

TREASURER'S END OF SEASON REPORT 2020

2020 has been an unprecedented year for everyone, so not unexpectedly, Blackheath Cricket Club's finances for the year to 31st October 2020 have also been significantly impacted.

Apart from the obvious implications of the Covid restrictions during the year, the Club has also faced the challenge of refurbishing the Grafham pavilion during lockdown together with an increased cost of the project, largely due to planned variations from the original budget. Both the restrictions and the cost overrun have had an impact on the club's current and future cash position.

Included within the pack of AGM information provided on our website is the draft 2020 Financial Statements, which consist of -

- a) A detailed profit and loss account for the past 2 years
- b) The Club's balance sheet,
- c) Notes to the accounts which support the profit and loss and Balance sheet captions, and
- d) A cashflow movement for 2019 and 2020.

For the purposes of this report I do not propose to consider any detailed comparisons against prior year numbers or forecasts as given what we have experienced in 2020 they are largely meaningless. What this year's report is intended to provide, is an explanation as to how we have managed to get to the numbers provided in the Financial Statements.

Remarkably, the club, before accounting for the grant funding due for the Grafham refurbishment works, has generated an operating surplus, before depreciation, of close to £23,000, well over the £8,000 I predicted this time last year.

However these headline numbers hide the real story of season 2020.

What rescued the club in profit and loss terms, and of course assisted the Club's cashflow, was the receipt of two £10,000 Business Support Grants from Waverley County Council, one for each of our two grounds. Without these injections of cash, the club was close to breaking even, although this also requires a further explanation given what happened over the year.

With Covid restrictions applying right from the start of the cricket season, the club were faced with several immediate issues –

- 1) A significant loss in bar and food income
- 2) With the possibility of no cricket during 2020 season, it was possible that the club would be liable to refund colts parents, having received a significant portion of the colt's subscriptions prior to lockdown. Nearly £40,000 had been banked at the time of lockdown.
- 3) A drop of subscription income from adults as it was uncertain how much cricket would be played this season.

- 4) No income from any social activities, whether they were internal or external hiring's.
- 5) Delays to the refurbishment of the Grafham pavilion.
- 6) How ongoing costs of running both the Blackheath and Grafham pavilions could be reduced or if possible removed.

So what has happened in financial terms this year?

As members know, we managed to get half a cricket season in which has helped alleviate some of the financial consequences of the Covid restrictions.

Firstly if we review the **Profit and Loss Account on Page 2 of the Financial Statements**

Bar sales

The Blackheath pavilion bar opened in a limited form from 11th July and generated some limited profit for the year, although gross margins were down due

- to a limited product offering as compared to normal,
- successfully selling off early season bar stock at cost, and,
- higher levels of wastage as stock with expiry dates prior to the resumption of cricket had to be written off as un-saleable.

Covid restrictions have prevented any social functions at Blackheath throughout the period and rendered opening the Grafham pavilion bar impossible. Nevertheless, nearly £9,000 of bar sales was achieved both in the “outside” Blackheath bar,

including over £2,000 during cricket week, and £1,800 from stock sales. Quite a remarkable feat in such averse circumstances.

Despite all the issues with Covid guidelines and the related restrictions, the limited bar has been a success and lessons have also been learnt as to how to improve the bar's future operation.

Our bar manager, Terry Marter and his partner Mel have been at the heart of the bar's operation since the opening of the new pavilion in 2013.

After 7 years, they have decided that the time is right to step down from running the bar

On behalf of the club, I would like to take this opportunity, to thank both of them for what they have done for this club over the past 7 years. Their assistance in establishing and maintaining the Blackheath pavilion bar over the last 7 years has been a major factor behind the success the club has achieved off the cricket pitch.

Colts subscription income

As Treasurer, one of my principal concerns at the onset of this crisis was our 2020 subscription income, and in particular, the £40,000 lodged in our bank account in advance of the 2020 colt's season. No colts' season could have potentially led to an onrush of refunds which could have had dire consequences for cashflow over the summer.

Thankfully, due to the resumption of cricket in July and the creation of an innovative late summer coaching schedule, interspersed with matches, the club was able to "rescue" the colts season.

Although colt's subscriptions were lower than we had expected, as colts in the younger age groups and the girls group failed to register due to the lockdown, only two refunds were required to be paid out over the summer months.

Adult subscription income

Adult subscriptions are traditionally not paid until April and May each year, so no significant monies had been received by the time of lockdown.

