

**Finance Council July 2020: Finance Paper**The Scene

As everyone will be aware the past four months have been a difficult time for the chess community as a consequence of the coronavirus pandemic. Over the board chess has virtually disappeared.

The ECF's Board and officials have faced a challenging time and in its planning considerations has had to not only consider the consequences of the potential fall in income but also how to develop alternatives for its chess playing members and ensure that 'business as usual' services levels are maintained as far as possible. Much effort has gone into creating online chess events to maintain interest and to ensure that volunteers have as far as possible picked up the slack while Office staff have been on furlough. However, the Board is concerned that in the medium term there may be a substantial fall in normal activity and a consequent fall in income which would have serious consequences for the ECF's infrastructure.

The ECF operates as an organisation supporting those who have an interest in chess, providing events, information, training, and all manner of opportunities to participate. There are costs to supporting this kind of organisation - often fixed costs which are difficult to decrease without a clear reduction in the quality of the services provided. The organisation is very dependent not only on voluntary effort, but also a core professional office for providing all these activities. If income falls short of covering the core services, there will have to be cuts that will impact the ECF's ability to operate effectively in future years. If Office staff are let go, the loss of knowledge and expertise will be a serious problem. The Board's balancing act has considered a potential loss of income, the need to reduce operating costs and a consequential reduction in its support for some of its normal activities. The details are covered below.

Therefore, the Board would like to request Council members to discuss the various issues with their constituencies and to encourage all members to renew their memberships for 2020/21 as early as possible to provide assurance that the ECF will be able to continue in its current form.

The budget proposals covered in this paper attempt to paint a picture – one of many possible pictures of what may happen. There are myriad variations of what the future may look like, and it is not until we begin to see the flow of membership renewals during the summer period that we will have some confidence that the budget proposals are on the right track or, maybe, better or worse than anticipated. It is highly probable that this budget will have to be revised in a few months' time to reflect the real situation.

Contents

This paper covers the following:

- The results for the year ending 31<sup>st</sup> August 2019, last year, 2018/19.
- An update on the current year 2019/20.
- The budget proposals for the forthcoming year, 2020/21, from 1st September

The budget spreadsheet contains information for all three items listed above. In addition, the draft annual accounts for the year ending 31<sup>st</sup> August 2019 are included for Council members' information and adoption.

I have also provided the draft annual accounts for the British Chess Federation and Chess Centre Ltd for information.

Results for 2018/19

The overall result for the year was a loss of £64.9k compared to a planned loss of £50.4k. Causes of the increased loss were:

- As regards the British Championship, entry fees proved insufficient to cover all costs. The biggest outlays were prizes, venue hire and organiser/control team costs, and this is an area we may need to look at in 2021 assuming over the board chess has resumed by then. Support gratefully received from the Chess Trust and the John Robinson Youth Chess Trust together with a limited amount of funding from the ECF was sufficient to cover the various second order costs required to make the event a more attractive proposition, for example junior coaching, on-site commentary, and a small amount of support to allow a handful of our leading players to compete (which in itself also provided further spin-off benefits such as attracting more online viewers and increasing interest in the on-site commentary).
- Additional costs were incurred in the Junior directorate, mainly because of dealing with some of the costs of tidying up the international and Academy activities that were previously operated by the ECF. The current Director has now instituted new arrangements for operating overseas events and for the Academy which, by outsourcing the management of and thereby effectively de-risking these events, should avoid future unplanned costs for the ECF.
- For the Home directorate the costs for the UK Open Blitz were higher than planned. However, this represented a sound investment as it was a very successful event in terms of participation and provides a good model for future events of this type.

Otherwise, the other costs were close to those planned.

#### Draft Financial Accounts for the Year Ended 31<sup>st</sup> August 2019

The draft financial accounts for the ECF as agreed by the Board are laid before Council for information and adoption.

Additionally, the draft accounts for the British Chess Federation and Chess Centre Ltd as agreed by their respective Boards are provided for information. Both will be circulated to BCF Council Members.

#### Current Year 2019/20

For 2019/20 there was a planned loss of £12.5k.

