



Finances 2016

Advancing health
and ability



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Budget and results 2016

As in previous years, in 2016 too it proved to be a challenge to maintain a balanced budget. The objective was to consolidate our income from NLR fundraising in the Netherlands at the 2014 level, i.e. €2.5 million excluding proceeds from legacies. We had hoped that the drop in income from legacies in 2015 (from the budgeted €2.5 to €1.7 million) had been a one-off, and kept our 2016 target for those proceeds level with the 2014 result at €2.5 million. In the overall budget, we included contributions for programme support from third parties and partnerships and extra income from institutional fundraising.

The NLR budget for 2016 is, as stated, a balanced one. In the annual accounts however, the 2016 overall balance ends with a deficit of €374,000 due to the fact that this is the consolidated account of the balanced NLR account and the LRI one. The latter ended the year with a deficit.

Unfortunately, the income from legacies showed a substantial drop against budget for the second year in a row. Equally, the return on investments was below budget, though less so than in 2015.

On top of this shortfall in income, additional personnel costs were incurred and as a result of earlier decisions and externally funded projects a substantial amount was invested from the NLR reserves. Such additional expenses as well as spending of earmarked reserves added to the annual loss as presented in the annual accounts.

The resulting loss was partially compensated by higher income from private donations in the Netherlands, despite difficult market conditions for fundraising. Furthermore, we spent less on country programs and consultancy. On 31 December 2016, the total nett loss amounted to €914,000. Without taking the additional expenses and spendings relating to earmarked reserves and funds into account, the net loss for 2016 would have been €322,000.

Income in 2016

The 2016 total income was €10.6 million, an increase compared to last year's €9.7 million, but falling short of the budgeted €11.8.

Income from NLR fundraising

The total income from our own private fundraising was €4.2 million, which is 15% lower than the €5 million budgeted and over 1% lower than in 2015. This was mainly due to a lower income from legacies.

The income from contributions, (charitable) donations and gifts in 2016 was €2.4 million, 4% higher than budgeted (€2.3 million), but almost 5% lower than in 2015 (€2.5 million).

The proceeds of €1.7 million from legacies is €840,000 below budget. This is the second year in a row that income from legacies is much lower than budgeted, and indications are that we should expect a further decline in the coming years. Measures have therefore been taken for the 2017 budget and the forecasts for the following years.

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Income from third-party campaigns

The income from third-party campaigns was €3.4 million (budget 2016: €4.7 million), €0.2 million lower than the income in 2015.

The income from the Dutch Postcode Lottery amounted €1.35 million.

The income from contributions for (LRI) research projects, supporting projects and field activities from ILEP members and other organizations was €2.0 million, which is less than budgeted (€3.3 million) and also less than in 2015 (€2.3 million). Included in these amounts are: contributions from partners for the Leprosy Research Initiative (LRI) and for Infolep and InfoNTD; from Novartis Foundation for the LPEP project; from LEPRO UK for a project in Zambézia, Mozambique; from several partners for a wide range of field programs in various countries, and the Liliane Foundation for activities of the Mekong Regional Coordination Team, hosted and facilitated by the NLR Regional Office in Hanoi.

Also included is an amount of €250,000 received from Liliane Foundation from their earmarked fund for the joint, NPL funded project These shoes are made for walking.

In 2013 Liliane Foundation received part of the total project budget. Tranches are transferred to NLR in line with the project's projected expenditures.

The indicative amount of €311,000 that is presented as income in the budget, and correspondingly as expenses in the same amount, reflects this movement of funds. The actual amount received in 2016 from Liliane Foundation, added to the earmarked fund at NLR, is €250,000.

Income from governments and global organizations

Income from governments and global organizations increased to €2.7 million (2015: €1.7 million) and consists of contributions from GFATM (The Global Fund To Fight AIDS, Tuberculosis and Malaria) for TB - activities and programs in Nigeria. For the first time a second program was financed, the Multidrug-resistant TB Program. The expenses financed from these contributions are included in the project expenditures for 2016 for the same amounts.

