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23 May 2023

DOCUMENT
PO(2023)0163-AS1 (INV)

**IBAN PERFORMANCE AUDIT REPORT ON THE NATO HEADQUARTERS MORALE,
WELFARE, RECREATIONAL AND COMERCIAL ACTIVITIES**

ACTION SHEET

On 23 May 2023, under the silence procedure, the Council noted the RPPB report, approved its recommendations, noted the IBAN Performance Audit Report and agreed the public disclosure of this report and the IBAN Performance Audit Report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0163 (INV).



PRIVATE OFFICE OF THE SECRETARY GENERAL

CABINET DU SECRÉTAIRE GÉNÉRAL

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9 May 2023

DOCUMENT
PO(2023)0163 (INV)
Silence Procedure Ends:
23 May 2023 – 17:30

To: Permanent Representatives (Council)
From: Secretary General

**IBAN PERFORMANCE AUDIT REPORT ON THE NATO HEADQUARTERS MORALE,
WELFARE, RECREATIONAL AND COMMERCIAL ACTIVITIES**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Performance Audit Report on the NATO Headquarters Morale, Welfare, Recreational and Commercial Activities.
2. I do not believe this issue requires further discussion in the Council. Therefore, **unless I hear to the contrary by 17:30 hours on Tuesday, 23 May 2023**, I shall assume the Council noted the RPPB report, approved its recommendations, noted the IBAN Performance Audit Report and agreed the public disclosure of this report and the IBAN Performance Audit Report.
3. Please note that, as recommended by the IBAN, the Executive Management Division is developing a strategic plan for morale and welfare and will present it to the Deputies Committee in the second half of July, with the objective to reach agreement on a new business model. In parallel the Budget Committee will be kept abreast of developments.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

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**IBAN PERFORMANCE AUDIT REPORT ON THE NATO HEADQUARTERS MORALE,
WELFARE, RECREATIONAL AND COMMERCIAL ACTIVITIES**

Report by the Resource Policy and Planning Board

References:

- | | |
|---------------------|--|
| A. C-M(2013)0054 | Staff Centre governance and mandate, <i>27 September 2013</i> ; |
| B. C-M(2015)0069 | NATO HQ commercial operations business plan 2015-2019, <i>25 September 2015</i> ; |
| C. BC-D(2018)0047 | Commercial Activities Governance and Morale, Welfare, and Recreation Activities Mandate in the New NATO Headquarters, <i>15 March, 2018</i> ; |
| D. PO(2018)0329 | Commercial activities governance, MWR mandate in the new NATO HQ and the estimates close-out costs of the current NATO Staff Centre, <i>09 July 2018</i> ; |
| E. C-M(2019)0026 | Review of NATO Morale and Welfare Regulations, <i>03 October 2019</i> ; |
| F. BC-D(2020)0170 | Civil Budget: 2021-2025 MWR commercial business plan, <i>05 November 2020</i> ; |
| G. C-M(2020)0058 | 2021 Civil Budget recommendations and 2021-2025 Medium Term Financial Plan, <i>16 December 2020</i> ; |
| H. IBA-A(2022)0062 | A letter to the Secretary General on the International Board of Auditors (IBAN) Performance Audit Report on the NATO HQ morale, welfare, recreational and commercial activities, <i>10 June 2022</i> ; |
| I. IBA-AR(2022)0004 | Performance Audit Report on the NATO HQ morale, welfare, recreational and commercial activities, <i>10 June 2022</i> |

INTRODUCTION

1. With Reference H, the International Board of Auditors (IBAN) submitted a Performance Audit Report on the NATO Headquarters (HQ) morale, welfare, recreational (MWR) and commercial activities (Reference I).
2. In accordance with agreed procedure, the RPPB is requested to provide advice to the Council.

AIM

3. This report highlights the key findings and recommendations by the IBAN in their report and the Board's consideration on the main issues and its recommendations to the Council.

BACKGROUND

4. In 2015, the Council approved, with Reference B, the NATO HQ Commercial Operations Business Plan (BP) 2015-2019, which established a new operating model for MWR and commercial activities on the new NATO HQ site.

5. In accordance with the policy approved by the Council with Reference E, which states that morale and welfare activities “shall aim to be financially self-sustaining”, the NATO HQ Commercial Operations Business Plan (BP) 2015-2019 approved by the Council with Reference C established a new operating model with the goal of financially self-sustaining MWR and commercial services.

6. By bundling together MWR activities and commercial services, the goal was to remove subsidies from the Civil Budget and ensure long-term financial sustainability by outsourcing as many commercial operations as possible in the new NATO HQ. This was followed by the next MWR BP (Reference C) that is still in force today.

7. This business plan required that any Civil Budget advance funds be offset by MWR and commercial revenue streams. However, soon after the start of its implementation it became obvious that MWR and commercial services would not breakeven financially, neither in 2021 nor in future years under the current Business Model. This was further exacerbated by the COVID-19 pandemic. The Budget Committee (BC) requested a revised business plan and the IS submitted a proposal in 2021 (Reference F). At the time, the IS stated that commercial operations were not sustainable under current financial arrangements and proposed that all Operating and Maintenance costs for the Staff Centre and the NATO HQ Public Square be included in the Civil Budget.

8. The BC did not however approve the proposed 2021-2025 BP and mandate for MWR and commercial services, and the Council tasked the BC (Reference G) to agree on a new Business Model for MWR and commercial services and to review the governance structure and mandate in the first quarter of 2021.

9. The BC noted that IBAN had not yet undertaken a performance audit of MWR and commercial activities in NATO HQ. In this context, the IBAN conducted a performance audit to inform the next steps and provide an independent perspective to Nations.

10. The report at Reference I, submitted on 10 June 2022, was formally presented by the IBAN to the Board on 02 February 2023, and the Executive Management division of the International Staff (IS/EM) supported the audit findings and provided context information and clarifications at the table.

OBJECTIVES AND SCOPE OF THE AUDIT

11. The IBAN conducted their audit with the view to assess efficiency, effectiveness, and economy of NATO HQ MWR and commercial activities. The objectives were to:

- Objective 1: Assess the extent to which the International Staff (IS) based its proposed changes to NATO HQ’s MWR and commercial activities governance structure on NATO regulations and good practices;

- Objective 2: Evaluate the extent to which the IS follows NATO regulations and good practices to ensure the economic sustainability of NATO HQ MWR and commercial activities;
- Objective 3: Identify whether the IS includes information on costs, benefits and customer utility in MWR and commercial activities management and decision-making according to NATO regulations and good practices.

12. The audit scope focused on plans, policies and practices for MWR and commercial activities within NATO HQ.

AUDIT RECOMMENDATIONS

13. To address its findings, the IBAN recommends that Council task the relevant committee or committees to make a timely and clear determination on the future governance, management and financial approach to NATO HQ MWR. At a minimum, this should encompass the following:

13.1. An agreement on the fundamental purpose of NATO HQ MWR. Based upon this decision, the Nations should assess the current governance and management structure to ensure the number of stakeholders, processes and outcomes are appropriate. This assessment should include:

- Delineating clear roles, responsibilities and membership of MWR board(s) and management;
- Having MWR board(s) and management report financial and non-financial performance on a regular basis to the BC;
- Choosing a Business Model and plan that aligns with the agreed upon fundamental purpose of NATO HQ MWR and commercial activities; and
- Aligning budgetary and financial processes with the chosen MWR Business Model and plan.

13.2. A comprehensive and objective analysis on the economic sustainability of continuing the current commercial approach to NATO HQ MWR compared to alternative scenarios. Such analysis could be based on the good practices for cost estimation and financial forecasting provided in the IBAN audit report. This assessment should include:

- Identification of all cost, benefits, risks, and opportunities; and
- Medium and long-term projections of expenditures and revenues.

13.3. Clearly defined strategic-level objectives based on good practices that include financial and non-financial perspectives of NATO HQ MWR and commercial activities. These objectives should:

- Include performance targets that clearly establish governance-level expectations and lines of accountability to MWR management; and
- Link to operational-level targets and Key Performance Indicators.

14. The IBAN further recommends that all tasking decisions by Council clearly identify those responsible to take action and set deadlines for the delivery of the expected outcomes.

DISCUSSION

15. The Board welcomes the IBAN report, its findings and recommendations on NATO HQ MWR and commercial activities as well as the IS/EM concurrence and agreement with the IBAN findings and recommendations.

16. “Enhancing well-being and fostering community building” is stated as the purpose of Morale and Wellbeing Activities both in the Council-approved NATO HQ MWR governance mandate from 2018 (Reference C) and in the 2019 Council-approved policy regarding the NATO-wide Morale and Welfare Regulations (Reference E).

17. In this regard, the Board notes that one of the critical problems identified by the IBAN in their audit is a “disparity between the stated purpose of MWR and the current governance and management structure for NATO HQ MWR and commercial activities”, one that “predominantly focus on financial performance, which has a negative impact on community building”.

18. As a consequence of this disparity between the stated purpose of MWR and the goal of self-sustainability, since operations began at the Staff Centre at the new NATO HQ in September 2018, the MWR and commercial activities BP have not generated the anticipated results both in terms of wellbeing and financial outcomes.

19. The Board also shares the views expressed by both the IBAN and IS/EM, that MWR and commercial activities, being instrumental in sustaining morale and well-being, are to be seen as an important enabler to NATO personnel’s resilience. These activities are also one of the instruments to maintain and enhance NATO’s ability to attract and retain high-demand talent that the organization needs and competes for.

20. In this context, the Board notes the efforts undertaken by IS/EM in 2022 to offer HQ occupants community a number of activities and services resulting in a 30% increase in the turnover of the NATO Staff Centre following the challenges brought by the COVID-19 pandemic.

21. The Board notes IBAN's conclusion that NATO HQ MWR and commercial activities have not been self-sustaining as initially planned due to overoptimistic assumptions, and will likely not achieve cost neutrality in the near future. Therefore, the Board acknowledges that the planning assumptions for the new Business Model should take this reality into account.

22. Acknowledging that the issues outlined by IBAN are not only of a financial nature, the Board is of the view that governance of the MWR and commercial activities, as well as issues related to strategic direction and guidance should be addressed at the Deputy Permanent Representatives Committee (DPRC). For issues related to financial sustainability the DPRC should be advised by the BC through the Board.

23. At the same time, and in the light of the purpose of Morale and Welfare Activities, as noted above, the Board is of the view that the future Business Model should aim for economic efficiency and long-term sustainability including financial and non-financial indicators such as users' needs and other aspects that contribute to wellbeing and community-building.

24. The Board shares the IBAN's view that any future Business Model should include a roadmap towards 2030 with a clear cost-benefit approach with risks identified and mitigated, and an implementation plan.

25. In view of the actions that are required, the Board sees the need for a comprehensive and articulated Action Plan that will include the proposed Business Model with implementation deadlines and clear lines of accountability, including financial and non-financial key performance indicators. This Action plan should be developed by the IS/EM and submitted to the DPRC no later than April 2023.

CONCLUSIONS

26. With its performance audit, the IBAN identified a number of issues related to the governance, management, and economic sustainability of NATO HQ MWR and commercial activities, and made a set of recommendations, which the Board fully supports.

27. The Board shares the view that the purpose of MWA is to enable wellbeing and community building, with the view to increase personal resilience and to enhance NATO's capacity to attract and retain high-demand talents. The Board concludes that any future Business Model must focus on people's wellbeing and community building while, at the same time, aim at the long-term financial sustainability of the MWR and commercial activities.

28. The purpose and governance of the MWR and commercial activities at NATO HQ need to be clearly established prior to any consideration on management and financial model. The Board is therefore of the view that the DPRC, under Council's mandate, would be the appropriate committee to:

- decide on the fundamental purpose of the MWA and the parameters under which it should operate;
- decide on the governance and management structures of NATO HQ MWR and commercial activities;
- direct, supervise and monitor the adoption of the future Business Model and its Implementation Plan, to be developed by IS/EM

29. The Board also concludes that IBAN recommendations should be addressed in any new Business Model and its implementation, with deadlines, that should be both ambitious and realistic, as well as clear lines of accountability, including financial and non-financial key performance indicators, to be approved by the DPRC.

30. The Board concludes that BC should provide to the DPRC, through the Board, advice on all financial aspects of the MWR and commercial activities at NATO HQ, as necessary.

31. The Board notes that the IS/EM should directly report back to the Council on the status of implementation of the Action Plan and adherence to deadlines.

RECOMMENDATIONS

32. The Resource Policy and Planning Board invites Council to:

32.1. note this report and the IBAN Performance Audit Report in Appendix 1;

32.2. approve the conclusions outlined in Paras 26 to 31;

32.3. invite the International Staff/Executive Management to develop an Action plan with a new Business Model and a long term investment and financial plan to address the IBAN recommendations and to submit it to the DPRC by end-April 2023;

32.4. invite the DPRC to define the fundamental purpose of the morale, welfare, recreational and commercial activities at NATO HQ, to establish its governance structure, to set clear lines of accountability in this matter, and to agree the Business Model and the long term investment and financial plan of the MWR and commercial activities at NATO HQ by end-July 2023;

32.5. invite the BC to provide, through the RPPB, the DPRC with its advice, as necessary, on the financial aspects of the morale, welfare, recreational and commercial activities as proposed by the International Staff;

32.6. invite the International Staff/Executive Management to directly report back to the Council on the status of the implementation of the Action Plan; and

32.7. agree to the public disclosure of this report and the IBAN Performance Audit Report in line with the provisions of PO(2015)0052.



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IBA-A(2022)0062
10 June 2022

To: Secretary General
Attn: Director of the Private Office

Cc: NATO Permanent Representatives
Chair, Budget Committee
Assistant Secretary General, Executive Management, International Staff
Financial Controller, International Staff
Chair, Resource Policy and Planning Board
Resource Policy and Planning Board representatives, NATO delegations
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Performance Audit Report on the NATO Headquarters morale, welfare, recreational and commercial activities – IBA-AR(2022)0004***

IBAN submits herewith its approved Performance Audit Report with a Summary Note for distribution to the Council.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'D. Morgante'.

Daniela Morgante
Chair

Attachment: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the Performance Audit on NATO Headquarters morale,
welfare, recreational and commercial activities**

Background

In 2015, the North Atlantic Council (Council) approved the NATO Headquarters (HQ) Commercial Operations Business Plan 2015-2019, which established a new operating model for morale, welfare, recreational (MWR) and commercial activities on the new NATO HQ site. The 2015-2019 new NATO HQ business plan aimed for self-sustaining MWR activities, removing subsidies from the Civil Budget and ensuring long-term financial viability and sustainability by outsourcing as many commercial operations as possible in the new NATO HQ. However, since operations began at the Staff Centre at the new NATO HQ in September 2018, the MWR business plan did not generate anticipated results. At the Budget Committee's request, the International Staff (IS) reported on lessons learned that included initiatives for improvement and proposed a new 2021-2025 MWR commercial business plan and mandate.

