In Practice 10.1 Sport stadium asset management: The case of Melbourne Cricket Club

Around the world there are many sport stadiums that have made a strategic decision to completely refurbish and redesign their facilities. Of course, we all know that this type of 'grand plan' comes at a cost. We also understand that the stadium owners and managers will be most often required to secure funds from external sources to make it all happen.

Take, for example the internationally famous and iconic Melbourne Cricket Ground (MCG), and its occupant, the Melbourne Cricket Club (MCC). In 2002 it decided to demolish its ageing stand and start again by putting up 'state of the art' facilities. But, to make all this happen it had to borrow a significant amount of money. In fact, its borrowings totalled well over AUS$300 million. In 2006, and just in time for the Commonwealth Games, it had spent all its borrowed money, but what it got in return was a scintillating bundle of world-class facilities. But, as we all know, when you borrow money you not only have to pay back the full amount you borrowed – which is commonly called the 'principal', but you also have to pay an annual interest charge. If we assume the annual interest charge is around 6 per cent, then in the first few years the total interest bill will be something in the order of AUS$204 million. This represents a serious drain on one's cash deposits.

This heavy repayment burden immediately raises the question as to just what benefits are going to accrue from this very big investment, and when it might be clear that the decision to borrow all this money was, in fact, a good one. And there is a risk that the repayment burden may be so severe that the ability to repay may be impossible.

But the MCC/MCG has a strong cushion against any cash flow problems. It is its 'membership'. It has many thousands of members, and is able to maintain a 20-year waiting list with virtually no promotional or marketing effort whatsoever. Moreover, it is Australia's premier sport stadium, and has no difficulty securing tenants, the main ones being the Australian Football League and Cricket Australia. And, to top it off, it regularly attracts 50,000 to 80,000 spectators to games. These strong attendance figures consequently enable it to

1. negotiate big catering and hospitality contracts;
2. hire out expensive corporate suites with no difficulty; and, finally,
3. secure big-brand advertisers to place signage around the ground.

The financial 'moral' to this story is short and sharp. It is that investing in expensive assets is a sound thing to do, but only if you are sure the assets can deliver the best quality services. If this eventuates then you can be confident that these services will generate sufficient additional revenue so that not only will all loans and interest bills be paid off, but that there will be a handsome surplus with which to undertake even further investments. If, on the other hand, the newly created assets are unable to deliver these benefits, the future will look very uncertain indeed. In the case of the MCC/MCG, it took a calculated risk, and reaped the rewards.

Liabilities

Simply put, liabilities are those things that an organization owes others. To be more exact, they are the present obligations of an entity which, when settled, involve the outflow of economic resources (Hoggett et al. 2006). Like assets, liabilities can be categorized into current and non-current. Current liabilities included monies that are owed to people in the immediate future for services and goods they have supplied. For example, a club may have purchased some sporting equipment on credit for which payment is due in 30 to 60 days. This is called accounts payable or debtors. Other current liabilities include short-term borrowings, member income received in advance, and taxes payable in the short term. Income received in advance is an interesting case because it is often intuitively viewed as revenue or asset and not a liability. However, under the accrual accounting model it is clearly not relevant to the current flows of revenue and expenses. But as monies received it has to be accounted for. So, what happens is that it is debited to cash in bank and credited as something we owe to members in the future. That is, it is a liability which is listed as income received in advance. Non-current liabilities include long-term borrowings, mortgage loans, deferred tax liabilities, and long-term provisions for employees like superannuation entitlements.

The accumulation of liabilities is not of itself a problem, so long as the debt is used to build income-earning assets. However, if increasing debt is associated with losses rather than profits, then the gap between assets and liabilities will increase. It is not uncommon in sport for clubs to have liabilities that exceed the value of their assets. As the major case study in this chapter indicates, hundreds of football clubs in Europe make losses, and a sizeable proportion of these loss-making clubs have more liabilities than assets. This situation is replicated in Australia where the net worth of some clubs in rugby and Australian Rules football is negative (that is, they have more liabilities than assets). In the long run these trends are unsustainable.

