

	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

**NATO UNCLASSIFIED**

30 October 2015

**DOCUMENT**  
C-M(2015)0072-AS1

**IBAN SPECIAL REPORT TO COUNCIL ON THE  
PROGRESS OF THE TRANSITION TO THE NEW  
NATO HEADQUARTERS**

**ACTION SHEET**

On 29 October 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)18 and agreed the RPPB recommendation regarding public disclosure contained in the RPPB note attached to C-M(2015)0072.

(Signed) Alexander Vershbow  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0072.

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21 October 2015

**NOTICE**  
C-M(2015)0072  
**Silence Procedure ends:**  
**29 Oct 2015 18:00**

**IBAN SPECIAL REPORT TO COUNCIL ON  
THE PROGRESS OF THE TRANSITION TO THE NEW NATO HEADQUARTERS**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) Special report to Council on the Progress of the Transition to the New NATO Headquarters.
2. This follow-up to the IBAN's 2012 performance audit of the New Headquarters project (C-M(2013)0009) found that there are still potential risks to the scope of transition projects, costs and milestones.
3. The IBAN report has been discussed and noted in the Deputy Permanent Representatives Committee (DPRC), as the committee exercising project governance of the new HQ project. The IBAN report has further been noted by the Resource Policy and Planning Board (RPPB), which has provided a disclosure recommendation.
4. I consider that no further discussion regarding this report is required. Consequently, unless I hear to the contrary **by 18:00 hours on Thursday, 29 October 2015**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)18 and agreed the RPPB recommendation regarding public disclosure contained in the enclosed RPPB note.

(Signed) Alexander Vershbow

Enclosure 1: AC/335-N(2015)0057-REV1 + AS1  
Enclosure 2: IBA-AR(2014)18

2 Enclosures

Original: English

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-1-



**RESOURCE POLICY AND PLANNING BOARD**

**IBAN SPECIAL REPORT TO COUNCIL ON  
THE TRANSITION TO THE NEW NATO HEADQUARTERS**

**Note by the Secretary**

On 11 September 2015, under the silence procedure, the Board approved the report to Council (AC/335-N(2015)0057-REV1).

(Signed) Reinhard Strasser

Note: This Action Sheet should be attached to the subject notice as the top sheet.

Action Officer: Reinhard Strasser  
Original: English  
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4 September 2015

**NOTICE**

AC/335-N(2015)0057-REV1

Silence Procedure ends:

11 Sep 2015 15:00

**RESOURCE POLICY AND PLANNING BOARD**

**IBAN SPECIAL REPORT TO COUNCIL ON  
THE TRANSITION TO THE NEW NATO HEADQUARTERS**

**Note by the Chairman**

1. I attach the revised version of the special IBAN report on the Transition to the New NATO Headquarters, updated in line with the discussions at the 3 September 2015 meeting of the Board.
2. Agreement to the report is sought under the **silence procedure ending 15.00, Friday 11 September 2015.**

(Signed) Giorgio Romano

1 Annex

Action Officer: H. Ronning (ext. 4463)  
Original: English  
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**IBAN SPECIAL REPORT TO COUNCIL ON  
THE TRANSITION TO THE NEW NATO HEADQUARTERS**

**Report by the Resource Policy and Planning Board**

References: (a) IBA-A(2014)202 & IBA-AR(2014)18  
(b) C-M(2013)0009  
(c) DPRC-DS(2015)0022

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. I attach the International Board of Auditors for NATO (IBAN) Special report to Council on the Progress of the Transition to the New NATO Headquarters (reference (a)). This follow-up to the IBAN's 2012 performance audit of the New Headquarters project found that there are still potential risks to the scope of transition projects, costs and milestones.
3. The Board agreed to handle this follow-up audit in the same manner as the 2012 performance audit on the New Headquarters project (reference (b)). The DPRC, as the committee exercising project governance of the New Headquarters project, considered and discussed, at its meeting on 7 May 2015, the IBAN Special Report to Council. The DPRC noted the report and agreed to forward it to the RPPB for notation and onward transmission to Council together with a corresponding disclosure recommendation (reference (c)).
4. With regard to public disclosure, after due consideration, the RPPB concludes that the subject IBAN Special Report to Council does not contain information which, according to NATO Policy on Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, therefore recommends that the Council agree to the public disclosure of subject IBAN report.

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ANNEX 1  
C-M(2014)XXXX

**Summary Note for the Council by the International Board of Auditors for NATO  
on the progress of the transition to the new NATO Headquarters**

**Introduction**

The Board conducted this audit as a follow-up of its 2012 audit work on project management of the new NATO Headquarters. Our current report focuses on the arrangements for the transition from the current headquarters building to the new one.

**Objective**

Our audit work had two objectives, to assess (1) the extent to which the Transition Board is meeting its mandate through demonstrated progress with regard to key elements of the Transition Management Plan such as operations and maintenance costs and strategies and the plans for the physical move and (2) the governance structure of the Transition Board and Transition Office activities.

**Scope and Approach**

This follow up audit is intended to provide a timely highlight of areas where there are early indications of risks and which must be addressed promptly to avoid potential significant negative impacts related to the scope of transition projects, costs and milestones. To provide the evidence for this report, the audit team analysed documents and working papers, some in draft form, as well as meetings with and written responses from working and senior level officials. The Board has not sought to fully audit the data provided by NATO bodies or the statements they have made.

**Audit Highlights**

***Executive Management will not be able to operate and transition to the new headquarters within planned budgets***

The Board found that the Transition Office is not able to provide Nations with complete and up-to-date estimates of the total costs required for transition. Though the Board is encouraged by the progress estimating, screening and updating the costs of O&M, dual operations and relocation for the NNHQ, it remains concerned that the O&M plans and estimates are delayed and no sourcing strategy has been decided.

***The Transition Programme lacks adequate planning and oversight***

The Board found that plans for transition management have progressed since our last audit review on the new headquarters project. However, plans have not yet been fully developed, nor have they been fully agreed by management and/or key decision-making bodies. This limits the ability to mitigate the risks of delays or budget increases.



**Conclusion**

This follow-up to the Board's 2012 audit of the new headquarters project found that there are still potential risks to the scope of transition projects, costs and milestones. The Board emphasises the urgency of addressing these risks as the transition date approaches.

**Recommendations**

In order to address these findings, the Board has made the following three recommendations:

1. The Board reiterates its previous recommendation to ensure a renewed focus on more complete and updated O&M and detailed Transition Programme budget estimates. In particular, Nations should seek to prioritize a management decision on the subject of the future O&M plans, sourcing strategy and obtain justified ICT O&M estimates.
2. The Board recommends the Transition Board ensure proper stewardship and robust governance through regular meetings and thorough scrutiny of plans and progress of transition activities to achieve an effective and transparent new headquarters transition. In addition, the Transition Board should report directly to the DPRC and, when appropriate, to Council.
3. The Board recommends that the plans and priorities for transition should be in accordance with generally recognised project management principles. These include but are not limited to, the following:
  - The plan should be approved by stakeholders, decision-makers and the governing body or board in a timely fashion,
  - The plan should be adequately resourced,
  - The plan should have a clear timeline, including dependencies and key decision points, and
  - The plan should be regularly updated in order to demonstrate progress and shortfalls.

The Assistant Secretary General, Executive Management Division provided detailed comments on the draft of this report. These comments have been reproduced in full in the final version of the report. The Board considered these comments carefully but saw no reasons to change its conclusions or recommendations. The Board noted that the ASG, EM agreed fully with recommendations 1 and 3 and partly with recommendation 2.

**Period covered by the audit**

The follow-up audit work covered the period between 26 March 2014 and 30 June 2014.

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ANNEX 2  
C-M(2014)XXXX  
IBA-AR(2014)18

18 September 2014

*(Final version – 26 September 2014 –  
including the comments of the Assistant Secretary General,  
Executive Management Division)*

**INTERNATIONAL BOARD OF AUDITORS FOR NATO (BOARD)**

**SPECIAL REPORT TO COUNCIL**

**ON THE PROGRESS OF**

**THE TRANSITION TO THE NEW NATO HEADQUARTERS**

**NATO UNCLASSIFIED**



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## **1. INTRODUCTION**

The International Board of Auditors for NATO (Board) conducted this audit as a follow-up to its last performance audit survey on the new headquarters project released to Nations on 30 November 2012.<sup>1</sup> At that time, the Board proposed areas where further audit work could be conducted to help NATO achieve the full potential that the move to the new building represents. These areas covered the arrangements for the transition from the current headquarters building to the new one, including the activities of the Transition Board and the Transition Office.

