

2016 MILITARY BUDGET RECOMMENDATIONS

EXECUTIVE SUMMARY

1. The 2016 military budgets recommended for Council agreement are presented taking into account the contribution ceilings and the tasking to the Budget Committee to explore all funding options, including the controlled use of special carry forwards in the NATO Command Structure Entities and Programmes (NCSEP) budgets for allocation to emerging high-priority Alliance requirements.¹ The Budget Committee notes that the contribution ceilings for the Military Budget were foreseen for presentation to the NAC to allow their inclusion as part of the 2016 budget preparation², but that this has not proven possible and has, in turn, impacted the Committee's work particularly in regard to the NCSEP. The growth of unfunded and risk management within allocations, including for salary adjustments, coupled with the delay in the ceilings agreement, has left the Budget Committee with little alternative to the use of reductions based on a dated prioritization tool to compress screened budget requirements into the agreed ceilings. With the late agreement of the ceilings provided by reference (c), the Budget Committee has therefore adjusted screened requirements and expects reviews and reassessment during execution may be warranted. In doing so, the Committee has taken note of discussions in the Resource Policy and Planning Board (RPPB)³ and fully recognizes that the 2016 budgets may need adjustment in the course of execution.

2. During the final preparation of its recommendations the Committee has therefore instructed Budget Holders to propose credits for special carry-forwards to assist in addressing requirements, particularly in relation to Allied Operations and Support, Assurance Measures and emerging high-priority Alliance requirements within the NCSEP. In the first two areas, the Budget Committee recognizes that for requirements to be met and continuity of support provided, discretionary, tailored and controlled use of special carry forwards can provide needed assistance to meet known, and risk management of, potential shortfalls. Within the NCSEP the use of special carry forwards has been foreseen for emerging high-priority Alliance requirements in line with the guidance set out as part of the agreement of the contribution ceilings. Although some areas of the recommended budgets are characterised by funding uncertainties, especially the Resolute Support Mission (RSM) and the potential for emergent NATO Readiness Action Plan (RAP) requirements, the special carry forwards recommended are considered sufficient to satisfy known AOM requirements, but only permit the BC limited room to respond to potential requirements that may emerge in relation to the RAP⁴ in 2016. This is in line with the recognition that funding will need to be kept under rigorous review during execution to make best use of the available resources.

¹ Including the allocation modalities in PO(2015)0699-REV1.

² AC/335-N(2014)0071-REV1 (Directive for Resource Planning for the 2016 Resource Plan).

³ And as set out in the Chairman's Report PO(2015)0699-REV1, Annex 1.

⁴ For example: Capability Packages, Strategic Lift, and RUECs

3. The Budget Committee considers that the funding provided for 2015 allowed it sufficient room to meet requirements and transition challenges. They were executed within the agreed limits, also made use of special carry forward credits, particularly for Alliance Operations and Missions (AOMs) and RAP requirements and were subject to Execution Reviews during the year to provide oversight and timely, responsive budget adjustments. Where necessary the Budget Committee sought RPPB guidance in meeting a shortfall for the NAEW via the use of a suspense account⁵. The Budget Committee intends to use an overall pro-active approach in 2016 and has recommended suitably justified special carry forwards of million Euro 100.3 accordingly.

4. The recommended budgets for 2016 in an amount of billion Euro 1.16 are shown in the table below (Table 1) and this is followed by short summaries of its various components. The Budget Committee notes that at this point the recommended 2016 budget amounts do not include all Military Budget funding associated with either the NATO Readiness Action Plan (RAP)⁶ or the continuation of NAEW assurance measures. In addition to the billion Euro 1.16 for the 2016 budgets, the Budget Committee has recommended the special carry forward of million Euro 100.3 from prior years for use in 2016 resulting in billion Euro 1.26 of total available funding.

