



Mrs Christine Chapman AC/AM
Chair
Communities, Equality and Local Government Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

25 February, 2014

Dear Mrs. Chapman,

Once again, our sincere apologies for the delay in responding to your letters of 27 January as a result of Nigel being out of the UK and Stuart's illness. Whilst Nigel has now returned, unfortunately Stuart remains unwell, hence the need to appoint an "Acting" CEO for Regional Rugby Wales (RRW) to support the Regional businesses at such a critical time. Mark is the CEO of Scarlets and has agreed to undertake the RRW role while Stuart recovers.

On behalf of all four Regions, we would thank yourself and the members of the Communities, Equality and Local Government Committee for expressing your concern regarding the issues Rugby currently faces in Wales. We are deeply encouraged by the engagement and genuine concern shown by members of both the Welsh and Westminster Governments in seeking to understand the situation and, if appropriate, assist with a resolution that contributes to the overall health of the game in Wales for the future.

Your questions are carefully considered and deal with the fundamentals in each case, so we have laid out our response to each question directly. Of course, should you require any further information or background we will be more than happy to answer any further questions you may have.

1) "The issues that, in your view, have instigated the current dispute about the Participation Agreement"

Clearly, for any form of partnership to work effectively, there must be a balanced relationship on both sides, based on agreed fundamental principles, a genuine will from both parties to understand the position of the other and a commitment to developing the relationship over time, as circumstances and the environment change.

In this case, whilst the Regions are Independent Commercial entities, the WRU is a National Governing body so, in addition to the obvious requirement that any form of long-term legal agreement reflects sound business principles and the fundamental business requirements of each party, it should also balance effectively the requirements of all elements of the game in Wales, including Community, Semi Professional and Professional rugby, in addition to the International game.

Any agreement should provide for regular and consistent formal reviews, with the ability to adjust to changing circumstances on either side if necessary and if agreed.

Finally, for any long-term partnership to succeed, the requirement for trust is paramount.

The lack of trust between the WRU Executive and the Regional Organisations is at the core of the current dispute about the Participation agreement.

The Regions believe that it is a significant part of the responsibility of a Governing body to ensure the development of the Sport through effective working relationships with the stakeholders of the Sport operating within the jurisdiction of the Governing body.

Whilst there have been many challenges, inevitable mistakes and significant lessons learned on all sides since the Regions were created by the WRU only 10 years ago, their players and coaches, investors, sponsors, supporters and communities take great pride in their contribution to Welsh rugby over that time.

The existing Participation agreement, signed in early 2009, envisaged a 10 year term in total, but included a break after 5 years on the side of the Regions, allowing them to consider whether it was appropriate to agree a further 5 years on the same Commercial terms, or not. In that sense, the agreement was for 5 years, with an option to extend for a further 5.

Clearly, the environments of society, business and rugby have changed dramatically over the period from 2008 to 2014, perhaps more than any time over the last 40 years and certainly over the short time that rugby has operated as a professional sport.

In line with every independent business in the UK, the massive pressures on society, communities and businesses post 2009 caused each of the Regions to have to review their business models dramatically, including the appointment of new Senior management teams between 2010 and 2012 and cutting costs and revenue projections dramatically.

At the same time, detailed review by each Management team made it clear that the structures, controls and commercial agreements contained within the Participation agreement no longer reflected the significant changes that had taken place within the game, whilst the requirement for a Formal Annual Review included within the agreement had never been put in place by the existing Management Board.

Consequently, with new Management teams in place in each Region and with a real intent to rebuild trust, the Regions agreed to engage completely with PWC, who had been appointed by WRU to conduct a "due diligence" exercise into the Business and Financial model of Welsh Professional Rugby during February 2012.

At the same time, Nigel Short, Chairman of Scarlets and RRW agreed to chair the Working Group set up by WRU to operate alongside the PWC exercise, using the PWC information and conclusions to consider and propose structural solutions that could utilise combined resources to deliver both sustainable and competitive professional rugby in Wales for the future. The Working Group included representatives from WRU, the 4 Regions, PWC and an Independent advisor.

On May 29th 2012, Nigel presented the conclusion of the working group to the WRU Executive. Rather than trying to consider all the operational intricacies of the relationship, the recommendation was to set up a new "Management Board", with an Independent Voting Chairman, to avoid the "deadlock" built in to the existing Management Board within the Participation Agreement, changing the Governance of the decision making and concurring with the PWC conclusion that the only real solution was true collaboration between WRU and the Regional Organisations. The introduction of an Independent Chair also dealt with the issue of trust, by introducing an objective third party to the decision making process. A copy of the presentation can be found at *Appendix 1*, with a copy of the PWC conclusion at *Appendix 2*.

Almost 6 months later, on November 22nd 2012, the WRU and the Regions finally agreed and signed a Memorandum of Understanding to establish the "Professional Regional Game Board" (PRGB), with an Independent voting Chair. A copy of the MoU can be found at *Appendix 3*.

During December, the WRU proposed an appointment as Chairman, which the Regions accepted and the first PRGB meeting took place on Dec 17th 2012. In addition to several operational requirements of the Regions, at this first meeting the Chair requested the WRU to present their Strategy for Professional rugby, including the Regions, at the next meeting. This strategy has never been presented.

At the same time, following detailed proposals from the WRU to amend the legal agreement to accommodate the new PRGB and a consequent response from the Regions, discussion regarding the amendments broke down without agreement being achieved. In fact, the WRU accused the Regions of seeking to "interpret the memorandum of understanding in a manner which was unacceptable to the WRU". Consequently, no further PRGB meetings took place.

Once again, with an intent to build both trust and objectivity, the Regions proposed an Independent Adjudication of the interpretation of the MoU and confirmed they would abide by this judgement. No response was received from WRU.

Following this breakdown and a consequent series of attacks from the WRU in the media, the Regions found they had no choice but to respond with a press conference stating their position on April 4th 2013.

As a result, the Regions agreed with a WRU proposal to present their position to the full WRU Board on 25th April 2013.

In addition to a presentation on the process and financials by the Independent member of the Working Group, Nigel Short presented the same recommendation proposed in May 2012. *Copy at Appendix 4*.

It was impossible to gauge the view of the WRU Board members to the presentation as, prior to the presentation being made, they had agreed with the proposal of the Executive that no questions be asked. An extraordinary situation given the time and

commitment that had been devoted to the preparation of the presentation by the Regions and the real need for the Board to fully understand the issues at stake. This is a clear and stark illustration of the need for strong non Executive representation to ensure an appropriate level of scrutiny and accountability.

However, following the meeting, the WRU Executive confirmed that their intent was to re-name the existing Management Board the "PRGB" and implement a NON-Voting Independent Chair. Given no other option, the Regions agreed to this proposal.

Unfortunately, whilst this body has met at least monthly since July 2013, no progress at all has been made on the fundamental issues that have been facing the Regions for some considerable time.

Consequently, as at the 31st December, the WRU could not fulfill its responsibility of committing to either competition structure or revenues for the 14/15 season and the remaining term of the existing Participation Agreement. The following fundamental elements of the Regions' businesses remained unconfirmed, even as at today;

- The existence and structure of any European Competition for the Period 14/15 to 18/19.
- The income and distribution from any such competition over the period.
- The number of teams participating in the Pro12 league for the period 14/15 to 18/19
- The income and distribution from the Pro12 league over the period, or even the confirmation of a main sponsor

So the WRU's fulfillment of the basic definition of "participation" within the legal agreement could not be confirmed.

In demanding the Regions sign an extension, with an insistence that no renegotiation of any element was possible, the WRU were expecting the Regions to legally commit to their operating costs without any commitment from the WRU to the competition incomes that are their responsibility under the agreement. Such a commitment by the Boards of the Regions would be at best irresponsible and possibly illegal in their duty to their shareholders, employees and creditors.

It appears to the Regions that the WRU seeks to control all the key activities of the Regions, such as TV contracts, leagues, match timings and even, under the latest proposals, appointments of coaching and ancillary staff, without being prepared to share any level of commercial risk. The implication of such an intransigent stance is to further risk tens of millions of pounds of sponsor and benefactor support to the Professional game in Wales.

The WRU do not and could not run their businesses in such circumstances and neither can the Regions. Whilst the WRU refers to committed forward fixtures as part of its "rolling 5 year plan", the position the WRU has placed the Regional Organisations in is such that;

- 10/32 games are not confirmed for 14/15 season in just 6 months.
- Season ticket incomes cannot be confirmed for April/May – in just 45 days time.
- Match day incomes for 14/15 season cannot be confirmed.
- Sponsor contracts and income cannot be confirmed within contractual deadlines
- Playing kit, merchandise design, orders and income cannot be confirmed within contractual deadlines.

The total income at risk for 14/15 season alone amounts to a possible £16m across the four Regions and they are unable to confirm any form of robust business plan and financial forecast beyond May.

