Financing Sports Organisations in New Zealand: the impact of governors' choices

Report prepared for Sports and Recreation New Zealand (SPARC)[1]

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Background

Funding and financial management are critical issues for the not-for-profit sector. Funding is limited, competitively sought, and differences in funders' and organisations' expectations and needs can cause dysfunction. Sport is an important segment of the not-for-profit sector in New Zealand society. Sports clubs develop infrastructure to provide formal opportunities for teams, pairs or other groupings to play indoor and/or outdoor sport. These clubs offer opportunities for exercise and the building of social capital for healthy and vibrant communities. However, there is a lack of local and current research about the manner in which not-for-profit sports organisations finance the infrastructure (and particularly assets) which are necessary for their operation.

The objective of this research was to assess the impact of governors' financing choices on the sustainability of New Zealand's sports organisations through empirical research into funding practices. This research was also undertaken in an economic downturn heightening awareness of organisational liabilities and the need for ongoing income to meet those liabilities.

Six sporting codes were chosen from which thirty organisations' annual reports were analysed in terms of income sources, expenditure categories and the composition of liabilities.

In addition, twenty interviews were conducted with selected organisations to inform the preliminary findings of the quantitative analysis.

Findings

This research found that:

1. Financial health in sports clubs has reduced over the two year period analysed;
2. Expenditure on property and players consume the majority of sports clubs' incomes, yet members do not always appreciate the costs of the sports they enjoy;
3. Gaming and philanthropic trusts are a major source of funding for team sports clubs. However, successful clubs work hard at developing alternative sources of income; and
4. More than 40% of sports clubs have non-current (i.e. long-term) debt. Generally, smaller clubs have higher ratios of total liabilities: total assets. These debts pose a risk to the clubs' financial sustainability.

Recommendations

We recommend that SPARC encourage sports organisations' governors to:

1. Promote actively the benefits of club membership so that members recognise its value and are prepared to contribute to clubs' costs. In addition governors should review their membership fees regularly to ensure they make an adequate contribution to the running of club sport;
2. Think creatively about how to diversify their club's income. Clubs need alternative income streams due to the current relatively high levels of dependence on grant funding and the levels of debt in sports clubs;
3. Plan their property expenditure carefully to ensure cash is available to meet commitments; and
4. Re-assess their financial risk in respect of long-term debt and institute schemes to reduce that debt to ensure sustainability.

The findings of this report are context-specific, but by including clubs across the financial spectrum, we believe they will be useful to clubs seeking to thrive, despite the macro-economic environment.

1. Background

Funding and financial management are critical issues for the not-for-profit sector. Funding is limited, competitively sought, and differences in funders' and organisations' expectations and needs can cause dysfunction. In amateur sports organisations, income from membership dues, sales, sponsorships, grants and loans; combined with retained earnings, builds essential facilities and sustains organisations. Each funding stream's strengths and weaknesses needs to be considered by these organisations to ensure that they receive sufficient cash to meet expenses and repay liabilities.

In the current economic environment, financial management is as important as ever. Choices on income mix, levels of expenditure and organisational liabilities impact organisational sustainability. However, little research is available on these decisions – for example – do governors plan to meet the prospect of increased expenses by increasing membership fees or by applying for external grants? Also, what internal trade-offs do governors make between finance options, and (in line with Kearns, 2007) what analysis do they undertake with respect to new income opportunities that arise? A base-line understanding is required of the relative ratio of income from different sources, how funds are spent and levels of organisational debt, before governors can benchmark their performance.

Awareness of current media coverage concerning the viability of some sports clubs and an increasing interest in overseas research in this domain prompted our commitment to this project. In addition to a lack of current, local research about the manner in which not-for-profit sports organisations finance the assets which are necessary for their operation, this research was also undertaken at the time of an economic downturn. Thus, there was heightened awareness of organisational expenses and liabilities and the need for ongoing income to meet those liabilities.

In this research, financial analysis and a number of interviews were conducted with sports clubs' managers and governors as noted below.

1.1. Research Objective

The objective of this project was to assess the impact of governors' choices on the sustainability of New Zealand's amateur sports organisations through empirical research into organisational financing. In addition to a review of the relevant accounting and finance research literature, a sample of sports organisations' annual reports was analysed in order to understand the relative components of their income, expenditure and organisational debt (especially non-current liabilities). The ensuing ratio analysis formed the basis for a series of interviews probing board decision-making in respect of financing and the opportunities for, and barriers to, growth. The research highlights best practice, provides current sport-specific benchmarks, and makes recommendations on interventions to improve governors' funding decisions.

In order to gain as full an understanding as possible of financing, sports were chosen that were likely to require significant assets (for example, playing surfaces, land and buildings). The selection included both team and individual sports. The sports chosen were:

- Rugby
- Hockey
- Netball
- Squash
- Cricket
- Golf

While other sports may have also provided opportunities for analysis, the scope of this research was limited by the resources available.

1.2. Methodology

This study was undertaken in three parts.

- an initial literature review of current research in this area (which continued during the data gathering period);
- analysis of annual report data; and

- interviews with selected organisations to verify and further understand the findings of the analysis of annual report data.

Annual report data analysis

The analysis of financial reports sought to ascertain the:

- financial health of sports clubs across the country;
- relative ratio of different income categories in sports organisations (for example: membership fees, sales, sponsorship and grants);
- relative ratio of different expenses in sports organisations; and
- composition of liabilities against total assets and the extent to which long-term borrowing (in the form of leases, loans and debentures) funds these organisations.

Six sports were chosen as noted above. Data from the annual reports of 30 organisations from each sport was analysed for at least two years. This resulted in over 360 observations contributing to the research, (mainly from 2006 and 2007 although some 2008 annual reports were also available and were included). In order to ensure that amateur sports clubs with significant assets were included, we approached the national bodies of each sport for a listing of the largest 50 clubs (by membership). From this, 30 clubs were chosen randomly. New Zealand Community Trust made available annual reports for many of these clubs from their applications database. The remaining organisations' annual reports were downloaded from the Incorporated Societies Register.

Not all national bodies were able to provide a listing of the largest local clubs by membership. Alternative parameters for selection were sought, but in order to maintain sample validity, we searched the Incorporated Societies Register by these sporting codes and 50 organisations' annual reports were downloaded. From these, 30 large clubs (by revenue and assets) were selected for further analysis.

Once the annual reports were collected, the prime analyses undertaken from the Statements of Financial Performance and Position were of income, expenses and liabilities. The data entry and subsequent analysis was peer reviewed in order to ensure reliability and validity. The ratio analysis is presented in the following sections.

Semi-structured interviews

In addition to the annual report data analysis, we conducted interviews with twenty selected organisations across the sports codes. These interviews were undertaken to verify and expand the preliminary findings of the quantitative analysis. Ethical approval was obtained from the Victoria University Pipitea Human Ethics Committee for these semi-structured interviews. The schedule of interview questions is provided in Appendix 1, along with the Participant Information Sheet. Interviewees gave informed consent and were offered a copy of the transcript to check before the data was analysed. Any changes requested were incorporated before the analysis of the interviews.

The interview transcriptions were coded against the themes arising from the literature review conducted at the preliminary stage of the research and also themes that emerged from the interview data itself. NVivo software was used to record these codings for further analysis. This stage of the research was particularly helpful and a small selection of direct quotes is included in this report.

Further peer review also occurred at this stage, both between the primary and secondary researcher and also with a select group of experts. We acknowledge the input of the interviewees and also that of the peer reviewers.

1.3. Findings

This research found that in respect of the 180 sports clubs analysed:

1. Financial health reduced: income increased across all sports, but clubs' surpluses decreased overall. Netball and squash clubs' surpluses were the worst affected. Hockey and cricket had the greatest number of clubs with increases in income. These sports also had the highest number of clubs increasing their expenditure;
2. Individual sports rely on member fees and structural income. As well as member fees and structural income, grants are also a major source of income in hockey. Grants are the major income source for rugby, netball and cricket, followed by structural, member and/or external income;
3. Successful clubs are developing alternative sources of income, including hiring out of premises, developing annuity funds, running off-season competitions and establishing correlated business such as gyms;
4. Sponsorship is a valuable source of income but, clubs need to communicate frequently and have a clear knowledge of the benefits the club can bring to a sponsor;
5. Amateur sport is expensive to run: requiring good quality playing surfaces, coaching, equipment, well maintained premises, and administration, to ensure that players' experiences are positive;
6. Members, however, do not always appreciate the high costs of maintaining their sports facilities and may be unwilling to contribute to these costs;
7. Generally, smaller sports clubs had higher ratios of total liabilities: total assets. These debts pose a risk to their financial sustainability. Sharing administration and/or facilities with another club may be an option to reduce costs;
8. More than 40% of sports clubs have non-current (or long-term) debt. Much of this is interest-bearing, reducing availability of current income to sports activities.
9. A small number of clubs is technically insolvent with debts higher than total assets.

The quantitative and qualitative data and analysis behind each of these findings are developed across four more sections, followed by recommendations as follows:

Section 2: Financial health of sports clubs

This section presents a snapshot of the financial health of sports clubs. An analysis of the sample is displayed and compared to a relevant UK survey.

Section 3: Income

In this section, the relative income streams of sports clubs are analysed, with some comparisons to Norwegian research in this area. The resulting pattern is discussed, as are the challenges that meet organisations that are seeking to change their mix of funding.

Section 4: Expenditure

Section 4 analyses the expenditures of sports clubs in the chosen sample. As with the income section, the resulting pattern is discussed and the flow-on effect of expenditure choices is considered.

Section 5: Liabilities

This section presents the analysis of liabilities and solvency in sports clubs. In particular, the levels of long-term debt are analysed against net assets, to assess the financial sustainability of these clubs.

Section 6: Conclusions and recommendations

This section concludes the research and makes recommendations for future research and action.

2. Financial health of sports clubs

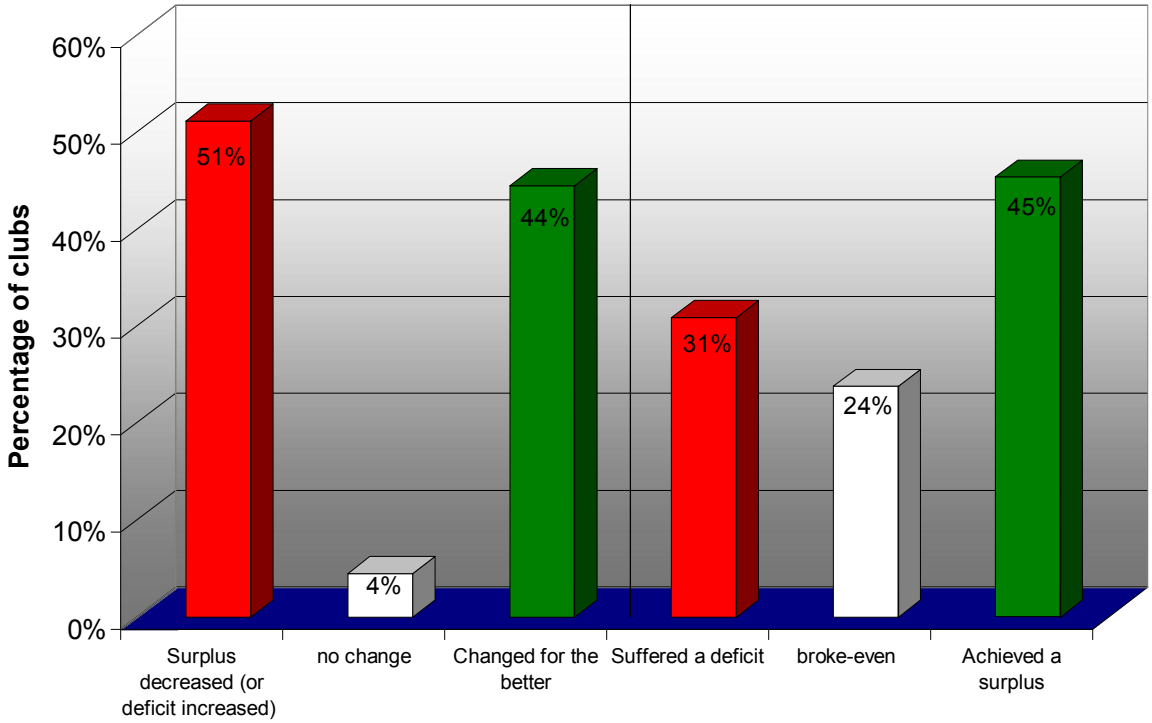
This section provides a snapshot of the financial health of sports clubs. The data is presented both in terms of actual results and also in terms of the rate of change in those results from one year (2006) to the next (2007). These snapshots are compared to similar data collected in the UK by Sports Marketing Surveys Ltd (2007).

In this research, financial health was measured in terms of the excess of revenue over expenditure (surplus or deficit) and also in terms of the trends in turnover. While the sports organisations analysed were 'not-for-profit', in order to be financially sustainable, these organisations need to return an excess of income over expenditure over the long term. Such surpluses will be ploughed back into sport, either to be spent on assets or future club expenses.

2.1. Clubs' surpluses and deficits

Figure 1 shows the financial health of all sports in respect of their surpluses and deficits and the rate of change in those figures.

Figure 1: Financial Health of 180 Clubs across six sports



As shown in Figure 1, over the period analysed, clubs' financial health reduced in terms of surpluses returned. From the right-hand side of the Figure it can be seen that 45% of clubs achieved a surplus, 24% of clubs broke even,[3] and 31% suffered a deficit. This compares unfavourably with data from the UK (Sports Marketing Surveys Ltd, 2007) [4] where 39% of clubs achieved a surplus, 45% broke-even, but only 16% suffered a deficit (half of the level found in this New Zealand

[3] We analysed the financial performance to be at break-even if the excess of revenue over expenditure or excess of expenditure over revenue was less than three percent of revenue. This metric is used by Chang and Tuckman (1990) to describe a 'not-for-profit' organisation.

[4] This data was collected from a survey administered to mainly not-for-profit sports clubs that are affiliated to national sports organisations in England and Wales. It should be noted that these clubs self-reported so that the parameter for the term "broke-even" is unknown.

research).

Further, from the left-hand side of Figure 1 it can be seen that in 2007 (compared to 2006) 44% of clubs' reported improved financial performance, but 51% decreased their surplus or suffered an increased deficit. It would be worrisome if this was a trend towards fewer surpluses. If over 50% of clubs are worse off in one year than the previous year, these sports clubs will collapse and sports' sustainability will reduce. Figures 2 and 3 show this same data by individual sport.