## **2. AUDIT OBJECTIVES, SCOPE AND METHODOLOGY**

2.1 This follow up audit is intended to provide a timely highlight of areas where there are early indications of risks and which must be addressed promptly to avoid potential significant negative impacts related to the scope of transition projects, costs and milestones.

2.2 The audit team conducted the work with two objectives, to assess:

- (1) the extent to which the Transition Board is meeting its mandate through demonstrated progress with regard to key elements of the Transition Management Plan, such as operations and maintenance (O&M) costs and strategies and the plans for the physical move; and
- (2) the governance structure of the Transition Board and Transition Office activities.

2.3 The observations in this follow-up audit report are based on analysis of documents and working papers, some in draft form, as well as working level meetings with and written responses from the Transition Office (TO), the Headquarters Project Office (HQPO), the Belgian Cour des comptes, the NATO Communications and Information Agency (NCIA) and the NATO Office of Resources (NOR). The audit team also met key senior NATO officials such as the Dean of the Deputy Permanent Representatives Committee (DPRC) and the Assistant Secretaries General (ASG) Defence Investment (DI) and Executive Management (EM). Information, Communication, Technology (ICT) services were not part of the scope of this audit. The Board has not sought to fully audit the data provided by NATO bodies or the statements they have made. The follow-up audit work covered the period between 26 March 2014 and 30 June 2014.

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<sup>1</sup> IBA-AR(2012)33, Special Report to Council on the Performance Audit Survey of the New NATO Headquarters Project Management.



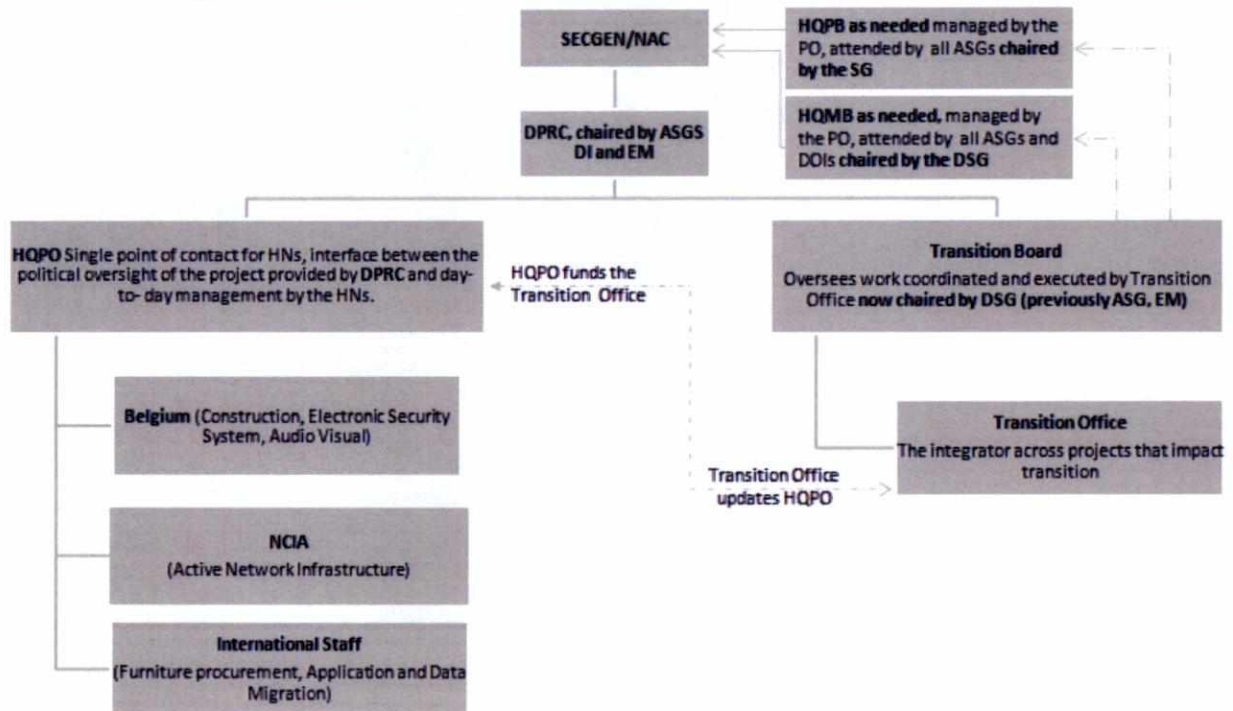
### 3. BACKGROUND INFORMATION AND DESCRIPTION

#### 3.1 The construction project

3.1.1 At the 50th Anniversary Summit in Washington in April 1999 Heads of State and Government agreed to construct a new NATO headquarters (NNHQ) in Brussels "to meet the requirements of the Alliance in the 21st Century." The current NATO headquarters (CNHQ) had been provided by Belgium as a temporary solution and had surpassed its useful life. Belgium agreed to manage the construction of the new headquarters and provide some of the supporting infrastructure as a Host Nation under NATO Security Investment Programme procedures modified by a Memorandum of Understanding between both parties. NATO agreed to provide the remaining infrastructure and security and coordinate the project as a whole. The responsibilities were split as follows:

- **Belgium** would deliver the building, its internal Building Management System, its Electronic Security System, the integrated Audio Visual Infrastructure and the network cabling. Belgium would also be responsible for the interior construction of 24 national delegations. Four Nations chose to carry these works out on their own.
- **NATO International Staff** would be responsible for the furniture consultancy and supply contracts as well as the business application and data migration system. These are the only business opportunities still open for contracting.
- **The NATO Communications and Information Agency (NCIA)** will deliver the new NATO HQ Information, Communication, Technology (ICT) capabilities and related services. This includes the Host Nation responsibility of designing and implementing the Active Network Infrastructure for the new facility.

3.1.2 NATO set up a Transition Office within its Executive Management division to coordinate the arrangements for the transition between the current headquarters and the new one. Its responsibilities include organising the physical move to the new building, developing new ways of working in the new building and decommissioning and handing back the old building. NATO established a Transition Board to supervise the arrangements for the transition programme. The various roles and responsibilities for the new NATO headquarters project are summarised in Figure 1 below.

**Figure 1: New NATO Headquarters Governance at a Glance**

Source: IBAN analysis of the governance structures of the NNHQ programme of work

### **Assistant Secretary General, Executive Management Division Formal Comments**

Figure 1 – The figure states that “HQPO funds the Transition Office and the Transition Office updates HQPO”. Factually, the Transition Programme is funded from the Long Term Programme Budget (LTPB) not by DI-HQPO. The Transition Office works closely with HQPO but has no reporting relationship to HQPO, from either an administrative or budgetary perspective.

### **Board’s Position**

The Board summarizes the Transition Office’s reporting and funding mechanisms in paragraph 3.3.2.

## **3.2 The Transition Board**

3.2.1 The Transition Board met for the first time in February 2011 as the decision-making body, delegated by the Secretary General, for all issues related to the Transition Programme. This Transition Board is responsible for the provision of leadership and oversight for all activities of the transition to the NNHQ with the objective of delivering a NATO HQ organization that is sharply focused on successfully supporting the Alliance’s decision making process and operations. Where decision-making extends beyond the



authority of the Transition Board it must be sought from the Private Office and the Nations in the appropriate forum (Council, DPRC or Budget Committee). At the outset, Council and the International Staff saw the relocation to the new HQ as an opportunity for major reforms both in ways of working and organizational configuration.

3.2.2 The Transition Board was expected to meet every 6 to 8 weeks, or more if required. At the time its members were: ASG EM (Chair), Director, HQPO, Director, NATO Office of Security, the Financial Controller of the IS, the First Deputy Director of the Private Office, the Director ICTM, the Head of Budget Planning and Analysis (BPA), the Executive Coordinator, International Military Staff and the Deputy Assistant Secretaries General (DASG) Human Resources (HR), HQST and Planning (Operations Division).