In addition to failing in its responsibility to the Regions to provide both Competition platform and consequent revenue, at all points over the last two years, the WRU Executive have steadfastly refused to discuss or negotiate any element of the Commercial terms of the existing Participation agreement.

We note that the WRU response to the committee states that; "... the Regions did not inform the WRU of their intentions not to extend until 5:15pm On 31 December 2013. That meant six months of potential negotiation for a new agreement was lost"

This statement is completely incongruous when considering the points above.

It is clearly at odds with the fact that the Regions submitted a further “5 point plan” to WRU on 20th September 2013, as covered in the minutes of the PRGB meeting held on 25th September 2013.

The minutes of the PRGB meeting held on 12th October 2013 clearly refer to the fact that the Chairman “... Recognized the uncertainty surrounding ERC was a major concern, preventing the Regions from signing the Participation agreement.” They go on to state that “The Chairman wondered if there was any scope to alter the 31st December deadline if the issues surrounding ERC have not been resolved, adding that the Participation Agreement could be varied subject to the formal consent of all parties”

The response from WRU included in the minutes was “Mr. Lewis confirmed that if the Agreement is not signed by 31st December, then on 1st January 2014, the WRU will go out to tender for Professional Rugby in Wales”

Finally, the minutes of the PRGB meeting dated 12th November 2013 state that “prior to the meeting the Regions had circulated a paper in which they set out those areas of the PA which they wished to renegotiate”, that “DP (David Pickering) made comment in relation to the paper which had been received on the 11th November 2013” . They continue with the statement that “DP reminded the Regions that the PA was clear, the only contractual option available to the Regions was to extend the PA on the same terms and conditions”. The minutes then conclude with the action for “WRU to respond to Regional paper for amendment to the Terms and Conditions of the Participation Agreement-7 working days-21st November 2013”. This response has not been submitted.

In fact, during October 2013, the WRU Chief Executive publicly stated on National television that failure of the Regions to extend the agreement on existing terms would mean that they would “cease to exist”, a statement that was backed up in a number of other public and private forums.

The four Regional organizations represent a turnover within the Welsh economy of some £30m, with an estimated Direct Economic impact of over £50m and provide employment opportunity for approximately 800 full time and part time individuals. This is the true perspective of the risk that such a staggeringly irresponsible stance represents.

Furthermore, despite failing in it’s duty to provide both coherent competition platforms and committed revenues that enable the Regions to operate their businesses, the WRU clearly state that they retain the right and power to stop the Regions undertaking any action to do so themselves.

Following the Regions’ confirmation, once again, on 31st December, that they could not possibly sign an extension to the existing agreement due to all of the above, having refused to discuss or negotiate the agreement, the WRU immediately furnished a heavily modified Operational agreement on the 6th January, with a proposed Financial structure following on January 14th.

Whilst the Operational side of this new agreement would not be acceptable to any third party organization and the Financial framework as proposed is fraught with mechanisms that create further substantial risk for the Regions, we continue to attempt to re-set discussions by proposing a set of fundamental principles that the agreement should seek to achieve prior to any detail drafting of conditions and obligations. Following the input of the Principles from the Regions on 26th January, the WRU Executive now inform us they will respond by the week of February 24th, followed by a further meeting scheduled for March 3rd, following which further discussion may take place. A full 4 weeks to respond to a simple set of principles and a further 4 weeks delay in the Regions’ ability to operate as businesses, resulting in continued uncertainty for 800 individuals.

2) “Any action that is needed to ensure that such a situation does not occur again in the future?”

Our concerns regarding the Governance of the WRU are covered in the answer to question 3, so our response to this question will be limited to the practical elements of reaching any future agreement between the Regions and the WRU.

Given the complete breakdown of trust between the two parties, a situation which has existed for a number of years, but been reinforced over the last two years, despite new Management teams being introduced across the Regions, it is essential that Independent analysis and review is undertaken to ensure an objective viewpoint.

In addition to proposing an Independent view of the legal interpretation of the original Memorandum of Understanding, which agreed a PRGB with a voting Independent Chair, the Regions have proposed an Independent review of;

- Negotiation and Distribution of TV contracts and Revenues across the Professional game at both Regional and International level.
- The true costs of the development, retention and provision of International players to the Welsh National Team, particularly when exposure at International level can cause player salary inflation well in excess of 100% per annum or per contract.

The WRU has made no response to any of these proposals.

All three proposals would introduce objectivity into the negotiations and the original proposal of a PRGB with a voting Independent Chair remains the most practical solution.

In addition, it must be appropriate for the WRU to confirm it's strategic plan for Welsh Professional Rugby, as requested by the (then voting) Chair at the first PRGB meeting, with a clear definition for the position and responsibilities of the Regions within that Strategy.

Finally, as it is clear that the WRU continues in it's unhealthy exploitation of it's influence over Welsh media to establish negotiating positions, an Independent Chair could ensure any future negotiation is not conducted through the medium of the press.

3) “Any views or concerns you have about the Governance and funding arrangements for Rugby in Wales and whether any improvements need to be made to ensure the game’s sustainability in the longer term?”

- **Governance**

The Regions believe that the inadequacy of the Governance of the WRU is at the root cause of the issues faced by the Regions, the Semi Professional game and the Community Clubs regarding their relationship with the WRU.

We understand that you have written to the District Secretaries to ensure the WRU grass roots member clubs have the opportunity of their opinion on governance, finances and the future being heard.

The Regions believe that this is critical as neither the Regions or the National side can be sustainable or competitive without a strong foundation of grass roots rugby from Community clubs throughout Wales, the most significant contribution of all to the health of Welsh Rugby. The clubs are the essential start point for every young player and the contribution of the many volunteers who work tirelessly to provide people of all ages the opportunity to be involved in the game is critical to the future of the game.

In addition to their role as the foundation of all rugby in Wales, we are very conscious that the community clubs are an essential part of the social fabric of many communities around Wales and should be encouraged to celebrate their own identities and goals.

However, neither the existing Participation agreement, nor the proposed new agreement, recognise any role at all for the Regions in Community rugby. All of the activity currently undertaken by the Regions is entirely at their own initiative and funded by themselves as part of their belief in the invaluable contribution of Community rugby to the game.

Therefore, whilst the Regions are fully aware of the widely held concerns amongst the clubs regarding disparate league structures and decreasing income, at a time when they are facing increasing demands and consequent costs, those concerns are best expressed by the clubs themselves in their input to the committee.

However, there is a clear and growing imbalance between the resources available to the foundation of the community game and the Elite elements of the organization as a direct result of the drive to an increasingly centralized structure.

The Regions firmly believe that active and productive engagement and team work between each Region and the community clubs within its geographic area would be the most effective route forward for the future of Welsh Rugby.

The devolution of responsibility for participation and development to a local level, subject to agreed targets and performance indicators would be the most effective way to ensure that participation in Rugby across all age groups can compete with the significant gains being achieved by football. As you will know, the participation and demand across all age groups for all Sports are available from Sport Wales, whilst the adult participation numbers are also available from the WRU Clubs survey undertaken in 2012/13.

In terms of the Corporate Governance of the WRU as a governing body, the UK Government endorses the “Voluntary code of good governance for the sport and recreation sector”, published by the Sport and Recreation Alliance in 2011 to provide clear guidance for sport and recreation boards, such as the WRU. *Code attached in Appendix 5.*

This guidance includes the following basic principles;

- The Board should include at least 2 Independent Non Executive Directors who bring knowledge and experience from outside the Sport.
- The Board should ideally have an Independent Chair to provide objectivity.
- The members of the Board should be chosen on the basis of their competence, ability, quality, leadership, integrity and experience.

The WRU Board does not comply with these basic principles.

Appendix 6 includes an independent article from a knowledgeable supporter that best illustrates this.

Consequently the Regions do not believe that the WRU operates with adequate Governance. It provides neither the transparency of decision making expected by a governing body in the “ownership” of member clubs, or the scrutiny expected of an independent organization answerable to shareholders. The result is a lack of “check and balance” on the decisions of the executive, particularly in relation to financial performance, decisions and investment criteria.

The Regions do not believe that the WRU is either fit for purpose in its relationship with member clubs to ensure the health of the amateur game, nor in its business partnership with four independent Regions which should deliver sustainable and competitive professional rugby at both a Regional and National level.

- **Funding arrangements**

As a direct result of the above, it is the Regions’ belief that the Financial information provided by the WRU does not meet the level of transparency expected of a governing body of member clubs, whilst the financial decision making process is at best opaque.

Of course, Financial information, as any set of figures, can be presented in several ways. By way of illustration of the above, *appendix 7 includes an independent analysis of financial performance which allows comparison with the WRU’s own positioning of performance.*

Appendix 8 includes an analysis undertaken by an ex Chief Executive of WRU, NZRU and Sport England, which also allows comparison with the WRU’s own positioning.

Appendix 9 includes a further independent article on several accounting conventions used by WRU and, particularly, the effect of these conventions on the statistics utilised to demonstrate performance improvement.

