

Trust News 25/03/06

The majority of this newsletter – to the extent that space allowed - appeared in the match programme on Saturday 25 March 2006

The Old Stanley and the Old City

No doubt Stanley supporters tire of being reminded about the demise of the 'Old Stanley' in March 1962. As a result of financial difficulties, the club resigned from the Football League and then, in the following year, folded altogether. That is, at the time, there was no-one prepared to provide the money and/or take on the challenge to help the 'Old Stanley' survive and so the town and the supporters lost their football club. It then took several years until the new Accrington Stanley was formed in 1968 and now, over forty years later, it looks likely that the town of Accrington will once again have a team in the Football League.

Of course, in recent years York City has been the subject of financial difficulties. After a few years of huge losses, the 'Old York City' was the subject of an Administration Order in December 2002. As most City fans probably appreciate, like had happened to the 'Old Stanley' in 1962, York City was very very close to folding altogether – and, if the Club had folded, Bootham Crescent would probably have rapidly been turned into a housing estate. In February/March 2003, in the absence of anyone else prepared to step in, the Trust formulated a Rescue Package to Save City. Life-long City fan and Trust member Jason McGill stepped forward to provide an essential financial contribution as an integral part of the Rescue Package, and was also one of the few people prepared to volunteer to be a Club Director. Whilst acquiring the football business, the Trust and the new Club Directors also inherited a legacy of debt, onerous contracts, a club with poor relationships with the local council and with certain football bodies, a poorly operated business and, not least, a Club about to be ousted from its home stadium. When the Football Club came out of administration with the help and support of all City supporters, whilst there were just sufficient funds to complete the Rescue Package, the business was effectively under funded by around £200,000.

Working towards new funding

As first reported in the last week of February, City's Trust Board is now in discussions with the Club Directors about trying to put in place some new funding to help the Club. As reported previously, the Trust Board has considered funding options during the past eighteen months. Changes in circumstances in recent months mean that the Trust/Club must now work towards putting in place a funding package. As is apparent to our supporters from the experience of the past four years, the potential sources of significant funding are somewhat limited. The discussions continue to include a possible way forward involving changes to the Trust's existing partnership with Jason McGill and JM Packaging Limited that are likely to involve changes to the ownership percentages of the Club. We will communicate more information to our members in due course. Within the limited time that the volunteers have available, the Trust Board's focus has had to be on putting in place a solution for the benefit of York City. Meanwhile, it is essential for the Club to have the stability and support to help Billy McEwan and the team win as many matches as possible in the final part of the season.

When time and circumstances allow, the Trust will endeavour to provide a response to the many questions that supporters are asking. Supporters who have taken the time to attend the Trust's meetings in the past will, in particular, better appreciate the complex circumstances in which the Trust/Club has had to operate over the past four years and how we have provided a full and frank account of the issues. In respect of the Rescue Package and then the arrangements to gain ownership of Bootham Crescent, you will probably struggle to find any other similar deals about which so much business information has been made publicly available and explained.

The financial context

Good or bad, football and finance is intrinsically linked in the minds of most supporters. In the case of York City, money has been at the centre of the evolving story over the past ten years. For someone to try and gain a better understanding of the current situation, it is essential to have some understanding of the financial context. Whilst it is the Club's Directors who are responsible for the management of the business, the financial results are communicated to the Trust Board on a regular basis. The Trust has also made the Club's annual financial statements available each year via www.ycst.org.uk. The table below sets out the income, costs and profitability of York City over the period from 1996/97 to 2004/05.

£'000	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
	L1	L1	L1	L2	L2	L2	L2	L2	Con
Turnover									
Gate receipts	521	497	566	384	471	539	675	790	455
Commercial & other income	284	308	285	268	390	375	375	539	514
Central/grant monies	372	380	610	485	543	1,000	450	505	266
Total Turnover	1,177	1,185	1,461	1,137	1,404	1,914	1,500	1,834	1,235
Costs									
Wages	-1,019	-1,159	-1,427	-1,635	-2,160	-1,686	-1,650	-1,072	-817
Wages/Turnover ratio	87%	98%	98%	144%	154%	88%	110%	58%	66%
Other costs	-459	-457	-520	-587	-711	-798	-700	-734	-477
Total Costs	-1,478	-1,616	-1,947	-2,222	-2,871	-2,484	-2,350	-1,806	-1,294
Operating (Loss)/Profit	-301	-431	-486	-1,085	-1,467	-570	-850	28	-59
Player Trading	134	586	1,779	305	129	171	150	61	22
Net interest	25	24	40	55	29	3	0	-5	-45
(Loss)/Profit Before Tax	-142	179	1,333	-725	-1,309	-396	-700	84	-82

Looking back before 1999 – relative financial prudence

- Whilst in the old Division Two (now League 1), York City was of similar scale to the average Division Three club in terms of income generation, the wages bill and annual operating losses.
- The Club enjoyed windfall profits from the transfer of a number of young players at a time when the transfer market was bouyant. In the three seasons from 1996/97 to 1998/99, the Club benefited from the net injection of around £2.5 million of profits from player trading. The windfall profits from player sales far exceeded the operating losses from the Club's day-to-day activities over those three seasons. At that time, the Club had better net funds (cash reserves) than almost any other Football League club.