Balance sheets can say a lot about a sport organization's financial health. However, balance sheets do not tell us much about a sport club's earnings, profits and losses over the course of a month, quarter, or year. For this information we must turn to the profit and loss statement, or as it is often called in the nonprofit sector of sport, the income statement.

PROFIT AND LOSS STATEMENTS

It is not just a matter of examining a sport organization's assets and liabilities at a point in time in order to diagnose its financial health, it is also crucial to shift one's attention to the financial operation of sport clubs and associations over time (Atrill et al. 2006). The first thing to be said about the profit and loss statement is that it can go under a number of names. It can also be called an income statement, which is the nonprofit sector terminology, and is also referred to as a financial statement of performance. The point to remember about most sport organizations is that they do not focus on profits and losses, but rather surpluses and deficits (Anthony & Young 2003). In any case, it does not alter the fact that these statements look at the revenue earned during a period (say three or twelve months) and compare it with the expenses

incurred in generating the revenue. Profit and loss statements are straightforward to compile, and moderately easy to understand, but there are some tricky areas that need to be discussed.

The first point to make is that while profit and loss statements contain many cash movements, they do accurately represent the total cash movements in and out of the organization, since they are essentially about earned income and incurred expenses. As a result they will include many transactions that do not include the movement of cash. In other words, revenue can be earned, while the cash may come much later. But it is still a revenue item that needs to be identified in the profit and loss statement. For example, a sport consulting business may have completed a strategic planning exercise for a large national sport association, and invoiced it for $50,000. If, at the end of the accounting period, the invoice has not been paid, it will still be included in the profit and loss statement as income. The adjustment or offset in the accounts will be an equivalent (i.e. $50,000) increase (or debit) in the accounts receivable asset account. If the invoice had been immediately paid, the adjustment would have been made as an increase (or debit) of $50,000 to the cash in bank asset account.

Revenue, or income as it is frequently called, is typically divided into operating and non-operating items. Operating items include all those revenues like member income and merchandise sales that provide the funds to support the day-to-day running of the club or association. Non-operating items include funds that are irregular, or even out of the ordinary. An asset sale, a special government grant or a large donation are examples of non-operating income. As noted in the early part of this chapter, sport organization revenues have expanded dramatically over recent years, but for the non-professional clubs the main sources are member fees, gate receipts, government grants, fundraising activities, and sponsors.

Expenses should also be treated cautiously. The profit and loss statement should include all incurred expenses rather than just paid expenses. Buying something on credit or by cash is an expense. On the other hand, paying for something that will not be used until next year, for example, should not be listed as an expense for the period under consideration. It is an asset (i.e. a prepaid expense). For example, rental or insurance paid in advance involves a movement of cash out of the club or association, but does not constitute an expense incurred for the current period.

Depreciation

Depreciation is another expense issue that has to be dealt with. And, to repeat, depreciation is an estimate of the wear and tear of working assets. In an office setting, computers are quickly depreciated for two reasons. First, they are heavily used, and second, they quickly become out of date and obsolete. Depreciation is therefore recognized as an expense and should be included in a profit and loss statement. Depreciation can be calculated in a number of ways, the most simple being the straight line method. If, for example, a motor vehicle is purchased for $30,000, has an estimated life of five years and no residual value, then the depreciation expense for the following five years will be $6,000 per annum. Some sporting club finance managers make the mistake of listing the full cost of the motor vehicle in year 1 as

an expense, but this is clearly misleading. The correct way to treat this transaction is to list it as an asset, and then depreciate (i.e. amortize) it over its estimated lifetime. Interest-paid and interest-earned also appear on profit and loss statements. Interest paid will be classified as an expense while interest received will be classified as revenue.

Operating versus net profits

When analysing profit and loss statements it is also important to distinguish between operating profit (or surplus) and net profit (or surplus). The differences between these two terms comprise abnormal revenue and expenses, and extraordinary revenue and expenses. A transaction will be classified as abnormal if it is a regular occurrence, but in a specific case is significantly higher than normal. In the case of a sporting club an abnormal item might be an accelerated depreciation of office equipment, or a supplementary government grant. A transaction will be classified as extraordinary if it is a significant transaction, and does not regularly occur. A sporting club example includes fines for breaching salary cap regulations. (This happens frequently in the Australian Football League and the National Rugby League) or the sale of an asset (this occurs in the English Premier League where players can be traded under certain conditions).

