

Finance Director's Report – April 2024

Introduction

There is a lot of positive momentum at the moment in English Chess with record membership numbers, international successes at open, senior and junior levels and an encouraging growth of high level events. We have also been presented a very welcome opportunity with the government grant. At the same time the board has an obligation to ensure these opportunities are not squandered and that we continue to build on the momentum.

On a personal level I was appointed as Finance Director on 26/10/23 and this is my first report to Council. It has been a very interesting experience thus far working for the ECF and a surprise as to how much activity is happening at all levels in the organisation. I'd like to thank all of my colleagues and the many volunteers involved in different aspects of English chess for the valuable work they continue to do.

There is a lot of information to convey and hopefully the report strikes a balance between being thorough and at the same time understandable.

The report contains:

- Executive summary
- Confirmation of the 2023 audited accounts and a comparison to the 2023 budget
- Note on balance sheet and cash position
- Impact of the DCMS grant on the 2024 reforecast and 2025 budget
- Details on membership price increase proposal from 1st July 2024
- 2025 Budget
- Three-year forecast

Executive Summary

- The 2023 accounts have been approved by auditors - £7k loss versus reforecast profit of £17k (original budget £19k profit)
- Healthy cash balance (£220k) and no concerns about financial position
- The first DCMS claim has been submitted for £200,000. Set to result in £140,000 gain as due to timing the majority of items had already been incurred as part of core operational expenditure
- Subsequent claims (totaling £300,000) to be new (non-core) expenditure across financial years ending 2024 and 2025
- The board proposes to invest surplus reserves (i.e. reserves above £50k) into strategic grassroots initiatives. Mechanism to evaluate grants to be confirmed and will involve regional coordinators (see Grassroots paper)
- 2024 reforecast is for a £26k operating loss versus £28k loss budgeted. £140k gain from DCMS funding offset by £140k grassroots investment
- Proposed £2 increase to all membership categories from 01/07/24. This is in addition to the merger of silver and gold categories and the previously agreed merged rates
- Increases in pay to play and game fees proportional to membership rate increases

- The increased rates set to generate an additional £22k net revenue from 2026 which allows us to breakeven once DCMS grants expire
- For the 2025 budget we are forecasting a breakeven position maintaining reserves just above the £50k minimum reserve level
- Paid member numbers forecast to grow 10% in 2024 and slow to annual 2% growth thereafter
- Forecasted investment in home activities (£48k) significantly higher than previous budgets due to wider portfolio of events and inflationary pressures. The board views this investment as good value for money

2023 Result v Budget

Our 2023 annual accounts have been audited and approved by our auditors, Watson Associates. They are satisfied that the accounts give a true and fair view of the companies affairs and the ECF is a going concern.

Our final result was a £7k loss vs a £19k budgeted profit (£17k reforecast profit) which is an adverse variance of £26k to budget. Our year-end reserves are £77k (higher than our minimum £50k level).

Whilst our membership revenue was ahead of budget our investment in core services (such as rating systems, home events and chess moves) was higher. We are also experiencing natural inflationary increases in our fixed costs.

Variances by department:

- Membership (+£32k). Higher revenues from membership and game fee/P2P. Somewhat offset by higher software and transactional costs
- Home (-£38k). Combination of new events (Cambridge) and higher investment (conditions, venues, organisers) across a range of existing events including British Championships, English Championships, Senior Championships, the UK Blitz and the Grand Prix.
- Junior (+7k). Mainly accounting adjustments
- International (-7k). Mostly as we had 2 Senior European championships in our financial year and this wasn't fully provided for in the budget
- Womens'' (=)
- Admin(-£21k). Mostly extra payroll and contractor costs, including for Chess Moves.

Balance Sheet year ended 2023

Our cash balance at the year-end was £220k, slightly up on year end 2022 balance of £218k. I assess the cash position and positive cash flow cycle to be very comfortable at this time enabling us to absorb potential short term shocks.

Whilst this paper is not an accounting treatise I felt it would be useful to clarify a couple of accounting policies that impact the figures.