If we remove the Competition revenues “passed through” to the Regions from the competitions they play in, it still remains the case that the vast majority of the £53m income that the WRU itself achieves is generated by International fixtures undertaken utilising players developed by the community clubs, semi professional clubs and Regions and funded by the Regions.

In a balanced and collaborative relationship, there would be a recognition of the true costs of developing and retaining those players, together with the cost of contracting the additional players necessary to enable the Regions to fulfill their own contracted fixtures whilst their International players are not available. It would then be possible to agree a fair level of compensation for the loss of those players while they are utilised by WRU to generate revenue through the International fixtures.

The WRU has consistently refused to recognise the true cost or discuss a fair compensation based on those costs.

In fact, whilst the Regions estimate the true cost of development, retention and substitution players at over £200,000 for every International player, the compensation provided by WRU for an individual International Player over a season amounts to @£40,000 only.

Whilst there are additional payments included within the existing Participation agreement to incentivise the development of Welsh players within the Regional squads, the total compensation available to the Regions for pure player release amounts to @£1.2m. Even if we consider the whole amount of @£6.4m the WRU provide to the Regions, it remains only @12% of the £53m revenue of the WRU, the vast majority of which is generated by fixtures played by the Regions’ employees.

It would appear from a review of the Irish and Scottish Unions accounts that, although there is a very different funding model in place, both Unions commit substantially more resource to the Professional game at a club level.

The Regions have again proposed an Independent review of the costs of International players and their replacements, a proposal which has received no response from the WRU.

Once again, the Regions would like to thank you for expressing your concerns regarding our game, together with the time and effort you are prepared to commit to understanding the issues and, if possible, assisting with a resolution.

As we have consistently stated, we believe that Welsh rugby deserves an objective and Independent review of its governance and funding arrangements, across the entire spectrum of the game, including the Regions. Having provided complete and open access to every aspect of their financial information to PWC during 2012, the Regions would welcome the scrutiny of any appropriate Independent enquiry. It should also be noted that, in marked contrast to the Regions’ approach, the financial information that the WRU was prepared to release to the Regions through PWC during this exercise was extremely limited.

Please do not hesitate to request any further information you may require and we look forward to hearing your conclusions in due course.

Yours sincerely,

Chairman Cardiff Blues

Chief Executive Cardiff Blues

Chairman Ospreys Rugby

Chief Executive Ospreys Rugby

Chairman Newport Gwent Dragons

Chief Executive Newport Gwent Dragons

Chairman Scarlets

Chief Executive Scarlets

1. WHAT'S GONE WRONG (not who's to blame)

(Hindsight is a wonderful thing)

- The amazing success of the Welsh team has dramatically increased the market value of our top players. World Cup, Six Nations.
- There has been an unprecedented increase in player market value driven largely by the French
- Benefactors have withdrawn a large amount of support (previously circa £30 million over 10 years) because:
 - Disillusionment with continual conflict
 - Lack of European success
 - The financial crisis
- We have failed to attract new benefactors/emotional sponsorship. See above
- The P.A. doesn't work because:
 - It has no mechanism to be flexible, to evolve to meet challenges or to continually improve
 - It is a conflict model with no alignment of commercial interest

- It has deadlock built in
- Decisions and positions are taken on a 'tribunal' basis, not for the benefit of Welsh Rugby as a whole.
- It disincentives development of Welsh players because:
 - Triple whammy when a player is called up
 1. He is lost for around half the year
 2. His market value increases
 3. His replacement cost
- The impact and threat from premiership/championship football (Swans and Cardiff)

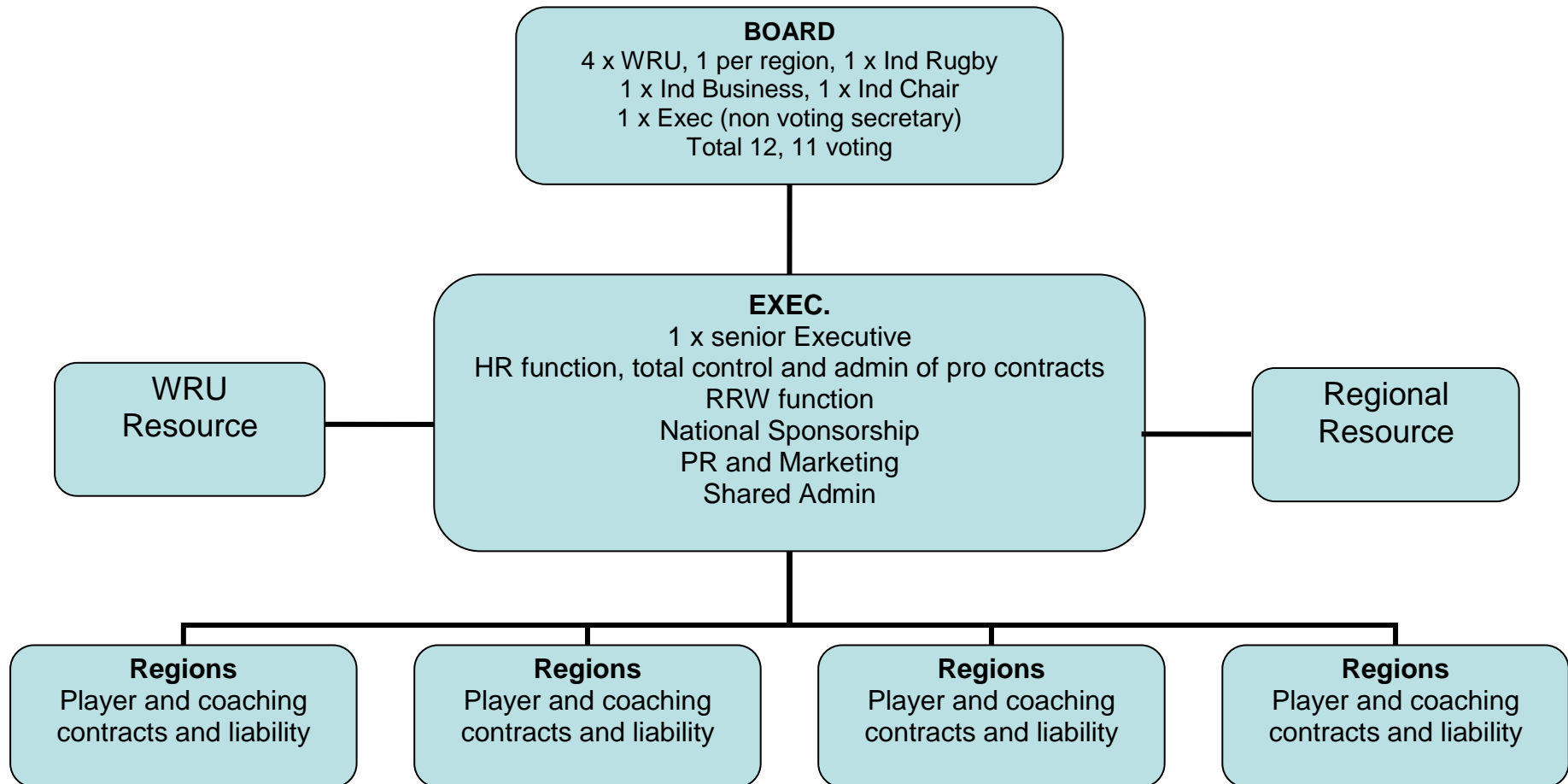
➤ **WHAT'S GONE RIGHT**

- World class stadiums and facilities
- Success of national team
- Massive economic impact in deprived areas
- Increased participation and youth engagement
- Improved professionalism in management (could be better)
- Development pathways of Welsh players

STRAWMAN EVOLUTION

A NEW BEGINNING – REVOLUTION AND SIMPLICITY

3. STRUCTURE – NEW MANAGEMENT BOARD



NEW RUGBY BOARD

4.OBJECTIVES

- To underpin, support and maximise performance of the national team
- To achieve strong, sustainable and competitive professional rugby in Wales
- Ensure continued support and development of the community game
- Retention of senior Welsh Internationals
- To achieve four regions within HC competitive squads within five years (define?)
- To maximise development of Welsh Internationals.
- Improved premiership performance

5.AUTHORITY

- Amendment of P.A. and total reconstitution of management board
- Distribution of new core Grant, (how much?) withholding of existing grant
- Distribution of net competition revenue achieved, Pro 12 and HC
- CEO/GM appointment approval (limits?)
- Head coach's appointment approval (limits?)
- Twelve month budget approval, any cash shortfall covered by credible commitments (limits, timelines, penalties?)
- Five year plan
- Allocation of players ((procedures, limits?)
- Total control of player contracts, H.R and contract admin (international contracts?)
- Player movement approval. Efficient allocation, cost savings, competition performance and Welsh International retention.

