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NOTICE
AC/335-N(2015)0056

RESOURCE POLICY AND PLANNING BOARD (RPPB)

2014 RPPB ANNUAL REPORT - EXECUTIVE SUMMARY

Note by the Chairman

1. The Board's 2014 Annual Report was agreed by Council with C-M(2015)0053. I attach for your information the unclassified Executive Summary of the Board's 2014 Annual Report which, as per the Council decision, has been approved for public disclosure and will shortly be made available to the public on the NATO website.

(Signed) Giorgio Romano

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**THE 2014 ANNUAL REPORT TO COUNCIL
BY THE RESOURCE POLICY AND PLANNING BOARD (RPPB)**

Executive Summary

1. The year 2014 was a pivotal year in Euro-Atlantic security. Emerging threats at the eastern and southern Alliance borders, as well as transnational and multi-dimensional threats, are challenging our security. The evolving geopolitical environment has and will continue to have an impact also on NATO common funding. In this challenging context, the Resource Policy and Planning Board (RPPB) annual report seeks to provide a strategic evaluation of common-funded resources, manpower and main issues during the year.
2. The RPPB's Annual Report analyses for the North Atlantic Council how NATO's common-funded resources support approved Alliance objectives and priorities. The report assesses the performance of military common funding and the implementation of NATO Reform. The report reviews the financial situation of the NATO Security Investment Programme and the Civil and Military Budgets¹, including a synopsis of NATO Command Structure manpower (civilian manpower costs) as a contributing parameter.
3. NATO military common funding continues to provide essential capabilities in support of Alliance priorities and objectives as well as paving the way for Allies to carry out their roles and responsibilities, particularly in Alliance Operations and Missions.
4. The mounting concerns about capability delivery, accountability and governance have coalesced into concrete initiatives to provide clear deliverables to improve the management, accountability and transparency of NATO common funding across the whole capability delivery process. Collectively, these measures intend to ensure delivery of common funded capabilities within approved cost, scope and schedule. In this regard, the Board recalls the Wales Summit taskings on improving the delivery of common funded capabilities; on a review of the common funded resource planning process; and improving transparency and accountability;
5. The implementation of NATO reforms continues to show steady progress, although the financial savings delivered remain below the original expectations, while transition costs increase. The Board considers that this issue needs to be kept under constant review and definitive assessments of the costs and savings attributable to NATO reforms will be required. Of particular concern to the Board are uncertainties with the implementation of the Shared Services initiative, this was expected to yield a substantial part of the forecast savings, which would then need reconsidering. Host Nation Support implementation is progressing well, however, savings remain below original estimates. The Board continues to provide Council with updated financial assessments on ongoing NATO Reform initiatives in time for Ministerial meetings.

¹ The graph at the end of the Executive Summary shows the development of NATO common funding expenditure over the period 2011 to 2014 in relation to total agreed ceilings, with a division between NATO Security Investment Programme (NSIP), Military Budgets (MB) and Civil Budget (CB) expenditures.

6. The Board is taking forward its work which could not be completed in 2014. Work is progressing on the Wales Summit taskings aimed at improving the delivery of common funded capabilities and reviewing the common-funded resource planning process within NATO. The Board will report in time for the June 2015 Defence ministerial. Work is continuing on a resource assessment of the Readiness Action Plan, to be ready in advance of the June 2015 meeting of Defence Ministers. Work is also continuing on the development of a Customer Funding Regulatory Framework for the NATO Communications and Information Agency with a view of completing the Board's work by July 2015; and on developing modalities for broadening NATO Early Warning and Control Operation and Sustainment (NAEW&C O&S) participation, jointly with the Board of Directors of the NATO Airborne Early Warning and Control Programme Management Agency.