Figure 2: Deficits and surpluses in each of six sports

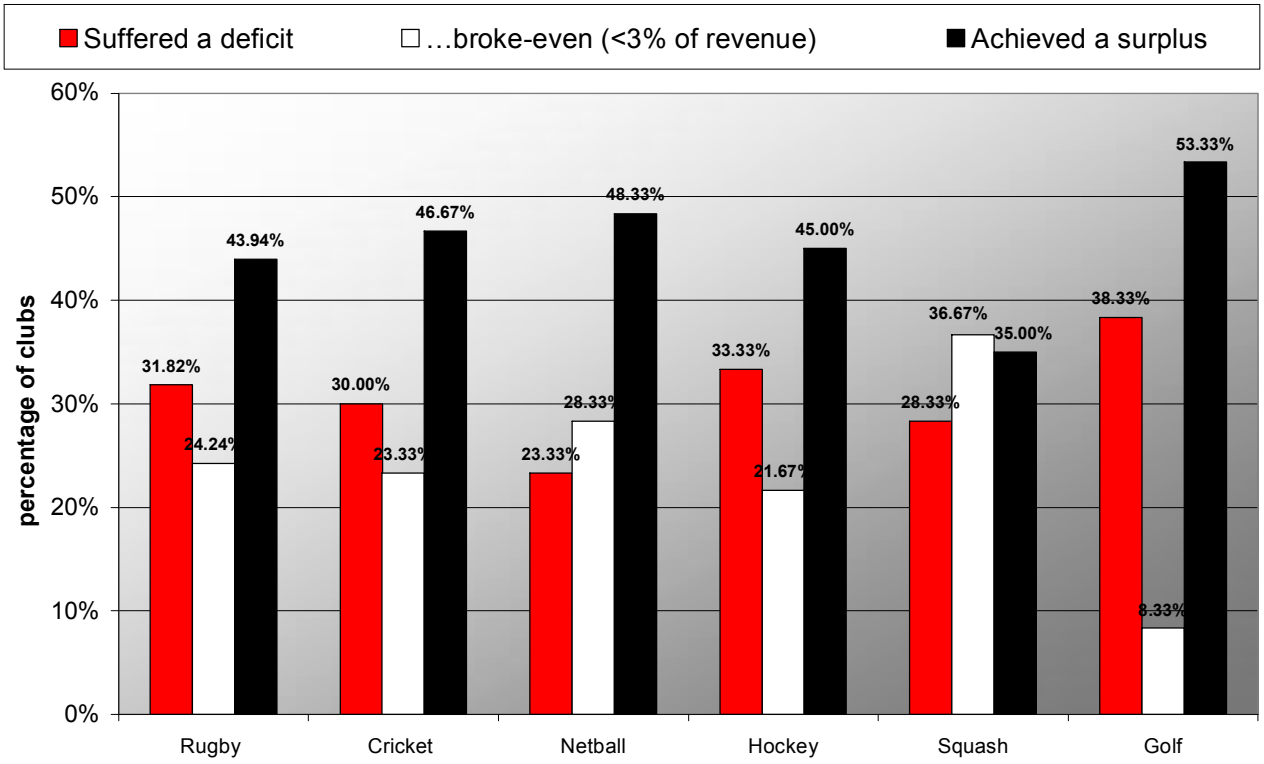
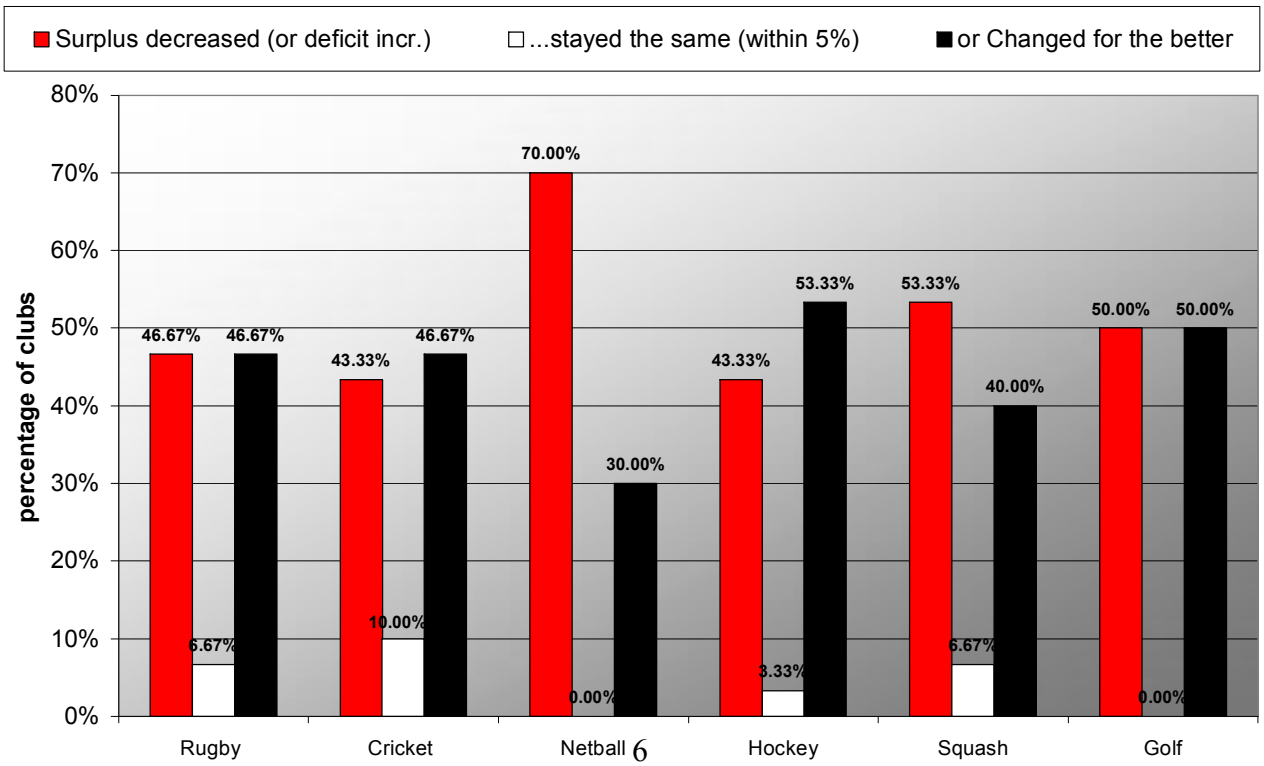


Figure 3: Relative surpluses in each of six sports



While 48% of netball clubs returned a net surplus (see Figure 2), netball was the sport which was worst affected by falling surpluses (see Figure 3). Squash clubs also recorded more decreased surpluses and fewer clubs with improved financial performance than the mean. Figure 2 also shows that, compared to other sports, golf has the highest number of clubs returning a deficit.

From the UK data (Sports Marketing Surveys, 2007) we can observe the following

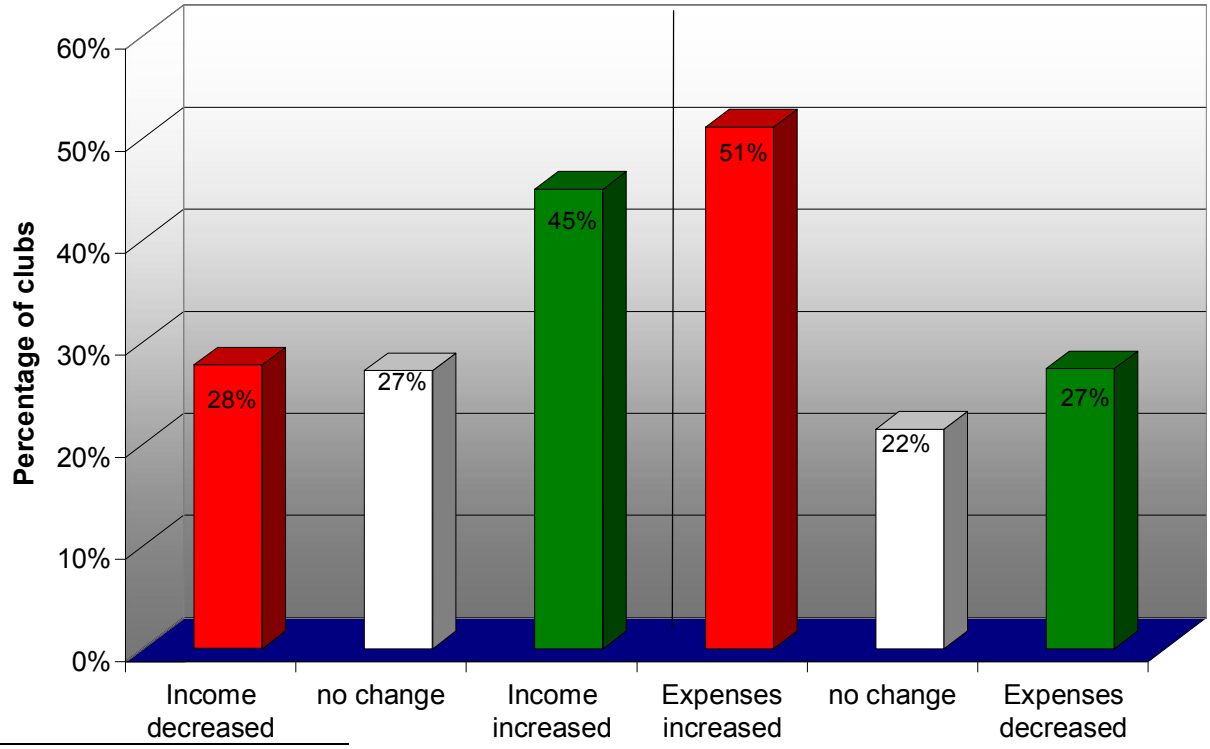
- 32% of UK rugby union clubs achieved a surplus (18% suffered a deficit, 50% broke-even)[5];
- 45% of UK cricket clubs achieved a surplus (16% suffered a deficit, 39% broke-even)[6];
- 25% of UK hockey clubs achieved a surplus (32% suffered a deficit, 43% broke-even)[7]; and
- 43% of UK golf clubs achieved a surplus (41% suffered a deficit, 16% broke-even)[8].

Netball and squash were not represented in the UK survey. However comparing the UK sports represented with those in this research, we find that overall, more New Zealand sports clubs record financial surpluses than the UK sports clubs, but fewer break even. In rugby and cricket, the percentage of clubs suffering a deficit was twice as high in New Zealand than was reported in the UK. The average financial results from this New Zealand data are poor and the trend is disturbing.

2.2. Clubs' income and expenditure

Despite the decrease in surpluses shown above, 72% of sports clubs reported increases in income or no change (45% increased and 27% had not changed from one year to the next), but 28% decreased their incomes. By comparison, in the UK, 54% of clubs increased their income, 35% had no change (89% in total) and 11% reported decreased income. Again, these UK clubs are healthier on average than New Zealand clubs in this study. Figure 4 shows the financial health of all sports in respect of the changes in clubs' incomes as well as the changes in their expenses.

Figure 4: Turnover of 180 clubs across six sports



[5] Of the 73 Rugby Union clubs that responded, 13 did not reply to this or the following question.
[6] Of the 296 Cricket Clubs that responded, 33 did not answer this or the following question
[7] Of the 30 Hockey Clubs that responded, 2 did not answer this or the following question.
[8] Of the 99 Golf Clubs that responded, 8 did not answer this or the following question.

In line with expectations from the increasing number of deficits reported above, it can be seen from Figure 4 that 51% of clubs experienced increased expenses. Figures 5 and 6 show this same data by individual sport.

Figure 5: Behaviour of income in each of six sports

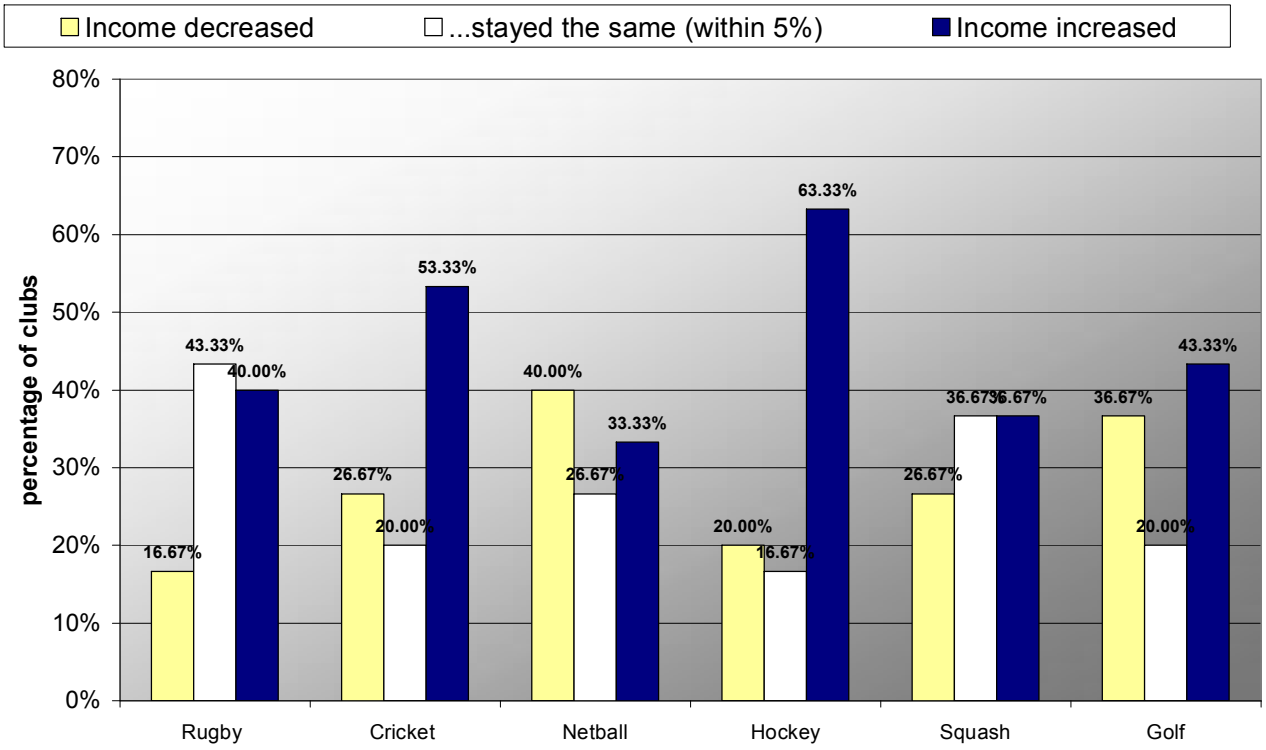


Figure 6: Behaviour of expenditure in each of six sports

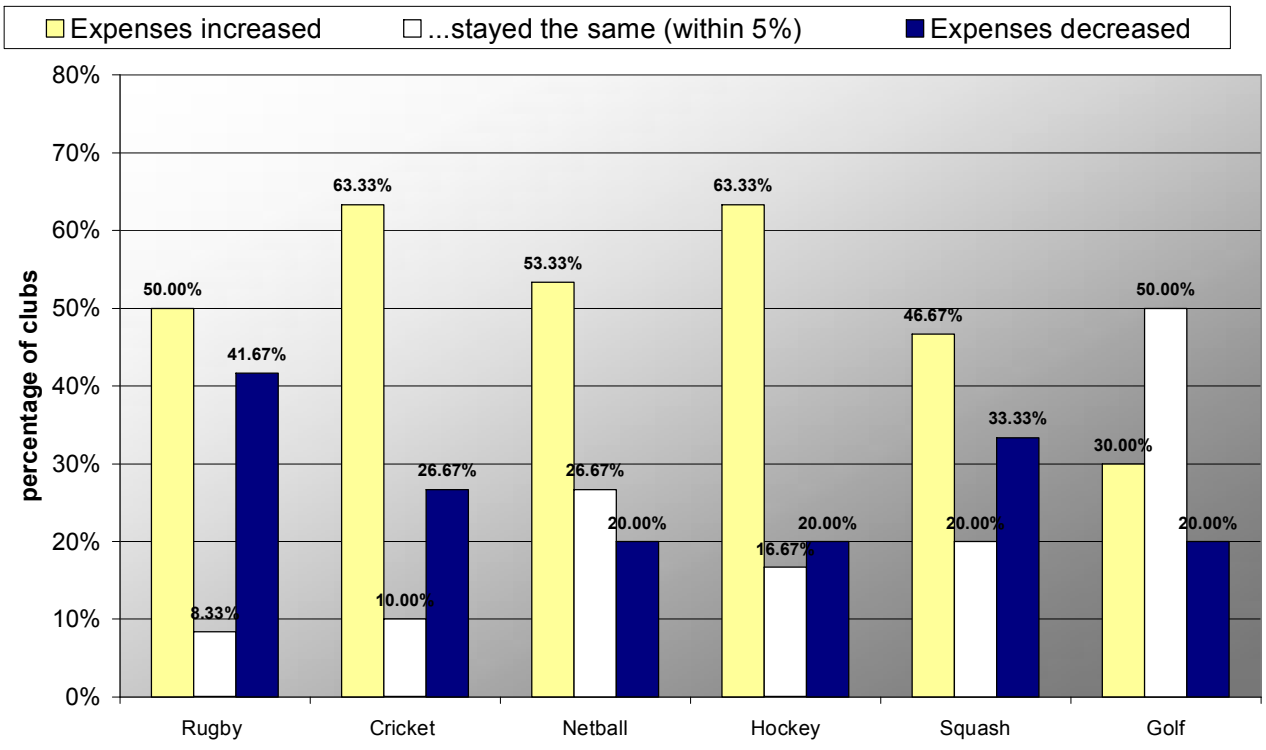


Figure 5 shows that cricket and hockey clubs experienced the highest increase in incomes of all the sports. Netball and golf clubs were more likely to have decreased income.

From the UK data (Sports Marketing Surveys Ltd, 2007) we can observe the following

- 54% of UK rugby union clubs' income increased (10% decreased, 36% stayed the same);
- 69% of UK cricket clubs' income increased (6% decreased, 25% stayed the same);
- 62% of UK hockey clubs' income increased (17% decreased, 21% stayed the same); and
- 76% of UK golf clubs' income increased (13% decreased, 11% stayed the same).

Netball and squash were not represented in the UK survey. However comparing the UK sports represented with those in this research, we find that overall, increases in income in the UK are similar to those in New Zealand. However, more New Zealand organisations have experienced a decrease in income. In addition, UK golf clubs had significantly stronger revenue streams than the New Zealand clubs included in this research. It can be seen that in New Zealand, golf clubs reduced their expenses to compensate for this.

By comparing Figures 5 and 6, it can be observed that over the two years of New Zealand data analysed:

- 10% of rugby clubs that increased their expenses did not have a corresponding increase in income to cover this. However, over half of the rugby clubs that reduced their expenses did so while their incomes remained the same (25% of clubs in total);
- 20% of netball clubs increased their expenditure without a corresponding increase in income and only half of the clubs experiencing a downturn in income reduced their expenditure;
- In hockey, the income and expenditure increases and decreases were matched;
- 10% of cricket clubs that increased their expenses did not have a corresponding increase in income to cover this;
- 10% of squash clubs that increased their expenditure did not have a corresponding increase in income
- 13% of golf clubs that obtained more income did not increase their expenditure. However, of the 37% of clubs declining income, only slightly more than half reduced their expenditure as a response.

The following section considers this income, in terms of income necessary to fund club operations.

Key Findings:

- Sports clubs' financial health reduced over two years due to decreased surpluses. Netball and squash clubs were worst affected;
- Income increased in all sports, but hockey and cricket codes had the greatest number of clubs where income increased; and
- Golf was the only sport where more clubs decreased their spending than were required to by falling income levels. On the contrary, more netball clubs increased expenses than received increased income. This was mirrored to a lesser degree by cricket, rugby and squash.

3. Income

This section reviews the income of sports clubs generally and includes an analysis on a sporting code basis. Following the presentation and analysis of graphs, further analysis is provided from the interviews that were conducted. In addition, relevant literature is drawn on to illuminate the New Zealand data.

For organisations, income funds the assets purchased and allows other expenditure to achieve organisational goals. For this reason, stable, long term funding is essential and requires governors' focus – especially in light of the declining financial health of sports clubs as identified in Section 1. The challenge is to obtain positive cash flows **and** achieve the organisation's mission. Although club members do not receive a financial return (as they would if they invested in a for-profit organisation) their returns from their membership contributions will include enjoying sport and social activities. Organisations will retain surplus reserves to meet their mission, because a defining element of a not-for-profit organisation (the non-distribution constraint) means that funds may not be distributed to equity holders or members. The ultimate dispersal of an organisation's assets on dissolution is dependent on its constitution; however, typically the beneficiary will be a similar community organisation. It is therefore expected that assets will be available to similar beneficiaries, especially when these are community assets, such as sports facilities.