3.2.3 The Transition Board's Terms of Reference (TOR)<sup>2</sup> made it accountable to the Secretary General of NATO and, when required, to the Nations primarily through the DPRC and, if necessary, directly to the NAC. In addition, the Chair of the Transition Board was expected to provide updates as needed, but no less than annually, to the Nations in the NAC or as needed to the DPRC. Governance and execution of the construction and delivery of the NNHQ remains the exclusive responsibility of the DPRC and HQPO.

### **3.3 The Transition Office**

3.3.1 The Transition Office is the integrator of those projects which have an impact on transition and the conduit between NATO HQ (including the delegations and agencies), various reform activities and HQPO. EM will operate the new building on behalf of the Nations, it is therefore responsible for the delivery of an operations and maintenance (O&M) plan for the new building.

3.3.2 The Transition Office staff element is part of the DI/HQPO establishment and reports administratively to EM. Currently this staff element is set at six International Staff (IS) contracts and all posts are filled (as at July 2014). An intern, temporary staff and an IS assignment complement this staff element. Its activities are financed by the HQPO's Long-Term Programme Budget (LTPB). Originally, transition activities were to begin in 2007 but work stopped due to lack of funding. In 2010, the Headquarters Management Board (HQMB) discussed transition governance arrangements, these arrangements were finalised and established when funding became available almost two years later. When NATO received the lower-than-expected construction bid, some of these savings were retained in the budget for unfunded activities such as transition. The total Transition Programme budget currently stands at EUR 26.7 million.

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<sup>2</sup> EM(HQST)(2012)0008-REV1.



3.3.3 The Transition Office identified four main components of the transition:

- the physical move from the CNHQ to the NNHQ;
- the development of new ways of working that foster collaboration and increased efficiencies such as telework, smart phones and other mobile devices;
- the Transition Office as the trigger for essential change at NATO HQ; and
- the decommissioning and handback of the CNHQ to Belgium.

3.3.4 The Transition Office established a Transition Management Plan to provide a blueprint for a fully operational NNHQ that makes the most out of the new space. The projects in the Plan are grouped into 6 main work streams:

- Move-Relocate from the CNHQ to the NNHQ;
- Launch-Achieve the successful opening of the new HQ;
- Align-Reinforce, transform, and upgrade NATO HQ business functions and support organizations;
- Outreach-Generate understanding and communicate transition;
- Closeout-Complete existing projects and initiatives at the CNHQ;
- Handback-Execute timely and cost-effective return of the CNHQ to Belgium.

### **3.4 Progress on the construction project**

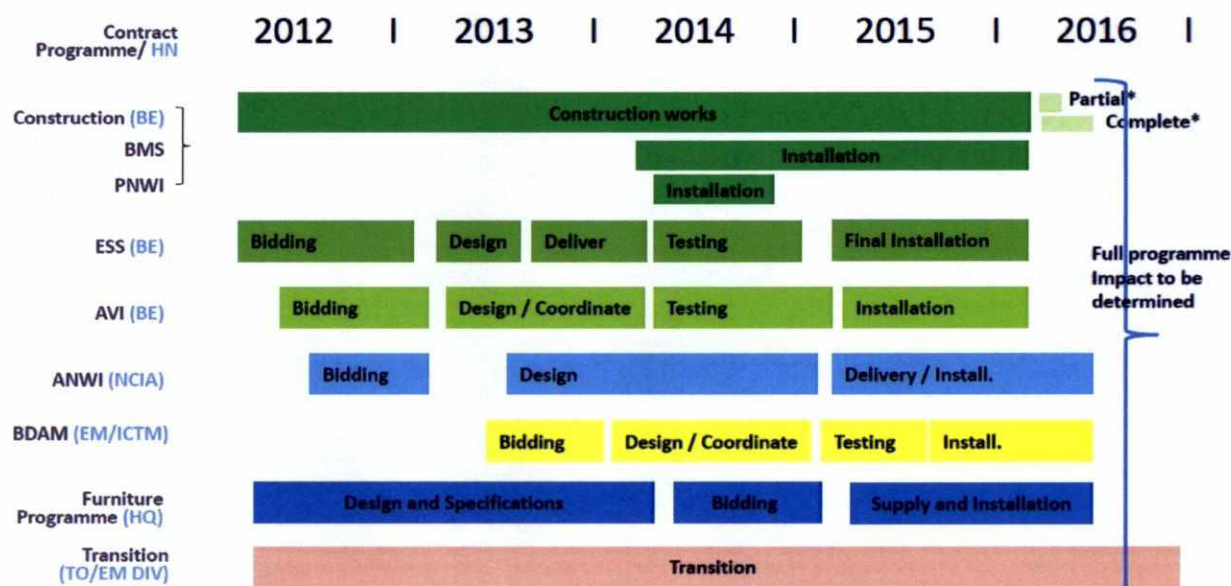
3.4.1 In December 2013, the HQPO informed the DPRC that the main contractor had introduced a sizeable claim in terms of additional costs and time delays. The claim would potentially require more than the contingency funds available as well as an extension to the delivery date. The nature, amount and scale of the extra cost and delay are not yet fully known as Belgium is currently in negotiations with the contractor. Claims are reportedly due to extreme weather conditions in winter 2012-2013, design changes requiring additional works, missing quantities, excessive security restrictions and an unforeseen requirement for additional building management software. A short term, interim agreement was reached in order to allow the works to continue. Both parties are currently negotiating a further settlement to be agreed by end of September 2014.

3.4.2 The HQPO informed the DPRC of the potential impacts of construction delays on the other parts of the new headquarters project. The Belgian national audit office, the Cour des comptes, is in the final stages of a mid-construction review and audit related to the execution of the construction project. The report is still in the contradictory process and is expected in September 2014. In order to ensure that Belgium obtains the best value and to ensure the proceedings are not prejudiced, information on the basis and timelines for these negotiations is very closely guarded. A review of the claim is not within the scope of the Board's mandate.



3.4.3 The following diagram illustrates the timeline for all elements of the new HQ programme:

**Figure 2: New NATO Headquarters Schedule**



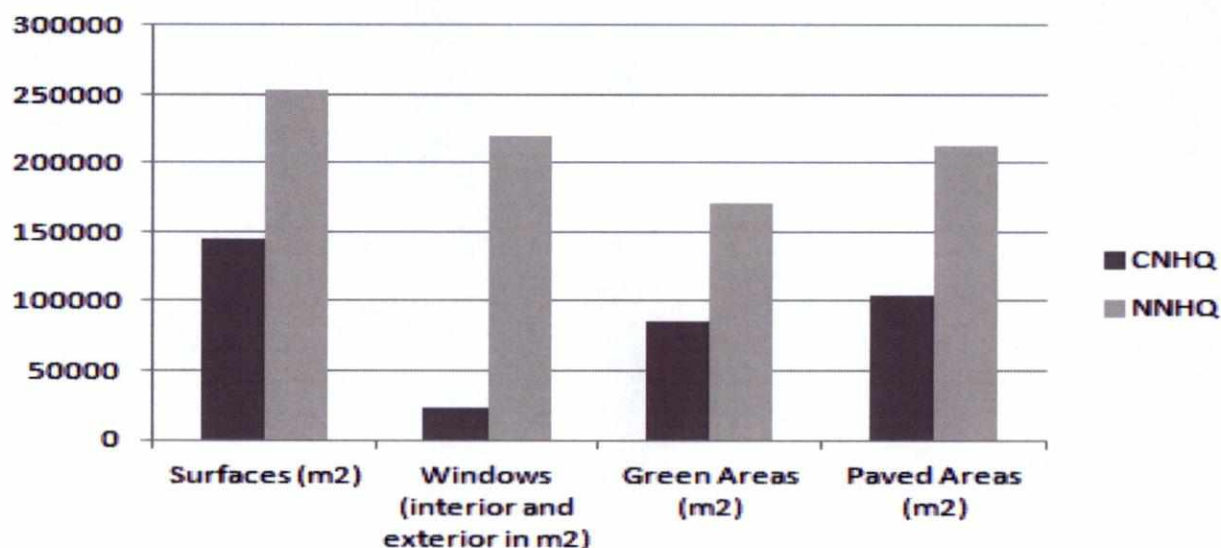
Source: Provided by HQPO as at April 2014

#### 4. EXECUTIVE MANAGEMENT WILL NOT BE ABLE TO OPERATE AND TRANSITION TO THE NEW HEADQUARTERS WITHIN PLANNED BUDGETS

##### 4.1 Operations and maintenance costs in the new headquarters are likely to be more than in the current one

4.1.1 The Board's previous audit work in 2012 noted that Nations expected total operating costs to be lower in the new headquarters building. The Board noted at that time that, despite the expectation, operations and maintenance costs were likely to be higher than the current headquarters. Although accurate estimates were difficult to make, the IS reported in the 2012-2016 MTFP that NNHQ O&M costs would be higher in total than in the CNHQ but less per square metre. The Board's current work found the trend in these costs to be mostly increasing in successive MTFPs and current estimates.

