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NOTICE
AC/335-N(2016)0067 (INV)

RESOURCE POLICY AND PLANNING BOARD (RPPB)

RPPB 2015 ANNUAL REPORT - EXECUTIVE SUMMARY

Note by the Chairman

1. The Board's 2015 Annual Report was agreed by Council with C-M(2016)0043. I attach for your information the unclassified Executive Summary of the Board's 2015 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

1 Annex

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Original: English

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-1-



**THE 2015 ANNUAL REPORT TO COUNCIL
BY THE RESOURCE POLICY AND PLANNING BOARD (RPPB)**

Executive Summary

1. The year 2015 has continued to highlight the ever growing insecurity on our European borders. Russia's continued actions in the Ukraine and the volatility of our southern neighbourhood, from the Middle East to North Africa, as well as transnational and multi-dimensional threats, are continuing to challenge our security. The evolving geopolitical environment will continue to have an impact also on NATO common funding. In this challenging context, the Resource Policy and Planning Board's (RPPB) Annual Report seeks to provide a strategic evaluation of how common-funded resources have contributed 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. NATO continues to face persistent problems and deficiencies in the delivery of common funded capabilities. Delays in delivery of key capabilities will affect the achievement of the Level of Ambition. Previous attempts to address these recurring problems have so far failed to deliver the required results. In this regard, the Board recalls the Wales Summit taskings, on which it delivered in time for the June 2015 Defence Ministerial meeting, on improving the delivery of common funded capabilities; on a review of the common funded resource planning process; and improving transparency and accountability. Concrete measures to improve the management, accountability and transparency of NATO common funding across the whole capability delivery process are now in place. Collectively, these measures intend to ensure delivery of common funded capabilities within approved cost, scope and schedule; including also additional analysis work as a basis for further recommendations. In this regard, the Board also recalls the recommendations it provided to Council concerning the International Board of Auditors for NATO (IBAN) Special Report to Council on the Need to Reform NSIP Governance²; taking

¹ The graph at the end of the Executive Summary shows the development of NATO common funding expenditure over the period 2011 to 2015 in relation to total agreed ceilings, with a division between NATO Security Investment Programme (NSIP), Military Budgets (MB) and Civil Budget (CB) expenditures.

² IBA-A(2015)60 & IBA-AR(2014)35

into account the ongoing work in the Resource Committees to improve NSIP governance and delivery of common-funded capabilities. Credible achievements of the specific actions put in place in response to the IBAN observations on the NSIP implementation process were expected by no later than mid-2016 and will be measured against clear performance targets. Recognising that specifically the new measures needed time to produce expected results, the Board agreed to come back to this issue and make a recommendation to Council on this matter by no later than the October Defence Ministerial meeting in 2016.

5. With regard to capability delivery in 2015 the outcomes were mixed. Regarding high priority targets, military common funding delivered largely as planned; including support to Resolute Support Mission (RSM) and KFOR which was provided both from the Military Budgets and the NATO Security Investment Programme with all necessary priority. The implementation of agreed common funded Readiness Action Plan (RAP) requirements continued on schedule, including establishment of NATO Force Integration Units (NFIUs). Cyber Defence remains an important and visible NATO capability and 2015 saw major activities in several areas. NATO Air Command & Control System (ACCS) still continues to suffer the consequences of delays which have been ongoing for many years. Evolution of the operational requirements and the context in which ACCS is operating demands adaptation of the ongoing projects to achieve the necessary operational capabilities. The outcomes for lower priority targets remain mixed and implementation has often been slower than planned.

6. During 2015, the Board continued to monitor a number of key common-funded capabilities by providing a high-level assessment of progress on a range of the most militarily important, time-critical and/or resource heavy capabilities. The review of these key capabilities is a major element of the Board's resource management activities to maintain awareness and supervise the implementation of NATO priority programmes.

