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Soft Budget Constraints in French Football through Public Financing of Stadiums

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Abstract: Several football stadiums were built or renovated in France for hosting the 2016 UEFA European Football Championship. This study examines to what extent financial support by local governments for stadium construction or renovation induces soft budget constraints (SBC) for professional sports clubs. We address the research question based on a quantitative case study in the context of the construction and renovation of eight football stadiums that took place in France between 2012 and 2016. Our data shows that the public sector financed on average 78% of the new stadiums' total construction or renovation costs, and local governments paid on average 60% of the total annual rental costs. The results indicate that local governments in French professional football are "supporting organizations" and help to ensure the financial sustainability and viability of the clubs by allowing them to benefit from financial flexibility, which are typical characteristics of SBCs. In total, we identify 32 forms of public aid that we classified according to different categories of "softness" and whether these aids appeared ex ante or ex post. Public aid constituted financial support that was sometimes very substantial, amounting to several million euros in each case. This financial support is often not taken into account by the regulatory authorities and thus could be interpreted as hidden government subsidies to professional clubs, which in some cases exceeded the subsidy allowance of €2.3 million.

Keywords: soft budget constraints; professional football; stadium; public aid



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1. Introduction

Since the early 2000s, the sixth generation of stadiums has emerged in Europe [1]. These stadiums are multifunctional, multi-activity, commercial facilities that were constructed thanks to the hosting of major sporting events such as the FIFA World Cup 2006 in Germany. The construction or renovation of 12 stadiums for hosting the competition in Germany helped stem a significant loss of competitiveness in the German football league and stimulated strong economic development among its clubs [2]. Most of the new German football stadiums (nine out of 12), which had long been publicly owned, were privatized. In addition, out of €1.4 billion in stadium financing, 61% came from the private sector (€852 million) compared with 39% from the public sector (€548 million).

In 2008, this sixth generation of stadiums did not exist in France and the average age of French stadiums was 65 years old. The possibility of France hosting the UEFA Euro 2016 tournament on its territory might have constituted a powerful accelerator for the emergence of multifunctional stadiums beneficial to the economic development of French professional clubs [3,4]. However, unlike the German model, almost all stadiums (12 out of 13) that were built or renovated for the tournament in France remained the property of the cities involved, and only four clubs participated financially in the project. Thus, the majority of the new French football stadiums were financed via public funding. Moreover, in 90% of the cases, the resident clubs were merely tenants of their stadiums and were rarely the main driving force of its construction or operation [5,6].

This public funding of a new economic resource intended for private professional clubs, which are very often in deficit, recalls the concept of soft budget constraint (SBC). The concept of SBC was initially introduced in the context of socialist economies [7,8] but is now widely used in describing similar phenomena in market economies, such as financial instability [9] and softness in the banking sector [10].

In the 2010s, the concept of SBC has been applied to sports, in particular European football. Ref. [11] were one of the first to use the SBC framework to explain how a majority of clubs can continue their activity despite persistent losses and sometimes high levels of debt [12–14]. These clubs are able to continue their activity despite losing money, thanks to the support of certain stakeholders. This support, either direct or indirect, is often of a financial nature and comes from shareholders, banks, or the state to soften the budget constraints of clubs, using various types of “softness” either *ex ante* or *ex post* [15]. Refs. [16,17] argues that the introduction of the Financial Fair Play (FFP) regulations by UEFA in 2011 hardened the budget constraints of clubs and contributed to the financial recovery of European club football. Ref. [18] proposes other possibilities to harden the budget constraints at the “micro, meso, and macro” levels in professional team sports.

So far, the existing literature has neglected to examine the relationship between SBCs and the public funding of stadiums. This gap in the literature was also recently pointed out by [19], who suggest that “future research should also focus on [. . .] financing stadiums, as these are of a substantial financial character.” Our article contributes to the literature on SBCs in sports by examining the extent to which financial support from local government for stadium construction or renovation induces SBCs for professional sports clubs. We address this research question based on a quantitative case study in the context of the construction and renovation of eight football stadiums in France for the UEFA Euro 2016 tournament.

Our study shows that the public sector financed on average 78% of the total construction or renovation costs of the eight new stadiums, and local governments paid on average 60% of the total annual rental costs. These results indicate that local governments are “supporting organizations” in French professional football and help to ensure the financial sustainability and viability of clubs by allowing them to benefit from financial flexibility, which is a typical characteristic of SBCs. In total, we identified 32 forms of public aid that we classified according to different categories of softness and whether these aids appeared *ex ante* or *ex post*. Public aid constitutes financial support that is sometimes very substantial, amounting to several million euros in some cases. This financial support is often not taken into account by the regulatory authorities and thus could be interpreted as representing hidden government subsidies to professional clubs, in some cases exceeding the subsidy allowance of €2.3 million.

The remainder of this article is structured as follows: In the next section, we present the literature relevant to our study. Section 3 describes the data and the methodology, Section 4 presents the results of our analysis, and Section 5 concludes with a discussion of the study’s limitations and its implications for future research.

2. Literature Review

In this section, we first present the context of our study. Second, we introduce the concept of SBC in general and then show how it applies to professional football in Europe.

2.1. Context

In anticipation of France’s bid to host the UEFA Euro 2016 tournament on its territory, the French government commissioned two reports to evaluate existing stadiums [4] and to analyze the competitiveness of French professional football [3]. The two reports concluded that France was severely lagging in the process of modernizing its major stadiums, and that this handicapped French sports, particularly football.

At the same time, the reports suggested that the renovation of existing stadiums or the construction of a new sixth generation of stadiums could have strong leverage effects

on the revenues of football clubs and could trigger a virtuous circle that would benefit the sports economy, because a new stadium not only improves the share of ticket sales in overall revenue but also generates higher ancillary revenue (e.g., merchandising and catering). According to the Seguin report, the German example in the context of the 2006 FIFA World Cup in Germany “provides tangible proof” of these positive effects.

The perspective of the French government was that new stadiums would generate higher revenues for the corresponding clubs, making it possible to reduce public subsidies, or even “should enable resident clubs to do without public funding in the future” [20]. However, none of these objectives has been achieved in France because the operation of the new stadiums has failed to create more resource to increase the competitiveness of the clubs, and therefore local governments have been unable to remove their subsidies [6].