6. PRINCIPLES/BALANCE OF SQUAD CONTROL

- Current limits on NWQ and time serving players
- Reducing limit on ex-pat Welsh players available for section for international team (grandfather existing, for agreed time)
- Region option on first and second choice for each position, third choice if one is regular international (exceptions?)
- Management board allocate below second choice with due regard to budget, player wishes and circumstances
- Strategic allocation of developing players by regional needs, coaching environment, etc to maximise development

7.ADVANTAGES (To be read as extension to Strawman report)

- Only a modification of existing PA and structure – simple
- Overhead already exists in regions and WRU
- Business risk stays with operating company of regions – they can fail
- Speed
- It's a structure that can evolve
- Retention of benefactors and emotional sponsors
- Attraction of new benefactors/emotional sponsors by removing conflict
- Retention of Welsh players
- Aligns commercial incentive to develop
- Will work for two or three

8.COSTS

AT START OF YEAR ONE

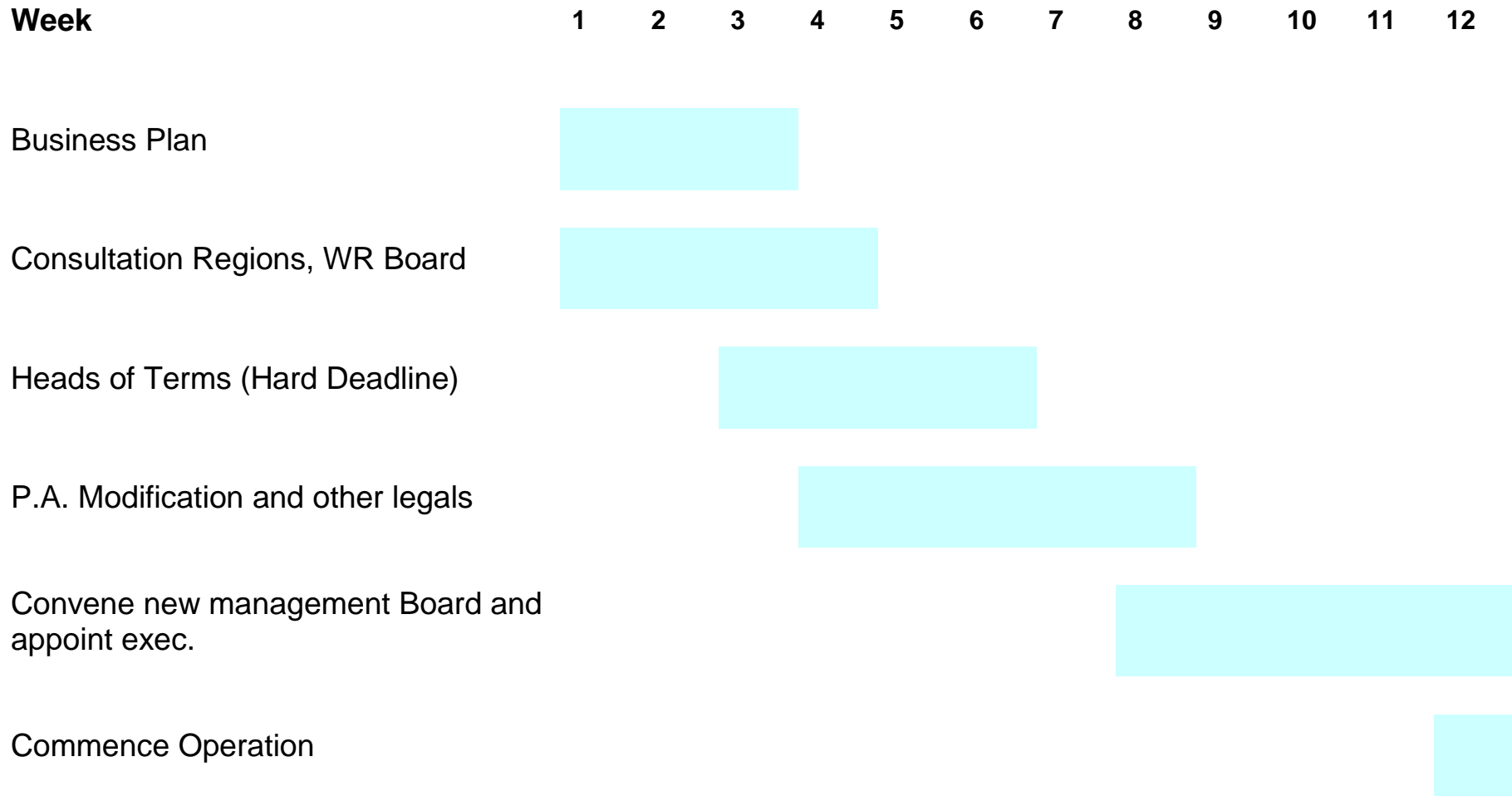
- Some regions are solvent but need circa £?m per annum each to be HC competitive and retain Welsh players
- Some regions are stressed and need circa £? each, one off loans
- Optimise, stabilise
- Incentivise development (£50k first call into squad, £50k first cap, £50k fifth cap)

Est cost £?m per annum plus £?m loans

ONGOING

- Subject to savings, competition rev, etc
- WRU commitment (three years?)
- Regions commit no repayment of related party loans (directors), dividend, etc.
- Any profit or cash surplus repaid to pot from optimised regions, cash surplus from stressed regions 100% to squad
- Still apply cap (£4.5m?)
- As pot grows share to all regions or 100% to stressed region.

9. TIMELINE



Potential options discussed during the course of our work

Potential Option	Description	Advantages	Limitations / Disadvantages
Status Quo	The existing PA is retained and the Regional model continues to operate in the current structure.	Appears to offer a sustainable future for the Regions based on the aggregated FY13 Regional projections;	The current model is perceived to be 'broken' by the Regions; Significant risks surround the achievability of the FY13 projections indicating it is unlikely the current model will be sustainable in the short term; Individual Regions are still projecting to require Benefactor funding requirements in FY13; As the Regions cut player costs this will impact the competitiveness of the Regions, and potentially the National squad
Centrally contract National Squad	The WRU could centrally contract the National Squad, and reduce the level of distributions to the Regions through the PA	Increased control over the National Squad for the WRU; The risk of National Squad salary negotiations, and inflationary pressures, transferred from the Regions to the WRU who may be more effective at resisting these pressures.	Does not address the structural funding gap for the Regions (the Regional income received from the WRU will be reduced by the value of the reduction in the cost base);
Change the structure of the season	Structure the season so that competitions run in succession rather than overlapping	Improved marketing opportunities for the Regions; Increased availability of international players;	Would require a fundamental restructuring of the rugby season in the Northern Hemisphere with agreement across all Unions and the IRB; Existing broadcasting and sponsorship agreements would potentially need to be re-negotiated.
Disband Regional rugby and revert to club structure	The Regional model could be disbanded and replaced with the previous club structure	Potentially reinvigorate attendance levels;	Potential loss of income; Dilution of the playing strength leading to uncompetitive teams; Reverting to a structure that was previously unsuccessful undoing a decade of work developing and establishing the Regional structure.

Potential options discussed during the course of our work

Potential Option	Description	Advantages	Limitations / Disadvantages
Different number of Regional teams	The number of Regional teams could be reduced	Greater concentration of playing and coaching resources improving competitiveness; Lower number of professional players resulting in reduction in cost base	Would result in renegotiation of broadcasting and competition agreements with likely reduction in total income; Limits the number of players able to play at Regional level with potential impact on the development pathway for young players with knock on effects on the National team
WRU takes full control over professional rugby and the Regions	The WRU takes ownership of the Regional teams giving the WRU full control over professional rugby in Wales	Potential cost saving and synergy opportunities; Opportunity of clearer lines of responsibility and decision making;	The WRU would have to be able to fund the full cost of Professional rugby in Wales which could result in reduced funding for grassroots and premiership rugby; The WRU would potentially breach its banking covenants; Potential loss of Regional identity and local sponsorship;
Collaborative approach with a Management Board overseeing Regional rugby	The Regions and the WRU adopt a closer collaborative approach with the introduction of a Management Board to enforce	Maintains the Regional identity and Benefactor involvement; Can be implemented quickly;	Requires a collaborative approach between Regions and between the Regions and the WRU which has historically not happened; Requires the Management Board to have the 'power' to drive, and if necessary, enforce this collaboration and the solutions identified through the operation of this Board

Preliminary conclusions of potential options

Preliminary Conclusions:

- Discussions between the Regions and the WRU remain ongoing, however, preliminary conclusions are set out below:
 - The 'status quo' appears to offer a sustainable future based upon FY13 projections, however, these projections include some significant risks, and are unlikely to result in competitive Regions;
 - Centrally contracting the National Squad will not address the fundamental structural funding gap although it would transfer a degree of risk from the Regions to the WRU;
 - **Reverting to a club structure** would return to a structure that failed to produce competitive teams and potentially undo the decade of investment in the Regional structure;
 - **A reduction in the number of Regions** whilst reducing the total cost base would reduce income through lower competition and broadcasting income and would limit the development pathway for young players with the subsequent impact on the National team;
 - Although a **revised season structure**, to play competitions in succession rather than overlap, appears sensible it is impractical to implement without IRB and other Northern Hemisphere Unions agreement;
- Given the current structure already exists and the structure is not being developed from a 'blank piece of paper', the logical solution appears to be a closer and more collaborative approach between the Regions and the WRU to address the funding gap.
- Both parties are currently reviewing and assessing the potential cost savings and synergistic benefits that could arise from a closer and more trusted working relationship.
- However, should the WRU take on more risk it logically should have a greater degree of control. However, this could lead to a requirement to treat the Regions as subsidiary companies, which we understand would not be acceptable to the WRU.

