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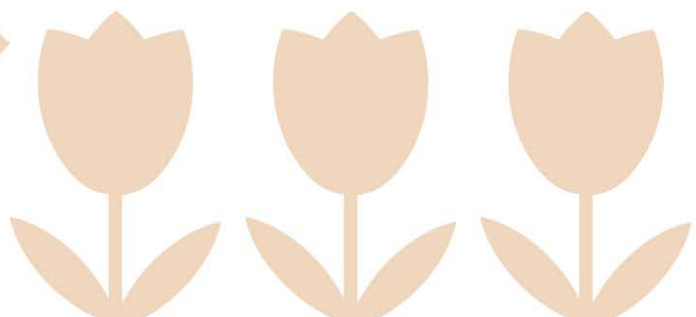


## **Treasurer's Report 2019-2022**

**European Scout Region**



**SCOUTS**  
Creating a Better World



# Treasurer's Report

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## Financial Matters in a Nutshell – Must Read

### How much money does the European Scout Region (ESR) get per year?

The operational income of the ESR amounts to more or less USD 2 million plus funds for projects.

### Has the operational income of the ESR decreased? Why?

Yes. From USD 2.87 million (2018/2019) to USD 2.1 million (2019/2020) to USD 1.7 million (2020/2021).

The reason: The project income went from USD 778'587 (2018/2019) to USD 255'399 (2019/2020) to USD 1,434 (2020/2021), because there were less activities.

### Did the income cover the operational expenses of the ESR?

Yes. Less income for projects means that there were simply less activities. And this means less expenses.

The operational expenditures amounted to USD 2.5 million (2018/2019), USD 1.7 million (2019/2020) and USD 1.6 million (2020/2021), respectively.

### Where does the ESR's money come from?

Around USD 1.4 million (70%) of the income stems from the Fund for European Scouting (FES), also known as the McIntosh Fund. The Regional Registration Fees amount to around USD 200,000 per year.

Other income comprises institutional funding (EU, Council of Europe), fees for seminars and earnings from reserves. An important (but volatile) source of income is project funding (can be as much as USD 675,000 per year).

### What are the main financial risks of the ESR?

The FES money comes in USD. Therefore, a weak USD (compared to CHF/EUR) means the ESR has less money. The same is true if the financial markets have, on the long run, a bad performance.

Project funding depends on respective (institutional) programmes and require a lot of work in order to comply with the requirements under the respective programme. If programmes are discontinued or the ESR cannot manage to meet all requirements under the programmes, the ESR could generate less project income.

### One sentence to COVID-19 and the finances of the ESR?

Financially, COVID-19 did not harm the ESR, because the main sources of income (except for project funding) remained stable, while significantly less activities led to less expenses, so that the reserves of the region have increased during the past triennium.

### How transparent are the finances of the ESR?

Apart from the triennial report (including the option to submit and discuss any finance related questions), the annual accounts, as audited, are circulated together with the Treasurer's explanatory letter in order to ensure full transparency among the members of the ESR.

### Can we be happy with the financial condition of the ESR?

Yes, we can! First of all, the FES is a very reliable and substantial source of income, independent of the Scout-related environment. Secondly, we can rely on our reserves (USD 4 million). And last but not least, we have a strong and skilled team working continuously on the generation of project funds.

## Detailed Report

### 1. General

#### a. Structure and Purpose of this Report

This report on finance matters is not meant to summarize or rephrase the financial statements that have been made available annually. Anyone interested in those details should refer to the audited statements. Instead, the idea is to enable everyone interested to better understand the financial situation of the ESR according to the personal needs. This is why there is an "in a nutshell" section at the very beginning. This section is in itself exhaustive and should allow anyone to understand the financial key facts of the ESR in less than five minutes. The general report is meant for the more interested readers, whereby certain sections are marked as "details" for those interested in specific, mainly technical, details.