2.2. The Concept of Soft Budget Constraints

The concept of budget constraint is associated with the market economy, in which an individual is limited by the amount of income available to him or her. This constraint is synonymous with financial discipline and represents a so-called “hard” budget constraint. Refs. [7,8] was the first to observe that in the context of socialist economies a state-owned enterprise is not subject to this budget constraint, because it can count on state aid in the event of serious financial difficulties. This aid was not limited to one-off interventions: firms suffering chronic financial losses were rescued regularly. In other words, the socialist-operated enterprise enjoyed a guaranteed ability to survive. Such direct or indirect financial support helps to ease the budgetary constraints of companies in socialist economies, thus enabling them to continue their activities while accumulating negative financial results. Ref. [21] identified five main groups of instruments leading to soft budget constraints during post-socialist conversion: budgetary subsidy, tax relief, bank and trade credits, and non-payment of social security contributions.

This aid can be provided at different stages in the life cycle of an enterprise. Ref. [22] describes the existence of a “preliminary” (ex ante) SBC, which allows companies to benefit from negative balances in their accounts before financial balance sheets are prepared. Based on this notion, preliminary softness can be defined: “The budget of an economic unit is soft in a preliminary sense if it has non-market-type incomes obtained under the force of contracts concluded before the start of the fiscal period, as a result of bargaining with the institutions disposing of these incomes. (The non-market type incomes in these contracts can be subsidies, tax relief, preferential loans, rescheduling of enterprise debts, favorable setting of purchasing or selling prices of the unit concerned, etc.)”.

Kornai’s main work focuses on the second type of SBC, which [22] calls “incremental budget constraint.” In this case, even if the company does not benefit from ex ante relief, it could derive an ex post advantage. The budget of an economic unit is soft in an incremental sense “if it has incomes obtained through non-market bargaining during the fiscal period, as a result of revisions of original contracts or new contract(s) concluded during the period in question with the institutions disposing of such incomes.” It is important to highlight that the concept of the fiscal period is essential to Szabó for the definition of a time frame; without it, notions of budget constraints are also meaningless.

For [21], certain conditions must be present to identify an SBC in a particular environment: “If the organization in question holds a key (socioeconomic) position in the broader society providing important goods and/or services, the likelihood of softness is potentially high.” The concept of SBC is not only an economic phenomenon, but depends also on cultural, political, and social factors [8]. These characteristics are present within professional football in Europe [11,14–17].

2.3. Soft Budget Constraints in European Professional Football

The application of the SBC concept to professional sports leagues is based on the observation that despite the chronic deficits of many European football clubs, surprisingly few bankruptcies have occurred [23]. The importance of football, and therefore of clubs, in

society means that they almost always find financial support to avoid bankruptcy because the shutdown of the club would be accompanied by collateral damage to the local economy and community, which a rational state must weigh against the bailout costs.

Many elements may combine to cause collateral damage [24]: Fans and supporters lose their joint object of identification in case of a shutdown and therefore have to write off emotional and social capital at least temporarily, leading to a “wave” of unhappiness with potential spillover to the local economy. Additionally, employees of the club lose their jobs, thus raising unemployment in the city, suppliers’ bills remain unpaid, which might cause other bankruptcies, the municipal stadium loses its most important tenant, an important leisure opportunity disappears at least temporarily, the image of the city deteriorates, which might discourage investors, and so on.

Ref. [15] identify the following six forms of softness as characteristics of SBCs:

- Soft pricing (S1) takes place when a public stadium and/or training facility is made available to football clubs at below-market fees.
- Soft taxation (S2) refers to all types of tax exemptions granted by the public authorities and permitted by law or various political decisions in favor of the clubs.
- Soft subsidies (S3), which come in either open or hidden forms, are provided by governments or include support from clubs’ shareholders and investors to reduce deficits and pay off debts to keep clubs running during severe financial situations.
- Soft credit conditions (S4) refer to the liberality of banks when granting loans, knowing that wealthy investors behind the club can reimburse the debt.
- Soft investments (S5) exist when the government or other sponsors pay part or perhaps all of the costs when a club builds a new stadium.
- Soft accounting (S6) refers to the idea of adopting questionable or even illegal practices to circumvent the rules for obtaining credit, with the effect of deceiving lenders.

Over time, club support has taken the following forms in the context of European football:

In Italy, several clubs have benefited from the partial or total release of their debts to the state or local authorities (S2). For example, the Salva Calcio scheme set up by the Italian government reduced the debt of Serie A clubs from €1.32 billion to €400 million for the 2003/2004 season [25] and S.S. Lazio was saved from collapse in a major rescue operation in 2015 through a relaxation of its tax obligations [26]. In addition, S6 is often accepted or even encouraged by the Italian government, which has even occasionally changed legislation to facilitate softer accounting [26].

Spanish clubs have benefited from the support of banks, in the case of the most popular clubs in the form of S4, as well as generosity from the government in the form of S2 and S3 [27]. On two occasions, in 1985 and again in 1991, the government intervened to facilitate debt relief and refinancing; however, this had no lasting effect on clubs’ financial situations. A law was even introduced in Spain, known as the “Concursal” law, which allowed Spanish clubs to obtain 50% debt relief and debt write-off plans while avoiding relegation to a lower division. In total, 21 clubs benefited from the law in the 2010/2011 season [28]. This support may also come from clubs’ shareholders (S3), many of whom will never be able to recover the money they have invested [29,30]. Such shareholders are often referred to in the literature as “sugar daddies” [31,32].

The behavior of continued investment despite the accumulation of debts and deficits seems irrational in a market economy. It can be justified considering that a football club can meet social and emotional expectations of fans, investors, and communities. Ref. [33] come to this conclusion concerning German football, citing the cases of Schalke and Borussia Dortmund, clubs that were on the verge of bankruptcy and saved by public grants (S3).

Another source of refinancing can come from increased broadcasting rights (S3), enabling clubs to meet future salary costs under multi-year employment contracts [34]. Operating in this way leads to a vicious circle in which an increase in television rights induces an increase in player salaries and potentially an increase in deficits.

3. Data and Methods

In this section, we present the data used in our analysis. To examine the relationship between public funding of stadiums and SBCs, it was necessary to consider a sufficient number of stadiums of the same generation that were built or renovated in the same country and within a similar time frame. France offers such a recent field of analysis, thanks in large part to the stadiums built or renovated for UEFA Euro 2016. In our study, we sometimes use the short name of a club. Table 1 displays the full club's name as well as the short name and the corresponding city of the club.

