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NOTICE
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RESOURCE POLICY AND PLANNING BOARD (RPPB)

RPPB 2016 ANNUAL REPORT - EXECUTIVE SUMMARY

Note by the Chairman

1. The Board's 2016 Annual Report was agreed by Council with C-M(2017)0026. I attach for your information the unclassified Executive Summary of the Board's 2016 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) Marek Powalski

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Action Officer: Helene Ronning, ext. 4463
Original: English

**THE 2016 ANNUAL REPORT TO COUNCIL
BY THE RESOURCE POLICY AND PLANNING BOARD (RPPB)**

Executive Summary

1. The Resource Policy and Planning Board's (RPPB) Annual Report analyses for the Council how NATO's common funded resources support approved Alliance objectives and priorities. 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. The evolving geopolitical environment facing the Alliance continues to have an impact also on NATO common funding and throughout 2016 common funding was provided for requirements such as the Readiness Action Plan (RAP) as the Alliance continues to adapt to the challenges.
2. The 2016 Annual Report assesses the performance of military common funding, taking into account the 2016 Resource Plan and the 2015-2019 Medium Term Resource Plan, with a strong emphasis on capability delivery. The report reviews the financial situation of the NATO Security Investment Programme (NSIP) and the Civil and Military Budgets (CB and MB), including a synopsis of NATO Command Structure manpower (civilian manpower costs) as a contributing parameter.
3. The report also addresses key resource allocation and resource management issues, including the implementation of the NATO Command Structure (NCS) and NATO Agencies reform; the provision of Alliance capability requirements; in particular the Readiness Action Plan (RAP); and the progress on taskings agreed by Heads of State and Government at the 2014 Wales and 2016 Warsaw Summits.
4. During 2016, the Board dealt with a number of complex and interrelated issues, such as the RAP and the NATO Training and Capacity Building Activity in Iraq.
5. The year 2016 was a critical year in the Board's work on the Readiness Action Plan (RAP). NATO common funding from NSIP and MB continues to support common funded capabilities provided in support of the RAP. Further to the delivery of two comprehensive resource assessments on the resource implications of the RAP and to the establishment of RAP CP Roadmap during 2015, the Board's work successfully culminated in the approval of four Capability Packages (CPs) by Council, totaling an estimated amount of € 754 million.
6. NATO continues to face persistent problems and deficiencies in the delivery of common funded capabilities. The Board remains very deeply concerned about both the delays in submission of CPs, implementation or approval of projects, and not least the delays in delivery of priority capabilities. Effectively the end-users will have to rely on legacy systems, at increased operating and maintenance costs, and insufficient qualitative and quantitative capacity.
7. Improvements agreed by Council in response to successive International Board of Auditors for NATO (IBAN) performance audit reports on the NSIP and on the delivery of common funded capabilities have largely been put in place through 2016, but it will take time

for the measures to take full effect and they have yet to result in a measurable improvement in performance. The Board is addressing this as a matter of urgency, building on the work of the Investment Committee (IC). The Board concludes that more time should be allowed for improvement measures to bear fruit on a complex multi-year programme such as the NSIP. Going forward, the Board will focus its efforts on measures to address the weaknesses identified in the second IBAN report, and will support the work of the Deputy Permanent Representatives Committee and implement recommendations as agreed by Council.

8. Despite the challenges faced in the capability delivery, this should not, however, lead to the conclusion that the NSIP as a capital investment programme with about 2,200 active projects is not delivering much needed capabilities. In fact, military capabilities with a total financial volume of about € 300 million were delivered in 2016 and about half a billion was spent by Host Nations in 2016 to implement the capabilities required by the user.

9. Regarding high priority objectives, military common funding delivered largely as planned; including support to Resolute Support Mission and KFOR which was provided both from the MB and the NSIP with all necessary priority. The implementation of agreed common funded RAP requirements continued on schedule, including establishment of NATO Force Integration Units (NFIUs). Cyber Defence remains an important and visible NATO capability and 2016 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. The outcomes for lower priority objectives remain mixed and implementation has often been slower than planned.

