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Birkbeck Sport Business Centre

Research Paper Series

**REFORM OF PARACHUTE PAYMENTS IN THE
ENGLISH FOOTBALL CHAMPIONSHIP**

Richard Evans

Birkbeck, University of London

Volume 16, Number 1, May 2024

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Reform of parachute payments in the English football Championship

Abstract

Purpose: This research seeks to assess the conflicting claims of the merits, or otherwise, of parachute payments made to football clubs relegated from the first tier league of football in England, called the Premier League, and to propose an objective solution.

Design/methodology/approach: The research uses the financial account of football clubs in the second tier league called the Championship together with information on parachute payments made to them for the seasons from 2004/05 to 2021/22 to assess the necessity for these payments and their effect on competition in the Championship.

Findings: The research finds that the system needs to be reformed. Payments are justified for a maximum of only two years, the amounts should be reduced and the ability to abuse the system eliminated. However, the evidence does not support the claim that these payments unfairly distort the competitive balance of the Championship.

Originality/value: Scant attention has been given to this issue in the academic literature but this research provides evidence and recommendations that should be of academic value with regard to the financial regulation of football and of practical value to the English Football League and any regulator that may be appointed for football by the UK Government.

Keywords: Competitive balance; Herfindahl-Hirschman Index; football finance

Article classification: Research paper

Reform of parachute payments in the English football Championship

Introduction

Parachute payments are sums of money given by the Premier League to clubs following relegation the Championship, the second tier league of professional football in England. Considerable media coverage of the issue of parachute payments has been given to the views in particular of the Chairman of the Premier League, Richard Masters, who is in favour of parachute payments and the opposing view of the Chief Executive Officer of the English Football League (EFL), Rick Parry as they represent the clubs in the leagues which they are responsible for administering.

Hitherto this issue has received relatively little attention in the academic literature. This is surprising given the strength of commitment to the opposing views and the relatively large sums of money involved for the league. For example, for the season 2021/22 over £200m was paid to six clubs in the Championship with the three clubs relegated in the previous season each receiving approximately £44.4m which, alone, is almost double the average wage spend of the other clubs in the league. However, at the hearing of the UK government's Digital, Culture, Media and Sport (DCMS) committee on 28th March 2023 Rick Parry is reported to have cited the research by Wilson et al. (2018) in support of his argument opposing parachute payments (Sportspromedia.com, 2023).

This research critically examines the specific research cited by Rick Parry and goes beyond it to provide a deeper assessment of parachute payments. This results in a set of practical recommendations for parachute payments in future.

The main research question is to what extent should the parachute payments system be reformed. This is addressed with the following considerations:

- Are parachute payments necessary?
- How many years should they be paid?
- How much should be paid?
- What effect do parachute payments have on competitive balance in the Championship?
- How effective are parachute payments in producing competitive success in the Championship?

The next section provides a brief review of the literature relating to the financial regulation of football clubs and, in particular, to the rather more scant literature on the issue of parachute payments. It also provides a brief review of the literature relating to the issue of competitive balance. Following sections on the data and methods of research the results are presented and then discussed in the context of the literature before the conclusions section and the recommendations from this research.

The conclusions and recommendations should be of particular academic value with regard to the under-researched issue of parachute payments as well as to the more general literature on the financial regulation of football. It should also be of practical value to both the Premier League and the EFL as competition organisers and to any regulator that may be appointed for football by the UK government.

Literature review

There are two main bodies of sports economics literature relating to the issue of parachute payments. There is a broad literature relating to the financial regulation of football clubs, within which there is limited consideration the issue of parachute payments, and the second is the literature specifically relating to the issue of competitive balance in sports leagues.

Financial regulation of football literature

Various financial regulations have been introduced since the formation of professional football leagues in England. Hamil and Walters (2010) identified regulatory measures including salary cost management schemes, sporting sanctions for financial mismanagement, and enhanced financial transparency as measures of financial regulation brought in by the football authorities in England to improve club finances. In 2011/12 the EFL introduced regulations called Fair Play rules, which applied to clubs in the Championship. They were replaced by Profit and Sustainability rules from the start of the 2016/17 season. Despite this response from the football authorities, there have been continued calls for independent financial regulation (Hamil, 2014) and, following the Fan Led Review of Football Governance (2021), the UK government published a White Paper (2023) recommending both liquidity controls for football clubs and the appointment of an independent regulator for the football industry in England. The White Paper (2023, p. 61, para 9.5) states:

“There remains a clear need for football to reassess both the magnitude of revenue distributions and the way in which money is allocated between teams. The current approach has affected competitiveness and led to financial risk-taking by clubs - the persisting revenue disparities encourage clubs to take financial gambles in an attempt

to achieve promotion or avoid relegation. This is accentuated by parachute payments, which can distort competition in the Championship and encourage greater financial risk taking by clubs that are not in receipt of them.”

However, it provided no support for the claim of the effect of parachute payments and offered no proposal to address the issue.

Parachute payments literature

Regulations regarding the distribution of money within the football industry forms part of the wider financial regulation of football clubs but there is a scant academic literature that addresses the issue of parachute payments. However, a notable contribution is research by Wilson et al. (2018). They argue that over the period of their study (2006/07 to 2016/17) “... an increase in the number of clubs with parachute payments and in the overall value of these payments coincides [sic] with a reduction in competitive balance in the Championship” (ibid. p. 19). They imply therefore that there was a causal relationship. They also argue that clubs with parachute payments were twice as likely to be promoted and considerably less likely to be relegated. Consequently they propose either a redistribution of parachute payments or their complete abolition. This was supported by Wilson et al. (2020) which concluded that “Strong evidence exists suggesting parachute payments are no longer fit for purpose ...” (ibid. p. 4).

