



Mrs Christine Chapman AC/AM  
Chair  
Communities, Equality and Local Government Committee  
National Assembly for Wales  
Cardiff Bay  
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CF99 1NA

30 January 2014

Dear Mrs Chapman

#### **The WRU and the Four Regional Organisations**

Thank you for your letter dated 27 January 2014. We fully appreciate your interest in Welsh rugby and hope that this response will aid your understanding of current issues. In order to give you a fully formed view I would like to take this opportunity to remind you of some relevant background facts.

The Regional Organisations were established by the WRU member clubs in the form of franchises granted by the WRU as governing body in Wales to represent Welsh rugby in sanctioned competitions.

In 2009 the WRU and the Regions jointly agreed a Participation Agreement which provided a framework for professional rugby in Wales including player welfare, foreign player limits and player release for international duty.

In return the direct financial contribution to the Regions from the WRU immediately increased from £3.6m to £6m per annum.

This meant the Regions received £9m a year income from the competitions they were nominated to take part in by the WRU and the £6m to achieve a total annual income of £15m.

The cash injection from the WRU was index linked, so in 2013 it reached £6.6m a year and by the full term of the Participation Agreement in 2019 it would have reached £7.6m. The increase in investment in the Regional game via the WRU has risen by 102% since 2006.

As well as this income the WRU spends £600,000 each year funding and staffing the Regional academies at each of the Scarlets, Ospreys, Cardiff Blues and Newport Gwent Dragons.

Other support is provided for each Region through facilities, training and coaching support from within the senior national squad and at the WRU National Centre of Excellence.

Under the terms of the 2009 Participation Agreement the Regions were unilaterally able to determine whether to extend the PA after December 31 2013. The WRU did not have that option.

The window of opportunity to inform the WRU that the Regions did not want to extend the Participation Agreement commenced on 1 July 2013, but the Regions did not inform the WRU of their intentions not to extend until 5.15pm on 31 December 2013. That meant six months of potential negotiation for a new agreement was lost.

In 2011 the Regions and the WRU commissioned a report by PwC, which looked at the financial operations of the Regions. This report was proposed and funded by the WRU.

One of the report's conclusions was that there were weaknesses in the management of the Regions and the report suggested seven possible options to improve Regional rugby.

The suggestions ranged from increasing collaboration with the WRU to the alternative extreme of reducing the number of Regions because of the obvious financial challenges.

This is a crucial element of the background detail which has pervaded all discussions between the Regions and the WRU. In recent years the WRU has put forward a number of suggestions for increasing Regional revenue.

Important events and developments took place within northern hemisphere rugby during 2012 and 2013. In June 2012 the English Premiership Division clubs under the banner of their joint organisation, PRL, served notice that they would not be taking part in the Heineken Cup after the 2013/2014 season.

In September 2012 PRL announced that they had signed a contract to play in a new European competition funded by the broadcaster, BT Sports. The WRU, in common with other governing bodies were not involved in such discussions and has not had sight of this contract.

It is important to note that by signing that contract with BT Sports the English Premiership Division clubs had effectively sold the rights of Welsh, Scottish, Irish, French and Italian rugby without any reference to or discussion with the relevant governing bodies.

Throughout the early months of 2013 the Regions and the WRU engaged closely to discuss all issues relevant to Welsh professional rugby and the Professional Regional Game Board was established as the proper forum for that debate.

This engagement continued, but in October 2013 the Regions announced that they wanted to join a "Rugby Champions Cup" competition which was the proposed new European competition managed and controlled by English clubs.

It has always been, and remains, the position of the WRU that the needs of rugby as a Welsh and a global sport are best managed through the agreement of the governing bodies under the auspices of the International Rugby Board. This is in the best interests of the sport.

The actions of the English clubs serve to support this contention as PRL, in their recent pronouncements, have been prepared to ignore the needs of Irish and Scottish rugby by stating they favour inviting Welsh Regions into the Aviva Premiership league. That would condemn the RaboDirect Pro12 to oblivion.

This PRL proposal has been blocked by the IRB and condemned by the English Championship Division clubs, but still serves as evidence of how self interest can dominate decision making without the proper governance structures.

Every nation involved in rugby recognises that a future based on club self-interest presents a direct threat to international competitions such as the RBS 6 Nations by diminishing rugby in some of the six competing nations.

If competing nations are not viable then the competition would decline as support for rugby and vital revenues went into freefall.

It must be remembered that under the auspices of the IRB, Wales, in common with other nations, regularly plays fixtures against emerging nations to assist their development and some central funds are distributed to help grow the global game. The success of this policy has led to some six million people now playing the game regularly worldwide.

Here in Wales the threat to the existence of this governance structure within the pyramid of rugby has become a backdrop to the negotiations with the Regions.

This is important background which was relevant as the Regions entered negotiations for a new Rugby Services Agreement with the WRU.

This document was presented to the Regions on 6 January 2014 and a framework of meetings coupled with discussions have taken place since then to negotiate the final agreement.

The WRU has offered £2m of extra money in the new agreement after securing additional funds from stakeholders. The total amount now offered to the Regions is £9.3m including the £600,000 of academy support. This has been achieved by explaining to them how a new National Contract structure for key international players will offer these organisations opportunities to build profile within the Welsh game.

The new Rugby Services Agreement therefore includes the National Contract formula along with a proposal to distribute new money based on rewarding the success of the Regions which contract the most international players. This formula put forward by the WRU contains a transitional means of assisting the Newport Gwent Dragons which currently only holds two players regularly selected for the senior Wales squad. The Dragons would receive significant

financial support initially in order to provide them an opportunity to build their international player base.

The National Contract formula is based on players who have already been nominated by the Regions and the WRU perceives a limit of up to ten players being potentially contracted under this scheme in future.

Currently the negotiations are progressing although separate discussions involving all the national stakeholders are taking place to conclude accords for the sanctioned European competition. It may be assumed that any delay in reaching accord on Europe effectively holds up the conclusion of the Rugby Services Agreement negotiations. The European discussions are not helped by the position that the Regions have adopted.

It must be remembered that the existing European competition governed by the ERC is well established and involves teams from all of the Six Nations Unions.

The four Regions were represented on the board of directors of this competition throughout its existence and were party to approving all the financial distributions and structural details of the tournament.

Although the Regional representative formally resigned from the board in November 2013 the fiduciary duties and obligations related to the Regions' directorship remain.

The WRU has publicly stated that it will continue to act lawfully and in the best interests of Welsh rugby throughout the current debate and negotiations.

The WRU is equally determined to continue to respect the huge amount of work being carried out to preserve the elite player pathway in Wales through the age grade international teams, the sevens squad and the senior national squad.

The community game, the Principality Premiership Division, the WRU funded Scarlets, Ospreys, Blues and Dragons academies and of course the Regions themselves form crucial elements of this pyramid pathway in Wales.

At the core of the pyramid stands the WRU National Centre Of Excellence which is renowned as the envy of major rugby nations around the world.

It is here that elite conditioning, medical care and skills coaching combines to ensure the best playing talent in Wales is spotted, nurtured and matured.

The role of the Regions is crucial in the pyramid which has helped Warren Gatland and his coaching team achieve three Six Nations championship successes including two Grand Slams since 2008. The Sevens team have also been world champions and the U20 team reached the final of the Junior World Championships last year.

The WRU remain focused on achieving a solution which secures the future of the four existing Regions as the professional rugby teams of Welsh rugby.

Yours sincerely

Handwritten signature of Roger Lewis in black ink.

Roger Lewis

Group CEO

Handwritten signature of David Pickering in black ink.

David Pickering

Chairman