Operating profit does not include the abnormal and extraordinary items, and is confined to those transactions that are directly related to day-to-day activities that regularly recur over the standard accounting cycle. So, operating profit is the difference between operating income and operating expenses. Net profit is something else again, and will take into account all abnormal and extraordinary items. If the sport club happens to be part of profit making entity, then it may be required to pay tax on its profits. This item will be subtracted from operating profit to get to a net profit figure.

Depreciation is also frequently listed as a non-operating item and can also make a significant difference to the level of profit. An operating profit can be transformed into a net loss by the inclusion of depreciation as a non-operating expense. Sometimes claims are made that depreciation can distort the real profit of a sport organization, but in fact the opposite is the case. Depreciation is a legitimate expense since it takes into account that amount of assets used up to generate revenue. In the context of the above discussion a typical profit and loss or income statement is illustrated in Table 10.3.

TABLE 10.3 Profit and loss statement template

Item	*Amount ($)*	*Total ($)*
Operating income		
Member fees	50,000	
Events	10,000	
Grants	30,000	
Total operating income		90,000
Operating expenses		
Administration	50,000	
Events	20,000	
Insurance	10,000	
Total operating expenses		80,000
Operating profit		10,000
Non-operating income		
Special government grant	10,000	
Non-operating expenses		
Depreciation	20,000	
Net profit		0

In Practice 10.2 The International Cricket Council

The international governing bodies for sport, otherwise known as International Sporting Organizations (ISOs), depend for their financial viability on the revenues they can secure from major sport events. One of the most highly credentialed ISOs which recently shifted its headquarters from London to Dubai in the Middle East is the International Cricket Council (ICC).

The ICC, which has 96 member countries, has traditionally run two major competitions, the World Cup and the Champions Trophy, both 50 over per team competitions. The World Cup was last run in 2011 and 2007, while the Champions Trophy was last run in 2009 and 2005. In recent times the ICC has conducted a 20–20 competition. The success of these events is immediately reflected in the sharp

subsequent increases in the ICC's operating income. The ICC's financial indicators for 2007 and 2010 are listed in Table 10.4.

TABLE 10.4 Financial indicators for International Cricket Council

	2007	*2010*
	US$ million	*US$ million*
Operating income	273	77
Event income	260	75
Operating expenses	15	28
Cricket development	3	6
Total assets	151	190
Cash assets	120	40
Total liabilities	126	161
Current liabilities	125	160

Source: ICC Financial Statements 2007 and 2011

As this table starkly shows, the ICC depends for its financial strength on the revenue from its international tournaments. They generate enormous amounts of cash. This means that its revenues increase sharply just after a major event, but in the seasons between events, falls away appreciably. It is also important to note its surpluses are used to

1. fund the operations of its member nations;
2. promote the game around the world; and
3. assist national governing bodies develop the game locally.

CASH FLOW

We can now move on to the cash flow statement. It should be apparent that profit and loss statements do not give a clear picture of the movement of cash in and out of a

sporting club or association. Cash flow statements aim to fill this gap by listing all movements of cash under three main headings. These headings are operating activities, investing activities and financing activities. The aim here is to get a picture of the net inflow and outflow of cash, and the extent to which a club or association is able to meet its cash payment obligations. This is an important issue, since without sufficient cash to pay bills when they fall due, there is the lingering possibility that creditors will take legal action to ensure payment. This may result in insolvency and bankruptcy.

The transactions that are included in the operating activity section include all those day-to-day activities that are required to keep the organization running. They include wages and salaries, (cash out) and payment for supplies (cash out) on one hand, and membership income (cash in) and government grants (cash in) on the other. Good financial management will aim to ensure that the cash coming from operating activities will exceed the cash going out, although a short-term net cash outflow may not be all that serious.

