



**SCOTTISH
RUGBY**

COVID-19

OVERVIEW OF FINANCIAL EFFECTS & IMPLICATIONS

28 September 2020

CONFIDENTIAL

1. INTRODUCTION

The onset of the COVID-19 pandemic has had a profound effect on Scottish Rugby. The game at community level is not being played at present, and the associated benefits of the sport – including the community and social involvement, the benefits on wellbeing and health, and the positive and respectful interaction across generations – are also, at present, on hold. The entire rugby community of Scotland looks forward to being able to enjoy all of these aspects of the sport again in, hopefully, the not too distant future.

The effect on Scottish Rugby finances, however, is arguably even more profound, particularly in the area of match ticket income which, pre-covid-19, was forecast to be [REDACTED] for year 2020/21. Ancillary match day revenues are also significantly affected.

This paper outlines the issues the organisation faces in light of the current pandemic,
[REDACTED]

We request that the Government act now to protect the game across the country; Scottish Rugby's request to the Scottish Government is for a covid-19 crisis related grant of £15m to ensure that the organisation, and [REDACTED] the game in this country, [REDACTED] can maintain a position which then allows it to rebuild in the short term, along with the nation, to a self-sustaining medium and long term position.

2. EXECUTIVE SUMMARY

- 2.1 Scottish Rugby's total annual revenue, pre-covid-19, was c.£60m.
- 2.2 This revenue supports investment in rugby and rugby communities across the whole of Scotland, from grassroots primary school and mini club game, up to the National Teams and the professional game, and supports over 400 skilled and specialised jobs.
- 2.3 This revenue allows Scottish Rugby to invest, directly and indirectly, in the grassroots community game at a level of over £7m per annum, in over 200 clubs across Scotland.
- 2.4 This revenue is also key to maintaining and enhancing the facilities in the National Stadium, which is vital in retaining its world standing and its continuing ability to attract World class events to Scotland, and will be hugely important in generating future economic activity.
- 2.5 The initial impact assessment of covid-19 resulted in the loss of budgeted revenue for this year of c.£18m.
- 2.6 This has led to an associated and necessary budget costs reduction which has been achieved through a blend of reduced net employment costs through salary reductions, furlough and receipt of CIRS grant, reduced activity, cancelled programmes, and the reduction of all spend in operating areas.
- 2.7 Despite the costs reduction, an operating deficit of c.£5m will be incurred this year which will be supported through agreed bank term loan, bank working capital facility, funds receipt in relation to external investment, and advance funds receipt from rugby's World governing body. Although these will address the immediate short term issue, they create a significant debt burden on the organisation for future years.

Executive Summary continued....

2. EXECUTIVE SUMMARY (cont)

- 2.8 A key aspect of this budget was assuming that a certain level of crowds would be attainable in Spring 2021, particularly in relation to the 6 Nations matches, but also for the two professional teams in Glasgow and Edinburgh.
- 2.9 If this is not possible, the financial effect of not being in a position to welcome spectators, in a safe and controlled manner, to these games for the remainder of the season would be a further [REDACTED] of revenue loss, which is an unsustainable position from which to protect jobs, rebuild in the future and financially support rugby in communities across the country.
- 2.10 The impact of this on the organisation and employees would be profound, [REDACTED] need to [REDACTED]
[REDACTED]
- 2.11 This would have a severe and long lasting effect on the game of rugby in this country, [REDACTED]
[REDACTED]
- 2.12 To protect the game across the country, Scottish Rugby's request to the Scottish Government is for a covid-19 crisis related grant of £15m to ensure that the organisation, and [REDACTED] the game in this country, [REDACTED] [REDACTED] can maintain a position which then allows it to rebuild in the short term, along with the nation, to a self-sustaining medium and long term position.

3. DETAILED IMPACT & IMPLICATIONS

3.1. Serious Adverse Financial Impact

An overview of the historic and current financial position is noted in Appendix 2.

Scottish Rugby's main revenue source is income from matches involving the men's national team, which generates over 70% of the organisation's income from ticket revenues, broadcast income, sponsorship and other match day revenues such as hospitality, food and beverage purchases and merchandise sales.

When professional team income is excluded, this figure actually represents over 90% of the organisation's annual income. This income source is vital for the organisation's very existence, and supports its operation and funding of the game, including the direct and indirect investment in the grassroots community game of over £7m per annum, in over 200 clubs, their players, coaches, volunteers and officials, all over Scotland.

Similarly, the revenue is key to enabling the maintenance, upkeep and improvement of facilities in the National Stadium, which is vital to maintain its world standing, and to continue to enable Scottish Rugby to attract World class events to Scotland.

From a Scotland economic perspective, the YouGov independent economic assessment illustrates the significant impact Scottish Rugby has on our economy. [REDACTED]

Within Scottish Rugby's overall income, Ticket revenues alone were originally forecast for the financial year 2020/21 at a level of [REDACTED] with ancillary match day and related revenues expected to be a further [REDACTED]. This is around 35% of the organisation's total annual revenues, which were, currently pre-covid, c.£60m.