Table 1: Military Budget by Budget Group

Title	2016 CEILING*	REQUESTED (EUR @ 01/01/2015)	RECOMMENDED	RECOMMENDED vs CEILING
NAEW TOTAL	281,000,000	278,040,500	278,000,000	(3,000,000)
AGS TOTAL	14,000,000	12,849,767	12,849,767	(1,150,233)
AOM TOTAL	210,000,000	208,300,020	204,078,204	(5,921,796)
NCSEP TOTAL**	566,900,000	582,606,511	566,900,000	(0)
PENSION TOTAL	101,900,000	102,000,000	101,900,000	(0)
GRAND TOTAL	1,173,800,000	1,183,796,799	1,163,727,971	(10,072,029)

* PO(2015)0699-REV1

** including NCIA Implementation Budget

5. The Budget Committee has also reviewed the financial situation of the million Euro 5.8 pre-financing for initial Agency reform transition costs and notes that it retains Euro 579,000 of unencumbered credits for 2016 recognizing that decisions on the Office of Shared Services and the Financial & Accounting elements remain under consideration.

6. Alliance Operations and Missions (AOMs) requirements remain fluid, particularly in respect of the movement from Phase I to Phase II of the Resolute Support Mission (RSM). While the 2016 recommended budget proposals for AOMs of million Euro 204 contain an amount of million Euro 181.6 for RSM, this is based on the assumptions at the time of the budget preparations. The budget estimates do not therefore include fully defined cost estimates for RSM with a Phase I continuing throughout 2016. Initial estimates for Phase I through 2016 have indicated an additional million Euros 50 may be required. The Budget Committee, to allow maximum flexibility in meeting the 2016 RSM requirements has therefore recommended the use of available AOM prior year credits via special carry forwards in an amount of million Euro 79.4. Alliance Operations and Missions common

⁵ BC-DS(2015)0046, III & AC/335-N(2015)0055-REV2.

⁶ Million Euro 17.6 of special carry forwards has been recommended to cover emerging high-priority Alliance requirements.

funding continues at a significant level to provide the needed operation and maintenance of investment projects, common funding of headquarters and means of strategic support.

7. The NATO Command Structure Entities and Programmes (NCSEP) budgets, including the separate NCIA budget set up specifically for implementation of reorganisation, are likely to require adjustments during the year. The NATO Command Structure Entities & Programmes recommended 2016 budget amounts are expected to see additional requirements emerge for Military Budget funding associated with the NATO Readiness Action Plan (RAP)⁷. The Budget Committee recalls that the impact and risks assessment of a ceiling below the level of MEUR 589.2 were set out by the MC in the Consolidated NMA Impact Statements⁸. With a ceiling of MEUR 566.9 the major areas that would be impacted are ACT Programmes of Work, Capability Development, Education and Individual Training, NATO CIS and Outreach.

8. The implementation of the NATO Command Structure, including the progression toward FOC for the End State Peacetime Establishments (ESPEs), as well as the follow-on work in respect of the Host Nation Support policy introduction continues to require an active approach to the evolving budgets. The 2015 estimates for savings associated with the HNS policy of million Euro 12.6 will be confirmed early in 2016 when the financial results of the first year of execution will be available⁹.

9. Communication Information Service (CIS) costs continue to rise as a portion of the overall Military Budget. This is partly the impact of new capabilities reaching the point where O&M funding support is activated (ACCS, Deployed CIS) and partly the continued refinement of CIS support costs supplied by the NCIA. The Budget Committee continues to track income and expenditure in setting customer rates per the NCIA Charter and welcomes moves to provide greater transparency and accountability by the Agency in coordination with its customers.

10. Similarly, the continued transition to full customer funding regimes in the NATO Communications and Information Agency (NCIA), the NATO Support Agency (NSPA), and the Centre for Maritime Research and Experimentation (CMRE) element of the Science and Technology Organisation (STO) continues to affect the Committee both in carrying out its Charter roles and in relation to the 2016 recommendations for common funding to the NATO Military Authorities (NMAs) in their role as customers. The Budget Committee, during the period 2015-2019 has also been mandated to recommend allocations for the NATO Communications and Information Agency (NCIA) implementation (transition) funding of up to MEUR 10. For 2016 an amount of million Euro 0.84 is recommended for this within the NCSEP.¹⁰ The Budget Committee notes the agreement of an ESPE for NCIA of military manpower will allow for a solid base for the ASB to move forward in reaching mature manning levels.