Investing activity transactions include all those things that involve the purchase and sale of assets. The sale of assets will be associated with cash inflow, while the purchase of assets will produce an outflow of cash. The purchase and sale of office equipment and property of various sorts will fall under the investing heading, and so too will the purchase and sale of stocks, shares and debentures. While the sale of assets can generate a quick supply of cash, it will also deplete the organization of income-earning resources, so a balance needs to be struck to ensure that crucial assets are not depleted. On the other hand, the purchase of assets immediately absorbs cash, and it is therefore important to monitor the amount of cash being used for this purpose.

Financing activities involve all those things that involve the procurement of equity and borrowing of funds on one hand, and the withdrawal of funds and repayment of borrowings on the other. An increase in cash holding can come from loans, bonds, mortgages, debentures and other borrowings, while a fall in cash holding will come from the repayment of loans and the redemption of debentures.

A cash flow statement provides a clear and concise picture of how cash is used internally, and where it goes externally. It also signals the level of liquidity and the ease with which cash payments are supported by cash reserves. A chronic net cash outflow on operating activities is cause for concern, since it is likely to lead to asset sales or borrowings being used to finance the cash deficit. And, as was noted previously, this can lead to a fall in club or association net worth, and threaten its long-term viability.

BUDGETING SYSTEMS

Budgeting is a crucial part of the financial management process (Hoggett et al. 2006; Wicker at al. 2010). It is one thing to construct some simple accounts and diagnose the financial health of sport clubs, associations and leagues. It is another thing to make sure resources are available for allocation to the various parts of their operations. No matter how wealthy a sport organization is, its resource base will always be limited, and decisions have to be made as to not only where the resources are allocated (facility maintenance, player salaries, coaching staff, equipment upgrade), but also how much each operational

activity will receive. Moreover, budgets are finite, and the constraining factor will always be the amount of available funds.

Budgets are really financial plans that involve the allocation of funds to strategically important operations and activities. Budgets are essential for ensuring that costs and expenses are contained and do not exceed the planned revenue. Good budgets act as a constraint on spending, and also provide a clear picture of the anticipated sources of revenue. Budgets come in different shapes and forms but they all share the desire to control spending patterns and make sure the spending is grounded in an appropriate level of funding and financial backing.

Benefits of budgeting

A good system of budgeting is crucially important for sport clubs and associations. As already noted, the sport world has become increasingly complex, and the need to manage money effectively is stronger than ever. In addition a well-planned budget is the basis for efficient management and ensuring viability over the long term. The benefits of budgeting are many. They can

1 help anticipate the future and thereby assist the strategic planning process;
2 give a clear picture of resource needs and program priorities;
3 signal where there may be revenue shortfalls;
4 allow management to better manage and monitor spending;
5 communicate the club or association's financial plans to key stakeholders; and
6 enable precise measures of financial performance to be made.

Types of budgets

As already noted, budgets indicate the spending limits on different activities over particular periods. On one hand there is the operational budget (which is sometimes called a recurrent budget), and on the other hand there is the capital expenditure budget (which is sometimes called an investment budget). Whereas an operating budget refers to spending on the day-to-day operations of the sport club, association or league, a capital budget refers to spending on buildings, facilities and equipment, and other tangible assets.

Operating budgets

An operating budget is a statement of the anticipated levels of revenue for a period of time, and how the revenue will be spent. The figures are estimates only, since there will always be unforeseen circumstances that will change the financial parameters in which a club or association conducts its affairs. As a result, the financial projections that underpinned the budget figures may not be realized due to changing economic and social conditions. For example, a sponsor may want to renegotiate its agreement, membership income may fall because of poor on-field performance, and coaching and support staff costs may blow out because of an increased demand for skilled specialists.

An operating budget aims to accurately estimate the likely level of revenue that a club or association will have to play with, and the anticipated expenses associated with the earning of that income. For every sport club and association it is crucial to ensure that revenue and expenses will balance, and at best, work toward the generation of a healthy surplus. The following example in Table 10.5 illustrates what an operating budget will look like, and what items might be included.

