

ECF Finances

This is briefing paper to explain the ECF finances and the rationale behind the budget proposals for the 2016/17 budget and onwards for the following two years. This should be read in conjunction with the budget papers presented for Council's consideration.

Results from 2014/15

The year ended 31st August 2015 was more successful financially than previously reported. The overall surplus is expected to be over £44,000. This is largely as a result of the vacancy for the Office Manager remaining unfilled until March of that year, under-spends on certain activities and a better than expected income from Membership and Game fees. The surplus has enabled the Board to meet its target of £100,000 in the first year of its strategic plan rather than within the anticipated three years.

Forecast for 2015/16

Financially 2015/16 will be a successful year for the ECF. A surplus of £7,200 is anticipated. This represents the budgeted surplus of £11,500 less £5,000 authorised by the Board to support the British Chess Championships (BCC) in 2016 with a few minor adjustments.

From the ECF's Strategy Statement (C22.7) which was approved by Council at last year's Finance Council meeting the development and financial targets included amongst other objectives:

- Development of the international teams and the creation of the ECF Academy
- To achieve a 5% to 10% surplus on its combined gross Membership and Game Fee income per annum over a three year cycle
- To increase the reserves to £100,000 which was a target articulated at Council in April 2015. In the longer term the Board proposes to maintain reserves at two-thirds of annual income as measured by gross Membership and Game Fee receipts.

The Board recognises the concerns that were expressed at last year's Finance Council meeting about future increases in subscriptions leading to increased reserves with no clear plans as to how those reserves were to be utilised. It is now proposing to revise its strategy, and while it will seek to maintain the £100k Reserves it will aim to develop chess in England with any surplus funds over this amount.

Retained Funds Available or Associated with the ECF

The figures given in this section are based on the position as at 31st August 2015, the date of the last set of full accounts which are available to members at the April Finance Council. There is no reason to believe that current figures will differ significantly from those given.

a) The British Chess Federation and the Permanent Invested Fund

The British Chess Federation is the original body for chess in England. When the ECF was created it was decided to leave the BCF in place as many of the past legacies had been bequeathed to the BCF, and there needed to be no doubt that the monies would remain with the BCF/ECF. The BCF is almost a mirror organisation of the ECF with a few differences. The directors of both boards are the same with one minor exception.

The BCF holds the Permanent Invested Fund (PIF) as its principal asset. The Fund is managed by three trustees appointed by the BCF; trustees can only be removed under special circumstances. The current period of the fund ends in May 2016 when it can be extended or terminated and funds returned to the direct control of the BCF or alternative arrangements may be implemented.

The PIF is split into two parts:

- i. Fund No1. This is the original fund of the legacies etc received by the BCF. Its market value at 31 August 2015 was £200,106 which includes unquoted shares in the Chess Centre Ltd. Disbursements of capital can only be made by the trustees on the authority of a resolution of Council. This fund is very much regarded as a final fall back reserve.
- ii. Fund No2. This is the fund bequeathed to the BCF by John Robinson. Its market value at 31 August 2015 was £121,599.

Both funds are managed to provide capital growth and produce between them a grant of £5,000 each year to the BCC.

b) The John Robinson Youth Chess Trust (JRYT)

The JRYT is a separate charitable trust established from a bequest by John Robinson. It is separate from the ECF and BCF and is managed by four trustees. The market value of its investments at 31 August 2015 was £575,163; it holds other assets in cash etc of £22,639. The trustees made grants of £21,250 in 2015/2016, of which £7,000 supported the BCC and £12,100 various aspects of junior activity organised by the ECF.

c) The Reserves of the ECF

The ECF held reserves of some £99,000 at the end of August 2015. These reserves consisted of:

- Retained funds from the Profit/Loss account:	£58,851
- Legacies fund	£36,878
- Alexander Prize Fund	£ 1,330
- General Fund inherited from the BCF	£ 2,082

These definitions of the funds held have been simplified in the balance sheet by combining the Retained P/L account and the General Fund from the BCF into one account,

2016/17 Budget

Background

The Board agreed its proposed 2016/17 budget proposals at its meeting on 31st March. It was agreed to present two alternative budgets to Finance Council. These are Option A and Option B.