Table 1. Club names and corresponding short names.

Club Name	Short Name	City
AS Saint-Étienne	ASSE	Saint-Étienne
OGC Nice	OGCN	Nice
LOSC Lille	LOSC	Lille
FC Girondins de Bordeaux	FCGB	Bordeaux
Olympique de Marseille	OM	Marseille
Le Havre AC	HAC	Le Havre
Paris Saint-Germain F.C.	PSG	Paris
Olympique Lyonnais	OL	Lyon

Source: Own creation.

Of the 13 French football stadiums built between 2008 and 2016, we excluded the stadiums of Le Mans FC and Grenoble Foot 38 from our investigations following the filing for bankruptcy by these clubs just two years after they began using their new stadiums. For example, Le Mans FC underwent compulsory liquidation in October 2013, leaving behind an empty 25,000-seat stadium, and the city was forced to pay the operator Vinci €2.1 million a year for its upkeep. The demise of the club resulted in a 209% increase in the council tax of the city of Le Mans between 2010 and 2017; such an increase had never been seen before in France. The club returned to the second elite division in 2019, six years after its bankruptcy. It was able to use its new stadium once again, without having contributed to its financing for more than five years.

Even though these two examples seem good examples of SBC syndrome, the lack of economic data on these clubs and the difficulties identifying the stakeholders of the new stadium projects within the two organizations were major obstacles. When a professional club goes bankrupt in France, it is no longer considered professional; thus, the DNCG no longer oversees and monitors the financial operations of the club [35]. As a result, the club's accounts are no longer published and reliable financial information on the club is no longer publicly available.

In addition, the minor stadium renovations in Toulouse and Lens did not seem significant enough to warrant analysis. A major renovation in our study was considered to be a major upgrade to the current facility in terms of improved fan experience to increase the revenue-generating potential of the venue. A major renovation could also include an alteration of the facility's layout. In general, a major renovation of a soccer stadium can include the following elements: the transformation of the layout by removing standing areas and adding more seated areas, expansion of the number of business seats and VIP lounges, improvement of the catering service (restaurants and bars), adding video screens and improvement of sound and lighting systems, integration of Wi-Fi and 5G connectivity, addition of elevators, integration of a (retractable) roof, and increased security standards. The minor renovations in Toulouse and Lens did not meet these criteria; for example, the minor renovations in the Toulouse stadium mainly concerned the public reception area, seating, access to the grass for heavy vehicles, etc. We therefore also excluded these two cases from our sample.

Since we aimed to study heterogeneous stadiums and clubs with different operating models, the remaining nine case studies seemed to be an optimal sample for our research. Unfortunately, it was not possible to carry out an in-depth investigation on Valenciennes FC, due to an inability to gather more detailed data on the club. Consequently, our sample comprised the eight stadiums presented in Table 2.

Table 2. Summary of the eight stadiums studied in our research.

Club	Club Status	Stadium	City	Legal Status	Club's Access to Stadium	Year Operations Started	Capacity
ASSE	Leaseholder	Geoffroy Guichard	Saint-Étienne	Public domain concession	Game day	2015	42,000
OGCN	Leaseholder	Alianz Riviera	Nice	Public-private partnership	Game day	2013	35,624
LOSC	Leaseholder	Pierre Mauroy	Lille	Public-private partnership	Game day	2012	49,834
FCGB	Leaseholder	Matmut Atlantique	Bordeaux	Public-private partnership	Game day	2015	43,500
OM	Leaseholder	Orange Vélodrome	Marseille	Public-private partnership	Game day	2015	67,354
HAC	Operator	Stade Océane	Le Havre	Occupancy agreement	Always	2012	25,278
PSG	Operator	Parc des Princes	Paris	Occupancy agreement	Always	2014	47,929
OL	Owner	Goupama Stadium	Lyon	Private	Always	2016	58,000

Source: French Professional Football League (www.lfp.fr, accessed on 15 October 2022) and own creation.

To collect our data, we used two major sources: The first source is the 2017 Court of Audit report on public aid for the UEFA Euro 2016 tournament in France. The Court of Audit (Cour des comptes) is a French administrative court that performs financial audits. It is mainly responsible for verifying the legality of public accounts of State, national public bodies, public companies, the social security regime, and private organizations benefiting from State aid or that seek donations from the public. It reports to parliament, the government, and the public concerning the legality of those accounts [36]. The second source consists of the eight individual reports on the accounts of clubs provided each season from 2012 to 2019 by the French DNCG (National Directorate of Management Control). The DNCG is the organization in charge of monitoring and overseeing all financial operations of the 44 member clubs of the Professional Football League (LFP). For an analysis of the relationship between DNCG and the FFP regulation, see [37], who demonstrate that DNCG is focused on the solvency of clubs, whereas FFP is concerned with profitability). Table 3 summarizes the data that we collected from these two main sources.

The stadium receipts (sponsors and advertising revenues, match revenues, other income) and the expenses related to the operation of the stadium of each resident club were analyzed from the first day of operation of the new stadium until the 2018/2019 season. We chose to consider only the seasons before the COVID-19 pandemic and did not want to distort the operating results for stadiums that were empty for several months from 2020 to 2022. In our study, we adapted the time frame defined by [22] by using the date of the first day of operation of the stadium and not the fiscal period. This allows us to distinguish the public aid received prior to stadium construction and that received after it started operating. The average of these seasons corresponds to season N+. For example, in the case of HAC, N+ corresponds to an average over seven seasons (2012/2013 to 2018/2019). N+ represents three seasons at OL; four seasons at each of ASSE, FCGB, and OM; five seasons at PSG; six seasons at OGCN; and seven seasons at both HAC and LOSC. This N+ average value makes it possible to even out exceptional receipts and income (differences in numbers of matches, and costs due to weather) as well as exceptional match results. It also allows for what we feel is a longer-term comparison. Moreover, the fact that these N+ averages are not

based on a consistent number of years for each case has no impact, because no comparison in absolute terms is made.

Table 3. Summary of the data collected.