7. The NATO Security Investment Programme (NSIP) 2014 expenditures remained well within the agreed contribution ceiling of 700 M€.² Actual expenditures in 2014 were 538.4 M€. The 2014 expenditure rate was 80 % of approved expenditure forecasts, which illustrates that there is clear room for improvement to the accuracy of the Host Nation expenditure forecasts. The Board is concerned about the slowdown in the NSIP spending, which impacts on capability delivery and the ability of the Alliance to meet its Level of Ambition. The fact that the programme is not making full use of allocated funds illustrates that the NSIP is not delivering capabilities in a timely manner. A number of nations take the view that also the postponement in recent years of requirements stratified at lower levels has negatively impacted capability delivery. Other nations have wanted to concentrate attention on the implementation of Capability levels 0 to 2 and are concerned that too much flexibility in respect to Capability levels 3 to 5 could lead to further delays in the implementation of the most critical priorities. The Board has taken steps to refocus on the delivery of identified key capabilities and is closely monitoring how these capabilities are being delivered against the agreed targets and addressing any significant delays.

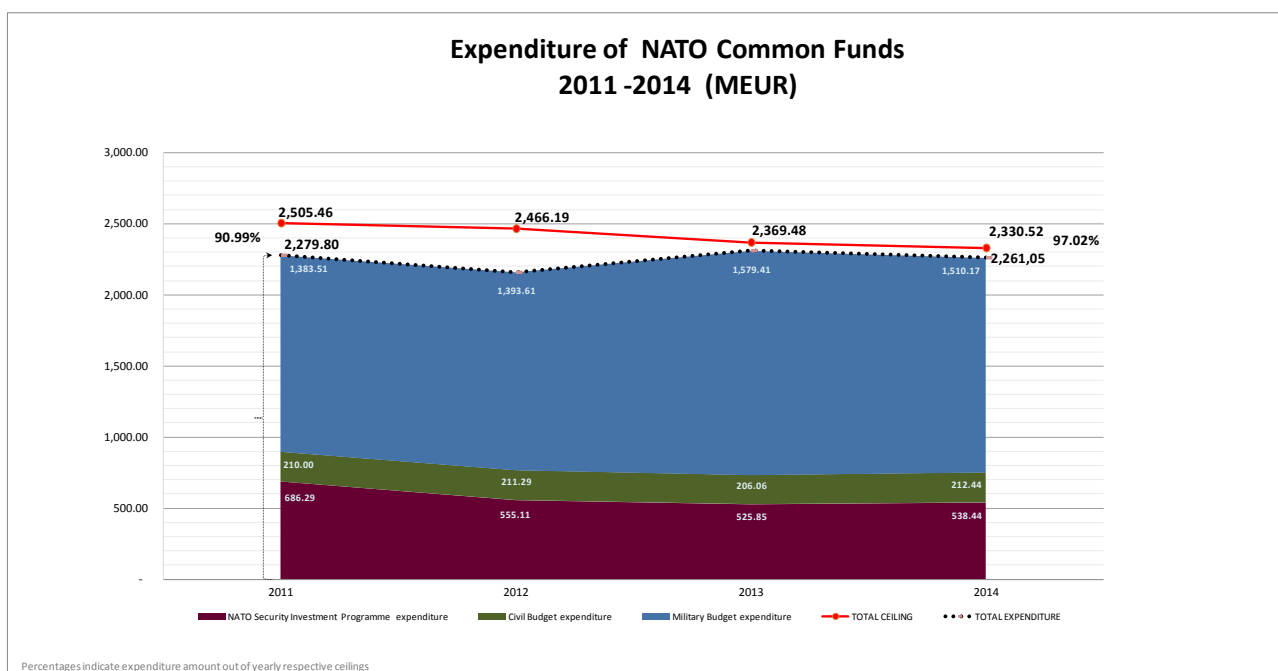
8. The Military Budgets 2014 expenditures were kept within the agreed ceilings of 1,413.1 M€, including the funding of reassurance measures and incorporated the agreement of Garrison Support Arrangements (GSAs) in respect of the Host Nation Support (HNS). Military Budget expenditures for the year 2014 amounted to 1,345.6 M€. Total Military Budget expenditure in 2014 amounted to 1,510.2 M€³, including execution of 2012 and 2013 carry forward. In the context of the security environment which evolved rapidly throughout the year, the funding made available for 2014 is deemed to have allowed the budget holders sufficient room and flexibility to meet unforeseen requirements. This was achieved by making use of available management tools and by assigning support to new delivered capabilities and the full retirement of legacy systems. A case in point is the NATO Airborne Early Warning (NAEW) Reassurance Measures Budget which

² C-M(2013)0047. The Council agreed NSIP ceiling of 700 M€ included the provision that the amounts exceeding 650 M€ would not be released until appropriate progress had been made on the follow-on taskings from the 2014 February Defence Ministerial meeting, particularly on all the strands of work covered by the Board's guidance to the Investment Committee agreed with AC/335-N(2013)0050-REV2 and that this would be assessed by the Board by the time of the 2014 October Defence Ministerial meeting.