Sports clubs generate income streams from a range of sources, including: membership dues, donations, philanthropic grants, sponsorship and pay-for-play opportunities. Each has benefits and costs. Membership contributions (dues, donations and sales) should offer a regular income stream[9] and, particularly in sports organisations; enable members to access excludable collective goods (Steinberg, 2007).[10] However, membership dues also need to be affordable in order to attract and retain members. Grant funding and sponsorship can enable clubs to obtain external support, but these streams are costly to administer and may divert the organisations from its core mission.

Research has suggested that particular funding sources may 'crowd out' others as obtaining income from one source may exclude another potential source. For example, grant funders may perceive that an organisation with a building generating rental income may not need their support (Weisbrod & Dominguez, 1986). Alternatively, members may expect to pay a lower subscription if the organisation accesses external grants (this happened in the US research by Weisbrod and Dominguez). The behavioural drivers to 'crowding out' are difficult to decipher, but in this study, the analysis of clubs' annual reports by income mix describes the success of governors in their pursuit of particular funding sources. This barometer of success is discussed in this section.

Below, Figure 7 shows the relative financial income sources of the six different sports.[11] In Appendix 2 the distribution of this income across the sample is presented in box plots.[12] Additionally, for each sport the composition of the major items is shown in pie graphs in Figures 8-

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9 US research shows that sports and recreation associations received a significant percentage of their income in dues, especially when compared to income streams of other not-for-profit organisations (Steinberg, 2007).

10 Economists posit that goods are consumed by individuals (e.g. food) or are able to be enjoyed simultaneously by a number of people (collective goods such as sports). Membership fees are charged in a sports club to exclude non-members. This means that these sports 'goods' are not pure public goods in the economic sense.

11 We recognise that volunteers are a significant resource enjoyed by all amateur sports clubs, but no accounts that we obtained recorded these donations in their financial statements, so the inputs of volunteers were unable to be analysed. All of the sports clubs had volunteers on their governance boards and associated committees and most clubs had volunteers involved in coaching and managing teams.

12 It can be seen from Appendix 2 that the data is distributed across a wide range. The sample chosen accounts for the differences between this data and data used in other research that had different objectives. For example the SPARC analysis *Gaming Funding into the Sport and Recreation Sector in 2007* (SPARC, 2008) counted the number as well as dollar value of gaming funding only to entities. The value of grants in this research includes the grants recorded by the selected clubs from gaming and non-gaming funders. The number of applications was not able to be ascertained from the financial data.

14. In these pie graphs, the major sources of income for each sport have been grouped into six different categories. These categories are highlighted in bold font in Figure 7.

Figure 7: Income sources by sport (percentage of total income)

Income source	Rugby	Netball	Hockey	Cricket (Clubs)*	Cricket (Assns)*	Squash	Golf
Member fees	**10.1**	**18.5**	**42.8**	**28.1**	**4.6**	**48.8**	**73.5**
Structural income	**23.0**	**15.0**	**19.8**	**13.9**	**5.9**	**21.8**	**8.1**
1.Competitions	2.5	8.2	15.6	0.4	1.0	1.6	2.1
2.Rents	3.8	2.0	0.0	6.0	0.8	3.5	1.2
3.Trading Activities	14.8	1.3	1.5	4.0	3.2	15.4	3.8
4.Interest	1.9	3.5	2.7	3.5	0.9	1.3	1.0
Game external income	**20.2**	**4.3**	**2.8**	**7.2**	**5.0**	**7.8**	**2.5**
1.Donations	5.8	0.5	0.4	3.1	1.5	2.8	0.9
2.Sponsorship	14.4	3.8	2.4	4.1	3.5	5.0	1.6
Grants	**26.3**	**47.6**	**22.1**	**33.8**	**59.9**	**11.4**	**4.3**
Regional support	**11.0**	**0.0**	**0.0**	**5.1**	**20.7**	**0.0**	**0.0**
Other	**9.4**	**14.6**	**12.5**	**11.9**	**3.9**	**10.2**	**11.6**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*The 30 cricket organisations were evenly distributed between associations and clubs. This was because only a small number of clubs have significant assets and associations were chosen to augment these observations.

The income categories for this analysis were chosen because they are common across a majority of sports organisations in New Zealand. In addition, these general categories were also used in a recent Norwegian study of income in sports organisations generally (Enjolras, 2002). Enjolras provided a summary of income across the following four major categorisations:

- Member fees: 30.1%
- Structural income and game external income 61.2% (with the equivalent of trading income providing 28.3% of this external income)
- Grants from public bodies 7.4%
- Sport Federation (regional) support 1.3%

The Norwegian study was generalised across all sports categories, rather than by specific sporting codes. However, these percentages are markedly different from the representations provided in Figure 7 of New Zealand sports clubs. Generally, the Norwegian data accords with a European model,[13] where amateur sports are financed primarily by households and by territorial local

[13] This model is described in: Play the Game: A European model of sports financing: under threat? Article downloaded from the internet on 9 September 2009 from www.playthegame.org/knowledge-bank/articles/a-european-model-of-sports-financing-under-threat-4364.html.

authorities.[14] New Zealand clubs receive insignificant amounts of ongoing financial direct support from territorial local authorities (any such amounts would be considered in the "other" category), although many of them lease land and/or premises from territorial local authorities at a peppercorn rent.

The wide range of sports analysed in the European studies and the cultural differences between the countries are explanations for the differences between the data in those statistics and this research. In addition, the variations between team and individual sports provide further explanation as discussed in the following sub-section.

3.1. Team sports (rugby, netball, hockey and cricket):

The composition of team sports' clubs' incomes varies markedly from the incomes of the individual sports chosen. Generally (except for hockey) team sports' clubs' member fees comprise a relatively low percentage of clubs' incomes. Grant income is a much higher percentage of total income in team sports than in individual sports. In addition, the regional and national sports associations from rugby and cricket provide welcome support to these local clubs. This flow down effect from professional sports fixtures is also common in the European funding model (Enjolras, 2002).

The relative income sources in each sport are presented below along with explanatory commentary.

Figure 8: Income sources for Rugby

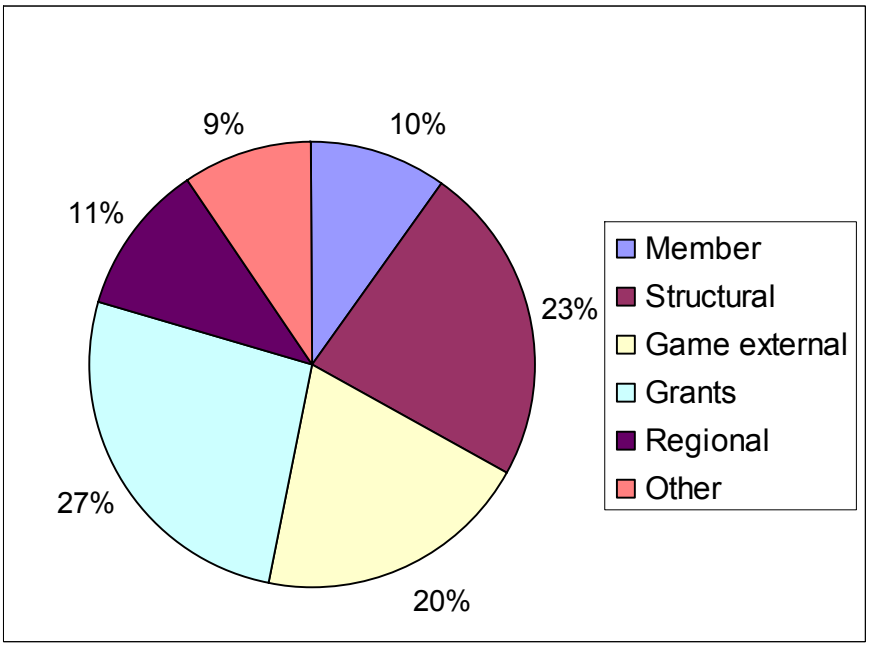
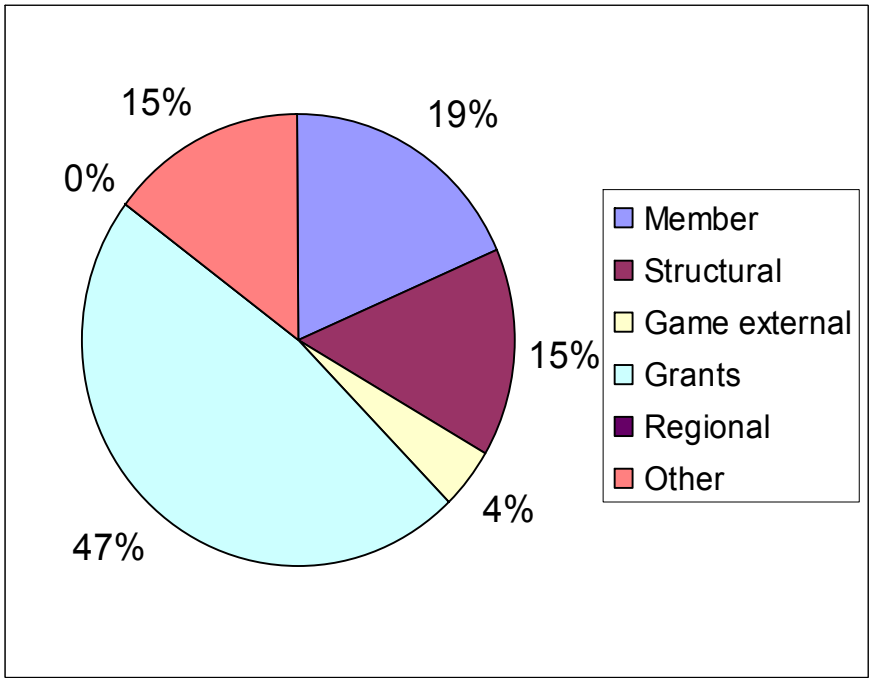


Figure 8 shows that members of rugby clubs make the lowest income contributions to their clubs of all the sports in this research. However, rugby clubs' structural incomes are the highest of all the sports. The major structural income component was trading activities (14.8%), highlighting the social nature of rugby as a team sport. Sponsorship and donations ('game external funding') also comprise a significant income source for rugby clubs, reflecting the high profile that rugby has in New Zealand and its ability to engage outside support. Professional rugby's visibility also flows into the amateur clubs through regional rugby unions' financial support to local clubs.

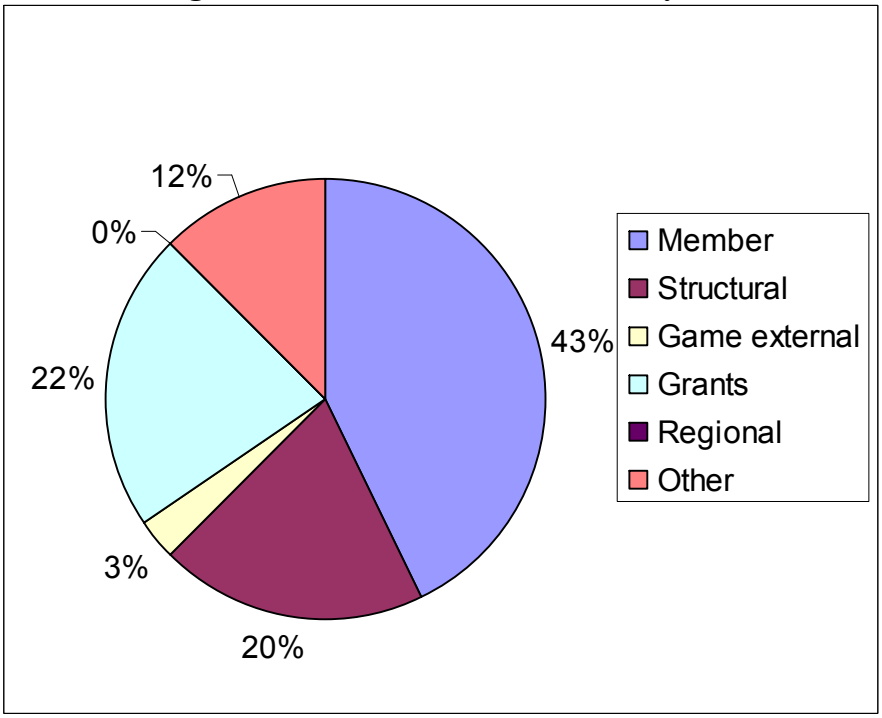
[14] The term territorial local authorities (TLAs in New Zealand) describes regional, district and city councils.

Figure 9: Income sources for Netball



As shown in Figure 9, members of netball clubs make the second lowest income contribution of all sports (although the relative percentage is almost twice as much as rugby players). Netball clubs depend on interest income (3.5%) more than any other sport in this sample but the dollar amounts are low. Lacking support from national or regional associations, on average netball clubs seek grants from gaming and other trusts to bring in over 47% of their overall income. The success of these grant applications varies (as shown in Appendix 2). When clubs are successful with their grant applications, they are able to reduce members' fees.

Figure 10: Income sources for Hockey



From Figure 10, it can be seen that the contribution of hockey players in subscription and turf fees sums to almost 43% of these clubs' incomes. Unlike other sports in this sample, financially successful hockey competitions also provide a small but significant income source to structural income (15.6% of the 19.8% total). Grants comprise over 22% of hockey clubs' incomes, but of the four team sports analysed in this research, hockey has the lowest relative mean of the gaming/philanthropic grants to total income (rugby is 26.3%, cricket 42.3%, netball 47.6%). There was no funding from national and regional bodies to hockey clubs.

Figure 11: Income sources for Cricket Clubs

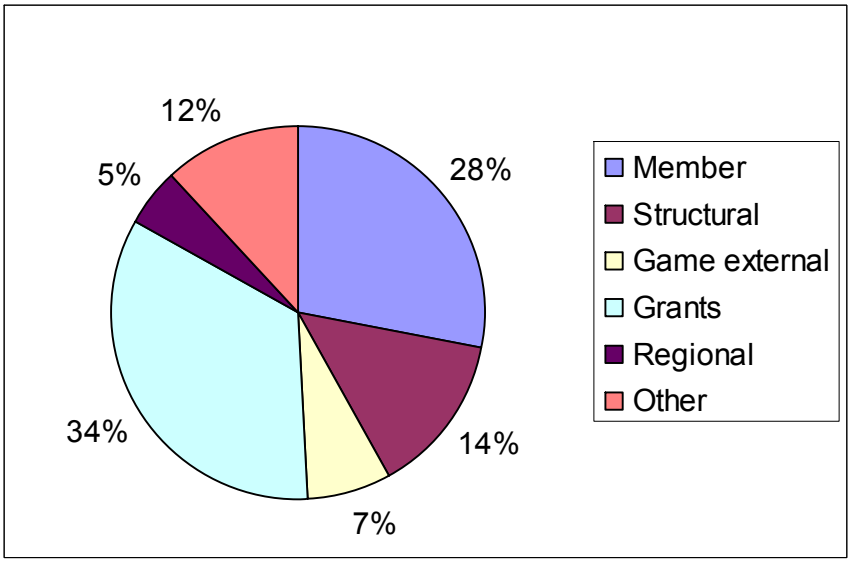
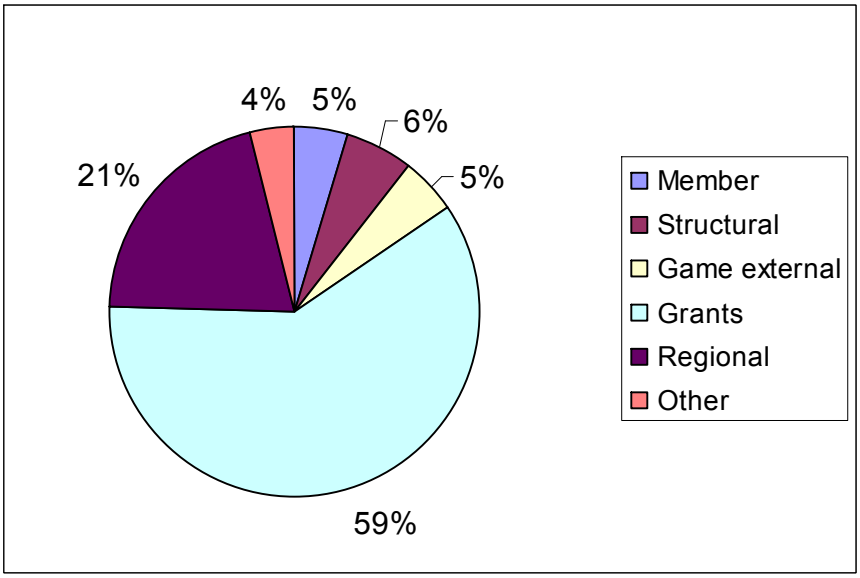


Figure 12: Income sources for Cricket Associations



Figures 11 and 12 display two different views of cricket. This sport presented a particular challenge. In order to meet the 'quota' of 30 clubs large enough to be similar to the other sports analysed, we needed also to include cricket associations in our sample of annual reports and interviews. The relative number of observations was: 28 clubs and 32 associations. Half of the interviewees were from clubs and the other half from associations. Associations are generally significantly larger than

clubs and therefore the income sources are presented in separate graphs. However, for cricket overall, the ratios of income were:

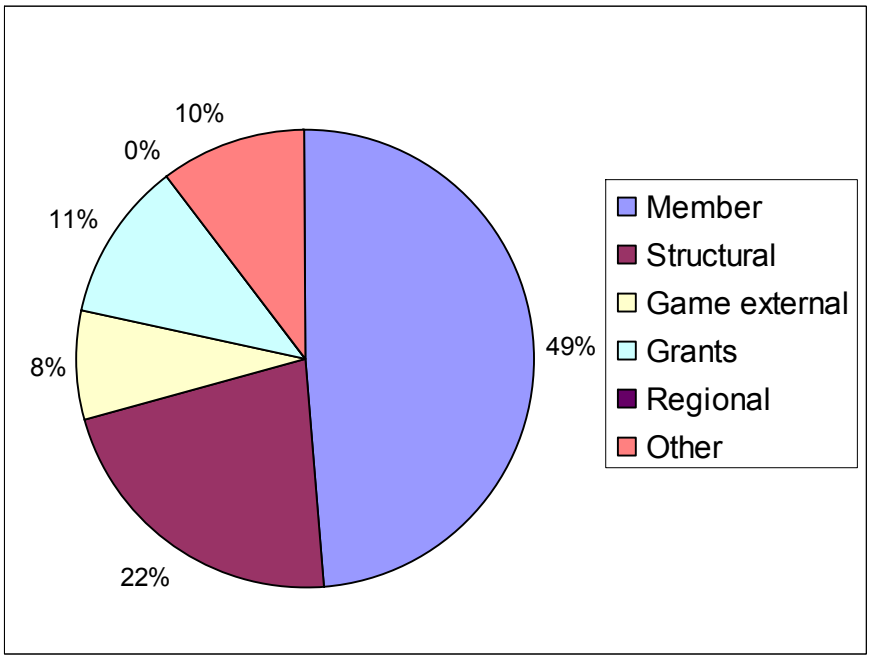
Member	Structural Income	Game external	Grants	Regional Support	Other
19.1%	10.7%	8.9%	42.3%	10.4%	8.6%

It can be seen that grants were a significant component of cricket overall. While the average is skewed by the cricket association data, it should be noted that a percentage of the Association's funds were also pushed down to clubs through their internal resourcing process.

