

Finance - Revision to the 2016/17 Budget and the Five Year Financial Plan

This paper covers the following:

- The updated budget for 2016/17 (and the following two years estimates) after Finance Council's approval in April 2016.
- The Five Year Financial Plan following discussions at previous Board meetings and the Strategy meeting

Council will be asked to consider several motions supporting this paper and these are included in the end of the paper and in the meeting's agenda.

Information to support this paper is contained within the following two attachments:

- Updated Budget for 2016/17 (Version C)
- Spreadsheet for the Five Year Financial Plan

Updated Budget for 2016/17 (Version C)

Version C of the 2016/17 budget is a combination of the budget papers (Versions A and B) presented to Council in April 2016 with the following adjustments to reflect the decisions taken at the meeting.

- Income as shown in Version B with no increases in Membership nor Game Fee
- Expenditure from Version A but with a slight reduction in membership costs that are proportionate to the amount of membership income.

The resulting overall loss for 2016/17 is budgeted at £17,376. As approved by Council the loss will be charged against the Reserves, reducing these from £106,482 to £89,106 by 31st August 2017. These are all best estimate figures as the accounts for 2015/16 have yet to be finalised: it has been assumed for the purpose of this exercise that the outcome will be in line with the forecast provided in April 2016. The result per the final audited accounts for 2014/15 was somewhat better than the draft presented to Council in April.

With the forthcoming retirement of the Financial Controller, and the absence of a volunteer to take over the functions currently performed on a voluntary basis, the ECF will need to pay to ensure that the accounting records are adequately maintained. The cost of the bookkeeping function is estimated at £10,000 PA.

Resolution: Council is invited to approve Version C of the budget with the addition of £10,000 expenditure for book keeping services. The resulting budget appears in column J of the 5 year plan, which is otherwise the same as version C of the budget save that publicity expenditure has been unbundled from administration expenditure.

Five Year Financial Plan

The Finance Council in April 2016 approved the Strategic Plan as presented by the Board. Further work has been undertaken to translate this into a financial projection for the following five years together with proposals for funding.

The Five Year Financial Plan is constructed with the following assumptions:

- That the expenditure budgets for 2016/17, 2017/18 and 2018/19 are as presented to Council in April save for the additional bookkeeping costs.
- An allowance has been made for Membership and Game Fee increases over 5 year period. An increase of £1 for Bronze membership with proportionate increases to other categories in the second year of the plan, 2017/18. A further increase of £1 for Bronze membership with proportionate increases to other categories in the fourth year of the plan, 2019/20. Game fee will be similarly increased. It has been assumed that the first increase will positively impact the plan by £48k and the second by £24k over the five year period
- Additional expenditure has been added for the bookkeeping function at an estimated £10,000 pa.
- The Reserves target has been set at £100k over the five year period
- Any resulting annual operating losses will be funded by drawing down amounts from the John Robinson Youth Trust and the Permanent Invested Fund. The amounts have been calculated in principle as follows:
 - that the JRYT funds the net expenditure in the Junior Directorate
 - that the Permanent Invested Fund covers the balance necessary to achieve the £100k reserves target.

Movements in the JRYT and the PIF are also illustrated with the JRYT moving from £586k to £444k over the five year period and PIF1 contributing £63k to the ECF over the 5 year period. This is all subject to stock market movements without the impact of the increases from membership and game fee increases. The proposed £72k improvement in income from membership and Game Fee rate increases will reduce the reductions in the trust funds by that amount over the five year period.

The Trustees will need to take into account the wishes expressed by John Robinson in his will that his bequest funds the British Chess Championship with £10,000 per annum. Currently, the JRYT and the PIF Trustees have provided £5,000 from each trust. The PIF Trustees have been able to achieve this from the whole of the PIF, whereas only the No 2 PIF fund is from John Robinson's bequest. Both sets of Trustees will need to consider how they can jointly meet John Robinson's wishes and meet the request from Council if approved.