Seasons 1999/2000 to 2001/02 – a dramatic downturn in the management of City's finances

- In 1999 the (then) directors of York City decided to undertake a "restructuring", such that the ownership of Bootham Crescent was stripped out of the Club and transferred to a new holding company (BCH). City's financial results took a significant turn for the worst in the 1999/2000 season.
- Whilst there was some reduction in income generation (largely due to Division Three status following relegation at the end of the 1998/99 season), it was the increases in costs that were of greater significance. The directors escalated the costs as the annual wages bill peaked at £2.2 million (in 2000/01) and other costs also increased significantly (to over £700,000 per season).
- By 2000/01, the Club's (then) directors had created a wages bill (of £2.2 million) that was more than double the wages bill from just four seasons earlier in 1996/97. As a result, the Club had one of the worst Wages/Turnover ratios in the history of British football in the 1999/2000 and 2000/01 seasons (at around 150%, whereas a ratio of around 70% would be sustainable).
- Operating losses exceeded £1 million in each of 1999/2000 and 2000/01, far worse than other Division Three clubs. In the three seasons following the creation of BCH, those responsible for running the Club created losses of over £3 million (from the day-to-day operations – 1999/2000 to 2001/02). The windfall transfer monies had been spent and York City was heading towards insolvency.
- In April 2002, Batchelor acquired the Club for £1 from BCH. As a result of the unsustainable financial position, in the last quarter of 2002, creditors were not being paid and the Club was

plunged into Administration in December 2002. By the end of December 2002 the Club had accumulated debts of around £1 million. Without corrective action, those debts could have grown further by the end of the season – by perhaps a further £0.5m to £0.75m. The financial situation was very bad and many people thought the Club was beyond salvation.

- The new Club's first 3 months of trading under Trust-control yielded a loss of £332,000, as inherited costs far exceeded the possible income generation.

Financial changes since 2003

- On a profit and loss basis, despite two seasons of poor on-pitch results, for 2003/04 and 2004/05 the operating results were breakeven. This compares to the average operating loss for each of the previous five seasons of £0.9m. That's a dramatic turnaround in the management of the Club's finances.
- Relegation to the National Conference inevitably led to a significant reduction in income in 2004/05, as overall gate receipts fell by over 40% and central/grant monies halved (despite the single season parachute payment in 2004/05), although commercial income held up well.
- Wages costs were necessarily significantly reduced in 2003/04, and again for 2004/05 – such that the Club's total wage bill of around £0.8m is less than half the figure of just two seasons before. As a result, the Wages/Turnover ratio fell to its lowest level in the past ten years. Other costs have also had to be cut, whilst at the same time the Club's Directors were striving to maintain (and improve) the Club's existing professional infrastructure.
- Changes in the player transfer market since 2003 has meant that significant transfer profits has become a rarity for lower division clubs. York City has enjoyed little more than £100,000 from transfer fees since 2003, compared to the windfall profits of around £3m in the late 1990s. And, whereas the old club used to benefit from interest income each year, the new Club now incurs interest as a result of the enforced borrowings.

For normal accounting reasons, the financial results in the table (above) do not include the cash outflows to settle certain inherited liabilities (e.g. amounts due to players, the tax authorities, the PFA – in effect, since 'day one', there was a shortfall of around £200,000 to try and recover), nor the cash shortfall of around £100,000 that had to be paid by the Club to complete the arrangements to gain ownership of Bootham Crescent. The vastly improved operating profitability since 2003 has been achieved despite certain matters/events that have been unfavourable to the Club's finances. For example: Batchelor reneging on promised payments of around £43,000; Exceptional redundancy costs of £72,000, that might have been lower if the people concerned had obtained alternative employment; Costs of around £50,000 that had to be paid in respect of the necessary investigations to move the Club to the Huntington Stadium; The team has not been successful in Cup competitions over recent seasons, unable to generate even a small Cup windfall, never mind the riches that the likes of Exeter City and Burton Albion have recently reaped; A reduction in youth grants; and, whilst ownership of Bootham Crescent was something that all supporters wanted, it has brought with it increased repairs and maintenance costs in respect of the Stadium and the Training Ground.

It is apparent to supporters that the Club has had to lead a 'hand to mouth' existence since 2003, whilst at the same time the Trust/Club have been working to maintain the stability required to gain ownership of Bootham Crescent and provide the team with a better chance of on-pitch success to reward our loyal supporters. We hope that this analysis is of both interest and use and we'll communicate more in due course.