Firstly, membership income is spread over the period it relates to – so if a member renews on 1st January then two thirds of that payment will be treated as revenue in the year and one third will sit on the balance sheet as a creditor (deferred income). Note 8 in the accounts includes £122k 'subscriptions in advance'.

This largely explains why our cash balance (£220k) is significantly higher than our reserves (£77k). Whilst we use the technical reserves figure (£77k) as the basis for our reserves minimum target of £50k, in practice we do have a considerably greater cash buffer as it is exceptionally unlikely for all members to cancel their membership and request a refund (cancellations/refunds in general are very rare).

Secondly, receipts and payments are matched to the period that an event takes place, rather than when the money changed hands. These values are included in the 'other debtors' and 'other creditors' lines in notes 7 and 8.

Impact of government funding in the re-forecast and budget

The Department for Digital, Culture, Media & Sport are providing £500,000 of funding to the ECF to be paid as follows:

- £200,000 for events occurring by 31/03/2024 and a further
- £300,000 for events occurring in the period 01/04/2024 to 31/03/2025

There are strict requirements on how this funding can be spent and the timescales in which it can be spent. We have submitted a claim for the first tranche of £200,000 (details given in the International Director's DCMS update). We are expecting funds to arrive in two instalments in April and May. This claim included approximately £60,000 of new spend and £140,000 on events which had already occurred. This was agreed with the DCMS on the basis of the very short timeframe between the contract being signed and the end of the 2024 tax year.

The £200,000 payment will generate a surplus of £140,000 in the ECF's general funds. The board proposes that this surplus is redeployed from the ECF general fund to 'strategic grassroots initiatives' (see later section). The board intend to engage with regional coordinators to ensure these funds are invested effectively.

The International Director has prepared a draft budget for how the remaining £300,000 is to be spent (details in the International Director's DCMS report). Approximately £125,000 of this is forecast to be spent in the year ending 31/08/24 and the remaining balance of £175,000 spent in the year ending 31/08/25.

The Board views this funding as a welcome boost enabling the ECF to invest in important areas in 2024 and 2025. However there is no guarantee the funding will be repeated and therefore it is vital that the Federation's core expenditure can be financed from existing sources. Future year forecasts assume that there will be no further grants (though the board will of course be working to enable further grants).

How DCMS spend is presented in the 2024 re-forecast and 2025 budget

Any spend which is considered incremental to the core operations (i.e. spend which is likely to be discontinued if the DCMS funding is not renewed for 2026) is shown separately from core spend. This is to ensure consistency and so that the ECF's finances can be viewed independently from the grant which we are viewing as a one-off. For the avoidance of doubt, some of our home and international events in 2024 and 2025 may be financed through general funds (core expenditure) and DCMS funds.

Strategic grassroots investments

The board have targeted maintaining reserves of at least £50,000. If a surplus exists in excess of this buffer then the board is proposing that a proportion of these funds be redeployed to 'strategic grassroots initiatives'. Examples of the types of initiatives that may be included in this will be discussed in the "Grassroots" paper.

The board intend to establish a mechanism to receive and evaluate grant requests and will engage with regional coordinators to ensure this is done in an effective manner.

The £140,000 surplus from the initial tranche of DCMS funding is set to be allocated to this fund as are small surpluses in the 2026 and 2027 forecasts. The timing of the expenditure in the budget is an estimate at this stage as we have not started the process of evaluating grants. The budgeted figures should not be seen as a commitment to invest these amounts and precise amounts and timings will be impacted by financial performance.

2024 Reforecast

Following a reforecasting exercise updated in March we estimate our likely operational result for 2024 to be a £26k loss versus a budgeted loss of £28k with forecast end of year reserves standing at £51k.

Variances to budget by department:

- Membership (+£1k)
- Home (-14k)
- Junior (+1k)
- International (+1k)
- Womens'' (=)
- Admin (+14k)

Whilst there is a home variance the overall home spend is tracking very similarly to 2023 actuals and as confirmed in the '*2023 Actuals vs Budget*' section the board believes this level of investment represents good value for money reflecting the breadth and quality of events being organised by the ECF.

The admin underspend is largely due to very prudent (i.e. high) estimates of some costs in the budget.

