

2021 CIVIL BUDGET RECOMMENDATIONS AND 2021-2025 MEDIUM TERM FINANCIAL PLAN

Report by the Budget Committee

EXECUTIVE SUMMARY

1. Based on lessons drawn from the 2019 Civil Budget cycle, the 2021 annual Civil Budget estimates and the 2021-2025 Medium Term Financial Plan were combined into a single, multi-part document to facilitate a comprehensive screening of both submissions and greater coherence between the Civil Budget ceiling, budget, and medium-term planning figures.

2. Based on the detailed screening of the 2021 Civil Budget Estimates, the Budget Committee recommends the ceiling for the 2021 Civil Budget in an amount of EUR 258,877,157, comprising EUR 217,892,976 for the core Civil Budget, including IBAN, and EUR 47,711,800 for Pension requirements, noting that this is an overall increase of 0.9% in comparison to 2020 (MEUR 256.5) (Table A).

Table A

Description	2020	2021	2021-2020 Change	% Change
Core Civil Budget (including IBAN)	211,219,160	217,892,976	6,673,816	3.2%
<i>One-off Core Civil Budget Funding</i>	-	(6,727,619)	(6,727,619)	-
NATO Pension Schemes	45,261,000	47,711,800	2,450,800	5.4%
TOTAL GROSS CIVIL BUDGET (EUR)	256,480,160	258,877,157	2,396,997	0.9%
<i>Projected Income</i>	(13,011,052)	(12,367,267)	643,785	(4.9%)
TOTAL CIVIL BUDGET CONTRIBUTION (EUR)	243,469,108	246,509,890	3,040,782	1.2%

3. The estimates for the 2021 Civil Budget comprising the core Civil Budget (including IBAN) and Pension liabilities were presented to the Budget Committee at a level of MEUR 264.5, an increase of 3.1% (MEUR 8.0) compared to the approved 2020 Civil Budget (MEUR 256.5). Through a combination of budget reductions, the application of additional risk, and the use of prior years' lapses, the Budget Committee has constrained the 2021 core Civil Budget contributions to a level similar to the approved initial 2020 core Civil Budget in an effort to balance the need to equip the Secretary General with the resources to deliver Alliance agreed priorities and to maintain a fit for purpose NHQ in the current security context with the current economic situation in member nations due to the COVID-19 pandemic and national budgetary constraints.

4. The execution of the 2020 Civil Budget is lower than anticipated due to the COVID-19 pandemic. Informed by this, the level of risk assumed for 2021 is higher than prior years. The Committee has put in place specific measures to ensure an appropriate level of oversight should these risks materialise and require the reallocation of funds within the approved budget envelope. The Committee recognises that planning for future years will reflect adapted assumptions as a result of changes in pandemic response measures and that the level of resources required in 2020 and 2021 do not anticipate future years' requirements.

5. To reflect the true cost of sustaining the NATO Headquarters (NHQ), 2021 asset replacement requirements are included within the 2021 core Civil Budget and funded using prior years' lapses retained for this purpose. However, these requirements do not yet include estimates for Active Network infrastructure nor other ICT components operated by the NATO Communications and Information (NCI) Agency. Once this information is available, an updated asset replacement plan will be submitted to the Budget Committee for its review in the February/March 2021 timeframe. In 2021, the Budget Committee will further develop the modalities for the financing of asset replacement requirements.

6. Depending on further developments and the submission of a realistic and reasonable cost estimates to be presented for the Committee's review, funding is not yet allocated for the 2021 Heads of State and/ or Government Meeting at the NHQ. The Budget Committee will consider all options available to fund this event, noting that a number of Allies have indicated that an additional call for contributions should be avoided.

7. The Budget Committee recommends a total gross Civil Budget for 2021 in the amount of EUR 258,877,157, comprising EUR 217,892,976 for the core Civil Budget, including EUR 3,662,835 for the IBAN, and EUR 47,711,800 for Pensions liabilities (Table B).