3.2. Individual sports (squash and golf):

Overall, the individual sports chosen have higher membership income and lower income from grants than the team sports. The relative data was shown in Figure 7 and in terms of squash and golf specifically can also be observed in the graphs displayed in Figures 13 and 14 below. While all clubs paid levies to a national body, the lack of funding from these bodies back to the local clubs was another differentiation between the individual and the team sports analysed.

Figure 13: Income sources for Squash



From Figure 13, it can be seen that the contribution of members' fees and charges is 49% of squash clubs' incomes. In addition, structural income – mainly from trading activities (at 15.4%) – contributes another 21% to total income. Similarly to rugby, this analysis points to a sport where members value informal socialising at a club-managed café and/or bar (often with volunteers cooking and/or serving the food).

Figure 14: Income sources for Golf

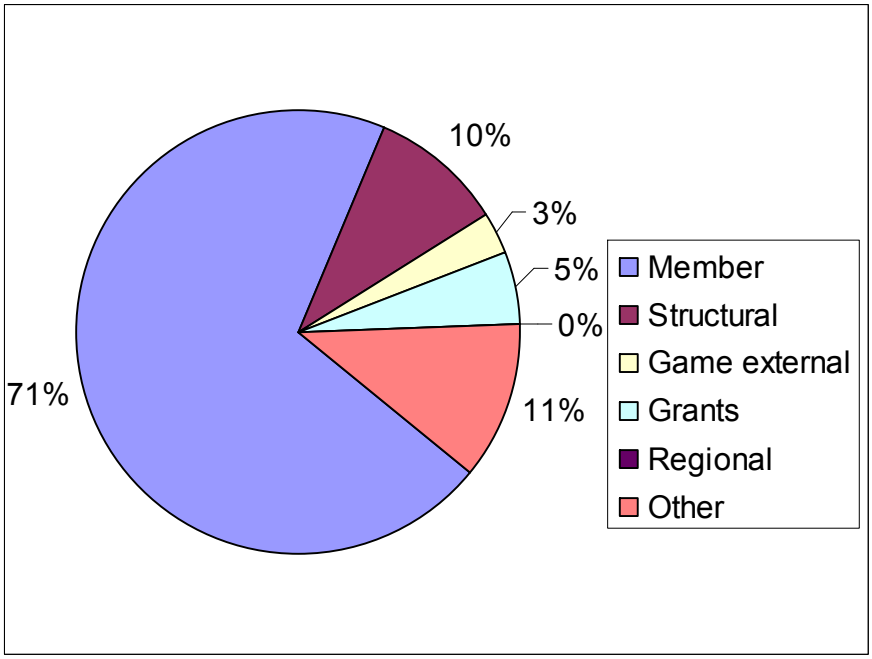


Figure 14 shows that golf represents an extreme case of income composition in sports. Almost three-quarters of clubs' incomes are received as members' fees. Some golf clubs have also been successful in their grant applications, but this source (at 4.3%) represents a small proportion of clubs' incomes overall.

Key findings:

- The two main income sources in individual sports are member fees and structural income;
- As well as member fees and structural income, grants are a major income source in hockey; and
- For rugby, netball and cricket, grants are the major income source, followed by structural, member and/or external income.

3.3. Comment on income:

Section 2 showed that sports clubs' incomes are increasing, but that expenditure is also increasing. Therefore, interviewees expressed concern about the need for more secure and better quality club income. This section draws out these themes under a series of sub-headings: member income, structural income, game external income, and grants.

Member income:

Interviewees highlighted a number of aspects to member income as the mainstay of club revenue. These were: gaining new members, timing of cash flow, bad debts, and the impact of other calls on members' time and resources.

All of the clubs interviewed had their books open for new members. A number of them (especially the individual sports) had felt the effects of the economic downturn in late 2007 so that:

> *When we got to our March 2008 round we had a lot of resignations, a lot more than we expected. And it had nothing to do with value equations, or dissatisfaction, or anything, it*

> *was straight financial decisions. We weren't expecting it … and we had to pick that back up again. The problem that we have is that the people who resigned pretty much didn't play our sport.* (Golf club interviewee)

Members who previously paid fees but made little use of the facilities need to be replaced if these clubs are to increase their income. The impact of fewer members was felt in other areas of the operation such as the café and bar and is likely to result in the need for further member-fee increases if these clubs are to achieve sustainability, although higher fees may reduce the attraction of a particular club. If and when new people join, these new members are likely to be higher users of the greens which may stretch facilities and lead to higher expenditure.

A number of clubs recognised that it was important to get member subscriptions in before the start of the playing season to ensure adequate cash flow. In addition to a standard annual fee, member fees are levied on members (individually or in teams), some individual sports clubs have introduced a levy system to increase their fee income. This system may be a pay-for-play or a house levy to ensure a minimum income level for the café and/or bar.

Clubs typically suggested that there was no 'magic formula' for establishing member fees, but that they did try to pass on to members any increases in national levies and other costs. Few clubs we interviewed appeared to be cognisant of the relationship between member fees and the costs of running their core operation; and the consequent minimum income required in member fees. This observation is borne out by the graphs in Section 2, showing clubs continued to increase expenditure in the face of reducing income.

However, setting member fees also needs to take into consideration the availability of other clubs in the area and the pull of other sports, if the player's preferred sport is too expensive. Figure 8 above shows that the income from members in rugby clubs is the lowest of all sports. One interviewee noted that players had come to expect this:

> *I think you are looking at a false world if you think the players value the club and are quite happy to pay more money … The majority of players, in my experience, are looking at "What can my rugby club do for me?" rather than, "What can I do for my rugby club?"* (Rugby club interviewee)

This position is in contrast to golf clubs where subscriptions are the core income of the club and must be maintained at a high level. The alternative for clubs that cannot increase their fees is to consider alternative sources of finance (see structural and game external income below).

As bad debts reduce the member income, clubs chased non-payers and/or stopped them using the facilities. Clubs also 'blacklist' non-payers within their own club and/or in the region so that a team member cannot flit from club to club, leaving a trail of unpaid dues. Non-payers affect everyone in the club because that income needs to be obtained from other members or the community. Notwithstanding collection processes, a few clubs recorded bad debts. Clubs do recognise that some members experience real financial hardship and reduce fees accordingly or make it easier to pay, especially where the member is a good player or adds value to the club through volunteering.

Volunteers were encouraged by one team sports club that gave their teams a fee discount if their coach/manager attended all of the club's professional development training sessions during the year. This had the added benefit of underlining the fact that amateur sports teams require well-trained management.

Notwithstanding the importance of the membership fees in players' decisions to join a club, a number of interviewees commented on the barrier of weekend work and family life to members' full participation. Shortening game length (in cricket) and providing child care (in netball) so that parents could coach/manage/referee or play a game were tactics used to reduce those barriers.

Membership income is the income most aligned with organisational mission (Kearns, 2007), therefore it should be highly valued. It is important to review membership fees (and how these are

charged across different categories) annually. Kearns (2007) suggests that member fees should be 'envy free'; that is, set fairly so that members paying one set of fees for a set of benefits are not envious of the treatment of members who are able to join in another category. An envy-free system reduces switching and the loss of members to other clubs where members may feel the fee-setting is fairer. While clubs may decide to offer 'specials' to invite individuals to join, they also must be aware that there are high costs in attracting new members. As price-sensitive members are more likely to leave once their initial (cheaper) period has expired, these expenditures may not be worthwhile. In order to establish fees appropriately, it is important to know the clubs' cost structure. This is dealt with in Section 4.

Structural income

Structural income from competitions, rents, trading activities and interest is important to a number of clubs.[15] Interest represents regular income which leads to reduced members' fees, although it too was a small percentage of total income. Current low interest rates will decrease these benefits further. Notwithstanding that, more than one club discussed their plans for developing an investment trust over coming years that could provide an annuity for the future of their sport locally.

Rugby and hockey clubs in the New Zealand environment are two team sports that have developed structural income streams to augment their membership and grant income. From Figures 2 and 5, it can be observed that these team sports also have the highest number of clubs with increased surpluses and increased income. This analysis points to a need to diversify funding, and confirms the US research by Chang and Tuckman (1990) that multiple sources of income are positively related to not-for-profit organisations' financial strength. Kearns (2007) notes, however, that income sources must be appropriate to the organisation's mission, have the potential to fill gaps in the current income portfolio, and not restrict the organisation's autonomy or independence.

Sports clubs recognised the need to increase other streams of game-related revenue in order to thrive. For example, while some clubs shared facilities with other codes, a number of clubs were able to use their facilities year round. They provided off-season training, summer leagues, and pre-season tournaments that could also be used as trials – these were also a good source of income. Further, while competition revenue is typically negative in clubs, there may be spin-offs from holding a competition to other parts of the club.

Yet there is a need for more creative income generation. As one interviewee noted:

> *... there's a need to establish more revenue streams. More and more, the most successful clubs these days have external revenues ... They might own a business, or they might own a hotel, or they might own other properties or something like that that's not directly related.* (Rugby club interviewee)

The example of the Taranaki Rugby Football Union's dairy farm was provided by one interviewee. Recently that regional body has signed an agreement with a provider to lease its dairy farm so that its profits will be channelled into amateur rugby in the province.[16]

A number of clubs had made, or were considering making linkages to their local business community in order to offer their club house for business association meetings, service clubs and board meetings. Many clubs rented out their club rooms for celebrations (birthdays, weddings, anniversaries, etc). Hiring out the club rooms in this way not only bring in needed revenue, but also showcases the club to potential new members. It was recognised that issues such as liquor licences needed to be adhered to, and if the party was thought likely to be raucous or destructive (e.g. 21st birthday celebrationss) the club might decline the event.

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[15] Other investment income could also be important, but very few clubs received dividend income or recognised shares on their Statement of Financial Position.

[16] Article: The Game's the Winner downloaded from the internet 12 September 209 from http://www.trfu.co.nz/airnzcup/news-item.asp?type=AirNZCup&id=175.

Another source of revenue was an associated 'business' such as a gym that could be offered to the general public. Sports clubs typically offered a discounted gym rate to their members as part of their club membership. While gyms may be expensive to develop, facilities such as these yield year-round income which may offset seasonality of playing income.

Game external income

In all sports except rugby, income from sponsorship and donations is at a very low level. Notwithstanding that, sponsorship income is highly sought after but considered "very hard to come by". Where clubs did have sponsorship, most often it was because a club member had made the link between the business and the sports club.

Some clubs consider that new Board members should bring with them networks in order to make connections to new sponsors for the club. Other clubs discussed the formalisation of different tiers of sponsors, while in-kind sponsorship of food or gym membership was also recognised within the club, although not always on the financial statements.

Although sponsorship is highly sought, many of the interviewees noted that their club had not managed their sponsors well. One noted that:

> *We've really only made the most of sponsors in the last few years, and the way we've done it is to draw up a very specific contract with a sponsor. "We'll give you this, you will give us that". And its spelt out very clearly what our obligations are to them and vice versa ... [And our members support the sponsors] ... And I think that the culture we've established with the members has helped with the sponsors.* (Cricket club interviewee)

There are two important points made by this interviewee

(i) that mutual expectations had been agreed to and established; and

(ii) members were encouraged to support the sponsor to show their appreciation.

In addition, interviewees commented on the need to maintain regular communication with sponsors by inviting them to events and involving them in club activities. That way, sponsors are more likely to recognise the difference their contribution was making.[17]

Grants

While the composition of different sports' incomes varies, team sports depend on grant income. Interviewees' opinions on grant funding were ambivalent. Some sports clubs are very dependent on funding, while others see it as optional "money from heaven". For example one interviewee noted:

> *Amateur sport is so dependent on funding and if we were to cover [our costs] without that funding for our club, we would be charging a subscription of eight hundred or nine hundred a year for a player.* (Cricket club interviewee)

Another commented (and this was representative of many):

> *Without the gaming trusts, our sport wouldn't survive.* (Netball club interviewee)

Interviewees also recognised that "there are no guarantees" that funding would eventuate but that it was good to be able to "spend the gaming money back where it was raised".

Notwithstanding the enthusiasm of many towards gaming funding, other clubs were less keen to apply for funds. One interviewee said:

> *We don't want to rely on grants ... it makes you take your focus off your core business because if you've got money from grants then you're not looking at running your business the way you should be running it, by creating income yourself.* (Golf club interviewee)

[17] A number of these points are also made in SPARC's Six Steps to Successful Sponsorship (2007b).

Overall

From the analysis in this research, it appeared that few (if any) clubs had identified a target level of income from any one particular source, preferring instead to put members fees up basically in line with inflation or an increase in affiliation fees owed at a regional or national level, and to hope that other income sources (such as grants and trading income) would plug the gap.

Some sports clubs had analysed sources that were performing poorly but that could be developed into earning more income for their club directly, or through associated activities. These clubs developed business areas that had not previously performed ('dogs') targeting them to become useful revenue streams ('stars') (James & Young, 2007). Specifically, cafés or restaurants are often operated at a loss. One reason is that cafés may be open even when members are not using them and wages must be paid to staff. This is especially true in golf clubs. One club that was developing this previously poorly performing asset had levied members a set annual amount to raise custom. Members could redeem this amount in the restaurant, thus encouraging more business in that area as well as providing an extent of cost-recovery.

Despite the variations in income, successful sports clubs are diversifying their income streams. These activities are not necessarily unique or large, but they include:

- sharing facilities with other codes that function in the off-season;
- offering off-season training opportunities, summer leagues and/or pre-season tournaments to members and the public;
- developing an annuity stream through a club trust established from bequests or fund-raising;
- running a business alongside the club (such as a bar, café or gym); and
- running a business elsewhere (e.g. a farm, leasing premises on the sports club's land, or renting out a house).

In addition there is the opportunity to re-evaluate current income streams to build up those that are performing poorly into a steady income and a successful link to members and sponsors.

Key findings

- Member fees are an important source of income and should be 'envy free', reviewed annually, and aligned to the club's objectives;
- Alternative sources of income are being developed such as hiring of premises, an annuity fund, running off-season competitions and running correlated business such as a gym;
- Sponsorship is a valuable source of income but requires good communication and a clear knowledge of the benefits the club brings to the sponsor; and
- Grants are essential to many sports clubs, but can also divert governors' focus from developing other sources of income.

4. Expenditure

This section reviews the expenditure of sports clubs generally, and then on a sporting code basis in the same manner as the prior section on income. Following the presentation and analysis of graphs, further analysis is provided from the interviews that were conducted. In addition, relevant literature is drawn on to illuminate the New Zealand data.

Organisational expenditure is necessary for successful operations, but also is responsible for turning surpluses into deficits. Figure 15 shows the relative expenditure of the six different sports. In Appendix 3 the distribution of this income across the sample is presented in box plots. Additionally, for each sport the composition of the major items is shown in pie charts in Figures 16-22. In the pie charts, the major sources of income for each sport have been grouped into five different categories. These are shown in bold font in Figure 15. The details are shown in normal font.