#### b. Consolidated Figures – Technical Details and New Approach 2020/2021

It has to be noted that the ESR's finances used to be reflected in three different annual financial statements, one being set up in CHF, one in USD and one in EUR. There were no audited consolidated financial statements of the ESR. In order to make figures more meaningful, they had to be consolidated for the purposes of this report in US dollars, and also to contribute to the WOSM world level accounts in US Dollar. Such consolidation in Swiss Francs eliminates "intra-group" bookings which makes it less complex. The assumed conversion rates are average conversion rates for any given year or year-end conversion rates, entailing some inevitable inaccuracies.

As for the financial year 2020/2021, the financial statements formerly set up in USD and CHF were merged into one ("Swiss/Geneva", including the FES finances). The newly set up consolidated accounts of the ESR show the overall financial situation, consolidated in USD (as this is the world level consolidation currency and makes it in particular easier to compare regional figures with world level figures). These statements are comprehensive; the other statements may add more information, but are technically included in the consolidated version.

## 3. The Regional Scout Plan 2019-2022 and Finance Matters

The Regional Scout Plan (RSP), together with the KPIs derived from it, included a set of objectives for the Finance Support Group to address various finance related matters as described below. While most tasks described to the Finance Support Group were implemented, a few things could not be finalized and will need more time and probably also personal meetings and exchange in order to be mutually thought through and implemented. The following gives a summary of the goals and their respective achievements:

#### Monitoring and Supporting Process for the Budget / Financial Management

At the beginning of the triennium, the Regional Director and the Treasurer have established a set-up process for the annual budget. This process has been documented and modified, as appropriate. The budget uses a pre-defined spreadsheet template used across the oneWSB. This framework that is also made to compare budget figures with actual figures.

The finance team in the World Scout Bureau Europe Support Centre Geneva ("Geneva office") provided on a regular basis actual figures in the budget spreadsheet. The Treasurer, in reconciliation with the Regional Director and the Finance & Administration Manager reported these figures during each business meetings of the European Scout Committee. The Treasurer has developed a standardized reporting form with some flexibility for additional notes. This procedure ensured a permanent and documented monitoring process for the budget.

During the pandemic, budgeted and actual figures were always deviating. In addition, the assumptions to be made for the financial year 2020/2021 were quite difficult, as the duration and the impact of the pandemic could not be foreseen. To ensure a proper budget and controlling even during this extraordinary phase, (i) the budget has been set up conservatively with some flexibility to allow for those

activities that were required to happen if it was possible, (ii) a thorough analysis of the pandemic's potential financial impact to the ESR has been carried out by the Treasurer in reconciliation with the Regional Director and the European Scout Committee, and (iii) the standard monitoring process in combination with the "pandemic risk analysis" continued. This way, a modified controlling process has been carried out throughout the triennium ensuring a permanent oversight over the finances.

## Reporting Standards

As part of the efforts to provide transparent financial information to all stakeholders of the ESR, reporting standards have been developed by the Treasurer (in co-operation and with the feedback of the Regional Director, the European Scout Committee and the Financial Support Group).

While the reporting and its standards during the fiscal year was mainly to the European Scout Committee, the report relating to the respective annual financial statements was to all stakeholders, in particular the Member Organisations. Specific attention was made to report in understandable language and figures, and to add pictures, where appropriate.

## Investments and Investment Policy

Reserves of the ESR that are not planned to be specifically used were put in the European Investment Fund (EIF) and invested. Any investments are made on the basis of the Investment Risk Policy approved by the European Scout Committee on March 9, 2013. While the potential repartition of funds (bonds, equity, cash minimum and maximum percentage of the portfolio) is well described and the monitoring and the analysis of the composition of the EIF portfolio is done on a regular basis by the Regional Treasurer who is reporting to the European Scout Committee, there is still work to be done in order to implement updated investment control guidelines that are fully aligned with the oneWSB Internal Control System for Investment Monitoring. In addition, it turned out to be more complex than anticipated to find appropriate definitions for sustainable investments (real sustainability vs. "greenwashing").