Interest income and income from investments

Investment and interest revenues were €123,000 in total. Although this is below the budgeted amount of €150,000, it is a substantial increase compared to the 2015 result of €35,000.

Gross income from investments alone was €120,000, compared to the much lower €19,000 of 2015.

The current portfolio is managed by an external agency. Investments have to be in line with the NLR investment policy, which prescribes investments in sustainable, socially responsible and low-risk bonds. Adherence to this policy by the investment manager is checked twice a year. In 2016, the yield on the portfolio was 1.80% (2015: 0.04%).

We also received about €3,000 in interest from cash and cash equivalents (in 2015: €16,000). This disappointing result is a reflection of the extremely low interest rates on bank accounts.

Other income

In the 2016 budget, a total amount of €405,000 was included as 'other income.' The realized income of

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around €18,000 from non-institutional local fundraising outside the Netherlands was raised in India and fell short of the budgeted €50,000.

Expenses in 2016

Expenses on the objectives

In 2016 €10.2 million was spent on fulfilling the objectives, compared to €9.4 million in 2015. This amounted to 96% of the total income (2015: 97%) and 89% of the total expenses (2015: 87%). We had budgeted to spend €10.9 million for 2016.

Direct expenses for field programs amounted to €6.8 million (2015: €6.5 million), against a budgeted €5.7 million. The increase can be explained by the expenses of the GFATM (The Global Fund To Fight AIDS, Tuberculosis and Malaria) TB -and MDR TB- activities in Nigeria, which were still unclear when budgets were being drawn up.

Innovation costs in field programs financed from the investment reserve (including the in-country programs for NLR2020) with a total of €186,000 that had not been included in the regular operating budget for 2016, had to be recorded in the annual accounts as expenses for 2016. The same applies to the expenses (€305,000) ultimately financed from the earmarked fund for the NPL project. These shoes are made for walking.

Included in the expenses for field programs is an amount of €83,000 for so-called Priority Areas, an initiative towards establishing more focus in our field programs. These two-year projects in our Country Offices started in 2016. For 2017 an amount of €209,000 has been allocated in our reserves.

The sum of €1.15 million was spent on scientific research, including the LPEP project (2015: €931,000). Of this amount, almost 82% was spent on research projects under the LRI.

A total of €558,000 (2015: €439,000) was spent on project support, including €224,000 for three projects financed out of the investment reserve: the InfoNTD pilot, the PEP++ project and part of NLR2020, the process of transforming our branch offices into local NGOs. Expenditure on project coordination, including technical advice from the Royal Tropical Institute (KIT) and other consultants, amounted to €1 million (2015: €1 million) against the budgeted €1.3 million. Reasons for these lower expenses were the termination of the agreement with KIT in September 2016 and lower spendings on other consultants. Both contributed to the necessary budget cuts, due to the low income from legacies.

An amount of €572,000 (2015: €467,000) was spent on information and awareness raising in the Netherlands, which exceeded the budgeted €531,000. With a total of €367,000, direct costs were higher than the budgeted €323,000. This increase was largely caused by activities in preparation of the NLR's 50th anniversary in 2017.

Fundraising expenses

Expenditure on fundraising was €866,000 instead of the budgeted €875,000. Direct costs were €655,000 instead of the budgeted €696,000. The total spendings on our own fundraising amounted to 18.8% of the income from our own fundraising (2015: 20.1%). This is well under the maximum of 25% set by the

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Dutch Central Bureau for Fundraising. NLR strives to keep the costs of its own fundraising under 21% of the income raised.

Management and administration expenses

Expenditure on management and administration was €476,000, which is below budget (€502,000) and much lower than that of 2015 (€583,000). Higher staff costs in 2015 were caused by a once-only settlement payment and the temporary staff costs incurred to fill the resulting vacancy in the Finance Department. There was also a decrease in staff costs in 2016 due to the management assistant's resignation, which position was filled in after half a year. The charged office costs were lower than in 2015, which was mainly thanks to the lower implementation expenses for a new financial software package. This implementation project is financed from the investment reserve but its 2015 and 2016 costs had to be entered as expenses in the annual accounts.

