

FINANCE AND FUNDING



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The RFU provides funding support to all levels of the game both professional and community. It is essential that the RFU remains financially strong to provide certainty of long term funding levels. The new Plan period is starting in a period of unprecedented financial and economic uncertainty on a global scale. This places a greater requirement for the RFU's financial affairs to be prudently and professionally managed to ensure that we weather the exceptionally difficult business environment now confronting us.

OBJECTIVES

To grow RFU consolidated turnover from £118m in 2008/09 to £200m by the end of the Plan period

715 The RFU has grown its turnover since the publication of the first RFU Strategic Plan from £59m in 2001/02 to a projected £118m in 2008/09, an increase of 100% (or 10.5% p.a. compound). We are setting ourselves a target of increasing our turnover over the Plan period of 70% (or 8 % p.a. compound). We will seek to achieve this through organic growth in current revenue streams, successful development of the new businesses associated with the completion of the South Stand and new rugby related joint venture businesses.

Further improve the balance and mix of RFU turnover through a continued spread of revenue streams

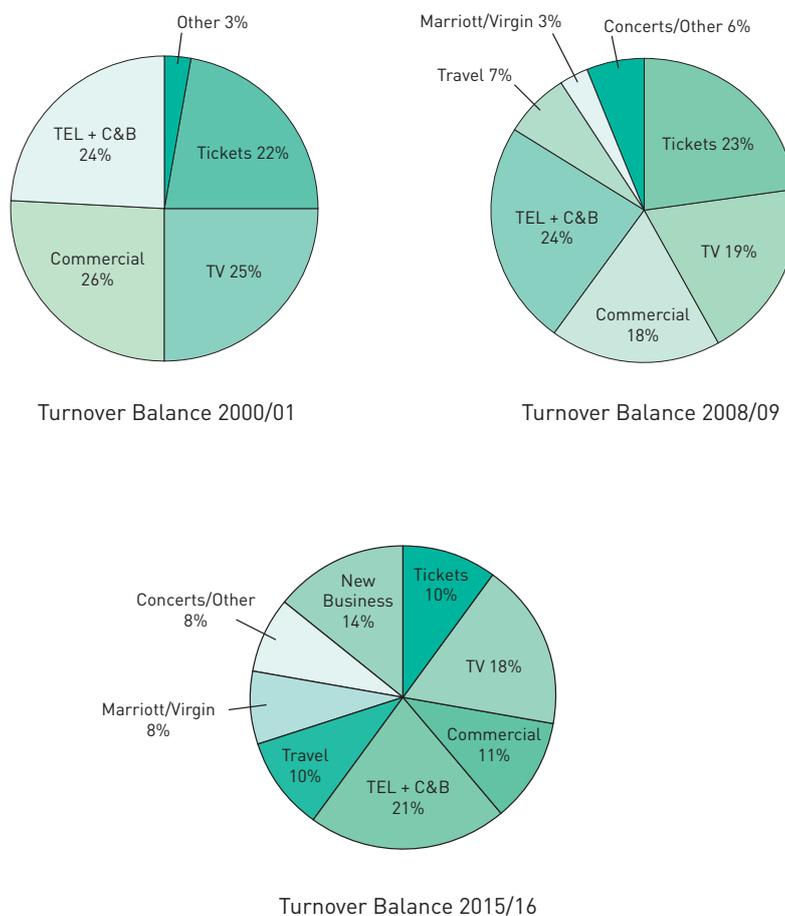
716 Since the first RFU Strategic Plan was produced in 2001 we have been striving to improve the balance of our revenue streams to reduce our dependence on TV and sponsorship revenues. The charts opposite show that the mix of our revenue sources has changed significantly. In 2000/01 the four traditional revenue streams of TV, sponsorship, tickets and hospitality accounted for 97% of our turnover. In 2008/09 we have reduced this to 84% through the addition of new revenue streams in travel, Marriott Hotel, C&B, and concerts. By 2015/16 we are targeting a further reduction in the four traditional revenue streams to 60% through the addition of the Virgin Active club, two new joint ventures and 14% of yet to be found new business.

717 Whilst the current economic and business climate is tough, there will undoubtedly be opportunities coming out of the recession that companies such as ourselves with strong balance sheets will be able to exploit. We must be alive to these opportunities.

