



EUROPARC Federation
Report to Council
21st October 2012

Title:

Finance Management Subgroup's report

Summary :

Europarc Consulting recompensation

Recommendations :

- ❖ To note the report

FINANCE MANAGEMENT SUBGROUP REPORT TO THE EUROPARC COUNCIL ON EUROPARC CONSULTING RECOMPENSATION

This report is based on the decision taken in the last Council meeting in May and is reproduced as a reminder:

Notes:

Council discussed about the advantage of having a fixed minimum recompensation from Europarc Consulting related to the European Charter by the mid of the second semester.

Decisions:

Council agrees to delegate the evaluation of the methodology of Europarc Consulting's recompensation to the finance management subgroup.

Tasks:

Financial management subgroup evaluates the EUROPARC Consulting's recompensation.

Rationale:

1. About the relation between EUROPARC Federation (EF) and Europarc Consulting (EC)

- a) The EF has decided in 2001 to create the company EC for the purpose of commercial activities at consultancy level targeting the protected areas, nature conservation and all other related issues.
- b) The EF is the only shareholder of EC and participates directly in the EC Advisory Board with the EF's President and Director.
- c) In spite being a commercial activity and therefore possible of profit, only part of the positive result of EC would be paid to EF as a recompensation.
- d) An important part of EC activity is due to the Charter Management that represents roughly one third of their activity/results.

2. About tax issues related to EUROPARC income

- a) EUROPARC Federation has a charitable status therefore is eligible for a reduced 7% tax rule for all its noncommercial income, subject to decision by the relevant tax authority;
- b) The value of EC recompensation would vary accordingly to EC results but with an expected 17.500 euro which would be non-subject to tax payment if below this value.
- c) This EC recompensation only took place in recent years due to the EC's better results.
- d) The accumulation of two years in a single payment by EC to EF in 2009 has raised the value of payments above 17.500 euro obliging EF to pay a 7% tax over that income for this three years tax period declaration (2010-12).
- e) Being raised the question next to the German Tax Office, it is now clear that the EF is subject to a 7% tax on all the income received above 17.500 euros (not included the membership fees, project and tenders payments), therefore EC recompensation, Transboundary Verification process and other incomes are subject to a 7% tax.
- f) As long as the income of EUROPARC are from services provided to members there is no reasonable doubt about the noncommercial activity of the Federation and therefore we can maintain our charitable status paying only the 7% reduced tax.
- g) There is general agreement that the Charter evaluation process is not a commercial agreement.

- h) All expenditure associated with these incomes by EUROPARC could have a VAT refund whenever applicable (except salaries and other specific costs) at 19%.

3. About the European Charter for Sustainable Tourism (ECST)

- a) The Charter is registered on behalf of the Federation and awards the PA that has applied properly a participatory methodology next to their stakeholders in order to develop a sustainable tourism strategy for their territory.
- b) The Charter is therefore a service provided to EUROPARC members in order they improve the service they deliver to stakeholders and society (and that's why you need to be a member in order to apply to the charter).
- c) After eleven years of full work we have 107 parks recognized in 13 countries, becoming the biggest network of members gathered inside EUROPARC with a specific goal since they have to participate in this network as part of their compromise to the Charter.
- d) The Charter has developed a part II involving the tourism businesses as Charter partners where the engagement is done between the Charter PA and the business itself under the supervision of the Federation, involving at the moment more than 500 tourism businesses in 3 countries.
- e) The Charter recognition by EUROPARC requires specific costs connected to an external verification procedure that are charged to the member candidate and cover the cost of the verifiers' honoraries, the Evaluation Committee meetings and the administrative costs of managing the applications.
- f) From the beginning, the EF took the decision to transfer to EC the management of the Charter process in what concerns the verification process.
- g) Therefore the implementation of the Charter network, network meetings and support to the Charter PA in their charter activities have been tasks that remained assigned to EF that has been able to do it whenever was able to find some funding to do it (BfN support to projects, etc), not having any specific fund to do it on a regular basis and being one of the major complaints of the Charter PA till the moment.
- h) Other tasks vital to the good management of the Charter (verifiers training, review of templates, translations to official languages, etc) have been developed by EC or EF (training) also with the same logic, i.e. only when there was an extra funding, without being possible to have it updated as it should be after a ten years experience.
- i) In the meantime we have reached a critical number of Charter PA that allows us to expect:
- A regular networking service provided by EUROPARC, giving more visibility to all the work done so far by members and EF;
 - An urgent update of procedures, templates and the training related in order to prepare the Charter to new challenges;
 - A regular number of Charter PA that renovates their Charter implying a regular value charged to them;
 - A regular number of new applications is appearing every year implying also a regular value charged to them.
- j) Therefore we can calculate with a reasonable margin with two years in advance which is going to be the cash flow concerning the Charter applications.
- k) A regular number of parks applying every year mean a cash flow that tends to pay the fixed costs allowing an increased margin available to assign to the tasks that have been so far guaranteed by

external funding. This margin will be increasing whenever we have more parks than the regular number.