As a percentage of the total expenses, management and administration expenses were 4.1% in 2016 (2015: 5.4%), which is on budget. NLR is currently using 5% as standard for Management and Administration expenses. The lower ratio compared to 2015 is the result of lower expenses for management and administration on the one hand and higher total expenses on the other.

Charged support costs

All of the above-mentioned cost categories have two components: the direct costs, and the charged support costs. The latter comprises personnel costs, housing, office and general expenses and depreciation and interest, and they are allocated to the three main categories, i.e. objectives, fundraising and management and administration.

In total these expenses amounted to €1.9 million in 2016. The budget of € 2.0 million equalled the expenses in 2015.

Staff costs were €1.6 million (2015: €1.5 million), while the budget was €1.8 million. This is the result of lower staff costs for the management assistant as mentioned earlier, as well as lower staff costs for the Programme Department. The budget allowed for two positions for the NLR2020 project, to be financed from the investment reserves. However, while one of the vacancies was not filled until April, the other was not filled at all.

The other support costs were €366,000, which exceeds the budget by €77,000, but remains lower than the 2015 result (€438,000). The main cause of these differences is the implementation of a new financial software package. This implementation project is financed from the investment reserve and therefore not included in the regular annual budget, but as in the previous year, the 2016 expenses had to be entered into the annual accounts as expenses. Similarly, the costs for the ISO certification project are also financed from the investment reserve. Finally, the costs for a temporary management assistant contributed to the excess costs.

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Reserves and funds

NLR's reserve policy is closely linked to the long-term relationship with many partners in endemic countries. Our partners must be able to rely on the fact that NLR can fulfil its commitments. For that reason, NLR has earmarked a reserve to ensure payment of future programme expenses and transitional phasing out budgets.

The continuity reserve is an earmarked reserve for continuity risks for the organization itself. According to the guidelines of the CBF, this reserve can amount to a maximum of 1.5 times the annual organizational costs. NLR aims at a continuity reserve of between 0.5 and 1 times the yearly costs of the work organization. At the end of 2016, the continuity reserve was €2.3 million (0.9 times the yearly costs of the work organization).

Another earmarked reserve is the one for projects. This reserve consists of funds for specific projects with approval from the Supervisory Board in the coming year. Since these are conditional liabilities, these amounts are recorded in an earmarked reserve. The project reserve amounts to €3.7 million.

The investment reserve contains funds that are earmarked for investments in innovation and capacity building. A total spent amount of €514,000 was put to use in 2016 (2015: €244,000), of which €300,000 was spent on the multi-annual NLR 2020 project. NLR 2020 involves a further transformation of local offices into local NGOs with local Boards and rooted in a local network. This investments must lead to financially sustainable local organizations in the future. The process, which also demands a different role of the International Office, can only be successful if capacities in all offices are strengthened. In some cases, by training, in other cases by hiring new staff. Furthermore, investments will be necessary for the development of new models and instruments.

An extra dotation to the investment reserve of €209,000 has been made for the biennial Priority Areas project, an initiative to work towards more focus in our field programs. These biennial projects in our Country Offices started in 2016 and this reserve will be charged for the 2017 expenses.

All in all, the investment reserve was €2.4 million at the end of 2015. Similarly, it was €2.1 million at the end of 2016, most of which will be used for the NLR2020 process.

Finally, the fund that was specifically designated for the Dutch Postcode Lottery funded project These shoes are made for walking, had a balance of €449,000 at the end of 2016. In 2016, an amount of €250,000 was received from Liliane Foundation from their earmarked fund. This amount was added to the NLR earmarked fund. From the NLR earmarked fund, activities were financed for a total amount of €328,000. In total, the earmarked fund therefore decreased by €78,000.