4.1.2 The reason for the increase in operation and maintenance costs is that the new building is larger than the current one. Examples of where the new building is larger include 120% more conference rooms, an over 700% increase in overall window surfaces and a more than 100% increase in both green and paved areas. The table below illustrates the most significant of these increases between the CNHQ and the NNHQ.

**Figure 3: Surface and Volume Increases of Current vs. New NATO HQ**

Source: IBAN table generated using unaudited data provided by EM

4.1.3 Figure 4 illustrates the latest O&M estimates presented to Nations in the MTFP 2014-2018 which includes the costs of facilities management, ICT and security. This constitutes an increase in O&M expenditures of EUR 10.2 million, or 16% more compared to the cost of running the CNHQ.

**Figure 4: Comparison of O&M estimates for the CNHQ and the NNHQ**

Yearly O&M costs	
<b>Current Headquarters</b>	EUR 62.3 million
<b>New Headquarters</b>	EUR 72.5 million
<b>Increase</b>	EUR 10.2 million (16.4%)

Source: MTFP 2014-2018 (Annex 10)

4.1.4 The total O&M costs of the NNHQ, as illustrated in Figure 4, will not be fully incurred until 2018 when all warranty periods for construction contracts including some limited O&M will have expired. EM estimates that the O&M budgets for facilities, security and ICT operations in the core Civil Budget may increase by an additional EUR 9.9 million in 2016 up to EUR 18.2 million in 2018, when these same warranty and O&M periods expire. However, EM plans for these increases to be balanced by reductions in capital budgets and personnel costs from expanded outsourcing and the deletion or transfer of posts. The net effect of changes in personnel, O&M and capital costs of the



core Civil Budget due to transition to the NNHQ may increase costs by EUR 9.3 million annually by 2018.

#### **4.2 Executive Management's estimated costs for operations and maintenance in the new headquarters are still incomplete**

4.2.1 EM's estimates continue to be refined and they still contain significant gaps, a point which the Board has reported previously. The Board's previous audit work in 2012 found that NATO did not, at that time, have comprehensive and reliable estimates of O&M costs, a plan to address O&M activities in the new building and there was limited substantiated information on forecasted costs. Initial estimates, with caveats, were found only in the Medium-Term Financial Plan (MTFP) and LTPB and were based on the physical size and volume of the new facility rather than analysis of the individual services required.

##### ***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 4.2.1 – The IS reported to the Nations on multiple occasions, most notably in the context of the MTFP, on the estimated costs for operations and maintenance in the new headquarters. These estimates continue to be refined and it is expected that they will become increasingly more precise, especially after the 25 September 2014 meeting of the Transition Board when the concept of operations for the new headquarters will be reviewed and approved for submission to the Nations for consideration.*

4.2.2 In 2012 NATO EM commissioned the Operations, Maintenance, Logistics and Sourcing study (OMLS) to provide detailed estimates of the annual O&M costs (excluding ICT) for the NNHQ and a recommendation on the eventual sourcing strategy. The results were intended to support decisions about O&M in the new headquarters. This study was initially delivered in April 2014 on budget but approximately 9 months late mainly due to problems with the consultant providing qualified staff. However, the report included errors that required the contractor to resubmit their final deliverables. In May 2014, EM received and accepted the final report.

4.2.3 Figure 5 shows that the final estimates for the potential options for sourcing strategies concerning O&M in the future building do not differ significantly. EM attributed the small cost variances among models to reasons such as the additional costs of using security cleared contractors and that contracted services were already used to a great extent in the CNHQ. The Board found that EM has still not formulated and proposed recommendations to the Transition Board on whether O&M would be performed internally, outsourced, or through a combination of the two, even though the Transition Management Plan (TMP) intended that the approach would have been decided by November 2013. The Transition Office stated that these recommendations were delayed by the late delivery of the OMLS study.



**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 4.2.3 – Executive Management has developed the concept of operations for O&M in the new NATO HQ and will present it to the Transition Board for approval on 25 September 2014. Once agreed by the Transition Board, the proposal will be presented to the Nations for consideration. The concept of operations presents a comprehensive approach to the organizational structures required to support the new NATO HQ. It includes an estimate of the O&M costs as well as recommendations for an increase in outsourced activities. The concept of operations has been developed jointly with NOS and in consultations with the IMS. As of 2014, NCIA has assumed the lead for providing costs estimates for ICT O&M to EM and to Nations as customers.*

**Figure 5: Summary of final estimates for different sourcing options in the NNHQ**

	2016	2017	2018	2019	2020
<b>“Optimum” Model (combined in and out-sourcing)</b>					
<b>TOTAL COST (MEUR)</b>	45.1	44.1	48.0	46.1	46.5
<b>Full Outsourcing</b>					
<b>TOTAL COST (MEUR)</b>	45.0	44.1	48.0	46.0	46.5

Source: OMLS Final Estimates Report

Note 1: The figures in this table exclude costs for ICT and are therefore not directly comparable to Figure 4, above.

Note 2: These figures exclude the estimated organizational restructuring costs.

4.2.4 Once a decision is taken on the extent to which O&M services are outsourced, NATO will incur associated restructuring costs related to, for example, hiring and training new staff and terminating existing contracts. The O&M study estimates these restructuring costs range from EUR 4 million to EUR 7.1 million. The Board notes that uncertainty remains about this cost, however, because NATO has not yet made its restructuring decisions, although this was due by the end of 2013. Without these decisions there is a risk that NATO will be unable to implement an efficient sourcing strategy due to the lack of timely contracting, training of staff and availability of contractors on the market.

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 4.2.4 – The Executive Management Division notes that the Transition Programme budget contains provisions for the cost of restructuring due to the relocation to the new HQ and for the closure of existing contracts in*



*the current HQ. The Transition Programme budget allocates MEUR 2.5 for staff restructuring. A specific transition project (project 12 – Rationalize existing contracts) under the accountability of the IS Financial Controller has been established to address the issue of closing existing contracts for the current HQ, but the OFC is not currently sufficiently staffed for this function.*

4.2.5 EM is adapting the budgetary framework of the MTFP to meet the structure recommended by the OMLS study which reflects European Engineering Norms. This will allow NATO to show its O&M costs in a way that is comparable to that of other major European institutions. EM will provide an update with final estimates for O&M for the NNHQ. This update will not be included in the MTFP for 2014 (2015-2019) but it will be presented separately at a later date, yet to be determined, once the report is agreed by IS senior Leadership, as agreed by the Budget Committee.

4.2.6 Significant gaps remain in the O&M cost estimates for the NNHQ. These relate principally to:

- a. Insufficient understanding of O&M requirements in the NNHQ. Although the OMLS study provided EM with estimates for O&M costs and recommendations concerning the organization model and the facility services to implement in the NNHQ, EM does not yet have a final comprehensive plan for the O&M concept of operations in the NNHQ. The concept of operations includes operating strategies, commercial plans, management oversight and operating models. In addition, the Board notes there is no formal mechanism to share information on construction choices for the new headquarters that may have consequences on future running costs. There is a risk, therefore, that O&M plans for the NNHQ do not fully reflect potential O&M requirements.

#### ***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 4.2.6.a - Executive Management has developed a comprehensive concept of operations for the new headquarters which will be considered by the Transition Board on 25 September 2014. Once agreed by the Transition Board, the concept will be submitted to the Nations for consideration. The concept of operations was not completed by the 30 June 2014 cut-off date for the IBAN's work due to late submission of the Operations, Maintenance Logistics and Support (OMLS) study carried out by a consulting company. The concept of operations does not include "commercial plans," which are the subject of a separate study related to commercial services in the new HQ.*

#### **Board's Position**

The Board has quoted the approved TMP for the New HQ Concept of Operations project 1-2 which is defined as follows, "Develop business plan for



the new HQ to implement O&M recommendations in terms of operating strategies, commercial plans, management oversight and operating models”.