Figure 15: Expenditure by sport

Expenditure	Rugby	Netball	Hockey	Cricket (Clubs)*	Cricket (Assns)*	Squash	Golf
Property	**29.1**	**26.7**	**25.4**	**20.1**	**8.7**	**43.8**	**48.4**
1.Depreciation	9.5	15.2	9.7	8.4	4.0	13.4	13.0
2.Insurance, Utilities, Rates	7.7	3.4	3.3	3.9	0.5	13.4	6.3
3.Maintenance and Cleaning	8.3	7.0	6.7	3.7	1.7	15.7	28.8
4.Rent	3.5	1.1	5.7	4.1	2.5	1.3	0.3
Administration	**21.1**	**33.9**	**26.1**	**27.5**	**24.7**	**31.9**	**36.1**
1.Accounting	0.8	1.0	0.7	0.6	0.2	1.1	0.4
2.Salaries	14.2	25.4	17.9	17.7	9.0	22.4	30.3
3.Administration	6.1	7.5	7.5	9.2	15.5	8.4	5.4
Playing	**39.7**	**37.2**	**46.5**	**49.0**	**65.2**	**18.0**	**3.6**
Interest	**0.8**	**0.0**	**1.1**	**1.2**	**0.2**	**5.4**	**3.7**
Other	**9.3**	**2.2**	**0.9**	**2.2**	**1.2**	**0.9**	**8.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

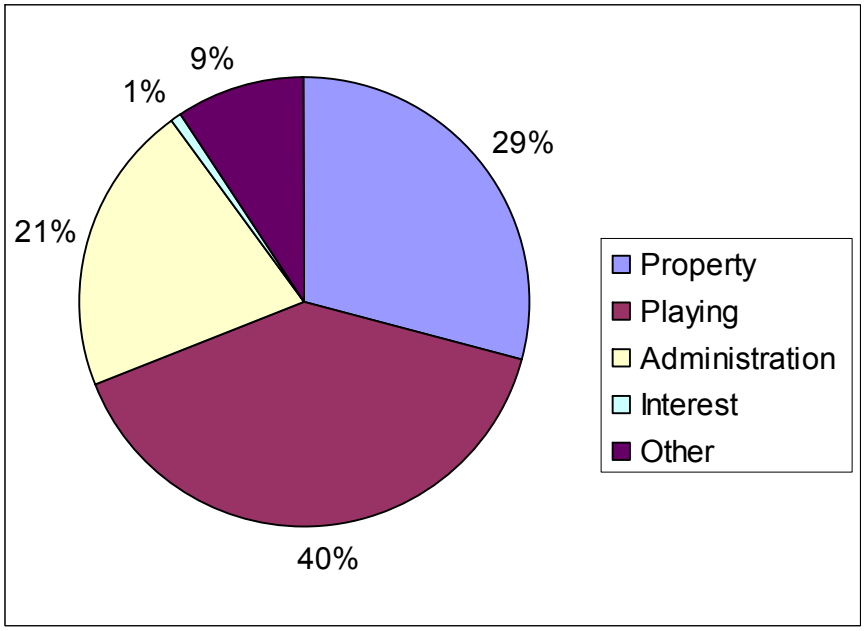
*The 30 cricket organisations were evenly distributed between associations and clubs. This was because only a small number of clubs have significant assets and associations were chosen to augment these observations.

4.1. Team sports (rugby, netball, hockey and cricket):

The composition of team sports' expenditures varies from those of the individual sports chosen. Generally maintenance costs are low and playing fees are high in these team sports.

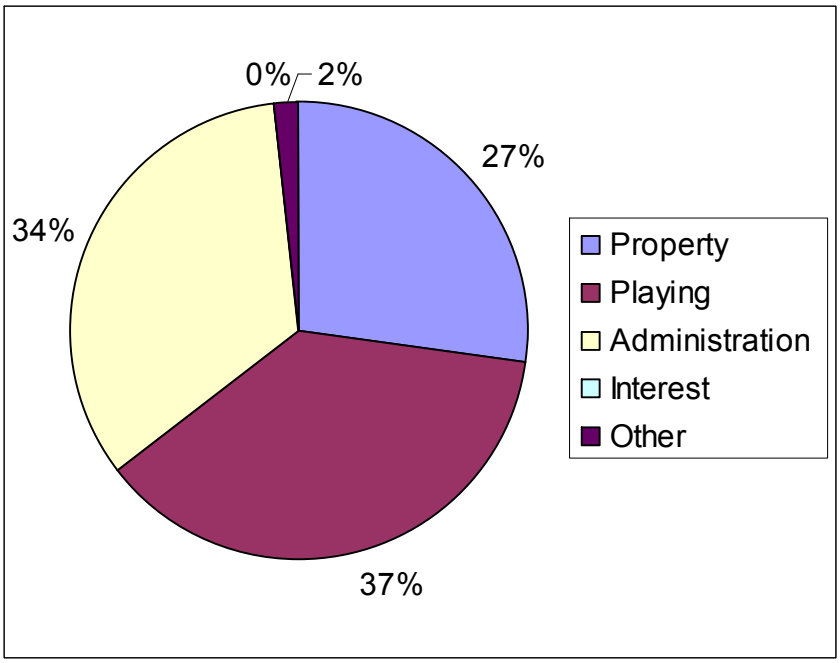
The categorisations from each of the sports are presented below with explanatory commentary on the expenditures. (Box plots of this data are provided in Appendix 3)

Figure 16: Expenditure categories for Rugby



Rugby had the highest expenditure on property of the team sports. This was due mainly to the 7.7% expenditure in the insurance, utilities and rates category. Administration costs were low, especially in the salaries area (14.2%). Figure 16 shows that there was a concentration on playing expenditure including coaching and developing players. This is lower than cricket. The category 'other' includes expenditure on the Statement of Financial Performance that was specifically identified as being for equipment or infrastructure. This represented 4.08% of the 'other' category.

Figure 17: Expenditure categories for Netball



From Figure 17 it can be seen that no netball clubs paid interest. This reflects the low levels of non-current liabilities (see following sub-section). However, netball had the highest expenditure of team sports, mainly due to salaries (25.4%) which likely reflects the costs of running the complex and numerous draws in this sport.

Figure 18: Expenditure categories for Hockey

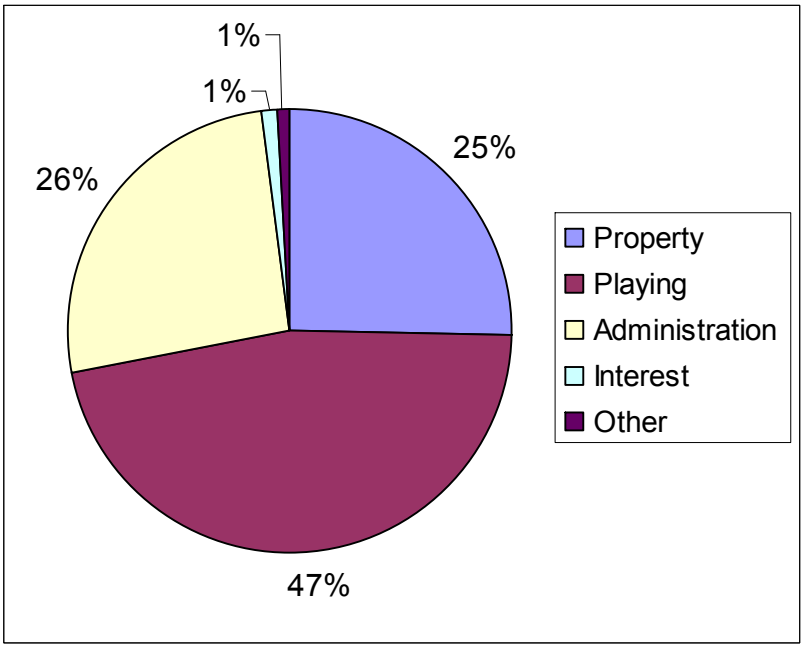


Figure 18 shows that hockey clubs spent more on teams and playing than rugby or netball did (46.5%). In all other respect, the hockey expenditure observations were around the mean for all observations.

Cricket spending was more similar to hockey clubs' expenditure than it was to rugby and netball. Cricket spent the most of all sports on playing. This code also had the lowest administration expenditure. The cricket associations were generally significantly larger than clubs and, as in the income section, we have presented the expenditures in separate graphs. Overall, the ratios of expense were:

Property	Administration	Playing	Interest	Other
10.2%	25.0%	63.1%	0.4%	1.3%

Figure 19 and 20 below show the breakdown of expenditure by cricket clubs and associations.

Figure 19: Expenditure categories for Cricket Clubs

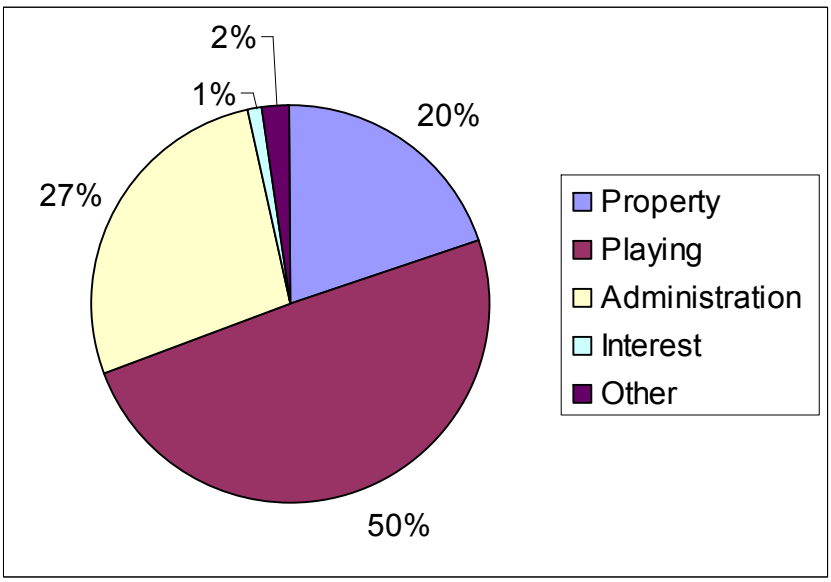
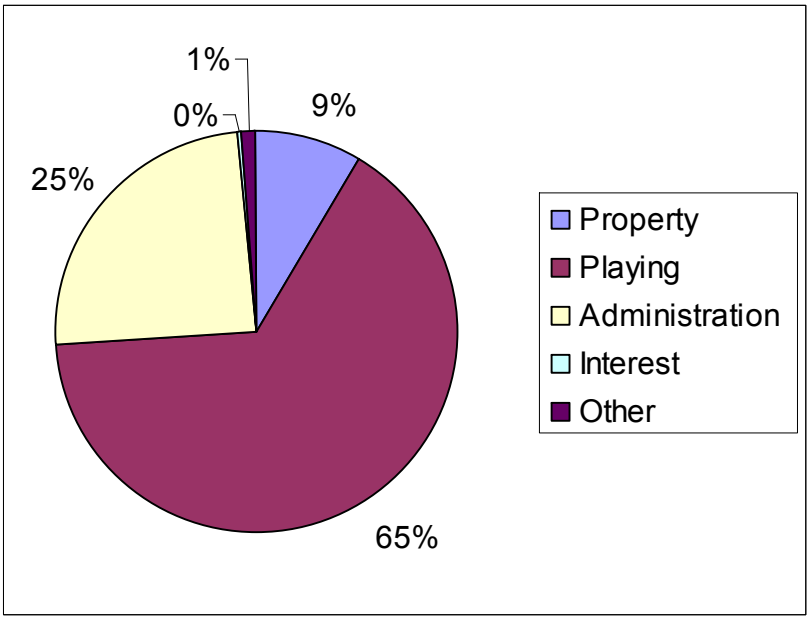


Figure 20: Expenditure categories for Cricket Associations



4.2. Individual sports (squash and golf):

As could be expected, in the chosen individual sports, the percentage of expenditure allocated to 'playing' is low. Most often individuals supply their own gear and pay for their own coaching, although clubs may provide some support for travelling and tournaments. Generally property maintenance costs are higher in individual sports than the team sports. This may be affected by the lack of volunteers available in individual-focused clubs to undertake small maintenance jobs, but also by the sheer size of properties, particularly golf clubs. The categorisations from each of the sports are presented below with explanatory commentary on the expenditures.

Figure 21: Expenditure categories for Squash

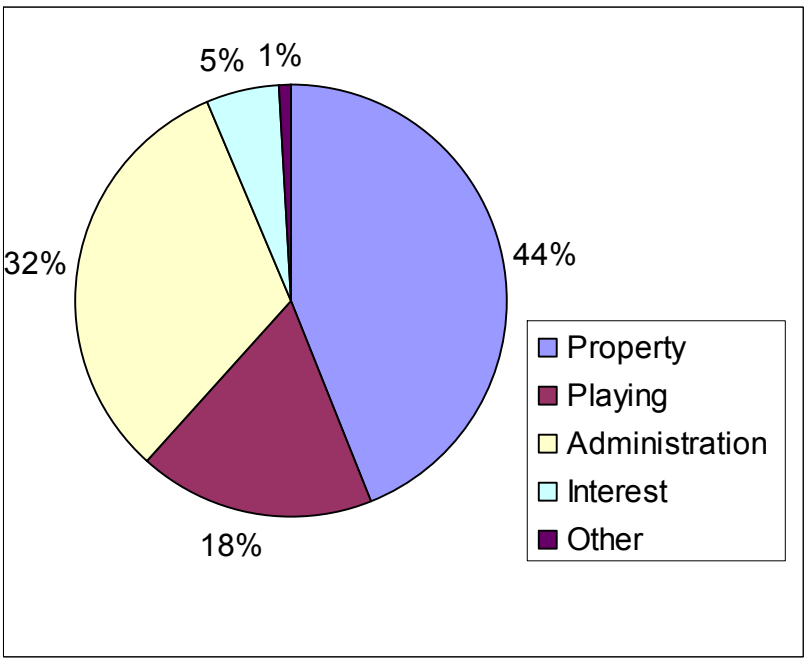
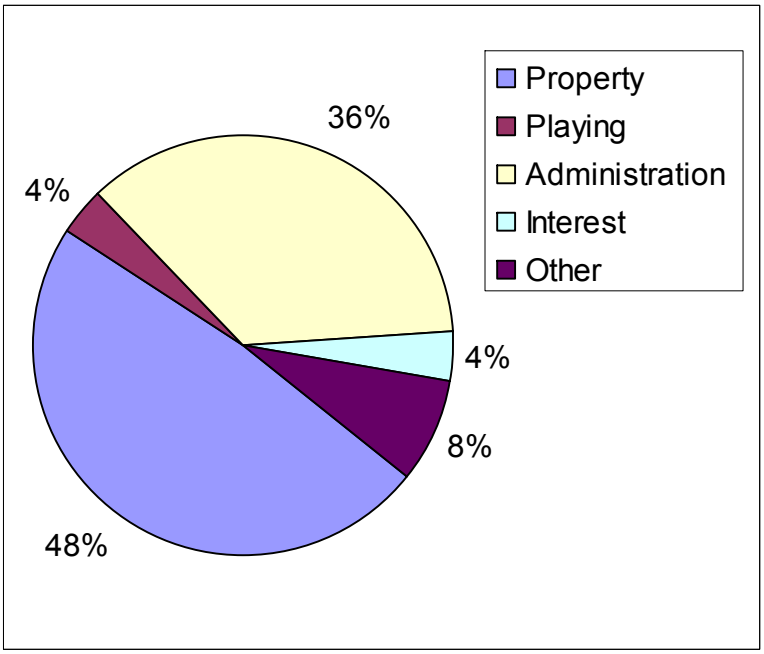


Figure 21 shows that, of all the sports, squash had the highest interest expenditure. As will be seen in the next sub-section, a number of clubs had high levels of long-term debt. Squash clubs also have high administration expenditure, mainly on salaries (22.4%).

Figure 22: Expenditure categories for Golf



Coinciding with the large land area used by golf clubs and the expensive work required to maintain greens and club houses, golf had the highest expenditure on property of all the sports chosen, as can be seen in Figure 22. The level of interest paid also reflects larger borrowings in this individual sport than in the team sports. The low percentage of expenditure on 'playing' reflects the fact that individuals bear the cost of coaching and frequently those relating to team tournaments as well.

Key findings:

- Expenditure on property in team sports represents an average of 25% of expenditure (except for cricket where it is 10.2%). In individual sports the mean exceeds 40%;
- A majority of team sports clubs' expenditures are spent on their teams direct costs; and
- The interest expense of golf (3.7%) and squash clubs (5.4%) was higher than the team sports where interest expense was less than 1.5%.

4.3. Comment on expenditure:

In Section 2 we showed that sports clubs' incomes are increasing, but their financial performance is not correlated, due to their increasing expenditure. As could be expected, the expenditure patterns vary across sports (and also between clubs as shown in Appendix 3). Knowing clubs' expenditure composition assists in two important ways. Firstly, the costs of running a sports club need to be met by the income and therefore the level of future expenses should be an important factor in establishing membership fees. Secondly, where clubs are not able to cover their fixed and variable costs in membership fees and other guaranteed support, a thorough knowledge of expenditure will enable clubs to assess where costs can be reduced.

Impact of expenditure on setting member fees

While amateur sport may be seen as a cheap option for players to keep fit and to enjoy socialising opportunities, each sport assured us they were expensive to run. All clubs recognised the need for good quality playing surfaces, coaching, equipment, well maintained premises, and efficient administration to ensure that players' experiences were positive. Good planning is required in order to achieve these goals.

A very few clubs use expenditure modelling to assess what their member fees should be. They realised it was necessary to inform members what it cost to run their game in terms of administration, and cleaning and maintaining the facilities and playing areas. However many clubs believe that members who played a team sport once a week misunderstand that clubs' costs are substantial and the role of members in underwriting these costs.

Property, playing and administration costs

Playing costs include affiliation levies to the regional or national body. These were not necessarily large, but were a factor when establishing member subscription rates. Clubs had differing attitudes towards their regional and national bodies, but on the whole, interviewees acknowledged the usefulness of these bodies and the assistance these bodies provide. Some regional bodies offer professional administration assistance. They may also be able to develop administrative hubs in order to assist smaller clubs to have a combined administrative centre. This was seen as a way of the future. As one interviewee noted, it would be difficult to grow an organisation without help from a larger body:

> *You can't get to an organisation or rugby club of a certain size without professional administration. I don't believe we can put the infrastructures in place for participation levels that we need to. I think even the smaller ones, from a SPARC point of view we will need to look at having administrative hubs in communities that provide support services for clubs in the way of administration.* (Rugby club interviewee)

Interest costs - managing cash flow

Some clubs manage their expenditure by obtaining an overdraft or revolving credit facility. Thus they described a cycle of receiving member subscriptions, spending funds to begin the playing season and then "dipping" into overdraft before beginning the member subscription cycle again. There was concern about the cost effectiveness of that and, especially given the economic environment, these clubs had restricted capital expenditure in order to reduce their short term borrowing. While this tactic may resolve short-term crises, it was acknowledged that clubs could not be allowed to 'run down' or they would lose custom and fail:

> *The club used to be a lot more run down that it is now ... and if the club stayed as it was last year, I estimated in about four years it would've been bankrupt. So we've made a lot of changes.* (Squash club interviewee)

The members of this club have a new-found pride as an enthusiastic Chair was organising much-needed maintenance and growing membership.