TABLE 10.5 Sleepy Meadows Table Tennis Club: Operating budget

	First quarter ($)	*Second quarter ($)*	*Third quarter ($)*	*Fourth quarter ($)*	*Year ($)*
Revenue					
Donations	500			1,000	1,500
Sponsor	6,000				6,000
Member fees	1,400	200	200	200	2,000
Gaming	1,400	1,300	1,100	700	4,500
Total	9,300	1,500	1,300	1,900	14,000
Expenses					
General administration services	2,000	2,000	2,000	2,000	8,000
Coaching					0
Event administration		1,000	1,000		2,000
Travel		500	500	500	1,500
Table Tennis supplies	2,000				2,000
Total	4,000	3,500	3,500	2,500	13,500

The budget in Table 10.5 reveals a number of important things. First it identifies the main items of revenue and spending. Clearly, in this fictitious case, the Sleepy Meadows Table Tennis Club (SMTTC) is heavily dependent on the local sponsor which just so happens to be the main hotel in town. It also shows that the day-to-day administration expenses are significant, although it would be good to have a breakdown of this item, since it might reveal specific activities like marketing or office rental that need to be monitored. Second, it also shows when the revenue is earned and the expenses are being

incurred. While this is a not a cash budget it does indicate possible times of cash flow problems. However, this is unlikely to be a problem here since most of the revenue is expected to arrive early in the year. The budget consequently allows the SMTTC to monitor the balance between expense commitments and revenue collections for different parts of the financial planning period.

Operating budgets can be organized in different ways as well. For example an operating budget may be structured as a line item budget which is illustrated above in Table 10.5. This involves breaking down spending and income into specific categories like administration, travel, marketing, and entertainment, and applying overall spending limits to each item. All of the different activities or programs in the organization will work to these limits. The SMTTC budget uses the line-item method in setting its forecast figures. At the same time, operating budgets can be re-jigged as program budgets or performance budgets.

RESHAPING BUDGETS

A budget can also be organized as a program budget. This involves allocating a designated amount of funds to each activity or program. Each program area is then allowed to spend on what they want, up to, but not beyond, the designated limit. For example the SMTTC may allocate funds to each of its junior, regional and veterans' league programs along the following lines of Table 10.6.

TABLE 10.6 Sleepy Meadows Table Tennis Club: Program budget

	Junior league program ($)	*Regional league program ($)*	*Veterans league program ($)*
Budget	4,000	8,000	2,000

Each program manager can then decide how best to distribute the funds to each of its program activities. Program budgets can be converted into performance budgets without too much difficulty. The strength of a performance budget is that it links the budget to the club's or association's strategic plan. It forces the program manager to not only work within the budget parameters, but also ensure that the funds are directed to the achievement of relevant outcomes. In the case of the SMTTC a performance budget could take the following shape as indicated in Table 10.7.

TABLE 10.7 Sleepy Meadows Table Tennis Club: Performance budget

Junior league program	*Regional league program*	*Veterans league program*
Goal: to provide activities that attract young children to the club	*Goal:* to provide activities that attract quality players through access to elite competition	*Goal:* to provide activities that balance social and competition table tennis
Anticipated outcome: increase in registered juniors	*Anticipated outcome:* all teams finish in top half of league table	*Anticipated outcome:* viable competition
Budget ($)	Budget ($)	Budget ($)
4,000	8,000	2,000

In Practice 10.3 Budgeting for mega sport events: London 2012 Olympic Games and the 2010 Delhi Commonwealth Games

In 2005 London won the right to host the 2012 Olympic Games. The bid was impressive, and there is little doubt that the Games, as both a spectacle and as a major sporting event, were a raging success. By all accounts the massive urban renewal program that accompanied the London Games project provides for significant commercial and social benefits. However, it was never clear as to whether it would be a financial success. Like all bids before it, the London Bid Committee created a budget that quickly escalated in size.