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Consolidated annual account

Since 1 June 2015, the Leprosy Research Initiative (LRI) has been registered as a Foundation under Dutch law. The LRI is a unique model of cooperation and coordination in the funding of research. In 2015, five NGOs, i.e. American Leprosy Missions (ALM), German Leprosy Relief Association (GLRA), effect:hope, The Leprosy Mission International (TLMI) and Netherlands Leprosy Relief (NLR), jointly committed to the fight against leprosy and combined their funding for leprosy-related research in the joint LRI fund. The director of Netherlands Leprosy Relief (NLR) manages the Foundation, implementing the decisions of the LRI EXECUTIVE GROUP and supervised by the Supervisory Board of NLR. The LRI annual account 2016 has therefore been consolidated with the NLR annual account 2016. In the consolidated annual account the separate NLR annual account is included, with an explanation of those items where the consolidated annual account differs from the NLR annual account.

Beyond 2016

As always, the budget for 2017 is a balanced one. This includes an unspecified reduction in expenses of €44,000. Specification will become apparent during the year. We have decided to decrease the forecast income from legacies from the €2.5 million that was used in earlier years to €1.8 million for 2017.

Unfortunately, as a consequence of income decreases, difficult decisions had to be made. In October 2016 NLR decided to withdraw its funding from Mekong region and Nigeria. The Mekong program was up to that point covering Vietnam, Cambodia, Laos, Myanmar, Thailand and China. The NLR Mekong office in Hanoi now plans to evolve into a locally-registered organization in Vietnam, and to develop more in-country (Vietnam) and regional (Cambodia and Myanmar) programs linked with similar organizations working on disability, for which new external funding needs to be found. For 2017 and 2018 the Mekong team will receive transitional NLR funding from the reserves to enable the transition towards a local NGO that will attract more external funding.

NLR also decided that the involvement in Nigeria will have to be discontinued in 2017. A phase-out plan with the purpose to document and exchange the innovative approaches in situations of low(er) level leprosy endemicity will guide the work in 2017. This plan will be financed from the reserves.

The GFATM programs for TB and MDR TB will be continued under the present GFATM funding until the end of 2017. To secure future involvement of the experienced team for TB control in North East Nigeria, NLR seeks to involve another eligible organization to continue the TB work and take over the team involved. As from 2018 NLR will terminate its direct involvement in leprosy and TB work in Nigeria.

The co-financing of the Madagascar program run by Fondation Raoul Follereau was terminated. NLR Indonesia will cut down on core assistance (routine support) in leprosy control and focus on developing innovative approaches even more than it did these past years. Further reduction in expenses was achieved by cutting expenses in the International Office.

Part of the budget for 2017 that will come available with the termination of regular financing in Mekong and Nigeria is reserved for projects that refocus NLR's strategic priorities on 4 Key Priority Programs (KPPs), strengthen the remaining Country Offices and NLR's technical capacity.

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NLR Budget 2017

This is the approved budget for NLR for 2017.

For the separate LRI budget for 2017 we refer to the LRI annual accounts.

Amounts x
€1000

Income:	
- Income from own fundraising	4,300
- Income from Third-Party Campaigns	4,133
- Grants from governments and global organizations	3,529
- Interest income and income from investments	100
- Other income	48
Sum of income	12,110
Expenses:	
Expenses on the objectives	
- Leprosy control and disability program activities	9,205
- Coordination and medical advice	1,149
- Information and awareness raising	513
	10,866
Expenses fundraising	
- Expenses own fundraising	787
- Expenses on investments	20
	807
Management and administration	
- Expenses management and administration	481
	481
Budget cuts to be defined	(44)
Sum of expenses	12,110
Result income and expenses	0

The projections for 2018 and 2019, linked to the rolling Multi-Annual Strategy, are for the most part kept equal to the 2017 budget except for the income from legacies, which we expect will further decline in the coming years, to €1 million in 2019.



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