## Best Practices in Finance

The idea that the Finance Support Group shall provide proposals for best practices in finance, investments and fundraising based upon consultation and reconciliation in particular with the European Scout Committee, the fundraising group and the European Scout Foundation is still a viable goal that could not be achieved as much as expected during this triennium. Even though the analysis has started (e.g., in respect of the investments and control guidelines), specific proposals have neither been discussed nor drafted so far. My (non-binding) recommendation for the future: On the basis of a revised investment policy (together with investment and control guidelines), higher prioritisation, corresponding planning and with more options of in-person meetings (e.g., during a physical all-groups meeting), an open exchange across the various groups would probably be a good starting point for progress in this area.

## Support for Member Organisations

Upon request of Member Organisations (directed through the WOSM Services system), the Treasurer and selected members of the Financial Support Group offered support in financial questions. The overall request for support in this area was not significant. It is however expected to grow as per the objectives defined in the proposed 2022-2025 Regional Scout Plan particularly in the areas of risk and diversification of income.

## High-level Risk Register

The Regional Director and the Treasurer have developed a high-level risk register for risks associated to its incomes, including a traffic light system to indicate the risk level as a combined outcome of likelihood and impact and potential and potential or implemented mitigation measures.

Such risk register has been reviewed prior to each business meeting of the European Scout Committee and was presented and discussed upon request within the European Scout Committee.

## Financial Support Group (FSG)

The FSG was to be composed of people with designated (professional) expertise in the areas of accounting, sustainable investments, WOSM finances, consolidation, foreign exchange risk mitigation and controlling. Following this catalogue, the FSG has been set up. Members are

- Marcus Thusgaard Andersen (international controlling/tax professional, Denmark)
- Stephanie Klüter (sustainable finances professional, Germany)
- Siegfried Riediger (former chair of the WOSM World Finance Committee, Germany)
- Tanja Tutić (professional in audit, forensic accounting and finance, Croatia)
- Anne-Christine Vogelsang (staff member Finance, Geneva office)
- Thankmar Wagner (Treasurer ESR, Germany)

The FSG had one physical meeting with five out of six members attending and some video calls. However, most of the work was done individually or shared among two or three members of the FSG. (Please refer to the Triennial Report on the achievements of the FSG)

## 3. Financial Details and Further Explanations

### a. Income Situation 2018-2021 and COVID-19

Apart from the project income (see below) the income of the ESR was quite stable. The Fund for European Scouting (see below) and the Registration Fees are an important pillar of the ESR's finances.

The pandemic did not adversely hit the finances of the ESR. To the contrary, the reserves of the ESR increased during the triennium. The reasons for this can be summarised as follows:

1. The ESR does not operate a scout camp site or house. Therefore, the income was not affected by the various travel bans.
2. The financial markets had a positive development during the pandemic. As the main sources of income of the ESR are depending on the financial markets' situation, this was a positive financial aspect.
3. The loss of project income was overcompensated by the decreased expenses (see below).

Charts reflecting the income situation during the Triennium 2019-2022 can be found in **Annex I**.

### Fund for European Scouting – Details

The Fund for European Scouting (FES) has been founded by Kenneth McIntosh for the benefit of European Scouting. In other words: McIntosh has given, after his death, a part of his money to this fund.

The fund is managed by a bank (JPMorgan Chase in New York City) aiming to increase the fund's value. The fund is not owned by the ESR and therefore not shown in any of its accounts or financial statements, but the fund is held in trust.

Based upon a best practice that preserves the value of the fund on the long run and enables the ESR to use its proceeds in any given year, the fund distributes to the ESR every year in October/November 5% of the three-year average funds value. The grant projection for the next distribution in late 2022 is calculated as follows:

Market Value Date	Market value of the FES
September 30, 2019	USD 27,669,127.07
September 30, 2020	USD 28,639,011.92
September 30, 2021	USD 32,942,140.38

3 Year Total	USD 89,250,279.37
3-year average	USD 29,750,093.12
<b>5% of 3-year average (= distribution to the ESR)</b>	<b>USD 1,487,504.66</b>

Considering the fact that around 70% of the ESR's income is stemming from the FES, such average value of the fund is a key factor for the income. As can be seen in the figures, the most recent development is quite favourable and ensures a high distribution even if the value will drop a bit in the next two years. The fact that the distribution refers to the three-year average makes the distributions more predictable and less volatile than a one-year reference.