PWC Final Report key points

Recommendation

A collaborative approach , with a Management Board that has "the power to drive and if necessary enforce this collaboration and the solutions identified through the operation of the board"

(Collaboration : "cooperative arrangement in which two or more parties work jointly towards a common goal" .)

Conclusion points

"Centrally contracting the National Squad will not address the fundamental structural funding gap"

The regions will have to "continue to reduce player costs"

Regions Management ;

Page 10 states that "the deteriorating financial performance of the Regions from 08-11 has in part been due to poor management at the regions , however , external market pressures have also had significant impact which are difficult for the management teams to combat"

Page 12 refers to "New or strengthened management teams" in all regions and states "the new management teams appear to be putting a strong emphasis on improving the commercial & marketing activities"

Structure

The report consistently refers to "the structural funding gap for the Regions"

Page 4 point 1 confirms the Regions have not been viable without Benefactors .

Page 4 point 3 confirms that benefactor funding has been used to fill the annual funding gap.

Page 9 states that "the four Regional businesses are not sustainable on a stand alone basis in their current form without continued additional funding from benefactors"



RRW
REGIONAL RUGBY WALES

Presentation to WRU Board 25 April 2013





RRW
REGIONAL RUGBY WALES

1

- Setting the scene

2

- PWC Report

3

- WRU strategy

4

- PRGB

5

- Governance

6

- Way forward





Chairman of the Strategic Working Group



WHAT'S GONE WRONG (not who's to blame) (Hindsight is a wonderful thing)

- The amazing success of the Welsh national team has dramatically increased the market value of our top players
- There has been an unprecedented increase in player market value driven largely by the French
- Football is a clear and present danger (2 premier clubs: 1.25 million; total professional rugby: 0.8 million). Participation almost double and turnover almost double.
- Benefactors have withdrawn a large amount of support because:
 - Disillusionment with continual conflict
 - Lack of European success
 - The financial crisis
- It is difficult to attract new benefactors/emotional sponsorship. See above



WHAT'S GONE WRONG (not who's to blame) (Hindsight is a wonderful thing)



- The P.A. doesn't work because:
 - It has no mechanism to be flexible, to evolve to meet challenges or to continually improve
 - It is a conflict model with no alignment of commercial interest
 - It has deadlock built in
- Decisions and positions are taken on a 'tribal' basis, not for the benefit of Welsh Rugby as a whole.
- It discourages development of Welsh players because:
 - Triple whammy when a player is called up
 1. He is lost for around half the year
 2. His market value increases
 3. His replacement cost
- On a purely financial basis it is not in a region's interest to develop Welsh players! This is crazy!





WHAT'S GONE RIGHT

- World class stadiums and facilities
- Success of national team
- Massive economic impact in deprived areas
- Improved professionalism in management
- Development pathways of Welsh players

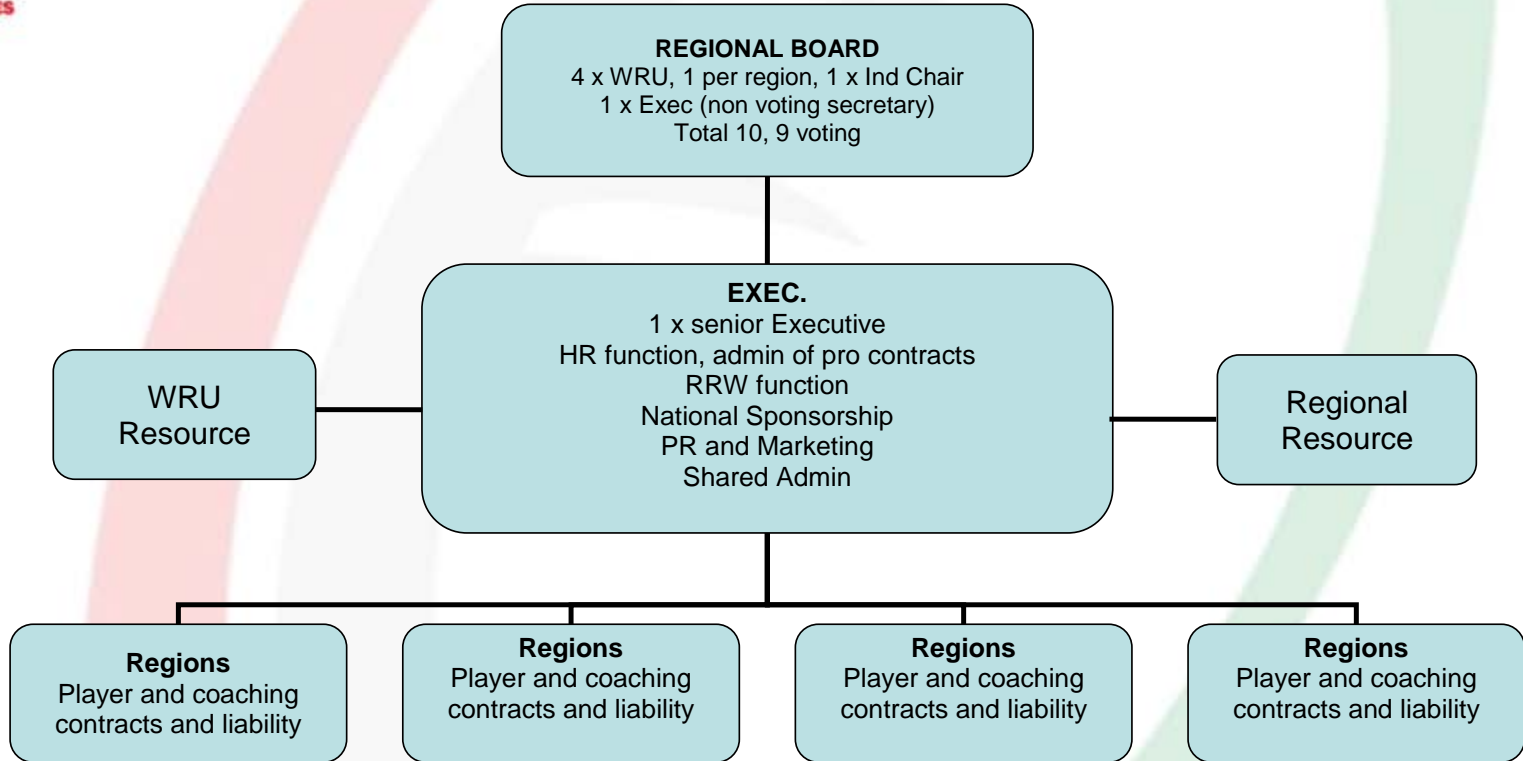




STRAWMAN EVOLUTION

A NEW BEGINNING – REVOLUTION AND SIMPLICITY

STRUCTURE – NEW MANAGEMENT BOARD





NEW RUGBY BOARD OBJECTIVES

- To underpin, support and maximise performance of the national team
- To achieve strong, sustainable and competitive professional rugby in Wales
- Ensure continued support and development of the community game
- Retention of senior Welsh Internationals
- (Region to supply list of players out of contract in the next 12 months)
- To achieve four regions within HC competitive squads within five years
- To maximise development of Welsh Internationals.
- Improved premiership performance



ADVANTAGES

- Only a modification of existing PA and structure – simple
- Most overhead already exists in regions and WRU
- Business risk stays with operating company of regions – they can fail
- Speed
- It's a structure that can evolve
- Retention of benefactors and emotional sponsors
- Attraction of new benefactors/emotional sponsors by removing conflict
- Retention of Welsh players
- Aligns commercial incentive to develop players





ADVANTAGES

- Increase commercial revenues by selling Welsh rugby as a whole for the first time.
- Limited potential for future ticket revenue increase for internationals but substantial at regional level. We should look at this as a £100+ million business.





RECOMMENDED URGENT ACTIONS

Establish small working group to review the MOU and establish the PRGB with reserved matters over international game but with authority and a voting chair over ALL matters regional.

Suggest David Pickering, Sir Wyn Williams one WRU Exec, One WRU non-exec, one Regional exec, Stephen Harrison, and one regional non-exec.