Taxation

Sports clubs are not tax-free entities under law, yet no clubs paid tax on their trading 'profits' nor did any organisations that were interviewed consider tax to be an issue they needed to consider. While promoters of amateur sport are currently eligible for tax exemption (under s. CW 46 of the Income Tax Act 2007), sports clubs must be able to show that their activities meet this aim. Alternatively, a number of sports clubs have registered with the Charities Commission so that they can clearly avail themselves of the income tax exemption offered to registered charities under s. CW 35 (b) of the Income Tax Act 2007.

Overall

This section has analysed the expenditure categories of sports clubs. While expenditure varies across codes, governors need to be careful that costs are minimised to ensure that their club performs well. It is essential that clubs manage their cash flows to reduce dependence on short term debt (and interest costs).

Key findings:

- Amateur sport is expensive to run: requiring good quality playing surfaces, coaching, equipment, well maintained premises, and administration, to ensure that players' experiences are positive;
- Members do not always appreciate the high costs of maintaining their sports' facilities and may be unwilling to contribute adequately towards these; and
- Sharing services may reduce administration costs across sports.

5. Liabilities

This section reviews the liabilities of sports clubs generally, and then on a sporting code basis. Firstly, relevant literature is drawn on to illuminate the analysis of the New Zealand data that follows. This analysis proceeds through a series of tables before drawing on further analysis from the interviews that were conducted.

The literature on the extent to which not-for-profit organisations enter into debt is sparse. Yetman (2007) researched US data and found that just over 60 percent of not-for-profit organisations overall had debt outstanding. In his study, the average ratio of debt to total assets in all not-for-profit organisations was 33 percent, but when educational and medical organisations were removed from their sample, this rose to 38 percent.[18] This usage of debt in the US by not-for-profit organisations is similar to that by manufacturing firms (at 36%) and is lower in larger organisations (as measured by assets and by revenue from donations). Yetman (2007) noted that, although not-for-profit organisations were relatively sophisticated in terms of debt instrument use, the costs and ramifications of borrowing were not so well understood. The US study considered the financial leverage of not-for-profit organisations, although it is widely accepted that using such a term may create expectations of an ability to increase borrowing. In the absence of shareholder equity, this would be delusional. The notion of leverage further ignores the fact that, although members will seek non-financial returns from the organisation, equity in not-for-profit organisations does not have a financial cost as it does in the for-profit sector.

Notwithstanding the difficulty with the notion of leverage, the analysis of total liabilities to total assets is an indicator of the risks surrounding repayment. Therefore, the data in this research was analysed in a similar manner to that of Yetman's (2007) study, in order to develop benchmarks for sports organisations in different sports. Similarly to Yetman (2007), organisations are sorted into quartiles for analysis.

5.1. Team sports (rugby, netball, hockey and cricket):

As can be seen from Figures 23-26, the composition of the team sports clubs' liabilities varies from those of the individual sports chosen. Total liabilities tend to be highest as a percentage of total assets in the smallest clubs, rather than in individual sports where these tend to be higher in the larger clubs. The categorisations from each of the sports are presented below with explanatory commentary on the non-current or long-term liabilities.

Figure 23: Total assets to total liabilities in Rugby clubs

Size grouping	Asset range (in $)	Total Liabilities/ Total Assets (average)	Number of clubs with no non-current liabilities
Less than 25th percentile	82,000-205,000	20.0%	10
> 25th, < than 50th percentile	205,000-350,000	15.2%	9
> 50th, < 75th percentile	350,000-680,000	10.0%	13
Greater than 75th percentile	380,000-1,750,000	6.8%	6

[18] Jegers and Verscheuren (2006) also noted that this fluctuation in ratios is due to organisational differences in activities and structure.

Of the 66 rugby club observations shown in Figure 23, 38 of these had no non-current debt. This left 28 observations where clubs had non-current debt. One club's non-current debt was higher than the clubs' net assets. (The two observations showed that this clubs' non-current debt was 217% of net assets in one year and 387% in the other). This club was technically insolvent and highly dependent on future income to survive. Of the remaining 26 clubs that did have non-current debt, it ranged from 0.04% of net assets to 38%, with an average across those observations of 10.2%.

Figure 24: Total assets to total liabilities in Netball clubs

Size grouping	Asset range (in $)	Total Liabilities/ Total Assets (ave)	Number of clubs with no non-current liabilities
Less than 25th percentile	12,000-150,000	17.1%	14
> 25th, < than 50th percentile	150,000-280,000	8.7%	13
> 50th, < 75th percentile	280,000-600,000	8.2%	12
Greater than 75th percentile	600,000-1,400,000	5.8%	12

Compared to the rugby clubs shown above, it can be seen in Figure 24 that the quartiles of asset ranges in the netball clubs are uneven and that this sample of netball clubs includes a number of clubs with low value assets. Netball clubs had very low levels of non-current debt, with only nine of the 60 observations recording non-current liabilities. These ranged from 0.7% of net assets to 24% with an average across these nine observations of 7% (non-current liabilities/net assets).

Figure 25: Total assets to total liabilities in Hockey clubs

Size grouping	Asset range (in $)	Total Liabilities/ Total Assets (ave)	Number of clubs with no non-current liabilities
Less than 25th percentile	7,000-60,000	43.7%	13
> 25th, < than 50th percentile	60,000-146,000	22.9%	13
> 50th, < 75th percentile	146,000-1,000,000	16.5%	9
Greater than 75th percentile	1,000,000-2,500,000	14.6%	5

From the comparatively low value of the initial quartile, Figure 25 shows that (similar to the netball clubs) this sample of hockey clubs includes a number of clubs with low value assets. Across all the hockey clubs, 20 observations recorded non-current liabilities. Of these, two clubs were insolvent. One had negative net equity and the other had non-current liabilities of 277% of net assets. Of the remaining 18 clubs with non-current debt, it ranged from 2% of net assets to 48%, with an average across those observations of 19.1%.

The cricket club and associations sample also had a low value first quartile in terms of assets. Of the 60 observations in cricket clubs and associations, 44 had no non-current debt. Two organisations (4 observations) had non-current liabilities far in excess of net assets. This was exacerbated by the organisations having negative net assets. Of the remaining 12 with non-current debt, it ranged from

1.4% of net assets to 98%, with an average of 29.1 percent. This data is presented in Figure 26 below.

Figure 26: Total assets to total liabilities in Cricket clubs and associations

Size grouping	Asset range (in $)	Number of clubs (c) and associations (a)	Ave Total Liabilities/ Total Assets	Number of clubs/ assoc with no non-current liabilities
Less than 25th percentile	28,000-165,000	11c; 4a	26.2%	13
> 25th, < than 50th percentile	166,000-237,500	5c, 11a	35.8%	10
> 50th, < 75th percentile	237,500-490,000	8c, 7a	14.8%	13
Greater than 75th percentile	490,000-1,9440,000	7c, 8a	22.37%	8

5.2. Individual sports (squash and golf):

Figures 27 and 28 show the value of individual sports clubs' assets and the ratio of total liabilities to total assets. Only one club in this sample had no liabilities, compared to the 11 team sports clubs reviewed in the prior sub-section. The data from squash and golf are presented below with explanatory commentary on the long-term liabilities.

Figure 27: Total assets to total liabilities in Squash clubs

Size grouping	Asset range (in $)	Total Liabilities/ Total Assets (ave)	Number of clubs/ assoc with no non-current liabilities
Less than 25th percentile	75,000-230,000	14.3%	12
> 25th, < than 50th percentile	230,000-593,000	10.1%	11
> 50th, < 75th percentile	593,000-900,000	33.2%	5
Greater than 75th percentile	900,000-3,750,000	19.1%	5

As can be seen from Figure 27, across all the squash clubs, 33 had no non-current liabilities. Two clubs (four observations) had non-current liabilities far in excess of net assets (375%-641%). Unlike similar organisations in the team sports, all of these clubs had positive net equity. However, comments in their annual reports recounted governors' and auditors' concerns as to whether these clubs with high levels could continue as going concerns. Of the remaining 23 clubs that did have non-current debt, it ranged from 0.8% to 89% of net assets, with non-current debt at a rate of 33.2% of net assets overall.

Figure 28: Total assets to total liabilities in Golf clubs

Size grouping	Asset range (in $)	Total Liabilities/ Total Assets (ave)	Number of clubs/ assoc with no non-current liabilities
Less than 25th percentile	740,000-1,700,000	23.8%	1
> 25th, < than 50th percentile	1,700,000-4,100,000	23.4%	0
> 50th, < 75th percentile	4,100,000-6,500,000	19.3%	0
Greater than 75th percentile	6,500,000-29,000,000	9.7%	4

Figure 28 shows that a great majority of golf clubs (55 of 60 observations) had non-current debt. Unlike the squash club sample, however, none of the golf clubs had debt that exceeded net assets. From the 55 observations, non-current debt as a ratio of net assets ranged from 0.1% to 96.5%, with an average of 16.1%. Only four observations had non-current debt in excess of 50%.

5.3. Comment on liabilities, especially non-current lending:

By comparison to the US data by Yetman (2007) (which found that around 60 percent of organisations had some form of debt), this research found that just over 40 % of clubs had non-current debt. Similarly to Yetman (2007), in most sports smaller clubs were more likely to have higher levels of debt (except squash). However the ratios differed widely across different sports as can be seen in Figure 29 below.

Figure 29: Number and percentage of organisations that hold non-current debt

Sport	Total observations	Number with no non-current debt	Number with non-current debt	Percentage of organisations with non-current debt
Rugby	66	38	28	42.4%
Netball	60	51	9	15.0%
Hockey	60	40	20	33.3%
Cricket	60	44	16	26.7%
Squash	60	33	27	45.0%
Golf	60	5	55	91.7%

Yetman (2007) also considered the ratio of debt: total assets. Across this New Zealand data, the ratio of total liabilities to total assets was, on average, 14.4% (compared with Yetman's estimation of 38% in US not-for-profit organisations). As has been discussed, there is a wide divergence between clubs with no debts and clubs that have more liabilities than they do assets.

Loans

Debt must be repaid from future cash flows. When successful sports clubs raise debt to finance a project, they are careful to ensure that there is also a projected positive cash flow from future user fees. While we found that many clubs had prepared a plan to support fundraising, none of the

interviewees from sports with debts could confirm that their organisation had a debt policy to guide governors on the circumstances that would support the seeking of long-term funding. A number of interviewees expressed disappointment that their organisation had taken out debt in past years, without an appropriate consideration as to how it would be repaid. New governors were required to find new income streams or re-schedule this debt. A common difficulty was that loans had been taken out after overly optimistic forecasts (or no forecast at all) were accepted by members and banks. Developing a system of business plans, peer review and a club policy on debt would assist new governors and the clubs they direct.

While a small number of clubs had debentures from members that were not interest-bearing, this practice was not wide-spread in the research sample. Golf clubs appeared to be especially good at obtaining low or no-interest loans from members. One of the benefits of these loans is that members were considered likely to gift the funds to the club after a number of years, thus obviating the need for repayment of these loans.

Obtaining member funds could be cost-effective (especially if it does not have to be paid back), but clubs must be careful to ensure that they adopt a trust deed that complies with the Securities Act 1978 and the Reserve Bank Act 1989, and comply with the appropriate requirements. (They may apply to the Reserve Bank for an exemption from some of the Bank's requirements on deposit-takers if they can prove these are overly burdensome.) Sports clubs should seek legal advice in this respect.

In team sports, a number of organisations entered into agreements with their Territorial Local Authority (City, District or Regional Council) to borrow funds on a long term basis at a low or no-interest rate. The terms of this debt were superior to that offered by commercial banks, not only in terms of interest rate, but also, in terms of access to other funds. One club we interviewed had borrowed from a commercial bank, but was then unable to access funds from the philanthropic trust of that same bank due to that borrowing. Other clubs had sold land and/or buildings to their Territorial Local Authority. This also released funds for sport and offloaded the obligation for the upkeep of the land and/or buildings. Notwithstanding the possible availability of funding from a Territorial Local Authority, the clubs interviewed experienced varying levels of engagement with their councils. There is also the danger that one sport will gain greater funding or access than another sport and balancing those needs is a challenge.

Leasing as an option

A small number of sports clubs that need high value, depreciable assets lease these assets (golf clubs were a good example of this). As well as releasing funds for operations an income stream can be targeted to meet the leasing costs. Therefore it imposes a discipline to ensure that these assets are revenue-generating and will be able to be returned in a marketable condition to the lessor (reducing the cost of the lease). The leasing notion is also applied in a few clubs to their facilities when they enter into a maintenance contract for premises painting and other major works. Such arrangements spread the costs of maintenance over a longer cycle while ensuring that the premises are well maintained.

Overall

All clubs are faced with the need to upgrade expensive playing surfaces and premises. These projects cannot be covered by the annual membership fee. For some clubs, they are able to sell spare land, but in the words of one interviewee:

> *I for one am reluctant to sell everything off, because then everything's gone*. (Golf club interviewee)

For large capital projects it was more likely that clubs would borrow from a bank or their Territorial Local Authority for a planned deficit. These actions concur with Yetman (2007) who notes that,

unlike for-profit organisations where an investment rate of return and a tax deductible interest allow for separation of the project and funding source, not-for-profit organisations make decisions on funding sources contemporaneously with project decisions. Thus, an internal pecking order is derived relating to the costs of alternative funding sources, but the costs of finance are traded off against the benefits expected from a project (Yetman, 2007). These benefits will be financial and non-financial.

The objective of this section was not to posit non-current debt as a funds source for sports clubs to avoid, but to recommend carefulness in the choice of debt and to ensure that there is a business case for its repayment. Some clubs are intentional about their debt and find that tools such as leasing, member debentures and revolving credit facilities are helpful to their operations. Unfortunately others have taken out debt too readily and left new governors with the burden of managing its repayment.

Key findings:

- Generally, smaller sports clubs had higher levels of total liabilities over total assets showing they are less financially robust;
- More than 40% of sports clubs have non-current debt, which will often incur interest costs so that its repayment will reduce the income available for other projects; and
- A small number of clubs are technically insolvent with debts higher than their total assets.

6. Discussion and conclusion

Our review of annual accounts and our interviewees confirmed that sports clubs are complex businesses that need excellent management. This report has highlighted a number of issues that should be considered by clubs seeking to increase their revenue and their surplus in order to be financially viable. This section summarises those findings and makes recommendations. In addition, it considers the extent to which expertise in the governing body impacts on these decisions.

6.1. Organisational survival

The ultimate survival of any sports organisation depends on it ensuring that cash flows are positive over time. This message holds true especially during economic downturns when following best practice is essential for survival. SPARC has consistently produced resources to support amateur clubs in sports and recreation and has three relevant documents in the financial area. Notably, the *Running Sport* (SPARC, 2002b) resource provides useful advice for club governors and managers.

As well, in addition to exhorting the club treasurer to consult on financial matters and to communicate financial decisions, *Managing Money* (SPARC, 2002a) addresses two issues. It recommends that clubs:

- develop an accurate budget as part of the annual planning regime; and
- prepare cash flow forecasts, taking into consideration the seasonality of their sports' income.

Financial Management (SPARC, 2001) explains the usefulness and provides application guidance on these principles.

The necessity of budgets and targets, as well as accurate cash flow forecasts, was highlighted in this research. While some clubs are very successful in their financial management, others are not. Clubs that were struggling were constantly applying to external funders for more income. Often these clubs were the ones that did not develop a budget. They were unable or unwilling to raise off-season and non-sports cash flows in order to maintain the infrastructure required to run their sport. They sent off numerous grant applications, many of which were unsuccessful. The uncertainty of grant income made a budget longer than a few months meaningless. These clubs described a cycle of need. Alternatively, successful clubs planned well in advance and reviewed budget s and targets regularly.

6.2. Governance expertise

Successful clubs also recognised the necessity for a broad base of expertise in their board members or management committee. While gaining a spread of skills might be difficult when members are being elected (rather than appointed), clubs recognised the benefit of selecting people for nomination with a background in business and management. But it is necessary that these voluntary governors also have a passion for their sport, as one interviewee commented:

> *Our Chairman's an accountant and he also owns a group of companies, so he's very respected and very experienced. We've also got another accountant on our board as well. But I don't think, in all due respect, that accountants and lawyers and stuff on Boards really make it. It's got to be the right person who has the dream actually.* (Netball club interviewee)

In addition, a governor's ability to grow the club's revenue streams is also necessary, as an interviewee noted:

> *We've gone through a major change in the last two years. We were, I guess, quite traditional around it, in that we had an accountant and a lawyer and those sort of people who were there for their professional skills, not necessarily for their entrepreneurial skills.*

> *And we made a fundamental change by making a decision that actually we wanted people that were going to drive our revenue and that, at the end of the day, if we needed people to deal with things at the back end [such as legal advice] … we could contract that service.* (Cricket club interviewee)

Overall, the recommendations that are made in SPARC's *Strategic and Business Planning* (2006) and *Nine Steps to Effective Governance* (2007a) provide a benchmark for Boards to consider in their selection of members. The issue that is important in respect of this research is that the governors plan the clubs' expenses and asset requirements and also plan the sources of income that will meet those needs and they should be able to understand and contribute to the Board discussions in these areas.

