

The problems of ambition

Time again for the annual run through of the club accounts for the year up to 30 June 2016. I was accompanied by Paula Martin of STAR and, as always, opinions are mine alone.

Operating statement

	2016	2015
Turnover	25.8	35
Operating expenses	(49.6)	(48.1)
Other operating income	0.3	0.3
Operating loss	(23.5)	(12.7)
Profit on players	7.1	4.6
Loss on foreign currency	(1.7)	0
Profit on disposal of fixed assets	0	11
Profit on disposal of investments	5.6	0
Amount received under guarantee	0	0.9
Interest payable	(2.5)	(1.2)
Profit(loss) for the year	(15)	2.6

More detail is as below.

Turnover

	2016	2015
Media and broadcasting	14.1	24.4
Matchday income	5.2	5.7
Commercial income	5.7	3.9
Rugby	0.5	0.6
Other income	0.2	0.5
Total	25.8	35

The parachute payment dropped from £16M to around £9M and this will last for just one more year. With no promotion this year turnover could then drop to maybe £17M or so for 2017/18. Think about it.

Operating expenses

	2016	2015
Staff costs	30.8	33.3
Depreciation	1.6	1.7
Player amortisation	5.1	3.7
Other operating charges	12.2	9.4
Total	49.6	48.1

Staff costs are now ahead of turnover. Although staff costs are dominated by the first team squad (I would guess of the order of 80%) we have also got rid of a number of managers and this does not come cheap. With Clarke and McDermott casualties of our poor record they have to be paid off. Two years ago Deloitte confirmed our pay was 4th highest in the Championship and we finished 19th. Last year we finished 17th but with pay still at around £30M we were certainly around the top 6. Thankfully, with pay set to go down again and hopefully no management severance payouts our final position this year may not be one of underachievement. Player amortisation is up due to Vydra's £2M one year loan.

Other operating charges contain one payment that did not occur in the previous year, a £1.5M payment to Empire Asia Group Co. Ltd for management consultancy services. This company has two of Reading's Thai directors as their directors. There is no description in the accounts of what these services to the club actually involve.

Player movements.

The profit on players sold came from Michael Hector and Nick Blackman with add ons for McCarthy, Long and Antonio. Sa was bought and sold. After the accounts were closed we sold Tshibola and Norwood for around £6M or so.

A number of players came in. As well as Sa and Vydra, we brought in Kermorgant, Rakels, Bond, Hurtado and incoming costs for players are shown as £5.1M. (Hurtado is still out on loan). After the accounts were closed there was a minor flood of players at a cost of £2.7M and these were Liam Moore, Beerens, Blackett, Mendes, Harriott, Jaakkola, Meite, van den Berg and Gravenberch. Swift also cost us money as compensation for taking an academy player, although widely reported as a free transfer. Following on from this, a further player, Ilori, was brought in but lower than the value of £3.3M widely quoted in the press.

Other items.

The loss on foreign currency occurred due to some of our loans being international and the currency devaluation we took as a result of the Brexit vote. The profit on disposal of investments is referred to under **assets** and interest payable has increased due to a one off fee of £1.5M for arranging finance. Why this took £1.5M I have no idea.

Assets

	2016	2015
Fixed assets		
Intangible assets(players)	2.7	3.6
Tangible assets	24.9	25.2
Investments	5.6	11.2
Total	33.2	40
Currents assets		
Stock,debtors ,cash	8	10.3
Thus, total assets are	41.2	50.3

Intangible assets undervalue the assets we have as players since they only refer to players we paid fees for. Academy players, for example, are a free asset. I would think Liam Kelly alone is worth more than £2.7M. However, intangible assets are valued according to the rules all clubs must follow.

The main change is due to RFC Prop, the company set up to develop the land around the stadium. Before this occurred, the land around the stadium appeared in accounts at a low value (with an accompanying note that it could be worth more than valued in the accounts). Following the proposals, independent valuations were used to value the land and company set up. The company is valued at £15M. These valuations were made independently of the Thais. In the previous accounts, the club owned 75% but this has now dropped to 37.5% with the Thais purchasing this through another company. The profit on disposal of investments are shown in the accounts and the asset value we have under Investments drops. Although this percentage may drop further, I would not expect it to drop to zero and thus the club will still have a stake in the development. Money raised from this venture by the club has been important in keeping us going and are also a useful selling point in attracting new investors.

Debts

	2016	2015
Creditors	73.3	67.9

Loans have increased.

There is thus a gap between assets and liabilities of around £32M last year, compared to around £17M the year before. This increase is unsurprising considering our £15M loss.

Financial Fair Play

In order to keep within the FFP rules, £800K of debt was converted to equity. This will probably be substantially increased this year.

Going concern

Although the directors declare in the accounts that we are a going concern, for the first time since I have been writing these articles our auditors sound a warning note and state in their report: “(losses and liabilities) indicate the existence of a material uncertainty which may cast significant doubt about the company’s ability to continue as a going concern”. A warning shot and one that a lot of other clubs have got over the years.

The price of ambition

In the current Deloitte report on Football Finances they state that “(wage costs in the) Championship reveal why Championship clubs are so reliant on owner support and are left vulnerable should that support be no longer available”. Simply selling off players is not enough. To be truly ambitious we must pay out in the way other ambitious clubs around us do or face decline. That doesn’t just mean on players, it also means good management teams. Without rich owners who are willing to put their hands in their pockets this club (or any other) cannot stay ambitious. If the Thais get concerned over the amount of spend required we must look for further investors. (Any income from the Royal Elm Park development is a long way off and will require significant financial input in order to proceed.) The wooing of the Chinese is an indicator of the continuing spend the club wishes to undertake to keep that ambition going.