- l) There is no doubt that we do need to provide that service to the network and update the charter otherwise this will mean the end of the Charter itself since everyone expects a clear sign of the Federation on that.

The questions now to be asked are:

- a) Can we do the Charter tasks with the fees charged to the Charter candidates (to do the verification process, improve procedures of the system and improve the services delivered by EUROPARC to the network) guaranteeing this way the self sustainability of the Charter?
- b) Which is the best organizational solution in terms of managing the Charter, increase the services provided by Europarc Consulting or reassume the full Charter tasks by the EUROPARC Federation (even if some tasks can be subcontracted)?
- c) What are the consequences of a decision of this kind to EF and to EC?
- d) What are the risks involved in the decision no matter which one?

About the task list and costs related

We have the following 3 main type of costs:

- a) Administrative, verification and awarding costs per each park candidate to manage its application or re-evaluation corresponding to 2.570 euros;
- b) Administrative and other costs per year to manage the Evaluation Committee corresponding to 5.124 euros;
- c) Administrative and other costs per year to manage the Network of Charter Parks and improving its quality corresponding to a minimum cost of 20.057 euros. This cost is variable and accordingly with availability of resources;

Roughly the tasks of a) (per park candidate) and b) (per evaluation committee) correspond to the service provided by Europarc Consulting on a regular basis and part of c) (networking and improving quality) was also provided by EC whenever there was funding available or as a task that was done by staff that has permanent contact with the Charter Network.

See appendix for more detailed information.

Conclusion about the self-sustainability of the Charter

From the numbers presented and considering that we have reached 107 awarded Charter Parks this year, we can expect that there will be a minimum of 10 parks that will present each year their application (or re-evaluation).

Being so, we can expect from those 10 parks an income of 50.000 euros (plus 500 per each new park candidate that are not included in this calculations) that would be sufficient to pay a) (per park candidate) and b) (per evaluation committee) costs leaving available 19.176 euros that can contribute to the c) (networking and improving quality) costs that have a minimum cost of 20.057.

For each extra application, we have to deduct 2.570 euros per park candidate to pay the a) (per park candidate) costs, leaving a margin of 2.430 euros to contribute to the c) (networking and improving quality) costs.

Therefore we can expect a self-sustainability of the Charter at the present fees charged with an improvement of the service provided by the Charter Networking and Improving quality aspects.

About the best organizational solution

This seeks to be an evaluation based on the information available and looking for a solution that can help the EUROPARC Federation to provide a larger service to its members and at the same time help the Federation to face the present economic situation where decisions have to be made considering their short and the long term effects on the Federation.

At the present moment the decline on effective paid membership fees is rapidly increasing threatening our main course of income. The increase of services delivered to members can help prevent this trend.

In any case the financial situation necessitates the requirement to seek new sources of income in the immediate future. The Charter being self-sustainable represents only the advantage of increasing our cash flow and prevents temporary collapse.

Options have been evaluated in terms of services provided, but also based on economic and legal issues as well as tax consequences. It is not an evaluation about the quality of the service provided, but intends to find the solution that can provide more positive impact in the several parameters for the Federation.

This is an evaluation from the point of view of the Federation and not an external comparison between what is not comparable, a Federation and its own company.

Organizational solution #1: Option Europarc Consulting

The possibility of having EC doing all the tasks needed (managing the applications, plus the networking and improving quality) has to take in consideration the following aspects:

- a) Numbers haven't been presented in due time by Europarc Consulting in terms of their cost structure for providing the services of the Charter, therefore there is no idea of their margin to support this increased number of tasks needed nor even the basic cost of managing the applications and awarding (the costs identified as a) and b));
- b) There has been a formal contradiction in terms of a consultancy company, providing services to the Federation members, when this should be provided by the Federation itself (even if it was a EF decision at the beginning, it is starting to be a competition for services and income which can never occur due to the nature of the two entities);
- c) In any case, EUROPARC Federation is likely to be charged by every euro paid by Europarc Consulting on behalf of the recompensation at a tax of 7% by the German tax without being possible to recover part of the VAT at a rate of 19%;
- d) The recompensations estimated by EC for the next 2013-2016 years in the Business Plan are ambitious and based in all EC activities (in spite they don't identify the Chart %) and therefore depending also in how the market will respond to the present financial situation and may not be enough to support the new tasks needed for Charter Networking and improving quality.