- b. Insufficient detail regarding O&M costs for ICT services in the NNHQ. The MTFP 2014-2018 states that running cost for ICT infrastructure and support will increase from EUR 21.8 million (2013 baseline) to EUR 28.7 million (2018 baseline), or an increase in 6.9 MEUR (an increase of 32%, after warranty, 2013 values). The estimates were provided by HQPO through EM-ICTM and NCIA as NATO's Communications and Information Services provider. The figures were provided to EM without supporting details.

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 4.2.6.b – The Executive Management Division notes that as of 2014, NCIA has assumed the lead for providing costs estimates for ICT O&M to EM and to Nations as customers.*

- c. Uncertainty regarding O&M during the warranty period. During the first two years of the NNHQ operation, up to 2018, the building and its infrastructure, its management systems and equipment will be partially covered by a warranty period. This includes a contractual obligation to provide limited services for specified technical installations such as heating, cooling, electrical, and plumbing. The construction contract requires the main contractor to provide these services at a cost of EUR 1.7 million (included in the LTPB). EM estimates the market value of such services is higher and considers the value of these services was underestimated by the construction contractor. Consequently, the full picture of recurring O&M costs will not emerge until 2018 when all warranty periods expire and when the full extent of the delay caused by the claim is known.

**4.3 There is a high risk that the cost of operating two NATO headquarters at the same time will exceed the available budget**

4.3.1 There will inevitably be a period when NATO operates the CNHQ and the NNHQ at the same time. The Transition Programme budget (EUR 26.7 million) includes EUR 8.4 million to cover the costs associated with this period. EM recognises that minimising the cost of the period when there are two HQ buildings is an important part of the transition programme. The scope of many of EM's transition projects includes plans for managing the interim state, or dual operations.



**Assistant Secretary General, Executive Management Division Formal Comments**

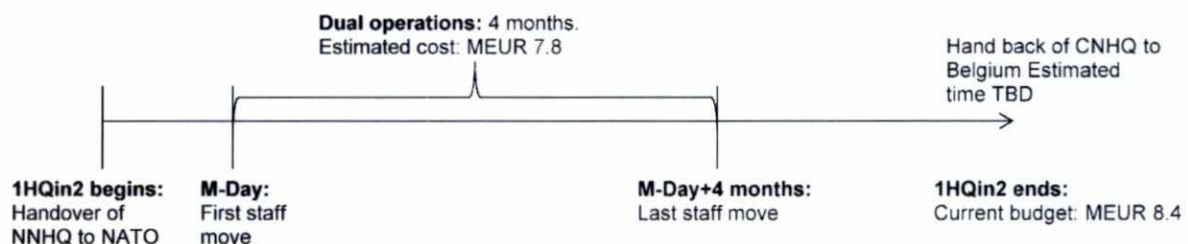
*Paragraph 4.3.1 – Executive Management notes that the amount allocated in the Transition Budget for dual operations is MEUR 8.374.*

4.3.2 The Transition Programme describes the relocation period as having three key elements: one headquarters in two locations (1HQin2), the day the move begins (M-Day) and dual operations. Each of these has a significant impact on resource requirements.

- **1HQin2** is the period during which both the CNHQ and the NNHQ need to be secured and maintained at a level of functionality that allows activities to be undertaken on both sites. This period starts when Belgium hands over the new building to NATO and ends when NATO hands over the CNHQ to Belgium.
- **M-Day** is the day on which the first personnel move from the CNHQ to the NNHQ to begin their core business.
- **Dual operations** denotes the time frame during which core business functions are carried out in both the CNHQ and the NNHQ (e.g. committee meetings, consultation processes). It starts on M-Day and ends when the move of office based staff (e.g. delegations, agencies and IS/IMS) is complete.

4.3.3 The figure below illustrates the estimated timeline for these three concepts:

**Figure 6: Timeline for Running Two Headquarters**



Source: IBAN analysis of documents provided by EM

4.3.4 EM's current estimates for the dual operations period are that it will take four months, at an average of EUR 1.95 million per month, a total of EUR 7.8 million. This amount is within the EUR 8.4 million in the LTPB but only leaves a relatively small amount – EUR 600,000 – for the remainder of the 1HQin2 period (i.e. before and after the dual operations period). The estimate assumes there will be no extension of the dual operations period. A delay in the period of dual operations by one month would not be affordable within the budget.

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraphs 4.3.3 and 4.3.4 – The Transition Board noted, at its 11 August 2014 meeting (document reference TB(DS)(2014)0002), the updated estimates for dual operations costs and duration presented by Executive Management. The same information was noted by the DPRC at its 14 August 2014 meeting (document reference DPRC-DS(2014)0066). The current estimate for the duration of dual operations is 13 weeks, with a corresponding estimated cost of MEUR 6.11, or MEUR 0.47 per week. The estimated cost for dual operations is MEUR 2.264 less than the approved budget for dual operations (MEUR 8.374). Consequently, a modest extension of the dual operations period could be absorbed within the approved budget, if needed.*

4.3.5 There are significant uncertainties about the duration of the period when NATO must operate the two headquarters buildings. In particular, this is because:

- the planned delivery date of NNHQ is not yet known and may be affected by the main contractor's claim;
- NATO and Belgium have not yet concluded negotiating the particulars of the handover of the CNHQ; and,
- the move timeline and sequencing has yet to be approved.

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 4.3.5 – The Transition Board approved, at its 17 September 2014 meeting, the move sequence presented by Executive Management (document reference TB(DS)(2014)0003). At the same meeting the Transition Board noted the estimated move duration and costs as well as the estimated duration and costs for dual operations. The move sequence will be submitted to the DPRC for consideration.*

4.3.6 There is therefore a risk that the EUR 8.4 million budget will likely not be sufficient to cover both the dual operations period and the additional cost for the entire 1HQin2 period. As contingency funds were not provided in the Transition Programme budget, Nations will have to find other funds to cover any additional expenses.

**4.4 Estimates for moving and relocating the IS and IMS to the new headquarters are more than the approved budget**

4.4.1 The IS/International Military Staff (IMS) move and relocation costs will be funded from the Transition Programme budget. EM's estimated cost of moving the IS/IMS exceeds the approved budget for this part of the Transition Programme. Other NATO bodies in the CNHQ, such as the agencies and national delegations, are expected to pay for their own moves. These bodies have been informed through the



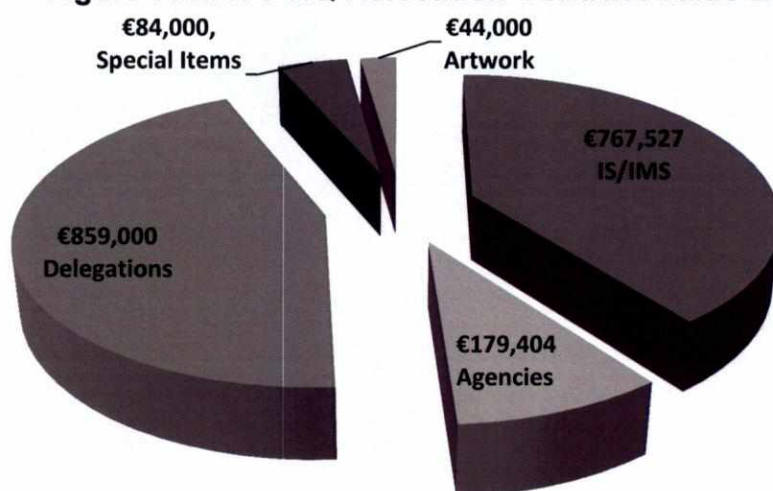
quarterly DPRC updates. The Board's report does not assess these bodies' plans or budgets for moving to the new headquarters.

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 4.4.1 – The Executive Management Division notes that it identified early in the Transition Management Plan (document reference EM(2013)0200) the risk that the budgeted funds for the IS/IMS relocation may not be sufficient. The Plan was noted by the DPRC in April 2013 and the risk was subsequently highlighted to the DPRC as part of the quarterly progress reports.*

4.4.2 EM commissioned a relocation study with an external contractor to provide contract value estimates as well as sequencing and relocation expertise. The study estimates removal costs of the entire CNHQ (IS/IMS, the agencies, national delegations as well as some artwork and unique assets) at between EUR 1.76 million and EUR 2.1 million. The middle-range numbers for each category are reproduced in the table below.