Furthermore, Bishop et al. (2022) argue that as 28% of all relegated clubs from the Premier League are promoted in the following reason parachute payments “enable a revolving door for the top EFL clubs to move in and out of the Premier League, undermining competitive

balance in the EFL. (ibid. p. 295). Both Wilson et al. (2018) and Bishop et al. (2022) report that parachute payments were made from 2006/07 onwards. Whilst this is technically correct, Deloitte (2005) report the payments made to relegated from the Premier League from the 2003/04 season.

Competitive balance literature

There is an extensive, and contested, literature on competitive balance in sports leagues. Downward et al. (2011, Chapter 8), for example, provides a summary; . What constitutes competitive balance is even interpreted differently in the literature (Sanderson, 2002). Fort and Maxcy (2003, p. 155) state that the empirical literature on competitive balance is easily characterised along two distinct lines. One they call “the analysis of competitive balance (ACB) literature itself”. They describe this as the literature which “... focuses on what has happened to competitive balance over time or as a result of changes in the business practices of pro sports.” This line itself divides according to two views of competitive balance. In one view it relates to the dominance of one or a few of the same teams over time (Levin et al., 2000). Another view is that it relates to the concentration of outcomes between teams in the league over the course of a season. In both cases there are a plethora of statistics proposed in the literature to measure the competitive balance (Evans, 2014). Measures of dominance include a range of descriptive statistics such as the number of consecutive titles won whereas measures of concentration are based on statistics such as calculations involving the standard deviation of results between teams in a league (Szymanski and Kuypers, 1999), applications of the Herfindahl-Hirschman Index (Depken, 1999; Michie and Oughton, 2004) and concentration ratios (Koning, 2000; Mitchie and Oughton, 2004).

The second line of the literature on competitive balance identified by Fort and Maxcy (2003) is focussed on the effect competitive balance has on demand as a function of the uncertainty of outcome of the sporting contests. Following Cairns, Jennett and Sloane (1986), this literature also differentiates between three different areas of uncertainty, which relate to uncertainty of outcome of matches, between teams within a season and between league seasons.

For the issue of parachute payments the key issue of competitive balance is different to the focus of these two lines of literature. It is not how competitive the league is or the commercial attractiveness of the sport, instead the key issue of competitive balance for parachute payments is the effect that the payments have on the competitive balance between clubs (i.e. the sporting outcomes) due to the ability of clubs to use the payments to purchase and pay the wages for talent that they would not otherwise have done and, critically, thereby gain a competitive advantage. This is a relatively unexplored in the literature of sports economics.

Data

The research included the 18 seasons from 2004/05 to 2021/22. Three clubs were relegated from the Premier League in each of these seasons giving a total of 54 instances of parachute payment for those clubs in their first season in the Championship following relegation. Subsequent payments depended on the rules applicable at the time (see ‘parachute payments amounts’ below) and duration outside the Premier League. In total there were 119 payments made to relegated clubs whilst they were in the Championship in the research period. An

additional six payments are outside the scope of this research as they were made to clubs following relegation from the Championship.

Parachute payment amounts

Parachute payments, like solidarity payments, are distributions of money from the Premier League for clubs in the EFL. However, whilst solidarity payments are distributed across all clubs in the EFL, the parachute payments are restricted to clubs in the years immediately following their relegation from the Premier League.

The rules determining the amount of parachute payments made to clubs and which clubs receive them each season are given in the Premier League Handbook which is published each season. The approach has remained the same throughout the study period but the specifics have varied. Initially, payments were made to the three relegated clubs for a maximum of two seasons following relegation from the Premier League. If a club is promoted in the first of these seasons they do not receive a parachute for the second season. The payment amounts (called the Relegated Club Shares) are based on the amount of the broadcast rights that the Premier League distributes as an equal share to the clubs that are in the Premier League in that season. Initially, the payments were 55% followed by 45% of this amount for each of the two respective seasons. From the 2009/10 season the relegated clubs could receive a payment 20% of the amount of the equal share for a third season. In the following season this was extended to a fourth season with 25% of the amount of the equal share paid in both the third and fourth seasons. However, from the 2016/17 season the fourth season payment was withdrawn, the third season payment reverted to 20% and a rule was introduced limiting payments to clubs that returned to the Premier League for a single season.

For the early years of the study data on the amounts of parachute payments made to relegated clubs is taken from the Deloitte reportsⁱ. From the 2008/09 season the Premier League published a list showing the distribution of broadcast rights to Premier League clubs and this, together with the rules in place at the time, facilitated the calculation of parachute payments made. For 2010/11 and 2011/12 the Premier League included the parachute payments to the distribution list they published.

Accountancy data

The primary accountancy data source for the study was the financial statements and related notes to the accounts filed at Companies House by the clubs for the corresponding seasons. Following the approach adopted by Deloitteⁱⁱ, the accounts used were the legal entity registered in the United Kingdom which was at, or close to, the ‘top’ of the ownership structure in respect of each club. There was no available data on wage spend for three of the 119 club seasons when parachute payments were made.

Method

The research adopted a deductive approach designed for theory building. It took a positivist theoretical perspective, an objective epistemology and employed statistical methods of analysis. As research by Wilson et al. (2018) has entered into the media debate this research also reconsiders those arguments and conclusions with the additional benefit of extending the analysis to include two prior years (back to when the Championship was named) and five years of more recent data.

To assess the appropriate duration and amount of parachute payments the clubs were analysed according to the number of seasons they received parachute payments in the Championship. This facilitated a comparable multi-year view of parachute payments received and changes in both revenue and wage spend for clubs in each of the maximum four duration periods.

