



**EUROPARC Federation
Report to Council
29th January 2015**

Title: Consulting Report to Council

Recommendations: according to the recommendations mentioned in the paper



EUROPARC Consulting Report to the EUROPARC Federation Council

Regensburg, 29th January 2015

1. Background and purpose

1.1 EUROPARC Consulting GmbH is the consultancy arm of the EUROPARC Federation.

- The company is wholly owned by the EUROPARC Federation; its foundation as an independent commercial trading entity under German law was approved by the Federation Council and endorsed by the General Assembly in 2001.
- EUROPARC Consulting GmbH has a registered subsidiary company, EUROPARC Consulting Limited, in the United Kingdom, through which its UK and other non-Euro business is administered.
- The company is required under German business law to establish a *Beirat* (Advisory Board) which has a majority of independent members who have no voting or official office within the Federation. The five-member board includes the Federation president and Director *ex officio*. This arrangement ensures the essential legal separation between any NGO (in Germany: *eingetragener Verein*) and its trading arm to guarantee its commercial trading integrity.

1.2 EUROPARC Consulting takes its ethos from the EUROPARC Federation and exists to share expertise by providing a reliable cost effective commercial service. The company's aims have been defined as follows:

- To provide good value-for-money and high-quality expert consultancy services for the EUROPARC Federation network and beyond, with experts mainly drawn from the EUROPARC pool.
- To help raise the EUROPARC Federation's profile in Europe.
- To contribute financially to the EUROPARC Federation, aiming to provide funds towards one full-time member of Federation staff.

1.3 Over the past 6 years (since 2008) the total resource recompense¹ contributed to the Federation is 142,500.50 €. During this time EUROPARC Consulting has managed contracts worth over 1.4 million €.

¹ Resource recompense is a tax-efficient way of transferring funds from EUROPARC Consulting GmbH to the EUROPARC Federation. It is recompensing the Federation for allowing us the use of the logo, the EUROPARC Federation expert network, etc. It should not be counted as income by the Federation although we were told that the Federation chooses to declare it as income and pay tax on it, which our accountants consider not necessary.

- 1.4 The company employs two people, the full-time *Geschäftsführer* (company executive or managing director) and a part-time (mini-job) book-keeper (Rachel Wieting). It has approximately 80 freelance experts from across the Federation network.

2. Current cash flow crisis

- 2.1 The company currently finds itself in a temporary and very difficult trading situation. This has come about through three main reasons:
- an increasingly competitive environment winning only a few small contracts in 2014;
 - a big reduction in our cash-flow due to the sudden Charter process changes decided in 2012;
 - the payment of 20,000 € to the Federation for 2013, despite a deficit in the 2013 annual accounts, reduced our cash reserves to a dangerously low level.
- 2.2 Based on the last five years' accounts, our annual operating expenses would normally be in the region of 60,000 € to 80,000 € plus expert fees for projects. Previous decisions by the EUROPARC Consulting Board had agreed that at least 100,000 € should be kept in our accounts to allow for sufficient cash reserves and pre-financing of larger contracts. Our current bank balance (not including our *Stammkapital* or share capital) is not enough to cover our expenses for the next 2 - 3 months. The balance at the time of the EUROPARC Federation Council meeting towards the end of January 2015 will be around 7,500 €.
- 2.3 In October 2012 a range of possible consequences and subsequent effects on our cash reserves was highlighted in a statement from EUROPARC Consulting to the EUROPARC Federation Council, following changes made to the Charter verification process.
- a) The first effect was that we would no longer be able to pre-finance larger contracts without the cash-flow provided by the Charter.
 - b) Secondly, we foresaw that our business plan goal to keep our contribution to the EUROPARC Federation at approximately 10% of the total of invoiced amounts for the years 2013 to 2016 could no longer be achieved.
 - c) Thirdly, many EU tenders demand turnover figures of 250,000 € or 500,000 €, so not having the Charter business would disqualify us from many contracts, even minor ones.
- 2.4 In a year where no significant new large-sized contracts were won, without the 2014 Charter verification contract EUROPARC Consulting GmbH would not have been able to meet its financial obligations during the past year and would have become insolvent well before the end of the financial year 2014.
- 2.5 This is a grave situation which calls for urgent action to be taken, in line with the three recommendations outlined in Section 6 below. However, if it can be overcome, the medium-and long-term future of the company remains bright.

3. Current work situation

- 3.1 We continue to look actively for new work and each day examine between 8 and 15 European and national websites for possible tenders.

