

Further information on Worcester Warriors and Wasps Insolvency for DCMS Select Committee

Premiership Rugby and Rugby Football Union

6 December 2022

The RFU and Premiership Rugby are deeply concerned by the demise of Worcester Warriors and Wasps rugby clubs.

The failure of these two businesses demonstrates the importance of financially robust and transparent professional leagues and we will work together to improve the structure, governance, and business model of rugby union in England. We have been working together for some time to develop a sustainable model for rugby to deliver long-term prosperity of the sport and these plans have been accelerated.

While professional rugby clubs are individually managed businesses, we will introduce new measures to enable both organisations to have better visibility of how these businesses are run. This paper is intended to provide the Committee with further background and evidence on the situation at both clubs as well as assurance on what both organisations' plans are going forward.

Roles of the Rugby Football Union (RFU) and Premiership Rugby (PRL)

The RFU is the national governing body for rugby in England responsible for the game at all levels. The RFU is the ultimate regulatory authority over all clubs, players and officials.

PRL operates the Premiership and Premiership Club competitions. PRL also centrally runs the salary cap system which supports the financial viability of the Clubs and a competitive Premiership competition. PRL owns and manages all commercial rights relating to the Premiership and generates revenue, which is returned to Premiership Clubs and CVC, who own 27% of PRL.

The Professional Game Board (PGB) oversees how the professional game is managed. The PGB is made up of representatives from RFU, PRL, RPA and the Championship, and the voice of all parties on the PGB is central to its work. Regulations which govern the game as a whole are made by the RFU Council, which includes representatives of PRL and the RPA. The Regulations are supplemented by a number of agreements between relevant stakeholders, including the Professional Game Agreement (PGA) between the RFU and PRL, and the standard Premiership player contract negotiated between PRL, the RPA and the RFU.

There is a specific regulatory framework which sets out the roles and responsibilities of each party, including the club itself, when a club enters an insolvency situation. This includes the club providing enhanced financial disclosure, as well as sporting penalties for the club. This framework is overseen by the RFU's Club Financial Viability Group, which includes membership of the RFU, PRL and the Championship, and includes individuals with insolvency expertise.

Premiership clubs' financial situation prior to COVID

In the 18/19 season the Premiership clubs' collective revenues totalled c.£220m, which comprised of income from PRL (mainly broadcast and central sponsorship), a share of RFU revenues through the PGA and local club revenue from match days, sponsorship and other ancillary revenue streams. The majority of clubs were in loss-making positions (in 18/19 the clubs collectively lost c.£40m) which were underwritten by long-term investors' capital.

Whilst it was clearly not sustainable for clubs to be loss-making, it is not uncommon in sport and all clubs had long term business models that grew asset value with a view to moving to a more sustainable bottom line over a three to four year period. The investment in PRL by CVC in 2019 was intended to help further fuel commercial growth as part of this strategy.

The impact of COVID

On 8th March 2020 the 19/20 season paused due to the COVID-19 pandemic outbreak. There were some immediate cost-saving precautions taken (mainly around player and staff salary cuts, operational savings and multi-year reduction of the salary cap). There was also a major focus on getting sport safely back in order to preserve commercial income which was all part of a collaborative effort between PRL, RFU and RPA called 'Project Restart' which involved industry-leading COVID testing procedures and match day protocols. As a result the 19/20 season restarted on 14th August and concluded on 24th October. Despite these efforts by September 2020 the estimated impact of COVID on net income was c.£115m across the league, principally from no match day ticketing and hospitality income, which would have meant that all clubs would have run out of funds by March 2021.

Winter Sports Survival Package

Given the devastating impact COVID was having on sport, DCMS established the Winter Sport Survival Package (SSP) which was specifically intended to help sports bridge the income losses caused by the pandemic. Due to the nature of rugby being a winter contact sport it was a significant beneficiary of this scheme, which all clubs took advantage of.

