

2019 MILITARY BUDGET RECOMMENDATIONS

EXECUTIVE SUMMARY

1. The 2019 Military Budgets recommended for Council agreement are presented taking into account the less stable and predictable security environment, the contribution ceilings and the other provisions set out in the 2019 Contribution Ceilings document. The budgets include additional funding made available to initiate requirements agreed as part of the 2018 Brussels Summit in relation to defence and deterrence. As such, the 2019 Military Budgets see continuation of the increases in the NATO Command Structure Entities and Programmes (18% since 2016, Appendix 6) and for key strategic capabilities (NATO Airborne Early Warning & Control Force + NATO Alliance Ground Surveillance Force). The Budget Committee (BC), in addition to normal reallocation during execution, recognizes it will need to adjust the budgets during 2019 to accommodate potential changes relating to the NATO Command Structure Adaptation (NCS-A) and development of other initiatives, such as the NATO Mission in Iraq (NMI). To do so it has considered risk, its measurement and management, as an integral part of the budget process both in its wider context through the Commander's Statement in each budget and in financial terms to meet Military Budget common funded requirements.

2. During the final preparation of its 2019 recommendations, the Budget Committee has taken difficult decisions to allow the Military Budget, particularly the NATO Command Structure Entities and Programmes and Allied Operations and Missions budget groups, to maintain continuity of operations while conforming to the late planning direction received. In particular, it has funded emergent major increases related to cyber defence (NATO Computer Incident Response Capability (NCIRC)), which was only quantified late in the screening process. The Budget Committee continues to recognize that funding will need to be kept under rigorous review during execution to make best use of the available resources so as to meet requirements as well as mitigate the risks identified by the Military Committee and budget holders in the planning and screening of the budget requirements.

3. In making its recommendations for 2019 the Budget Committee has utilized the special carry forward (SCF) provisions in the NATO Financial Regulations delegated to it by the NAC. In doing so it has taken account of the guidance provided by the Medium Term Resource Plan (MTRP), in line with the Resource Policy and Planning Board (RPPB) recommendations while bearing in mind the five nations letter. The BC notes that it has met all of the SCF requests presented by the budget holders as their priorities for 2019 funding and has retained an amount of SCF credits recognising the elements taken at risk in the NCSEP budgets to deal with the high priority risk items foreseen at the planning stage (C-M(2018)0040). As such it has balanced requirements that have been emerged with the risks known in setting the contribution ceilings. The Budget Committee considers that the use of special carry forward credits, while serving to reduce specific, realised risks between requirements and available funding do not provide for long term solutions and should not compensate for weaknesses in planning. Finding the balance remains challenging and the Budget Committee would expect that the use of special carry forwards, except for operations and missions, should reduce as improvements in planning and delivery of capabilities under the new Governance Model are realized.

4. The Budget Committee considers that the funding provided for 2018, augmented by the special carry forward of credits from previous years, allowed it sufficient room to meet requirements and transition challenges. The budgets were executed within the agreed limits, made use of special carry forward credits, particularly for Alliance Operations and Missions (AOMs) and were subject to Execution Reviews during the year to provide oversight and timely, responsive budget adjustments. The Budget Committee intends to continue to use an overall pro-active approach in 2019, including the use of special carry forwards to the justified amount of million Euro (MEUR) 94.9. The receipt of the 2019 contribution ceilings, while later than foreseen, was in advance of the budget screenings and has therefore posed fewer challenges than in some previous years. The proposed 2019 Military Budget incorporates the direction provided by the 2019 Contribution Ceilings document in regards to special carry forwards and intends to follow this as part of the 2019 budget execution.

5. The recommended budgets for 2019 in an amount of MEUR 1,395.2 are shown in the table below (Table 1) and this is followed by short summaries of its various components. In addition to the MEUR 1,395.2 for the 2019 budgets, the Budget Committee has recommended the special carry forward of MEUR 94.9 from prior years for use in 2019 resulting in MEUR 1,490.1 of total available funding. This represents an increase of 21.1% since 2016 without the situational specific impact of Allied Operations and Missions.