**Figure 7: NATO HQ Relocation Contract Value Estimates**

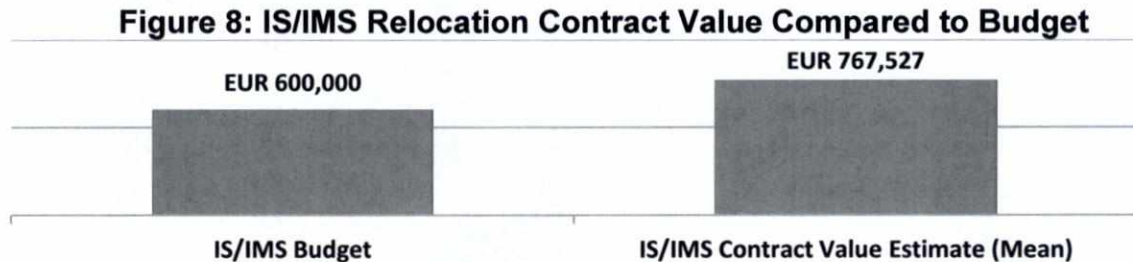


Source: IBAN analysis of the Contract Value Estimates provided by EM

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 4.4.2 – The Executive Management Division notes that the revised estimate for the removal costs of the entire current headquarters, as of August 2014, is between MEUR 2.17 and 2.59 as noted by the Transition Board at its meeting on 11 August 2014 (document reference TB(DS)(2014)0002) and by the DPRC at its meeting on 14 August 2014 (document reference DPRC-DS(2014)0066).*

4.4.3 EM's relocation study suggests costs for the IS/IMS move are likely to be between EUR 703,000 and EUR 832,000. That is approximately **17% to 39%** more than the budget currently available to the Transition Office (EUR 600,000). The figure below illustrates the difference between the planned budget and the mean contract value estimate for the IS and IMS move.



Source: IBAN analysis of the Contract Value Estimates and the LTPB provided by an EM

#### **Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 4.4.3 – The Executive Management Division notes that the revised estimate, as of August 2014, for the move of the IS and IMS is between MEUR 0.9 and 1.06 as noted by the Transition Board at its meeting on 11 August 2014 (document reference TB(DS)(2014)0002) and by the DPRC at its meeting on 14 August 2014 (document reference DPRC-DS(2014)0066). This estimate is MEUR 0.3 to 0.46 higher than the amount currently available in the Transition Programme budget (MEUR 0.6). At its meeting on 17 September 2014, the Transition Board tasked the Transition Office (document reference TB(DS)(2014)0003) to develop a proposal for covering the funding shortfall from within the Transition Programme budget.*

#### **4.5 Conclusion and recommendations**

4.5.1 At the time of this report, O&M costs for the NNHQ are estimated to be EUR 10.2 million (16.4%) more than those of the CNHQ, the estimated costs of moving and relocation are at least EUR 0.1-0.2 million (17%-39%) more than the transition budget amounts and the estimated costs of running the two headquarters in parallel are not yet fully known. This excludes some costs where detailed estimates are not yet available. Any costs above the existing budgets will likely have to be found from other funding sources.

#### **Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 4.5.1 – The Executive Management Division notes that at its meeting on 11 August 2014, the Transition Board noted (document reference TB(DS)(2014)0002) the estimated duration and costs for dual operations as 13 weeks and MEUR 6.11 or MEUR 0.47 per week. The same information was noted by the DPRC at its meeting on 14 August 2014 (document reference*



*DPRC-DS(2014)0066). At the same meetings the two bodies also noted the updated estimated costs for the IS/IMS move to be between MEUR 0.9 and 1.06, which exceeds the MEUR 0.6 allocated for the relocation in the Transition budget. At its meeting on 17 September 2014 (document reference TB(DS)(2014)0003), the Transition Board tasked the Transition Office to develop a proposal for covering the funding shortfall from within the Transition Programme budget.*

4.5.2 The Transition Office last provided Nations with estimates of the O&M costs for the NNHQ in April 2013. Current up-to-date estimates of the total costs required for transition indicate costs will exceed available budgets. Though the Board is encouraged by the current progress estimating, screening and updating the costs of O&M, dual operations and relocation for the NNHQ, it remains concerned that the O&M plans and estimates are delayed and no sourcing strategy has been decided.

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 4.5.2 – The Executive Management Division notes that the statement “...estimates of the O&M costs for the NNHQ in April 2013” is incorrect and the phrase should read “...estimates of the transition costs to the NNHQ in April 2013” The risk that the Transition Programme may be underfunded was identified and communicated to the DPRC in April 2013. The Executive Management Division notes that the DPRC noted at its meeting on 14 August 2014 the updated cost estimates for dual operations and the move to the new NATO HQ (document reference DPRC-DS(2014)0066). The fact that the concept of operations for the new headquarters was not completed by the 30 June 2014 cut-off date for the IBAN’s work relates to the delayed submission of the consulting company’s OMLS study. Executive Management has developed the concept of operations for O&M in the new NATO HQ and will present it to the Transition Board for approval on 25 September 2014. Once agreed by the Transition Board, the proposal will be presented to the Nations for consideration. The concept of operations presents a comprehensive approach to the organizational structures required to support the new NATO HQ. It includes an estimate of the O&M costs as well as recommendations for an increase in outsourced activities. The concept of operations has been developed jointly with NOS and in consultations with the IMS. As of 2014, NCIA has assumed the lead for providing costs estimates for ICT O&M to EM and to Nations as customers.*

**Recommendation 1:**

4.5.3 The Board reiterates its previous recommendation to ensure a renewed focus on more complete and updated O&M and detailed Transition Programme budget estimates. In particular, Nations should seek to prioritize a management decision on the subject of the future O&M plans, sourcing strategy and obtain justified ICT O&M estimates.



**Assistant Secretary General, Executive Management Division Formal Comments**

*Executive Management (EM) Division agrees with the recommendation. EM developed the concept of operations for O&M in the new NATO HQ and will present it to the Transition Board for approval on 25 September 2014. Once agreed by the Transition Board the concept will be presented to the Nations for consideration. The concept of operations provides a comprehensive view of the organizational structures required to support the new NATO HQ, an estimate of O&M costs, and recommendations for an increase in outsourced activities. The concept of operations has been developed jointly with NOS and in consultation with the IMS. As of 2014, NCIA has assumed the lead for providing costs estimates for ICT O&M. Updated budget estimates for the relocation to the new NATO HQ were provided to the DPRC on 14 August 2014. Updated budget estimates for the Transition Programme will be provided to the Nations as part of the established LTPB 2015 – 2017 screening and approval process.*

**5. THE TRANSITION PROGRAMME LACKS ADEQUATE PLANNING AND OVERSIGHT****5.1 The Transition Management Plan is not yet fully developed**

5.1.1 The TMP is the blueprint for the Transition Programme as a whole. At its meeting in March 2013, the Transition Board agreed the first version of the TMP in principle but, at its May 2013 meeting, the Transition Board requested the Transition Risk Register be updated to show a clearer prioritisation of projects and submit it for approval at the next planned Transition Board meeting in July 2013. The Transition Office completed a Transition Risk Register and circulated it to the Transition Board. It was approved under silence in September 2013, as the Transition Board did not meet again until June 2014, more than one year after the May 2013 meeting. In November 2013 the Transition Office prepared a revised Transition Management Plan although it was never presented to or approved by the Transition Board.

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 5.1.1 – Executive Management Division notes that there is no connection between the Transition Risk Register and the prioritization of transition projects as stated in this paragraph. The Risk Register and the Projects Register are two distinct elements of the Transition Management Plan which address two different planning topics, i.e. risks and projects.*

5.1.2 The approved TMP consists of 44 separate priority and candidate projects subject to individual approval. Fifteen of these projects are designated as priority projects, which are those that must be executed for a successful transition. The revised TMP consists of 42 separate priority and candidate projects, thirteen of which are



designated as priority projects. Priority projects include the relocation to the new headquarters, communications and the decommissioning of the old headquarters building. Candidate projects are those that will be developed further if and when the Transition Board considers them a priority. Candidate projects include NATO HQ visual identity, the ICT launch and the running of Bâtiment Z. The lack of effective oversight may expose the plan to the risk that it is not addressing agreed priorities and it may now be too late for some projects.

