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SCOTTISH RUGBY UNION

Minute of Stage 3 of the Annual General Meeting of the Scottish Rugby Union (Stage 3), held by video conference, on Tuesday 22nd December 2020 at 6.00pm.

Present

I Barr (President) in the Chair

C Rigby (Vice-President), G Thomson, G Tosh, E Hugh, B Frazer, M Gillanders, W Gardner, AJ Forsyth, H Swankie, B Richmond, K Knott and J Anderson (Members of the Scottish Rugby Council); IT Rankin (co-opted Member of the Scottish Rugby Council).

J Jeffrey (Scottish Rugby Board Chairman); LE Thomson and J Bracewell (Independent Non-Executive Directors); M Dodson (Chief Executive), RM Howat (Secretary), DC McKay (Chief Operating Officer) - Members of the Scottish Rugby Board.

WG Dixon, RW Flockhart and J Stevenson (Past Presidents)

S Begbie (Director of Rugby Development), SJH Gemmell (Technical Director), S Bell (Director of Human Resources), GA Ireland (Head of Regulation), RG McGhee (Regulatory and Technical Executive), A McCracken (Senior Solicitor), N Bombrys (Managing Director, Glasgow Warriors).

Club, Associate Body and Associate Club area representatives comprising 121 individuals.

There were also in attendance: D Belmore (Championship Committee Convenor); representatives of the auditors, members of the press and members of staff.

Distributed for Meeting

- *Meeting Notice dated 29 July 2020 and Notice of Resumed Meeting of 14 December 2020 (including Agenda and Procedure)*
- *Annual Report 2019/20 (including Audited Financial Statements)*

Apologies for Absence

J O'Neill (Member of Scottish Rugby Council); Clubs - Lanark and Lochaber.

Welcome and Notice calling the Meeting

The President welcomed all present and referred to the Notice calling the Meeting and proposed that it be taken as read. There was no dissent. He invited the Secretary to intimate apologies, which were as noted above.

The President confirmed that the Meeting was being held by online video conference and was quorate, having more than one third of the representatives entitled to attend and vote present.

The President intimated that club representatives must be members of the clubs which they represent.

The Secretary outlined the voting procedure, which would be conducted through the electronic voting platform.

Financial Statements for FY 19/20

The President advised that a financial update had been provided by the Chief Executive at Stage 2 of the Meeting, which had been followed by a summary financial paper. The audited financial statements had then been issued on 14th December as part of the Annual Report.

The President then invited the Chairman of the Board, J Jeffrey, to address the Meeting.

J Jeffrey welcomed everyone to the Meeting and referred to his roles with World Rugby and the Six Nations, where he had been at the centre of recent discussions around the key areas of player welfare, the global calendar, women's rugby, the CVC investment and growth in participation. In all of these areas significant progress was being made, despite the limitations imposed by the ongoing global pandemic. He looked forward with confidence to 2021 and the new 'post-Covid' era.

The President then invited the Chief Executive, M Dodson, to address the Meeting.

M Dodson added his welcome and thanked everybody for their patience in dealing with the structure and timing of the AGM. He referred to the recently published audited accounts for the financial year ended 31 May 2020 and highlighted the key figures:

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- A surplus of £2.9m had been achieved for the financial year. This reflected a £5.3m operating deficit offset by net investment income of £8.4m related to the investment in the Pro14 by CVC.
- At £55.5m, Turnover was down from the record level of £61.1m recorded in the previous year. This reduction reflected not only the impact of the current pandemic but was also a reduction in the number of home international games, with only two home 6 Nations matches in the period (compared with three the previous year) and only two RWC warm up games (rather than the usual three Autumn Tests). Within the reduction in Turnover ticket income had fallen by £5.3m, broadcasting revenues by £4.5m, professional rugby income £3.2m and hospitality income by £2.0m. Offsetting this, commercial income had increased by £0.2m and there was also an increase of £9.2m in development income and grants.
- Expenditure on International and Professional Rugby had increased by £0.9m, mainly due to the costs of Rugby World Cup participation, whilst expenditure on Domestic and Performance Rugby had reduced by £0.5m due to curtailed activity levels in consequence of the pandemic. Investment in Domestic Rugby fell from £7.4m to £7.1m for the same reasons. Commercial and Operational spend had reduced by 0.3m due to a reduction in the number of events at the end of the year.
- The Capital Expenditure of £4.4m mainly related to the construction of the new stadium on the Murrayfield estate as a home for Edinburgh Rugby.
- Subsequent to the year end the net cash position had been bolstered through the receipt of the second tranche of CVC's investment into the PRO14. Scottish Rugby's bank facilities had also been restructured and a new Revolving Credit Facility arranged. This would provide the business with working capital to continue operating through the pandemic. In addition a Scottish Government support package for the organisation of £20m, being £15m of grants and £5m of loans, had recently been announced.
- As to how these monies would be used, the CVC monies would be ring-fenced pending a decision early in the new year on the organisation's strategic objectives. The bank facilities would act as a safeguard against future Covid -related disruption. The terms of the Scottish Government support package had not yet been provided but were understood to be intended to allow the Union to resume its core functions at the appropriate time with its workforce intact, not to support new or expanded projects, specific programmes or particular sectors of the organisation.

M Dodson then outlined some key developments in tracking player numbers and a redevelopment of the on-line SCRUMS platform to achieve more accurate statistics. He also reaffirmed Scottish Rugby's commitment to making the sport as safe and welcoming as possible.

M Dodson concluded by encouraging everyone to work together for the betterment of the game in Scotland and look to the future positively.

Questions and Answers

The President noted that a number of questions had been submitted in advance of the Meeting. The questions submitted were read out and the answers given by the President were as follows:

Watsonians (Euan Kennedy): "What proposals do the SRU have for utilising the first tranche of the CVC investment?"

"As explained earlier by the Chief Executive, we have now received two payments arising from the investment by CVC into the Pro14. Use of these funds is subject to specific Board approval. Some has been used as part of the refinancing arrangements made in the Autumn and to repay the long-standing term loan, a portion is being set aside on an ongoing basis to cover the reduced distributions we will receive in the short term from Pro14 due to CVC now sharing in Pro14 revenues, and the rest has been ringfenced.

Early in the New Year the Board will be discussing longer term objectives, a strategy for achieving those and how best to use the various resources available to us, including proceeds from investment transactions."

Watsonians (Euan Kennedy): "How much money did the SRU receive in the Government furlough scheme?"

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“In the year to 31 May 2020 we received £1.3m from the furlough scheme, with a further £2.1m received to end November, totalling £3.4m to that date.

For some additional context, throughout the 8 months of the Job Retention Scheme being available, in both its original form and the later more flexible furlough scheme that allowed for employees to come on and off furlough more easily, Scottish Rugby had an average of 279 employees across the whole organisation not in work and furloughed.

Since September when operations and sporting competitions resumed the monthly figure has seen 178 employees furloughed, on average.

As part of the original furlough scheme, employers could claim contributions towards salary for unworked hours of up to 80%, capped at £2,500 per month.

In line with our approach and consultations to date, Scottish Rugby wanted to ensure any employee who was furloughed still received their full pay (or their reduced pay if they earn over £50k and are subject to a temporary salary reduction). This is also consistent with the approach we have taken to date where all those earning under £50k are financially unaffected.

The 80% contribution levels and monthly cap will be reviewed by the government in January 2021.”

Glasgow Hawks (Kenny Hamilton): “Overseas Investments. In Note 7 to the accounts it states “During the year”.....”Scottish Rugby Union Limited, acquired a shareholding in Washington DC Professional Rugby LLC through a wholly owned subsidiary, Scottish Rugby (USA) LLC. At 31 May 2020, the Group’s resultant shareholding in Washington DC Professional Rugby LLC was 28.4%, acquired at a total cost incurred over the year, including professional fees, of £661k. The Group’s share of this company’s net assets at 31 May 2020 was nil. There is expectation that this company will generate positive future cash flows and, as such, no impairment charge has been made against the Group’s investment in this company.”