However, the Budget Committee did not approve the proposed 2021-2025 MWR business plan and mandate. In its 2021 Civil Budget Recommendations and 2021-2022 Medium Term Financial Plan, the Budget Committee noted that the IBAN had not yet undertaken a performance audit of MWR and commercial business activities in NATO HQ. Based on this note and consultation with the chair of the Budget Committee, IBAN commenced this audit to inform next steps and provide an independent perspective to Nations.

Audit objectives

In accordance with Articles 2 and 14 of the IBAN Charter, our performance audit assessed the efficiency, effectiveness and economy of NATO HQ MWR and commercial activities. Our specific audit objectives were as follows:

1. Assess the extent to which the IS based its proposed changes to NATO HQ's MWR and commercial activities governance structure on NATO regulations and good practices.
2. Evaluate the extent to which the IS follows NATO regulations and good practices to ensure the economic sustainability of NATO HQ MWR and commercial activities (2015 to present).
3. Identify whether the IS includes information on costs, benefits and customer utility in MWR and commercial activities management and decision-making according to NATO regulations and good practices.

Audit findings

The proposed changes to NATO HQ MWR governance do not clearly delineate who will provide management versus oversight on MWR expenses, revenue, and performance. In

addition, the proposed changes do not include overseeing and reporting on non-financial performance related to this purpose and continue to focus predominantly on financial oversight and management of NATO HQ MWR and commercial activities. Overall, the IS's proposed changes do not resolve the primary issue, which is the lack of a common agreement and unified commitment on the fundamental purpose of NATO HQ MWR. Without the Nations agreeing and committing to the fundamental purpose of NATO HQ MWR, it is difficult to establish clear roles and responsibilities for governance and management. It is also difficult to make other decisions, such as developing an appropriate business plan, choosing a compatible business model and comprehensively assessing if NATO HQ MWR is enhancing community cohesion and well-being of NATO HQ staff and families.

The IS did not use a comprehensive and objective process to assess the economic sustainability of NATO HQ MWR and commercial services. Instead, the IS based the 2015-2019 NATO HQ MWR and commercial services business plan on an optimistic assessment of needs, alternatives and risks. According to international good practices, there should be an objective analysis of alternatives and risks to ensure economic decisions are based on multiple sources of credible information and not on the predisposition of one alternative over another. Also, the IS did not include certain critical information from a consultant's assessment in the 2015-2019 NATO HQ MWR business plan submitted to the Budget Committee. In addition, the IS did not conduct a revised assessment of needs, alternatives and risks when developing the proposed 2021-2025 MWR commercial business plan. As such, NATO HQ MWR has not been self-sustainable as initially planned and is not likely to be so in the near future. A main challenge is the falling number of Staff Centre memberships, which decreased by 56% from 2017 to 2022. This significant drop does not indicate near-term self-sustainability of the Staff Centre. Overall, the priority of the 2021-2025 MWR and commercial business plan continues to be on eliminating the Civil Budget subsidy to NATO HQ MWR without a more comprehensive and objective analysis of alternatives and risks. Therefore, the IS and the Nations may overlook important non-financial information, such as user needs or preferences and other issues that affect the long-term economic sustainability of NATO HQ MWR. In the absence of a comprehensive and appropriate methodology, there is a significant risk of continuing to take decisions based on incomplete or biased information.

Finally, IBAN considers that the Nations do not yet receive comprehensive information and performance reports that could provide a consolidated view of NATO HQ MWR and commercial activities costs in relation to benefits and customer utility. Therefore, the Budget Committee does not have a complete assessment from which to determine whether the benefits and customer utility derived from NATO HQ MWR and commercial activities are worth the associated costs. Currently there are no clear goals and targets set at the governance level that the IS can translate into action. Further, associated reporting on results at all appropriate levels can be strengthened. The current situation limits relevant reporting on the results of NATO HQ MWR and commercial activities, which affects transparency and accountability for achieving positive NATO HQ MWR results and user benefits in the future.

Recommendations

To address the issues and problems NATO HQ MWR and commercial activities are currently facing in a cost-effective manner, IBAN recommends that Council task the relevant committee or committees to make a timely and clear determination on the future governance, management and financial approach to NATO HQ MWR. At a minimum, this should encompass the following:

- 1) An agreement on the fundamental purpose of NATO HQ MWR. Based upon this decision, the Nations should assess the current governance and management structure to ensure the number of stakeholders, processes and outcomes are appropriate. This assessment should include:
 - a. Delineating clear roles, responsibilities and membership of MWR board(s) and management;
 - b. Having MWR board(s) and management report financial and non-financial performance on a regular basis to the Budget Committee;
 - c. Choosing a business model and plan that aligns with the agreed upon fundamental purpose of NATO HQ MWR and commercial activities; and
 - d. Aligning budgetary and financial processes with the chosen MWR business model and plan.
- 2) A comprehensive and objective analysis on the economic sustainability of continuing the current commercial approach to NATO HQ MWR compared to alternative scenarios. Such analysis could be based on the good practices for cost estimation and financial forecasting provided in this audit report. This assessment should include:
 - a. Identification of all cost, benefits, risks, and opportunities; and
 - b. Medium and long-term projections of expenditures and revenues.
- 3) Clearly defined strategic-level objectives based on good practices that include financial and non-financial perspectives of NATO HQ MWR and commercial activities. These objectives should:
 - a. Include performance targets that clearly establish governance-level expectations and lines of accountability to MWR management; and
 - b. Link to operational-level targets and KPIs.

All tasking decisions by Council should clearly identify those responsible to take action and set deadlines for the delivery of the expected outcomes.

The IS supports the recommendations in our report. The IS also provided factual comments that we incorporated, as appropriate, into this report. See appendix 6 for their detailed comments.

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IBA-AR(2022)0004

10 June 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**PERFORMANCE AUDIT REPORT ON NATO HEADQUARTERS MORALE, WELFARE,
RECREATIONAL AND COMMERCIAL ACTIVITIES**

PUBLICLY DISCLOSED - PDN(2023)0022 - MIS EN LECTURE PUBLIQUE

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1. BACKGROUND

1.1 Overview

1.1.1 In 2015, the North Atlantic Council (Council) approved the NATO Headquarters (HQ) Commercial Operations Business Plan 2015-2019, which established a new operating model for morale, welfare, recreational (MWR) and commercial activities on the new NATO HQ site. Under the prior business model, the Staff Centre was an entity of the International Staff (IS) and funded through appropriated Civil Budget funds and non-appropriated sources of revenue. The 2015-2019 new NATO HQ business plan aimed for self-sustaining MWR activities, removing subsidies from the Civil Budget and ensuring long-term financial viability and sustainability. Though changes to the retail model began before the move in 2018, the new business plan focused on outsourcing as many commercial operations as possible in the new NATO HQ. After Council approval of the 2015-2019 business plan, the Budget Committee tasked the IS to revise the governance mandate for MWR and commercial activities in the new NATO HQ, which Council approved in July 2018.

1.1.2 Since operations began at the Staff Centre at the new NATO HQ in September 2018, the MWR business plan did not generate anticipated results. The IS issued a lessons-learned report in January 2020 with several initiatives to improve NATO HQ MWR activities. Also, in November 2020, the IS proposed a new 2021-2025 MWR commercial business plan to “establish a business model that prioritises sustainability, corrects issues of the current business plan, and ensures services and programs at [NATO] HQ for the next five years.” However, for financial year 2021, the Budget Committee approved a Civil Budget advance of EUR 1.13 million in MWR operating and maintenance costs, which was similar to the advance provided in 2020 (see table 1 below).

Table 1: Civil Budget advance for NATO HQ MWR operating and maintenance (EUR)

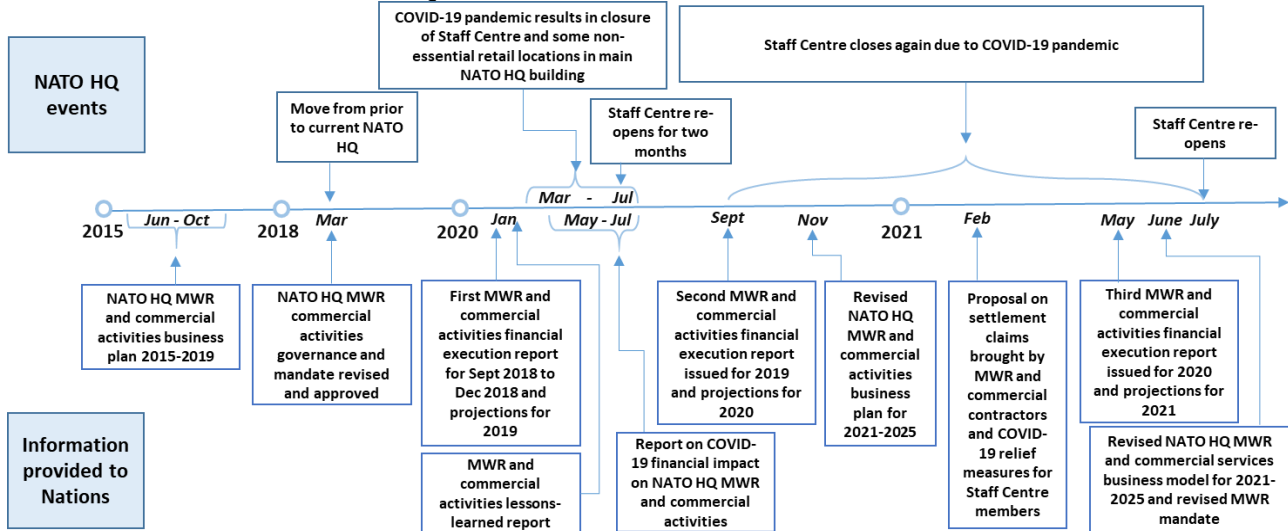
Type	2020 Advance	2021 Advance	2021-2020 change	% change
Utilities and charges	487,824	470,572	(17,252)	(3.5%)
Cleaning, garbage and gardening services	398,850	382,186	(16,664)	(4.2%)
Maintenance, repair, minor investments	248,720	264,120	15,400	6.2%
Purchase of consumable supplies	9,255	9,255	-	-
TOTAL	1,144,649	1,126,133	(18,516)	(1.6%)

Source: 2021 NATO Civil Budget Recommendations and 2021-2022 Medium Term Financial Plan, December 2020.

In addition, the Nations did not approve the proposed 2021-2025 MWR business plan. Instead, the Budget Committee recommended that Council approve a mandate for it to propose a new business model in the first quarter of 2021. As part of this mandate, the Budget Committee would also review the commercial activities governance and MWR activities mandate to consider an expanded role for the Budget Committee. In June 2021, the IS resubmitted to the Budget Committee the 2021-2025 business plan for the management of MWR and commercial activities along with a revised MWR mandate. However, several Nations in the Budget Committee continued to find the proposed changes by the IS to the MWR business model and mandate insufficient. Figure 1 below provides a timeline of significant events related to the NATO HQ move and associated NATO HQ MWR

and commercial activities. (Also see appendix 1 for a more detailed description of the figure 1 timeline.)

Figure 1: Timeline of NATO HQ events and information provided to Nations on NATO HQ MWR and commercial activities



Source: IBAN analysis of NATO documentation.

1.1.3 In its 2021 Civil Budget Recommendations and 2021-2022 Medium Term Financial Plan, the Budget Committee noted that the IBAN had not yet undertaken a performance audit of MWR and commercial business activities in NATO HQ. Based on this note and consultation with the chair of the Budget Committee, IBAN commenced this audit to inform next steps and provide an independent perspective to Nations.

1.2 Definitions

1.2.1 According to the 2018 MWR governance mandate for the new NATO HQ, MWR activities generally “enhance the quality of life, promote unit integrity and contribute to the well-being of eligible individuals.” The mandate describes three categories and examples of activities considered MWR and commercial activities (see table 2).

Table 2: Categories and examples of NATO HQ MWR and commercial activities

Category	Examples
MWR activities	Indoor and outdoor physical fitness and training and related facilities
	Recreational and cultural activities and facilities
	Vacation child care (Colonies de Vacances)
	Personal development activities and services
Commercial activities (directly linked to or required for official functions)	Catering
	Fuel distribution and car registration
	Banking services
Activities for convenience and retail purposes (provided by external commercial entities)	Mini-market
	Medical centre private services
	Dry-cleaning
	Financial and insurance services

Source: PO(2018)0329, Commercial Activities Governance, Morale, Welfare and Recreation Mandate in the New NATO Headquarters, and the Estimated Close Out Costs of the Current NATO Staff Centre, July 2018.

1.3 Audit Objectives

1.3.1 The overall purpose of this performance audit is to assess efficiency, effectiveness, and economy of NATO HQ MWR and commercial activities. The objectives of this performance audit are to:

- **Objective 1:** Assess the extent to which the IS based its proposed changes to NATO HQ's MWR and commercial activities governance structure on NATO regulations and good practices.
- **Objective 2:** Evaluate the extent to which the IS follows NATO regulations and good practices to ensure the economic sustainability of NATO HQ MWR and commercial activities (2015 to present).
- **Objective 3:** Identify whether the IS includes information on costs, benefits and customer utility in MWR and commercial activities management and decision-making according to NATO regulations and good practices.

1.4 Audit scope and methodology

1.4.1 The audit scope focused on plans, policies and practices for MWR and commercial activities within NATO HQ in Brussels, Belgium. Table 3 below lists key MWR and commercial activities stakeholders included in this audit.

Table 3: Key MWR and commercial activities stakeholders in NATO HQ

Area of responsibility	Stakeholders
Governance	Council
	Budget Committee
	MWR Executive Board
	MWR Customer Board
Management (IS, funded by Civil Budget)	Office of the Assistant Secretary General, Executive Management Division
	Headquarters Support & Transformation, Executive Management Division
	Business Continuity Office, Executive Management Division
	Infrastructure & Facilities Management, Executive Management Division
	Budget Planning & Analysis, Executive Management Division (support only)
	Office of the Financial Controller (support only)
	NATO Office of Security, Joint Intelligence and Security Division (support only)
Execution (IS funded by Civil Budget)	MWR Officer, Executive Management Division ¹
	Catering & Retail Manager, Executive Management Division
	Assistant, Executive Management Division
Customers/Users	IS ²
	Staff Association
	International Military Staff ²
	NATO agencies and organisations ^{2, 3}
	Member nations' delegations and military representatives ²
	Partner nations' delegations ²
	Other approved users (e.g., EUROCONTROL, SABCA) ²

Source: IBAN analysis of NATO documentation. Notes: ¹ MWR Officer is funded by the MWR budget. ² Includes personnel and families. ³ Includes NATO Communications and Information Agency, NATO Alliance Ground Surveillance Management Agency and NATO Science and Technology Organization located in NATO HQ.