In the initial draft bid document of 2003, the costs of staging the London Games were estimated to be just under £2 billion, which by previous Games standards was significant, and certainly in excess of the Sydney Games. In 2006 the budget was re-set at around £3.5 billion. However, in 2007, the Minister for the Olympics, Tessa Jowell, announced an updated budget of £9.3 billion. This was a massive increase, and it raised the questions of

1. just what capital and operating activities the budget would cover;
2. what specific costs had been identified, or not identified; and
3. why they had escalated so much in such a short space of time.

While the then Mayor of London, Ken Livingstone, optimistically confirmed that the Games Organising Committee would aim to make a profit, there was growing concern that the Games budget was spiralling out of control.

As it turned out, the London Games came in just over the adjusted budget of £9.3 billion, but it was still a massively expensive event to organize, facilitate and run. To make the London Games happen, around £1 billion was spent on security, be it civilian or military. Just under £2 billion was spent on preparing the Olympic Park site,

while another £1 billion was spent on creating a user-friendly park once the Games had been completed and the Games experience was a distant memory. And, this doesn't even include the facility construction costs or the operating costs.

The escalating costs of running the Olympic Games were starkly revealed soon after Tokyo was awarded the right to host the 2020 Games. Hakubun Shimomura, the Minister for Education, Sports and Finance, proudly announced that the showpiece of the Games would be an 80,000-seat stadium that would double as a major public art-work. But when it was stated that the stadium would cost 130 billion yen, or almost US$1.3 billion, enormous criticism erupted, with local architects claiming the project was indefensible, even if the stadium became an international design masterpiece. Even when the Olympics are involved, there are financial limits to be observed.

The 24th Commonwealth Games, succinctly known as CWG 2010, were held in Delhi, India, in October 2010. It was the first time that the Commonwealth Games were held in India and the second time it was held in Asia, with Kuala Lumpur, Malaysia's capital city, having staged the festival in 1998. Just over 6,000 athletes from 71 nations competed in 21 sports and 272 events. It was big, and in fact was the largest international multi-sport event ever to be staged in India, eclipsing the Asian Games of 1951 and 1982.

While the opening and closing ceremonies were successfully delivered at the Jawaharlal Nehru Stadium, it was generally agreed that there were many organizational teething-troubles during the early stages of the Games. Crowds were also very thin during the first week of the Games. Despite these problems the Games were enjoyed by not only most of the people who attended, but also by the athletes themselves. The television broadcasts were professionally produced, and the events themselves were often quite memorable, with many outstanding individual results.

As is always the case with these types of events, the initial total budget estimates by the Indian Olympic Association in 2003 for hosting the Games were highly optimistic at around US$360 million. This was quite a conservative figure for such a big event – and for some critics, frighteningly low – but it was considered reasonable in view of India's world-renowned capacity to deliver solid results with meagre resources. However, by 2006, the event budget had escalated and projections at the time reached US$1.4 billion, nearly a four-fold increase. A report of the Standing Committee on Human Resource Development provided a revised budget breakdown, and the following figures were published:

- the conduct/operation of the games would now cost US$200 million;
- the Games Village would now cost US$220 million;
- venue infrastructure, but without furnishing, was now set at US$380 million;
- civil infrastructure came in at US$294 million; and
- the Indian contingent's training program would cost US$70 million.

In early 2010 another review found that the Games budget was out of control, and had increased exponentially. Many explanations were given for the blow-out, and included things like

1. there was a bout of steep inflation;
2. all the projects had been delayed;
3. waste and inefficiencies were the rule rather than the exception; and
4. some projects had been mismanaged.

It was also hinted that some additional 'shadowy' practices – that is, bribery – had occurred, but they were largely anecdotal. In a climate of high anxiety the following points were noted:

- The Commonwealth Games Village, which had an initial 2003 budget estimate of US$100 million, was now about US$230 million. In addition capital losses had occurred because many apartments remained unsold, and the Indian Government was forced to buy them off contractors.
- The budget for 11 stadiums was US$280 million in 2003, but in the space of seven years had risen to US$1.2 billion. Construction was also way behind deadline, which was another concern that had to be monitored.
- Work on road flyovers were altered mid-way, and new unplanned additions had to be made. The budget for this item came in at US$380 million.
- Street-scaping was another unplanned expenditure with a budget of US$250 million.
- Security, too – and not surprisingly – had been allocated additional expenditure with a revised budget of US$80 million.
- In the light of frequent delays, event planning also suffered. What was estimated to cost US$240 million in 2003, now had a budget estimate figure of US$550 million.