Table B

Description	2020	2021	2021-2020 Change	% Change
Core Civil Budget (excluding IBAN)	207,555,046	214,230,141	6,675,095	3.2%
IBAN	3,664,114	3,662,835	(1,279)	(0.03%)
TOTAL CORE CIVIL BUDGET (EUR)	211,219,160	217,892,976	6,673,816	3.2%
<i>One-off Core Civil Budget Funding</i>	-	(6,727,619)	(6,727,619)	-
NATO Pension Schemes	45,261,000	47,711,800	2,450,800	5.4%
TOTAL GROSS CIVIL BUDGET (EUR)	256,480,160	258,877,157	2,396,997	0.9%
<i>Projected Income</i>	(13,011,052)	(12,367,267)	643,785	-
TOTAL CIVIL BUDGET CONTRIBUTION (EUR)	243,469,108	246,509,890	3,040,782	1.2%

8. Planning for the period 2022-2025 is based on the baseline established by the approved 2020 core Civil Budget (including IBAN), and 2020 Pension liabilities. The Funding projections over this period are driven by the annual salary adjustment, asset replacement requirements, anticipated increases in the NCI Agency Service Level Agreement and projected increases in programmes related to Defence Against Terrorism Programme of work, innovation, and the Special Fund for Cooperative Planning.

8.1. The submitted Medium Term Financial Plan projections do not include estimates for Active Network infrastructure nor other NHQ ICT components operated by the NCI Agency which will likely have a significant impact on the core Civil Budget in future years. The level of core Civil Budget lapses will be insufficient to offset the totality of future asset replacement requirements. Consequently, the Budget Committee will consider other options to finance asset replacement requirements, including but not limited to use of the funds remaining after the Long Term Programme closure, additional contributions, and other possibilities to grow available funding.

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8.2. The liabilities for the NATO Pension Schemes continue to increase, driven mainly by the anticipated diminishing contributions to and higher number of retirees in the NATO Defined Benefit Pension Scheme (DBPS), which remains a matter of concern to the Budget Committee.

Table C

Description	Year	Baseline	2021 BC Recommended	2022	2023	2024	2025
Initial Core 2020 Civil Budget		211,219,160	211,219,160	211,219,160	211,219,160	211,219,160	211,219,160
<i>Additional Requirements</i>			10,190,614	16,674,715	18,214,390	20,797,629	24,375,338
<i>BC Measures</i>			(3,516,798)	-	-	-	-
TOTAL CORE CIVIL BUDGET		211,219,160	217,892,976	227,893,875	229,433,550	232,016,789	235,594,498
<i>% Change total core Civil Budget year-on-year</i>			3.2%	4.6%	0.7%	1.1%	1.5%
<i>Provision for Asset Replacement Requirements:</i>							
<i>IS account (2020 lapses)</i>			(4,845,217)	(1,882,402)	(1,283,549)	(1,750,000)	(1,750,000)
<i>Use of lapses</i>			(1,882,402)				
Pension Liabilities		45,261,000	47,711,800	48,914,000	50,968,900	51,632,800	53,012,900
TOTAL GROSS CIVIL BUDGET		256,480,160	258,877,157	274,925,473	279,118,901	281,899,589	286,857,398
<i>% Change total Civil Budget year-on-year</i>			0.9%	6.2%	1.5%	1.0%	1.8%
Total Projected Income		(13,011,052)	(12,367,267)	(13,519,242)	(13,666,349)	(13,759,985)	(13,848,815)
TOTAL CIVIL BUDGET CONTRIBUTIONS		243,469,108	246,509,890	261,406,231	265,452,552	268,139,604	273,008,583
<i>% Change total Civil Budget Contributions year-on-year</i>			1.2%	6.0%	1.5%	1.0%	1.8%

9. In the February/March 2021 timeframe the Budget Committee will conduct a “lessons identified” exercise to inform the 2021/2022 Budget Guidance. Areas for improvement already recognised include efforts to ensure the submission of the 2022 budget estimates by 01 September 2021 in accordance with the NATO Financial Regulations, and the need to better articulate the linkage between resources and the three core tasks of the Alliance. The Budget Committee will also examine the structure of the Civil Budget. In support of this and efforts to standardise military and civil aspects, the Budget Committee recommends the Council invite the International Board of Auditors to carry out an independent Performance Audit on the Civil Budget cycle¹ taking into account the recommendations of the previous IBAN performance audits on NATO’s budget process. The Budget Committee will also continue its consideration of the 2021-2025 MWR and Commercial Business Plan and undertake a review of the Commercial Activities Governance and MWR Activities Mandate.

10. The International Staff will continue to further implement Operational Performance Measurement (OPM), particularly the identification and measurement of key outcomes for the 2022 budget cycle. This will be done in concert with the ongoing review of programme management and the development of a Risk Management Framework for the NHQ.

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¹ Budget ceiling, MTFP, Annual Budget.