The audit team reviewed official documentation, developed detailed requests for information and documentation, and conducted interviews with relevant MWR governance and management stakeholders listed in table 3. We assessed documentary evidence and responses against criteria in existing NATO regulations and guidelines, including NATO Financial Regulations, NATO Financial Rules and Procedures, NATO Morale and Welfare Activity (MWA) Regulations and the IS Procurement Manual. We also supplemented NATO-based criteria with international good practices as follows:

- Balanced Scorecard, a strategic planning and management system used extensively by private and public sector organisations;
- European Commission, Guide to Cost-Benefit Analysis of Investment Projects;
- PRINCE2, a project management method used widely across NATO;
- Treasury Board of Canada Secretariat, Guide to Cost Estimating;
- United Kingdom, Association for Project Management and the Association of Cost Engineers Estimating Guide; and
- United States Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs.

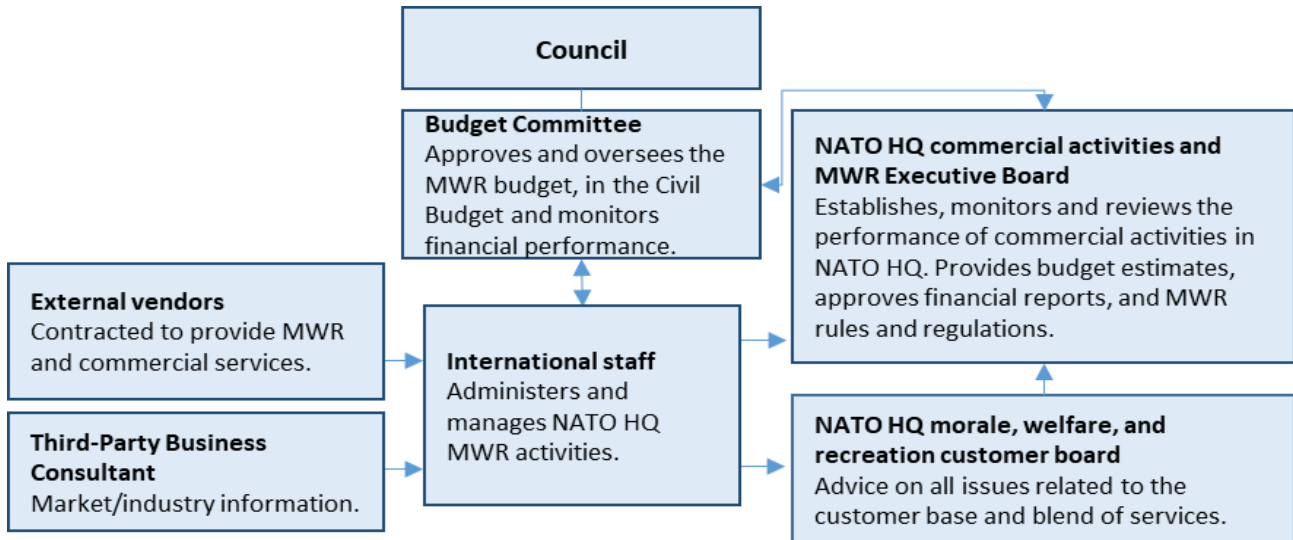
1.4.2 In addition, we identified eight commonly accepted cost estimation and financial forecasting principles based on international good practices. We used these to assess the IS's development of the business models for NATO HQ MWR and commercial activities. If at least three external sources shared the same good practice, we included this as a principle in our assessment. Details on the principles are in section 3 of this report.

2. NATO HQ MWR GOVERNANCE AND MANAGEMENT IS COMPLEX AND PROPOSED CHANGES MAY NOT BE EFFECTIVE

NATO HQ MWR and commercial activities governance and management is complex

2.1 The governance of NATO HQ MWR and commercial activities include specific procedures and several boards that are different from those regularly involved for NATO HQ financial and administrative management. Figure 2 below describes the current governance and management structure of NATO HQ MWR and commercial activities.

Figure 2: NATO HQ MWR and commercial activities governance and management structure



Source: IBAN analysis of NATO documentation.

2.2 Governance and management of NATO HQ MWR and commercial activities is complex, because the Budget Committee and the MWR Executive Board both oversee parts of the MWR budget and performance process as seen above in figure 2. The Budget Committee screens the Civil Budget, and the operating and maintenance costs for MWR are still part of the regular Civil Budget process. During the regular Civil Budget process, the Nations provide an advance from the Civil Budget to cover MWR operating and maintenance costs, which are collected over the year through concessions, rent and membership fees from catering and retail entities as well as contributions and fees from occupants of NATO HQ. This MWR operating and maintenance advance is reimbursed in-full back to the Nations as miscellaneous income to the Civil Budget at the end of the year and used as the basis for the following year's MWR operating and maintenance cost estimate. The Budget Committee monitors the use of Civil Budget resources three times throughout the year in budget execution reports from the IS. The Budget Committee also receives more details on the expenses and revenues for MWR and commercial activities in a separate annual MWR financial performance report from the MWR Executive Board.

2.3 The MWR Executive Board supervises the expenditures, revenues and performance related to MWR and commercial activities. The MWR Executive Board also approves the NATO HQ MWR operating and maintenance cost estimates. The IS prepares and submits to the Budget Committee both the budget execution reports for the Civil Budget process and the annual MWR performance reports. The members of the Executive Board are:

- Assistant Secretary General for Executive Management (Chair);
- Deputy Assistant Secretary General for Headquarters Support and Transformation;
- Deputy Assistant Secretary General for Human Resources;
- Executive Coordinator, International Military Staff;
- Head, Budget, Planning and Analysis;

- A Deputy Assistant Secretary General from another IS Division appointed by the Secretary General;
- Chief of Staff, NATO Communications and Information Agency; and
- Two national representatives nominated by the Budget Committee, ex officio, on a two-year rotational basis.

2.4 The NATO HQ MWR Customer Board is a consultative body that provides feedback on issues related to customer service provided by commercial activities through its Chair to the Executive Board. The members of the Customer Board are:

- Chair nominated by the Executive Board (normally the Deputy Assistant Secretary General for Human Resources);
- Head, Infrastructure and Facilities Management;
- One member representing national delegations nominated by the Budget Committee;
- One representative from a Brussels-based NATO Agency, nominated from among the agencies;
- One nominated International Military Staff representative, representing International Military Staff military personnel;
- President of the NATO Cultural and Sports Club; and
- One representative of the Confederation of NATO Civilian Staff Committees and the Retired Staff Association nominated by their respective Committees.

Organisation and management of MWR and commercial activities changed significantly between the prior and current NATO HQ

2.5 Before moving into the current NATO HQ in 2018, NATO HQ MWR was based on a comprehensive in-house model where IS staff carried out all MWR service activities. The Budget Committee and the IS developed a new mandate upon moving into the new HQ, which led to outsourcing all MWR and commercial activities in an effort to achieve financial self-sustainability and independence from the Civil Budget. This resulted in significant changes to the MWR organisation that included a reduction from 33 IS posts down to one MWR Officer, one Catering & Retail Manager and one assistant. In the previous NATO HQ, these 33 IS staff did much of the work that contractors are doing today. Currently, three MWR staff manage all MWR and commercial services contracts with support from other IS staff, such as a Procurement Officer from the Office of the Financial Controller. In late 2021, IS Executive Management decided to manage the NATO HQ MWR under the auspices of the NATO HQ Business Continuity Office.

Proposed changes to NATO HQ MWR and commercial activities governance structure are not likely to lead to more effective oversight and management

2.6 In June 2021, the IS submitted proposals for a new NATO HQ MWR business model and mandate. The IS stated that the proposed changes to the business model and mandate offer a realistic path towards optimizing the management, accountability and governance of the three different activity streams (MWR, catering and commercial activities) that are bundled together in the current model. In the proposals, the IS suggested to dissolve the MWR Executive Board and keep the MWR Customer Board to provide feedback on all

issues related to the NATO HQ customer base. In addition, the Budget Committee would have representation on the MWR Customer Board and take a more prominent NATO HQ MWR governance and oversight role.

2.7 IBAN reviewed good practices for governance and management and found the following definitions:

- **Governance:** Conducted by a board or committee that provides guidance and approves overall plans and goals and sets the overall direction for an organisation. The board or committee also oversees the implementation of plans and achievement of organisational goals and holds senior management accountable in doing so.
- **Management:** Conducted by management that officially has responsibility to implement the plans and achieve the goals formulated by the governance level. Management creates more specific and concrete plans and directives and supervises the activities conducted by management and staff to achieve the goals. Day-to-day management includes reporting back to the governance level on a systematic and, when needed, exceptional basis.
- **Execution:** Conducted by staff and subject matter experts or contractors but supervised by management as part of its accountability toward the governance level.
- **Accountability:** When the governance level is not involved in the day-to-day management of the organisation, management should be held accountable by the governance level. This can comprise of both quantitative and qualitative measures and assessments. According to PRINCE2, these should be tailored to the specific organisation and activities but normally addresses the issues of accountability and transparency and can include specific objectives or key performance indicators (KPIs).

2.8 Table 4 below further defines governance, management and execution duties in the context of NATO HQ MWR and commercial activities.

Table 4: Governance versus management in NATO HQ MWR and commercial activities

Governance	The combination of processes and structures implemented by the Budget Committee through the MWR Executive Board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. Includes overseeing the achievement of organisation goals directed by IS Executive Management of the day-to-day activities of the organisation.
Management	IS Executive Management plans, organises, and directs the performance of sufficient actions to provide reasonable assurance that MWR and commercial activities objectives and goals will be achieved. The act of controlling, conducting and supervising teams that implement MWR activities and making decisions about the daily management of core activities, including supervising staff and contractors' performance.
Execution	Done by the MWR Officer and Catering and Retail Manager, and associated teams in NATO HQ offices of budgeting, procurement and financial controller.

Source: IBAN analysis of international good practices.

2.9 Governance includes overseeing the achievement of organisational goals and associated senior management direction of day-to-day activities. Conversely, management plans, organises and supervises the performance of sufficient actions to achieve organisational goals. This division between governance and management is essential to an effective internal control system, because it provides clear segregation of duties and lines of accountability. Without this division, the governance level may become too involved in the day-to-day operations of management, which can hinder decision-making and the governance level's ability to fairly assess management's performance.

2.10 However, IBAN does not consider the IS's June 2021 proposed changes to the MWR governance structure likely to lead to more effective oversight and management, because the IS does not clearly delineate whether roles, responsibilities and certain members of the MWR Executive Board would remain in the MWR Customer Board. If roles, responsibilities, and members merge in the MWR Customer Board, then there is an overlapping of duties and responsibilities or lines of accountability between governance and management. However, if the MWR Customer Board remains with its current roles, responsibilities, and members, it is unclear who will provide management versus oversight on MWR expenses, revenue and performance.

There is a disparity between the stated purpose of NATO morale and welfare activities and the present structure to govern and manage NATO HQ MWR and commercial activities.

2.11 According to NATO regulations, a morale and welfare activity "enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental well-being of eligible individuals, and is associated with the NATO body's operations or activities on site". If this is the purpose of NATO morale and welfare activities, then NATO HQ's MWR governance and management structure should include overseeing and reporting on non-financial performance related to this purpose.

2.12 However, the audit team reviewed the NATO HQ MWR Executive Board Terms of Reference, performance reports, and financial reports and found no requirement or specific mention of measuring performance related to enhancing customer satisfaction, staff welfare, and well-being. Though the MWR Customer Board should serve this purpose, it is a consultative body, and there is no requirement for the MWR Executive Board to address or resolve customer issues raised by the MWR Customer Board. MWR Customer Board officials stated they are not always informed about decisions made at the MWR Executive Board, including the status of customer feedback they give to the MWR Executive Board. The proposed changes to the NATO HQ MWR governance structure do not indicate whether the MWR Customer Board will remain a consultative body.

2.13 When the Nations approved the Staff Centre governance and mandate in 2013, they required the development of a new business plan and model for Staff Centre operations in the new NATO HQ that substantially decreased reliance on the Civil Budget with the objective of eventually moving to a fully customer-funded model. This reaction was due to severe mismanagement of staff and funds in the prior NATO HQ Staff Centre, which created a division among the Nations into one of two groups: (1) those in favour of a military-inspired partially or fully subsidised MWR programme with a primary focus on staff welfare and well-being and (2) those in favour of a fully outsourced commercial approach with a primary focus

on financial independence from the Civil Budget. This inability to agree on the fundamental purpose of NATO HQ MWR resulted in the current governance and management structure that predominately focuses its oversight and reporting activities on financial performance.

2.14 This predominant focus on financial performance has affected community-building. Officials from the IS, MWR Customer Board and the Staff Association stated that the prior NATO HQ Staff Centre and NATO Cultural and Sports Clubs and retirees provided an important support system and sense of community that was lost due to the current MWR business model and primary focus on financial self-sustainability. According to official MWR Customer Board meeting minutes from 2019, all NATO clubs started losing members or disbanded due to inflexible Staff Centre opening hours and the new business model, which required paying higher membership fees in addition to club fees. In addition, retirees noted that they could not organise activities and competitions on Sundays due to the Staff Centre closing early. In the past, the Staff Centre could stay open longer, because it was a part of the IS, and therefore the decision to stay open after hours belonged to the IS. With the new business model, the rules were stricter and one person from the sports contractor had to be present if the Staff Centre stayed open later. The IS responded to retirees by stating it would discuss the possibility of extended opening hours with the sports contractor, but that a business case would have to be made for approval by the Nations, because this would involve extra costs.

2.15 IBAN found other examples of how the current MWR business model has not fostered community-building in NATO HQ. For instance, the IS requested the conversion of two out of four squash courts into other exercise facilities, which resulted in the NATO Squash Club losing half of its facilities “without advance warning.” The IS stated this conversion was due to a study conducted by its Infrastructure and Facilities Management technicians that concluded these exercise facilities needed to relocate for health and safety reasons. Consequently, MWR staff collaborated with the sports contractor to confirm this relocation and renovation without notifying the NATO Squash Club in advance of this change. In addition, MWR Customer Board and Staff Association officials stated that the sports contractor did not allow one NATO sports club to hang a poster on the wall in the Staff Centre, because it was not part of the sports contractor’s branding. In November 2020, the NATO Cultural and Sports Clubs represented around 1,000 Staff Centre members amounting to EUR 348,000 in paid memberships and a significant source of revenue for the Staff Centre sports contractor. However, by December 2021, NATO clubs decreased by 590 members (or 59%), which amounted to EUR 199,404 in lost Staff Centre memberships.