There is a good contact established between the ESR and JP Morgan, ensuring that we understand as far as possible the development and the investment decisions as well as the repartition and the development of the fund. However, we basically depend on the development of the financial markets.

Since the distributions are made in USD, but the ESR's principal currencies needed are CHF and EUR there is a risk of a weak USD compared to the EUR and/or the CHF. Risk mitigation measures include the purchase of forward contracts (buying a certain amount of EUR or CHF at a fixed rate, but only at a later date) so that the budget can be set up on the basis of a known exchange rate. To a certain extent this makes sense to mitigate the exchange rate risk (i.e., "losses" compared to the exchange rate used to set-up the budget). On the other hand, such forward contracts incur bank costs and take away the upside potential in case the USD is getting stronger. Therefore, the ESR uses forward contracts to mitigate the principal risk but leaves part of the USD for on the spot conversions at favourable exchange rates. As the USD lost its value compared to the CHF continuously over the last triennium (except for March/April 2021), this approach created "losses" compared to the (i) exchange rate assumed in the budget and (ii) approach to cover 100% of our income by forward contracts. In turn, we lately experience a stronger USD (compared to the CHF) which might entail "profits".

At the end of this triennium, it needs to be noted that the FES distributions were more than ever a very reliable source of income for the ESR, and concurrently with the general development of the financial markets, the growth of value is positive for the future finances of the ESR.

### Project Income – Details

Project income is generated on the basis of planned activities of the ESR. Typically, formalised applications, reports and final accounts have to be submitted. A core requirement is, however, that the project applied for has actually taken place. Having said this, it is no surprise that the missing (physical) meetings and activities that had to be cancelled due to the COVID-19 situation, entailed a significant drop in project income. To the extent advance payments had been received and projects were finally cancelled, project income had to be repaid.

<b>Financial Year</b>	<b>Project Income</b>
2018/2019	USD 778'587
2019/2020	USD 255'399
2020/2021	USD 1,434 (including repayments)

These figures have been thoroughly monitored, controlled, and assessed by the Treasurer together with the Regional Director. The two main questions asked (and our answers) were:

1. To what extent do the expenses of the ESR decrease concurrently with the decline of the project income (risk of overall losses)? – Project income rarely funds 100% of the activity. Therefore, if an activity didn't take place and less or no project income was generated, the ESR had more money left than anticipated with the activity done. From a pure financial perspective, there was no risk, but a financial benefit.

2. Will there be project funding after the pandemic or will the funding be taken away to other areas of financial need (risk of higher self-funding requirement)? – Clearly, the answer here is more difficult, because no one can give reliable information on any such future development. However, we currently see a political environment that aims to keep project income available for activities that the ESR typically does. This means that we cannot see a risk that project income will not be available again as in the past.

Following these considerations, we continue to believe in the quality of the activities in the ESR as well as in the quality of the work required to successfully apply for project funds in the future.

## b. Expenses and Budgets

The breakdown of the ESR's operational expenses can be found in **Annex II**. A detailed analysis of the operational expenses would go beyond the scope of the Treasurer's report as it is basically a political decision how to spend the ESR's money.

However, there are a couple of key observations to note:

Project expenditures are the most volatile line item. Therefore, it should be noted that these expenditures are just the flip side of the project income (see above). During any given period, the project income and the project expenditures are balanced. Thus, the volatility is not a problem, but just the result and the reflection of the project activities.

Personnel costs are around USD 1 million per year. This reveals the strength and the qualification of the region's employees being one of the backbones of the ESR's day-to-day work, in particular during the pandemic.

It is key for the ESR to anticipate its financial needs and to put it into a budget. For details see Sec. 3 above.

We experience:

1. ordinary plan-actual deviations. These are typically on an activity level and have therefore no impact on our big line items. In addition, the deviations have a compensating effect in themselves. This means that there is no tendency to simply overspend budgets, but a budgeted item can be overspent or underspent.