The initial combined loan secured for Premiership Clubs was £59m based on an original £115m forecast impact. This amount rose to a total of £124m by March 2022 when the scheme closed, based on c.£150m of collective losses across the league over the two year period. Within this, we understand that, Wasps and Worcester borrowed £15.0m and £15.7m respectively. The loans to Premiership Clubs were managed directly by DCMS and Sport England, and neither the RFU nor PRL were involved in the decision-making around the loans or their terms (unlike the loans to community rugby clubs which were managed by the RFU together with DCMS and Sport England).

Following the award of the loans to Premiership Clubs, all clubs had a direct relationship with DCMS (through Sport England) in relation to management of the loans and PRL was aware that clubs were reporting to Sport England on their financial status as part of that arrangement.

Post COVID economy

As crowd restrictions were partially lifted in May 2021 crowds started to return, although attendances were initially much lower than pre-pandemic. The clubs were also still inhibited by domestic testing requirements and European travel restrictions which lead to 50 club

games being cancelled in domestic and European leagues. PRL also had to cancel the Premiership Rugby Cup which led to another 27 matches being called off.

As the clubs started trading again it was clear that they were all now facing a new set of economic challenges. A slow return of regular event attendees, rising cost of living, high inflation and a depressed sponsorship and broadcast market will all extend the runway to profitability by a number of years. These challenges were further compounded by the fact that clubs looking to raise additional capital in order to fund liquidity requirements were finding it difficult due to the decay in the debt markets. It was increasingly challenging to close deals with lenders. This appears to have been the case for Wasps and Worcester, with Wasps due to refinance their 2015 £35m retail bond and Worcester were looking to close a £6m commercial loan with a major Bank.

HMRC

Despite both parties reaching Time to Pay (“TTP”) agreements with HMRC, due to the ongoing liquidity issues proliferated by Worcester and Wasps’ inability to close their debt deals, both clubs de-defaulted on their TTP commitments. In Worcester’s case the TTP de-default triggered a Winding Up Notice on August 15th, 2022. For Wasps they issued a Notice of Intent of Administration on September 21st, 2022. Both situations ultimately led to the clubs going into administration.

Worcester Warriors

Worcester was purchased by Jason Whittingham and Colin Goldring in 2018 from the Allen family. Others had been involved in the consortium, but those other individuals swiftly exited leaving Whittingham and Goldring as owners. The owners and their business model were assessed by the RFU as part of the approval process for the change of club ownership. This process included third party checks on prospective owners. The new owners passed this test as they had previously passed the owners’ and directors’ test of the English Football League (EFL).

It was understood that these owners were of limited personal financial means compared to some other club owners, but their intention was to develop the surrounding commercial land in order to generate the necessary income to fund the rugby club.

Whilst all clubs were facing severe financial challenges in early 2022, it became apparent to both PRL and the RFU in May 2022 that Worcester was especially struggling when it was reported that certain players were paid late. Enquiries were made and assurances were given by the directors that the situation would be rectified and that they were close to securing a £6m loan from a major bank. PRL and the RFU did not have direct access to the club’s financial information but PRL did have regular updates from Sport England who did have such oversight.

By August the loan had still not been secured and it was at this point the owners asked PRL to advance their distributions early to cover a TTP commitment. The PRL Board approved this but found out the next day that a Winding Up Notice had already been issued for the full £6.5m outstanding HMRC debt.

It was at this point that the RFU’s Club Viability Working Group was mobilised which subsequently managed the various regulatory requirements. During this time the RFU, PRL,

RPA and DCMS were in regular contact with a specific focus on assessing the club's ability to find a solvent financing solution and to give the club as much support as possible to continue in the league and keep professional rugby at Sixways.

When it became apparent that communication with staff and players was totally inadequate, representatives from the RFU were in daily dialogue with the leadership team of the club and the RPA was in daily contact with players. In particular, the RFU worked with the leadership team of the club as well as the local Council to ensure that, what turned out to be the final men's match of this season, was undertaken safely. Senior representatives from the RPA, PRL and RFU, together with external lawyers arranged by the RPA, held calls with the players to give guidance to them as to their regulatory and legal position.

During the committee both organisations were asked to check if staff from the professional and/or academy side of Worcester had been in touch prior to May 2022 to raise red flags regarding the financial viability of the club. We can confirm that, although we were in contact with the CEO, owners and coaching team, we were not approached directly by any other Staff at the club.

