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**E17: Proposal for EAPN reserves policy**

**What are financial reserves?**

For the purposes of this advice the term “reserves” is applied to that part of EAPN’s income that is freely available for its general purposes. In this document, we differentiate between 2 types of reserves:

1. **Unrestricted reserves** – we can decide to allocate these reserves how we like
2. **Social reserves** – these are reserves which EAPN holds in case of dismissal of employees, where we need to pay social costs

 **Why do we need reserves?**

It is widely recognised (see [here](http://www.nicva.org/resource/guidance-reserves), for example) that organisations which hold reserves are better able to:

* absorb set backs and to take advantage of change and opportunity;
* demonstrate that they have thought through how they might secure their viability beyond the immediate future and provide reliable services over the longer term;
* demonstrate to potential funders that they are effectively managing their resources, and have given consideration to their long-term plans and viability.

**EAPN specifically needs reserves for 3 reasons:**

1. To deal with recurring cash flow issues which arise because of the delay in the Commission’s granting at the start of each year
2. To take advantage of specific opportunities which arise throughout the year, but which are not covered by our annual funding agreement with the Commission
3. To cover the social costs associated with having to dismiss employees

**The current situation (March 2019)**

* We have roughly 175 000 as ‘reserves’ – with no clear separation between ‘unrestricted reserves’ and ‘social reserves’
* One month running costs represents roughly 45 000 euros

**Proposal from the Bureau**

1. Clearly separate our ‘social reserves’ and ‘unrestricted reserves’, with 140 000 being attributed to the ‘social reserves’ and 35 000 being allocated to ‘unrestricted reserves’.
2. Our ‘social reserves’ should be set at a level of **3 months of running costs** and should never go below this.
3. Within 5 years, we should aim for ‘social reserves’ of **5 months** of running costs – 225 000 euros.
4. Reserves on top on this level would be counted as ‘unrestricted reserves’, to be used when deemed necessary by the Bureau – following a proposal from the staff, with the input of at least 2 Bureau members, 1 of whom must be the Treasurer. Note – these funds cannot be used to complement the core running costs of EAPN, as per the rules of the Commission.

**How to build up these reserves**

1. 50% of membership fees should contribute to the ‘social reserves’ each year, until we reach our target. After this, the percentage would contribute to the ‘unrestricted reserves’
2. If and when we bring funds from the EAPN Fund back into EAPN main account, 1 5% of these funds should be allocated to the reserves, split 50 50 between social reserves and unrestricted funds.
3. Overhead costs received from EAPN participation in projects should be used to build up the ‘unrestricted reserves’ wherever possible
4. Any funds leftover from EMIN should, in the first instance, be used to cover cash flow issues.
5. After 5 years, when we are able to use any funds leftover from EMIN, 25% of these funds should go to the social reserve and 75% towards the unrestricted reserves, unless we have already reached the target of 5 months of running costs. In this case, all of the funds would go towards the ‘unrestricted reserves’
6. 5% of any fundraising campaigns should be set aside for ‘social reserves’.