Maintain a minimum level of reserves of £7.5m and grow reserves by a minimum of £2.5m each RWC cycle

718 The Council adopted as policy in 2003 the need for a four year planning and budgeting approach to reflect the RWC cycle and set a minimum level of balance sheet reserves to be maintained in any circumstances of £7.5m. This level would allow us to absorb the loss of one major international (all revenue streams, not just match day) or the loss of two major sponsorship properties or a significant downturn in the commercial or TV markets. We will continue to set our cost levels in any one year so that the planned level of reserves never falls below this level.

FIGURE 12: TURNOVER BALANCE



719 As the RFU's total net worth increases going forward, the minimum level of reserves needs to grow in tandem and we have set ourselves the target of increasing reserves by a minimum of £2.5m in each four year RWC cycle. In practical terms, with the projections showing a loss in 2011/12 of £7.8m, we need to produce a profit in the three non-RWC years of the current cycle of approximately £10m.

720 Adopting the minimum level of reserves as our key financial planning parameter helps us avoid the rather unhelpful and unproductive debate over the appropriateness of our cost/investment levels, a question to which there is no right and wrong answer. If costs are set at such a level that we are achieving our agreed reserves objective, then the debate can focus more helpfully on the most appropriate allocation of our scarce resources amongst the various programmes, given the agreed objectives and strategies.

Maintain minimum cash availability of £10m

721 In addition to a minimum level of reserves, we should also plan to maintain a minimum level of cash availability within our total cash and bank facilities to cushion us against an unexpected long term decline in projected revenues or a major change in our cost levels (such as insurance premiums) or the need to make a significant investment at a point in time in a particular project. A minimum level of cash availability means that we will have sufficient cash resources to ensure that we can handle such situations without resort to any special measures. This will enable us to respond to any change in our financial situation in a planned and well-thought through manner.

Maximise the RFU's gross profit to fund investment in all levels of the game with a target average of £30m pa

722 Since the RFU does not exist to maximise shareholder/member returns, a bottom-line profit objective such as profit before tax, profit after tax or retained profit is not really appropriate. Notwithstanding this we need to have a ratio of 'pure' financial success, with the objective of maximising this ratio, within established policy constraints, in order to increase the level of investment in the Elite and Community game. The most appropriate measure is gross profit, being our net revenues after cost of sales items which include all direct costs, the costs of the England senior team and Elite club funding.

Manage operating costs within a ceiling of 80% of turnover averaged over a two year period

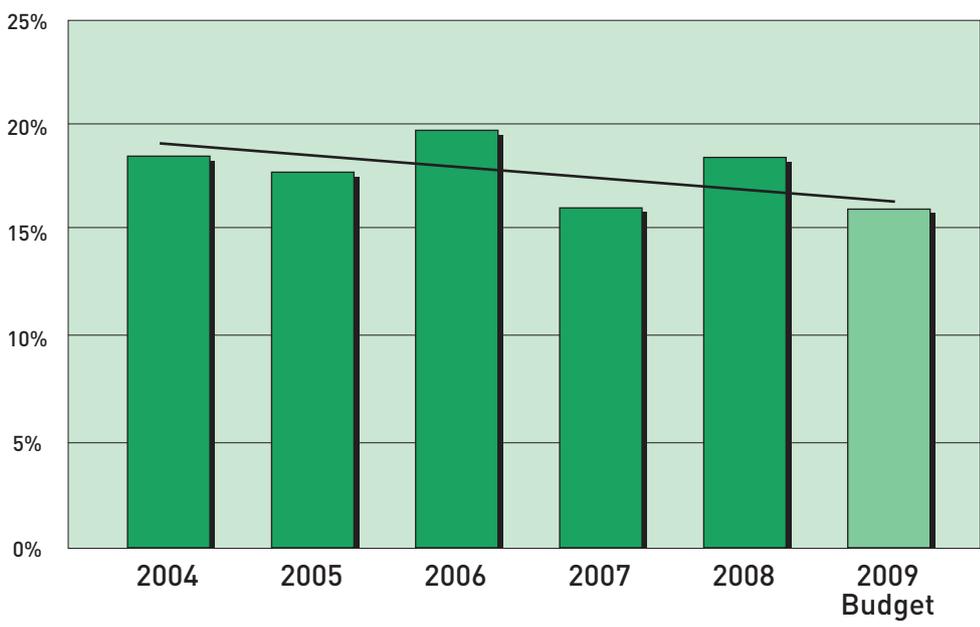
723 It is important that we balance the need to invest on a consistent and long term basis in the development of the Community and Elite games with managing our bottom line. We are therefore setting a guideline ceiling for operating costs as a percentage of consolidated RFU turnover averaged over a two year period to deal with the different number of home games each year.