Option A is the Board's approved, preferred option which expresses the Board's plans to develop chess with increasing resources to its International, Junior, BCC and Publicity activities with consequential increases in membership /game fees over the next three years. Option B is an alternative provided for

information which the Board does not recommend, which indicates the reduced level of activity which would result from maintenance of the £100,000 reserves with no membership / game fee increases

Option A.

This is the Board's approved option. Given that the target for Reserves of £100k will be achieved by the end of 2015/16, the Board seeks to expand the ECF's activities by investing more resources into International, Junior, Home, BCC and Publicity activities. The key elements in each of these areas are as follows: the directors involved will provide a presentation to the Finance Council of their detailed plans.

- International. The £15,000 increase in net expenditure in 2016/17 compared with the 2015/16 budget is accounted for by a planned drop in sponsorship income of £7,500 and an increase in expenditure of a similar amount. Income predicted for the European Team Championship from "cap in hand" approaches to individuals proved unrealistic for the 2015 event, and the International Director will seek commercial sponsorship before approaching individuals. The zero income number is extremely conservative as some funds always have been raised in the past. However, the Board is not happy to propose a budget where sources of income have not yet been identified, confirmed and secured. The increased expenditure will be on a mixture of senior chess (ensuring representation and offering some training to club players attending), ensuring that England is represented at all important individual events, improving preparation logistics and training for the Olympiad and European teams (with performance targets of improving on previous events and justifying seeding) and elite training (with a performance target of establishing a second English player rated consistently over 2,700). Net expenditure is projected to continue to increase in the later two years.
- Junior. The development of the ECF Academy is central to the plans of the Junior Directorate. This requires a long term plan: there is no point in funding being provided one year and withheld the next. Since the initial funding requests were considered by the 2015 Finance Council, the Academy has launched and the financial implications have become much clearer. The number of eligible juniors applying for places is much higher than expected, and the ECF wishes to support 30 new students each year

on the 3 year International programme and 10 on the Academy Plus programme. An important new development, not previously budgeted for, is the inclusion of an Elite tier, which is seen as essential for the upward movement of players within the Academy, and to provide a strong elite group which will move into adult chess in 3+ years. These factors lead to continuing increases in costs over the three budgeted years.

- Home. In his 2015 Election Address, the Director of Home Chess proposed a move to the production of a monthly grading list. Such a development required the development of League Management Software for leagues to use. Following a tender process, a supplier has been identified. The budget includes £2,000 p.a. depreciation charge for the software.
- BCC. Despite the support from the PIF and the JRT, it is increasingly difficult, particularly for events where there is not a free venue available, to produce a balanced budget while offering some conditions to titled players without increasing entry fees to a level that will discourage participation. The Board has approved additional expenditure of £5,000 for the 2016 event in Bournemouth (which falls within the 2015/16 financial year) to support the running of the event: the budget for 2016/17 envisages a similar contribution.
- Publicity. It is considered that the ECF has not taken advantage of a number of opportunities in the past to maximise publicity from its activities. With the recruitment of a Publicity Manager additional funds of c£10,000 p.a. have been allocated to capitalise on any publicity opportunities, and to enable the Publicity Manager to attend the BCC. It is envisaged that £4,000 will be spent on an initiative to engage the public by bringing a chess master to local pubs, £1,000 on a National Chess Day in support of MIND, £2,000 on road shows and £2,000 on net presence and the You Tube channel (more details in the budget workbook).

More details can be found in the supporting budget papers. The Board also seeks to maintain the Reserves at £100k and to breakeven on its operating budget over the 3 year cycle.

Membership and Game fees will need to be increased on average over the three years, in 2016/17 by 7%, 2017/18 by 12.5 % and in 2018/19 by 4%. The

2016/17 increases are not radically different from those which were indicated in the budget presentation to the 2015 Finance Council meeting. Details are given in the supporting working papers for the Option A budget.

The Board will be meeting shortly after the Finance Council takes place to discuss long term spending plans and reserves strategy. Ahead of this meeting, it would be possible to avoid the proposed membership increases for 2016/17 by requesting a one-off draw down from the Permanent Invested Fund of £12,000.

