

QPR's finances – Complacency could yet kill the club

QPR remains in financial trouble. We at QPR1st are convinced that a new financial crisis is around the corner. The possibility that the club will fall further into debt before the end of this season is real and QPR1st warns that the only way to avoid what is coming may be for the fanbase to become involved in a way that they have never done before.

We are now more than half a year away from the nightmare that was administrative receivership. The club came out of admin promising a new era of sound finance and openness. Yet until recently there has been little openness about the state of the club's finances. As fans and shareholders, we found ourselves awaiting accounts that were overdue for some months. What hints we received about the club's financial position, the panicky reaction to our first round cup exit for example, point to more trouble around the corner. At the end of this season we may have been promoted, in which case the club can look forward to greater rewards through higher ticket prices and TV money. Alternatively, we may still be in division two, in which case QPR1st expects that there will be more belt-tightening.

Why do we expect this? Primarily because of what we have been told. Executives have warned us before that 2002/3 would be a tough year, primarily because of the number of players that still earned substantial wages. Little detail has been released by the board, about the true, up to date financial picture at the club. We at QPR1st are concerned at this lack of information, because we want to know what new crises we might find ourselves facing and how we should respond to them.

So what have we been told? Well, the end of the FA cup dream brought us David Davies's comment that the club had just lost £300,000 from its budget. The board has also told us that it has budgeted for average gates through the league season of 12,500-ish. Both these pronouncements surprised us at the time, since they appeared to confirm very optimistic budget assumptions. Given the club's immediate financial history prior to the budget's production, we were pretty astounded that the budget could be remotely optimistic. This leads us to believe that the board had to have an optimistic budget, to justify accepting that it would be in a weak financial position at the beginning of the club's freedom from admin. That the crowds have come very close to budget is something that we fans should feel very proud of, but the board's feeling should be one of relief, not satisfaction.

The picture we have is one of a club teetering on the edge of ruin, but all of this is conjecture. Because the club has been so tight with information, we have only had anecdotal evidence to go on. We hear that the players are on £2-3,000/week (most of them) but that the club wants to get the majority down to £1,500/wk next Summer. We do not know this.

All we can really do to assess the club's financial position is to produce our own estimate of income and outgoings, based on what we have learned about individual components of the club's business. We can gain some idea of how reasonable our assumptions are by comparing our results with the historical financial position of the club. It is not pleasant to look back, because the club has made some stupendous losses over the years.. Prior to June 2000, the club's losses over four years averaged

£6.4m/yr. Details of the club's profit and loss, and remember Wasps was a part of the business until early in the admin period, are presented in the table below.

The club's poor management legacy

It is easy to become hot under collar at the sheer profligacy of the previous board, of whom current chair Nick Blackburn was a prominent member. One just has to see regular losses, which effectively amount to almost the whole of the club's income each year, to realise how badly the club was run during its descent from the Premiership to its current position. However, it is the historical income that is of most interest in this exercise because it gives us a guide to the club's current earnings, even after account is taken of the higher TV money received prior to our fall from division one and of the Wasps receipts lost at the end of 2001/2.

Loftus Road PLC's annual results (£m)

Item	1996/97	1997/98	1998/99	1999/2000	Average
Income	7.497	9.756	7.070	8.051	8.094
Expenses	-14.661	-15.158	-16.594	-15.956	-15.592
Operating loss	-7.164	-5.402	-9.524	-7.905	-7.499
Other income	0.209	0.018	1.146	3.210	1.146
Interest	-0.097	-0.179	-0.549	-0.638	-0.366
Pre-tax loss	-7.052	-5.563	-8.927	-5.333	-6.719

Source: Loftus Road PLC accounts

Things have got a lot better

To add to this, we also have statements in the past from board members that the club's turnover was roughly £6-7m in 2001/2 and that it was not expected to change dramatically in 2002/3, although we subsequently saw things like the ITV2 deal disappear. So we think we can get a reasonable handle on what the club earns. We believe that, before receipts from Fulham, the club turns over roughly £5m/yr. This breaks down to:

Ticket sales – 26 games*12,500*£10.00 =	£3.25m
Catering -	£0.125m
Hospitality -	£0.75m
Merchandise -	£0.5m
TV/Internet -	£0.25m
Programmes -	£0.2m
Sponsorship -	£0.04m
Advertising and filming -	£0.055m
Total -	£5.17m
Plus Fulham – 28 games*£24,000 nett	£0.672m
Grand total	£5.842m

Source: QPR1st estimates

This says to QPR1st that the club is doing exceptionally well to sustain earnings at the level that it is. However, is this enough to overcome the costs of operation.

Remember, until the end of April 2000 costs were averaging over £15m/yr, almost three times current earnings. We have no information on what costs were in 2000/1, but the figures released by the administrator can give us some guidance as to what costs were in 2001/2.

We have published these figures before, when they caused quite a stir, but we never really tried to use them as the basis of any analysis. The costs in the first year of admin were as follows:

Payments to Wasps	£1.496m
Wages	£3.674m
Termination of contracts	£0.434m
Rates/Utilities/Insurance	£0.361m
Duress creditor	£0.026m
PAYE/NICs	£1.91m
Sundry expenses	£2.571m
Transfer payments	£0.103m
Loan repayment	£4.05m
Secured creditor	£0.685m
Legal fees	£0.147m
Total payments	£15.456m

That looks pretty frightening but, from the £15.5m incurred in the year from April 2nd 2001 to April 1st 2002, we can extract the payments to Wasps, for termination of contracts, to creditors and, presumably, for the PAYE backlog to gain an idea of what costs are likely to be today. That leaves us with costs of £6.605m, which implies an annual loss of roughly £0.75m/yr. That looks a much less worrying figure, but when we came out of admin we took on a £10m loan, which needs payments of about £1m a year just to meet the interest. This implies that our costs at the start of independence were set to be £1.75m more than our earnings, before we made any payments coming out of admin.