2.16 Finally, COVID-19 and Staff Centre closures in 2020 led NATO Cultural and Sports Clubs to request membership fee refunds and other flexible options, such as use of outdoor facilities and alternative arrangements. The IS worked with the NATO clubs and their requests for flexible options for using Staff Centre facilities, but this was highly dependent on the COVID-19 situation, which had a high degree of variability at the time. As for membership fee refunds, the Budget Committee did not approve this request, but granted membership extensions. According to Customer Board meeting minutes, many NATO staff and clubs found other facilities during the pandemic, and there was a risk of many not returning to the Staff Centre. In addition, Customer Board and Staff Association officials we spoke with stated that many NATO staff were unsatisfied with the decision to not refund membership fees, which led to cancelling their Staff Centre memberships.

Conclusion

2.17 Overall, IS-proposed changes to the MWR governance and management structure are not likely to significantly and effectively enhance staff satisfaction, welfare, and well-being, because the changes continue to focus predominantly on financial oversight and management of NATO HQ MWR and commercial activities. These proposed changes do not resolve the primary issue, which is the lack of a common agreement and unified commitment on the fundamental purpose of NATO HQ MWR. Without the Nations agreeing and committing to the fundamental purpose of NATO HQ MWR, it is difficult to establish clear roles and responsibilities for governance and management. It is also difficult to make other decisions, such as developing an appropriate business plan, choosing a compatible business model and comprehensively assessing whether NATO HQ MWR achieves its purpose of enhancing community cohesion and well-being of NATO HQ staff and families.

3. THE IS DID NOT USE A COMPREHENSIVE AND OBJECTIVE PROCESS TO ASSESS THE ECONOMIC SUSTAINABILITY OF NATO HQ MWR AND COMMERCIAL SERVICES

The 2015-2019 NATO HQ MWR and commercial activities business plan was based on an optimistic assessment of needs, alternatives and risks.

3.1 NATO IS hired a consultant in 2014 to conduct assessments on MWR and commercial operations in the prior and current NATO HQ. These assessments included user group preferences and recommendations for the optimal mix of commercial operations, business models and associated risks to in-house or outsourcing of services. However, we found the 2015-2019 MWR business plan for the new NATO HQ did not reflect certain findings, alternative layouts and risks identified by the consultant's assessments. For example, the consultant contractor found that members of the prior Staff Centre predominantly used the market, shops and medical centre. Conversely, the 2015-2019 business plan assumed an increase in foot traffic to the new NATO HQ Staff Centre even though the final layout no longer included the market, similar shops and medical centre. Though the market, similar shops and medical centre were relocated to the main NATO HQ building, NATO HQ generated lower than expected commercial revenue, in part, because the number of customers (including externals from neighbouring organisations and club members) was not sufficient to match the retail and catering revenue targets for the MWR to break even.

3.2 The IS also left out of the 2015-2019 NATO HQ MWR business plan certain information the consultant provided that compared the square metres in the prior and current NATO HQ. For example, the 2015-2019 NATO HQ business plan provided to the Budget Committee included a table that shows a 38.27% overall square metre increase between the prior and new Staff Centre. However, the consultant's assessment showed that catering space for serving and kitchens in the new Staff Centre would increase by 134% and 131% respectively. The 2015-2019 NATO HQ business plan presented to the Budget Committee also does not mention the consultant's assessment showing an 869% increase in catering kitchen space within the main building of the new HQ. In addition, the Budget Committee's report to Council that requests approval of the 2015-2019 NATO HQ MWR and commercial

activities business plan does not include a discussion of square metre differences between the prior and current NATO HQ.

3.3 Two critical pieces of information needed to have an informed discussion on the economic sustainability of NATO HQ MWR and commercial activities are square metres and the number of potential customers or “market size”. Square metres information is critical to estimating the amount of rent and/or operational and maintenance fees to charge MWR and commercial contractors. Market size provides the number of potential customers upon which to calculate potential revenue. The 2015-2019 MWR business plan states that NATO HQ has a “limited market size for commercial services” of “4,200 staff working at the HQ and their families for some services” and a “limited number of external retail customers.” However, details on the significant square metres differences between the prior and current NATO HQ were not included in the 2015-2019 business plan to prompt a more informed discussion on the economic sustainability of NATO HQ MWR and commercial services. Given the limited number of customers in NATO HQ, higher than expected fees and operating costs had to be passed onto customers by increasing prices or offering lesser quality goods or services.

3.4 The NATO HQ 2015-2019 MWR and commercial business plan lists other challenges that made the business model in the prior HQ economically unsustainable and listed opportunities to increase revenue through the new model. However, the opportunities were based on optimistic figures and assumptions or lack of follow-up analysis. Table 5 below provides a detailed overview and status of these challenges and opportunities.

Table 5: Challenges and opportunities presented in NATO HQ MWR and commercial activities 2015-2019 business plan and status

Challenges	Opportunities	Status
Difficulties implementing commercial services on a campus with a limited customer base.	Expand retail customer base.	Multiple assessments consistently stated the customer base at NATO HQ is 4,200. The IS tried to establish contracts with external organisations to use Staff Centre facilities. However, access was always subject to security restrictions, and the IS did not consult with the NATO Office of Security when developing the MWR business plan to fully understand potential effects of security on customer base and revenue.
Retail prices are below market levels affecting financial viability of commercial operations and requiring Civil Budget subsidies.	Increase prices.	The IS recommended conducting an in-depth analysis of pricing and unit sales volumes correlation (i.e. price elasticity) to determine the optimum price. MWR contractors increased prices, but there is no evidence that the IS conducted a price elasticity study to determine possible effects on customer demand.
Disadvantageous contract terms and conditions for NATO, which have impacted revenues.	Outsource and restructure concessions and rental contracts.	The IS re-bid all prior rental and concessions contracts but received a low response. The IS reported this was due to complexity and low flexibility of NATO Financial Regulations. However, officials noted other challenges for commercial contractors, such as: - Unfamiliarity with or not understanding public procurement and contract management process; - Difficulty to run a profitable business based on NATO HQ's limited customer base; and - Limitations on the pool of bidding candidates to only those who can speak both French and English well.

A disproportionately high number of personnel and associated costs than comparable catering operations.	Reduce Staff Centre 33 civilian posts to three posts not funded by the Civil Budget but through income generated by new Staff Centre and MWR commercial operations.	The IS reduced labour costs by reducing the 33 civilian posts down to three posts. Two posts are covered by the Civil Budget (Head of Soft Services and MWR Assistant) and one post is covered by the MWR budget (MWR Officer).
Not having the organisational structure, skill sets and procurement processes best suited to commercial operations.	Hire outside expertise to execute market research, prepare request for proposals, prepare for competitive negotiations, design the contractual framework and plan the implementation of the commercial contracts for the new HQ.	IS officials stated that proper commercial contract management takes a lot of time and effort to do right, and there is a lack of resources put toward MWR contract management. The IS hired outside expertise to support the initial bidding, transition and implementation phases of MWR and commercial activities in the new NATO HQ. However, according to IS officials, this support ended in July 2018 due to lack of budget to hire external expertise.

Source: NATO IS and IBAN analysis of NATO documentation.

3.5 Table 5 shows that one challenge was below market retail price levels affecting financial viability of commercial operations and requiring Civil Budget subsidies. The plan recommended raising prices and conducting a price elasticity study to understand the effect on customer behaviour. We found that retailers raised prices, and the IS did not conduct this price elasticity study. This is one of several challenges and opportunities outlined in the business plan to the Nations, which were based on optimistic figures and assumptions or lack of follow-up analysis.

NATO HQ lacks a comprehensive and objective process for assessing the economic sustainability for MWR and commercial activities.

3.6 Based on our assessment of questionnaire responses, official NATO documentation, and interviews with officials, we found NATO HQ does not have a comprehensive process to objectively estimate expenditures or forecast revenue for MWR and commercial activities. For example, the IS provides quarterly reports to the MWR Executive Board and annual reports to the Budget Committee but does not conduct medium or long-term economic sustainability assessments of NATO HQ MWR and commercial activities. When asked how the IS assesses economic sustainability of NATO HQ MWR and commercial activities, the IS responded that there is no IS guidance or requirement in the MWR mandate to conduct such assessments, especially since the budgeting for MWR and commercial activities falls mostly outside of the regular Civil Budget process. The IS stated that the economic sustainability of retailers with contracts to operate inside NATO HQ is only assessed against financial performance measures, such as on-time payment of rental, concessions and operating and maintenance fees. For certain contracts (e.g., catering), there are separate financial performance indicators if revenue drops year after year.

3.7 The MWR operating and maintenance cost estimates are part of the overall expenses and revenues that the IS estimates and sends to the MWR Executive Board for approval and based on prior year actuals instead of medium to long-term financial forecasts or other similar analyses. The audit team reviewed to what extent the IS conducted analyses of NATO HQ MWR economic sustainability and what was reported to the Nations. In annual MWR performance reports, the IS reported to the Nations projected revenues and

expenditures for NATO HQ MWR and commercial activities along with results from previous years (See table 6 below for details).

Table 6: NATO HQ MWR expenditures, costs, and results 2018-2021

	Q4 2018	2019	2020	2021 (Estimates) ¹
Expenditures	Costs			
Wages, salaries and employee benefits		€21,910	€89,527	€93,755
Purchases Fuel (Staff Centre)	€211,738	€549,237	€427,107	€656,208
Outsourced Activities (Staff Centre)	€503,515	€1,321,140	€837,665	€996,934
Impairment Realisation Trade Receivables	€5,252			
Other Financial Costs Bank Charges	€1,698	€1,086	€1,127	€1,095
Other Operating and Maintenance (O&M) Costs	€387,667	€1,135,463	€814,422	€511,652
Write-Off Irrecoverable Credits			€18,754	€40,353
TOTAL EXPENSES	€1,109,870	€3,028,836	€2,188,602	€2,299,997
Revenue	Income			
O&M Costs	€179,286	€260,429	€86,423	€296,384
Catering and Concession Fees	€170,747	€291,765	€87,103	€99,783
Rental Agreements	€200,342	€403,116	€307,528	€289,720
Contractual indemnities ²				€99,787
Corporate Agreements	€22,935	€177,962	€89,709	€16,163
Sports and Membership Fees	€264,206	€834,385	€238,757	€171,211
Fuel Sales	€214,543	€563,764	€427,107	€656,208
Miscellaneous Income	€8,179			€25,656
Contribution to O&M costs by NATO Bodies and IS	€49,610	€147,918	€148,830	€148,830
Business Use from IS-Civil Budget	€59,812	€179,435	€179,435	€179,435
TOTAL REVENUE	€1,169,660	€2,858,774	€1,564,892	€1,983,179
RESULT 1	€59,790	-€170,062	-€623,710	-€316,819
Reimburse Civil Budget for O&M	-€179,286	-€260,429	-€269,946	-€456,008
GRAND TOTAL REVENUE	€990,374	€2,598,345	€1,294,946	€1,527,171
RESULT 2	-€119,496	-€430,491	-€893,656	-€772,827

Source: IBAN summary of NATO documentation. Notes: ¹Numbers are best estimates of revenue and expenses provided by MWR staff in collaboration with the Office of the Financial Controller, which may vary from those presented to the Budget Committee for the NATO HQ MWR 2021 financial performance report. ²As per contractual terms, one retailer is paying EUR 99,787 as indemnity covering the rental fees for the remaining 19 months of its terminated contract.

3.8 The grand total revenue (after deduction of operating and maintenance costs) increased from approximately EUR 990,000 in 2018 (Q4) to EUR 2.6 million in 2020, fell to EUR 1.3 million in 2020 and then increased to EUR 1.5 million in 2021. The final result was a deficit of approximately EUR 119,000 in 2018 (Q4) and increased to a deficit of approximately EUR 773,000 in 2021.

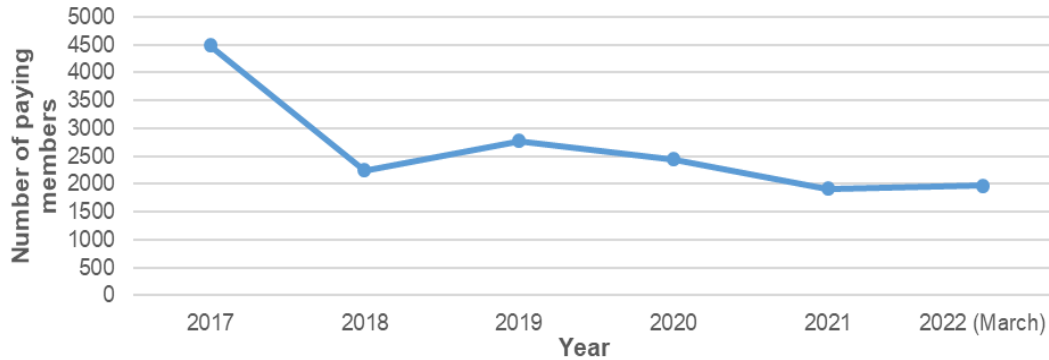
3.9 While the COVID-19 pandemic played a role, we found that the negative financial results for MWR and commercial activities were consistent prior to the pandemic and since moving to the new NATO HQ. Information provided by IS shows falling numbers of paid Staff Centre memberships. There is a target audience of approximately 4,200 people physically in the HQ and approximately 1,900 (45%) of them are members as of March 2022. In real terms, memberships decreased by 56% (4,492 down to 1,969) from 2017 to 2022. This is a

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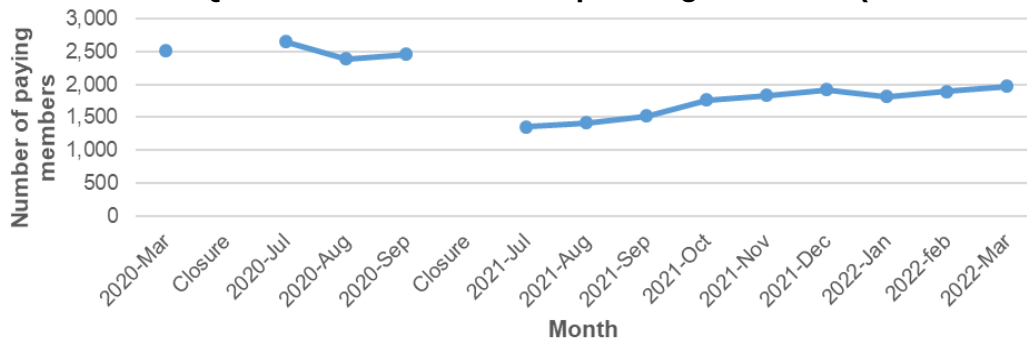
significant drop and a negative indication of Staff Centre financial self-sustainability. Figures 3 and 4 provide more details.