The main argument against parachute payments is that they distort the competitive balance in the Championship as they provide finance to clubs relegated from the Premier League which is not available to their competitors in the Championship and this, it is argued, enables them to purchase and capitalise on talent that gives them a competitive advantage over their rivals in the league. To assess the effect of parachute payments on competition in the Championship initially the analysis follows and develops Wilson et al. (2018) to assess the effect of the clubs in receipt of parachute payments on competitive balance. It then goes beyond that research to assess the critical effect of wage spend on the competitive success of clubs in receipt of parachute payments on the assumption of a causal mechanism from enhanced revenue, due to the parachute payments, on wage spend which determines, to some degree, the competitive success of the club.

The measure of competitive balance Wilson et al. (2018) adopted was the version of the Herfindahl-Hirschman Index proposed by Mitchie and Oughton (2004) called the Herfindahl Index of Competitive Balance (HICB) based on the number of points achieved by all the clubs in the Championship each season. They applied this to compare the competitive balance between league seasons. This is valid if the number of teams in the league is the same in all of the comparative seasons, as was the case for their research as there were 24 teams in the league in every season. However, to extend the analysis and make a comparison of

competitive balance without the clubs in receipt of parachute payments it is not. This is because in this case there are differing numbers of these clubs in each season and consequently the measure needs to be modified. The appropriate modified measure, proposed by Owen et al. (2007) is called the ‘Normalised Herfindahl-Hirschman Index’ (nHHI). This is calculated by:

$$nHHI = \frac{dHHI}{dHHI_{max}}$$

Where:

$$dHHI = \sum_{i=1}^N p_i^2 - \frac{1}{N}, \quad \text{and} \quad dHHI_{max} = \frac{N+1}{3N(N-1)}$$

p_i = Team i 's share of all games (or points) won in the league season

N = Number of teams (i) in the league

This measure of competitive balance has a range from zero, corresponding to perfect balance, to one in the case of the most unbalanced league. To assess the effect on competitive balance of the clubs in receipt of parachute payments the balance is recalculated with this measure with and without these clubs included.

Finally, to assesses the effect of wage spend of clubs in receipt of parachute payments on the competitive success of the club, which is critical to the argument against parachute payments, the correlation between the rank of wage spend and league position for clubs in the first season following relegation (i.e. in receipt of first season parachute payments) was compared to the average over the study period of the correlation coefficients for all clubs in the league each season. The clubs were ranked each season by wage spend with the largest spender ranked one etc. When there was no available wage spend data the club was omitted from the ranking. This could result in a small overstatement of the ranking for at least some of the

other clubs in that league season. If the clubs in receipt of parachute payments had a larger correlation coefficient between their league position and wage spend than that of all clubs it would suggest that the payments had a positive effect on the sporting outcome.

Results

Parachute payments

Table 1 provides a breakdown of the number of clubs in receipt of parachute payments each season to clubs in the Championship. The three teams relegated from the Premier League in the previous season all received the payments in all of the seasons. In subsequent seasons the number of recipients depended on the payment scheme in use at the time of relegation and whether the club remained in the Championship.

Table 1. Number of clubs in receipt of parachute payments in the Championship

	Season ending									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1 st Year	3	3	3	3	3	3	3	3	3	3
2 nd Year	2	3	3	1	3	2	1	3	2	2
3 rd Year								1	2	2
4 th Year										1
Total	5	6	6	4	6	5	4	7	7	8

	Season ending								Total	
	2015	2016	2017	2018	2019	2020	2021	2022	Number	%
1 st Year	3	3	3	3	3	3	3	3	54	45.4%
2 nd Year	2	2	1	2	2	3	2	1	37	31.1%
3 rd Year	3	1	2	1	1		2	2	17	14.3%
4 th Year	2	3	2	2	1				11	9.2%
Total	10	9	8	8	7	6	7	6	119	100%

Table 1 shows that almost half of all the payments were made to clubs in the first year following relegation, just over three quarters were made to clubs in their first and second years in the Championship and less than a quarter were made to clubs in the third and fourth years.

Table 2 shows the parachute payments in total and on average to clubs in each of the years they are in the Championship.

Table 2. Total and average parachute payments

	Number	Total		Average
		£m	%	£m
1 st Year	54	1,296	55.3%	24.0
2 nd Year	37	698	29.8%	18.9
3 rd Year	17	204	8.7%	12.0
4 th Year	11	147	6.2%	13.3
Total	119	2,345	100%	19.7

More than half (55.3%) of the total amount of payments made to clubs in the Championship were made in the first year following relegation and on average the payments were 27% more than paid to clubs on average in the second year and double those made on average in the third year.

Are parachute payments necessary?

The main case for parachute payments is that there is a “cliff edge” in club finance between the Premier League and the Championship. The “cliff edge” for relegated clubs is the size of adjustment that they need to make to their cost structure. Lacking an ability to make this adjustment in line with the reduction in revenue the relegated clubs need bridging finance and this is the justification for parachute payments. If player contracts have relegation clauses it may be possible for clubs to adjust their wage spend sufficiently upon relegation to obviate the need for parachute payments but these are likely to be opposed by players and their representatives and deter the players that clubs considered to be at risk of relegation want from joining.

The “cliff edge” is illustrated in Table 3. There would have been a 73% reduction in revenue on average for clubs in the first year following relegation. This was restricted to 42% by parachute payments but wage spend only reduced by 28%.