724 In addition we will also manage the split between investment in Community and Elite rugby so that, averaged over a two year period, we maintain the current 45%/55% split of costs.

Maintain payroll costs within a ceiling of 15% of turnover averaged over a two year period

725 We have successfully managed down the ratio of payroll costs to turnover over the last five years as the chart shows. In the current year we are forecasting this to be at around 16% of turnover. To maintain downward pressure on this key ratio we are setting a ceiling of 15% over the Plan period averaged over a two year period.

RFU PAYROLL COSTS AS % OF RFU TURNOVER



Achieve a minimum interest cover of 5 times and maximum debt/equity ratio of 1:1

726 We propose to maintain the current minimum interest cover ratio (the ratio of profit before interest and tax to interest payable) of 5 times during the period of the new Plan. As regards the debt/equity ratio (the ratio of net debt to shareholders funds) we propose reducing this from the 2:1 level proposed in the last Strategic Plan to a maximum of 1:1 during this Plan period due to the projected substantial increase in the RFU's net worth. A resolution to alter Rule 4.2 was passed at the 2008 AGM increased the RFU's borrowing limit from £50m to £100m.

Minimise RFU's effective tax rate

727 Tax continues to be a major financial issue for the RFU evidenced by the fact that in many years we have had an effective tax rate significantly in excess of the statutory tax rate of 30%. We have been successful in reducing our effective tax rate in recent years through improved tax planning and through the RFF adopting the Community Rugby programme from 2005/06. We will continue to lobby Government through our Public Affairs programme for sports NGBs to be granted tax exemption as is covered elsewhere in this Plan.

Implement and maintain a coherent and consistent game funding package for all levels of the game

728 Over the last two years or so we have implemented a number of changes to revise the funding arrangements for clubs at all levels of the game with a view to a transition from grant funding to funding aspects of game development in accordance with the RFU's strategic agenda. The funding arrangements under the new PRL agreement limit RFU funding to delivery of EPS and EQP players and support for the Academies. We are currently discussing similar proposals with the Championship for their new funding arrangements. Once the proposed NCA funding changes have been approved and implemented, there will be no grant funding at any level of the game. We will have a coherent funding framework for all levels of the game from PRL down to level 13, as follows:

- i) PRL clubs will be funded for EPS, EQPs and Academies;
- ii) The Championship clubs will be funded for EQPs, England qualified coaches and facilities;
- iii) Clubs at levels three and below will be funded for insurance, travel costs and capital funding for facilities improvements.

Aim to deliver £100m of funding to the RFF over the Plan period

729 Community Rugby clubs have benefited from approximately £20m of Government funding of capital projects in the last five years through the CCDP and NSF programmes. With the funding requirements of London 2012, together with the global financial crisis and the deepening economic recession, we are now entering a period of reduced Government spending on grass roots sport. We are concerned at the effect on Community clubs development plans if this funding source dries up. We therefore need to continue to work with Government and Sport England to provide a long term source of capital funding for the Community game. We are setting ourselves a target of securing £100m of funding for the RFF over the Plan period which will be made up of £40m from the RFU, matched funding of £40m from Government and £20m from commercial partners.

Ensure optimum balance between insurance and retained risks in the RFU's risk financing programme

730 The RFU on behalf of the game maintains a comprehensive insurance programme, covering personal accident (focussing on protection against catastrophic injury) and liability risks (coaches and referees, public liability, employers' liability and Directors and Officers liability). Until now all these risks (together with the normal 'corporate' risks) have been insured via the traditional insurance market. We believe that a number of benefits can be obtained by the RFU participating to a greater extent in the financing of certain of these risks. This will be achieved by the establishment of a captive insurance company.

STRATEGIES AND PLANS

Refinance the Barclays loan facilities to complete the SSDP, Masterplan, other major capital projects and to provide the RFU's target £40m funding for the RFF

731 With the probable need to provide replacement funding for lost Government funding streams, in particular Community Coaches, CCDP and NSF, we are likely to need debt facilities beyond the end of the date of the current Barclays loan in March 2011. In addition, we are aiming to increase the level of RFU funding to the RFF, as described above. We therefore intend negotiating a change in our Barclays loan facilities so that we have a rolling element to provide funding cover for these purposes.

Renew all Long Term debentures when each series expires

732 The renewal of Long Term debentures provides a crucial element of funding to the RFU for capital projects and investment in the Twickenham Stadium. We have set a limit of 15,000 tickets for Long Term debentures and holders of these debentures will be offered the right of renewal at the end of their period. The following series of debentures will come up for renewal over the Plan period. It is intended that each renewal will be priced at market rates taking into account previous pricing levels, inflation and debenture pricing at other major national venues.

