Chair of the WRU on refinancing its Welsh Government debt, cost savings and driving revenues

The Welsh Rugby Union (WRU) is looking to refinance its £20m debt on more favourable terms, the lion's share of which it currently owed to the Welsh Government and passed through to the regions, with a bond issue a possible solution

The union, which for its new 2024-25 financial year has also identified discretionary spending savings of £4.5m, last week published its new One Wales strategy for which a new business and financial five year plan, in collaboration with the four regions, will be worked on over the summer with a view to being published in the autumn.

The strategy has set five goals to be achieved by 2029, including the men's and women's teams being consistently ranked in the world's top five, financial stability at all levels of the game and growing participation levels on the current 60,000 – particularly amongst girls and addressing the sharp fall off in playing numbers when youngsters reach the age of 14.

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For the regions to be more successful the union initially identified a funding gap of around £35m over five years, commencing 2025-26. That was subsequently revised downwards to £29m based on the four regions, assuming the current number remains – securing £1.45m each more a season rather than the initial £2m.

The Welsh Government provided a commercial loan of around £18m to the union in 2022 after it refinanced a Coronavirus Large Business Interruption Loans Scheme (CLBILS) funding package the WRU had struck with NatWest. The WRU passed through the initial NatWest loan roughly equally to the four regions in Cardiff, the Dragons, Ospreys and Scarlets, who are liable for the interest and capital repayments.

The CLBILS Covid response loan with NatWest had to be refinanced within three years and with limited options the union turned to the Welsh Government. The interest rate was negotiated at the current Bank of England base rate (then 0.25% but now 5.25%) plus a 3% margin. The regions have since last year being paying an eye-watering interest rate north of 8%.

As of the end of June 2023, the Welsh Government debt had been reduced to £13.8m after the WRU negotiated a new lending facility (E) of £4.9m with NatWest to partly refinance it. The WRU also utilised the facility to refinance a £2m loan it had passed through to the regions from World Rugby which was also provided in response to the pandemic.

On the advice of the Development Bank of Wales, the Welsh Government’s position has been that as a commercial loan it had to be priced at market rates. The regions, on cost grounds, didn’t hedge against any interest rate rise on the debt.

In England the Premiership clubs received Covid recovery loans, via the UK Government’s Department for Culture Media and Sport (DCMS), fixed at just 2% and repayable in 2032 with capital payment relief for the first few years.

The Welsh Government has not entertained writing off any of the debt or reducing the interest rate on the loan, claiming to do so could leave it open – although highly unlikely – to a legal challenge under subsidy control regulations.

The union, under its new chief financial officer, Leighton Davies, it is now looking to refinance its loans with the Welsh Government and NatWest.

To support the transition to a new lender the Welsh Government has agreed a deferment of capital payments for a year. This will generate a cashflow saving for the four regions of circa £2.5m – but the capital will have to be rolled back into a new deal.

On its debt position chairman of the WRU, Richard Collier-Keywood, said: “The question for me is can we refinance those debts and key to that, as in any business, is that we need to have a good business plan and then we need to go and met some people who will refinance us. So the process we are going through is to get that five year business and financial plan in place by the autumn or winter.”

The chairman said the union was not looking to draw down any new funding from NatWest, with whom it currently also has a revolving facility that allows access to finance when needed.

Asked if was he disappointing that Welsh Government hadn’t considered dropping the interest rate in line with the DCMS’ loans to English Premiership clubs, Mr Collier-Keywood said “To be honest I don’t think lending to the likes of us is core to the Welsh Government, who were extremely grateful to for providing about £13m of grants to us and the professional clubs during the pandemic.

“We still have an overhang of debt of around £20m and we would much rather have debt that we could understand over a much longer period to match our business needs. There are options, from the US commercial paper market at one extreme to institutional lenders in this country, including bonds.”

What is not clear at this stage is whether any new refinanced debt – and as a £100m revenue business the WRU finances are stable and it is not over geared – continues to be serviced entirely by the regions.

The union also has a £45m mortgage with L&G, that is repayable over 45-years. That lending financed the WRU's Parkgate Hotel next to the Principality Stadium. The hotel, in which WRU is the majority shareholder with around 25% held by Rightacres Property, is generating a positive cashflow for the union – after accounting for the L&G financing costs, hotel running costs and paying a management fee to operator the Celtic Manor Collection.

The union has provision to meet future maturities on its debentures – although under former CEO Steve Phillips it had some success in getting debenture holders to extend their terms – which carry a current liability of around £50m. The L&G and debenture liabilities shouldn't impact the union's ability to negotiate far more favourable lending terms than those currently provided by the Welsh Government.

Under the WRU's chief executive Abi Tierney the union has also identified £4.5m of savings from discretionary spending from travel arrangements to costs associated with hospitality boxes in the Principality Stadium for its new 2024-25 financial year.

Mr Collier-Keywood, a former UK managing partner of professional advisory firm PwC said: "It's a lot of little things across the board (savings). I think it is indicative of the new type of system of control we have put in place.

" Literally I don't think when I arrived we knew what our budgets were. And I understand that as we had lost the two key figures from the perspective of the CEO and finance director (Tim Moss) and the whole union was really focused on trying to answer what was the melee of the independent panel review (that looked into allegations of racism, sexism and misogyny at the union) and obviously a lot of things got spent and missed over that period of time as I don't think people were particularly tight on cost control, and now we will be.

“So, that £4.5m comes from literally lots and lots of things that we can stop doing which we were probably nice to have as opposed to essentials.

WRU CEO Abi Tierney.
(Image: Gareth Everett/Huw Evans Agency)

“The reason we have done that is obviously that is the easy saving, but the next set of conversations that we are having is that we have to identify further savings in relation to activities. Over the course of the summer Abi and her team will be bringing similar options back to the board to work out which of those activities that we are not intending to do in the future.”