Table 3. Average revenue and wage reduction in first season following relegation, 2005-2022

Revenue in last season in Premier League	£76.9m	
Reduction to 1 st season in EFL	-£32.1m	-42%
Reduction excluding parachute payment	-£56.1m	-73%
Wage spend in last season in Premier League	£53.4m	
Wage spend reduction	-£15.2m	-28%

The club level data also provides a view on the necessity of parachute payments based on the justification that they are needed to bridge a period to allow clubs to adjust their wage spend down in accordance with the revenue reduction they experience following relegation. Of the 52 clubs relegated six increased their wage spend in the first season following relegation. This suggests an abuse of the intent with parachute payments as these clubs effectively used some, and in one instance almost all, of the payment to finance wage spend. Furthermore, 49 of these clubs reduced their wage spend by less than their reduction in revenue in their first season following relegation (even allowing for the parachute payment) which also suggests a degree of abuse.

It should however be noted that without the ‘safety net’ of parachute payments newly promoted teams may consider whether they should make the additional investment in talent necessary to compete effectively in the Premier League if they anticipate a “cliff edge” problem if they are relegated soon after. If they do not choose to make the necessary investment it would be expected that their matches would lack the interest provided by

competitive balance and make the Premier League less attractive to spectators, sponsors and the media.

Consequently, the evidence suggests that there is a need for parachute payments but that the system needs to be reformed to prevent abuse.

How long?

The data available to the research cannot provide a definitive answer to these questions. In part it depends on specific player contracts and in part on the willingness of owners to make the necessary changes and neither of these are known to the researcher. However, this section provides some evidence to inform the conclusions.

Table 4 presents the underlying revenue generated by the clubs in receipt of parachute payments each season if there had been no parachute payments. It provides the average annual revenue of all 52 clubs in receipt of parachute payments in the first year in the Championship for the season they were relegated from the Premier League and the following years in which they received parachute payments. It also provides the same information for each year of the subsets of these clubs that received parachute payments for more than one year.

Table 4 shows that the “cliff edge” from the Premier League to the Championship is in the order of 75% of the revenue that the clubs received in their relegation season from the Premier League but that the reduction is reduced to approximately 15% for those clubs in receipt of parachute payments for the second year following relegation. This suggests a need to support these clubs with parachute payments over this period.

Table 4. Number of clubs and average revenue excluding parachute payments (£m)

Clubs	PL*	Change	1 st Yr	Change	2 nd Yr	Change	3 rd Yr	Change	4 th Yr
52	76.9	-56.1 (-73%)	20.8						
33	71.2	-52.2 (-73%)	19.0	-2.7 (-17%)	16.3				
15	82.9	-65.3 (-79%)	17.6	-2.3 (-13%)	15.3	+1.4 (+9%)	16.7		
9	61.9	£45.8 (-74%)	16.1	-2.5 (-16%)	13.6	+0.1 (+0.1%)	13.7	+1.5 (+11%)	15.2

* Premier League relegation season

However, Table 4 also shows that those clubs which received parachute for more than two years had an underlying revenue increase. This suggests that there is no necessity to have parachute payments for those years.

How much?

The starting point is to consider how quickly clubs adjust their wage spend relative to actual revenue change. Table 5 presents the average and annual change in wage spend for all 52 clubs in receipt of parachute payments in the first year in the Championship for the season they were relegated from the Premier League and the following years in which they received parachute payments. It also provides the same information for each year of the subsets of these clubs that received parachute payments for more than one year.

Table 5. Number of clubs in receipt of parachute payments and average wage spend (£m)

Clubs	PL*	Change	1 st Yr	Change	2 nd Yr	Change	3 rd Yr	Change	4 th Yr
52	53.4	-15.2 (-28%)	38.2						
33	48.6	-17.1 (-35%)	31.5	-2.1 (-7%)	29.4				
15	58.0	-22.0 (-38%)	36.0	-2.4 (-7%)	33.6	-0.5 (-1%)	33.1		
9	48.5	£16.8 (-35%)	31.7	-3.1 (-10%)	28.6	-2.9 (-10%)	25.7	+1.1 (+4%)	26.8

Table 5 shows that clubs reduced their wage spend by approximately 35% in their first season following relegation but by only 10% or less in subsequent seasons. This suggests a greater difficulty, or unwillingness, to make reductions in the second and subsequent seasons in the order of those made in the first season. Clubs that received parachute payments for a fourth season even increased their wage spend on average. These findings tend to support the earlier conclusion that parachute payments are not required for the third or subsequent seasons following relegation.

On the basis of the clubs that received parachute payments for two years the bridging finance required is the difference between the revenue reduction over the two years of approximately £55m (£52m year one; £3m year two) and the wage spend reduction over the same period of approximately £19m (£17m year one; £2m year two). This suggests that the requirement is for approximately £36m (£35m year one; £1m year two) of parachute payments over the two

years. This is £7m less in total than the actual average parachute payment for clubs in the first and second seasons following relegation of £43m (i.e. £24m year one; £19m year two). Assuming no increase in the first year payment rate, with the excess occurring entirely in the second season it suggests that the reduction should be borne in full by the second year. To reduce the average parachute payment for the second year, which relates to approximately 45% of the corresponding equal share of the Premier League broadcast rights, by the excess of £7m the corresponding parachute payment for the second year would be reduced from 45% to 28% of the equal share of the Premier League broadcast rights.