Organizational solution #2: Option EUROPARC Federation

The possibility of having the Federation doing these tasks has to deal with the following aspects:

- a) There is no legal impediment known to us about EUROPARC Federation ability to perform these tasks and still keep our charitable statute since this is a service provided to members (this has been already checked with the German Tax Services although we do not yet have their final decision, all it means is we will have to pay tax);
- b) We need to allocate time from staff to do it that either exists or needs to be contracted and properly trained if possible by Europarc Consulting;
- c) It is a new procedure (even if with a routine already known) that needs a certain time to be implemented;
- d) The reallocation of the Charter by the Federation and a new impulse in the networking will be perceived as a positive sign of the new engagement of the Federation in the Charter Networking (that has been the main claim from Charter Parks);
- e) Any fee charged to the PA candidates collected directly by the EF will also have the 7% tax but with the advantage of some costs involved could be recovered (except salaries) reimbursed the VAT at a rate of 19%. This will not offset the tax liability, but will allow for some cost recovery;
- f) In order to maintain the independence of the verification process, the Federation could subcontract the service of the verification process externally (to Europarc Consulting or any other provider) at the best market price and at the same time keep the global management of the Charter.

The consequences of a decision with a solution based in EC

	staff	costs	income	Cash flow	tax	results
to EC	More staff time needed	increase	same	maintains	Not known	More service provided
to EF	Not applicable	Not applicable	Not applicable	Not applicable	7% over recompensation without deductions on VAT	Less recompensation

The consequences of a decision with a solution based in EF

	staff	costs	income	Cash flow	tax	results
to EC	Time available for other activities and or allocated to the services contracted by EF	Decrease to what would be the services contracted by EF	Decrease to what would be the services contracted by EF	Very high decrease	Not known	Just the results related to the services contracted by EF and can affect overall results in short term due to lower cash flow
to EF	Increase but covered by income	Increase but covered by income	increase	Very high increase	VAT deductions on services at 19%	Less recompensation

About the risks involved in the decision

Decisions have risks involved.

There is a major risk for both options:

We cannot be sure of what will be the number of new applicants and re-evaluations. This will affect both options. Never the less, may be the risk is higher in option Europarc Consulting since new services provided by Federation at networking level and improving quality seem more feasible on the EF side and can have a positive effect on Charter members that have been complaining for the lack of these services ever since.

For EC the decision of staying with the Charter process will have the risk of not knowing if they can provide the expected new services to Charter members with the same income.

On the other hand, for the EC, the decision of moving the Charter process to EF will represent a significant loss of their income, will damage their financial situation and will have a short term effect limiting their access to a higher level of the market for tenders. Is EC able to recover that loss even if EC gets a subcontract of part of the Charter from EF? What are the new opportunities in the market? Can EF has a way of helping EC in new opportunities? For EF, the decision of the Charter staying in EC has a high short term financial risk since not having this income will endanger the Federation condition

On the other hand, for EF the decision of moving the Charter Process to EF is mainly connected with the performance of services. Will the Federation be able to train and well succeed the transition between the good image EC has given to Charter Members and at the same time deliver new services that they were expecting for a long time? Can EC help this process in order we minimize this risk?

Conclusion and proposal:

The increase number of charter PA has given a financial margin to support new tasks needed to improve the quality of the networking services provided to members. This is strategic otherwise the Federation risks losing credibility with two consequences, less new candidates and less renewals.

We have reached a self-sustainable plateau that we can consider of around 10 park candidates per year.

Keeping the Charter procedures directly managed by Europarc Consulting has a tax disadvantage, could be considered contradictory with the mission of a consultancy body and does not guarantee us the provision of the networking services needed at this time.

Moving the Charter procedures to the EUROPARC Federation provides more visibility to the Federation next to its members, relates better the membership fees and services provided, can offset a tax liability and an urgently needed cash flow opportunity allowing a safe margin for this difficult period.

Therefore the decision of transferring the process to Europarc Federation is possible regarding that we guarantee:

- a) The approval of the decision of transferring the Charter on October's meeting and communicating the decision to all members immediately in order it is applicable already for next year verifications;
- b) A plan of detailed actions to guarantee the transferring of the Charter from EC to EF and proper training of EF Staff;
- c) The review of the Europarc Consulting business plan in order it can be reevaluated the recompensation expected;
- d) The decision of subcontracting the services for managing the verification process to the best proposal as stated before.

Final note: there is no doubt about the work performed by EUROPARC Consulting and its commitment to the Charter and the Federation. In fact it should be recognized the relevance of the work done by its Director that made possible the survival of the Charter in some of the more difficult years of disbelief. Thanks to him it is possible that we have this decision now with a much larger Charter network and a stronger condition that may help the Federation to maintain alive their purposes.

The expertise and knowledge gained by Consulting will not be lost by them and Consulting can continue to trade on their established position in sustainable tourism and in particular helping new applicants to present themselves. They will remain a vital component part of the EUROPARC team delivering service to Europe's protected areas.