⁷ Million Euro 17.6 of special carry forwards from 2015 have been recommended to cover emerging high-priority Alliance requirements, including emerging RAP costs.

⁸ MCM-0084-2015.

⁹ Initial savings estimates in PO(2011)0020 were Million Euro 28-29.

¹⁰ AC/335-N(2013)0044-REV2 + AS1.

11. The NATO Airborne Early Warning and Control Force (NAEW&CF) budget and particularly its sufficiency to carry out all aspects of the mission remain of major concern. The Council and NATO Airborne Early Warning & Control Project Management Office Board of Directors (NAPMO BOD) have made a number of decisions that will have impacts in 2016 and for future NAEW requirements and execution of the NAEW&CF budget¹¹. Further, the 2016 budget, while recommended in line with the agreed planning figure (million Euro 258) and a separate increased allocation for transition of million Euro 20 to meet legal requirements) have needed to incorporate increasing operating and service requirements, salary increases, and to partially fund Assurance Measures estimated to potentially require an additional million Euro 11.2 of which million 3.0 has been made available, but not yet allocated pending 2016 budget execution review. The Budget Committee is aware of this potential shortfall of million Euro 8.2, to carry out Assurance Measures, and has provided some additional flexibility by recommending special carry forward of funds in an amount of million Euro 3.3¹². Nevertheless, funding shortfalls may need to be addressed early in 2016.

12. Additional and separate funding of million Euro 20 has also been allocated to meet legal requirements of the NAEW Reorganization in 2016 for Loss of Job Indemnity in aligning the organisation to the newly agreed ESPE¹³. Funding all requirements means 2016 is likely to be a difficult financial year for the NATO Airborne Early Warning and Control Force budget. The need to readdress the funding available during the course of budget execution is part of the ongoing Budget Committee work, but is considered to be particularly acute for the NAEW&CF budgets for 2016.

13. The Budget Committee has recommended the 2016 Alliance Ground Surveillance (AGS) Operation & Support budgets in an amount of million Euro 12.8. These costs will increase until full operational capability is reached at which point the required annual amount should stabilize in accordance with the provisions set out in PO(2011)0049 (at million Euro 76.5). During 2015 the AGS was activated and its organizational structure and manning was approved¹⁴, funding for the phased manning of the organization in 2016 is foreseen within the budgeted million Euro 12.8.

14. The Budget Committee continues to note the increase imposed on the Defined Benefit Pension Scheme (DBPS). The forecast is for costs to rise by some 25% over the period 2017-2019, though the actual 2016 budget estimates have increased at a lower rate of some 9%. With the expiration of the period applicable for leaving allowance payments having been reached in 2015, a significant variable has been removed from the estimates for 2016 and onward. Additionally, the Budget Committee notes that the funding mechanisms for pensions may need review as part of the application of full customer funding regimes by the NCIA, the NSPA and the CMRE and this could be combined with an updated actuarial study for 2017.

¹¹ E-3A Component (BC 162) and NAEW&C FC (BC 112) are combined into the NAEW&CF (BC 162) for 2016.

¹² Of which MEUR 1 is for Depot Level Maintenance (SLM) Source of Repair (SOR)

¹³ PO(2015)0538+AS1.

¹⁴ PO(2015)0385 and PO(2015)0436 refer.

15. The budgets and recommended special carry forward of unused lapsable credits for use in 2016, including for emerging high-priority Alliance requirements within the NCSEP budgets, in an amount of million Euro 100.3 will be closely monitored to ensure sufficiency in carrying out the missions.

16. The NATO Financial Regulations (NFRs) make provision for the Military Committee (MC) to comment on the recommended budgets. As in the past, this advice should form an important element in the Council's consideration of the recommended 2016 Military Budget.