(a) “Does £661k represent the full investment that is committed?”

(b) “If not, what additional resource, financial and in kind is anticipated?”

(c) “How will the investment generate surpluses?”

(d) “There is no mention of the previously notified arrangement with Stade Nicois in France. Has this arrangement been terminated? How much was invested and what benefit accrued to Scottish Rugby?”

“The amount reported reflects the investment made in the year to 31 May 2020, including professional fees in accordance with the subscription agreement entered into. A further, smaller amount was invested in this financial year on performance conditions being met and to honour the overall commitment made. No further amounts beyond that are committed.

We see this as an investment for the longer term in a new rugby market which is developing rapidly and beginning to attract interest from other investors. It is also providing development opportunities for a number of our people, including coaches and players.

Our formal relationship with Stade Nicois has been paused, although we continue to have a strong relationship with the club. Our involvement has been spread over a 3 year period, with our funding mainly meeting the cost of paying and supporting the players and coaches who we seconded there as part of our wider player and coach development programmes and from within our performance rugby budgets, rather than being a direct investment into Stade Nicois. We do not report the cost of these programmes on an individual basis.

3 coaches who spent time there are now working for Scottish Rugby, with 8 of the 10 players seconded progressing to professional rugby with our Pro teams, 7s or in Super 6.”

Cartha Queen’s Park (Edward Crozier): “Given the passing of the openness and transparency motion at AGM2, it was disappointing to read just three days later that the temporary chair would as quoted in a national newspaper that the then interim Chair would “throw his hat in the ring for a permanent

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appointment.” subsequently to be appointed permanent chair only 4 days later. In doing so the Board quoted “Dunlop report .

“Are the Council, in its enhanced role as overseer of the Board as instructed by the second motion passed at AGM2, satisfied that there was a fair and open process undertaken by the Board in regard to this appointment. 4 days before that appointment?”

“I would refer you to my public statements on this appointment and the release at the time.

As President, I sit on the Nominations Committee together with another Council colleague, and we participated fully in the discussions which took place within the Nominations Committee, and then the Board.

The Nominations Committee recommendation was unanimous, as was the Board’s decision. I fully support and endorse those outcomes.

The processes required under the Articles of Association were considered very carefully and as a Nominations Committee member, Board member and President I am satisfied that they were followed, and that we reached the right decision in the interests of the organisation and the game in Scotland as a whole.

Members will find the Articles of Association on the website.”

Cartha Queen’s Park (Edward Crozier): *“What date did the nomination sub group meet to discuss and appoint the Chair position?”*

As advised at AGM Stage 2 on 26 November, the Nominations Committee met on 4 November to discuss succession planning. It reported to the Board at the next following Board meeting on 3rd December.

Cartha Queen’s Park (Edward Crozier): *“Did our CEO receive any financial benefit from capital investment from CVC into any external international Bodies that the SRU have a share holding in?”*

“In short, no. I would also refer you to the Remuneration Report within the Governance Section of the Annual Review document issued in advance of AGM Stage 2. We do not comment there on particular individuals but I would draw your attention to page 56, where it is made clear that KIPs for the 19/20 annual bonus scheme included delivery of investment projects, and that the Executive Directors (which would include the CEO) each waived any entitlement under the scheme.

Cartha also included the question they had put forward at AGM Stage 2 about the process and timescale for appointing the new Chair. As that appointment has since taken place, and I have already referred to the process and the timing of the Nominations Committee and Board meetings I do not propose to say anything further on that.”

Haddington (Keith Wallace): *“The Annual Report is strong on the impact of Covid, and the additional narrative is welcome, however it is less strong on the other nine and a half months of 2019/20 i.e. underlying business.*

In this respect we are led to believe from two public statements from Mark Dodson:

“No meaningful revenue since February that is a tragedy because we are trading incredibly well up to then” August 2020.

“We were trading very strongly through the year up until the virus struck” November 2020.

