

Reserves policy

Recommendation

The Supervisory Council and the Board of Association are requested to note the review of the Reserves Policy and reaffirm this policy for the Foundation and Association for the next three years (2021-2023). The Reserves Policy remains unchanged.

Introduction

There is no specific legal or tax rule dictating the amount or proportion of a charity's income funds that can be held as reserves. Areas of activity, funding sources, future needs, opportunities, economic conditions and risks are all factors which should be considered when determining the level of reserves. It is important to realize that, although done in conjunction with reserves planning, the assessment of operational, financial, legal and reputational risks should be considered as an essential element of strategic planning rather than a 'bolt on' task to be dealt with by those who compile the accounts.

For some years there have been general discussions about foundations not directly using the funds they had available. These discussions led to the creation of a general guideline for financial reserves of charities issued by the branch-organization VFI (Vereniging Fondsenwervende Instellingen). Furthermore the Central Bureau of Fundraising (CBF) recommends audit guidelines for the preparation of the financial statements of charities (RJ650) These guidelines include rules on the presentation of reserves in the financial statements.

The general notion of the VFI as CBF guidelines is that financial reserves should only be created for specific purposes such as future projects where the resources are not needed yet but where it is certain that they are needed in het medium term future. Reserves can also be held to ensure the continuity of the organization.

Types of reserves

Earmarked reserves

The earmarked reserve is that part of the reserve which is set aside by the board for a specific purpose.

Earmarked funds

When third parties have given a specific destination to a number of means it concerns an earmarked fund.

General reserves

Foundations are allowed to keep a general reserve. However, this is not recommended in the VFI or CBF guidelines

Continuity reserves

A continuity reserve is built in order to cover risks in the short term so that an organization can continue to meet its obligations in the future even when there is a decrease in income. In order to cover risks in the short term so that an organization can continue to meet its obligations in the future even when there is a decrease in income. VFI guidelines allow a maximum continuity reserve of 18 month operating costs of the organization.

Financial and non-financial considerations and assumptions

Predicting the future remains difficult. For the coming years Wetlands International aims to have, similar to other organizations, a continuity reserve in the range of 3 months minimal of fixed organisational costs operating costs provided the following considerations and assumptions are met:

- subsidy income for the next year is guaranteed by signed contracts
- income from administration fee from at least 4 different programs
- auditors statement approving the annual financial statements
- an organizational risk assessment is carried out annually
- an annual plan of action to mitigate identified risks is made and respected
- multiyear (strategic) plan is endorsed by supervisory board
- prudent policy of labour contracts (temporary contracts next to open ended contracts)

Continuity reserves policy Wetlands International

Wetlands International (Foundation and Association) reaffirmed the following Continuity Reserves Policy in June 2021:

As Wetlands International is largely dependent on project funding, it needs a capacity to deal with cash flow distress. Therefore, Wetlands International, Foundation and Association, hold a minimum position of the continuity reserve. The continuity reserves are meant to cover short term risks and to ensure that the organisation has a buffer to respond to its obligations in the long term.

The minimum position of the continuity reserves, based on analysis of the risks, is determined at the level that it allows for payment of 3 months (25%) of the annual fixed organisational cost.

Fixed organisational operating costs (annual average 2016-2020)

- Salary cost	€ 2.500K
- Fixed long term cost (e.g. office rent)	€ 500K
- Total	€ 3.000k

A continuity reserve in the range of three months means 25% of € 3.000 is € 750K.

Based on the annual average of the consolidated Annual Accounts 2018-2020 the determined **minimum continuity reserve** will be kept on € 1.000.000 for the Association and Foundation Wetlands International in total.

Furthermore the reserves are savings that are used to invest in strategic and institutional development. In this we follow the VFI guidelines of not having a reserve that extends 1.5 times the annual fixed organisational cost.

The above policy will be reviewed once every three years at the minimum. Annually the minimum level of reserves will be checked according to this policy.

In the case of exceptional changes in the environment or circumstances, the Management Board can adjust the minimum continuity reserve after approval by the Supervisory Council.