As mentioned in a previous section the impact of the DCMS grant is forecast to create a £140k gain in the 2024 accounts. This is offset by £140k of strategic grassroots initiatives (though the timing of this is uncertain and in practice could be spent in future years).

Membership – discontinuance of silver membership and price increases

Membership pricing has been held at the same levels since 2019. In that time the UK RPI index has increased from 291 to 378 (30%) and the ECF's costs have likewise increased.

Effective from 1st July 2024, in addition to merging the silver and gold membership categories the board is proposing a price increase of £2 for each membership category.

Categories	Current price	Following merger of silver/gold	After Price Increase
	£	£	£
Bronze	18	18	20
Silver (discontinued)	27	N/A	N/A
Gold	39	N/A	N/A
Platinum	75	75	77
Supporter	10	10	12
Junior silver (discontinued)	6	N/A	N/A
Junior gold	19.50	N/A	N/A
Junior platinum	75	75	77
New adult gold (merged with silver)		33	35
New junior gold (merged with silver)		10	12

For reference the current average blended silver/gold membership price (based on ratio of silver and gold members) is £33.44 and the blended junior rate is £10.70.

Existing silver and junior silver members will need to migrate to a new membership level.

As well as the membership rate increases the board wish to make the following changes to pay to play and game fee charges which are a direct result of the above changes:

Other Charges	Current	Proposed from 01/07/24	Explanation
FIDE rated pay to play	12	N/A	No distinction between FIDE and non-FIDE events following silver/gold merger
Congress pay to play fee	9	15	Difference between bronze and new gold
Congress pay to play (junior)	2.50	3.00	
FIDE admin fee – players who are non-ENG federation and not gold members	1.50	1.50	No change
Non-members game fee	18	20	New bronze rate
Non-members game fee (junior)	6	12	New junior rate

The price increases are estimated to generate an additional £22k of net revenue based on 2025 member numbers – though due to accounting policies only £11k of this will be recognized in the 2025 accounts with the full impact being seen in 2026 onwards. Based on current projections if a price increase is not

agreed then we forecast the following deficits (based on our target of maintaining £50k reserves and commitment to investing the £140k 2024 surplus):

2025 – 11k

2026 – 33k

2027 – 55k

We anticipate that these deficits would need to be funded through reducing the 'strategic grassroots initiatives' fund.

2025 Budget

The ECF runs its finances on the basis of maintaining a reserves level of at least £50k on an ongoing basis. Budgeted expenditure is reviewed in detail with each budget-holding director to ensure that expense projections are realistic and affordable. Membership fee proposals are predicated on the need to cover budgeted increases in expenditure and to maintain the ECF's reserves position at or close to £50k independently of the impact of DCMS funding.

Other general principles we use in the budget process:

- Seek to maximise the benefit to English chess and keep overheads to a minimum
- Ensuring office staff (i.e. those whose primary source of income is as an employee or contractor of the ECF) are fairly paid
- Employ a significant degree of prudence in the forecasting to account for inherently difficult to predict items such as membership growth and payment behaviour

Contingency and risk planning

As with all forecasts there are significant areas of uncertainty in the budget and forecast figures – however it has been prepared with a degree of prudence to account for this. The board is equipped to detect shortfalls early due to the regular quarterly re-forecasting process that has been implemented and there are several levers we can use. None of the following are desirable but can be implemented if strictly required:

- Reduction of costs (for instance events, international commitments)
- Reduce strategic grassroots investments
- Further increase in membership fees

The following page contains a table summary of the 2025 Budget – the full details of which have been provided as part of the wider Council papers:

Summary of 2025 Budget

Membership	
Paid members b/fwd	15,575
Paid members c/fwd	15,886
Average for the year	15,731
Year on year member growth	2.0%
Profit and loss	
Membership - subscription revenue	286,704
Membership - other	(11,850)
Admin	(144,546)
Home	(48,050)
Junior	-
International	(70,000)
Womens"	(12,500)
Core profitability	(242)
DCMS Income	175,000
Additional international/home/Womens" spend	(175,000)
Strategic initiatives	0
Reserves b/fwd	50,908
Reserves c/fwd	50,666

We have budgeted for a small operational loss (£242). The net impact of DCMS funding in the year ending 31/08/2025 is expected to be nil – i.e. all DCMS expenditure will be non-core.