Option B

This is the Board's alternative budget without any Membership/Game fee increases over the next three years. As an illustration of the impact of this approach the effects will be:

- Extra Publicity expenditure will be eliminated
- Administration: Yearbook will be discontinued
- British Championship: additional £5,000 in 2016/17 will be eliminated
- Home: League Management Software will be scrapped
- International: International tournaments and two years worth of international matches dropped
- Junior: Elite Tier of the Academy dropped; Additional Academy funding will be reduced

This option will result in a much reduced level of ECF promoted chess activity, and is not recommended by the Board.

The budget also included indicative budgets for the following two years for Council's information and consideration, though Council will only be requested to approve the 2016/17 budget and to provide an indication of its intention to approve the budgets for the following two years, given that much of what the Board is proposing forms part of a longer term strategy to develop English Chess for the future. The budget for the Olympiad teams for 2016/17 had already been approved by Council in April 2015.

Overall Financial Position

Membership fees

In order to meet the additional expenditure over the following three years and maintain the Reserves at £100k the Board is recommending that Membership and Game fees are increased in each year. The details of these are in the Working Schedule section of the budget spreadsheet.

Overall the Board will be able to develop the activities of the Federation and maintain a robust financial position.

The Permanent Invested Fund and The Chess Trust (Charity)

The Permanent Invested Fund (PIF) has been operating since 1929 and is the long term reserve fund of the ECF for the support of chess. The fund is in two parts:

- i. The original reserves established and grown over many years
- ii. A portion of the John Robinson bequest

The fund was overall valued at £291,000 at 23rd November 2015. The valuation varies as it is invested in the stock market. Its main contribution to chess in recent years is to provide £5,000 of support to the BCC each year.

The Chess Trust has now been established and decisions need to be made on how this vehicle can best be funded. Funds can be obtained from donations, legacies and investment income. The advantage of using the Chess Trust is the tax relief benefits that can be gained. The Chess Trust currently has five trustees, three of whom are also the three PIF trustees and two ex-officio trustees (Chief Executive and Finance Director of the ECF).

The Chess Trust has a very wide brief for the chess activities that it can support; in fact, all except supporting professional events and professional players directly. It is proposed that a proportion of the funds held within the Permanent Invested Fund are transferred to the Chess Trust: a specific proposal will be brought to the 2016 AGM.

In the future the Chess Trust should be the longer term investment vehicle for supporting chess within England with the ECF providing the year on year

operational activities. The Trust has the capacity to fund activities that are not within the financial capabilities of the ECF. Funds will be sought from donations, legacies and investments as now with the advantage of tax relief. It is hoped that a charitable vehicle will be more attractive to potential donors and those leaving legacies. The ECF will also be able to donate funds to the charity from its operating surplus each year for longer term investment; this will avoid corporation tax on surpluses, but is only of use if the ECF does not expect to spend them in the year they arise. Applications will be made to the Trust for the support of certain chess activities that are within the remit of the charity.

There are a few points to note under this arrangement:

- i. The Funds in the Trust are under the control of the trustees.
- ii. The funds can only be returned to another charity (the ECF is not a charity at the moment).
- iii. Anyone can apply to the Trust for funding, not just the ECF.

The PIF should be continued as there are some individuals who may wish to donate in order to support the professional aspects of the game, which the charity would not be able to do directly. It would be regrettable if these donations were to be lost.

Comment

The overall medium term funding of the ECF has now been greatly improved over the past couple of years. The ECF reserves have been enhanced to meet Council's initial strategic target; the PIF has continued to provide support for the BCC and has a healthy balance.

The Board now proposes to continue to maintain a healthy financial position and to generate funds for the future development of chess in England. The proposals below are intended to support this move.

Proposals

Change the ECF's long term financial strategy as approved by Finance Council in April 2015 to one where the Reserves are maintained at £100k.

- i. Council is requested to approve the Option A budget and indicate its intention to agree to the following two years budgets.
- ii. Council will be requested to approve the new 2016/17 Membership and Game fees to ensure that the reserves are maintained at £100k (or failing that authorise a drawdown of the Permanent Invested Fund to achieve the same outcome) and to indicate their intention to approve the following two years' recommendations.
- iii. The Permanent Invested Fund Trust Deed is renewed for a further 21 years.
- iv. The Board is minded to recommend that a proportion of the funds of the PIF are transferred to The Chess Trust for reasons of tax efficiency. Proposals will be submitted to the Annual General Meeting of the BCF in October 2016.

David Eustace

Finance Director

5 April 2016