Regarding the Solicitors Disciplinary Tribunal (SDT) judgment, the RFU was made aware of the SDT process, but was not provided with the judgement before it was published. The RFU did not say it wouldn't act, as clearly no decision could be taken on an individual's suitability before a formal judgment from the SDT was published.

Following publication of the SDT judgment, the RFU's correspondence with the club confirmed that this matter remained open, but the immediate focus would be on the financial position of the club and to help it survive.

Wasps

Wasps was purchased by Derek Richardson in 2013 following a period of financial difficulties. In 2015 the club raised a £35m retail bond that financed a move to a permanent stadium in Coventry from High Wycombe.

Whilst the Coventry Arena was a profitable business the club struggled to service the mounting associated debt and the loss-making rugby club that had dwindling attendances since the move. The club owner and CEO gave regular updates to PRL on its impending bond refinancing.

On 12 May the club issued a public statement on the delisting of bond but gave various assurances to PRL, RFU and DCMS on their ongoing negotiations with HSBC and Coventry City Council on a refinancing package. Negotiations continued throughout the summer but as the debt market deteriorated the club began to explore other commercial options.

The RFU and PRL were told of the club's Notice of Intention to Appoint Administrators on 21 September, the day that Notice was filed. The RFU then worked with the club and its financial advisers throughout that period.

The communication from the senior leadership of the club to its players and staff was much clearer than was the case for Worcester. The RPA continued to support the players, and on 14 October, senior representatives from the RFU, PRL and RPA, together with the RPA's external lawyers, spoke to the players to go through the legal and regulatory position and offer support and guidance.

Supporting the players, staff and foundation

The situation the players and staff at both clubs found themselves in was devastating. In the case of Worcester, after the winding up petition was issued the RFU and PRL found out that information was not forthcoming from the owners and stepped in to make sure the staff and players were kept updated on the situation and were receiving the support they needed.

On 23 September and 3 October senior representatives of the RFU, PRL and RPA met with the Worcester players and continued to have conversations with them on an individual basis. We also worked with the staff on a daily basis and they deserve a huge amount credit for the way they acted and kept the club operating in extremely challenging circumstances. We worked with staff and the local council to ensure fixtures could take place safely. Our approach was to give the club as much time as possible to find a solution.

For both Worcester and Wasps, the RFU protected the player pathway by taking control of the U18s academies, with training resuming on 14 November. A number of staff involved in the two academies have been employed in the new set up. The RFU also ensured that the women's centre of excellence programmes at both clubs continued.

Regarding the women's teams at Worcester and Wasps, the RFU worked with the administrators and supported the clubs to find funding to ensure both teams could continue to play. This resulted in both teams being able to take part in the Premier 15s league this season. In the case of Worcester, we worked with the administrator and local council to secure a temporary licence which means they can continue to play at Sixways. Both clubs have tendered to be part of the new Premier 15s League. This is a separate, independently chaired process and the results of the process will be announced soon.

Both clubs have preferred bidders in place, and they are progressing through the RFU's approval process. A key part of that approval process is a commitment from the buyers to pay the "Rugby Creditors", which includes outstanding amounts owed to players and staff of the clubs. This is a crucial protection for those individuals which is built into the regulatory process.

PRL is continuing to support the Worcester Warriors Foundation this season. Over 1,000 young people from a diverse range of backgrounds will take part in Project Rugby and Hitz on Track will be delivered into local schools to support young people in education using the values of rugby.

Key learnings

In our view, the primary issues that caused the administration of Worcester and Wasps were;

1. The unprecedented financial situation caused by two major economic crises (COVID and the current state of the UK economy), which have had a major impact on all clubs' liquidity and being able to trade as going concerns
2. Inherent challenges that specifically existed in both business' models even prior to COVID

There are however a number of other issues which Premiership Rugby and the RFU acknowledge need to be improved:

1. Stronger central financial oversight and regulation could help better manage the disruption caused. Whilst even with full financial oversight it is unlikely that either club could have

been saved, with tighter financial controls and regulation RFU and PRL could have set more conditions on the club entering into the league for the 22/23 season.