Budgeted end of year reserves are £51k.

Membership - income and costs

We generate the bulk of our revenue from membership subscriptions and a further £24k through a combination of 'pay to play' and 'game fee'. The 'membership other' line of (£11,850) is other income (£26k pay to play, game fee and commercial income) net of collection costs (£38k) including software, payment processing, rating services and FIDE charges.

As stated in a previous section – the impact of the price increase is an £11k net increase for 2025 and £22k for 2026 and 2027.

Membership growth predictions

Predicting membership numbers is a core part of the budget process. Paid membership numbers peaked at 14,159 in August 2023 before the traditional dip at the start of the accounting period as memberships expire and lapsing members start to renew. As of writing this report paid membership numbers stand at 14,074 which is 11% up year on year.

We are forecasting 2024 paid membership volumes to peak at 15,575 – 10% up year on year. We are then forecasting a significant slowdown in the growth from 2025 onwards of 2%. We believe there to be a high level of uncertainty with the three year forecasted growth figures and have erred on the side of caution.

Admin

This category contains the bulk of the ECF overheads enabling it to provide services such as

- Support to the operational directorates (home, international, junior, Womens’)
- Rating services
- Chess moves
- FIDE liaison
- Membership support and fee collection

The main costs are:

- People - £83k
- Finance (audit, banking, bookkeeper) - £18k
- Insurance (including group club professional indemnity) - £9k
- Other costs (£37k) include IT, rent, yearbook & Chess Moves production and general office expenses

Most of these costs are subject to inflation which has been particularly high in the past few years and in the three year forecast we have accounted for a 2% inflationary increase for 2026 and 2027.

Home

This directorate covers events directly organised by the ECF, arbiter training, chess in prisons, the certificate of excellence, master points system and accessible chess. The total net expenditure (net of entry fees and grants) on the above is budgeted at £48k. By far the biggest bulk of investment is the events.

In previous years directly organised events were expected to break even (often with the support of sponsorship or external grants) but the approach now recognizes that an investment is required to organise a portfolio of high quality events which attract our professional players and norm seekers, provides a fair rate of pay for arbiters and secures good quality venues for the benefit of all involved.

The events in the budget, listed in order of cost to the ECF, are:

- British Chess Championships
- English Championships
- Cambridge International
- Senior Championships
- UK Blitz Championships
- British Rapidplay
- National Club Championships
- County Championships

As a sponsor has yet to be found for the Grand Prix this is not in the budget.

Junior

The junior directorate is budgeted to break even. The bulk of the transactions involve paying international organisers for English juniors registering for World and International events. However as this money is collected from parents the net impact is nil. For simplicity we have assumed that income and costs for these events are nil. Events such as the National School's Championship are run on a break even basis.

Currently there is no investment for junior training in the budget, however this is on the basis that organisations such as the Chess Trust and John Robinson Youth Chess Trust contribute significant funds to these causes.

International

It continues to be the board's policy to field our strongest possible teams in the major European and World events (including the senior championships where we have had significant success). The budget contains the following events in core spend:

- Olympiad (September 2024, Budapest)
- European Senior Team Championships (May 2024, Slovenia)
- World Senior Team championships (July 2024)

Womens' Chess

The Womens' budget contains discretionary spend to support individual women and teams in international congresses and other competitions.

Three-year forecast

As well as detailed assumptions for the 2025 financial year we have also provided an outlook for the next two financial years 2026 and 2027. The assumptions for these are much more high level.

The core assumptions for 2026 and 2027

- No further membership price increases – though this would need to be re-visited in the event of adverse variances to forecast

- 2% year-on-year membership growth
- Core cost inflation of 2%
- Investment in core areas kept at current levels (with an allowance for inflation)
- After DCMS funding expires the overall result settles into a small surplus for 2026 and 2027
- 2026 and 2027 surplus of circa £15k being invested into strategic grassroots investments. An alternate use for the surplus could be building back reserves

Alexander Longson
ECF Finance Director

April 2024