PRGB Agenda (not an exhaustive list)

- Review WRU strategic plan for Regional Rugby and ensure it aligns with the objectives of the PRGB. We must have the same agendas.
- Apply 'Gatland's Law' as do other countries but with grandfather rights for international players already outside Wales
- Review current competition quality and options. Does our product compare with football?
- Review potential structures for central contracts



RECOMMENDED URGENT ACTIONS

- Put in a commercial incentive for development – senior and under 20's
- Establish a 'Welsh Qualifying Programme' with the regions to ensure future strength in depth for the national team in key positions.
- Agree joint press release on the way forward.

Is there any reason this cannot be done by the end of next week?

...lock-in until it is achieved.





ALL OF THIS WAS PLAIN COMMON SENSE 12 MONTHS AGO AND IT STILL IS TODAY

- If the union want total control of the regions then say so and we know where we stand
- If the union want independent regions then we must start working to the same agenda
- The alternative is another five years of conflict, slow decline and a sleepwalk into Wales as a football nation!

Carry on as we are and there will be little left over which to fight!



Appendix 5 – Sport and Recreation Code. The document referred to is the Voluntary code of good governance for the sport and recreation sector, published by the Sport and Recreation Alliance in 2011. The code was endorsed (on p3) by the then UK Minister for Sport and the Olympics Hugh Robertson.

The four points referred to in the original article are set out on p25 of the voluntary code.

You may also be interested in this section of the Sport and Recreation Alliance website:

<http://www.sportandrecreation.org.uk/smart-sport/voluntary-code>

Appendix 6 – Governance article <http://gwladrugby.com/>

Appendix 9 – Finance article <http://gwladrugby.com/>

WRU Financial Information

Introduction

This memorandum has been prepared in order to summarise financial information relating to the WRU.

Limited information is available to the Regions on the detailed financial performance of the WRU. As a result, the information included in this memorandum has been taken from the annual accounts and reports. This information is in the public domain.

Accounting treatments

The WRU generates surpluses in order to “re-invest” in elite and community rugby. The accounts show, as part of the administrative expenses of the WRU, payments made to the Regions, Clubs (semi-professional) and Community rugby. These payments are described in the accounts as “allocations,” and form part of the administrative cost of the WRU.

The accounts and “allocations” are impacted by the accounting treatment of competition income. Competition income represents the income from competitions, including the Heineken Cup and the RaboDirect Pro12, which is income received by the WRU for the Regions participating in the competitions. This money is paid by the WRU to the Regions. In this regard, the competition income is a “pass through” for the WRU. The commercial nature of the competition income is that it would be more meaningful for it to be deducted from both the WRU income and the “allocations.” This would allow the allocations to only include the sums paid to the Regions that are generated from the WRU’s own activities.

Similarly, in the 2013 accounts, approximately £0.7 million was included in the allocations to the Regions, which was received by the WRU from the British and Irish Lions tour. This represented a compensation payment made by the Lions for the Welsh players that took part. As the Lions players were employees of the Regions, the money “passed through” the WRU to the Regions. Again, the commercial nature of this compensation payment is such that it should be excluded from the allocations made to the Regions, for a more meaningful analysis of the allocations paid by the WRU.

The allocations in the year ended 30 June 2013 have also been affected by the announcement made only 3 days prior to the year-end by the WRU:

“The £2.5m additional investment will be split as follows:

- *Community rugby £1.3m*
- *Regional rugby £1.0m*
- *International rugby £0.2m*

The [two largest initiatives]... into community rugby will include schools initiatives...will be an innovative website scheme to assist member clubs at c. £0.3m and further Facilities Grants of £0.8m.

...WRU Clubs at all levels will be able to apply for grants of £5k, £10k, £20k or £50k to fund improvements to their facilities.

...The Group Chief Executive of the WRU, Roger Lewis, said: “I am delighted that our financial performance over the past year has allowed us to launch these initiatives which will deliver clear benefits to the game in Wales.

...The additional investment into regional rugby of £1.0m will target the development, recruitment and retention of Welsh international players. Specific details of how this money is invested will be determined by the WRU during further discussions between the WRU and representatives of the Regions.”

As a result of this announcement, the WRU has treated these commitments as a liability in its accounts. It is clear from the announcement that:

1. These amounts are one off payments.
2. They were not paid to the Community clubs or the Regions in the year ended 30 June 2013.
3. The amounts were conditional payments, dependent upon future actions by the Community clubs and the Regions.
4. The payments were intended to provide future benefits to Welsh rugby and not reward past performance.

It is also clear from subsequent events that at least £1 million of these amounts will never be paid to the Regions, as a condition imposed by the WRU for the Regions to receive payment was dependent upon the Regions resigning the Participation Agreement by 31 December 2013.

Despite the nature of the transactions, they have been treated as an “expense” in the 2013 accounts. The accounting treatment, adopted by the WRU, raises a question over the meaningfulness of the allocations disclosed in the 2013 accounts.

Certainly, increasing the amount disclosed as “allocations” to the Regions, Clubs and Community clubs in the 2013 accounts, by in excess of £2 million, based solely on the timing of a press release made 3 days before the year end, could give rise to a lack of understanding by readers of the accounts. This is of particular concern as the WRU has focused (inter alia), in its commentary to the accounts, upon the extent of the increase in allocations from year to year, without making it clear that the increase is dependent upon the Regions and Community clubs satisfying certain conditions, some of which turned out to be unachievable by the intended recipients.

Adjustments to the accounts

In order to provide a more meaningful analysis of the financial performance of the WRU and the allocations made to the Regions, Clubs and the Community clubs the following adjustments have been made to the annual accounts of the WRU:

1. The “pass through” competition income has been deducted both from the WRU income and the allocations made to the Regions.
2. The pass through compensation payment made by the Lions for the players on the Lions tour has been deducted from the WRU income and the allocations made to the Regions.
3. £2.1 million provision made on the basis of the WRU press release has been deducted from the allocations; £1 million in respect of allocations to the Regions and £1.1 million to the Community clubs. This removes the results of the WRU being dependent upon the timing of a press announcement, which is entirely under its control.

As we do not have access to the underlying financial records of the WRU, it is difficult for us to know whether or not any further adjustments are necessary, in order to make a meaningful comparison of the results over a period of time.

Summary of financial performance

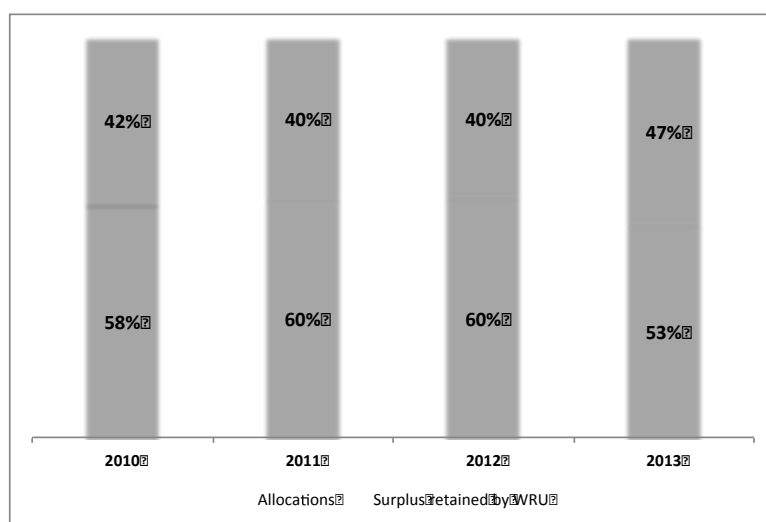
We set out below a summary of the WRU results over the past 4 years, during which time the Participation Agreement has been in operation:

	2010 £m	2011 £m	2012 £m	2013 £m	Total £m
Turnover					
Match income	34.2	30.5	35.2	32.1	132.0
Commercial income	10.9	11.2	12.2	13.1	47.4
Other event income	2.0	2.7	0.5	3.5	8.7
Other income	2.2	0.7	6.0	2.4	11.3
	49.3	45.1	53.9	51.1	199.4
Operational costs					
Business and admin	(6.4)	(5.6)	(5.8)	(6.0)	(23.8)
Direct	(11.6)	(10.7)	(10.4)	(11.3)	(44.0)
Players	(1.5)	(1.3)	(5.4)	(2.4)	(10.6)
Elite	(3.8)	(4.0)	(4.1)	(4.2)	(16.1)
Community rugby	(2.1)	(1.9)	(2.1)	(2.7)	(8.8)
Stadium	(5.4)	(4.5)	(7.7)	(5.3)	(22.9)
	(30.8)	(28.0)	(35.5)	(31.9)	(126.2)
Surplus prior to Allocations	18.5	17.1	18.4	19.2	73.2
Allocations					
Regions	(5.0)	(5.9)	(6.0)	(6.1)	(23.0)
Clubs	(1.3)	(1.2)	(1.2)	(1.2)	(4.9)
Community	(4.5)	(3.1)	(3.8)	(2.9)	(14.3)
	(10.8)	(10.2)	(11.0)	(10.2)	(42.2)
Operating Surplus	7.7	6.9	7.4	9.0	31.0
Interest	(4.9)	(1.0)	(1.8)	(1.0)	(8.7)
Interest on tax	0.0	0.0	0.0	(0.5)	(0.5)
Surplus before depreciation	2.8	5.9	5.6	7.5	21.8

The match income of the WRU is dependent upon the number of games played. In 2013 and 2011, only two 6 Nations matches were played at the Stadium, whereas in 2011 and 2010 three matches were played.