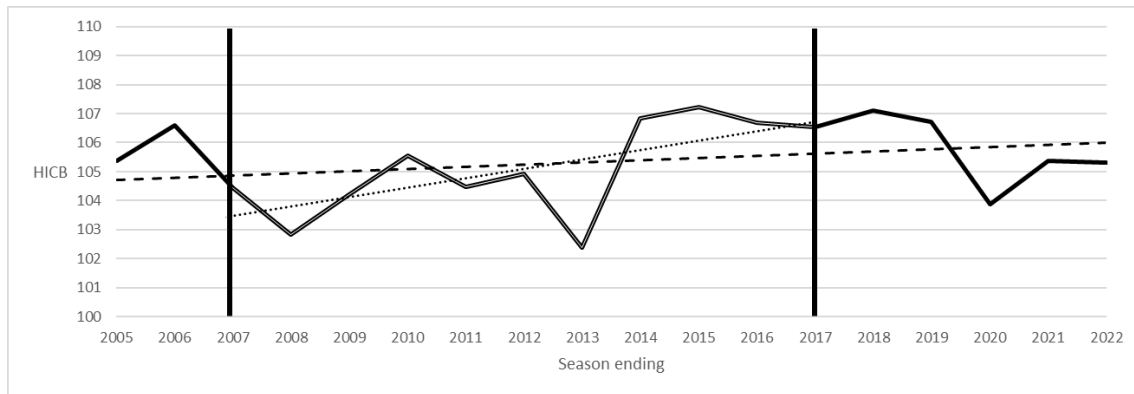
The issue of competitive balance in the Championship

The main argument against parachute payments is that they distort the competitive balance in the Championship by providing those clubs with a competitive advantage over clubs in the league not in receipt of such payments and this, in turn, can create the dynamic of an unstable financial ‘arms race’ (Frank and Cook, 2010) by leading other clubs in the league to risk over-spending in order to compete (Evans et al., 2022).

Wilson et al. (2018) based their conclusion that “Strong evidence exists suggesting parachute payments are no longer fit for purpose ...” (ibid. p. 4) on the argument that competitive imbalance increased over their research period. Figure 1 replicates the HICB calculation by Wilson et al. (2018) for the 2006/07 season to the 2016/17 season and extends it to the period of this research. It confirms the statistically significant trend increase in the seasons from 2006/07 to 2016/17, shown as a dashed line between these dates, (p -value = 0.028) but it also shows that if the period is extended to the seasons from 2004/05 to 2021/22 the increase in

the trend, shown as a dashed line between these dates, is not statistically significant (p-value = 0.273).

Figure 1. The Championship HICB, Seasons ending 2005-2022

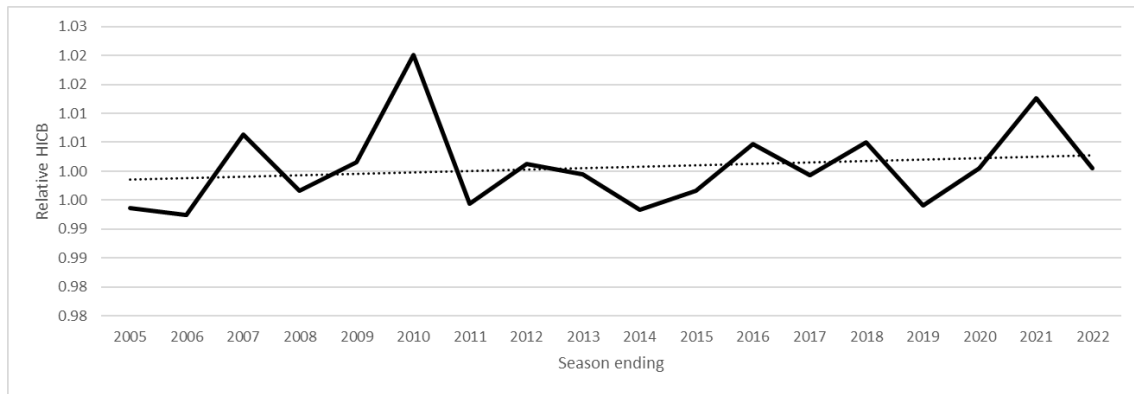


Even if competitive imbalance increased the conclusion of Wilson et al. (2018) was based on the assertion that this was caused by the increasing influence of parachute payments. They justified this assertion by noting that “... an increase in the number of clubs with parachute payments and in the overall value of these payments coincides [sic] with a reduction in competitive balance in the Championship” (ibid. p. 19). Other than noting this “coincidence” they did not test their assertion.

As more clubs in receipt of parachute payments are promoted in the first year following relegation than in later seasons whilst in receipt of parachute payments, to test the claim that the increase in competitive balance is caused by the parachute payments, the trend in competitive balance with all clubs in the Championship is compared to the trend if all the clubs in receipt of first year parachute payments each season are removed from the calculation. The test statistic is the HICB with all clubs included (as per Figure 1) divided by the HICB if the clubs in receipt of parachute payments in the first year following relegation are removed from the calculation. A value greater (less) than one, and an upward

(downward) trend, then indicates a positive (negative) effect on competitive imbalance (sic) due to the clubs in receipt of parachute payments.