The key column to examine is the forecast for 2019/20. The forecast is for a breakeven position. Please note, however, that we will receive about £20.5k in government support grants (Job Retention Scheme for furloughed employees and the grant to small businesses). Without this grant a greater loss than planned would be incurred. The main issue for this year is the shortfall in anticipated income from membership fees amounting to some £26k (please refer to the Membership page of the spreadsheet).

Details of the forecast of income and expenditure can be found in the forecast column for 2019/20.

#### Budget for 2020/21

The budget for 2020/21 is, as I indicated above, problematic.

The situation with the government's lockdown policy and the probable reluctance of the chess playing community to quickly return to playing over the board chess has led the Board to make the key assumption that the number of members renewing for 2020/21 will fall. The Director of Membership has calculated a couple of scenarios upon which I have based the proposed budget. His paper is included with the attachments for members' information.

After lengthy discussions with the Director of Membership and with the Board as a whole I have used the projected number of members with a projected membership income of £161.2k as the basis for the budget (as opposed to a planned income of £241k under the previous plan). This includes some gains in supporter memberships which are the result of the increase in online activities over recent months. The level of membership income is based on several assumptions to assess the fall in members renewing. The projected income is based on the current membership fee rates and removes the anticipated growth of 500 for next year. The original plan agreed in the "Challenges for English Chess" paper was to increase the rates for the year September to August 2020/21, but these proposals have now been deferred.

The Board has agreed several changes to support the proposed budget including the following:

- Projected fall in income from a lower number of members renewing; (See note below for the estimated fall in membership numbers).
- Projected fall in income from game fees;
- Increase in supporters membership fee to £10;
- Increase in supporter fee income from online participation;
- Staff reduced to two in the Office;
- Move to a smaller physical office and/or home working;
- Some other reductions in administrative costs:
  - i. Overall reduction in the bookkeeping, company secretarial and audit costs;
  - ii. Reduction in Council and Board expenses – more video/tele- conferencing;
  - iii. Hard copy yearbook production to 100;
  - iv. Reduction in FIDE costs from lower activity and not paying for titles awarded;
  - v. Reduction in grading administration costs in the longer term as the new monthly grading system automates some of the work involved.
  
- Government support grants will effectively cease after June (July, August, and September are usually the busiest months in the year for the Office because of membership renewals).
  
- Chess Trust grants – For the Administration, International and Women's directorate budgets I have included the various grants available for the year above the lines for income and expenditure. The Chess Trust funds movements are noted below in the spreadsheets for each directorate.

The overall impact of the above changes has increased the planned surplus before allocation to spending directorates (International, Women's, Home and Junior) for the year to £24.8k.

£7.3k is to be retained as surplus for the year to be added to reserves. Some balance sheet repair work needs to be started. This means improving the reserves position towards our strategic target for reserves of £100k. The balance sheet is in a worse state than in 2012, particularly if inflation is considered. This proposed surplus also provides a small margin of safety in the event that income falls below budget or expenditure is incurred above budget during the year.

The balance of £17,500 has been apportioned across the four spending directorates in proportion to what would have been their normal expenditure rates (based on the proposed budget in normal times). The result is an additional allocation as follows:

International - £13,900

Women's - £ 2,500

Home - £ 600

Junior - £ 500  
Total - £17,500

Even allowing for the above, additional funding may need to be sought from supplementary sources, probably the Permanent Invested Fund, as follows:

International - £14,100  
Women's - £ 2,500  
Total - £16,600

This brings the expenditure budgets in International and Women's to 50% of the respective budgets in normal times.

After allowing for already confirmed Chess Trust contributions the position can be summarised as follows:

- International to £28,000 (normal budget from ECF £56,000) plus the Chess Trust contribution of £6,123 = Total of £34,123
- Women's to £5,000 (normal budget from ECF £10,000) plus the Chess Trust contribution of £7,998 = Total of £12,998

#### 2020/21 Membership Fee Rates

The Board proposes that the current membership and game fee rates are maintained into 2020/21. Existing rates can be found on the Membership spreadsheet.

