



Watford Supporters Board Summary and Comment on Squad Cost Ratio Rules

Note: This summary is based on information published to date. The detailed rules have yet to be published.

SUMMARY OF SCR & COMPARISON TO (EXISTING) PSR

Championship clubs have voted to replace the existing Profitability and Sustainability Rules (PSR) with a new system based on a Squad Cost Ratio (SCR).

This change shifts the focus away from limiting financial losses over a rolling period and towards directly controlling how much clubs can spend on their playing squads each season. Under SCR, spending on wages, transfers and agents is linked directly to club revenue, creating a more immediate and transparent relationship between income and squad investment.

The table below sets out the key differences between the two systems:

Feature	Current System: PSR (Profitability & Sustainability Rules)	New System: SCR (Squad Cost Ratio)
Core Metric	Fixed net profit/loss allowance over a rolling three-year period.	Annual assessment. Squad spending capped at 85% of total football revenue with owner top-ups permitted.
Maximum Permitted Losses	Strictly capped at £41.5 million over three seasons.	Abolished; spending limits fluctuate dynamically based on club revenue.
Included Revenue	Total club income across all operating sectors.	Limited to football related revenue including player transfer profits.
Included Costs	Total club financial losses across all operating sectors.	Limited to "squad costs": player/manager wages, player cost amortisation*, and agent fees.
Owner Funding Cap	Owners may inject equity to cover losses.	Up to £15 million in a single season (£33 million over three years). Must be equity, not debt.
Monitoring Timeline	Retrospective analysis of final accounts after the financial year ends.	Real-time monitoring with mandatory compliance reviews in October and March.
Primary Penalty	Direct sporting sanctions, primarily points deductions.	Tiered system: Financial levies for minor breaches; points deductions for major breaches.
Parachute Advantage	All clubs shared the exact same £39 million 3 year loss roof. Parachute payments increased revenue and therefore allowed for higher costs.	Parachute payments directly unlock a much larger spending cap.
Exemptions	Infrastructure, academies, community, and women's football.	All costs aside from those listed above including, but not limited to, infrastructure, academies, community, and women's football (unchanged).

* Player cost amortisation is typically calculated as the transfer fee divided by the length of the player's contract. However, the maximum amortisation period is five years (even if the contract is longer), and amortisation may increase if a player's value drops significantly, for example due to injury.



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ASSESSMENT OF LIKELY IMPACT ON WATFORD FC

In practice, the key change under SCR is that spending is tied much more closely to what the club earns each year, rather than allowing losses to be managed over a longer period.

- Based on Watford Association Football Club Ltd 2025 accounts:
 - Revenue was £26m and player transfer profit was £15.8m, giving SCR revenue of £41.8m.
 - Wages were £28.1m (including non-squad wages) and player cost amortisation was £5m. Agent fees are estimated to be in the region of £2m. Assuming non-squad wages exceed agent fees, SCR costs are likely to be circa £33m.
 - On this basis, Watford's Squad Cost Ratio would have been circa 79%, i.e. compliant.
- Based on £26m revenue alone, squad costs would need to be below £22m to comply without relying on transfer profit or owner contributions.

The squad now differs from that in 2024/25, and further reshaping is expected during the summer, including:

- Moussa Sissoko and Pierre Dwomoh, both previously contracted players, have departed the club
- Others are likely to be sold or released as contracts come to an end

This should lead to further reductions in the wage bill. However, it appears likely that Watford will continue to rely on transfer profit or owner contributions.

- Net profit from player trading is allowable under SCR:
 - The 2025 accounts show a player trading profit of £15.8m
 - Previous seasons have seen higher figures, and Watford generally has a strong track record in this area, making it a fundamental part of the model
 - Under PSR, the benefit of a player sale profit was extended over a three-year period. Under SCR, the benefit only applies in the year of sale. There may therefore be a risk if player sales are not substantial in an individual year
- Owner equity has not been the Pozzo family's preferred approach to date, with contributions typically structured as debt. This would not support compliance under SCR. Equity contributions may be required to avoid breaches.
- At £26m, Watford's revenue is below the Championship average. This places pressure on the squad budget and increases reliance on player trading and, potentially, owner equity to remain both compliant and competitive.



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- Recently relegated clubs continue to hold a significant advantage, as parachute payments substantially increase their available revenue and, under SCR, directly increase their spending capacity.