- 3.2 In October 2014 we submitted a large-scale tender (together with E.C.O. Klagenfurt) for around 126,000 € to develop sustainable tourism in Cyprus. Unfortunately, the programme was shelved by the Cyprus government as funds were withdrawn. However, just before Christmas they restructured their briefing leaving us just enough time to submit a new tender, albeit for a much lower budget of 55,000 €. We are still awaiting a decision about this tender.
- 3.3 We long realised that it is not enough to wait for work to turn up. We therefore started to carry out our own project development. However, because we have no funds left, this activity has been severely curtailed. Nevertheless, we have managed to raise funds from former clients in order to start preparing an ERASMUS+ application (knowledge and people exchange considering people with disabilities/impairments visiting protected areas) for 150,000 € over 3 years, totalling 450,000 €. We have also contacted various organisations to help us fund another such application for promoting maritime protected areas in Italy and the UK, through exchange visits and other activities under the ERASMUS+ programme.
- 3.4 Possible European Commission project - sustainable tourism in Kaçkar Mountains National Park, Turkey: A procurement notice is imminent with a budget of 3.5 million €. This would be far too large for us alone but we have already teamed up with a Brussels company (www.agrer.com) to pursue this, as soon as the notice has been published.
- 3.5 We have had no news so far from our sole shareholder (EUROPARC Federation) regarding the 2015 round of Charter verifications. A new 3-year contract would avoid uncertainty and ensure EUROPARC Consulting remains trading for the long-term benefit to the Federation.

4. Considerations and possible options

- 4.1 At the last meeting of the Consulting Advisory Board in December 2014, discussions took place together with possible options, including:
- Do we want an external additional shareholder, or a long-term loan?
 - Can we build an alliance with one of the very big consultancies, e.g. PWC?
 - Are there other possibilities to be explored? For example, the Alfred-Töpfer-Stiftung, ECNC's interest in developing a consultancy, the NAAONBs with the UK Company, new external shareholders?
 - Can additional contracts be won in the short-term?
- 4.2 It is essential that the Directorate and Consulting work together in a supportive and positive way which brings added value to the whole EUROPARC network. As the Federation's Internal Auditor remarked in his comments on the Directorate report at the Council meeting in Ay on 15th May 2014: "EUROPARC Consulting could take on Federation 'projects' as it would make accounting cleaner and not reduce the Federation NGO grant. The question should always be asked, who can do things best and who brings most benefit to the Federation in the long-term?"
- 4.3 Insecurity was one of the reasons why EUROPARC Consulting Board members agreed to the 2013 payment of 20,000 € to the Federation although the company was heading for a deficit. Remarks at the Ay Council meeting in May 2014 that EUROPARC Consulting, in its present form, may not be suitable for Federation purposes have further added to our insecurity. Also our immediate need for a cash injection of 20,000 € has compounded our situation. It is needed to ensure that we do not become insolvent over

- the next few weeks/months and to enable us to continue working on tenders and project development.
- 4.4 If the EUROPARC Federation Council were to express its continued commitment to EUROPARC Consulting and its staff, this would be welcomed. A very practical endorsement would be by awarding a new 3-year Charter Verification contract from 2015. The 2014 Charter contract finished in October 2014. It was meant to be renewed two months prior to the end of this contract period, in August 2014, but has not happened.
 - 4.5 Without an immediate cash injection in the region of 20,000 € EUROPARC Consulting is unlikely to survive for more than 2 to 3 months. Such a cash injection could come from an advance payment (previously due at end of March and end of May) of a new 3-year Charter contract or a loan.
 - 4.6 If the contract were forthcoming we have practical proposals to increase the total amount of money available. This would enable EUROPARC Consulting to break even or make a small profit. It would mean less work for the Federation and without the Federation incurring any additional cost or work or loss of “ownership”. Please see the proposed technical details in **ANNEX 1**.
 - 4.7 To help our cash flow at the end of January 2015, access to approximately 10,000 to 12,000 € of the *Stammkapital* (share capital) of 25,000 € (for certain investments and payments, subject to various conditions) becomes available for use. However, the *Stammkapital* must never be allowed to fall below anticipated financial obligations. If the *Geschäftsführer* were to allow this he would be committing a statutory offence and would be personally liable. Therefore, only a certain amount can be used and only for certain purposes. It is generally considered that the use of the *Stammkapital* signals, in effect, an end to the company and is needed in part for redundancy payments.
 - 4.8 At its December 2014 meeting the EUROPARC Consulting Board did not want to take immediate steps to close down the company but favoured a review after hearing views expressed by the Federation Council at its January 2015 meeting. However, we all need to be prepared for a possible closure (e.g. April at the latest) and take a decision to shut down in an ordered way.