#### Membership Models Used

The Director of Membership developed three scenarios for membership renewals into 2020/:

- Normal forecast: based on the original planned budgets which gave a membership income of £248k;
- Realistic forecast: anticipating a fall in renewals (this is the model used for the proposed budget with a proposed income of £161.2k);
- Worst-case scenario: a collapse in renewals rate giving a membership income of approximately £50k.

For simplicity only the "realistic" option has been used for this budget.

#### Actions for Council

1. Adopt the draft financial accounts for the year ended 31<sup>st</sup> August 2019;
2. Agree the budget proposals for the year commencing 1<sup>st</sup> September 2020;
3. Agree that the Board may revise the budget in the light of circumstances as they develop during the summer period and beyond;
4. Agree that membership and game fee rates remain unchanged for 2020/21.

It would be greatly appreciated if any detailed questions on this paper and the attached documents could be raised with me in advance of the Council meeting please in order that matters can be expedited on the day itself.

David Eustace

Finance Director

22<sup>nd</sup> June 2020

Note

Estimated change in membership from 2019/20 to 2020/2021

| <u>Category</u>          | <u>2019/2020</u>    | <u>2020/21</u>     | <u>Fall in members</u> | <u>% Fall</u>       |
|--------------------------|---------------------|--------------------|------------------------|---------------------|
| <u>Jnr Bronze</u>        | <u>41</u>           | <u>31</u>          | <u>10</u>              | <u>24.39</u>        |
| <u>Jnr Silver (Free)</u> | <u>1383</u>         | <u>1383</u>        | <u>0</u>               |                     |
| <u>Jnr Silver (paid)</u> | <u>1530</u>         | <u>1530</u>        | <u>0</u>               |                     |
| <u>Jnr Gold</u>          | <u>784</u>          | <u>784</u>         | <u>0</u>               |                     |
| <u>Jnr Platinum</u>      | <u>10</u>           | <u>10</u>          | <u>0</u>               |                     |
| <u>Bronze</u>            | <u>4112</u>         | <u>2304</u>        | <u>1808</u>            | <u>43.97</u>        |
| <u>Silver</u>            | <u>2079</u>         | <u>1654</u>        | <u>425</u>             | <u>20.44</u>        |
| <u>Gold</u>              | <u>2110</u>         | <u>1839</u>        | <u>271</u>             | <u>12.84</u>        |
| <u>Platinum</u>          | <u>82</u>           | <u>82</u>          | <u>0</u>               |                     |
| <u>Lifetime</u>          | <u>33</u>           | <u>33</u>          | <u>0</u>               |                     |
| <u>Supporters</u>        | <u>250</u>          | <u>400</u>         | <u>(150)</u>           | <u>(60.00)</u>      |
| <b><u>Total</u></b>      | <b><u>12414</u></b> | <b><u>9900</u></b> | <b><u>2365</u></b>     | <b><u>19.05</u></b> |

Excluding Jnr Silver (Free), Lifetime and Supporters - the fall will be 2365 out of 10,748 which equals a % fall of 22.00%.

The fall in income included in the budget also takes into account the decision to exclude the 500 growth target and the planned proposal to increase membership fees for 2020/21.

Commentary on calculation from the Director of Membership which explains the attached spreadsheets on membership renewal numbers:

*"The likely fall in membership is estimated by making three assumptions:*

- 1. That owing to being in a high-risk category all members over 70 cease to play over-the-board chess and fail to renew. This is an excessive assumption, but will be counterbalanced by the proportion of members under 70 who take the same action through regarding themselves as high-risk due to a medical condition.*
- 2. That in addition to the above there will be a 25% fall in bronze memberships owing to a reduction in club chess through loss of venues.*
- 3. Additional supporters will be gained as a result of online chess activity. This is a deliberately conservative estimate. It assumed that while a significant number of existing members will re-join as supporters to play online the majority of these will upgrade once over-the-board play is resumed."*

Attachments:

- Finance Report
- Budget and management accounts spreadsheet
- Draft accounts for the ECF for the year ending 31<sup>st</sup> August 2019
- Draft accounts for the BCF for the year ending 31<sup>st</sup> August 2019
- Draft accounts for Chess Centre Ltd for the year ending 31<sup>st</sup> August 2019
- Director of Membership's scenarios on membership renewals