However, with the delay in the resumption of cricketing activities until mid summer, the club had to adapt the subscription levels to reflect a shortened season; thus reducing the overall income level.

Other income

As mentioned above, the club has been severely restricted in what additional services could be provided. With the restrictions placed on us we have been unable to garner much in the way of additional other income.

There has been –

- 1) No provision of food on a Friday and Saturday evenings and during cricket week;
- 2) No social functions have been held either at Blackheath or Grafham; and
- 3) No marketing income has come from our third party sponsor, TWM.

On the other hand, right at the start of the crisis, the club received £20,000 from Waverley County Council as Business Support Grants, as the club, with two rateable premises at Blackheath and Grafham, were entitled to £10,000 for each rateable premise.

Expenditure

This year expenditure was predicted to be 20% above last year's level, as the club was expected to be operating two fully functioning grounds and pavilions.

Attached to both grounds and buildings are costs which were unavoidable and difficult to lower significantly, certainly in the short term – for example ground maintenance, repairs and maintenance, insurance and to a lesser extent some of the utility costs such as alarms.

However on the upside, significant cost savings have also been achieved which have contributed to mitigating the financial impact of Covid restrictions on the club –

- 1) No rates were charged by Waverley County Council for 2020/21 for both pavilions.
- 2) Pavilion expenses – with restrictive access to either pavilion, significant savings have been made on cleaning, bar staff, parking costs and rubbish collection. Costs attached to Covid related expenditure, such as sanitiser and PPE, amounted to approximately £750.
- 3) Angus Hamilton, our overseas player, was unable to return in 2020. This saved the cost of air flights and accommodation, which was approximately £4,000 in the forecast.
- 4) The Sky service was cancelled during lockdown, saving £1,000.
- 5) The level of new cricket equipment required was lower than anticipated.

Balance sheet

Next, I would like to draw member's attention to the **Club's Balance Sheet on Page 3 together with the accompanying notes on Page 4.**

This year's accounts include the total cost of the refurbishment of the Grafham pavilion and grounds. The refurbishment was finally completed, from a Building Inspectors perspective, on 6th November, so the accounts include all costs incurred as at 31st October 2020, together with all costs still outstanding or unbilled as at that time. These outstanding costs include both professional fees and the last aspects of the building work which had not been billed as at that date, together with a VAT invoice from the builders for the whole project.

Overall, the financial cost of Grafham is approximately £45,000 higher than the original predictions, although an additional £10,000 of grant funding from Surrey Cricket Foundation has mitigated some of this overrun.

So why the overrun?

As the building works progressed, it was decided that though it was possible to defer some proposed expenditure which was not included in the original budget, it would make more commercial sense to get the work done now whilst we had builders on site, even if it meant a higher than expected initial bill, and, have potentially more immediate cashflow issues.

As a consequence a whole range of additional works were added to the original building contract including

- a replacement roof,
- a new kitchen,
- a new ceiling in the club room,
- new drainage for the cess pit,
- new outside fascia, and
- new window and doors at the front.

To date £68,000 of the grants promised by the three grant funders, London Marathon Trust, Sports England and Surrey Cricket Foundation has been received, with the balance of £64,200, which is due on the completion of the project, is included as a debtor as at 31st October 2020. The Club is in discussion with all three funders about the receipt of the outstanding amount.

The Club's cashflow has been severely dented by the Covid crisis and in particular the material cost overruns on the Grafham project. As a consequence, it has been necessary to draw down to date, Short Term Working Capital loans of £50,000 from two club members to fund the shortfall. These loans are interest free and are repayable upon receipt of the grant funds, although, given the level of future outstanding liabilities on the project which I will discuss below, a limited portion of this loan may need to be converted into a Longer Term Loan.

A discussion will be required on how much of these Short Term Working Capital Loans, if any, may need to be converted.

I would envisage that when a clearer picture of the season ahead emerges, the Club will get a better understanding of the amount of Longer Term debt required.

Members should also be aware of the other material liabilities the club has as at 31st October 2020. Included in Creditors are two significant numbers, accruals of £24,000 and VAT Payable £22,000.

Accruals largely consists of outstanding liabilities on the Grafham project for building works and professional fees which are payable over the next two or three months.

VAT payable is not a term we as a club have seen for a few years as the Club has been able to recover all VAT, irrespective of whether it relates to taxable or non taxable supplies. The VAT de minimis rule allowed us to recover 100% of VAT as we met the required conditions to qualify for this benefit.