7. On financial grounds NATO Reform progresses slowly, with a prospect for savings below original expectations. This is partly due to the over-ambitious setting of savings goals at the time of decision making, and partly related to relevant implementation challenges. Transition costs prevail over cost reductions, although reductions have an annual recurring nature which should offset transition costs eventually. The initial perspective on immediate recovering of transition costs leaves the way to a more substantial recovery period, heavily affected by continued reinvestment of achieved cost reductions. For Shared Services, the Board notes delays in the implementation of the Shared Services environment and further that it is expected to provide only limited financial savings, against significantly higher original expectations. Regarding Host Nation Support, the Board considers that the expectations underpinning the policy have been met to an acceptable degree, 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.

8. Throughout the year 2015, the Board provided advice on prospective common funded implications of the RAP. The Board also agreed a final NATO Communication and Information Agency (NCIA) Customer Funding Regulatory Framework for implementation on 1 January 2016, replacing interim measures, designed to deliver effective and efficient

CIS provision by the NCIA. The Regulatory Framework is a fundamental part of the governance of the NCIA, along with the NCIO Charter provisions. Work also continued 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.

9. For the NATO Security Investment Programme (NSIP), total funding requirements in 2015 remained within the agreed ceiling of 700 M€; of which 75 M€ were reserved in particular for RAP requirements. Actual expenditures in 2015 were 595.4 M€; of which 5.2 M€ were for RAP related expenditures. This compares to the approved forecasts of 619.8 M€ resulting in an expenditure rate of 96 % for the entire year 2015, and 85 % compared against the agreed ceiling. The Board notes the positive upward trend of NSIP expenditure for 2015 and even more so that the expenditure is almost at the level of the approved forecasts. This illustrates that the work undertaken by the Investment Committee on improving the level of accuracy in Host Nation expenditure forecasting is starting to bear fruit.

10. The Board is pleased to note that, in 2015, the closure of NSIP projects reached its highest level since 2010 with 1.2 B€ certified; also recalling the Council tasking on this matter to close out, by 30 June 2016, projects that were physically complete by mid-2014. The Board continues to follow this issue closely and notes in this regard the ongoing actions undertaken by the Investment Committee and progress made towards the timely close out of completed NSIP projects during 2015.