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 5.1.2 – Executive Management Division notes the approved TMP referenced in this paragraph is the Plan dated April 2013. Based on recommendations from ASG EM, following an extensive review of all transition projects, the Transition Board approved, on 11 August [2014], a single transition project register of 28 projects (document reference TB(DS)(2014)0002) to be included in the next revision of the Transition Management Plan.*

5.1.3 The approved TMP is not yet fully developed. In our 2012 audit, we expressed concern that transition plans were still at an early stage. For example, detailed work plans, identification of individual tasks and a risk register were all in draft form. The March 2013 approved TMP has no resources, no proposed accountable person or proposed milestones for its 15 approved priority projects. It is encouraging that there is now an up to date approved risk register and a more comprehensive revised TMP, though it has not yet been presented to or approved by the Transition Board. However, 23% of priority projects in the draft revised TMP (3 of 13) do not have resources available to be assigned, in terms of people and/or funds, and 54% indicate they have already missed their projected milestone (7 of 13). Candidate projects do not have resources or milestones assigned as they are not approved projects. In addition, half of the approved TMP's priority projects depend in some way on the results of the delayed OMLS study deliverables. The lack of a fully developed and approved revised TMP increases the risks that, as set out in section 4 above, the transition programme is delayed, over budget or both.

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 5.1.3 – The Executive Management Division notes that all of the 15 priority projects listed in the Transition Management Plan dated March 2013 (document reference EM(2013)0200) were assigned to accountable officers through a Transition Board decision of 28 March 2013 (document reference EM(HQST)(2013)0089). The Transition Board approved, on 11 August [2014], a single transition project register of 28 projects (document reference TB(DS)(2014)0002). All the approved projects have identified accountable officers who are responsible for the planning and execution of the projects.*



**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 5.1.3 – Executive Management notes that only 4, and not 54% as indicated by IBAN, of the approved projects (projects 1, 2 and 3) missed milestones that were suggested (though not approved) in a draft November 2013 Transition Management Plan update. Three of the missed milestones resulted from the late receipt of the OMLS consulting study noted by IBAN in paragraph 4.2.2. Project 8, the commercial operations business plan, delayed implementation of the milestone identified in the draft November 2013 Transition Management Plan update to allow time for the reorganization of Staff Centre governance as agreed by Council.*

**Board's Position**

The Board's count of 7 priority projects includes the 4 projects listed by EM plus three projects which had experienced delays, missed their milestones or had no milestone defined:

- Building Z Reconfiguration (Project 4);
- Relocation to the new NATO HQ (Project 5);and
- Disposal of old furniture and equipment (Project 14).

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 5.1.3 – Executive Management notes that only 3 of the approved priority projects, and not 23% as indicated by IBAN, had no budget allocated because a budget estimate was not yet required at the time the draft November 2013 Transition Management Plan update was assembled. Furthermore, only two of the approved priority projects, and not 23% as indicated by IBAN, had no staff resources allocated at that time because a decision on how those projects were to be undertaken had not yet been made. As of September 2014, shortfalls in terms of staff and resources remain for some of the additional transition projects approved by the Board in August 2014. These include, inter alia, Business Continuity Planning, Health and Safety planning, ICT launch, and document reduction, EM is reviewing all resource shortfalls with accountable project officers and will engage nations on requirements in the context of the Long Term Program Budget submission for 2015.*

**Assistant Secretary General, Executive Management Division Formal Comments**

*Paragraph 5.1.3 – Executive Management notes that only 2 of the approved priority projects (projects 8 and 9) have an identified dependency on the delayed OMLS study as captured in the draft November 2013 Transition Management Plan.*



5.1.4 EM cited resourcing of transition related activities as their highest risk at the September 2012 Transition Board Meeting. This resourcing risk remains. For example, senior managers in other divisions of EM outside the Transition Office reported that transition activities represented an additional workload over and above their daily tasks for which they did not receive extra resources.

5.1.5 A key programme management responsibility is to ensure the independent review of individual projects within the programme. However, the Transition Office is responsible for both managing the transition programme as a whole and delivering and project managing part or all of the individual projects within it. For example, in 2014 the Transition Office commissioned two consulting engagements for which it was both the programme and project manager: a move planning study and a mobility study. The Board finds that this poses an additional programme oversight risk, as, even at the project management level, the Transition Office cannot guarantee an independent review of the projects in the TMP.

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 5.1.5 – Executive Management takes the view that there is no basis for the statement that the Transition Office oversight of the outside consultant study poses an additional programme oversight risk. Independent oversight of the transition projects is the responsibility of the Transition Board. There are also two layers of management oversight of the Transition Office to ensure objectivity in the work of the Office. Both studies cited also received visibility in the DPRC and the Budget Committee.*

**5.2 The Transition Board has not exercised effective programme oversight**

5.2.1 In our previous audit work on the new headquarters project we concluded that the Transition Board's Terms of Reference (TOR) did not clearly specify its reporting relationship with the Nations through the DPRC. We recommended the TOR wording be changed. EM has since changed the TOR. However, these TOR still require the Transition Board to report to the Nations 'primarily' through the DPRC. In practice, reporting is often achieved indirectly, via the HQPO. The Transition Programme would receive more effective scrutiny if EM were required to report directly to the DPRC and the Transition Board were required to report to Council as necessary (currently at least once a year).

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 5.2.1 – Executive Management Division notes that the Terms of Reference for the Transition Board (document references EM(HQST)(2012)0008- REV2 and TB(D)(2014)0001) identify clearly the reporting lines for the Transition Board. In addition, Executive Management provided updates to the DPRC and Council in conjunction with HQPO, but has*



*always reported directly and independently, and not indirectly via the HQPO. Reporting to the Nations is accomplished either directly by Executive Management to the BC, DPRC and the Council, or jointly with HQPO but never through HQPO. HQPO has no influence over the content of EM's reporting or the content of the transition quarterly status reports to the DPRC. The Chair of the Transition Board engaged with the DPRC 7 times in 2013 and once in 2014, including periodic status reporting. The Transition Board Chairman provided the 2012 annual update to the NAC on 14 November 2012. He was prepared to provide the 2013 briefing to the Council in December 2013. However, the Council only focused on urgent issues related to the NNHQ construction claim at that time.*

5.2.2 NATO set up the Transition Board as the decision making body, with tasking authority delegated by the Secretary General, for all issues related to the Transition Programme. The Transition Board provides the leadership and oversight for all activities concerning the transition to the new NATO headquarters. This includes identifying and addressing the types of potential delays and cost increases to the programme outlined in section 4 above. The Transition Board is also responsible for reporting progress to the Nations.

5.2.3 Despite its responsibility for overseeing the progress of the Transition Programme, and reporting this to the DPRC, the Transition Board did not meet between 15 May 2013 and 24 June 2014. The meeting frequency prescribed in the TOR is at least every 6-8 weeks, and more often if necessary. The Transition Board only met 7 times between 2012 and July 2014 instead of the expected 16 times. In this period, the Transition Board Chairman reported the work of the Transition Office to the DPRC. Transition Office officials confirmed that no reporting to the Headquarters Policy Board nor the Headquarters Management Board took place. The TOR required the Transition Board Chairman to report to Council at least once a year but this did not take place in 2013 or as of yet in 2014. The Transition Board Chairman last reported to Council in November 2012.