Figure 3: NATO HQ Staff Centre Memberships (2017-Q1 2022)



Source: IBAN analysis of NATO IS data.

Figure 4: NATO HQ Staff Centre Membership during COVID-19 (2020-2021 only)



Source: IBAN analysis of NATO IS data.

3.10 The Staff Centre closed to all members both internal and external as well as Cooperative Agreement users from 10 March 2020 to 21 July 2020 and then from 21 September 2020 until 4 July 2021 due to ongoing concerns surrounding COVID-19 and Summit preparations (A timeline of Budget Committee meeting decisions for extending Staff Centre memberships due to the impact of COVID-19 is provided in appendix 2). However, figures 3 and 4 show that the number of memberships decreased significantly after moving to the new HQ and before the first Staff Centre closure. Figure 4 also shows a slight increase in memberships after the first closure and a significant drop after the second closure. Overall, figures 3 and 4 show that, though the COVID-19 pandemic had a significant negative financial effect on Staff Centre, there were indications that the Staff Centre was struggling to reach financial self-sustainability prior to the pandemic.

3.11 The IS described how the membership fee-pricing model in the new Staff Centre is different from the prior Staff Centre. Though the new Staff Centre membership fee is more expensive, the IS stated that it includes access to all facilities and sports options whereas the prior Staff Centre had a cheaper membership fee, but members had to pay additional fees to access specific facilities and NATO Cultural and Sports Club activities. According to officials from the MWR Customer Board and the Staff Association, the old model attracted members with a lower-cost basic membership and then members had to pay more for specific activities. Though the current model provided more access, there were members

who did not join, because they had to pay higher fees up-front for services they may not use. For example, official meeting minutes from the first MWR Customer Board meeting in 2019 describe how all NATO clubs lost membership, because these members did not want to “pay the 29 Euros membership” when they were “coming for one sport only and were not interested in the other facilities.” As a result, membership numbers dropped and so did that portion of the membership fees toward MWR profitability.

3.12 Though basing expenditure and revenue estimates on historic information is a standard approach to budgeting, it is problematic given the new NATO HQ business model was completely different from that of the prior model. In addition, the economic effects of COVID-19 distorts historic information and will not be appropriate for estimating expenditures and revenue for the upcoming year. Three retailers have already left NATO HQ and cancelled their contracts due to profitability issues, and the IS stated that it would be very difficult or impossible to find substitute retail candidates in the current economic climate. Therefore, an objective process could help the IS more accurately estimate costs and forecast economic sustainability for MWR.

The IS may continue to develop MWR business plans and models that are based on optimistic figures, assumptions and analyses.

3.13 Absent a comprehensive and objective process, the IS may continue to develop MWR business plans and models that are based on optimistic figures, assumptions and analyses. According to NATO Morale and Welfare Activity (MWA) Regulations, the Head of NATO body is authorised to establish “minimum essential MWA in accordance with an assessment of needs of the community concerned.” In addition, good practices used to develop and manage programme costs in Canada, United Kingdom, United States and the European Union state that there should be an objective analysis of alternatives and risks to ensure economic decisions are based on multiple sources of credible information. Without an objective analysis of alternatives and risks process, it is difficult to prevent basing economic decisions on the predisposition of one alternative over another.

3.14 Based on our assessment of international good practices in developing and managing programme costs, we found eight commonly accepted cost estimation and financial forecasting principles used to help ensure economic decisions are based on an objective assessment of needs, alternatives and risks. Figure 5 below provides a summary of the eight principles and an IBAN assessment on the extent to which the IS implemented these principles when developing the 2015-2019 business plan.

Figure 5: Principles in cost estimation and financial forecasting used to develop the NATO HQ 2015-2019 MWR business plan

Participative	Partial
Involved IS staff from Executive Management's Transition Office but did not involve other key stakeholders, such as NATO Office of Security and the Budget, Planning and Analysis office.	
Comprehensive	Partial
Listed assumptions and had external consultant develop alternative layouts. Did not disclose certain information or provide all documentation explaining reasons for assumptions and exclusions.	
Well-documented	Partial
Provided documentation but could not find certain information from past decisions that led to current business plan.	
Accurate	Partial
Estimated costs and revenues based on historical data from prior Staff Centre. Did not provide evidence that cost estimates and forecasts were reviewed by Budget Planning and Analysis office or compared to similar programmes.	
Credible	Not implemented
No evidence of discussion or documentation of limitations, sensitivity analysis, benchmarking against other international organisations or independent cost estimate by external group.	
Risk based	Partial
Submitted a risk mitigation plan in support of 2015-2019 MWR and commercial activities business plan. Did not provide details about whether a full risk assessment was conducted and only included MWR risks related to COVID-19 in NATO HQ risk register.	
Relevant	Partial
Used prior year expenditure and revenue data to provide following year estimates and projections. Did not provide evidence of business case justifications or definition for why model is business critical and tested against other organisations.	
Reviewed/Updated	Partial
Updated cost estimates and projections every year in preparation for Civil Budget submission of operating and maintenance budget to include prior and current years. Did not subject estimates to in-depth review by Budget Planning and Analysis office or others.	

Source: IBAN analysis of international good practices and NATO documentation.

3.15 For example, the consultant contractor hired in 2014 to assess NATO HQ MWR and commercial services stated that outsourcing would allow NATO to transfer risks to the commercial contractors. As such, the 2015-2019 MWR and commercial activities business plan and MWR risk mitigation plan did not mention outsourcing as a NATO HQ risk. For many commercially operated organisations, outsourcing typically transfers risks to another commercial contractor, an insurance company or another external actor. However, NATO HQ has security and other characteristics that differ from other organisations who outsource their commercial operations and therefore bears significant operational, financial and reputational risks if MWR contractors cancel their contracts due to lack of profitability. More details from this analysis can be found in appendix 3.

3.16 Further, IS officials stated that customer information and financial projections presented in the NATO HQ 2015-2019 MWR and commercial services business plan were based on assessments and decisions made by the IS Transition Office, which used to be part of the IS Executive Management Division. The Transition Office was dissolved after managing the move into the new NATO HQ building and was the author of the 2015-2019 MWR business plan. Therefore, the IS informed us that some information about the development of the business plan for 2015-2019 was difficult or impossible to find. As a result, we were unable to retrieve all supporting information provided to Nations when the

decision was made to move from an in-house NATO HQ model to a fully outsourced model. This lack of documentation does not comply with Article 12.3(c) of the NATO Financial Regulations, which require adequate audit trails and data confidentiality, integrity and availability in information systems.

3.17 In another example, the IS added MWR and commercial activities to its risk register based on a risk assessment document submitted by the Executive Management division during the 2022 budget submission process. However, the division's risk assessment document included only one entry on NATO HQ MWR and commercial activities exclusively related to the COVID-19 pandemic. Therefore, the NATO HQ risk identification and management process did not capture all important key MWR and commercial activities risks unrelated to the pandemic and depicted in numerous performance reports and business plans.

3.18 By moving from an in-house business model to a fully outsourced commercial business model, the mix between NATO HQ MWR internal and external risks changed. For example, contract and contractor management risks became more prominent. IBAN also found that Nations and the IS face a range of risks that include, but are not limited to, NATO HQ MWR governance and management, financial risks, and risks related to the NATO HQ building and infrastructure. Specifically, the audit team identified numerous risks to NATO HQ MWR that directly affect the reputation of the organisation and may impact operations, quality of services and attractiveness to potential MWR contractors bidding on future contracts. Examples and descriptions of NATO HQ MWR risks are in appendix 4. Overall, IBAN found that tasks, services, and processes can be outsourced, but their inherent risks cannot.

3.19 The NATO Financial Regulations require risk management "to be considered in strategic and operational planning, day-to-day management and decision making at all levels in the organisation, whenever possible." Also, good practices such as PRINCE2 offers a methodology to ensure an appropriate level of risk management during (project) activities with risks higher than those from day-to-day operations. However, the IS stated there are no specific risk management policies required for MWR and commercial activities. Since these policies do not exist and MWR-specific risks are not part of the wider IS risk identification process, MWR risks are likely to continue to materialise in NATO HQ. For example, the IS reported difficulties receiving sufficient bids from MWR service providers and retailers due to the complexity and low level of flexibility of the NATO Financial Regulations and other challenges. The IS could have managed these challenges in 2015 more systematically and effectively if they were incorporated into a formal MWR risk assessment process or management plan.

The IS did not conduct a revised assessment of needs, alternatives and risks when developing the proposed 2021-2025 MWR and commercial business plan.

3.20 As a result, the IS did not base its proposed changes to the NATO HQ MWR business model on a revised assessment of needs, alternatives and risks. The proposed plan calls for a shift in perspective on MWR "from a purely business enterprise to a tool for [NATO HQ] occupants' enrichment." The most significant change proposed by the IS was to incorporate more of the Staff Centre building operating and maintenance costs into the

regular Civil Budget process and eliminate operating and maintenance costs and concessions fees charged to the catering contract. According to the IS, this shift would help the MWR fund not rely on revenue from the caterer and cancel the need for NATO bodies and the IS to pay separate occupant and business usage contributions. Overall, incorporating more of the Staff Centre building operating and maintenance costs would increase accommodation charges to Nations who are occupants of the NATO HQ building by an average of 7%. Commercial activities and activities for convenience and retail purposes would continue to be charged operating and maintenance costs and rental fees and remain separate from the Civil Budget. The IS conducted a workshop with Nations in October 2020 to solicit input for the revised MWR business plan. However, the IS stated that there was no clear consensus resulting from the workshop. In addition, the IS stated that there was not enough time or resources to hire proper expertise to conduct a new assessment of needs or assess alternative business models and associated risks when revising the MWR business plan. Therefore, it is unclear to what extent the IS used realistic assumptions to develop the 2021-2025 business plan.

3.21 The 2021-2025 MWR business plan also suggested a number of other changes, including ways to address the limited customer base challenge and additional MWR marketing initiatives. The IS further suggested addressing disadvantageous contract terms and conditions affecting NATO revenue by having the Nations accept a significant reduction in revenue in order to prolong existing contracts and mitigate the risk of losing essential services. Specifically, NATO HQ would eliminate operating and maintenance fees from the catering contract and reduce these fees in retailers' contracts. Though the proposed plan states that this elimination and reduction of operating and maintenance fees would "guarantee the sustainability of the catering and commercial contracts," we found no explanation for whether this would be a transitional solution or permanent arrangement.

Conclusion

3.22 NATO HQ MWR has not been self-sustainable as initially planned and is not likely to be so in the near future. A main challenge is the falling number of Staff Centre memberships, which decreased by 56% (from 4,492 down to 1,969) from 2017 to 2022. This significant drop does not indicate near-term self-sustainability of the Staff Centre. Overall, the priority of the 2021-2025 MWR and commercial business plan continues to be on eliminating the Civil Budget subsidy to NATO HQ MWR without a more comprehensive and objective analysis of alternatives and risks. As such, the IS and the Nations may overlook important non-financial information, such as user needs or preferences and other issues that affect the long-term economic sustainability of NATO HQ MWR. In the absence of a comprehensive and appropriate methodology, there is a significant risk of continuing to take decisions based on incomplete or biased information.

4. THERE IS NO REQUIREMENT TO PRESENT STRATEGIC-LEVEL ASSESSMENT OF NATO HQ MWR AND COMMERCIAL SERVICES COSTS IN RELATION TO BENEFITS AND CUSTOMER UTILITY

NATO regulations do not formally require measurement and assessment of costs in relation to benefits and customer utility for MWR activities

4.1 Based on our assessment of questionnaire responses, official NATO documentation and interviews with officials, we found there are no NATO regulations that formally require a measurement and assessment of costs in relation to benefits and customer utility for MWR and commercial activities. NATO MWA regulations only state that the Head of NATO body is authorised to establish “minimum essential MWA in accordance with an assessment of needs of the community concerned.” This means that an assessment for MWA could include costs, benefits and customer utility information, but this regulation does not impose such a requirement. The MWA regulations also state that the Head of NATO bodies are responsible for issuing local regulations for MWR and related activities. As such, Council approved a revised NATO HQ MWR and commercial activities governance and mandate in 2018. However, this has no requirement for the IS to measure and assess costs in relation to MWR benefits and customer utility or to provide reports on these areas to the Budget Committee. Therefore, the three annual MWR performance reports provided to the Nations to-date do not include assessment of costs in relation to MWR benefits and customer utility.

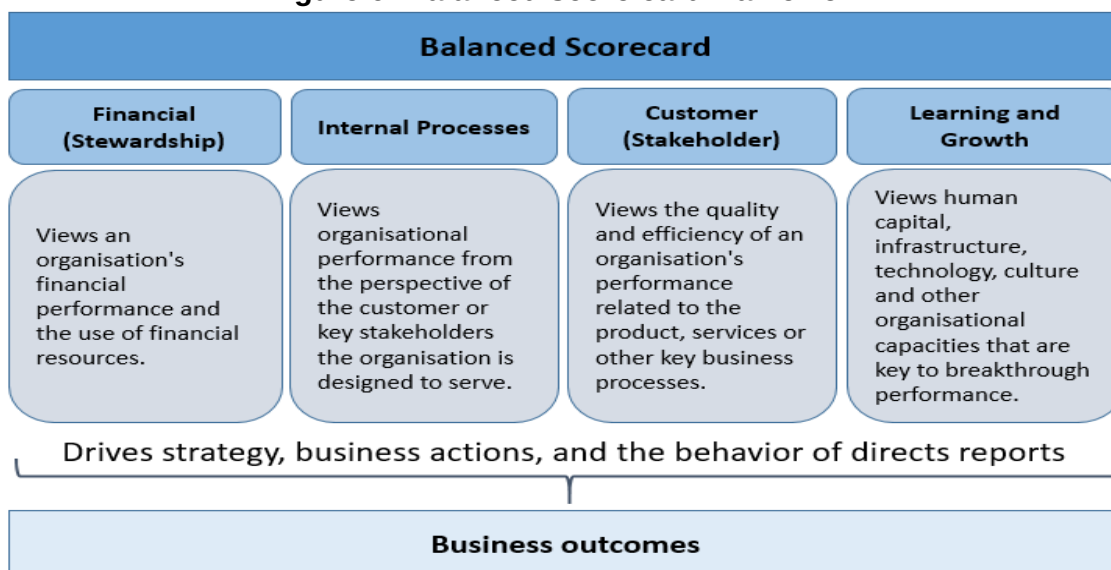
4.2 Though the IS Procurement Manual includes requirements for evaluating contractor performance, it does not include specific requirements on performance measures for costs in relation to benefits and customer utility in contracts. For example, the manual requires that the IS Procurement Service, in coordination with the requisitioner (here the IS division of Executive Management), develop a performance assessment or quality assurance plan for “significant contracts”. This could include performance measures for costs, benefits, and customer utility related to MWR contracts, but this is not a clearly stated requirement.