Data Collected (Court of Audit Report of 2017)	Data Collected (DNCG Reports on Individual Club Accounts, 2012–2019)
Club status (leaseholder, operator, owner)	Sponsor/advertising revenue
Legal status of stadium	Match revenue/income
Total cost of stadium projects	Revenue from other sources
Total cost of road infrastructure	Gross wage costs for personnel
Amount of private investment in projects	Other expenses
Amount of public investment in projects	Financial result
Annual cost of new stadium expenses	
Annual cost of former rent paid by clubs	
Annual cost of new rent paid by clubs	
Annual cost of rent paid by cities	
Calculation of rent and conclusion on low rental fees for stadiums	
Conclusion on abolition of certain taxes for the benefit of stadium builders	
Role of financial guarantor played by Lyon city government	

Source: Own creation.

To conduct our analysis, we proceeded in two steps: In Section 4.1, we seek to answer the question of whether the public financing of football stadiums has introduced SBCs into French professional football. We examine this question with the help of different metrics calculated from our data [38].

In Section 4.2, we classify into different categories the various forms of public aid that accompany the financing, construction, and operation of the new French football stadiums, based on a case-study analysis [39].

4. Results

4.1. The Presence of SBC in French Professional Football?

To examine whether public support for stadium construction or renovation induces SBCs, we proceeded as follows: First, we examined who paid for the construction or renovation of the stadiums. Second, we analyzed the amount and share of stadium rental fees met by clubs and local government. Third, considered the operating results of stadiums with and without public support.

4.1.1. Public and Private Investment

In this subsection, we show that the public sector invested huge sums into the construction of the eight new French football stadiums. Table 4 displays the respective amounts of public and private investment.

The table shows that total investment in the eight new stadiums when the financing of access infrastructures is included represents approximately €2.4 billion. The private sector invested €529 million (including €430 million for OL alone), while local governments contributed more than €1.8 billion. Only PSG paid for the entire renovation of its own stadium and did not receive any public aid for its project. It should be remembered, however, that the stadium is owned by the city of Paris, which financed its original construction. Meanwhile, while OL did manage the private financing of its stadium, it required city involvement in financing the stadium's access infrastructures (32% of the project's financing, i.e., €202 million). For HAC and FCGB, the respective cities asked the clubs for financial investment in return for their involvement in the stadium-planning phase. However, the levels of private financial investment in these two stadiums were very low, with local

governments having financed 97.5% and 90% of the projects, respectively. Finally, in the four other stadiums, the public sector contributed 100% of the investment for ASSE, OGCN, LOSC, and OM, although the amounts were quite varied. Across the eight cases, we can see the significance of public funding, which represented on average 78% of the financial cost of the projects. This proportion is significantly higher than in the successful German case, mentioned in the introduction, where the public sector contributed only around 40% of the funding and the private sector contributed around 60% for the renovation and construction of stadiums for the FIFA 2006 World Cup.

Table 4. Amounts of public and private investment in the eight new stadiums.

Club	Total Cost of Stadium Project before Tax	Private Investment	Private Investment	Public Investment	Public Investment
ASSE	€69.4 million	€0	0%	€69.4 million	100%
OGCN	€211 million	€0	0%	€211 million	100%
LOSC	€585 million	€0	0%	€585 million	100%
FCGB	€221.4 million	€20 million	10%	€201.4 million	90%
OM	€474.8 million	€0	0%	€474.8 million	100%
HAC	€154 million	€4 million	2.5%	€150 million	97.5%
PSG	€75 million	€75 million	100%	€0	0%
OL	€632 million	€430 million	68%	€202 million	32%
Total	€2.42 billion	€529 million	22%	€1.89 billion	78%

Source: Court of Audit report of 2017 and own calculation.

4.1.2. Share of Stadium Rental Fees for Clubs and Local Government

The overall annual rental fee—which includes loans, financial costs, and fees for the maintenance and operation of the stadium—is an indicator of the financial investment by the club and the local government (city). Measuring the share of the annual cost of the stadium borne by the club and by the city enables us to gauge the dependence of professional clubs on local governments for the financing of stadium rental fees. The comparison between the share of stadium rental fees met by clubs and those by local government also reveals the amount that the city would have to bear if the resident club was to disappear, either through relegation or economically as in the case of Le Mans mentioned above.

In the following analysis, we show that the rent paid by the cities represents an even greater financial commitment for the public sector in the case of the new generation of stadiums. Table 5 reports the amount and shares of stadium rental fees for the clubs and cities.

Although the rent paid by clubs has significantly increased (+540%) between the old and new stadiums, the public sector continues to cover most of the annual rental costs of the new stadiums. Specifically, the average rent for clubs rose between the old and new stadiums from €0.78 million to €4.5 million. Despite this increase, local governments finance an average of 60% of the annual rental costs of the stadiums, representing €6.45 million per year. This cost increased significantly with the arrival of the new stadiums. However, the financial involvement of clubs and local governments depends on the stadium. We can differentiate two cases:

- (i) The share of the annual rent paid by the club is higher than that paid by the local government in three out of eight cases: PSG (81% paid by club vs. 19% paid by city), OL (68% vs. 32%) and FCGB (57% vs. 43%). This calculation was valid before the relegation of FCGB to the second division in summer 2022. Since then, 100% of the stadium's costs have been covered by the local government [40]. The larger participatory shares met by the clubs in the cases of PSG and OL can be explained in the former by the fact that PSG is the operator of its stadium, and in the latter because OL is the stadium owner. In the case of FCGB, the club is a tenant of the stadium only

on match days. However, for FCGB the club's financial contribution is much greater than in the similar settings described below.

- (ii) Local government covers the larger part of the stadium's costs in five out of eight cases: HAC (100%), OGCN (86%), LOSC (71%), OM (65%), and ASSE (65%). All these clubs are tenants of their respective stadiums only on match days, except HAC, where the club is the operator of the stadium. HAC benefits from operating the stadium every day of the year, without paying rental fees for at least three years of the contract. One noteworthy finding is the high cost of rental fees for stadiums built under public-private partnership (PPP) in Lille (LOSC), Marseilles (OM), and Nice (OGCN), obliging the local authorities to pay more than €10 m per year for more than 30 years.
- (iii) In these cases, the local authorities could be required to bear the annual cost of the stadium by themselves if the resident club was to disappear. Such a cost would represent between €13 million and €16 million per year.

Overall, we believe that the resident club should bear at least 50% of the stadium rental fees to ensure a sustainable business model.

Table 5. Amount and share of stadium rental fees for clubs and cities.