Table 1: Military Budget by Budget Group

Title	2019 CEILING	2019 REQUESTED (EUR @ 01/01/2018)	2019 RECOMMENDED (per BC Screened)	RECOMMENDED vs CEILING
NAEW TOTAL	262,000,000	261,999,999	261,999,999	(1)
AGS TOTAL	40,000,000	36,564,610	36,554,610	(3,445,390)
AOM TOTAL	280,000,000	273,246,807	273,246,807	(6,753,193)
NCSEP TOTAL	669,000,000	665,833,913	669,000,000	-
NCS-ADAPTATION	53,000,000	27,550,881	27,640,284	(25,359,716)
PENSION TOTAL	127,900,000	125,830,000	125,830,000	(2,070,000)
sub-Total	1,431,900,000	1,391,026,210	1,394,271,700	(37,628,300)
NCIA Implementation Budget*		900,000	900,000	
TOTAL	1,431,900,000	1,391,926,210	1,395,171,700	(37,628,300)

* 2019 maximum outstanding allocation in line with NCIA transition costs

6. Alliance Operations and Missions (AOMs) funding remains directly tied to the requirements for the five ongoing operations. For 2019, the NATO Mission Iraq, launched as part of the decisions stemming from the Brussels summit, will be executed for a full financial year and is expected to move from Phase 1 to Phase 2 early in 2019. Funding is foreseen to allow this to be accomplished. The funding for the other AOMs is seen as stable during 2019, including for the largest resource user, the Resolute Support Mission (RSM) in Afghanistan. Alliance Operations and Missions common 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. The Budget Committee has therefore recommended use of special carry forwards for ongoing AOMs (MEUR 3.7) as well as for potential costs that might arise from the International Security Assistance Force (ISAF) (MEUR 24.9) to allow maximum flexibility in meeting requirements.

7. The NATO Command Structure Entities and Programmes (NCSEP) budgets are likely to require adjustments during 2019, particularly in respect of the NATO Command

Structure Adaptation where initial requirements are well under the ceiling of MEUR 53, but where requirements remain to be matured by the budget holders. Within the NCSEP, the Budget Committee acknowledges that the 2019 contribution ceiling recognises the achievement of structural efficiencies of the MEUR 11 savings and efficiencies in Communications and Information Services (CIS) services and support confirmed in 2018 by the budget holders in collaboration with NATO Communications and Information Agency (NCIA).

8. In addition to the NATO Command Structure Adaptation transition, for which separate and additional funding is foreseen, the progression toward implementation of the Readiness Action Plan (RAP), Fight against terrorism, assurance measures, 360-degree approach to security, NATO's partnerships and collective defence continues. The 2018 NCSEP budgets for the NATO Command Structure entities were considered to have achieved an overall stability in terms of costs. With the 2019 NCS Adaptation and for the transition in 2019-2021, this will not be the case and the budgets will therefore require flexibility to ensure common funding and requirements remain in balance. Programme elements are and will remain fluid as they depend on Operation and Maintenance (O&M) changes for new capabilities, the retirement of legacy systems, exercise programme cyclical variations and the introduction of a new Governance Model. The overall resource stability of 2018 is therefore expected to require upward adjustment in 2019 as the impacts of the implementation of the Brussels Summit, particularly NCS Adaptation, are realized in financial terms.