Good practices demonstrate the importance of including financial as well as non-financial information to improve MWR and commercial activities management and decision-making

4.3 In the absence of specific NATO regulations, international good practices demonstrate the crucial need for guidance on measuring and assessing achievement, costs, benefits and customer utility that apply to MWR activities. Specifically, private and public sector organisations worldwide use the “balanced scorecard” approach as a framework to: “[provide] a visible connection between the projects and programs that people are working on, the measurements being used to track success (Key Performance Indicators or KPIs), the strategic objectives the organisation is trying to accomplish, and the mission, vision, and strategy of the organisation.”

4.4 The balanced scorecard framework encompasses four different aspects that all significantly impact an organisation and its ability to achieve its goals. The balanced scorecard can enable organisations to achieve organisational outcomes when correctly applied in the organisation’s specific context. This relationship is described in figure 6:

Figure 6: Balanced score card framework



Source: IBAN analysis of Balanced Scorecard Institute, 2022.

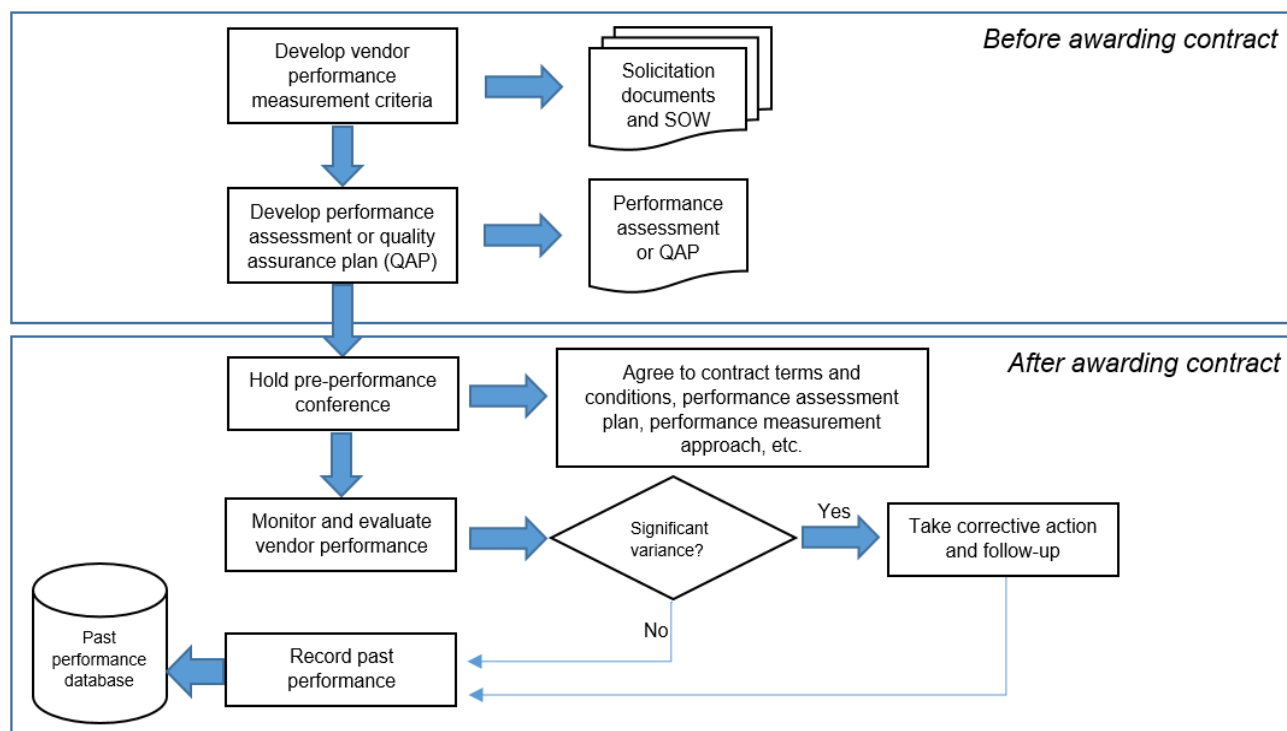
4.5 For efficient implementation of a balanced scorecard framework, an organisation needs to define strategic and operational information in a precise and measurable way and share this information in a timely manner. Strategic measures evaluate progress in achieving an organisation's strategic objectives. Operational measures focus on operations and tactics to inform decisions around day-to-day product/service delivery or other operational functions. Thus, strategic and operational measures connect the day-to-day work everyone is doing with the organisation's overall strategy and strategic objectives. An organisation then transforms strategic and operational measures into data to develop evidence-based performance assessments. Senior boards and managers can use these evidence-based performance assessments to monitor progress, take corrective action and improve programmes.

4.6 According to statements made in NATO HQ MWR business plans and governance and mandate, the Nations generally agree that MWR should benefit NATO personnel and families, but in a financially sustainable manner. Therefore, we consider that a balanced scorecard framework presents the most effective tool to capture the financial and non-financial objectives the Nations agree on for NATO HQ MWR and commercial activities. It also establishes a direct link between information and expected achievements in order to assess the level of realisation and possible deviations from expected costs.

The IS uses costs, benefits and customer utility measures to systematically assess the performance of NATO HQ MWR and commercial activities at the operational level

4.7 According to the IS Procurement Manual, the IS must monitor and measure contract performance for effective control. Figure 7 summarises the process used to monitor and evaluate performance of NATO HQ MWR and commercial services contracts.

Figure 7: Monitoring and evaluating performance of NATO HQ MWR and commercial services contracts



Source: IBAN analysis of IS Procurement Manual and NATO documentation.

4.8 The IS meets with MWR and commercial activities contractors on a monthly, quarterly and yearly basis, which gives multiple opportunities to identify performance issues at the operational level and address them. During these meetings, the IS uses costs, benefits and customer utility measures to assess the performance of NATO HQ MWR and commercial activities at the operational level through Service Level Agreements (SLAs). This is appropriate considering the current financial and non-financial risks associated with NATO HQ MWR and commercial activities. These SLAs are with individual contractors for catering, sports (including the Staff Centre and childcare) and retail services.

4.9 The IS Procurement Manual also states that the IS shall ensure that adequate contractor performance evaluation is conducted to include performance measurement criteria. As such, MWR SLAs include KPIs that cover many of the perspectives described in the balanced scorecard framework, such as “client satisfaction”, “revenue” and other operational and management measures. By using the balanced scorecard framework, the IS assesses individual performance of MWR and commercial services contractors against financial and non-financial measures. The NATO HQ MWR KPIs are mainly operational rather than financial. The only financial KPI relates to the on-time payment of rent, operating and maintenance, and concession fees. The catering and sports contracts also have KPIs with the requirement to maintain or increase the turnover/number of members.

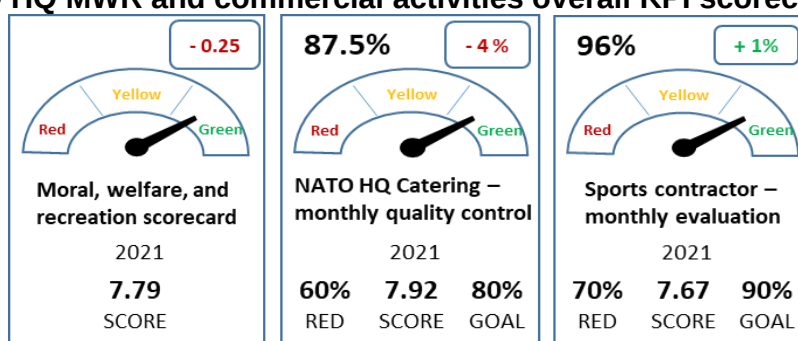
4.10 Though the catering and sports contractors provide customer satisfaction survey results to the IS, we found the IS does not collect this information as consistently from its smaller retail services. Retail services SLAs include a mechanism whereby contractors receive bonus points for conducting customer satisfaction surveys, but the retail services

contractors are not obligated to do so. The IS provided evidence that at least one retailer provided customer satisfaction survey information.

NATO HQ MWR contractors are meeting or exceeding their annual KPI targets at the same time as there are financial deficits for the MWR and commercial activities.

4.11 Despite a yearly financial deficit in MWR, the contractors for MWR and commercial services are meeting or exceeding their annual KPI targets. The IS monitors MWR performance through an MWR dashboard for its two largest contracts, which are catering and the Staff Centre sports contractor (see figure 8 below for details).

Figure 8: NATO HQ MWR and commercial activities overall KPI scorecards (2018 -2021)



Source: NATO IS.

4.12 The MWR dashboard scores are a weighted composite of the KPIs stipulated in contractor SLAs and generally scoring positive for 2021 (score 7.79 in figure 8 above). As stated, the MWR SLA KPIs cover balanced scorecard perspectives like “client satisfaction”, “revenue” and other operational and management measures. Since 2018, the monthly goal set by the IS for the catering contract was 80%, and by end of 2021 the average score was 87.5%. For the Staff Centre sports contractor, the goal was 90%, and by end of 2021 the actual score was 96%. Performance measurement paused from March 2020 to September 2021 due to the COVID-19 pandemic, but the NATO HQ MWR scorecard was still positive by the end of 2021. (See appendix 5 for more details.)

4.13 Therefore, we found that the positive KPIs reported by the IS at the operational level contradict the yearly deficits experienced in MWR since 2018. These contradictory pieces of information make it difficult for the Nations to determine whether MWR is benefiting NATO personnel and families in a financially sustainable manner. The IS stated that “financial performance is one element of the operational performance of the contracts” and that “the scores remain high, as most commercial contractors serve the customers as required according to the contract.” However, we consider this contradiction to indicate that contractual incentives were not sufficient for MWR contractors to improve customer demand and thus profitability over time.

The IS does not use costs, benefits and customer utility measures to assess the performance of NATO HQ MWR and commercial activities at the strategic level.

4.14 To benefit fully from the balanced scorecard approach or any other governance and management framework, information needs to flow through the organisation to the

appropriate levels at the appropriate time. Goals should be formulated at the governance level with the involvement of management, and then the activities are implemented. At the same time, results are measured, assessed and reported back to the governance level. Through such an approach, the governance level can strategically steer the activities while senior management are responsible for achieving results and communicating complete information to decision makers. Figure 9 below illustrates this process.

Figure 9: Complete governance and management KPI process



Source: IBAN analysis of Balanced Scorecard Institute framework and PRINCE2.

4.15 Though the IS has operational level measures for MWR and commercial services contracts that include cost and customer satisfaction KPIs, not all of this information is synthesised into a strategic-level performance assessment. In our review of NATO HQ MWR and commercial activities performance reports provided to the Budget Committee, we found no mention of assessing costs in relation to the benefits and utility of MWR activities on NATO HQ customers. Apart from customer surveys organized in 2014 and 2019, the IS stated it did not conduct additional generic MWR surveys, because it did not want to overload internal customers with surveys. The IS did conduct an assessment of the well-being of staff through the Occupational Psychosocial Risk Survey (Well-being Survey) in 2021 that resulted in an IS Well-being Action Plan that is being implemented in 2022. However, the IS also stated that “although the MWR mandate references welfare, mental well-being, and personal development, the current commercial model does not budget for or define in...commercial contracts any services or programs specifically for well-being and counselling.”

4.16 We found that the data gathered from KPIs in MWR SLAs do not translate into information the IS and the Budget Committee can use to strategically measure and assess overall progress toward achieving NATO HQ MWR and commercial services business plan objectives. This is because there are no strategic-level KPIs or strategic-level objectives

described in the NATO HQ MWR and commercial services business plan. As a result, the IS collects operational-level data via individual MWR SLAs that may reflect only a partial or incomplete view of overall NATO HQ MWR performance.

Conclusion

4.17 Overall, IBAN considers that the Nations do not yet receive comprehensive information and performance reports that could provide a consolidated view of NATO HQ MWR and commercial activities costs in relation to benefits and customer utility. Therefore, the Budget Committee does not have a complete assessment from which to determine whether the benefits and customer utility derived from NATO HQ MWR and commercial activities are worth the associated costs. Currently there are no clear goals and targets set at the governance level that the IS can translate into action. Further, associated reporting on results at all appropriate levels can be strengthened. The current situation limits relevant reporting on the results of NATO HQ MWR and commercial activities, which affects transparency and accountability for achieving positive NATO HQ MWR results and user benefits in the future.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

5.1.1 IBAN concludes that continuing to follow the current MWR and commercial activities business model and plan will not likely lead to independence from the Civil Budget. Since 2018, NATO HQ MWR and commercial activities have not been economically sustainable. Although the IS submitted a revised MWR model and mandate in June 2021 to correct issues of the current business plan, this proposal still does not address a critical problem, which is the disparity between the stated purpose of MWR and the current governance and management structure for NATO HQ MWR and commercial activities. If NATO-wide morale and welfare activity regulations from 2019 and NATO HQ MWR governance mandate from 2018 both state that the purpose of MWR is to enhance well-being and foster community-building, then the governance, management, and business model should all be aligned to this purpose. Instead, IBAN found that the NATO HQ MWR governance and management structure is complex and makes it difficult to assign appropriate lines of accountability. In addition, IBAN found examples of how current governance and management activities predominately focus on financial performance, which has had a negative effect on community-building. Ultimately, the Nations need to reach a common agreement and unified commitment on the fundamental purpose of NATO HQ MWR. Otherwise, it will be difficult to effectively govern and manage NATO HQ MWR and commercial activities, decide on a future business model, and comprehensively assess whether NATO HQ MWR is achieving its stated purpose of enhancing community cohesion and well-being for NATO staff, families, and retirees.

5.1.2 IBAN also finds that the IS lacks a comprehensive process to objectively assess needs, alternatives, and risks, that would help ensure economic decisions are not based on the predisposition for one alternative over another. Choosing to outsource and make the MWR independent from the Civil Budget without sufficient evidentiary and analytical support

led to the current business plan, which included optimistic figures and lack of follow-up analysis to validate estimates and projections. Without an objective and comprehensive process, the IS may continue to adjust governance, management, and business plans and experience the same results. The IS and the Nations may also continue to overlook important non-financial information, such as user needs or preferences and other issues that affect the long-term economic sustainability of NATO HQ MWR.

