

Reserves policy

(adopted by the ECMWF Council at its 75th session on 16-17 June 2011)

1. Background

The ECMWF Financial Regulations stipulate that:

“The Centre shall formulate a reserves policy. The reserves policy shall be approved by the Council. Any transfers to or from reserves will be in compliance with the Centre’s reserves policy.” (Article 39 bis)

The Council, at its 75th session in June 2011, decided that the level of reserves should be up to 5% of the gross budget, with a long-term goal of maintaining them at 5%.

2. Risks which can be covered by the reserves

The following risks in the Centre’s core budget can be covered by the reserves:

- a. Uninsured emergencies such as a sudden breakdown of key technical equipment
- b. Shortfalls in budgeted variable revenues
- c. Foreign exchange losses
- d. Unforeseen increases in costs of utilities, especially in electricity unit costs and insurance costs

The following risks related to the management of externally funded projects, Optional Programmes and Third Party Activities can be covered by the reserves:

- e. A shortfall in provision for consultants' costs, which are not covered by the budget
- f. Losses resulting from currency fluctuations
- g. Maternity leave
- h. Prolonged illness or sudden death
- i. Delays in deliverables by ECMWF or partners
- j. Failure of coordinator or partner to forward payment to ECMWF
- k. A need to extend consultants’ contracts when a project ends and a follow-up project is delayed

Note that the above is not nor is it intended to be an exhaustive list of the use of reserves. There may be other instances where the use of reserves is appropriate.

3. Authorisation for use of the reserves

In general, the Council authorises the use of the reserve. However, in the case of uninsured emergencies (see Risks to be covered by the reserves, item a), the Council delegates the authorisation for the use of the reserve to the President of the Council for cases when the decision cannot wait until the next Council session.

4. Conditions for use of the reserves

As stated above, the reserves can be used for core budget items, externally funded projects and Third Party Activities. In the case of usage for core budget items, the following conditions will apply:

1. Prior to considering drawing on the reserves, the Director-General shall check to ascertain whether there are surpluses in variable revenue or whether there are any surpluses projected under any chapter of expenditure and also identify areas where it is possible to make further savings without compromising the effective functioning of the Centre. If there are surpluses in variable revenue or projected under a chapter of expenditure, these will be used prior to recourse to reserves.

If there are surpluses in variable revenue or surpluses projected under a chapter of expenditure, but they are insufficient to cover the funds required, then the balance may be drawn from the reserves.

2. Any use of the reserves authorised by either the Council or the President of the Council to cover an increase in the Centre's expenditure will be formally reflected in a supplementary budget, Article 16 paragraphs 3 and 4 of the Financial Regulations notwithstanding.

Where the reserves are used for externally funded projects or Third Party Activities, the funds will come directly from reserves, precluding the conditions above.

5. Review of reserves

The reserves will be reviewed annually by the Finance Committee.

6. Replenishment of reserves

By definition, the reserves will be used only if there are no other funds available, i.e. in situations where the Centre would otherwise have an overall deficit. In such situations, the use of reserves is likely to reduce the balance in the reserves to below the agreed level. In such cases the reserves should be replenished in the following year(s).