9. Communications and Information Systems (CIS) costs continue to rise as a portion of the overall Military Budget. This may, in fact further increase depending on how Consultation, Command and Control (C3) Capability Programme Plans (CPPs) are accelerated and funded as part of the new Governance Model. Currently increases are partly the impact of new capabilities reaching the point where O&M funding support is activated (ACCS¹, Deployable CIS) and partly the continued refinement of CIS support costs supplied by the NCIA. The Budget Committee has approved the Customer Rates for 2019 and validated the 2019 Service Rates based on an NCIA Costed Customer Service Catalogue. The Budget Committee intends to pay particular attention in 2019 to progress in relation to advancing and validating the customer service catalogue and looks forward to the review of the Customer Funding Regulatory Framework (CFRF) by the Resource Policy and Planning Board (RPPB) in advancing interactions with the NATO Communications and Information Agency (NCIA).

10. The customer funding regimes in the NATO Communications and Information Agency (NCIA), the NATO Support and Procurement Agency (NSPA), and the Centre for Maritime Research and Experimentation (CMRE) element of the Science and Technology Organisation (STO) continue to engage the Committee in carrying out its Charter roles and, in relation to the 2019 recommendations for common funding, to the NATO Military Authorities (NMAs) in their role as customers. In particular, and as was the case for 2018, the Committee suggests that any review of the Charters should include clarification of the Committee's role in relation to the NSPA and CMRE rates vis-à-vis the governance structures in place.

¹ Air Command and Control System

11. The NATO Airborne Early Warning and Control Force (NAEW&CF) funding for 2019 continues to mature as a result of the Broadening of participation. The Employment Budget of MEUR 156.7 is considered sufficient to fully carry out the required flying hours, both for training and to provide for all Assurance measures so far agreed. The Budget Committee notes that in the course of 2019 the NAEW&CF budgets will need to be monitored and may need to be modified in view of the Force Structure Optimization study and potential for Peacetime Establishment (PE) changes.

12. The Budget Committee has recommended the 2019 NATO Alliance Ground Surveillance Force (NAGSF) budgets in an amount of MEUR 36.5. These costs will increase until full operational capability is reached at which point the required annual amount should stabilize (at MEUR 76.5) in accordance with the provisions set out in PO(2011)0049. The Budget Committee, in recommending the 2019 NAGSF budgets continues to seek clarity in respect of the provisioning of spare parts. The Budget Committee recommends special carry forwards for 2019 in an amount of MEUR 40 for spare parts but, pending the necessary clarity, has placed limitations on their usage. In addition, it has recommended a further MEUR 8.0 of special carry forwards in support of Operational Test and Evaluation (OT&E) and a further MEUR 0.125 associated with operational flight safety.

13. The Budget Committee continues to note the increase imposed on the Defined Benefit Pension Scheme (DBPS) and that while the increases are in line with forecasts of continued rises until 2026, this places an additional funding requirement on nations and competes for the national resources made available to NATO. The BC again notes that the provisions regarding Pensions may need to be reviewed by the Council to ensure the customer funding regimes for the new Agencies (NCIA and NSPA) and CMRE are correctly considered in terms of pension costs.

14. The Budget Committee has also reviewed the financial situation of the MEUR 5.8 pre-financing for initial Agency reform transition costs and notes that this has now been closed. Of the original allocation MEUR 5.6 has been called (of which KEUR 579 remains and will be returned to nations).

15. In respect of the MEUR 10 agreed for NCIA reorganisation the Budget Committee notes that MEUR 0.9 is forecasted to be required in 2019, which constitutes the difference from the currently allocated amount to the overall ceiling. The Agency has indicated it may need an additional sum to complete the reorganization. The BC recognizes that increases in cost and scope would first require additional consideration and agreement in the RPPB.

16. The budgets and recommended special carry forward of unused lapsable credits for use in 2019, in an amount of MEUR 6.9 will be closely monitored to ensure sufficiency in carrying out the budget requirements.

17. The NATO Financial Regulations (NFRs) make provision for the Military Committee (MC) to comment on the recommended budgets. This advice forms an important element in the Council's consideration of the recommended 2019 Military Budgets. The Budget Committee will continue to use the powers delegated to it by the NAC in executing the 2019 Military Budget.