TABLE 41

Renewal Year	Number of Debentures	Expected Price in £	Capital Raised £000
2009/10	1,580	6,900	13.3
2010/11	1,230	7,050	9.9
2011/12	890	7,100	6.6
2012/13	3,860	7,300	29.1
2013/14	1,070	7,500	8.2
2014/15	2,350	7,600	18.3
2015/16	3,295	7,900	26.1
2016/17	1,000	7,900	7.9

RFU funding support for the Premiership clubs

733 The new RFU/PRL eight year agreement includes an entirely new funding package for the Premiership clubs, based on funding the three EPS and the delivery of EQPs. A total of £88m (excluding the profits from the fourth international and Academies funding) is split into the following elements:

- i) Payment of international match fees and bonuses – under the LFA, this was the responsibility of the clubs; this proved unsatisfactory in many respects and so we have now taken back responsibility for this element;
- ii) Payment to the clubs for each player they have in the Senior EPS at a level that is a significant proportion of the player's salary to compensate the clubs for the increased number of days spent with England, the number of matches that those players would be unavailable to their clubs and the RFU's influence over the playing and medical programmes of each Senior EPS player;
- iii) Payment to the clubs for each Saxons EPS player of a 'retainer' to reflect the England team's influence over the player's programme and the fact that they are on stand-by for the Senior EPS;
- iv) Payment to the clubs for each U20 EPS player at a level that is a significant proportion of the player's salary to reflect the England team's influence over the player's programme;

- v) An EQP scheme that compensates clubs for the average number of EQP players in match day squads, subject to achieving the minimum number of EQPs.

734 All of the above payments will be made directly to the clubs by the RFU. We understand that PRL has introduced a 'revenue smoothing' mechanism whereby adjustments are made to PRL central revenues, the net effect of which is to redistribute a portion of the above RFU payments equally to all PRL clubs. We are seeking disclosure of this arrangement from PRL as the amounts that should be receivable by clubs with a significant number of Senior EPS players are being reduced, it appears, by 30-40% from the gross amounts set out in the agreement. This is a major concern to the RFU. In addition to the above, the England Rugby Academies will receive total funding of £1.6m (increasing over the period) and PRL will receive 50% of the surplus from the bi-annual fourth autumn international.

RFU funding support for the Championship clubs

735 Discussions with Championship clubs on a new agreement, covering competition structures, finance and other issues, are ongoing at the time of producing this Plan. Our current intention is that the long term funding package for Championship clubs (including the contribution from PRL) will total around £3.3m p.a. and will comprise the following three elements (after a two year phase in period) as follows:

- i) An EQP scheme on similar lines to the PRL scheme, compensating clubs for the average number of EQPs in match day squads, subject to achieving a minimum number of EQPs. The EQP scheme would be approximately 40% of the total funding;
- ii) An England Qualified Coaches scheme (EQC), compensating clubs for developing and retaining England qualified coaches, representing approximately 10% of the total funding;
- iii) A Facilities Improvement Scheme to part fund ground developments to achieve the minimum standards recently approved in principle by the Management Board and currently under development. This element would represent approximately 50% of the total funding.

RFU funding for clubs at Levels three and below

736 As from 2006/07, with the change from conditional funding to the central provision of a comprehensive personal accident and liability insurance programme, clubs at levels five and below have been funded as follows

- i) Personal accident and liability insurance
- ii) Travel costs
- iii) Facilities improvements

Clubs have all personal accident and public, referees/coaches, employers and directors and officers liability insurance funded centrally by the RFU – this is worth up to approximately £4,000 per club at current premium levels (depending on the number of teams run and the scale of the club's rugby and non-rugby activities). In addition, the clubs are protected against all future premium increases as these are borne by the RFU. Clubs are also reimbursed travel costs for league and cup rugby in accordance with the travel fund schedule of payments, as follows:

TABLE 42

Mileage	Amount	Mileage	Amount
150 +	£300	350 +	£600
200 +	£375	400 +	£800
250 +	£450	450 +	£900
300 +	£525	500 +	£1,000