6.3. Recommendations

Amateur sport is expensive to run: requiring good quality playing surfaces, coaching, equipment, well maintained premises, and administration, to ensure that players' experiences are positive. Clubs should promote actively the benefits of club membership so that members recognise its value and are prepared to contribute to the costs. In addition, governors should review their club's membership fees regularly to ensure members make an adequate contribution to the running of sport;

Despite the availability of external income, it is still necessary to establish suitable membership fees that are reviewed regularly, so that they are 'envy free', reviewed annually, and aligned to the club's objectives.

Given the joint impact of the relatively high levels of dependence on grant funding and also debt in some sports, we recommend that sports organisations think creatively about how to diversify their clubs' income. Successful schemes are identified in this report and, while they are context-specific, local organisations are encouraged to develop complementary revenue streams which will enable them to thrive, despite changes in the economic environment.

Clubs spend significant money on property. They should plan their property expenditure carefully to ensure that cash is available for this major expense. Finally, sports clubs should re-assess their risk in respect of liabilities and assets on hand to discharge those financial liabilities. In particular, reducing costly non-current liabilities will free up cash flow for the sport's future.

Appendix 1: Interview questions, Participant Information Sheet

TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI
VICTORIA
UNIVERSITY OF WELLINGTON

Participant Information Sheet **26 January 2009**

Financing Sports Organisations in New Zealand – the impact of governors' choices

Managing a successful amateur sports or recreation organisation is not a simple matter. We realise that not only does your organisation need the right people in governance, but it is important to have enough funds to achieve the goals you have set.

In the current environment, financial management is as important as ever. Yet we know very little about how sports and recreation organisations in New Zealand balance funding from various sources to ensure long term sustainability. SPARC have provided us with funds to assist with a study into financing practices in organisations such as yours, in order to define best practice.

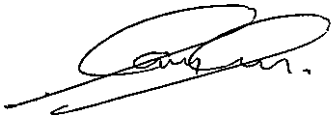
Because your organisation has relatively high needs for capital assets, we believe your experience can help us to learn more about the practice of financial management in sports and recreation organisations. We would like to interview a key decision-maker (for example, your Chair or Treasurer) about the way your organisation chooses between different financing options, the role of membership fees, and the growth barriers and opportunities you meet.

The interview is expected to last for approximately 45 minutes. It will be recorded and transcribed and the interviewee will be offered a transcription of the interview and, if they wish, can edit it before the interview is analysed. Your participation in this project is completely voluntary and your organisation may withdraw from the study at any time before June 30th 2009, which is the end date for the data collection.

The research data we are collecting will be from of a range of sources, including interviews, annual reports and of course prior research in this area. These will form the base for the analysis and a final report to SPARC, along with articles in Club Kit and other professional and academic journals. In the report and any other outputs from this research, it will not be possible for the interviewee or your organisation to be specifically identified. Where comments are presented in the report, individual names will not be used. All material collected will be kept confidential and destroyed within 3 years of the end of the project.

This project has ethics approval from the Victoria University Human Ethics Committee.

If your organisation is prepared to join this research project, please contact us at the address below. If you have any concerns, or would like to receive more information, please let us know. Thank you in advance for your participation.



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For the semi-structured interviews, the following questions were asked.

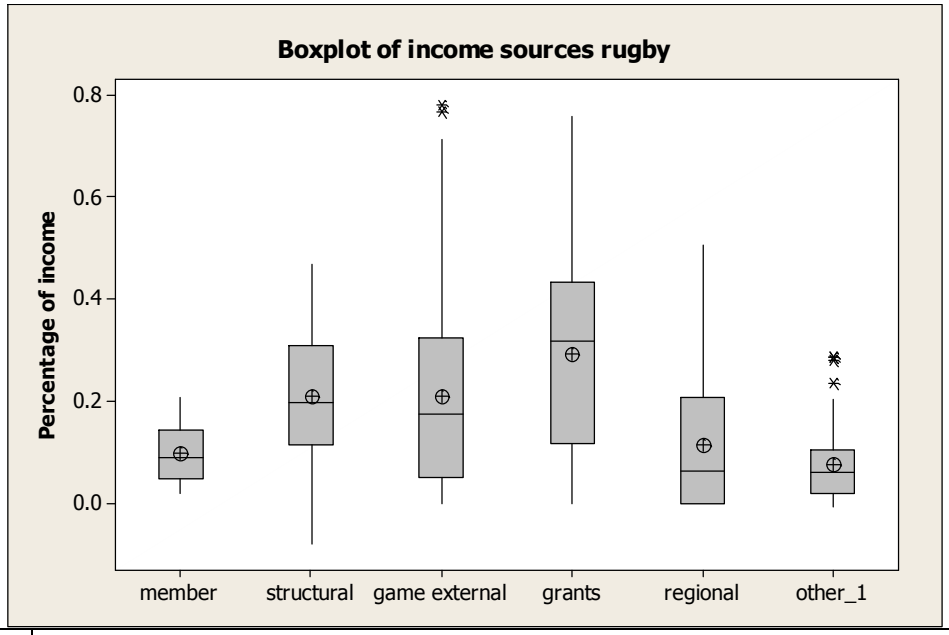
1. What are the most significant financial transactions with external parties that have occurred in your club over the past 4-5 years (for example, grants, loans, sponsorship, insurance)? This may also include using up of retained earnings.

2. What funding decisions have you had to make?

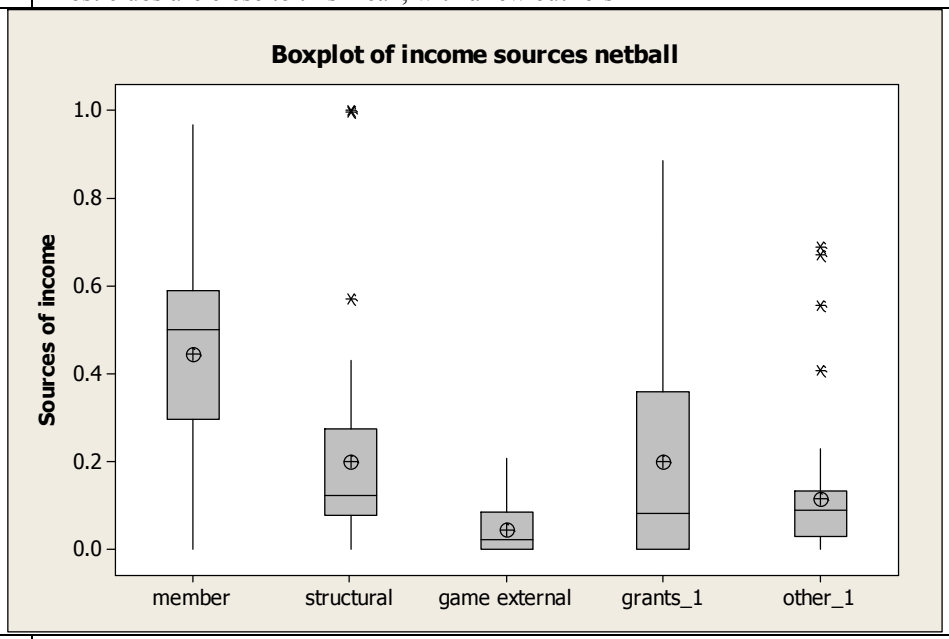
3. In particular we are interested in an event (such as a capital project) that has caused you to need to access or at least assess a range of funding. Thinking about that funding:
   - Are certain sources of income more consistent with the organisation's mission than others? (If so what/why)
   - Do the Board and/or staff have different views as to how income should be gained and which funding should be accessed? (how do you deal with that?)
   - Are new income opportunities systematically evaluated as they arise?
   - What are the criteria for this evaluation? (does it include non-financial assessment as well as financial assessments?)
   - Do you target a particular balance of sources of funding (in particular to gain leverage) and what is that balance?
   - What are the barriers to growth? Does your choice of funding limit the opportunities for growth?
   - Are there tax implications in revenue streams that affect your decision (how)?

4. We are also interested in changes in the day to day funding and management of your organisation over the past 4-5 years. Thinking about your organisation:
   - How do membership dues help you to achieve your organisational mission (by being set so "everyone can join", re-evaluated each year to cover costs, etc)?
   - How are membership dues related to the cost of member services? Has the changed (for example, is there more of a user-pays emphasis, has the balance of fees to other income changed)?
   - Do you have a waiting list or some other attributes that indicate you could charge more to members?
   - Are volunteers involved in both sport and governance?
   - What financial expertise do you have on the Board or available to the Board?
   - Has the ownership of your facilities changed? (e.g. have you divested or had a Local Authority buy-in?)

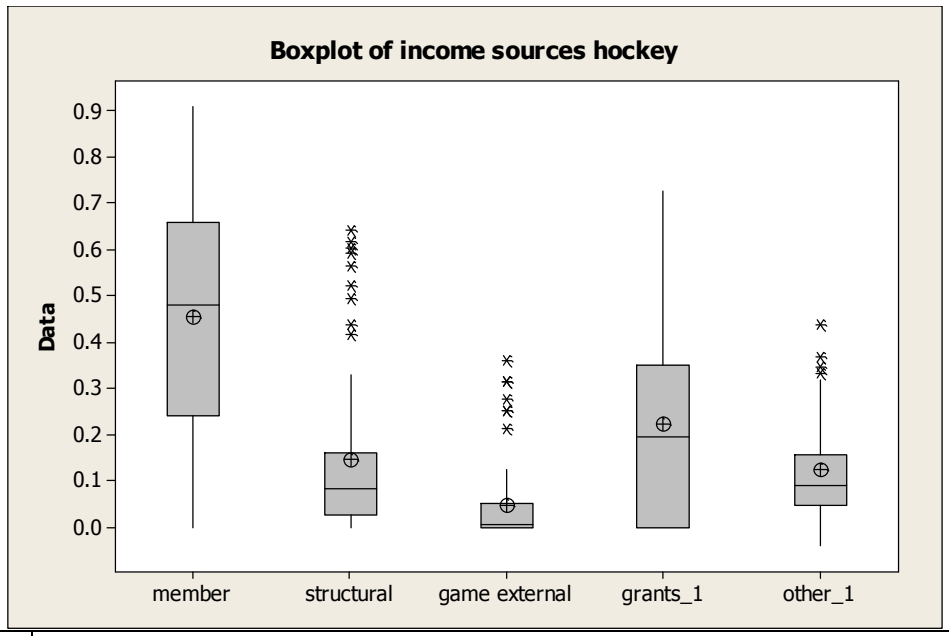
Appendix 2: Boxplots (box and whisker) for income



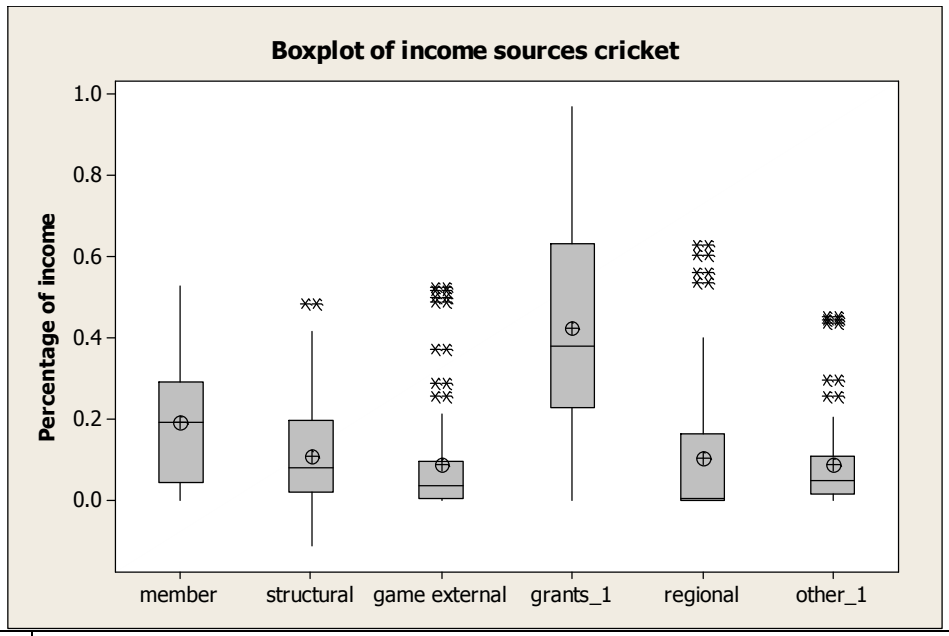
Category	Mean	Explanation
Member	10%	Member income is normally distributed closely around the mean
Structural	23%	Data comprises loss-making competitions and trading activities, it is evenly distributed over mean
Game external	20%	Upper quartile widely spread. Outlier is due to one club having sponsorship treble in one observation year
Grants	27%	Average grant income higher than would be expected. It is positively skewed showing a preponderance of small grants and a small number of large grants.
Regional	11%	Shows standard level of regional support with a few clubs receiving larger amounts
Other	9%	Most clubs are close to this mean, with a few outliers



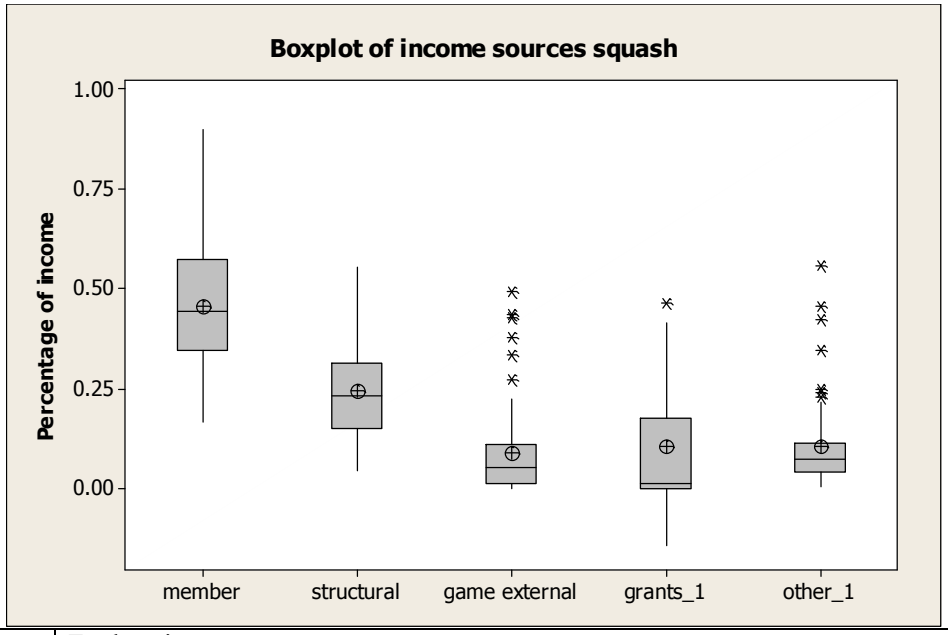
Category	Mean	Explanation
Member	19%	Member income is normally distributed around the mean, but it is over a wide range
Structural	15%	Income from structural activities is standard but includes two outliers. This is due to one incorporated society being funded totally by trading and interest
Game external	4%	Donation and sponsorship income is closely spread around the mean at a low level
Grants	47%	Netball clubs' grants range from 0-80% of income pushing average grant income up. While it is positively skewed, there is a preponderance of small grants and a small number of large grants.
Other	9%	Most clubs are close to 15% in 'other' income. There are four outliers



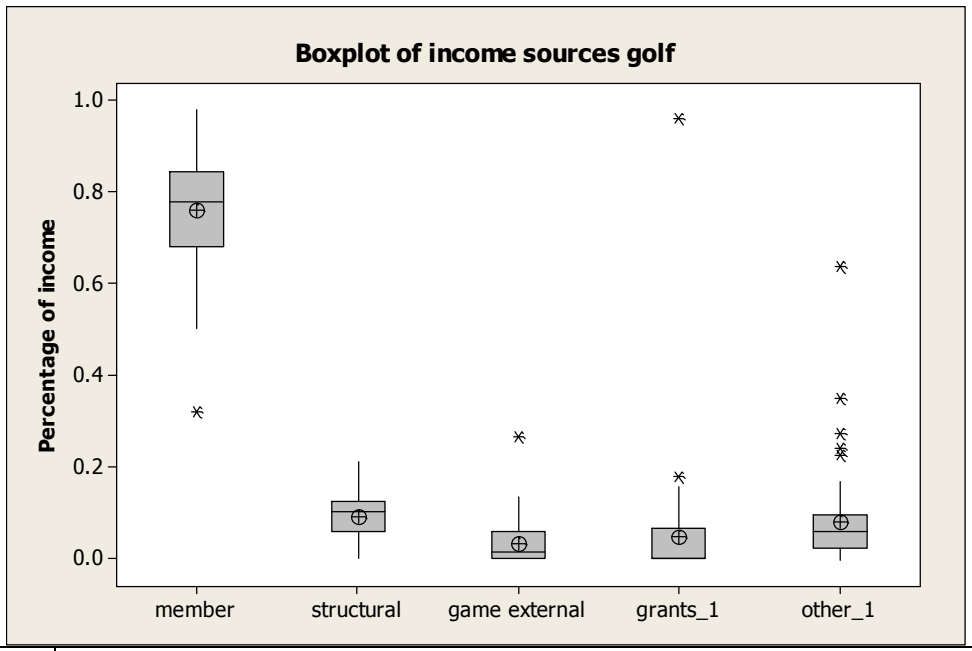
Category	Mean	Explanation
Member	43%	Member income is normally distributed around the mean. However, there is a wide range of subscriptions from 0 to 76%
Structural	20%	A number of outliers reflect financially successful competitions that pull up the mean
Game external	3%	Five observations that are outliers receive large values of sponsorships and donations. The remaining observations are very close to one another
Grants	22%	Hockey clubs' grants range from 0-70% of income. A few outliers receive large grants
Other	12%	Most clubs are close to 15% in 'other' income. There are four outliers



