

STATES OF JERSEY



FUNDING OF THE JERSEY REDS (P.78/2023): COMMENTS

**Presented to the States on 3rd October 2023
by the Minister for Economic Development, Tourism, Sport and Culture
Earliest date for debate: 3rd October 2023**

STATES GREFFE

COMMENTS

Ministers do not support this proposition which would, if adopted, grant a blank cheque to the Jersey Reds for the remainder of the 2023-2024 rugby season with no additional certainty beyond June 2024 and therefore carrying a material deadweight risk.

Whilst extremely sympathetic to the players, coaches and staff, Members should observe that Jersey Reds (in its various legal entity guises) is a private endeavour with a long history of financial problems dating back to November 2016. At that time, members of the club were presented with accounts showing significant losses for the 3-year period to June 2016 and forecasts of a further deficit in the upcoming year. The then - and still current - Jersey Reds Chairman said:

“Following the conclusion in late September of a full review of the club's financial position, the full extent of the financial challenges encountered in recent seasons has become apparent.

“The investment required to operate a fully professional rugby squad in the English Rugby Championship has necessitated major investment by the club over the last few seasons. In addition to the costs of the playing squad itself, satisfying the criteria to play in the Championship in terms of maintaining quality playing surfaces, coaching team, medical facilities, spectator facilities, floodlights and administrative support has required a significant level of commitment. The club's assets have appreciated in value to reflect the substantial physical improvements

“Our focus has been on firmly securing the club's position in the first instance, which then allows us to undertake a full strategic review on the club's future beyond the end of this season as a priority.

In 2018 Jersey Reds Chairman approached government to seek emergency funding. In an e-mail to then Assistant Minister for EDTSC Senator Pallett and a government officer from the Chairman it was stated that:

“If it is clear there is no ability to provide substantial support, it is important we know that and we will start planning our exit from Pro rugby.”

At that time, £125,000 of emergency funding was granted to see Jersey Reds through the 2018/19 season.

Provision for funding was made in the 2020-23 Government Plan tabled by the previous administration and under the sponsorship of then Senator Farnham. This granted Jersey Reds sums of £250,000, £150,000 and £50,000 in 2020, 2021 and 2022 respectively with the intention of transitioning the club to a sustainable business model.

As with other businesses impacted during the COVID-19 pandemic, Jersey Reds benefited from several of the business support schemes available at that time.

As the Minister for Economic Development, Tourism, Sport and Culture has set out in his statement provided to the Assembly, successive Governments have provided both direct and indirect support of around £1,700,000 which is summarised in the table below:

Year	Form and extent of support
2019	GoJ grant of £125,000.
2020	GoJ grant of £250,000 (1st instalment of multi-year support totalling £450,000) For the purpose of "securing professional rugby in Jersey" - the purpose of this grant was to enable Jersey Reds to become financially sustainable over an extended three-year period after which no further Government support would be required.
2021	GoJ grant of £150,000 (2nd instalment).
2021	GoJ COVID-19 support – loan guarantee for 80% of a £500,000 loan to Jersey Reds from Santander International.
2022	GoJ grant of £50,000 (3rd instalment)
2023	Re-profile of ITIS debt repayment of £400k to now be repayable over 36 months rather than 12 months
2023 – June	Emergency payment of £220,000 to sustain operations sought and granted by decision of Ministers.
2023 – August	Emergency payment of £150,000 to sustain operations sought and granted by decision of Ministers

Further approaches for emergency funding were made in early 202 culminating in a clear response from the Assistant Minister with responsibility for Sport, Deputy Stephenson, declining that request. Despite this clear Ministerial position, The Chairman wrote to the Government of Jersey Chief Executive days later to make the same emergency funding request. The depth of financial problems at that time were clearly known by directors of Jersey Reds (trading company) and the separate investment company directors and anchor investor.

Rugby Union clubs have faced significant financial pressures in recent years and there is an acute financial challenge ongoing at English governing body level in the Rugby Football Union (“RFU”). The top tier of professional rugby in the UK saw three Premiership Rugby Clubs file for bankruptcy in 2023, reducing the league from 13 to 10 teams. Additionally, the RFU, the governing body of rugby, reduced their annual financial support for Championship (Tier 2) teams from £650k per team pre-covid down to £288k and again in 2022/23 down to £145k.

Notwithstanding the reduced level of central funding from the RFU, it is incumbent upon the directors of Jersey Reds to ensure they maintain high standards of corporate governance and financial management. When faced with a reduced level of income steps should have been taken to set expenditure budgets accordingly and the track record of weak financial management dating back to 2016 and continuing to the present day affords us with no confidence in the directors ability to conduct the affairs of the company prudently in the remainder of the 2023/24 financial year.

Representations have been made regarding an improved funding outlook from the RFU from the 2024/25 season but the timing and financial value of those changes remains distinctly uncertain and is, in any event, that investors should be supporting rather than taxpayers.

The Council of Ministers considered the wider short, medium and long-term financial challenges facing the Jersey Reds during their meeting of 19th September. Ministers

considered the ongoing uncertainty over the Club's future funding from the RFU and the significant cashflow problems facing the professional Club.

Ministers ultimately decided it was not appropriate to provide further public funding to this private business and that it was not justifiable to underwrite the operations of the professional Club indefinitely.

Financial and Manpower implications

The financial and manpower implications of this proposition could be considerable given its requirement to ensure additional funding sufficient to enable the Jersey Reds to compete in the 2023-2024 rugby season.

The extent of this funding is not set out within the proposition however the level of funding considered by the Council of Ministers in September included a £590,000 grant for the 2023/2024 season and a further £300,000 in the 2024/25.

As the slides accompanying Deputy Farnham's proposition show, these figures assumed a very significant (£850,000) uplift in the RFU funding available during 2024 which remains yet to be determined as well as anticipated efficiency savings within the professional Club and the attraction of new private sponsorship.

In the event that private sponsorship, RFU contributions or efficiency savings fail to materialise, this proposition would leave the taxpayer to meet the additional costs.

Economic Value of Jersey Reds to Jersey's local economy

In 2016, Via Analytics were employed to measure the economic value of Jersey Reds to the wider economy. This independent assessment determined that Jersey Reds made a contribution of £1.4 - £2.1m annually. This is largely derived from tax on payroll and fans from visiting clubs travelling to watch their team play in Jersey. This level of economic return does not justify a level of financial support anywhere close to the levels sought for the future.

It should be noted however that matchday spectator numbers have steadily fallen from over 2,000 at home games in September 2013 to c.1,500 in the 2018/19 season and c.1,200 in the last season.

Furthermore, as noted in the table above, the professional Club has had its ITIS payments effectively deferred in recent months and this figure can no longer be considered part of the Club's economic value.

Comment under Standing Order 37A

This comment was not provided to the Greffier of the States before 12.00 p.m. on 29th September 2023 due to the lateness of the original proposition being lodged with the assembly.