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 5.2.3 – In November 2013, Executive Management Division recommended to the Private Office that the Transition Board be reconfigured, with the chairmanship passing to the DSG to ensure broader senior level participation throughout the HQ, which is essential to a successful transition. Based on Private Office concurrence, work was undertaken to restructure the membership and terms of reference of the Transition Board. These changes were approved by the Private Office in April 2014, and the reconfigured Transition Board approved revised terms of reference in June 2014. Also during this period, the Transition Board Chairman chaired extensive senior staff reviews of all priority and candidate transition projects to prepare recommendations to the Board concerning the disposition of each project. The*



*Board met on 24 June 2014, 11 August 2014, and 17 September 2014. Its next meeting is scheduled for 25 September 2014. The Transition Board Chair engaged with the DPRC 7 times in 2013 and once in 2014, including for periodic status reporting. The Transition Board Chairman provided the 2012 annual update to Council on 14 November 2012. He was scheduled to provide the 2013 annual update to the Council in December 2013. However, the Council only focused on urgent issues related to the NNHQ construction claim at that time. The Transition Board ToRs provide for updates to the HQPB and HQMB as needed. Both the HQPB and HQMB are staff organs which were not seized with transition issues at that time. The Transition Board Chairman has fulfilled all reporting requirements provided in the Terms of Reference.*

5.2.4 Although the Transition Board did not meet in over one year, the Transition Office continued to provide briefs to the DPRC and contribute to the quarterly status reports. However, these reports were a working level presentation of the work being carried out as approved by the ASG EM rather than the Transition Board's report of progress as intended in their TOR. The audit team could not assure that the DPRC had been informed that these updates were not reviewed or approved by the Transition Board. The Transition Board's lack of programme oversight limits its ability to anticipate and address the risks, as set out in section 4 above, that the Transition Programme is delayed, over budget or both. The lack of Transition Board approval also limits the ability of the Transition Office to promote progress on the individual transition projects which are the responsibility of other NATO bodies. While senior leadership in EM may be able to exercise some of this tasking authority within EM services, even they cannot effectively task stakeholders outside their division.

***Assistant Secretary General, Executive Management Division Formal Comments***

*Paragraph 5.2.4 – Executive Management notes that all status reports to the DPRC were approved by the Transition Board Chairman as established in the Transition Board Terms of Reference. The Transition Board ToRs paragraph 7.3 (document references EM(HQST)(2012)0008-REV2 and TB(D)(2014)0001) clearly stipulates that the Transition Board Chair, not the Transition Board, is responsible for providing updates to the DPRC and Council. The Transition Board Chairman provided the 2012 annual update to the NAC on 14 November 2012. A subsequent briefing for Council was prepared for December 2013. However, the Council only focused on urgent issues related to the NNHQ construction claim at that time.*

5.2.5 During the course of this audit, NATO restructured the Transition Board to allow greater involvement of senior decision-makers in the execution phase of the transition. The level of the Chairmanship was increased to that of the Deputy Secretary General (DSG). Some aspects of the TOR were updated, most notably:



- Transition Board members' composition was altered;
- Attendance became compulsory and could not be delegated; and
- The frequency of meetings increased to monthly or more.

5.2.6 The first meeting of the new Transition Board, to which the Board was an observer, took place 24 June 2014. It is too soon to assess the effectiveness of this new structure but it is encouraging that the seniority of the Transition Board's chairmanship was raised. However, there are likely to be practical difficulties finding times when all senior leaders at NATO headquarters can meet as often as every month, on top of their other responsibilities. There is therefore a risk that the Transition Board will still find it difficult to exercise effective scrutiny of the Transition Programme.

### 5.3 Conclusion and recommendations

5.3.1 Plans for transition management have clearly progressed since our last audit of the new headquarters project. However, plans have not yet been fully developed, nor have they been fully agreed by management and/or key decision-making bodies. This limits the ability to mitigate the risks of delays or budget increases, examples of which were described in section 4 above.

#### Recommendation 2:

5.3.2 The Board recommends the Transition Board ensure proper stewardship and robust governance through regular meetings and thorough scrutiny of plans and progress of transition activities to achieve an effective and transparent new headquarters transition. In addition, the Transition Board should report directly to the DPRC and, when appropriate, to Council.

#### **Assistant Secretary General, Executive Management Division Formal Comments**

*The Executive Management Division partly agrees with the recommendation. EM agrees that the Transition Board should ensure proper stewardship and robust governance of the transition through regular meetings and through scrutiny of plans and progress of transition activities. This is already the case. In 2014, upon the recommendation of ASG/EM, the Transition Board was restructured to ensure broad participation of senior leaders from across the HQ, including the NCIA General Manager, the Director General of the International Military Staff, and the Secretary of the Council, in addition to ASG/DI, ASG/EM and the Director of the NATO Office of Security, among others. In addition, the Board Chairmanship was elevated to the Deputy Secretary General. The Transition Board met most recently on 24 June 2014, 11 August 2014 and 17 September 2014. This meeting pace is expected to continue for the remainder of 2014 and in 2015 and 2016. As described in the updated Terms of Reference (document TB(D)(2014)0001 paragraphs 7.1/2/3) the Transition Board Chairman reports regularly to the DPRC and the Council. The Transition*



*Board Chairman provided quarterly progress reports to the DPRC and will continue to do so. The Transition Board Chairman reports annually to Council. The Chairman briefed the Council in November 2012. A second annual briefing was prepared for December 2013, but the Council only focused on urgent issues related to the NNHQ construction claim at that time. The Transition Board Terms of Reference provide that the Chairman reports to the Council rather than the entire board. This is appropriate as the Transition Board is a staff organ providing input to the nations.*

**Recommendation 3:**

5.3.3 The Board recommends that the plans and priorities for transition should be in accordance with generally recognised project management principles. These include but are not limited to, the following:

- The plan should be approved by stakeholders, decision-makers and the governing body or board in a timely fashion,
- The plan should be adequately resourced,
- The plan should have a clear timeline, including dependencies and key decision points, and
- The plan should be regularly updated in order to demonstrate progress and shortfalls.

**Assistant Secretary General, Executive Management Division Formal Comments**

*Executive Management agrees with the recommendation. At its meeting of 11 August 2014, the Transition Board reviewed all transition priority and candidate projects and approved their consolidation into a single transition projects register that constitutes the entire scope of the Transition Programme (document references EM(2014)0372-REV1 and TB(DS)(2014)0002). At the same meeting the Board assigned Accountable and Responsible Officers for each of the newly activated transition projects and directed these officers to report periodically to the Board. ASG EM reviews the progress of the transition projects regularly. This review process is based on Prince2 and MSP best practices.*

**6. OVERALL CONCLUSIONS**

6.1 This follow-up to the Board's 2012 audit of the new headquarters project found that there are still potential risks to the scope of transition projects, costs and milestones. The Board emphasises the urgency of addressing these risks as the transition date approaches.

## **7. SUMMARY OF RECOMMENDATIONS**

### **Recommendation 1:**

4.5.3 The Board reiterates its previous recommendation to ensure a renewed focus on more complete and updated O&M and detailed Transition Programme budget estimates. In particular, Nations should seek to prioritize a management decision on the subject of the future O&M plans, sourcing strategy and obtain justified ICT O&M estimates.

### **Recommendation 2:**

5.3.2 The Board recommends the Transition Board ensure proper stewardship and robust governance through regular meetings and thorough scrutiny of plans and progress of transition activities to achieve an effective and transparent new headquarters transition. In addition, the Transition Board should report directly to the DPRC and, when appropriate, to Council.

### **Recommendation 3:**

5.3.3 The Board recommends that the plans and priorities for transition should be in accordance with generally recognised project management principles. These include but are not limited to, the following:

- The plan should be approved by stakeholders, decision-makers and the governing body or board in a timely fashion,
- The plan should be adequately resourced,
- The plan should have a clear timeline, including dependencies and key decision points, and
- The plan should be regularly updated in order to demonstrate progress and shortfalls.



**LIST OF ABBREVIATIONS**

1HQin2	One HQ in Two Locations
ASG	Assistant Secretary General
DASG	Deputy Assistant Secretary General
DI	Defence Investment Division
DOI	Directors of Independent Offices
DPRC	Deputy Permanent Representatives Committee
DSG	Deputy Secretary General
EM	Executive Management
EUR	Euro
HQMB	Headquarters Management Board
HQPO	Headquarters Project Office
HQPB	Headquarters Policy Board
HQST	Headquarters Support and Transformation
ICT	Information, Communication, Technology
ICTM	Information, Communication, Technology Management
IMS	International Military Staff
IS	International Staff
LTPB	Long-Term Programme Budget
MTFP	Medium-Term Financial Plan
NAC	North Atlantic Council (Council)
NCIA	NATO Communications and Information Agency
NOR	NATO Office of Resources
NOS	NATO Office of Security
O&M	Operations and Maintenance
OMLS	Operations, Maintenance, Logistics and Sourcing
TOR	Terms of Reference