As I have highlighted in last year's Treasurer's Report, unfortunately with the predicted high level of input VAT for the tax year 1st May 2020 to 30th April 2021 which breached one of HMRC's threshold. we don't qualify for this 100% recovery this year. So for I hope just for one year we –

- 1) Cannot recover any exempt VAT on items such as cricket equipment and loam.
- 2) Can only recover a percentage of our overhead VAT. The percentage is based upon the proportion of the Club's taxable versus non taxable supplies in the VAT tax year – what is called a Partial Exemption calculation. As a reminder, for the Club taxable supplies are bar and food sales and hiring, whereas the Club's non taxable supplies is principally the subscription income.

This is where it gets complicated.

Any input VAT related to the building project is included as an overhead VAT, so is subject to this recovery percentage. Unfortunately, the builders failed to get their company, Mount Projects, VAT registered until September 2020, so the Club only recently received the VAT invoice for the building works to date - £26,000.

How much of this we as a club recover is dependent on the supply mix mentioned above. Historically, our mix is around 55/45 in favour of taxable supplies, so in “normal years” we would have expected to recover approximately £14,000 of the £26,000 – a net cost of £12,000 to the club.

This not being a “normal year” with limited taxable supplies due to lower bar sales and no food sales or hiring, the mix is looking closer to 20/80. This means that our actual recovery will only be around £5,000, a significant difference.

This will only be resolved in May/June 2021, after the end of the VAT year. In the meantime in line with de minimis rules, we can recover 100% of the VAT in the next return and only have to account to HMRC in June 2021.

To be prudent, I have included a VAT provision based upon the less favourable mix as it is unlikely that this can be altered between now and April 2021.

Cashflow

The final sheet of the **Financial Statements, page 5**, shows the cash flow movement over the period.

This highlights that cash has fallen from £18,400 to £1,400 over the period. This is largely down to the level of capital expenditure required to fund the Grafham refurbishment.

In simple terms it shows capital expenditure of £200,000 has been funded by –

Grant funders - £68,000 (amount received to date)

Short Term Working Capital Loans - £50,000

Delaying the payment of the Long Term Loans - £7,000

Accruals/creditors - £38,000

Current year surplus - £23,000

Existing cash resources - £17,000

What about next year?

Forecasting what 2021 will bring is challenging, not only because of Covid, but also because of other uncertainties which the Club has to deal with.

The questions that need to be asked which could and will have an impact on the future finances of the club include

- What form will the 2021 cricket season take?
- What will be the financial impact of the departure of Terry Marter from the Bar Manager role?
- What will be the true financial cost of Terry Brockman stepping down from being Groundsman at Blackheath?
- What will colts numbers be in 2021, particularly in light of a new training schedule?
- What will adults member numbers be in 2021?
- Will we have an overseas player next year, together with their associated costs?
- Will we be able to hold any social functions next year, and if so in what format?
- Can we ensure we have enough volunteers for bars next year which reduces costs?

In profit and loss terms, it is very difficult to predict at present with any degree of certainty because of the variables highlighted above. However, taking a cautious approach I would expect a small surplus in 2021.

Cashflow will be more challenging because of the issue of VAT recovery and the outstanding liabilities from the Grafham refurbishment. Realistically I expect that a proportion of the Short Term Working Capital Loan will have to be turned into a Longer Term Loan, as there will be insufficient funds generated from the Club's day to day activities in 2021.

Future fund raising will help to recover some of the deficit, but given existing circumstances it is difficult to determine when and how this could be done in the short term.

The way forward

Covid restrictions have made the Club reassess the way that various activities are being carried out. As a consequence there are undoubtedly areas where the club can make some improvements or adjustments -

- 1) **The collection of subscriptions and match fees** – with the successful introduction of Teamtamer and its excellent functionality, opportunities have arisen which will allow us to be more effective and efficient in collecting subscriptions and match fees. In particular, we are currently evaluating how we can use Teamtamer to enable the Club to introduce the automatic collection of match fees.
- 2) **Technology** – the use of technology to remove the need for cash behind the bar both at Blackheath and Grafham.
- 3) **Volunteers** - greater use of volunteers to man the bars. The bars are likely to be open on more evenings next year, so the Club needs to recruit more individuals to operate the bars profitably in 2021.

I hope this report has provided members with an insight into the Club's finances in the year to 31st October 2020. If there are any questions I am happy to deal with them at the Zoom meeting or via email – richardbrocksom@btinternet.com.