

2018 MILITARY BUDGET RECOMMENDATIONS

EXECUTIVE SUMMARY

1. The 2018 military budgets recommended for Council agreement are presented taking into account the contribution ceilings and the provisions set out in the 2018 Contribution Ceilings document. The Budget Committee in addition to normal reallocation during execution recognizes it will need to adjust the budgets during 2018 to accommodate potential changes relating to the Readiness Action Plan, Fight Against Terrorism and other initiatives that may result from the 2018 Ministers' Meetings and Summit.
2. During the final preparation of its 2018 recommendations, the Budget Committee has taken decisions to allow the Military Budget, particularly the NATO Command Structure Entities and Programmes budget group, 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.
3. 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 by the 2016 Resource Plan for 2016 and extended for 2017 and 2018. The BC recalls the provision for the use of special carry forwards set out in the NATO financial regulations. It notes that special carry forwards recommended for 2018 have taken account of the guidance provided by the Medium Term Resource Plan (MTRP), in line with the Resource Policy and Planning Board (RPPB) recommendation, and therefore serve to reduce a realised risk between requirements and available funding. The use of special carry forwards has been particularly challenging and the Budget Committee considers that they are not a solution for the long term and that the RPPB should take account of this situation as part of its considerations related to future MTRPs.
4. The Budget Committee considers that the funding provided for 2017, 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 2018 and has recommended suitably justified special carry forwards of MEUR 92.7 accordingly. The receipt of the 2018 contribution ceilings, while later than foreseen, was in advance of the budget screenings and has therefore posed fewer challenges than in previous years. The proposed 2018 Military Budget incorporates the direction provided by the 2018 Contribution Ceilings document and will be followed up by the Budget Committee as part of the 2018 budget execution.

5. The recommended budgets for 2018 in an amount of MEUR 1,300.7 are shown in the table below (Table 1) and this is followed by short summaries of its various components. In addition to the MEUR 1,300.7 for the 2018 budgets, the Budget Committee has recommended the special carry forward of MEUR 92.7 from prior years for use in 2018 resulting in MEUR 1,393.4 of total available funding.

Table 1: Military Budget by Budget Group

Title	2018 CEILING	REQUESTED (EUR @ 01/01/2017 & 01/07/2017)	RECOMMENDED (per BC Screened)	RECOMMENDED vs CEILING
NAEW TOTAL	265,500,000	264,819,327	264,819,327	(680,673)
AGS TOTAL	47,000,000	31,269,816	23,269,816	(23,730,184)
AOM TOTAL	253,000,000	252,951,402	252,951,402	(48,598)
NCSEP TOTAL	641,000,000	645,879,638	641,000,000	-
PENSION TOTAL	118,700,000	116,700,000	116,700,000	(2,000,000)
sub-Total	1,325,200,000	1,311,620,183	1,298,740,545	(26,459,455)
NCIA Implementation Budget		2,000,000	2,000,000	
TOTAL	1,325,200,000	1,313,620,183	1,300,740,545	(26,459,455)

6. Alliance Operations and Missions (AOMs) requirements remain fluid, particularly in respect of the evolution of the Resolute Support Mission (RSM) during 2018. 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 8.1) as well as for potential costs arising from ISAF (MEUR 25.0) to allow maximum flexibility in meeting requirements.

7. The NATO Command Structure Entities and Programmes (NCSEP) budgets are likely to require adjustments during 2018. Requirements for 2018 were directed to be met within a contribution ceiling of MEUR 641, to use all funding options, particularly special carry forwards to meet fully justified requirements. The Budget Committee has therefore recommended MEUR 12.7 of 2017 and MEUR 2.8 of prior years' special carry forwards. The Budget Committee acknowledges that the 2018 contribution ceiling recognises the achievement of structural efficiencies of the MEUR 11 savings and efficiencies in Communications and Information Services (CIS) services and support achieved in 2017 by the NATO Communications and Information Agency (NCIA), in collaboration with the budget holders. The realization in 2018 of the MEUR 11 of structural efficiencies by the NATO Communications and Information Organisation (NCIO), in concert with the Budget Holders, will continue to be monitored and confirmed as part of the 2018 budget execution.

8. The implementation of the NATO Command Structure, including the progression toward implementation of the Readiness Action Plan (RAP) End State Peacetime Establishments (ESPEs), as well as the follow-on work in respect of the introduction of

the Host Nation Support Policy and Standards continues. The 2018 NCSEP budgets for the NATO Command Structure (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 Operation and Maintenance (O&M) changes for new capabilities, the retirement of legacy systems, exercise programme cyclical variations and important new initiatives such as for the Fight Against Terrorism and Outreach activities. This overall resource stability is expected to require adjustment in 2019 when decisions on the NCS Adaptation are sufficiently progressed.

9. 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 (ACCS¹, Deployable CIS) and partly the continued refinement of CIS support costs supplied by the NCIA. The Budget Committee has agreed the Customer Rates for 2018 based on a single-rate structure but has requested NCIA to discontinue the practise of reducing rates based on surpluses in the Operating Fund to better allow year over year comparison. The Budget Committee intends to pay particular attention in 2018 to progression in relation of the customer service catalogue, mitigation of delays in IT Modernization and the potential to introduce meaningful benchmarking.

10. 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) continue to engage the Committee in carrying out its Charter roles and, in relation to the 2018 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 clarification of the Committee's role in relation to the NSPA and CMRE rates vis-a-vis the governance structures in place.

11. The NATO Airborne Early Warning and Control Force (NAEW&CF) funding for 2018 has seen a significant shift as a result of Broadening. The Employment Budget of MEUR 161.0 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 2018 the NAEW&CF budgets will need to be monitored in view of the new arrangements as well as the recent finalization of the outstanding CIS and Mission System Engineering Centre (MSEC) portions of the NAEW End State Peacetime Establishment (ESPE).

12. Additional and separate funding of MEUR 0.8 has also been allocated to meet legal requirements of the NAEW Reorganization in 2018 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 will remain within the overall estimated amount but will require additional time to complete.

¹ Air Command and Control System

13. The Budget Committee has recommended the 2018 Alliance Ground Surveillance (AGS) budgets in an amount of MEUR 23.3. 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 2018 AGS budgets continues to seek clarity in respect of the provisioning of spare parts. The Budget Committee has recommended special carry forwards for this requirement in an amount of MEUR 35.0 but, pending the necessary clarity, has placed limitations on their usage. In addition it has recommended MEUR 8.0 of special carry forwards in support of Operational Test and Evaluation.

14. 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. The BC considers that the provisions regarding Pensions may need to be reviewed by the Council to ensure the customer funding regimes for the new Agencies and CMRE are correctly considered in terms of pension costs.

15. 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 been closed, with the exception of the General Procurement Shared Services (GPSS). The NSPA in carrying out the Shared Service initiative for procurement has regularized funding within the designated customer budgets. In respect of the MEUR 10 agreed for NCIA reorganisation the Budget Committee notes that MEUR 2.0 of the remaining MEUR 2.9 are forecast to be required in 2018, with the difference from the 2018 forecasted versus the overall ceiling remaining available for 2019 allocation when this NCIA transition budget is also expected to have been completed.

16. The budgets and recommended special carry forward of unused lapsable credits for use in 2018, in an amount of MEUR 92.7 will be closely monitored to ensure sufficiency in carrying out the missions.

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 2018 Military Budgets. Additionally, for 2018 and onward the Budget Committee has requested specific authorities be delegated to it, so as to fulfil its roles and responsibilities under the NATO Financial Regulations.