2. A forward looking financial monitoring system like the DNACG system in France would also improve the long term financial strength of the league. This is essential, especially given long term economic challenges.
3. A more rigorous and ongoing director and owners test which includes controls around company assets and material transactions.
4. A better safety net for players impacted by insolvency, including immediate provision for lost salary and medical costs, should be explored with RPA.
5. Continuing to review the standard Premiership player contract, which is centrally negotiated with the RPA, to ensure that it is fit for purpose, and supports players in a club's insolvency situation. We will continue to engage with the RPA to do this.

Outlook for the league

The long term growth opportunities for both rugby and especially RPL remain extremely positive, especially given the current quality of the rugby product and the proven market opportunity that exists in the UK. PRL recently launched their "Game Plan" strategy which has the full endorsement of all the clubs, CVC and other key partners and stakeholders. This Game Plan includes capitalising on the evidenced potential market of 10m rugby fans in the UK of which 5.5m are currently 'warm' to the Premiership but only a fraction are purchasing fans. The plan is driven by making the league more accessible, both for TV audiences, digital followers and fans looking to attend events.

Short term liquidity will continue to be a challenge in this economy for all clubs and this will present some further short term challenges. The need to secure long term investment for clubs is therefore a priority for PRL.

PRL and RFU action plan

1. Financial Monitoring Panel

An independently chaired review of club financial structures and plans will take place and steps have already been taken to appoint a lead for the review (see below). The review will make recommendations on what an appropriate financial monitoring system for the Premiership would look like. For example:

- Including early warning mechanisms and real time monitoring to spot financial difficulty earlier
- Improving financial discipline and best practise across the league
- Learnings from other cross-league systems that support long term sustainable growth that can be applied to the Premiership

Premiership Rugby is aiming to appoint a suitably highly qualified independent individual to lead the review pre-Christmas with recommendations due in early 2023.

2. Continued Governance Improvement

PRL and the RFU are taking the opportunity to improve some of our respective governance frameworks. For example:

- Improvements to the tests for owners and directors, including a greater focus on continuous monitoring of business plans, company structure and ongoing performance, and greater ability to impose conditions around any approval (including protections around a club's ground, and ongoing governance requirements). An enhanced process is already being applied to the current proposed changes of ownership, with ongoing reporting and other conditions to be imposed should any approval be given. A fuller, new owners' and directors' test, based on other best practice, is being drafted and will be in place for next season.
- Further improvement of current insolvency regulations, specifically taking lessons learnt from Wasps and Worcester
- Improving sporting decision-making within PRL, with the establishment of a Sporting Commission with independent representatives to ensure sporting decisions taken by PRL are made independently of any conflict of interest.

The relevant governance instruments and regulation will be reviewed as part of determining what the future of the professional men's game will be following the end of the current PGA. As part of that work, a key element will be to establish the right level of voice for players, to ensure players have the correct influence and impact on decisions that affect the professional game, whether this is from player directly, through the RPA or through the Women's Rugby Association which was set up to represent elite women's players.

Individual club governance is also crucial to this, and the RFU and PRL are already working with Sport England on a programme of improving club governance which will begin in January 2023. This is part of a wider project to improve the governance of all rugby clubs, at every level, throughout England.

3. Firming up our foundations

The RFU and PRL are accelerating work on some of the major structural topics associated with the PGA. These include the future structure and management of Premiership and Championship competitions, optimising England men's performance, the academies' structure and player welfare. It is also important to note that the RFU is separately working with participating clubs on the future structure and growth of the Premier 15s women's competition, which will be vitally important to the growth of the women's game.

4. Commitment to Premiership growth

PRL, CVC and the clubs will continue with their commitment to the PRL 'Game Plan', which aims to grow the sport and in turn PRL and club income. A key tenant of this is collaboration with the RFU and other key rugby stakeholders to grow the game through better cost management across the eco-system, creating more efficiencies through collaboration and alignment of strategy.

Whilst there are no short-term fixes to some of the challenges the game faces, we are confident that a collaborative approach across RFU, PRL, the clubs and the RPA will lead to a growing and vibrant Premiership which will benefit the rest of the rugby eco-system from the grassroots to the England teams.