We now have the administrator's final accounting, for the period from April 2nd 2002 to May 27th 2002. The figures presented make interesting reading. The arrival of the £10m loan is shown clearly, as is the payment of £4.5m, presumably primarily to Chris Wright. The most interesting facet of the final figures, though, is that the club started out with £3.8m of surplus funds.

The club's final accounts in administration: £m

Income

Balance brought forward from year to April 1 st	£15.865
Sales	£0.648m
Miscellaneous income	£0.354m
Transfer sales	£0.013m
Wasps ticket sales	£0.002m
Loan	£10.000m
Total whilst in administration	£26.882m

Outgoings

Balance brought forward from year to April 1 st	£15.456m
Payments to Wasps	£0.002m
Wages/contractual payments	£0.567m
Rates/utilities/insurance	£0.059m
PAYE/NICs	£0.291m
Sundry expenses	£0.620m

Transfer payments	£0.018m
Administrator's fees/disbursements	£0.435m
Legal fees	£0.500m
Loan repayments	£4.500m
Loan interest	£0.033m
VAT	£0.534m
Input VAT on fees/disbursements	£0.076m
Total whilst in administration	£23.091m
Surplus funds	£3.791m

Source: Companies House

Heading for more losses

So it looks as though we set out into our current financial year with £3.8m in the bank, with a club that was loss-making and with many players' contracts to renew. With most of the club's running costs tied to contract deals, such as Goldrange, the bulk of which are expected to run out at the end of this season, there was only one area that the club could cut to save money in this financial year. This is the wages, but the major cull happened in the previous Summer. Many of the players that disappeared then were still on first division wages and they were replaced by youngsters and players stepping up from lower leagues, so there probably was not that much give on the wages front. We lost some players, Marcus Bignot for example, but not enough to make a serious dent in the wage bill, while we took on the odd player. We believe that the wage bill was unlikely to have been cut substantially.

We believe that the club has continued to lose money since coming out of administration and, if we continue as last year, we will see it lose something like £1.75-2m out of that £3.8m surplus, leaving just £1.8-2m of spare cash to start the new financial year. We have heard, admittedly from people who may have their own agendas, that the situation will be worse than that. Offsetting this are minor injections of cash from new directors Lyndon Fuller and Kevin McGrath, believed to be about £200,000 in total. Even so, we will make a substantial loss. That is very worrying, partly because our likely margin of error in this analysis could easily add another million to the loss, but also because it suggests that we must either make further cuts in costs, or win promotion in order to break even after May. We cannot afford to let the surplus dwindle to the point where the club starts to fall further into debt again.

This is one of the reasons that QPR1st questioned the club on the way that it is hiring staff for its back-room management team. Whilst understanding that senior staff were under increasing pressure and needed help, would it not have been more prudent to wait until the end of this season, when the club's financial position will be much clearer. At the very least, the club should have a policy of only hiring staff when it knows how it is going to pay for them.

The new operations manager that the club is hiring is a case in point. A senior manager working in London should not cost much less than £70,000/yr after tax and insurance (if it is less than that well done to the club). He may well prove invaluable in freeing up some of our chief executive's time and in keeping relationships with Fulham sweet by improving the management of the stadium. But will that improvement bear fruit in better terms, more revenue, from Fulham? Seen from the QPR1st perspective, the club appears to be spending on a member of staff whose

primary purpose is to make sure that the stadium is run to Premiership standards when Fulham are at home. If that is the case, surely Fulham should pay his wages.

Ideally, the club should be able to trade without budgeting to receive Fulham's groundshare money, since a collapse of Fulham right now would leave the club in deep trouble. But this money is clearly crucial to QPR's survival at the moment. Were the £600,000/yr to be withdrawn at the end of the season, it is difficult to see how the club could avoid defaulting on the £10m loan inside two years.

The way forward – Let us help

This analysis is not intended to be used as a weapon with which to beat the club's management on the soles of the feet. Instead, it aims to bring home the perilous position of the club, despite our release from administration. The next question that needs answering is, what is to be done to finally set things on an even keel?

First of all, the club's management must adopt a proper business plan which looks ahead one, three and five years. Were it to do so, and we at QPR1st were flabbergasted to learn that there is not one already, it would learn that QPR has few choices left to make a way forward. The club's management can continue to cut costs and hope that QPR's status does not dwindle further into lower-table obscurity, as the quality of playing staff diminishes with the cash available. It can continue to seek inward investment, although there has been limited success with this so far. Or it can do both. It must not borrow further and it must find a way of surviving independently of Mohamed Al Fayed's money.

What it must also do is accept the freely offered help and goodwill of its fanbase. Ultimately, QPR1st believes that it is the fans that will bail QPR out, whether through fund-raising or finding investment. But the club has to be as open as it said it would be last Summer. And we will be far more effective helping the club if we know what is going on now and what is coming. The time when QPR fans once again get together to show how crucial they are to the survival of the club is almost upon us. We at QPR1st will work with all-comers to make sure that we are all ready.