Club	Annual Rental Cost of New Stadium	Former Annual Stadium Rent Paid by Club	New Annual Stadium Rent Paid by Club	New Annual Stadium Rent Paid by Club	City's Contribution to Annual Rental Cost of New Stadium	City's Contribution (in % of Annual Rental Cost of New Stadium)
ASSE	€4.91 million	€0.8 million	€1.7 million	35%	€3.21 million	65%
OGCN	€13 million	€0.2 million	€1.87 million	14%	€11.13 million	86%
LOSC	€16 million	€0.9 million	€4.7 million	29%	€11.3 million	71%
FCGB	€6.79 million	€0.9 million	€3.85 million	57%	€2.94 million	43%
OM	€15.8 million	€1.3 million	€5.5 million	35%	€10.3 million	65%
HAC	€5 million	€0.8 million	€0 million	0%	€5 million	100%
PSG	€5.4 million	€0.3 million	€4.4 million	81%	€1 million	19%
OL	€21 million	€1.1 million	€14.3 million	68%	€6.7 million	32%
Average	€11 million	€0.78 million	€4.5 million	40%	€6.45 million	60%

Source: Court of Audit report of 2017 and own calculation.

4.1.3. Operating Results of Stadiums with and without Public Support

The stadium-operating results of the clubs represent the difference between stadium-related operating receipts and stadium-related operating expenses since the stadium's first day operation. Stadium receipts include sponsors and advertising revenues, match revenues, and other income (including merchandising, co-branding, and public subsidies). Stadiums' operating expenses include the remuneration of administrative staff (15% of total gross wage costs of personnel, according to the DNCG), and other expenses (including the structural costs of the club, such as stadium rent, utilities, security, and stadium maintenance). The financial result was also calculated, which includes the interest on loans taken out to finance the investment in the stadium and/or its development.

Measuring the operating results of the stadiums with public support allows us to highlight the weak economic development that the clubs have experienced since their new stadiums began operating. The results indicated that stadium operations often resulted in losses.

Measuring the operating results of the stadiums without public support showed that the stadium-operating results of clubs are even less significant and make greater losses if local governments do not finance the stadium rental fees. This metric highlights the dependence of clubs on public aid and sheds light on the phenomenon of SBC syndrome in financing French stadiums.

We present the operating results of the stadiums with and without public support in Table 6.

Table 6. Summary of operating results of clubs using new stadiums.

Measure/Club	ASSE	OGCN	LOSC	FCGB	OM	HAC	PSG	OL
Seasons N+	4	6	7	4	4	7	5	3
Stadium-related receipts in N+	€26.2 million	€19.3 million	€31.6 million	€34.6 million	€64 million	€7.4 million	€397 million	€99 million
Stadium-related operating expenses in N+	€27.2 million	€19.9 million	€49.3 million	€39.4 million	€67 million	€9.4 million	€175 million	€132 million
Stadium-related operating result in N+ with public aid	€−1 million	€−0.5 million	€−17.6 million	€−4.8 million	€−3 million	€−2 million	€222 million	€−33 million
Stadium-related operating result in N+ without public aid	€−4.21 million	€−11.63 million	€−28.9 million	€−7.74 million	€−13.3 million	€−7 million	€221 million	€−39.7 million

Source: DNCG and own calculation.

The table shows that seven out of eight clubs (all except PSG) had operating losses in N+, despite the public aid they received. OL and its private stadium had high repayment costs due to the loan taken out to finance the stadium. Once the investment is repaid, its business model could be profitable in the long term. For the other six clubs, financial results have been in deficit since the opening of their new stadiums, and they cannot expect reductions in their rental costs because of their status. This deficit would be even more pronounced in the absence of the share of stadium expenses financed by local governments on an annual basis. In such an event, the clubs of Nice, Lille, and Marseille would find each themselves in a precarious financial situation. The financial situation of OGCN is nearly balanced in N+ but would suffer a deficit of €11 million per year without public aid, this figure would be more than €13 million for Marseille, and Lille would be most affected with an annual deficit of almost €29 million.

4.1.4. Public Financing of Stadiums as a Sign of a Soft Budget Constraint

In the previous analysis, we have shown that the public sector financed on average 78% of the total construction or renovation costs of the eight new stadiums. Ex ante investment is crucial for building these new stadiums and their access infrastructure, even in the case of private projects. In addition to this potential public aid that varies according to the city, we have shown that the local governments pay on average 60% of the total annual rental costs. Without this public aid, the overall stadium operating deficit of the seven clubs other than PSG would rise from €61.9 million to €112.44 million, representing an ex post public contribution of almost €52 million for seven clubs, and significant financial support.

These examples demonstrate that local governments in French professional football are indeed “supporting organizations” that help to ensure the financial sustainability and viability of clubs by allowing them—through the financing of their stadiums in the construction and operation phases—to benefit from the financial flexibility that is a characteristic of SBCs.

4.2. Typology and Temporality of SBCs in French Football

The financial flexibility that is made possible by SBCs can be difficult to identify, because it occurs in different time frames and falls under various typologies. Thus, in the next section we better identify the various forms of public aid by classifying them according to the different categories of “softness” defined by [15] and their time frame (ex ante or ex post). The time frame relates to the concepts of preliminary and incremental SBCs, introduced by [22].

4.2.1. Soft Pricing

Soft pricing takes place when a public stadium and/or training facility is made available to football clubs at below-market fees.

Example 1: Sale of a building plot at a preferential price—*ex ante* aid (OL)

Within the framework of the Lyon project, numerous legal complaints were filed arguing that Lyon had allegedly sold the land used for the construction of the stadium to OL at five to six times cheaper than the market price. The 32 hectares of land were sold to the club for €40 per square meter, compared to a supposed market price of €200, representing savings of nearly €5 million [41].

Opponents of the project lodged complaints against the administrative decisions and authorizations granted before the start of the work (town-planning decisions and deliberations on the transfer of land). The revision of the local urban plan was thus delayed by four years compared to the initial schedule, and the issuance of the building permit and the sale of the land by two years.