5. Conclusion

Over the last 12 years EUROPARC Consulting has developed a business model based on good value-for-money and high-quality expert consultancy services for the EUROPARC Federation network.

We have made a valuable contribution to the work of EUROPARC, not just in terms of contributing over 140,000 € to the Federation since 2008 but also by helping raise the profile of EUROPARC in general and in bringing in new Federation members (e.g. from the Dinaric Arc region). In 2012 our business plan foresaw growth by 2016 to enable EUROPARC Consulting to provide the Federation with 50,000 € each year. Decisions to the Charter process in 2012 starved our cash-flow and increased an insecure relationship with the Federation.

The Federation’s own trading arm (EUROPARC Consulting) is in an unprecedented position. The three recommendations outlined in Section 6 below are offered as possible solutions to insolvency. However, we all (the Federation Council and Consulting’s Advisory Board) need to be prepared for possible closure (e.g. by April 2015) and take decisions to cease trading and close in an ordered way.

However, it is hoped that through winning new external contracts and through mutually supportive working (Recommendation 1), a short-term cash injection through a Charter contract (Recommendation 2) and through the technical changes (Recommendation 3) in that contract, the future will remain bright for all of the EUROPARC family.

6. Recommendations

Recommendation 1:

That the EUROPARC Federation Council continue its commitment to EUROPARC Consulting and its staff and reassure the company that it has a future within the EUROPARC family. Also to ensure mutually supportive working between the Federation and Consulting adds value to the brand and its finances.

Recommendation 2:

That the EUROPARC Federation award a 3-year Charter verification contract* to EUROPARC Consulting and provides an on-account payment of 20,000 € within the next four weeks, rather than wait to pay in the instalments in March 2015 (alternatively, provide for a loan of the same amount).

*This will allow greater stability and proper business as well as cash-flow planning.

Recommendation 3:

That a technical change* to the Charter verification contract be made so that EUROPARC Consulting (instead of EUROPARC Federation) can invoice Charter applicants directly (as before between 2001 – 2013) making it unnecessary to charge 19% VAT to the Federation, thus saving between 10,000 and 15,000 €

* Please see the proposed technical details in **ANNEX 1** on next page.

ANNEX 1**Technical change in the Charter contracting process to reduce tax, increase cash-flow and increase resource recompense to the Federation:**

A simple technical change by the Federation in the current Charter administration would ensure that the Charter work of EUROPARC Consulting would not be done at a loss. It would also be less work for the Federation, without the Federation incurring any additional cost or work or loss of “ownership”.

Our experience over the last eight years has shown that a rate of at least 3,800 € per Charter application is needed to break even. The rate paid to EUROPARC Consulting per Charter in 2014 was 3,200 €, less the verifier fee of 1800 €, making 1400 € available for the whole process.

Our proposed technical change would make EUROPARC Consulting the contracting party again (as we were from 2001 to 2013), just for the Charter administration, without any fundamental change to the new procedure. It would mean that, at the same time when the Federation receives the initial Charter application dossier, we too would receive an e-copy whilst the Federation remains in charge of the first assessment if it wants. We would receive the full fee and pass it on to the Federation within a short time-span agreed between the partners. Our record in collecting these fees is excellent. Between 2007 and 2013 we always collected 95% of all fees before the end of May each year and a full 100% before the end of June.

- (a) This slight change in procedure would increase our turnover again which would reflect well on us when we tender.
- (b) It would boost our cash-flow at a time when it is most needed.
- (c) This would not count as a service to the Federation, hence a saving of 19% VAT. Had this procedure been in place in 2014 it would have saved us between 12,000 and 13,000 €. Instead, we had to pay more than 12,000 € to the German Tax Office.
- (d) Not having to pay the 19% VAT, that amount could then be added to our Charter fee so that Consulting would receive 3,800 € per Charter, allowing us to make a small surplus which ultimately finds its way to the Federation again.
- (e) As Consulting would, technically, be the contracting party, no tender process would arise. Because the Federation is in receipt of a core grant it would be necessary to follow the EU tendering procedures if the Charter contract exceeds a certain amount, resulting in unnecessary additional work.