2. extraordinary plan-actual deviations. These are consequences of the pandemic and have a major effect on the income as well as on the expenditures of the ESR. Close monitoring and risk assessments were necessary to navigate through these times. For details see Sec. 3 above.

## c. Equity as of 30 September 2021 – Details

Taking into account that the ESR has merely technical liabilities (e.g., from intra-group accounts, restricted funds or accruals), the consolidated equity (USD 4,449,894) reflects almost 94% of the ESR's assets (USD 4,744,553).

While the cash situation of the ESR follows a saw-tooth pattern (funds are coming in from late October until January, then they are continuously used until the drop-in of new funds late October), the non-current assets consist mainly of the EIF amounting to CHF 3.3 million (2021, see above).

This is a healthy equity position with no changes needed for the time being.



## Financial Reserves – European Investment Fund (EIF)

At first glance, reserves are not income. However, reserves can be a strong pillar for sustainable income: They can fill an income gap if need be (planned or unplanned). But bigger financial reserves (well administered) may produce proceeds leading to a sustainable source of income. This is one of the reasons why the ESR set up the EIF a couple of years ago.

The EIF value went from CHF 2,985,203 (Sep 30, 2019) to CHF 2,923,631 (Sep 30, 2020) and to CHF 3,334,871 (Sep 30, 2021). During the triennium, the funds were administered by the European Scout Foundation (ESF); as of the date of this report, the intention is to repatriate the EIF to the ESR, because the administration of the EIF by the ESF bears the risk of non-compliance with (i) the Swiss Financial Market Supervisory Authority (FINMA) rules and (ii) the Swiss accounting rules Swiss GAAP FER 21.

Currently, the EIF is accumulating its proceeds since there is no need to distribute. This pillar of the ESR's income is still growing and currently already a reliable backbone for unforeseen or special financial needs of the ESR.

One positive side effect of the EIF is the fact that the overall volume of funds administered by the ESF is higher which generally entails more favourable options/conditions.

### d. Transparent Finances

We maintained the practice to share the annual accounts, as audited, with all members of the ESR. In addition, we are (i) explaining how to read those accounts and (ii) giving a quick reader-friendly overview in the Treasurer's accompanying letter.

The aim is full transparency combined with the option for quick access to the key facts. This concept was also used when preparing this report.