5.1.3 Finally, IBAN finds that the IS currently utilises elements from the balanced scorecard framework in their contracting practices but is not leveraging the framework on all levels. Using a framework like the balanced scorecard in a more systematic way could ensure that financial and non-financial information and perspectives are part of performance management and more accurately aligned with the stated purpose of NATO HQ MWR and commercial activities. Expanding this framework would also align NATO HQ MWR contractors' KPIs with overall NATO HQ MWR targets so that operational and strategic-level performance information do not contradict one another as they do currently. Therefore, having financial and non-financial KPIs with linkages at the strategic and operational levels of NATO HQ would show a more balanced and complete view of MWR performance. By not utilising a comprehensive framework, such as the balanced scorecard, the IS and Budget Committee are not in a position to obtain complete information from which to determine whether NATO HQ MWR and commercial activities costs are worth the benefits.

5.2 Recommendations

5.2.1 To address the issues and problems NATO HQ MWR and commercial activities are currently facing in a cost-effective manner, IBAN recommends that Council tasks the relevant committee or committees to make a timely and clear determination on the future governance, management and financial approach to NATO HQ MWR. At a minimum, this should encompass the following:

5.2.1.1 An agreement on the fundamental purpose of NATO HQ MWR. Based upon this decision, the Nations should assess the current governance and management structure to ensure the number of stakeholders, processes and outcomes are appropriate. This assessment should include:

- a) Delineating clear roles, responsibilities and membership of MWR board(s) and management;
- b) Having MWR board(s) and management report financial and non-financial performance on a regular basis to the Budget Committee;
- c) Choosing a business model and plan that aligns with the agreed upon fundamental purpose of NATO HQ MWR and commercial activities; and
- d) Aligning budgetary and financial processes with the chosen MWR business model and plan.

5.2.1.2 A comprehensive and objective analysis on the economic sustainability of continuing the current commercial approach to NATO HQ MWR compared to alternative scenarios. Such analysis could be based on the good practices for cost estimation and financial forecasting provided in this audit report. This assessment should include:

- a) Identification of all cost, benefits, risks, and opportunities; and
- b) Medium and long-term projections of expenditures and revenues.

5.2.1.3 Clearly defined strategic-level objectives based on good practices that include financial and non-financial perspectives of NATO HQ MWR and commercial activities. These objectives should:

- a) Include performance targets that clearly establish governance-level expectations and lines of accountability to MWR management; and
- b) Link to operational-level targets and KPIs.

5.2.2 All tasking decisions by Council should clearly identify those responsible to take action and set deadlines for the delivery of the expected outcomes.

6. COMMENTS RECEIVED AND THE IBAN'S POSITION

6.1 Comments Received

6.1.1 NATO IS submitted formal comments and supported the recommendations in our report. They stated in their formal comments that the conclusions reached by the audit team reflect the concerns expressed by the IS and that the predominant focus on financial performance had a negative impact on MWR's purpose to enhance well-being and foster community-building. See appendix 6 for their detailed formal comments. NATO IS also provided factual comments that we incorporated into the report, as appropriate.

6.2 IBAN's Position

6.2.1 The IBAN appreciates and recognises these formal comments, which further supports the position that our recommendations will help the efficiency, effectiveness, and economy of NATO HQ MWR and commercial activities.

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APPENDIX 1
IBA-AR(2022)0004**APPENDIX 1: DETAILED TIMELINE OF NATO HQ EVENTS AND INFORMATION PROVIDED TO NATIONS ON NATO HQ MWR AND COMMERCIAL ACTIVITIES**

This appendix provides a detailed timeline of NATO HQ events and information provided to Nations regarding NATO HQ MWR and commercial activities from 2014 through 2022.

Timeline	Description	Category
2014		
October – December 2014	External consultant provides reports on commercial operations deployed in previous NATO HQ and advice for commercial operations in new NATO HQ.	NATO HQ events
2015		
June 2015	NATO HQ MWR and commercial activities business plan 2015-2019 presented to Budget Committee.	Information provided to Nations
September 2015	Budget Committee considers proposed business plan and provides report to the Council.	Information provided to Nations
October 2015	Council considers Budget Committee recommendations and approves NATO HQ MWR and commercial activities business plan 2015-2019.	Information provided to Nations
2016		
2016	Request for proposal process starts and contractors selected for MWR and commercial services (i.e., catering, Staff Centre and retail shops).	NATO HQ events
2018		
March 2018	MWR and commercial activities governance and mandate for new NATO HQ revised and Budget Committee submits to Council for approval.	NATO HQ events
	Move from prior to current NATO HQ	
August – September 2018	Closing of the “old” Staff Centre and opening the new NATO HQ Staff Centre	
2020		
January 2020	Executive Management issues first MWR and commercial activities financial execution report to the Budget Committee for September 2018 to December 2018 and projections for 2019.	Information provided to Nations
	Executive Management issues MWR and commercial activities lessons-learned report.	
March – July 2020	COVID-19 pandemic results in closure of Staff Centre and some non-essential retail locations in the main NATO HQ building.	NATO HQ events
May – July 2020	Executive Management submits report to Budget Committee of COVID-19 financial impact on NATO HQ MWR and commercial activities and recommendations to mitigate financial risks.	Information provided to Nations

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July 2020	Staff Centre re-opens for two months.	NATO HQ events
September 2020	Executive Management issues MWR and commercial activities financial execution report to the Budget Committee for 2019 and projections for 2020.	Information provided to Nations
	Staff Centre closes again due to COVID-19 pandemic.	NATO HQ events
November 2020	Revised NATO HQ MWR and commercial activities business plan for 2021-2025 presented to the Budget Committee.	Information provided to Nations
2021		
February 2021	Executive Management submits proposal to Budget Committee on settlement claims brought by MWR contractors and COVID-19 relief measures for Staff Centre members.	Information provided to Nations
May 2021	Executive Committee issues MWR and commercial activities financial execution report to the Budget Committee for 2020 and projections for 2021.	Information provided to Nations
June 2021	Executive Management submits revised NATO HQ MWR and commercial services business model for 2021-2025 and revised MWR mandate to the Budget Committee.	Information provided to Nations
July 2021	Staff Centre re-opens.	NATO HQ events

Source: IBAN analysis of NATO documentation.

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APPENDIX 2
IBA-AR(2022)0004**APPENDIX 2: TIMELINE AND SIGNIFICANT EVENTS RELATING TO THE STAFF CENTRE MEMBERSHIP EXTENSION ACTIVITIES****Table: Timeline of events regarding staff centre membership extension activities**

Timeline	Event description
March 2020	Staff Centre closed due to COVID-19.
May 2020 to July 2020	- Executive Management proposes full extension of Sports Centre memberships and Cooperative Agreement contracts from 10 March through until 31 December 2020. - Budget Committee approves relief for internal Sports Centre members from 10 March 2020 to 21 July 2020 (133 days) and a compensation for cooperative agreements equal to 50% of monthly fee or equitable extension on a case-by-case basis.
February 2021	Executive Management requests: - Extension of internal Sport Centre memberships up to 102 days during the Staff Centre closure (from 21 September to 31 December 2020). - Extension of family and external Sport Centre annual memberships up to 162 days (from 22 July to 31 December 2020). - Refund of paid Cooperative Agreements (from 1 July to 31 December). - Budget Committee approved these requests under silence.
June 2021	Executive Management requests: - Extension of internal Sports Centre memberships for the period of 1 January 2021 – 5 July 2021. - Extension of external and family sport memberships for the period of 1 January 2021 – 1 September 2021. - Extension of Cooperative Rental Agreements for the period of 1 January 2021 – 1 September 2021. - Budget Committee approved these requests.
July 2021	Sports Centre reopens to internal sports members.

Source: IBAN analysis of NATO documentation.

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APPENDIX 3
IBA-AR(2022)0004**APPENDIX 3: ASSESSMENT FRAMEWORK FOR COST ESTIMATION AND FINANCIAL FORECASTING**

The table below summarises the cost estimation and financial forecasting principles shared across multiple sources and IBAN's assessment of the IS applying these principles when developing the NATO HQ 2015-2019 MWR business plan.

Table: Principles in cost estimation and financial forecasting and IS development of NATO HQ 2015-2019 MWR business plan

Principles	Description	IBAN assessment of implementation	Sources
Participative	Involve a multidisciplinary team with varying subject matter expertise and a wide range of stakeholders to include customers and those outside the development process. Use statistical data and accumulated judgment and expertise of individuals inside and outside the organisation to increase knowledge about forces impacting revenues and expenditures.	Partially implemented: Involved IS staff from Executive Management's Transition Office but did not involve other key stakeholders, such as NATO Office of Security and the Budget, Planning and Analysis office.	Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019. US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. UK, National Audit Office, Framework to review models, 2016. Government Finance Officers Association (US and Canada), Best Practices, Financial Forecasting in the Budget Preparation Process, 2014.
Comprehensive	Clearly define time and scope and with sufficient detail to ensure cost elements are neither omitted nor double-counted. Where information is limited and judgments must be made, assumptions and exclusions on which estimate is based are reasonable, clearly identified, explained and documented. Include events that could cause disruption in operating environment and prevailing trends, including longer-term planning	Partially implemented: Listed assumptions and had external consultant develop alternative layouts. Did not disclose certain information, such as major square metre differences between prior and current NATO HQ that affect cost estimates and forecasts. Could not provide some documentation explaining reasons for assumptions and exclusions.	Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019. US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. Government Finance Officers Association (US and Canada), Best Practices, Financial Forecasting in the Budget Preparation Process, 2014. UK, National Audit Office, Framework to review models, 2016.

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	efforts of the organisation or other organisations that impact financial decisions and fiscal environment.		
Well-documented	Document rationale and scoping of development and process to ensure corporate memory exists. Document so that primary methods, calculations, results and rationale or assumptions can easily be repeated, updated and auditable.	<u>Partially implemented:</u> Provided documentation but could not easily find certain information from past decisions that led to current business plan.	UK, National Audit Office, Framework to review models, 2016. US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019. Government Finance Officers Association (US and Canada), Best Practices, Financial Forecasting in the Budget Preparation Process, 2014.
Accurate	Use best methodology from data collected taking into consideration inflation and underlying mathematical formulas, databases and inputs validated and updated to reflect significant changes to programme. Review quality of data used and assess its appropriateness and how compare against historical data or actual experiences from comparable programmes. Include evidence, such as business cycles, demographic trends, population changes, outliers and historical anomalies.	<u>Partially implemented:</u> Estimated costs and revenues based on historical data from prior Staff Centre. Did not provide evidence that cost estimates and forecasts were reviewed for accuracy by the Budget Planning and Analysis office or compared to other programmes outside of NATO HQ.	US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. Government Finance Officers Association (US and Canada), Best Practices, Financial Forecasting in the Budget Preparation Process, 2014. UK, National Audit Office, Framework to review models, 2016. Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019.

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Credible	Discuss and document any limitations of cost estimates to include major assumptions surrounding source data and how sensitive it is to changes. Compare assumptions against industry norms, third party sources or have an independent cost estimate conducted by a group outside the organisation. Explain political/legal issues related to forecasts.	<u>Not implemented:</u> No evidence of discussion or documentation of limitations, sensitivity analysis, benchmarking against other international organisations or independent cost estimate by external group.	US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. UK, National Audit Office, Framework to review models, 2016. Government Finance Officers Association (US and Canada), Best Practices, Financial Forecasting in the Budget Preparation Process, 2014. Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019.
Risk-based	Consider all risks and uncertainty as completely and objectively as possible. Conduct a risk assessment with sufficient detail of basis, process, level of subjectivity and findings. Test sensitivity to understand drivers and tolerances to quantify uncertainty.	<u>Partially implemented:</u> Noted external consultant's assessment that risk would transfer to MWR commercial contractors if operations were outsourced. Included MWR and commercial activities in 2022 NATO HQ risk register. Submitted a risk mitigation plan in support of 2015-2019 MWR and commercial activities business plan. Did not provide details regarding if the external consultant conducted a full risk assessment to conclude outsourcing would transfer all risks to MWR contractors. Included only MWR risks related to COVID-19 in NATO HQ risk register and did not include other potential risks described in performance and lessons-learned reports.	US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019. UK, National Audit Office, Framework to review models, 2016.

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Relevant	Keep and use current data of expenditures and revenue to ensure cost estimates are relevant and updated over time. Develop business case to ensure programme remains viable.	<u>Partially implemented</u> Used prior year expenditure and revenue data to provide following year estimates and projections. No evidence of business case justifications or definition for why model is business critical and tested against other organisations.	UK, National Audit Office, Framework to review models, 2016. PRINCE2 (ProJects IN Controlled Environments). US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019.
Reviewed/updated	Subject estimates and forecasts to external review for validation. Update cost estimates and forecasts periodically. Compare estimates and forecasts to actual outputs to validate results and inform future development or changes.	<u>Partially implemented:</u> Updated cost estimates and projections every year in preparation for Civil Budget submission of operating and maintenance budget to include prior and current years. Did not subject estimates to in-depth review by Budget Planning and Analysis or other external group.	UK, National Audit Office, Framework to review models, 2016. US, Government Accountability Office, Cost Estimating and Assessment Guide, Best Practices for Developing and Managing Program Costs, 2020. Canada, Treasury Board of Canada Secretariat, Guide to Cost Estimating, 2019. Government Finance Officers Association (US and Canada), Best Practices, Financial Forecasting in the Budget Preparation Process, 2014.

Source: IBAN analysis of international good practices and NATO documentation.

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APPENDIX 4
IBA-AR(2022)0004**APPENDIX 4: IBAN TABLE OF RISKS RELATED TO NATO HQ MWR AND COMMERCIAL ACTIVITIES**

The table below outlines risks that would be useful for decision makers to consider when revising NATO HQ MWR governance, management, and reporting arrangements. These relate to both financial and non-financial aspects of NATO HQ MWR.

Table: Identified NATO HQ MWR risks

Risks relating to governance		
Risk	Description	Areas of impact
Lack of agreed mission and purpose of MWR activities in NATO HQ.	Nations might not agree fully on the mission and purpose of MWR activities in NATO HQ. Some are in favour of a military-inspired partially or fully subsidised model with a primary focus on staff welfare and well-being and others are in favour of a fully outsourced commercial approach with a primary focus on financial independence from the Civil Budget.	Strategic: Without a clear mission, Nations cannot provide clear strategic guidance, set appropriate goals and objectives and assess if NATO HQ is meeting the purpose of MWR. It is also difficult for Nations to decide on an appropriate MWR governance structure and business model. Oversight: Difficult to operationalise what benefits users should get from MWR and/or commercial activities and if the chosen business model supports the achievement of these benefits. May also lead to lack of agreed definition(s) of MWR and commercial activities. Without an agreed definition, it is difficult to identify appropriate accounting measures and financial metrics, which affects the ability to sufficiently manage risks. Customer satisfaction and staff welfare may be difficult to define and operationalise. Consequently, these aspects are important to successful MWR management and may prove to be difficult to measure and assess.

