

POLICY BRIEFING

CENTRE FOR SPORTS BUSINESS

The use and abuse of parachute payments in the English football Championship

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Background

Financial compensation is paid to clubs relegated from the English Premier League (EPL), the first tier of league football in England by the competition organiser. They are known as parachute payments. The purpose of the payments is to provide bridging finance for relegated clubs whilst they adjust their costs in line with the revenue reduction from participation in the EPL.

The payment amounts 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 the respective seasons. From the 2009/10 season the relegated clubs received a payment of 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 However, from the 2016/17 season the fourth season payment was withdrawn, the third season payment reverted to 20% and a rule was introduced limiting payments to clubs that returned to the Premier League for a single season (Premier League Handbooks, 2005-2025).

In the 20 seasons since parachute payments were introduced for clubs relegated from the EPL there have been three clubs relegated each season resulting in 60 payments to clubs in the year following their relegation. Of these, 41 received a parachute payment in the following season in the Championship with 18 of these clubs and a further 11 of these clubs receiving further payments in the consecutive seasons after that. This gives a total of 130 payments made to clubs whilst they were in the Championship (with data available for 127 of them).

In 2024 only three clubs in the EPL had revenue of less than £150m whereas in the Championship, the second tier of league football in England, only three clubs had more than £50m revenue. This difference is largely explained by the difference between receipts from the broadcast rights for the EPL which were approximately £100m more per club compared to clubs in the Championship. The argument is that this support is necessary because clubs in the EPL needed to have committed to fixed term multi-year wage contracts with players in the EPL but these are downwardly rigid and not financially sustainable with revenues following relegation. Parachute payments currently alleviate the financial distress for up to three years following relegation from the EPL.

However, there is a dichotomy between the role of parachute payments in providing financial stability for individual clubs, and the impact on sporting competition. This is at the heart of the current debates around their validity with research arguing that parachute payments impact on competitive balance in the Championship. In this context, 'competitive balance' refers to the closeness of competition for the league 'prizes': promotion, a play-off place, or the avoidance of relegation from the Championship.

The resolution of this issue now forms part of the remit for the Independent Football Regulator (IFR) that was established by an Act of the UK Parliament in July 2025 with "backstop powers" if the football authorities are unable to come to an agreement on the distribution of income across the football industry (DCMS, 2025). This will include a focus on parachute payments.

This brief assesses the evidence to provide policy guidance on the parachute payment debate. It draws on annual financial data for the clubs taken from the accounts filed by the clubs at Companies House. Whilst the wage data reported is for the payroll of the entire staff, expenditure on player wages represent the majority of that and it is anyway assumed that all staff contribute either directly or indirectly to the performance of the club.

Policy Recommendations

- Parachute payments are necessary to support relegated clubs committed to multi-year wage contracts.
- The payments are currently excessive for the stated purpose and should be restricted to a maximum of two seasons following relegation from the EPL.
- The policy is abused in that clubs fail to reduce wage spend by the reduction in revenue including the parachute payment and this is contrary to the intent of the policy. In effect, the wage spend has been subsidised by the payment.
- There is clear evidence that abuse of the system largely explains the impact of parachute payments on prizes.

Research Findings

Are parachute payments necessary?

The 'cliff edge' average revenue reduction experienced by the clubs in the first season following relegation if they had not have been in receipt of parachute payments would have been 73% and to the extent that clubs are unable to reduce their wage spend due to the downward rigidity of the wage contracts it shows the need for parachute payments.

It can be argued that clubs did not reduce their wage spend by as much as they could have because they received the parachute payment. However, relegated clubs did more to reduce their wage spend than their revenue reduced, on average, in the 20 first seasons after relegation with parachute payments than in the previous 12 first seasons without parachute payments after relegation since the formation of the EPL. The clubs in the second period had a revenue reduction of 23 percentage points more than in the previous period whereas they managed a wage reduction of 35 percentage points more than in the previous period. This suggests that parachute payments are necessary.

Are parachute payments excessive?

The evidence suggests that the payments are only necessary for two seasons following relegation and not three, as at present. The clubs that received parachute payments for a second season following relegation, on average, experienced a further revenue reduction (12%) but the clubs that received parachute payments for subsequent seasons, on average, experienced a revenue increase in the third season (3%) and the fourth season (11%).

Whilst an increase in revenue does not necessarily mean the negative shock induced by the earlier relegation is fully absorbed it suggests that there might be less, or even no, necessity to have parachute payments for a third year. This is supported by the evidence 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 and supports the conclusion that parachute payments are not required for a third season following relegation.

