they no longer felt that their debts were going to be serviced to their satisfaction.

Since 2003 the appointment of an Administrative Receiver is no longer possible.

In theory a club may simply come out of Administration if the Administrator manages so well that all debts are paid off in full. This rarely happens. There are two outcomes which are typical today:

- The Administrator finds a purchaser for the club. The purchaser must reach agreement with the creditors, which usually means paying off an agreed percentage of debts in order to satisfy the creditors in full. Where there are multiple creditors, this may result in lengthy and complex negotiation. This process has also incurred suspicion if it took the form of 'phoenixing', whereby some or all of the former controllers of the firm create a new company that buys the business back from the administrators. As this is what Her Majesty's Government did in respect of Rolls Royce in the 1970's, it's not surprising that it this pattern is not uncommon. The post-BMW Rover company, which actually took the name "Phoenix", is the most high-profile example from recent years. A measure of the complexity of these kind of affairs comes from the fact that as at November 2007, as reported by the BBC, "*After two-and a-half years of digging the current cost (of the investigation into Phoenix and its subsequent collapse) is put at around £10.6m - and that figure is rising by £80,000 a week*" (BBC Politics Show, 2007).
- The Administrator negotiates a Company Voluntary Arrangement (CVA) between the club and its creditors, an agreement which must be approved by the court. A CVA will include a timetable for the repayment of debts, in part or full, and will allow the club to continue trading. The day-to-day running of the club is passed back from the Administrator to the club directors. A CVA is normally for a maximum period of five years.

The Football Association now requires the establishment of a CVA as the progression out of Administration.

Preferred creditors

Under FA Rules, 'football creditors' have technically enjoyed the status of 'preferred creditor'. This means that, for example, if another club is owed money for the purchase of a player, that club has a higher claim on the insolvent club than for example, a supplier of meat pies.

Until 2003 however, the Crown enjoyed the ***legal*** status of 'preferred creditor', meaning that it had a higher legal claim on a club's assets than 'football creditors'. With the loss of that legal status, the Crown, typically as HM Revenue & Customs, the agency formed by the merger of HM Customs & Excise and the Inland Revenue, now has a ***lower*** claim on assets than 'football creditors' because of FA Rules.

Creditors

In broad terms our studies show that the hierarchy of creditors seeking money from an insolvent club are, in decreasing order of the size of debts:

HM Revenue & Customs

Banks and corporate investors

Football creditors

Suppliers

'Near misses'

Clubs, or any company, may file a 10 day 'notice of intent' to apply to a court to go into Administration. This may be a tactical move to pressure a putative new owner to make a quick and positive decision – once a club enters Administration it suffers an automatic deduction of 10 points in its league table. In the case of Coventry City, for example, in December 2007 the club filed such a 'notice of intent' while negotiating with a potential new owner. On the day on which the notice expired a takeover was agreed and Administration avoided by a matter of hours. Such 'near misses' have not been logged as incidents of insolvency in the database, though we are going to look at one or two such examples to see if they shed light on the factors we are studying.

Logging of incidents of insolvency

For the purposes of this research a hierarchy of 'wealth health' is assumed for clubs:

Solvent clubs

Clubs operating under a CVA

Clubs in Administration

Clubs in Administrative Receivership

Liquidated clubs

Each step *down* this hierarchy is considered an incident and logged in the data table. This would typically be a club moving from solvency into Administration. In a few instances the same club may be recorded as a second incident, e.g. if a club moves back from a CVA into Administration, or from Administration into Administrative Receivership.

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For more information on Coventry University's Centre for the International Business of Sport please visit our website at http://www.coventry.ac.uk/researchnet/d/691