The challenges concerning the selling price of the land were rejected at first instance by the Lyon Administrative Court, first for the sale by the city of Décines-Charpieu, then for the sale by Lyon. In its two judgments, the court validated the price estimate made by France Domaine, the public agency that at the time monitored state-owned land, because its estimate had considered the land that was sold to be within a zone classified for urbanization in the long term and “intended for the building of major sports, leisure or cultural facilities at the urban-area level” (Tribunal Administratif de Lyon, 18 December 2014, Association Carton Rouge, No. 1201065; judgment challenged before the Lyon Administrative Court of Appeal. Tribunal Administratif de Lyon, 6 October 2016, Association des contribuables actifs du Lyonnais, No. 1302600).

We consider this aid as *ex ante*, as it was provided before the stadium was built. In our view, this aid can be characterized as soft pricing, as the price of the land was devalued because of the new stadium project, and a political decision was made that specifically reclassified the construction area of the project.

Example 2: Below market price of stadium rental fee—*ex post* aid (OM, PSG, ASSE, OGCN, LOSC, FCGB, HAC).

In 2017, the Court of Audit determined that a “rental fee lower than the rental value of the facility, its maintenance cost, and the commercial benefits it provides constitutes an irregularity.” This irregularity was observed in seven public stadiums in our study, “sometimes in significant proportions compared to the required level.” In Marseille, for example, in the first drafts of the project the rent to be paid by the club was €12.8 million. The local government agreed to lower this rental fee by over 55% to help the club (Court of Audit report of 2017). The Court of Audit noted that the rental fees for all public stadiums had been underestimated by about 20% and had not considered the calculation method recommended by the State. To be considered “fair” and to comply with the European Commission’s auditing of the financing of UEFA Euro 2016 stadiums, the level of rental fee (set share) to be paid by the club was supposed to take into account public investment by applying a minimum rate of 2% per year of investment, corresponding to the occupancy rate of the resident club calculated based on the number of days the facility is used. This set share was to be added to a variable share calculated based on the club’s turnover. To calculate this, France Domaine recommended using a graduated scale of turnover starting at €2 million, to which progressive rates by turnover level were applied.

We view this aid as *ex post*, as amounts of the rental fees are often calculated after the first few months of stadium operation, in order to determine the costs and revenue generated by the new stadium. In our view, this is soft pricing, because the price is undervalued by the local government.

4.2.2. Soft Taxation

Soft taxing designates all types of tax exemptions granted by public authorities that are permitted by law including certain political decisions in favor of clubs.

Example 1: Reimbursement of stadium-related taxes—ex post aid (OGCN, FCGB).

In the Bordeaux model, the city reimburses the private partner Vinci (the builder/operator) each year for the taxes it owes that are not included in the management fee. Elimination of these taxes reduces the stadium's operating costs and hence the fee that the club must pay to the city. The most recently available estimate by the Court of Audit in 2017 stated that €33.7 million in tax refunds had been made by the city of Bordeaux since the stadium opened in 2015 [36]. This same pattern can be seen in Nice. Thus, the local tax, waste collection tax, and property tax are billed to the city by Vinci. The Court of Audit estimated the loss of tax revenue between 2013 and 2017 at €72 million.

While such tax reimbursement agreements may be negotiated before construction, we consider this aid to be ex post, because the tax amounts are calculated and reimbursed after the construction of the stadium.

4.2.3. Soft Subsidies

Soft subsidies, in either open or hidden forms, are provided by governments or can include all forms of support from the club's shareholders and investors made to reduce deficits and pay off debts to keep clubs running during severe financial situations.

Example 1: Cancellation of the rental fee owed by the club to the local government—ex post aid (HAC).

In the case of Le Havre, for example, the club was granted a full rent waiver by the local government during the 2014–2017 period, two years after the stadium was built. The local government has thus borne ex post public financing of €5 million per year, not provided for in the lease contract. To justify this financial involvement, the president of the metropolitan area government explained that HAC had been at risk of being demoted for financial reasons by the DNCG at the end of the 2014 season, and that he could not take the risk of finding himself in charge of an empty stadium without a club. The city thus chose to help the club by financing the entire cost of the stadium, while allowing the club to continue to benefit from the stadium's operating revenues. This aid represents a form of ex post subsidy via the stadium rent. More recently, during the summer of 2022, this kind of ex post subsidy was also observed in Bordeaux. The relegation of the FCGB to the second division led to the payment of €5 million per year from the local government [40].

Example 2: "Payer of last resort" when cities bear the sporting risk—ex post aid (OM, PSG, ASSE, OGCN, LOSC, HAC).

Among the seven cases in which the stadium is owned by the city, the latter would be required to act as an ex post financial guarantor if its resident club were to disappear for sporting or economic reasons. Indeed, the city would have to pay the remaining expenses until the club returned to the professional world, as happened in the case of Le Mans. This arrangement acts as a crucial safety net for the club but is a huge risk for the city if the club never returns to the top division.

It might have been wondered whether this question would be addressed in the context of the Bordeaux project. To secure long-term payment by the Bordeaux Girondins, provided for in the stadium occupation agreement, a letter of intent constituting a personal guarantee as understood by the French Civil Code was signed by the resident club's shareholder. In this letter sent to the city dated 30 April 2015, the shareholder (chair of the French media holding company Groupe M6) stated that he "will not disregard the financial situation and fate of its subsidiary FCGB and will ensure that the latter, in the application of article 20.1 ii of the agreement, fulfills its commitments to you in respect of (i) the annual rental fee, (ii) the contribution to the annual costs of maintaining the field of the new stadium; and, where applicable, (iii) the profit-sharing on the turnover achieved by FCGB." Since the signing of this letter of intent, the club has been sold to two successive owners and we do not know whether the commitment expressed in the letter remained binding for the new owners. However, since the relegation of FCGB in July 2022, and the fact that the city of Bordeaux paid for the entire rent of the stadium, it seems that the initial commitment made

in 2015 by the owner of the club through the letter of intent is no longer relevant for the new owners.

4.2.4. Soft Credit Conditions

Soft credit conditions refer to the liberality of banks when granting a loan when they know that rich benefactors behind the club can reimburse the debt.

