

2020 MILITARY BUDGET RECOMMENDATIONS

EXECUTIVE SUMMARY

1. The 2020 Military Budgets recommended for Council agreement are presented taking into account the security environment, the contribution ceilings and the other provisions set out in the 2020 Contribution Ceilings document. The budgets include additional funding made available to initiate requirements agreed as part of the ongoing NATO Command Structure Adaptation in relation to defence and deterrence. As such, the 2020 Military Budgets (Table 1), see continuation of the increases since 2016 in the NATO Command Structure Entities and Programmes (27.7% since 2016) and for key strategic capabilities (23.7% since 2016 for the NATO Airborne Early Warning & Control Force + NATO Alliance Ground Surveillance Force).

2. The Budget Committee (BC), in addition to normal reallocation during execution, recognizes it will need to adjust the budgets during 2020 to accommodate potential changes relating to the NATO Command Structure Adaptation (NCS-A), as well for any developments related to ongoing or new Alliance Operations and Missions. The relationship of the Military Budgets to Outputs, while always captured within individual budgets through the Commander's Statement, has been reinforced for 2020 through the preparation of Output summaries prepared by the budget holders as an integral part of the budget process. This emphasis on outputs seeks to align the budgets with the shift in the Planning and Governance processes to a more capability oriented funding focus.

3. As part of the analysis during the preparation of its 2020 recommendations, the Budget Committee has taken note of the growing technical complexity inherent in the Communications and Information requirements and need for NATO to remain agile in its approach to Innovation, particularly with a number of entities proposing innovation as part of their programmes in carrying out their missions. Within the budgets, a number of funding shifts are starting to occur as service related contracts and capability operation and maintenance funding during delivery move from the NATO Security Investment Programme (NSIP) to the Military Budget. In particular, the funding associated with NATO Communications and Information Agency (NCIA) hosted Information Technology Modernisation (ITM) and CIS Security Services Delivery have been Military Budget cost drivers for 2020, as has the Air Command and Control System (ACCS), which remains under review. Funding in 2020 has only been provided for agreed elements. The BC continues to recognize that funding will need to be kept under rigorous review during execution to make best use of the available resources as well as allow additional flexibility if needed to meet the requirements put forward by the Military Committee and budget holders.

4. In making its recommendations for 2020, the BC has utilized the special carry forward (SCF) provisions in the NATO Financial Regulations delegated to it by the North Atlantic Council (NAC). In doing so the BC has also taken account of the guidance provided by the Medium Term Resource Plan (MTRP). The BC has balanced requirements that have or might emerge with the risks known in setting the contribution ceilings. The BC would expect that the use of SCFs, except for operations and missions, should reduce as improvements in planning and delivery of capabilities under the new Governance Model mature and are realised. This is not yet the case for 2020 given that the Operationalisation

of the new Governance Model is ongoing and indeed remains to be considered as one of the elements in the review of the NATO Financial Regulations by the BC in 2020.

5. The recommended budgets for 2020 in an amount of MEUR 1,542.4 are shown in the table below (Table 1) and this is followed by short summaries of its various components. In addition to the MEUR 1,542.4 for the 2020 budgets, the BC has recommended the SCF of MEUR 98.1 from prior years for use in 2020 resulting in MEUR 1,640.6 of total available funding.

Table 1: Military Budget by Budget Group

Title	2016 BA1	2020 CEILING	2020 RECOMMENDED (per BC Screened)	RECOMMENDED vs CEILING
NAEW&CF TOTAL	278,000,000	281,000,000	281,000,000	-
NAGSF TOTAL	12,849,767	79,000,000	78,979,416	(20,584)
AOM TOTAL	204,078,204	278,000,000	277,907,813	(92,187)
NCSEP TOTAL	566,900,000	728,000,000	726,153,893	(1,846,107)
NCS-ADAPTATION		49,500,000	49,500,000	-
MB PENSION TOTAL	101,900,000	135,300,000	128,910,000	(6,390,000)
TOTAL	1,163,727,971	1,550,800,000	1,542,451,122	(8,348,878)

6. Alliance Operations and Missions (AOMs) funding is recommended in a total amount of MEUR 277.9 to meet the requirements for the five ongoing operations and missions (Resolute Support, NATO Mission Iraq, the Balkans Operation, Sea Guardian and Support to the African Union). For operations and missions in Afghanistan, the BC has also agreed SCFs of MEUR 31.9 for 2019 activities under execution, for emerging requirements and for potential liabilities. While the recommended budgets meet all requirements presented, the BC recognises the requirements are based on the assumption of operational continuity and that flexibility will be needed during budget execution to support the evolving political-military situations in the operations and missions.

7. The NATO Command Structure Entities and Programmes (NCSEP) budgets show stability for the Entities ongoing operation and maintenance (O&M) as changes are captured for 2020 in the separate NCS-A budgets. The BC notes that, while it has allowed an amount of MEUR 12.4 to lapse in NCSEP, it has met SCF requests presented by the budget holders as their priorities for funding in an amount of MEUR 4.2. It has also recommended an amount of MEUR 1.8 for the Chief Information Officer-like function within the IMS Budget and an amount of MEUR 1.8 remains for flexibility within the ceiling, should requirements emerge during execution. The Programmes requirements and funding continue to increase both for new capabilities and for the retention of legacy systems. In particular, delays in the delivery of foreseen new capabilities impose additional costs on the Military Budget for operation of legacy systems and equipment. The BC has highlighted several of the increases in Programmes as examples of these cost increases for 2020 including for ACCS, Satellite Communication (SATCOM), and ITM. The Committee remains concerned that neither scope nor costs are being met for a number of investment projects, and that this appears likely to continue pending the positive effects that the new Governance Model for capability delivery is expected to achieve.