³ Final execution figures, including execution of 2012 and 2013 carry forward, based on the 2014 Financial Statements.

was established during the year, by reallocation of available credits. However, this was only achieved by continual and dynamic risk management and in-year corrective financial management action. With regard to the Military Budget elements, the Board notes the NMAs identified challenges related to a flat line planning environment, and further that there are differing opinions on the impact of straight line planning within the Board.

9. The 2014 Civil Budget was kept within the agreed ceiling for both the core budget and the pensions.



10. The above graph shows the development of NATO common funding expenditure over the period 2011 to 2014 in relation to total agreed ceilings, with a division between NATO Security Investment Programme (NSIP), Military Budgets (MB) and Civil Budget (CB) expenditures. The underspend in the NSIP is a persistent issue illustrating that the programme is not delivering capabilities in a timely manner. The variation from a 100 % expenditure rate within the MB over the period has been due to uncertainties in respect of Alliance Operations and Missions (AOM) where budgets have tended to air on the side of sufficiency. The MB figures include carry forwards from two previous years and also carry forward at year-end which explains the above 100 % expenditure rate for certain years. The CB has approached 100 % expenditure rate for a number of years. A large portion of the underspend in the core CB being attributable to the underspend in the Science for Peace and Security programme; and in the pension portion to the calculated leaving allowance requirements.

11. The NATO Command Structure (NCS) continued toward Final Operational Capability (FOC). In 2014 nearly all civilian positions in the new NCS were filled while the NATO Defence Manpower Committee/Military Committee (NDMC/MC) has continued to

monitor and report on military manpower fill rates. The integration of long term contractors into the ACT Peacetime Establishment has remained a concern. Only exceptional use of contractors/consultants to ensure tasks has been agreed while military manpower fill rates rise towards FOC. Careful reviews were used. Careful monitoring and controls are warranted.

12. The ongoing non-provision of military manpower for the NATO Communications & Information Agency (NCIA) is of concern. This issue is still current with no agreed manpower model and no Initial State Peacetime Establishment (ISPE) for the NCIA. If this under manning continues it would set the stage for either increases in customer rates (as civilianisation or outsourcing occurred) or reductions in services and prioritisation.

13. There is a need to improve manpower fill rates for both Peacetime and Crisis Establishments to ensure the Alliance's ability to conduct operations and missions; and ensure the effectiveness and achievement of FOC for the new NATO Command Structure.

14. In their input to the Annual Report, the NMAs foresee some emerging risks and challenges in the future. These include the concern that the RAP resource requirements, if not properly resourced, will likely create additional operational risk in other areas that must be mitigated. Further that growth in the exercise programme as the result of both the Connected Forces Initiative as well as the implementation of the RAP will require increased resources. Further that any increase in the eligibility for common funding will require an increase in the Military Budgets to support this, if other aspects of ACT's transformational programme are not to be adversely affected.

15. The outcome of the 2014 report highlights areas such as capability delivery where improvements are clearly required. During 2014, the Board, aware of the shortcomings, have issued directions and taken action, and pursued its work on different strands of work to improve the management, accountability and transparency of NATO common funding, including in response to the Wales Summit taskings on improving the delivery of common funded capabilities; on a review of the common funded resource planning process; to improve transparency and accountability in NATO; and also on a customer funding regulatory framework for the NATO Communications and Information Agency. The sufficiency of actions will form part of the following annual performance reports. The Board is closely following all issues and will report to Council as necessary.

16. The Board recommends that the Council note the report and its conclusions and invite the Board to proceed with the work outlined in the conclusions. The Board further recommends that the Executive Summary of the report be made available to the public.

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