Yet:

- *The video presentation of AGM2 suggests that we were heading for an underlying deficit of £1.74m.*
- *The narrative in the annual report in turn states that a deficit of £1m was expected.*
- *This suggests a downturn in financial performance from 2018/2019 of between £2.3m and £3m (when the surplus made last year and the exceptional costs of executive pay are taken into account).*

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- This represents the worst performance in a World Cup Year since 2003/4.
- Further despite the knowledge that any WC year would see a big loss of revenue, more than 10% was added to the headcount, thereby adding yet more costs (particularly going forward) to a business where for some time costs have been rising faster than income.

Q1a: Against this can Mr Dodson please justify his comments?

Q1b: How much was spent and how much was earned on WC19, described by the Chairman as “underachieved and by the CEO as “poor” in the annual review?

Q1c: Despite these increases in costs, funding to clubs “Club Support & Development” has flatlined since 2016, representing a drop in quantum of around c20% this year, c30% last year, had it kept pace with revenue growth from 2016. Why is this deemed appropriate in a member organisation?”

“This is quite a detailed question with a number of parts and the answers are also not simple. We will, of course, reply to Keith on the specifics of his query in more detail but it may help if I mention a handful of points just now.

The underlying deficit of £1.74m Keith mentions is an accurate figure. The additional deficit arises from a timing difference in the receipt of broadcast revenue due from the 6 Nations tournament which was not received until the completion of the tournament which occurred after the end of the financial year. This revenue will be reflected in the 2020/2021 accounts.

Keith makes a comparison of the small Surplus achieved in 2018/19 with the Deficit projected for 2019/20, that being a deficit **if Covid hadn't happened**. He then adds on changes in executive pay (which have previously been reported and explained as being accumulated over several years) and the difference year-on-year then being around £2-£3M.

He then asks on what basis Scottish Rugby could be said to be “trading strongly up until the time Covid struck”.

- Scottish Rugby recognises that RWC years are always difficult. They add to our costs and reduce our revenues (such as through no normal Autumn Tests schedule);
- This is not helped by the RWC occurring in a Six Nations year where we have only 2 Home games;
- In setting the Budget for 2019/20 the Board therefore chose to even out the effect of the RWC cycle on our finances. This meant accepting a small Budget deficit for 2019/20 – of around 1.5% of Turnover, rather than seeking to cut costs and other activity back for a short period, only to then return to breakeven or surplus again through the 4-year World Cup cycle.
- This recognised the surpluses achieved in prior years and the projections for the next financial cycle.
- Headcount changes reflect operational and trading needs both current and anticipated, as well as temporary cover needed from time to time and is kept under review as part of budgeting process.

Against this the Union was trading pretty much to plan – that is, up until the impact of Covid-19 struck us all.

On RWC2019, as explained on page 6 of the Financial Statements, the direct cost of participation in RWC 2019 was around £900,000. The direct participation fee for RWC 2019 was £150,000.

But it is worth also emphasising that World Rugby also makes significant distributions to Unions as grants out of the profits of the RWC to help offset the revenue losses (mainly income from Autumn Tests that can't be held) and costs sustained through Union participation in the Tournament.

The additional grant income in respect of Scottish Rugby was, however, less than that which would otherwise be achieved by our Union in ticket sales and other revenues in a non-Rugby World Cup Year.

Keith also asked a question about the level of Club Funding. He noted that – if Club Funding had been increased from 2016 at the same rate as our Turnover has increased, then it would have been significantly higher than it actually is. Keith suggests a figure of 20-30% higher.

Keith is right to say that we have in recent years been able to grow our Turnover significantly. Of course the cost of keeping ourselves competitive in playing terms, attract sponsors and stage events which

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have seen record attendances and full houses – and hence able to maintain revenues in future years - have also grown.

During this period we have been able to increase Club Funding, we have been able to pay down historic debt, and we have been able to keep our heads above water in terms of the intensely competitive environment that is international and professional rugby.

Would we like to have been able to distribute more – absolutely. And as indicated earlier in the Meeting, 2021 provides an opportunity as part of our strategic planning to look at how we can invest more in the domestic game moving forwards.”

