**Budgeting Case Study**

**True life financial disaster**

From time to time, we all hear stories about football clubs that suddenly go bust owing hundreds of thousands of dollars to creditors. It seems ludicrous that this can happen. How can any management board or committee get themselves into so much trouble? Surely only wilful incompetence can create these financial disasters?

Surely it could not happen to your club, could it? Well here is a true story that might change your thinking.

In 2003, the management committee of a football club, which might be described as a 'grass roots' club , called a special general meeting at which they pleaded for assistance to help save the club.

Naturally, there was uproar among the members who had begun to hear bad news on the grapevine.

A new team of volunteers from within the club moved in and begun to make a closer examination of the financial affairs of the club. Various projections of income and expenditure were drawn up and the current liabilities scrutinized.

It was straight away discovered that the club had started the financial year with $70,000 of funds in the bank but had ended the year $30,000 in overdraft. Incredibly, the end of the club's financial year had passed 6 months earlier without any action being taken. It had just continued to further bleed funds. The club now had debts of around $120,000 including unpaid [taxes](http://www.leoisaac.com/fin/fin011.htm).

The new committee of volunteers calculated that, on present course and speed, the club's debts would reach $200,000 by the end of the next financial year.

The question is really "how can this happen"?

**Factors leading to financial problems**

In this particular case it was deemed that there were a number of key factors:

1. The financial reports produced for the committee were too complicated. This was largely due a lack of training in accounting on the part of the person who produced the reports. Imagine reading a Profit and Loss statement that was six pages long! That was indeed the situation.
2. The former committee, under whose tenure the problems occurred, had insufficient expertise in financial management. There were after all volunteers who simply cared about their football club.
3. As a result of the lack of expertise in financial management, **THERE HAD BEEN NO BUDGET FORMED.** In effect, the committee were "flying blind".
4. During this time some major financial decisions were made, despite the absence of any budget.

**Major Financial Decisions**

The three main decisions taken by the committee that principally caused the financial collapse were:

1. The employment of a Coaching Director (full-time salary plus car remuneration package)
2. The commencement of a building project to improve the clubhouse. The building works were substantially funded by government, but the club still had to put in its agreed share.
3. The ambition of the club to be promoted to the highest league. This ambition involved paying wages to players and coaching staff.

In reality, the club did not have the funding base to cope with these financial decisions. Probably the large sum of money in the bank at the start of the year ($70,000) provided a false sense of security. When the bank balance started to go into the red, the committee should have stopped then and there, but they let the situation carry on for a further six months.

**How the club survived**

At this moment the club could easily have filed for bankruptcy and gone out of business, but it escaped. The corrective action taken by the new committee comprised the following:

* Retrenchment of all six staff (bar staff, grounds staff and club manager). Two casual bar staff were hired back as the bar was an important source of revenue
* Hire of a management agent to replace the club manager saving about 50% of the salary
* Cessation of payments to all coaches and players, very unpopular move that one!
* The staging of a fundraising dinner which raised $10,000. The management agent made this happen.
* Arrangements were made with all creditors including the [Tax Office](http://www.leoisaac.com/fin/fin011.htm), this was greatly important
* The continuance of trading in the bar (and Poker Machines) by using the management agent's line of credit with liquor companies.
* The pursuit of the club's auditor who failed to act, and retrieving $4,000 in auditors fees
* Making arrangements with sacked employees about payment of their entitlements. The employees new the club had no money so the best way to get paid was to go along with the club's arrangement.
* The raising of sponsorship to the tune of $20,000

The club began to trade profitably more or less immediately the corrective action was taken. However it took 18 months to trade out of the disaster.

In reality, although the new voluntary committee rolled up their sleeves and worked very hard, the rescue could not have been achieved without the Management Agent who ensure continued supply of bar supplies.