- 737** Clubs at levels 5 and below are eligible to apply to the RFF for grants of up to £6,000 and interest-free loans of up to £100,000 in accordance with the RFF's terms and conditions for capital projects on a matched funding basis for playing improvements. We will work with the RFF to enable them to extend their grant and loan facilities to include all clubs at levels 3 and 4 over the Plan period.
- 738** NCA clubs at levels three and four currently receive significant cash grant funding through an agreement that was co-terminus with the LFA and therefore expired on 30 June 2008. The origins of this funding lie back in the late 1990s in the period following the change from an amateur to a professional game. This is clearly no longer relevant and we believe that NCA clubs should be funded in the same way as clubs at levels five and below as, in many cases, there is little difference in practice between clubs at these levels.
- 739** A number of detailed papers have been considered by both the Finance and Funding Standing Committee and the Management Board and this led to the approval by the Management Board in January 2008 of an Agreed to Recommend that NCA clubs should be funded in the same way as clubs at levels five and below from 2011/12. There would be a series of transition arrangements to spread the impact of the changes over a three year period and a Contingency Fund to ensure that the Community rugby development work being undertaken by NCA clubs was not jeopardised.
- 740** Council in March 2008 agreed a proposal from the NCA to defer consideration of the above funding changes until the details of the agreed structural changes to FDR had been finalised and until any associated and/or further structural changes to NCA leagues had been resolved. Council at its November 2008 meeting approved both the Management Board's proposal for the establishment of the Championship and the Rugby Landscape recommendations. We will therefore seek approval for the changes agreed by the Management Board on NCA funding, subject to further discussion with the NCA.

The provision of capital funding by the Rugby Football Foundation

- 741** The RFF was established in 2002/03 and is now a crucial element of our game funding package, providing clubs at levels five and below with access to capital funds for the development of their facilities. The RFF awards grants and interest free loans, currently capped at £5k and £100k, respectively. The RFF has received an annual grant from the RFU in most years since inception of £600k and has notionally allocated this as to £400k for grants and £200k for interest subsidy, although the build up of reserves in the early years and cash flow management means that the RFF can grant loans in excess of £4m (being £200k capitalised at 5% interest) and the agreement with the RFU gives the RFF a total facility of £8m. The RFF has now reached a stage where it is turning down grant applications due to lack of funds. Its latest forecasts show that, in an ideal world, it needs an annual donation of approximately £900k to meet demand.
- 742** Given the reduction in Government funding for grass roots capital facilities through their main stream programmes (CCDP and the NSF) our aim is to produce a significant increase in the funding available to the RFF. Our main strategy to deliver this will be to work with Government and commercial partners on a direct funding package on a matched basis. The RFF in the new Plan period will also be open to all NCA clubs for both grants and loans.
- 743** The RFF is managed by a Board of Trustees which is independent of the RFU. We believe that this arrangement provides a robust and independent approach to the grant approval process and

prevents any interference in this process. It also provides us with an independent and ring-fenced distribution vehicle, which is important in securing Government funding. We believe the present arrangements regarding the RFF are working well and should continue.

Raise playing and facilities standards for clubs within the Community game

744 To attract and retain participants, we need to provide an enjoyable and quality environment both on and off the field. The quality of the playing surface and the clubhouse facilities is a vital element in this. Through the Funding and Facilities team we aim to undertake a 'small works' programme that uses the planned capital funding to develop grass and artificial pitches and to provide new or improved floodlighting, shower facilities and clubhouses.

Provide support and opportunities for eco-friendly facility developments

745 The RFU will work with appropriate agencies to provide 'green' information and solutions to clubs undertaking facility improvements within the Community game. Funding will be made available to pilot sustainable 'green' solutions where practicable via the Whole Sport Plan and RFF facility funding.

Increase the influence of the RFU with partners regarding facility development issues

746 The RFU is one of the industry leaders in the development of facilities and has established a number of new approaches to the development and redevelopment of club facilities. It is important that we retain a leading position in this area and that we are in a position to influence the industry, regulators, manufactures and contractors.

Support CBs and clubs to improve the facilities standards in the game

747 Consistent with the principle of focusing on People and Places when undertaking club development, we plan to produce a Club Services Strategy that incorporates facility elements of club development. This should also lead to clubs developing a post planning review process which ensures that the plans are implemented and there is a process by which the plan can be reviewed and further developed.

748 In supporting this principle, the previous Strategic Plan included strategies relating to the development of CB facility plans. We believe that these plans need to be living documents and maintained by CBs on a bi-annual basis during the Plan period. We also believe that these plans should be extended to include the needs of all HE/FE institutions and schools within five years.

749 A support package needs to be developed to assist both CBs and clubs in developing their facilities. This should include guidance on reviewing their legal status, proposals to create a partner/supplier network for clubs, the introduction of a technical review panel to oversee the facility development agenda and a Business Support Package when capital projects have been completed.