Haddington (Keith Wallace): *“In the presentation by Mark Dodson at AGM2 stated that “we are now in the past two “reset” phase looking at how the business might be reshaped post Covid” and the interim Chair, now the permanent Chair, stated “I urge us all to look to the future and see the post-Covid world as a place where we can thrive without rancour and mistrust and come together AS ONE to rebuild the game at every level.”*

Given that a prime cause of any “rancour and mistrust” has been the lack of clear strategy, can the Chairman confirm that a new clear strategy will be a key output of the reset phase and that to help ensure that there is full understanding and buy-in the Clubs (the members of the Union) will have the opportunity to input to the development of that strategy?”

“Having spoken with the Chairman, I am happy to respond.

The assertion that a prime cause of “rancour and mistrust” has been a lack of a clear strategy is not accepted - that may well be the questioner’s opinion, and one which that club is perfectly entitled to hold, but it should not be put forward as a statement of fact.

As explained in one of the earlier answers, the Board will be looking at future strategic objectives and how those can be achieved, early in the New Year. I and the other members of Council elected to the Board will engage ourselves fully in that process. Once that has been developed, the Board will in turn discuss that with the Council, that being the most appropriate forum.”

Currie (Phil Thomas): *“At a financially challenging time, member clubs have been very pleased and encouraged by the support which has been offered by the Scottish Government. When will Scottish rugby be able to outline to the member clubs the conditions for deployment and use of the grant and loan finance that the Scottish Government has provided”?*

“The support announced recently by the Scottish Government is an extremely welcome development. As the Chief Executive mentioned earlier, detailed terms of the package are awaited, as is a date for distribution to Scottish Rugby.

We will hear more over the next few weeks as those details and any conditions are finalised. It is important to remember that this is an emergency funding package intended to help replace revenues linked to having no crowds during the Coronavirus period so far, assisting in resumption of core functions and in maintaining employment. We will therefore be looking very carefully, against that backdrop, at how it should be used.”

The President then asked the Secretary whether any further questions had been asked during the meeting. The Secretary confirmed that a number of supplementary questions had been asked and the President addressed these as follows:

GHA RFC: *“Can you confirm the reason that Scottish Rugby has received a substantially larger initial tranche from the Pro14 CVC deal than it’s Irish and Welsh counterparts? If Scottish Rugby elected to receive a larger up-front payment, did this impact the total amount that we could have received?”*

“All Unions had the opportunity to draw down at different rates. There is no change to the amounts involved.”

GHA RFC: *“Can you please give an indication as to the intended purpose of the CVC investment? Mark Dodson was quoted as saying that this money was to be ring-fenced until the full impact of the*

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pandemic was realised. Is this still the case or have the CVC monies been used to cover normal operational costs thanks to the impact of the pandemic?”

“As described earlier in the meeting, the CVC monies will be ring-fenced pending a decision early in the New Year on longer term objectives and prospects.”

MARR RFC: *“Is the Chairman virtually present during the course of this meeting? The President is delivering live on-line, the Chairman’s update is pre-recorded. Is he here and available to answer questions?”*

“The Chairman is present, along with the CEO, the Secretary and the Head of Regulation.”

MARR RFC: *“Where can we see the Strategic Plan for 2021 onwards?”*

“There has been a delay in the production of the next Strategic Plan due to the crisis management around the pandemic but a strategy meeting is to be held in the near future.”

MARR RFC: *“In England, emergency funding provided to the RFU was allocated 10% plus to clubs. Might we expect similar in Scotland from Scottish Government support?”*

“We are still awaiting the full details from the Scottish Government as to the conditions associated with these funds.”

Adoption of Financial Statements

There being no further points the President proposed adoption of the Financial Statements. These had been seconded by email shortly in advance of the Meeting by N Anderson, *Kelso*. The President advised that a simple majority was required to approve the adoption and called for a vote.

Votes cast were as follows:

For: 112

Against: 5

The Financial Statements were duly adopted.

Meeting Close

The meeting hosts, Lumi, were thanked for their assistance.

The President thanked everyone for their attendance and the Meeting, which had commenced at 6.03pm, closed at 6.59pm.