But what activities could be made surplus to requirement in the union which has a head count of more than 420 staff with annual wage, social security and pension costs of more than

£23m?

Mr Collier-Keywood said: “If within the headline settings of our new strategy then they are our priorities, but if outside they are not. Abi has been looking at reshaping her executive team and looking at driving revenues.

” We are doing a lot of work in the background including on data and our technology which in the short term will probably save us some money and I am sure in the longer term we will invest more in that and will get a bigger return on the revenue side. We are looking at all areas which are non-core, as well as trying to work collectively with the regions to try and identify where there is duplication.”

With the regions the focus is on looking to create combined operational teams in areas such as HR, marketing and commercial. The union’s head of finance Mr Davies said £3m of savings have already been identified through agreement with the regions on shared services collaboration. However, like the £4.5m in discretionary spending savings, this has been baked into the £29m current deficit which needs to be made up to support the regions to become more competitive on the pitch.

Working the regions

On working more closely with the regions the chairman said: “We absolutely want to join up those bits and that is the most efficient way (shared services) of doing it. It is also the best way of getting career satisfaction for those in the regions and the WRU because you are not just one HR person sitting out somewhere, but being part of a number of HR people. You can have career progression opportunities and it is probably also better from a balance sheet perspective.”

To support improved revenue raising efforts – although the performance of the national team is a major factor in ticket and hospitality sales at the stadium which remains the union’s biggest revenue line – it is appointing a new chief growth officer with the aim of the successful candidate, depending on any notice period, being in post in the autumn.

On the key commercial role Mr Collier-Keywood said: “It good potentially be someone from the regions. From a finance perspective we have brought someone from a regional club to help us centrally with Phil Morgan from the Scarlets working very closely with Leighton Davies. We had a gap and it was clear that Phil could fill it, which is testament to the increased positive relation with the regions and the transparency towards the new strategy.”

CVC dilution

Having drawn down all the funding from CVC Capital Partners in return for it acquiring a 28% of the union’s stakes in the URC, the WRU has two remaining tranches of £8.5m to come from the deal in 2022 which saw CVC also taking a minority stake in the Six Nations. The WRU gave up around a 3% stake in its ownership stake of the commercial income generated from the tournament. When announced the WRU said it could be worth up to £51m before costs.

After accounting for professional advisory fees incurred on the investment and tax, the most it could have received was £48.5m with a guaranteed non contingent £40.5m. However, the additional £8m for commercial uplifts has failed to materialise. The WRU will receive a £8.5m Six Nations payment from CVC this month, with the final instalment next year of the same amount. The union will then be into a straight dilution of at least £3m with no CVC payments to mask losses.

On both deals with CVC the chairman said they had to be seen through the lense of a different world pre-Covid. However, he said if the same terms were on the table today they would be rejected or renegotiated to increase the value of stakes being sold.

He added: “If you asked if they came and offered us the same deal today would we do it, the answer is we wouldn’t because all that does is bring forward cash, but sells out the future asset you have in value. I would back ourselves to increase the value of that asset going forwards.”

The WRU has also changed how it treats the CVC payments, with last year’s cash receipt and the remaining tranches being effectively counted as reserves for the 2022 ending financial year.

This will be reflected in finalised 2022-23 accounts which should be signed off next month after the abridged accounts were published earlier last year.

The abridged accounts for 2022-23 showed the union posted pre-tax losses of £4.3m. This was impacted by exceptional items of £1.9m, including payoffs for the former coach Wayne Pivac and his team and the former CEO. Tax losses also increased to £3.8m mainly through no longer recognising a deferred tax asset -indicating the union wasn’t forecasting profits over the medium-term to offset tax against.

Mr Collier-Keywood said: So, the £8.5m from CVC – although in cash terms it was received during the year – is being reinstated back to reserves in 2022. With the two remaining CVC payments also counted, it should see a carried forward reserves of around £30m.”

He said the move shouldn’t be viewed as any criticism of the previous WRU management team based on the professional advise received, but a different take on accounting for the CVC monies. The WRU has brought in Grant Thornton as auditors, but with a retained role for PwC.

On signing off of the accounts he said: “I am hopeful we will be able to get something out by the end of July. There are some figures that went through our abridged accounts which we have already seen, but there are probably two other changes that impact the actual P&L and that is basically an additional £350,000 worth of costs to do with the independent panel review and auditors.

“We have also looked at what is a technical thing over what period do you recognise the gain on behalf of the hotel deal and the view of the auditors is that it should be recognised over a number of years. The impact of that is around £650,000 in 2023.”

On the CVC cash receipt movements he said: “On the advice from our auditors we have now recognised a £31m gain in 2022, which increases the brought forward reserves coming into 2023. These are really accounting technical adjustments and nothing to do with cash or anything like that.”

He said £3m in cash from the now fully drawn down funding from CVC for the URC deal, could also be restated to a previous year. As a result of all the adjustments the union’s pre-tax losses could come in at around £17m.

Parkgate Hotel

Outside The Parkgate Hotel, on Westgate Street, Cardiff
(Image: The Parkgate Hotel)

On the hotel, a project driven through by former CEO Mr Phillips, Mr Collier-Keywood described it as a sound deal with the hotel performing well.

He added: “The hotel is profitable, there are first obligations on that money which is all about making sure that debt gets repaid, which is normal in a big asset deal. So, we have choices as to what to do with that money with the hotel contributing cash.

“We also have an amazing set of assets in the WRU including the stadium. We want to make sure that we maximise the use of those assets going forward to deliver more income.”