Establish a Special Purpose Corporate Vehicle (SPV) to assist failing clubs

750 The Community Rugby programmes have been successful in providing advice, resource and assistance to struggling clubs. Some CBs also have been successful in running struggling clubs

programmes. Notwithstanding these initiatives there have inevitably been some failures of clubs at all levels of the league structure. Some club failures are not able to be reversed due to changes in local demographics, lack of volunteers or inability to find suitable grounds and facilities. Other club failures may be capable of being redressed such as those occasioned by poor management, poor decisions or a change of ownership. Our current arrangements do not enable the RFU to provide any financial assistance to aid a re-structuring of a failed club in the latter category.

- 751** We therefore propose to establish a SPV to provide such financial and management assistance to clubs that are perceived to be salvable and to be important to the health of the game. This SPV would have to be carefully structured so that it was ring fenced from the RFU's game governance responsibilities and had separate financial facilities over which it could take independent investment decisions based on its clear terms of reference. We are currently considering, with expert external legal advice, the best ways of structuring the SPV to achieve the agreed objectives. Proposals will be tabled for Council's consideration in due course.
- 752** We would also need to consider in what form the provision of RFU management and manpower resource and expertise could be provided by the SPV. It will also be necessary to consider the methods of providing financial assistance to clubs. Should this be in the form of investment in fixed assets of the club or as a subscription to the share capital or a grant or interest bearing loan.

Insure appropriate risks through Rugby Sure (RFU Captive Insurance Company)

- 753** Following the completion of a feasibility study by Marsh, the RFU's insurance advisors, we established Rugby Sure Limited, a wholly owned captive insurance company in the Isle of Man. For the first year of operation we have adopted a conservative approach and have decided that the following risks can be part insured through the captive:
- i) Corporate public and products liability;
 - ii) Referees and coaches liability;
 - iii) Professional players injury (Saxons EPS).

As we progress we will consider insuring further risks (or a greater portion of the risks detailed above) through Rugby Sure as this provides us with a valuable alternative to the traditional insurance market when premium rates 'harden'.

Review the best Corporate Structure for the RFU following the CRTG Report

- 754** The main source of long term capital for the RFU is through the issue of 75 year debentures. As these debentures have ten year ticket rights attached to them they will be, in effect, renewed every ten years, subject to the renewal rate. This means both that on maturity the RFU will have to repay the nominal amount of the debenture and over time there will be a very significant build up of long term debt on our balance sheet.
- 755** Under a corporate structure, we would have the opportunity to restructure our balance sheet and convert the new format debentures to a form of equity. This would mean a substantial reduction in the future liabilities of the RFU and would also negate the disadvantage of having a large long-term debt balance accumulate in the balance sheet over time. We cannot achieve this outcome as an IPS as it is not allowed for an IPS to have different classes of shareholders due to the restriction described below relating to differing classes of membership. We will therefore

research the pros and cons of converting from an IPS to a company.

756 In addition to the above, there is a secondary advantage to converting to a company, in the form of a more flexible membership structure. The Constitutional Review Task Group is considering the issue of the most appropriate membership of the RFU and the associated rights and privileges of membership. One of the options under consideration is a system of different classes of membership, probably with different rights. Under the Friendly and Industrial and Provident Societies Acts, an IPS cannot have different classes of members and all members must have identical rights being one of the fundamental tenets of a mutual society. If Council and the Members were to decide that it was beneficial to have different legal classes of members, this would be a further reason for converting from an IPS to a company.

LONG TERM FINANCIAL PROJECTIONS

757 The RFU has developed a long term financial forecasting model that projects P&L Accounts, Cash Flow Statements and Balance Sheets over the eight year period of the Plan. Due to the unprecedented financial and economic uncertainty on a global basis at the current time it would not be sensible to present detailed financial projections in the Plan at this time. We are keeping under regular review our long term financial projections as new information becomes available and circumstances change.

758 Our current planning assumption is that the recession will last for two years with improved economic growth appearing in the second half of 2010. We are therefore included at appendix 2 a selection of charts and graphs that indicate the broad trends in our key financial numbers over the eight years. These cover the following parameters:

- i) Target turnover growth;
- ii) Target gross profit growth
- iii) Target cash generation;
- iv) Bank loan balance;
- v) Target cash balances;
- vi) Likely capital expenditure levels;
- vii) Target reserves levels;
- viii) Target net worth levels.