As the Games approached, the official total budget – which took into account both capital and operating items – accelerated to an estimated US$2.6 billion, a figure which had crucially excluded non-sports-related infrastructure development. The American publication *Business Today* reckoned this was hopelessly conservative, and claimed that the Games actually cost US$13.3 billion, when all the related urban renewal projects had been included. Whatever the precise number was, it was agreed that the 2010 Delhi Commonwealth Games were probably the most expensive ever, and reached a figure that was never envisaged. So why did things go so horribly wrong?

In the first place, the organization of CWG 2010 was beset by delays. In January, 2010, the Indian Olympic Association vice-chairman Raja Randhir Singh expressed concern that Delhi was not up to speed in forming and organizing its Games Committee. And, following a 2009 Indian Government report showing two thirds of venues were behind schedule, the Commonwealth Games Federation president Mike Fennell stated that the slow progress constituted a serious risk to the whole event. Singh also called for a revamp of the Games Organising Committees. A.K. Walia, the Indian Finance Minister also noted that so many things had come at the last moment, and cited the 'street-scaping project as a case in point'. He went on to say that while the Indian Government was looking at international sporting events as a chance

to increase their urban infrastructure, it had actually resulted in several projects being approved which had no direct relation to the Games, but which had in fact been included in the budget allocation. In addition, all of this was framed by allegations of long delays, and chronic corruption amongst many of the event planners and organizers. It was a very bad 'gig' indeed!

But, even more to the point, why is there a budget blow-out at nearly every modern-day mega sports festival? Are the people drawing up the budget estimate incompetent, or are they so optimistic that they cannot face the reality of a high cost operation? Or, alternatively, do they decide that escalating costs is part of the essential nature, or, indeed, the embedded character of the mega-sport-event 'beast', and that it just cannot be controlled, whatever is done?

SUMMARY

The above discussion of sport finances demonstrates that sound financial management is essential for the ongoing viability of sport organizations. The importance of having a proper system of financial planning, record keeping, monitoring and evaluation becomes increasingly crucial as sport becomes more commercialized and corporatized. A basic starting point is to identify the different ways in which funds can be raised to underwrite the operation of a sport club, association, event or league. It is also essential that sport managers be able to design detailed budgets that provide transparent information that makes it clear as to not only what an activity, program or event will cost to mount and operate, but also where the money will be coming from. It is equally important for sport managers to be able to understand financial statements, use them to diagnose the financial health of a club association, event or league, and subsequently manage costs and revenues to ensure a regular surplus or profit. It is particularly important to be able to distinguish between the different ways of measuring surpluses and profits, and, in particular, the difference between operating and net profit.

REVIEW QUESTIONS

1. Identify the different commercial stages sport has gone through in the last 50 years, and the implications it has for sport's financial operations.
2. Explain the essential features of corporate sport, and what makes it increasingly challenging to manage it from a structural and financial perspective.
3. Why are budgets so fundamental to the effective management of sport clubs, associations, events and leagues?
4. Distinguish between a capital budget and an operating budget.
5. Balance sheets are important tools for monitoring and measuring the financial health of a sport organization. What comprises a balance sheet, and what does it measure?

6 Identify the main asset categories of a professional sport club, and explain under what circumstances players can be treated as assets.

7 Identify the main liability categories of a professional sport club, and explain under what circumstances long-term borrowings can be seen as either a drain on resources, or alternatively a crucial means of generating revenue and profits.

8 Surpluses and profits are important to the long-term development of sport organizations and clubs since they indicate that not only were all costs covered for the period under consideration, but that there are funds available for reinvestment in the club's or association's future activities and programs. What is required for profits and surpluses to be generated, and under what circumstances can an operating profit end up leading to a net loss.