***Thankmar Wagner***

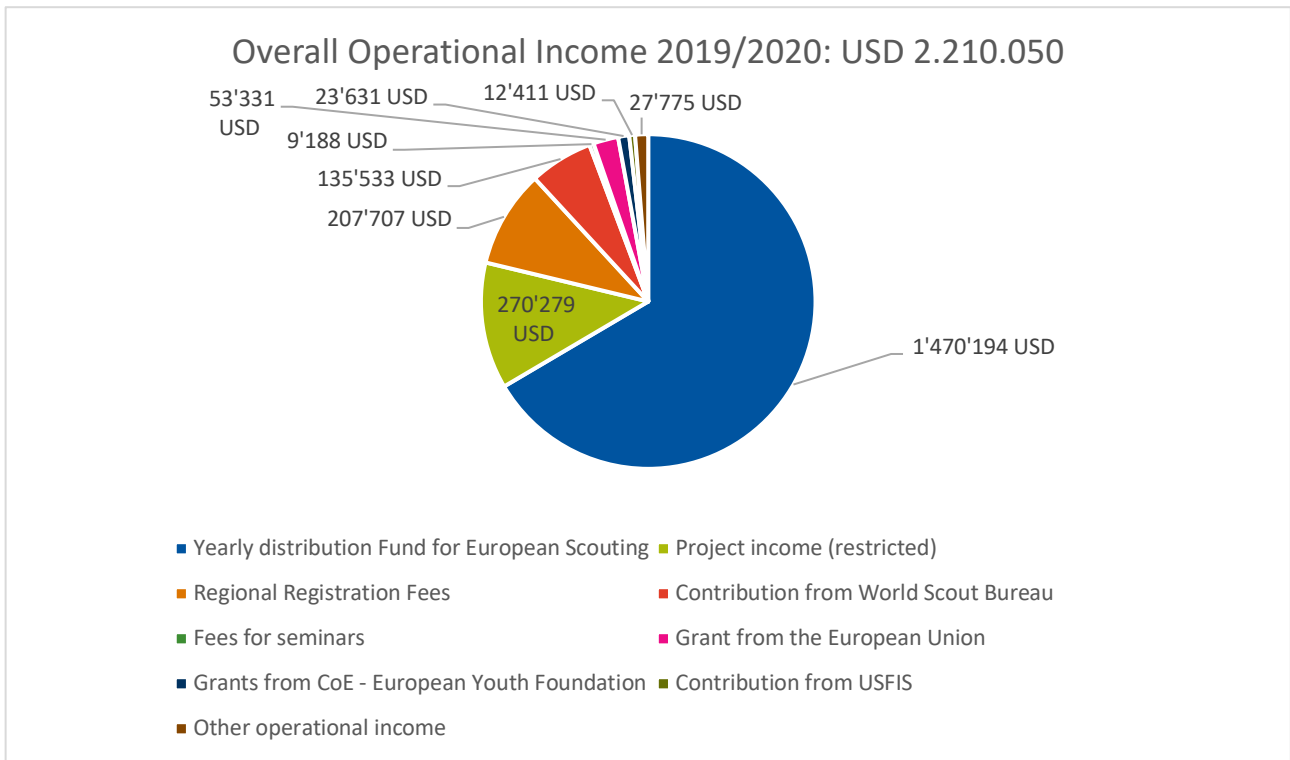
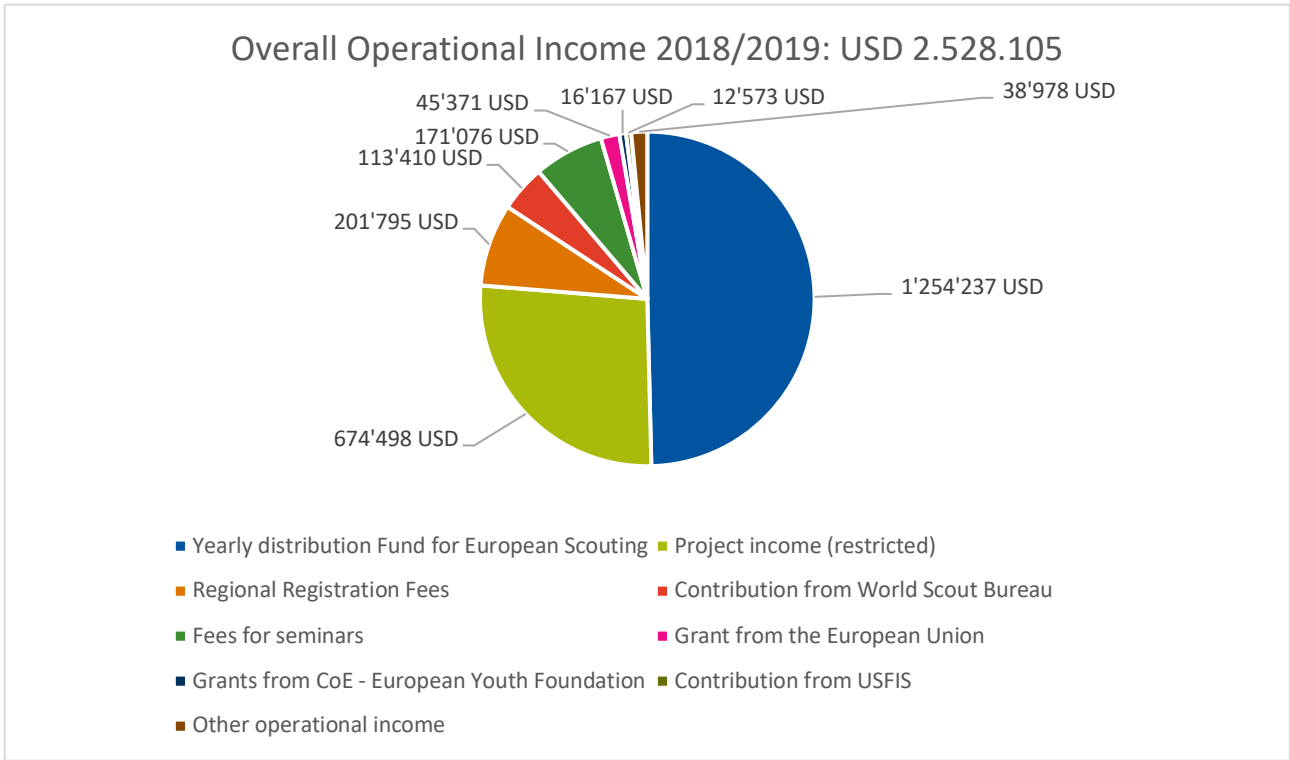
Regional Treasurer

