The Business Case for a new stadium

State of the art stadia are required by European mega clubs to maximise revenue and satisfy the appetite of corporate clients. The business case for Arsenal and Liverpool moving to new stadia is built on the idea that investments of £280m+ will provide annual future returns of a further £30m per annum.

Wembley emphasise that the much maligned cost to build was inflated due to changes to the infrastructure surrounding the stadium and that the stadium itself was a mere £352m:

Stadium	Capacity	Area (sq. m)	Area per seat (m2)	Total Cost	Cost per seat
Wembley	90,000	173,000	1.92	£352,603,000	£3,918
Stade de France	80,000	70,000	0.88	£266,597,067	£3,332
Telstra Stadium (Australia)	83,500	100,000	1.25	£278,897,627	£3,468
Munich (new)	66,000	-	-	£248,239,862	£3,761
Arena Aufschalke	51,000	58,796	1.15	£180,432,432	£3,538
Sapporo Dome	42,122	53,800	1.28	£245,959,091	£5,839
Washington State	72,000	-	-	£359,642,567	£4,995
Denver	76,125	-	-	£338,503,518	£4,447
Cincinnatti	66,000	-	-	£275,875,744	£4,180

Source: Wembley Press Pack

The building industry quotes £4,000 per seat as the cost to build in 2007. In other words, a 60,000 seat stadium for Liverpool will cost at least £240m. Arsenal quoted a total project cost of £390m for their stadium which has a record attendance so far of 60,132.

Brighton have just got permission to build a 22,000 seat stadium in Lewes and have said they now need to raise the £50 to £60 million to build it - £2,272 per seat reflects the fact that Brighton's stadium will obviously be lower quality than those listed above.

Everton quote £50m to £75m build cost for 50,000 seats - £1,000 to £1,500 per seat . Builders confirm that it is possible to build a stadium at a mere £1,000 per seat. These are simple structures similar to large Park End Stands on 4 sides and these tend to follow an 80:20 rule that 80% of the quality goes into the 20% used by corporate clients as these 20% deliver 80% of the revenue if naming rights and sponsorship can be sold.

Liverpool v Everton in the year 2007.

It is worth comparing the Profit and Loss Accounts of these two businesses for the FY ending 2006. Liverpool achieved £32.6m matchday income from a stadium holding 43,000 people, but break this down to reveal that £25.2m came from the Premier League. Everton achieved 18m from its 40,000 seats. This is a significant gap which will not be addressed by a new stadium as it reflects the differences in the make-up of the fan base.

	2005/06 Everton £'000	***2005/06 Liverpool £'000***
TV Income	**26,349**	**49,753**
Match Income	**18,128**	**32,654**
Other Income	**13,646**	**37,375**
Total Income	**58,123**	**119,782**
Staff Costs	**(36,966)**	**(68,868)**
Expenditure	**(18,106)**	**(30,778)**
Total Expenditure	**(55,072)**	**(99,646)**

Trading Profit / (Loss)	**3,051**	**20,136**
Interest & Similar Charges	**(2,186)**	**(1,627)**
Profit on Sale of assets	**(238)**	**6,216**
Amortisation Player Reg.	**(11,421)**	**(29,886)**
Net Profit / (Loss)	**(10,794)**	**(5,161)**

Liverpool's turnover is more than double that of Everton. Therefore the wage bill is nearly double.

(Everton's 6th v Liverpool's 3rd in this scenario says we are the better club☺)

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Everton average attendances have been fairly consistent in the last 5 years:

2002-03	38,820
2003-04	38,943
2004-05	36,834
2005-06	36,704
2006-07	36,739

Let's assume that we increase this average by 10,000 for every game at a new stadium and play 3 cup matches per season.

22 matches x 10,000 x £25 = £5.5m less VAT = £4.7m additional revenue.

This extra revenue stream is attractive and also drives incremental spend on food, drink, souvenirs etc. but it makes a BIG assumption that attendances will increase and that seats can be sold at this price.

A 50,000 seat stadium can be built for £1,000 per seat but nobody should be in any doubt that the finished model will resemble the JJB at Wigan more than St James's Park or Old Trafford.

A 46,000 average attendance should not be taken for granted.

Affordability

Everton's balance sheet has deteriorated over the last 8 years to the point where liabilities now outweigh assets:

		1999		2000		2005		2006
BALANCE SHEET								
Intangible		29,402		13,312		19,775		20,646
Tangible		15,827		14,979		13,129		11,303
Total Fixed Assets		**45,229**		**28,291**		**32,904**		**31,949**
Stocks	410		356		795		521	
Debtors	2,497		3,881		5,817		6,577	
Cash at bank	43		44		8,732		3,413	
Investments							2,767	
Current Assets	**2,950**		**4,281**		**15,344**		**13,278**	
Creditors due within YEAR	- 26,032		- 20,438		-17,195		-26,314	
Net Current Liabilities	- 23,082		- 16,157		-1,851		-13,036	
Assets less Current Liabilities		22,147		12,134		31,053		18,913
Creditors due long term		- 3,280		- 2,956		- 29,054		- 28,524
Provisions		- 320		- 1,800		- 1,565		- 749
Net Assets or **Liabilities**		**18,547**		**7,378**		**434**		**- 10,360**
Loans + Net liabilities		- 26,362		- 19,113		- 30,905		- 41,560
Net debt as of 31st May;		- 16,292		- 15,155		- 19,529		- 21,787

In 1999 the club had net assets of £18m. In 2006 the club has net liabilities of £10.3m.

A favourite key indicator for many accountants is Assets less liabilities added to any long term loan. In Everton's case this has risen from £16m debt in 1999 to £41.6m debt in 2007.

The balance sheet suggests the idea of spending even £20m on a new stadium is challenging.

Key Issues for Everton?

Will a new stadium attract 10,000 more people per game?
This is linked to on pitch performance and it's hard to imagine any club breaking the big 4 monopoly given the money they have at their disposal so 5th / 6th is top of the league for Everton.

How much would you be willing to pay for the 10,000 seats at the back of these big stands?

Anyone who has sat in the back of City Of Manchester Stadium paying £18 for the privelige will no doubt have felt short changed.

How much will the club attract from naming rights?

When the club struggles to attract a main shirt sponsor willing to pay £2.5m per season then the idea that naming rights will raise £25m over 10 years (£2.5m per season) seems extremely ambitious.

For Or Against?

So how does one vote in the coming ballot. The question is rather like asking people living in council flats if they would like to move to a detached house in Childwall. The answer might be yes, but the follow up question would be "Can I afford it?"

So how should one vote in the coming ballot?

The debate has (in some places) turned into an emotional debate centred on location (Kirkby v Walton) or worse, design (looks good or ugly).

This clouds the real issue which is all to do with affordability and debt levels.

Vote yes if you believe all of the following

1. The club has the money – no more debt will be taken on.
2. The club is well managed, hitting its financial targets, demonstrates an ability to work to budgets and executes projects seamlessly – then there will be no nasty surprises (e.g. build cost doubles by year 2).
3. The £ millions invested in set-up costs won't adversely impact the ability of the manager to spend on the squad in the next 5 years.

Vote no if you are not convinced the current financial performance and debt levels are acceptable.

No – we can't afford it.

No – I want the profits spent on players not loan repayments

No – this project is a distraction from the real priority which is building a successful club from the bottom up and sound infrastructure.

Let's hope the right decision is reached for the long term good of the club.