9 What is the easiest way of distinguishing a wealthy sport organization from a poor sport organization?

10 What must a sport organization do if it aims to increase its wealth and financial health over the long term?

FURTHER READING

The four-phase model of sport's economic and financial development was first developed by Bob Stewart in Stewart, B (ed.) (2007). *The Games are Not the Same: The Political Economy of Football in Australia*. Carlton: Melbourne University Press, pp. 3–22.

For an extensive discussion of the finances of North American professional sport leagues see Howard, D. and Crompton, J. (2004). *Financing Sport*. 2nd edn. Morgantown, WV: Fitness Information Technology. This book provides a chapter-by-chapter breakdown of revenue sources, with special attention to ticket sales and broadcasting rights' fees. See also Foster, G., Greyser, A. and Walsh, B. (2006). *The Business of Sports: Texts and Cases on Strategy and Management*. Mason, OH: Thompson South-Western.

One of the most detailed analyses of English Premier League finances is contained in Szymanski, S. and Kuypers, T. (2000). *Winners and Losers: The Business Strategy of Football*. London: Viking. See also Carter (2011) for a lot of interesting updates on the financial structure of big time commercialized sport.

For a simple introduction to the structure and function of balance sheets and profit and loss statements and cash flow statement see Hart, L. (2006). *Accounting Demystified: A Self Teaching Guide*. New York: McGraw Hill. For a more detailed and technical review of financial statements and what they say, see Hoggett, J., Edwards, L. and Medlin, J. (2006). *Accounting*. 6th edn. Milton: Wiley. See also Atrill, P., McLaney, E., Harvey, D. and Jenner, M. (2006). *Accounting: An Introduction*. Frenchs Forest, NSW: Pearson Education Australia. For a succinct discussion of financial statements of non-profit organizations see Anthony, R. and Young, D. (2003). *Management Control in Non-profit Organizations*. 7th edn. New York: McGraw Hill.

RELEVANT WEBSITES

- For details of Manchester United FC financial position and the general financial operations of the English Premier League, see www.footballeconomy.com/stats2/eng_manutd.htm.
- For more details on the financial operation of the International Cricket Council see www.icc-cricket.com/about/111/publications/overview. Then click on 'annual reports' to secure finance details.
- To secure a detailed evaluation of the London Olympic Games budget see the National Audit Office (NAO) report at www.nao.org.uk/report/the-budget-for-the-london-2012-olympic-and-paralympic-games
- For an alternative assessment of the London Olympic Games budget, with a breakdown of the costs of various venues, see https://uk.eurosport.yahoo.com/news/london-2012-final-cost-london-2012-games-revealed-135956051.html

CASE STUDY 10.1

More rules required! UEFA Financial Fair Play Regulations

UEFA (the Union des Associations Européennes de Football) is the governing body of European football. It was established in 1954, and now represents the interests of 25 national football authorities. According to the EUFA website it has 'grown into the cornerstone of the game on this continent, working with and acting on behalf of Europe's national football associations and other stakeholders in the game to promote football'. It has thus become the 'guardian' of football in Europe, 'protecting and nurturing the well-being of the sport at all levels, from the elite and its stars to the thousands who play the game as a hobby'.

Financial integrity is an especially important image to have since it affects the capacity of sport enterprises to secure funds, maintain sound credit ratings, build public trust, and maintain community goodwill. Financial integrity can be viewed from a number of angles, but first and foremost it is essentially about taking the stance that transparency, openness, public disclosure, and professional scrutiny are good things. The problems that are associated with secrecy and cover-ups has led many of sport's governing bodies – with UEFA being a good example – to apply the idea of 'fair play' to its club-licensing arrangements.

The belief that sporting enterprises must meet some sort of minimum financial reporting standard was confirmed in 2010 when 372 of Europe's of most prominent clubs (which is 65 per cent of the total number of prominent clubs), had made aggregated losses of just over €2 billion (Muller et al. 2012, pp. 119–120). The data also showed that 195 top-flight clubs reported average losses of 20 per cent. That is, for every dollar of income earned, there was a dollar and twenty cents