Example 1: Role of financial guarantor played by the city to close the financing of the stadium—ex ante aid (OL)

Faced with difficulties in the financing of Lyon's stadium, in October 2013 the Department of Rhône guaranteed €40 million in bonds in subscription to the construction group, and the public financial institution Caisse des Dépôts et Consignations subscribed to a bond issue for the club for €32 million. Involvement by public players secured a total of 20% of the financing plan for the private stadium. This aid raises various questions. Public loan guarantees for professional sports clubs were prohibited because some had been granted indiscriminately for the "day-to-day operations" of these clubs. According to Article 19-2, inserted by Act No. 92-652 of 13 July 1992 into Act No. 84-610 of 16 July 1984, on the organization and promotion of physical and sporting activities, the granting of loan guarantees or backing by local authorities or their groupings to associations or limited liability sports companies. Mr. Jean-Marie Girault reminded the Minister of the Interior that it was in reaction to several financial scandals involving professional football clubs that Parliament intended, through this measure, to avoid the repetition of practices that were dangerous for local finances.

However, the minister in charge of sports declared the Lyon stadium and its related facilities to be of general interest in the context of hosting the UEFA Euro 2016 tournament, by order published on 31 May 2011. After having initially been blocked by several refusals, the stakeholders of Lyon were finally able to put in place their financial support after this declaration. The stadium's "public interest" status has enabled the club to receive non-legal aid in other circumstances. Stadiums built in France after 2016, on the other hand, have not had the possibility to receive similar public loan guarantees, even though this has been sought by some stakeholders [5]. This example shows us how laws can be adapted ex ante and used on occasion to bypass certain barriers, and in this case to help arrange public aid for a private club to facilitate the granting of credit for the construction of its stadium.

4.2.5. Soft Investment

Soft investment refers to the cases when, for example, the government or other sponsors pay for part or even all of the costs when a new stadium is built.

Example 1: The city finances the stadium-access infrastructure—ex ante aid (OM, PSG, ASSE, OGCN, LOSC, FCGB, HAC, OL).

In France, all access infrastructure is financed by cities and the state, even in the case of private projects. For example, the city of Lyon financed all the infrastructure enabling access to the OL stadium, particularly public transportation, for a total cost of €220 million. This kind of aid, occurring before stadium construction, is the only type that was in common in all our cases.

Example 2: The city finances the construction or renovation of the stadium—ex ante aid (OM, ASSE, OGCN, LOSC, FCGB, HAC).

We have shown there was significant public investment (78%) in the financing of the eight stadiums covered by the study. Only PSG and OL fully financed the renovation or construction of their stadiums. For the other six clubs, the cities usually financed the entire construction or renovation costs of the stadium. The realization of such projects is dependent on this kind of financial participation, which is a typical example of soft investment.

Having reviewed the public aid for these eight different projects, we provide a summary of the results in the next subsection.

4.2.6. Public Financing of Stadiums Has Characteristics of the Five Forms of SBC, According to Two Time Frames

Across the eight case studies, 32 forms of public aid were found, making an average of four SBC-type instruments per project. Public support is thus significant, with several million euros sometimes being granted in a single case, either ex post or ex ante [22]. The unique context of French stadium financing allowed us to identify five of the six types of softness described by [15]. Table 7 summarizes the major contributions of our research.

Table 7. Overview of instruments leading to SBCs in the financing of French football stadiums.

Public Aid	Type of Softness	ASSE	OGCN	LOSC	FCGB	OM	HAC	PSG	OL
Preliminary SBC: Before construction									
Local government's role as public guarantor of borrowing	Soft credit condition (S4)	0	0	0	0	0	0	0	1
Sale of land at devalued price	Soft pricing (S1)	0	0	0	0	0	0	0	1
Local government finances construction or renovation of new stadium	Soft investments (S5)	1	1	1	1	1	1	0	0
Local government finances stadium access infrastructure	Soft investments (S5)	1	1	1	1	1	1	1	1
Total ex ante aid	16	2	2	2	2	2	2	1	3
Incremental SBC: After construction									
Tax relief for stadium builder	Soft taxation (S2)	0	1	0	1	0	0	0	0
Stadium rental fees undervalued in relation to actual price	Soft pricing (S1)	1	1	1	1	1	1	1	0
Cancellation of rental fee owed by club to local government	Soft subsidies (S3)	0	0	0	1	0	1	0	0
Local government covers risk of team relegation and remains "payer of last resort" if resident club goes bankrupt	Soft subsidies (S3)	1	1	1	1	1	1	1	0
Total ex post aid	16	2	3	2	4	2	3	2	0
Total identified ex ante and ex post aid	32	4	5	4	6	4	5	3	3

Source: Own creation.

We also noted that, within the framework of a private stadium (OL), the SBC instruments were essentially preliminary and there was local government support to launch and consolidate the realization of the project, but no ex post contribution was identified. The club remained the sole actor and decision-maker of its project. Conversely, in cases where the stadium is owned by the cities, examples of ex ante and ex post aid were found in similar proportions (four each). This recurrent public presence throughout the projects could have repercussions on the quality of the projects and the responses to initial objectives. Ref. [19] suggested that ex ante support is more relevant for providing effective support for clubs. For them, "ex-post funding can be argued to be counter-productive to financial viability (e.g., cloaking inadequate finances, providing incentives for overspending, and rewarding clubs that overspend), ex-ante funding is more in line with sound financial management (e.g., funds that are contingent upon a history of sound finances, incorporated in budgets)."

Considering the eight instruments identified in this research, Nice and Le Havre appeared to benefit the most from public aid through SBCs, along with Bordeaux. Before 2022, only four instruments were observed in the case of Bordeaux: (i) Local government finances the construction or renovation of the new stadium; (ii) local government finances the stadium's access infrastructure; (iii) tax relief for the stadium constructor; (iv) stadium rental fees undervalued in relation to actual price. After relegation of the club, we can observe two new instruments, i.e., cancellation of the rental fee owed by the club to the local government, and the local government covering the risk of the team's relegation and remaining "payer of last resort" if the resident club goes bankrupt.

For the clubs of Saint-Étienne, Marseille, and Lille, the same two preliminary and incremental aids were observed. The four most common SBC instruments in French professional football are the financial support provided by the local government for construction of the stadium, support for access infrastructure, as well as a reduced rental fee and coverage of the team's relegation (and thus economic) risk.

Finally, Paris and Lyon were the two clubs that received the least aid. According to [6], they are also the two clubs that have invested the most in projects in terms of being prime mover, project governance (owners/operators), skills (with more than 100 targeted recruitments for operation of the new stadium, compared with a maximum of five recruitments for other clubs), and in terms of structural investment (€430 million in investment for OL and €75 million for PSG). They are also the two clubs that have come closest to achieving their goals of economic diversification through the stadium. Looking at these two cases, it seems there may be a link between the levels of human and financial investment by a club into a stadium project, the level of ex ante or ex post public aid, and the performance of the project. To illustrate this idea partly, we can see that costs have been better managed in the Paris and Lyon projects than in those managed and financed mainly by the cities, where the costs of construction increased by 25% to 68% compared with the initial price. Further research on this issue is required.