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Risk relating to management		
Separate process for NATO HQ MWR budget preparation, approval and execution.	By separating the NATO HQ MWR budget process from the regular Civil Budget process, reporting requirements and requests for information may increase over time.	Oversight: Excessive reporting or reporting with lack of focus on key budgetary issues and events can indirectly impact oversight and decision making. Resources: Staff risk spending time on superfluous outputs and moving focus and resources away from day-to-day tasks or more proactive efforts.
No overarching strategic-level NATO HQ MWR goals, objectives or performance targets	There are no strategic level MWR goals, objectives or performance targets for NATO HQ. However, there are operational-level MWR and commercial activities contracts and key performance indicators.	Supervision: If strategic-level goals, objectives and targets are lacking, management risks continuing to collect operational-level data via individual MWR contracts that reflect a partial or incomplete view of NATO HQ MWR and commercial activities performance. Management will also have difficulty setting appropriate expectations at the lower divisional levels in the form of specific targets, objectives, etc. This can affect management's ability to focus their supervision efforts and identify organisational risks. Oversight: This also results in partial or incomplete information given to the Nations regarding NATO HQ MWR and commercial services performance.
Financial risks		
Lack of overall breakeven	This would create a need to either decrease services and/or quality of services or request additional funds from Nations to cover deficits. In addition, it might affect NATO HQ's ability to attract interested contractors and suppliers of NATO HQ MWR, because new contractors could be reluctant to enter into NATO HQ commercial contracts.	Financial management: Nations may have to continuously provide funds for NATO HQ MWR deficits or subsidise NATO HQ MWR activities. Quality of services:

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		Reduced quality of services and ability to attract NATO HQ MWR contractors and suppliers.
Lack of individual contractors not able to break even	Same as above but at the individual contractor level.	Same as above but at the individual contractor level
Market risk	Market risk is what happens when there is a substantial change in the particular marketplace in which a company competes. It involves the risk of changing conditions in the specific marketplace in which a company competes for business. One example of market risk is the increasing tendency of customers to shop online. This aspect of market risk has presented significant challenges to traditional retail businesses. For NATO HQ, this is a particularly difficult risk to manage, because foot traffic is limited, which means there is a relatively fixed number of potential customers from which NATO IS can generate demand and revenues.	Risk to financial sustainability: Risk to NATO that contractors will end their contracts prematurely and risk of NATO becoming less attractive to new contractors. Competition: This risk also relates to another element of market risk—the risk of being outmanoeuvred by competitors. For example, a European School branch is being established at the previous NATO HQ location. Over time, this may become direct competition to NATO HQ commercial services, such as shopping, food etc.
Inflation	Inflation is increasing, which may impact NATO HQ consumer behaviour and make it more difficult to generate revenues from the NATO HQ commercial customer base.	Financial results: Rising inflation might impact the revenues of NATO HQ contractors. This can include difficulty implementing effective promotion campaigns. (e.g. attracting new memberships to the Staff Centre)
Operational risks		
Business performance	NATO currently has a limited number of contractors willing and/or able to bid on NATO HQ commercial activities. Also, NATO normally offers contract awards to lowest bid. If financial results do not improve from commercial activities at NATO HQ, contractors might keep cost down through hiring practices that can impact reputation and resources spent on security background checks etc. Ultimately one or several operational risks can impact business performance.	Commercial activities performance and reputation: Operational risks refer to the various risks that can arise from a company's ordinary business activities. The operational risk category includes lawsuits, claims, fraud risk, personnel problems and business model risk, which is the risk that a company's models of marketing and growth may prove to be inaccurate or inadequate.
Current contracts with MWR contractors might not support effective	Such a situation can also affect future contracts due to lack of bidders, which could weaken NATO IS's negotiating powers and	Community and culture:

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community-building and make NATO HQ MWR environment less attractive.	ability to insert conditions in contracts that promote community-building. For example, currently the NATO clubs have difficulties existing alongside High Five, because High Five will not allow “marketing” of the NATO clubs etc. that are very important to community-building around the NATO HQ MWR.	One of the indirect cost of fully outsourcing might prove to be that it does not allow the existence of the sort of culture and community the Staff Centre was supposed to build and serve.
Difficulty maintaining negotiation power towards MWR contractors when only very limited number of bidders	Weak negotiation position for IS due to building infrastructure, layout, location and limited foot traffic. These conditions put the IS in a weak negotiating position. To get commercial entities to do business at NATO HQ, IS may agree to things not conducive to community-building and other stakeholders and companies being able to compete. For example, the NATO Cultural and Sports Clubs are not able to freely promote their activities by putting posters up in the Staff Centre, because the clubs are not the sports contractor’s services that contribute to its profitability.	Quality: Might impact quality, service delivery, etc. Morale and welfare: It might also impact the community-building needed to sustain an effective morale and welfare function.
Reputational risk	Currently, there are not many bidders on NATO HQ MWR contracts. If contractors cannot create revenues or if other constraints specific to NATO HQ makes it difficult to create a profitable business case for bidders, this can have reputational impacts for NATO HQ.	Reputational: If reputational issues relating to NATO HQ MWR arise or persist, a lack of new bidders might have operational impacts if a fully commercial approach is continued.
Risk related to building and infrastructure		
Layout and infrastructure of the building creating certain conditions that allow little flexibility.	Inflexible layout and infrastructure of building may limit number of bidders willing to bid and operating and maintenance costs fall back on the Civil Budget.	Bidding: Limited number of bidders willing to bid puts NATO in a weak negotiating position potentially as these are fixed conditions. Financial performance of contractors: Risk that, due to the inflexible layout of areas used by/offered to contractors, the operating and maintenance costs that are recuperated from contractors become too high for existing contractors, or will become unacceptable for future bidders.

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Security requirements of the building creating conditions that allow little flexibility.	If security requirements are too burdensome, or perceived as too burdensome, this may affect NATO HQ MWR. For example, there may be less bidders willing to bid on future MWR contracts or some existing contractors may not want to renew their contracts.	Operational: All contracted staff must undergo background checks that the contractor must pay. If an MWR contractor has staff that rotates frequently or often hire new staff, then the added costs of security background checks may affect contractor profitability.
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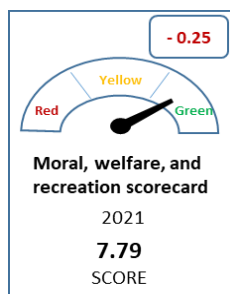
Source: IBAN analysis and assessment of NATO documentation.

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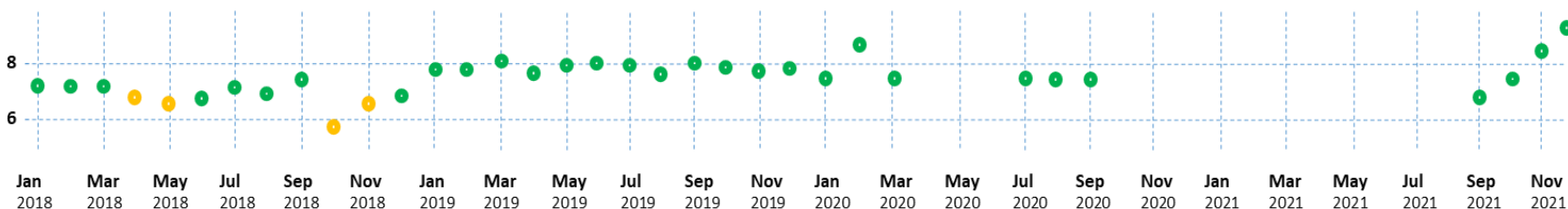
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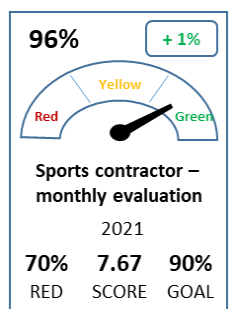
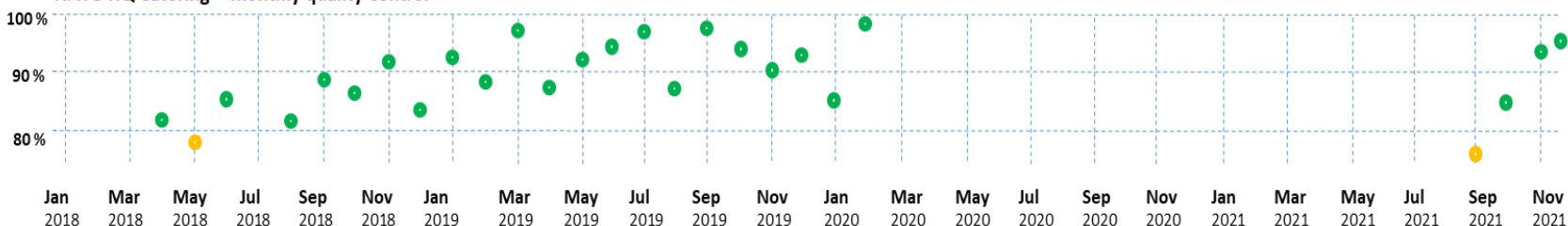
APPENDIX 5: NATO HQ MWR AND COMMERCIAL ACTIVITIES OVERALL KPI SCORECARDS (2018 -2021)



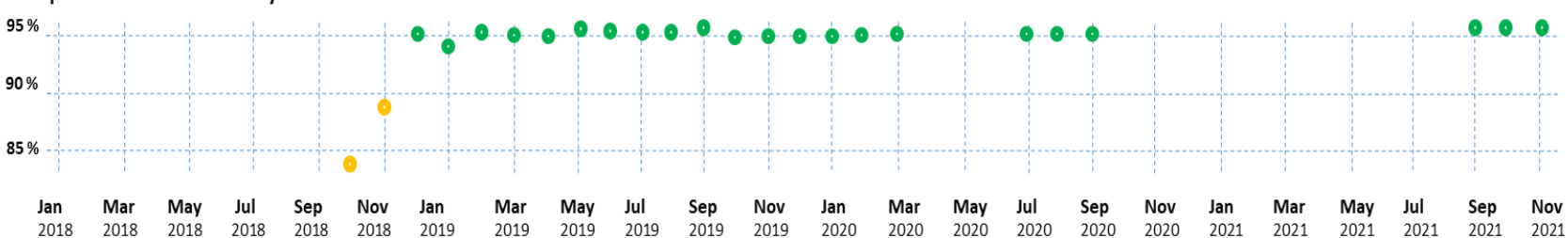
NATO HQ morale, welfare, and recreation scorecard



NATO HQ Catering – monthly quality control



Sports contractor – monthly evaluation



Source: NATO IS

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APPENDIX 6
IBA-AR(2022)0004

**Executive Management - Headquarters Support and Transformation (HQST) and
Business Continuity Office (HQST-BCO) Formal Comments
on the Performance Audit Report**



EXECUTIVE MANAGEMENT DIVISION
DIVISION GESTION EXÉCUTIVE

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08 June 2022

ACTION MEMO
EM(2022)0139
PO Ref: 0849/2022

To : Chair, International Board of Auditors

Cc : Director of the Private Office
First Deputy Director of the Private Office
DASG for Headquarters Support and Transformation
Financial Controller, Office of Financial Control
Head Business Continuity Office
Head Infrastructure and Facilities Management

From : Acting ASG for Executive Management

Subject : Comments to the “Draft performance audit report on the NATO Headquarters morale, welfare, recreational and commercial activities – IBA-AR(2022)0004”.

Reference : IBA-A(2022)0034

Please find attached the formal and factual comments to the afore-mentioned performance audit report, as approved by the Private Office of the Secretary General.

(Signed)

[Redacted Signature]

Action Officer:
Drafted by:
Concurred by:

[Redacted]

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ANNEX 1
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**NATO IS FORMAL COMMENTS TO
International Board of Auditors for NATO (IBAN) draft Performance Audit Report on
the NATO Headquarters morale, welfare, recreational and commercial activities –
IBA-AR(2022)0004**

In the words of the Secretary General “NATO should be one of the most resilient organisations in the world and NATO HQ should lead by example”¹. Personal resilience is a key success factor especially in times of crisis when a sustained effort is required to deliver NATO's core outputs. The last two years proved more than ever the importance of Morale, Wellbeing and Recreation activities for all NATO HQ occupants.

The IS support the IBAN report recommendations. The conclusions reached by the auditor team reflect the concerns expressed by IS² that the predominant focus on financial performance had a negative impact on MWR's purpose to enhance wellbeing and foster community-building.

Several measures have already been initiated in the spirit of the IBAN report recommendations.

1. A series of projects were already initiated in in 2022 in three areas: increasing membership flexibility as of 2 May 2022; bringing unique catering options such as food trucks, and social and cultural events to offer opportunities for connection starting on 12 May 2022; and improving Staff Centre's “look and feel” as of July 2022;
2. A comprehensive Occupational Psychosocial Risk Survey (Wellbeing Survey) was conducted by IS-HR in 2021, resulting in an IS Wellbeing Action Plan that is being implemented in 2022. Additionally, HR offers a range of personal and professional development opportunities to increase competency related to wellbeing, stress management, and resilience.
3. To accelerate change and shift focus towards HQ occupants' wellbeing, in September 2021 MWR has been integrated in the Business Continuity Office within Headquarters Support and Transformation, EM. This change has already produced initial results due to improved management processes within IS and a direct transfer of best practices from successful business continuity projects³.

As the auditors observed, the current MWR governance should be further improved to enable clear roles, responsibilities and accountability for the effective implementation of MWR objectives towards fostering community-building and enabling NATO HQ occupants' wellbeing.

¹ Secretary General Foreword to the NATO HQ Business Continuity Plan EM(2021)0027.

² 2020 MWR Lessons Learned Report (BC-D(2020)0012) and the Business Plan proposed by IS for 2021-2025 (BC-D(2020)0170-ADD5).

³ PRINCE2 and the more agile Lean Startup methodologies were successfully used to accelerate change within the Business Continuity domain and are being transferred to MWR under the coordination of Head BCO and DASG HQST.

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**ANNEX 1
EM(2022)0139**

NATO is a knowledge-intensive organization that derives its relevance from its people. Personal resilience is key to sustained performance when facing a variety of challenges and hardship. Therefore, Morale, Wellbeing and Recreation activities are meant to enhance personal resilience and make NATO stronger.

PUBLICLY DISCLOSED - PDN(2023)0022 - MIS EN LECTURE PUBLIQUE

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Abbreviations

Council	North Atlantic Council
EUR	Euros
HQ	Headquarters
IBAN	International Board of Auditors for NATO
IS	International Staff
KPI	Key performance indicator
MWA	Morale and welfare activity
MWR	Morale, welfare and recreation
NATO	North Atlantic Treaty Organisation
PRINCE2	Projects in Controlled Environments