10. Over the past couple of years, the Board has worked on monitoring 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 intended to be a major element of the Board's resource management activities to maintain awareness and supervise the implementation of NATO priority programmes. The Board intends to review the way in which it assesses and reports on these capabilities, in order to provide the Council with a clear assessment, with appropriate recommendations.

11. On financial grounds wider NATO Adaptation 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. The cost of transition has increased significantly, and the possibility of further cost growth cannot be ruled out. 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. 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.

12. For the NSIP, total funding requirements in 2016 remained within the agreed ceiling of € 690 million. Actual expenditures in 2016 were € 508.5 million; of which € 19 million were for RAP related expenditures. This compares to the approved forecasts of € 587.5 million resulting in an expenditure rate of 87 % for the entire year 2016, and 74 % compared

against the agreed ceiling. The Board has highlighted its concern over the overoptimistic forecasting by Host Nations, in particular the NATO Communications and Information Agency (NCIA), on multiple occasions.

13. The NSIP project delivery rate is of particular interest to the Board as it tracks the extent to which NSIP-funded projects are delivered on time. In 2016, only 28 % of projects were completed when planned, i.e. 54 out of 193 projects with an estimated financial value of € 187 million. This is an 11 % decrease in project delivery rate compared to 2015. This low project delivery rate is of concern to the Board. The Board supports the ongoing work of the IC to improve project delivery rates and expects to see improved rates as soon as possible. In line with the Board's decisions to improve the Monitoring and Controlling of CP Implementation, the IC now reports significant deviations to agreed scope, schedule and cost to the Board for additional guidance and direction as required.

14. The Board is pleased to note that the closure of NSIP projects reached its highest level ever in 2016 with € 1.4 billion certified. Notwithstanding this positive trend, the Board notes with disappointment that, despite the significant efforts and commitment from all stakeholders, it has not been possible to meet the Council tasking to close out by mid-2016 all projects, estimated at € 5 billion, which were completed by mid-2014. The remaining NSIP projects with € 3,807 million in value are, or will be, subject to specific action plans and the IC assesses that these be completed as soon as possible and no later than by 2020. The Board stresses that it will require the full commitment from all stakeholders to adhere to the action plans which will be subject to IC monitoring and review. The Board continues to follow this issue closely through the regular IC progress reports to the Board on Improving Delivery of Common-funded Investment Projects.

15. The MB 2016 expenditures were kept within the agreed contribution ceilings totalling € 1,173.8 million. The final 2016 budget amounted to € 1,160.2 million, of which € 1,141.4 million was either expensed or carried forward to 2017 (98.4 %) and € 18.8 million (1.6 %) was returned to Nations. This shows a percentage increase by more than 2.5 % from the 2015 execution level. The funding made available for 2016 has allowed the Budget Holders to cover the 2016 requirements.

16. The Civil Budget was kept within the agreed ceiling for both the core budget and the pensions. The period 2016 to 2017 represents a period of transition for NATO Headquarters and the International Staff as it continues to adapt to changes in the security environment, gears itself toward moving to the new NATO Headquarters site and works to improve the Nations' need for accountability and transparency in the way NATO's resources are governed and put to use. In acknowledgement of these factors, for the first time since 2011, Nations granted an increase to the 2016 core Civil Budget above Zero Nominal Growth by 1.43 %.

17. One of the key assumptions for successful implementation of the 2012 NATO Command Structure (NCS) was that the Nations would fill their posts at 100% because there is no redundancy in the structure. The Board notes with concern the Budget Holders conclusion that the trend of decrease in the manning, together with the additional RAP related manpower requirements limits the Strategic Commands abilities to face possible emergent requirements. The Board considers it of critical importance that Nations fulfil their commitment to the NCS with qualified, trained and where applicable, deployable personnel;

18. 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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