Category	Mean	Explanation
Member	19%	Member income is normally distributed around the mean and reflects the presence of clubs and associations
Structural	11%	Data is normally distributed, but reflects the loss making competitions and also outliers
Game external	9%	Donation and sponsorship income is closely spread around the mean at a low level/ However the outliers show high levels of support for associations
Grants	42%	Cricket clubs' and associations' grants range from 0-96% of income
Regional	9%	There appears to be a standard level of income from regional/national support. There are four outliers.
Other	10%	'Other' income is closely distributed except for four outliers

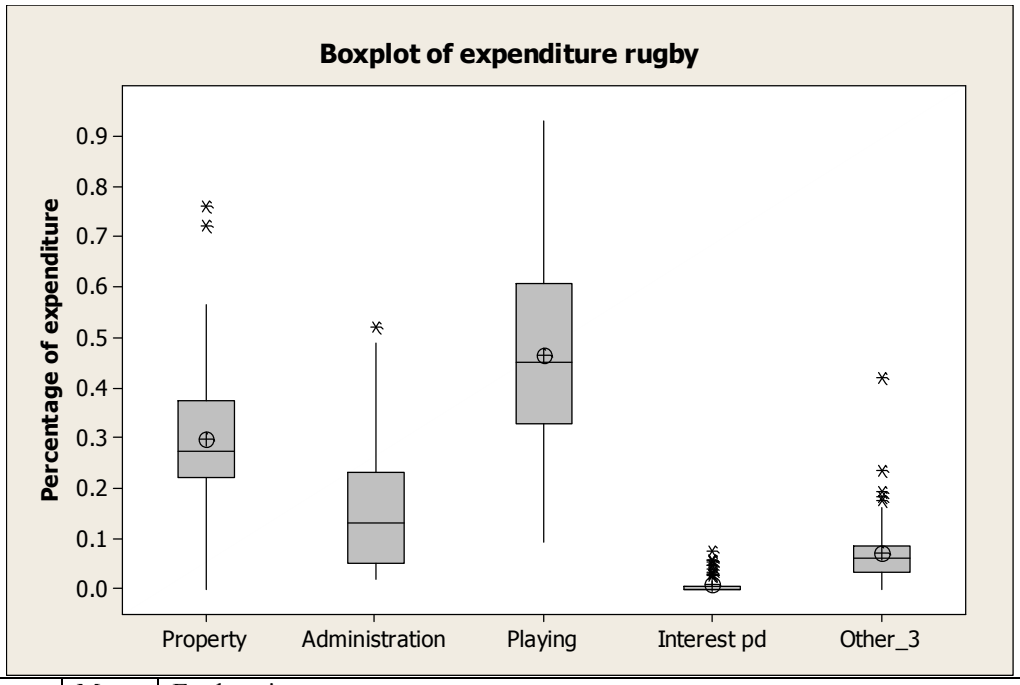


Category	Mean	Explanation
Member	49%	Subscription income is normally distributed around the mean
Structural	22%	Data is normally distributed around the mean
Game external	8%	Donation and sponsorship income is closely distributed around the mean with six outliers
Grants	11%	The presence of negative grants is due to some unspent and which had to be repaid in a future year. This skews the data. A number of clubs received no grants. One outlier received a significant grant in one year
Other	10%	'Other' income is closely distributed except for six outliers

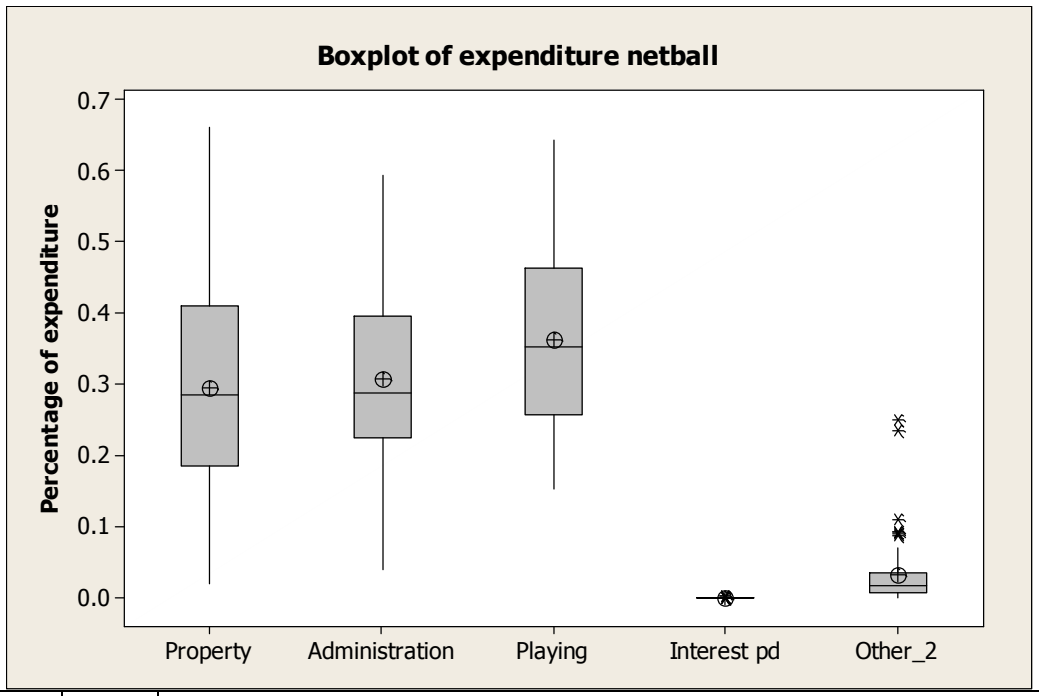


Category	Mean	Explanation
Member	49%	Subscription income is normally distributed around the mean with one low outlier
Structural	22%	Competition and trading activities, rents and interest are low value and closely distributed around the mean
Game external	8%	Donation and sponsorship income is low value and closely distributed around the mean with one outlier
Grants	11%	Donation and sponsorship income is low value and closely distributed around the mean with one outlier
Other	10%	'Other' income is closely distributed except for five outliers

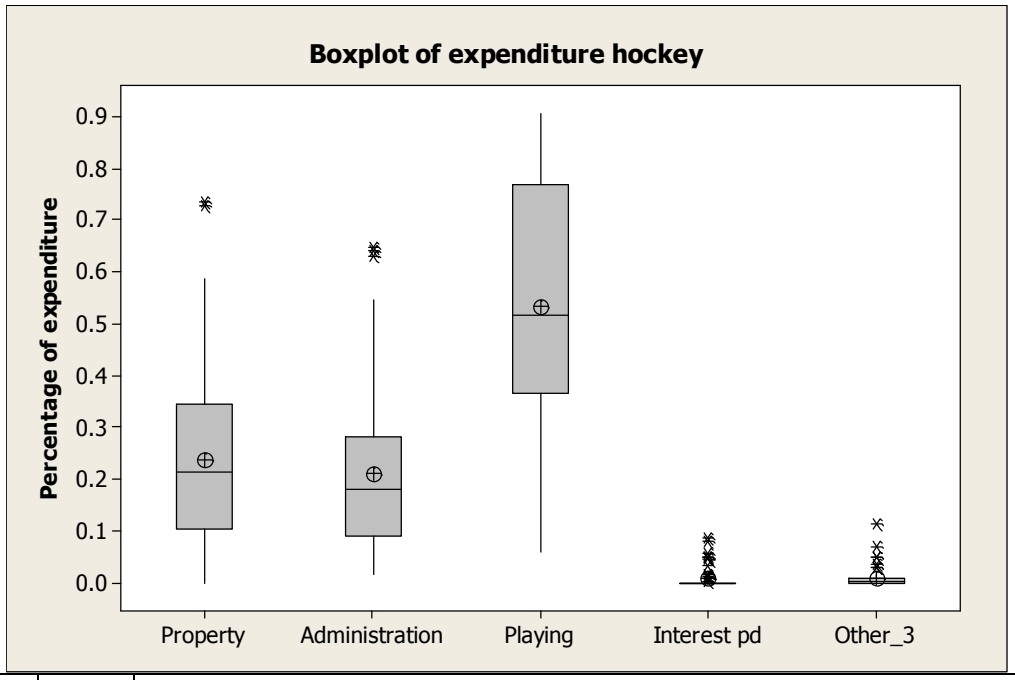
Appendix 3: Boxplots (box and whisker) for expenditure



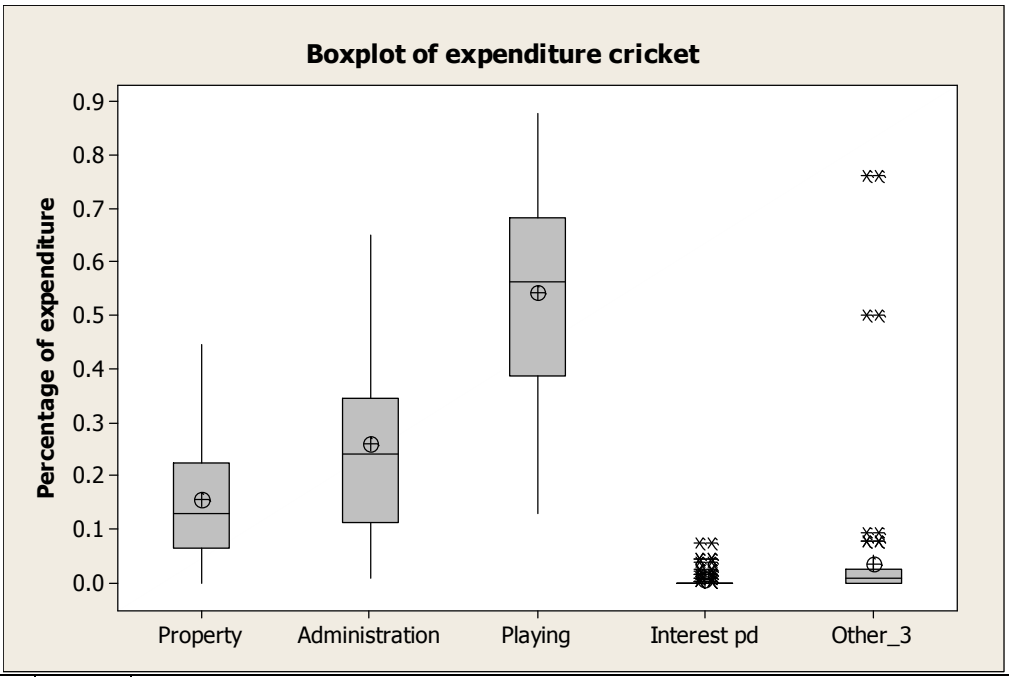
Category	Mean	Explanation
Property	22%	Property expenditure is normally distributed around the mean with two outliers
Administration	12%	Administration expenditure is at a low level. It is standard by has one outlier
Playing	34%	Rugby clubs' playing expenditure is normally distributed around the mean
Interest	1%	Typically interest is nil, however there are a number of outliers
Other	31%	'Other' expenditure is at a low level. The outliers are due to equipment purchases treated as expenses



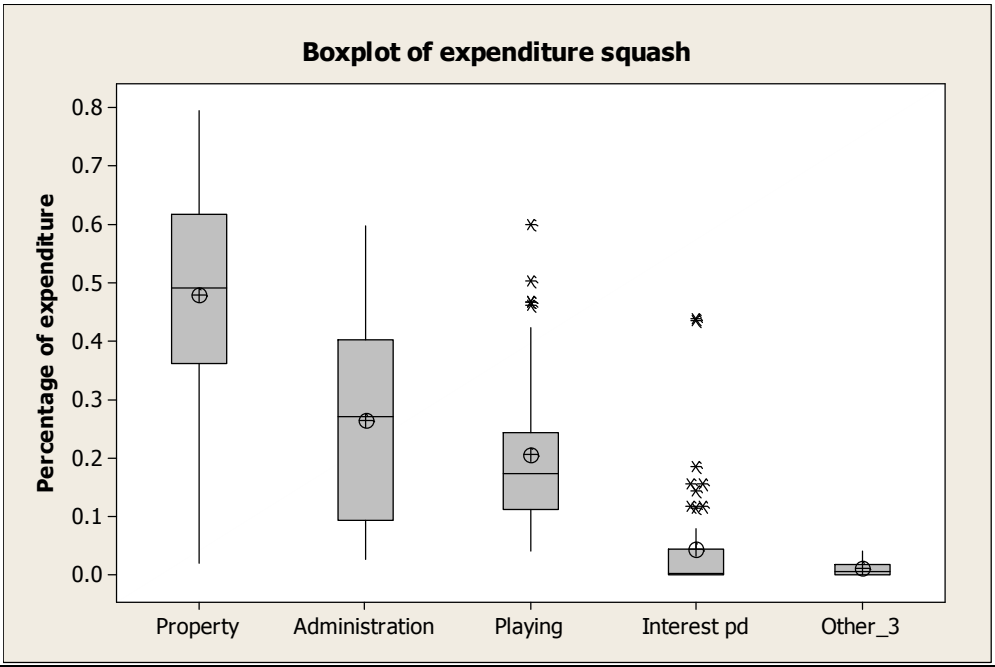
Category	Mean	Explanation
Property	22%	Property expenditure is normally distributed around the mean, but it is over a wide range
Administration	18%	Administration expenditure is normally distributed around the mean
Playing	29%	Netball clubs' playing expenditure is normally distributed around the mean
Interest	0%	Interest paid is generally nil
Other	31%	'Other' expenditure is at a low level. The outliers are due to equipment purchases treated as expenses



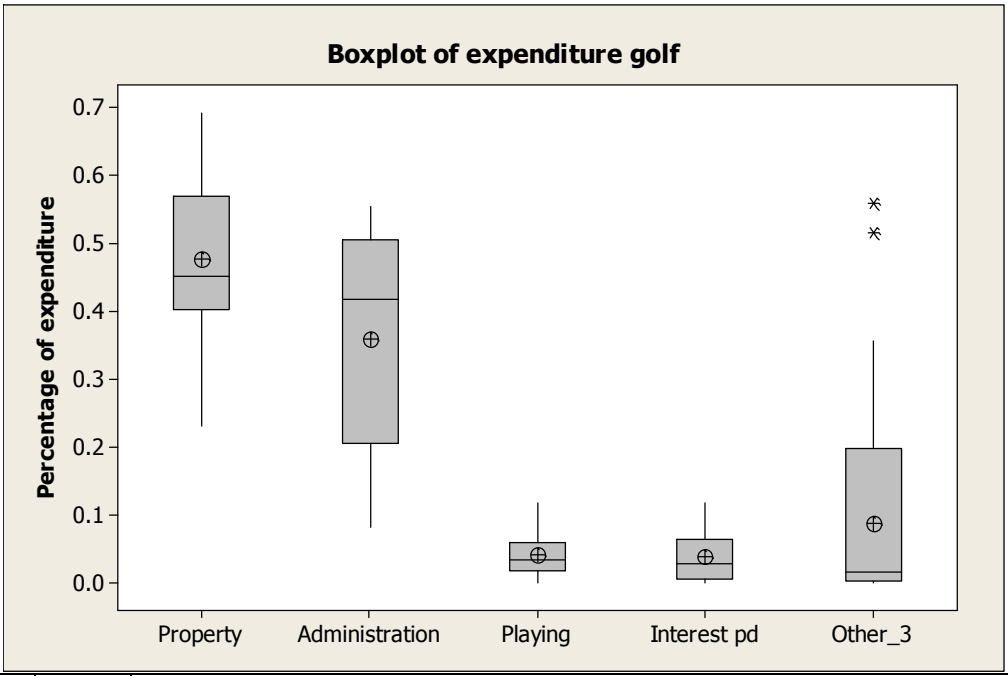
Category	Mean	Explanation
Property	21%	Property expenditure is normally distributed around the mean with one outlier
Administration	17%	Administration expenditure is normally distributed around the mean with two outliers
Playing	43%	Hockey clubs' playing expenditure is normally distributed around the mean
Interest	1%	Typically interest is nil, however there are a number of outliers
Other	18%	'Other' expenditure is at a low level. There are four outliers



Category	Mean	Explanation
Property	13%	Property expenditure is normally distributed around the mean with four outliers
Administration	13%	Administration expenditure is normally distributed but has a wide range
Playing	48%	Cricket associations and clubs' playing expenditure is normally distributed around the mean over a wide range
Interest	1%	Typically interest is nil, however there are a number of outliers (up to 16.5%)
Other	25%	'Other' expenditure varies widely around the mean. There is a number of outliers



Category	Mean	Explanation
Property	27%	Property expenditure is normally distributed around the mean over a wide range
Administration	24%	Administration expenditure is normally distributed around the mean also over a wide range
Playing	12%	Squash clubs' playing expenditure is normally distributed but three outliers extend the range
Interest	5%	Relatively high levels of interest are affected by the seven outliers and the high debt levels in squash clubs
Other	32%	'Other' expenditure is at a very low level



Category	Mean	Explanation
Property	52%	Property expenditure is slightly skewed
Administration	15%	Administration expenditure is also skewed towards the upper range
Playing	2%	Golf clubs' playing expenditure is low and the data is clustered
Interest	3%	Interest data is clustered around the mean
Other	28%	There are two outliers to data that otherwise has a standard distribution

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