25 June 2022

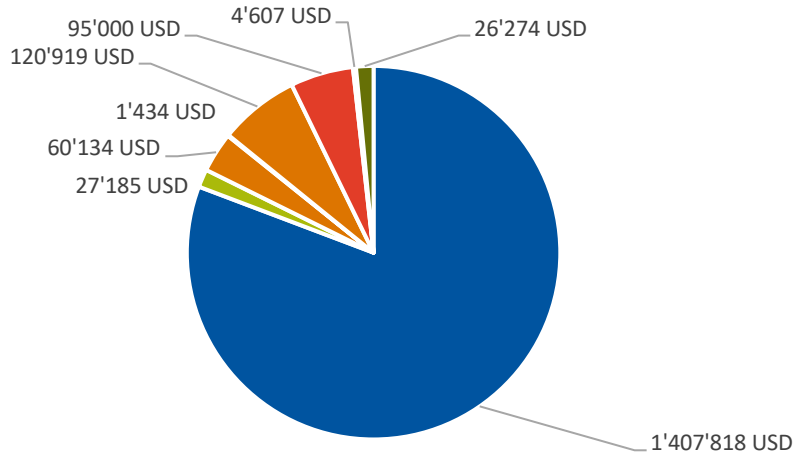


## Annex I – Income Charts

Note to all charts/figures: Figures are converted or even re-converted in USD to be easily compared throughout the triennium. This leads to certain inaccuracies. Therefore, please refer to the respective financial statements for accurate specific figures.



### Overall Operational Income 2020/2021: USD 1.743.371



- Yearly distribution Fund for European Scouting
- European Union Grants
- Regional Registration Fees
- Participation Fees
- CoE Grants
- Project income (restricted)
- Contribution from World Scout Bureau
- Other operational income

## Annex II: Operational Expenses 2018-2021

Note: These charts are meant for easy comparison and therefore simplified and aligned using the latest set of goals. The financial year 2018/2019 was accounted differently and had to be squeezed in the new structure (entailing certain inaccuracies). HR cost has been allocated to the goals according to the budgeted percentage, respectively.

	2018/2019	2019/2020	2020/2021
Goal 1: Services: Sustainable Growth	1.079.898 USD	628.887 USD	611.753 USD
Goal 2: Governance	373.397 USD	208.936 USD	226.003 USD
Goal 3: Strengthening fundraising cap.	0 USD	73.783 USD	88.707 USD
Goal 4: Better World Framework	47.894 USD	13.760 USD	0 USD
Goal 5: High Quality Events	194.847 USD	67.744 USD	54.217 USD
Goal 6: Communication	72.763 USD	35.771 USD	38.177 USD
Goal 7: Partnerships	223.883 USD	92.998 USD	70.573 USD
Goal 8: Impact Measurement	49.823 USD	60.541 USD	34.911 USD
Goal 9: Finance and Administration	254.958 USD	333.945 USD	316.259 USD
Goal 10: WSB Coordination	211.636 USD	214.368 USD	129.024 USD
<b>Total</b>	<b>2.509.098 USD</b>	<b>1.730.733 USD</b>	<b>1.569.623 USD</b>

Overall HR Cost (allocated to Goals)	1.055.656 USD	1.100.752 USD	1.163.684 USD
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