3.2. Budget Impact

Scottish Rugby concluded a budget, in June 2020, for Financial Year 2020/21 which accounts for the potential effects of Covid-19, but inevitably is based on a number of assumptions (See Appendix 1).

The budget was based on as realistic position as could be taken in June, and also looked to encapsulate the following principles:

- allow the addressing of the crisis operationally without making redundancies, thereby protecting over 400 jobs, which would remain viable in a non-covid environment
- sought to align the budget with Government position, based on current Government discussions at the time
- maintained important capability in the business for the future re-building that will be required

There was a drop of £18m of revenue, compared with the expected 2019/20 pre-covid-19 position, and a corresponding drop in costs of £14m. There is an overall budgeted deficit of just under £5m for the financial year 2020/21.

3.3. Budget Costs & Revenue

The budget costs reduction has been achieved through various measures including reduced net employment costs from salary reductions, furlough and receipt of CJRS grant, reduced activity, cancelled programmes, and the reduction of all possible spend, to remain only in areas which remain critical to keep the business operational in a safe environment.

The budgeted revenue is based on a number of assumptions, which include key ones in relation to expected crowds at the men's team international matches. The budget at present includes no crowds at the October/November matches, and then 50% crowds at the 6 Nations matches.

3.4. Cash & Financial Position

The budgeted reduction in income, although partially offset by a reduction in costs, clearly creates a deficit position for the year, which has to be funded. At present, the budgeted planned and agreed sources of funding are a blend of bank term loan, bank working capital facility, funds receipt in relation to external investment, and advance funds receipt from rugby's World governing body. These sources, however, are limited, and are specific in relation to the budgeted position as outlined.

The budgeted recovery position has also been planned, to take the organisation [REDACTED] by 2023/24. Nevertheless, this position is based on achieving the current year financial results, based on the budgeted position as outlined.

The current situation is particularly galling as Scottish Rugby has, over the last ten years, worked exceptionally hard to reduce legacy cash debt built up between 1995 and 2005 from a cash debt level of £23m in July 2005 to close to nil at May 2019. At the same time, there has been an increasing investment in the game and in particular in direct investment into rugby communities around Scotland, from a level of £364k in 2005/06 to £3.1m in 2018/19.

3.5. Diminished Crowd Impact & Implications

The principle risk to the budget plan is in relation to spectator attendance and the associated ticket income which is generated.

The initial budget reduced expected ticket income for 2020/21 from around [REDACTED] (Nat Team [REDACTED] & Pro Teams [REDACTED]) to [REDACTED] (NT [REDACTED] & Pro Teams [REDACTED]). There are further associated activities which also generate incomes for investment into the game, in the areas of hospitality, merchandise sales, and the inability to deliver full sponsorship and broadcasting rights.

Overall, it is anticipated that if crowd return is not possible in the course of this 2020/21 season, the additional financial impact on the current year budget would be a further [REDACTED] of revenue loss. The related operational cost saving would only be at a level of [REDACTED]

Scottish Rugby is not in a position to be able to sustain this and would be forced into a further cost cutting exercise, which would unfortunately involve [REDACTED]

[REDACTED]
[REDACTED] and which would take the organisation some time to recover from.
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

APPENDIX 1 – Budget Assumptions (June 2020)

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

The agreed budget, however, is neither without risk, nor sacrifice, in its composition. It does, though, provide a potential route through the pandemic.

APPENDIX 2

Scottish Rugby
Impact of Covid-19 on Financial Position

	Historic Context			2019/20		2020/21		
	2016/17 £m Actual	2017/18 £m Actual	2018/19 £m Actual	Pre-Covid 2019/20 £m Forecast	Post-Covid 2019/20 £m Draft	5yr plan 2020/21 £m Plan	Post-Covid 2020/21 £m Budget	No crowds 2020/21 £m No crowds
Ticket Income	12.6	12.3	15.8		10.5			
Broadcast Income	13.3	15.2	15.5		11.0			
Commercial Income	11.0	10.8	9.7		9.9			
Other Income	14.5	18.9	20.1		24.0			
Total Turnover	51.4	57.2	61.1		55.4			
Total Costs	(49.7)	(55.4)	(60.8)		(60.5)			
Surplus / (Deficit)	1.7	1.8	0.3		(5.1)			
P&L Reserves	(6.5)	(4.7)	(4.4)		(9.5)			

Budget Notes

National Team matches only. No crowds for October/November matches; 50% crowds budgeted for 2021 6 Nations matches;
Drop acknowledges reduction in ability to deliver full broadcaster benefits, and associated restriction of broadcast fee;
Drop acknowledges reduction in ability to deliver sponsor benefits, and reduction in value of new sponsors;
Significant reduction in Pro teams' match incomes, all hospitality and all other ancillary match day revenues