

## **2017 MILITARY BUDGET RECOMMENDATIONS**

### **EXECUTIVE SUMMARY**

1. The 2017 military budgets recommended for Council agreement are presented taking into account the contribution ceilings and the provisions set out in the 2017 Contribution Ceilings document. The Budget Committee in addition to normal reallocation during execution recognizes it will need to adjust the budgets during 2017 to accommodate potential changes relating to Alliance Operations and Missions (AOMs), including the move to a non-Article 5 Operation for Sea Guardian, for the NATO Airborne Early Warning and Control Force (NAEW&C F) decision on Broadening and for the Accession of Montenegro in line with agreements.

2. During the final preparation of its 2017 recommendations, the Budget Committee has therefore taken decisions to allow the Military Budget, particularly the NATO Command Structure Entities and Programmes, to maintain continuity of operations while conforming to the late planning direction received. 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 mitigate the risks identified by the Military Committee in providing its input to the planning and screening of the budgets. In making its recommendations the Budget Committee has proposed the continued, significant use of the special carry forward provisions in the NATO Financial Regulations first urged for 2016.

3. The Budget Committee considers that the funding provided for 2016, 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, also 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 2017 and has recommended suitably justified special carry forwards of MEUR 61 accordingly (including the MEUR 10 of special carry forwards to meet 2017 requirements set out in the 2017 Contribution Ceilings document). While the late receipt of the 2017 contribution ceilings (end of October instead of June) has posed challenges, the proposed 2017 Military Budget fully incorporates the direction provided by the 2017 Contribution Ceilings document and will be followed up by the Budget Committee as part of the 2017 budget execution.

4. The recommended budgets for 2017 in an amount of MEUR 1,292 are shown in the table below (Table 1) and this is followed by short summaries of its various components. In addition to the MEUR 1,292 for the 2017 budgets, the Budget Committee has recommended the special carry forward of MEUR 61 from prior years for use in 2017 resulting in MEUR 1,353 of total available funding.

**Table 1: Military Budget by Budget Group**

Title	2017 CEILING	REQUESTED (EUR @ 01/01/2016)	RECOMMENDED (per BC Screened)	RECOMMENDED vs CEILING
NAEW TOTAL	274,000,000	274,030,327	273,719,500	(280,500)
AGS TOTAL	63,000,000	63,200,000	63,000,000	-
AOM TOTAL	254,700,000	253,555,386	253,135,718	(1,564,282)
NCSEP TOTAL	589,000,000	614,509,239	588,999,650	(350)
NCIA Implementation Budget	5,000,000	2,306,533	2,306,533	(2,693,467)
PENSION TOTAL	110,300,000	110,600,000	110,300,000	-
<b>TOTAL</b>	<b>1,296,000,000</b>	<b>1,318,201,484</b>	<b>1,291,461,401</b>	<b>(4,538,599)</b>

5. Alliance Operations and Missions (AOMs) requirements remain fluid, particularly in respect of the evolution of the Resolute Support Mission (RSM) during 2017. 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 7.1) as well as potential costs arising from ISAF (MEUR 26.1) to allow maximum flexibility in meeting requirements.

6. The NATO Command Structure Entities and Programmes (NCSEP) budgets are likely to require adjustments during the year. Requirements for 2017 were directed to be met within a contribution ceiling of MEUR 589, the use of MEUR 10 special carry forwards and the achievement of efficiencies of MEUR 11 in Communications and Information Services (CIS) services and support. The NATO Communications and Information Agency (NCIA), in collaboration with the Budget Holders, will identify the efficiencies in CIS services and support. The Budget Committee, to allow the NATO Communications and Information Organisation (NCIO), in concert with the Budget Holders, time to achieve the mandated efficiencies has therefore recommended use of a suspense account that will be offset as efficiencies are identified. This mechanism, while adding an additional administrative and tracking burden was supported by the NCIA and the NCS Budget Holders as the best way of mitigating the risks in realizing the MEUR 11 efficiencies in CIS services and support and will be closely monitored by the Budget Committee.

7. 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. The 2017 NCSEP budgets for the NCS entities are considered to have achieved an overall stability in terms of costs, while programme elements are and will remain more fluid as they depend on O&M changing for new capabilities, the retirement of legacy systems, exercise programme cyclical variations and new initiatives such as for Outreach.

8. Communications and Information Systems (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 has agreed the Customer Rates for 2017 based on a single-rate structure, to foster transparency and provide an equitable apportionment of costs across stakeholders. While this is seen as a necessary progression in achieving full, transparent customer funding, the Budget Committee recognizes that it has placed additional costs on military budget funding (with corresponding reductions to other customers, including NATO Security Investment Programme (NSIP), foreseen). The Budget Committee intends to pay particular attention in 2017 in the development of the Customer Rates to confirm that the movement in rates has had the expected results, to continue 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.

9. Similarly, 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) continues to engage the Committee in carrying out its Charter roles and in relation to the 2017 recommendations for common funding to the NATO Military Authorities (NMAs) in their role as customers. In particular, the Committee has suggested that any review of the Charters should include a review so as to clarify the Committee's role in relation to the NSPA and CMRE rates vis-a-vis the governance structures in place.

10. The NATO Airborne Early Warning and Control Force (NAEW&C F) funding for 2017 of MEUR 272.5 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 2017 (July) provisions to the NAEW&C F budget will need to be made to accommodate the agreement on Broadening and will consider this via an appropriate Road Map early in 2017.

11. Additional and separate funding of MEUR 1.5 has also been allocated to meet legal requirements of the NAEW Reorganization in 2017 for Loss of Job Indemnity in continuing to align the organisation to the agreed ESPE. The Budget Committee notes the initially foreseen amount of MEUR 25.5 over 2015-2018, MEUR 23.9 are expected to have been used by the end of 2017.

12. The Budget Committee has recommended the 2017 Alliance Ground Surveillance (AGS) Operation & Support budgets in an amount of MEUR 63. 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 MEUR 76.5). The Budget Committee, in recommending the 2017 AGS budgets has sought clarity in respect of the provision of spare parts, pending which it has included amounts in the budget but placed limitations on their use (frozen them) in this respect.

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 that competes for the national resources made available to NATO.

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 of the remaining amount of MEUR 1.636, an amount of MEUR 1.312 is expected to be utilized by the NSPA in carrying out the Shared Service initiative for procurement. Similarly in respect of the million Euro 10 agreed for NCIA reorganisation the Budget Committee notes that MEUR 2.3 of the remaining MEUR 5 are forecasted to be required in 2017, with the difference from the 2017 forecasted versus 2017 ceiling remaining available for the 2018 allocation.

15. The budgets and recommended special carry forward of unused lapsable credits for use in 2017, in an amount of MEUR 1,353 will be closely monitored to ensure sufficiency in carrying out the missions. The BC recognizes that the mechanism of the mandated use of MEUR 10 of special carry forwards to meet 2017 budget requirements was necessary in agreeing 2017 contribution ceilings but urges that it not become accepted practice in meeting requirements.

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 2017 Military Budget.