5. Conclusions and Discussion

The objective of this paper was to examine the relationship between public funding of stadiums and soft budget constraints (SBCs) of professional clubs. Specifically, we aimed to answer the question of whether financial support by local governments for stadium renovation or construction qualifies as an SBC. Using data on eight new stadiums for hosting the UEFA Euro 2016 tournament in France, we have confirmed that public funding of stadiums meets the definitional elements of an SBC. Specifically, we found that 78% of stadium financing was public and that local authorities provided an average of €6.45 million per year in stadium fees, representing 60% of the annual operation costs of the stadiums.

In addition, we identified different forms of public aid that fit within the categories of "softness" proposed by [15] and that appeared according to different ex-ante and ex-post time frames [22]. Identifying the temporality of public aid is essential for measuring the effectiveness of sports policies put in place. In this respect, we agree with the conclusions of [19] for whom "it is useful to distinguish clearly between ex-ante and ex-post funding." For them, ex ante aid seems to be more effective in supporting and helping clubs to develop. In the context of stadiums, the Lyon model could confirm their claim: ex ante aid accompanied the realization of the club's stadium project, and the absence of ex post support obliged the club to invest in and commit to the project, as there was no public safety net in case of failure. In the context of the findings by [15], we were not able to illustrate the "soft accounting" category for an SBC in our case studies, but we were able to confirm the relevance of the other five softness categories. It is rare to be able to identify so many softness categories in a single-use case (public funding of new stadiums).

In some cases, the public funding of stadiums exceeded the €2.3 million limits defined in Article R. 113-1 of the French Sports Code as the maximum amount of government subsidy a professional club is permitted to receive. If public aid in the context of the construction and renovation of French football stadiums was considered a government subsidy, the European Commission could then, for example, require clubs to reimburse difference between the amount paid and the "fair level" of the rental fee (as defined by its 2013 decision).

We believe that territorial specificities can increase the number of SBCs in certain regions. Thus, each SBC can have a different rationality which can be often explained via political ambitions, vis-à-vis the stadiums as well as the clubs, because support for professional football often constitutes an investment with high returns for local elected officials [42]. In the case of OL, the support of the local government can be explained by

the innovative nature of the stadium project and its potential positive image effects on local politics. The former mayor of Lyon—G erard Collomb—was clearly in favor of this project. However, as the Lyon club did not have sufficient financial resources to raise the funds necessary to finance the stadium, the city found solutions through indirect financial aid granted to the club via the sale of the land at devalued prices and the city’s own role as a financial guarantor.

The other seven stadiums in our study are public, like 90% of major French sports facilities [3]. Thus, we found that the majority of the SBCs were linked to “soft investments” in stadiums and road infrastructures. In addition to the fact that clubs may be unwilling or unable to finance a stadium, a significant number of elected officials consider stadium projects highly strategic in terms of municipal policy. Indeed, in some communities, the stadium functions as an element of local identity, a social and electoral sounding board, a creator of employment and dynamization of the local fabric, and it can be dangerous to lose control of it. This realization has allowed the massive involvement of public finance in these projects. Ref. [43] even speaks of the “politicization of stadiums”. However, numerous analyses have been tempering the supposed positive impact of a new sports facility on a community for over 20 years [44–47]. Ref. [48] explain “It is inevitable that ex ante economic impact studies of proposed facilities executed under contract for sports teams, leagues, or special event organizing committees will lead the local community to expect unrealistic economic development benefits. However, economic theory and empirical tests of such possible benefits unambiguously show that sports facilities cannot be expected to stimulate local economies. The lesson is clear: before agreeing to subsidize a sports facility with public funds, residents should ask themselves what they expect to receive in return, and realistically it cannot be a more vibrant local economy”. This observation made more than 15 years ago is still valid in view of the results obtained in France.

Politically, besides the visibility offered by a new stadium, it is also important to be able to support and promote the local soccer club. Given that direct subsidy of professional teams is limited to  2.3 million per year, indirect subsidy via the provision of a stadium with moderate rent is extremely common, as shown by our results on soft pricing. This desire to support the local club also explains the generous “soft subsidies” granted to the clubs of Le Havre and Bordeaux, where the full costs of stadium rent are covered by the local governments.

Finally, our hypothesis concerning “soft taxation” is more specific. It can be explained by the choice of stadium construction model, which in two cases were PPP agreements signed by the elected officials of Nice and Bordeaux. The lack of liquidity of the local authorities to fully finance the infrastructure necessary to host the UEFA Euro 2016 tournament and support the development of their clubs encouraged the mayors of the two cities, Mr. Estrosi and Mr. Jupp e, to conclude PPPs with construction companies that financed, built, and operated the facilities. This type of model is extremely costly for public finances in the medium and long term. Thus, if construction costs are more expensive, the stadium rent will also be more expensive for the club and community. However, communities find ways to reduce the final bills. For example, the removal or reduction of taxes for the builder is an indirect way to lower the fee that the club and community must pay for construction [49].

Ref. [50] claim that the forms of public aid identified in the French context are not unique and can be observed in other European countries such as in Eastern Europe where “public stadiums are made available to football clubs by local government at below market fees.” In addition, they show how “clubs of some countries like Hungary cannot operate effectively thanks to excessive state subsidies and SBC.” In the same vein, a promising avenue of future research involves further examination of the harmful effects that SBC can have on club management. For example, it seems that the low stadium-operating results observed in France are indeed the product of an inefficient renovation and construction policy associated with significant structural and organizational limitations [6]. These limitations could be explained by the poor involvement of club executives in determining

their stadium projects and then financing and operating those stadiums. In these specific cases, recurrent use of SBC instruments seems to be a cause of reduction in managerial efficiency [51].

In conclusion, we encourage further research to examine the correlation between the amount of public aid received by a new stadium project and its economic performance. If a negative correlation exists, it could on the one hand explain the failure of French efforts towards stadium modernization, and on the other the economic success of the stadium renovation program in Germany, where 61% of the financing came from the private sector [2].

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