The surplus prior to allocations has been fairly stable over the period, averaging £18.3 million per annum.

The allocations have also been steady, however the allocations as a percentage of the surplus decreased in 2013:



As shown in the above table, the WRU has paid the Regions £23 million out of the surpluses generated over the 4-year period. Based on the PWC report issued in May 2012, the benefactors to the Regions had contributed at least £12million to the Regions, during the three years to June 2012 and at the time of the report a further £4 million had to be contributed in order to satisfy past liabilities.

Assets and liabilities

We set out below a summary of the assets and liabilities of the WRU for each year in the four years ended 30 June 2013:

	2010 £m	2011 £m	2012 £m	2013 £m
Fixed assets	141.4	140.3	136.2	132.0
Current				
Stock	0.0	0.3	0.2	0.2
Debtors	5.9	3.6	4.1	6.1
	5.9	3.9	4.3	6.3
Creditors				
Trade	(3.8)	(2.5)	(1.4)	(3.0)
Other	(0.5)	(0.6)	(0.6)	(0.6)
Accruals	(9.6)	(10.9)	(15.0)	(9.9)
	(13.9)	(14.0)	(17.0)	(13.5)
Net current assets	(8.0)	(10.1)	(12.7)	(7.2)
Net debt				
Cash	1.0	0.4	0.8	0.8
Fair value of derivatives	0.2	0.1	(0.7)	(0.5)
Bank debt	(33.1)	(26.6)	(19.6)	(20.3)
HP	(0.3)	0.0	0.0	0.0
	(32.2)	(26.1)	(19.5)	(20.0)
Debentures	(37.3)	(37.6)	(37.6)	(37.6)
Taxation				
Liability	(4.2)	(4.2)	(7.4)	(2.8)
Deferred	(3.3)	(4.0)	(2.1)	(1.7)
	(7.5)	(8.2)	(9.5)	(4.5)
Net assets	56.4	58.3	56.9	62.7
Reserves	3.1	5.3	5.7	13.4
Pension liabilities	0.3	0.0	0.0	0.0
Deferred income	43.0	43.0	41.2	39.3
Bank debt not repayable	10.0	10.0	10.0	10.0
Permanent funding	56.4	58.3	56.9	62.7

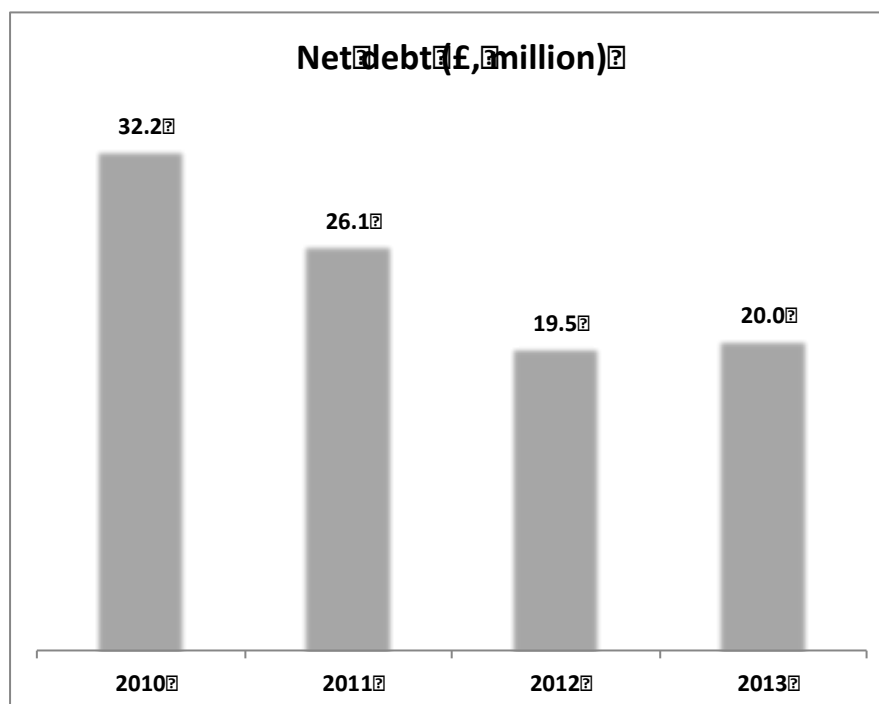
The information has been extracted from the annual accounts of the WRU. The accounts have not been presented in a statutory accounts format, but in a format that provides a more meaningful analysis. The only adjustment made to the accounts has been to exclude the £2.1 million provision, for the reasons explained on page 2 above.

Based on our interpretation of the accounts, the following is important to gain an understanding of the accounts:

1. **Deferred income.**
This is shown as a long-term liability in the accounts. It represents grants received, largely for the stadium infrastructure (the bulk of which was received from the Big Lottery Fund). These grants are being released to the profit and loss account in line with the depreciation on the stadium.
The deferred income will not be repayable and therefore is not a cash liability of the WRU. For this reason we have classified it as part of the permanent funding of the WRU.
2. **Bank debt not repayable.**
The bank borrowings shown in the accounts include £10 million of loans that will not be repaid, except in extremis (e.g. default on the loans). Again, this forms part of the WRU's permanent funding.
3. **Reserves**
The WRU's retained reserves increased by £7.7 million in 2013. This increase in the year reflected the settlement of the tax position, regarding the stadium, which resulted in the expected liability to HMRC reducing by £3.7 million. This favourable tax outcome contributed to the significant increase in retained reserves during 2013.

Bank debt

The amount of bank debt that is repayable has reduced over the period, as shown in the graph below:



The reduction in bank debt, over the last 3 years, has been substantial.

Bank facilities available

The following facilities were available to the WRU at 30 June 2013:

Nature of facilities	£, Million	%
Facilities utilised		
➤ Revolving credit facility	7.5	25
➤ Term loan	12.8	42
Total facilities utilised (debt shown in balance sheet)	20.3	67
Unutilised facilities	10.0	33
Total facilities available	30.3	100

(Note: The above table excludes the £10 million of bank debt that is not repayable)

A revolving credit loan facility provides the WRU with a maximum aggregate available facility over a specified period of time. However, unlike a term loan, the revolving loan facility allows the WRU to drawdown, repay and re-draw loans advanced to it of the available facility during its term.

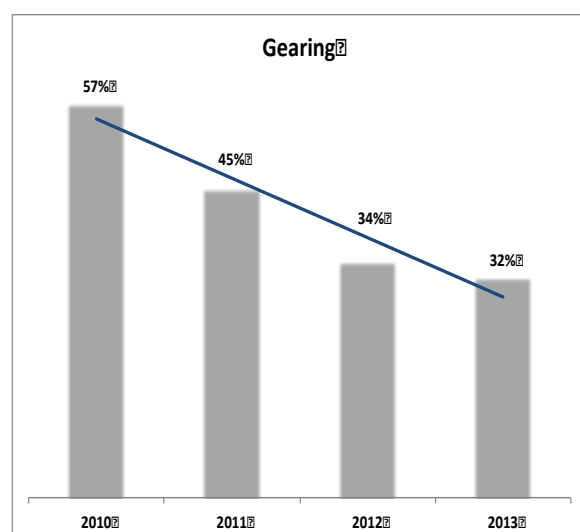
The facilities available to the WRU were £10 million more than were being utilised at 30 June 2013 and shown in the balance sheet as a liability. Given the structure of the bank facilities, we believe that this unutilised facility is likely to represent an undrawn element of the aggregate revolving credit facilities and potentially an element of bank overdraft.

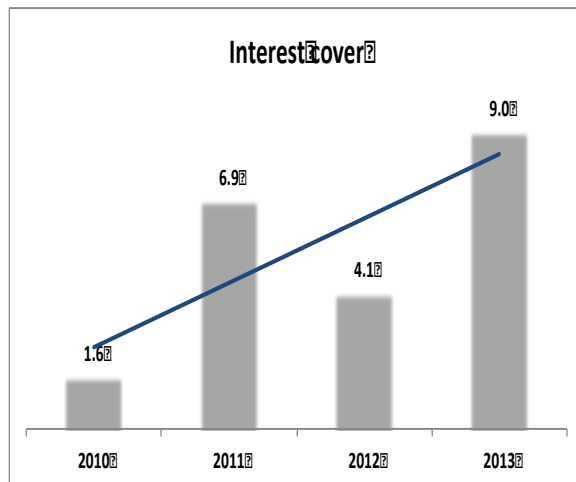
Liquidity of the WRU

Two measures of liquidity are often used for assessing the liquidity position of a company:

1. Gearing.
This measure can be calculated in a number of ways, but a common method is to compare bank debt with permanent capital in the company. The gearing ratio is shown as a percentage.
2. Interest cover.
This measure shows how many times the earnings before interest, tax, depreciation and amortisation (EBITDA) covers bank interest. The interest cover is shown as a ratio.