Figure 2. Influence of first year parachute payments on competitive balance, 2005-2022

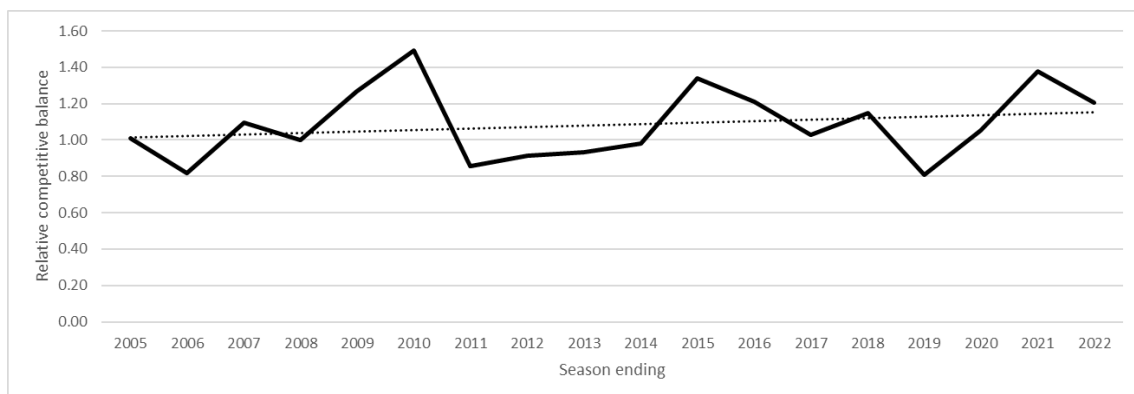


The increasing trend in Figure 2 shows that the effect of the clubs in receipt of first year parachute payments tended to increase the competitive imbalance over the research period however the effect is not statistically significant (p -value = 0.477). It is also not significant for the period from 2006/07 to 2016/17 (p -value = 0.432). Consequently the evidence suggests that the parachute payments made to clubs relegated in the previous season did not have a significant effect on the competitive balance of the Championship.

Furthermore, part of the increase in competitive imbalance that has occurred can be attributed to clubs that abused the parachute payment system in that they reduced their wage spend by less than their revenue (including the parachute payment) reduced. This is particularly notable in more recent seasons as the nHHI with all clubs in the league exceeds the nHHI if the ‘abusing’ clubs are removed, indicating a more balanced league, in all but one (the 2018/19 season) of the last seven seasons in the study period.

If all the clubs in receipt of parachute payments each season are removed from the calculation the same conclusion is reached. In this case, as the number of clubs each season varies when those in receipt of parachute payments are removed the appropriate measure of competitive balance is the nHHI. To facilitate comparison, the case where all clubs are included the HICB measure is replaced by the equivalent nHHI measure. The relative effect of the clubs in receipt of parachute payments is then shown by the nHHI of the league with all clubs divided by the nHHI with all the clubs in receipt of parachute payments removed. As before, a value greater (less) than one, and an upward (downward) trend, then indicates a positive (negative) effect on competitive imbalance (sic) due to the clubs in receipt of parachute payments.

Figure 3. Influence of all parachute payments on competitive balance, 2005-2022



Again, the increasing trend in Figure 3 shows that the effect of the clubs in receipt of first year parachute payments tended to increase the competitive imbalance over the research period however the effect is again not statistically significant (p -value = 0.385) and neither is it statistically significant for the period addressed by Wilson et al. (2018) from 2006/07 to 2016/17 (p -value = 0.919). Therefore, the evidence suggests that the parachute payments made more generally to all clubs in the Championship also did not have a significant effect on the competitive balance of the league.

Consequently, contrary to the conclusion of Wilson et al. (2018), the evidence suggests that parachute payments did not have a statistically significant effect on the competitive balance of the Championship. Furthermore, the evidence shows that the conclusion that competitive imbalance increased in the Championship depends on the period considered.

The effectiveness of parachute payments in the Championship

Wilson et al. (2018) argue that clubs in receipt of parachute payments are more successful in getting promoted than clubs not in receipt of these payments. They found a statistically significant larger percentage of clubs promoted with parachute payments relative to the number of clubs in receipt of these payments compared to the percentage of clubs not in receipt of these payments promoted relative to the number of clubs not in receipt of parachute payments (18.7% v 10.0%). The argument is supported by this research where 21.0% (i.e. 25 of the 119) were promoted in receipt of the payments whereas only 9.3% (i.e. 29 of 313) were promoted not in receipt of parachute payments and suggests that the payments have had a positive effect on sporting success.

Furthermore, Wilson et al. (2018) argue that there is a statistically significant benefit of around five points, on average, won by clubs in receipt of parachute payments. Again, this is supported by this research where the difference is 6 points (65.87 v 59.8) and also suggests that the payments have had a positive effect on sporting success.

However, both of these analyses jump a link in the causal argument because the argument is that the payments facilitate a higher wage spend and it is the associate increase in talent that produces the sporting success. Without establishing this link the difference between parachute payments and promotion or points cannot be claimed to be causal.

Figures 4 and 5 are scatter diagrams where each point represents the combination of a club's league position with its rank in terms of its total wage spend (as reported in the club accounts). Numbers are included within points to show the number of clubs with that combination if it is greater than one. Vertical lines delineate the league positions that resulted in automatic promotion (i.e. the top two positions) and relegation (i.e. the bottom three positions). The shaded points indicate where clubs were promoted via the play-off system (i.e. when they finished the season in one of the third to sixth positions). In the case where there is both more than one club for a combination and promotion via the play-offs the number shows both the number of clubs with that combination and the number promoted. The diagonal line delineates between clubs that achieved a league position higher than their wage rank (i.e. below the line) and those that achieved a league position lower than their wage rank (i.e. above the line).

Again, as more clubs in receipt of parachute payments are promoted in the first year following relegation than in later seasons whilst in receipt of parachute payments, the initial analysis is restricted to the 52 clubs (with available data) in receipt of parachute payments for the first year following relegation each season.