Membership Fees and Game Fee

Membership and Game Fee increases have been calculated as explained below.

The Version A of the budget presented to the April Finance Council provided an indication of the likely income generated from increases in Membership and Game fees. A £1 increase in

Bronze membership and proportionate increases in the higher levels of fees (Silver: £1, Gold: £2, Platinum £4) will produce about £10,000 pa and a 50p increase in Game fee will produce about £2,000 pa.

Additionally, it should be noted that continuation of Game Fee was originally envisaged at the time of the establishment of the Membership Scheme to be an interim measure.

Currently, there are 450 events that submit payments that have to be reviewed, often resulting in changes to the original submissions of Game Fee liabilities. This is an onerous task which is probably uneconomic. The Director of Membership is working on proposals to introduce a scheme which will terminate the Game Fee levy.

Reserves

The Board has agreed to continue the previous strategy of maintaining the reserves at £100k over the planning cycle. Reserves are an essential part financing an on-going operation, particularly a company with some risks and ambitions. Reserves enable Boards to cover potential downsides in their operations and to undertake new projects (some of which may have risks) with some confidence that the organisation will not be pushed into a too difficult day-to-day financial position.

The amount of reserves is always a matter of judgement. The ECF Board has agreed a reserve of £100k as appropriate. In a couple of years the income of the ECF will grow to about £200k from its membership and game fee schemes. £100k will represent about six months income which covers the period between Council meetings. Expenditure is also increasing with the number of new initiatives being undertaken; excluding the junior programmes will be in the order of £300k. Although most of this is covered by income streams and drawdowns from trust funds there is always the possibility of future events interrupting the planned flow of finances eg a collapse in the stock markets when investment sales might be imprudent. Also, initiatives do go wrong. Reserves enable the Board to cover those risks. £100k does seem an appropriate sum given the ECF's future strategic direction.

Note: Council is invited to consider the five year plan, and provide guidance to the Board in respect of the proposals that it should bring to future Finance Council meetings in respect of

- a) Increases in Membership and Game fees
- b) Funding of the ECF from the funds in the Permanent Invested fund and the John Robinson Youth Chess Trust
- c) Transfers from the Permanent Invested Fund to the Chess Trust

The Chess Trust

The Chess Trust was established as the charitable arm for chess in England, supported by the ECF. It was always envisaged that the Permanent Invested Fund would be transferred to the

Chess Trust. This has some taxation and investment advantages as well as providing, hopefully, a more attractive vehicle for chess-minded donors to give gifts and bequests.

It was always envisaged that the Permanent Invested Fund would be transferred to the Chess Trust to some degree. The PIF is currently a Trust and as such has to pay corporation tax and capital gains tax. The managers of the fund are reluctant to optimise the investments held within the fund as capital gains tax is liable on disposals.

The Chess Centre fund is managed by three Directors. This fund has potential capital gains tax liabilities which decided a previous Board from liquidating the investment a few years ago. A transfer to the Chess Trust would allow the fund to be in a tax light environment.

It is proposed that the Council are requested to advise the PIF Trustees and the Directors of the Chess Centre to make the following transfers from the funds to the Trust Chess in such a way as to minimise potential taxation liabilities:

- The value of investments currently held in the No 2 PIF fund which represent the value of the John Robinson bequest – approximately £124k.
- Transfers the investments of the Chess Centre – approximately £36k.

The PIF will retain approximately £100k at the end of the 5 year period with which it may continue to fund the ECF over the coming years.

Council Approvals

13.1 Council is invited to consider, and if thought fit, approve the proposed Version C of the budget for 2016/17 with the additional £10,000 expenditure on bookkeeping services.

13.2 Council is invited to consider the five year plan, and provide guidance to the Board in respect of the proposals that it should bring to future Finance Council meetings in respect of

- a) Increases in Membership and Game fees
- b) Funding of the ECF from the funds in the Permanent Invested fund and the John Robinson Youth Chess Trust
- c) Transfers from the Permanent Invested Fund to the Chess Trust