These liquidity measures for the WRU are shown below:





The trend lines, shown on the graphs, indicate the improvement and the speed of the improvement over the period covered by the summary.

Prospects

The Regions are not party to the WRU strategy, or its financial plans. As a result, we cannot comment, with any degree of certainty, as to the future funds that are available to Welsh rugby and on which the strategies of the Regions can be developed. However, the following appears to be relevant:

1. The operating surplus (see summary of performance above) in 2013 was £9 million. This was based on having only two 6 Nations games at the stadium, compared with 3 in 2014.
2. The long outstanding tax position has been resolved and the WRU tax liabilities are £3.7 million lower than the WRU management expected. This has, therefore, saved the WRU this amount of money, which is a “windfall cash gain”.
3. The WRU has £10 million of unutilised bank facilities
4. The tax rates have fallen from 23.8%, which applied to the WRU in 2013, to 21% in 2014 and 20% in 2015.
5. In the last 4 years the WRU has generated cash of £15 million (excluding the loss suffered in restructuring its financial derivatives). The amount averages approximately £3.75 million per annum in excess of the allocations.
6. We understand that subsequent to the year-end the WRU has generated additional income of £2 million per annum from sponsors, specifically targeted at retaining players in Wales. This should generate additional surpluses in future years, additional to those arising in prior years.

In addition to the current cash generation, PWC in their report (“Financial Review of Professional Rugby in Wales”) dated 15 October 2012, concluded (inter alia) that:

“... the logical solution appears to be a closer and more collaborative approach between the Regions and the WRU to address the funding gap.”

Along with PWC, we believe that significant opportunities exist to improve the financial position of Welsh rugby from closer collaboration and working between the Regions and the WRU. These opportunities include, but are not limited to the following “synergy benefits”:

1. Ensuring the Regions share in the development of the WRU strategy to enable the Regions to develop strategies that are complementary, rather than operating “blind”.

2. Developing a more structured approach to player salaries.
3. Developing a combined policy for retaining players in Wales
4. More efficient use of support and backroom facilities across Welsh Rugby
5. Developing more efficient pathways for development of our young talent
6. Developing a combined approach to sponsorship to sell “Welsh Rugby”
7. Developing a combined approach to raising funds from benefactors to support Welsh rugby. The recent success, in gaining an additional £2 million from sponsors (see above), is an avenue that the WRU has never explored in the past.
8. Utilising WRU’s extensive resources more effectively for the benefit of Welsh rugby.
9. Selling the naming rights of the stadium. The Irish obtained an investment in Irish Rugby of €8.3 million, as an upfront payment for the sale of the naming rights of the stadium for 10 years. Such an approach could reduce the bank debt, allowing funds to be channeled into Welsh rugby.

Potential funds available for reinvestment in Welsh rugby

As explained above, we do not have detailed financial information or financial plans for the WRU. It is therefore difficult to assess what funds may be available to the WRU, going forward, to invest in Welsh rugby. However, an estimate of the potential funds would be:

Source of funds and estimated outflows	£, Million
Operating surplus in 2013 (see table on page 3)	9.0
Less (all estimates based on accounts for 2013):	
➤ Capital expenditure	(0.7)
➤ Bank (capital and interest)	(3.8)
➤ Taxation(see note below)	(1.4)
Cash available for reinvestment	3.1
Additional sponsorship available to retain players in Wales	2.0
Total additional funds available for reinvestment in Welsh rugby annually	5.1

(Note: The tax payments would increase if the increase in operating surplus is retained and not allocated to the Regions, Clubs and Community clubs. As a result, the actual tax payable will be dependent upon the level of allocations made.)

It would appear that the WRU may have the financial resources, going forward to make significantly higher annual payments to the Regions, Clubs and Community clubs than they have made to date. Even if the estimates (because of incomplete information) are wrong, the magnitude suggests that further funds are available.

In addition, most companies operate with a level of acceptable bank borrowing. As a result, when the loans reduce to an optimum level (rather than pursuing an objective of full repayment), a further £2.8 million of funds would not have to flow out to repay the bank. This would increase the potential funds available for reinvestment in Welsh rugby, from £5.1 million (see above) to £7.9 million annually.

This increased potential reinvestment in Welsh rugby is without recognising any benefits that would arise from the increased collaboration between the WRU and the Regions referred to above. Such collaboration could deliver significant “synergy benefits”, which would add to the funds available for reinvestment into Welsh rugby.

Lifting the Lid: WRU Finances 2007 - 2013

Info taken from: Public WRU accounts, 2007&2013 (2007 represented the first year of the incumbent CEO's tenure).

Headline – The Truth

In the period 2007 – 2013, total WRU revenue (money in) increased by **39%**, driven by an increase in ticket prices and additional TV revenue.

In the same period, operating costs (increased pay/bonuses and additional staff) increased by a staggering **41%**, without explanation.

The WRU claim that during 2007-2013 money passed onto the game in Wales rose by 48% (referred to in the annual report as 'allocation') - *however*, what they neglect to tell you is that 94% of this money (which was already due to the regions) came directly from sponsors and TV companies – the WRU simply passed it on.

Despite therefore claiming in their annual report to have increased 'Allocation' in Wales by £5.4m, the WRU only directly increased their funding to the four Regions by £500,000.

Staggeringly, comparing the revenue in FY2007 with FY2013, despite revenues rising by record levels of £17.1m, the WRU also only invested an additional £500,000 in the amateur and community game.

In the same period, staff numbers have risen by 28%, wage costs have gone up by 50% and cost per employee has risen by 20% - an increase of £7,355 per person.

The salaries of the Chairman and CEO have risen by 67% from £229,000 to £383,000 during this period.

Facts & Figures

- The WRU claimed recently in a letter to clubs that any attempt to renegotiate its bank loans would result in an increase in interest rates. They also claimed that their interest cost had fallen from 6.5% to 4.1% - a reduction of 58%. The reduction is actually 37% - this was a mistake. Their claims simply do not stack up – and no-one is holding them to account. The Bank of England base rate covering the same period has dropped from 5% to an all-time low of 0.5% - yet the WRU herald this as an 'achievement'.
- The WRU's financial position when compared with 2007 is extremely healthy – they have developed significant reserves of over £11m, and have not stated their intended use of this money to the clubs. This has been achieved through putting up the cost of an international ticket and additional TV revenues.
- In addition the WRU made a windfall gain of £3.7 million following agreement with HMRC for tax liabilities it had made provision for in prior years.

- At the end of FY2013, the WRU declared an Operating Surplus of £6.9m. After accruals and provisions, there should still be up to £2.8m available for immediate investment where the game needs it most.
- Accounting for the above, the WRU can release at least £6m of investment into the game NOW, retaining over £5m in reserves.

In future years, the WRU will be in a position to maintain this strong financial position through known revenues and strong cost controls – they should be increasing subsequent distributions for the benefit of the clubs and the whole game in Wales.

Stuff you might not know

- Total match income has increased by 33% despite 15% less people watching Wales. WRU income per attendee has increased by 56% due to an increase in ticket prices and TV revenue – the WRU have not commented on this and are unlikely to change their ticketing policy. Tickets are simply too expensive – there were 10k empty seats at Wales v Italy, and 12k empty at Wales v Australia in November – which is having a direct effect on clubs.
- Commercial and other event income has increased, but is exactly the same % of match revenue as FY2007. This shows an inability to raise other forms of income as a % of match income and is a matter of concern.
- Stadium naming rights have still not been sold despite an offer from the National Lottery to discuss a way forward. (MS events dramatically down from era prior to 2007)
- The CEO inherited an operating surplus of £6.2 million through the hard work done prior to his arrival. Despite 2x Grand Slams, 3x Championship wins and a World Cup semi-final, this has only increased to date by £700,000.

REMEMBER:

1. All WRU revenues belong to the Welsh Rugby Clubs – NOT the union.
2. The clubs entrust the WRU to manage those funds in the best interests of all Welsh rugby and especially themselves.
3. There is extensive evidence the clubs and regions have been short changed by the current administration.

I can only conclude that the WRU are knowingly keeping the clubs poor. Their policies are detrimental to the club game and it is not good enough. You – as owners – have the power to change this for the good of your clubs, and the game in Wales. It's time to hold the Board and Exec to account. An immediate EGM is the only answer.