Given that the intent for these payments is to provide a financial bridge for relegated clubs to adjust their committed wage spend to a level compatible with the reduced revenue they experience on relegation from the EPL, failure to reduce wage spend by the reduction in revenue including the parachute payment is contrary to the intent of the policy. In effect, the wage spend has been subsidised by the payment. We identify this difference as an abuse of the policy and it implies that the amount of the payments is excessive even in the first two seasons following relegation when parachute payments are necessary.

The extent of abuse

Table I shows that clubs abused the system in 78% (i.e. 99 of 127 club seasons with parachute payments and available data) of the instances because they failed to reduce their wage spend by the amount corresponding to the difference between the revenue reduction from the previous season and the revenue in the season with parachute payments.

Table I. Instances of abuse and no abuse

	Year 1		Year 2		Year 3		Year 4		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Abuse	54	55%	27	24%	15	15%	3	3%	99	100%
No abuse	4	14%	13	52%	3	11%	8	29%	28	100%
Total	58	46%	40	31%	18	14%	11	9%	127	100%

Furthermore, Table I shows that almost 80% of the instances of abuse occurred in the first two seasons following relegation. The instances of no abuse were a little less prevalent in those seasons (66%) relative to the total of instances of no abuse.

Consequently, the evidence suggests that the system needs to be reformed to prevent abuse. 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. Reform to reduce or eliminate this abuse would also ease any

remaining concerns of those who are still worried that the payments put other clubs at a competitive disadvantage.

The impact of parachute payments and abuse on sporting performance

To estimate the impact of parachute payments and of the element of abuse on sporting performance two counterfactual leagues were constructed with the coefficients from a regression equation. With a relatively efficient labour market wage spend should be a good predictor of sporting performance. In the 2023/24 season, for example, the correlation for clubs in the Championship was 81%. The regression equation decomposed the actual wage spend into three hypothetical components to estimate their separate effects. The three independent variables for the model were:

- A. Wage spend excluding the amount of the parachute payment
- B. Wage spend including the amount of the parachute payment but excluding the element of abuse
- C. The element of abuse included in the parachute payment

In each case the independent variable was expressed relative to the average wage spend for all the clubs in the league in that season whilst the dependent variable, points won, was expressed relative to the average number of points won by all clubs in the league in that season.

The estimated regression equation was:

$$\frac{\text{Points Won}_{it}}{\text{Average league points}_t} = 0.713 + 0.327 \frac{A_{it}}{S_t} + 0.165 \frac{B_{it}}{S_t} + 0.179 \frac{C_{it}}{S_t}$$

Where:

i denotes the club

t denotes the season

A, B, C as above

S_t = Average league wage spend_t

All the coefficients were statistically significant (p -values = 0.000) in the regression. Applying the estimated coefficients to the actual values of the three independent variables produced hypothetical values for the points won, and hence league position in the league, that would have been achieved both in the absence of parachute payments and, alternatively, in the situation with parachute payments if the element of abuse had been removed.

The counterfactual scenario with no parachute payments shows that eleven clubs gained (and eleven denied) one of the 40 automatic promotion places with parachute payments over the 20 seasons of the study. However, the counterfactual scenario with parachute payments but with no abuse shows that only two clubs gained (and two denied) an automatic promotion place with parachute payments.

With regard to relegation from the Championship, the impact of abuse is not as great as with automatic promotion to the EPL but it still accounts for about half of the instances of change in prize. Eleven clubs also avoided relegation (with eleven clubs relegated) of the 60 relegation places with parachute payments but only six clubs avoided relegation (with six clubs relegated) if there was no abuse of the system.

There was a larger number (18) of instances where clubs gained, or were denied, one of the 80 playoff places. This could be attributed to the larger number of prize positions but, again, half of these instances were attributable to abuse of the system.

Overall, there is clear evidence that abuse of the system largely explains the impact of parachute payments on prizes. If the abuse was removed the impact on these two dimensions would be small and could be reduced further if the amount of payment was reduced.

Conclusion

The dichotomy between the role of parachute payments in providing financial stability for individual clubs and the impact on sporting competition in the leagues where some clubs are in receipt of parachute payments can be resolved with reform, rather than abolition, of the parachute payment policy which is itself necessary to alleviate financial distress for clubs relegated from the EPL.

The guidance in this policy brief should assist the football authorities to find agreement on that reform or provide guidance to the IFR in the event that they are unable to do so.

References

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This paper is based on the following research article which also provides additional detail:

Evans, Richard and Scelles, N. and Walters, G. (2025). The use and abuse of financial regulation in professional team sports: the case of parachute payments in the English Football Championship. Working Paper. Birkbeck Sport Business Centre, London, UK. <https://eprints.bbk.ac.uk/id/eprint/55115>

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