8. The NCS-A budgets for 2020 are recommended in an amount of MEUR 49.5 to support the ongoing transition agreed to in 2018. The 2020 NCS-A budgets meet the requested requirements, but do not cover any yet to be agreed additional flexibility

measures. The BC, in recommending the 2020 NCS-A budgets, notes the implementation remains within the initial estimated amount for transition in 2018-2021, while reflecting slower than hoped for civilian hiring.

9. The customer funding regimes in the NCIA, the NATO Support and Procurement Agency (NSPA), and the Centre for Maritime Research and Experimentation (CMRE) element of the Science and Technology Organisation (STO) remain subject to the Committee purview as set out in its Charter roles. For the 2020 recommendations for common funding to the NATO Military Authorities (NMAs) in their role as customers, the Committee continues to see both progress and room for improvement in coordination. The Committee suggests that any review of the Charters should include clarification of the Committee's role in relation to the NSPA and CMRE rates vis-à-vis the governance structures in place.

10. The NATO Airborne Early Warning and Control Force (NAEW&CF) recommended budgets totalling MEUR 281 are expected to meet the requirement for 5,800 flying hours with which the NAEW&CF plans to meet all current operational tasks. The BC notes that a significant number of factors impact the NAEW&CF requirements for 2020 and may impact their execution and limit output, including manpower sufficiency, aircraft availability and training, despite internal reorganisation efforts. The BC therefore remains ready to review funding based on changing requirements.

11. The NATO Alliance Ground Surveillance Force (NAGSF) budgets are recommended in an amount of MEUR 78.9 to meet the continued progress to full operational capability recently reinforced with the successful ferry flight of the first aircraft to the Main Operating Base at Sigonella. The BC notes it has also agreed SCFs of MEUR 55.1 to ensure spare parts can be procured as required and Operational Tests and Evaluations carried out. The 2020 NAGSF budgets also include provisions for MEUR 17.0 of new requirements that were agreed by the Resource Policy and Planning Board (RPPB) to meet the funding provisions set out in PO(2012)0049.

12. Defined Benefit Pension Scheme (DBPS) funding for the Military Budget shortfall is recommended in an amount of MEUR 128.9. While, following review by the Financial Controller International Staff, this level is MEUR 6.9 lower than foreseen in the MTRP, the increase continues to place an additional funding requirement on nations and competes for the national resources made available to NATO and will continue to rise until 2026.

13. In respect of the MEUR 10 agreed in 2013 for pre-financing of initial NCIA reorganisation the BC notes that all of the remaining funding (MEUR 0.9) was executed in 2019. The Agency has indicated it will not need an additional sum to complete the reorganization in 2020 and potentially beyond. The BC recognized throughout the NCIA reorganisation that any change to this allocation would have required additional consideration and agreement in the RPPB.

14. The budgets and recommended SCF of unused lapsable appropriations for use in 2020, in a total amount of MEUR 1,640.6 will be closely monitored to ensure sufficiency in carrying out the missions.

15. The NATO Financial Regulations (NFRs) make provision for the Military Committee (MC) to comment on the recommended budgets. This advice forms an

important element in the Council's consideration of the recommended 2020 Military Budgets. The BC will continue to use the powers delegated to it by the NAC in executing the 2020 Military Budget.

RECOMMENDATIONS

16. The Council, for the 2020 Military Budget, is invited to:

16.1. approve the budgets for the elements covered by the Military Budget estimates in an amount equivalent to EUR 1,542,451,122 and note the special carry forward of appropriations in an amount of EUR 98,191,269;

16.2. note that funding for the 2020 NCSEP budgets is provided for by the 2020 Contribution Ceiling of MEUR 728 and an additional amount of MEUR 49.5 specifically provided for the 2020 NCS-A requirements;

16.3. note additional, general efficiencies in a targeted amount of approximately MEUR 1.0 have been proposed by budget holders in efficiency plans and will be tracked during the execution of the relevant 2020 budgets;

16.4. note that risk and risk management have been considered in the preparation, screening and recommendation of the 2020 budgets;

16.5. continue to Delegate to the Budget Committee the authority to:

16.5.1. receive directly the 2021 budget estimates by 01 September 2020 per NFR Article 18.1 and to agree in-year and future contract authority adjustments that arise during execution of the 2020 budgets;

16.5.2. establish such suspense accounts as are considered to be required under Article XXV per the NATO Financial Regulations/NATO Financial Rules and Procedures;

16.5.3. approve special carry forwards in accordance with Article 25.6 of the NFRs; these shall continue to be notified to the Council as part of the annual budget reports.

16.6. simultaneously with the approval of the budgets, empower the Budget Committee to adjust as necessary the budget authorisations within the agreed ceilings during the course of budget execution; to further agree the delegation of strategic command financial powers in respect of intra-budget transfers, write-off authority and exceptions to bidding procedures to the Joint Force Command Brunssum Financial Controller for the Resolute Support Mission and to the Joint Force Command Naples Financial Controller for the NATO Mission Iraq; and Balkan Operations;

16.7. in accordance with the Charters, note that the 2020 charge out rates for the NATO Communication and Information Agency (NCIA) and for the Centre for Maritime Research & Experimentation (CMRE) have been finalized; the Budget Committee review of the 2020 NATO Support and Procurement Agency (NSPA) rates agreed by the NATO Support and Procurement Organisation (NSPO) Agency Supervisory Board (ASB) has been carried out;

16.8. note this report, including the Section V, Special Observations and Comments.