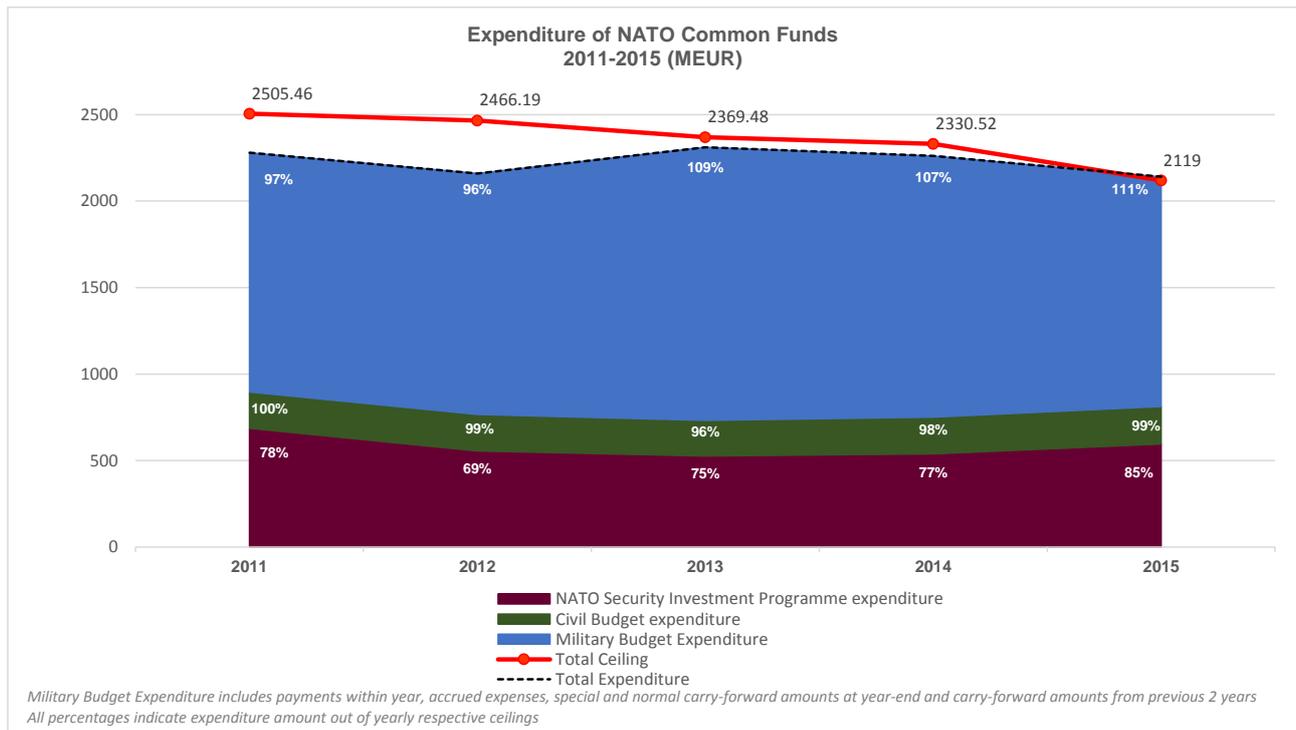
11. The Military Budgets (MB) 2015 expenditures were kept within the agreed contribution ceilings totalling 1,200.7 M€. The final 2015 budget amounted to 1,169 M€, of which 1,160.3 M€ was either expensed or carried forward to 2016 and 8.93 M€ (0.76 %) lapsed while known unfunded requirements could not be executed. In the context of the security environment which continued to evolve throughout the year, the funding made available for 2015 is deemed to have allowed the budget holders sufficient room and flexibility to meet unforeseen requirements, as also reflected in the Military Committee input to the RPPB Annual report.

12. The 2015 Civil Budget (CB) was kept within the agreed ceiling for both the core budget and the pensions.

13. The below graph illustrates the development of NATO common funding expenditure over the period 2011 to 2015 in relation to total agreed ceilings, with a division between NSIP, MB and CB expenditures.³ The NSIP expenditure is showing an upward trend in 2015 with an expenditure rate of 96 % against the approved forecasts. The variation from a 100 % expenditure rate within the MB over the period is due to uncertainties in respect of Alliance Operations and Missions (AOM) where budgets have tended to err on the side of sufficiency, given the nature and uncertainties in the development of AOM and in particular the Resolute Support Mission in Afghanistan. The MB figures include carry forwards from two previous years and also carry forwards at year-end which explains the above 100 %

³ Within the NATO accounting system credits are expendable over 3 years and rates of expenditure may therefore exceed 100 % in any given year.

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.



14. The NATO Command Structure (NCS) reached its Full Operational Capability as planned on 1 December 2015. While the NCS has reached an overall manning level of 90% or greater and, thus, is manned, trained and equipped to undertake all missions for the current Level of Ambition, significant manning and equipment issues remain for particular NATO entities.

15. With regard to manpower, the Board recalls that the lack of an agreed End State Peacetime Establishment (ESPE) and military manpower has been highlighted as an area of concern since the creation of the NCIA in 2012. On 21 December 2015, Council approved the new NCIA ESPE. The ESPE, albeit submitted later than planned, should allow the NCIA to achieve a stable military manpower baseline from which to continue transition. The continued concern of not having an agreed civilian personnel manning remains a concern. The Board considers such resource shortfalls should be addressed through internal measures, rather than viewed as costs to be passed on to customers. The Board concludes that the problem of NCIA manning is only likely to be fully dealt with once manpower is analysed and incorporated in the Savings and Benefits Plan in 2016 and actioned as a result.

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ANNEX 1
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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 unclassified Executive Summary of the report be made available to the public.

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