Figure 4. Clubs in receipt of parachute payment for year 1 in the Championship

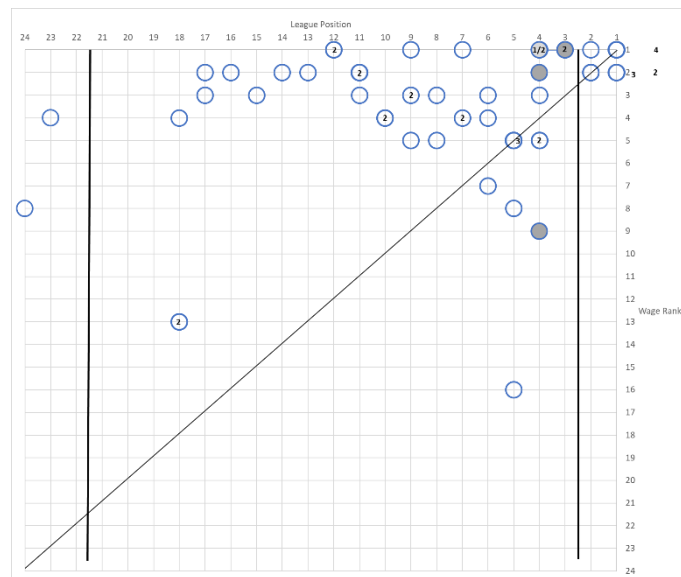


Figure 4 shows that the clubs with first year of parachute payments were dominant as wage spenders in the league in that season with 25 (of 52) in the top two and 45 (of 52) in the top five. However, their inability to convert this apparent advantage into successful results is also evident with only 14 achieving promotion (including 4 via the play-offs) and all of those in the top two wage spenders in the league in that season. Furthermore only eight (of 52) achieved a league position higher than their wage spend rank (i.e. below the diagonal line in Figure 1). The average position of all these clubs was fourth highest in wage spend but eighth in league position in the same season and the correlation between wage spend rank and league position for these clubs was 0.28 (p-value = 0.0479). These findings show the relative ineffectiveness of clubs in their first season following relegation to convert their wage spend advantage into successful sporting performance.

This conclusion is also reached if the analysis is extended to all 116 clubs (with available data) in receipt of parachute payments each season.

Figure 5. All clubs in receipt of parachute payments in the Championship

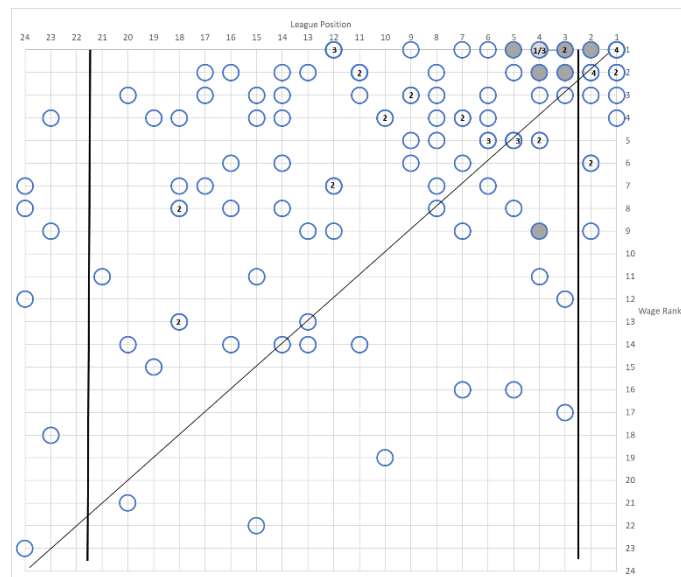


Figure 5 shows that all clubs in receipt of parachute payments were dominant as wage spenders in the league in that season, but not as dominant as the first year payment recipients shown in Figure 4. This reflects the reduced amounts of parachute payment for the subsequent seasons. There were 33 (i.e. an additional eight) of 116 ranked in the top two wage spenders in the league in that season and 68 (i.e. an additional 23) of 116 in the top five (and one of those was even relegated). The inability of these clubs to convert this apparent this lesser advantage into successful results is again evident with only another six achieving promotion (including two via the play-offs) and three of those in the top two wage spenders in the league in that season. Furthermore only 24 (of 116) achieved a league position higher than their wage spend rank (i.e. below the diagonal line in Figure 2). The average position of all these clubs was sixth highest in wage spend but tenth in league position in that season and the correlation between wage spend rank and league position for these clubs was 0.44 (p-value = 0.000).

Consequently, the evidence does not support the argument that parachute payments made either newly relegated clubs, or more generally clubs in receipt of parachute payments, more successful in achieving promotion due to their relative inability to convert their wage spend advantage into sporting success.

Discussion

The main concern with parachute payments is that they distort the competitive balance in the Championship. It seems like an obviously correct argument that if a club is given additional finance and they spend this on talent that it will give that club a relative competitive advantage. The Chief Executive Officer of the English Football League (EFL), Rick Parry, cited research by Wilson et al. (2018), in support of his argument to reform the system of parachute payments as they concluded that “Strong evidence exists suggesting parachute payments are no longer fit for purpose ...” (ibid. p. 4) on the basis of evidence that “... an increase in the number of clubs with parachute payments and in the overall value of these payments coincides with a reduction in competitive balance in the Championship” (ibid. p. 19).

However, the strength of this ‘competitive balance’ argument depends on an argument of causality and not simply on statistical association and that depends on the effectiveness with which the clubs can convert the additional resource into sporting success. That is often inferred from the correlation between the league position that a club achieves and its wage spend relative to its competitors in the league. Attention is usually given to this correlation for clubs in the Premier League at around 0.75. However, less attention is given to this correlation for clubs in the Championship where, on average, it is around 0.5 a season. The

difference compared to the Premier League is attributable to the fact that high spending successful clubs in the Premier League remain in the league whereas in the Championship they are removed from the league each season with promotion. However, this research found that the correlation between wage spend rank and league position for these clubs was 0.28 (p-value = 0.0479) and the average position of the clubs in receipt of parachute payments for the first season following relegation was fourth highest in wage spend but eighth in league position. This shows that clubs in receipt of parachute payments for their first season following relegation were relatively inefficient in converting the finance into sporting success. Hence, fear of the 'competitive balance' argument in relation to newly relegated clubs in the Championship can be overstated.

Furthermore, this research found that the evidence does not support the argument that clubs in receipt of parachute payments have generally converted their finance advantage into superior sporting achievement. Only eight of the (52) clubs relegated achieved a league position higher than their wage spend rank in the season following their relegation and the average position of these 52 clubs was fourth highest in wage spend but eighth in league position that season. Consequently the findings do not support the 'competitive balance' argument against parachute payments.

A possible explanation for this finding is that, at least to some extent, the parachute payments were being used to buffer the loss of revenue, as intended, rather than to subsidise wages, as claimed by objectors to the payments.

Contrary to the argument that parachute payments encourage greater financial risk-taking by clubs that are not in receipt of them there is an argument that reducing or abolishing the parachute payment system would provide a greater incentive for other clubs in the league to increase their wage spend if they perceive that had a greater possibility of achieving promotion to the Premier League relative to the relegated clubs in receipt of the payments. Evans et al. (2022) found that approximately three quarters of the clubs promoted from the Championship in the seasons from 2004/05 to 2018/19 were not clubs that had been relegated in the previous season and that just over 60% of them did so with a strategy of gambling by overspending on talent.

However, this research found that the parachute payment system is in need of reform. First because it is too generous in term of both the duration and amounts of payments. The evidence suggest that parachute payments are only necessary for a maximum of two seasons. This research found that clubs which received parachute for more than two years had, on average, an underlying revenue increase in those additional years. The intuition behind a two year limit could be that if player contracts for three seasons and the first of these is whilst the club is in the Premier League but the club is then relegated their commitment would only be to a maximum of two seasons in the Championship. The club may even reduce this obligation by transferring these players to another club before the contract expiry date. In these circumstances it suggests that parachute payments should only be necessary for two seasons. Whilst contracts may be for longer periods the club may also not be relegated in the first season that the player is with the club. Consequently a duration of two year appears appropriate.

The government's White Paper (2023) on football governance identified the need for football to reassess the magnitude of parachute payments. This research supports that view and suggests that payments for the second season following relegation should be reduced to 28% of the equal share of broadcast rights for Premier League clubs as this would bring the payments more into line with the requirement. However, reducing the second year payments relative to the first season payments could create a greater incentive for newly relegated clubs to seek promotion in their first season in the Championship. Consequently, a less extreme relative change between the years, which is broadly equivalent in total, would, in round numbers, be to say, reduce the first year percentage to 50% and the second year percentage to only 35%.

Second, the research found that the parachute payment system is in need of reform because it is open to abuse. If the justification for the payments is support clubs in adjusting to a revenue reduction on relegation then, at the very least, they should not be used to finance an increase in wage spend, as has occurred in some instances. The abuse of the system partially explains competitive imbalance in the league and these instances can give the impression that there is a problem with the system distorting the competitive balance in the league. One reform to prevent such abuse would be to introduce a 'clawback' rule such that any increase in wage spend is deducted from the parachute payment. An alternative approach would be to make the payments only on a 'matching' basis. That is, to make the payment equal to the amount by which the club reduces its wage spend up to the limit of the full amount of the potential parachute payment. This reform would also ease any remaining concerns of those who are still concerned that the payments put other clubs at a competitive disadvantage.

Conclusions

This research has used data from the financial accounts of football clubs relegated from the Premier League from the 2004/05 season to the 2021/22 season (inclusive) and information available on the parachute payments made to these clubs. There is a difference on the issue of parachute payments in the publicly expressed views of Chairman of the Premier League, Richard Masters, and the Chief Executive Officer of the English Football League (EFL), Rick Parry. In particular, there is concern expressed that these payments distort the competitive balance of the Championship resulting in an unfair advantage for clubs in receipt of them.

The main conclusions from this research are that:

1. Parachute payments are necessary to help clubs to manage the transition from revenue in the Premier to revenue in the Championship. The “cliff edge” reduction in revenue and difficulty in correspondingly reducing wage spend create a need for bridging finance to allow time for clubs to adjust their cost structures.
2. The findings do not support the argument that parachute payments should be abolished because they distort the competitive balance in the Championship. The evidence shows the relative ineffectiveness of clubs in their first season following relegation to convert their wage spend advantage.
3. Parachute payments are currently excessive. Given the justification of the necessity of parachute payments to provide bridging finance whilst clubs adjust their cost structure in line with the revenue reduction they experience following relegation, the evidence suggests that both the period of support and the amount of support should be reduced.
4. The current system is open to abuse and needs to be reformed to, at least, prevent the payments being used to finance increases in wage spend.

These conclusions and the following recommendations should be of academic value with regard to the financial regulation of football and of value to the English Football League and any regulator that may be appointed for football by the UK Government.

Recommendations

Consequently, the three key recommendations that follow from the conclusions of this research are:

1. Restrict the period of payments to two years.
2. Restrict the payments to 50% and 35% of the equal share of the broadcast rights for clubs in the Premier League for the first and second seasons following relegation respectively.
3. Any wage spend of a club in the Championship above its spend in the last season in the Premier League should be deducted from the parachute payment for that year.

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ⁱ Deloitte published an Annual Review of Football Finance for each season of the research period

ⁱⁱ This approach is used by Deloitte for their Annual Review of Football Finance